redseer

DECODING KEY TRENDS IN LOGISTICS

Delivering the 26 Bn$ digital economy

CONTENT

PREFACE

Internet economy in India is still nascent with only 4% of entire private consumption happening online (in CY18). But, it is the fastest growing sector with growth rate ~4X of overall consumption growth. When the product economy started gaining momentum 5 years back, logistics was one of the largest problems to be solved since the traditional logistics companies were not geared to serve the unique demands on this new-age industry.

We have come a long way since then where new-age logistics players have been able to fill the void and traditional players have also overhauled their systems to be able to serve these players. CoD and reverse logistics were some of the key innovations in Indian logistics industry largely due to the e-commerce needs.

As the ecosystem is gaining momentum, the number of shoppers in tier-2+ cities today account for half of annual shoppers. Both e-tailers and logistics firms are constantly innovating on their delivery models and infrastructure to serve these customers faster in a cost effective manner. Huge investments are also being done in 'Large/ Heavy Products' supply chain which has been constrained due to logistics capabilities.

Going forward, the new-age logistics firms are also venturing out in other business lines like traditional B2B, warehousing and cross-border where they see adjacencies basis existing capabilities, Also, as hyperlocal businesses like food-tech, grocery and e-pharma have started gaining momentum and becoming size-able, they present huge opportunities for logistics companies.

Through this report, we have tried to bring out the key trends in terms of how this industry has been evolving as well as what the future holds for the industry

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EXECUTIVE SUMMARY

Indian Consumer Internet Market
$ 65 Bn in 2018 and expected to grow to $ 200 Bn by 2020

- The Indian consumer internet market is likely to grow to USD 200 Bn+ by 2022 from USD 65 Bn in 2018; rapid growth of new sectors, establishment of verticals will fuel this growth
- The USD 65 Bn market consists of products and services; logistics forms the backbone of the USD 26 Bn+ product economy
- Opportunities in the logistics space exist in both Fulfilment and Hyperlocal opportunities

Fulfilment Opportunity
3PL Fulfillment opportunity to grow 4x by CY22 to cross USD 2 Bn

- Overall E-tailing Shipped GMV growth from USD 22 Bn to USD 65-70 Bn would create a large demand for logistics, the daily shipments would grow from 2.5 - 2.8 Mn to 11 - 11.5 Mn at a CAGR of 44% till CY 22
- The large horizontals continue to increase the share of shipments from captive logistics arm; the trend will become even more predominant going forward because alternative delivery models are being deployed by captives to strengthen their logistics
- Growth in long-tail e-commerce players will lead to a 2 Bn+ opportunity for 3 PL players by CY 22

Hyperlocal Opportunity
Hyperlocal shipments to grow by 10x to cross 22Mn daily by CY22

- Food Tech – With foray into Tier-II+ cities, Food tech will experience a 10x growth in GMV,11x growth in shipments. To cater to the increasing demand food tech players expected to rely on 3PL's to strengthen their fleet
- Grocery - From CY18 - CY22; GMV to grow by 4x, deliveries to grow by 8x due to faster growth in daily essentials
- E-Pharma – Due to regulatory pressures and lack of inhouse logistics capabilities, e-pharma players would rely on 3PL's to cater to the expected 7X delivery growth by CY22

INDIAN CONSUMER INTERNET MARKET

THE INDIAN CONSUMER INTERNET MARKET COMPRISING OF PRODUCTS AND SERVICES IS LIKELY TO TREBLE TO USD 200 BN BY CY22

With a population of ~1.3 Bn, India is the second largest country and one of the fastest growing markets for consumer internet companies. Online spend has come a long way and crossed the 4% penetration mark last year. With an internet population of ~530 Mn, internet penetration is set to cross 50% mark by CY21. Even with a large population online, the online transactors continue to be only ~200 Mn (40% of online population incl. product and services). While the entire digital economy grew by only 25% CAGR between CY15-17, the growth in CY17-18 has been ~40%. There are 2 major factors contributing to this growth- a) Data prices going down (Jio effect), b) mass adoption of UPI platform leading to higher trust on online payments. UPI payments in March'19 alone reached nearly 800 Mn

The digital economy is set to reach USD 200 Bn by CY22 with a CAGR of 30-35%. While we expect the existing sectors to continue to grow, new sectors are also expected to emerge which will grow faster on a smaller base. For eg, Food-tech has seen an explosive growth in the last 2 years and is expected to grow at 150%+ in CY19 as well. Growth in consumer internet sector will also lead to new opportuniies for ancillary businesses like logistics.

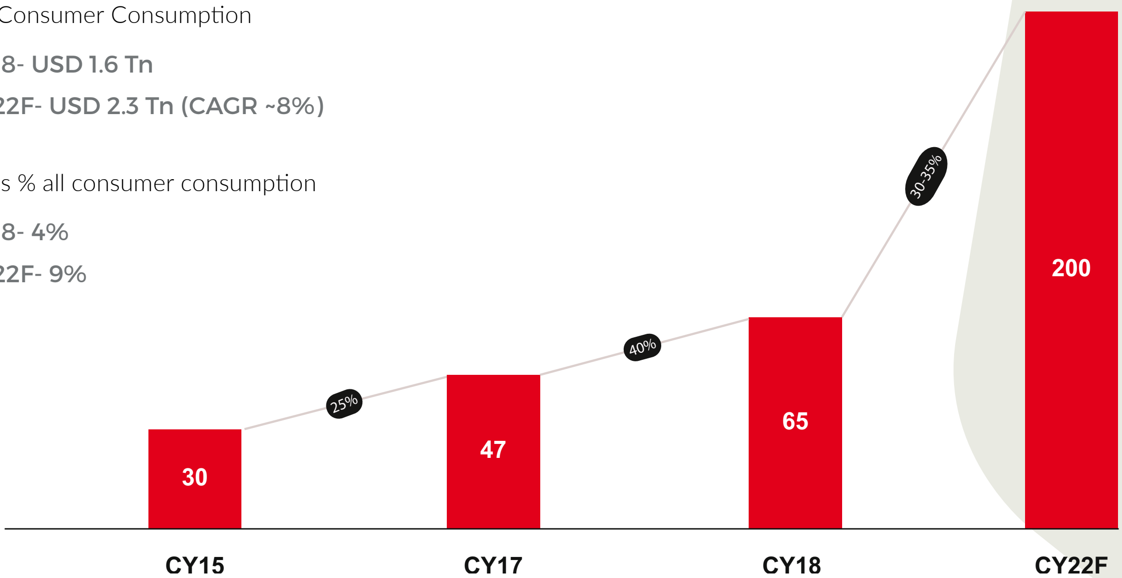
India Consumer Internet Market (USD Bn)

Overall Consumer Consumption

- CY18- USD 1.6 Tn
- CY22F- USD 2.3 Tn (CAGR ~8%)

Digital as % all consumer consumption

- CY18- 4%
- CY22F- 9%



CY15-17: Turbulence

- Top heavy, largely e-tailing driven market in CY15 (~40% share)
- Govt regulations on discounting in CY16 put brakes on e-tailing and drags down growth of internet economy
- Bloated players with weak economics

CY17-18: Thrust

- Mega funding in e-tailing kickstarts sector growth
- Other consumer internet companies and sectors emerge with a focus on quality execution and robust unit economics
- Growing verticalization of the market

