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Grocery Retail - Changing landscape

Competition in the Online Grocery space coming to the forefront

Unlike most other Retail categories, Grocery has remained largely insulated from the Online disruption. However, the prominence of Online players and their growing scale in the last few years makes us sit up and take notice. In this report, we discuss the growing scale of Online players, market opportunity, challenges, evolving business models, and the competitive position of offline retailers.

e-Grocers turn sizeable, no more minnows

Historically, e-Grocery hardly garnered single-digit share of the overall grocery market in India and globally, with multiple players trying to make inroads with limited success. In the last few years, the growth of e-Grocery players have certainly made us sit up and take notice. While penetration remains low, the online grocery market has grown 30x in the last 7-8 years to reach USD3b. Viewed differently, it is cumulatively the third largest Modern Retail player in the market behind D-Mart and Reliance Retail. This space is now expected to grow over 59% CAGR to USD18b by CY24E. India has 154m online transacting households in CY20, with 130m already using e-Grocery platforms or willing to try, creating an addressable market of a whopping USD293b. Of this, ~55% of the addressable market lies beyond Tier II cities, so e-Grocers will increasingly move to smaller towns, a region that has low coverage so far. COVID-19 led lockdown has certainly helped e-Grocers, with CY20 monthly exit run-rate almost 2x that of Jan'20 GMV and largely sustaining the surge seen during the lockdown as evident from our app visit analytics. Over this period, Big Basket/Grofers witnessed a 4x/3x surge in daily orders, with a steady rise in AOVs.

Value v/s convenience buyer – a key driver of profitability

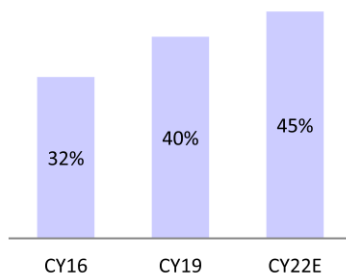
In India, a large (65%) quantum of the e-Grocery addressable households are price sensitive (low gross margin) value first customers (average income of 0.3-0.6m p.a), prioritizing discounts over limited variety, longer waiting time, or an inconvenient experience. This is against the higher margin convenience first customers (average income of 1.2-1.4m), who prioritize a shopping experience and prefer purchasing from a wider product assortment/availability in one place and lesser crowds/waiting time. Unit economics of value first customers appear promising with key determinants of profitability like bulk purchases, higher private labels, low delivery cost, and customer stickiness. e-Grocers increasingly target them to drive profitability as in the case with modern retailers.

Logistic cost and inventory management remain a key hurdle; needs a differentiated approach to tackle

The Grocery market has been historically dogged down by wafer thin (15-20%) gross margins, higher (20-25%) logistics cost, and complex inventory management, making it difficult to achieve sustainable profits and compete with the traditional retail/distribution channel, which operates on 15% cumulative margin in the value

Expect share of Private labels to touch 45% for e-Grocery players in CY22E

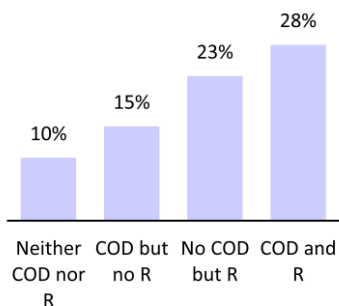
■ Share of private labels (%)



Source: Online private label growth paradigm CY20, MOFSL

Transportation cost could increase to 28% of order value

■ % of Order Value



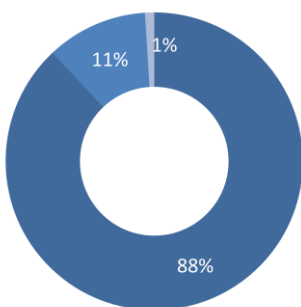
Source: e-commerce retail logistics – May'18, MOFSL

App traction of e-Grocery players

Countries	Online penetration
India	0.3%
China	6%
UK	4%
US	8%

Majority of Online sales are from the metros (%)

■ Metro ■ Tier 1 ■ Tier 2



Source: RedSeer and Big Basket

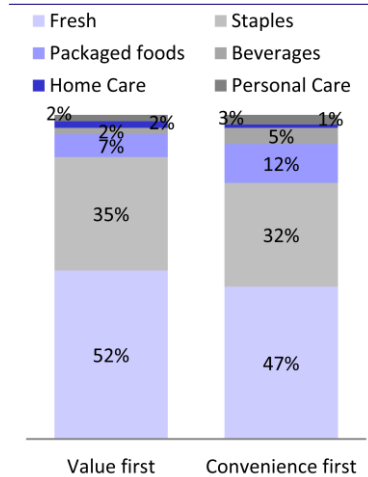
chain. But the path to scale and profitability, with multiple levers and a stronger balance sheet, is now becoming clearer for e-Grocers. These players have started targeting bulk purchase to leverage cost, limit assortment (thus aiding inventory control), pushing margin accretive private labels, saving acquisition cost due to customer stickiness, and charging delivery cost below a threshold of AOV (average order value), thus creating a favorable equation of higher gross margins and reducing cost/order. Our channel checks suggest Big Basket and Grofers have taken a more rational approach, pushing 30-40% private labels in the overall mix, higher AOV, and limiting discounts, which has led to the recent improvement in profitability. The one-year old JioMart has kept delivery free without any minimum AOV threshold, while Flipkart/Amazon has targeted a wider network of cities to push revenue growth. In terms of price competitiveness, JioMart is the lowest price player, followed by DMart Ready. Our app visit analytics suggest that JioMart/Big Basket/Grofers enjoys higher app visits, while Dunzo/JioMart enjoys the lowest bounce rate, implying more page visits.

Multiple players with varied models taking a shot

Multiple platforms are disrupting the grocery space with innovative models. These are: a) e-Grocery specialists, along with early morning meat and dairy specialists that enjoy higher customer recall, b) market place players leveraging deep customer analytics and offering quick deliveries to a wide network of locations, and c) offline retailers who have started venturing into omnichannel offerings in select locations. These retailers operate through differentiated models to achieve scale and profitability: a) inventory model, which allows them to control the quality and price, but has higher logistics cost, b) hyperlocal model, which is increasingly seeing higher acceptance by many e-grocers, with back-end inventory control to address faster turnaround and logistics cost, and c) hybrid model that leverages their own stores to provide a smoother last-mile delivery. With increasing scale, we see a foolproof integrated approach, which will enhance profitability.

Brick and mortar stores have a cost advantage, but consumer convenience will soon compel them

The fear of online grocery retailers is turning real as a majority of e-Grocery growth has predominantly come from regions, which is the key market of modern retailers. Offline retailers presently hold an edge due to varied factors like DMart's ownership model and cost competency. Rent though 5-7% of sales, makes up nearly one-third of gross margin. Despite the high capital intensive model, it creates a strong cost competency, which drives productivity and scale. Similarly, Reliance Retail's edge lies in its deep store network, its evolving hyperlocal model, and backward integrated B2B Grocery model, which, when combined, could certainly provide a logistics edge. However, our case study explains on e-Grocers explains higher private labels, lower customer acquisition, supply chain and marketing cost has enabled them to turn profitable. As the customer is gradually being habituated to online grocery shopping, it is imperative to build an omnichannel network to ensure business continues to meet customer requirements.

e-Grocery addressable wallet by category

Source: RedSeer report

Valuation and view**DMart**

We expect DMart to deliver FY20-23E revenue/EBITDA CAGR of 23%/21%, factoring in -5%/50% SSSG (two-year SSG over the low base of FY21) and 30/40 store additions in FY22E/FY23E. Its continued cost/price competitiveness should hold the company in good stead. However, a) growing scale of Online retailers, and b) potential moderation in growth and return profile may restrict a re-rating. We value DMart at a 20% discount to its three-year average EV/EBITDA multiple of 58x on a FY23E basis, valuing it at INR2,850, implying a 8% downside. Retain Neutral.

Reliance Retail Ventures (RRVL)

RRVL has maintained its strong performance in the last five years. The recent fund raise of INR377b would further strengthen its physical and online presence. We expect 19% revenue/EBITDA CAGR each over FY20-23E to touch INR2.2t/INR166b by FY23E. We value the company on a SoTP basis, valuing its core business at 31x FY23E EV/EBITDA and connectivity business at 4x FY23E EV/EBITDA to arrive at our TP of INR745, implying INR670 (for its 90% stake). Our premium valuation multiple captures the opportunity for rapid expansion in its Retail business and the aggressive rollout of the JioMart platform.

Story in Charts

Exhibit 1: Modern Retail/Online to contribute 7.3%/2.8% of total F&G market in CY25E

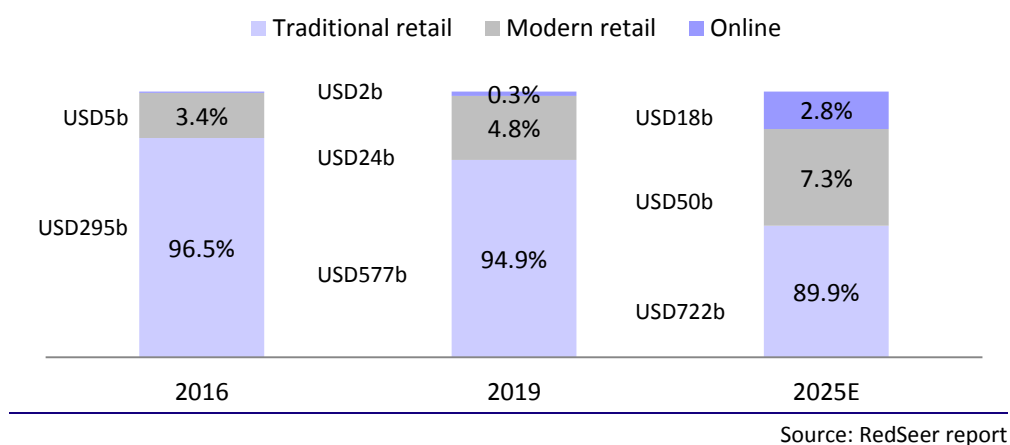


Exhibit 2: Key formats in Organized Retail stores

Format	Hypermarkets	Hybrid supermarkets	Modern convenience stores
Average store size	❖ 30,000-60,000 sq. ft.	❖ 10,000-25,000 sq. ft.	❖ 1,500-3,000 sq. ft.
Focus category mix	❖ F&G: 30-35% Non-Food FMCG: 15-20% General merchandise: 10-14% Apparel: 20-25% Furniture and Furnishing: 2-6%	❖ F&G: 45-50% Non-Food FMCG: 20-25% General merchandise: 10-15% Others: 10-25%	❖ F&G: 65-70% Non-Food FMCG: 20-25% General merchandise: 5-10%
Key differentiating factors	❖ Destination format for planned visits ❖ Emphasis on shopping experience and a wide variety of products	❖ Smaller than hypermarkets in terms of retail space and category mix	❖ Similar to supermarkets, but the focus is more on fast moving products with emphasis on neighborhood requirements ❖ Have low inventory levels as compared to supermarkets
Key players	❖ Big Bazaar, Spencer's, etc.	❖ DMart, Q Mart, Spencer's, Star, Reliance Fresh, Food Bazaar, etc.	❖ Easy Day, Heritage, Nilgiris, M.K. Retail, Ratandeep and other regional players

Source: MOFSL

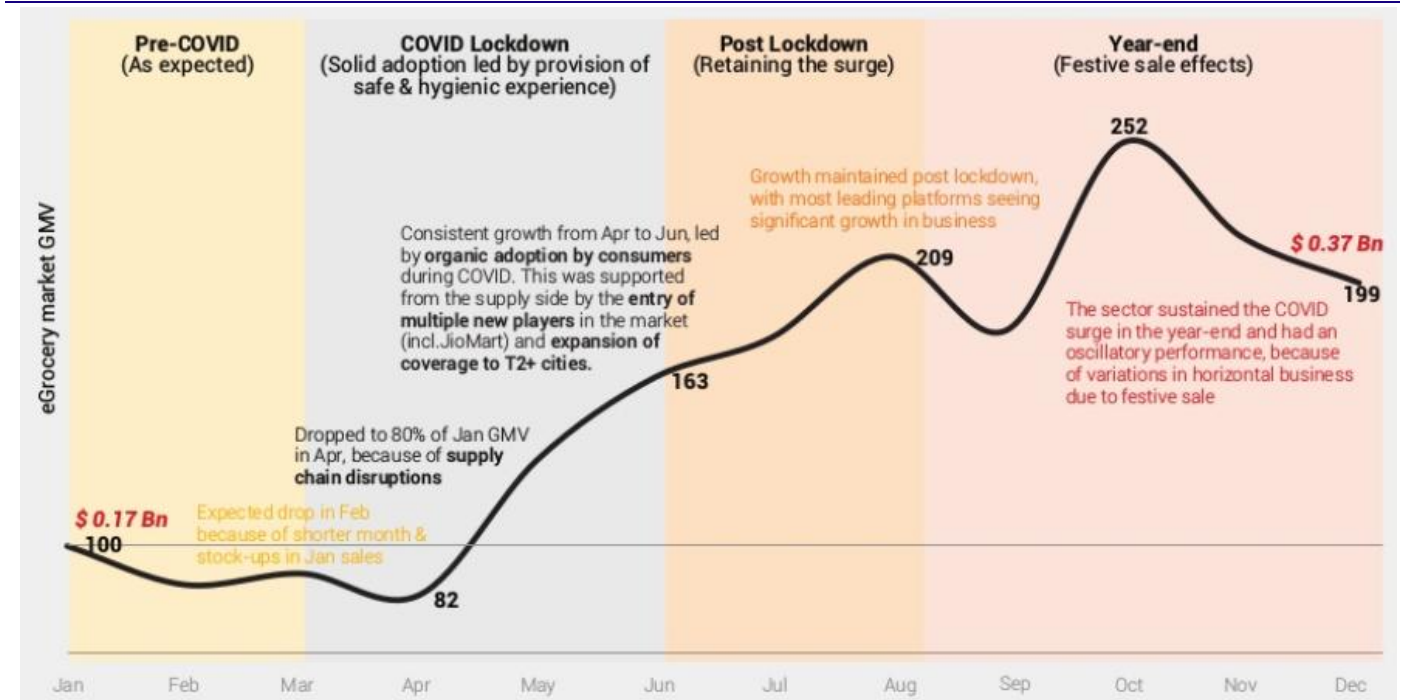
Exhibit 3: e-Grocery household segment details

Particulars	Value first households	Convenience first households
Average annual income (USD)	7,000	16,000
Key grocery purchase priorities	Lowest prices Discounts Cash backs/offers Sale events Good returns/exchange policy Quality/hygiene	Wide assortment/variety of options Availability of desired products in one place Emergency/unplanned needs Low waiting time Quality/hygiene Exotic options Customer support service
Purchase behavior	Buy groceries in bulk and at times defer purchases to get best-priced products	Prefer to top up basket as per needs, and purchase from places where desired assortment is available without any hassle

