

## Logistics Sector Update

### Delhivery - Investor interaction

**COVID-19 impact on logistics, e-commerce – Consumption sector to drive recovery; asset-light plays to gain market share**

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We hosted an investor call with Amit Agarwal, CFO, Delhivery, a leading fulfilment platform for digital commerce, to assess the impact of novel coronavirus, or COVID-19, on the Indian logistics and e-commerce sector. His key takeaways are: a) The current crises will lead to market consolidation; b) Consumption-oriented sectors will drive recovery in the logistics space; c) Asset-light players (like 3PL) may tend to gain market share as they can provide higher flexibility and wide services to customers; d) A lot of brands and retailers are expected to go online in the next 6 to 12 months, a key tailwind for the e-commerce sector; and e) Delhivery expects to gain market share on the back of consolidation in the sector and enhancement in its client network given its high quality infrastructure and an automated network design. Since logistics is key to any economic recovery, an efficient supply chain and higher flexibility towards movement of goods remains crucial during these challenging conditions. Companies that provide such solutions will gain market in the long term.

#### Key takeaways are:

##### Logistics sector – An overview

- During the lockdown, as per Agarwal, supply of essential goods was never affected. The government administration, at every level, was very responsive, heard grievances and provided appropriate measures to ensure that the movement and supply of essential goods (primarily food, FMCG and pharma) was not disrupted.
- The current crises is expected to lead to consolidation in India's logistics market, especially in the fragmented trucking market, because of their leveraged balance sheet and issue with receivables. The Indian logistics market is pegged around INR 13,500 billion to INR 14,000 billion, largely dominated by unorganised players, with organised players are expected to gain market share going forward.
- Consumption-oriented sectors will drive recovery in the logistics sector and e-commerce will be among the first sectors to take off. FMCG, pharma and consumer durables too would see an early recovery due to their efficient logistics.
- Asset-light players (like 3PL) may tend to gain market share as they provide higher flexibility and wide services to customers by providing customised solution against asset-heavy players with a higher fixed cost and a heavier cost structure. Investment in technology and automated network design would be value accretive as it ensures much higher productivity and return on Investment. This would be another driving force to help gain market share as India enhances its operational efficiencies.

##### Challenges faced

- The logistics sector is currently facing challenges related to labour and drivers. This, managements say, is momentary and will be resolved within the next 2-3 months as there is no issue with asset availability: vehicles or warehouses.

##### Government measures and policy initiatives

- The logistics sector is looking at a few initiatives from the government to ease pressure on the logistics sector: a) Relaxation in implementation of the GST e-way bill, especially on time bound e-way bills; b) Expansion in new corridors to improve connectivity; c) Road trains (connecting 2 trailers to a single engine) on trunk routes; d) Separate registration of trailers and trucks, which can fasten switch-over; e) Development of a high quality logistics park with road connectivity outside cities, enabling hub-and-spoke logistics; and f) Stricter norms towards quality standards, especially around safety and security.

Date: 13<sup>th</sup> May 2020

### **Dedicated Freight Corridor (DFC)**

- DFC would be a huge opportunity for growth in rail volumes and for sectors/industries using railways as their primary mode of transportation. However, the finished goods market, the e-commerce market, or the less-than-truck load market will be less impacted by DFC given its limited route/capacity at present as express logistics require last mile delivery and faster turnaround time.

### **Warehousing demand to increase**

- The logistics market is expected to consolidate and high quality logistics players (like 3PL) would gain. Also, demand for Grade A spaces/warehouses will rise with the increase in e-commerce transactions.

### **Ecommerce opportunities arise with COVID-19**

- A lot of brands and retailers are expected to go online in the next 6 to 12 months. Though a lot of them are already online, they will ramp up efforts to reach out to customers directly. Delivery-like players are already seeing huge demand from such enterprise and offline retailers to enable them to reach out to customers through online channels and their delivery logistic partners in the direct to consumer segment, which is a key tailwinds for the e-commerce sector this year. E-commerce/digital commerce will be one of the key beneficiaries of this crises.
- The uses of air transportation in e-commerce has been reducing continuously. It accounted for almost 50% till 2015 but has now fallen to 20-25% given its downward trend.

