



ANALYSYS MASON

INTERNET MONTHLY

Consulting specialists in telecoms,
media and digital (internet)

JULY 2023

Featured in this issue

SaaS-BASED CRM: AN OPPORTUNITY IN DISGUISE

SWEATING SUCCESS: THE PROMISING FUTURE OF THE
PHYGITAL FITNESS SECTOR IN INDIA

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FOREWORD

Welcome to the July 2023 edition of Analysys Mason's newsletter on the internet and digital markets in India



Dear All,

I hope you enjoyed reading our June newsletter. The team at Analysys Mason has advised on more than 150 transactions in the internet and digital space in India in the last the few years with ~55% of our commercial/business diligence work leading to successful investments, most of which have multiplied in value. Our newsletter aims to share some of the non-confidential insights from our work with a broader group.

In this edition of our newsletter, we assess two emerging sectors in India that have significant potential for further growth and have attracted interest from investors from across the globe.

1. SaaS-based CRM: An opportunity in disguise
2. Sweating Success: The Promising Future of the PHYGITAL Fitness Sector in India

SaaS-based CRM: An opportunity in disguise

– SaaS-based Customer Relationship Management (CRM) is increasingly becoming a strategic must-have technology for businesses as obsession about customers has become a core tenet for success. Previously dominated by large foreign players, the past few years have seen the entry and scaling-up of several new players offering tailored solutions across verticals. As a result, Indian SaaS-based CRM players have been emerging as formidable competitors to their global peers, led by innovation, customization and an efficient cost structure. The addressable SaaS-based CRM market for Indian players is expected to reach ~USD74 billion in FY26, of which the Indian CRM market will amount to ~USD1.3 billion.

Global SaaS players, including SaaS-based CRM players witnessed a huge drop-off in their valuations during 2022, however, Indian SaaS-based CRM players demonstrated much higher resilience during this period. The recent corrections in the valuation multiples in the

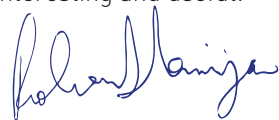
segment could prove to be an excellent opportunity for investors as the markets are expected to normalize over the next 12–18 months.

Sweating Success: The Promising Future of the PHYGITAL Fitness Sector in India

– The fitness center sector in India has traditionally been a segment orientated towards young males, however, increasing awareness about fitness and a push provided by Covid-19 is transforming the sector. Brands are now creating more inclusive propositions by offering equipment-light workouts like yoga, Zumba, aerobics etc., and digital fitness solutions like live classes, online monitoring and tracking etc. to appeal to other demographics, and are rapidly scaling-up by riding this new wave of users. The addressable fitness center market in India is expected to reach ~USD1.5 billion in 2026, growing at a CAGR of 16–18% over the next few years.

Even as the prominent brands in the segment are yet to reach profitability owing to their rapid expansion and acquisition strategies, the unit economics of the business at a per-center level are very lucrative, with 45–50% EBIDTA in the steady state. This segment is on the cusp of a transformation and is poised to witness the emergence and scaling-up of new and existing players.

We hope you enjoy reading the latest edition of our newsletter and continue to find our insights interesting and useful!



Rohan Dhamija

Managing Partner, Director
Head - Middle East and South Asia

SaaS-based CRM: An opportunity in disguise

SaaS-based Customer Relationship Management (CRM) is increasingly becoming a strategic must-have technology for businesses as obsession about customers has become a core tenet for success. Previously dominated by large foreign players, over the past few years the market has seen the entry and scaling-up of several new players (both domestic and foreign) offering tailored solutions across verticals. As a result, Indian SaaS-based CRM players have been emerging as formidable competitors to their global peers. The addressable SaaS-based CRM market for Indian players is expected to reach ~USD74 billion in FY26, of which the Indian SaaS-based CRM market will amount to ~USD1.3 billion (expected to grow at a CAGR of ~18% over the next few years).

Global SaaS players, including SaaS-based CRM players witnessed a huge drop-off in their valuations during 2022, however, Indian SaaS-based CRM players have demonstrated much higher resilience through an ability to cater to global customer base, lower cost structures, and huge headroom for growth. The recent corrections in the valuation multiples in this segment could prove to be an excellent opportunity for investors as the markets are expected to normalize over the next 12–18 months.

The SaaS Umbrella

Software-as-a-service (or SaaS) is a term encompassing a wide range of software-based services and products. The overall SaaS landscape and its

players can be categorized based on the use case(s) served (functionality(s) provided) and then players can be further defined as horizontal or vertical.

