WHITE PAPER ON Q-COMMERCE

Platforms Using FDI To Kill Small Kirana Retailers and Causing Appreciable Adverse Effect on Competition

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A. Quick Commerce: Violating Regulations to Crush India's Kirana Stores

1. Leading Quick Commerce (QC) platforms like Blinkit, Instamart, and Zepto are driving small retailers, particularly Kirana stores, out of business. Instead of using Foreign Direct Investment (FDI) to build assets, they are funding deep discounts and covering operating losses. This predatory pricing pulls customers away from Kirana shops, crippling their ability to compete. Additionally, they are using FDI to control logistics, warehouses, inventory, and delivery systems, offering these services to a select group of preferred sellers at negligible, non-competitive prices. This enables them to dominate sellers and manipulate pricing.

2. These three QC players have received a massive FDI inflow[1] of more than **₹54,000** crores, **of which only ₹1,300 crores (2.5%) has been used to create real assets/infrastructure.** It is estimated that over 50% of the FDI may have been spent covering operating losses incurred due to practice of predatory pricing, and large part of the remainder used to provide subsidized warehouses, logistics, inventory, and delivery systems to their preferred sellers.

3. The QC platforms control every aspect of the supply chain—from sourcing and pricing to owning and controlling inventory and the warehousing and delivery. Blinkit, for instance, relies on just five sellers to handle majority of its business, while Zepto bypasses the marketplace model entirely by managing its own inventory.

4. Although QC platforms present themselves as marketplaces, whereas, they actually control the entire supply chain. By restricting access to a closed group of few preferred sellers, they stifle competition and manipulate inventory. Their misuse of FDI, which is meant for asset creation, to cover losses and undercut small retailers violates key regulations. Dark stores and B2B networks further entrench their dominance, leaving independent sellers with little chance to compete.

5. These platforms have violated multiple laws, including FDI and FEMA regulations, which prohibit foreign-backed marketplaces from owning or controlling inventory. Blinkit (Zomato), Swiggy (Instamart) and Zepto bypass these rules by setting up preferred seller networks and using dark stores to indirectly control stock / inventory. **Their misuse of FDI to finance operational losses due to their predatory practices, deep discounting not only breaches FEMA guidelines but also causes appreciable adverse effect to competition and is causing irreparable loss to the small traders.**

6. These e-commerce platforms violate the Competition Act by restricting market access through exclusive deals with a few sellers. They offer deep discounts, engage in

[1] Please refer to Annexure 3 and 4 for details. Also explained in subsequent sections.

predatory pricing, and provide free or heavily discounted warehousing and delivery services to preferred sellers, pushing small retailers and Kirana shops out of the market.

7. Additionally, QC platforms breach the Consumer Protection Act by failing to provide information of sellers[2] to the consumers in a transparent manner. Zepto omits seller details entirely, while Blinkit offers minimal information, preventing consumers from making informed choices.

8. As a result of these illegal and anti-competitive practices, Kirana stores are facing sharp declines in their business and many of them are at the brink of closure. CNBC TV 18[3] reports "***quick-commerce platforms have captured 25-30% of the business once held by Kirana stores. This shift has pushed nearly a quarter of India's 30 million Kirana stores to the brink of closure***." The unchecked growth of QC platforms, fuelled by foreign capital and regulatory violations, is eroding the foundation of small retail in India. Without stricter regulations, the livelihoods of millions of small retailers will continue to be at risk.

9. In the following sections, we have explained how QC platforms are dismantling the Kirana store ecosystem which is the backbone of entrepreneurship and provides livelihood to over 40 crore people of India. It details their **aggressive growth fuelled by misuse of FDI for controlling over the entire supply chain to dominate the market**. It highlights the severe regulatory violations committed by these platforms and stresses the need for stronger enforcement to protect millions of small retailers across India.

[2] Please refer to Annexure 5 and 6 for details.

[3] https://www.cnbctv18.com/business/retail/kirana-stores-struggle-for-survival-as-quick-commerce-captures-30-percent-of-their-market-19483778.htm

B. Overview of Quick Commerce (QC) Industry

1. Quick Commerce (QC) is characterized by the rapid delivery of small, essential items like groceries, snacks, and personal care products. The model caters to urban consumers, driven by the need for convenience and speed, often fulfilling orders in as little as 10-30 minutes. QC has capitalized on impulse buying and last-minute needs, making it particularly popular in cities where time is a priority.

2. However, in India, the rapid expansion of this model is heavily dependent on massive capital inflows, particularly funded by Foreign Direct Investment (FDI).

3. Central to efficient QC's operations are dark stores - urban micro-warehouses dedicated exclusively to online orders, bypassing traditional retail. These AI-driven systems allow QC platforms to process large volumes of orders quickly. They also serve as control points, enabling large QC platforms to control supply, inventory, sellers, and pricing.

4. Globally, QC has expanded rapidly, particularly in markets like the US, UK, and Germany, where players such as GoPuff, Getir, and Gorillas have adopted similar models. These companies have benefited from large venture capital funding, focusing on instant delivery to gain market share.

5. In India, Quick Commerce (QC) has experienced exceptional growth, outpacing both traditional and organized retail. The market (GMV) reached USD 2.8 billion in 2023[4], marking a 77% year-on-year increase. With a projected CAGR of 40-45% over the next three years[5], it far exceeds the 5-10% growth in overall retail[6]. The QC platforms are misusing automatic FDI intended for e-commerce marketplaces, undermining the regulations meant to protect small retailers by prohibiting FDI in inventory-based e-commerce and multi-brand retail.

