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JM FINANCIAL

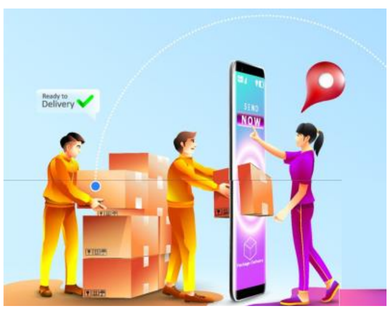
ONDC: Disruption or Evolution?

ONDC is a population-scale initiative to democratise e-commerce

Potential to create a win-win scenario for incumbents as well as new entrants

Roadblocks aplenty due to extreme operational complexity

Table of Contents	Page No.
Executive Summary	3
Key Exhibits	4
What is Open Network for Digital Commerce?	7
Reasons for genesis of ONDC	9
UPI : Disruption or Transformation?	13
Comparing ONDC with current e-commerce ecosystem	16
Potential roadblocks for ONDC	18
ONDC: Partnerships, cities, investors and team	19
Platforms onboarding as seller side app - Petpooja	23
How can ONDC impact our coverage universe?	25
Crystal-gazing varied scenarios for ONDC	27



After the successful population-scale adoption of Aadhaar and UPI, the Indian government is backing itself to have a similar impact in digital commerce. On paper, this initiative sounds great with potential benefits for the larger incumbents as well as the small retailers and MSMEs. However, on ground, we anticipate this to be a tougher puzzle to solve than the earlier ones due to the number of moving parts and the relatively satisfactory customer experience compared to the case with digital payments. Assuming successful execution, we expect the incumbents to become beneficiaries by joining hands with ONDC.

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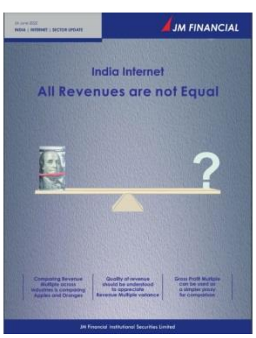

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ONDC: Disruption or Evolution?

Open Network for Digital Commerce (ONDC) has been incubated with the primary purpose of supporting grassroots-level entrepreneurship and digitising small, local retailers by making them a participant in India's e-commerce revolution. ONDC is pursuing an open protocol approach that drives interoperability between all onboarded platforms and, hence, lowering the entry barrier for a retailer to sell online. This allows a consumer on any app of his/her choice to buy from any seller across the network even if the seller might not be onboarded on the app that the customer is using. We appreciate this move by the Indian government to take the digital revolution across the nook and corner of the country and believe that this could be a massive driver in taking India's digital penetration in retail from the current 5-7% to almost 20% in the next 5 years (current IBEF estimate is of 19% by 2030).

Obvious parallels have been drawn with UPI that democratised the digital payments space in India and we believe that despite a much higher operational complexity, a successful ONDC should look like UPI of today. ONDC is a digital good and not a platform, just as UPI is not a wallet or a bank. Instead of ONDC disrupting any of the incumbents, similar to UPI, we believe ONDC can have a healthy relationship with these incumbents. We postulate that onboarding some of the larger incumbents early might actually provide ONDC the much needed scale as well as credibility with buyers and sellers. In this report, we also attempt to crystal-gaze three evolution scenarios for ONDC and believe that this initiative will face massive challenges including those related to educating the small retailers, fair competition, grievance redressal, network policies, data privacy, and finally providing consumers a seamless transaction experience that they have become so habitual of.

Taking the digital revolution to "Bharat"

Though Urban India has been enjoying the digital revolution, retail digital penetration in India is still in the mid-single digits. We believe the primary reason for this is that a large part of the country did miss the bus and was struggling to grapple with the pace of evolution. With its primary focus of enabling e-commerce for small retailers and MSMEs, ONDC has the potential to enhance retail digital penetration in the country at an even faster pace than what was seen during the COVID lockdowns. The network will enable a wider customer catchment to small retailers and direct customer access to MSMEs, creating millions of million-dollar businesses.

Interoperability is the key word for ONDC

Using an open source protocol, ONDC switches the approach from closed platforms to a network that creates interoperability across all onboarded applications. This interoperability enables unbundling, which allows all participants to play to their strengths – a banking app with millions of consumers focuses on onboarding/engaging consumers while a SaaS provider for online sellers handholds the sellers. Further, the buyers get to stick to their app of choice for accessing a broad selection while sellers do not need to spend time and capital in working with multiple platforms in silos. Overall, this can drive capital efficiency for the players, helping them achieve profitability.

How will the large incumbents respond to ONDC?

When initial media reports on ONDC were published, it was often referenced as a giant killer, launched to disrupt the duopoly of Amazon and Flipkart. While success of ONDC can possibly upset the duopoly, we believe that the individual growth story of these companies will stay intact. Further, we actually believe that the best case scenario for ONDC will include working along with these incumbents as well as the vertical leaders as that will provide the network a ready base of buyers and sellers. From these companies' perspective, we advocate them joining the network as any lowering of take-rates (due to sharing with other network participants) can be amply compensated by boost in volumes along with the option value in case ONDC picks up traction similar to UPI.

ONDC needs to ride over multiple roadblocks

ONDC sounds like an interesting initiative but when it comes to execution, we anticipate multiple roadblocks that need to be overcome for it to become a success. These roadblocks include solving the chicken and egg situation between supplier and buyer onboarding, customer complaints redressal (as a fragmented process also creates gaps for the process to fall through), competition issues in case the large incumbents or massive brands are onboarded as well as those related to data privacy and ownership. Looking at UPI evolution, ONDC might also need to decide on its positioning as a non-regulatory authority or becoming a rule-setting body in order to ensure that the network remains fairly attuned for the small retailer to not get marginalised.

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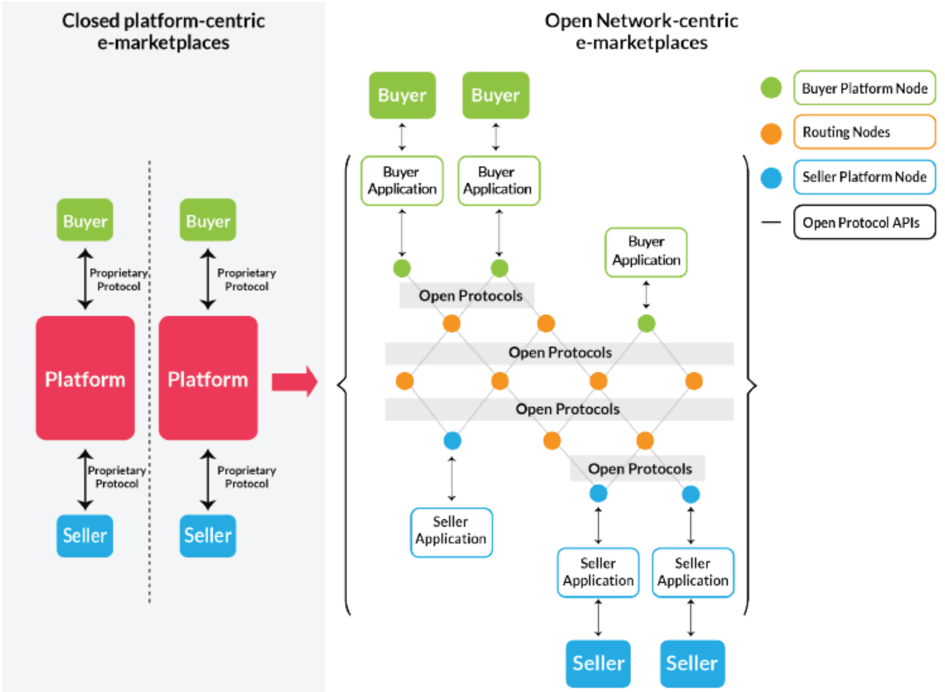
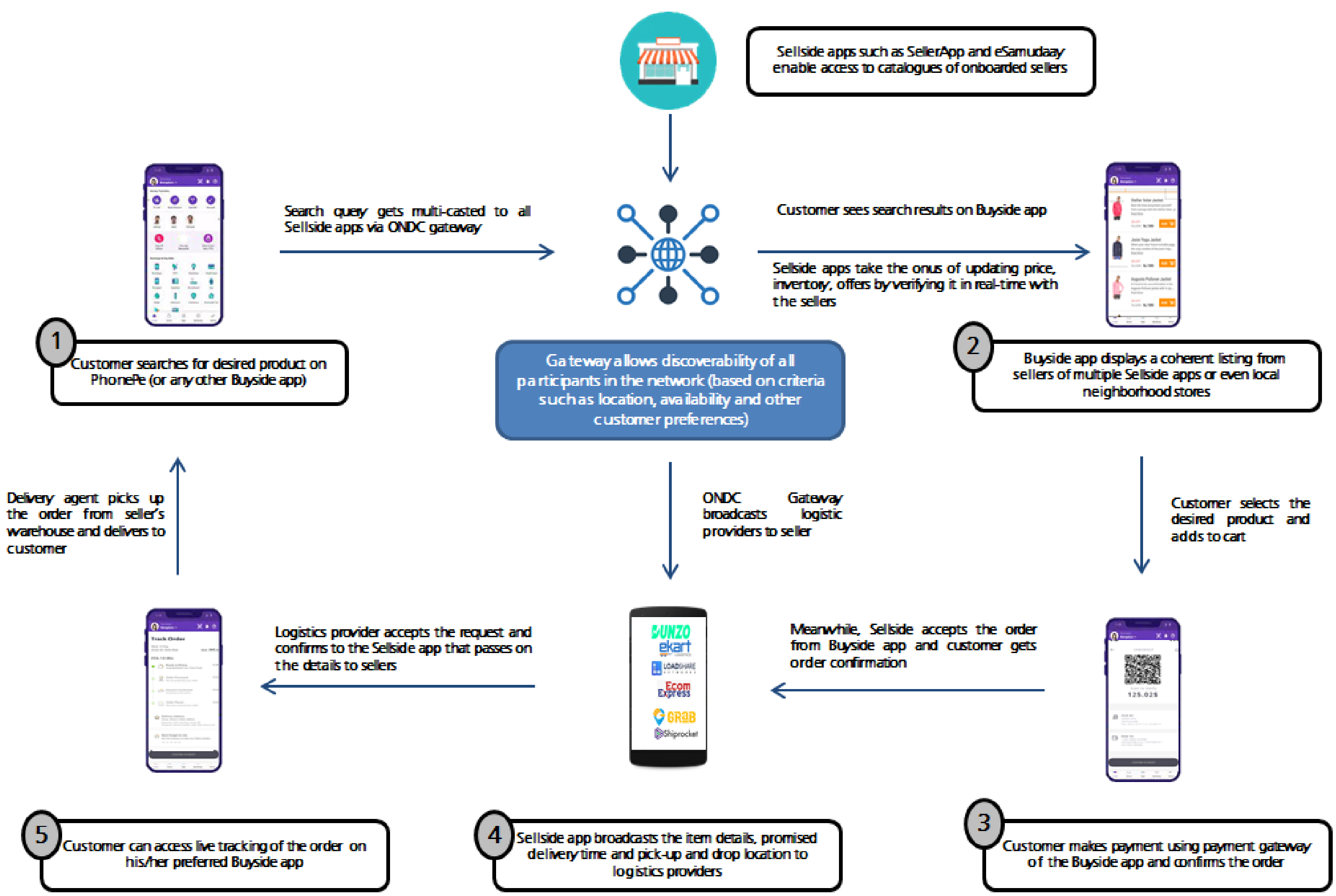
Key Exhibits

Exhibit 1. Shift from 'platform' to 'network'