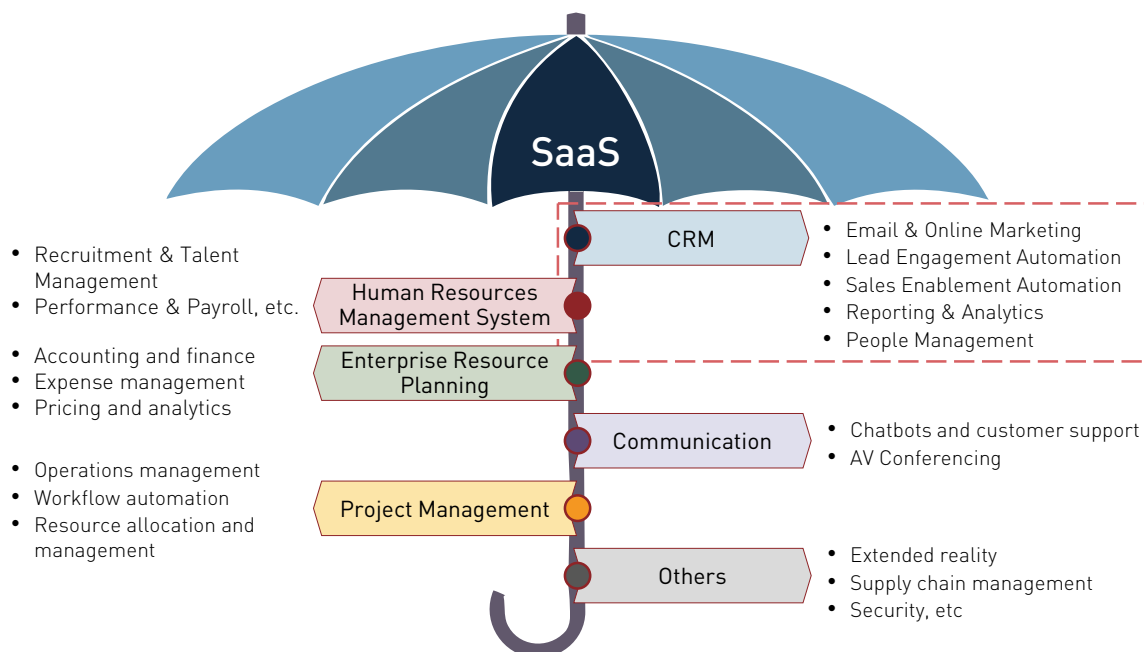


FIGURE 1: KEY USE CASES¹ (FUNCTIONALITIES) SERVED BY SAAS PLAYERS [SOURCE: ANALYSYS MASON, 2023]

Across all the use cases served by SaaS players, over the last couple of years CRM has emerged as one of the most interesting segments of the SaaS industry in

India. The SaaS-based CRM segment can be broken down based on the functionalities provided by the CRM players, as below:

Function	Description	Players
Email and Online Marketing	Enables automated personalized emails, creates web and social media content, enables SEO and tracking	WebEngage, linkdex, CleverTap, mailchimp, ORACLE, sugarcrm
Lead Engagement Automation	Enables automation of lead lifecycle from lead capturing, adding to database, routing to the right team, through to triggering outreach	leadassign, copper, Kylas, tray.io, salesforce, HubSpot, leadSquared
Sales Enablement Automation	Enhances management of quotes and proposals, assists with pipeline management, provides salesforce management and automation	Proposify, SalesChoice, ekapture, webCRM, Adobe, Bitrix 24
Reporting and Analytics	Provides visual reports, predictive analytics, market testing support and intelligence	affinity, singular, cvent, Salesmate, ZOHO, Velocify
People Management	Assists with sales team training, learning and development, performance tracking, goal and incentive setting	hoopla, Centsoft, BRAINSHARK, freshworks

FIGURE 2: SAAS-BASED CRM SEGMENT BREAKDOWN BASED ON FUNCTIONALITY [SOURCE: ANALYSYS MASON, 2023]

SaaS-based CRM segment market size

Indian SaaS-based CRM firms, in line with others in the SaaS space, are creating high-quality product and service propositions at competitive prices. This is enabling them to cater to clients globally and means they are not restricted to serving only local customers. Indian players have created niche product capabilities to target customers across a wide array of industries – education, BFSI, e-commerce, and real estate, among others.

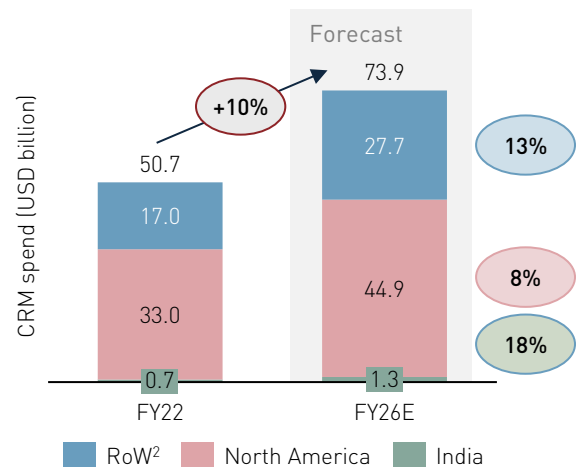


FIGURE 3: TOTAL SAAS-BASED CRM SPEND ACROSS ADDRESSABLE MARKETS FOR INDIAN PLAYERS [SOURCE: ANALYSYS MASON, 2023]

² Excluding China

Although the Indian SaaS-based CRM market amounts to a small part of overall addressable SaaS-based CRM spend, the domestic market remains an exciting opportunity, expected to grow at a CAGR of ~18% over the next few years and amount to ~USD1.3 billion in FY26, outpacing the growth of the US and rest of the

world (RoW). Moreover, the demonstrated ability of Indian SaaS-based CRM players to target global customers provides a huge headroom to grow and, as a result, the overall addressable market for such domestic players is expected to amount to ~USD74 billion in FY26 (up from ~USD51 billion in FY22).