CY18- Cruise Control

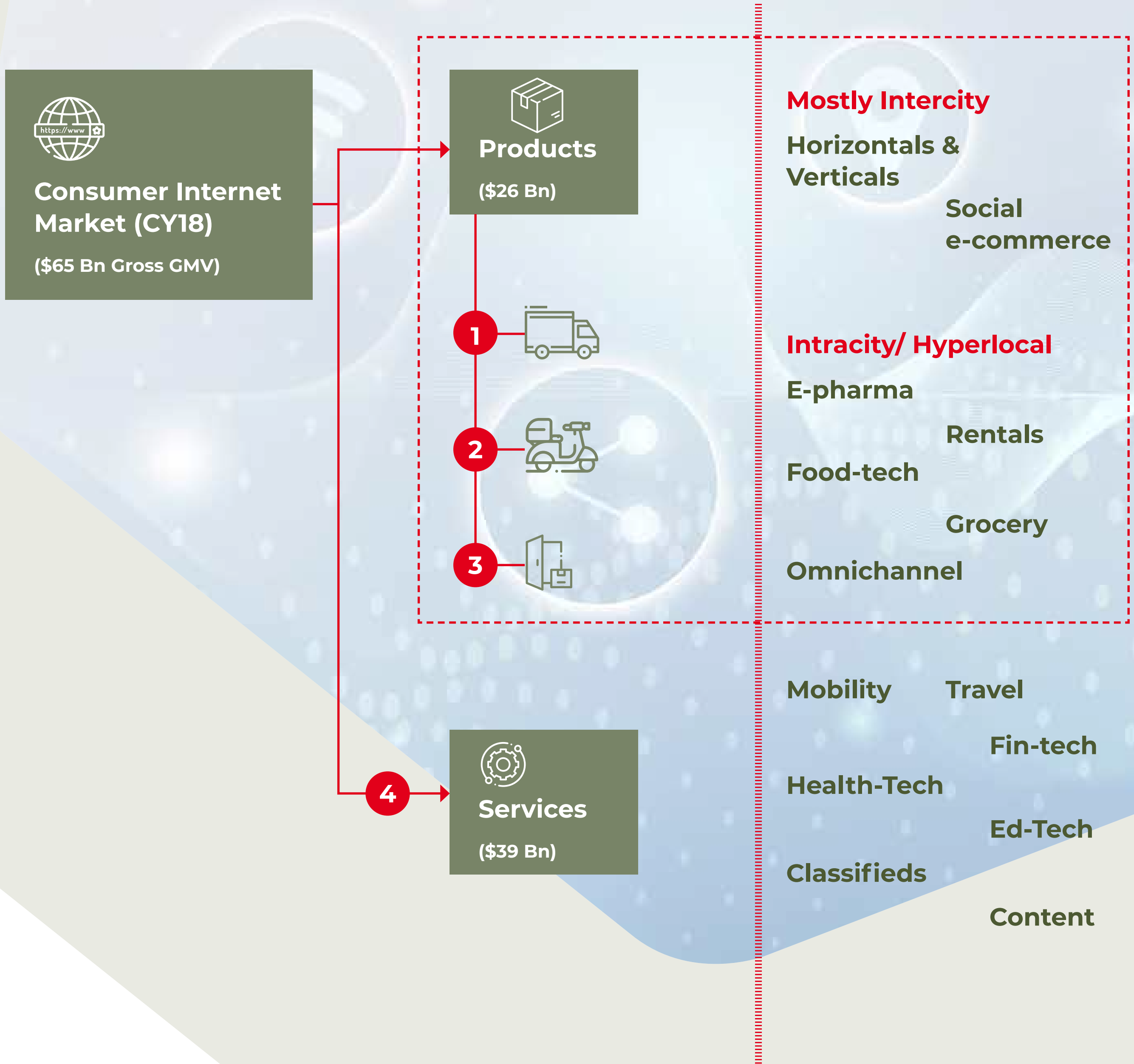
- Rapid growth of new sectors
- Many sectors like e-tailing enter a period of steady growth
- Verticals established across sectors
- Innovative business models driven by omnichannel presence
- Bloated players with weak economics

Market does not include P2P transactions done through UPI & Wallets
Source(s): Desk Research; RedSeer Analysis

PRODUCT ECONOMY CURRENTLY ACCOUNTS FOR USD 26 BN OUT OF USD 65 BN OF CONSUMER INTERNET ECONOMY

The 65 Bn$ digital economy is split as 40-60 between products and services. For a majority of online transactors today, the first online transaction is for services, and not products. Booking train and air tickets online is typically the largest use case for first time transactors. Increasingly, P2P UPI payments are also making it easier for converting non-transactors to transactors.

Fulfilment is an important part of digital products economy, which can be broadly divided into 2 categories- e-tailing (typically inter-city, refers to horizontals, verticals and super-verticals) and hyperlocal (eg. Food-tech, grocery). Interestingly, e-pharma can be counted in both categories due to different models adopted by players.

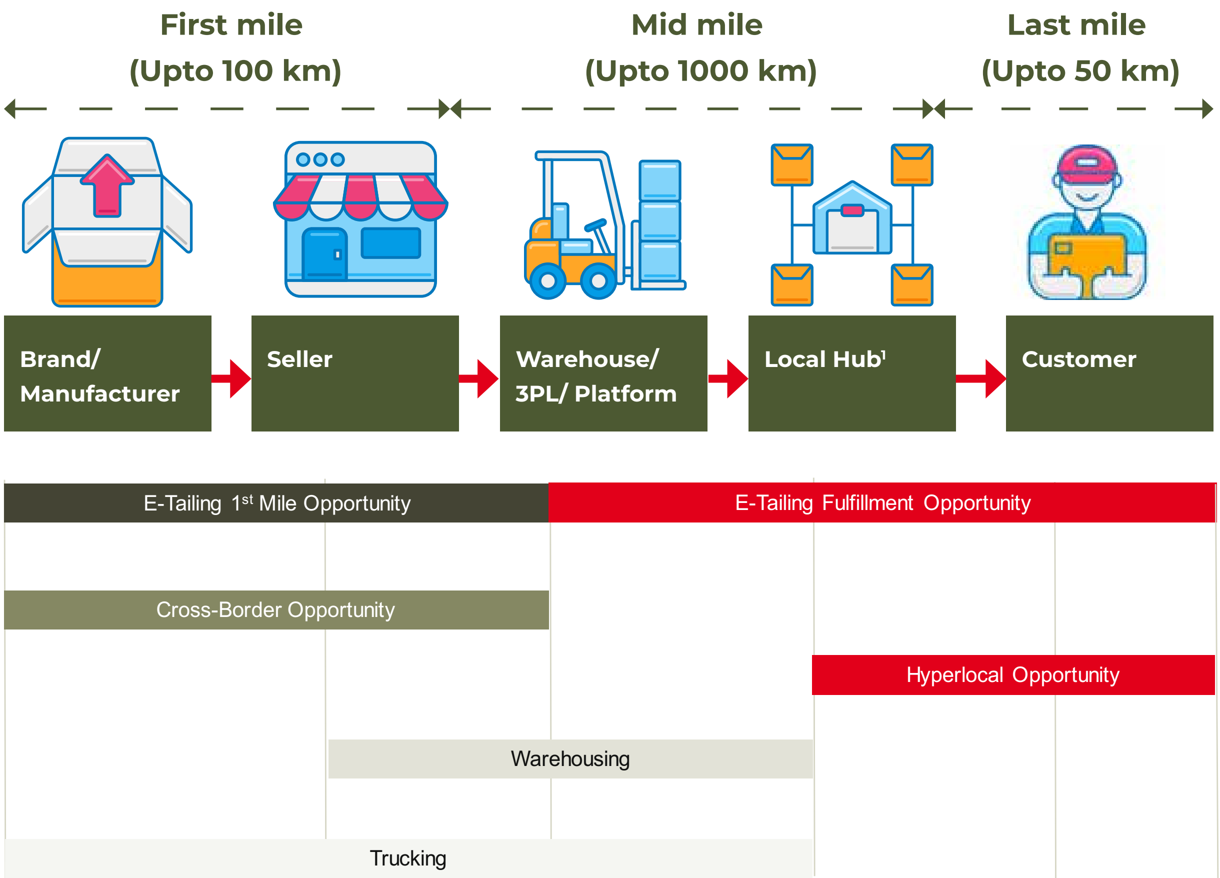


Note(s) : First, Mid and Last mile have been defined on the next slide
Source(s): Desk Research; RedSeer Analysis
1 USD = INR 65

AMONG THE OPPORTUNITIES WITHIN LOGISTICS (ACROSS FIRST, MID & LAST MILE), THIS STUDY FOCUSES ON FULFILMENT AND HYPERLOCAL OPPORTUNITIES

The e-tailing supply chain is designed to ensure smooth flow of products from the brand/ manufacturer/ seller to the end customer. Key opportunities are first mile, cross border, warehousing, trucking and fulfilment (incl. mid-mile and last mile). The hyperlocal supply chain is typically designed for the last mile delivery from hub (restaurant, dark store etc.) to the end customer.

This report focuses on fulfilment opportunity (both for captive and 3PL), especially on how it is expected to evolve for 3PL payers. Within Hyperlocal, the focus is on understanding the segment-wise opportunities, since the dynamics are fairly different for different segment, and the key trends playing out in each segment.



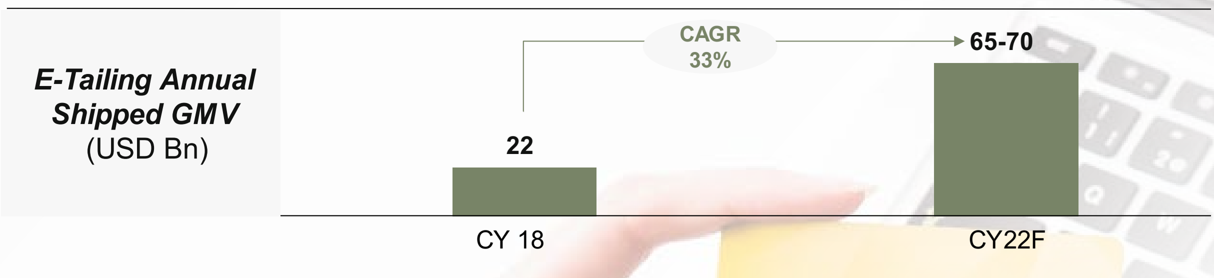
Note(s): 1. It can be a distributor for pharma, kitchen in case of food tech players, dark store for e-tailer etc.