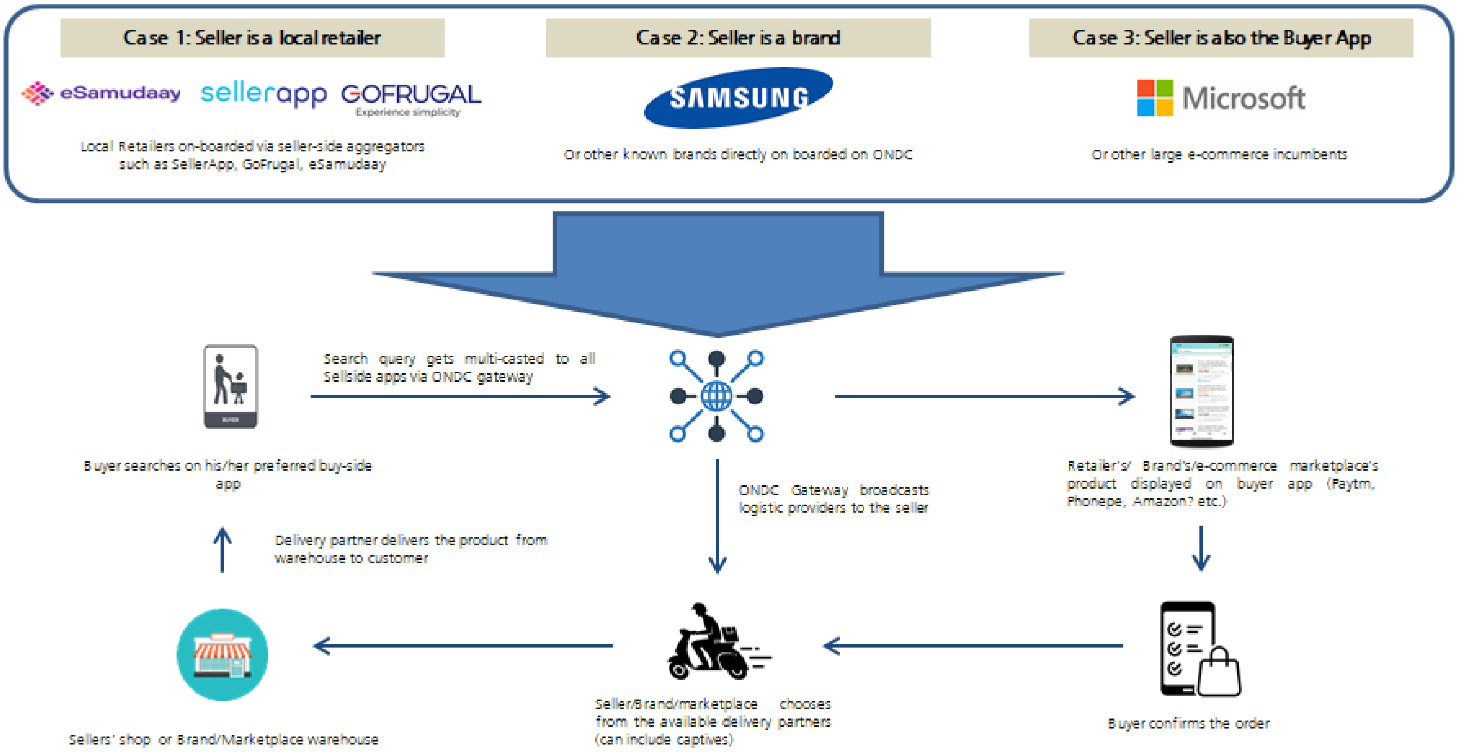
Source: ONDC Strategy Paper

Exhibit 2. How transaction flows on ONDC – Buyers use their preferred app to shop from any of the ONDC-enabled sellers



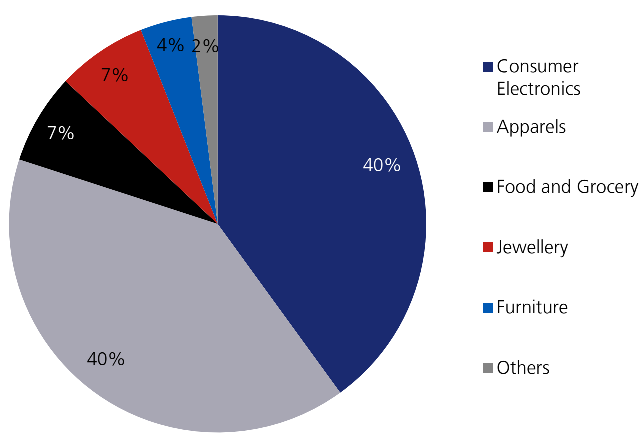
Source: JM Financial

Exhibit 3. Multiple routes that an ONDC transaction can take to close the loop



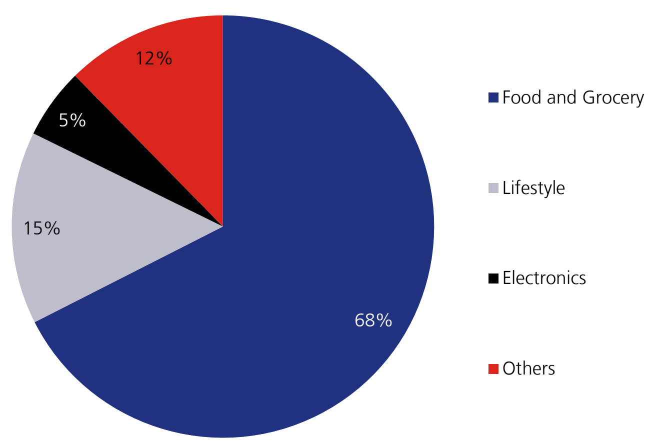
Source: Redseer, JM Financial

Exhibit 4. E-commerce in India is dominated by Electronics and Apparel…



Source: IBEF

Exhibit 5. …while Food and Grocery account for 68% of retail market, implying the evident gaps in e-commerce story



Source: IBEF

Exhibit 6. At best, ONDC fee has the potential to be 20-30% lower than the current platform fees

Category	Platform Fee	Estimated ONDC Fee				Assumptions
	Median	Median Total	Buy-side*	Sell-side**	Fulfilment	
Electronics	11%	8%	2-3%	3-5%	1-3%	ASP: INR 10k; Fulfilment fee: INR 150-250
Mobiles	10%	7%	2-3%	2-4%	<1%	ASP: INR 10k; Fulfilment fee: INR 80-100
Apparel	26%	18%	3-5%	2-4%	10-15%	ASP: INR 1k; Fulfilment fee: INR 100-150
Beauty	20%	16%	3-5%	2-4%	8-10%	ASP: INR 750; Fulfilment fee: INR 60-80
Food	20%	16%	1-2%	4-8%	8-12%	ASP: INR 400; Fulfilment fee: INR 30-50
Grocery	18%	15%	1-2%	4-8%	6-10%	ASP: INR 500; Fulfilment fee: INR 30-50

Source: JM Financial. *includes payment gateway charges. ** includes potential ONDC fee

Exhibit 7. UPI vs. ONDC

Similarities	Differences
▪ ONDC is not a platform, just as UPI is not a wallet or a bank ▪ Population-scale digital public goods with the aim to democratise the space and enhance digitisation ▪ Blue ocean TAM that is not limited to a particular category of consumers or tier of cities ▪ Enables interoperability and standardisation ▪ Needs adoption from the existing players to create wide-scale impact quickly ▪ Prioritises small retailers and MSMEs over large businesses ▪ Not for profit with stakes owned by the participating entities	▪ Relatively better and convenient product market fit achieved in e-commerce than in payments ▪ ONDC requires physical movement of goods while UPI was a product-led solution ▪ UPI transaction loop closes immediately while ONDC transactions will take much longer ▪ UPI certainly increased the speed of transactions but the jury is out on the ONDC led unbundling's impact on speed ▪ ONDC has high number of SKUs in comparison to UPI that had only one SKU – money ▪ ONDC has higher subjectivity such as quality of products, reliability of buyers/sellers and speed of delivery ▪ Returns processing and cash handling capabilities are needed for ONDC ▪ UPI had the blessings of the regulator (RBI) in comparison to ONDC where regulations are still to be framed

Source: JM Financial

Exhibit 8. Blue sky scenario needs modifications in order to help with democratisation of e-commerce

		Blue Sky Scenario	Base Case Scenario	Grey Sky Scenario
Who comes onboard?	Buyer side apps	Large incumbents Payment apps Telecom apps Banking apps	Payment apps Telecom apps Banking apps	Payment apps Telecom apps Banking apps
	Seller side apps	Large incumbents Subnet of regional sellers Traditional/D2C brands Govt-related entities SaaS providers for e-com sellers	Subnet of regional sellers Traditional/D2C brands Govt-related entities SaaS providers for e-com sellers	Govt-related entities SaaS providers for e-com sellers
	Logistics Players	Most 3rd party logistics players Captive logistics businesses looking to scale	Most 3rd party logistics players Captive logistics businesses looking to scale	Most 3rd party logistics players Captive logistics businesses looking to scale
Indian e-commerce GMV on ONDC (%)		~100%	40-60%	Less than 10%
Type of transactions		B2B+B2C	Primarily B2C	Primarily B2B
Goal of democratisation of e-commerce achieved?		No	Yes	No

Source: JM Financial

Exhibit 9. Great on paper but ONDC has both pros and cons when it comes to execution

Pros	Cons
Both buyer and seller side platform could benefit due to scale coming in from incremental access to sellers and buyers respectively	Unbundled transactions' multiple moving parts can create friction in communication between layers of the network
Enhanced retail digital penetration in the country due to more focus on digitising local retail	Existing platforms may lose their advantage of using data analytics and targeted strategies
Capital efficiency with each platform not having to spend on acquiring customers and onboarding sellers individually	Absolute certainty of no new buyer app getting launched as the buyer apps such as telecom, banks, payments, etc. have massive scale moats
Portability of trust for sellers as they can easily move from one buyer app to another	Buyers' indifference to consolidate purchase from particular seller apps can create split orders with delivery costs becoming exorbitant

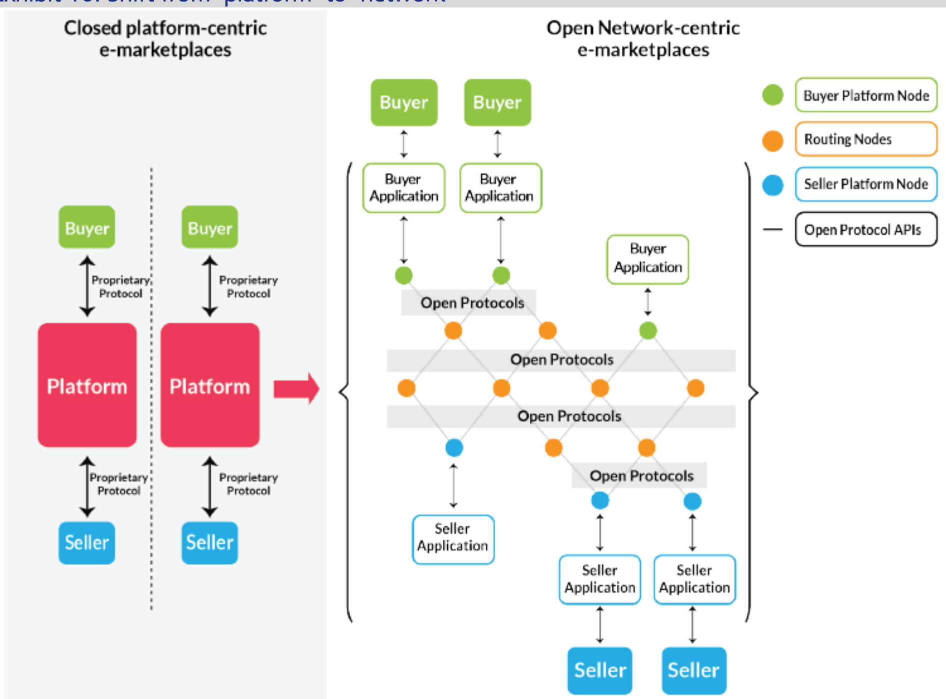
Source: JM Financial

What is Open Network for Digital Commerce?

'Open Network for Digital Commerce' or 'ONDC' is an attempt by the Indian government to democratise Indian e-commerce by moving it from an operator-driven, monolithic platform-centric model to a facilitator-driven, interoperable, decentralised network. This network effectively wrests the power away from the platforms and passes it off to the network participants – sellers, buyers and enablers (payment gateways, logistics providers, etc.). In simple terms, ONDC will be a 'marketplace of marketplaces' that allows a buyer on any ONDC-onboarded platform to make a purchase from a seller on any ONDC-onboarded platform. It effectively unbundles the whole process of selling or buying online and, thereby, reduces the barriers to entry as different players might cater to the integral parts of e-commerce such as seller onboarding, customer acquisition, logistics and payments. It is important to note that ONDC is not necessarily B2B or B2C as this network works for both set of transactions. It is also not restricted to just product-driven e-commerce as services can also be catered to using the network. Hence, **ONDC can potentially enable a consumer to book a cab, get food delivered, take a cab and order a washing machine in the same cart on their preferred buyer app**.

