OPPORTUNE WEALTH ADVISORS PRIVATE LIMITED

Delhivery IPO Details

START DATE	END DATE	BID LOT	SIZE	PRICE BAND
11th MAY'2022	13th MAY'2022	30 Shares	₹5,235 Crore	INR 462-487

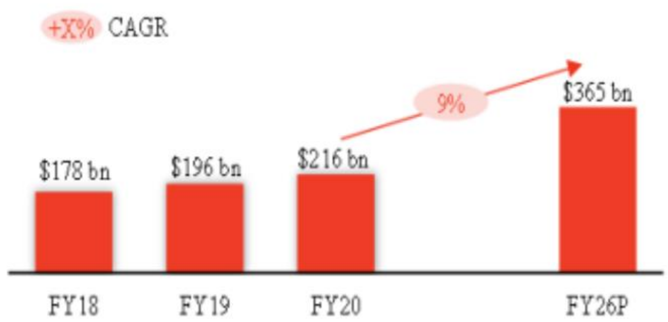
Delhivery IPO Analysis - Proxy play on E-commerce.

Our Advice: Investors could wait for Open Market Purchase in the Current Tepid Market Scenario.

Industry

The logistics sector is one of the largest in the world and presents a large addressable opportunity of US$216 billion in Fiscal 2020. The sector is expected to grow to US$365 billion by Fiscal 2026 at a CAGR of 9%.

India's Direct Logistics Market Size (US$ billion) [1]



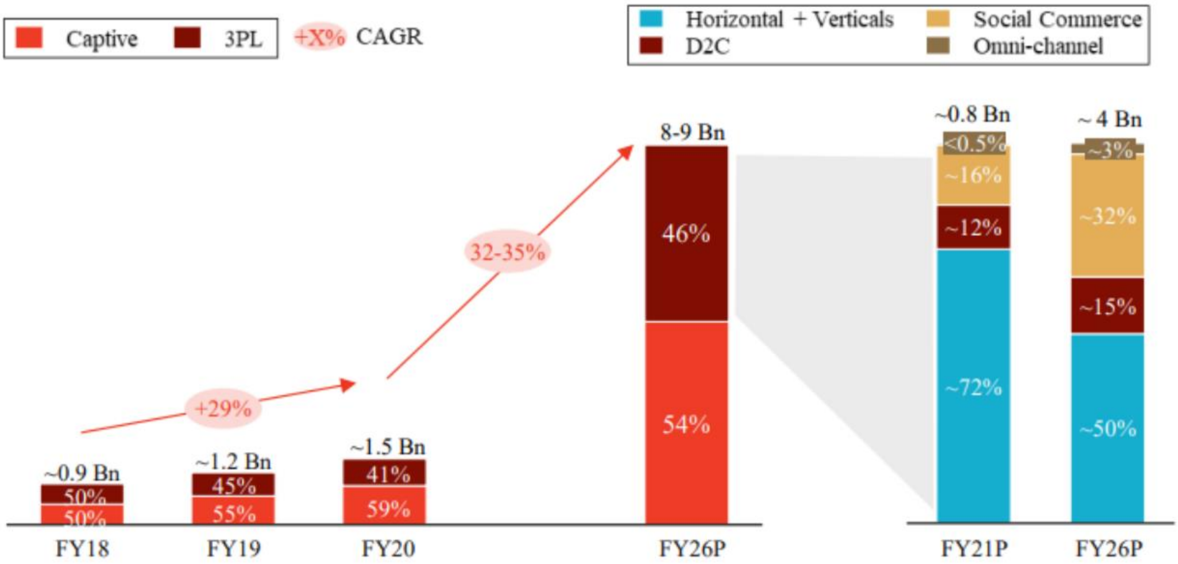
Highly fragmented market – organized share is only around 3%. Ecommerce part of logistics is growing rapidly which comprises majority of Delhivery's business (around 60% of revenues).

Market Size of Organized Players for Road Transportation, Warehousing and Supply Chain (US$ billion)

With online purchases just about beginning for larger items, we feel that we have just scraped the surface of the overall potential for online deliveries in India.

Delhivery has developed a SaaS product which it hopes to sell to peers to manage their logistics better. By doing so, it is going much beyond being a service to a product for all logistics companies which could have even larger business potential over time.