Source: RedSeer report

Story in Charts

Exhibit 4: e-Grocery market trend in CY20



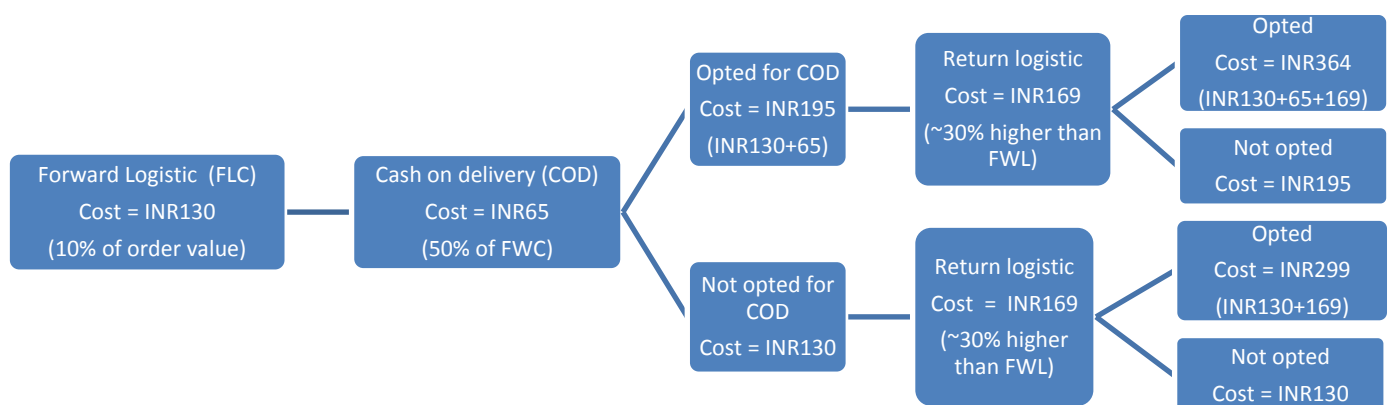
Source: RedSeer report

Exhibit 5: App traction of e-Grocery players

Company	Visits in Mar'21 (m)	Average visit duration	Pages per visit	Bounce rate
Big Basket	7.15	3.22	4.99	64.2%
Grofers	1.85	4.22	5.44	53.5%
JioMart	7.8	2.09	8.36	42.1%
Supr Daily	0.1	4.01	3.72	62.6%
Licious	0.89	2.52	4.01	54.8%
Dunzo	0.3	4.01	4.79	46.4%
Nature's Basket	0.25	2.35	2.88	59.5%

Source: Similarweb, MOFSL

Exhibit 6: Detailed working on logistic cost (assuming AOV OF INR1,300)



Source: e-commerce retail logistics – May'18, MOFSL

Evolving models for Grocery retailing

Huge opportunity to scale up

e-commerce market to exceed USD18b in CY24E

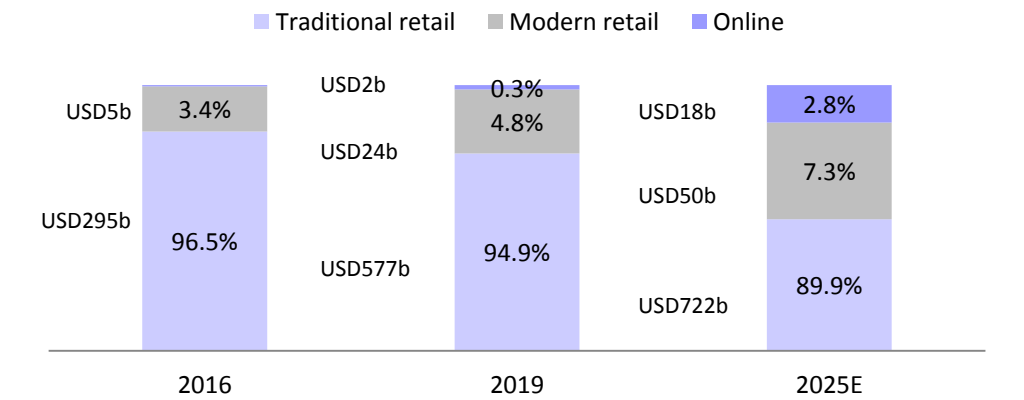
The USD600b Indian Food and Grocery (F&G) retailing market has historically seen limited (a mere 1%) penetration from e-commerce players in India. This is in line with global markets like China/the UK/the US, which also have single-digit e-commerce contribution (a mere 6%/8%/4%). The e-commerce market in most other retail categories like Consumer Durables, Mobile Phones, and even Fashion and Lifestyle has grown exponentially. In the last few years, given the scale of the market opportunity and low base, Online Grocery players have adopted innovative models to penetrate the F&G market. This has resulted in the Online F&G market growing 30x in the last 7-8 years to ~USD3b in FY20. Seen differently, the combined revenue of Online F&G players (viz. Big Basket, Grofers, JioMart, Amazon, and Flipkart) has become the third largest Modern Retail player (~INR3b in FY20) after DMart and RRVL. The same is expected to grow by 59% CAGR over CY19-24E to USD18b.

Modern Retail v/s e-commerce scale

The first wave of disruption in the traditional Grocery space was led by Modern Retail. But despite its evolution since the last two decades, it is merely 5% of total Grocery spends in India. Contrary to this, the same in US/UK/China stands at 92%/94%/57% of the total F&G market. This is because Modern Retail has predominantly grown in metro and Tier I cities because of multiple operational challenges like higher operating cost, lower gross margin, lack of skilled manpower, regional/local limitation, and the mighty scale of India's Grocery Retail market.

Overall market size

The Indian F&G retailing market (estimated to be 60-65% of the total Retail market) has seen strong interest from domestic and global players in recent times. Growing at ~12% CAGR over the last 8-10 years, the market has been historically dominated by the traditional retail channel, which constitutes 96% of the market. Organized retail has grown at 31% CAGR to USD24b, with just 4% penetration, offering huge scope to large Modern Retail and online players. Over the next 4-5 years, Modern/Online Retail is expected to garner 16%/59% CAGR to USD50b/USD18b, increasing its share to 8-9% of the total F&G market.

Exhibit 7: Modern Retail/Online to contribute 7.3%/2.8% of total F&G market in CY25E

Exhibit 8: Key formats in Organized Retail stores

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Key differentiating factors	❖ Destination format for planned visits ❖ Emphasis on shopping experience and a wide variety of products	❖ Smaller than hypermarkets in terms of retail space and category mix	❖ Similar to supermarkets, but the focus is more on fast moving products with emphasis on neighborhood requirements ❖ Have low inventory levels as compared to supermarkets
Key players	❖ Big Bazaar, Spencer's, etc.	❖ DMart, Q Mart, Spencer's, Star, Reliance Fresh, Food Bazaar, etc.	❖ Easy Day, Heritage, Nilgiris, M.K. Retail, Ratandeep and other regional players

Source: MOFSL

Exhibit 9: Region-wise presence of RRVL's stores

Geographic Region	Grocery stores
North	108
South	337
West	261
East	91
Total	797

Source: Company

Exhibit 10: Scale of Modern Grocery retailers

Company	Stores	Presence in cities
RRVL	797	Over 180
DMart	234	70
FRL (acquired by RRVL)	1350	400
Spencer's Retail (including Nature's Basket)	191	42
Star Bazaar	57	7

Source: Media articles, company

Exhibit 11: Scale of operations of e-Grocery players

	Big Basket		Grofers		DMart Ready			JioMart	Amazon Pantry
Particulars	FY19	FY21E	FY19	FY21E	FY19	FY20	FY21E	FY21E	FY21E
Revenue (INR m)	23,810	1,19,005	836	99,645	1,436	3,540		59,400	
Number of cities		35		27			Five (220 delivery points)	200	300
Average basket size (INR)		1,482		1,820				550	
Daily orders ('000s)		220		150				400	150
App downloads (m)		26		23			Over five	Over 10	

Source: Media articles, company, MOFSL

Exhibit 12: Online penetration in the Grocery segment globally

Countries	Online penetration
India	0.3%
China	6%
UK	4%
US	8%

Source: RedSeer report

An opportunity of 130m households

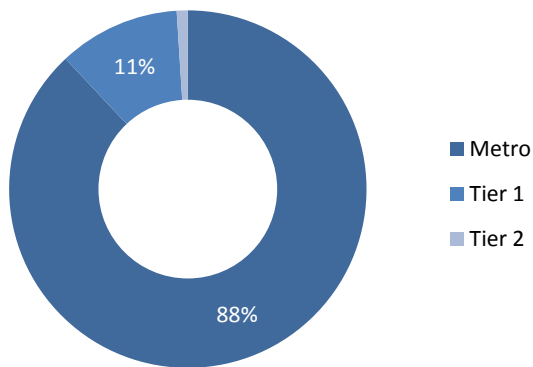
Out of 670m internet users in India, 400m use the internet actively (social media and search engines). About 75% of active internet users are estimated to have transacted online for service/products that translates into 154m online transacting households in India in CY20. This has a potential to reach 233m by CY25, led by internet penetration and increase in online transactions. Of these 154m, 130m have already used e-Grocery platforms, or were aware/willing to try e-Grocery platforms, creating an addressable market of USD293b against the current Online market size of a mere USD3b. At present, majority of the e-Grocery market is concentrated in metro/Tier I cities. However, nearly 55% of the addressable market lies in over Tier II cities, which could expand to 61% in CY25.

Value v/s convenience buyer

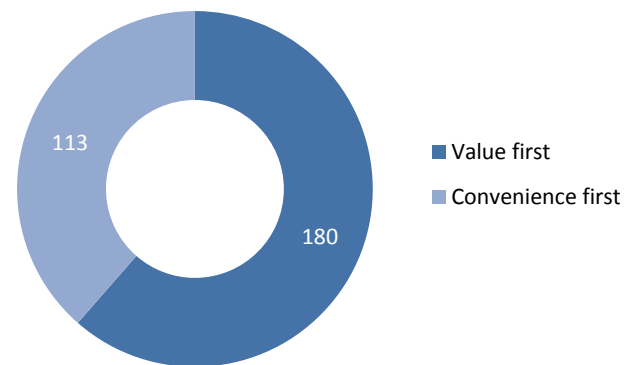
e-Grocery households can be categorized as: a) value first, or b) convenience first customers. Value first customers are conscious about pricing, discounts, and return/exchange policies, while convenience first customers seek a wider product basket in one place, lesser crowds/waiting time, and product quality/assortment. In India, a much larger (65%) quantum of the e-Grocery addressable households are value first. These value first households have lower income and therefore cannot prioritize wider/exotic assortment and faster access. Hence, they prioritize, best priced products under discount, cash back offers, and sales, even if there is limited variety, longer waiting time, or an inconvenient experience.

Value first retailers have favorable unit economics

The huge addressable market underscores the opportunity, but it is difficult to run a profitable operation sustainably, given the lower margin and high fixed cost nature of the business. Convenience first customers typically generate higher margin given their tendency to shop for higher-priced products, but they increase the cost of doing business due to their requirement of wider product SKUs/basket, limited crowding/waiting time, and better product quality/assortment. Against this, most of the determinants of profitability – bulk purchase, assortment, private labels, delivery cost, and stickiness – are in favor of value first households when compared with convenience first households. Hence, the unit economics of serving a value first household are very promising. An e-Grocery platform serving the value first household could lose out on gross margin, given their nature of spending on low price products, but it could offset the impact by: a) increasing share of private labels, b) significant savings owing to an efficient supply chain as they are mostly reliant on scheduled deliveries, and c) leverage costs with higher AOVs. The value first addressable market should grow faster than the convenience first market over the next five years.

Exhibit 13: Majority of Online sales are from the metros (%)

Source: RedSeer and Big Basket

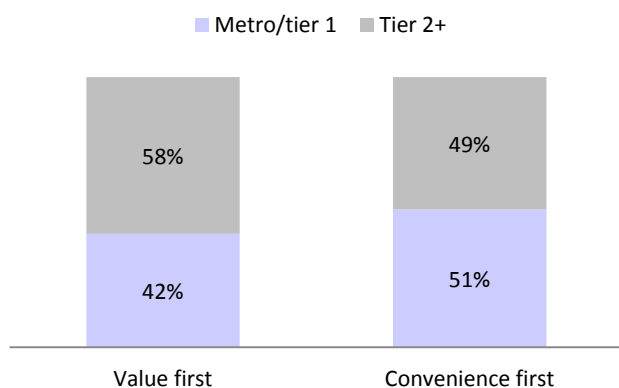
Exhibit 14: About 61% of the addressable wallet are from value first customers (total: USD293b)

Source: RedSeer

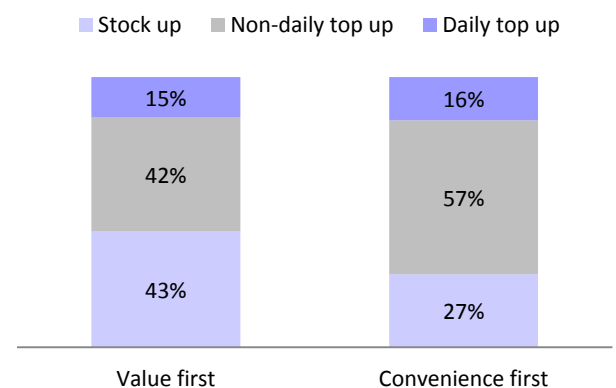
Exhibit 15: e-Grocery household segment details

Particulars	Value first households	Convenience first households
Average annual income (USD)	7,000	16,000
Key grocery purchase priorities	Lowest prices	Wide assortment/variety of options
	Discounts	Availability of desired products in one place
	Cash backs/offers	Emergency/unplanned needs
	Sale events	Low waiting time
	Good returns/exchange policy	Quality/hygiene
	Quality/hygiene	Exotic options
Purchase behavior	Buy groceries in bulk and at times defer purchases to get best-priced products	Customer support service
		Prefer to top up basket as per needs, and purchase from places where desired assortment is available without any hassle

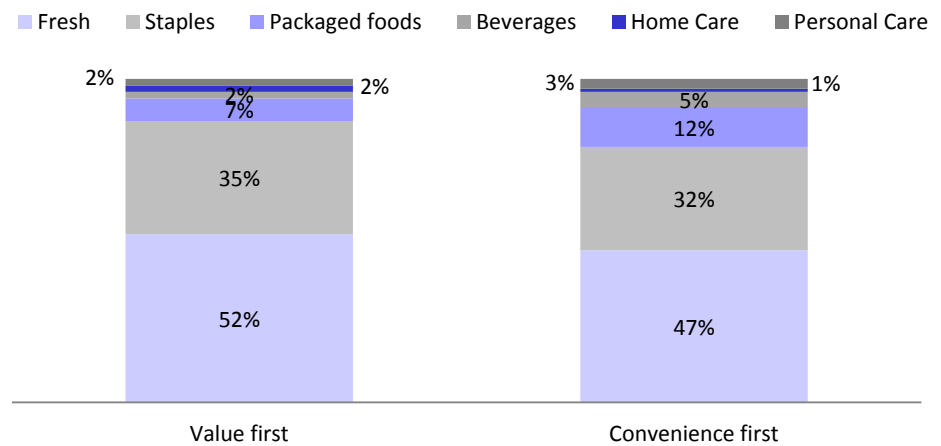
Source: RedSeer report

Exhibit 16: e-Grocery addressable wallet by city type

Source: RedSeer report

Exhibit 17: e-Grocery addressable wallet by basket type

Source: RedSeer report

Exhibit 18: e-Grocery addressable wallet by category

Source: RedSeer report

Exhibit 19: Profiles of value first customers

Particulars	Housewife-led family	Traditional budget conscious family	Young bachelors
Cohort (%)	50%	35%	15%
Age group	25-40	35-50	21-30
Annual household income	INR0.6-0.8m	INR0.4-0.8m	INR0.3-0.6m
Household size	3-5	3-5	1-3 (bachelors)
Living setup	Married couple with young kids, with or without parents	Married couple with parents, with or without grown up kids	Alone/flatmates
Cooking ownership	Self	Self	Maid

Source: RedSeer report

Exhibit 20: Profiles of convenience first customers

Particulars	Quality seekers	Affluent foodies	Young busy couples
Cohort (%)	58%	22%	20%
Age group	30-40	Over 35	25-35
Annual household income	INR1.2-1.4m	Over INR1.4m	INR0.9-1.2m
Household size	3-5	4-6	2
Living setup	Married couple with young kids, with or without parents	Married couple with parents, with or without grownup kids	Married couple without kids
Cooking ownership	Maid + self	Maid + self	Maid

Source: RedSeer report

Exhibit 21: e-Grocery household: Attribute comparison and impact on profitability

Particulars	Value first households	Convenience first households	Impact on profitability
Demand for lower price/high discounts	High	Moderate	Discounts reduce net income
Bulk purchase behavior	High	Moderate	Bulk purchase increase AOV, which reduce fulfillment cost/order
Assortment need	Limited	Very wide	Limited assortment offers a better ability to negotiate margins with brands
Private label openness	High	Moderate	Private labels provide a high gross margin
Fast delivery demand	Low	High	Low fulfillment cost in scheduled delivery v/s on demand
Stickiness to one platform	Moderate - high	Moderate - high	High stickiness reduced marketing spend

Source: RedSeer report

Exhibit 22: Comparison of unit economics by household type and impact on profitability

