



Q-COMMERCE

Quick Commerce

Source: Google Images

Zepto can become bigger than DMart in 18-24 months: Aadit Palicha

According to Aadit Palicha, the Indian grocery market would be worth \$850 billion by FY29, of which these top bracket households would account for \$400 billion.

DEEPSEKHAR CHOUDHURY | JULY 06, 2024 / 14:31 IST

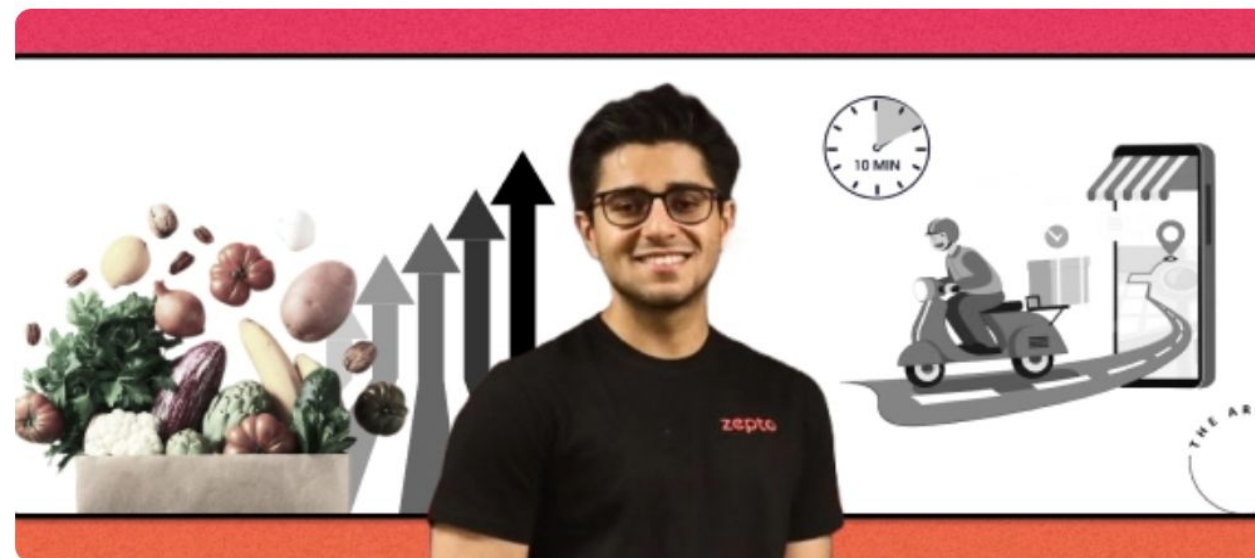
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Aadit Palicha

We want to build a \$50-bn company that's profitable, public: Zepto's Aadit Palicha

Consumer Internet 11-min read



Written by Aditi Shrivastava
Updated on 20 Jun 2024



Source: www.moneycontrol.com | www.thearcweb.com

Quick commerce a 'smarter format' than digital platforms, says Avenue Supermarts CEO Neville Noronha

Avenue Supermart CEO added that while e-commerce is the next big challenge for brick and mortar retail, the quick commerce model could have 'huge scale'.

MONEYCONTROL NEWS | MAY 16, 2024 / 12:54 IST

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Quick commerce a 'smarter format' than digital platforms, says Avenue Supermarts CEO Neville Noronha

Source: www.moneycontrol.com

How many of you would be willing to pay ~Rs 50 if it saved at least 30 minutes of your time?

Structure of the Presentation

1. Quick Commerce Business & Revenue Models
2. Dark Store Operators - Business Model
3. The Bull Case - Quick Commerce
4. The Bear Case - Quick Commerce
5. Summary

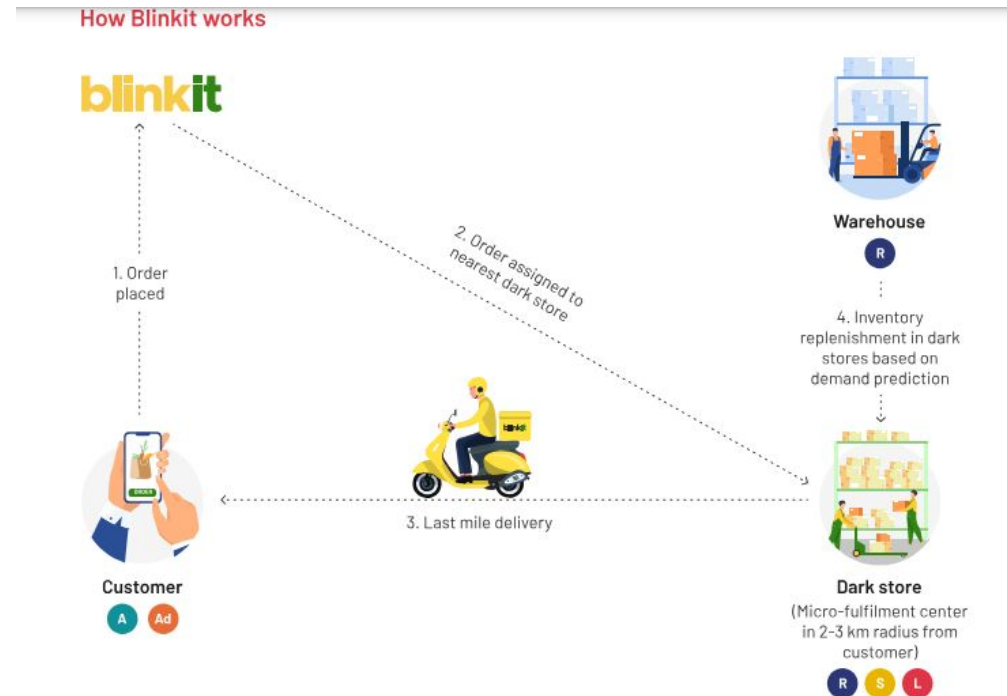
Different Retail Formats in the Modern world



Source(s): Redseer Research

Source: Swiggy DRHP - Redseer Analysis

Business Model for Quick Commerce Companies



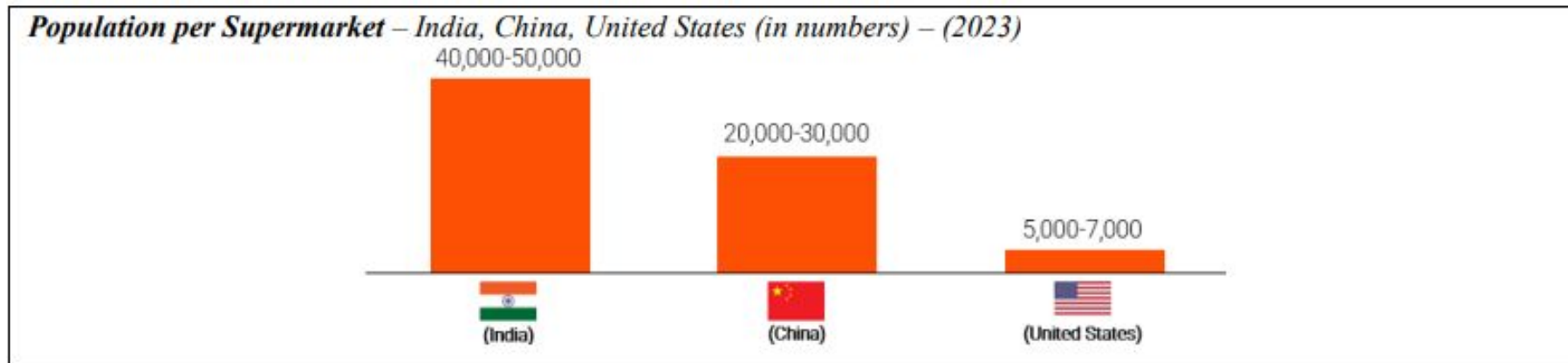
Blinkit operations are enabled by proprietary tech

- R Replenishment design:** Assimilate purchase patterns to optimize product stocking quantities and replenishment cycles in dark stores
- S Store tech:** Products packed in under 2 minutes through smart pick-path optimization in dark stores
- L Location intelligence:** Optimizing store locations for shortest delivery times
- A Assortment science:** Neighbourhood level data on product searches and purchase patterns drives relevance and localization of assortment in dark stores
- Ad Ad-tech:** Self-serve platform for brands to access demand patterns to enable highly targeted advertising

Source: Zomato Annual Report

Why is the Quick Commerce model apt primarily for developing countries?

