

Quick Commerce

The Business of Instant Gratification



Penetration likely to be quicker than anticipated

Consolidation key to sustainable profitability

Food-techs and Scheduled e-grocery players well positioned

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Grocery shopping in major cities is set to undergo a tec(h)tonic shift led by 'Quick Commerce' platforms. We expect the change to be relatively swift and see an upside risk to Redseer's estimates of a USD 5.5bn market by CY25. Our conviction is based on the fact that these platforms are addressing multiple consumer pain-points that hitherto could not be addressed by other organised channels. Sensing a large opportunity, several well-funded players have already entered the fray that can lead to faster market expansion. On the flip side though, competitive intensity and cash-burn for the industry is likely to stay high. We therefore believe consolidation is inevitable over the next few years and see food-techs/Scheduled e-grocery players better placed to survive the likely carnage.

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Quick Commerce: The Business of Instant Gratification

Grocery shopping in India's major cities is set to undergo a never-seen-before tech(h)tonic shift led by 'Quick Commerce' platforms. While 'Modern Trade' and 'Scheduled e-grocery' have made decent inroads over the past few years, 'Quick Commerce' penetration is likely to be swifter and more sudden. In fact, we see an upside risk to Redseer's estimates of a USD 5.5bn market for the 'Quick Commerce' channel by CY25 (from <USD 1bn in CY21). This is because 'Quick Commerce' platforms are addressing multiple consumer pain-points such as 1) convenience, 2) speed, 3) curated assortment, 4) value, and 5) round-the clock standardised services. While our primary research suggests demand in the initial phase is being driven by a mix of fresh assortments (F&Vs, meat, dairy and other ready-to-cook items) and indulgence categories (chocolates, biscuits, snacking items, cold drinks, and tobacco), we also expect grocery staples, cooking essentials, medicines, baby and personal care, home care and pet care, amongst others, to pick up as consumers become more habituated to ordering through the platforms. In fact, our analysis suggests that wider the range of use-cases, higher will be the repeat transactions, and better the chances of sustainable growth for the platforms. Factors that drive our confidence include 1) fast-growing digital penetration, 2) ongoing demographic and lifestyle changes, 3) high customer retention, 4) cross-sell opportunities, and 5) inefficiencies in the unorganised market.

Having mentioned that, we do acknowledge the fact that 'Quick Commerce' is presently in its infancy. This is true not just for India but also for several other global markets. Nonetheless, the large opportunity size has led to several well-funded players entering the fray, leading to faster market expansion. What this also means is that competitive intensity is likely to be severe in the near term. Therefore, only those platforms that have very strong customer recall, robust back-end supply chain and/or strong balance sheet are likely to survive this battle of attrition. While it may be too early to hazard a guess, we believe at present Food-techs and Scheduled e-grocery players who seem to have relatively better customer connect, have past experience of managing either hyper-local delivery services or back-end supply-chain processes, and are also decently funded have a definite edge over the rest.

Strong growth momentum expected over CY21-25

Redseer estimates that the addressable TAM for Quick Commerce platforms in value terms was ~USD 45bn in CY21, i.e., >7% of the total grocery market, assuming the service is likely to appeal only to middle-high income households residing in Metro & Tier-1 cities. It also estimates that Delhi NCR, Mumbai and Bangalore together accounted for ~70% of the total Quick Commerce orders generated in CY21. Basis our interactions with industry experts, we see an upside risk to Redseer's estimates that suggests the industry could reach USD 5.5bn by CY25 from <USD 1bn in CY21. Key growth drivers are new customer additions, improvement in repeat order frequency of existing consumers, higher AOVs, expansion in newer cities, and broader delivery coverage in existing cities.

Quick Commerce a threat to unorganised grocery market

Quick Commerce platforms are essentially trying to disrupt the unorganised grocery market (mainly the neighbourhood kirana stores) in large cities. Their broader strategy seems to focus on driving the message that shopping for groceries through their online platforms is far more convenient than having to take physical trips to the neighbourhood grocery/convenience stores. By leveraging their scale, platforms can also extract better margins from brands/manufacturers/distributors, a percentage of which then can be shared with the customers to create top-of-the-mind awareness or improve customer stickiness. Moreover, some platforms are providing more flexibility to consumers by giving them the option to decide their own delivery schedule. This messaging of speed and convenience essentially addresses the pain-points of urban families having busy lifestyles and nuclear families. High NPS scores for Quick Commerce players compared to offline channel and scheduled delivery players are indicative of the growing consumer satisfaction with the channel.

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Unit economics a tough nut to crack but consolidation should help

Quick Commerce players are presently focused on customer acquisition and retention. They are also deploying significant financial resources on expanding their network of demand centres (dark stores), marketing and branding. This is leading to significant cash-burn across the industry. High competitive intensity is not helping either. To improve profitability and build a self-sustainable business model, these platforms will have to pull multiple levers such as improve AOVs, drive order mix change, create new revenue streams, optimise supply chain, and lower last mile-delivery costs. We also expect an intense phase of consolidation over the next few years, similar to the one witnessed by food-techs, which would eventually lead to an oligopolistic market and improve profitability for survivors.

Why are food-techs/Scheduled e-grocery players interested?

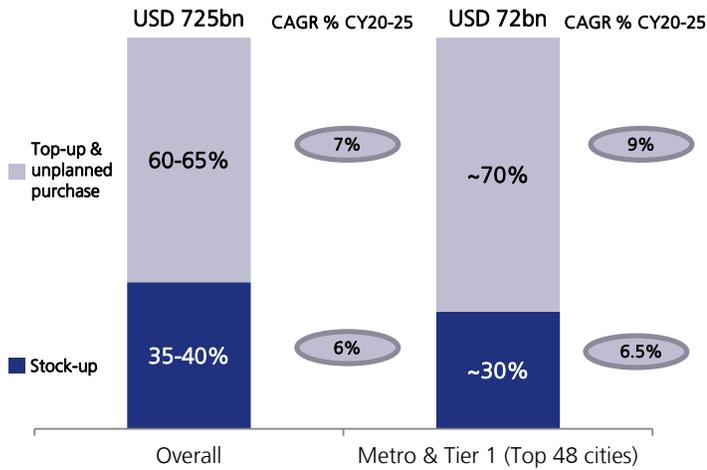
Quick Commerce is highly complementary to food delivery. Customers who order food online due to reasons of convenience, wider selection, discounts and standardised customer support are also likely to be more amenable to ordering grocery items online for the very same reasons. This opens up cross-sell opportunities for food-techs. They can also optimise last-mile delivery operations by cross-utilising the delivery fleet across the two offerings, especially during non-peak hours. On the other hand, Scheduled e-grocery players have spent significant time and resources in perfecting the art of sourcing and building efficient supply chains. Some even have their own private labels that are popular with a sizeable customer base. By offering Quick Commerce services, Scheduled e-grocery players can provide an alternative shopping choice to existing customers and reach out to others who prefer instant fulfilment. It is also possible that Quick Commerce is cannibalising the demand for Scheduled e-grocery and, therefore, traditional online grocery players are trying to defend their market share in the overall grocery market.

JM Financial Research is also available on: Bloomberg - JMFR <GO>, Thomson Publisher & Reuters, S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

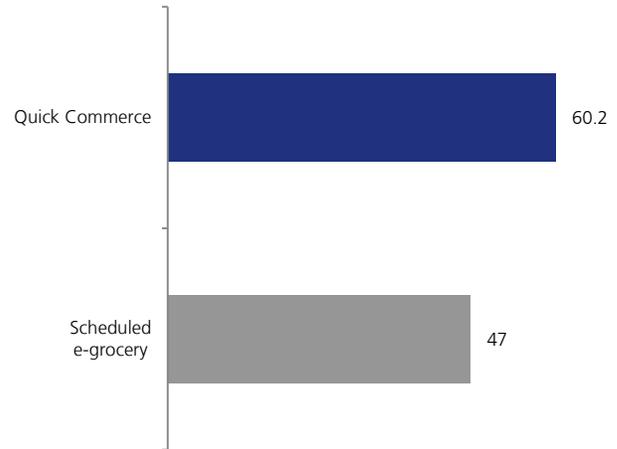
Key Exhibits

Exhibit 1. Consumables GMV (CY20) – By Use-cases



Source: Redseer Analysis, JM Financial

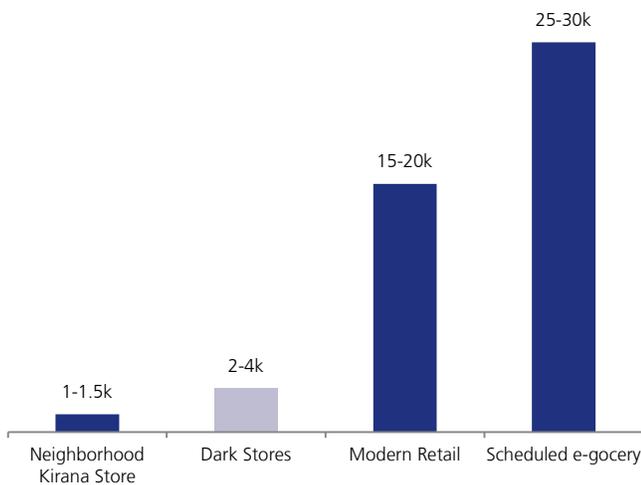
Exhibit 2. Net Promoter Score of Quick Commerce players significantly better than that of Scheduled e-grocery players



Source: Redseer, JM Financial

Exhibit 3. Retail channel-wise SKU Assortment

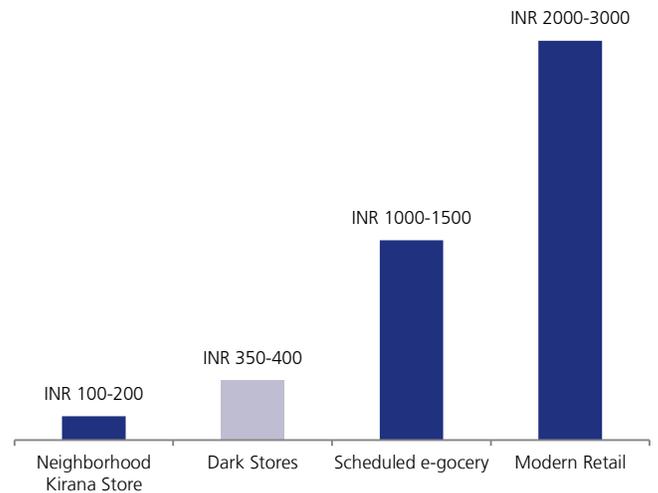
Channel-wise SKU Assortment



Source: Media Reports, JM Financial

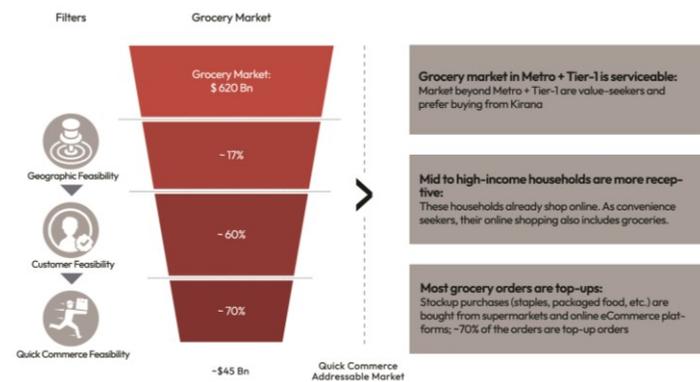
Exhibit 4. Retail channel-wise AOV

Channel-wise AOV



Source: Media Reports, JM Financial

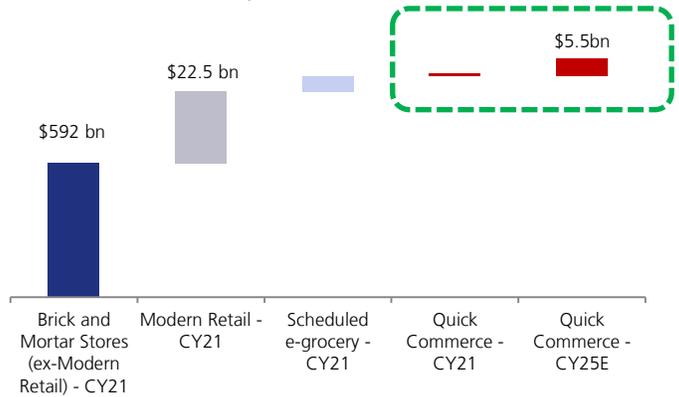
Exhibit 5. Quick Commerce a USD 45bn opportunity (as of CY21)



Source: Redseer

Exhibit 6. Grocery market in India

Grocery market size in India



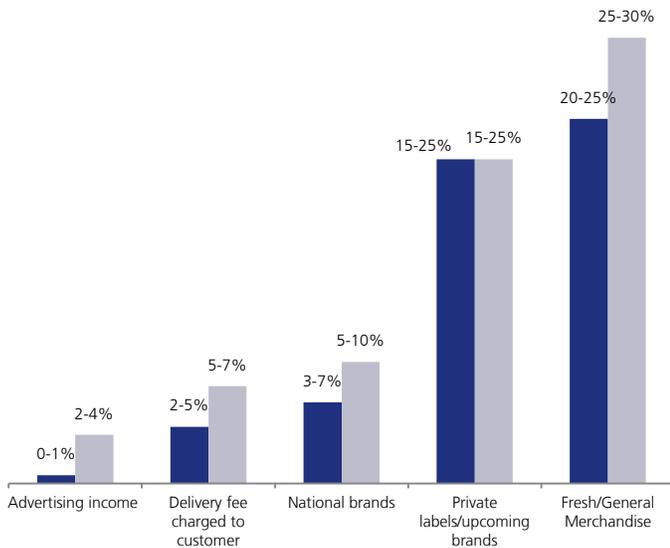
Source: Redseer, JM Financial

Exhibit 7. Competitive landscape

Category	Swiggy	Zepto	Dunzo	Blinkit	Ola	Flipkart	BigBasket	Fraazo
Cities present	28	11	7	21	9	14		6
Number of dark stores	250+	200		300	200		90	
Number of SKU's				3000-4000	2,500		3,000-3,500	150
AOV (INR)	350-400	250-300	380-400		150-200		400	370-400
GMV ARR (USD mn)	350-400	120-150	150-200	400-450	20-30			
Active customers	2mn transacting users per month							
Order volumes	180-200k orders per day	80k-90k orders per day		130-140k orders per day	15k orders per day			115k+ orders per day

Source: Media Reports, Company blogs, Industry Experts, JM Financial

Exhibit 8. Take Rate (Revenue as % of GMV): Current vs Steady-state



Source: JM Financial Estimates

Exhibit 9. Based on order mix take-rates for Quick Commerce platforms can exceed that in food-techs

	Order Mix				
National brands	75%	65%	55%	40%	30%
Private labels/upcoming brands	10%	15%	25%	30%	30%
Fresh foods	15%	20%	25%	30%	40%
Take rate (Revenue as a % of GMV)	20.8%	22.4%	24.6%	26.3%	28.3%

Source: JM Financial Estimates

Exhibit 10. Path to profitability

Increase AOV	Lower COGS %	New Revenue Streams	Optimize Operations	Lower last-mile delivery costs
<ul style="list-style-type: none"> • Offer city or locality specific assortments • Offer/promote high order value category SKU's e.g. Pet food & supplies, baby care, beauty and personal care, office supplies, etc. • Offer personalized product suggestions • Collect delivery fee and packaging charges • Minimum order value/ free delivery threshold 	<ul style="list-style-type: none"> • Source directly from brands/ FMCG producers • Better negotiating power owing to large scale • Offer private label with better margins • Improve AOV mix through high margin categories such as non-grocery general merchandise • Better optimize inventory and control to reduce wastage 	<ul style="list-style-type: none"> • Charge delivery fee below minimum order value • Advertising/ Promotional income from Brands • Charge subscription fee for loyalty programs 	<ul style="list-style-type: none"> • Derive operating leverage due to scale benefits • Improve day-to-day processes due to learning curve • Reduce warehousing and transportation costs through optimized fulfillment center infrastructure (warehouses, hubs and cross docking) 	<ul style="list-style-type: none"> • Ensure lower drop rates • Enable multi-drop (batched) deliveries • Optimise route planning for delivery partners • Cross train delivery partners to do multi-function deliveries like food delivery, medicine delivery etc.

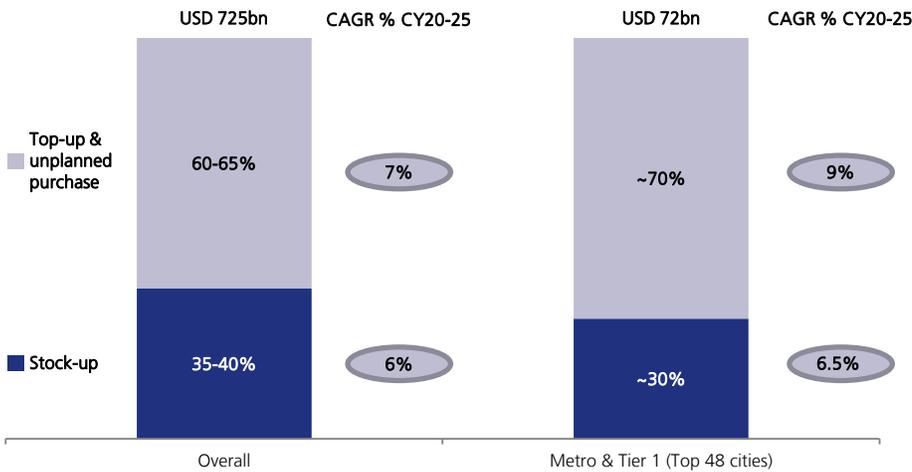
Source: Prusus, JM Financial

Introduction to Quick Commerce

'Quick Commerce' or 'Q-Commerce' is a form of e-commerce in which customer orders are fulfilled by platforms within a few minutes of the order being placed (unlike traditional online platforms that take at least a day to deliver). The broader premise is that close to two-thirds of the total consumer purchases are unplanned, are of low-moderate order value but in need of instant fulfilment. Quick Commerce platforms service this requirement through either a network of self-operated dark-stores or a bunch of local offline retail partners. Essentially, Quick Commerce platforms cater to consumer demand for 'Speed' and 'Convenience' of delivery of items that are high-in demand and have high rotation frequency.