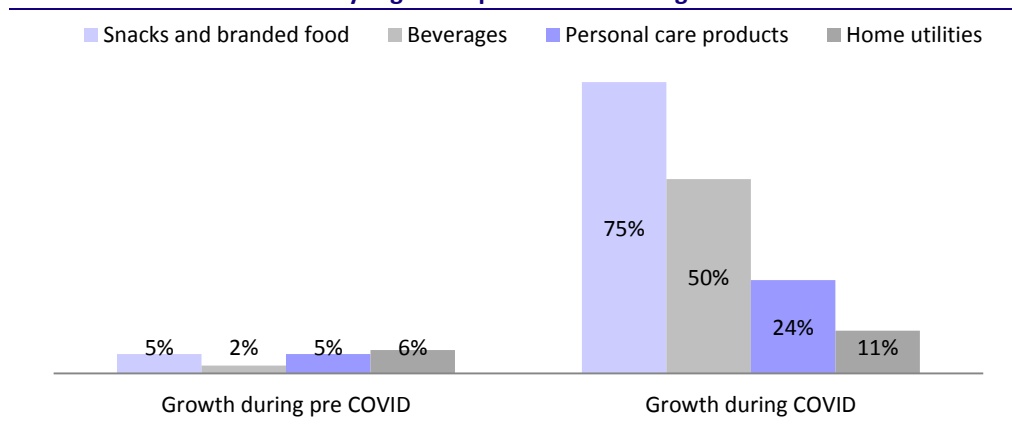
Particulars	Value first households	Convenience first households	Impact on profitability
Commission/margins	15%	22%	High margins obtained from private labels are passed on to value first households, which reduces margin
Cashback	(-) 2%	(-) 2%	Both households are interested in discounts rather than cashbacks
Supply chain cost	(-) 10%	(-) 20%	Supply chain cost is high in the case of convenience first households due to on demand delivery with low AOVs
Payment gateway cost	(-) 1.5%	(-) 1.5%	Varies by platform
Marketing expense	(-) 4%	(-) 4%	Varies by platform
Contribution margins	(-) 2.5%	(-) 5.5%	

Source: RedSeer report

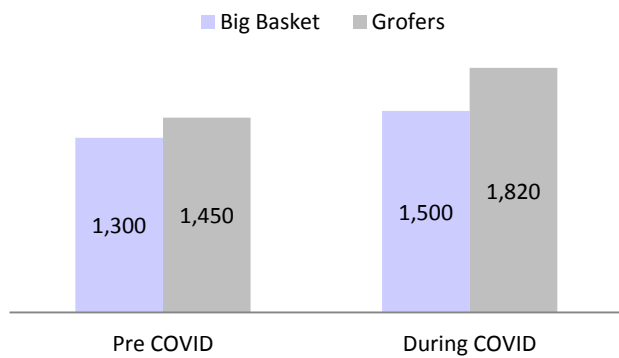
COVID-19 boosted Online Grocery sales

The COVID-19 led nationwide lockdown provided a much needed boost to Online Grocery sales. It did to e-grocers what demonetization did for online payment platforms. During the peak of COVID-19 in 2QCY20, panic led stocking by first-time shoppers drove AOVs. The market reached 1.6x of Jan'20 GMV in Jun'20 and exited CY20 with almost 2x Jan'20 GMV, largely sustaining the surge seen during the lockdown. During this time, Big Basket/Grofers witnessed 4x/3x daily orders of pre-COVID times at 300k/190k. AOV saw a 15%/25% jump to INR1,500/INR1,820. Players saw higher customer retention, which shifted the base upwards in average daily orders for Big Basket/Grofers to 220k/150k. A number of new players entered the e-Grocery space during the ensuing COVID-led lockdown in CY20. For instance, Swiggy and Dunzo expanded into e-Grocery and JioMart launched its e-Grocery business in May'20. Amazon Pantry expanded to over 300 cities in Jun'20. This has widened the reach of e-Grocery players.

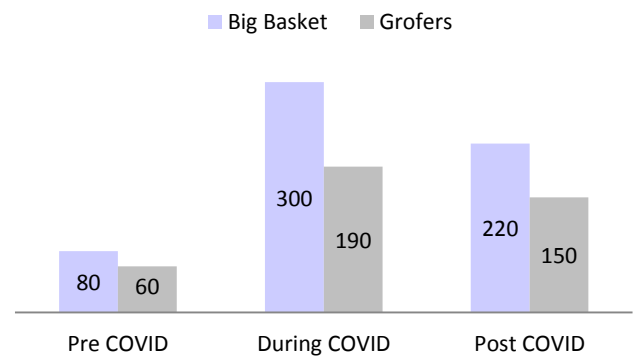
e-Grocery players registered enormous growth in comfort/health food and hygiene products owing to the shift in consumer preference to a healthy lifestyle. The Snacks and Branded Food segment registered 75% QoQ growth in 2QCY20 v/s 5% prior to the COVID-19 outbreak. Within this, Biscuits and Cookies grew the highest. Similarly, Beverages, mainly Tea and Fruit Juice, witnessed 50% growth in same period v/s 2% prior to COVID-19 outbreak. Even Personal Care Products/Home Utilities grew 24%/11% v/s 5%/6% prior to COVID-19 outbreak.

Exhibit 23: Growth in e-Grocery segments prior to and during COVID-19

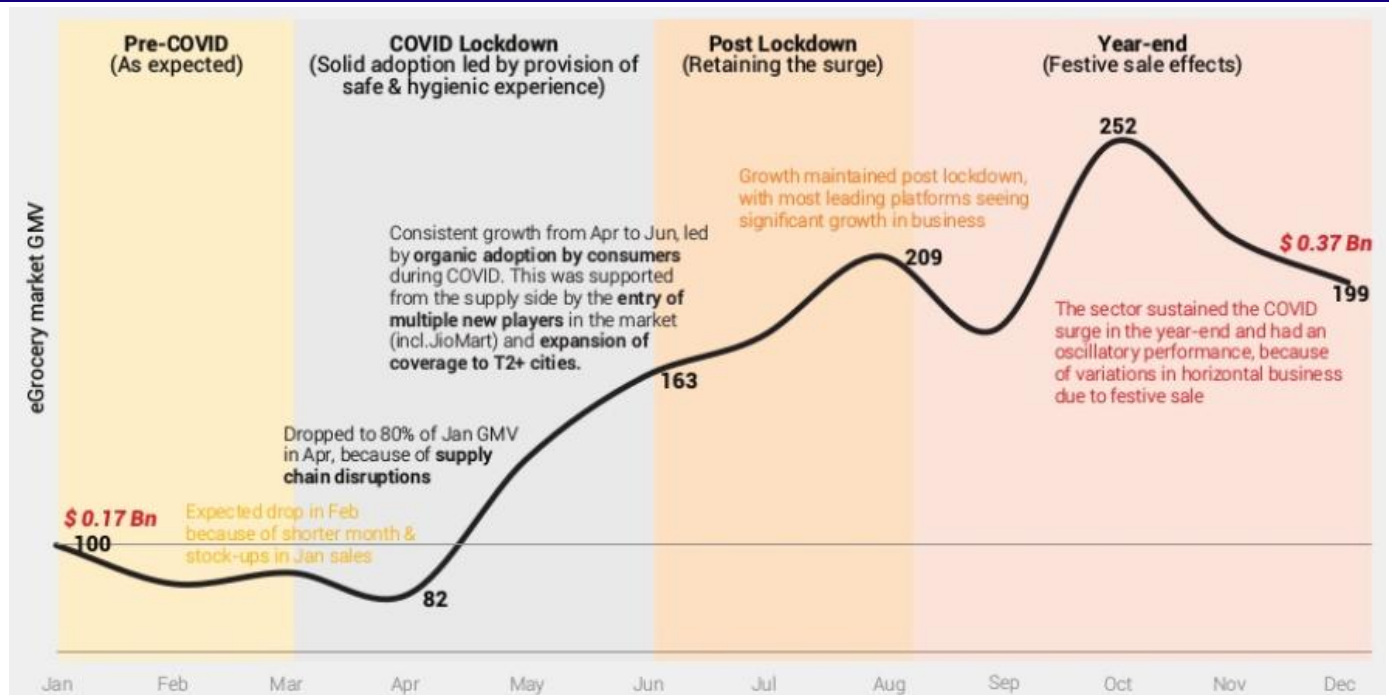
Source: Media articles, MOFSL

Exhibit 24: Average daily orders (INR) on Big Basket/Grofers

Source: Media articles, MOFSL

Exhibit 25: Daily order trend (k) on Big Basket/Grofers

Source: Media articles, MOFSL

Exhibit 26: e-Grocery market trend in CY20

Source: RedSeer report

Competitive landscape

In order to tap the huge potential in the market and attract customers, multiple new players have ramped up their Online Grocery business. The competitive intensity has increased rapidly in recent times. Players are competing on two counts – pricing (discount on delivery charges) and convenience (flexible delivery time, wider product assortment, and delivery locations).

- **Product pricing:** Our channel checks indicate that JioMart is the lowest price player, followed by DMart Ready – JioMart/DMart price points are 9%/4% lower than Big Basket. For Staples and Food products, price points are 11%/8% lower. In the case of HPC products, prices are 6% lower for JioMart, while other players are offering similar prices. JioMart typically maintains a 7% off on MRP. On the other hand, Big Basket's product offering is at the highest level, which is understandable as it caters to high-end customers in metros/Tier 1 cities, with a wider product assortment and new categories, some of which are scarcely available on other player's shelves.
- **Delivery charge/time:** Online Grocery players incur higher logistic cost, which is traditionally passed on to customers for AOVs below a certain threshold. To accelerate growth, Big Basket has initiated free delivery above INR1,200 AOV, while Grofers/Amazon has a minimum order requirement of INR500/INR799. DMart offers pick up points – 'DMart Ready stores' – for free delivery, with a minimum threshold of INR1,000, while it charges 3% of the order value, or INR49 (whichever is higher), for home delivery. JioMart has the most aggressive promotion, offering free delivery without any minimum delivery requirement to boost the number of orders. In addition to delivery charges, players are offering flexibility in delivery timelines to customers to attract convenience conscious customers (viz., standard delivery and delivery in 1-2 days) and charge a premium accordingly to increase profits.
- **Product offerings:** Players are offering various product categories to cater to various kind of customers. Value players keep smaller SKUs with lower margins. On the other hand, convenience focused players keep wider SKUs that offers higher margins. As per our analysis, Big Basket has the widest SKUs, followed by Grofers and Amazon – Big Basket/Grofers offer the widest product categories that include eggs, chicken and meat products, and pet care products. Players are leveraging private labels to create unique products and to increase repeat purchases. New players, catering to niche product markets, are emerging such as Licious that offers only chicken, meat, and egg products, while Milkbasket and Supr Daily offers fixed morning deliveries of only dairy and bakery products.
- **Delivery locations:** To increase the scale of operations, players are looking to expand their serviceable areas to Tier II/III cities, which have limited penetration in the e-Grocery market. Marketplace players like Amazon/Flipkart are enjoying a competitive edge as they could leverage their e-commerce capabilities to service more areas. Apart from these, JioMart could also leverage its higher physical presence to significantly increase its serviceable areas. Big Basket/Grofers are present in comparatively lower numbers in metro/Tier I cities, while DMart has restricted its online presence to a few metro cities, with limited serviceable areas.

Exhibit 27: Product pricing of e-Grocery players (INR)

Food products	Quantity	JioMart	DMart Ready	Big Basket	Grofers	Amazon Pantry
Ashirwad Atta	10kg	369	369	369	369	394
Fortune Sunflower Oil	1ltr	799	825	871	821	819
Saffola Gold cooking oil	1ltr	151	145	155	139	122
Dawaat Biryani Basmati	1kg	165	165	179	165	170
Devaaya rice	5kg	399	375	463	399	386
India Gate Classic basmati	5kg	859	942	1,041	899	875
Toor dal (private label)	1kg	114	114	125	125	118
Masoor dal (private label)	500gm	47	48	56	56	55
Amul Cow Ghee pouch	1ltr	450	465	500	482	500
Amul Ghee pouch	1ltr	434	450	485	462	450
Gowardhan ghee Jar	1ltr	495	495	521	531	537
Branded Sugar	1kg	47	47	47	47	52
Amul Taaza tetra pack	1ltr	61	61	63	64	64
Brooke Bond Red Label	500gm	244	244	290	270	265
Tropicana Orange Juice	1ltr	73	79	95	110	120
Bournvita	750gm	255	265	269	287	286
Amul butter	500gm	225	225	235	230	225
Haldiram bhujia	1kg	168	170	214	170	215
Parle - G	800gm pack	59	62	59	69	59
Total		5,414	5,546	6,037	5,695	5,712
Surf Excel Easy Wash	4kg	355	399	462	366	390
Rin Detergent Powder	7kg	480	455	485	434	454
Arial Front Load	4kg	825	1015	825	900	1045
Vim Dishwash bar	200g (Pack of three)	39	42	39	39	35
Lux soap	3*150g	89	94	97	97	102
Dove Soap	3*100g	115	129	101	140	125
Pears Pure and Gentle soap	3*125	103	112	138	140	123
Clinic Plus Long and Health Shampoo	340ml	179	131	175	152	143
Head & Shoulder Cool Menthol shampoo	650ml	389	415	438	456	377
Parachute hair oil	1ltr	360	349	323	430	323
Bajaj Almond drops hair oil	500ml	243	262	246	238	246
Harpic Plus toilet cleaner	1ltr	148	157	153	152	156
Lizol Lavender floor cleaner	975ml	165	165	178	179	161
Colgate Dental Cream	500g	177	177	184	158	158
Colgate Max Fresh	300g	109	109	145	145	147
Total		3,776	4,011	3,989	4,026	3,985
Grand Total		9,190	9,557	10,026	9,721	9,697

Source: Company, MOFSL

Exhibit 28: Delivery charge of e-Grocery players

Company	Price range	Delivery charges
Big Basket	Over 1,200	0
	600-1199	30-35
	Less than 600	50
Grofers	Over 250	0
	Less than 250	49
DMart Ready	Minimum order is INR1,000. Free at DMart Ready pick up points. Home delivery is chargeable at INR49, or 3% of the order value, whichever is higher	
JioMart		0
Amazon Pantry	Over 799	0
	Less than 799	59

Source: Company, MOFSL

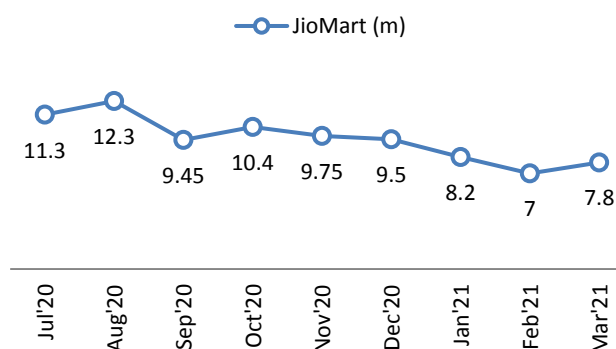
Exhibit 29: Product offerings of e-Grocery players

	Jio Mart	DMart Ready	Big Basket	Grofers	Amazon
Fruits and Vegetables	Y	Y	Y	Y	Y
Dairy and Bakery	Y	Y	Y	Y	Y
Staples	Y	Y	Y	Y	Y
Packaged Foods	Y	Y	Y	Y	Y
Beverages	Y	Y	Y	Y	Y
Personal Care	Y	Y	Y	Y	Y
Home Care	Y	Y	Y	Y	Y
Baby Care	Y	Y	Y	Y	Y
Kitchen Ware	Y	Y	Y	Y	Y
Eggs	N	N	Y	Y	Y
Chicken, Meat, and Fish	N	N	Y	Y	N
Pet Care	N	N	Y	Y	Y

Source: Company, MOFSL

App visit analytics: JioMart garners better traction

To gauge customer adoption of e-Grocery apps, we mapped the traction of apps from Similarweb. Monthly data from Jul'20 to Mar'21 shows that app visits have been lower from Jul'20 as the economy opened up with the lifting of the nationwide lockdown, but it still remains strong. JioMart/Big Basket/Grofers enjoy higher app visits owing to their higher popularity and wider presence, while other apps garnered lower visits due to lesser serviceable areas and niche product offerings. Grofers/Dunzo garnered the highest average duration per visit; while Dunzo/JioMart enjoyed the lowest bounce rate, implying longer stays or more page visits on the app.