1. Highly labour intensive + Access to low cost labour
2. Supermarket penetration in Developed countries is quite high - Behavioural Patterns
3. Land availability and cost of land in prime locations is a major challenge



Source(s): Redseer Research and Analysis

Source: Swiggy DRHP - Redseer Analysis

Revenue Model for Quick Commerce Companies



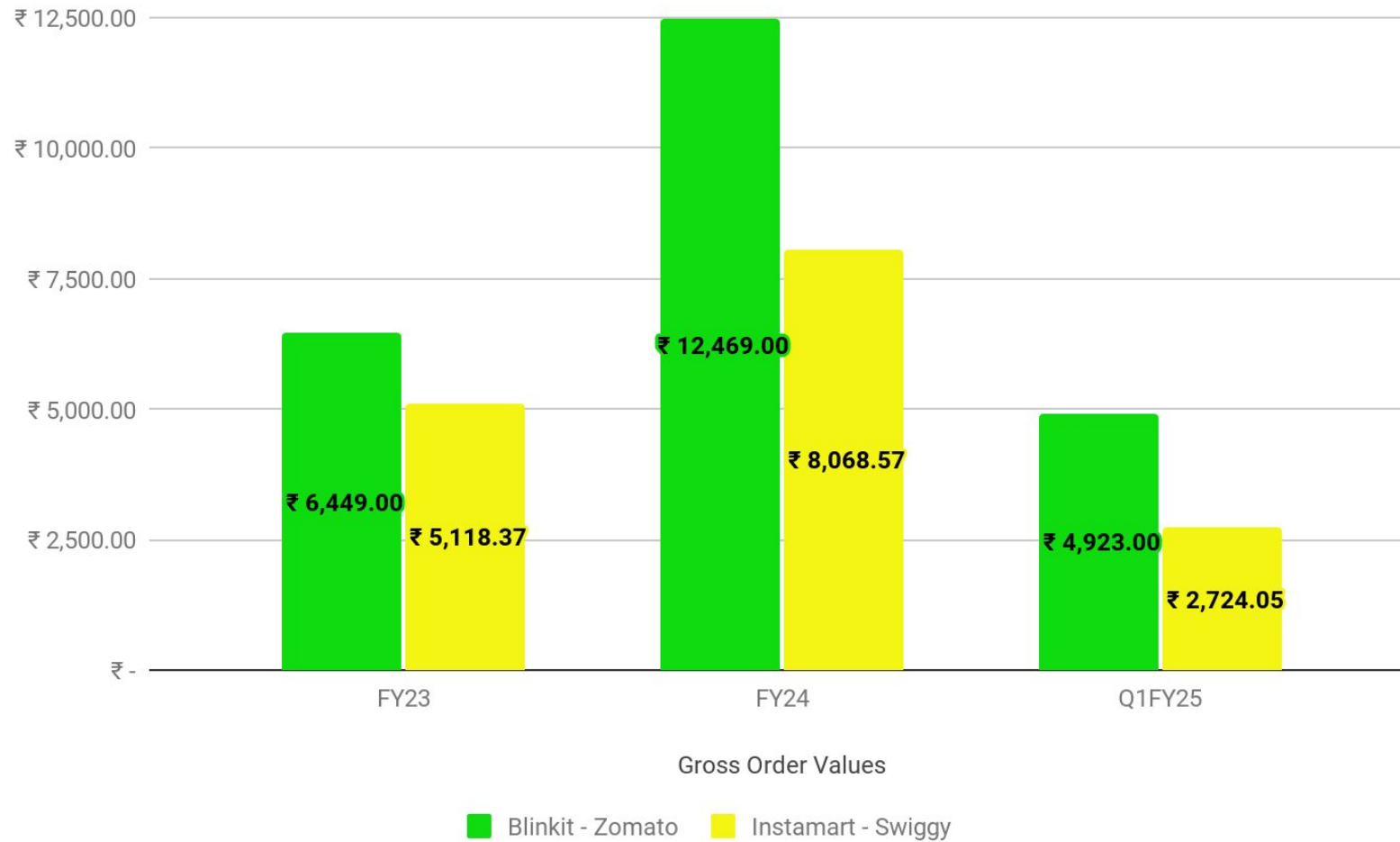
Source: Swiggy DRHP

Quick Commerce Unit Economics

Quarterly Quick Commerce	Swiggy Instamart		Zomato Blinkit	
	Q1FY25	Common Size	Q1FY25	Common Size
Monthly Transacting Users (MTUs) - Crs	0.524		0.76	
Order Frequency per month	3.56		3.45	
Total Order Volumes (Crs)	5.59		7.88	
Average Order Value (AOVs)	₹ 487.31		₹ 625.00	
Commissions + Warehousing Income	₹ 467.44	9.89%		
Advertisement Revenues	₹ 14.62	3.00%	₹ 21.88	3.50%
Platform Fees / Other Fees	₹ 4.10	0.84%		
Delivery Fees	₹ 5.25	1.08%	₹ 9.38	1.50%
Reported Revenue	₹ 72.16	14.81%	₹ 119.59	19.13%
Less: Delivery Cost to Rider	₹ 46.64	9.57%	₹ 45.00	7.20%
Less: Platform Funded Discounts	₹ 1.02	0.21%		
Less: Dark Store Costs				
Less: Mid Mile & Warehousing Cost	₹ 40.00	8.21%	₹ 49.33	7.89%
Less: Other Variable costs				
Less: Discounts				
Contribution	₹ (15.50)	-3.18%	₹ 25.26	4.04%
Less: Other Expenses + Employee Cost	₹ 41.38	8.49%	₹ 25.64	4.10%
Adjusted EBITDA Margins	₹ (56.87)	-11.67%	₹ (0.38)	-0.06%

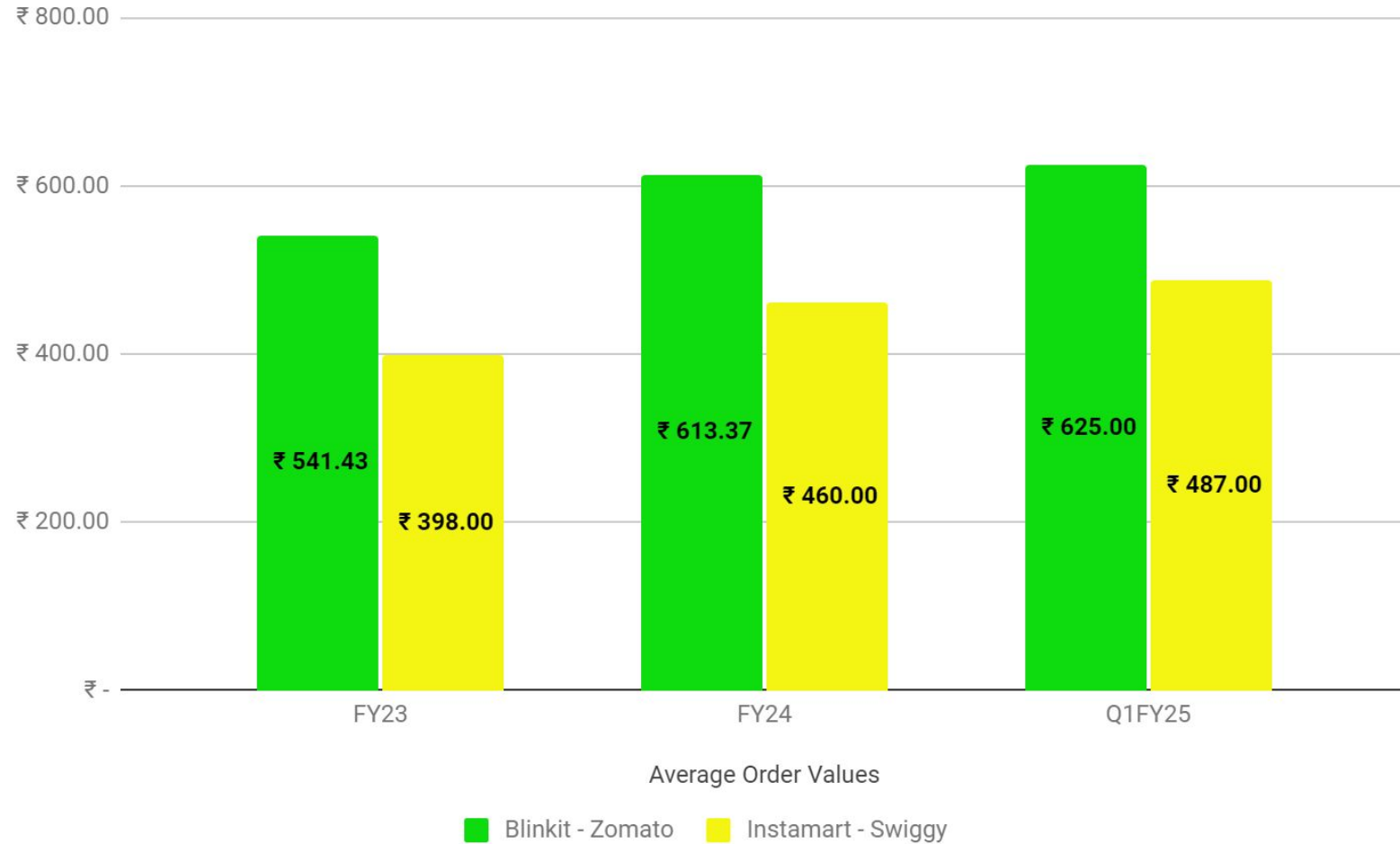
Source: PPFAS Estimates & Company Filings

Key Performance Indicators - Gross Order Values (Rs Crs)