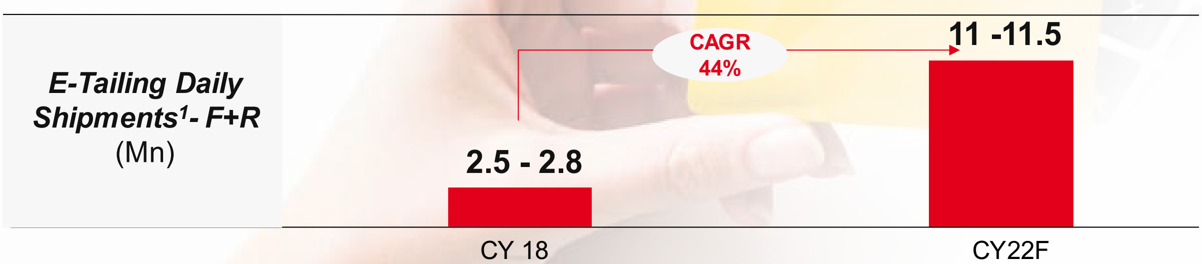
FULFILMENT OPPORTUNITY

OVERALL ONLINE E-TAILING GROWTH IS CREATING LARGE DEMAND FOR LOGISTICS; 11- 11.5 MN DAILY SHIPMENTS EXPECTED BY CY22

Typical GMV funnel for an e-tailer flows from Gross GMV (also referred to as Checkout GMV). Subtracting pre-shipment cancelations (typically 5-10%) from Gross GMV provides Shipped GMV, and further subtracting Returns (Return to Origin, and reverse pickups) provides NMV (Net Merchandise Value) or Fulfilled GMV.

The e-tailing industry shipped ~ 800 Mn shipments in CY18. As the Shipped GMV grows at 33% CAGR for the next 4 years to reach USD 65-70 Bn, the shipments are expected to grow by 44% CAGR to reach reach 3.5 Bn annually. The faster growth of shipments compared to GMV is driven by slower growth of Mobiles and electronics (typically higher value) compared to other categories like Fashion and General Merchandise





# Annual Shipments (Mn)	~800	~3500

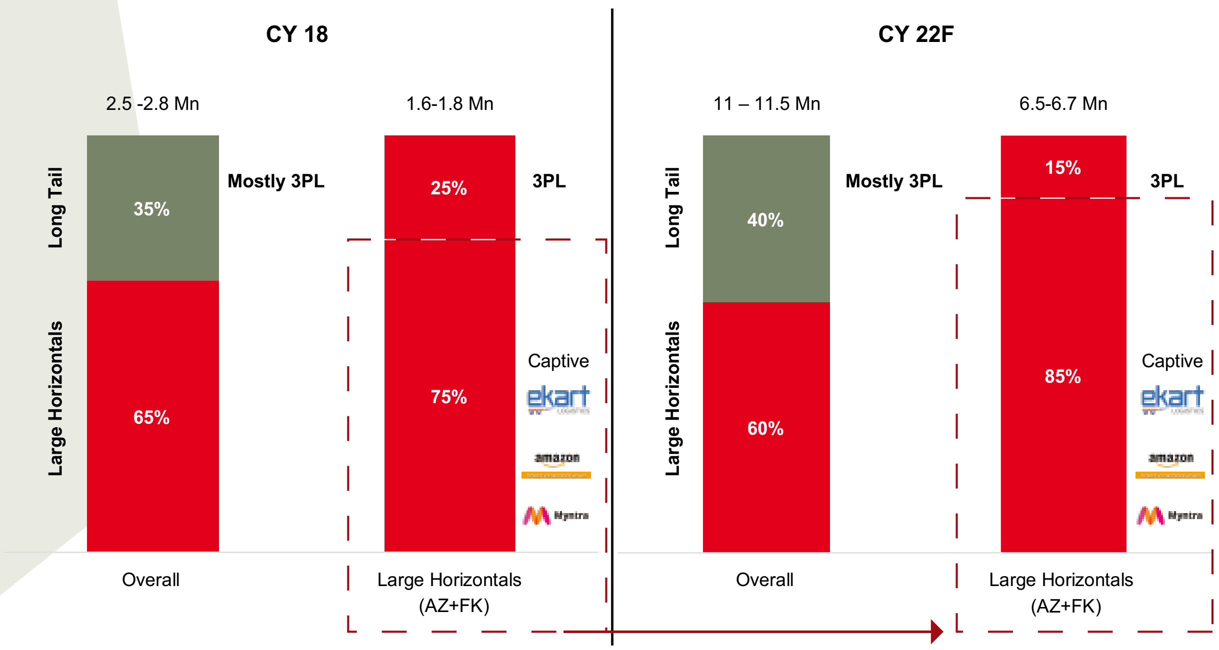
Note(s):
1. Shipments include both forward and reverse; RTO is not counted as a separate shipment
2. We have taken a cancellation rate of 11% between gross and shipped GMV (Hence shipped GMV comes to USD 22 Bn)
3. 1 USD = INR 65

HORIZONTALS ARE PRIMARILY SERVED BY THE CAPTIVES, AND THIS TREND IS LIKELY TO BECOME EVEN MORE PROMINENT GOING FORWARD

Large Horizontals currently account for ~65% of shipments; their contribution to GMV is even higher since AOV for Large Horizontals is higher than Verticals and Super Verticals. For Large Horizontals, typically 75% of shipments are fulfilled by captive arms while the rest is 3PL. Large Horizontals take multiple factors into account for choosing whether the shipment is fulfiled by Captive or 3PL including pin-code coverage, shipment value and speed.

Increasingly, large horizontals are increasing the share of fulfilment from captive arms instead of 3PL. By CY22, the share of captive is expected to reach ~85%. The share of Long Tail is expected to grow from 35% to 40% (in terms of shipments) due to faster growth of verticals and super-verticals compared to large horizontals,

3PL vs Captive- Large Horizontals (AZ+FK) vs long tail



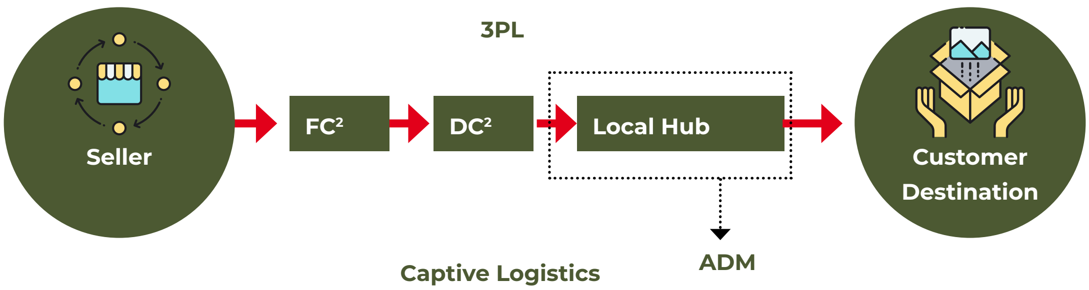
Note(s):
Large horizontals include Flipkart group and Amazon
Long tail refers to e-tailing players other than Flipkart Group and Amazon
Amazon Transport Services and ekart logistics for Amazon and Flipkart Group resp. (inclusive of Myntra & Jabong)
ADM – Alternate Delivery Models for last mile

LARGE HORIZONTALS ARE INSOURCING AND STRENGTHENING CAPTIVES BY DEPLOYING ADM's[1]

One of the ways large horizontals are increasing the share of captive arms is Alternate Delivery Models (ADMs). ADMs are typically deployed to meet last mile requirements leveraging existing infrastructure (Fulfilment Center, Delivery Center) for mid-mile. There are typically 3 types of ADMs that Large Horizontals are using:

- **Kirana Stores:** The spare capacity (both space and manpower) of the kirana store is utilized either as a pick up point or last mile delivery. This also created an alternate income stream for the kirana store owner
- **Last Mile Augmentation (LMAs):** Instead of hiring own manpower for last mile operations, Large horizontals partner with LMA, who provide manpower for running delivery center operations and last mile delivery services
- **Consignment Based Model (CBM):** For >30 km last mile distance, 3rd parties are used which have the end-to-end capabilties for last mile deliveries. The CBMs tend to aggregate demand across players in the smaller cities to drive efficiencies

EARLIER Large horizontals used 3PL exclusively to reach Tier II+ cities



Note : Large horizontals are reducing 3PL usage for Tier II+ by building DCs near them; leveraging ADM's based on requirement

NOW Large horizontals are building DC's in smaller cities and leveraging ADM's allowing them :