Unified Payments Interface (UPI) can be considered a close analogy where the open protocol enables a buyer and seller transact despite not being on the same platform

Exhibit 10. Shift from 'platform' to 'network'

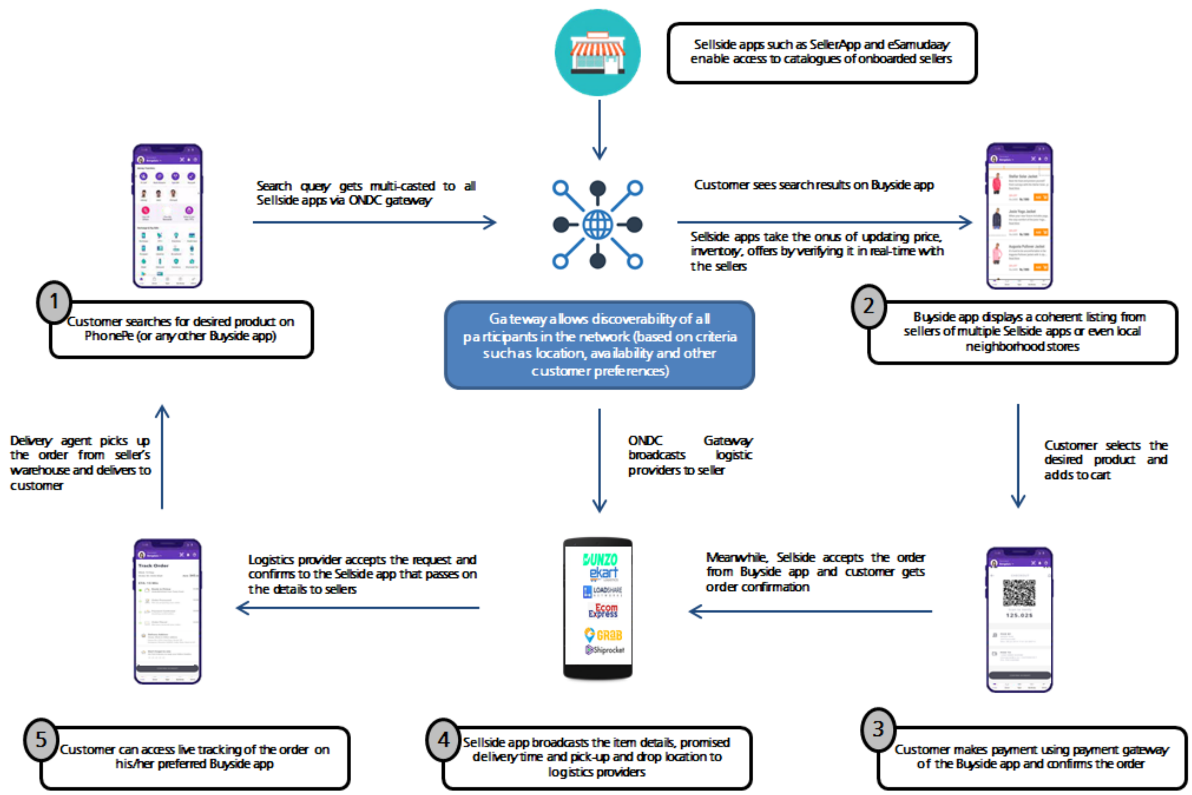


Source: ONDC Strategy Paper

At present, the buyer and the seller need to be on the same platform in order to consummate a transaction. In comparison, ONDC will onboard buy-side apps, sell-side apps and enablers such as logistics providers, and payment gateways and, hence, enable a buyer to transact from a wider base of sellers by accessing multiple sell-side apps. The APIs of the open protocol will enable these providers to talk to each other and deliver a seamless experience to the consumer. These buy-side apps could include usual e-commerce platforms as well as other platforms that have a large user base such as internet banking apps, telecom operator apps, common service centres (CSCs) and UPI payment apps. Similarly, sell-side apps could also include usual e-commerce apps as well as seller aggregation platforms such as SellerApp, eSamudaay, FPOs (Farmer Producer Organisations) and NABARD (National Bank for Agriculture and Rural Development) that have multiple MSMEs onboarded. The opportunity to monetise a large user base is understandably also the reason why major Indian banks, Bombay Stock Exchange (BSE), National Securities Depository Limited (NSDL) and National Payments Corporation of India (NPCI) have bought a stake in ONDC with 20 government and private organisations having confirmed investments worth INR 2,500mn.

ONDC is set up as a private non-profit, and will not be a regulatory or policy-setting authority. The entity will only focus on facilitating transactions and dispute resolution as that will be the deciding factor in successful sustenance of this protocol with multiple parties leveraging interoperability across platforms. This will reduce the barriers to entry for SMEs and traditional retailers as they do not need to invest money or time in working with multiple platforms and can just work with one sell-side app of their choice while getting access to buyers on a variety of buy-side apps. At the start, ONDC is taking on grocery and restaurant sectors but it will soon be ready to host wholesale, mobility, tourism, and hospitability sectors too.

Exhibit 11. ONDC order flow illustration



Source: JM Financial

Key Participants:

- **Buyer-side applications:** Buyer application will handle the demand side platform from where buyers can initiate the transaction. Buyer side applications will be responsible for displaying search results, building carts, and enabling order tracking and will be the first point of contact for consumer grievances.

  Buyer side apps can include banking apps that have users coming for regular transactions and they can be offered product purchases that can be followed up with a loan offer for these purchases too. Payment apps also have large user bases but are struggling to monetise; this could be the opportunity for them to get sellers on the platform without the need of the leg work. want to use their large user bases

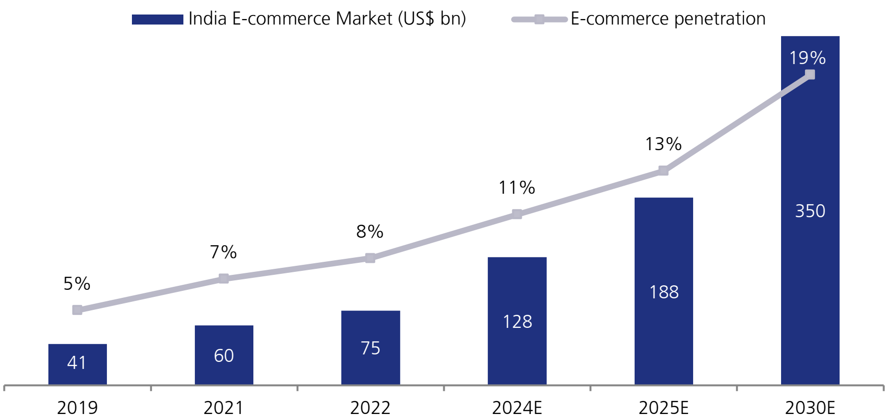
- **Seller-side applications:** Seller applications will handle the supply side of any transaction. Seller apps will include those set up by individual retailers/brands (e.g., Samsung) or local businesses, creating a neighbourhood or smaller city subnet of manufacturers and retailers and registering as a single seller app (for example, eSamudaay seller app). These apps will manage ONDC registrations, respond to initial search queries such as product availability, handle dynamic pricing, and manage settlements and logistics.

- **Logistics:** Logistics service providers would handle the logistics and fulfilment between sellers and buyers. Logistics providers could be players such as LoadShare, Dunzo, etc. Sellers can either fulfil or deliver orders on their own or they can use logistics providers that are already onboarded on the ONDC network.

Reasons for genesis of ONDC

According to IBEF, Indian e-commerce GMV crossed USD 60bn in 2021 and is expected to reach USD 350bn by 2030. Growing at 22% 2021-2030 CAGR, e-commerce continues to reach a scale where it is impacting almost every industry from food to insurance to building materials with IBEF estimating online penetration of retail to reach 10.7% by 2024. This implies that the shift to digital is inevitable and the government is trying to ensure that this shift creates value for all participants of the ecosystem.

Exhibit 12. E-commerce to reach 19% penetration in India by 2030



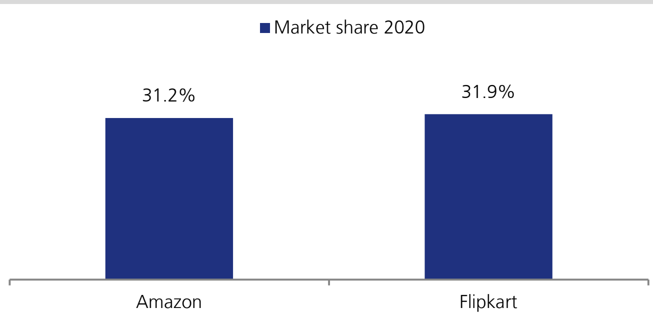
Source: JM Financial, IBEF, InvestIndia

Competitive concerns: Currently, Indian e-commerce is dominated by Amazon and Flipkart that command almost two-thirds of the market. However, this dominance has been frequently questioned over the past few years when traditional MSMEs and retailers have accused them of limiting competition. There are multiple anti-trust allegations against some of the larger e-commerce players that are under investigation:

The platforms have become the "guardians of value" instead of inculcating a "flow of value" approach in a fair and efficient market

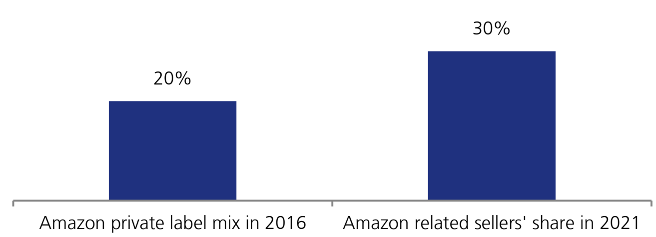
- **Promoting owned private label brands:** It is alleged that there is no transparency in how the product search results are ranked and the platforms give preference to their own private label products and to certain related sellers.
- **Data misappropriation:** There have been allegations that the platforms track resellers' sales data such as price, and margins, target consumers and then use these to launch their own private labels at lower pricing and better placement on the marketplace.
- **Predatory pricing:** Small retailers (both offline and online) find it difficult to compete on pricing with these platforms. Though there are short-term benefits to consumers, in the longer term this can effectively kill competition and enable the platforms to charge much higher prices from consumers.
- **Exclusive agreements:** The platforms also get into exclusive agreements with popular brands and manufacturers, depriving other resellers the opportunity to sell products that might be runaway successes.