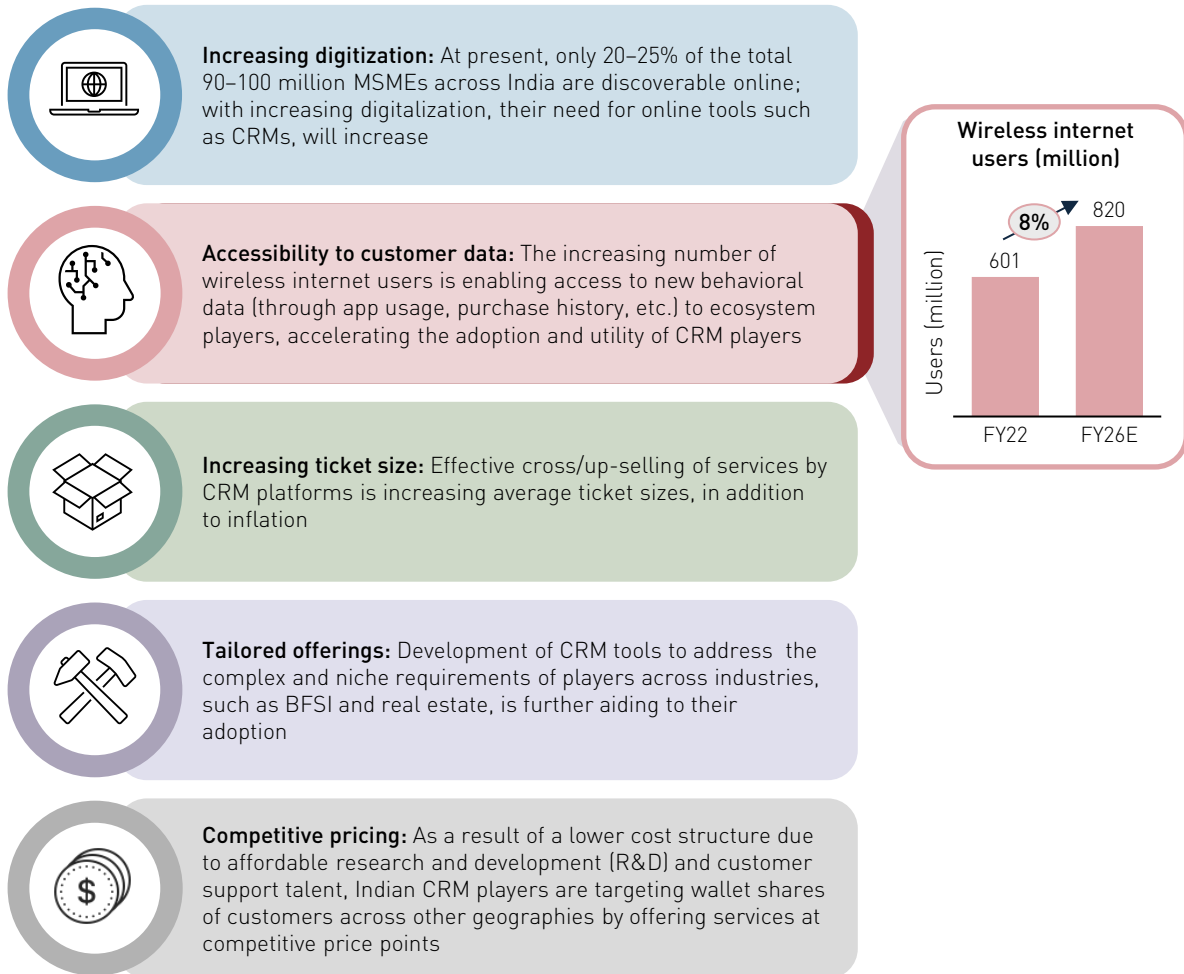


FIGURE 4: KEY GROWTH DRIVERS OF THE INDIAN SAAS-BASED CRM MARKET [SOURCE: ANALYSYS MASON, 2023]

State of Indian SaaS-based CRM players

Indian SaaS-based CRM players, like LeadSquared, CleverTap and Vymo, have emerged as formidable competitors to leading global players. Indian players are leading the segment in terms of innovation and technological advancements, which is enabling them to deliver high-quality (product and support) and

customized (features and functionalities) solutions to businesses of all sizes, and across geographies. Additionally, Indian players have been able to offer highly competitive pricing owing to their lower operating cost structures; this has led to accelerated scaling-up of domestic players and improved unit economics compared to their global peers.

