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Company update, rating  
change and TP revision

## Logistics

Target price: Rs460

### Earnings revision

(%)	FY23E	FY24E	FY25E
Sales	↓ 16	↓ 23	↓ 24
EBITDA	↓ 140	↓ 77	↓ 55

### Target price revision

Rs460 from Rs477

### Shareholding pattern

	Mar '22	Jun '22	Sep '22
Promoters	-	-	-
Institutional investors	14.4	14.9	15.2
MFs and others	6.2	6.7	7.0
FI/Banks	-	-	-
FII	8.2	8.2	8.2
Others	85.6	85.1	84.8

Source: NSE

### ESG disclosure score

Year	2020	2021	Chg
ESG score	NA	NA	NA
Environment	NA	NA	NA
Social	NA	NA	NA
Governance	NA	NA	NA

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

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INDIA

## Delhivery



**BUY**

Upgrade from SELL

**Rs351**

### Five reasons to buy this quality name

We believe Delhivery's current valuations provide a great opportunity to BUY this high quality stock. The risk-reward skew at current market price is very attractive in our view (5.3:1). While we acknowledge growth has been slowing in e-commerce sales in FY23, we believe it is a transient issue and is unlikely to be symptomatic of structural weakness in the space. We have cut our revenue growth estimates meaningfully for FY23/FY24E/25E (16%/23%/24%). We have built in 32% EBITDA margin accrual from incremental sales over H2FY23 (company in Q2FY23 presentation mentioned it has ~50% gross margin over incremental transport revenues). We estimate Delhivery to reduce adjusted EBITDA losses significantly (almost breakeven in Q3FY23E) and return to adjusted EBITDA profitability in Q4FY23E (~2% adjusted EBITDA margin). We estimate adjusted EBITDA margin to improve steadily hereon (~10% EBITDA margin in FY26E) with a revenue CAGR of 33% YoY over FY23-FY26E. We cut our target price to Rs460 from Rs477 and upgrade the stock to BUY.

- **Five reasons to BUY Delhivery:** 1) **Lowest cost structure** compared to peers across first mile, mid mile and last mile logistics in express parcel business is a competitive edge in a cost-sensitive market, 2) **technology and trust moat** should strengthen its dominant share in niche segments such as secured delivery, 3) **hands on management** ensures agile decision making and timely intervention during exception handling, 4) **strong balance sheet** should help sustain investments through periods of tight liquidity and 5) **uncharacteristically high (compared to peers) brand recall** among end-users could make it a key beneficiary of open ended B2B e-commerce marketplaces ([Link to our thematic note on B2B e-commerce](#)) and **ONDC** roll out.
- **Context on what went wrong:** Delhivery's share price has corrected by ~50% from peak levels of Jul'22, given the concerns around sustainability of revenue growth and path to profitability. Revenue growth concerns are centred around slowing of growth in the express parcel segment (e-commerce) and sharp decline in volumes in the PTL segment post the integration of 'Spoton' which was acquired in FY22. The path to profitability was also in question as the company reverted to negative adjusted EBITDA in Q1/Q2FY23 post two quarters of positive EBITDA in Q3/Q4FY22.
- **Valuation:** We value Delhivery using time discounted forward EV/EBITDA multiples. **We discount EV calculated at 20x FY26E EV/EBITDA by 1.5 years (at 20% discount rate) to arrive at our price target of Rs460.** We believe risk-reward skew for the stock is attractive at current market price (5.3:1). We envisage an upside scenario where the stock re-rates to Rs620 if revenue growth recovery in express parcel and PTL segments are higher than estimates. We assume a downside case where the stock could de-rate to Rs300 if EBITDA margin profitability is pushed beyond Q4FY23 and medium-term revenue growth visibility worsens further due to global headwinds (Refer Table 6).

