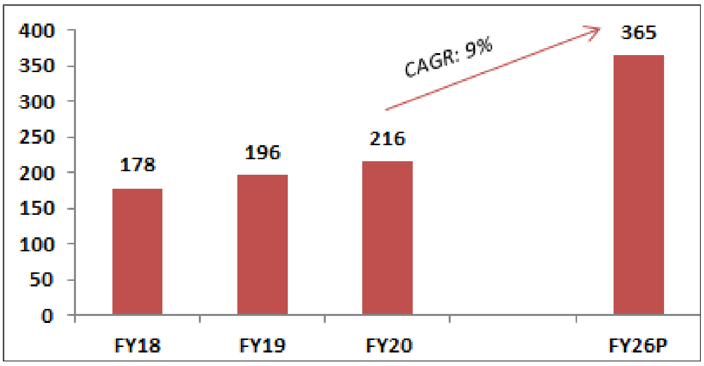
Delhivery Limited

Issue Opens	Wednesday, 11 May, 2022
Issue Closes	Friday, 13 May, 2022
Price Band (in Rs)	462 - 487
Bid Lot	30 shares and multiples thereafter

Industry Overview: Indian Logistics Sector

The Indian logistics sector is one of the largest in the world and presents a large addressable opportunity, with a direct spend of USD216bn in FY20 and is anticipated to grow to USD365bn by FY26; CAGR of 9%. Few of the factors adding to this growth include (i) strong underlying economic growth, (ii) favorable regulatory environment in logistics, leading to efficient supply chain formats, (iii) improvement in India's transportation infrastructure, especially highway connectivity, (iv) growth of the domestic manufacturing sector, driven by favourable policy support and increased domestic and foreign investments and (v) growth in offline commerce driven by increased offline consumption, industrial activity and cross border trade. The logistics market is primarily comprised of transportation and warehousing, of which transportation accounted for 70%, (or USD151bn in FY20). Organized players accounted for only ~3.5% of the logistics market (road transportation, warehousing & supply chain services only) in FY20. Organized players are expected to grow at a CAGR of 35% between FY20-26, taking their share to 12.5-15% by FY26 of the logistics market. This shift is expected to be driven by the ability of organized players to offer integrated services, network and scale-driven efficiencies and larger investments in technology and engineering, resulting in higher share of wallet with customers.

Exhibit 01: India's Direct Logistics Market Size (USD bn)



Source: Company RHP, Progressive Research

Indian Logistics Market is Ripe for Disruption: Total logistics spending in India was ~14% of GDP in FY20, which is significantly higher than developed countries like Germany and the US, where logistics spend is ~8% of GDP.

- **Fragmented and unorganized supply:** The Indian logistics market is highly fragmented compared to other markets. The road transportation market in India was estimated to be USD124bn in FY20, but is highly fragmented and unorganized. Over 85% of fleet-owners operate fleets of less than 20 trucks, many of which are typically older, comparatively smaller in size than the trucks in developed markets and poorly utilized. The top 10 organized players account for ~1.5% of the logistics market in India, v/s ~15% in the US and ~7-10% in China.
- **Poor road infrastructure:** India's road connectivity has historically been underdeveloped in terms of quality and connectivity. As a result, Indian trucks travel significantly lower distances (approximately 325kms/day) compared to the global average of 500-800kms. This has resulted in longer turnaround times, higher fuel and maintenance costs and opportunity costs of lost business.

Exhibit 02: Indicative Set of Listed Players

Listed Players	US	China	India
Express Parcel Delivery	FedEx, UPS, USPS, Amazon	ZTO Express, SF Holdings	Delhivery, Blue Dart
Part Truck Load (PTL)	FedEx, UPS, XPO Logistics	ZTO Express, Best Logistics	Delhivery, VRL Logistics, TCI Express
Truckload	FedEx, UPS, Knight Swift Logistics, J.B. Hunt	Best Logistics, SF Holdings, Full Truck Alliance	Delhivery, TCI, VRL Logistics
Supply Chain Services	UPS, GXO Logistics, FedEx	JD Logistics, Best Logistics	Delhivery, Mahindra Logistics, DHL Supply Chain

Source: Company RHP, Progressive Research

SNAPSHOT		
Issue Opens	Wednesday, May 11, 2022	
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Price Band (Rs)	462/487	
Bid Lot	30 shares and multiples thereafter	
Face Value	Rs1	
Listing	BSE & NSE	
Type of Issue	Fresh Issue & OFS	
Offer Size *(Rs Mn)*	**Fresh Issue**	40,000
	OFS	12,350
	Total	52,350
Implied Market Cap *(Rs Mn)	352,832	
P/E *(based on FY21 Earnings)**	NA	