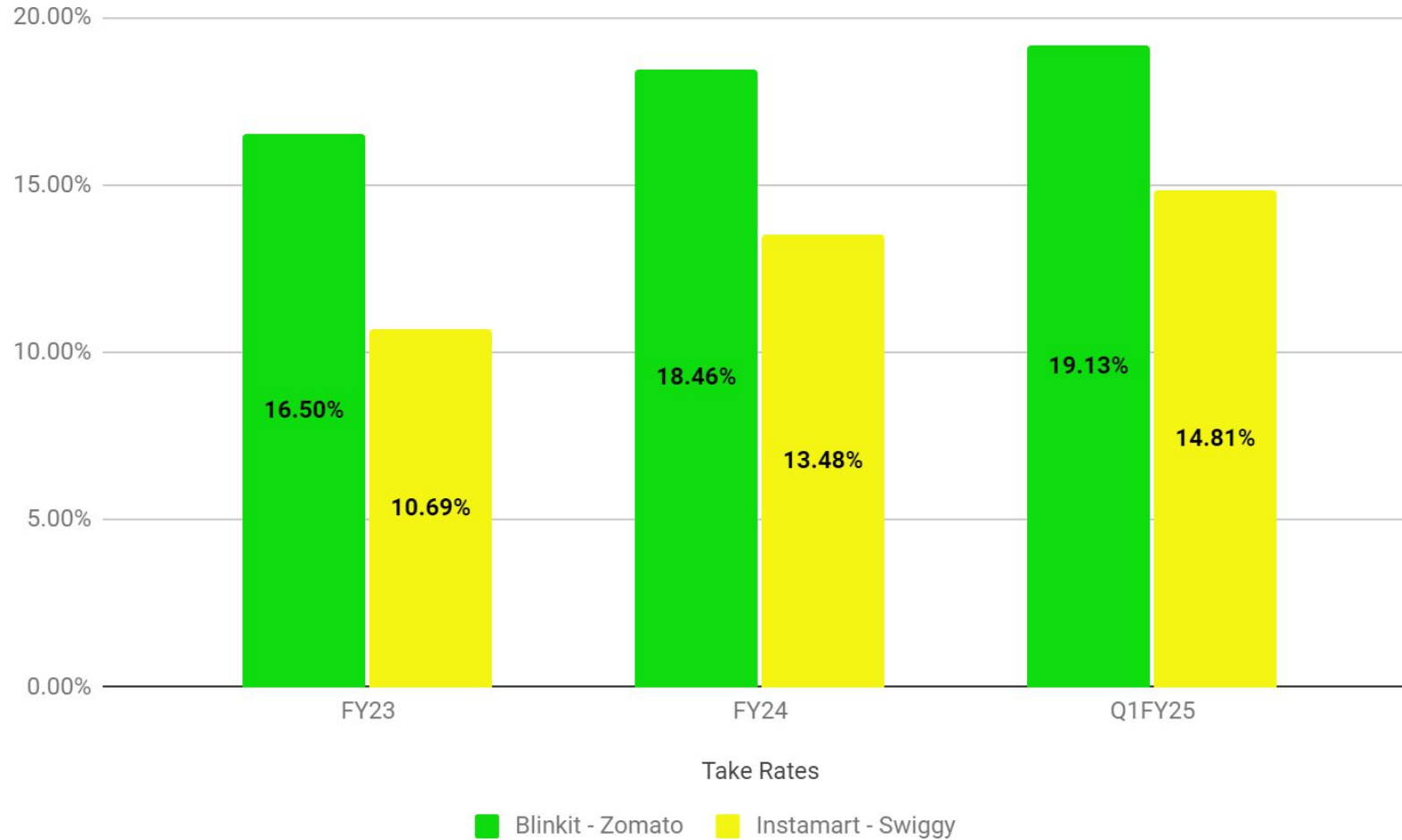
Source: Company Filings

Key Performance Indicators - Average Order Values (in Rs)