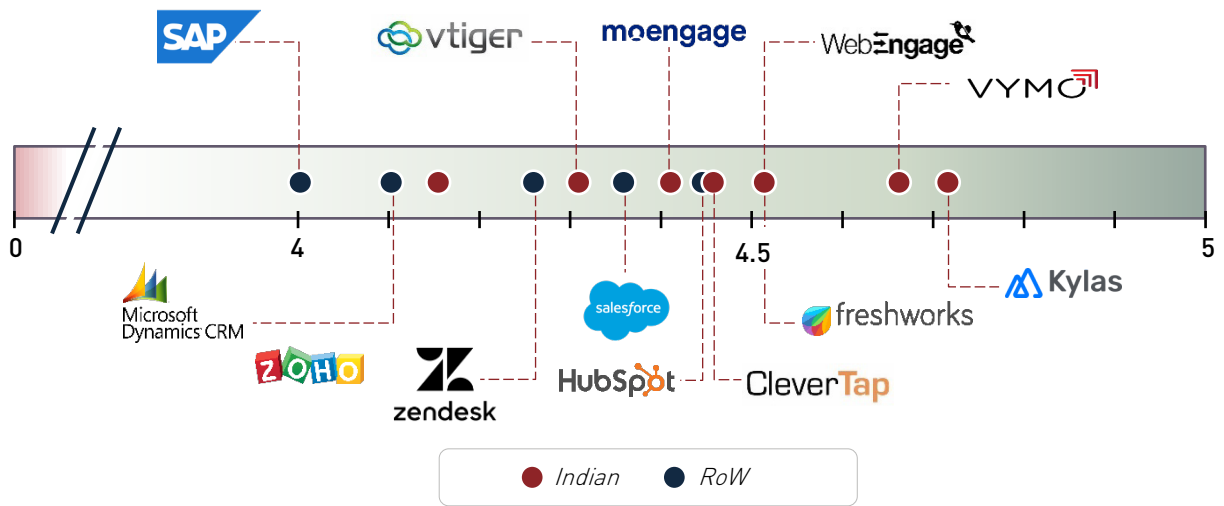


FIGURE 5: HOLISTIC COMPARATIVE RATINGS OF INDIAN AND GLOBAL SAAS-BASED CRM PLAYERS BASED ON USER REVIEWS [SOURCE: G2, CAPTERRA, ANALYSYS MASON, 2023]



This ability of Indian SaaS-based CRM players to compete with the global front-runners, target and capture markets beyond India has led to rapid scaling-up for many such players. Investors recognize this

impressive performance and have actively invested in the segment, which is poised for the emergence of a number of new winners.











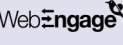





Company	Description	Target industry	Founded	Total funding (USD million)	Last funding round (USD million)	Key investors	Number of clients	ARR	Breadth of offerings
 freshworks	Lead and sales automation, analytics and customization	Horizontal	2010	1513	1030 (IPO: Sep 2021)	Accel, Sequoia Capital, Tiger Global	60 000+	>USD500 million (Dec 2022)	
 moengage	Analytics-led customer engagement platform	Horizontal	2014	210	77 (Jun 2022)	Goldman Sachs, Matrix Partners, Multiples Asset Management, Eight Roads	1200+	>USD60 million (Aug 2022)	
 leadsquared	Sales execution CRM and marketing automation tool	Education, healthcare, BFSI (Multi-vertical)	2011	188	153 (Jun 2022)	Gaja Capital, Westbridge Capital	2000+	Rev: USD25.6 million (Mar 2022)	
 CleverTap <small>making apps smarter</small>	Full-stack customer engagement platform	Horizontal	2013	182	105 (Aug 2022)	CDPQ, Tiger Global, Sequoia Capital, IIFL AMC, Accel	2000+	USD90 million (Nov 2022)	
 VYMO	Sales engagement platform	BFSI	2013	45	22 (Feb 2022)	Bertelsmann India Investments, Emergence Capital, Sequoia Capital	65+	>USD10 million (Jul 2022)	
 WebEngage	Marketing and user engagement tools for businesses	Horizontal	2011	27	20 (Aug 2022)	SWC, Singularity, Blume Ventures, India Quotient, etc.	800+	>USD20 million (Aug 2022)	
 CRMnext	Sales, marketing and service CRM	BFSI	2001	23	16 (Jul 2021)	Avataar Ventures, Ascent Capital	100+	N/A	
 AgileCRM	Sales and marketing CRM for small businesses	Horizontal	2013	Nil	N/A	N/A	15 000+	N/A	