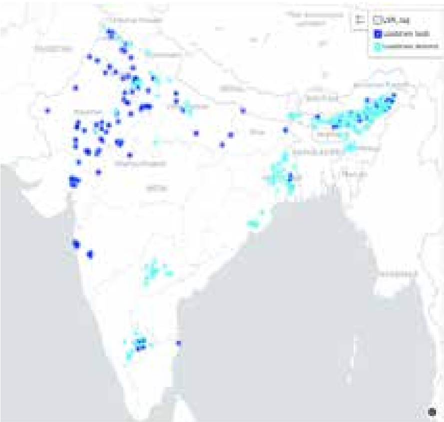
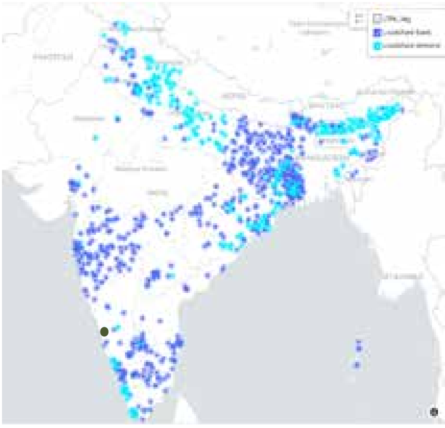
- **Have better control of supply chain**
- **Reduce logistics cost**

ADM	Kirana Stores	Last Mile Augmentation (LMA)	Consignment Based Model (CBM)
	Turned into collection and pick-up points	Manpower supplied to run delivery center operations and last mile delivery services	3rd parties used where last mile distance cannot be serviced by other ADM's
Range	<5 Km	5-30 Km	5-100 Km

1. ADM stands for Alternate Delivery Models
2. FC stands for Fulfilment centre, DC stands for Delivery Centre,

AND THESE ADM MODELS ARE MATURING FAST : LOADSHARE EXAMPLE

LOADSHARE NETWORKS

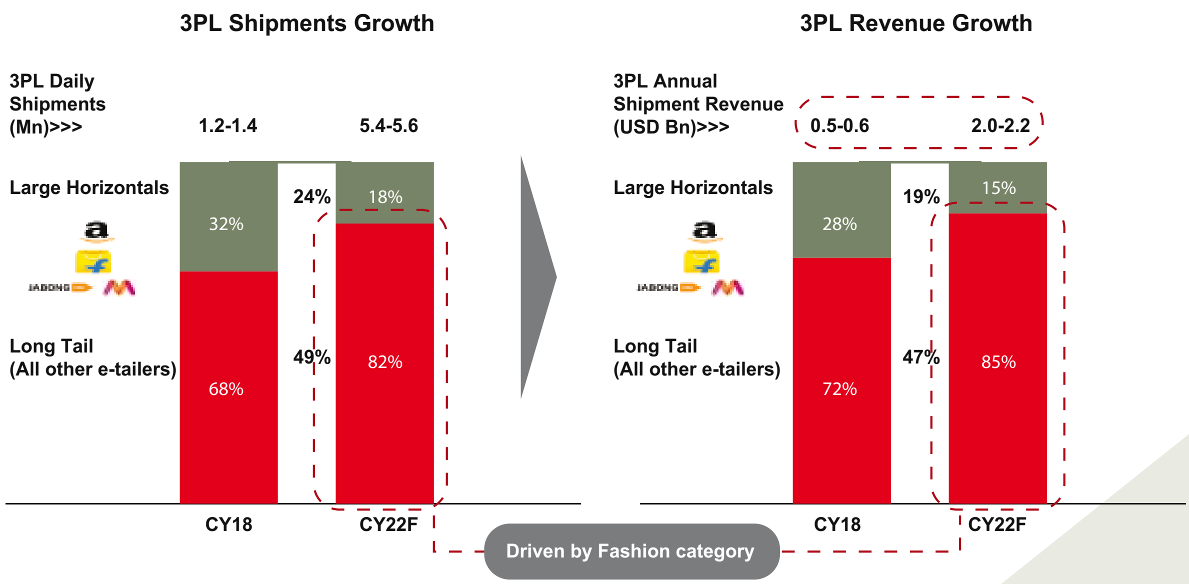
Attributes	2017	2019
Scale	3000+	40,000+
Footprint	Footprint as of Feb 2017 	Footprint as of Mar 2019 
Key Proposition	Only Reach	Reach & Cost

- Initial focus on unreserved locations; significant headroom for expansion
- Early momentum in Metros (NCR, Kolkata etc.)
- SaaS usage in West; base for marketplace expansion

HOWEVER, 3PLs WILL SEE SIGNIFICANT GROWTH IN THE LONG-TAIL TO BECOME A USD 2BN+ OPPORTUNITY BY CY22

While the large horizontals account for ~32% of the shipments today, their share of captive shipments is expected to continuously increase as they penetrate deeper into smaller towns and cities, which are increasingly becoming viable as demand centres for large horizontals. Also, large horizontals have started using ADMs more, as it gives them significantly more reach in smaller towns which can be served from their warehouses, which could be 50-60 km away.

Long tail, on the other hand, is expected to continue to be dependent on 3PL in terms of volume. In terms of value, while the overall revenue per shipment is expected to come down, the impact will be more in Large Horizontals which will continue to pay lower costs due to sheer scale, compared to long tail where the decrease in cost is expected to be lower. The growth in long tail shipments is expected to come from verticals and super verticals in fashion category which will grow on the back of differentiated offerings compared to large horizontals.



Notes:
1. Total Annual revenue calculated assuming average of 26 effective days per month
2. Flipkart group comprises of Flipkart, Myntra and Jabong
3. 1 USD = INR 65

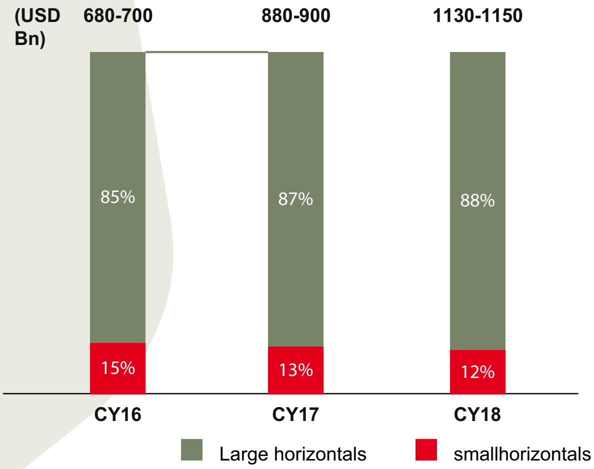
THIS IS IN LINE WITH WHAT HAS BEEN HAPPENING IN CHINA, WHERE 3PL's HAVE A 16% SHARE IN THE OVERALL E-TAILING SHIPMENTS

Currently, China is the market leader in the global online retail market. In 2015, the share of online sales in the total retail sales in China was 11% and was growing at a healthy rate of 50+% . Thus, in order to stay competitive in the e-commerce industry, the vendors needed to find an effective approach to deliver their goods on time and match the customer expectations.

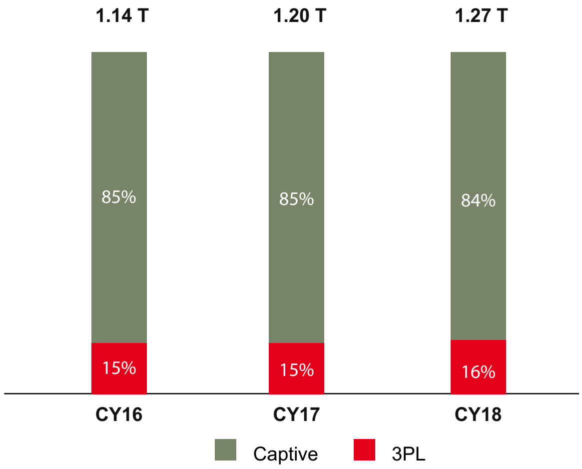
Thus, many e-commerce platforms demanded highly efficient logistics services. From 2016 onwards, 3PL's started to gain significant traction as they allowed e-commerce platforms to focus on expanding their users base, enhance their product and promote their business while the logistics were handled by 3PL service providers.

Captive vs 3PL Logistics Revenue (USD Trillion) CY18 vs. CY22F

E-tailing market in China has consolidated with Alibaba and JD having ~90% market share.