**Note: Implied Market Cap & P/E are calculated at upper price band of Rs487*

Issue Allocation

Reservations	% of Net Issue
QIB	75
NIB	15
Retail	10
Total	**100**

Employee Reservation: Rs25 per share

Object of the Offer

- Funding of organic and inorganic growth initiatives
- General corporate purposes

Industry Overview: Indian Logistics Sector (contd.):

Exhibit 03: Business Model

Model Type	US	China	India	
			Traditional 3PL	Delhivery
Typical Network Design	Hub-Spoke	Hub-Spoke	Hub-Spoke	Mesh network
Typical Nature of Asset Holdings	Asset-heavy; self-owned infrastructure and fleet	Asset-heavy; self-owned infrastructure and fleet	Asset-light; mainly partner operated assets	Asset-light; leased infrastructure and fleet, selective ownership of strategic technology assets
Automation	High degree of hardware automation	High degree of hardware automation	Low automation; mainly manual operations	High degree of automation with full control over the value chain

Source: Company RHP, Progressive Research

Key Segments:

(a) Road Transportation: With a national highway network of 150,000kms, India has the second largest road network in the world. 70-80% of freight movements in India are short-to-medium haulage, where road transportation is the quickest and cheapest alternative. The total road transportation market was estimated at USD124bn in FY20 and is expected to grow at a CAGR of ~8% to reach USD200bn in FY26.

(b) Express Parcel: refers to delivery of parcels weighing less than 40kgs. These are typically e-commerce orders or business documents, with standard turnaround times of less than 3-4 days. The express parcel delivery market was estimated to be ~USD2.3bn in size in FY20 and is expected to reach ~USD10-12bn by FY26 at a CAGR of 28-32%.

(c) Part Truckload (PTL) Freight: refers to delivery of consignments with weights of between 10-2,000kgs. PTL providers operate a network of pick-up and delivery points and terminals where freight from different customers that is traveling in similar directions is consolidated. This consolidation leads to lower transportation costs for individual customers, while providing faster delivery times and greater flexibility. The PTL market, which was estimated to be USD13bn in FY20 is expected to double to USD26bn in FY26.

(d) Truckload Freight: refers to delivery of a full truck/trailer load of freight, moving directly from shipper or origin point to consignee or point of destination. This is the largest segment of road transportation, with a market size of USD109bn in FY20 that is expected to reach USD163bn by FY26.

(e) Supply Chain Services: refers to integrated warehousing, transportation and technology solutions created for industry-specific and customer-specific requirements. The Indian supply chain services market (including warehousing) was estimated to be USD65bn in FY20 and is expected to reach USD109bn by FY26. The share of organized players is expected to increase from USD1.6bn in FY20 to USD13-15bn in FY26 at a CAGR of 42-45%.

Overall, as businesses and their customers evolve the need for flexible and scalable logistics services becomes increasingly important. Technology and data analytics capabilities are becoming key to enable a holistic view of the entire supply chain. Traditional players in the Indian market have been built with a manpower and infrastructure-first mindset with insufficient investment in developing technology and data analytics capabilities. As a result, traditional players who have remained focused on a single segment or geography and are operating with time consuming, manual processes lack the technical capability, organization design and management expertise to keep up with the changing market.

About the Company:

Delhivery Limited (Delhivery) provides a full range of logistics services, including delivery of express parcel and heavy goods, PTL freight, TL freight, warehousing, supply chain solutions, cross-border express, freight services, and supply chain software. The company also offers value-added services such as e-commerce return services, payment collection and processing, installation & assembly services, and fraud detection. Delhivery is the largest and fastest-growing fully integrated logistics services player in India by revenue as of FY21.The company has proprietary technology systems that enable it to offer integrated logistics services to a wide variety of customers. Its technology stack consists of over 80 applications for all supply chain processes. The company has built a nationwide network, servicing 17,045 PIN codes in the six months ended June 30, 2021, or 88.3% of the 19,300 PIN codes in India.

