

# Quick commerce space stays warm amid funding winter

Investor interest unchanged but analysts say focus now on reducing cash burn

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The funding winter brought on by fears of a global recession has impacted almost all start-ups, except, surprisingly, the quick commerce segment that was expected to see the biggest impact. It has not just managed to survive, it has grown.

The segment has continued to garner investor interest, according to data from market intelligence platform Tracxn. Firms raised \$1.1 billion in three deals between January and November — not far off from last year's tally of \$1.3 billion raised across four deals.

On the operations front, gross order values have risen sharply. According to the second quarter (Q2FY23) results of Zomato, the only listed entity in this segment, its quick commerce arm Blinkit, which it acquired in June, recorded a 26 per cent quarter-on-quarter (QoQ) rise in gross order value at ₹1,482 crore in Q2. Revenue jumped 44 per cent QoQ, while adjusted Ebitda (earnings before interest, taxes, depreciation, and amortisation) loss in quick commerce reduced to ₹259 crore from ₹326 crore in Q1.

According to a recent report by Jefferies, Blinkit's rival Instamart's gross merchandise value (GMV) grew 15 times year-on-year (YoY) in the first half of 2022 at \$257 million. The report added that Blinkit also grew at "an impressive pace" with a GMV of \$270 million.

"Quick commerce is an attractive market," said Vinod Murali, managing partner at Alteria Capital, but before scaling operations businesses must prove that the model is profitable at city level, he added. "The addressable market is very large and there is a lot of investor interest. But there is definitely an outlook of creating efficiency and reducing burn at the moment," Murali said.



**GOING STRONG**

Quick commerce segment relatively untouched by the ongoing funding winter  
YoY funding (\$ bn)

Year	Total amount	Firms to raise funds
2021 (Jan-Nov)	1.3	4
2022 (Jan-Nov)	1.1	3

Other analysts believe this is a long game and profitability will come with scale.

There are three important factors at play, said Anand Ramanathan, partner at Deloitte — selection of the right micro market, correct assortment selection, and efficient logistics. "Quick commerce firms needed time to understand this and build offerings to cater to them," he added.

## Growth despite chill

According to recent media reports, Reliance Industries-backed Dunzo and e-commerce giant Flipkart's arm Flipkart Quick scaled down dark stores. But analysts said these were strategic decisions.

"We do not really have any short-term requirements for capital at the moment and can sustain operations for quite a few years at this rate, while maintaining a healthy growth trajectory," said Aadit Palicha, co-founder and chief executive officer of Y Combinator-backed Zepto.

The company, which raised \$200 million in May, has chosen not to scale down its operations like some of its competitors.

"Many of our dark stores are now on the path to profitability. Day by day, we are seeing better unit economics because our supply chain execution is so good and we are launching dozens of dark stores every quarter," said Palicha.

Food aggregator Swiggy's arm, Instamart, also says it is sufficiently funded after it raised \$700 million at the beginning of the year.

"We witnessed a 16-fold increase in orders between June 2021 and June 2022 and continue to see strong growth month-on-month. We believe we have only scratched the surface of quick commerce grocery in India and there is plenty of headroom for us to grow," said an Instamart spokesperson.

Reliance-backed Dunzo, which raised \$240 million in January, also said its dark stores were turning profitable.

"In the last few months, our stores/micro-fulfilment centres that have completed six months of being online have turned profitable. As more centres turn profitable, we will take those profits and invest them back into the business," said a Dunzo spokesperson.

## Funding rounds in 2021 and 2022

Date	Company	Amount (\$ mn)
<b>► 2021</b>		
Dec 20	Zepto	100
Oct 31	Zepto	60
Sep 27	Blinkit	79.3
Sep 16	Dunzo	0.27
Apr 5	Swiggy	1,250
Jan 15	Dunzo	40.03
Jan 7	Zepto	0.73
<b>► 2022</b>		
May 3	Zepto	200
Jan 24	Swiggy	700
Jan 6	Dunzo	240

Source: Tracxn

## Profitability

The quick commerce model is yet to prove it can be profitable at scale. Many businesses have put in place measures to drive revenue, such as levying miscellaneous charges and slowing down delivery time.

According to reports, both Dunzo and Zepto were levying ₹3-7 per order as handling charges. They have also increased their threshold for free deliveries.

Murali of Alteria Capital, a venture debt firm that has invested in Dunzo, added that businesses need to improve their revenue while concurrently improving margins.

Kannan Sitaram, partner at Fireside Ventures, says this is a long game. "The industry is still nascent and it will take quite some time to become profitable," he said.

## The path ahead

Analysts expect some consolidation in the segment. "Right now, there are four or five players in the market. Like the food aggregator market, which has come down to two major players, we might see some exits in quick commerce as well," said Sitaram.