In a mature market 3PL's comprise of 16% of the overall E-Tailing shipments



Notes:
1. China E-tailing market is inclusive of B2B and B2C
2. Source - http://www.estin.com/pdf/publications/E-tailing%20battlefieldVF.pdf
3. 1 USD = INR 65

3PL OPPORTUNITY (CY18-CY22)

ALSO, THERE EXISTS A USD 1BN+ ADDITIONAL OPPORTUNITY FOR 3PLS 'NEAR CORE BUSINESSES' BY CY22

NEAR CORE	CONTEXT	CURRENT AND CY22 3PL REVENUE	GROWTH DRIVERS	CURRENT PLAYERS IN THIS SPACE
E-TAILING LARGE GOODS DELIVERY	Currently ~6.5 Mn large goods delivered by 3PLs as captives don't have much infra	CY18 ~$80 mn CY22 ~550 mn	• Improving supply chain network • Increased confidence of customers for buying large appliances online	Mahindra Logistics, Blue Dart, Delhivery
E-TAILING LARGE GOODS VAS	Large horizontals and offline players have outsourced ~100% of installation and repair of large appliances and furniture	Potential Market CY18 ~0 CY22 ~$500 mn	• Shipments of large goods increasing at a significant rate of 70% till CY22 • Increasing outsource of VAS by ecommerce players	Jeeves, UrbanClap, housejoy
WAREHOUSE MANAGEMENT	Warehouse management includes storage of goods and is currently a ~$13 bn industry in India	CY18 ~$85 mn CY22 ~$230 mn	• Increasing warehouse consolidation in future • Pressure to reduce costs need automation at warehouses	Mahindra Logistics, Delhivery, Blue Dart

USD 1Bn+ of incremental opportunity to be created where 3PLs can drive growth

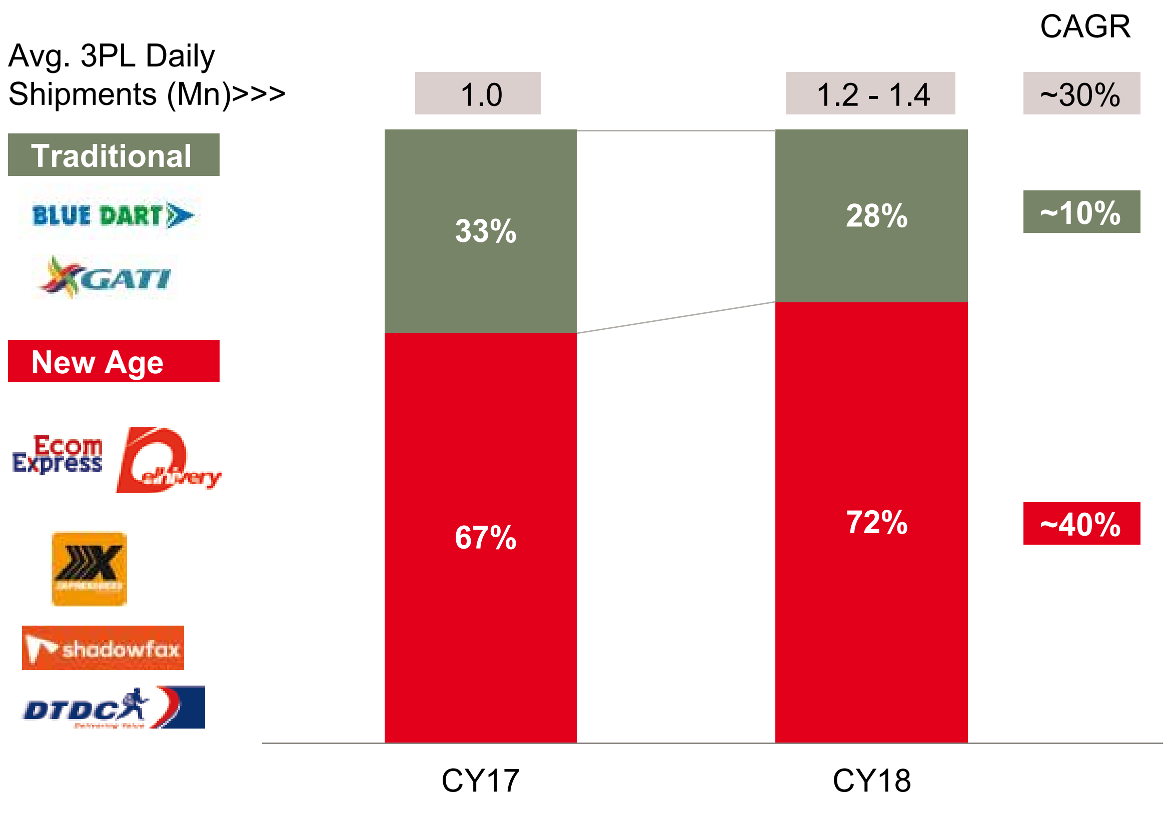
Notes:
1. 1 USD = INR 65

NEW-AGE PLAYERS ARE CONTINUOUSLY GROWING THEIR MARKET SHARE

Traditional players like GATI and Blue Dart were dominating the logistics market for quite some time with their scale, but with new ecommerce models coming up with a need for efficient, category specific and last mile logistics, players like Delhivery, shadowfox and Ecom Express have emerged with the right kind of shipping capabilities needed for ecommerce. Typically, 33% of shipments used to come from traditional players in 2017, which has declined in the last one year.

Increasingly, New age players in logistics are focussing on delivery and overall customer experience, with better alignment with ecommerce players timelines and customer focus. This has enabled them to grow by 40% CAGR to reach 72% share in 2018 and is likely to be dominated by them in near future, as the market penetrates in to small towns.

Market share split of 3PL players[1]



Note:
1. On the basis of forward shipments only
2. Basis CY17 exit run-rates
3. Basis CY18 exit run rates

HYPERLOCAL OPPORTUNITY

HYPERLOCAL IS MORE THAN USD 2.7 BN MARKET
WITH HIGH GROWTH POTENTIAL

Hyperlocal ($ 2.71 Bn) 70%

Segment	Major Players	Growth Rate[1] (CY18-22)	Key Messages
Food Tech[2] ($ 1.7 Bn)	Swiggy, Zomato, foodpanda, Uber Eats	80%	Swiggy and Zomato are looking for aggressive geographical expansion – to at least 500 cities by end of CY19
Grocery[3] ($0.8 Bn)	bb, G, amazon	40%	Growth through expansion in metro cities; Smaller cities still not ready for buying online
ePharma ($ 0.2 Bn)	PharmEasy, 1mg, netmeds.com, MedLife Only includes hyperlocal delivered prescription medicine	63%	Lack of clarity in regulations is a challenge. However, strong underlying demand4 and low online penetration will continue to drive growth
Others[5] (<$ .01 Bn)	Swiggy	80%	On-demand hyperlocal delivery space expected to grow due to large latent demand especially in metros

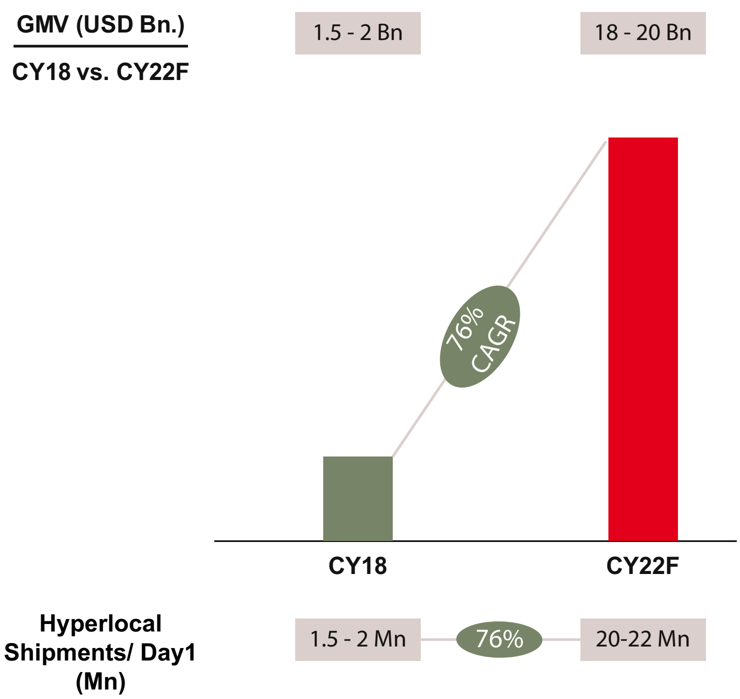
Note:
1. RedSeer IP
2. Includes internet kitchens
3. Grocery Verticals only
4. RedSeer Research
5. Concierge services
6. 1 USD = INR 65

FOOD-TECHS' FORAY INTO SMALLER CITIES WILL RESULT IN MASSIVE GROWTH - ~10X GMV TRANSLATING TO ~11X DAILY SHIPMENTS

The growth of food tech has been a strong success story in consumer internet. While the first wave of growth has largely been metro driven, there is increasingly larger growth driven by smaller cities. Food tech has now penetrated 300+ cities and expected to grow to 500 cities by end of the year.

There are other dimensions to the growth as well, as customers are finding new use cases in terms of breakfast, snacks and late-night meals; instead of just lunch and dinner. Single serve meals are also growing fast especially in cities where young migrant population is higher which does not always have fully functioning kitchen

As the transactions grow, we expect AOVs to come down due to a) Lower costs in smaller towns and cities, b) More single serve meals; so, the orders/ shipments are expected to grow faster than GMV. The foodtech market is expected to grow more than 75% to reach $20Bn GMV by 2022 and hence logistics will play a vital role in fulfilling the demand.