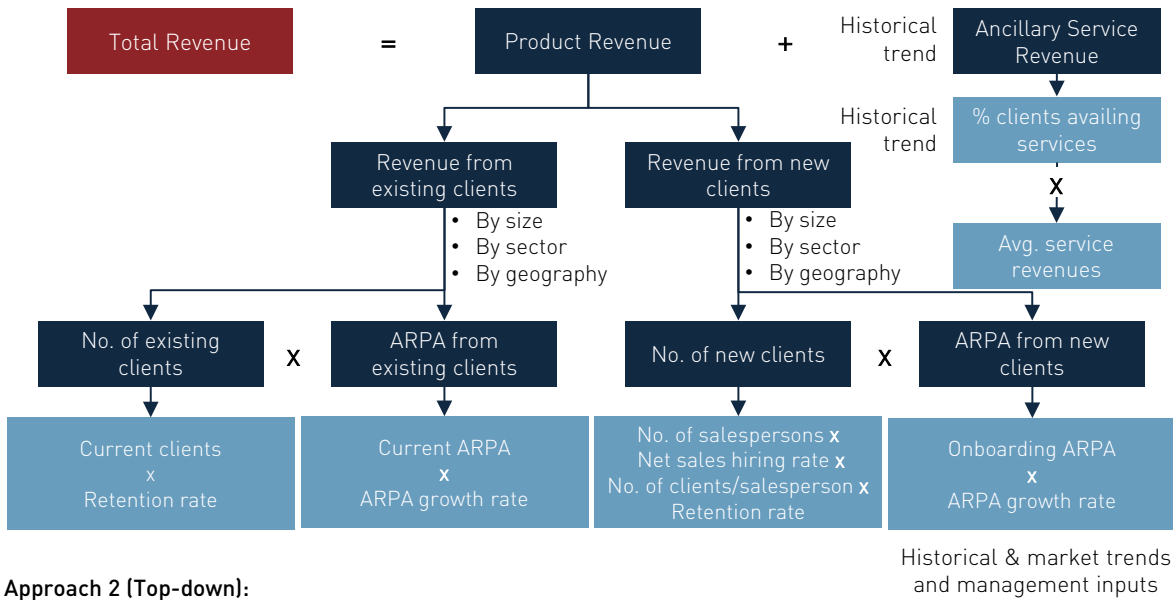
FIGURE 6: OVERVIEW OF KEY INDIAN SAAS-BASED CRM PLAYERS [SOURCE: CRUNCHBASE, TRAXCN, COMPANY WEBSITES, SECONDARY RESEARCH, ANALYSYS MASON, 2023]

Unit economics

Assessing the potential scale and unit economics of a SaaS-based CRM player (or any SaaS player) is quite different from other internet-first or traditional businesses in several key ways. Our team at Analysys

Mason has been fortunate enough to have advised clients in some of the recent marquee deals in the segment and we have used comprehensive frameworks to assess these factors for the target businesses. Illustrated below are snapshots of such frameworks:

Approach 1 (Bottom-up):



Approach 2 (Top-down):



FIGURE 7: FRAMEWORK TO ASSESS POTENTIAL SCALE OF SAAS-BASED CRM (OR SAAS IN GENERAL) BUSINESSES [SOURCE: ANALYSYS MASON, 2023]