Market Cap	Rs255bn/US\$3.1bn	Year to Mar	FY22	FY23E	FY24E	FY25E
Bloomberg	DELHIVER IN	Revenue (Rs bn)	68.8	80.9	101.6	136.2
Shares Outstanding (mn)	726.4	Rec. Net Income (Rs bn)	(2.2)	(9.4)	(4.8)	(0.7)
52-week Range (Rs)	699/344	EPS (Rs) (Adj)	(3.1)	(11.6)	(6.0)	(0.9)
Free Float (%)	100.0	% Chg YoY	NM	NM	NM	-85.5
FII (%)	8.2	P/E (x)	NM	NM	(61.6)	(424.7)
Daily Volume (US\$/000)	NA	CEPS (Rs)	4.8	(1.6)	4.8	10.8
Absolute Return 3m (%)	(37.4)	EV/E (x) (Incl. Indus)	442.3	(38.9)	(135.5)	97.0
Absolute Return 12m (%)	NA	Dividend Yield (%)				
Sensex Return 3m (%)	2.5	RoCE (%)	(6.2)	(25.4)	(13.0)	(1.9)
Sensex Return 12m (%)	4.7	RoE (%)	(17.0)	(15.0)	(14.7)	(9.4)

Please refer to important disclosures at the end of this report

**Table 1: Q2FY23 consolidated result review**

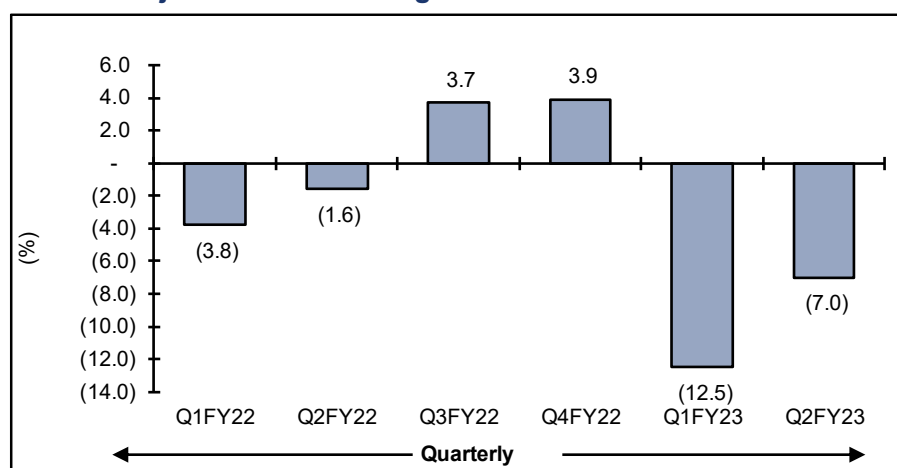
(Rs mn)	Q2FY23	Q2FY22	Chg. YoY (%)	Q1FY23	Chg. QoQ (%)
<b>Total income from operations</b>	<b>17,961</b>	<b>14,978</b>	<b>19.9</b>	<b>17,457</b>	<b>2.9</b>
Operating expenses	14,358	11,742	22.3	14,526	(1.2)
Employee wages	3,528	4,443	(20.6)	3,502	0.8
Other expenses	1,451	1,296	12.0	1,970	(26.3)
<b>Total expenses</b>	<b>19,338</b>	<b>17,481</b>	<b>10.6</b>	<b>19,998</b>	<b>(3.3)</b>
<b>EBITDA</b>	<b>(1,377)</b>	<b>(2,503)</b>	<b>NM</b>	<b>(2,540)</b>	<b>NM</b>
EBITDA Margin (%)	(7.7)	(16.7)		(14.6)	
<b>Adjusted EBITDA</b>	<b>(1,250)</b>	<b>(260)</b>	<b>NM</b>	<b>(2,170)</b>	<b>NM</b>
EBITDA Margin (%)	(7.0)	(1.6)		(12.4)	
Depreciation	2,001	1,198	66.9	1,813	10.3
Other Income	873	304	186.9	488	78.9
Finance Cost	240	259	(7.4)	246	(2.5)
<b>PBT</b>	<b>(2,744)</b>	<b>(6,333)</b>	<b>(56.7)</b>	<b>(4,112)</b>	<b>(33.3)</b>
Tax	(121)	17		(58)	
<b>PAT</b>	<b>(2,623)</b>	<b>(6,350)</b>	<b>(58.7)</b>	<b>(4,053)</b>	<b>(35.3)</b>