### **Impact of the lockdown: Opportunities or challenges for Delhivery**

- Delhivery used to cover over 18,000 pin codes before the lockdown was imposed. Its coverage stopped completely on March 25, the day lockdown started. But by March 31, it had begun operations to over 15,500 pin codes by obtaining permits from local authorities. However, challenges related to labour and drivers continued till the end of the first week of April. Labour and truck drivers began returning by the second week of April. As a large portion of India's trucking is driver owned, they were the first to return. Though labour was slightly slower to respond initially, they have also started coming back.
- Before the outbreak of coronavirus and the ensuing lockdown, Delhivery used to deliver 8 lakh parcels per day. This fell to 40,000 in the first week of April, but recovered to 2 lakh by the last week of the month. It touched 3.5 lakh by the end of first week of May. Operations accelerated for the company as it never shut down its pan India network. According to Agarwal, utilisation has recovered to 40-50% of pre-coronavirus levels, whereas for most other competitors it stands around 15-20%. Truck utilisation touched ~70% of its pre COVID-19 levels as against 25-30% for the industry.
- The management expects the healthy momentum to continue into May and June. Given the existing consumer demand, if the lockdown is completely lifted, Agarwal expects volumes to return to normal in 2 to 3 months.
- Delhivery use to primarily cater to businesses in the non-essential category. The lockdown provided it an opportunity to associate with pharma and FMCG companies for delivery of essential products. The company also expects to gain market share with a consolidation in the sector and enhancement of its client network, given its high quality infrastructure and an automated network design.
- The company continues to work on its technology and data analytics to enhance its business and quality of services. Its continuous focus on improving its cost per kg or cost per shipment and turnaround time has resulted in higher capacity utilisation and improved efficiency. Delhivery continues to accelerate its volumes, which further adds to these two metrics.

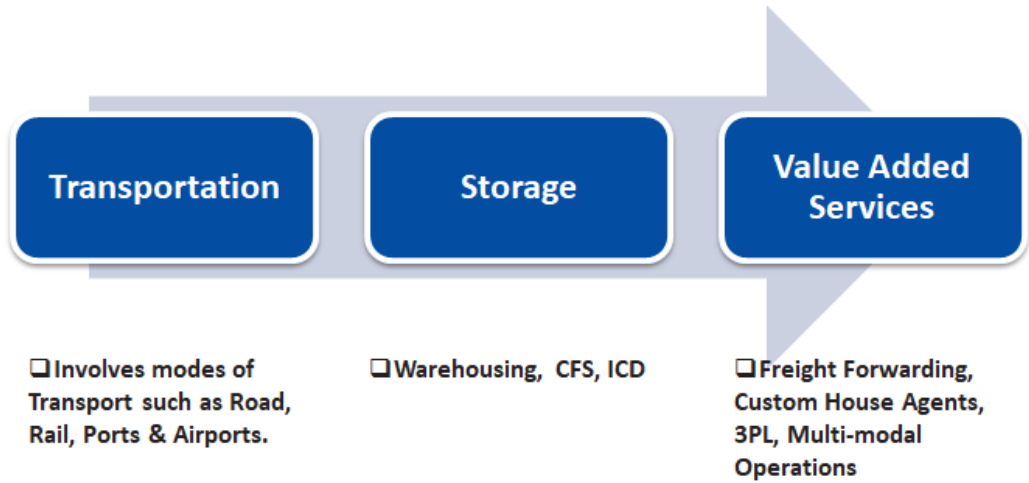
### **Delhivery: A snapshot**

Founded in 2011, Delhivery is India's leading fulfilment platform for digital commerce. With its nationwide network extending beyond 18,000 pin codes and 2,500 cities, the company provides a full suite of logistics services such as express parcel transportation, less than load (LTL) and full truckload (FTL) freight, reverse logistics, cross-border, B2B and B2C warehousing and technology services. It works with over 10,000 direct customers, which includes large and small e-commerce participants, small and medium participants (SMEs), and over 350 leading enterprises and brands.