Growth Drivers

Market Expansion

- Deeper penetration in the large markets
- Induction in Tier-1+ markets

- Daily food offerings at affordable prices (e.g. introduction of Swiggy Daily, Droppt etc.)

- Acceptance of other use cases like Breakfast & Snacks coupled with occasional lunches/ dinners

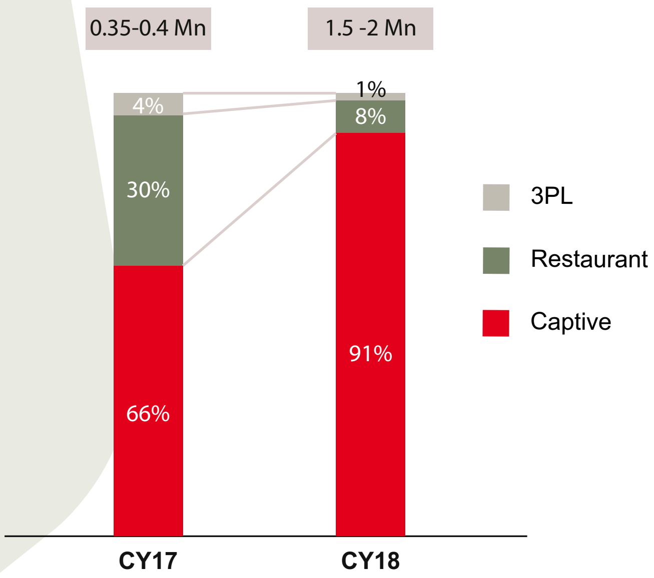
Note:
1. Includes internet kitchens
2. 1 USD = INR 65

IN THE PAST YEAR, FOODTECH PLAYERS STRENGTHENED THEIR CAPTIVE FLEET IN ORDER TO MAINTAIN STANDARDIZED CUSTOMER EXPERIENCE...

With a major driver for foodtech platform's growth and retention of customer being the customer service and the operational capability to deliver as promised, in minimal possible time, the players have shifted the focus to captives over 3PL to maintain the control on overall experience of customer. This is evident from increased share of captives from 2017 to 2018, which accounted for 91% in 2018.

This has given the platforms better integration and consistency in maintaining their operations. Overall, it resulted in better customer experience and increased frequency of ordering, thereby better customer retention.

Food Deliveries[1] (Mn)
Captive vs Restaurant Vs 3PL[2]; CY17 vs CY18



Foodtech players are strengthening captives

- 3PL hyperlocal players initially saw traction from Food-tech which **receded quickly** (dropped from 4% to 1%)
- Tech integration issues and 3PL players' inability to maintain standardised Customer Experience (CX) acted as catalysts for foodtech players' decision to strengthen their captive fleet

Note:
1. Respective CY exit run rates
2. Calculated basis exit run-rates shipments of Top 3 food-tech players

...AS 3PLS ARE YET TO SUCCESSFULLY SOLVE THE ISSUES PERTAINING TO TECH INTEGRATION AND STANDARDISED CUSTOMER EXPERIENCE (CX)

Besides meeting CX[1] criteria[2] set by Food-Tech clients...

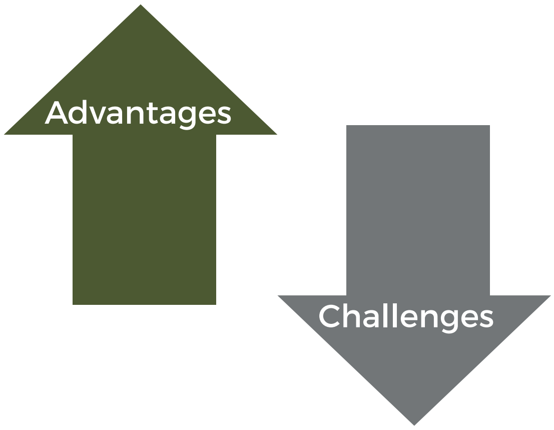
Parameter	Benchmark for Delivery Partner
1. CX Rating Customer Rating of Delivery on Client's App out of 5	4.6
2. SLA Adherence to delivery times in minutes	35 Min
3. Cancellations Percentage of orders cancelled by the customer attributable to delivery partner	~1.5%

3PLs haven't been able to consistently meet these SLAs

...3PLs have other challenges to overcome and advantages to leverage

Established operations

3PLs have established operations in Tier 2+ cities; have operational competency to meet a clients' demands.



Tech integrations

To ensure good customer experience, 3PLs need to invest in technology to integrate their platform with clients' platform for a seamless experience.

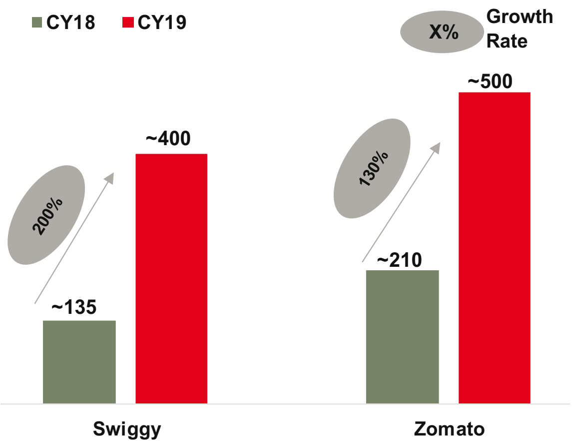
Note:
1. Basis interviews with 3PL experts

HOWEVER, WITH RAPID GROWTH PLANNED AND INCREASING COST PRESSURES, 3PL PARTNERSHIPS ARE AGAIN BEING RELOOKED

Food-Tech players are looking at rapid expansion into a large number of Tier 2+ cities...

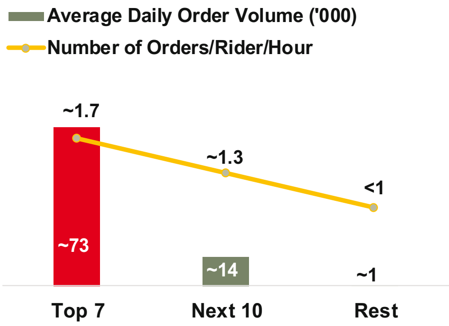
Reach[1] (No. of Cities)

Swiggy and Zomato's Presence in Cities: CY19 Vs CY19



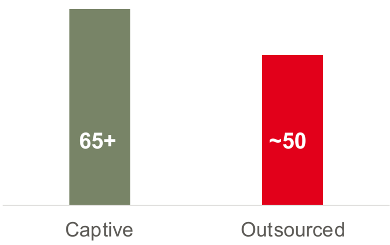
...but their strategy of using primarily captive fleets might not be scalable

Economies of Scale from Groups of Cities



Last Mile Cost Per Delivery[4] (INR)

Captive vs Outsourced Delivery



Note:
1. As per RedSeer's Food-Tech Research
2. Calculated basis exit run rates of top 2 food-tech players as of Dec '18
3. RedSeer IP
4. As per analysis based on Zomato's FY19 Annual Reports and inputs from 3PL Experts

INDEED, FOODTECH PLAYERS ARE ADOPTING ASSET-LIGHT OPERATING MODELS TO EXPAND INTO SMALLER CITIES – UNDERSCORING THE OPPORTUNITY FOR 3PLS

As foodtech players look to expand and penetrate into small Tier cities, the initial strategy to adopt asset light model will serve as a better option with minimal capital investment for these platforms. This offers a great opportunity for 3PLs in the specific regions to develop partnership with food platforms by integrating their operational capabilities in the initial pilot phases with foodtech players and gaining the share.

Infact, as other internet platforms grow into mid and smaller cities and towns, partnering with 3PL becomes vital and key to initial success, as demand density is usually lower in such areas and hence 3PLs will be able to better aggregate the demand to do shipments at lower cost structures compared to captives.