6. The Indian QC market is dominated by three players: Blinkit-Zomato, Swiggy-Instamart, and Zepto, which together control 94% of the market[7] (GMV Market Share 4Q CY23E JM Financial). Blinkit leads with 46%, followed by Instamart at 27%, and Zepto at 21%. **Their rapid growth is fuelled by large FDI[8] inflows, ₹22,996 crores for Blinkit, ₹29,118 crores for Instamart, and ₹2,763 crores for Zepto.**

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[4] https://redseer.com/newsletters/unveiling-indias-q-commerce-revolution/

[5] https://redseer.com/newsletters/unveiling-indias-q-commerce-revolution/

[6] https://www.ibef.org/industry/retail-india

[7] https://www.jmfl.com/Common/getFile/3278

[8] https://dpiit.gov.in/publications/si-news-letters/archives

7. The QC platforms leverage capital and technology to drive efficiency. Using vast customer data, they employ AI algorithms to predict demand, optimize delivery routes, and manage inventory in real-time. This allows them to achieve economies of scale, lower per-unit costs, and handle much higher order volumes than small retailers, giving them a significant efficiency edge in urban delivery.

C. India's Quick Commerce Market

1. The Quick Commerce (QC) market in India has evolved from a modest GMV of USD 0.2 billion in 2021, to an estimated USD 2.8 billion in 2023[9]. Projecting forward, the market is expected to reach an astonishing USD 40 billion by 2030[10], fuelled by a CAGR of 45% over the next seven years.

2. QC's rapid growth is driven by urban consumers' demand for convenience and instant gratification, accelerated by the COVID-19 pandemic. Technological advancements have streamlined operations, enabling faster deliveries. However, the key driver has been predatory pricing through deep discounts, funded by massive FDI, which has shifted retail business from unorganized sectors to QC.

3. **Expanding Beyond Grocery:** Expanding beyond groceries, QC platforms now offer a wide range of products, including electronics, beauty, medications, festive goods and office supplies. Their 10–30-minute delivery is disrupting the local Kirana stores.

4. **JM Financial report titled 'Deep Dive: Quick Commerce,** provides an overview of Q-commerce market in India, key players, their relative share, etc.

5. **Grant Thornton's 'Survival of the fastest: Quick commerce and its evolving business model'** Over 70% of consumers surveyed felt quick commerce is an alternative to Kiranas.

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[9] https://redseer.com/newsletters/unveiling-indias-q-commerce-revolution/

[10] https://www.jmfl.com/Common/getFile/3278

Table[11]: Three Players dominate the market; exhibiting a supernormal growth.

Key Business Metrics	Blinkit	Instamart	Zepto
Market Share, %	46%	27%	21%
Cities Covered	27	25	10
Dark Stores	451	450	330
AOV (Average Order Value), INR	635	450+	450+
Monthly Transacting Users (MTU), Mn Users	5.4	4.5	4.0
GMV ARR (4Q CY23E), INR Cr	14,200	8,300	6,500
Gross Merchandise Value (GMV), YOY growth, %	103%	63%	44%

Source: Alliance Bernstein Report; JM Financial estimates FY 23-24; Company, Media reports

6. **Blinkit (Zomato)** has grown its GMV to INR 14,200 crore in Q4 CY23, massive FDI inflows enabling aggressive expansion and technology led optimization of its **451 dark stores spread across 27 cities *(despite FDI is not allowed in Multi Brand Retail Trading and inventory based e-commerce)***. Despite being the market leader, Blinkit has faced cumulative losses of INR 6,800 crore over the last three years. Blinkit's strategy has been focused on levering platform insights to increase order frequency and upsell non-grocery categories to its customers to boost its overall GMV and margins while continue using FDI for deep discounting and providing the warehousing and delivery services at below cost to their preferred sellers.

7. **Instamart,** Swiggy's QC arm, registered a GMV of INR 8,300 crore by the end of Q4 CY23, with a 63% YoY growth. Operating more than **450 dark stores across 25 cities *(despite FDI is not allowed in Multi Brand Retail Trading and inventory based e-commerce)***. Instamart, is capitalizing on Swiggy's established logistics network. It faced INR 5,300 crore in cumulative losses over the last three years but is seeing continued support from the investors like Prosus and SoftBank. Now the company is expected to achieve profitability as it leverages its control over sellers and complete supply chain to cross-sell its services within the supplier ecosystem.

8. **Zepto,** the youngest of the three, has recorded a GMV of INR 6,500 crore and a 44% YoY growth. Zepto operates **330 dark stores across 10 cities *(despite FDI is not allowed in Multi Brand Retail Trading and inventory based e-commerce)***, delivering on its core promise of 10-minute deliveries. Zepto had cumulative losses of INR 4,200 crore that is backed by significant FDI inflows of INR 2,763 crore.

D. Foreign Investment Dominance in India's Q-Commerce Industry

1. **Dominance of Foreign Capital in Major QC Players.** India's Quick Commerce (QC) industry is predominantly driven by substantial foreign capital. Major players like Blinkit, Swiggy Instamart, and Zepto are significantly backed by Foreign Direct

[11] https://www.jmfl.com/Common/getFile/3278

Investment (FDI) and foreign institutional investors, enabling their rapid expansion across urban India. The dominance of foreign ownership has allowed these platforms to scale aggressively, focusing on dark store networks and logistics infrastructure.

2. Please refer to Annexure 1: JM Financial report titled 'Deep Dive: Quick Commerce.' It provides details of shareholding for the three dominant players in the industry.

Table[12]: Shareholding of dominant Q-Commerce Players in India

Category	Zomato (Blinkit)	Swiggy (Instamart)	Zepto
Foreign Direct Investment (FDI)	**8%** (Antfin Singapore Holding Pte. Ltd., Dunearn Investments)	**32%** (Prosus)	**19%** (Nexus Venture)
		8% (Softbank)	**12%** (Y Combinator)
		6% (Accel)	**9%** (LGF Scale)
		5% (DST Global)	**8%** (Glade Brook)
			6% (Step Stone)
			4% (Rocket Internet)
Foreign Investors (FII)	**47%** (Gov. of Singapore, Camas Inv. Pte. Ltd., Canada Pension Plan Inv. Board, Kuwait Inv. Auth. Fund)	**37%** (Others)	**14%** (Others)
FDI + Foreign Inestors	**55%**	**88%**	**72%**
Domestic Investors (DII)	**16%**	-	-
Other	**11%**	-	-
Info Edge	**14%**	-	-
Founders and Director Holdings	**4%**	**7%**	**23%**
ESOP	-	**5%**	-
Domestic Holdings	**45%**	**12%**	**23%**

Source: JM Financial (Feb 2024) Report

- *Zomato Ltd. is listed on NSE and BSE. Its NSE Code is ZOMATO and its BSE code is 543320*
- *Swiggy Limited is currently unlisted in stock market.*
- *Zepto - Kiranakart Technologies Pvt. Ltd is a private company.*

12 https://www.jmfl.com/Common/getFile/3278

3. **Operating Losses Funded by Foreign Capital.** QC platforms have incurred significant operating losses, all of which have been heavily funded by foreign capital.