Exhibit 13. Amazon and Flipkart account for 60%+ market share of Indian e-commerce…



Source: Media reports

Exhibit 14. …with significant value being captured by their private labels and related sellers



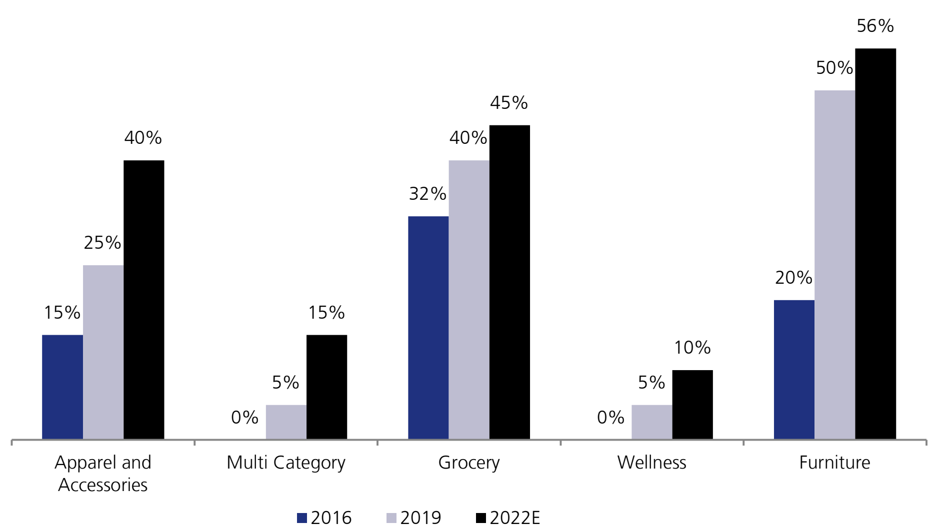
Source: Media reports

Exhibit 15. E-commerce players in India have been launching private labels to drive margin improvement and fill the gaps

Online Marketplace	No. of Private Labels	No. of Products	Popular Brands	Popular Categories
amazon.in	110+ (Globally)	22k+ (Globally)	AmazonBasics Amazon Fresh Wickedly Prime, Solimo, Amazon Essentials	Household, Grocery, babycare, Beauty and Health products
bb big basket	Undisclosed	2500	Fresho BB Popular BB Royal Tasties	Ready-to-eat frozen food
Flipkart	14+	10k+	MarQ, Perfect Homes Billion, Smart-Buy	Groceries, furniture, Home furnishing, Electronics
Myntra	14+	Undisclosed	Roadster, HRX, Dressberry Mast & Harbour All About You Moda Rapido	Fashion Home and living Beauty and Personal Care
GROFERS	8+	800+	Grofers Happy Day, Grofers Happy Home, Grofers Mothers Choice Grofers Happy Baby G Fresh O'range, Havemore	Staples and Kitchen ingredients FMCG products Personal hygiene products

Source: Media Articles, Inc42

Exhibit 16. Growing share of private labels on India's e-commerce platforms

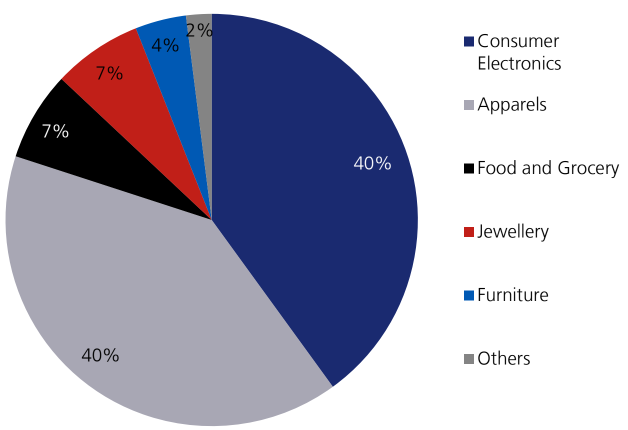


Source: Media Articles, Inc42, KPMG report 2020

Unbundling can potentially enhance efficiency and lower barriers to entry: While not compulsorily, ONDC will most likely see multiple players leveraging their strengths to solve for different parts of e-commerce. As buy-side apps can provide access to their native user base, the need to spend large sums of money on customer acquisition costs will disappear. This could further unbundle e-commerce as it last happened with 3rd party logistics players and shipment aggregators taking away the need to invest in fulfilment capabilities. Going forward, we can potentially see multiple buy-side apps benefitting from price discovery and seller access of sell-side apps without investing on seller onboarding while the vice versa will be true for sell-side apps. ONDC can, thus, also enhance capital efficiency and time to market while lowering barriers to entry for new players. Considering the early adopters among sell-side apps (eSamudaay, GoFrugal, SellerApp, Petpooja); ONDC advocates supporting local entrepreneurs in benefitting from the next phase of digitisation of commerce in the country. As seen in Exhibits 16 and 17, while Indian retail is dominated by Food and Grocery, these categories account for only 7% of the e-commerce market, suggesting that the Indian e-commerce story has significant gaps and has left the local community behind.

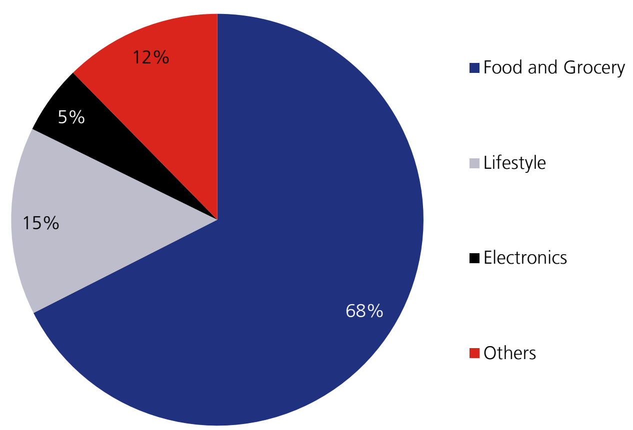
It is however important to note that the walled garden nature of these platforms was by design as it has its own benefits such as data analysis providing relevant search results for buyers along with the integration enabling scale resulting in attractive pricing as well as optimisation of fulfilment and logistics.

Exhibit 17. E-commerce in India is dominated by Electronics and Apparel…



Source: IBEF

Exhibit 18. …while Food and Grocery account for 68% of retail market



Source: IBEF

Concentration risk: The platform-model results in concentration risk as it creates a single point of failure for both buyers and sellers. The platforms that were supposed to be unbiased marketplaces turned into promoting their own private labels and 'related' sellers with the MSMEs losing the choice and freedom with no practical alternative options. Additionally, as highlighted in our report "All Revenues are not equal", network effects is an important factor that drives continued dominance of the platforms and creates a winner-takes-all scenario. ONDC is the government's attempt to potentially disrupt these network effects, and instead of creating a handful of multi-billion dollar companies it hopes to create a broad set of million dollar companies. It looks like the government has understood what made the incumbent platforms so powerful and has turned it into a public and open protocol, making it non-exclusive. The modus operandi to execute this could be as simple as follows:

1. Leverage the app development ecosystem in India to build an API that allows an app to showcase the inventory of another app
2. Approach various MSMEs and kirana stores as well as public and private community-enabling aggregators and offer them the potential of catering to a wider consumer base if they agree to upload their catalogue and inventory
3. With API and supply sorted, the government can then offer this to companies that have users but have missed the e-commerce bus. This can be anything from a bank's app to payment apps to OTT platforms
4. Finally, the government showcases these potential transactions to 3rd party logistics providers (3 PLs) and offers them the opportunity to fulfil these transactions
5. With ONDC potentially emanating virtuous network effects, more and more sellers and consumers come on board as it starts to provide positive results for a few sellers and consumers.

Portability of trust: Furthermore, the closed platforms are also not conducive to portability of trust. For a seller who has garnered strong credibility or reputation on one platform by getting favourable ratings and reviews, the reputation is locked within the platform itself. In case the platform decides to change payment terms or commission rates that the seller is not willing to accept and the seller decides to switch to another platform, it needs to then again start from scratch to build this credibility on the new platform. On the other hand, another seller who is known to ship counterfeit products and is blacklisted on one platform has the opportunity to switch to another platform and fleece the customers again as the reputation is not carried forward.

While ONDC is still in a nascent stage with pilots extended across 52 cities (32 Tier III, 15 Tier II and 5 Tier I), most e-commerce players are either planning to integrate or track growth very closely to carve out their future trajectory.

Exhibit 19. Successful ONDC is beneficial for all participants

ONDC Participant	Benefits of joining ONDC
Sellers	• Access to a broader buyer base across platforms • Relatively zero to low customer acquisition cost • Better discoverability of products helps sellers with niche products • No need to invest in fulfilment and logistics • No need to adopt to multiple marketplaces • Reviews and ratings are visible across apps so customer loyalty is tied to the seller and does not get lost in case they switch seller apps
Buyers	• Unparalleled selection from large brands as well as local retailers • Hyper-local nature should result in faster deliveries • Better pricing with catchment areas for sellers enhancing competition • No need to install multiple apps as interoperability consolidates sellers • Sellers that have poor reviews on one seller app will be weeded out across the network
Logistics Providers	• Increased opportunity as digital penetration goes up • No need to pitch to multiple players and can focus on distribution only

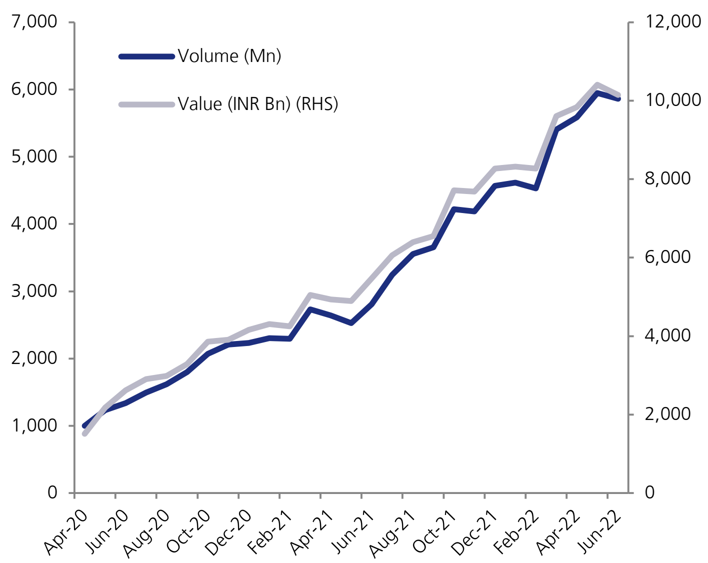
Source: JM Financial

UPI : Disruption or Transformation?

Unified Payments Interface (UPI) is an instant real-time payments system that allows immediate fund transfers between any two banks via a mobile platform. It is developed by National Payments Corporation of India (NPCI) and is controlled by the Reserve Bank of India (RBI). UPI has powered platforms to merge multiple bank accounts into a single mobile application merging several banking features, and enables seamless fund transfer under one umbrella. It was launched as a pilot in 2016 with 21 member banks who introduced layer of UPI into their application from Apr'16.

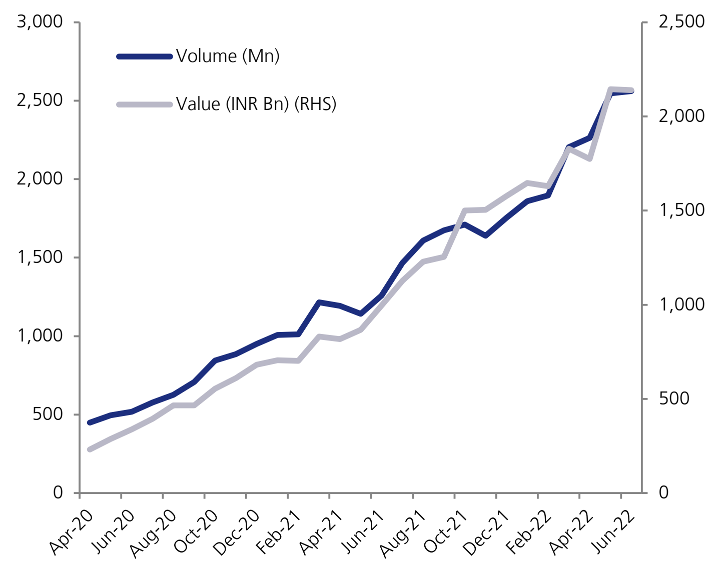
As of FY22, UPI processed payments worth USD 1.09tn and processed over 5.04bn transactions. While it saw slow adoption in the early years, but since 2018, UPI has grown sharply over the past 3 years both in value and volume terms, indicating increased digital adoption in the Indian economy.

Exhibit 20. UPI payments by Value and Volume



Source: JM Financial, NPCI

Exhibit 21. P2M payments by Value and Volume



Source: JM Financial, NPCI

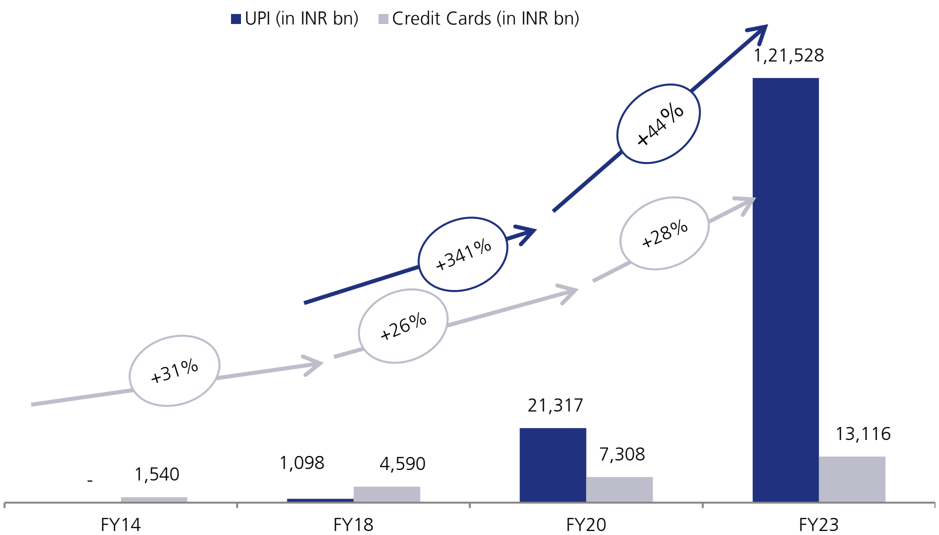
What problems did UPI solve?