Services Offered:

(a) Express Parcel: As per the RedSeer Report, Delhivery is the largest and fastest growing third party logistics (3PL) express parcel (and heavy parcel) delivery player in India by volume and revenue as of FY21 and 9MFY22, with a market share of approximately 24-25% of the overall e-commerce parcel volumes (including captive players) in India for the three months period ended December 31, 2021. The company has delivered more than 1.2 billion shipments since incorporation. The shipments volume grew from 148.49 million orders in FY19 to 289.20 million orders in FY21 on an annual basis, representing a CAGR of 40%. For 9MFY22, the company delivered 406.51 million shipments. The customers include e-commerce marketplaces, vertical e-commerce retailers, D2C brands, omni-channel retailers, SMEs, banks and financial institutions. (for 9MFY22, 20,498 active customers used the company's *express parcel delivery services)*.

(b) PTL Freight: the company launched PTL freight services focused on the B2B express segment in 2016 after achieving significant scale in its express parcel network and establishing a full-fledged surface line-haul network to service its volume. In FY21, the company delivered 373,854 tonnes of freight, growing at a CAGR of 75% between FY19-21. The company also acquired Spoton in August 2021 to further scale its PTL freight services business. Spoton delivered 758,730 tonnes and 683,999 tonnes of freight in FY21 and 9MFY22 respectively, and had a network presence across 13,087 PIN codes with 2.85 million sq. ft. of infrastructure as of December 31, 2021.

Services Offered (contd.):

(c) Supply Chain Services: The company provides integrated supply chain solutions to e-commerce and corporate customers. The supply chain solutions combine the strength of its warehousing and transportation operations, infrastructure, network and technology with deep data-science and business intelligence capabilities. This enables the company to provide comprehensive and integrated multi-channel order fulfillment solutions that improve the reliability, speed and cost-efficiency of the customers' supply chains.

(d) Cross-Border Services: Delhivery began providing door-to-door and port-to-port express parcel services to and from India in 2018 to meet the rising demand for cross-border e-commerce and expanded this offering to include cross-border air-cargo services in late 2019. The cross-border service is accessible to all of the existing customers and also via its retail sales network of over 397 retail points as of December 31, 2021. In FY21, Delhivery had 407 active customers availing the cross-border shipping services, transacting over 2,050 tonnes of air freight.

Strengths:

(i) Rapid growth, extensive scale and improvement in unit economics: The revenue from contracts with customers has grown from Rs16,538mn in FY19 to Rs36,465mn in FY21, or a CAGR of 48.49%. Further the revenue from contracts with customers has improved from Rs26,438mn for 9MFY21 to Rs48,105mn in 9MFY22; an increase of 81.95%.

(ii) Network design and engineering: the network operates as a dense, dynamic mesh, making it efficient, fast and agile in responding to changes in volumes, shipment profiles and environmental conditions. The mesh structure allows the company to reduce overall touchpoints in the journey of shipments through the network, reducing handling and improving precision, while also allowing to utilize multiple feasible trans-shipment paths in periods of volatility.

(iii) Integrated portfolio of logistics services: Delhivery provides a full-range of logistics services, including express parcel delivery, heavy goods delivery, PTL freight, TL freight, warehousing, supply chain solutions, cross border express and freight services and supply chain software, along with value added services such as e-commerce return services, payment collection and processing, installation and assembly services and fraud detection.

(iv) Strong relationships with a diverse customer base: Delhivery served a diverse base of 23,113 active customers (excluding those serviced by Spoton) across e-commerce, consumer durables, electronics, lifestyle, FMCG, industrial goods, automotives, healthcare and retail for 9MFY22. As of 31st Dec, 2021, this customer base included most of the key e-commerce players in India and over 750 D2C brands.

Strategies:

(i) Expand investments in infrastructure and network: The company would continue to expand its operational capabilities, network infrastructure and capacity across business lines. They have commissioned mega-gateways that will go live in Tauru (Haryana), Bhiwandi (Maharashtra) and Bengaluru (Karnataka). Delhivery expects to build new integrated facilities and mega-gateways in major cities, further expand capacity at existing automated sort centers, commission new sorters at strategic locations and invest in portable automation to enhance capacity at collection and return centers and intermediate processing centers.

(ii) Expand into high-growth international markets similar to India: Several emerging markets share operational and structural market challenges that are similar enough to India to benefit from the set of technology and network optimization tools. In FY21, the company successfully introduced part of its fulfillment and transportation technology stack in Bangladesh and Sri Lanka, in collaboration with local partners. It will continue to expand the presence in other such international markets selectively and through capital-efficient, partnership-driven models.

(iii) Pursue strategic alliances and select acquisition and investment opportunities: The company will seek strategic alliances with global and domestic leaders in various segments of the logistics industry that bring synergies to its business. They will also continue to look for high-quality acquisition and investment opportunities within and outside India that are complementary to their business or that enable to build new, valuable capabilities for its customers, strengthen or establish the presence in target markets in India and globally.