Around two-thirds of the total consumer purchases are unplanned, are of low-moderate order value but in need of instant fulfilment

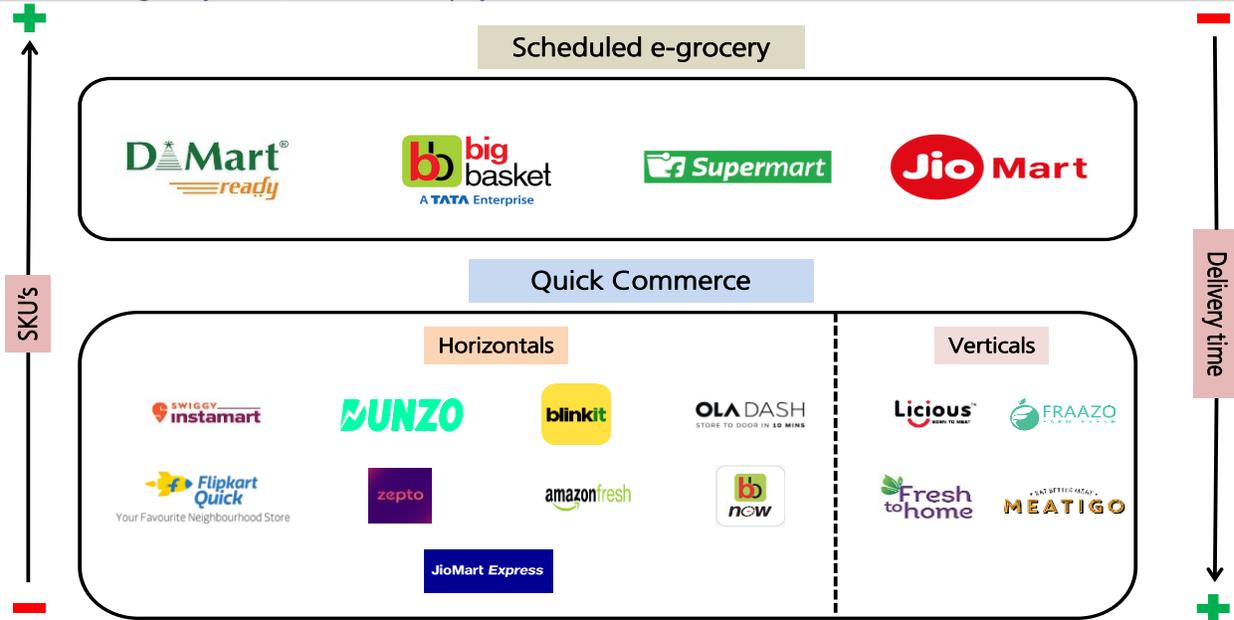
Exhibit 11. Consumables GMV (CY20) – By Use-cases



Source: Redseer Analysis, JM Financial

At present, most Quick Commerce platforms are developing use-cases that are built to cater to the demand for grocery and related purchases given their very high weightage in an average individual's consumption basket. Therefore, in this report we broadly associate Quick Commerce as a new channel for grocery shopping while noting that over a period of time platforms are also likely to build use-cases that transcend other shopping verticals such as medicine, fashion and electronics, amongst others. In the report, we also frequently use the term 'Scheduled e-grocery' that primarily refers to traditional online grocery delivery platforms that take at least a day to deliver.

Exhibit 12. Scheduled e-grocery and Quick Commerce players in India



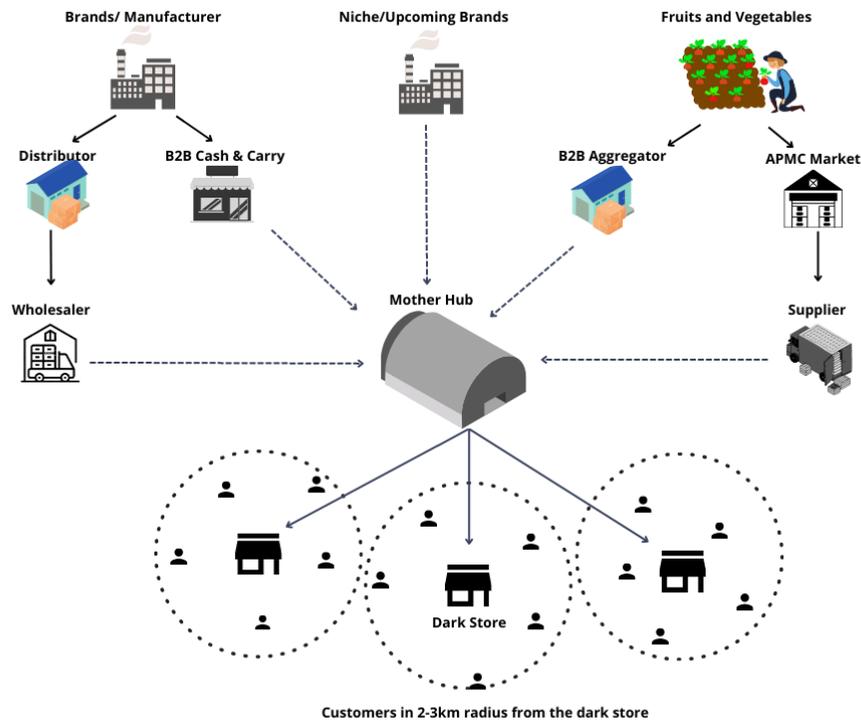
Source: JM Financial

Exhibit 13. Quick Commerce versus other Organised Shopping channels

Organised Brick & Mortar	Scheduled e-grocery	Quick Commerce
Self service	Delivery 1-3 days	10 mins – 2 hours delivery time
	Broad selection	Curated selection that typically has high rotation frequency
Personal vehicle	Delivery truck/ Two wheeled vehicles	Two wheeled vehicles
Superstore	Mega warehouses	Local retailer or dark store or micro fulfillment center
	Price and discounts matter most	Speed and convenience matters

Source: Delivery Hero, JM Financial

Exhibit 14. Quick Commerce supply chain illustration



Source: JM Financial

Need for Quick Commerce

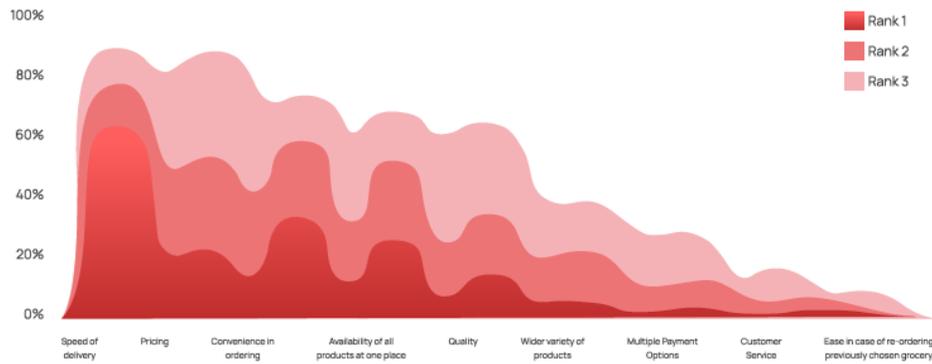
Traditional e-commerce offered consumers ease of ordering from a broad selection of products, across different categories and with a wide range of SKUs, at the best possible price. While this model has dramatically transformed the consumer’s purchasing experience compared to offline channels, it mainly works on the concept of bulk pick-up from far-off locations and bulk-drop within a large delivery radius. This means that delivery timelines often get stretched to more than a day and, in many cases, the available delivery slots are either inconvenient or non-flexible and, sometimes, not even communicated to the consumers. As a result, despite lucrative promotions run by online platforms, a sizeable proportion of consumer wallet spends that include unplanned, indulgence-related or fresh-products (low shelf-life), are primarily catered to by the neighbourhood brick-and-mortar (kirana) stores.

However, the Covid-19 pandemic led to the evolution of consumer expectations due to restrictions on movement or general reluctance to venture out. Consumers began to explore online channels even for purchases that required instant fulfilment. This led to the emergence of Quick Commerce platforms, who promised to deliver high-in demand and high rotation products (mainly related to grocery) within a few minutes of order placement. Assuming that this change in consumer purchasing behaviour is permanent post-Covid, and seeing the vast underlying opportunity size, a host of new-age companies have of late joined the Quick Commerce bandwagon.

Despite lucrative promotions run by Scheduled e-grocery platforms, a sizeable proportion of consumer wallet spend were primarily catered by the neighbourhood brick-and-mortar (kirana) stores mainly due to stretched delivery schedules

Exhibit 15. Top criteria for selecting mode of unplanned purchase

Top criteria for selecting a mode of unplanned purchase
% N = 1210

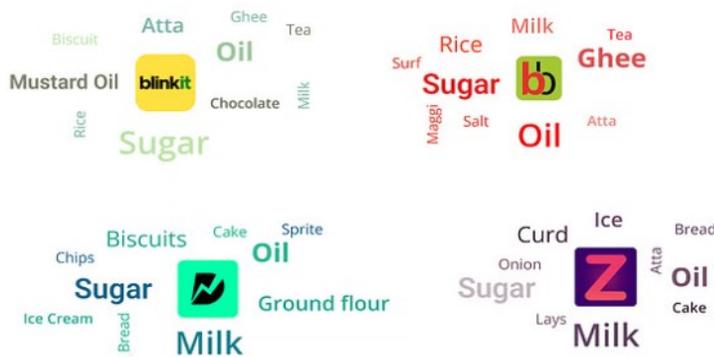


Speed of delivery is the topmost criteria while making an unplanned purchase

Source: Redseer

Exhibit 16. Top searched products on various online platforms

TOP SEARCHED PRODUCTS



Source: Bobble AI

Business models in Quick Commerce

1. Inventory-led model – in this model, platforms source their own inventory and operate a network of own dark stores in high population density areas to cater to consumer demand.

2. Marketplace model – in this model, platforms depend on local offline retailers for supply of products to consumers.

While each model has its own advantages/disadvantages, some platforms such as Swiggy Instamart and Dunzo are presently operating a mix of both these models.

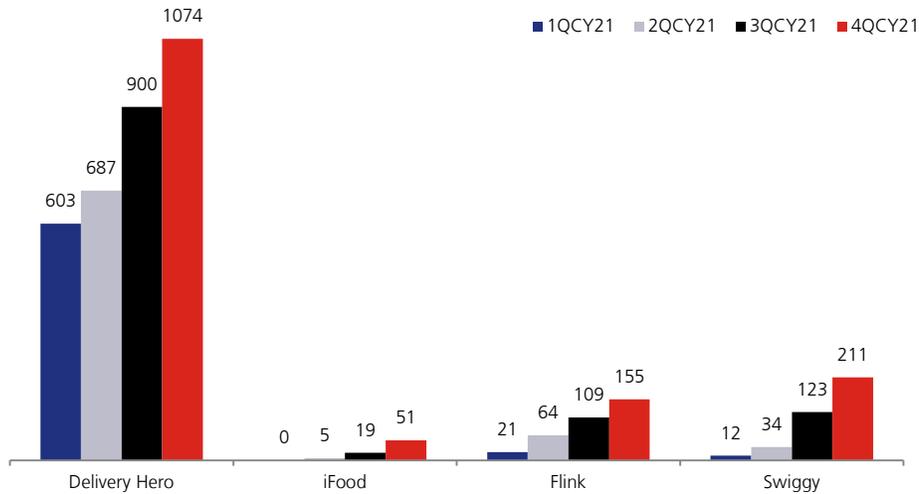
Exhibit 17. Quick Commerce business models: Inventory-led model versus Marketplace model

	Inventory-led model	Marketplace model
Agent/Principal	Platform operates as a Principal	Platform operates as an Agent for offline retailers
Assortment	Curated assortment of 2k-4k SKU's	Not fixed as platform has no control over partner store inventory
Capex	Platform does capex to build supply-chain, dark stores and inventory	Store partner does capex on store and inventory
Inventory risk	Platform takes the risk	Store partner takes the risk
Gross margins/take-rates for platform	High	Low
Operational control	With the platform	Either with Partner Store/Delivery Partner
Possibility of stock-outs	Low	High
Quality control	Better than marketplace model	Inferior to inventory model
Customer experience	Better than marketplace model	Inferior to inventory model
Sustainable unit economics	Better than marketplace model	Inferior to inventory model
Typical delivery time	10-30 mins	30-60 mins

Source: JM Financial

Exhibit 18. The inventory-led model is fast gaining traction not only in India but also globally

Platform-wise number of dark stores



Source: Prosus, JM Financial

What are Quick Commerce players disrupting?

We believe Quick Commerce players are essentially disrupting the unorganised grocery market in India. Their broader strategy seems to focus on driving the message that shopping for groceries online is far more convenient than having to take physical trips to the neighbourhood kirana stores. Moreover, by providing an option to decide the delivery schedule, some platforms are offering even more flexibility to their consumers. This messaging of 'Speed' and 'Convenience' essentially addresses the pain-points of modern, nuclear urban families that tend to have very busy lifestyles. High Net promoter Scores (NPS) for Quick Commerce players compared to offline channels and Scheduled delivery players are also indicative of how satisfied consumers are with the channel.

Quick Commerce players are essentially disrupting the unorganised grocery market in India

Exhibit 19. Quick Commerce versus neighbourhood kirana stores

	Neighbourhood kirana stores	Quick Commerce
Primary Purchase Use Case	Planned + Unplanned	Unplanned
Presence	All cities, towns and villages	Metro & Tier 1 Cities
Delivery time	Planned - Up to a few hours Unplanned - Immediate	10-120 mins
Value/Convenience	Convenience	Convenience + Value
Discounts/Cashbacks	Negligible	Moderate
TAM (CY21)	USD 620bn	USD 45bn
SKU's	1,000-1,500	2,000-4,000
Customer tech-saviness	Not required	Required
Gross Margins (Sustainable)	12-15%	22-25%
A&P expenses	Negligible	High
Last mile delivery cost per order	Negligible	INR 40-60
Store-rent	High	Moderate
Customer reach radius	Limited to 0.5-1 km	1-3 Km
Cross-sell opportunities beyond grocery	Limited	High
Operation hours (typical)	9 AM - 8 PM	6 AM - 1 AM
Standardised after-purchase service	Not possible	Yes

Source: JM Financial

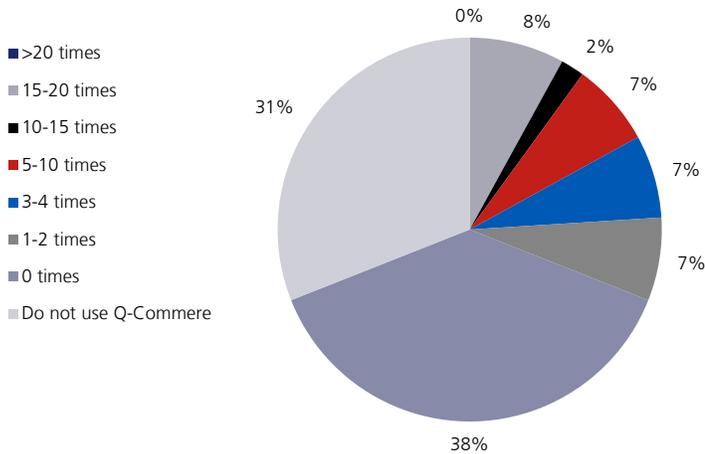
Characteristics of Quick Commerce

High customer stickiness

Quick Commerce platforms tend to have very high customer stickiness. This is because 1) there are a wide range of use-cases, several of them very high frequency ones, 2) assortment offered is generally non-discretionary in nature, 3) changing consumer habits from planned/stock-up purchases to unplanned/impulsive purchases, 4) availability of discounts on MRP of certain products, and 5) loyalty programmes.

Exhibit 20. Of the total Quick Commerce using households, >50% place at least 5 orders per month

Survey question: As a household how many orders are you placing each month on Q-Commerce Apps?

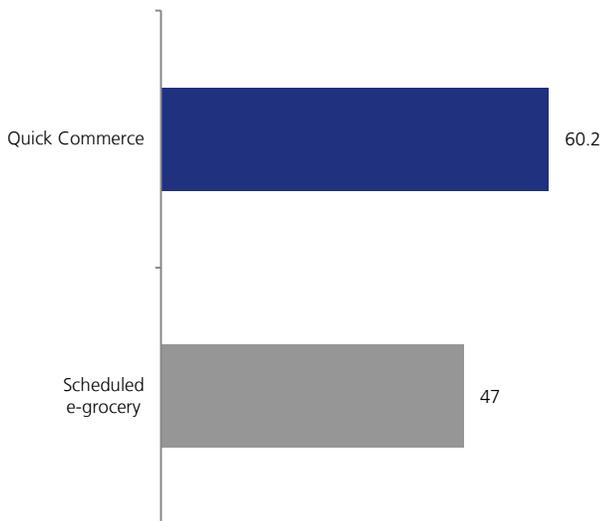


Source: LocalCircles Survey. Sample Size: 10,439 responses .