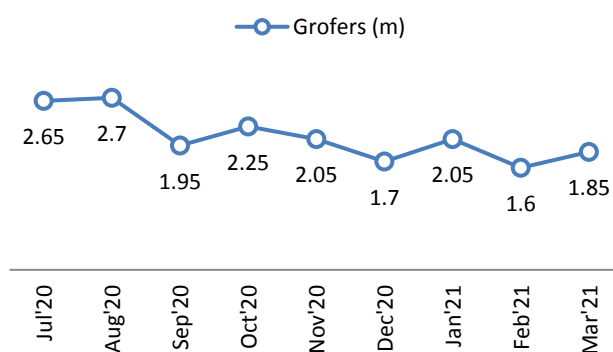
Exhibit 30: App visit trend on JioMart

Source: Similarweb, MOFSL

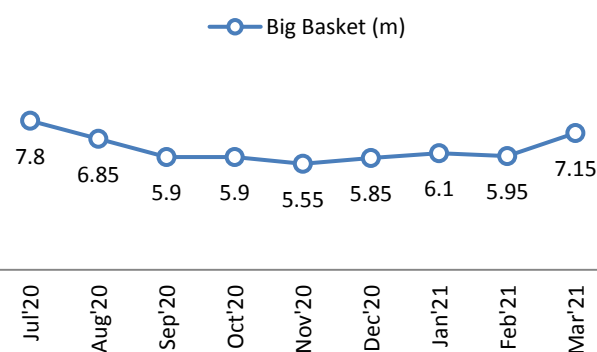
Exhibit 31: App traction of e-Grocery players

Company	Visits in Mar'21 (m)	Average visit duration	Pages per visit	Bounce rate
Big Basket	7.15	3.22	4.99	64.2%
Grofers	1.85	4.22	5.44	53.5%
JioMart	7.8	2.09	8.36	42.1%
Supr Daily	0.1	4.01	3.72	62.6%
Licious	0.89	2.52	4.01	54.8%
Dunzo	0.3	4.01	4.79	46.4%
Nature's Basket	0.25	2.35	2.88	59.5%

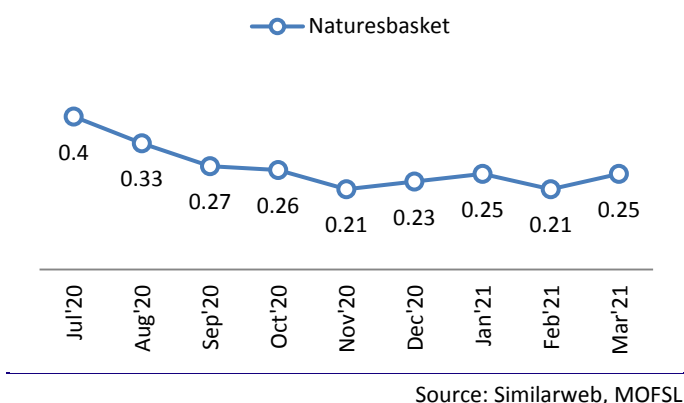
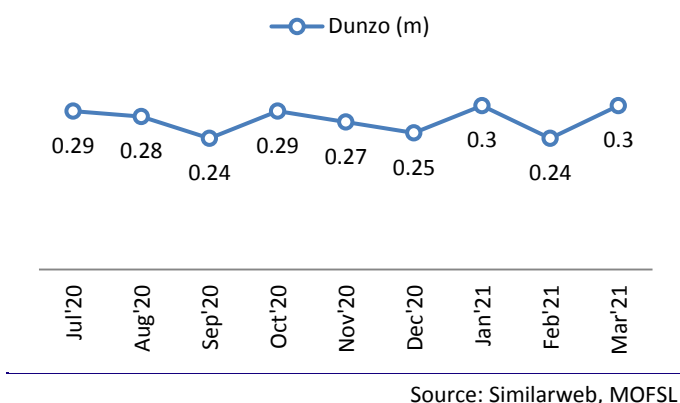
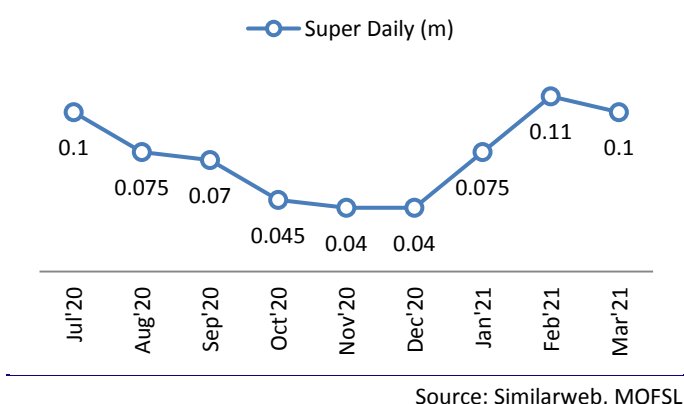
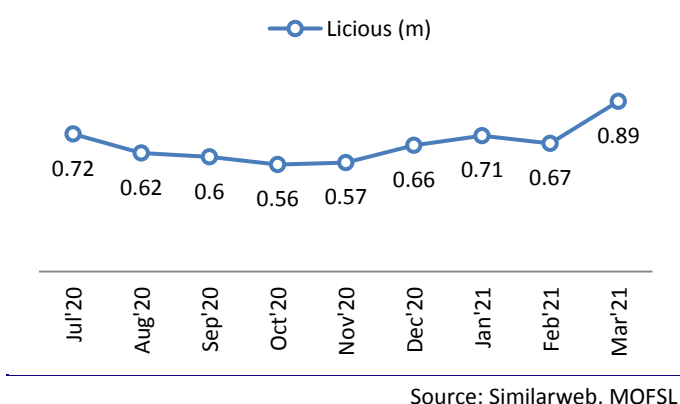
Source: Similarweb, MOFSL

Exhibit 32: Grofers' app visit trend

Source: Similarweb, MOFSL

Exhibit 33: Big Basket's app visit trend (k)

Source: Similarweb, MOFSL

Exhibit 34: App visit trend for Nature's Basket**Exhibit 35: Dunzo's app visit trend (k)****Exhibit 36: Supr Daily' app visit trend****Exhibit 37: Licious' app visit trend (k)**

Deep pocket players could change the industry standing

Despite its huge market potential, the e-Grocery space is getting crowded, as new players with different operating models are entering this space. Currently, Big Basket and Grofers are enjoying the highest market share. However, this could change given the increased focus of e-commerce giants like Amazon/Flipkart in this space and the recent entry of Indian Retail giant RRVL. Though Amazon/Flipkart/RRVL are new to the e-Grocery business, they have already ramped up significantly on the back of aggressive offerings, offline/online network, and sufficient funds to bear losses in the near term.

RRVL, Amazon, Flipkart committed big money

RRVL has recently committed INR247b to acquire the retail assets of the Future group, which would significantly enhance its Retail presence. This would increase its Retail Grocery presence to 2,150 stores from 797 in FY20. Amazon, the US e-commerce giant, had invested USD6.5b in the Indian e-commerce market and is currently increasing its focus on e-Grocery space, given its huge potential and higher customer stickiness. Another US retail giant Walmart acquired 77% stake in Flipkart, an Indian e-commerce player, for USD16b, and announced an investment of USD2b in the Indian e-commerce market. Apart from these investments, these players have enough funds to infuse additional capital in the Indian market. RRVL has recently sold 10% stake for ~INR470b and could raise further capital by selling additional stakes. Amazon India's US parent can infuse additional capital required to gain share, while Flipkart's parent Walmart could infuse internal capital or could

potentially look to list the company to garner additional funds. Given the huge growth potential in the Grocery space and increasing interest of foreign players in the Indian Grocery market, there is a place for different players with innovative models and consolidation is still far away.

Challenges in Online Grocery retailing

The e-Grocery Retail business faces three key challenges: a) low margin, b) higher logistics cost, and c) complex inventory and supply chain management at both the buyer and seller end. The wafer-thin margin of the business, along with a vast number of SKUs and perishable nature of the inventory, makes it difficult to manage operations. This is further aggravated due to the need to fulfill the quick delivery requirement of customers, while bearing the higher logistics cost of the business. Diverse eating habits and preferences across different regions/states in India, increases inventory and supply chain woes.

Food Delivery v/s e-Grocery delivery

In comparison to the food delivery business, where margins/AOV are high and the product size is compact, which ensures lower logistics costs, Online grocery players are burdened with lower margins and higher logistics costs owing to lower AOV and bulky order quantity (for the same price as in food delivery). Further, food delivery does not offer a return option, thus saving on reverse pick up cost, which is ~10% of the order value. The target consumer availing Food Delivery is from a relatively higher income bracket and is willing to pay for delivery, whereas the value first e-Grocery shopper would prefer online v/s offline Grocery, largely due to pricing instead of convenience.

Traditional FMCG v/s e-Grocery logistic cost

To understand the difference between distribution cost in the traditional FMCG business and e-commerce logistic costs, we have compared the distribution margin of large FMCG players with the logistics cost of online grocery players. Our workings indicate that distribution/retailing margin in the traditional FMCG business is ~15% and it could be higher for some smaller and premium products. Discounts and promotional offers provided by companies to distributors/wholesalers is ~5%. So, the overall margin, after the company's cost of product development, is largely ~20%. Against this, the logistic costs borne by e-Grocery players is 20-28% of the order value, which leaves limited room for profitability.

Exhibit 38: Hindustan Unilever's margin distribution

HUVR (Jun'20)	Soap	Lux soap	Detergent	Surf Excel	Skin Care	Fair & Lovely
Largest selling SKU	%	INR10 SKU	%	INR10 SKU	%	INR54 SKU
MRP		10.00		10.00		54.00
Cost to retailer	8	9.25	8	9.25	8	49.90
Promotions and schemes (%)	3% on an average	N.A.	3% on an average	N.A.	5% on an average	N.A.
Cost to distributors	5	8.77	5	8.77	7	46.53
Promotions and schemes (%)	Changes	0.00	Changes	0.00	Changes	0.00
Cost to company post GST		8.77		8.77		46.53
GST (%)	18	1.34	18	1.34	18	7.10
Cost to company pre-GST		7.43		7.43		39.43

Source: MOFSL, Company

Exhibit 33: Margin distribution for Colgate-Palmolive India

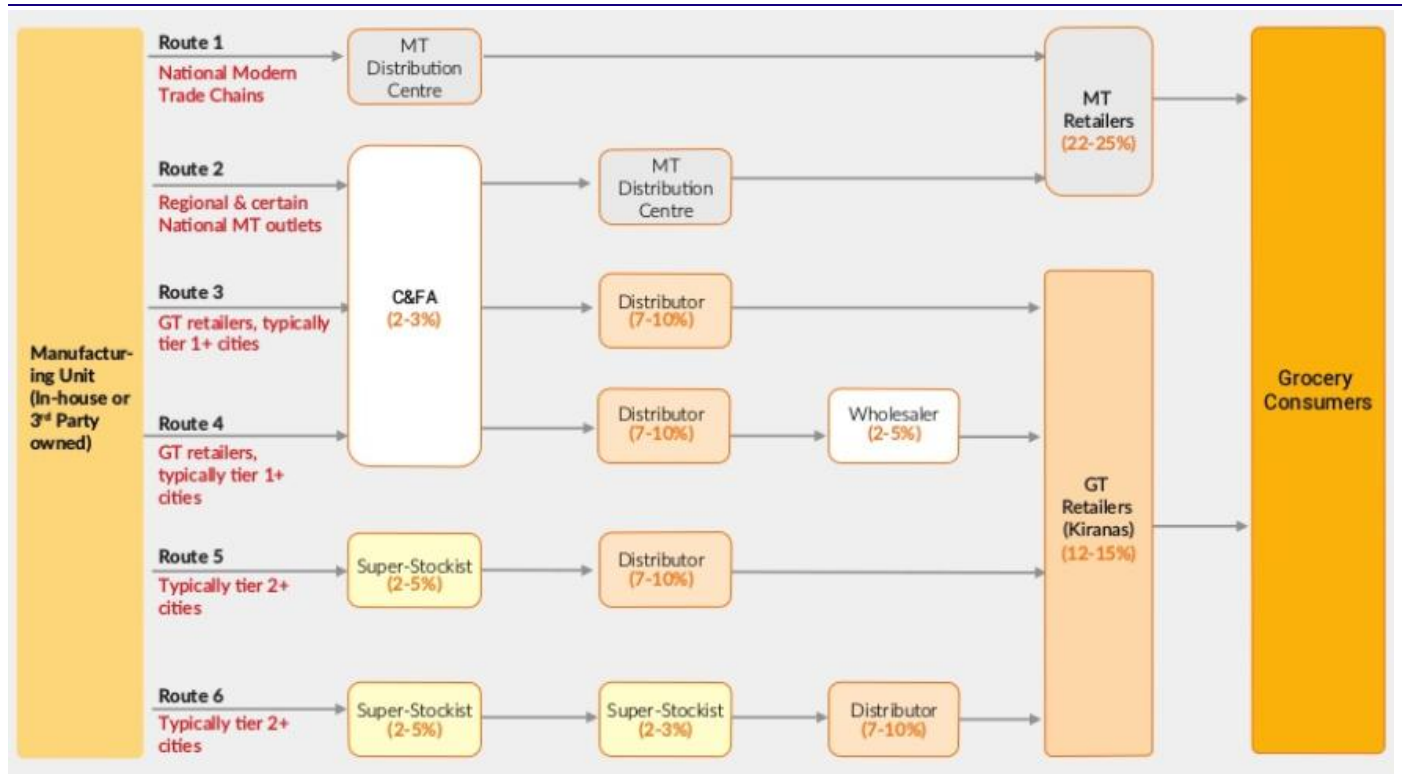
CLGT (Jun'20)	Toothpaste	CDC	Toothbrush	Brush Super Flexi
Largest selling SKU	%	100gm	%	INR20 SKU
MRP		52.00		20.00
Cost to retailer	10	47.27	35	14.81
Promotions and schemes (%)	10%	N.A.	10%	N.A.
Cost to distributors	5	44.90	6	14.00
Promotions and schemes (%)	Changes	0.00	Changes	0.00
Cost to company post GST		44.90		14.00
GST (%)	18	6.85	18	2.14
Cost to company pre GST		38.05		11.86

Source: MOFSL, Company

Exhibit 39: Margin distribution for Britannia Industries

BRIT (Jun'20)	Biscuits	Good Day
Largest selling SKU	%	58gm
MRP		10.00
Cost to retailer	10	9.09
Promotions and schemes (%)	1-2%	0.15
Cost to distributors	5	8.65
Promotions and schemes (%)	None	0.00
Cost to company post GST		8.50
GST (%)	18	1.30
Cost to company pre GST		7.20

Source: MOFSL, Company

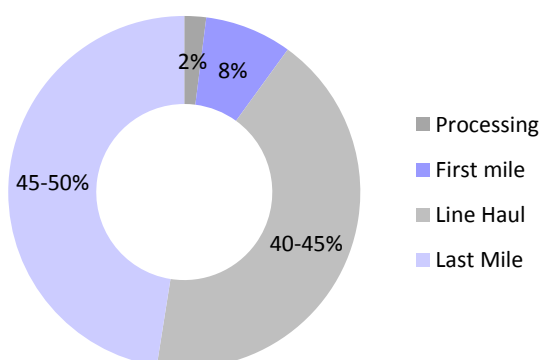
Exhibit 40: Grocery supply chain – 12-15% margin leakage at local Kirana shops

Source: MOFSL, Company

Logistic cost – a major burden for e-grocers

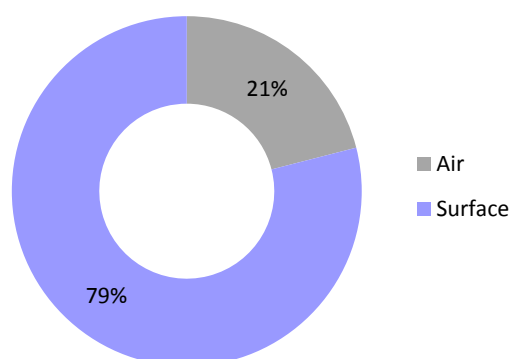
- **Delivery failure, returns, and cash on deliver increases the cost burden:** Our workings indicate that transportation logistic cost could be ~28% of the total order value, including the cost of reverse pickup (R) and cash on delivery (COD), which together constitute over 15% of AOV. Total logistic cost could touch up to 40% of total order value, including other components such as warehousing, freight forwarding, and other value-added logistics. This makes the operating model unviable for the e-grocers as the industry offers wafer-thin margins. Of total online orders, ~20% are returned and 50-55% of orders are COD. This increases the settlement period, lengthens the cash conversion process, and increases the risk of rejections.
- **Last mile a key pain point:** The e-commerce segment incurred logistic cost towards four major segments: transportation, warehousing, freight forwarding, and value-added logistics. Transportation constitutes the lion's share of total cost and ~60% of total logistic cost for online players, while the rest is contributed by other segments. Within transportation, these two processes contribute majority of the cost (~90%).
 - Line haul constitutes 40-45% of total transportation cost. Delivery through surface or air is dependent on delivery timelines – airline is 3-4x costlier than surface, but delivery timelines are lower. As per a KPMG report, 21% of line haul were through air in CY18. This is poised to decrease in the long run as players are looking to turn profitable and reduce their logistics costs.
 - Another major component of transportation cost is last-mile delivery, which forms 45-50% of total cost. In developed countries, this stands at 25-30%. In the longer term, this should reduce.
 - Lastly, processing and first mile is ~10% of total transportation costs.
- **Focus on cost cutting:** Players are increasingly focused on reducing their logistic cost. They have started shifting line haul to rail and road from air. This would significantly reduce line haul costs. However, in e-Grocery, where inventory is perishable and requires quick delivery, it would be difficult for players to shift the entire line haul to surface. Retailers are increasing their footprint through fulfillment centers/dark stores to store inventory locally. This should increase the turnaround time and reduce last-mile delivery costs. With the reduction of these two major components, transportation cost could fall significantly.