Financials in Charts:

Exhibit 04: Key Financial Indicators

	As of the end of and for Fiscal Year Ended March 31, 2019	2020	2021	As of and for the nine months ended December 31, 2021
PIN code reach	13,485	15,875	16,677	17,488
Infrastructure (in million square feet)	5.96	9.85	12.23	14.27
No. of gateways	73	83	88	82
Rated Automated Sort Capacity (in million parcels/day)	1.58	2.26	2.62	3.70
Number of delivery points	2,258	2,973	3,382	3,836
Team size(1)	28,830	40,416	53,086	86,184
No. of Active Customers	4,867	7,957	16,741	23,113
Revenue from contracts with customers (in ₹ million)(2)	16,538.97	27,805.75	36,465.27	48,105.30
Restated loss for the period/ year (in ₹ million)(2)	(17,833.04)	(2,689.26)	(4,157.43)	(8,911.39)
EBITDA	(1,370.71)	(1,720.47)	(1,003.79)	(2,317.92)
Adjusted EBITDA (in ₹ million)(2)(3)	(1,876.44)	(2,531.93)	(2,532.83)	(348.01)

Source: Company RHP

Exhibit 05: Financial Performance

Parameters (Rs mn)	FY19	FY20	FY21	9MFY22
Sales	16,539	27,806	36,465	48,105
EBITDA	(16,185)	(1,720)	(1,229)	(5,352)
EBITDA Margin %	-	*(6.2)*	*(3.4)*	*(11.1)*
PAT	(17,833)	(2,689)	(4,157)	(8,911)
PAT Margin %	-	*(9.7)*	*(11.4)*	*(18.5)*
EPS	(47.2)	(5.2)	(8.1)	(15.4)
RoNW (%)	-	*(8.5)*	*(14.7)*	*(14.9)*

Source: Company RHP, Progressive Research

Please Turn Over

Risks and Concerns:

- Dependency on network partners and other third parties
- The asset light business model can lead to volatility in costs
- High competition
- Dependency on certain large customers
- History of losses and negative CFO, CFI and CFF and may continue to experience losses and negative cash flows in the future as the company anticipates increased expenses in the future
- Any disruptions to the logistics and transportation facilities could have a material adverse effect on the business, financial condition, cash flows and results of operations

Outlook and Recommendations:

Logistics defined by its business nature is a capex intensive and asset heavy sector. In order to leverage on these aspects, Delhivery owns very less assets in its books and rather lease them out to conduct the business operations. The company covers more than 17000+ PIN codes that involves self-owned and partner contracted fleet of trucks. The company has the largest logistics facilities at its disposal i.e. the Gateways that forms the core network operations; which handles all types of packaging and other major tasks. The entire delivery network functions as fast as Gateways can and for this reason, the company has invested heavily into automating each aspect of the same. Unlike the traditional hub and spoke model wherein the deliveries/packages are collected from various places and then transferred to the main hub where all the necessary sorting and segregation is undertaken (this model follows a slow approach when time is not of an essence), Delhivery follows a point to point/mesh network model where each facility in the model acts as its own hub and sorting centre, thus leading to a faster model adoption. The company over the years has been trying to venture into other industrial areas of FMCG, healthcare, lifestyle, automotive and manufacturing to mention a few. Additionally, in order to scale the operations, the company has ventured into strategic alliances with FedEx and Aramex in the past which enables the former to provide its services to various customer segments through the Delhivery logistics set up. Financially, the revenues has grown from ~Rs16,500mn in FY19 to ~Rs48,000mn in 9MFY22; the largest contributor being from the express parcel business, while the losses are mounting over the past financial years leading to negative operational efficiency; how the situation and growth pans out would be something to keep an eye on. The continued losses has led to the IPO being priced at negative P/E. Losses have been attributed majorly to the special accounting provisions over the years despite growth seen in revenues. The IPO thereby looks to be aggressively priced getting tagged as High-risk-High-yield bet by the market. **The document is for information purpose. We do not have any rating on the IPO and keep it at the discretion of the investors with regard to investment in the IPO.**

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Registered Office Address:

Progressive Share Brokers Pvt. Ltd,

122-124, Laxmi Plaza, Laxmi Indl Estate,

New Link Rd, Andheri West,

Mumbai—400053, Maharashtra

www.progressiveshares.com | Contact No.:022-40777500.

Compliance Officer:

Mr. Shyam Agrawal,

Email: compliance@progressiveshares.com,

Contact No.:022-40777500.