High NPS scores

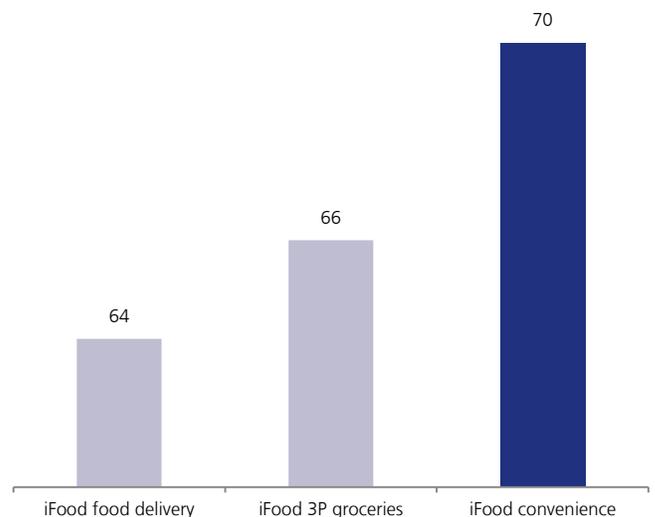
Globally, platforms that offer instant deliveries (of 10-30 mins) tend to have much higher NPS than those offering lengthier delivery times. Redseer analysis suggests Quick Commerce players in India have a better NPS than Scheduled e-grocery players. This is likely because the former enhances the shopping experience of customers on the back of their ability to offer instant product selection and delivery.

Exhibit 21. Net Promoter Score of Quick Commerce players significantly better than that of Scheduled e-grocery players...



Source: Redseer, JM Financial

Exhibit 22. ... not only in India but also globally - platforms like iFood (Brazil) are also reporting the same trend



Source: Prosus

Dark stores typically located in high density localities with small delivery radiuses

The inventory-based instant delivery model (10-30 mins delivery) works best in high population density localities. Further, the model also requires a very dense network of dark stores such that the typical delivery radius (measured as the distance between a typical customer and the closest available dark store) does not exceed a few kilometres. Both these factors reduce the time spent by the delivery partners on the road and enhance end-customer experience. Our analysis suggests that, on average, most platforms prefer to work within a delivery radius of 1.5-3.0km after factoring in a few local dynamics such as local infrastructure, peak-time traffic and optimal expected order volumes, amongst others. In the marketplace model, however, the delivery radius can be far wider than just a few kilometres.

Most platforms prefer to have a delivery radius of 1.5-3.0 km per dark store

Platforms strive to achieve at least 80% serviceable coverage in each city

Our interactions with industry experts suggest that beyond a few densely populated regions in Metro and Tier 1 cities, senior management relies heavily on visitor traffic data before launching operations in a new city/region. They constantly track the number of visitor look-ins that their platform is getting from presently un-serviced regions and analyse their behaviour on the platform. This is on top of other critical factors such as total addressable population, population density, differentiated needs, and supply chain dynamics. Some companies even do pilot runs before making a final decision. The broader idea is that at least 40% of the city should be serviceable at the time of starting operations, which can later be expanded to minimum 80% coverage over time.

Exhibit 23. Optimal number of dark stores required for complete coverage of Mumbai

Number of dark stores required to cover entire city like Mumbai					
Approx. area (sq. km)	600				
Per store radius (km)	1.0	1.5	2.0	2.5	3.0
Min. dark stores required	191	85	48	31	21
Optimal number of dark stores	100-125				

Optimal number of dark-stores required to operate in dense city like Mumbai are 100-125

Source: JM Financial

Most deliveries are in <30 mins but <10 mins delivery seems to be losing sheen

Our analysis suggests most platforms in the Quick Commerce space are committing to deliver within 30 mins of order placement. However, the initial brouhaha around 10 mins delivery seems to be quickly losing sheen as some of the platforms that had created the initial buzz around such deliveries now seem to be committing to relatively longer delivery times.

Exhibit 24. Typical delivery timelines of online grocery players

Platform	Business model	Earliest Delivery Option
Jiomart	Scheduled e-grocery	No timeline committed
Bigbasket	Scheduled e-grocery	Next day morning
Dmart	Scheduled e-grocery	Next day morning
Instamart	Q-Commerce	25 mins
Blinkit	Q-Commerce	50 mins
Zepto	Q-Commerce	23 mins
Dunzo	Q-Commerce	41 mins
Bigbasket now	Q-Commerce	30 mins
Ola Dash	Q-Commerce	10 mins
Amazon Fresh	Q-Commerce	3-4 hour
Flipkart Quick	Q-Commerce	90 mins
Fraazo	Q-Commerce	90 mins
FreshToHome	Q-Commerce	Next day morning
Licious	Q-Commerce	3-4 hour

Source: JM Financial, Checked on 5th Jun'22 @2:30 PM

Exhibit 25. Our sample survey suggests avg. delivery time is >10mins for a Quick Commerce player contrary to its claims



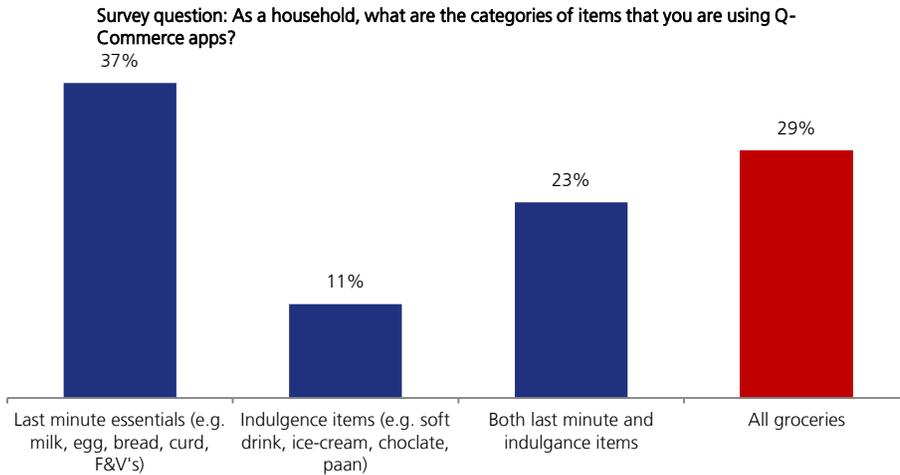
Source: Analysis of orders made by a JM Financial Analyst. Note: Analysis of orders till 7th Jun'22.

Current order mix skewed towards low-value SKUs

A Feb'22 Survey by [LocalCircles](#) indicates that 71% of the households used Q-Commerce platforms to either order daily use items such as milk, bread, eggs, curd, fruits & vegetables, etc. and/or indulgence items such as soft drinks, ice creams, chocolates, paan, etc. Only 29% of the surveyed households used Q-Commerce for all their grocery purchases. This indicates that the current mix for Q-Commerce players is skewed towards low-value SKUs. We believe that this is because advertising campaigns of most platforms focus on fresh and indulgence products, customer awareness on availability of the range of items on these platforms is limited, and most platforms are yet to reach their ideal assortment mix.

According to a survey, 71% of households use Q-Commerce platforms to order last-minute essentials or indulgence foods

Exhibit 26. 71% of households use Q-Commerce platforms to order last-minute essentials or indulgence foods



Source: [LocalCircles Survey](#). Sample Size: 10,070 households.

Discounts on Quick Commerce platforms lower vis-à-vis Scheduled e-grocery players

Our sample survey of 31 items across different categories suggests that, on average, discounts offered by Quick Commerce players are significantly lower than those offered by Scheduled e-grocery players. This is because the key value proposition offered by Quick Commerce platforms is 'Speed' and 'Convenience'. While discounts are also important, from a customer point of view buying products from a neighbourhood kirana store is a less lucrative option as most products there are sold at MRP.

Exhibit 27. Our analysis of sample SKUs across platforms suggests Quick Commerce players, in general, offer lower discounts than Scheduled e-grocery players

Product	Category	Quantity/ Weight	MRP (₹)	Scheduled e-grocery				Quick Commerce								
				Jiomart	Bigbasket	Dmart Ready	Flipkart Supermar t	Instamart	Blinkit	Zepto	Amazon Fresh	Dunzo	BB now	Flipkart Quick	Jiomart express	Ola Dash
Aashirvaad Superior MP Wheat Atta	Food grains and other essentials	5 kg	250	-16%	-18%	-16%	-15%	-24%	-12%	-14%	-15%	-13%	na	-12%	-16%	na
Saffola Active Oil		1 ltr	235	-16%	-4%	-16%	-4%	na	-6%	-2%	-14%	na	-4%	-5%	-16%	na
Everest Garam Masala		50gm	42	-11%	0%	-11%	na	-7%	na	-7%	na	-16%	na	-5%	na	-34%
Tata Sampann Unpolished Arhar Dal/Toor Dal		1kg	174	-17%	-14%	-14%	-10%	-15%	-18%	-8%	-17%	-15%	na	na	-17%	na
Haldiram's Bhujia Sev	Snacks	150gm	50	-11%	0%	-18%	na	0%	na	na	na	-18%	na	na	-11%	na
Lays Potato Chips - India's Magic Masala		52gm	20	-10%	0%	na	0%	0%	0%	0%	-10%	-20%	0%	0%	0%	-10%
Parle Monaco Cheesling		150gm	60	-8%	0%	na	0%	0%	-13%	na	0%	0%	na	na	-8%	-15%
ID Idly & Dosa Batter Mix	Instant foods	1kg	85	na	-20%	-15%	na	-11%	-6%	-6%	-14%	-9%	-20%	-7%	na	na
Maggi 2-Minute Masala Noodles		560gm	105	-17%	-8%	-17%	-9%	-22%	0%	0%	-10%	-20%	na	-9%	-17%	-18%
Britannia Good Day Cashew Cookies	Biscuits & Breads	200gm	40	-20%	-11%	-20%	0%	-11%	-4%	-20%	na	-20%	na	-11%	na	-16%
Parle Hide & Seek Chocolate		100gm	30	-23%	-7%	-23%	-17%	na	-10%	-3%	na	0%	na	-10%	-23%	-20%
Britannia Multigrain Bread, 400 g Pouch		400gm	55	na	0%	na	na	0%	-2%	0%	na	-9%	0%	na	na	-5%
Amul Homogenised Toned Milk	Dairy & dairy products	1Ltr	68	-4%	0%	-4%	0%	0%	0%	-1%	-3%	-3%	0%	na	na	na
Amul Butter		500gm	255	-4%	-3%	-4%	-4%	-4%	-1%	-2%	-3%	-3%	0%	-4%	-4%	na
iD Soft and Creamy Paneer		200gm	105	-25%	-10%	-16%	na	-9%	-10%	-5%	-15%	-9%	-15%	-10%	-25%	-5%
Gowardhan Pure Cow Ghee		500ml	325	-6%	-1%	-7%	0%	0%	-4%	-3%	-4%	na	-1%	-4%	-6%	na
Kissan Mixed Fruit Jam	Sauce & spreads	200gm	70	-7%	0%	-10%	na	na	0%	na	na	-4%	na	na	-7%	-13%
Kissan Tomato Ketchup		1.2Kg	160	-36%	na	-36%	na	na	-13%	na	na	na	na	na	-36%	na
Hellmanns Veg Mayonnaise - Eggless		800gm	185	-8%	-5%	-11%	-6%	0%	-5%	na	-5%	na	-5%	na	na	na
Madhur Pure & Hygienic Sulphurless Sugar	Salt/Sugar	1kg	60	-20%	-15%	-13%	-25%	0%	-15%	-20%	na	0%	-17%	0%	na	na
Tata Salt Iodized		1kg	24	-16%	-4%	-16%	-12%	0%	-16%	0%	-16%	0%	0%	-4%	-16%	-8%
Nescafé Classic Coffee Jar	Beverages - Hot drinks	50gm	165	-10%	0%	-9%	na	0%	na	-3%	na	-3%	na	-3%	-10%	na
Cadbury Bournvita Jar		1 kg	410	-11%	-14%	-9%	0%	na	-1%	na	-11%	na	na	0%	-11%	na
Pepsi	Beverages - Soft drinks	750ml	40	na	-15%	-20%	-13%	-10%	-10%	-10%	na	-10%	-15%	-13%	na	na
Cadbury Dairy Milk Chocolate	Chocolates	24gm	20	-10%	0%	-10%	0%	0%	0%	na	-10%	0%	0%	0%	na	na
Head & shoulders Anti-Dandruff Shampoo - Anti-Hairfall	Personal Care & Hygiene	180ml	170	-7%	0%	-13%	na	na	na	-15%	-12%	-16%	na	-9%	-7%	-14%
Dove Cream Beauty Bathing Bar		3U.	245	-18%	-19%	-25%	-5%	-11%	na	-2%	-22%	na	-10%	-5%	-18%	-13%
Whisper Choice Wings		7U	32	-9%	0%	-9%	0%	na	na	-9%	na	0%	0%	na	-9%	na
Dettol Liquid Handwash Pump - Skin Care		200ml	99	-7%	-24%	-7%	-23%	-20%	-20%	-20%	-9%	-9%	0%	-23%	-7%	na
Colgate Max Fresh Spicy Fresh Toothpaste		300gm	186	-28%	-28%	-33%	0%	-15%	-14%	na	-33%	na	na	na	-28%	-5%
Pampers Premium Care Pants - Large		44U	1,149	-7%	-35%	-32%	-20%	0%	-21%	na	-35%	na	na	na	na	na

Source: Company, JM Financial. Note 1: Red cells = Discount on MRP is >10%, Yellow cells = Discount on MRP ranges between >5% and <10%, Green cells = Discount on MRP ranges between 0% and 5%. Note 2: Prices sampled on 8th June 2022.

Platforms presently experimenting with assortment mix

Barring high turnover categories such as indulgence, pantry staples, and fresh foods, most Quick Commerce platforms are constantly experimenting with their assortment mix. This is because the space itself is nascent and fast evolving; there is no empirical dataset to test consumer choices and platforms are continuously working on improving their margin mix. While Quick Commerce is widely associated with non-discretionary and grocery-related categories, some platforms are experimenting with categories such as electric & electronic supplies, toys, amongst others.

Exhibit 28. Platform-wise assortment across various product categories

	F&V's	Dairy & dairy products	Snacks & cold drinks	Meat & Fish	Grocery Staples	Personal Care & Baby care	Pet Food	Office Supplies	Electric & Electronic appliances	Toys	Bathroom Essentials	Cigarette
Blinkit	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Swiggy Instamart	✓	✓	✓	✓	✓	✓	✓	✓				✓
Dunzo	✓	✓	✓	✓	✓	✓	✓	✓				✓
Zepto	✓	✓	✓	✓	✓	✓	✓	✓				✓
Ola Dash	✓	✓	✓	✓	✓	✓	✓	✓				✓
Bigbasket Now	✓	✓	✓	✓	✓	✓	✓	✓	✓		✓	
Amazon Fresh	✓	✓	✓	✓	✓	✓		✓				
Flipkart Quick	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		
Jiomart express	✓	✓	✓		✓	✓		✓				

Source: JM Financial Analysis of various platforms

Quick Commerce has been a boon for certain niche/indulgence brands

We believe Quick Commerce has been a blessing in disguise for certain niche/upcoming brands in the instant foods/indulgence categories. As per a [media report](#), iD Fresh, which manufactures savoury rice cake batter, witnessed its order volumes on Quick Commerce platforms surpass those on BigBasket in December. Beverage brand 'Paper Boat' also reported an increase in impulse purchases. It is pertinent to note here that this boost in demand was despite the fact that only Swiggy, Instamart, Zepto, and Blinkit had Quick Commerce operations in Dec'21. Indulgence is another category that has seen massive up-tick due to Quick Commerce. According to a [media report](#), Nestle said, in its Mar'22 earnings call update, that 'e-commerce showed strong acceleration with growth being largely fuelled by new emerging formats like quick commerce', while Coca-Cola mentioned that 'they are seeing much higher numbers of conversion rates in quick commerce, compared to larger platforms. The strike rate of consumers ordering is definitely higher on quick commerce platforms.'

Niche/upcoming brands in the instant foods/indulgence categories are large beneficiaries of Quick Commerce

Last mile delivery is the biggest cost component

Similar to most on-demand delivery services providers, last mile delivery is the single-largest cost component for Quick Commerce platforms. These costs are particularly inflated for those platforms that in the past have had little experience of providing on-demand delivery services. In that sense, food-techs, due to their past experience of handling on-demand services on a large scale, are slightly better placed than the competition. While there are tools that can optimise route planning and delivery partner mapping, etc., current processes are far from perfect as each platform goes through its own learning curve. Last mile costs are particularly high for platforms that promise 10-20 mins delivery because they are required to maintain a very dense delivery partner network (that impacts utilisation during non-peak periods). It is also difficult to enable multi-drop deliveries without impacting delivery timelines. Many players, therefore, use a floating fleet or engage 3PL partners to manage partial/end-to-end operations.