- Blinkit: ₹22,996 crore in FDI inflows, with ₹10,417 crore in cumulative losses.
- Instamart: ₹29,118 crore in FDI inflows, with ₹5,300 crore in cumulative losses.
- Zepto: ₹2,763 crore in FDI inflows, ₹4,200 crore in losses.

These losses, largely financed through foreign capital, aim to capture market share by providing predatory discounts to consumers and heavily subsidized warehousing and delivery services to preferred sellers. The breakdown of FDI and losses is outlined below -

Table - Zomato Blinkit FDI Inflows, and Cumulative Losses

Year	Cumulative Losses, INR Cr	Cumulative FDI, INR Cr
FY 18-19	-2,054	6,801
FY 19-20	-5,355	9,254
FY 20-21	-6,637	14,382
FY 21-22	-9,338	18,472
FY 22-23	-10,768	22,985
FY 23-24	**-10,417**	**22,996**

Source: As per regulatory filings to DPIIT and MCA by entities

Table - Swiggy Instamart FDI Inflows, and Cumulative Losses

Year	Cumulative Losses, INR Cr	Cumulative FDI, INR Cr
FY 18-19	-2,346	3,246
FY 19-20	-6,115	8,999
FY 20-21	-7,429	10,110
FY 21-22	-11,197	25,174
FY 22-23	-14,955	29,118
FY 23-24	**-14,955**	**29,118**

Source: As per regulatory filings to DPIIT and MCA by entities

Table - Zepto FDI Inflows, and Cumulative Losses

Year	Cumulative Losses, INR Cr	Cumulative FDI, INR Cr
FY 21-22	-391	16
FY 22-23	-1,663	2,346
FY 23-24	**-1,663**	**2,763**

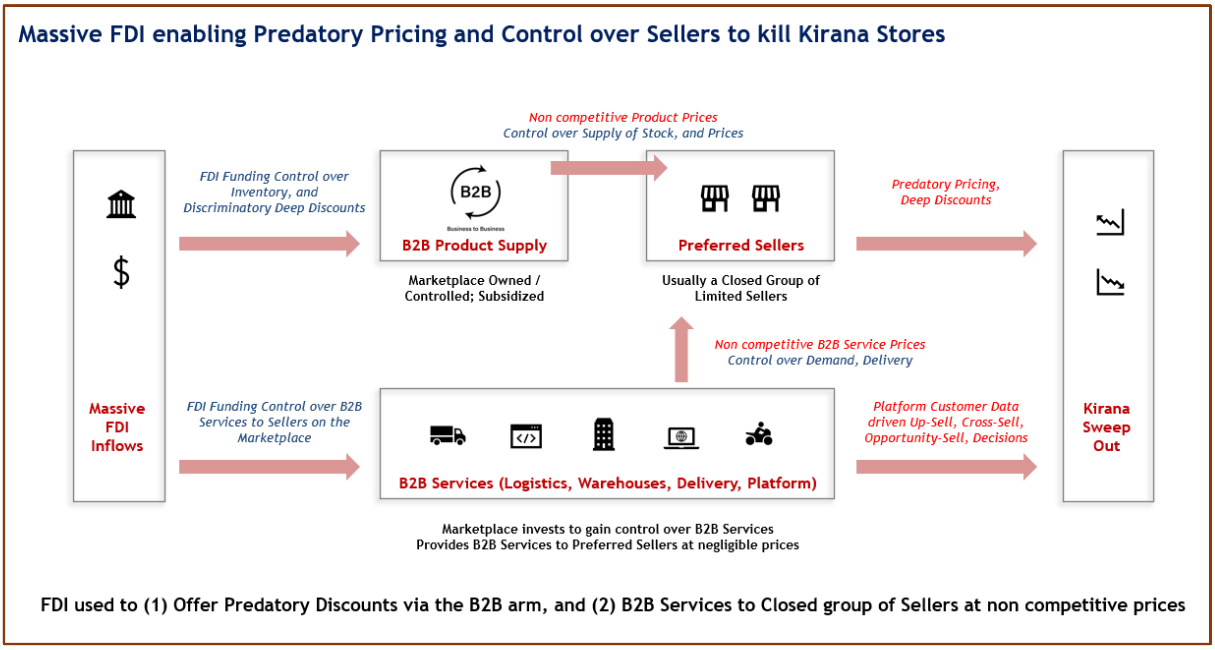
Source: As per regulatory filings to DPIIT and MCA by entities

4. **FDI details** used in this report is based on remittance wise details from DPIIT website for the main and associated companies.
5. **Other Financial reports of the dominant QC players** and associated entities from the MCA Site.

E. The Modus Operandi of Quick Commerce (QC) Platforms

1. The exhibit below shows how major quick commerce (QC) platforms use Foreign Direct Investment (FDI) to implement predatory pricing and dominate sellers, supply chains, and inventory. Instead of using FDI to build long-term assets, QC platforms direct it toward deep discounts and subsidized services for preferred sellers, enabling them to undercut Kirana stores. By controlling critical B2B services like warehousing and logistics, they solidify market dominance. FDI is used to absorb short-term losses, allowing these platforms to steadily capture market share, push small retailers out of business, and monopolize consumer demand through predatory pricing and control over inventory, sellers, and pricing.