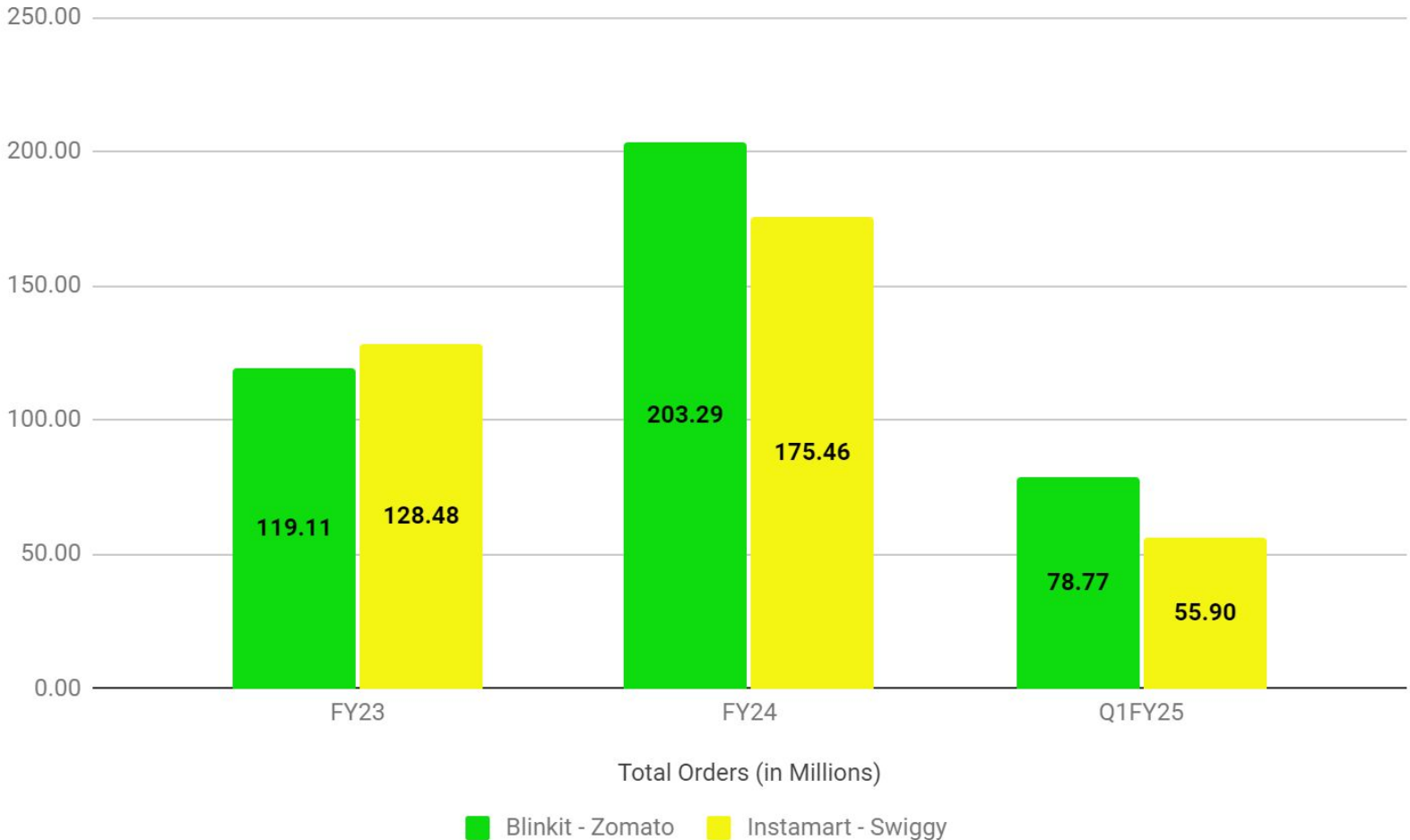
Source: Company Filings

Key Performance Indicators - Take Rates



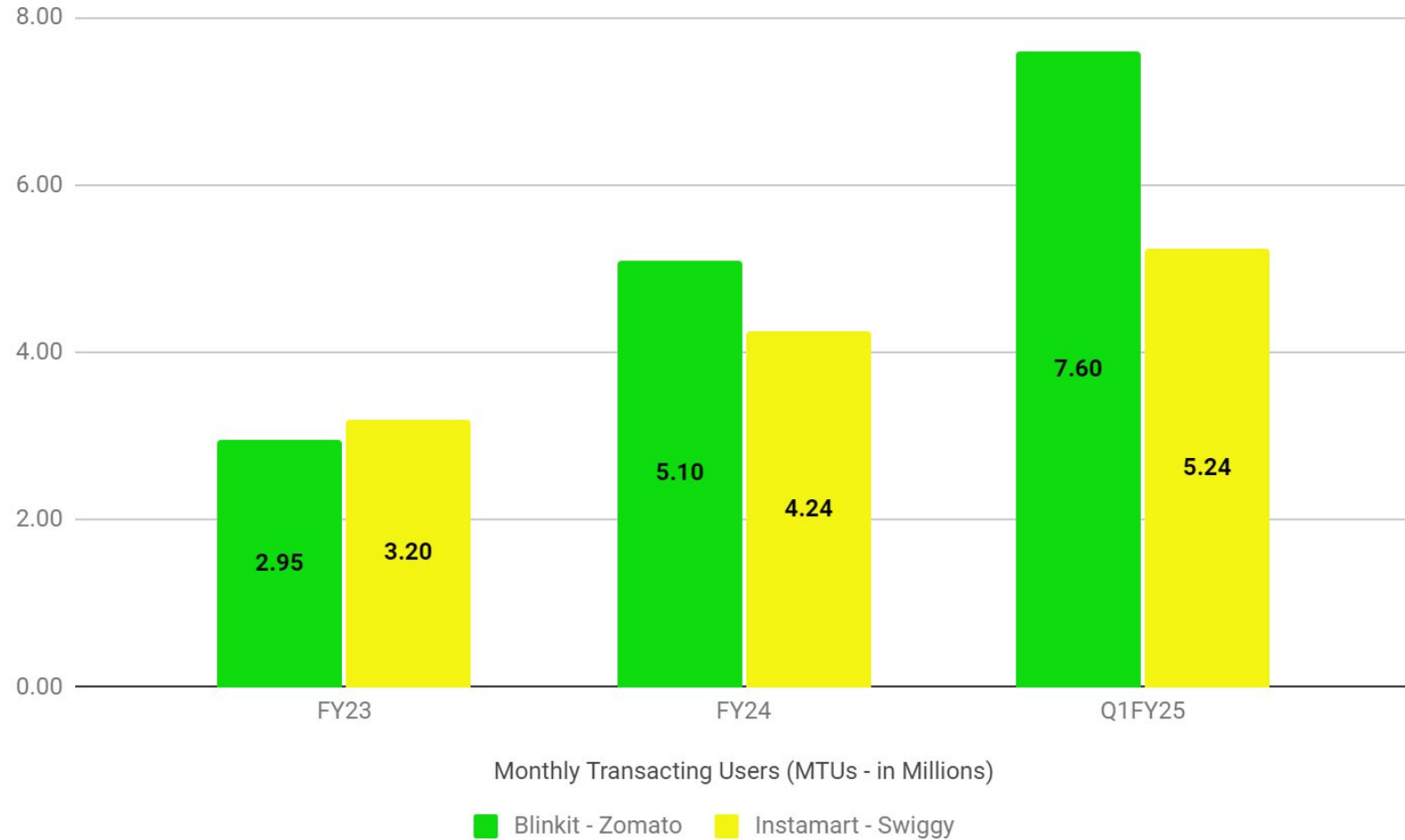
Source: Company Filings

Key Performance Indicators - Total Number of Orders (in Millions)



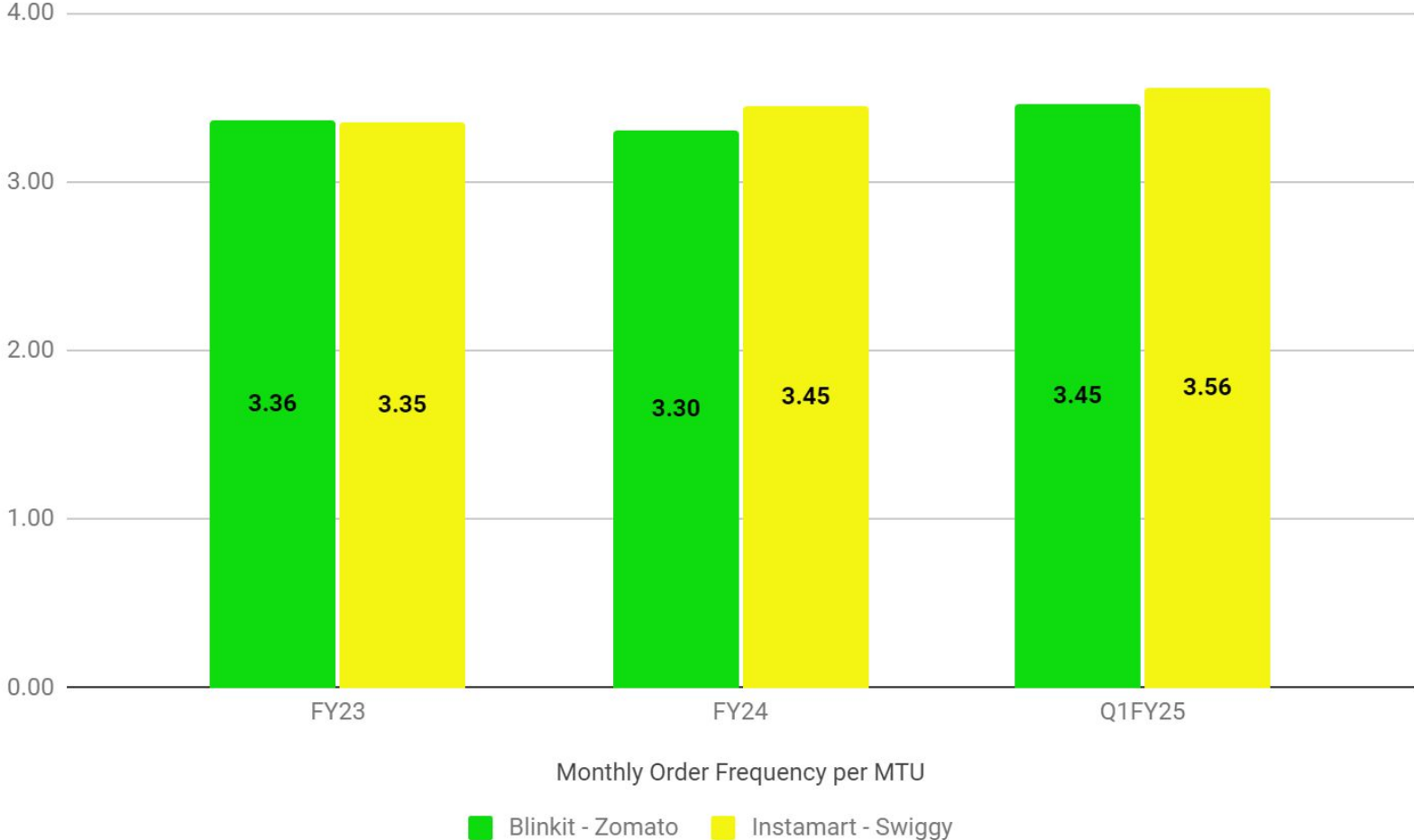
Source: Company Filings

Key Performance Indicators - Monthly Transacting Users (MTUs in Millions)