Last mile costs are particularly high for platforms that promise 10-20 mins delivery because they are required to maintain a very dense delivery partner network that impacts utilisation during non-peak periods

Exhibit 29. Typical delivery partner earnings

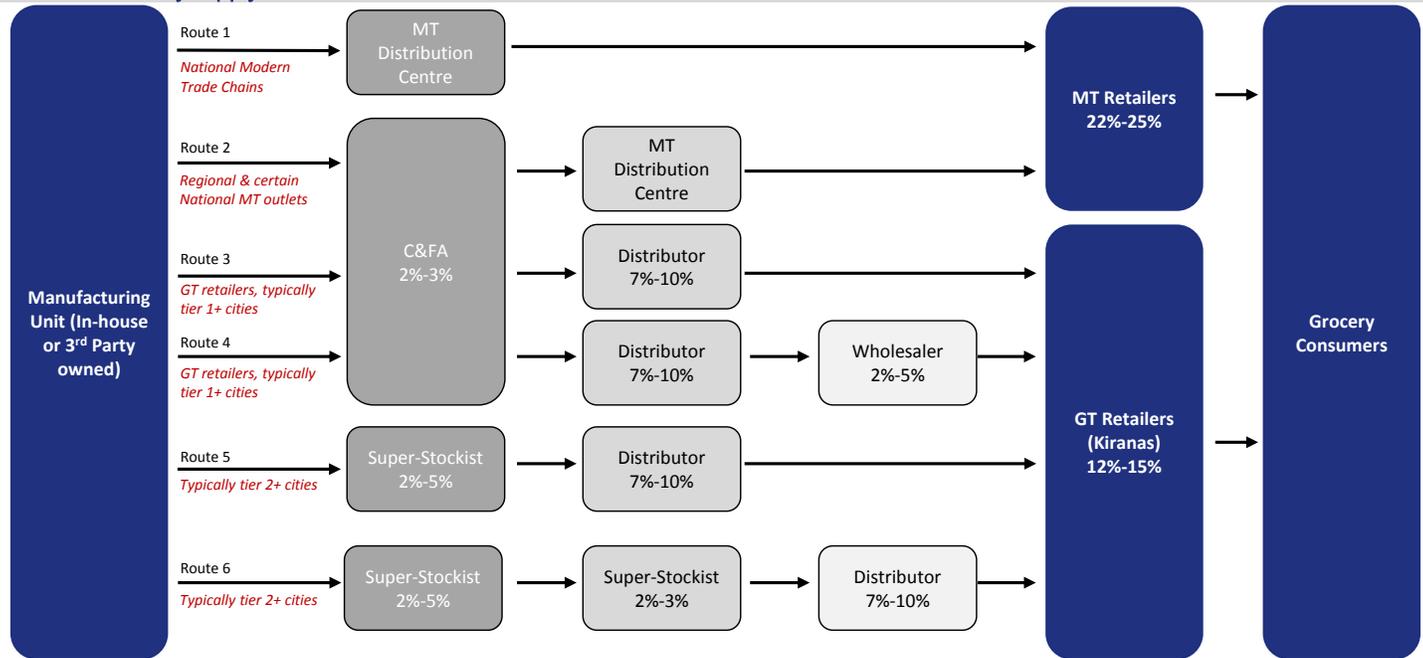
Earnings of a delivery partner (INR per month)	
Number of working hours per day	9
Time to complete one delivery (mins)	35
Deliveries per hour	1.7
Daily deliveries per delivery partner	15
Earnings per delivery (INR)	50
Working days in a month	25
Monthly deliveries per delivery partner	386
Gross earnings of a delivery partner (INR per month)	19,286
Fuel cost (INR per litre)	120
Average distance covered per order (km)	5
Bike mileage (kms per litre)	40
Total cost of delivery for delivery partner (INR per month)	5,786
Net earnings of a delivery partner (INR per month)	13,500

Source: JM Financial Estimates

Vertical integration key to success

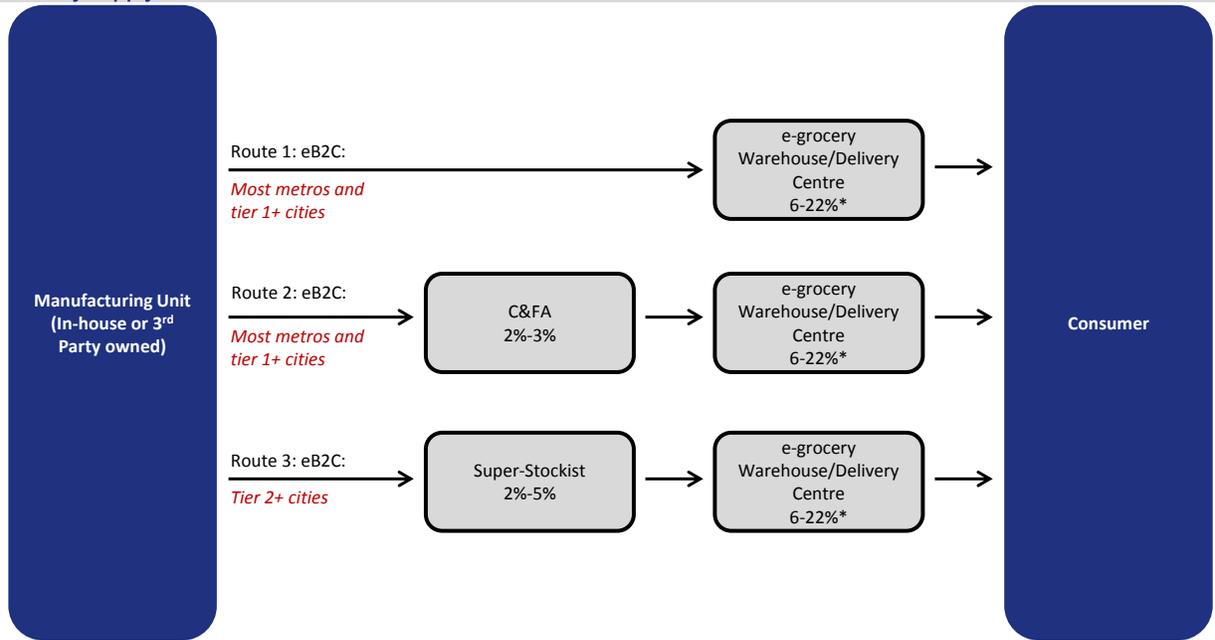
One of the challenges in the marketplace model of Quick Commerce is that platforms that generate demand and deliver the order to the customer have no control on the assortment, product quality & availability, and picking/packaging process. The model also has multiple cost layers due to presence of an inflated distribution network that, in turn, reduces the margins available for the platform. On the other hand, in the inventory-led dark store model platforms have complete control on product procurement, quality, inventory, and picking/packaging processes. Through investments in technology and data science, platforms can also refine their end-to-end processes, thereby improving their operational efficiency. As a result, barring the requirement for upfront investments, it becomes much easier for platforms to scale up in the inventory driven model while also driving better unit economics.

Exhibit 30. Grocery supply chain - Offline



Source: Redseer, JM Financial

Exhibit 31. Grocery supply chain - Online



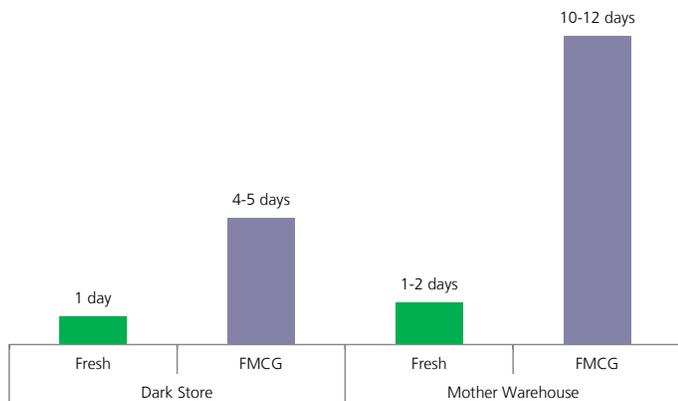
Source: Redseer, JM Financial. Note: * indicates variable depending on the platform / business model

Mother warehouses critical to dark store replenishment/inventory management

Quick Commerce players have at least one large warehouse on the outskirts of each large city. These are referred to as mother warehouses as they are the back-bones of all dark store operations in a particular city. The key highlights of these warehouses are:

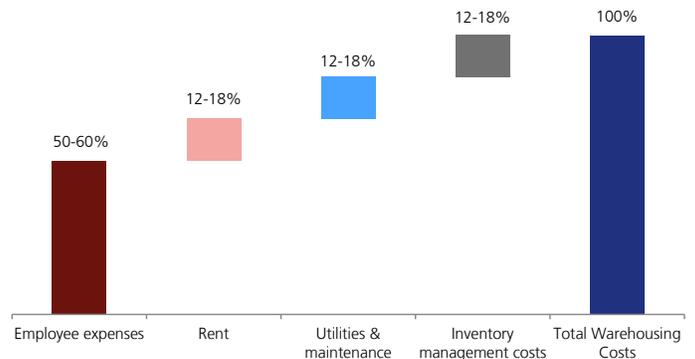
- 1) Depending on the number of dark stores in the city and SKUs offered, a mother warehouse can range between as little as 20,000 sq. ft. to as large as 175,000 sq. ft. Some players also operate a separate mother warehouse for the F&V category.
- 2) All procurement made through brands/distributors/aggregators is first done at these warehouses and then shipped to dark stores (once a day now but this frequency can increase if demand increases). Procurement-related operations are generally conducted during midnight and dark-store replenishment happens very early in the morning.
- 3) A typical warehouse would have a dry inventory storage section, a cold storage section, and a billing section. Most mother warehouse and dark-store replenishment operations are handled by 3P players.

Exhibit 32. Product-wise inventory days for a typical dark store and mother warehouse



Source: Industry Experts, JM Financial. Note: Fresh includes F&V's and dairy & dairy products. FMCG includes packaged grocery staples.

Exhibit 33. Mother warehouse operating costs



Source: Industry Experts, JM Financial.

Some players see value in sticking to vertical Q-Commerce

While most Quick Commerce players see value in doing multi-category operations there are a few that prefer sticking to just one core category. We spoke with Fraazo's Vikas Dosala (Co-founder) and Nitin Gera (COO) who are setting up dark stores in various cities with a single point focus on delivering fresh F&V to the customers. The brief takeaways are mentioned below.

- 1) Fraazo believes most multi-category players offer only a limited number of commonly ordered SKUs in the F&V category as they have little incentive to increase offerings beyond a point. These multi-category players are dependent on B2B aggregators (like Ninjakart) or local suppliers for their sourcing needs, leading to multiple touch-points/non-standardised processes that, in turn, impact the quality and freshness of the products. On the other hand, Fraazo claims to have built a robust backend supply chain through which it delivers a wide range of SKUs (150+) in the F&V category within 18-20 hours of collection from farmers (mainly vegetables) while ensuring superior quality through minimal touch-points.
- 2) Fraazo presently sources F&Vs from 16 cities and distributes them in six cities. In Mumbai, it presently operates 45 dark stores (expect to increase them to 80-90 in steady state) and delivers ~115k orders per day. Since, most orders are delivered to the customers within 18-20 hours of collection from farmers the company carries very little inventory.
- 3) In the beginning the company used to operate through 200-600 sq. ft. size dark stores, but now it is moving to 1,500-1,800 sq. ft. stores. Typical dark-store set-up costs are ~INR 3-4mn, including rental deposits for leased premises.
- 4) While all dark-store operations are handled by outsourced staff, the company owns the tech, defines the processes, and constantly monitors the operations. A typical 2,000 sq. ft. dark store needs around 20 people working in a day operating across three shifts to handle ~1,500 orders per day. Peak demand is generally over the weekends. The delivery leg is handled by 3P partners.
- 5) Due to its in-house farm-to-fork operations the company claims to get superior gross margin (~50% versus 25% for competition), strong word-of-mouth/referral marketing benefits (due to high quality/freshness of products), high repeat frequency (4x / 2x times a month for matured/new customers, respectively) and AOVs of INR 350-400. It expects to become profitable once it reaches AOV of ~INR 500. At present, it is profitable in one city out of the six that it operates in.
- 6) According to Fraazo, currently wastage levels are high at ~9%, which it expects to bring down to ~4% in steady state.
- 7) Unlike vertical peers in the meat & fish only category, the company has no plans to distribute its products by partnering with horizontal Quick Commerce platforms.
- 8) Fraazo sees incremental organic growth opportunities in F&V sub-categories such as sprouts and exotics. It also sees an opportunity to deliver exotics and a wider range of fruits in Tier 2 and below cities.
- 9) The company offers customers the option of scheduled multi-day delivery or instant delivery (90 mins). It claims to have better operational efficiency in scheduled deliveries.



Source: Fraazo

A typical 2,000 sq. ft. dark store needs around 20 people working in a day operating across three shifts to handle ~1,500 orders per day.

What’s driving demand for Quick Commerce?

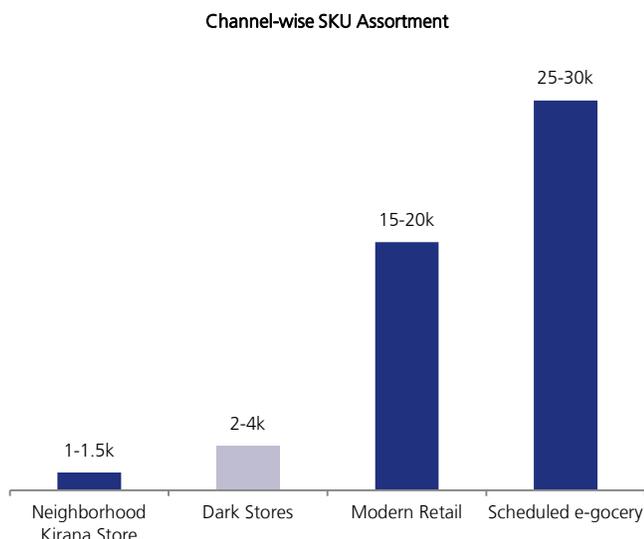
Speed and Convenience

Quick Commerce platforms are essentially disrupting the unorganised grocery market. Their broader strategy seems to focus on driving the message that shopping for groceries online on an on-demand basis is far more convenient than having to take physical trips to the neighbourhood stores. The experience is further enhanced by ensuring order delivery in a matter of minutes. This messaging of speed and convenience essentially addresses the unplanned purchase needs of urban families having busy lifestyles and nuclear families. High NPS scores for Quick Commerce players compared to offline channel and scheduled delivery players are indicative of the high customer satisfaction with the channel.

Wider assortment

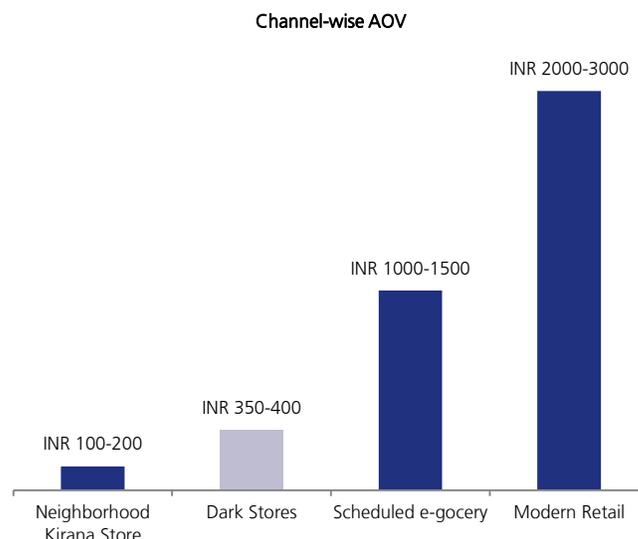
Consumers in general prefer a one-stop shop purchase for all their grocery needs. Quick Commerce platforms are benefitting from this behaviour as their dark stores can carry a much wider assortment of 2,000-4,000 SKUs (including a much better mix of national brands and private labels) compared to a typical neighbourhood kirana store that generally carries only a limited assortment of 1,000-1,500 SKUs. As the platforms mature and their adoption widens, they can also enhance the shopping experience by crunching historical sales data and curating the assortment based on a particular locality, thus giving them an edge over neighbourhood kirana stores.

Exhibit 34. Retail channel-wise SKU Assortment



Source: Media Reports, JM Financial

Exhibit 35. Retail channel-wise AOV



Source: Media Reports, JM Financial

Discounts/Promotions

Purchases made at neighbourhood kirana stores are typically at listed MRP in India. This is because store owners have very little leeway to offer discounts on their own given the very low margins that they operate on. Since platforms operate on a much larger scale they are better placed to leverage that strength to build direct relationships with brands/distributors and bypass the complex/multi-player supply chain structure. This can lead to substantial cost savings for the platforms, a portion of which they can pass on to the end-consumers, thereby improving customer stickiness.

Loyalty/Subscription benefits

Platforms generally run loyalty/subscription programmes to entice customers into ordering more frequently across multiple use-cases. Customers who join these programmes get incremental discounts, delivery fee waivers, cash-backs, etc. This significantly improves the value proposition for customers on a per order basis, in turn leading to high retention rates for the platform.

Exhibit 36. Loyalty/subscription programmes run by various platforms

Description	Scheduled e-grocery			Quick Commerce			
	Jiomart	Bigbasket	Instamart	Blinkit	Amazon Fresh	Fraazo	Licious
Membership program	Jiomart wallet	bbstar	Swiggy One	Zomato edition classic card	Amazon Prime	Valet	Licious Meatopia
Membership program fee	Free	INR 299	INR 299- INR 899	Free	INR 179- INR 1499	INR 49-129	INR 69-INR 189
Membership duration	unlimited	6 months	3-12 months	na	1- 12 months	1- 3 months	1- 6 months
Benefits	Cashbacks	Free delivery > INR 600, Cashbacks, Reserved delivery slots	Free delivery > INR 99, Extra discounts	5% cashback	Free delivery > INR 199	Free delivery > INR 99	Free delivery > INR 99
Cross sell	na	with bbnow	Food delivery, Swiggy genie	Food delivery	OTT, Music streaming, e-Commerce	na	na

Source: JM Financial Analysis of various platforms

Better fill-rates

Platforms can ensure better fill-rates due to their high dependence on technology to guesstimate demand, and complete control over the back-end supply-chains. While some platforms replenish their stores multiple times a day, a few others are experimenting with buddy store replenishment. Platforms can also leverage data analytics to customise their assortment from one store to another while taking into consideration the dynamics of each neighbourhood.