Exhibit: How FDI Fuels Predatory Pricing and Market Domination in India's Q-Commerce



2. The Modus Operandi of Quick Commerce (QC) Platforms can be summarized in following steps.

3. **First, Infusion of Massive FDI.** QC platforms receive substantial FDI inflows, which provide the capital necessary to implement aggressive market tactics. This includes deep discounting strategies and expanding their supply chain capabilities, all designed to capture market share rapidly.

4. **Second, B2B Supply and Control.** A significant portion of the FDI is channelled into the B2B Supply arm of these platforms. **These B2B entities supply products at heavily subsidized, below-market rates to a closed group of preferred sellers.** This enables

these sellers to offer products at predatory discounts, making their prices far lower than traditional Kirana stores, which shifts customers to QC platforms and undermines local retail.

5. **Third, Predatory Pricing**. With deeply discounted products, made possible by FDI-funded supply, preferred sellers can offer far lower prices than Kirana stores. This accelerates customer migration to QC platforms, further squeezing out local competition.

6. **Control Over Logistics and Warehousing.** In addition to funding predatory pricing, a large portion of the remaining FDI is invested in logistics, warehouses, and delivery systems. These critical B2B services are then offered to the preferred group of sellers at negligible, non-competitive rates. This strengthens the platform's hold over the supply chain and enhances its ability to manipulate market dynamics.

7. **Marketplace Manipulation.** With control over key B2B services such as inventory management, pricing, and delivery, QC platforms further tighten their market dominance. This enables them to continue predatory pricing practices and solidify their monopoly, gradually wiping out Kirana stores.

10. **Outcome.** Ultimately, the FDI is not used to create long-term assets, but rather to fund operational losses and predatory practices. **As a result, local Kirana stores find themselves unable to compete, steadily being pushed out of the market.** This shows how foreign capital is being used not only to scale these platforms but also to dismantle traditional retail, eroding the very foundation of the local retail ecosystem.

F. Evidence of FDI Misuse, Market Manipulation and Impact on Kirana Stores

1. **Foreign Capital (FDI) Fuels Operations Losses, Not Asset Creation.** Quick Commerce (QC) platforms like Blinkit, Instamart, and Zepto have heavily relied on FDI inflows to cover significant operational losses rather than investing in long-term asset creation. These funds have been used to support predatory pricing strategies, aiming to rapidly capture market share and displace traditional Kirana stores. The minimal allocation of FDI towards tangible assets is clearly reflected in their balance sheets, where asset creation remains marginal. The table below highlights the stark contrast between FDI inflows, cumulative losses, and assets created by these platforms. Following table reveal that only a meagre portion (only 2% to 5%) of these FDI funds has been allocated to create assets.

Table: Cumulative FDI Inflows, Asset Creation for major QC players in India

Description	Zomato Blinkit (2017-23)	Swiggy Instamart (2018-23)	Zepto (2018-23)
Cumulative FDI Inflows	21,622	27,943	2,763
Operating Losses Funded	5,634	20,785	1,914
Financial Investments + Cash Held	15,447	6,522	704
Fixed Assets	541	636	145
Fixed Asset, % of FDI	3%	2%	5%

Source: Regulatory filings to DPIIT and MCA by entities

This data includes associated sellers as well. For **Zomato Blinkit - its preferred sellers** such as Kemexel Ecommerce, TAMS Global, Superwell Comtrade are included. Similarly, it covers **Instamart and its associated sellers**, including PYD Retail, Getmax Globe, Setron Retail, and more.

The data in the above table raises the serious question on the need of allowing the FDI in e-commerce market place. Why any entity having the assets of Rs 636 crore should be allowed to raise around Rs 27,943 crore. It is high time for the Government to reconsider the FDI policy and amend the automatic FDI for e-commerce marketplace entities and allow such FDI that is limited to their fixed assets only through Government route.

2. **Q-Commerce: The Closed-Loop System of Preferred Suppliers.** Q-commerce marketplace platforms have established a small, exclusive group of preferred sellers who enjoy a range of benefits, including deeply subsidized platform fees, reduced warehousing and delivery costs, prime visibility in search results, and access to valuable pricing and inventory insights. This closed-loop system effectively hands control of inventory and pricing to the platforms, while restricting competition from independent sellers.

   For instance,

   A. Blinkit operates with just five key sellers across multiple cities—
      i. Kemexel Ecommerce;
      ii. TAMS Global;
      iii. Superwell Comtrade;
      iv. Fashion Fusion Enterprise; and
      v. Techmart Infotech

   who account for the majority of Blinkit's business, thereby, the platform directly/indirect controlling the inventory and the pricing.

   B. Swiggy Instamart follows a similar model, relying on select sellers like
      i. PYD Retail;
      ii. Getmax Globe;
      iii. Setron Retail;
      iv. Bhagwati Stores;
      v. FOCLO Technologies;
      vi. Roj Retails; and
      vii. Kwickbox Retails.

   to handle a significant share of its business, thereby, the platform directly/indirect controlling the inventory and the pricing.

   C. Zepto goes a step further, bypassing third-party sellers entirely by directly supplying products as an inventory-based e-commerce entity, further tightening control over its supply chain.

   These practices limit competition and reduce opportunities for independent sellers, creating a marketplace dominated by the platforms themselves.

3. **Major QC Platform Sellers Earning 'Thin, assured' Margins While QC Marketplace take steep losses: These Sellers Just Dummies sellers/Suitcase entities !**

The table below illustrates how the major sellers on Blinkit and Instamart platforms consistently report thin, yet positive, assured profits, even when the 'principal' makes huge losses.