Exhibit 41: Split in e-commerce transportation cost (%)

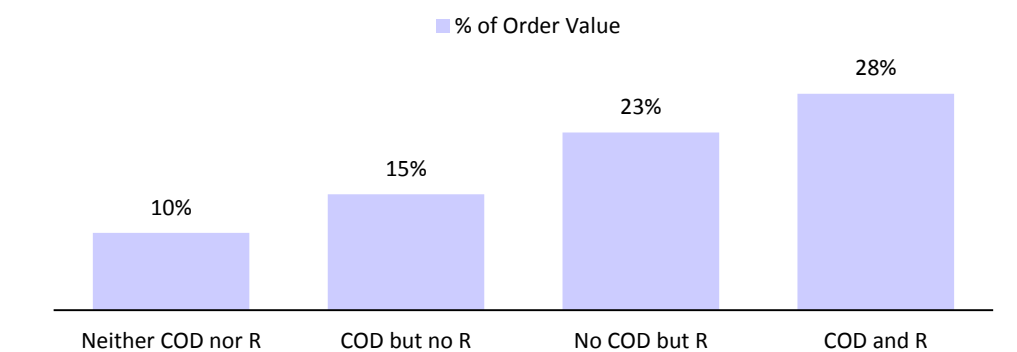


Source: e-commerce retail logistics – May'18, MOFSL

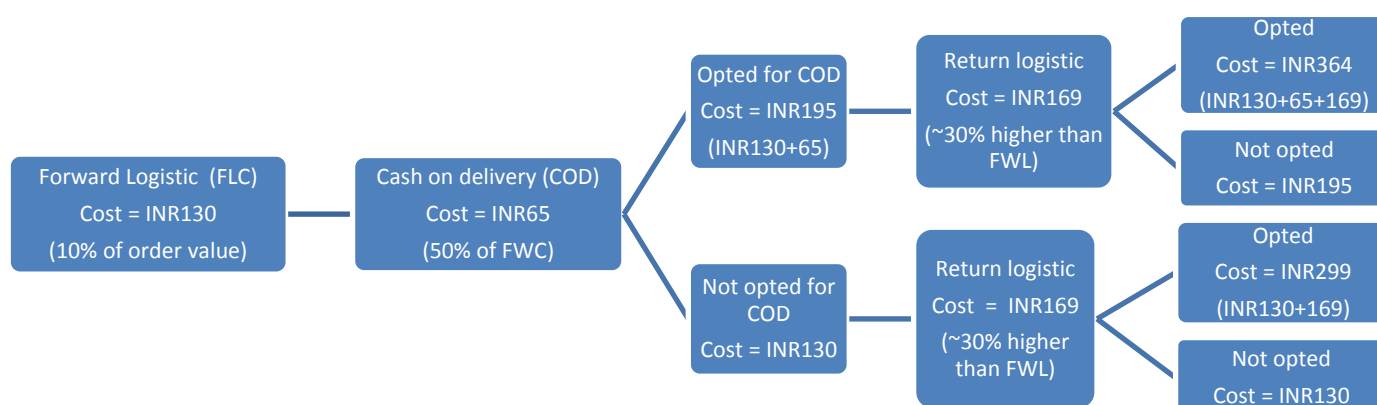
Exhibit 42: Line haul split (%)



Source: e-commerce retail logistics – May'18, MOFSL

Exhibit 43: Transportation cost could increase to 28% of order value

Source: e-commerce retail logistics – May'18, MOFSL

Exhibit 44: Detailed working on logistic cost (assuming AOV OF INR1,300)

Source: e-commerce retail logistics – May'18, MOFSL

Private labels – the next focus area of online players

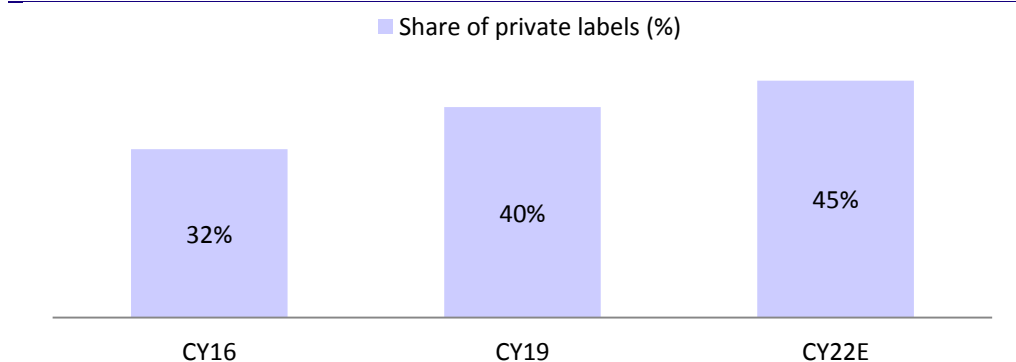
Move to own the value chain

In line with the strategy followed by offline retailers, online grocery players are foraying into the private labels, which should act as the next big growth driver. As per industry reports, 50% of repeat purchases on e-Grocery platforms could be attributed to private label sales. Revenue share of private labels for e-Grocery platforms have increased to 40% in CY19 v/s 32% in CY16 and are expected to reach 45% in CY22E. Private label helps e-Grocery players through multiple ways.

- **Owning the supply chain:** It allows them to own the entire value chain from sourcing, manufacturing, and distribution of final products to customers, thus improving inventory/supply chain management.
- **Targeting the untapped market:** By leveraging insights from data gathered on their online platform, these players develop products with high demand for the untapped market segment. Despite competing with the established brands, e-Grocery players gain market share by developing unique products based on price, nutritional value, taste, etc., while ensuring product quality. In a diverse market like India, players develop private label products based on regional preference, which are often overlooked by national brands given its limited market size.

- **Improve customer stickiness:** The unique brand positioning helps improve customer stickiness. This, along with better customer service, leads to repeat purchases on the platform and ensures sustainable growth.
- **Better margin:** This enables e-grocers to generate better margin as it removes intermediary margins and leakages in the value chain. Private labels offer 1.5-2x margin over branded products. In grocery retailing, the margin on in-house products lies in the 10-14% range v/s 7-10% on branded products.

Exhibit 45: Expect share of Private labels to touch 45% for e-Grocery players in CY22E



Source: Online private label growth paradigm CY20, MOFSL

Specialist players have a higher share of in-house brands

E-Grocery specialists like Big Basket and Grofers were earlier movers into private labels and are enjoying a higher share than their marketplace counterparts like Amazon and Flipkart. Specialists are garnering 25-40% of their revenue share from in-house brands v/s 5-10% for marketplace players. This is further substantiated by the fact that Big Basket and Grofers offer private label products across all grocery segments, whereas offerings are restricted to 3-4 segments in the case of marketplace players.

Grofers has a total of eight in-house brands, which constitute 40% of its revenue. The company is looking to increase its share to 60% in the near future. It is looking to invest USD15m in its own brands in CY21 as it plans to ramp up its private label offerings in baking essentials, immunity products, and ready-to-eat category. It is looking to launch newer product categories such as health supplements, general merchandise, and fashion.

Big Basket currently garners one-third of its sales from private labels. It is integrating backward into the supply chain by partnering with farmers to expand in-house brands – BB and Fresho portfolio – to its staples, fruits, and vegetables category. To serve premium health conscious customers, it has an in-house brand, GoodDiet, which generate higher margins. Flipkart has also made an investment into Ninjacart, a Fruit and Vegetable supply chain Agri startup.

Exhibit 46: e-Grocery players' product portfolio of private labels

Categories	Big Basket	Grofers	Amazon	Flipkart
Fruits and Vegetables	Fresho	G Fresh	NA	NA
Foodgrains, Oil, and Masala	BB Popular, BB Royal, Fresho, Fresho Organic, Fresho Signature, and GoodDiet	Grofers Mother's Choice, and Grofers Happy Day	Vedaka	FlipKart Supermart
Bakery and Dairy	Fresho, Fresho Organic, and Fresho Signature	Grofers Happy Day	NA	NA
Beverages	BB Royal	Grofers Happy Day	NA	FlipKart Supermart
Snacks and Branded Foods	BB Royal, Fresho Signature, and GoodDiet	Havemore, and Grofers Happy Day	Solimo	NA
Cleaning and Household	BB Home	Grofers Happy Home, and Savemore	Presto	NA
Eggs, Meat, and Fish	Fresho and Fresho Signature	NA	NA	NA
Healthy Food	BB Royal Organic, and GoodDiet	Grofers Mother's Choice, and Grofers Happy Day	Solimo, Vedaka	FlipKart Supermart

Source: Company, MOFSL

Different kinds of players operating in the Online Grocery space

Multiple platforms are disrupting this emerging space with innovative models. There are e-Grocery Specialists that have created solid service standards by specializing in early morning deliveries or specific product categories like meat or hyperlocal (connecting consumers to local Grocery stores) delivery, and market place players who have launched grocery as an additional category on their e-commerce platforms. There are three kinds of players operating in the e-Grocery space: a) market place, b) specialist, and c) offline players moving to omnichannel.

- **Market Place:** To tap the humungous opportunity in the e-Grocery space, general e-commerce Market Place players like Amazon and Flipkart are entering into Online Grocery. Amazon is leveraging both inventory-led and the hyperlocal model to serve this category via three channels: a) Amazon Pantry, b) Amazon Fresh, and c) Amazon Now. Flipkart caters through two channels: a) Flipkart Supermart and b) Flipkart Quick. It uses the inventory model for the Supermart platform and hyperlocal model for Quick.
- **Specialists** (Verticals, Micro Delivery verticals, Super Verticals, and Hyperlocals): These players operate only in the e-Grocery segment and enjoy strong customer recall.
 - **Verticals:** Legacy players like Big Basket and Grofers are focusing on an inventory-led model.
 - **Hyperlocals:** New entrants like Dunzo and Swiggy are leveraging the hyperlocal model given its lower capex requirement.
 - **Micro Verticals:** Niche players operate in this space and serve some product categories. For instance, Milkbasket and Supr Daily cater to dairy and select products in limited regions, and Licious in meat products.
- **Offline players move to omnichannel:** Currently, offline players like RRVL, DMart, Spencer's Retail, and Star Bazaar are entering this growing space. To cater to this segment, RRVL launched its online platform JioMart and DMart rolled out DMart Ready stores in selected cities. Among brick and mortar players, JioMart have been the most agile and aggressive to tap this huge growth opportunity. It can leverage its strong offline presence to act as a distribution center. DMart Ready has an online presence in select cities and is still miniscule in term of overall business.

In the last three years, each business model has played a key role in addressing specific needs. For example, specialist have expanded to 25-30 cities, market places ramped up their grocery product basket as they already have a wide reach, and micro delivery players too addressed a key market requirement of dailies.

Online players have grown significantly over FY16-19 and have now emerged a major force in the organized F&G retailing industry. Big Basket clocked 65% revenue CAGR over FY16-19, while Grofers' net sale has grown by 107%. With this enormous growth, the online market (including Big Basket, Grofers, Amazon, Flipkart, and JioMart) has turned to be the third largest player in Organized Retail after DMart and RRVL.

Exhibit 47: Cumulative Online Grocery Retail is the third largest Modern Retail channel and the largest by revenue (INR m)

Company	FY19	FY20	FY21
DMart	199,163	246,750	237,872
Reliance Grocery (est. excluding wholesale)	~140-150k	~200k-210k	~200k-210k
Future Retail (F&G)	67,216	67,061	NG
Revenue of the third largest Online Grocery retailer	48,810	NG	218,650

Source: Company, MOFSL

e-Grocery operating models

- **Inventory-led model:** Since the inventory is sourced, procured, and stored by the player, this model requires a higher initial investment. However, it offers a better margin potential as players are buying inventory themselves. Players can offer a wider product range, with stringent quality checks, to attract customers and reduce delivery timelines. However, the perishable nature of products and higher SKUs limit viability of this model. Currently, most players like Big Basket, Grofers, DMart Ready, and JioMart utilize this model.
- **Hyperlocal model** is being utilized by new entrants such as Dunzo and Swiggy. JioMart is planning to utilize this model to increase its reach in smaller towns. The player partners with local stores to offer last-mile delivery from these stores and outlets. This allows it to maintain a capex light model as players are not required to purchase inventory. The model enjoys higher customer confidence as they know from where the products are being sourced. However, it offers lower margin and quality checks, with product offerings limited by local availability.
- **Hybrid model** offers features of both inventory and a hyperlocal model as players purchase inventory and store it locally in dark stores, and provide last-mile delivery. This offers better inventory control, higher margin, stringent quality checks, and reduced delivery timelines. This allows e-grocer's to stock products as per local taste and provides a trust factor for customers. e-Grocery players like Flipkart and Big Basket are opening dark stores to leverage this model. Many offline players are also linking their brick and mortar stores with inventory online, which could offer a huge growth potential via this omnichannel.