	TOP 80 CITIES	NEXT 150 CITIES	NEXT 300 CITIES
LOGISTICS MODEL	Captive	No Captive	No Captive
	Limited 3 PL	3PL/ Outsourced to local vendors	Zero Touch*

Definition of zero touch: Zero touch implies that neither captive nor 3PL players have a firm footing in these place and cannot run their operations

Significant incremental opportunity for 3PLs in the food delivery space

Note:
1. 1 USD = INR 65

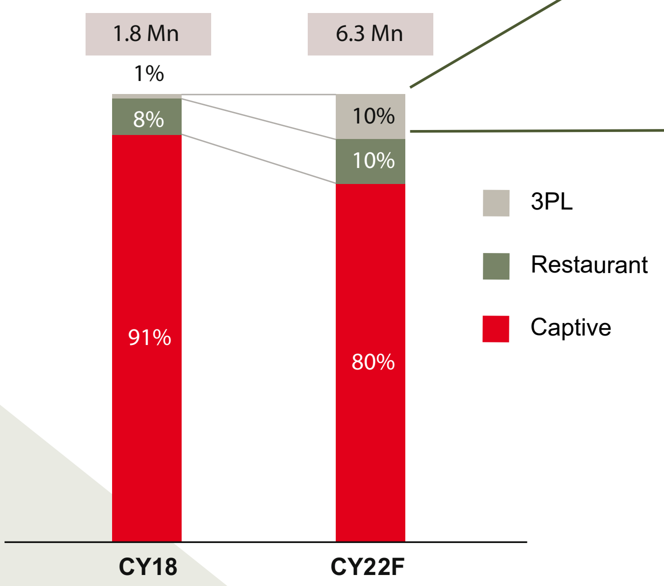
THEREFORE, 3PL PLAYERS SHOULD SEE A SIGNIFICANT BUMP IN FOOD-TECH SHIPMENTS BY CY22, AS ALSO SEEN IN CHINA

Usually, due to similar demographics and market dynamics, a similar trend is observed in India as was observed in China. This is evident in foodtech as well, with logistics side of things. The 3PL share is just 1% today and will be expected to reach 10% by 2022 through better management of deliveries and managing customer expectations.

Food platforms are focussed on rapid expansion, and hence they will need to partner with 3PLs as it would be low risk and low investment choice. It's equally important for 3PLs to grab the opportunity presented by foodtech and other sectors to grow faster and expand their services.

Food Deliveries (Mn)

Captive vs Restaurant Vs 3PL; CY18[1] vs CY22F



Annual Industry Revenue[3], CY22E

$ 1.8 Bn

The Chinese Example

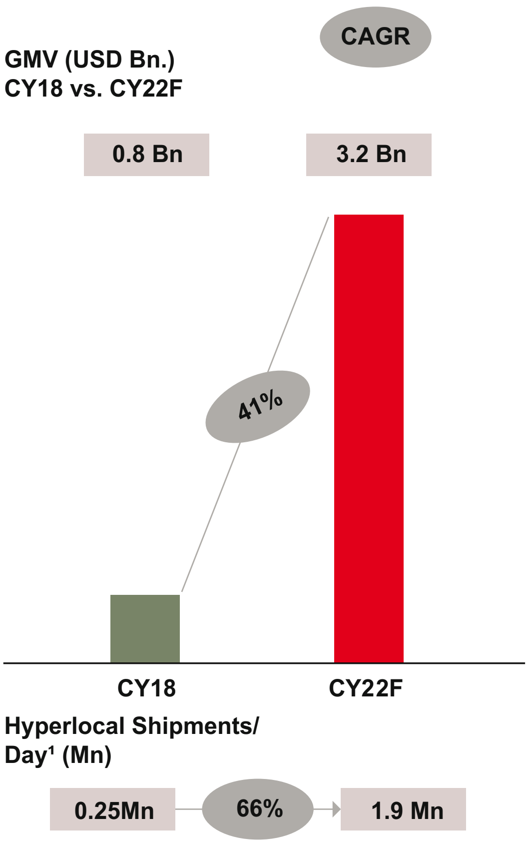
- **Meituan** & **Ele.me** – Chinese food tech players outsourced ~15% of their shipments to 3PL players
- **DianWoda**, a Chinese 3PL players does close to 2 Mn shipments/ day for Ele.me
- **Similar trend is expected in India** as 3PL's step up to meet demand

Note:
1. Calculated basis exit run-rates shipments of Top 3 food-tech players
2. Basis interviews with industry experts
3. 1 USD = INR 65, annualised from daily run-rate, INR 50 as revenue per shipment, 365 days service in a year

ONLINE GROCERY WILL GROW BY ~4X GMV AND ~8X DAILY SHIPMENTS; MOST OF THIS GROWTH WILL BE DRIVEN BY METROS AND TIER-1

India's online grocery space has gone through a significant evolution in last few years- from explosive growth and funding in CY15 to growth challenges and funding winter in CY16 and then accelerated growth 2018 onwards. In this stop-start journey, many new business models have evolved, and many themes have been proven and disproven.

Inspite of all these disruptions and changes, one thing that did not changed is the massive potential for online grocery- as indicated by India's USD 500+ Bn grocery market out of which a mere 0.2% is online (~USD 0.8 Bn considering only hyperlocal grocery). Given this massive potential, the online grocery market will continue chugging along at 50% growth rate for the next few years, which will be served by various models, including category specialists, narrow and wide supermarkets. Online grocery has been able to grow in double digit figures on the back of convenience- based levers like assortment, express delivery, and subscriptions. Unlike online-fashion where consumer reach was the key lever of growth strategy, here the market is still focused on large cities.



Growth Drivers

- **Strong value proposition**
  - Express Delivery
  - Large Assortment
  - Growing subscriptions
- **Increasing penetration within current cities**
- **Boost in demand of long-tail offerings**

Note:
1. Hyperlocal shipment growth rate assumed to be 50%

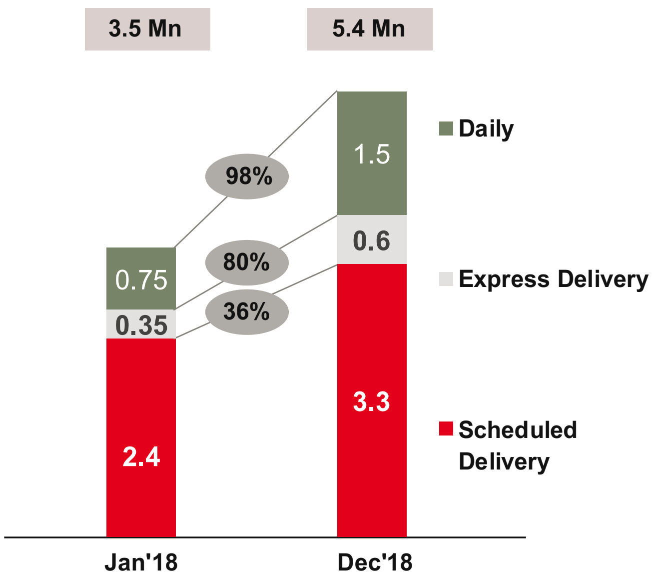
EXPRESS DELIVERY HAS EMERGED AS A STRONG VALUE PROPOSITION; TO BOOST PENETRATION, GROCERY PLAYERS WOULD RELY ON 3PL

Online grocery verticals have taken the lead in terms of monetizing their convenience seeking consumers, by converting ~30-40% to the total consumer base to their subscription programs. While subscription programs have bought in some success to increase penetration in their larger markets on the back of affordable pricing, cashbacks, price discounts and high order frequency but limited slots of priority delivery remain a bottle neck in their strong value proposition.

To sustain their value proposition, some grocery players have almost doubled their delivery fleet in less than one year. Going forward as their penetration increases in large markets and they expand their operations in tier-1+ cities, grocery players will increasingly outsource logistics to 3PL companies. A major challenge in the way of the 3PL players would be to integrate their technology to cater to the requirements of the grocery verticals and match the customer experience. Significant progress have been made by 3PL's to up their game when it comes to the technology front and opportunities seem pouring as they continue to hustle, innovate and evolve.

Share of Scheduled v/s Express Deliveries

CY18 (Split by orders)



Growth Drivers

- Large grocery verticals (Big Basket, Grofers etc.) are focusing on **increasing penetration** unlike Foodtech players who are aiming at both expansion & penetration
- Strong value proposition – **Express delivery** coupled with wide range of SKUs will, Daily subscriptions will be key drivers to increase penetration
- Large verticals would rely on 3PL's but **tech integration** is an issue, and certain 3PL players have made significant progress in finding solutions for the same

Example: Thrust on building 'Express Delivery' capabilities

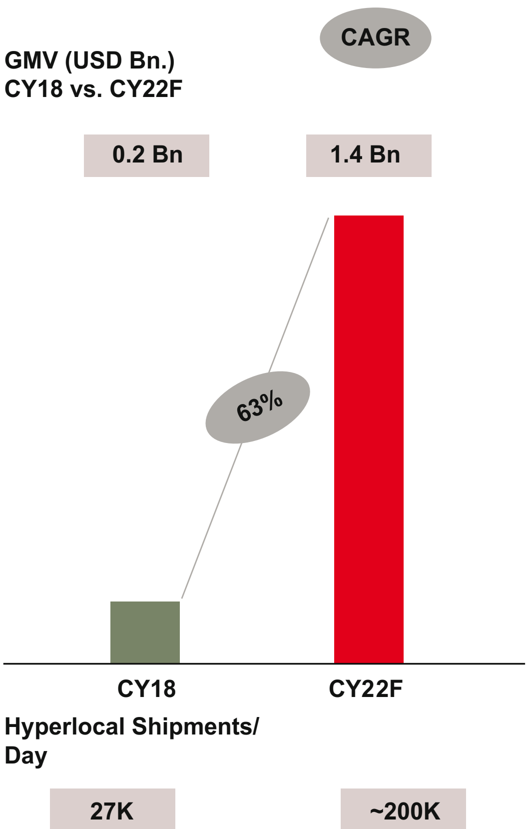
One of the large e-grocery players has doubled its delivery executive fleet in CY18, and in order to further meet the supply-demand gap, it will rely on 3PL players

E-PHARMA TO WITNESS ~7X GROWTH IN GMV

Health-tech (online healthcare) is one of the most encouraging sectors within the Consumer Internet space since it has the potential to expand the overall market basis its value addition on affordability and trust plank. Within health-tech, E-pharma has emerged as the most-evolved sub-sector with a current market size of ~0.2 Bn (only includes hyperlocal delivered prescription medicine) which is likely to grow at a healthy 63% to become ~1.4 Bn by CY22.