Cost estimation

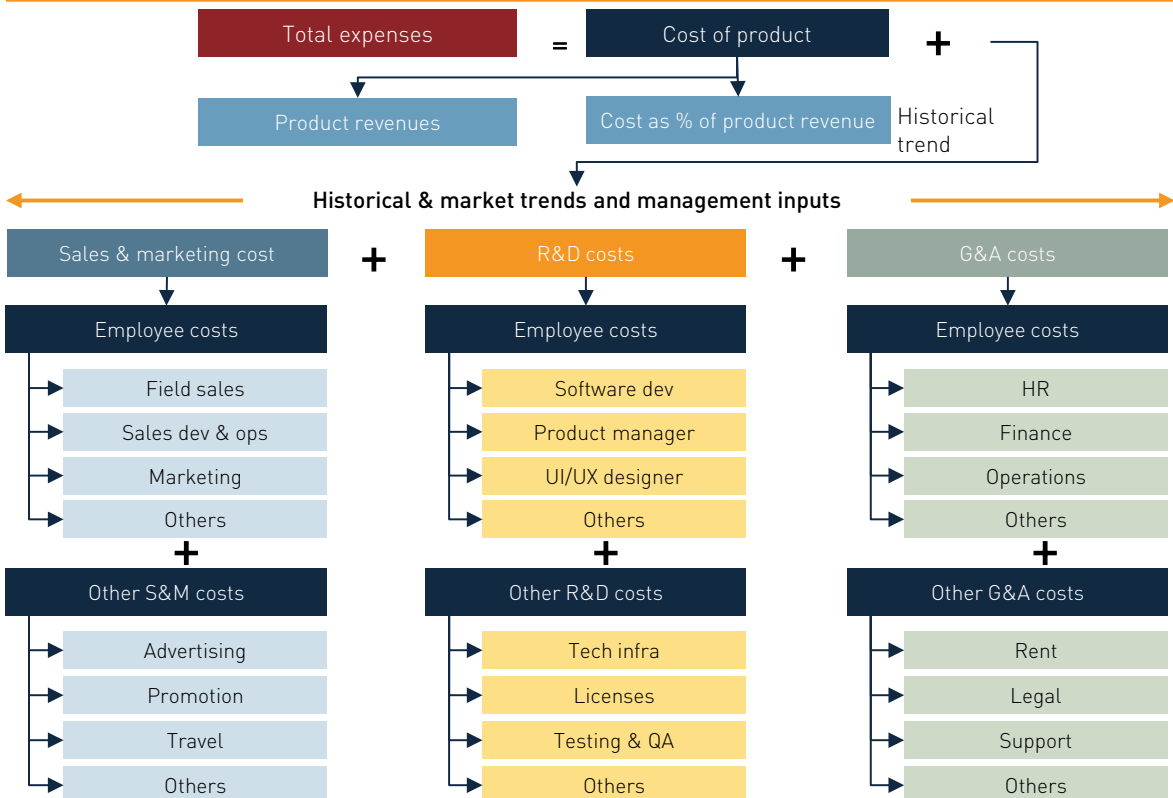


FIGURE 8: FRAMEWORK TO ESTIMATE COSTS FOR SAAS-BASED CRM (OR SAAS IN GENERAL) BUSINESSES [SOURCE: ANALYSYS MASON, 2023]

Legend: ■ Input ■ Intermediate output ■ Final output

Attractive SaaS (including CRM) businesses need to follow the well-established **rule of 40** which states that the sum of year-on-year revenue growth rate (%) and EBITDA margin (%) should amount to 40% or above. The rule of 40 acts as a good guide for businesses to balance the trade-off between growth and profitability,

and is especially embraced by investors in the segment. Performing better in a single year against the rule of 40 will not necessarily reveal the complete picture, however, consistent strong performance adhering to the rule of 40 year after year can be an indicator for identifying winning opportunities.

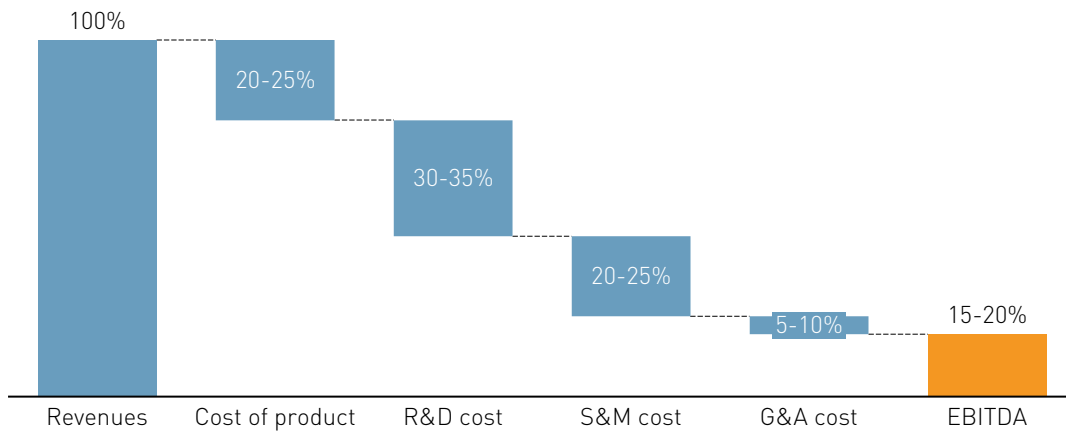


FIGURE 9: DIRECTIONAL ECONOMICS FOR A SCALED (USD80-90 MILLION IN REVENUE) INDIAN SAAS-BASED CRM PLATFORM (AS SHARE OF REVENUES) [SOURCE: ANALYSYS MASON, 2023]

Views on valuations of Indian players

The valuations of mature Indian SaaS-based CRM players are in line with their global counterparts,

however, domestic players who have created niche value propositions to cater to under-penetrated sectors (education, real estate, etc.) are valued at a relative premium, owing to the huge headroom for adoption.

Valuation (Revenues Multiple)	Category	Location
Nice 4-6x	Horizontal CRM	
Zendesk 5-7x	Horizontal CRM	
Salesforce 6-8x	Horizontal SaaS	
WebEngage 5-7x	Horizontal CRM	
Zoho 6-8x	Horizontal SaaS	
Freshworks 9-11x	Horizontal SaaS	
LeadSquared 38-40x	Vertical CRM	

FIGURE 10: REVENUE MULTIPLES³ OF SELECT SAAS-BASED CRM PLAYERS [SOURCE: COMPANY FILINGS, SECONDARY RESEARCH, ANALYSYS MASON, 2023]

³ Multiples are based on trailing twelve month (TTM) revenues; current market capitalization for listed firms; and on the latest available data for unlisted firms.