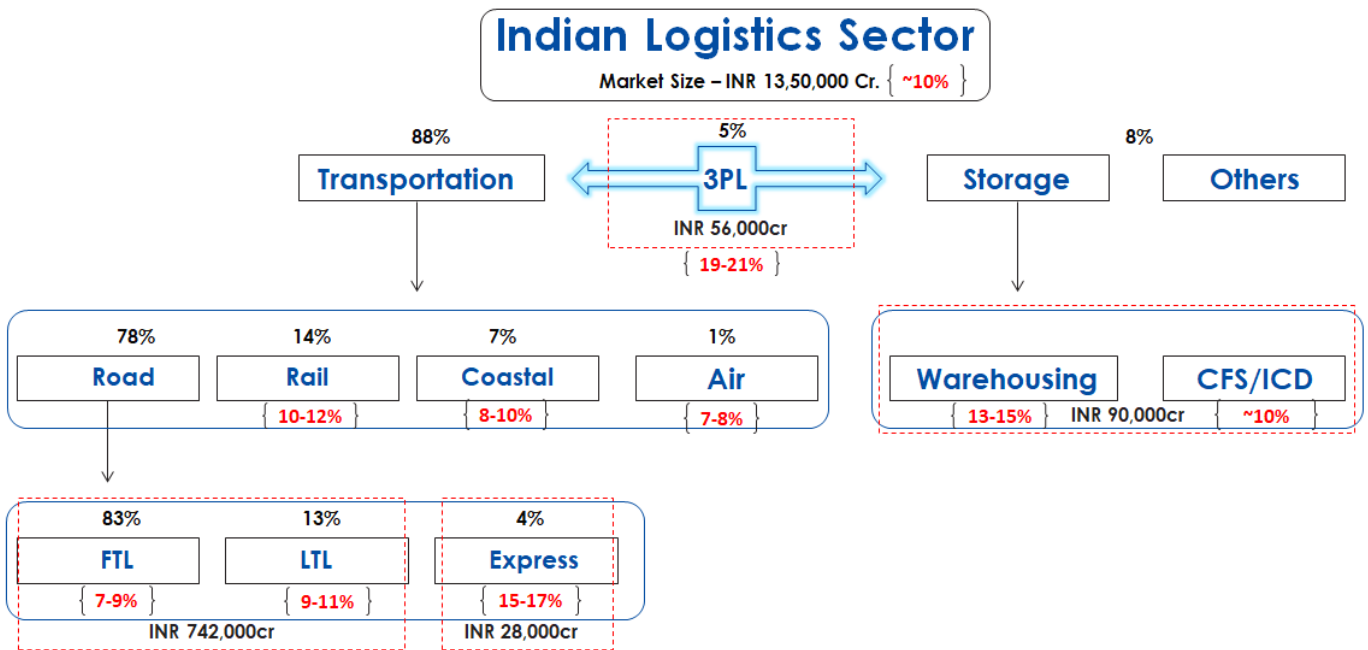
### **Profile of Amit Agarwal, Chief Financial Officer, Delhivery**

- As CFO of the company, he is responsible for providing strategic recommendations on financial planning, budgeting, financial control, treasury, investor relations and legal. He ensures that Delhivery continues to grow fast while strengthening the budgeting, financial reporting and governance.
- Prior to this role, he was Vice-President of Corporate Finance at Delhivery for four years, where he played a pivotal role in driving business diligence across multiple funding rounds for the organisation.
- Agarwal has three years of operational experience at Delhivery, leading network operations and design.
- Before joining Delhivery, he worked at Inductis, Infosys, and Trefis for nearly five years, handling roles across equity research, risk management and data analytics.
- An alumnus of IIT Kanpur, Agarwal has completed his CFA programme from the Chartered Financial Analyst Institute.