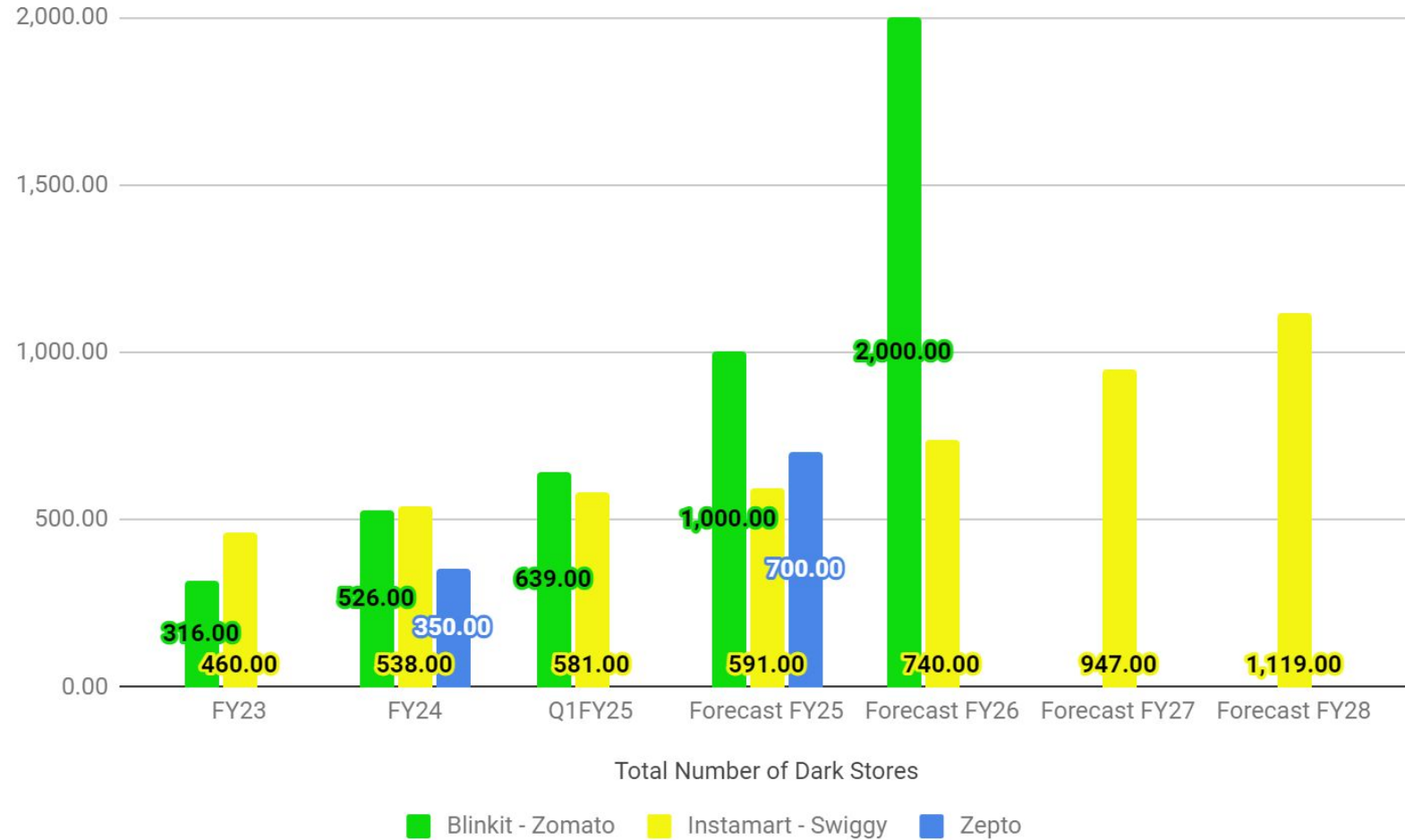
Source: Company Filings

Key Performance Indicators - Monthly Order Frequency per MTU



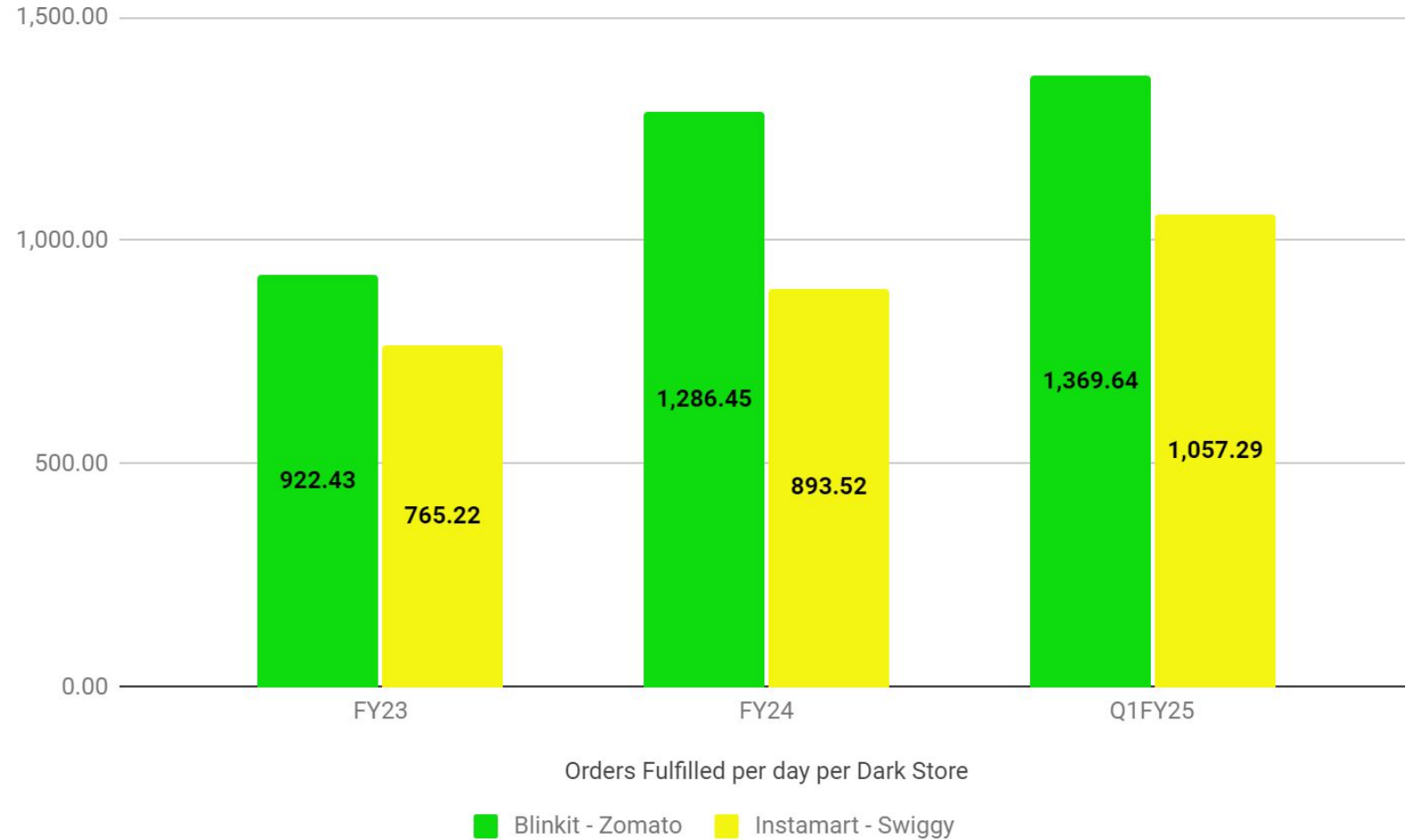
Source: Company Filings

Key Performance Indicators - Total Number of Dark Stores



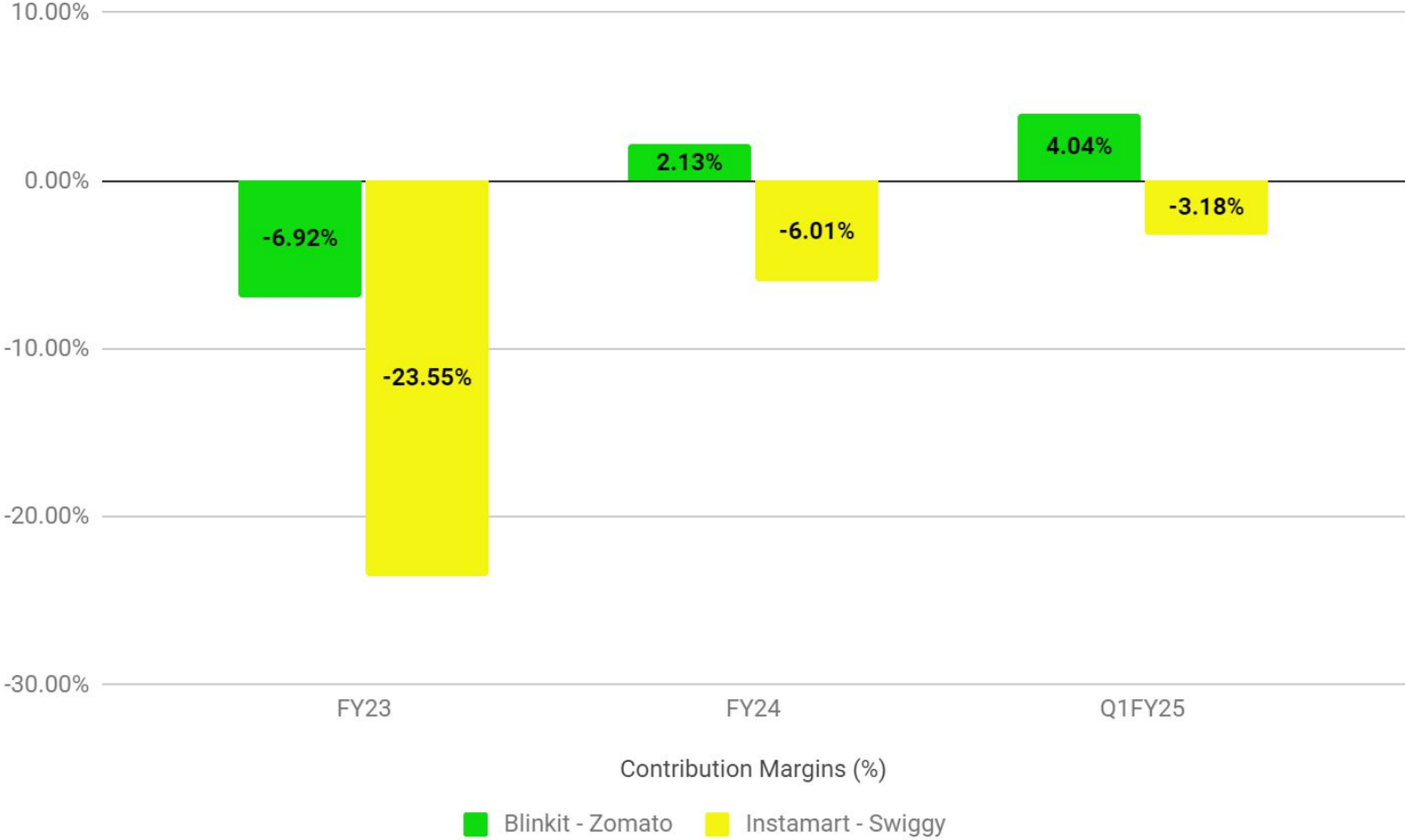
Source: Company Filings

Key Performance Indicators - Orders Fulfilled per day per Dark Store



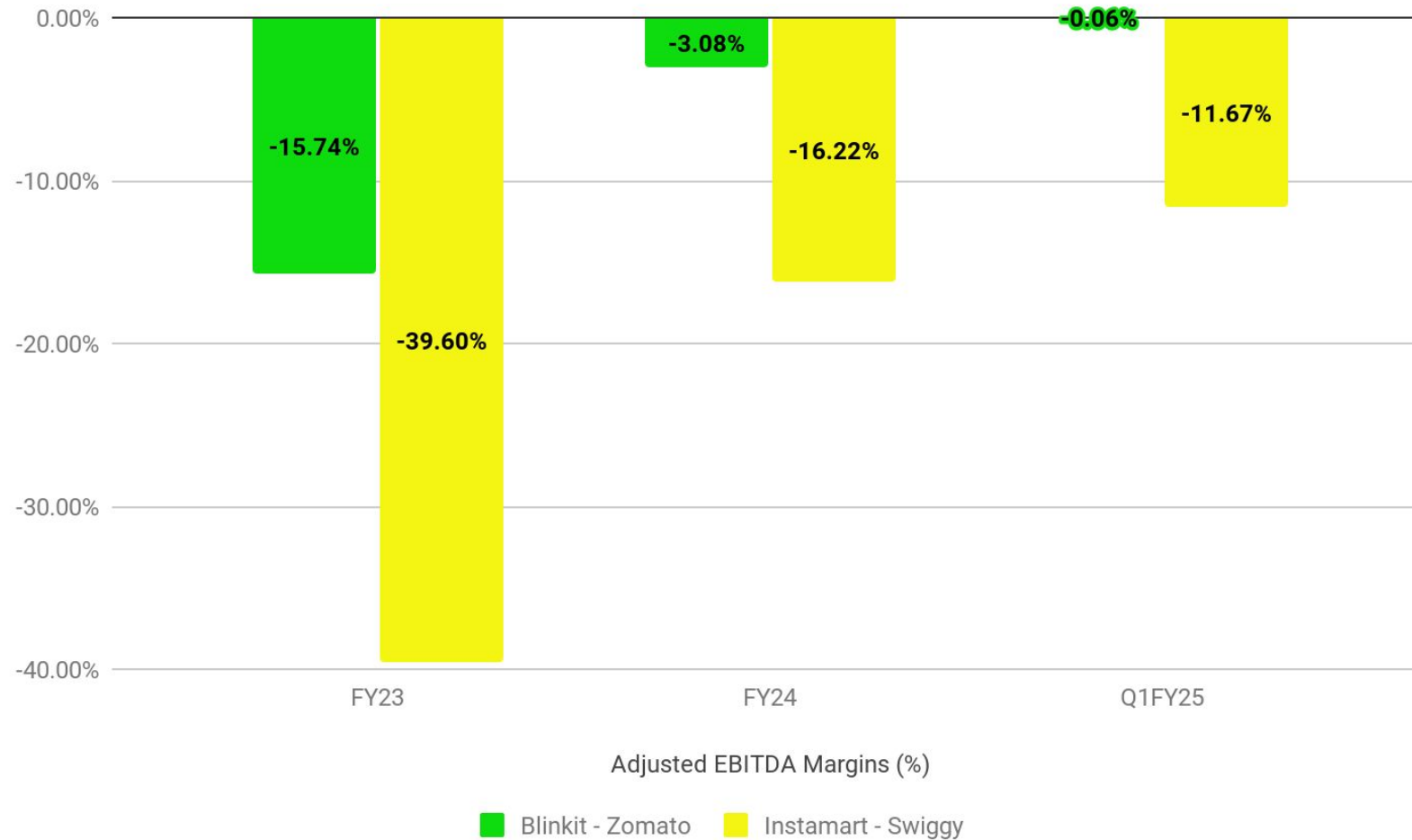
Source: Company Filings

Key Performance Indicators - Contribution Margins



Source: Company Filings

Key Performance Indicators - Adjusted EBITDA Margins



Source: Company Filings

Dark Store Business Model

Dark Store Unit Economics

ILLUSTRATIVE UNIT ECONOMICS FOR A DARK STORE		
Avg. No of Dark Store Staff (3 Shifts) - A	25	
Avg Staff Salary per month - B	₹ 17,000.00	
Total Staff Cost per month = A x B	₹ 425,000.00	53.63%