Source: Company data, I-Sec research

**Table 2: Q2FY23 segmental result review**

(Rs mn)	Q2FY23	Q2FY22	Chg. YoY (%)	Q1FY23	Chg. QoQ (%)
Revenue from express parcel (Rs mn)	11250	9600	17.2	10510	7.0
Express Parcel (mn shipments)	161	135	19.3	152	5.9
<b>Revenue/parcel</b>	<b>70</b>	<b>71</b>	<b>(1.7)</b>	<b>69</b>	<b>1.1</b>
PTL Revenue	2930	n.a.	n.a.	2590	13.1
PTL Freight Tonnage (mnte)	0.29	0.40	(28.7)	0.24	19.7
<b>Revenue per/te (Rs/te)</b>	<b>10245</b>	<b>n.a.</b>	<b>n.a.</b>	<b>10837</b>	<b>(5.5)</b>
TL Service Revenue	1030	540	90.7	1220	(15.6)
Supply Chain Service Revenue	1800	1120	60.7	2360	(23.7)
Cross Border Services Revenue	960	790	21.5	780	23.1

Source: Company data, I-Sec research

**Chart 1: Adjusted EBITDA margin**

Source: Company data, I-Sec research

Table 3: Adjusted EBITDA bridge

(Rs mn)	Q2FY23	Q2FY22	Q1FY23
Total revenue from customers	17960	16670	17460
Less: Total expenses	21580	23480	22060
Add: Finance cost on borrowings	60	170	70
<b>Lease Adjustments due to AS 116</b>	<b>90</b>	<b>150</b>	<b>90</b>
Add: Depreciation on right of use asset	580	610	570
Add: Interest on lease liabilities	180	230	170
Less: Actual lease rent paid	-670	-690	-640
Add: Non-cash recurring costs	2210	1770	1940
Depreciation & amortisation	1420	900	1240
ESOP expense	790	880	700
Add: Non-cash discontinued cost	0	2680	0
Add: One-time discontinued cost	0	1780	0
Add: IPO expense	0	0	160
Add: Non-cash non-operating cost	0	0	160
<b>Adjusted EBITDA</b>	<b>-1250</b>	<b>-260</b>	<b>-2170</b>

Source: Company data, I-Sec research

Table 4: Change in estimates

	Revised			Old			Change		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue (Rs mn)	80,939	1,01,566	1,36,160	96,885	1,31,320	1,78,262	-16%	-23%	-24%
EBITDA (Rs mn)	-2,826	3,044	9,114	7,033	13,254	20,459	-140%	-77%	-55%

Source: I-Sec research

Table 5: We are below consensus

	Revenue (Rs mn)			EBITDA (Rs mn)			PAT (Rs mn)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
I-sec est.	80,939	1,01,566	1,36,160	-2,826	3,044	9,114	-9,352	-4,829	-700
Consensus	88,422	1,17,872	1,48,710	-2,073	4,199	7,370	-8,210	-2,102	-276
Differential	-8%	-14%	-8%	NM	-27%	24%	NM	NM	NM