Exhibit 48: Comparison of business models of F&G Online players

Particulars	Inventory-led	Hyperlocal	Multi-channel
Inventory storage	Inventory heavy model involves outright purchase of inventory	Inventory light model as it provides only infrastructure and logistic support	The hybrid model combines features of inventory and hyperlocal model
Capital requirement	Capital intensive	Capital light	Moderate capital
SKUs	High	Low	Moderate
Lead time	High	Low	Moderate
Margin potential	High	Low	Moderate
Quality checks	High	Low	Moderate

Source: Media articles, MOFSL

Exhibit 49: Operating models of e-Grocery players

Source: RedSeer and Big Basket

Hyperlocal model gaining traction

Benefits and challenges

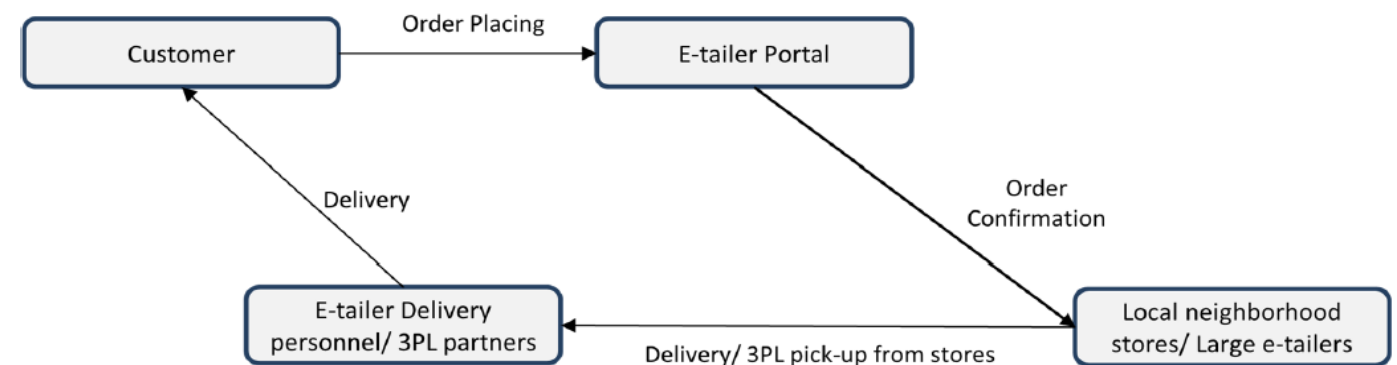
Globally, e-commerce players have seen limited success in ramping up scale and profitability in the Grocery space due to: a) difficulty in managing quality and scale of inventory, b) heterogeneous nature of the product, and c) lower margin and higher logistics cost. The conventional market place or inventory model addresses only part of the problem, and therefore has found it difficult to achieve scale and profitability.

The hyperlocal model has evolved, where online players partner with local Kiranas to offer last-mile delivery service from the latter's stores. So, players can use their platform to accept customer's orders and fulfill it through local stores. In this way, they own the customer, while providing the trust factor of a local store. The advantages of this model are: a) utilizes inventory of local Kirana stores. As it does not require e-grocers to invest in inventory, it is capex light and increases flexibility

of the e-commerce platform. So, players can expand without incurring significant capex. b) It addresses the issue of logistic cost and significantly reduces delivery time – a key problem in the case of the inventory model, owing to the perishable nature of the inventory. c) Given the different tastes and preference in India, this model allows e-grocers to serve a heterogeneous market as local stores would stock inventory as per regional taste. Retailers like JioMart operate the B2B model, supporting inventory sourcing for Kiranas, thus owning the entire value chain, ensuring inventory quality, as well as retaining margins.

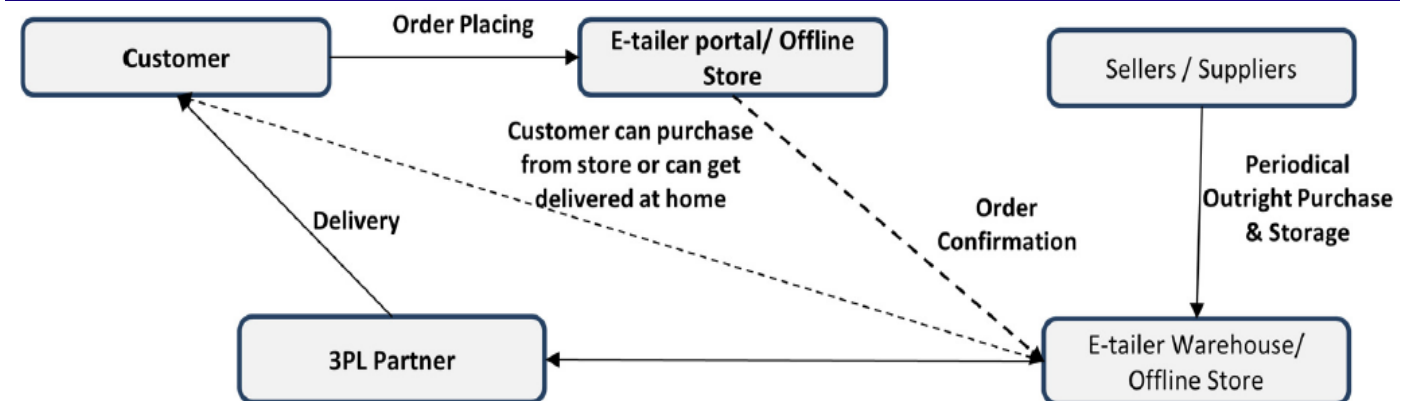
But there are a few challenges associated with a hyperlocal model. a) The major drawback of this model is that it restricts inventory check as it is delivered from Kirana store to customer location. b) It also offers lower margin due to the Kirana's margin. c) Online players could face resistance from local stores due to lack of trust. d) Kirana stores also provide delivery through their own personnel in smaller cities, leaving limited benefits of partnering with e-Tailers. But these issues can be resolved by adopting a hybrid model, wherein e-grocers would provide local delivery, but from their own dark stores/fulfillment centers, to ensure quality and better margin.

Exhibit 50: Hyperlocal model



Source: Technopak Report CY17, MOFSL

Exhibit 51: Hybrid model



Source: Technopak Report CY17, MOFSL

Gaining prominence

- **Online players:** Owing to the inherent benefits of the hyperlocal model, e-grocers are making adjustments to their operating model. As per media articles, Flipkart is opening various F&G specific dark stores (spread over 3,000-4,000 sq ft) in metros to deliver locally. It launched Flipkart Quick, its hyperlocal service, in Jul'20 in Bengaluru to deliver products within two hours. Another e-Grocery major, Big Basket is also looking to open smaller warehouses in major cities it has a presence in. It is planning to open one dark store in 50 smaller cities, which would enable it to deliver hyper locally and serve neighboring cities.
- **Offline players:** JioMart is best placed to enter into e-commerce via this model. It can utilize the hyperlocal model, given its huge physical presence (over 12k stores and ~800 Grocery stores as on Mar'20). It can leverage its own stores as fulfillment centers to deliver products locally. DMart, on the other hand, has a limited geographic presence, with the highest concentration in Maharashtra and Gujarat. It could utilize its physical presence to implement the hyperlocal model in those areas.
- **Digital apps are foraying into this space:** Apart from e-commerce and retail players, digital apps are also adopting hyperlocal models, given its huge market potential and lower capex requirement. In Mar'19, food delivery player Swiggy entered into this space and commenced operations from Gurugram by partnering with 3,500 stores. Dunzo, backed by Google, is another player operating via the hyperlocal model in the e-Grocery space. It had raised ~USD70m in two rounds. This space is attracting foreign investors, and new players with a hyperlocal model could enter in the near to medium term.

Strategy deployed by each player

DMart's ownership model allows it a competitive edge at the store level

With e-Grocery gaining strong traction, DMart's focus remains on physical stores. Its ownership model against the general practice of leasing stores may hamper the pace of store addition. Grocery is a low margin business, with almost 5-7% rental cost, i.e. 30-50% of the gross margin. The rental cost saving significantly increases the ability to drive cost advantage, which can be passed on to the customer and build cost competitiveness in the market. In a value-centric market, this helps drive scale and productivity. Our workings of a typical store's business economics over a 10-year cycle underscores that it take 4-5 years to drive scale benefits and RoCE. But over a 10-year period, it drives a huge value proposition. DMart generates 40%/68% RoCE from Tier I/II stores over 10 years of operations. The management is looking to open larger stores in smaller towns. We view this as a justifiable approach given the higher RoCE of these stores.

Exhibit 52: DMart's RoCE generation over a store lifecycle

Year of operation	1	2	3	4	5	6	7	8	9	10
Sales capacity (new store trajectory)	40%	60%	80%	100%	110%	113%	118%	124%	131%	138%
Sales	388	582	776	970	1,067	1,096	1,144	1,203	1,271	1,338
Gross margin (%)	14%	14%	14%	15%	16%	16%	16%	16%	16%	16%
Gross margin	53	81	111	147	170	177	185	196	208	220
Operating cost	54	56	58	61	63	66	68	71	74	77
Growth in operating expenses		4%	4%	4%	4%	4%	4%	4%	4%	4%
EBITDA (excluding rent)	(1)	25	53	86	107	111	117	125	134	144
Margin	0%	4%	7%	9%	10%	10%	10%	10%	11%	11%
Pre-tax cash RoCE – Tier I	0%	7%	15%	24%	30%	31%	33%	35%	37%	40%
Pre-Tax cash RoCE – Tier II	-1%	12%	25%	41%	51%	53%	56%	59%	64%	68%

Source: Company, MOFSL

Treading cautiously online through DMart ready stores

While other players are aggressively moving into the e-Grocery space, DMart is treading cautiously online through its DMart ready stores. Online players are largely present in metro/Tier I cities, where DMart already has physical stores. It is leveraging this presence with delivery/pick up options at an attractive pricing (refer Exhibit 5) through DMart ready. The management is confident that it can compete with bigger players on pricing through operational efficiencies.

DMart ready: Store economics

We calculated the store economics of DMart ready stores based on inputs from our channel checks. Our workings indicate that a typical store generates an annual revenue of INR9m at 17 daily orders worth INR1,500. At 13% gross margin, this should deliver a gross profit of INR1.2m. Apart from that, a store has an operational expense of INR1.4m, assuming three employees/store at a monthly charge of INR23k, monthly rent of INR150/sq ft for a 250sq ft area store, and utilities/marketing expense of INR4k/INR5k per month. The company posts an operational loss of INR0.2m at the store level, i.e. -2% margin. To be profitable, a store needs to service about 20 daily orders worth INR1,500, or its average order

value should increase to INR1,750 at the current level of 17 daily orders to achieve a revenue of ~INR11m.

Delivery cost a bone of contention

The company delivers orders in two ways: a) pick-up points, and b) home delivery. It utilizes DMart ready stores as pick-up points, wherein customers can place an order and receive it at a scheduled time. The company doesn't charge for the pick-up service. However, it has a minimum order prerequisite of INR1,000. For home delivery, the company charges INR49, or 3% of the order value, whichever is higher. Currently, it has over 220 DMart ready stores in Mumbai and has expanded in Pune, Bengaluru, and Ahmedabad. It is utilizing fulfillment centers to service its online orders – orders are shipped directly from fulfillment centers to DMart Ready stores or the delivery location (DMart Ready stores are not utilized for home delivery). This helps in saving overheads and logistic costs by utilizing these stores. As a result, its e-commerce operations enjoy superior supply chain efficiencies.

Exhibit 53: DMart Ready store economics

Particulars	Annual amount (INR)
Daily order (no.)	17
Order size	1,500
Annual revenue	91,80,000
COGS	79,86,600
Gross margin	13%
Gross profit	11,93,400
Employee cost	8,28,000
Rent	4,50,000
Others	1,08,000
Operational expense	13,86,000
EBITDA	(1,92,600)
Margin (%)	-2.1%

Source: Company, MOFSL

RRVL is leveraging JioMart for its online foray

Strongest offline player – deepest connectivity

RRVL is the strongest offline player with the deepest physical penetration. It has over 12k stores, with a presence in over 6,600 towns, of which more than two-thirds are in Tier II/III/IV cities. As on Mar'20, it has 3,684 stores, excluding Jio points, and 797 grocery stores, with a presence in all geographic regions (higher in south and west India). With the completion of the Future group acquisition, it would add 1,350 stores to its network, with a presence in 400 cities. It has a strong private label portfolio in the grocery, apparel, and consumer electronics among other categories, which allows it to provide exclusive products, leverage its supply chain, and garner a better margin profile.

Exhibit 54: RRVL's store network as on Mar'20

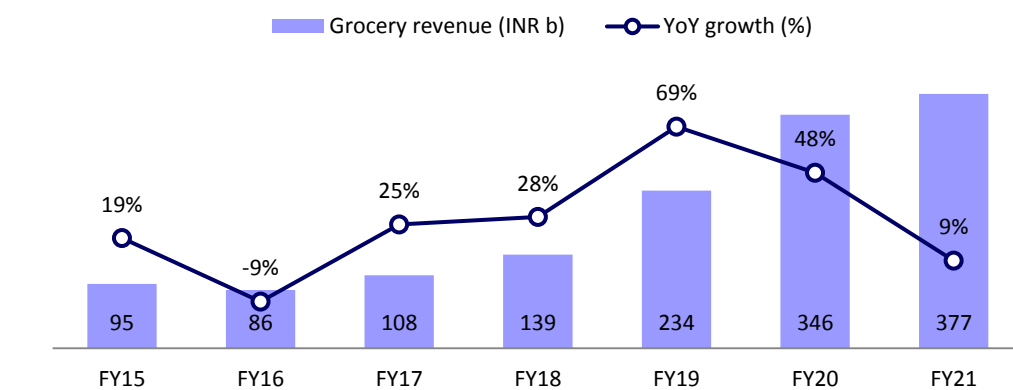
Geographic region	Fashion and Lifestyle	Grocery stores	Consumer Electronics
North	566	108	2022
South	932	337	2094
West	538	261	2343
East	350	91	2142
Total	2386	797	8601

Source: Company, MOFSL

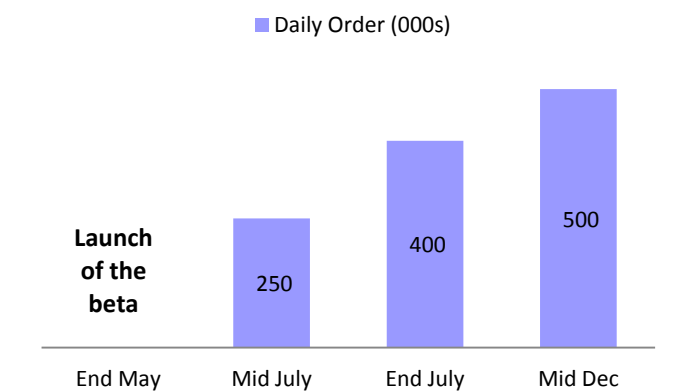
RRVL operates via multiple models

RRVL operates through three models: a) offline B2C, b) B2B through Reliance Market, and c) online through JioMart.

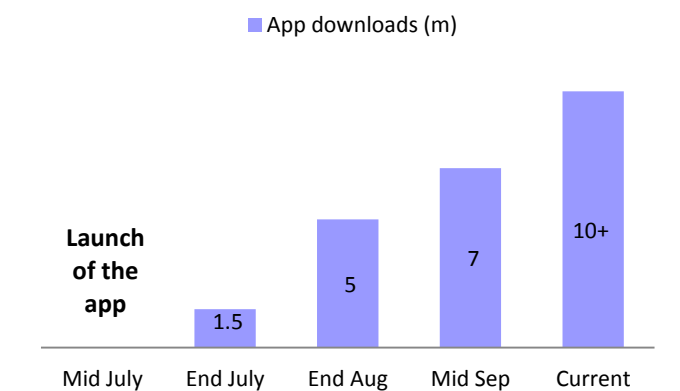
- **B2C:** RRVL has the deepest footprint in grocery retail, with 797 stores in over 180 cities. It serves customers through three store formats: a) Reliance Fresh, which is a neighborhood store and offers daily needs and essential items across fresh food, staples, FMCG, home, and personal care. b) Reliance SMART, which is a destination store and offers a variety of products across fresh food, staples, FMCG, home and personal care, beauty and cosmetics, value apparel, and footwear and general merchandise. c) Reliance SMART Point which is a smaller version of SMART stores and situated in residential neighborhoods to offer grocery, pharmacy, and digital assistance. Its business scale has continuously improved over the last five years.
- **B2B:** Reliance Market is RRVL's wholesale cash and carry store that caters to kirana stores, hotels, restaurants, catering businesses and B2B member partners. As on Mar'20, it has 52 stores across 46 cities.
- **JioMart:** RRVL launched the beta version of its e-commerce website in May'20, followed by the launch of its app in Jul'20. Since the launch of its beta version, the company has accelerated operations aggressively and currently receives the highest daily orders (500k daily orders). JioMart's policy of 5% minimum discount on MRP and no minimum order requirement, along with free delivery, led to significant growth. Its app downloads crossed over 10m on Google Play Store and it is witnessing 0.7-0.8m weekly app downloads as per media sources. It was in the top three downloaded e-commerce apps in Aug'20, just behind Amazon and Flipkart. In terms of geographic reach, it is second to only Amazon, which has a presence in 300 cities as against JioMart's presence in 200 cities. JioMart's customer reviews has improved in terms of product quality. However, other issues relating to delivery timelines, refund, and customer support still persists. Though improving product quality is a good step, RRVL needs to resolve other delivery issues. As per mouthshut.com, Amazon leads in customer service reviews, followed by Big Basket, Grofers, and JioMart.