Avg Store Size (Sq ft) - C	3,500.00	
Monthly Store Rent per Sq ft - D	₹ 65.00	
Utilities & Other costs per Sq ft - E	₹ 40.00	
Total Store Rent per month - C x D	₹ 227,500.00	28.71%
Utilities & Other costs per month - C x E	₹ 140,000.00	17.67%
Total Operating Costs	₹ 792,500.00	
Total Operating Costs per day	26,416.67	
Order Fulfilled per Day	1,400.00	
Dark Store Fulfillment Costs per Order	18.87	

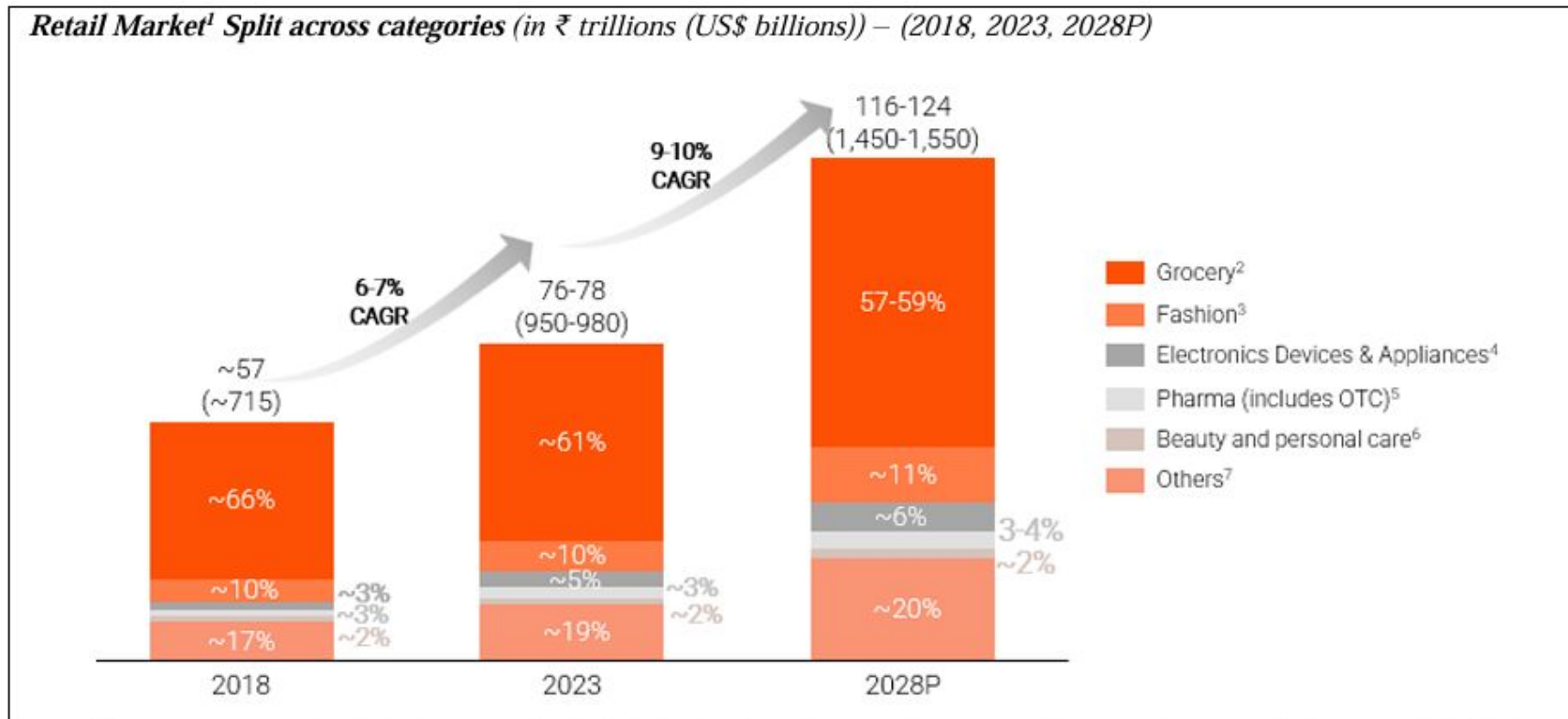
Source: PPFAS Estimates & Company Filings

Challenges for a Dark Store Operator

1. Upside is capped!
2. Demand is completely dependent on the attractiveness of the platform
3. Increasing competitive intensity may lead to lower orders per day
4. Breakeven volumes per day based on the revenue sharing agreement & efficiencies
5. Pilferage, theft & wrongful packaging - Risks are borne by a dark store operator

The Bull Case

Market Sizing - What is the TAM?