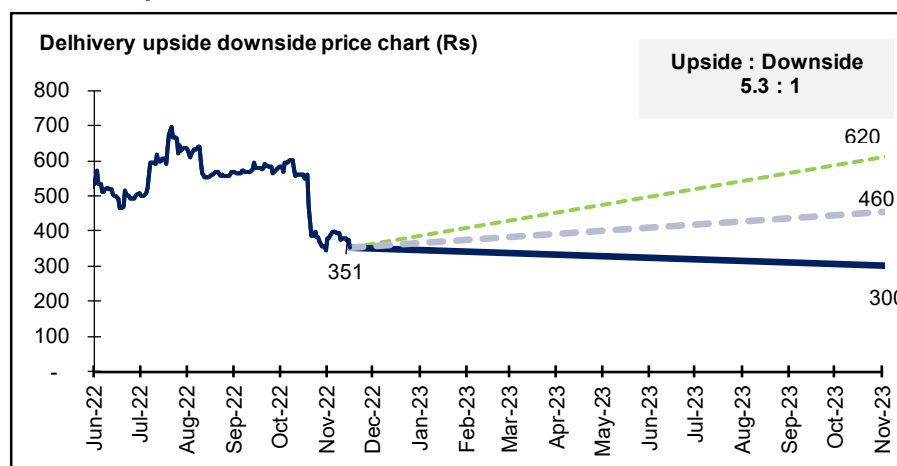
Source: Bloomberg, I-Sec research

Table 6: Valuation table

	Downside case	Base Case	Upside case
FY26E adjusted EBITDA	13,789	19,698	22,653
EV as of March'25 (20x)	2,34,409	3,93,964	5,66,323
Discounted EV 1 yr fwd (Sept'23) (20% return)	1,78,321	2,99,699	4,30,817
Net cash (1 yr fwd)	38,818	33,755	18,228
Market cap 1 yr fwd	2,17,139	3,33,453	4,49,044
Price target 1 yr fwd	300	460	620