Exhibit 55: RRVL clocked 26% revenue CAGR in the Grocery business over FY15-20

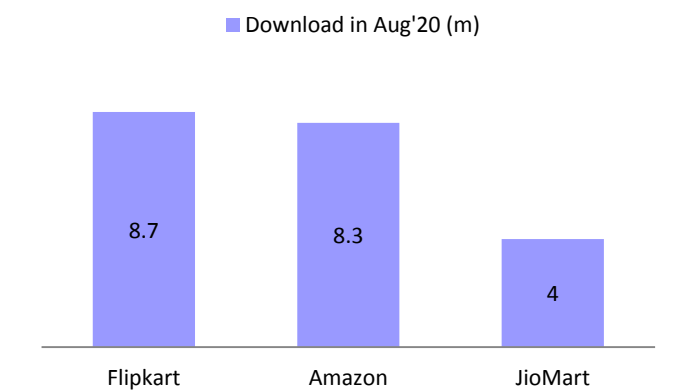
Source: Company, MOFSL

Exhibit 56: JioMart's daily orders touched 500k

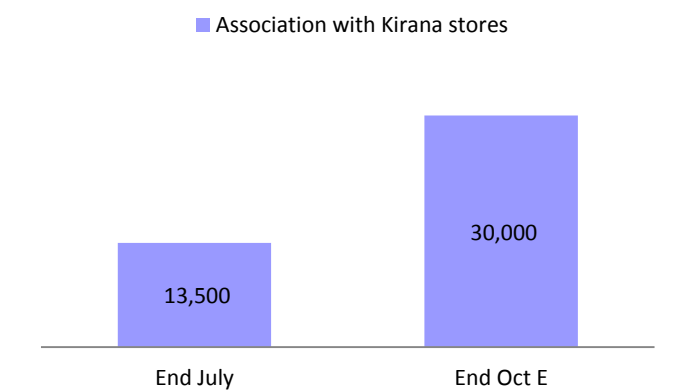
Source: Media articles

Exhibit 57: JioMart's App downloads crossed 10m

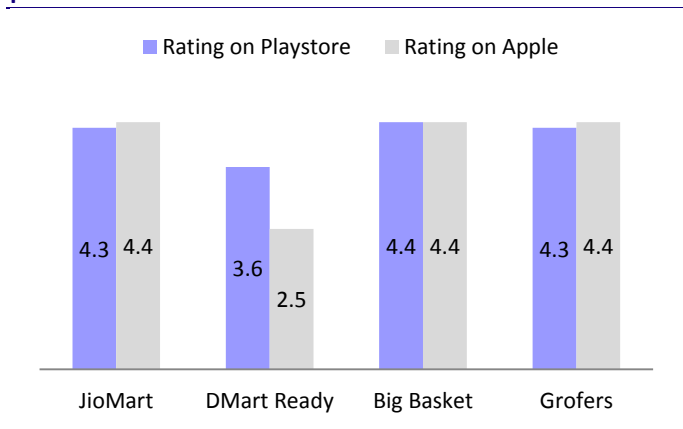
Source: Media articles

Exhibit 58: JioMart was the third highest downloaded e-commerce app in Aug'20

Source: Media articles

Exhibit 59: JioMart's association with Kirana stores

Source: Media articles

Exhibit 60: JioMart's rating on Google Play store at par with peers

Source: Play store

Exhibit 61: JioMart's customer experience is lagging**Customer complaints**

Product deliveries getting delayed
 Cancelled deliveries
 Missing products
 No refund or delayed refund
 Poor customer care and support team

Source: Media articles

Exhibit 62: JioMart garners the lowest rating on Mouthshut.com

Company	Recommendation	Stars	Customer service	Delivery timeliness	Reliability	Product quality	Apps and websites
JioMart	12%	1.31	1	1	1	2	2
Big Basket	35%	2.15	2	3	2	2	3
Grofers	27%	1.92	2	2	2	2	2
Amazon	76%	3.57	4	4	4	4	4

Source: Mouthshut.com

Best placed to leverage the hyperlocal model

With the deepest physical footprint, RRVL is best placed to leverage the hyperlocal delivery model. It can utilize its vast physical store network to fulfill online orders. Its store network could increase significantly with the completion of the Future group acquisition. Apart from using its own stores, RRVL is partnering with local Kirana stores to increase its reach. It has partnered with Kirana stores in 23 cities as on Dec'20. JioMart is also converting its B2B stores to fulfillment centers to service its online orders. It is using Reliance Market stores to sell products to local kirana stores and leverage these stores for home delivery (utilizing a hyperlocal model) by accepting orders on its online platform: JioMart. In this way, it would own the entire supply chain, while keeping customers' trust intact as they are buying products from their local stores.

Challenges in scaling up

The Indian F&G Retail market is dominated by mom-and-pop stores. To gain significant scale in the F&G Online market, RRVL needs to partner with kirana stores. This could be difficult as it could face resistance from these stores, given the lack of trust and a system of home delivery already in place through their own delivery personnel. These shops offer credit options to customers, which could be difficult to replicate for organized players. The online market is getting crowded with the entry of new players, with different operating models. Recently, Swiggy entered into the hyperlocal e-Grocery space in Gurugram and Bengaluru. RIL would not be able to overwhelm competition in the e-Grocery space by just offering steep discounts, as it did in the telecom market, due to the strong financial muscle of competitors. Players like Flipkart, Dunzo, and Amazon have a strong parental backing.

Exhibit 63: Profile of JioMart

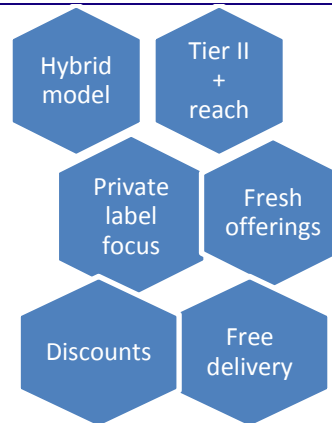
Founded	Apr'20
Founders	Mr. Mukesh Ambani
Headquarters	Mumbai, India
Total funding	USD20b (Jio Platforms)
Major investors	Facebook, Google, Silver Lake, Mubadala, Vista, TPG, General Atlantic, and ADIA

Source: RedSeer report

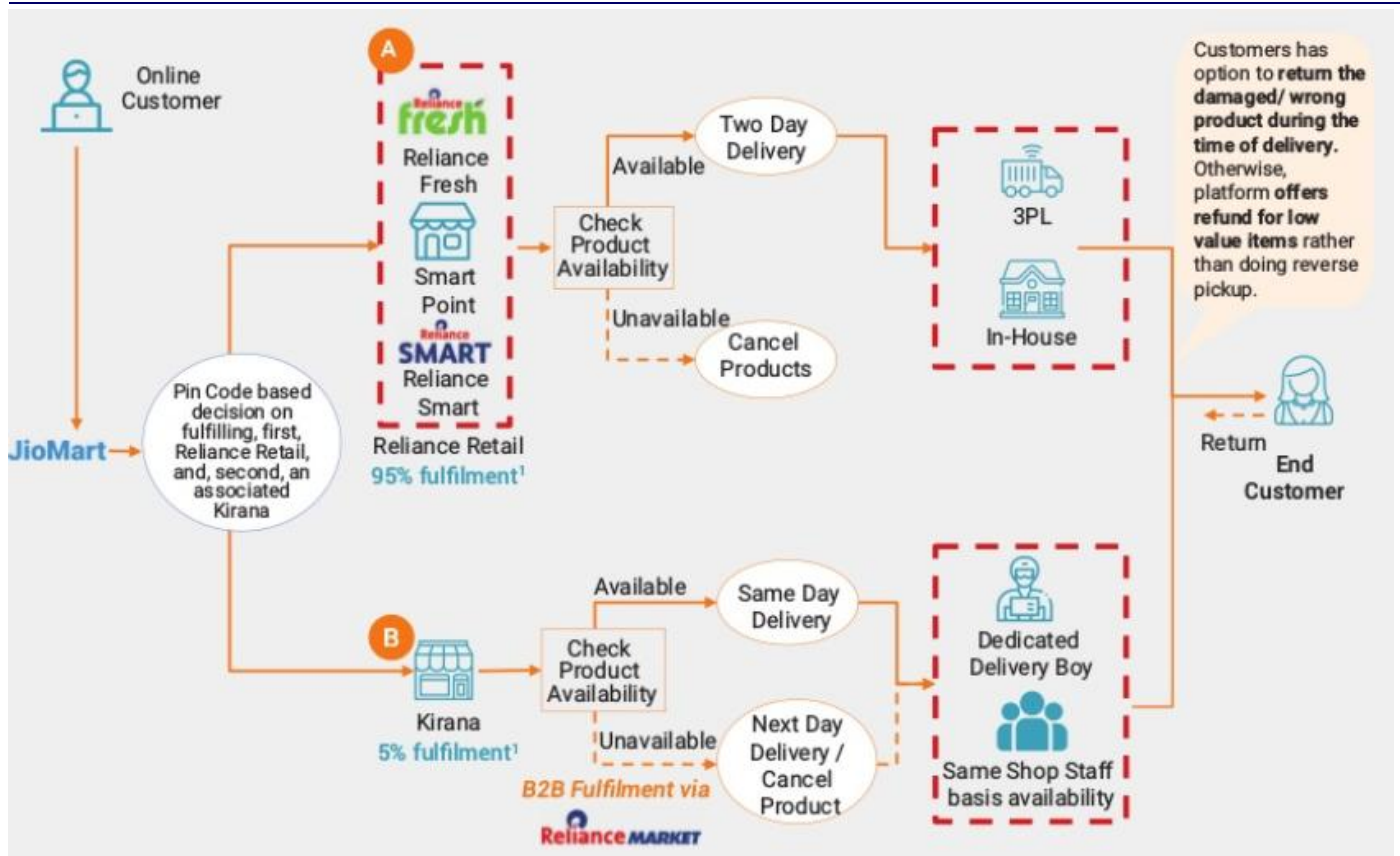
Exhibit 64: Strategic choices of JioMart

Particulars	Strategic choices
Target HH	Convenience first Value first
Advertisement	Over 280 brands Over 2,000 SKUs
Delivery model	Scheduled Express Micro

Source: RedSeer report

Exhibit 65: JioMart's strategic focus

Source: RedSeer report

Exhibit 66: JioMart's B2C order flow

Source: RedSeer report

Grofers

Started in CY13, Grofers was among the first specialist Grocery retailers to target value buyers with a healthy private label portfolio of nearly 30%. It has a strong loyalty program for customer retention. It has a unique local partnership-led delivery model that enhances supply chain turnaround and reduce logistics cost. It has three delivery models – Scheduled, Express, and Regular (Micro).

Unique inventory/logistics management through local entrepreneurship model

Grofers has significantly leveraged the unorganized supply chain via a partnership model with local entrepreneurs (like travel agents and mobile recharge shop owners) to improve supply chain flexibility and cost. The packaged order goes to micro warehousing stores (drop points) managed by local entrepreneurs who are in close proximity to customers and deliver to their doorstep. About 95% of orders are fulfilled by the local network close to customers.

Cluster-based approach

Grofers follows a cluster-based expansion strategy to go deeper into Tier II, III, and IV cities having a population of less than 1m. From a warehouse in Delhi, it is serving customers in Sonipat, Panipat, Meerut, Chandigarh, Aligarh, Bhiwandi, and Moradabad.

Loyalty program

It has a loyalty program called Grofers Smart Bachat Club, which offers discounts, exclusive offers, and priority support. This allows it to: a) improve AOV through upselling, thus leveraging its fixed and supply chain cost, b) improve customer stickiness and reduce retention costs, c) forecast sales and therefore aid in procurement costs. About 70% of GMV is driven by the loyal users on the platform.

Improving unit economics

During the COVID-19 outbreak, unit economics improved significantly, garnering higher margin through direct brand tie-ups, increased private label sales, and reduced marketing/cashback spends, owing to organic e-Grocery demand last year and customer stickiness. Prior to COVID-19, Grofers operated on a contribution margin of -12% due to higher cash back (6%) and marketing cost (8%). However, in the COVID-19 phase, its margin returned to 4%, as higher demand led to reduction in cashback to a mere 1% of its overall portfolio. Similarly, marketing expenses fell to 1%, cumulatively saving 12%. Higher mix of private labels improved gross margin by 3% to 15%, while increased demand/AOV led to leverage of supply chain costs.

Exhibit 67: Profile of Grofers

Founded	CY13
Founders	Albinder Dhindsa and Saurabh Kumar
CEO	Albinder Dhindsa
Headquarters	Gurugram, India
Total funding	Over USD472m
Major investors	Tiger Global, Sequoia Capital, SoftBank Vision Fund, Apoletto Asia, KTB, and ADCG

Source: RedSeer report

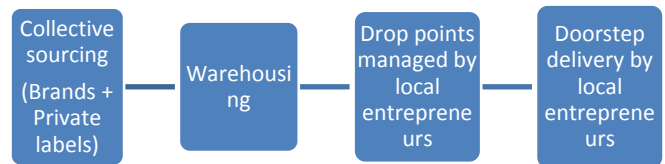
Exhibit 68: Strategic choices of Grofers

Particulars	Strategic choices
Target HH	Convenience first Value first
Advertisement	Over 280 brands Over 2,000 SKUs
Delivery model	Scheduled Express Micro

Source: RedSeer report

Exhibit 69: Strategic focus of Grofers

Source: RedSeer report

Exhibit 70: Grofers' delivery process

Source: RedSeer report

Exhibit 71: Grofers' unit economics change during COVID-19

Particulars	Pre COVID (Dec'19)	COVID period (Jun'20)	How the change impacted profitability
Commission/margin	12%	15%	Higher sales of private labels led to greater margin during COVID-19
Cashback	(-) 6%	(-) 1%	Drop in discount during COVID-19
Supply chain cost	(-) 9%	(-) 8%	Higher AOV during COVID-19, resulted in a lower cost of delivery
Payment gateway cost	(-) 1%	(-) 1%	No major change
Marketing expense	(-) 8%	(-) 1%	Significant reduction during COVID-19
Contribution margin	(-) 12%	4%	

Source: RedSeer report

Financials and valuation – Reliance Retail

Standalone Income Statement

(INR b)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Total Income from Operations	161	183	264	515	1019	1304	1181	1755	2225
Change (%)	26.9	13.8	44.2	94.6	98.1	27.9	-9.4	48.7	26.7
Total Expenditure	153	174	253	491	960	1212	1089	1630	2059
% of Sales	95.1	95.0	95.6	95.4	94.2	93.0	92.2	92.9	92.5
EBITDA	8	9	12	24	59	91	92	125	166
Margin (%)	4.9	5.0	4.4	4.6	5.8	7.0	7.8	7.1	7.5
Depreciation	3	3	4	4	6	11	8	9	10
EBIT	5	6	8	19	53	80	84	116	156
Int. and Finance Charges	2	1	1	1	6	9	4	4	4
Other Income	1	0	0	0	1	3	2	2	2
PBT bef. EO Exp.	4	5	8	19	48	74	82	115	154
EO Items	0	0	0	0	0	0	0	0	0
PBT after EO Exp.	4	5	7	19	48	74	82	115	154
Total Tax	1	2	3	6	17	19	21	29	39
Tax Rate (%)	31.1	38.2	43.6	33.7	34.9	25.4	25.2	25.2	25.2
Reported PAT	3	3	4	12	31	55	61	86	115
Adjusted PAT	3	3	4	12	31	55	61	86	115
Change (%)	-9.4	9.9	40.4	192.8	NA	NA	NA	NA	NA
Margin (%)	1.7	1.6	1.6	2.4	3.1	4.2	5.2	4.9	5.2