Round-the-clock services

Unlike most neighbourhood kirana stores that are typically family owned businesses with limited resources, platform-owned dark stores are optimised for round-the-clock operations as resources are typically deployed in multiple shifts.

Standardised after-purchase service

One of the pain-points for customers purchasing from unorganised stores is the fact that the post-purchase sales experience is non-standardised and, in most cases, non-existent. Ordering online resolves this challenge to a large extent due to any-time availability of customer support and standardised return/exchange policies.

Why are food-techs/Scheduled e-grocery players interested in Quick Commerce?

We believe Quick Commerce as an offering is highly complementary to online food delivery. This is because customers who order food online due to reasons of convenience, wider selection, discounts, and standardised customer support are also likely to be more amenable to ordering grocery and other convenience shopping items online for the very same reasons. This opens up significant cross-sell opportunities for platforms that earlier were used to offer food delivery services. These platforms can also optimise their last mile delivery operations by cross-utilising their delivery fleet across the two offerings, especially during non-peak hours, leading to higher number of deliveries per rider and lower costs for the platforms.

On the other hand, Scheduled e-grocery players have, over the past few years, spent significant time and resources in perfecting the art of sourcing and building efficient supply chains. Some of them even have their own private labels that are popular with a sizeable customer base. By offering Quick Commerce services, Scheduled e-grocery players can, therefore, not only provide an alternative shopping choice to their existing customer base but also reach out to a wider set of customers that prefer instant fulfilment. It is also pertinent to note that Quick Commerce is cannibalising at least a certain proportion of the total demand for Scheduled e-grocery and, therefore, traditional online grocery players are likely trying to defend their market share in the overall grocery market.

Food-techs at an advantage due to their on-demand services experience

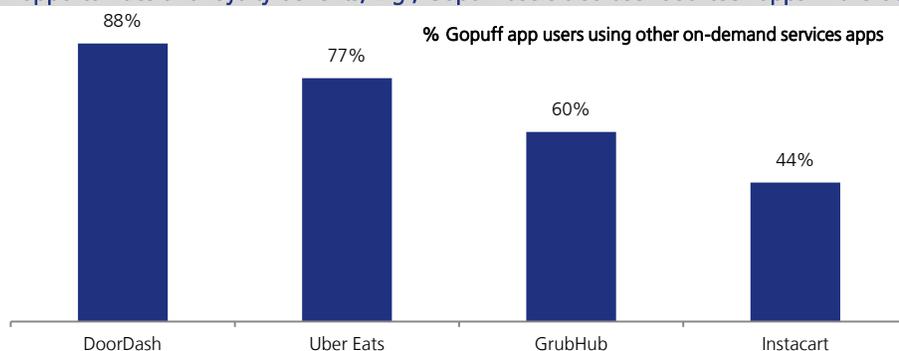
We believe 1P Food delivery is much more complex and difficult to manage than 1P Quick Commerce delivery (through own dark stores). The biggest challenge is limited control on fulfilment. For e.g., platforms have no operational control over order acceptance, preparation or readiness, etc., as all these processes are managed by restaurant partners. The delivery leg is also difficult to manage because delivery partners typically have to toggle between multiple restaurants, difficulty in locating restaurants or parking issues. On the other hand, the 1P Q-commerce model is more like a hub-and-spoke model where the platform has full control over the dark-store operations. So, best practices can be built to ensure smooth end-to-end processing from order acceptance to order readiness. The delivery leg can also be better managed as the location of the store is fixed. Since food-techs have already perfected the more challenging equation, we believe in the initial few years they will have an advantage over the competition, which have little experience of operating on-demand services.

Food-techs with strong customer base can cross-sell their offerings

Today, food-techs have around 50-60mn annual transacting customers accustomed to ordering on-demand from their platform. Barring a few e-commerce players, there is no other Quick Commerce player that has this kind of reach. Further, basis historical events, e-commerce players have never demonstrated sustained willingness to crack the instant gratification model - Amazon never expanded its food delivery service beyond a few pin-codes in Bengaluru. When combined with loyalty based programmes, this opens up significant cross-sell opportunities for food-techs. The cost of acquisition as well as cost of retention can also be lower due to the significant overlap between grocery and food-tech users.

1P Q-commerce is more like a hub-and-spoke model where the platform has full control over the dark-store operations

Exhibit 37. Cross usage use-cases can benefit Swiggy / Zomato in terms of lower CAC, cross-sell opportunities and loyalty benefits; E.g., Gopuff users also use food-tech apps in the US



Source: Prosus, JM Financial

Food-techs can cross-utilise their existing delivery fleet for non-food categories

India's two largest food-techs each claim to have around 260k-310k active delivery partners on a monthly basis. However, despite improving efficiencies over the past few years, fleet utilisation remains sub-optimal due to the uneven nature of demand (demand surges for a few hours during lunch and dinner times), multiple legs to delivery (first from partner location to restaurant and then restaurant to customer location), restaurant location not being fixed, no limit on delivery radius, and non-standardisation in order preparation/readiness. Platforms can improve delivery partner efficiency (orders delivered per partner per hour) by cross-utilising the delivery fleet across adjacent categories in Quick Commerce especially when order intensity in food delivery is weak. In turn, food-tech platforms can significantly reduce their payments to delivery partners for staying logged-in even during the slack order period for food demand. At present, food-techs are the only platforms that have the experience of managing delivery partners on a large scale, which further increases their edge over the competition.

Scheduled e-grocery players can leverage the hybrid approach to their advantage

Of late, quite a few Scheduled e-grocery players have adopted a hybrid delivery approach by expanding their operations in the Quick Commerce space. We believe these players are likely to benefit due to their past experience of managing large-scale backend supply chain operations. In fact, they can now leverage their existing relations with brands to derive better pricing from brands/manufacturers/distributors, distribute their existing private label products through the Quick Commerce channel, and strive to generate other operating efficiencies.

Food-techs and Scheduled e-grocery wary of long-term repercussions

TAM for Quick Commerce in India is significantly large compared to that available to food-techs. Similarly, despite years of operations, Scheduled e-grocery penetration in India has remained nominal due to challenges related to customer preference for unplanned and small ticket purchases in grocery. On the other hand, there are several indicators suggesting that acceptability of Quick Commerce amongst consumers is quite high, which is leading to rapid market growth. Therefore, both food-techs and Scheduled e-grocery players are wary of the fact that, at a certain scale, the existing Quick Commerce competition can also look to expand into other adjacent verticals, thus threatening their current market positioning.

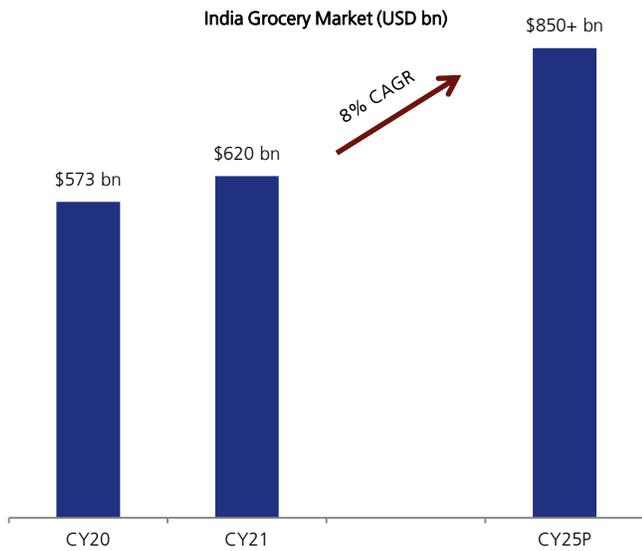
Food-tech's fleet utilisation remains sub-optimal due to the uneven nature of demand (demand surges for a few hours during lunch and dinner times). Cross utilisation of delivery fleet for Quick Commerce delivery services can help improve this metric.

India's Grocery Market Landscape

Online Grocery a nascent but fast-growing opportunity

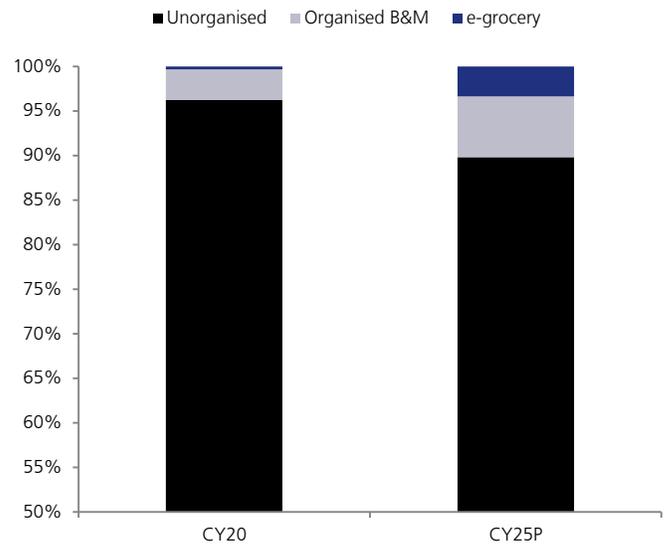
Redseer estimates the Grocery market size in India was worth USD 620bn in CY21. It is estimated to report a CAGR of 8% over the next four years to reach USD 850bn+ by CY25. Despite growing penetration of organised channels, even today the unorganised segment accounts for more than 95% of this market. However, going forward, growth is likely to be driven by organised channels such as Modern retail and e-grocery due to growing consumer demand for packaged, high-quality products; wider assortment; enhanced shopping experience; and continuing channel penetration in smaller towns and cities. In fact, channel share of the overall e-grocery channel, which was <1% of the market, is expected to grow to >3% on the back of accelerated online adoption following Covid.

Exhibit 38. India Grocery Market expected to grow at a CAGR of ~8% to reach USD 850 bn+ by CY25



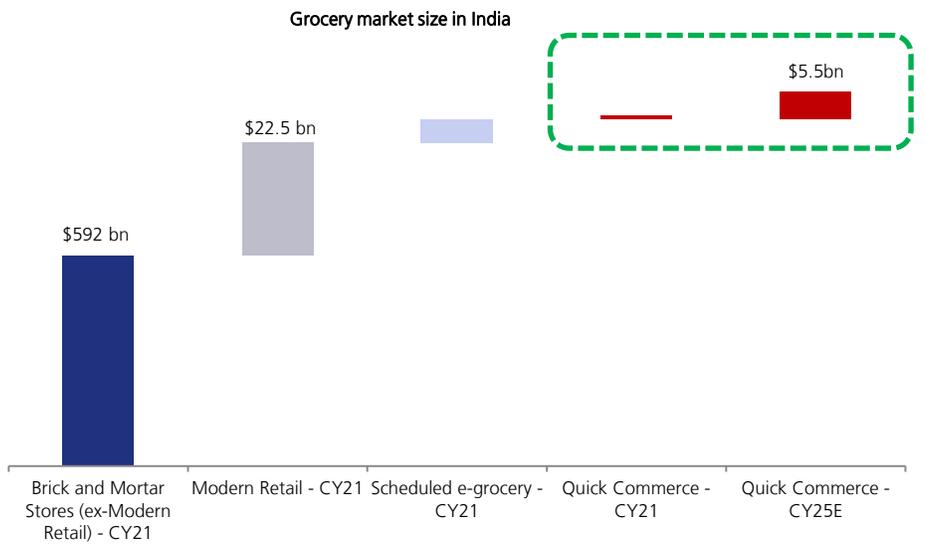
Source: Redseer, JM Financial

Exhibit 39. During CY20-25, organised channels are expected to far outgrow the underlying grocery market



Source: Redseer, JM Financial

Exhibit 40. Grocery market in India

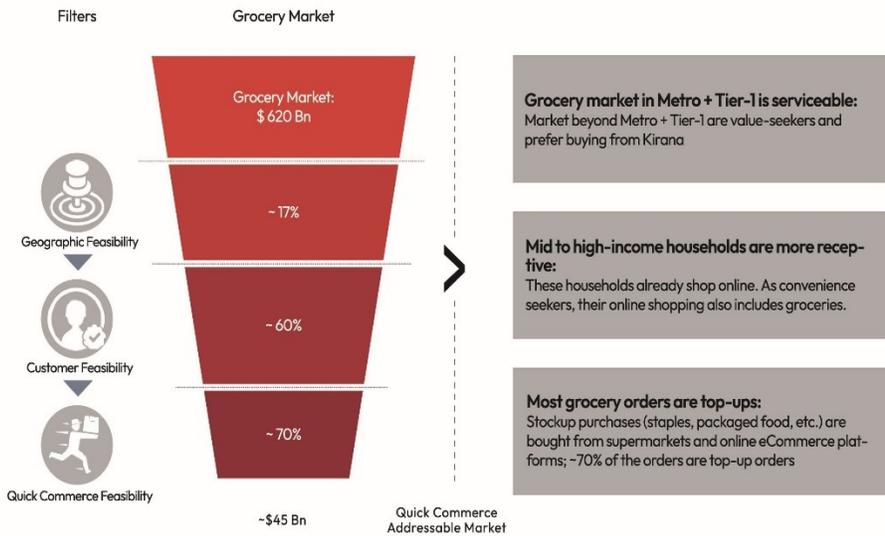


Source: Redseer, JM Financial

Drivers for Quick Commerce industry growth

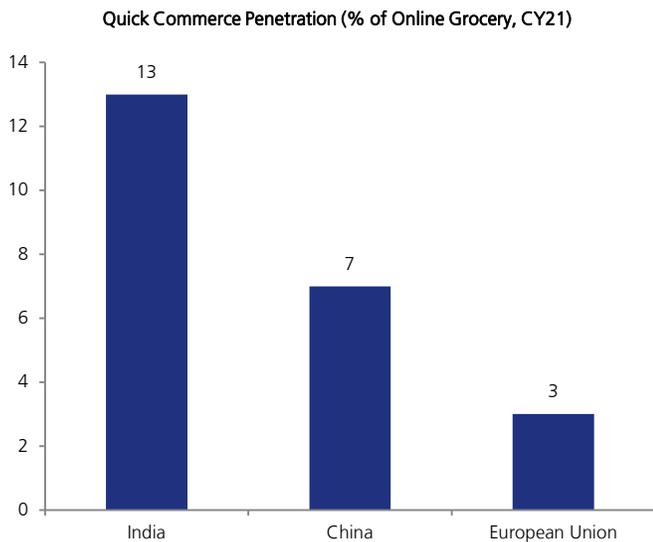
Assuming that Quick Commerce is more likely to appeal to middle-high income households residing in Metro & Tier-1 cities, Redseer estimates that the addressable TAM in value terms was ~USD 45bn in CY21, i.e., >7% of the total grocery market. The TAM calculation excludes consumers in lower tier cities who are more focussed on value, indulge in limited impulsive purchases (lower SKUs per order), and have little willingness to pay for convenience. This is on top of the fact that order density per store is likely to be significantly lower than that for top tier cities due to lower population density and limited tech penetration.

Exhibit 41. Quick Commerce a USD 45bn opportunity (as of CY21)



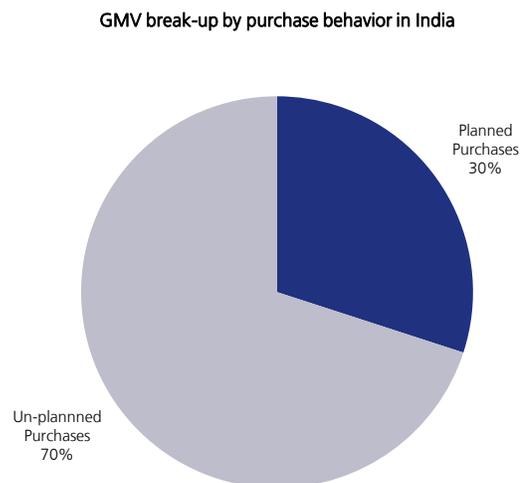
Source: Redseer

Exhibit 42. Quick commerce penetration higher in India compared to China and some developed markets...



Source: Redseer, JM Financial

Exhibit 43. ...likely because a high share of purchases are unplanned

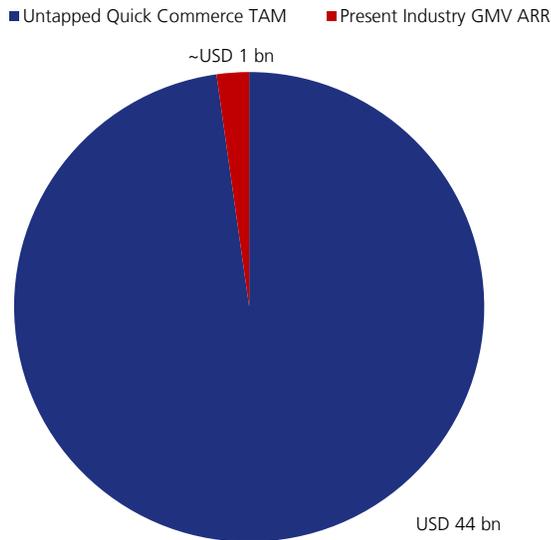


Source: Redseer, JM Financial

Huge opportunity size

In its current format, Quick Commerce is primarily suited to address the need for 'Speed' and 'Convenience' of mid-to high income consumers in Metro & Tier 1 cities. As highlighted earlier, the current TAM for Quick Commerce players in these cities is about ~USD 45bn. Our interactions suggest all current players put together have only reached to a GMV of around USD 1bn on an annualised run-rate basis. This indicates significant room to grow for the industry, going forward.