Source: I-Sec research

Chart 2: Upside-Downside skew of 5.3:1



Source: Bloomberg, I-Sec research

Table 7: Global comparison

Name	Market Cap	PE -2y	EV/EBITDA -1y	EV/EBITDA -2y	EV/Sales -1y	EV/Sales -2y
<b>Indian Delivery</b>						
Blue Dart Express Ltd	2,046	32.4	16.7	15.2	3.3	3.0
Gati Ltd	251	25.1	19.3	11.1	1.4	1.2
Gateway Distriparks Ltd	449	14.5	9.9	8.5	2.6	2.3
Container Corp Of India Ltd	5,721	27.3	20.8	17.5	4.9	4.3
TCI Express Ltd	895	38.7	33.0	26.5	5.6	4.7
VRL Logistics Ltd	579	19.2	11.3	9.5	1.9	1.6
Transport Corp of India Ltd	612	13.2	11.6	9.9	1.3	1.2
Mahindra Logistics Ltd	459	32.4	14.3	11.4	0.8	0.7
Aegis Logistics Ltd	1,390	21.7	17.2	13.8	1.3	1.2
Allcargo Logistics Ltd	1,443	11.0	8.6	8.6	0.6	0.6
Delhivery Ltd	3,353	NA	NA	97.0	2.8	2.2
		<b>23.6</b>	<b>16.3</b>	<b>17.0</b>	<b>2.4</b>	<b>2.1</b>
<b>China Delivery</b>						
ZTO Express Cayman Inc	17,992	16.6	11.5	9.3	3.3	2.8
SF Holding Co Ltd	37,327	29.4	12.4	11.0	1.0	0.9
Yunda Holding Co Ltd	5,218	13.7	8.5	6.7	0.8	0.7
JD Logistics Inc	12,465	71.2	11.1	7.5	0.5	0.4
STO Express Co Ltd	2,264	24.2	9.4	7.2	0.6	0.5
Deppon Logistics Co Ltd	2,682	21.3	7.7	6.3	0.7	0.6
YTO Express Group Co Ltd	9,476	15.2	9.4	7.8	1.1	1.0
		<b>27.4</b>	<b>10.0</b>	<b>8.0</b>	<b>1.2</b>	<b>1.0</b>
<b>Global Delivery</b>						
FedEx Corp	45,866	9.9	6.4	5.6	0.8	0.8
Deutsche Post AG	49,718	10.6	5.2	5.7	0.7	0.7
Poste Italiane SpA	13,031	7.0	24.1	22.4	6.3	6.0
JB Hunt Transport Services Inc	19,586	19.7	10.2	10.2	1.4	1.4
CH Robinson Worldwide Inc	11,498	17.1	9.4	12.9	0.5	0.6
United Parcel Service Inc	1,56,957	14.8	9.8	10.2	1.7	1.7
XPO Logistics Inc	4,588	8.5	5.0	5.5	0.6	0.7
		<b>12.5</b>	<b>10.0</b>	<b>10.4</b>	<b>1.7</b>	<b>1.7</b>
<b>Indian Internet</b>						
Zomato Ltd	7,221	NA	NA	NA	8.4	6.0
FSN E-Commerce Ventures Ltd	6,417	213.3	180.1	74.5	9.8	7.1
Delhivery Ltd	3,353	NA	NA	54.8	2.9	2.2
PB Fintech Ltd	2,077	NA	NA	NA	5.8	4.3
One 97 Communications Ltd	4,803	NA	NA	NA	4.0	3.1
Easy Trip Planners Ltd	1,055	40.1	40.0	30.1	21.3	14.4
Rategain Travel Technologies	370	35.0	37.7	23.9	4.9	3.9
Nazara Technologies Ltd	487	44.1	28.5	19.9	3.4	2.6
Cartrade Tech Ltd	288	27.9	25.0	14.6	4.0	3.2
Fino Payments Bank Ltd	191	18.7	NA	NA	NA	NA
<b>China Internet</b>						
KE Holdings Inc	18,878	28.6	42.5	17.0	1.6	1.3
Hello Group Inc	1,218	5.1	0.8	0.7	0.1	0.1
Zhihu Inc	816	NA	NA	NA	0.0	0.0
Weibo Corp	3,631	6.3	5.8	5.0	1.6	1.5
iQIYI Inc	2,670	21.9	8.7	10.5	1.1	1.1
<b>China: Major Platform</b>						
Alibaba Group Holding Ltd	2,09,950	9.5	6.4	5.5	1.2	1.1
Tencent Holdings Ltd	3,60,575	18.8	16.8	14.3	4.8	4.3
Baidu Inc	34,451	12.1	6.5	5.6	1.4	1.3
Meituan	1,28,405	72.0	132.9	39.1	3.9	3.0
<b>China e commerce</b>						
Alibaba Group Holding Ltd	2,09,950	9.5	6.4	5.5	1.2	1.1
JD.com Inc	85,084	22.7	17.4	12.9	0.5	0.4
Pinduoduo Inc	89,733	22.0	18.9	15.2	4.3	3.5
Vipshop Holdings Ltd	5,829	7.1	3.5	3.3	0.2	0.2
Baozun Inc	259	5.4	3.9	2.7	0.3	0.3
DingDong Cayman Ltd	869	641.7	NA	22.3	0.2	0.2
Dada Nexus Ltd	1,302	35.7	NA	39.9	0.6	0.4

Source: Bloomberg, I-Sec research

## Financial summary

**Table 8: Profit and loss statement**

(Rs mn, year ending Mar 31)