Total eCommerce shipments in India – by type of logistics and 3PL shipment share – by eCommerce model



Source(s): RedSeer Analysis
Note: eCommerce shipments represent total eTailing, D2C, Omni channel and Formalized Social Commerce

Some moats in segments like Express Delivery which requires scale, network and better operations. 70% of Delhivery's revenues are from express deliveries (deliveries in 3-4 days)

Moat evident in the fact that 40% of express delivery market is organized with Delhivery having largest market share of 16%. It was one of the first organized players and has come to be the leader in the reverse pick-up or returns segment for online shopping.

Company

Delhivery was started as a hyperlocal flower and food delivery service for offline stores in Delhi in 2011. Pivoted to e-commerce logistics within few months of starting. E-commerce logistics has unique requirement of being B2C and C2B (sales returns) at the same time. This is where Delhivery capitalized as the domestic industry was not yet accustomed to it.

Model difference as compared to Traditional logistics

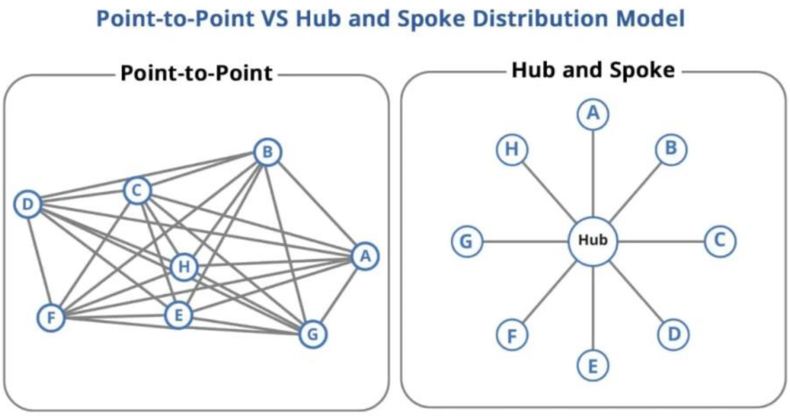
Delhivery operates on a Point-to-point mesh network where each facility acts as its own hub and sorting facility and is connected to all nodes instead of one central hub in the traditional Hub and spoke model.

Mesh network is complex and operationally expensive but delivery is faster in this model.

Comparison of business models across US, China, and India

	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	Self-owned infrastructure; mix of self-owned and partner operated fleet and last-mile	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

Sources: RedSeer Research, RedSeer Analysis, Annual Reports of Logistics Players
Notes: (1) Asset light is defined as a business model with low ownership of physical assets (2) Degree of automation is defined as intensity of reduction in manual processes using technology to perform iterative tasks.