1. **Convenience:** One of the important reasons for UPI's success is the convenience that it offered for users. They no longer need to remember account number/IFSC codes/MICR codes to send and receive money; transactions can be executed with a mere phone number or a name.
2. **Quicker execution**: Before UPI was introduced the options available to transfer money were Net banking or mobile banking or through the bank branch. While the payment methods were easy, they took considerable time and involved many formalities or processes. In contrast, the UPI process is shorter.
3. **Interoperability:** UPI can process transactions from any bank or third party app without having to install multiple applications. This was further boosted by QR code infrastructure, which enabled millions of small storefronts, e-commerce delivery partners to accept payments, mitigating the need of cash.
4. **Faster resolution:** In case of transaction failures NPCI has a system in place where transaction automatically gets reversed if money has been deducted wrongly.

UPI adoption was faster due to initiatives like QR and Soundbox, which made millions of small businesses and retailer's part of the digital payments ecosystem. UPI has mainly replaced cash transactions in both peer-to-peer and peer-to-merchants. **We believe UPI has transformed the digital payments ecosystem by taking the share of pie from wallets and cash and at the same time, it has added incremental pie of transactions by bringing small retailers, business owners and users from tier 2-3 cities in the digital ecosystem.** UPI has not really disrupted credit card transactions, which constitute a major part of payments happening on e-commerce websites and organised retail.

UPI, in value terms, grew by 341% CAGR over FY18-20 and should grow c.44% over FY20-FY23E (annualised basis). In comparison, the value of credit card transactions grew over FY14-FY18 at 31% CAGR while post-UPI, i.e., from FY18-FY20, it still grew at 26% CAGR from ~INR 4.5bn to INR 7.3bn; the growth rate post-Covid, i.e., FY20-23E (annualised) stands at c.28% CAGR.

Exhibit 22. While UPI has obviously seen strong adoption, credit card growth story is still intact



Source: Company, JM Financial

Is ONDC the UPI moment of e-commerce?

ONDC is the population-scale initiative to democratise e-commerce the same way that UPI democratised the payments space. As seen in the case of UPI, we do not believe that ONDC will cause significant decline in business of the incumbents (though some evolution and adoption might become necessary) as **population-scale initiatives tend to broaden the pie by brining underpenetrated buyers and sellers onboard**. ONDC is a platform that intends to bring both buyers and sellers under one umbrella using open network protocols that would enable easy onboarding of sellers and buyers and create an ecosystem for e-commerce transactions, which can be executed through any buyer side application. This should digitise the small offline businesses and retailers and enable them to find buyers on ONDC across multiple platforms and geographies.

Though there certainly are potential similarities in both initiatives being pursued by the government via private, not-for-profit companies with the single-mindedness of digitising across the length and breadth of the country, there are also significant differences in the operational intensity and incumbents' landscape.

Furthermore, though UPI has certainly changed the payments landscape for the better and is touted as a resounding success with adoption across other countries as well, there are also certain issues, including competition, which can carry forward to ONDC as well.

1. **Dominance of a couple of players:** GooglePay and PhonePe command over 80% market share; along with Paytm, the market share of the top 3 players is above 95%. While a cap of 30% has been instituted by NPCI the deadline is only being pushed outward as it is tougher to execute this cap on the ground. We wonder how ONDC will avoid such a scenario wherein the network itself becomes all-encompassing and some of the players gain more market share than the ~60% market share that Amazon and Flipkart currently have in e-commerce.
2. **Concentration of power within NPCI:** With UPI crossing 6bn in volume and INR 10 trillion in value terms, NPCI now has tremendous power concentration. RBI has also attempted to create a New Umbrella Entity (NUE) to bypass the concentration risk posed by NPCI itself. ONDC, which is again owned by some private players, can also end up being such a quasi-regulatory entity as there might be controls that will be

needed to avoid anti-competitive practices on the network. Though the current communication says that ONDC doesn't intend to set policies the evolution is still not clear.

3. **Financial viability?**: UPI transactions attract 0% merchant discount rate currently and despite the RBI-led turns and twists recently, it seems unlikely to be monetised directly. Most UPI players have minimal financial incentive and are trying to make money by cross-selling other products such as recharges, bill payments and POS machines. While ONDC again does not plan to mandate the commissions charged, any high-handedness by the management can destabilise a market that seems to finally have evolved around charging consumers for convenience.

Exhibit 23. UPI vs. ONDC

Similarities	Differences
▪ ONDC is not a platform, just as UPI is not a wallet or a bank ▪ Population-scale digital public goods with the aim to democratise the space and enhance digitisation ▪ Blue ocean TAM that is not limited to a particular category of consumers or tier of cities ▪ Enables interoperability and standardisation ▪ Needs adoption from the existing players to create wide-scale impact quickly ▪ Prioritises small retailers and MSMEs over large businesses ▪ Not for profit with stakes owned by the participating entities	▪ Relatively better and convenient product market fit achieved in e-commerce than in payments ▪ ONDC requires physical movement of goods while UPI was a product-led solution ▪ UPI transaction loop closes immediately while ONDC transactions will take much longer ▪ UPI certainly increased the speed of transactions but the jury is out on the ONDC led unbundling's impact on speed ▪ ONDC has high number of SKUs in comparison to UPI that had only one SKU – money ▪ ONDC has higher subjectivity such as quality of products, reliability of buyers/sellers and speed of delivery ▪ Returns processing and cash handling capabilities are needed for ONDC ▪ UPI had the blessings of the regulator (RBI) in comparison to ONDC where regulations are still to be framed

Source: JM Financial

Comparing ONDC with current e-commerce ecosystem

ONDC is being pitched as a cheaper and efficient way of doing business for the retailers while also providing value to retailers. We attempt to envisage the future while comparing some data-points from the pilot phase.

Median overall take-rates are expected to be 20-30% lower: While the incumbents do face a lot of customer as well as vendor wrath for charging high take-rates, an attempt to breakdown these costs demonstrates that these take-rates do leave only a little margin after accounting for the actual costs. We compare take-rates for categories such as electronics, mobiles, apparel, beauty, food and grocery and find ONDC having the potential of lowering the take-rates by 20-30% on the prevailing take-rates.

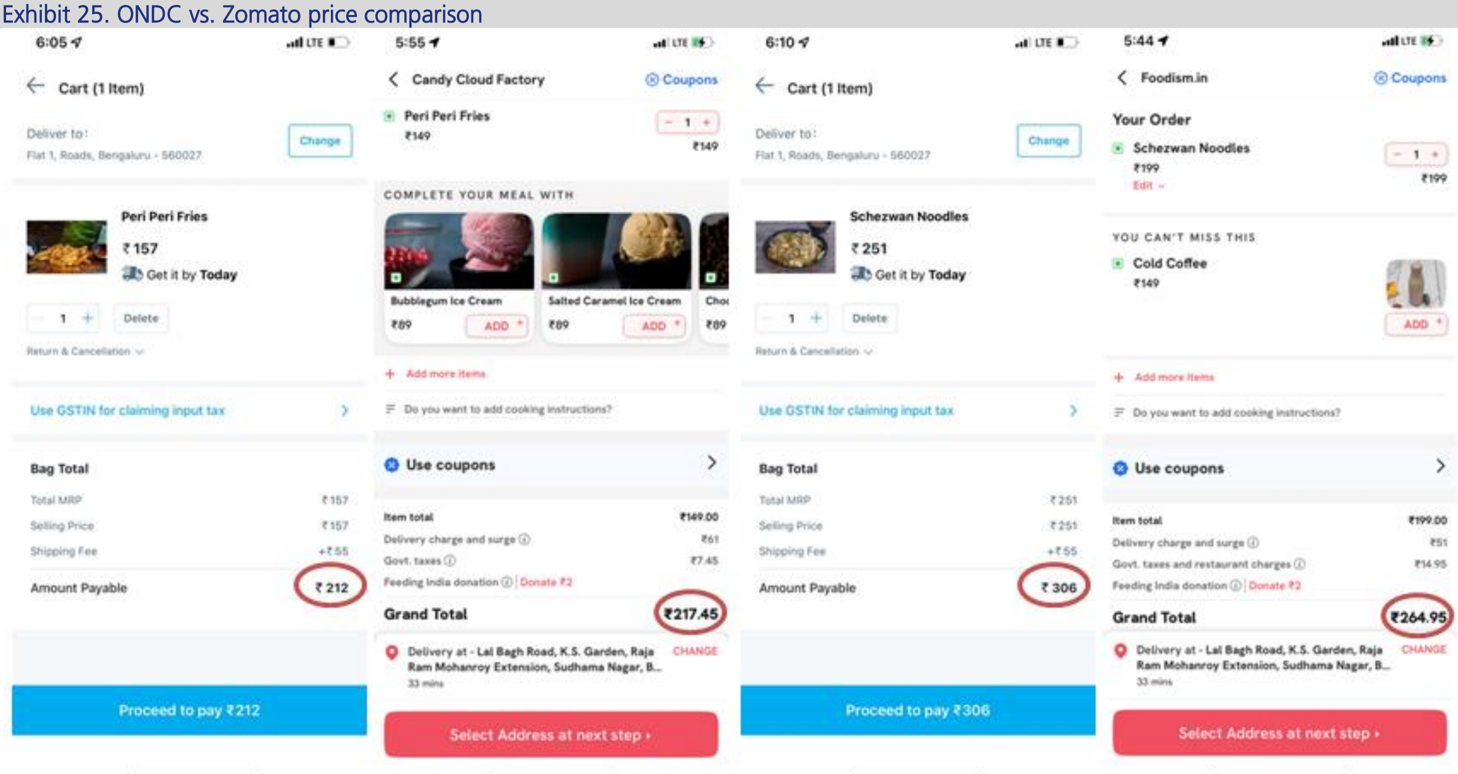
Exhibit 24. Estimated ONDC Fee includes buy-side, sell-side and fulfilment fees

Category	Platform Fee	Estimated ONDC Fee				Assumptions
	Median	Median Total	Buy-side*	Sell-side**	Fulfilment	
Electronics	**11%**	**8%**	2-3%	3-5%	1-3%	ASP: INR 10k; Fulfilment fee: INR 150-250
Mobiles	**10%**	**7%**	2-3%	2-4%	<1%	ASP: INR 10k; Fulfilment fee: INR 80-100
Apparel	**26%**	**18%**	3-5%	2-4%	10-15%	ASP: INR 1k; Fulfilment fee: INR 100-150
Beauty	**20%**	**16%**	3-5%	2-4%	8-10%	ASP: INR 750; Fulfilment fee: INR 60-80
Food	**20%**	**16%**	1-2%	4-8%	8-12%	ASP: INR 400; Fulfilment fee: INR 30-50
Grocery	**18%**	**15%**	1-2%	4-8%	6-10%	ASP: INR 500; Fulfilment fee: INR 30-50

Source: JM Financial *includes payment gateways charges **includes potential ONDC fee

Pilot phase has listed food at similar or higher average prices than food-tech: Price comparison of some products across a few restaurants in Bengaluru suggests that the final order value on ONDC is at par or sometimes even higher than on other apps. However, discounts and other offers on the Zomato platform can make it a better value proposition for the customer as compared to ordering on ONDC.

Exhibit 25. ONDC vs. Zomato price comparison



Source: JM Financial

Pilot phase has listed groceries at MRP along with a delivery fee on top: Similarly, in the grocery category, ONDC has most products listed on MRP and delivery fees is charged on all orders whereas the same products on quick commerce apps (Swiggy Instamart and Dunzo) are offered at a discounted price and free delivery is offered above certain order value. Moreover, wide range of SKUs, more defined categorisation and better user interface make quick commerce apps an obvious choice for ordering over ONDC.