Logistics Sector



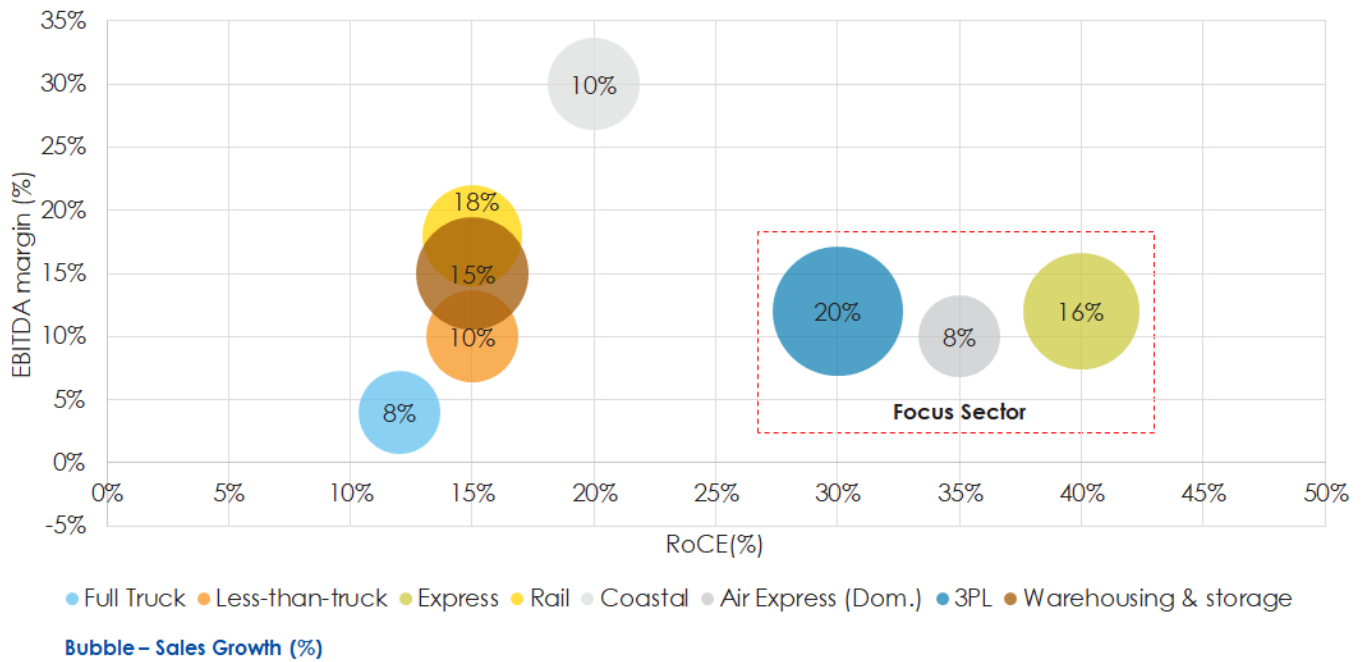
Indian logistics sector –Structure



Express Logistics & 3PL – Highest Growth and Small in Size

{ CAGR over FY18-21E }

Indian logistics sector: Focus sub-sectors



Indian logistics sector – Company sub-segments

Company (INR Cr.)	M.Cap	FTL	LTL	Express	Rail	Air Express (D)	Coastal	3PL	Warehousing
Mahindra Logistics	1,812								
Future Supply Chain	579								
Container Corp.	22,081								
Blue Dart	4,972								
VRL Logistics	1,388								
TCI Ltd.	1,184								
TCI Express	2,359								
Gati	443								
Navkar	340								
Aegis Logistics	5,756								
All Cargo	1,627								
Gateway Distriparks	895								
Snowman	418								
Sical Logistics	52								

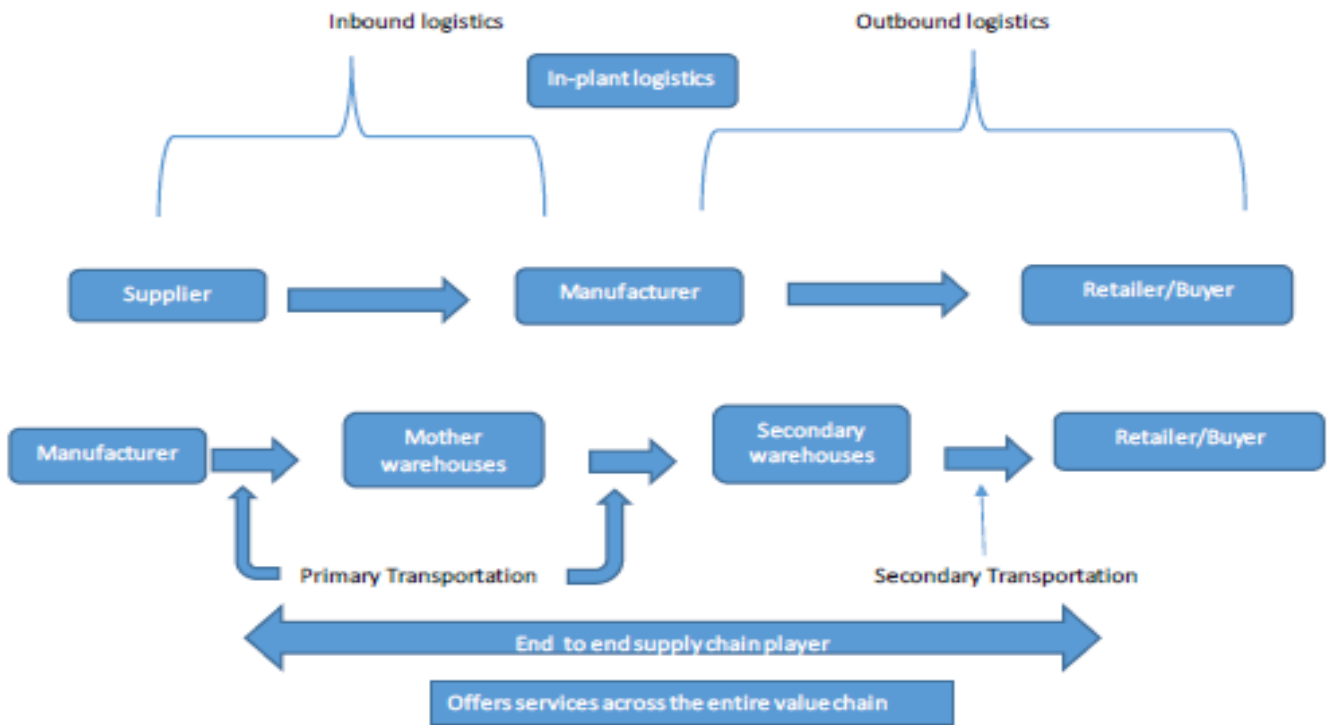
**Third-party logistics – Introduction**