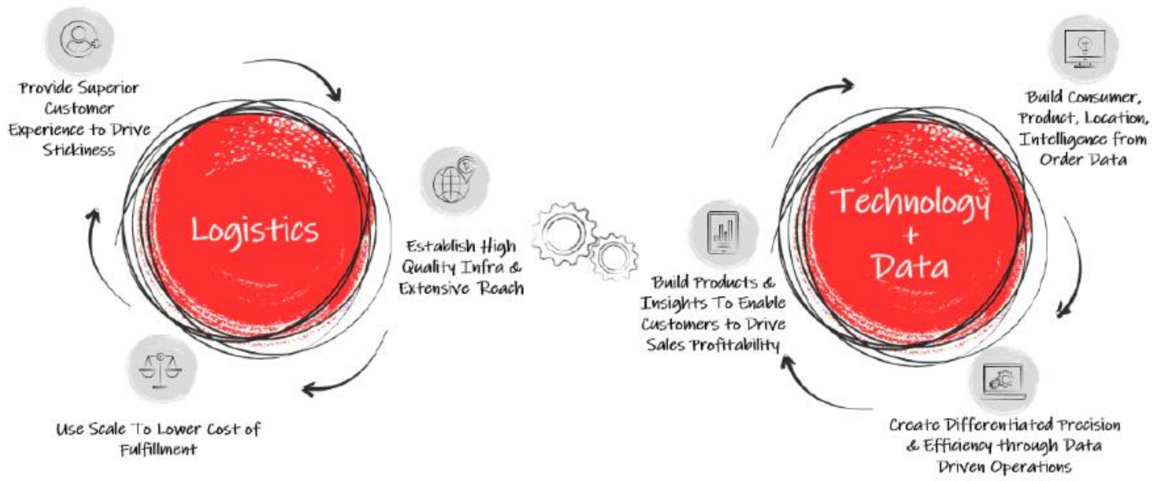
Types of Logistics Distribution Models

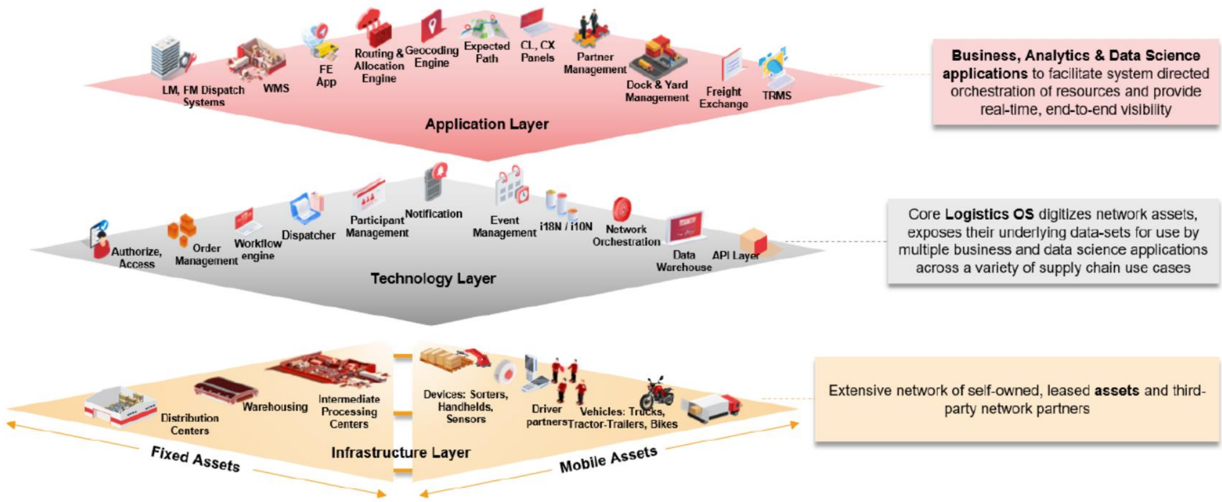
Deep technology capabilities make the company standout from its peers.

Delhivery has around 500 engineers working on process automation and the tech stack.

Delhivery has over 80 proprietary applications bundled into solutions on the application layer, which aids in demand forecasting, network design, tracking and real-time optimization, and decision support.

Delhivery flywheel and tech stack



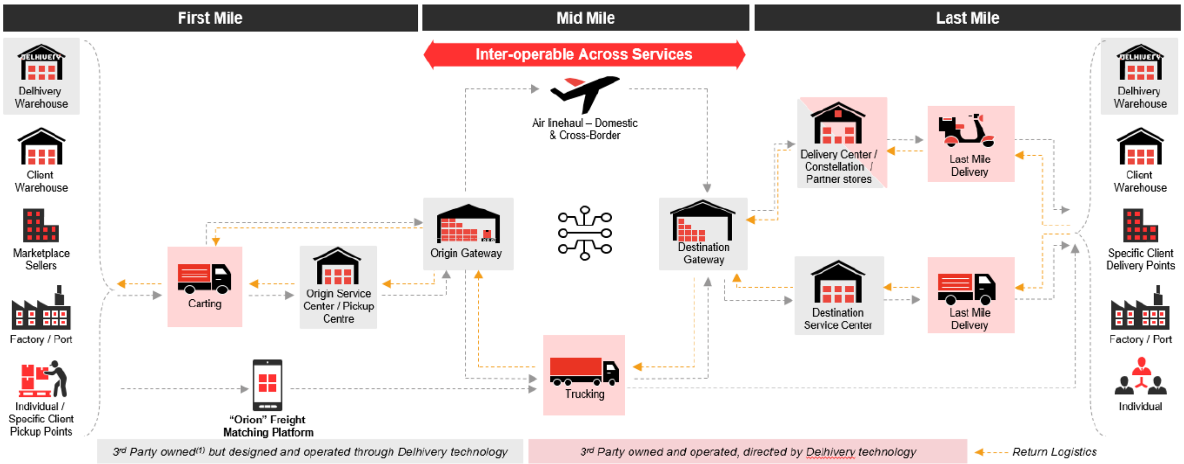


There could be an optionality in the business as they have started to sell this tech as a service – 'Logistics OS' as a SaaS offering to other logistics partners and players. (Can think of this as API plugins for other logistics companies).

Below excerpt from DRHP

"We intend to externalize our logistics operating system as a platform and a SaaS offering by enabling other logistics service provider, logistics-tech companies, and enterprise and developer partners, in India and globally."