Exhibit 44. Quick Commerce: Present industry GMV ARR versus untapped TAM

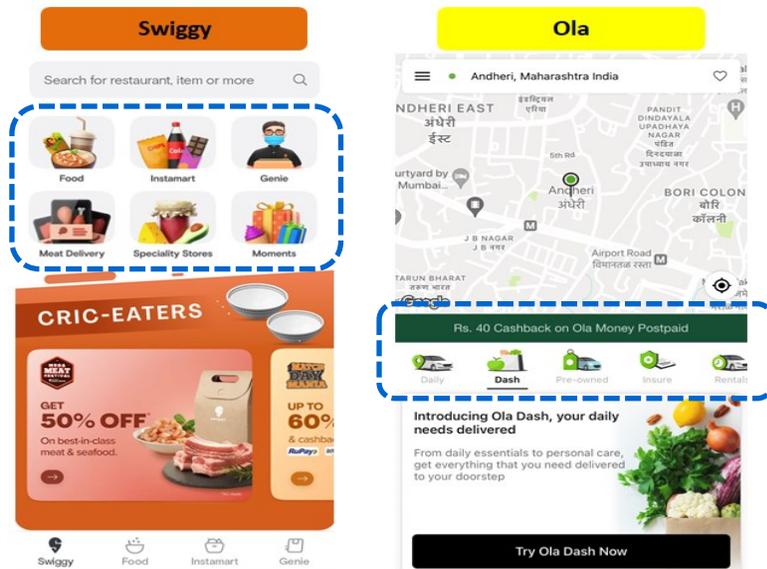


Source: Redseer, JM Financial

Cross-sell opportunities

Quick Commerce players (barring a few pure-play players) have the added advantage of running a parallel business that is relatively more mature. As a result, they already have a captive set of customers in their ecosystem, which opens up significant cross-sell opportunities. In fact, platforms can extend their loyalty programme benefits to existing customers to entice them to experience newer offerings and, in turn, significantly lower their CACs. The other advantage of a loyalty program is that it helps improve customer retention and leads to higher ordering frequency compared to those who have not enrolled.

Exhibit 45. Cross-sell examples



Source: Company Apps

High repeat ordering frequency

Currently, both platforms as well as their customers are trying to figure out the scope of Quick Commerce. As operations get streamlined and customers get more accustomed to ordering online for grocery, convenience and other general merchandise products, newer use-cases will arise, which will only expand the scope of Quick Commerce. This, in turn, should also sharply improve customer ordering frequency over time.

Increase in average daily orders per store

We expect average daily orders per store to increase with the fast-growing consumer base and repeat ordering frequency for existing customers. The example below of store cohort analysis suggests that the longer the stores are in operation the higher the orders per store.

Exhibit 46. Store cohort analysis of Delivery Hero suggests the longer the stores are in operation the higher the orders per store



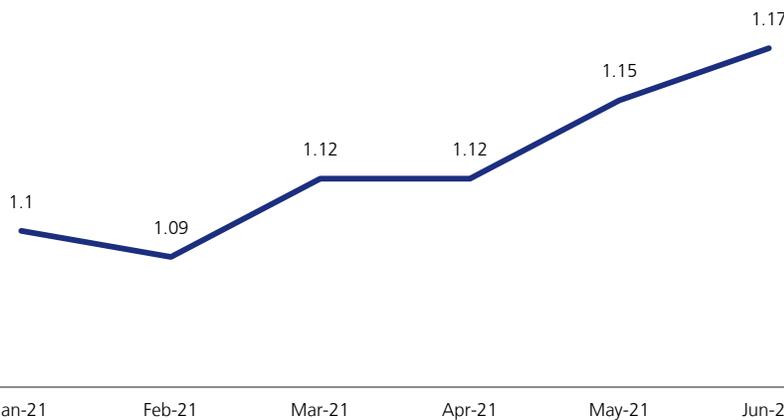
Source: Delivery Hero

Higher AOVs

A typical Quick Commerce order value, at present, hovers ~INR 350-400 and has 6-7 SKUs. The typical order mix consists of daily use items (fruits & vegetables, eggs and bread) followed by indulgence items (soft drinks, deserts, chocolates, etc.) and other grocery items. We believe the current mix is skewed towards low value SKUs as most platforms are still experimenting with their assortment. Moreover, customer awareness on the range of items available on these platforms is also limited as typical advertising campaigns focus on daily use items. As platforms stabilise their assortment/offerings and user maturity improves, we expect the order mix to see an increase in proportion of relatively higher value discretionary items such as beauty & personal care, home care, pet food & supplies, office supplies and electronics, amongst other general merchandise. This, in turn, should lift AOVs significantly above present levels.

Exhibit 47. Delivery Hero : Comparison of average Quick Commerce basket value vs Food delivery

Comparison of average Quick Commerce basket value Vs. Food delivery



Source: Delivery Hero

Competitive intensity is very high

The Covid-19 pandemic accelerated demand for online grocery not only in India but also globally. It also led to the evolution of consumer needs due to restrictions on movement and consumer reluctance to venture out. As a result, consumer dependence for purchases that would typically be fulfilled by offline channels (such as unplanned purchases, indulgence purchases or low shelf-life (typically fresh) shifted towards platforms offering on-demand services.

In view of the large addressable market, and a fundamental shift in consumer behaviour, there has been a surge in the number of platforms offering on-demand services. As shown in the exhibit below, the Quick Commerce market in India is now very crowded following the entry of some very large corporate houses as well.

We believe the current situation is broadly comparable to the very high competitive intensity witnessed in the Online Food Delivery space a few years back. The industry later went through a prolonged period of consolidation with only two players managing to survive the carnage. Strong investor support was a key differentiating factor between those who survived and those who didn't as demand in the initial few years of market expansion was largely driven by exceptionally high levels of marketing and promotional spends (cash-backs, discounts, referrals, subsidised delivery fees, etc.). Over the next few years, we expect India's Quick Commerce space to witness a similar phase of consolidation/churn, eventually leading to an oligopolistic market.

Exhibit 48. Quick Commerce Competitive Landscape in India

	Quick Commerce start	Based in	Key Investors	Funds raised for Quick Commerce (USD mn)	Latest known company valuation (USD mn)
Horizontal Players					
Swiggy Instamart	Aug'20	Bengaluru	Prosus, Softbank	700**	NA
Zepto	Apr'21	Mumbai	Kaiser Permanente Ventures, Nexus Venture Partners, Glade Brook Capital, Y Combinator	361	900
Dunzo Daily	Jul'21	Bengaluru	Reliance Retail, Google, Lightbox	240**	764
Blinkit (Grofers)	Aug'21	Gurgaon	Zomato, Softbank, Tiger Global, Sequoia	250*	1,000
Ola Dash	Nov'21	Bengaluru	Ola	NA	NA
Flipkart Quick	Feb'22	NA	Flipkart (Walmart)	NA	NA
BigBasket Now	Mar'22	Bengaluru	BigBasket (Tata Digital)	NA	NA
Amazon Fresh	NA	NA	Amazon	NA	NA
Jiomart Express	Apr'22	NA	Reliance	NA	NA
Vertical Players					
Fraazo	NA	Mumbai	Westbridge, Sixth Sense, Equanimity	61	NA
Licious	NA	Bengaluru	Mayfield, Temasek, Nichirei Corp, 3one4 Capital, Vertex Ventures	490	1,480
Meatigo	NA	Gurgaon	NA (Bootstrapped)	NA	NA
FreshToHome	NA	Bengaluru	Iron Pillar, CE Venture, Raed ventures, DFC	152	295

Source: Media Reports, Tracxn, JM Financial. * includes up to USD 150mn of credit extension given by Zomato. ** funds raised purely for expansion of Quick Commerce business

Exhibit 49. Quick Commerce a new business segment for some players

Category	Swiggy	Dunzo*	Blinkit**	Ola	Flipkart	BigBasket	Amazon
Food Delivery	✓		✓				
B2C Courier Service	✓	✓					
Ride-hailing				✓			
Scheduled e-grocery		✓			✓	✓	
E-Commerce		✓			✓		✓

Source: JM Financial. * includes Reliance's other digital operations. ** includes Zomato's other digital operations.

Exhibit 50. Competitive landscape

Category	Swiggy	Zepto	Dunzo	Blinkit	Ola	Flipkart	BigBasket	Fraazo
Cities present	28	11	7	21	9	14		6
Number of dark stores	250+	200		300	200		90	
Number of SKU's				3000-4000	2,500		3,000-3,500	150
AOV (INR)	350-400	250-300	380-400		150-200		400	370-400
GMV ARR (USD mn)	350-400	120-150	150-200	400-450	20-30			
Active customers	2mn transacting users per month							
Order volumes	180-200k orders per day	80k-90k orders per day		130-140k orders per day	15k orders per day			115k+ orders per day

Source: Media Reports, Company blogs, Industry Experts, JM Financial

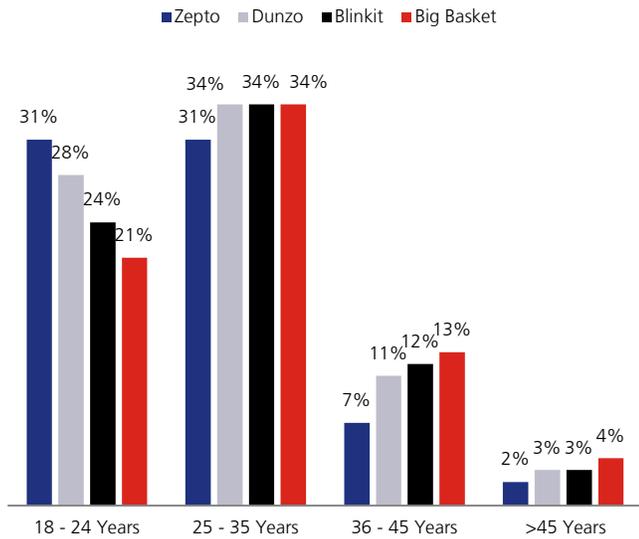
Exhibit 51. Management commentary on Future Plans

Company	Future Plans
Swiggy	<ul style="list-style-type: none"> Instamart expected to reach an annualised GMV run rate of USD 1 bn by 3QCY22 (Dec'21)
Zepto	<ul style="list-style-type: none"> Currently operational in 11 cities, plans to expand into 12-20 cities over next 9-12 months (May'22) Company may foray into online pharmacy space (May'22)
Dunzo Daily	<ul style="list-style-type: none"> \$250-300mn fundraise in near term for expansion 200 Dark Stores and 2 lakh orders/day by June'22 Targets 75 mn yearly orders by CY22 Turn profitable by early CY23 IPO by CY24
Ola Dash	<ul style="list-style-type: none"> Aims to open 500 Dark stores across 20 cities by end of June 2022 and 500k purchases every day on Ola Dash by year end 2022. (Jan'22)
BigBasket Now	<ul style="list-style-type: none"> Plans to open 200 stores by FY23. (23 Mar'22)
Flipkart Quick	<ul style="list-style-type: none"> Target to be in over 200 cities by CY22 end. (Feb'22)
Fraazo	<ul style="list-style-type: none"> Aims to create 500+ dark stores in top 15 cities and 10mn orders in next 12-18 months (Dec'21)
FreshToHome	<ul style="list-style-type: none"> Plans to setup 100 new stores in near future (Feb'22)

Source: Media Reports, JM Financial

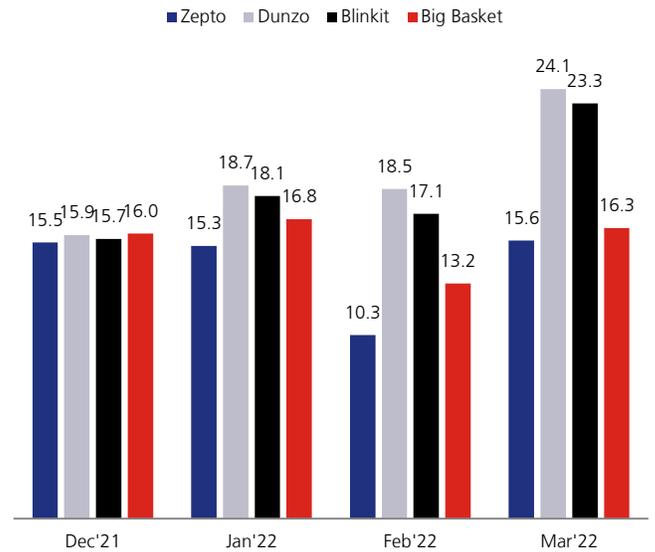
A consumer survey conducted by Bobble AI indicates a majority of Quick Commerce users are young consumers (aged 18-35 years), who, on average, spend more than 15 minutes on the platforms; average numbers of sessions per user is also improving.

Exhibit 52. Shoppers Age Group



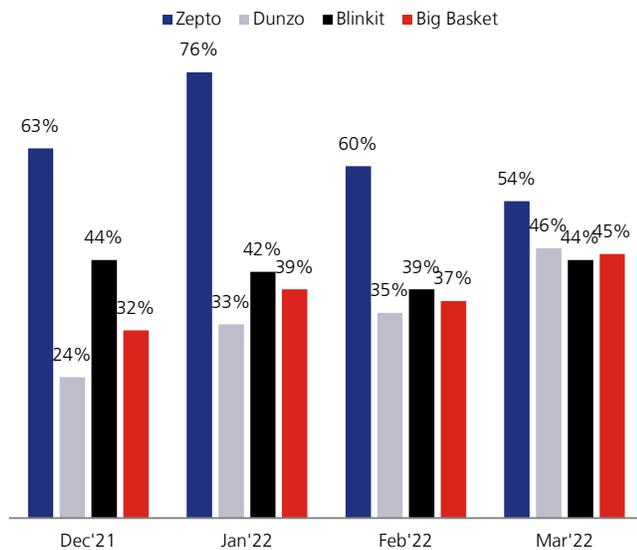
Source: Bobble AI's privacy-compliant study

Exhibit 53. Average time spent per user in minutes



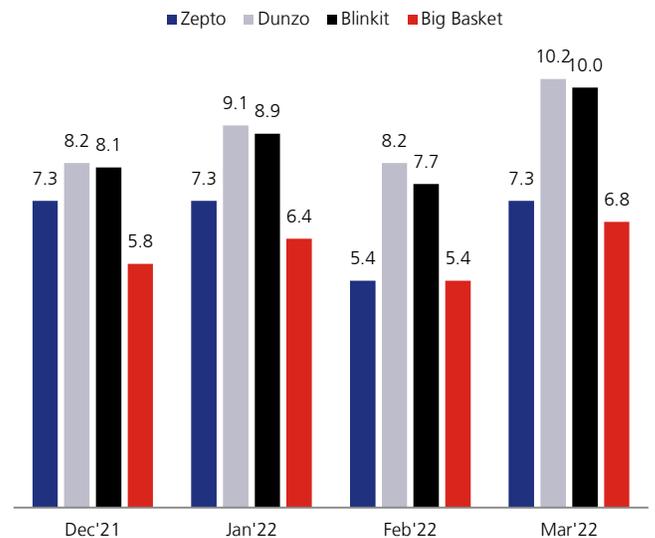
Source: Bobble AI's privacy-compliant study

Exhibit 54. Monthly active Users - Open Rate



Source: Bobble AI's privacy-compliant study

Exhibit 55. Monthly average sessions per user



Source: Bobble AI's privacy-compliant study

Key challenges for Quick Commerce

Low AOVs and gross margins

AOV for most Q-Commerce players is presently ~INR 350-400 while gross margin is averaging ~15-18%. Given high operating costs on account of spends to maintain the physical store/warehouse infrastructure, and the fact that platforms are mostly subsidising the last mile delivery/packaging costs, we believe AOVs/margins at current levels are not sustainable and need to drastically improve from hereon for the platforms to build a sustainable business.

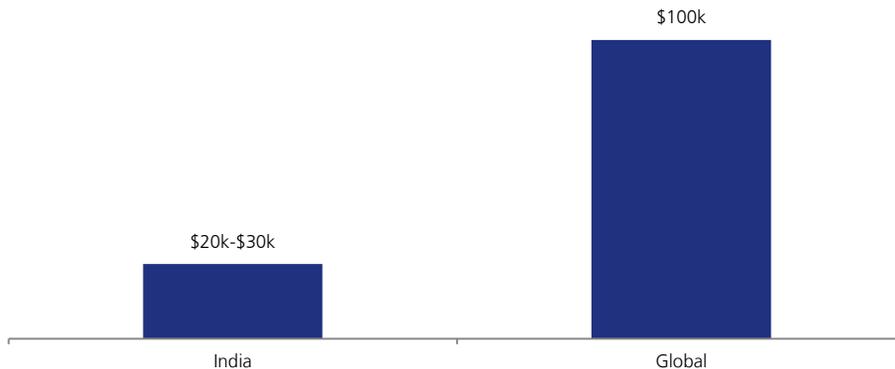
High CACs

Over the last 12 months, the Quick Commerce space has seen a flurry of new entrants on the back of continued fund-raises. With their current focus on customer acquisition and retention, platforms are spending heavily on branding, advertising and discounts & promotions. In addition, they are subsidising the last mile delivery/packaging costs, all of which increases their cost of acquisition.