	FY21	FY22	FY23E	FY24E	FY25E
<b>Net Sales</b>	<b>36,465</b>	<b>68,823</b>	<b>80,939</b>	<b>1,01,566</b>	<b>1,36,160</b>
<b>Operating Expenses</b>	<b>37,603</b>	<b>70,545</b>	<b>83,766</b>	<b>98,522</b>	<b>1,27,046</b>
<b>EBITDA</b>	<b>(1,137)</b>	<b>(1,722)</b>	<b>(2,826)</b>	<b>3,044</b>	<b>9,114</b>
% margins	(3.1)	(2.5)	(3.5)	3.0	6.7
Adjusted EBITDA (as reported by company)	(2,533)	675	-6,910	-2,086	3,019
% margins	(6.9)	1.0	(8.5)	(2.1)	2.2
Depreciation & Amortisation	3,546	6,107	8,079	8,674	9,341
Gross Interest	886	995	1,304	1,651	2,067
Other Income	1,918	1,561	2,858	2,453	1,594
<b>Recurring PBT</b>	<b>(4,157)</b>	<b>(10,261)</b>	<b>(13,000)</b>	<b>(11,125)</b>	<b>(6,457)</b>
Less: Taxes	-	(183)	-	-	-
Minority Int. & Asso. Profit	-	-	-	-	-
<b>Net Income (Reported)</b>	<b>(4,157)</b>	<b>(10,110)</b>	<b>(13,000)</b>	<b>(11,125)</b>	<b>(6,457)</b>
<b>Net Income (Adjusted for ESOP, CCPS etc)</b>	<b>(3,652)</b>	<b>(2,238)</b>	<b>(9,352)</b>	<b>(4,829)</b>	<b>(700)</b>

Source: Company data, I-Sec research

**Table 8: Balance sheet**

(Rs mn, year ending Mar 31)

	FY21	FY22	FY23E	FY24E	FY25E
<b>Assets</b>					
Total Current Assets	28,305	39,600	70,692	62,937	61,031
of which cash & cash eqv.	2,774	2,290	32,302	18,271	8,061
Total Current Liabilities & Provisions	9,536	15,019	19,077	22,098	28,437
<b>Net Current Assets</b>	<b>18,769</b>	<b>24,581</b>	<b>51,615</b>	<b>40,839</b>	<b>32,594</b>
Net fixed assets (including CWIP)	3,147	6,824	8,605	8,366	10,347
Intangible Assets	140	3,560	3,560	3,560	3,560
Goodwill on consolidation	186	13,799	13,000	13,000	13,000
Long term loans and advances	264	89	89	89	89
Other non-current assets	47	220	115	115	115
<b>Total Assets</b>	<b>45,978</b>	<b>82,508</b>	<b>1,13,839</b>	<b>1,05,845</b>	<b>1,05,920</b>
<b>Liabilities</b>					
Borrowings	3,013	3,531	3,531	3,531	3,531
Long term provisions	219	383	655	765	957
Equity Share Capital	16	642	724	724	724
Reserves & Surplus	28,352	58,932	85,850	74,725	68,268
<b>Net Worth</b>	<b>28,368</b>	<b>59,574</b>	<b>86,574</b>	<b>75,450</b>	<b>68,992</b>
<b>Total Liabilities</b>	<b>45,978</b>	<b>82,508</b>	<b>1,13,839</b>	<b>1,05,845</b>	<b>1,05,920</b>

Source: Company data, I-Sec research

**Table 9: Cashflow statement**

(Rs mn, year ending Mar 31)