Even as global SaaS, including SaaS-based CRM players witnessed a huge drop-off in their valuations during 2022, Indian SaaS-based CRM players proved to be more resilient to these economic shocks on account of their inherent advantages of global customer bases, lower cost structures, and growth opportunities. Recent corrections in the valuation multiples of domestic (and global) players, particularly the mature players, has led to a declining trend of investments in the space over last few quarters. However, as the market conditions are expected to improve over the next 12 months, these valuation corrections could prove an opportunity in disguise for investors as it will enable them to invest at a lower buy-in than can be expected again.

The Era of 'Generative CRM'

ChatGPT (an example of generative artificial intelligence (AI)) has created an unparalleled buzz since it was first launched in November 2022. The real potential for generative AI is drawn from its ability to integrate with

other applications, including with SaaS-based CRM platforms. 'Generative CRM' will have the ability to create extensive personalized content across the lead-conversion journey (marketing material, scripts for human agents, re-targeting material, etc.) and is poised to disrupt the current CRM landscape.

Recognizing this opportunity, industry giants such as Salesforce, Microsoft, Freshworks and Zoho have already launched, or are developing, their own CRM solutions powered by generative AI, and have committed a substantial amount of capital for their R&D in this space.

Indian generative AI start-ups have been rapidly gaining momentum as well. The current estimate is over 60 generative AI start-ups in India, and they have cumulatively raised ~USD600 million to date. Although most of these Indian start-ups are still small scale, they have been quick to catch this rising wave and are well positioned to develop exciting solutions.











Start-up	Product/ Solution Category	Description	Funding Raised (USD mn)	Key Investors
 Aspiro	People management	Provides platform for training sales reps by creating buyer personas, generating conversations and providing instant feedback	<5	Entrepreneur First
 Vodex	Customer service	Easy to use software for outbound phone call automation along with AI-enable voice conversation features	<5	100x.vc
 Dave AI	Customer service	Creates digital sales avatars that strike a conversation with customers in natural language, understand preferences & provide personalized recommendations using speech and text	<5	Maruti Suzuki MAIL, Mumbai Angels
 Contlo	Marketing	Creates contextual brand-specific marketing emails, campaigns, creatives, images, copies, etc.	<5	Kae Capital, Better Capital
 haptik	Lead engagement	Talks to customers on popular messaging apps to generate leads, boost revenues and provide support using GPT-powered conversations	~100	Acquired by Reliance Jio
 Baselit	Reporting & analytics	Analyses data to create dashboards and runs analytics to generate responses based on fed data	<5	Y Combinator
 Bewgle	Reporting & analytics	Converts customer conversations and reviews from across the web into actionable insights using generative AI engine	<5	SAP.io, Ideaspring Capital
 crayon	Sales automation	Creates dynamics apps/widgets in real time based on user interaction to keep customers engaged and harvests data to provide insights	20+	Jungle Ventures, Mitsui & Co.
 truereach.ai	Sales automation	Provides an AI-powered workflow agent, analytics agent, content agent and all-in-one smart assistant to enhance customer engagement	-	-
 verloop	Customer service	Multilingual customer service using NLP, ML and gen-AI features such as conversation summary, tone adjustment, message rephrasing, etc.	8	Falcon Edge Capital, IDFC Parampara

FIGURE 11: ILLUSTRATIVE LIST OF INDIAN STARTUPS DEVELOPING 'GENERATIVE SAAS-BASED CRM' SOLUTIONS [SOURCE: SECONDARY RESEARCH, CRUNCHBASE, TRAXCN, INC42, ANALYSYS MASON, 2023]

Sweating Success: The Promising Future of the PHYGITAL Fitness Sector in India

The PHYGITAL fitness center sector in India has traditionally been a segment orientated towards young males, however, increasing awareness about fitness and a push provided by Covid-19 is transforming the sector. Brands are now creating more inclusive propositions by offering equipment-light workouts like yoga, Zumba, aerobics, etc. and digital-fitness solutions to appeal to other demographics, and are rapidly scaling-up by riding this new wave of users. Penetration of fitness center membership in India remains very low (~0.3%) and the addressable fitness center market is expected to reach ~USD1.5 billion in 2026, growing at a CAGR of 16–18% over the next few years. Even as the prominent brands in the segment are yet to reach profitability owing to their rapid expansion and acquisition strategies, the unit economics of the business at a per-center level is very lucrative, with 45–50% EBIDTA. This segment is on the cusp of a transformation, and is poised to witness the emergence and scaling-up of new and existing players.

PHYGITAL Fitness center market evolution and size

The fitness center sector in India has traditionally been dominated by users inclined towards weight training, as a result, the landscape remained dominated by centers which offer equipment-heavy workouts. However, the increasing awareness of fitness across more demographics has enabled equipment-light Phygital¹ centers which offer workouts like yoga, Zumba, aerobics and other similar activities, and digital fitness solutions like online classes, consultation etc. to gain traction over the past few years.