Finally, the product/tech capabilities of ONDC need to be comparable to that built by the incumbents. During the pilot phase, we see geo-fencing being an issue with sellers listed in a particular location without the ability to service that location currently.

Exhibit 26. Grocery price comparison

	ONDC			Swiggy Instamart			Dunzo		
	Selling Price	Delivery charge	Total	Selling Price	Delivery charge	Total	Selling Price	Delivery charge	Total
Brooke Bond Red Label - 500gm	330	40	370	300	Free	300	315	Free	315
Daawat Pulav Basmati Rice 1kg	135	40	175	130	25	155	130	25	155
Dabur Honey Squeezy - 225gm	210	40	250	204	Free	204	207	Free	207
Sensodyne Toothpaste- 70gm	185	50	235	166	25	191	150	Free	150
Parle Hide & Seek - 100gm	30	40	70	30	25	55	30	25	55
Id fresh Idli & Dosa Batter - 1kg	79	40	119	67	25	92	79	25	104
Aashirvaad Multigrain Atta - 1kg	71	40	111	65	25	90	73	25	98
Del monte Extra virgin Olive oil - 1 Ltr	900	40	940	896	Free	896	890	Free	890

Source: JM Financial

Exhibit 27. Present delivery fee structure of online platforms

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

Source: JM Financial

Potential roadblocks for ONDC

ONDC certainly looks to provide a very attractive value proposition but the operationally intensive nature of e-commerce will certainly provide significant roadblocks.

- What came first?: At the initial stage, ONDC will go through the chicken and egg problem between buyer and seller side apps. Without building a strong enough catalogue of products and sellers, buyers will show tepid adoption and without a significant buyer base, the sellers will also drag their feet. We believe unless ONDC already generates a base scale and traction, most participants might not invest enough in their integration and ramp up on the network. ONDC's proclaimed focus is on prioritising the local sellers and not really the buyers. However, it is important to note that the problem isn't really on consolidating supply as there are a larger number of local retailers and MSMEs that can be onboarded. The tougher problem will be on getting the buyers to switch to transacting via ONDC without any incentives or discounts.
- Whose neck is on the line?: In the current platform-centric model of e-commerce, platforms give the utmost priority to customer experience while solving for convenience or value (and even both at times). While our conversations with the network participants and the ONDC team suggest that the network agreement in itself will include the responsibilities and liabilities of each participant, India's e-commerce evolution suggests that it will be much tougher to execute on the ground. With ONDC focused on inclusively onboarding neighbourhood stores, digital adoption, inventory updation and quality issues are likely to come up as paramount problems and the question that is going to come up very frequently – who owns up to faults and bears the cost?
- Who blocks when the behemoths march?: Our blue sky scenario for ONDC assumes that the large incumbents come on board. As these players have the most digitally savvy seller base that understands the digital value chain while also being large enough to get the best pricing from the manufacturers, they are likely to dominate on ONDC as well. Further, all buy-side apps have the choice of deciding which sell-side apps to list for a customer search query, implying that the larger players can opt for self-preferencing by showing results only from their own sellers when the customer is using them on the buy-side. With the network not planning to be a quasi-regulator and attempting to have market-driven pricing, the smaller retailers might still end up being marginalised.
- Why should we enable sensitive data access?: ONDC network policies provide for periodic 3rd party audit with respect to compliance with policies. With a large base of sellers and buyers expected to be onboarded, including private companies, and amidst minimal standardisation of storing and tracking data, it remains to be seen how effective these audits are going to be. We also anticipate some players refusing access to certain data and algorithms claiming those to be proprietary and competitively sensitive.
- Who is allowed to leverage consumer/transaction data?: Most platforms use consumer transaction data and behaviour to determine the inventory to be carried and the pricing to list at. Currently, ONDC framework limits data usage and storage. Assuming separate buy-side and sell-side apps are part of a transaction, the consumer data might reside with the buy-side app that is technically not expected to influence the pricing or inventory while the sell-side app might not get access to consumer behaviour including conversion rate after seeing the listing. However, true interoperability will only be achieved when data exchange is enabled.

Assuming that ONDC is here for the longer term and the government will continue to back it, we anticipate that ONDC will revert to becoming a quasi-regulatory body as well wherein it will resort to announcing measures to safeguard network policies even while encouraging adoption and participation. **We also postulate that 1) technical/digital understanding of smaller retailers and 2) onboarding of the large incumbents are necessary for ONDC to become a massive success.**

ONDC: Partnerships, cities, investors and team

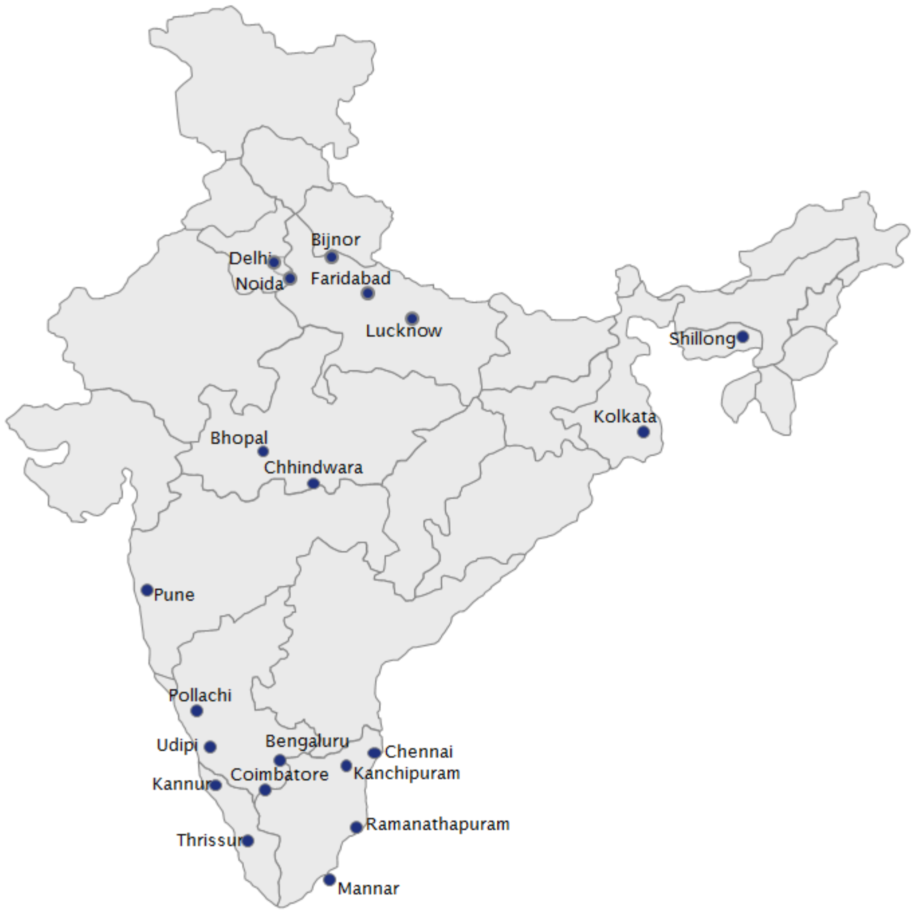
ONDC is currently undergoing pilot stage testing primarily in Bengaluru with sellers being onboarded in more cities. According to media reports, ONDC is now ready to open for beta testing for public in limted areas. The buyer and seller side apps onboarded so far majorly comprise platforms that have a large active userbase that was not being monetised via e-commerce or e-commerce players that were left behind in the market share grab by the larger incumbents. On the seller side, we also see an interesting cohort of players that were providing support services to e-commerce sellers and are now looking to seize this opportunity to become a part of the transaction journey as well. While none of the major e-commerce players have yet joined hands with ONDC they are actively tracking developments. Interestingly, we see Flipkart's logistics arm, eKart Logistics, getting integrated already.

Exhibit 28. Players onboarded or in advanced stages of integration

Source: JM Financial, News Reports

There has been rampant media coverage about the players expected to be onboarded and the launch date and active cities. However, our understanding so far suggests that the platform is in the final stages of testing in over 100 cities and can see access opened to all users in Bengaluru anytime over the next month. The earlier rumoured date of Independence Day 2022 has passed. The focus, to start with, is on hyperlocal categories of food & grocery.

Exhibit 29. Cities active

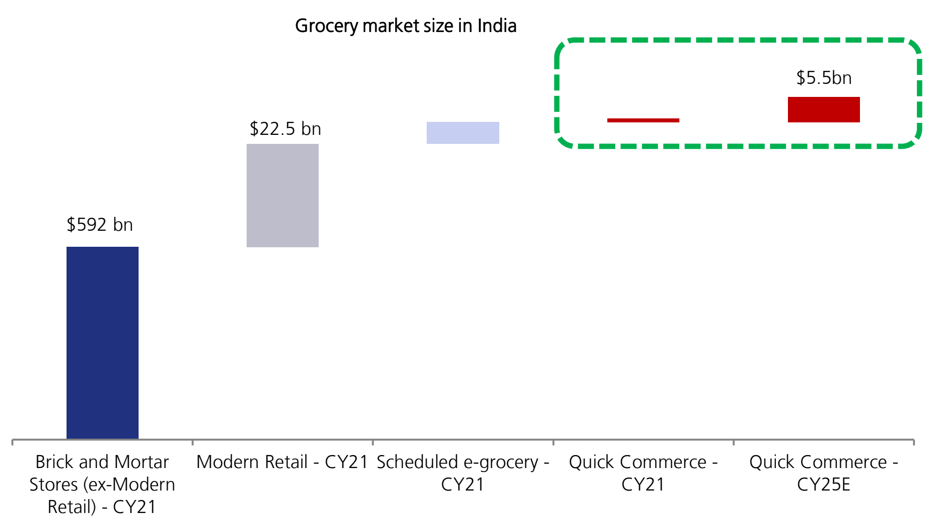


Source: JM Financial, News Reports

Exhibit 30. Categories active

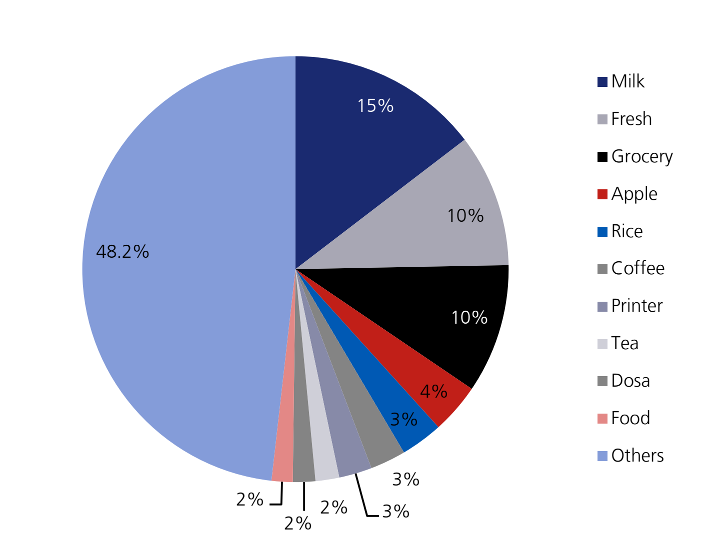
Source: JM Financial, News Reports

Exhibit 31. Reason why grocery is among the first category that ONDC is focused on