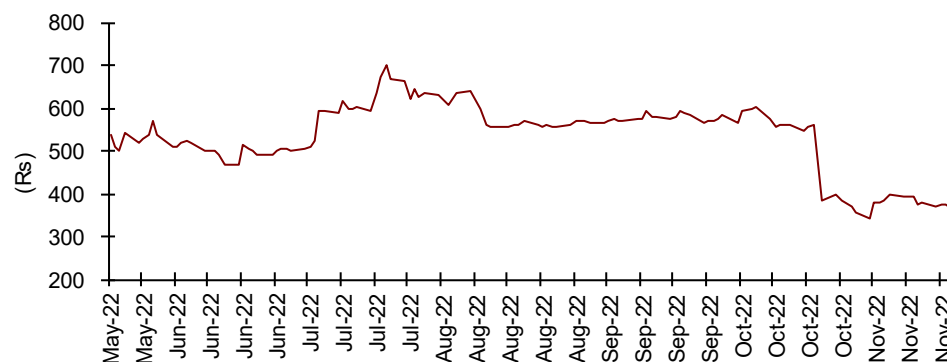
	FY21	FY22	FY23E	FY24E	FY25E
<b>Net Profit before tax</b>	<b>(4,157)</b>	<b>(10,293)</b>	<b>(13,000)</b>	<b>(11,125)</b>	<b>(6,457)</b>
Depreciation	3,546	2,337	8,079	8,674	9,341
Interest Expenses	199	242	1,304	1,651	2,067
Working Capital Changes	(395)	(4,954)	1,381	(3,145)	(1,772)
Taxes Paid	(182)	(132)	-	-	-
<b>Operating Cashflow</b>	<b>48</b>	<b>(2,405)</b>	<b>(2,236)</b>	<b>(3,945)</b>	<b>3,179</b>
Capital Commitments	(1,500)	(5,439)	(6,500)	(4,000)	(6,000)
<b>Free Cashflow</b>	<b>(1,452)</b>	<b>(7,845)</b>	<b>(8,736)</b>	<b>(7,945)</b>	<b>(2,821)</b>
Other investing cashflow	4,883	(21,982)	51	(4,435)	(5,322)
<b>Cash flow from Investing Activities</b>	<b>3,383</b>	<b>(27,421)</b>	<b>(6,449)</b>	<b>(8,435)</b>	<b>(11,322)</b>
Inc (Dec) in Borrowings	666	(2,977)	-	-	-
Dividend paid	-	-	-	-	-
<b>Cash flow from Financing Activities</b>	<b>(1,467)</b>	<b>29,018</b>	<b>38,696</b>	<b>(1,651)</b>	<b>(2,067)</b>
<b>Chg. in Cash &amp; Bank balance</b>	<b>1,964</b>	<b>(809)</b>	<b>30,012</b>	<b>(14,031)</b>	<b>(10,210)</b>

Source: Company data, I-Sec research

**Table 10: Key ratios***(Year ending Mar 31)*

	FY21	FY22	FY23E	FY24E	FY25E
<b>Per Share Data (Rs)</b>					
EPS (ESOP costs assumed)	(8.1)	(15.7)	(17.9)	(15.4)	(8.9)
EPS ( Fully diluted)	(0.1)	4.8	(1.6)	4.8	10.8
Cash EPS (Adjusted for ESOP)					
Dividend per share (DPS)	-	-	-	-	-
Book Value per share (BV)	39.2	82.3	119.5	104.2	95.3
<b>Growth (%)</b>					
Net Sales	31.1	88.7	17.6	25.5	34.1
EBITDA	NM	NM	(1,123.7)	(69.8)	(244.7)
PAT	NM	NM	NM	NM	NM
<b>Valuation Ratios (x)</b>					
Adjusted P/E	NM	NM	NM	NM	(41.5)
P/CEPS	NM	NM	NM	NM	NM
P/BV	9.4	4.5	3.1	3.6	3.9
EV / EBITDA	NM	442.3	(38.9)	(135.5)	97.0
EV/FCF	NM	NM	(30.7)	(35.6)	(103.8)
<b>Return/Profitability ratios</b>					
Rec. Net Income Margins	(11.4)	(3.3)	(11.6)	(4.8)	(0.5)
RoCE (Post Tax)	(11.8)	(6.2)	(25.4)	(13.0)	(1.9)
RoNW	(14.7)	(17.0)	(15.0)	(14.7)	(9.4)
Dividend Payout					
EBITDA Margins	(6.9)	1.0	(8.5)	(2.1)	2.2
<b>Operating Ratios (%)</b>					
Raw Material/Sales	76.5	74.9	79.9	75.6	73.9
SG&A/Sales	26.7	27.6	23.6	21.4	19.4
Other Income / PBT	-46.1	-15.2	-22.0	-22.0	-24.7
NWC / Total Assets	53.7	38.6	55.6	50.2	43.8
Inventory Turnover	107.5	203.6	203.6	203.6	203.6
Asset Turnover	1.0	1.0	0.8	1.2	1.7

Source: Company data, I-sec research

**Price chart**

Source: Bloomberg

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