Upfront capex and working capital investments (only for inventory-led model)

Platforms working on the inventory-led Quick Commerce business model are required to make upfront investments for setting up a network of dark stores in each city and town that they plan to operate. Our interaction with industry experts suggests that the set-up cost per dark store is ~USD 20k-30k (globally these costs are as high as USD 100k, as per Prosus management commentary). Platforms are also required to invest in setting up mother warehouses, which are the backbones of all dark store operations in a particular city. They also have to make upfront inventory investments in anticipation of future demand.

Exhibit 56. Set-up cost per new dark store



Source: Industry Experts, Prosus, JM Financial. Note: Set-up costs for a dark store typically includes cost of purchase of shelves/racks, chillers, freezers, CCTV Cameras, other furniture, electronic equipment and upfront rental deposits.

Category/assortment/SKU mix is not fixed

Quick Commerce platforms, at present, have little data/analytics on consumer buying behaviour. While platforms continue to experiment on appropriate category/assortment/SKU mix for their dark stores, they have very little manoeuvring space due to the fact that dark stores are meant to operate with limited assortment while also ensuring that costs remain under check.

Inefficient back-end supply-chains

Our conversations with industry experts suggest most Quick Commerce platforms have not yet built supply-chain infrastructure that can be considered sustainable. Many platforms are heavily reliant on wholesalers/local unorganised suppliers instead of sourcing from manufacturers/large distributors. While such practices may lead to assortment ramp-up in a significantly shorter period of time or ensure higher fill-rates, they also impact the gross margins, in turn leading to inferior unit economics. In the near term, we expect such practices to continue because platforms are 1) presently more focussed on customer acquisition/demand generation, and 2) still experimenting with their optimal category/assortment/SKU mix.

Inventory losses high

Inventory losses due to spoilage, liquidation and pilferage lead to incremental costs for Quick Commerce players. In certain cases, these losses can be as high as 20% of the total inventory in certain fresh categories (F&Vs, Meat, Dairy, Instant foods, etc.). There is significant scope to reduce these costs through investments in technology, proper inventory planning, and driving supply change efficiencies.

Packaging costs

Quick Commerce players are presently spending 1-4% of their average AOV on packaging, basis our interaction with a few industry experts. Like in the case of food delivery, platforms would have to pass on these costs to the end-consumers.

Store churn remains high

The dark store churn rate for several Quick Commerce platforms is presently very high. This is due to the underlying complexity in choosing the ideal store size and location, estimating daily order density, and differences in rentals, amongst a host of other local factors.

Rider shortage

The sharp increase in number of players offering on-demand delivery services in the past few months has led to an acute shortage of delivery riders. High fuel costs, inflationary pressure, and return of some delivery riders to their pre-pandemic jobs have further aggravated the situation. This is leading to a double whammy of stretched delivery timelines as well as sharp rise in per order pay-outs by the platforms to the delivery partners. Customer experience is also getting impacted as not only are they receiving deliveries late but they are also being forced to shell out more from their pocket as a few platforms have tried to pass on the incremental cost pressures by reducing product discounts, increasing delivery fee surcharges, etc.

Exhibit 57. Rider shortages and high demand have led to some platforms suspending their operations intermittently

Due to sudden spike in demand, we have stopped taking orders for a few mins, we will be back soon.

	Mylab CoviSelf COVID-19 Rapid Anti... 1 piece	- 1 +	₹100.9 ₹250
	Johnson's Baby Top To Toe Bath Body Wash 200 ml	- 1 +	₹133.1 ₹165
	Vim Dishwash Bar 300 g	- 1 +	₹21.8 ₹27

🕒 **Please try again in 15 minutes**

Due to overwhelming demand, we're not taking orders right now.

Source: JM Financial

Exhibit 58. Platforms are trying to pass on the incremental delivery costs to the customers by levying delivery fee surcharges

PAYMENT DETAILS

Item total	₹ 694
Partner delivery fee 1.33x ⓘ	₹ 218
Delivery Fee Discount	-₹ 120
Coupon Discount Discount from coupon code FLAT90	-₹ 90
Paid	₹ 702

Repeat Order

Source: JM Financial

Kirana store partnerships with B2B wholesale grocery platforms

Several B2B wholesale grocery platforms such as Jiomart (B2B), Udaan, Jumbotail, and Shopkirana, amongst others, are partnering local kirana store owners in an effort to help them digitise their procurement as well as maximise their reach to the end-customers. Moreover, the likes of Jiomart, which is already active in the hyper-local delivery space through Dunzo and Jiomart Express, can extend these partnerships to enable last-mile delivery services for customers of these retailers. Such partnerships can help kirana stores negate some of the disadvantages in their existing business model and better compete with Quick Commerce players, which have taken the inventory-led approach.

Unit economics improving but far from break-even

Quick Commerce players are presently focussed on acquiring new customers and increasing repeat frequency from existing ones. As a result, they are deploying significant financial resources on expanding their network of demand centres (dark stores), marketing, branding and promotional campaigns. This, in turn, is leading to significant burn for the platforms. Our broad analysis of a typical dark store that has achieved some level of operational maturity suggests unit economics are far from break-even.

Exhibit 59. Unit economics of a typical dark store

Unit economics of a typical dark store	Present	Steady-state (Expectations)	Assumption	
Dark store size (sq. ft.)	3,000	3,000	Dark store size varies from 2k-4k sq. ft.	
Orders per day	750	1,250		
Orders (annualised)	0.27	0.46		
AOV (INR)	400	750	higher SKUs per order, high value products	
Annualised GMV (INR mn)	109.5	342.2		
Take-rate	18.5%	25.0%	includes buy-sell margin, delivery fee/packaging charge, ad income and MRP discounts	
Annualised revenue (INR mn)	20.3	85.5	Current	Steady-State
Promotional discounts (INR mn)	4.1	2.3	INR 15 per order	INR 5 per order
Last mile rider costs (INR mn)	13.7	22.8	INR 50 per order	INR 50 per order
Other variable costs (INR mn)	5.5	6.8	INR 20 per order	INR 15 per order
Dark store rent (INR mn)	3.60	3.60	INR 100 sq. ft.	INR 100 sq. ft.
Other dark store costs (INR mn)	0.90	0.72	INR 25 sq. ft.	INR 20 sq. ft.
Store-staff salary cost (INR mn)	9.0	9.0	30 employees @INR 25k per month salary	
Mother-hub costs (INR mn)	5.0	3.4	1 Mother-hub supports 50 dark stores	
Mother-hub to dark-store delivery (INR mn)	1.5	1.5	1 Mother-hub supports 75 dark stores	
Annualised Store EBITDA (INR mn)	-23.0	35.5		
Store EBITDA as a % of GMV	-21.0%	10.4%		

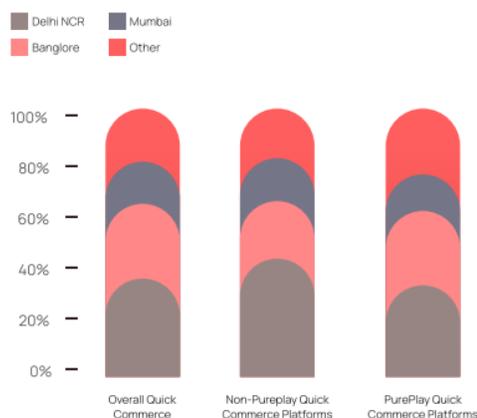
Source: JM Financial Estimates

Presently a Metro/Tier 1 city phenomenon

Trials conducted by a leading Social Commerce player in lower tier cities suggest several operating challenges for Quick Commerce players. These include significantly low population density, smaller ticket sizes, and low ordering frequencies per customer. This is because customers are more focussed on value; impulsive purchases are limited; SKUs per bill are lower; and willingness to pay for convenience is minimal. So, the only viable option for any e-grocery player to address this market is by significantly reducing the cost of last mile delivery because that is typically the biggest cost component for any e-commerce platform, which is a herculean task.

Exhibit 60. Quick Commerce city-wise order break-up (CY21) - Delhi NCR, Mumbai and Bangalore together accounted for ~70% of the total Quick Commerce orders generated in CY21

Quick-commerce orders - city segmentation
% of GMV, CY 2021



Source: Redseer

Deciding optimal number of stores

Instant gratification without compromising on consumer experience is the most important aspect of Quick Commerce. This can only be achieved if platforms are in complete control of end-to-end fulfilment, which is tough to achieve in a marketplace model. Therefore, platforms have of late pivoted towards the own inventory-backed operations model that relies heavily on setting up dark stores closer to the end-consumers. The challenge, however, is deciding the optimal number of dark stores that a platform requires per city to service end-consumers in the most efficient manner. Platforms are addressing this issue by working out an ideal delivery radius for each city. Broader factors that are taken into consideration while deciding the radius include population density of a city, optimal capacity of dark stores to service orders, and vehicular traffic congestion. Presently, most platforms are aspiring for per dark store delivery radius of 1.5-2km in Metro cities. In the case of Tier 1+ cities, where both vehicular traffic congestion and order density per store are likely to be lower, several platforms believe a delivery radius of 2-3km per store can be optimal.

What can make Quick Commerce sustainable in the long run?

Exhibit 61. Path to profitability

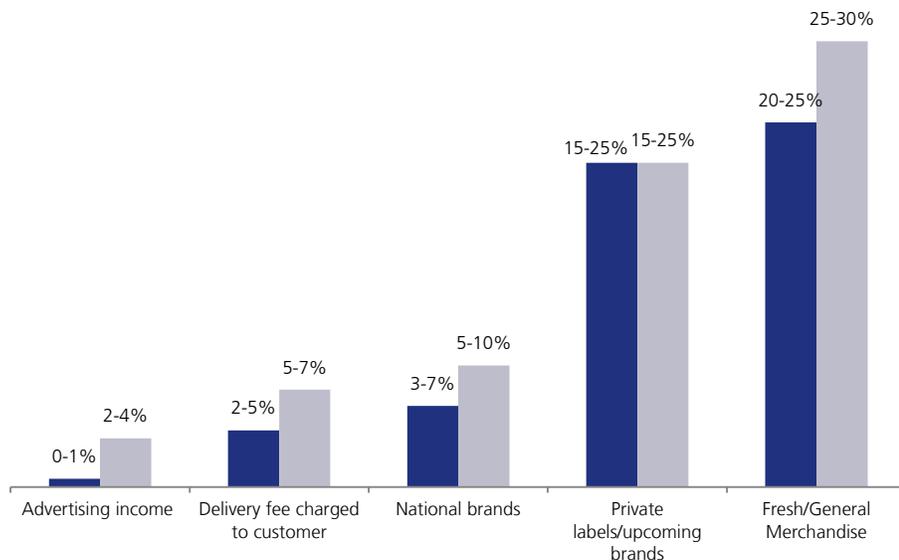
Increase AOV	Lower COGS %	New Revenue Streams	Optimize Operations	Lower last-mile delivery costs
<ul style="list-style-type: none"> • Offer city or locality specific assortments • Offer/promote high order value category SKU's e.g. Pet food & supplies, baby care, beauty and personal care, office supplies, etc. • Offer personalized product suggestions • Collect delivery fee and packaging charges • Minimum order value/ free delivery threshold 	<ul style="list-style-type: none"> • Source directly from brands/ FMCG producers • Better negotiating power owing to large scale • Offer private label with better margins • Improve AOV mix through high margin categories such as non-grocery general merchandise • Better optimize inventory and control to reduce wastage 	<ul style="list-style-type: none"> • Charge delivery fee below minimum order value • Advertising/ Promotional income from Brands • Charge subscription fee for loyalty programs 	<ul style="list-style-type: none"> • Derive operating leverage due to scale benefits • Improve day-to-day processes due to learning curve • Reduce warehousing and transportation costs through optimized fulfillment center infrastructure (warehouses, hubs and cross docking) 	<ul style="list-style-type: none"> • Ensure lower drop rates • Enable multi-drop (batched) deliveries • Optimise route planning for delivery partners • Cross train delivery partners to do multi-function deliveries like food delivery, medicine delivery etc.

Source: Prosus, JM Financial

Focus on improving AOV and Gross Margin

For most Quick Commerce players, AOV is presently ~INR 350-400 while gross margin is 15-18% on average. However, operating expenses per order are significantly exceeding revenue due to a wide range of costs such as physical store/warehouse maintenance costs, customer promotion & marketing costs, and the fact that most platforms are currently subsidising the last mile delivery/packaging costs. Most of these costs are variable in nature and can only be recovered by platforms (to achieve some kind of break-even) by drastically driving AOV higher and improving the product mix. Platforms can achieve AOV improvement by 1) offering customised assortments based on city or locality 2) offering and promoting high value, high margin SKUs instead of just indulgence products 3) charging customers delivery fees and packaging fees (akin to food-techs), and 4) putting in minimum order value value/higher free delivery threshold. Similarly, gross margin can improve if players are 1) able to source directly from manufactures or brands, 2) offer private labels across categories, 3) able to push sales of non-grocery general merchandise, which have better margins, and 4) optimise inventory and reduce wastage.

Exhibit 62. Take Rate (Revenue as % of GMV): Current vs Steady-state



Source: JM Financial Estimates

Exhibit 63. Based on order mix take-rates for Quick Commerce platforms can exceed that in food-techs

	Order Mix				
National brands	75%	65%	55%	40%	30%
Private labels/upcoming brands	10%	15%	25%	30%	30%
Fresh foods	15%	20%	25%	30%	40%
Take rate (Revenue as a % of GMV)	20.8%	22.4%	24.6%	26.3%	28.3%

Source: JM Financial Estimates

Focus on creating new revenue streams

As Quick Commerce scales up, platforms are likely to have a large captive base of customers with frequent touch-points. This will open up an opportunity for the platforms to partner with large brands for in-app advertising. Brands can also tie-up with Quick Commerce players to test-market their products or run promotional campaigns. Platforms can also entice customers to purchase their membership/subscription plans, which typically lead to increased user frequency. Platforms can also charge customers delivery fees (below a certain AOV) and/or packaging costs and sell subscription programmes to cover their expenses.

Exhibit 64. Present delivery fee structure of online platforms

Description	Scheduled e-grocery			Quick Commerce								
	Jiomart	Bigbasket	Dmart	Instamart	Bigbasket now	Amazon Fresh	Blinkit	Zepto	Dunzo	Ola Dash	Freshtohome	Licious
Minimum order value for free delivery	All are free	All are free	All are paid	INR25 for order value < INR149 INR18 for order value > INR149	All are free	All are paid	All are paid	INR35 for order value < INR150	INR35 for order value < INR99	INR15 for order value < INR99	599	INR 399
Normal delivery fee - on order value INR1000	Free	Free	INR 49	INR 8	Free	INR 80	INR 9	Free	Free	Free	Free	Free
Normal delivery time	No fixed day/time	9 Hours	Next day	2 hours	15-30 mins	2 hours	18 mins	na	19 mins	10 mins	Next day	Next 2 hours
Express delivery fee on order value INR1000	na	na	na	INR 25	na	na	Na	na	na	na	na	na
Express delivery time	na	Next day morning	na	30 mins	na	na	Na	na	na	na	na	na

Source: JM Financial

Focus on optimising supply chain and lowering last-mile delivery costs

Since most Quick Commerce players have only recently begun operations and are operating at sub-scale there is significant room to drive operating efficiencies, going ahead. Growing usage of technology can also help bring down fulfilment and last-mile related operating expenses.

Farm to Table in 24 hours – key to new user penetration

Fresh fruits & vegetables (F&Vs) is one the key growth categories for Quick Commerce players. In fact, Swiggy in one of its [recent blogs](#) has mentioned that the F&V category ranks in the top three in every city where it has Quick Commerce operations. The category is not only critical from a growth standpoint but also plays a vital role in improving the overall gross margin mix for these players. In fact, there are now niche players like Fraazo that are only focussed on the F&V category. The broader idea being that the opportunity size could be huge if platforms are able to convince customers to substitute their daily/weekly visits to the neighbourhood F&Vs vendor/market by ensuring delivery of products within 24 hours of harvest – a key decision-making factor for most consumers. Platforms can also leverage this category to penetrate lower tier cities where F&V assortment is very limited. Accordingly, some platforms are partnering with Farmer Producer Organisations (FPOs) and farmers through third-party sellers to optimise this opportunity and ensure farm to table delivery of F&V category products in less than 24 hours.



Source: Swiggy

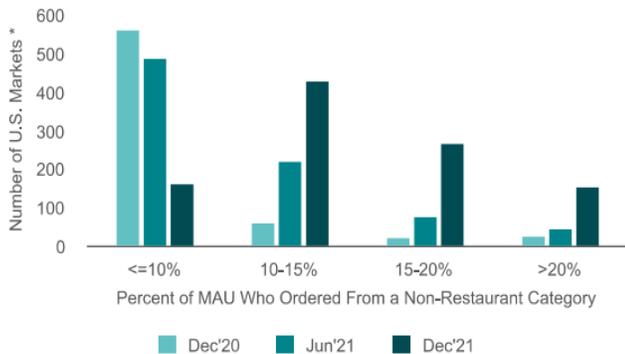
Loyalty programmes - key to cross-sell opportunities and ordering frequency growth

The best way to become a 'Go to platform of choice of consumers' for any digital business (especially amidst high competitive intensity) is to lure them into joining loyalty/subscription programmes. Generally, customers who join such programmes are offered incremental discounts, delivery fee waivers, cash-backs, etc. by the platforms. This significantly improves the value proposition for customers on a per order basis, in turn leading to high retention rates for the platform. Consumers also tend to order more frequently and across multiple use-cases in order to derive maximum possible value when they join such programmes. While this may impact unit economics on a per order basis, from an absolute per user total profit standpoint, platforms are more likely to report an improvement due to these programmes.