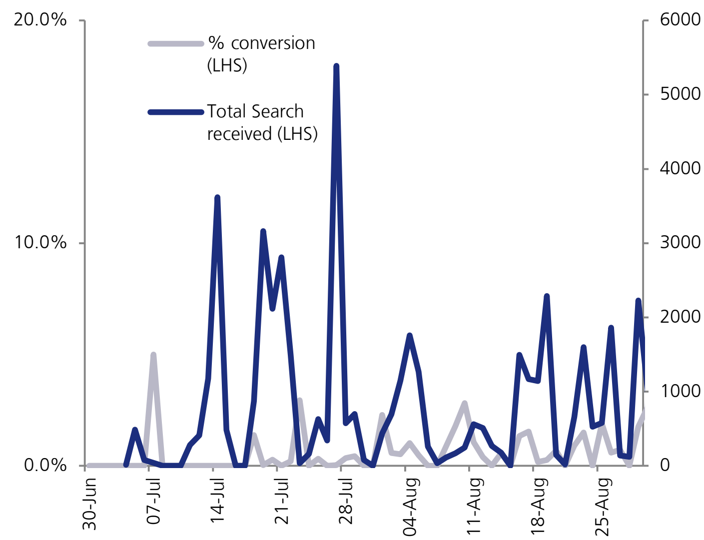
Source: Redseer, JM Financial

Exhibit 32. Item/Category wise orders



Source: ONDC.analytics.cloud

Exhibit 33. Order flows in the pilot phase have been minimal



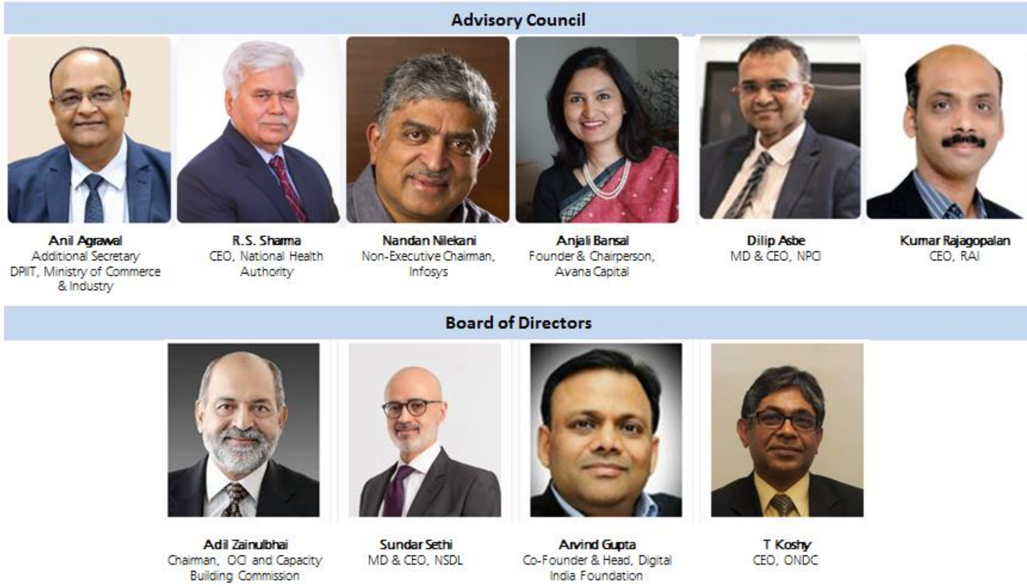
Source: ONDC.analytics.cloud

ONDC has received funding from several banks as well as stock exchanges and other government-related entities such as NABARD and CSC. The plan is to have 20 private and public enterprises backing ONDC with NPCI picking up a 9-10% stake for INR 100mn on 31st Aug'22 as per media reports. The advisory council and board of directors include people who have experience in previous population-scale initiatives such as Aadhaar and UPI. We understand ONDC has hired a dedicated team of 40 people that is expected to go up to 80. Furthermore, it also invites experienced professionals to join the sabbatical programme along with internship for students.

Exhibit 34. Key investors

Source: JM Financial, News Reports

Exhibit 35. Advisory Council and Board of Directors



Source: JM Financial, News Reports

Exhibit 36. Management Team

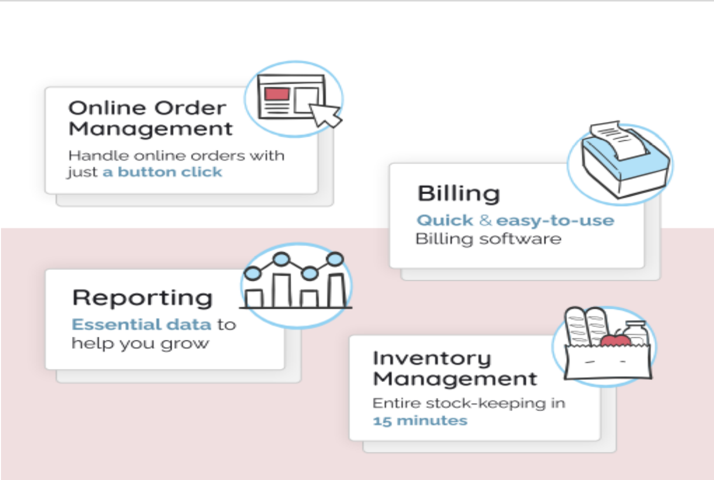
Name	Position Held	Academic Background	Past Work Ex
Thampy Koshy	MD & CEO	PGDM - Indian Institute of Management Bangalore ; Btech (Mechanical) - College of Engineering Trivendrum	Advisor - EY; Executive Director - NSDL
Shireesh Joshi	CBO and President - Network Expansion	MBA - Indian Institute of Management Bangalore, Btech (Electronics) - Indian Institute of Technology Kanpur	Founder - Priism Consulting ; COO (Strategic Marketing Group) Godrej; Director Strategic Projects - Bharati Airtel Ltd; Vice President (Strategy & Business Transformation) - PepsiCo International
Vibhor Jain	COO and President - Network Governance	PGDIM (Business Management) - National Institute of Industrial Engineering	Senior Advisor -The World Bank; Director - Atlanta Healthcare; Country Head (Jumo World); CEO - Mobike
Nitin Mishra	Technology Prinicipal	Executive PGDM - Indian Institute of Management Kozhikode; BE (Industrial Electronics) Doctor Babasaheb Ambedkar Marathwada University	CTO & Partner - EY; Executive Vice President - Goods and service tax network; Principal Architect - WalmartLabs India
Javed Sharif	Head - Administration and Procurement	MBA - Harvard University; Bachelor of Arts - RD National College	Assistant Vice President (Facilities) - Omkar Realtors & Developers Pvt Ltd.; Vice President (Facilities Management & Administration) - Runwal Developers
Ramu Menon	Strategic Initiatives	General Management - Indian Institute of Management Kozhikode; MCA - VJTI Mumbai	Director Consulting - Cognizant Technology Solutions; Asia Supply Chain IT Strategy Lead - Bayer Crop Science
Kumar Rajagopalan	Steering Committee Member	Chartered Accountant; Bcom - Narsee Monjee College of Commerce and Economics	CEO - Retailers Association of India; Country Head (Retail Solutions) IBM; Head (Operations) Shoppers Stop
Anurodh Upadhyay	Strategic Initiatives (Contract)	PGDM - MICA; BBA - CH Institute of Management and Commerce	Specialist (Marketing and Coomunication)- Gartner; Senior Consultant (Digital Services) - PWC India; Senior Consultant (Digital Services & Transformation) - Deloitte

Source: JM Financial, News Reports

Platforms enabling digital selling for sellers are onboarding as seller side app - Petpooja

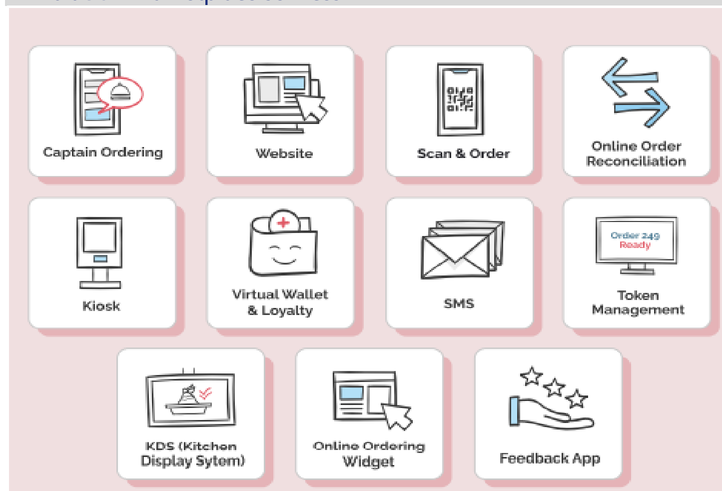
Amongst the ecosystem of digital platforms 'Petpooja' started as a delivery platform for corporates where they used to deliver mass orders from restaurants. The company later developed the software that would help small restaurants manage operations and upscale business and then went on to develop POS software that is now installed across 35k+ restaurants where they are integrated with multiple tech aggregators including Zomato and Swiggy. Additionally, it provides services like inventory/catalogue management, reconciliation, kiosk, feedback, wallet, token management. The company processed 25% of order volume of Zomato and Swiggy with on-ground presence in 140+ cities.

Exhibit 37. Core features and services



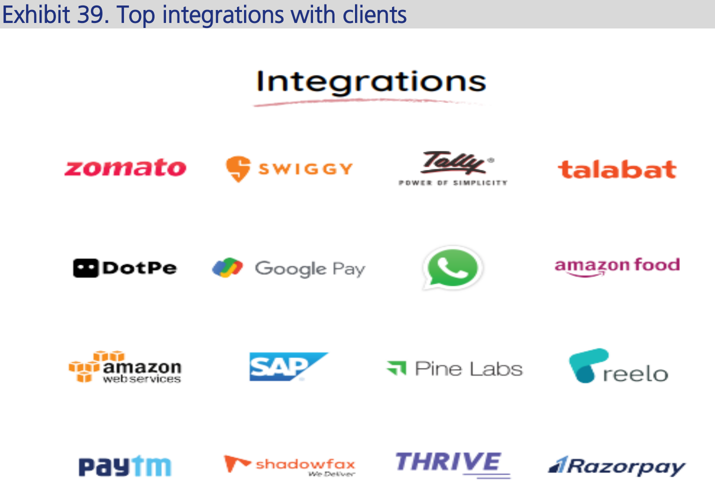
Source: Petpooja

Exhibit 38. Marketplace services



Source: Petpooja

Exhibit 39. Top integrations with clients



Source: JM Financial

Exhibit 40. Petpooja's top Clients

Source: JM Financial

Role of Petpooja on ONDC

Petpooja will enable help SMBs to onboard on ONDC through its network and enable them on the e-commerce ecosystem. This will further strengthen its integrated network of restaurants and help these restaurants in discovery, demand analytics, and driving incremental sales.

Petpooja can utilise its stack of services and innovations to drive sales efficiency for these sellers on the ONDC platform.

Exhibit 41. We had a chance to interact with other early-onboarding platforms on ONDC

Application	Profile	ONDC Use Case
sellerapp	SellerApp is a seller-centric intelligence platform that offers tools to help a seller run, grow, and scale a business. It offers in-depth analyses of category sizing, new product creation, and ad optimization to its sellers. It runs a freemium business model with more than 30k digital sellers.	Building a seller side app on ONDC with 3000+ sellers on Amazon and ~200 sellers on Flipkart. Some of these sellers are already live on the platform. It plans to use its existing category management and intelligence software to start onboarding grocery and home décor sellers on ONDC.
PetPooja	Petpooja is a PoS software developer for restaurants, bars, bakeries, QSR's and cloud kitchens Petpooja is used by ~35,000 restaurants in India UAE, and South Africa and active in 140+ cities. It is integrated with Zomato and Swiggy across all platforms. It has also developed the automated invoice scanning tool that can be combined with POS systems.	Petpooja will act as a seller side app on ONDC and will act as a liaison between sellers (primarily restaurants) and buyer marketplace/Sellers.
Shiprocket	Shiprocket is a tech-enabled logistics and fulfilment platform. Via integration with 17 courier partners, Shiprocket covers 29,000 pincodes and has more than 150k clients.	Shiprocket will act as a logistics partner on the platform. Plans to focus on hyperlocal deliveries in the initial stages.
eSamudaay	eSamudaay acts as a digitising agent enabling local e-commerce network for communities through its technology platform Has signed up entrepreneurs in 21 cities with aims to reach 100 cities by the end of 2022	eSamudaay will act as a seller side platform for restaurants in smaller tier cities to begin with and will look to add taxi and home services in the future Charges 15% commission for food delivery fulfilment

Source: JM Financial, Company

How can ONDC impact our coverage universe?

Disruption or Evolution?

While the jury is still out, the success of ONDC is likely to force most of our coverage universe to adapt to doing business along with ONDC just the same way as all major banks have warmed up to UPI. We do not believe ONDC would necessarily disrupt these players as the enhanced digital penetration can actually create incremental value for everyone to grow while sharing some parts of the value chain with each other as well as with players that have missed the bus of India's e-commerce growth.