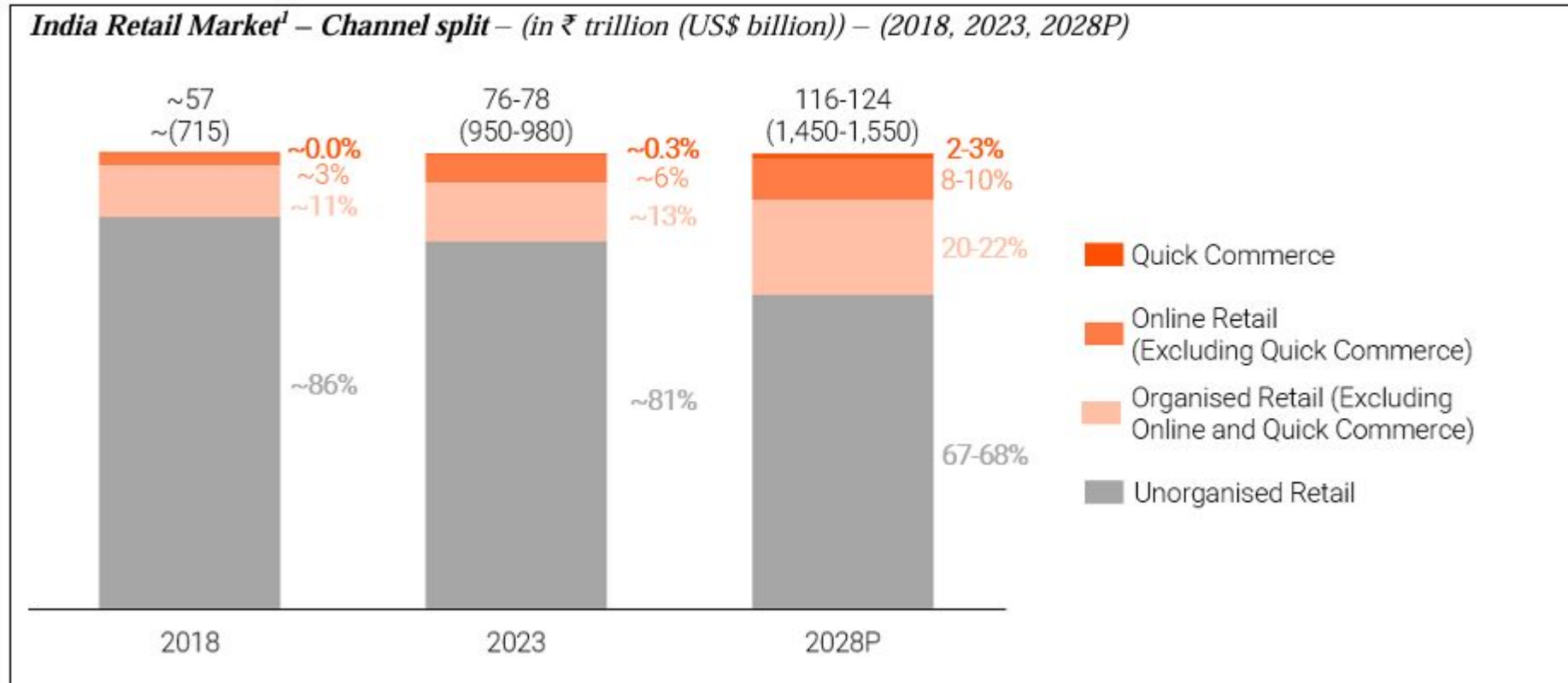


Source(s): Redseer Research and Analysis; Note(s): 1) Calculated at the selling price before cancellations and returns; 2) Grocery includes fresh foods like fruits, vegetables, dairy and meat, FMCG and staples; 3) Fashion includes accessories, apparels and footwear; 4) Electronics Devices & Appliances includes consumer durables and appliances; 5) Pharma (includes OTC) includes ePharma and over-the-counter drugs. 6) Beauty and personal care includes beauty appliances, grooming, makeup and fragrance; 7) Others includes Mobiles, devices, Jewellery, Books and general merchandise and Home & Living

Source: Swiggy DRHP - Redseer Analysis

Market Sizing - What is the TAM?

Channel split of retail market in India



Source(s): Redseer Research and Analysis; Note(s): 1) Calculated at the selling price before cancellations and returns

Source: Swiggy DRHP - Redseer Analysis

Market Sizing - What is the TAM?

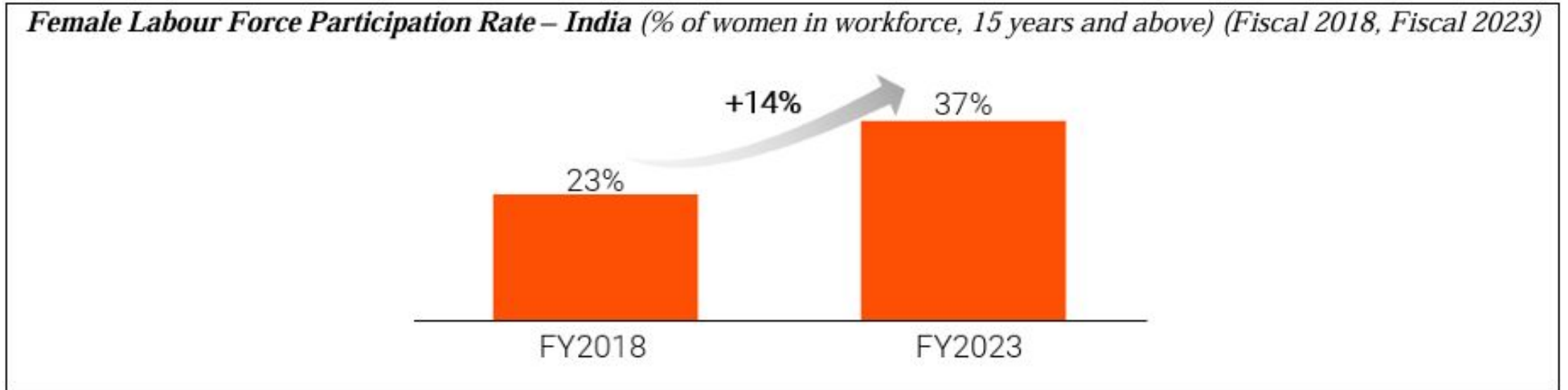
Quick Commerce market,^{1,2} overview – (2018, 2023, 2028P)

Quick Commerce Market	Unit	2018	2023	CAGR % (2018-2023)	2028P	CAGR % (2023-2028P)
 Market Size	₹ billion (US\$ billion)	1.6-2.4 (0.02-0.03)	~224 ~(2.8)	148-169%	2320-4240 (29-53)	60-80%
 Penetration in Total Retail	%	0.003%	0.3%		2-3%	
 Penetration in Online Retail	%	0.14%	4.8%		17-30%	

Source(s): Redseer Research and Analysis; Note(s): 1) Calculated at the selling price before cancellations and returns: 2) GOV reported by Quick-commerce players are at MRP, which is typically 10-20% higher than selling price.

Source: Swiggy DRHP - Redseer Analysis

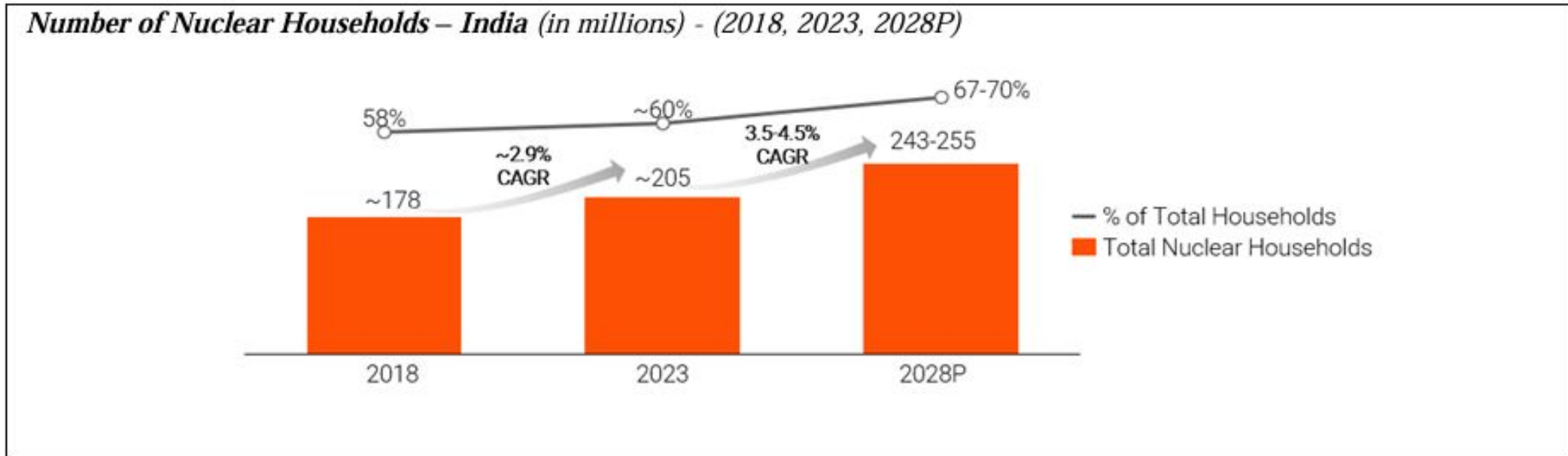
Macro Tailwinds



Source(s): Periodic Labour Force Survey

Source: Swiggy DRHP - Redseer Analysis

Macro Tailwinds

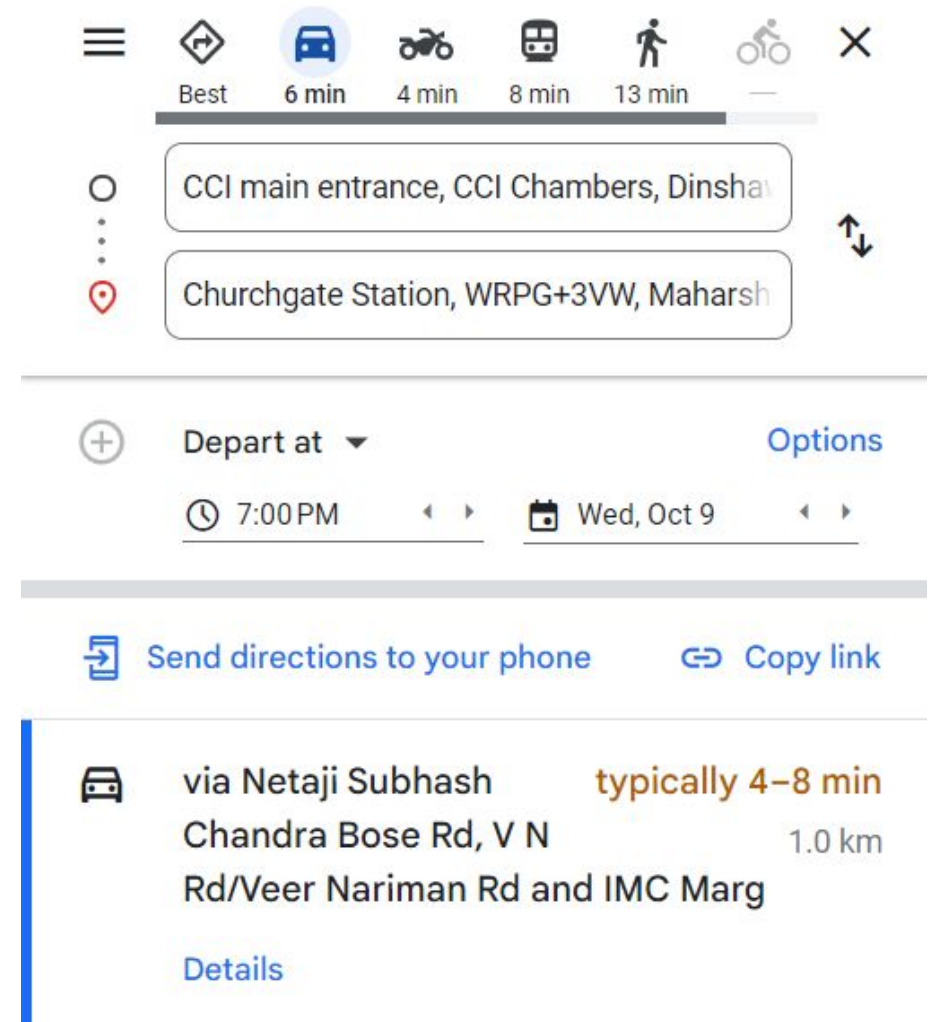


Source(s): Redseer Research and Analysis

Source: Swiggy DRHP - Redseer Analysis

Advantages over a Kirana Store

1. Speed & Convenience
2. Higher SKUs - Maximum 1500 SKUs at Kirana stores v/s 6000+ at Dark Stores
3. Kirana Stores operate within limited operating hours. Dark stores are operational 24x7
4. Can potentially provide better pricing as they can source directly from the FMCG companies once they achieve sufficient scale
5. Optimum utilization of space leading to better unit economics?