Delhivery Asset light network gives it more flexibility than many of its peers, both on cost and scale. Many of the Delhivery agents are third-party owned.



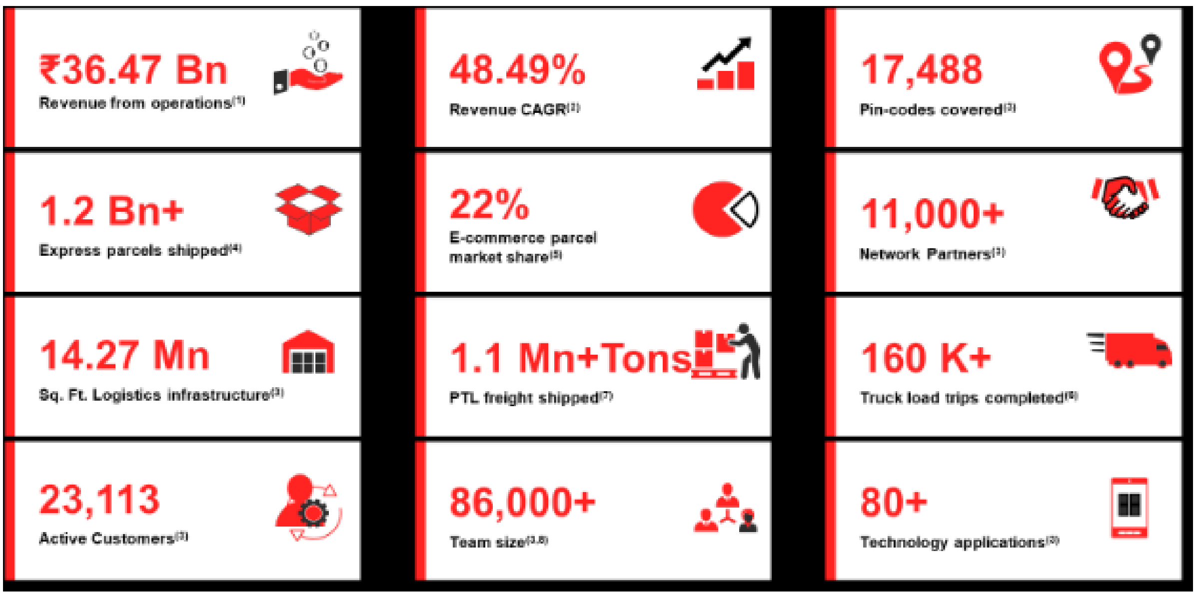
Management

The company was founded in 2011 by Sahil Barua, Mohit Tandon, Bhavesh Manglani, Suraj Saharan, and Kapil Bharati. All of them still on the management team today.

Sahil Barua is the current MD and CEO. Both Sahil Barua and Mohit Tandon – were former consultants at Bain Capital. The strategy to expand the business and the way forward is a clear path. Profitability should also not be far away, given the scale the company has reached and the launch of the Saas product is near.

Proceeds of the issue: According to its DRHP, Delhivery will spend around Rs 2,500 crore to fund organic growth initiatives and Rs 1,250 crore to fund inorganic growth through acquisitions and other strategic initiatives. It will use the remaining amount for general corporate purposes.

Key Details:



Valuations:

Although the company is still in growth phase, and having losses presently. We believe there is huge opportunity for the business. The business model, unlike a Zomato, is well proven with several profitable peers listed on the bourses – Bluedart, VRL Logistics, Gati, TCI Express, to name a few.

Looking at the valuations, however, we are not keen to take a position in Delhivery at this point. We would recommend that investors make the best use of the current market correction and wait for the stock to list at a lower valuation before buying into the story.

A quick look at the comparables gives us the clear indication that the IPO is too pricy, and can be avoided in subscription stage.

DELHIVERY IPO
PEER COMPARISON

	MARKET CAP (IN RS CR)	FY23 EST REVENUE (IN RS CR)	MARKET CAP TO REVENUE (X)
TCI EXPRESS	6,596	1,315	5.0
DELHIVERY	35,284*	7,700	4.6
BLUE DART	16,019	4,813	3.3
VRL LOGISTICS LTD	4,963	2,791	1.8
TCI	5,459	3,784	1.4
Mahindra LOGISTICS	3,439	4,974	0.7

*Company market cap at Rs 35,284 cr at Rs 487 per share price

Please keep all points in consideration as you take your final decision to invest.

Warm Regards,

Suruchi Jain (Principal Investment Adviser)

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