Exhibit 65. Example of how Doordash's DashPass subscription programme is not only helping it cross-sell non-food services ...

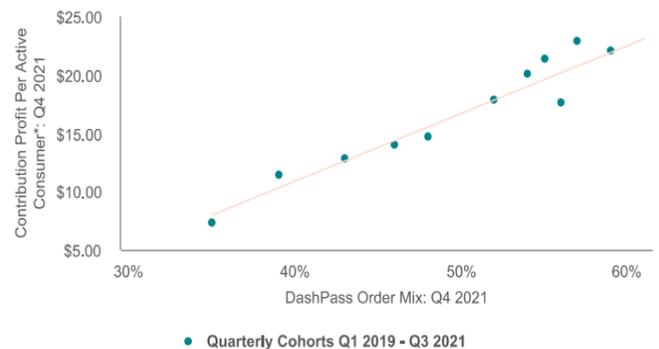
Exhibit 66. but also driving volume growth and contribution profit per active consumer

Non-Restaurant Penetration in U.S. Markets



Source: Doordash

DashPass Order Mix Vs. Contribution Profit Per Active Consumer* in Q4 2021

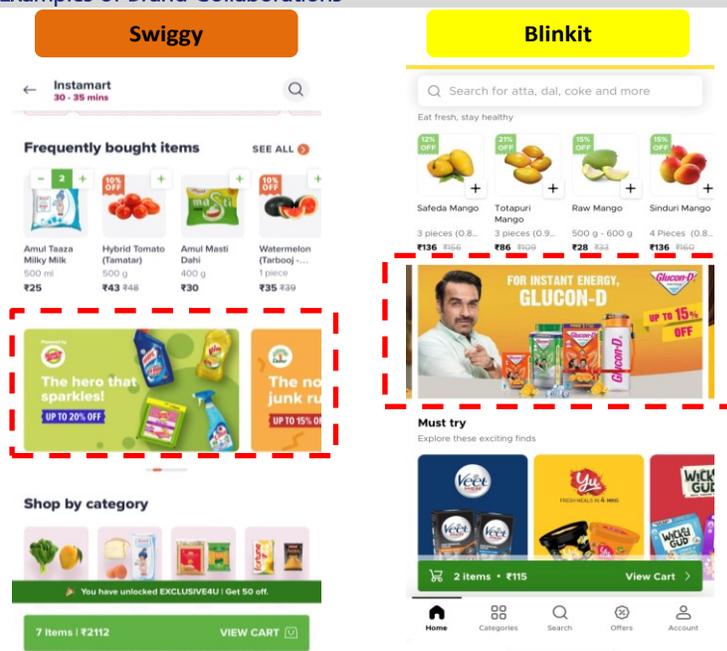


Source: Doordash

Immense opportunity to collaborate with brands

Platform businesses have the unique ability to gather consumer trends and behaviour that can be used to generate insights for brands. Using these data/insights, brands can better strategise their digital marketing/advertising campaigns – leading to better brand visibility, tailored offers for consumers, and incremental sales, amongst several other benefits. This is on top of the distribution reach that the online channels create for the brands. Given this premise, quick commerce platforms believe that they can not only improve their relationships with brands but also better monetise them after achieving a certain scale.

Exhibit 67. Examples of Brand Collaborations



Source: Company Apps

Private labels - key to improving gross margins

Pantry staples like rice, atta, pulses, etc. and other cooking essentials together contribute a large proportion to India's grocery market. While traditionally a significant proportion of these items were sold unpacked/loose, post-Covid there has been a significant shift in consumer preference towards hygienic and packaged products despite having to pay a premium price. Demand for private labels of the platforms has especially increased due to relatively affordable pricing and trust on the platform. From a platform perspective, another additional advantage of offering private labels is that margins are far better than those available on branded products. Therefore, it is no coincidence that platforms are already rushing to widen their private labels portfolio ([media report](#)). Some of them are even extending their private label portfolio beyond food-related supplies to categories such as personal care, baby care, home and kitchen essentials, amongst others.

Exhibit 68. Private labels in online grocery

Platform	Categories with Private Label	Private Label Brands
Dunzo	Grocery & Staples	Dunzo essentials
Blinkit	Grocery & Staples; Baby Care	Grofers Mother's Choice; Grofers Happy Baby
Amazon Fresh	Grocery & Staples, Hot Beverages, Cereals	Vedaka, Solimo
Bigbasket (includes Bb Now)	Grocery & Staples, Snacks, Dairy Products, Home essentials, Kitchen essentials	BB Popular, BB Royal Organic, BB Fresho, Tasties, Good Diet
Dmart	Grocery & Staples, Home essentials	Dmart Premia, Dmart Healthy Choice, DHomes
JioMart	Grocery & Staples	Good Life, Best Farms, Kaffe, Homeone
Flipkart	Grocery & Staples, Home essentials, Kitchen essentials,	Flipkart Supermarket

Source: Company, JM Financial

Exhibit 69. Examples of private labels in online grocery



Source: Company Platforms

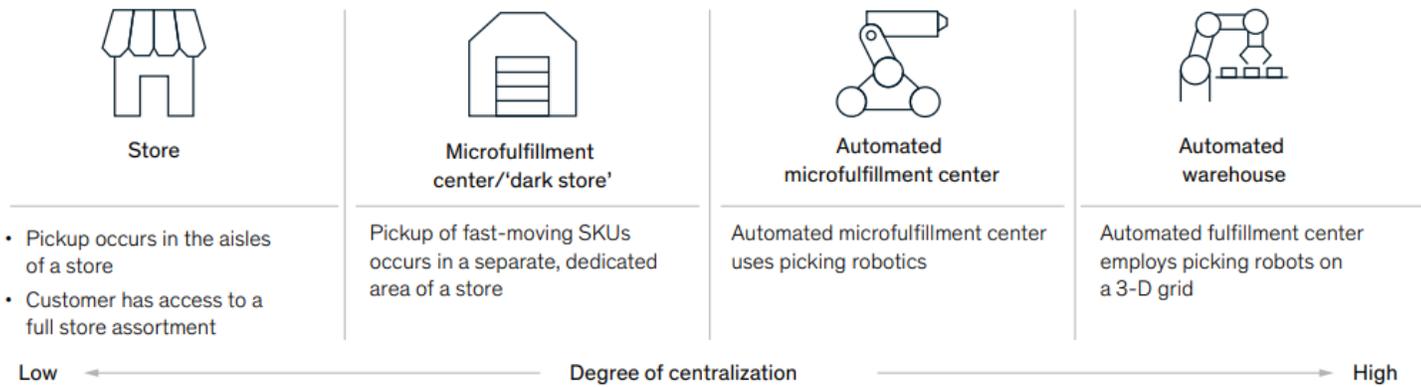
Automation/Robotics – key to improvement in economics at scale

The two main pillars of order fulfilment that significantly increase operating expenses for grocery players are picker costs and last-mile delivery costs. Assuming there is significant demand and scale, technology investments in automation/robotics can lead to significant improvement in unit economics of grocery platforms according to a McKinsey Report – Digital disruption at the grocery store.

Examples of automation for picking include Amazon's picker robots supplied by Kiva Systems ([media report](#)). Similarly, UK-based Ocado has automated grocery-fulfilment centres in the UK. They have also automated picking centres for Sobeys and Kroger in Canada and the United States, respectively (Source: [Mckinsey - Digital disruption at the grocery store](#)).

Exhibit 70. Automation/Robotics will likely support improvement in unit economics in the future

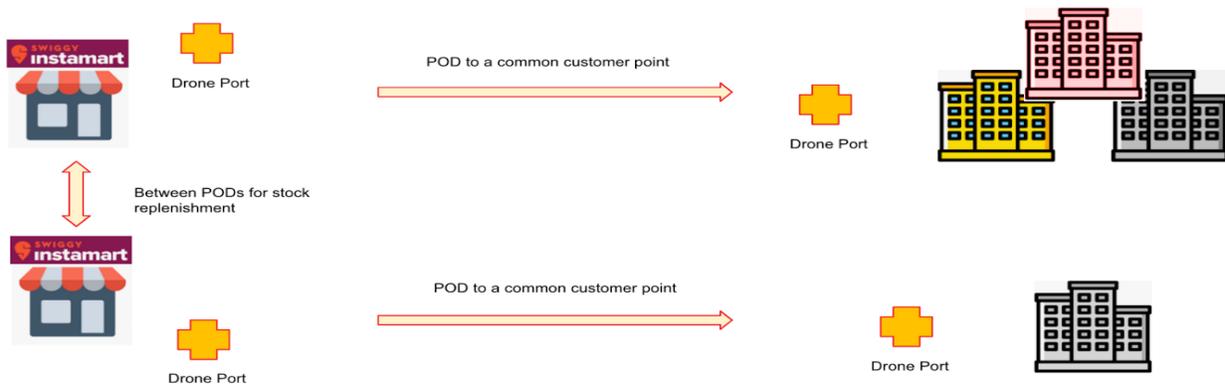
Degree of centralization at picking centers



Source: Mckinsey Report – Digital disruption at the grocery store

Quick Commerce platforms are also experimenting with automation in last-mile delivery. For example, in Apr'22, Swiggy announced a pilot drone delivery project in Bengaluru and Delhi-NCR to deliver orders to customers from its Instamart stores as well as to replenish its buddy dark stores.

Exhibit 71. Swiggy working with four vendors for its pilot drone delivery project in Bangalore and Delhi-NCR



Source: Swiggy

Understanding 10 mins delivery

How 10 mins delivery model typically works

There are three key aspects to the 10 mins delivery model.

Dark Stores: A dense network of dark stores within highly populated cities enables Quick Commerce platforms to move closer and closer to more customers. This, in turn, reduces the distance covered by delivery partners leading to quicker deliveries. Companies promising 10-20 mins deliveries try to ensure that for around 90% of the orders the delivery radius or the distance between the customer and the dark store is ~1.5-3km.

Delivery Partners: Having ready availability of delivery partners within a short range of dark stores to instantly pick and deliver orders is another important key aspect of the Quick Commerce model. Unlike food delivery, in which delivery partners end up traversing between several restaurants in a particular radius to pick up orders, in Quick Commerce they are tagged to only a handful of nearby dark stores. In fact, in most instances a delivery partner is tagged to a dedicated dark store for a particular period, thereby reducing time spent on location discovery, parking concerns, and other non-efficient practices typical in food delivery. To save costs, delivery partners are encouraged to operate using bicycles and electronic bikes.

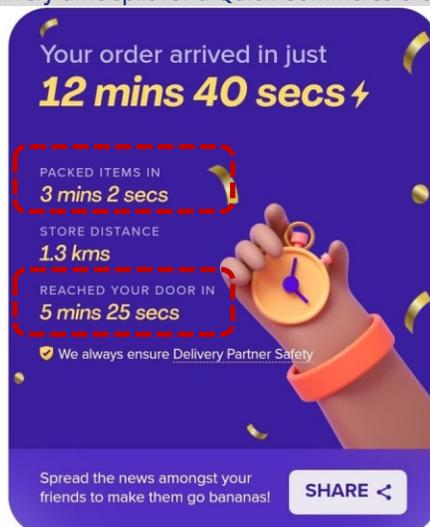
Tech-backed processes: Tech is probably the most important factor in ensuring instant delivery. When a customer places an order a designated picker team is immediately notified. Supported by technology a picker quickly assorts and collects all the items in an order such that collection and packaging time is ~2-4 mins. Once the stand-by delivery partner picks up the order they are guided to the customer location using delivery routing tools that source real-time traffic conditions and help reduce the average distance travelled. The entire process is tracked to ensure that operations are transparent and accurate ETAs are shared with the customers.

Exhibit 72. Process flow of a 10-min delivery



Source: JM Financial Analysis

Exhibit 73. Example of delivery time split for a Quick Commerce order



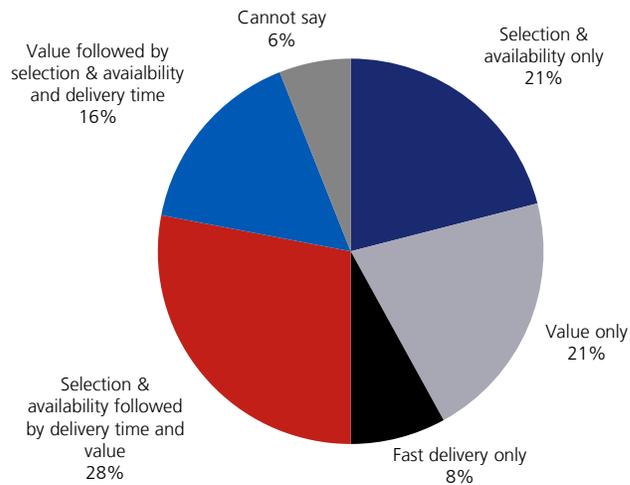
Source: JM Financial. Note: An advantage in Quick Commerce vs Food Delivery is that platforms can station riders at their dark store when idle thereby saving significant time otherwise spent in order pick-up.

Is the 10 mins delivery model sustainable?

While there is enough evidence to suggest that 10 mins delivery is possible assuming enough investments are made in technology, process optimisation, building of a high density dark store and delivery partner network, we believe the model in its present form is not sustainable. This is because the 10 mins delivery model needs significant upfront investments and operating costs way are too high. Moreover, as indicated in the LocalCircle survey below, we believe most customers would be unwilling to pay higher delivery fees to cover the incremental operating costs for instant deliveries. In fact, our analysis suggests that of late all platforms (including those that initially seemed to promote the model) have moved away from the promise of 10 mins delivery.

Exhibit 74. Only 8% of the total surveyed individuals indicate delivery time as the top criteria for ordering groceries only

Survey question: When you shop for groceries online what are the important factors for you among availability, selection, prices and delivery time



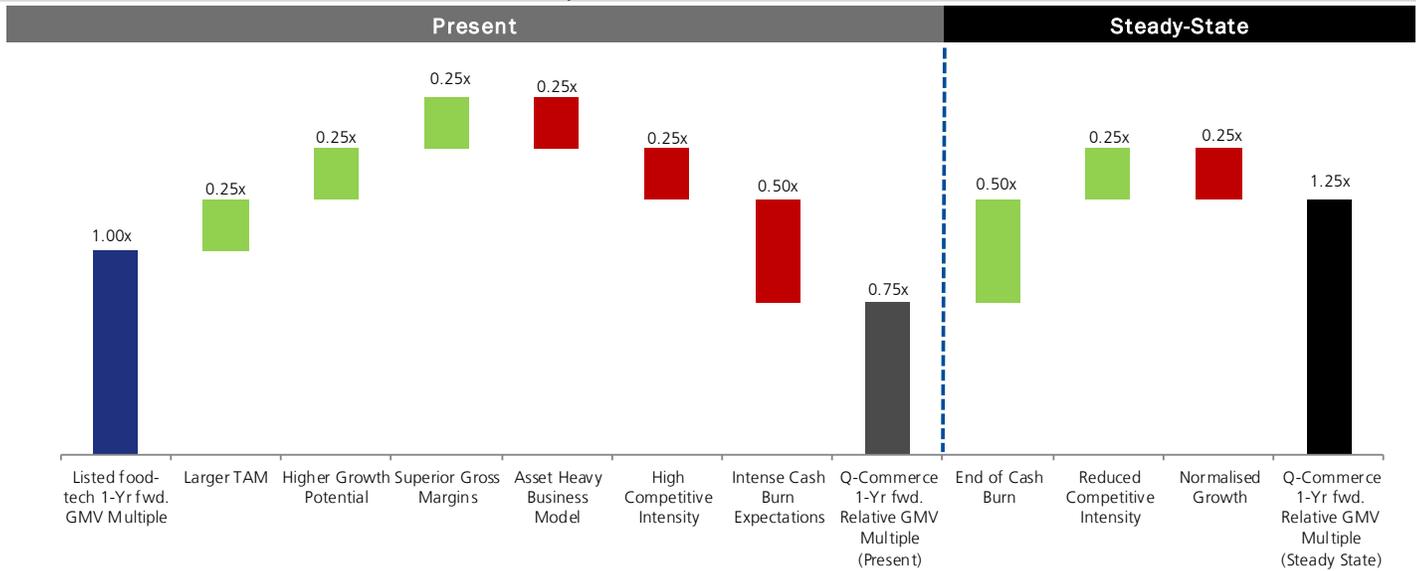
Source: [LocalCircles Survey](#). Sample Size: 9,397 responses.

Framework to value Quick Commerce players

Considering the immense potential in the Quick Commerce space to not only scale up but also turn profitable over time, in this section we try to create a framework that can broadly be used to value players in the space.

While ideally we would have liked to build a valuations framework after taking into consideration the sustainable profitability expectations (EV/EBITDA or PER) or long-term cash flow generation potential (DCF) of these Quick Commerce players, at present we believe the only viable metric is the GMV multiple due to the simple fact that all players in this space are far from profitable and still figuring out their unit economics. We broadly base the framework by benchmarking the Quick Commerce GMV multiple against the listed food-techs valuations (due to the multiple overlapping similarities in operations) while adjusting the target multiple to factor in industry specific factors such as opportunity size, likely growth trajectory, gross margins, capex investments, competitive intensity, and expected cash burn.

Exhibit 75. JM Framework to value Quick Commerce companies in India basis their GMV



Source: JM Financial. Note: Food-tech GMV Multiple is indexed to 1.0x (and therefore not an absolute multiple).

APPENDIX I

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