Table: Major sellers of Blinkit

Seller	Reported Year	Revenue (INR Lakh)	EBITDA (INR Lakh)	Profit, Loss (INR Lakh)	PAT %
KEMEXEL ECOMMERCE PVT LTD	FY2023	36,250	215	46	0.1%
TAMS GLOBAL PVT LTD	FY2022	511	32	19	3.6%
SUPERWELL COMTRADE PVT LTD	FY2023	42546.8	279.5	114.2	0.3%

Source: Ministry of Corporate Affairs WebSite

Table: Major sellers of Instamart

Seller	Reported Year	Revenue (INR Lakh)	EBITDA (INR Lakh)	Profit, Loss (INR Lakh)	PAT %
PYD Retail Pvt Ltd	FY2023	30,151	39	30	0.1%
Getmax Globe	FY2023	42,041	55	42	0.1%
Setron Retail	FY2023	18,330	46	35	0.2%
Bhagwati Stores	FY2023	25,352	53	38	0.2%
FOCLO Technologies	FY2023	22,019	37	26	0.1%
Roj Retails	FY2023	23,442	45	33	0.1%
Kwickbox Retail	FY2023	20,006	138	-20	-0.1%

Source: Ministry of Corporate Affairs WebSite

Even when major QC platforms exhibit massive financial losses, their major sellers consistently report break-even profits, often earning small amounts, ranging from INR 19 lakh to INR 114 lakh, with profit margins as thin as 0.1% to 3.6%. This pattern raises serious concerns about whether these sellers are functioning as independent, competitive entities or whether they are dummy sellers, simply used to report minimal profits while the platforms themselves absorb significant financial losses.

The thin profit margins across sellers point to a structure, where these entities are kept just above water while the platforms face huge losses. This warrants scrutiny, as it suggests a that all these entities are suitcase companies being used to conceal the true nature of the marketplace platform entity.

4. **Platform and B2B Service Costs as reported by Sellers: Raising Questions of Market Distortion.** The table below highlights the costs associated with Packaging, Delivery, Warehousing, Sales, Marketing, and Manpower as a percentage of revenue for major sellers on Blinkit and Instamart, as reported on the Ministry of Corporate Affairs website. We see that the costs vary significantly across sellers, with preferred sellers like Kemexel Ecommerce Pvt Ltd reporting the cost as meagre 2-3% of revenue, while others reporting this cost over 12-17%.

   This clearly shows that the QC marketplace players are extending preferential treatment through reduced fees for warehousing, delivery, or other services to select sellers. Further, the service/platform fees by the e-commerce marketplace platform, typically range from 25%-30%. These low percentages for platform fee for preferred sellers clearly shows the nexus between the marketplace and listed sellers.

The inconsistency becomes even more conspicuous when considering that, in the quick commerce sector, platform fees reportedly range from 21%-50% (as seen with Zepto). These low costs reported by some Blinkit and Instamart sellers raise concerns about preferential treatment and the possibility of artificially subsidized costs, distorting competition in the marketplace.

Table: Costs for major sellers - Blinkit and Instamart

Cost of Packaging, Delivery, Warehousing, Sales, Marketing, Manpower

Costs, as % of Revenue	2022-23	2021-22	2020-21
KEMEXEL ECOMMERCE PVT LTD	2.37%	2.00%	3.78%
TAMS GLOBAL PVT LTD	NA	11.81%	
SUPERWELL COMTRADE PVT LTD	11.54%		
Fashion Fusion Enterprise Pvt Ltd			1.60%
PYD Retail	6.36%	3.73%	
Getmax Globe	12.33%	17.97%	
Setron Retail	7.35%	0.49%	
Bhagwati Stores	8.23%	0.00%	
FOCLO Technologies	0.45%	1.21%	
ROJ Retails	1.42%		
Kwickbox Retail	5.37%		

Source: Ministry of Corporate Affairs WebSite

5. **B2B Supply and Control:** Major QC platforms like Blinkit, Zepto, and Instamart are using their B2B arms to supply goods to preferred sellers, allowing them to dominate the market and undercut smaller retailers. In the Zomato Annual Report 2022-23, the company confirms that **Hyperpure, its wholly owned subsidiary**, **supplies products to sellers on Blinkit's platform**. Press reports and company filings show that Zepto employs a direct supply model, bypassing third-party sellers. For Instamart, company statements highlight how the platform uses Swiggy's logistics network to efficiently supply to its sellers.

6. **Deep Discounting by Quick Commerce Platforms:** The table below highlights the significant discounts offered by major Quick Commerce (QC) platforms, Blinkit, Instamart, and Zepto, on a range of products compared to their Maximum Retail Price (MRP).

These QC platforms leverage deep discounting strategies to attract and retain customers, often offering prices 10-20% lower than local Kirana stores. This practice undercuts local businesses and builds a loyal customer base for the platforms. The goal is to drive consumer dependence on these platforms for everyday needs while expanding their market share. Once a strong customer base is built, QC platforms focus on upselling and cross-selling higher-margin products, enhancing their revenue per customer.

Such deep discounting, enabled by Foreign Direct Investment (FDI), distorts competition in the marketplace, pushing traditional Kirana stores out of business and raising questions about the fairness of such models.

Table showing significant discounts being offered by Quick Commerce companies:

Product	Qty, Weight	MRP	Delhi		
			Blinkit	Instamart	Zepto
Britannia Toastea Premium Bake Rusk	700g	₹ 130	₹110 (15%)	₹117 (10%)	₹114 (12%)
Parle Monaco Cheesling Classic Biscuit (Box)	400g	₹ 140	₹110 (21%)	₹119 (15%)	₹119 (15%)
Real Juice Mixed Fruit	1Ltr	₹ 110	₹80 (27%)	₹85 (23%)	₹90 (18%)
Dabur Immunity Chyawanprash	1kg	₹ 399	₹349 (13%)	₹345 (14%)	₹350 (12%)
Daawat Super Basmati Rice (Long Grains)	5kg	₹ 699	₹579 (17%)	₹590 (16%)	₹590 (16%)
Head & Shoulders Anti-Dandruff Shampoo	675ml	₹ 450	₹400 (11%)	₹405 (10%)	₹407 (10%)
Surf Excel Easy Wash Detergent Powder	1.5kg	₹ 225	₹208 (8%)	₹210 (7%)	₹211 (6%)
Portronics Car Charger (Type C PD 18W)	1 unit	₹ 699	₹349 (50%)	₹349 (50%)	NA
Pigeon Hot Electric Kettle 1500W	1 unit	₹ 1,145	₹849 (26%)	NA	₹899 (21%)
Philips Wiz 9W Wi-Fi Enabled B22 Smart LED Bulb	1 unit	₹ 1,500	₹879 (41%)	₹899 (40%)	₹899 (40%)