**3PL** - A company's use of third party businesses to outsource the company's distribution, logistics & fulfilment services

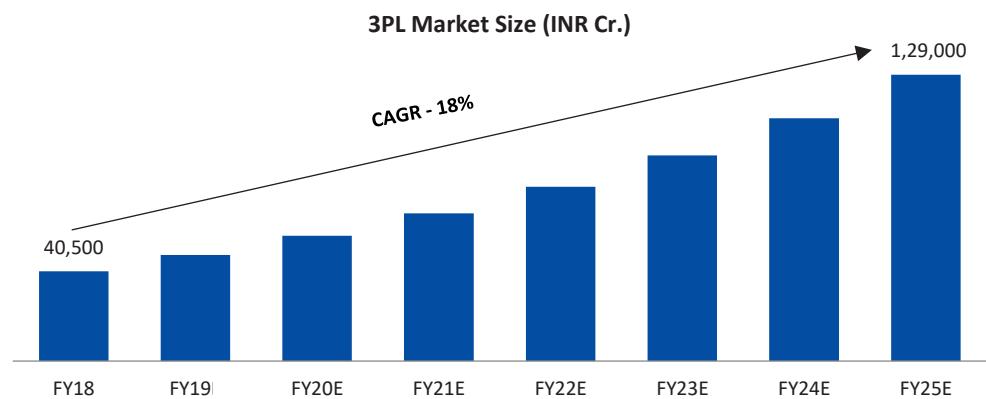
**1PL** – A Logistics services which are carried out in-house by a company

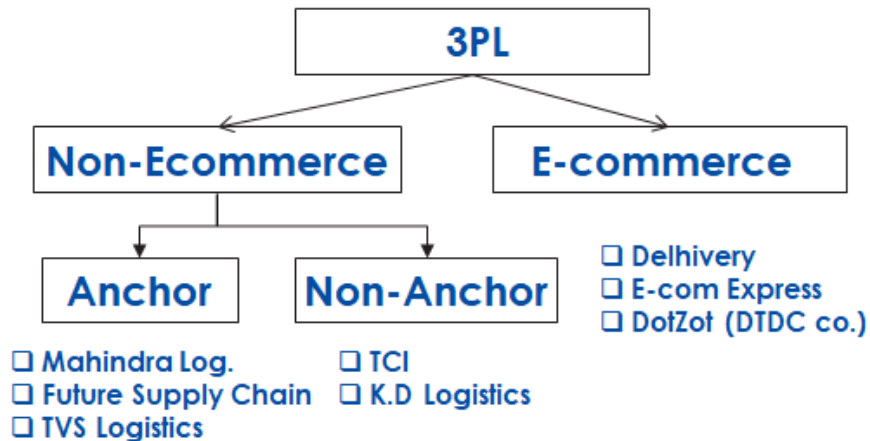
**2PL** – A company which specializes in providing either transport and/or warehousing services to companies

**3PL** – A single vendor for all logistics requirements including supply chain design and consultancy and value added services in addition to all services offered by a 2PL company.