E-pharma benefits from a high repeat use-case which trickles into the online platform as well. Chronic use cases drive a disproportionately high share of orders which leads to high ordering frequency and a high AOV (~ INR 1200). Growth levers for E-pharma are the strong value proposition provided in terms of discounts, convenience of ordering, availability of medicines (or close substitutes) and trust on the platform.

Going forward, E-pharma players have realized the importance of building portfolio of (1) OTC/ FMCG/Health supplements to retain customers and expand wallet size, and (2) services (diagnostics/ teleconsultation) and generic medicine portfolio to improve margin profile. Also, there's a strong possibility that future leaders in the space would emerge as full stack service providers offering services across the customer/ patient value chain; covering the entire



(Only includes hyperlocal delivered prescription medicine)

Growth Drivers

- **Strong value proposition**
  - High discounts (~17%)
  - Convenience
  - Strong customer retention for prescription drugs
- **Preference for online due to unavailability of drugs on offline platforms (specially in Non-Metro)**
- **Easy to find trustworthy substitute medicines**

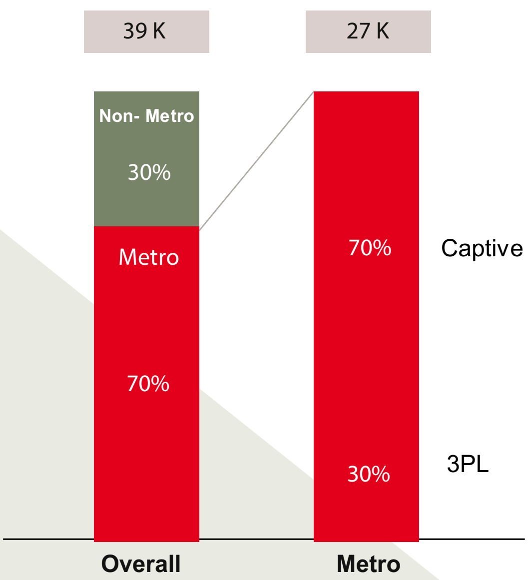
Note:
1. 1 USD = INR 65

THUS FAR, E-PHARMA PLAYERS HAVE STUCK TO USING HYPERLOCAL WITHIN METROS ONLY WHILE MEETING ALL OTHER DEMAND VIA INTERCITY SHIPMENTS...

Currently, the amount of money spent on healthcare by households every year is more than double in metros than it is in tier-1 cities. This translates to ~70% of the shipments being hyperlocal and the remaining ~30% being intercity. To keep quality control, 3 out of top 4 e-pharma companies have an inventory model and have set up their warehouses to cater to the requirements.

Daily Shipments ('000)

Metro Vs. Non Metro & 3PL vs Captive: CY18[1]



More details about e-pharma business models

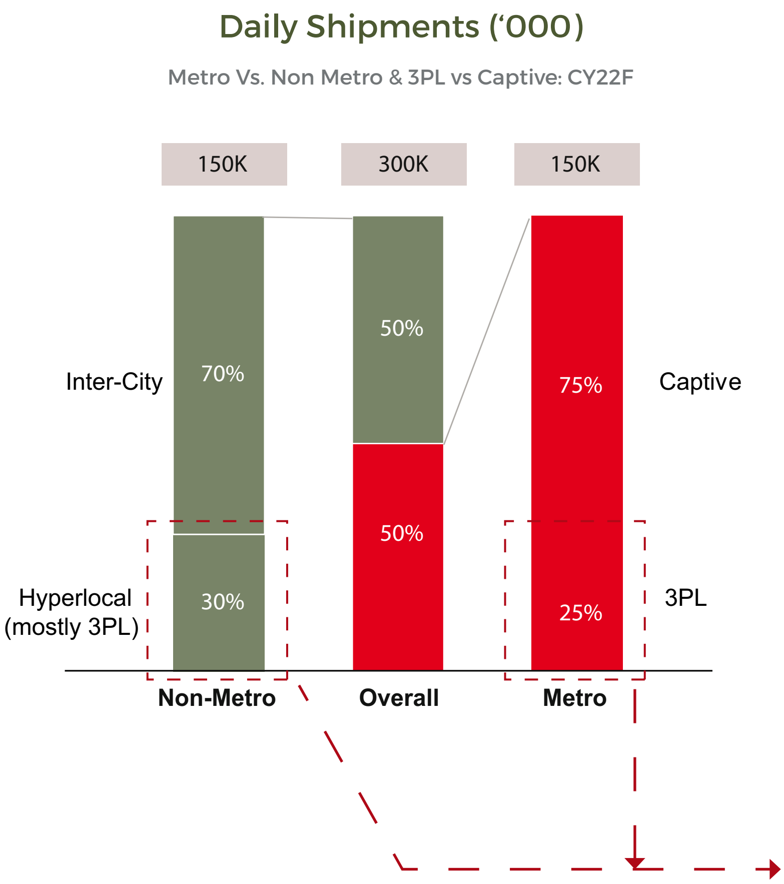
- 3 out of the top 4 companies have inventory model
- Companies which follow marketplace model have ~90% of its fleet outsourced to 3PL players for metros and outstation deliveries
- Players set-up around 15-20 warehouses in metros which cater to the requirements in the geographical vicinity

Note:
1. Basis CY18 exit run-rate
2. RedSeer IP

GIVEN a) REGULATORY PRESSURES b) LIMITED INHOUSE LOGISTICS CAPABILITIES/ DNA AND c)STRONG ECOSYSTEM OPTIONS; E-PHARMA WILL INCREASINGLY RELY ON 3PLs

Regulatory pressures on e-pharma companies like mandatory 24/7 call centers, high court threats of banning E-pharma pan India and other operational challenges are limiting them build their inhouse logistics capabilities. As a result, E-pharma companies are unable to match user expectations when it comes to delivery experience.

Further to acquire customers and expand their user base, e-pharma players are offer high discounts (~17%). To compensate for the high customer acquisition costs (CAC), e-pharma's will look for alternatives to optimize their logistics cost. With increasing penetration and expansion to non-metro's, demand is expected to come from non-metro cities e-pharma's will rely on 3PL for low-cost and efficient logistics solutions.



Why e-pharma will rely on 3PLs

- **Major Roadblocks** like - Central and State Overregulation, mandatory 24/7 Call Centre's, high-courts on banning E-Pharma pan India
- Owing to **high discounts offered (~17%)** to acquire customers; e-pharma players look forward to optimize their logistics cost
- E- pharma companies will increasingly use 3PL services to serve demand from non-metros

Annual Industry Revenue[1], CY22F

$[2] 25 Mn

Note:
1. Revenue from shipments only, Revenue per shipment = INR 50, 365 days service a year
2. 1 USD = INR 65

GLOSSARY – OTHER KEY DEFINITIONS

TERM	DEFINITION
HYPERLOCAL DELIVERIES	Deliveries which are done within a city/ cluster
FIRST MILE	The first mile refers to the movement of products from a retailer to a courier service or to anyone who will take these goods to their final users
LAST MILE	The last mile refers to the final movement of products from the courier service to their final users.
MID MILE	The transportation of goods within the courier service company before it is dispatched for the last mile delivery
CROSS-BORDER	Involves the transportation of goods between two countries
3PL	Third Party Logistics are the sole logistics companies to whom deliveries of goods are outsourced by various players
CAPTIVE LOGISTICS	Captive logistics - Inhouse logistics arm for e-commerce platforms
EXPRESS DELIVERY	Same day hyperlocal delivering with SLA ranging from 30 min to 3 hours
SCHEDULED DELIVERY	The consumer can get the products delivered in the time slots available before placing the order
LONG TAIL	Long Tail E-Commerce Players - Players excluding Amazon & Flipkart Group
KIRANA STORE	A small neighborhood retail store located at multiple locations across cities
LARGE HORIZONTALS	Amazon & Flipkart Group (inclusive of Myntra & Jabong) combined are referred to as "Large Horizontals"
SLA	Service Level Agreement is a contract between the service provider and a client

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