Standalone Balance Sheet

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Equity Share Capital	50	50	50	50	50	50	97	97	97
Eq. Share Warrants and App. Money	0	0	0	0	0	0	0	0	0
Preference Capital	0	0	0	0	0	0	0	0	0
Total Reserves	2	11	18	41	76	131	618	704	819
Net Worth	52	61	68	91	126	181	715	801	916
Total Loans	17	11	0	34	128	47	44	44	44
Deferred Tax Liabilities	-6	-10	-9	-6	0	0	0	0	0
Capital Employed	63	62	60	119	254	228	760	846	961
Gross Block	33	35	40	53	98	114	90	106	120
Less: Accum. Deprn.	13	14	17	21	26	33	41	50	60
Net Fixed Assets	21	20	23	32	72	82	49	56	60
Capital WIP	4	5	7	41	25	88	88	88	88
Total Investments	5	5	8	5	36	6	5	5	5
Curr. Assets, Loans and Adv.	51	64	70	156	211	180	825	970	1156
Inventory	39	52	51	105	113	93	167	221	280
Account Receivables	2	2	7	22	43	25	69	91	116
Cash and Bank Balance	2	0	3	2	3	3	516	562	638
Loans and Advances	8	9	9	28	52	58	73	96	122
Curr. Liability and Prov.	17	33	48	116	90	128	208	275	348
Account Payables	13	28	39	82	41	57	135	178	226
Other Current Liabilities	4	5	9	33	48	71	73	96	122
Provisions	0	0	0	0	0	0	1	1	1
Net Current Assets	34	32	22	41	121	52	617	696	808
Appl. of Funds	63	62	60	119	254	228	760	846	961

Financials and valuation – Reliance Retail

Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Basic (INR)									
EPS	0.6	0.6	0.9	2.5	6.3	11.1	12.3	17.2	23.1
Cash EPS	1.2	1.3	1.6	3.4	7.5	13.3	13.9	19.0	25.1
BV/Share	10.4	12.3	13.7	18.2	25.2	36.3	143.4	160.5	183.6
DPS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payout (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Return Ratios (%)									
RoE	5.3	5.3	6.6	15.7	29.0	36.1	13.7	11.3	13.4
RoCE	5.4	5.3	6.7	13.5	18.7	25.7	13.0	11.0	13.0
RoIC	6.7	7.0	9.6	22.8	26.6	37.5	44.7	51.1	55.5
Working Capital Ratios									
Fixed Asset Turnover (x)	4.8	5.3	6.6	9.7	10.4	11.4	13.1	16.5	18.6
Asset Turnover (x)	2.6	3.0	4.4	4.3	4.0	5.7	1.6	2.1	2.3
Inventory (Days)	88	105	70	74	40	26	52	46	46
Debtor (Days)	5	4	10	16	16	7	21	19	19
Creditor (Days)	29	55	54	58	15	16	42	37	37
Leverage Ratio (x)									
Current Ratio	3.0	2.0	1.5	1.4	2.3	1.4	4.0	3.5	3.3
Interest Coverage Ratio	3.3	5.0	10.3	19.1	8.7	9.3	23.6	32.7	43.7
Net Debt/Equity	0.2	0.1	-0.2	0.3	0.7	0.2	-0.7	-0.7	-0.7

Cash Flow Statement

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
OP/(Loss) before Tax	4	5	8	19	48	74	82	115	154
Depreciation	3	3	4	4	6	11	8	9	10
Interest and Finance Charges	1	1	1	1	-1	-2	4	4	4
Direct Taxes Paid	-1	-1	-1	-5	-10	-11	-21	-29	-39
(Inc.)/Dec. in WC	-4	2	11	-15	-33	84	-53	-33	-36
CF from Operations	4	10	22	4	11	156	20	66	93
Others	0	0	1	1	6	9	-2	-2	-2
CF from Operating incl. EO	4	11	22	5	17	165	18	64	91
(Inc.)/Dec. in FA	-4	-4	-8	-48	-47	-67	25	-16	-13
Free Cash Flow	0	6	14	-43	-30	98	43	47	78
(Pur.)/Sale of Investments	1	0	-3	3	-7	18	0	0	0
Others	1	0	0	-4	0	2	2	2	2
CF from Investments	-1	-5	-11	-49	-54	-48	27	-14	-11
Issue of Shares	0	0	0	10	4	0	473	0	0
Inc./(Dec.) in Debt	23	-6	-8	34	94	-81	-2	0	0
Interest Paid	-2	-1	-1	-1	-6	-9	-4	-4	-4
Dividend Paid	0	0	0	0	0	0	0	0	0
Others	-25	0	0	0	-23	-27	0	0	0
CF from Fin. Activity	-3	-7	-9	43	68	-117	467	-4	-4
Inc./Dec. in Cash	-1	-1	2	-1	32	0	512	46	76
Opening Balance	2	2	0	3	2	33	33	546	592
Closing Balance	2	0	3	2	3	3	516	562	638

Financials and valuation – Avenue Supermarts

Consolidated Income Statement

(INR m)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Total Income from Operations	64,394	85,838	118,977	150,332	200,045	248,702	241,431	302,801	457,499
Change (%)	37.4	33.3	38.6	26.4	33.1	24.3	-2.9	25.4	51.1
Raw Materials	54,879	73,035	100,810	126,356	170,008	211,029	205,547	257,528	387,880
Gross Profit	9,515	12,802	18,167	23,976	30,037	37,673	35,884	45,273	69,619
Margin (%)	14.8	14.9	15.3	15.9	15.0	15.1	14.9	15.0	15.2
Employees Cost	1,341	1,490	1,925	2,826	3,554	4,561	5,366	6,359	8,692
Other Expenses	3,592	4,676	6,429	7,622	10,150	11,829	13,088	15,746	22,875
Total Expenditure	59,811	79,201	109,165	136,804	183,712	227,419	224,000	279,633	419,447
% of Sales	92.9	92.3	91.8	91.0	91.8	91.4	92.8	92.3	91.7
EBITDA	4,583	6,636	9,812	13,528	16,333	21,283	17,431	23,168	38,052
Margin (%)	7.1	7.7	8.2	9.0	8.2	8.6	7.2	7.7	8.3
Depreciation	815	984	1,278	1,590	2,125	3,744	4,142	4,832	6,195
EBIT	3,768	5,652	8,534	11,938	14,208	17,539	13,289	18,337	31,857
Int. and Finance Charges	724	913	1,220	595	472	691	417	375	375
Other Income	183	179	286	693	484	600	1,962	1,992	1,701
PBT bef. EO Exp.	3,226	4,918	7,600	12,036	14,219	17,448	14,835	19,954	33,183
EO Items	0	0	0	0	0	0	0	0	0
PBT after EO Exp.	3,226	4,918	7,600	12,036	14,219	17,448	14,835	19,954	33,183
Total Tax	1,109	1,715	2,683	4,158	5,195	4,438	3,840	5,165	8,959
Tax Rate (%)	34.4	34.9	35.3	34.5	36.5	25.4	25.9	25.9	27.0
Minority Interest	0	1	129	-185	1	1	0	0	0
Reported PAT	2,117	3,202	4,788	8,063	9,024	13,009	10,994	14,788	24,223
Adjusted PAT	2,117	3,202	4,788	8,063	9,024	13,009	10,994	14,788	24,223
Change (%)	31.2	51.3	49.5	68.4	11.9	44.2	-15.5	34.5	63.8
Margin (%)	3.3	3.7	4.0	5.4	4.5	5.2	4.6	4.9	5.3

Consolidated Balance Sheet

(INR m)

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Equity Share Capital	5,615	5,615	6,241	6,241	6,241	6,478	6,478	6,478	6,478
Total Reserves	6,377	9,589	32,177	40,450	49,634	104,320	115,359	130,148	154,371
Net Worth	11,992	15,204	38,418	46,691	55,875	110,797	121,837	136,625	160,848
Total Loans	9,043	11,923	14,973	4,393	4,298	37	0	37	37
Lease Liabilities						2,955	3,927	3,927	3,927
Deferred Tax Liabilities	305	399	505	452	633	474	512	512	512
Capital Employed	21,340	27,527	53,898	51,541	60,811	114,268	126,281	141,107	165,330
Gross Block	18,321	21,918	27,764	37,223	49,352	65,748	77,401	98,292	126,981
Less: Accum. Deprn.	3,041	983	2,260	4,006	6,131	7,050	8,096	12,927	19,122
Net Fixed Assets	15,281	20,935	25,504	33,217	43,221	58,698	69,305	85,364	107,859
Right to use assets						7,173	9,602	9,602	9,602
Capital WIP	981	817	1,529	1,471	3,768	3,644	10,196	10,196	10,196
Total Investments	152	293	531	682	165	31,374	11,122	8,898	7,118
Curr. Assets, Loans and Adv.	7,134	8,970	30,629	20,330	22,118	26,264	45,144	46,047	54,727
Inventory	5,396	6,717	9,479	11,634	16,087	19,474	22,483	24,695	37,194
Account Receivables	71	84	210	335	644	196	436	555	838
Cash and Bank Balance	380	351	18,843	5,602	2,191	1,079	14,456	13,028	8,925
Loans and Advances	1,287	1,818	2,097	2,758	3,197	5,516	7,770	7,770	7,770
Curr. Liability and Prov.	2,208	3,488	4,295	4,942	9,246	6,497	10,280	10,191	15,362
Account Payables	1,185	1,944	2,607	3,173	4,633	4,335	5,781	7,314	11,016
Other Current Liabilities	843	1,487	1,605	1,642	4,474	1,996	4,236	2,574	3,889
Provisions	179	56	84	127	139	167	262	303	457
Net Current Assets	4,926	5,482	26,334	15,387	12,872	19,767	34,865	35,857	39,365
Deferred Tax assets	0	0	0	1	2	3	10	9	9
Appl. of Funds	21,340	27,527	53,897	51,541	60,811	114,268	126,281	141,107	165,330

Financials and valuation – Avenue Supermarts

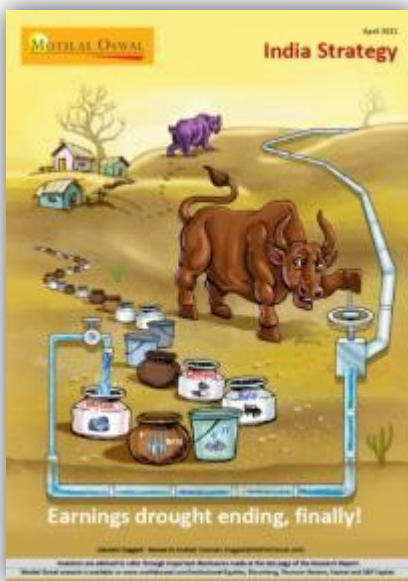
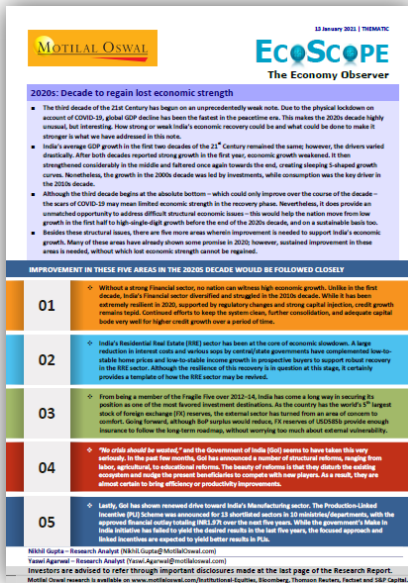
Ratios

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Basic (INR)									
EPS (diluted from FY17)	3.8	5.7	7.7	12.9	14.5	20.1	17.0	22.8	37.4
Cash EPS (diluted from FY17)	5.2	7.5	9.7	15.5	17.9	26.8	24.3	31.4	48.7
BV/Share (diluted from FY17)	21.4	27.1	61.6	74.8	89.5	177.5	195.2	218.9	257.7
DPS	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payout (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valuation (x)									
P/E			402.8	239.2	213.7	153.9	182.1	135.4	82.6
Cash P/E			317.9	199.8	173.0	115.1	127.4	98.3	63.4
P/BV			50.2	41.3	34.5	17.4	15.8	14.1	12.0
EV/Sales			16.2	12.8	9.7	8.1	8.2	6.6	4.4
EV/EBITDA			196.1	142.5	118.2	94.1	114.2	86.0	52.5
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF per share	-4.1	-3.6	-2.8	-2.9	-9.5	-6.6	-10.1	-8.2	-11.1
Return Ratios (%)									
RoE	19.6	23.6	17.9	18.9	17.6	15.6	9.5	11.4	16.3
RoCE	14.0	15.8	14.2	15.8	16.8	15.5	9.4	11.3	16.0
RoIC	14.3	16.0	18.7	20.4	18.3	19.7	11.7	13.6	18.7
Working Capital Ratios									
Fixed Asset Turnover (x)	3.5	3.9	4.3	4.0	4.1	3.8	3.1	3.1	3.6
Asset Turnover (x)	3.0	3.1	2.2	2.9	3.3	2.2	1.9	2.1	2.8
Inventory (Days)	36	34	34	34	35	34	40	35	35
Debtor (Days)	0	0	1	1	1	0	1	1	1
Creditor (Days)	8	10	9	9	10	7	10	10	10
Leverage Ratio (x)									
Current Ratio	3.2	2.6	7.1	4.1	2.4	4.0	4.4	4.5	3.6
Interest Coverage Ratio	5.2	6.2	7.0	20.0	30.1	25.4	31.9	48.9	85.0
Net Debt/Equity	0.7	0.7	-0.1	0.0	0.0	-0.3	-0.2	-0.1	-0.1

Consolidated Cash Flow Statement

Y/E March	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
(INR m)									
OP/(Loss) before Tax	3,226	4,918	7,600	12,036	14,219	17,448	14,835	19,954	33,183
Depreciation	815	984	1,278	1,590	2,125	3,744	4,142	4,832	6,195
Interest and Finance Charges	724	913	1,220	595	472	691	417	375	375
Direct Taxes Paid	-1,000	-1,642	-2,586	-4,027	-5,018	-4,924	-2,616	-5,165	-8,959
(Inc.)/Dec. in WC	-1,520	-685	-2,697	-2,427	-3,507	-3,762	-1,271	-2,420	-7,611
CF from Operations	2,245	4,489	4,815	7,767	8,292	13,197	15,506	17,575	23,182
Others	-25	-154	-237	-467	-224	-395	-1,754	-1,992	-1,701
CF from Operating incl. EO	2,220	4,335	4,578	7,300	8,068	12,801	13,751	15,583	21,481
(Inc.)/Dec. in FA	-4,770	-6,350	-6,354	-9,087	-13,970	-17,060	-20,275	-20,891	-28,690
Free Cash Flow	-2,549	-2,015	-1,775	-1,787	-5,902	-4,259	-6,524	-5,308	-7,208
(Pur.)/Sale of Investments	31	-151	-229	-247	0	0	7,830	2,224	1,780
Others	0	172	-18,259	13,970	4,386	-29,505	1,345	1,992	1,701
CF from Investments	-4,739	-6,329	-24,842	4,635	-9,584	-46,566	-11,100	-16,674	-25,210
Issue of Shares	326	0	18,406	0	0	41,869	0	0	0
Inc./(Dec.) in Debt	2,634	2,898	3,050	-10,791	2,600	-6,615	-1,359	37	0
Interest Paid	-621	-934	-1,203	-800	-510	-682	-436	-375	-375
Dividend Paid	0	0	0	0	0	0	0	0	0
Others	5	0	0	0	0	-998	0	0	0
CF from Fin. Activity	2,345	1,964	20,253	-11,591	2,090	33,574	-1,795	-338	-375
Inc./Dec. in Cash	-174	-30	-11	345	574	-190	856	-1,429	-4,103
Opening Balance (without bank bal.)	546	370	340	329	674	1,249	1,059	1,915	486
Closing Balance	372	340	329	674	1,249	1,059	1,915	486	-3,617
Other bank balance	8	11	18,514	4,928	942	20	12,541	12,542	12,542
Closing Balance (including bank bal.)	380	351	18,843	5,602	2,191	1,079	14,456	13,028	8,925

THEMATIC/STRATEGY RESEARCH GALLERY



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NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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