**Third-party logistics – Market size and components**





Segment-wise	Mkt. Share	(INR Cr.)	FY18-20 CAGR
<b>Automotive components</b>	27%	11,123	15%
<b>Cars and UV</b>	17%	6,798	21%
Commercial vehicles and tractors	6%	2,575	9%
<b>Two and three wheelers</b>	14%	5,562	14%
Engineering	1%	309	21%
<b>E-commerce</b>	15%	6,077	31%
<b>Consumer durables and FMCG</b>	5%	2,060	25%
Pharmaceuticals	6%	2,266	9%
Bulk	3%	1,030	7%
<b>Organized retail</b>	7%	2,781	30%
Telecom	0%	21	0%

Exposure to Auto-Sector ~ 64%

Future Growth Sectors

Third-party logistics - Porters Five Forces Analysis

**Threat of new Entrants**

- > Logistics industry is highly unorganised
- > 3PL segment is highly organized
- > Entry barrier high as association with end user required (existing players – MHALOG, TVS Logistics, Future Supply Chain, Apollo Logistics)
- > Mostly, 3PL companies have anchor client.
- > Higher complexity solutions

The **Threat of New Entrants is Low**

**Threat of substitution**

- > The threat of substitution is driven by two factors; cost & time saving.
- > Rail/Air transport are substitute for road transport, but at cost.
- > 3PL is service provider – can use any mode

The **Threat of substitution is Low.**

**Industry Rivalry**

With majority of the industry consd. by a organised players & with anchor client the **Industry Rivalry is Low.**

**Bargaining Power of Buyers**

The end user industries for 3PL logistics are mostly Auto and now diversifying with FMCG/engineer/e-commerce. For 3PL players – price is pass through for transportation & warehousing value added service have pricing power. The **bargaining power of buyers is Medium.**

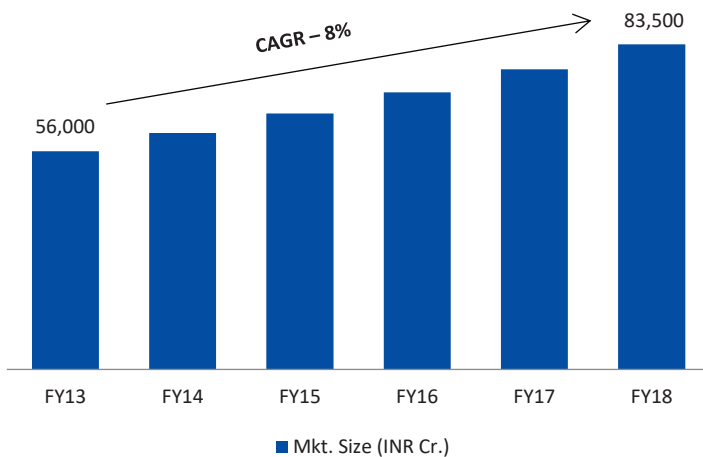
**Bargaining Power of Suppliers**

The **Bargaining Power of the Supplier is low** due to the fragmented market.

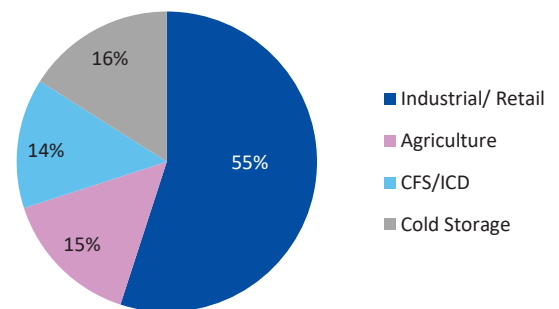
**Warehouse (storage and others) – Overview**

The warehousing market in India is highly fragmented with most warehouses having an area of less than 10,000 sq.ft. Approximately 90% of the warehousing space in the country is controlled by unorganized players with smaller sized warehouses which have limited mechanization.

**Indian Warehousing Market Size**



**Indian Warehousing Segments**



**Market Dynamics**

- 60% of the modern warehousing capacity in India is concentrated in the top six cities namely Ahmedabad, Bangalore, Chennai, Mumbai, NCR and Pune, with Hyderabad and Kolkata being the other major markets.
- This is driven by concentration of industrial activity and presence of sizeable urban population around these clusters.
- In all the segments of warehousing industry barring the agricultural segment, the majority of the capacity is controlled by the private sector.
- In the agricultural segment, approximately 3/4th is controlled by different Government entities.



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