Source: JM Financials report, Feb 2024 data

7. **Using Platform Data to Offer Market-Specific Discounts.** The table highlights how Quick Commerce (QC) platforms utilize sophisticated algorithms to adjust pricing based on location and demand, creating price variability across markets like Mumbai and Delhi. The products are priced differently across these regions. The use of platform data allows these companies to opportunistically offer discounts, potentially maximizing customer acquisition in specific areas while undercutting traditional Kirana stores. This pricing strategy significantly disrupts the market and distorts competition.

Table: Illustrating Market specific discounts offered by QC players

Red font indicates price variability across locations

Product	Qty, Weight	MRP	Blinkit		Instamart		Zepto	
			Mumbai	Delhi	Mumbai	Delhi	Mumbai	Delhi
Britannia Toastea Premium Bake Rusk	700g	₹ 130	₹117 (10%)	₹110 (15%)	₹111 (15%)	₹117 (10%)	₹119 (8%)	₹114 (12%)
Parle Monaco Cheesling Classic Biscuit (Box)	400g	₹ 140	₹122 (13%)	₹110 (21%)	₹119 (15%)	₹119 (15%)	₹139 (1%)	₹119 (15%)
Real Juice Mixed Fruit	1Ltr	₹ 110	₹85 (23%)	₹80 (27%)	₹80 (27%)	₹85 (23%)	₹89 (19%)	₹90 (18%)
Dabur Immunity Chyawanprash	1kg	₹ 399	₹345 (14%)	₹349 (13%)	₹342 (14%)	₹345 (14%)	₹358 (10%)	₹350 (12%)
Daawat Super Basmati Rice (Long Grains)	5kg	₹ 699	₹580 (17%)	₹579 (17%)	₹595 (15%)	₹590 (16%)	₹600 (14%)	₹590 (16%)
Head & Shoulders Anti-Dandruff Shampoo	675ml	₹ 450	₹409 (9%)	₹400 (11%)	₹405 (10%)	₹405 (10%)	₹410 (9%)	₹407 (10%)
Surf Excel Easy Wash Detergent Powder	1.5kg	₹ 225	₹209 (7%)	₹208 (8%)	₹210 (7%)	₹210 (7%)	₹211 (6%)	₹211 (6%)
Portronics Car Charger (Type C PD 18W)	1 unit	₹ 699	₹349 (50%)	₹349 (50%)	₹349 (50%)	₹349 (50%)	NA	NA
Pigeon Hot Electric Kettle 1500W	1 unit	₹ 1,145	₹845 (26%)	₹849 (26%)	NA	NA	₹899 (21%)	₹899 (21%)
Philips Wiz 9W Wi-Fi Enabled B22 Smart LED Bulb	1 unit	₹ 1,500	₹899 (40%)	₹879 (41%)	₹899 (40%)	₹899 (40%)	₹899 (40%)	₹899 (40%)

Source: JM Financials report, Feb 2024 data

8. **Quick Commerce Dominating Kirana Stores Through Aggressive Pricing.** Quick Commerce (QC) dark stores operate with a highly efficient, cost-effective model. Located in low-rent, industrial areas, these hyperlocal fulfilment centres ensure rapid deliveries within 10-30 minutes. Stocked with 6,000+ SKUs and powered by advanced data analytics, QC stores manage 3-5 times more transactions per square foot than Kirana stores, while personalized upselling increases average order values.

   Dark stores, typically 2,500–4,000 square feet, handle 200-500 orders daily. In comparison, Kirana stores, limited to 1,000-1,500 SKUs, serve 30-50 customers per day. Higher rental costs in prime locations and slower inventory turnover further hinder Kirana stores' competitiveness.

   QC platforms, benefiting from economies of scale and data-driven inventory management, deploy aggressive discounts—10-20% lower than Kirana prices—**backed by illegal foreign direct investment (FDI).** These pricing tactics erode Kirana stores' customer base and revenue**. This is precisely the reason why FDI is not allowed in inventory based e-commerce and Multi-Brand Retail Trading.**

   As QC platforms continue to burn FDI and reduce their prices, Kirana stores struggle to compete with their advanced operations, leading to the gradual displacement of small, independent retailers in urban markets. **Ultimately, QC platforms are outcompeting traditional retailers through aggressive pricing strategies and low cost to the preferred sellers funded through the FDI.**

9. **QC Platforms: The Real Threat to Kirana Stores' Survival.** Quick Commerce (QC) platforms are rapidly disrupting the retail landscape, posing an existential threat to

Kirana stores across urban India. According to the **NIQ Shopper Trends 2024 report**[13], **31% of urban consumers now turn to QC platforms for their primary grocery shopping**, **with an additional 39% relying on them for top-up purchases**. **The convenience of fast delivery, coupled with deep discounts ranging from 10-20%, makes these platforms highly attractive, leaving traditional Kirana stores struggling to keep up.**

This shift has led FMCG giants like Procter & Gamble Hygiene and Health Care Ltd (PGHH) to double their sales through QC channels, while brands like MTR report that 9% of their revenue now comes from these platforms, largely from affluent consumers. As QC platforms gain momentum, traditional retailers are being increasingly edged out of the market, sparking concerns about their survival.