Source: Google Maps

Scope for further expansion

Top Cities	Population (Mns)	Blinkit	Instamart	Zepto
	239.20	40	43	11

Source: Company Websites

FMCG Commentary lending credence to the hypothesis



Nestlé India Limited
October 25, 2023

brands, it's as high as 25%, 30%. In some brands, it's as low as about 10%, 15%. But again, something that's been in quick commerce in this has been the fastest growth. 50% of our e-commerce business is today quick commerce and growing faster.

Quick commerce is increasing. It is about a quarter to a third of our e-commerce sales at the moment, but growing much faster. And we are gaining share in quick commerce and in e-commerce. And that is really what's -- that's the relative position we have. And of course, we have to do more there because this channel is showing signs of continued growth. This is not one channel but subsegments like q-commerce, beauty commerce and marketplace are the three main platforms within the e-commerce segment, and they are also growing. All of them are growing, and we expect the e-commerce growth to continue and it is sustained. That is the view on channel salience and trends.

To your point about margins, at this stage, I think the structural point is that -- generally speaking, we do sell different portfolios in these channels. And therefore, what we must look at is basically the net operating margin based on the mix we sell in these channels, and that basically means more value dense portfolio in e-commerce, somewhat more stable portfolio in modern trade, which is actually not a new

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ty: Public



March Quarter and Financial Year 2024 Earnings call of Hindustan Unilever Limited

channel and general trade basically more around access packs.

"The speed of delivery and convenience of q-commerce has contributed to the spurt in q-commerce FMCG sales in the last one year," said Mohit Malhotra, chief executive officer at Dabur India. "For us, quick commerce is 30-35% of our total e-commerce sales. And we see this number growing," he added.

Parle Products' Shah said q-commerce players have been innovative with their sales and distribution strategies. "For instance, Zepto has a Zepto Pass, which allows unlimited deliveries in a month for Rs 99. This helps push more deliveries," he said.

TATA CONSUMER PRODUCTS

Tata Consumer Products Limited
July 27, 2023

We are seeing strong growth in our e-commerce, I think 28% is what I alluded to. All I will say is quick commerce is growing stronger than the average and we remain committed to making sure that we continue to grow that. Incidentally, on the online space in the tea business, we are the market leaders.

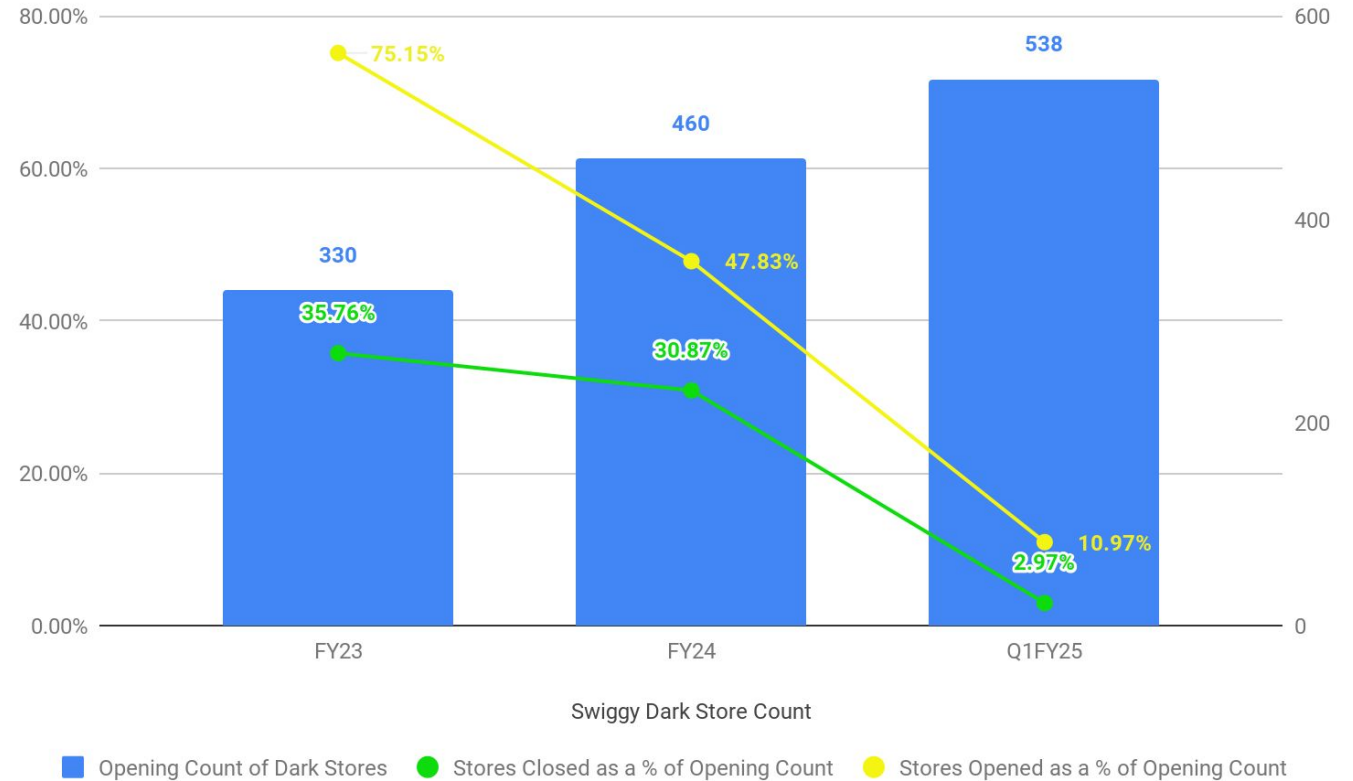
Source: Conference Call Transcripts



The Bear Case

Challenge #1 - Operational Efficiency

1. Dark Stores
 - a. Expansion
 - b. Location Scouting
 - c. Profitability
2. SKU Management
3. Dependence on Advertising Income



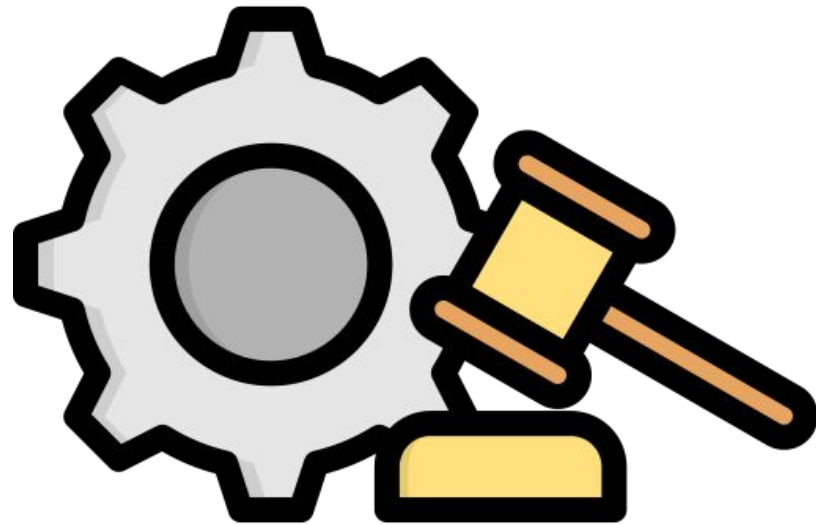
Source: Company Filings | Google Images

Challenge #2 - Rising Competitive Intensity



Source: Google Images

Challenge #3 & 4 - Regulations & Investor Behaviour



Why people are buying Swiggy

- ▶ Well-known brand
- ▶ Gap between Zomato market cap (₹2.5 lakh crore) and Swiggy mcap (₹90,000 crore) may reduce after listing
- ▶ Investors got CCPS cheaper than standalone shares
- ▶ Zomato has zoomed up in the past few years

Why some people are sceptical

- ▶ Swiggy has higher costs than Zomato
- ▶ It is a loss making company

mint

Source: Google Images

Summary

1. Large TAM but how large?
2. Advertising is an extremely important piece of the business
3. Excellence in execution is key
4. Can Dark Store Operators be sustainably profitable?