If we go by the initial transactions and structure of the network, ONDC would help existing incumbents in creating a more robust network of suppliers, resulting in increased value for existing buyers on the platform. Also, these players stand to benefit from incremental user addition due to superior UI/UX as compared to newer entrants that may provide scale benefits. This has to do with the interoperability and low cost of on-boarding that ONDC provides.

ONDC use-cases in the initial stages seem to be focused on food & beverages, grocery and home décor and, hence, we anticipate Zomato (BUY; TP: INR115) plus Blinkit to be the first company that should see the impact. Going forward, we can potentially see ONDC venturing into Nykaa (BUY; TP: INR1,750) territory followed by EaseMyTrip (HOLD; TP: INR400), PB Fintech (BUY; TP: INR910) and then into the B2B transactions space of IndiaMART (BUY; TP: INR4,920). Although content has not yet been discussed but considering ONDC management reiterating that it is solving for all digitally transacted goods and services, there could be some incursions on Nazara's ((BUY; TP: INR540) eSports business too. We expect the classifieds platforms such as Info Edge (BUY; TP: INR5,420) and CarTrade (BUY; TP: INR840) to not see much impact in the near to medium term.

Exhibit 42. Management Commentary on ONDC

Company	Commentary
IndiaMART	ONDC as a concept is evolving and very early currently but believe it will be more collaborative and is mostly for B2C consumers. For B2B consumers, I think it still will be five years away after it becomes successful on B2C side.
JustDial	Once ONDC gets implemented, we'll have to see, since we are just rolling out these transactional services. We'll have to see how it pans out.
Nykaa	At the moment, we don't have any plans for ONDC.

Source: JM Financial, Company

1. **Zomato:** Given the convenience focused nature of food delivery and quick commerce and broad-based customer satisfaction with the platform, we believe that consumers are less likely to move away from Zomato (or Swiggy) until ONDC can perfect the transaction experience. In these convenience-oriented categories, we see the customers having minimal patience in case of a broken experience. With multiple sellers listed on one single buy-side app, customers might end up ordering from different places and the splitting of a food order would again result in poor customer satisfaction. Zomato is also supported by the superior ecosystem of restaurants, delivery partners and a friendly app that it has built over the years.

   However, restaurants aggregator NRAI has been actively pursuing joining the network considering its continued skirmishes with both Zomato and Swiggy. Hence, there remains a tail-risk of some disgruntled restaurants signing off in case ONDC can provide them enough demand. If ONDC scales well, platforms such as Zomato stand to benefit from joining because they can act both as a buyer and a seller app with the largest number of restaurants listed. Zomato getting onboarded would also help the company to lower its CAC following the recent expansion in lower tier cities. Joining hands with ONDC might certainly cause the company to see lower take-rate per order but the rise in volumes should more than compensate for this.

2. **Nykaa:** As is evident even in the current Beauty and Personal Care (BPC) landscape in India, we believe BPC will continue to be a specialised retail business that would keep Nykaa's differentiated positioning intact. For mass-tige and luxury categories, consumers are focused on authenticity and seamless experience and might continue to prefer Nykaa ecosystem with large number of brand tie-ups as well as access to newer foreign brands. Simultaneously, Nykaa continues to resist getting into the value-focused, mass-market categories in Fashion and differentiates itself via curation of latest season designs. ONDC is unlikely to create too much trouble here as well.

   On the flipside, we believe Nykaa's B2B Superstore business can potentially get impacted if/when ONDC decidedly focuses on the B2B supply chain. Recent media reports did mention two B2B startups joining the platform but the wholesale beauty business might still be distant. Finally, as discussed in case of Zomato, if ONDC does start to get strong traction, it might be beneficial for Nykaa to join hands as it helps provide the company incremental buyers for a minimal cost while also allowing Nykaa to generate buyer-side commissions from non-Nykaa purchases on the platform.

3. **PB Fintech:** Though ONDC has talked about solving for both products and services digitally, we believe that insurance, being a "push" product that is not bought but rather needs to be sold, will be tough to sell via this network. While cross-sell continues to be a portrayed theme, as seen in the timid adoption to Whatsapp payments as well as insurance sales on payment apps such as Paytm and PhonePe (primarily selling low-ticket insurance only), we continue to see Indian consumers preferring a focused vertical-led play.

   Further, despite years of investment by Policybazaar as well as some of their peers, India still has only 1-2% online penetration in insurance while insurance penetration as a % of GDP is also pretty low. Hence, we do not see ONDC being much of a disruptor for PB Fintech.

Exhibit 43. Most of our coverage companies are expected to see minimal impact

	Intensity	Timing	Probability
CarTrade	◔	◔	◔
EaseMyTrip	●	◑	●
indiamart	◔	◑	◑
infoedge	○	○	○
Justdial	◔	◑	●
Nazara	◔	◔	◔
NYKAA	◔	◔	◔
policybazaar	◑	◔	◔
routemobile	○	○	○
zomato	●	●	●

Source: JM Financial.
Intensity implies the portion of revenue that could be impacted.
Timing implies how soon the impact could be seen.
Probability implies the chances of suggested intensity getting impacted

Crystal-gazing varied scenarios for ONDC

With ONDC still at the pilot stage, companies across different verticals of the e-commerce ecosystem are evaluating their strategy by factoring in what ONDC could turn out to be. We attempt to crystal-gaze the evolution of ONDC with three different scenarios laid out.

Blue sky scenario: Our blue sky scenario assumes that ONDC becomes the go-to option for all e-commerce transactions in India with all large players either onboarded or decimated for failing to evolve along with it (we believe "onboarded" to be more likely). This scenario basically envisages the large incumbents onboarding both on the buyer side as well as the seller side apps, which will bring instant scale and traction for ONDC with further scale coming from large/D2C brands as well as MSMEs and local retailers coming together as a city/neighbourhood subnet.

This scenario, though optimising for scale, is also likely to dilute a major goal of ONDC – to empower the local entrepreneurs and democratise e-commerce – as the larger players (market places as well as deep pocketed brands) are likely to overpower the smaller retailers with their strength in technology or capital availability. This might actually end up strengthening the large incumbents further and put them in an e-commerce war with offline FMCG, fashion and electronics players who can sell directly to the shoppers. In all this, the MSMEs and local retailers might end up playing catch-up only.

Exhibit 44. Blue sky scenario needs modifications in order to help with democratisation of e-commerce

		Blue Sky Scenario	Base Case Scenario	Grey Sky Scenario
Who comes onboard?	Buyer side apps	Large incumbents Payment apps Telecom apps Banking apps	Payment apps Telecom apps Banking apps	Payment apps Telecom apps Banking apps
	Seller side apps	Large incumbents Subnet of regional sellers Traditional/D2C brands Govt-related entities SaaS providers for e-com sellers	Subnet of regional sellers Traditional/D2C brands Govt-related entities SaaS providers for e-com sellers	Govt-related entities SaaS providers for e-com sellers
	Logistics Players	Most 3rd party logistics players Captive logistics businesses looking to scale	Most 3rd party logistics players Captive logistics businesses looking to scale	Most 3rd party logistics players Captive logistics businesses looking to scale
Indian e-commerce GMV on ONDC (%)		~100%	40-60%	Less than 10%
Type of transactions		B2B+B2C	Primarily B2C	Primarily B2B
Goal of democratisation of e-commerce achieved?		No	Yes	No

Source: JM Financial

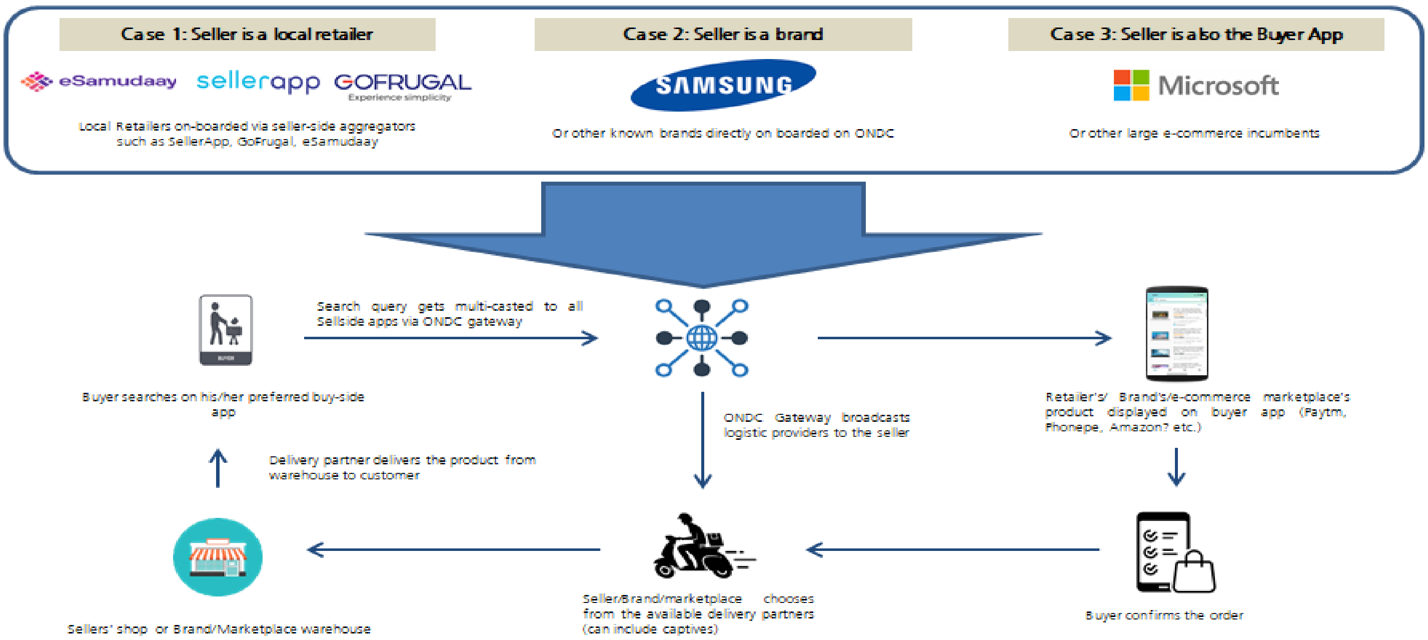
Base case scenario: In our base case scenario, we postulate that ONDC will continue to onboard banks, telecom operators, government sponsored entities and smaller e-commerce players on the buyer side. On the seller side, we expect to see participation from established and newer brands aiming to establish a direct digital channel, government sponsored entities and aggregators/enablers digitising the fragmented sellers. On the enablers side, we expect to see participation from most 3rd party providers.

We foresee ONDC emerging as an enabler for the retail ecosystem that is not being catered to by the current e-commerce play in India. As a comparison, ONDC can replicate what Taobao has managed to do in China by providing a platform for small businesses and individual entrepreneurs to open online stores. We anticipate ONDC to complement the current e-commerce ecosystem in enhancing digital penetration among the local retailers and in smaller cities with the incumbents continuing to cater to an ever increasing consumer base that is happy with the status quo and wants a more predictable and conventional e-commerce consumer experience.

Grey sky scenario: Our grey sky scenario portrays a failure of sorts for this initiative wherein ONDC gets stuck in a chicken and egg situation between buyer and seller onboarding with local retailers not getting onboarded due to a lack of awareness and incentives and buyer base not coming on due to a lack of selection and pricing along with tech glitches. Commercially as well, a local kirana store that makes 10-15% gross margin might not be willing to part with 50-75% of his margin (2-4% buyer app fee + 1-2%% ONDC fee +1-2% seller subnet fee + cost of delivery) while also having to part with his mental bandwidth and operate under a protocol.

In this scenario, ONDC might end up being more of a B2B enabler by onboarding government-related entities such as Common Service Centres (CSCs), One District One Product (ODOP) and farmer producer organisations (FPOs). While it might not provide a direct access to the end-consumer it can end up optimising the value chain for local communities by providing them price discovery and visibility with the actual retailers.

Exhibit 45. Multiple routes that an ONDC transaction can take to close the loop



Source: Redseer, JM Financial

APPENDIX I

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