A recent CNBC report[14] (27 September 2024) highlights the significant impact of QC platforms, which have captured 25-30% of the market that once belonged to Kirana stores. **This shift is pushing nearly a quarter of India's 30 million Kirana stores to the brink of closure, as they grapple with losing customers to the fast, convenient, and competitively priced services offered by QC platforms.**

G. Regulatory Framework Governing Quick Commerce in India

1. Quick Commerce (Q-commerce), is e-commerce. It operates under a broad regulatory framework aimed at providing technological e-commerce platform, protect small retailers/Kirana, consumer interests, ensuring fair competition, and managing foreign investments. Several laws directly govern this sector:

2. **Foreign Direct Investment (FDI) Policy, 2020 and FEMA, 1999:** Given that Q-commerce platforms rely heavily on foreign capital, the FDI Policy, 2020, and the Foreign Exchange Management Act (FEMA), 1999, are crucial for compliance:

   - **Marketplace vs. Inventory Models**: The FDI policy allows **100% FDI in marketplace models** through the automatic route, while it **prohibits FDI in inventory-based models**. This distinction is critical because QC platforms like Blinkit, Instamart, Zepto having FDI, must operate strictly as e-commerce marketplaces platform, only facilitating transactions between buyers and sellers without owning and/or controlling the inventory.

[13] https://www.livemint.com/industry/quick-commerce-urban-indians-niq-shopper-trends-2024-fmcg-sales-blinkit-instamart-zepto-bigbasket-flipkart-11727160316642.html

[14] https://www.cnbctv18.com/business/retail/kirana-stores-struggle-for-survival-as-quick-commerce-captures-30-percent-of-their-market-19483778.htm

- **Ownership Restrictions**: QC platforms with FDI cannot sell products from companies where they have equity participation, ensuring a **level playing field** for all vendors.

3. **Competition Act, 2002:** The Competition Act, 2002 regulates market behaviour, ensuring that no entity abuses its position to distort competition. This is particularly relevant to Q-commerce platforms, given their rapid growth and increasing dominance:

   - **Abuse of Dominance**: QC platforms are barred from abusing their dominant market position. As these platforms grow, they must ensure they are not engaging in practices that limit the market access of smaller sellers, such as giving preferential treatment to specific vendors.

   - **Anti-Competitive Agreements**: The law prohibits agreements that may adversely affect competition, including price-fixing or exclusive deals that restrict consumer choice.

H. Major Regulatory Violations by Q-commerce Players

Q-commerce platforms in India have breached FDI policy and FEMA to gain market dominance. Below is an outline of such violations:

1. <u>Violations of FDI Policy, 2020 read with the FEMA Act, 1999:</u>

1.1. Violation of the Objective of FDI:

Misuse of Foreign Investment for Non-Productive Purposes

- **Section Violated**: The objective of the FDI Policy, aims to promote foreign investment to foster long-term growth through asset creation and infrastructure development. It reads as below:

  "*Therefore, it is the intent and objective of the Government of India to attract and promote FDI in order to supplement domestic capital, technology and skills for accelerated economic growth and development. FDI, as distinguished from Foreign Portfolio Investment, has the connotation of establishing a 'lasting interest' in an enterprise that is resident in an economy other than that of the investor*."

- **Background**: The FDI Policy emphasizes creating a lasting impact on the Indian economy by creating assets such as warehouses, factories, and cold storage that would continue to contribute to economic development. However, Q-commerce platforms like Blinkit, Instamart, and Zepto, along with their preferred sellers, have used FDI primarily to cover operational losses resulted due to predatory pricing and deep discounting rather than investing in long-term asset creation.

- **Violation**: Blinkit and Zomato received ₹21,622 crore in FDI (2017-23), yet only ₹541 crore (2.5%) has been used to create fixed assets, while the rest has been spent on covering losses and in financial investments (possibly financing the inventory to sellers). Instamart, despite raising ₹27,943 crore, has used just 2.2% of it to develop infrastructure. **This clear deviation from the FDI Policy's objective violates the fundamental premise that FDI must result in significant infrastructure development**.

1.2. Violation of FDI for Engaging in Prohibited Inventory-Based E-Commerce

- **Section Violated**: Clause 5.2.15.2 of the FDI Policy explicitly prohibits foreign entities from engaging in inventory-based e-commerce in India. Foreign-backed marketplace models are permitted to operator an e-commerce marketplace but cannot directly or indirectly control inventory.

- **Background**: Q-commerce platforms, such as Blinkit, Instamart and Zepto, have violated this section by engaging in inventory-based e-commerce through disguised operations. Blinkit and Instamart create the appearance of a marketplace but indirectly controls inventory by using a closed nexus of preferred sellers. Blinkit uses its affiliate Hyperpure to supply products to its five preferred sellers, who dominate its sales. Zepto further violates the provision by selling goods directly to consumers on its platform, thus conducting outright inventory-based e-commerce.

- **Violation:** Violation of Clause 5.2.15.2 of the FDI Policy by undertaking inventory e-commerce selling its own inventory such as grocery, electronics and wellness, in the garb of running marketplace platforms and doing indirectly what is prohibited to be done directly.

2. Violations of Competition Act, 2002

2.1. Violation of the Objective of the Competition Act:

- **Section Violated**: The objective of the Competition Act, 2002 is to prevent practices that have an adverse effect on competition, promote and sustain competition, and protect the interests of consumers. The Act ensures a fair, non-discriminatory, and level playing field in commercial transactions, safeguarding free market principles.

- **Background**: Q-commerce platforms like Blinkit, Instamart, and Zepto have violated the spirit of the Act by creating monopolistic structures that foreclose competition from independent sellers and Kirana stores. By adopting practices from foreign e-commerce giants like Amazon and Flipkart, these platforms have built a nexus of preferred sellers that they control directly or indirectly. This setup excludes ordinary sellers from the ecosystem and limits consumer choice, while manipulating consumer behaviour toward unplanned, impulse buying.

- **Violation**: Blinkit's top five sellers, who are preferred/suitcase sellers, which account for majority of its business, have been created and managed by the platform itself. The financial data for these sellers shows that their operations are sustained by the platform, as they report negligible profits despite substantial revenue. Instamart operates similarly, with preferred sellers dominating the platform and benefiting from exclusive advantages like waived platform fees and free warehousing. These practices distort competition, push out independent sellers, and undermine consumer trust.

2.2 Violation of Section 3(1) Read with 3(3) of Competition Act:

Anti-Competitive Agreements and Abuse of Vertical Control

- **Section Violated**: Section 3(1) of the Competition Act prohibits agreements between enterprises that cause an appreciable adverse effect on competition (AAEC). This includes agreements that control or limit production, supply, distribution, or price determination. Section 3(3) further emphasizes that such vertical agreements, where platforms like Blinkit, Zepto, and Instamart control the entire supply chain, can result in AAEC.

- **Background**: The Q-commerce platforms have entered into vertical agreements with their preferred sellers, controlling every aspect of production, supply, storage, distribution, and pricing. Blinkit, for example, controls the supply chain through its affiliate Hyperpure (production), preferred sellers (distribution), and its delivery fleet (distribution). Zepto, which bypasses sellers altogether, directly controls inventory and pricing, while Instamart manipulates consumer choices by limiting the visibility of products to those provided by its preferred sellers. These vertical integrations lead to an appreciable adverse effect on competition, as the platforms dictate prices and limit access to goods and services.

- **Violation**: Blinkit's control over pricing and supply through its preferred seller network limits market access for independent sellers, as all supply and pricing decisions are made within the platform's ecosystem. Zepto, which operates as an inventory-based platform disguised as a marketplace, controls the entire process from inventory management to delivery, thereby influencing purchase prices and restricting consumer options. Instamart, through its select sellers, similarly limits competition by influencing prices and restricting product offerings on its platform.

2.3 Violation of Section 4:

Abuse of Dominant Position

- **Section Violated**: Section 4 of the Competition Act prohibits enterprises from abusing their dominant position. A dominant position is defined as a position of strength that enables an enterprise to operate independently of competitive forces or affect competitors, consumers, or the relevant market in its favour.

- **Background**: Q-commerce platforms like Blinkit, Instamart, and Zepto abuse their dominant position by directly or indirectly imposing discriminatory conditions on prices and restricting market access for independent sellers. By controlling inventory, these platforms dictate prices and restrict consumer choices to only what they offer. Kirana stores, which operate on slim margins, cannot compete with the deep discounts funded by foreign capital. The platforms also create barriers for independent sellers and manipulate market access, both for sellers and consumers, by limiting available products and services to their preferred sellers.

- **Violation**: Zepto, which directly manages inventory and bypasses third-party sellers, manipulates prices and restricts market access, thereby denying consumers the variety and price competition that a true marketplace would offer. Blinkit and Instamart, with their preferred seller networks, similarly abuse their dominant positions by restricting product availability and imposing unfair pricing conditions on consumers. The result is the foreclosure of competition, where independent sellers are driven out of the market, and consumers are left with limited options controlled by the platforms.

Conclusion and Recommendations

1. The rapid rise of Quick Commerce (QC) platforms in India, while offering convenience and speed, is built on a foundation of anti-competitive practices and regulatory violations. Backed by massive foreign direct investment (FDI), platforms like Blinkit, Instamart, and Zepto have used capital not to build sustainable infrastructure but to cover operational losses caused due to predatory practices such as deep discounting, free warehousing/delivery to select sellers, that traditional retailers/Kirana stores cannot match. Their business model, centred around dark stores and full control over supply chains, has enabled QC players take away value and sustenance from local Kirana stores.

2. Despite their classification as marketplace models of e-commerce, **these QC platforms have systematically violated FDI and FEMA regulations by controlling inventory through preferred seller networks through B2B channels. This control over suppliers and inventory, coupled with the manipulation of pricing and delivery, undermines the principles of fair competition. Additionally, their practices breach the Consumer Protection Act by failing to provide transparent seller information, further distorting the market.**

3. The impact of Quick Commerce (QC) platforms is already being felt, with Kirana stores in metro cities experiencing a sharp decline in footfall. According to the NIQ Shopper Trends 2024 report, 31% of urban consumers now rely on QC platforms for their primary grocery needs. A CNBC report (27 September 2024) reveals that QC platforms have captured 25-30% of the market once dominated by Kirana stores, pushing nearly a quarter of India’s 30 million Kirana stores to the brink of closure. Fuelled by foreign capital and anti-competitive practices, the unchecked growth of QC platforms is threatening the livelihoods of small retailers across the country.

4. To create a vibrant and fair Q-Commerce industry, it's crucial to rethink the current FDI policies. **The government should consider revising the automatic Foreign Direct Investment (FDI) route for Q-commerce marketplace entities, limiting FDI to investments in fixed assets through a government approval process.** This change would ensure that foreign investments contribute to building infrastructure and long-term growth, rather than funding unsustainable practices like deep discounts and predatory pricing.

5. Further, Government should immediately release the following:-

   a) **Consumer Protection (E-Commerce) Rules** that proposes to prohibit all such anti-competitive practices as well as direct/indirect violation of FDI policy;
   b) **E-Commerce policy** prohibiting the marketplace platform from directly/indirectly acting as inventory based platform and vice versa;
   c) Clarification/amendment to **FDI policy** that prohibits e-commerce marketplace entities with FDI to indulge in a business practice involving direct/indirect control of inventory; and
   d) **Plug the loopholes of FDI policy** related to sale of the food item producers/manufacturers (*section 5.2.5.2 of consolidated FDI policy*) that is in conflict with FDI policy of retail trading sector that provides a backdoor entry of FDI in Multi-Brand Retailer selling food products.

6. Additionally, **stricter enforcement of the Competition Act and FEM**A is essential to maintain healthy competition and protect small retailers from unfair practices. Quick Commerce (QC) platforms, such as Blinkit, Instamart, and Zepto, must be closely

regulated to prevent their control over inventory and pricing, which stifles independent sellers. Greater transparency and oversight of these platforms will help restore balance in the market, ensuring that all players, including Kirana stores, can compete fairly.

7. By taking these steps, we can ensure that the growth of Q-commerce benefits the entire ecosystem, fostering innovation and healthy competition while safeguarding the livelihoods of millions of small retailers across India.

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