Even with the emergence of this new trend, the penetration of active fitness center members in India remains very low (~0.3% of total population in 2022) compared to other developed economies such as the USA (~22%) or the UK (~15%). The emergence of Covid-19 caused huge turmoil in the fitness industry as fitness centers had to remain closed for months during the re-occurring Covid-19 waves. This led to a sharp decline in fitness-center memberships from an annual average of ~3 million in 2019 to ~2.5 million in 2021. However, the segment bounced back from this adversity in 2022, with annual average memberships increasing to ~3.2 million, and is expected to grow at a CAGR of ~9% over the next few years to reach ~4.5 million in 2026.

The closure of fitness centers during lockdowns compelled fitness enthusiasts to adopt alternative fitness routines such as yoga, aerobics, online classes etc., none of which require a lot of equipment. This trend further aided the adoption of equipment-light Phygital fitness centers, which were already on the rise due to the increasing awareness of fitness across demographics.

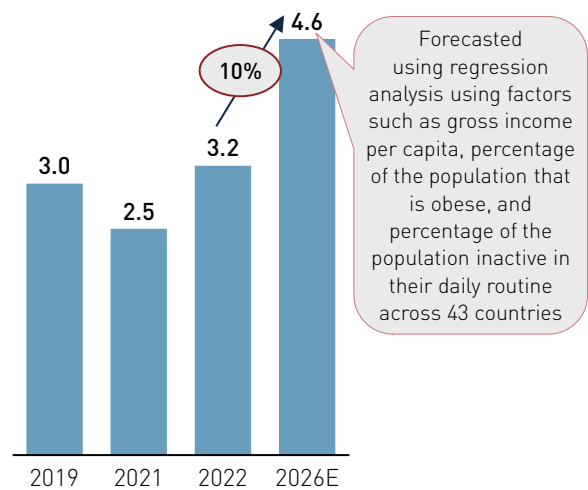


FIGURE 1: FITNESS CENTERS' MEMBERSHIP IN INDIA, IN MILLION
[SOURCE: ANALYSYS MASON, 2023]

¹ Refers to physical fitness centers or players providing digital fitness solutions like online classes, consultations etc.

As a result, the fitness center sector is witnessing a transformation and now is not just limited to centers which are typically oriented to the young male population. The emergence and scaling up of players like Cult, Multifit, Crossfit and others has increased the appeal of fitness centers to more females as well as light fitness enthusiasts, and has also compelled other centers to alter their proposition to be more inclusive.

The overall fitness center sector in India amounted to ~USD0.8 billion in 2022 and is expected to grow at a CAGR of 16–18% over the next few years to reach ~USD1.5 billion in 2026.

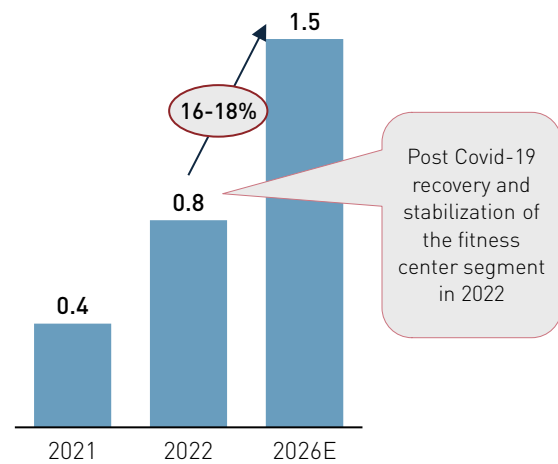


FIGURE 2: FITNESS CENTER MARKET SIZE IN INDIA, USD BILLION
[SOURCE: ANALYSYS MASON, 2023]

Key growth drivers of the segments

Growth in fitness club memberships

- **Consumer awareness:** Increase in sedentary lifestyles and related diseases over the past decade have encouraged people to become more health conscious and include fitness activities in their daily lives
- **Appeal to a new demographics:** New fitness offerings like Zumba, aerobics and strength training have a more inclusive appeal from fitness centers attracting demographics including females and broader age groups
- **Pent up demand:** Closure of gyms and fitness centers during Covid-19 has led to increased demand over past year which is expected to be sustained
- **Government initiatives:** Government of India has launched multiple initiatives like the Fit India movement to improve fitness awareness and encourage everyone to adopt fitness as a way of life

Increased spend per member

- **Growth in income per capita:** Growth in gross income per capita and disposable income is increasing the fitness enthusiast’s ability to spend more on fitness activities
- **Growth in the average monthly spend per member:** Driven by inflation and the shift toward organization of the industry

Average monthly spend on fitness center membership per member

Year	Membership spend (INR)
2022	1,722
2026	2,234

Developing fitness ecosystem

- **Fitness start-ups:** new online marketplaces enable discovery and bookings of fitness centers, coaches, membership passes of gyms and fitness classes from smartphones, increasing accessibility to all
- **Wearables:** smart watches, bracelets, fitness trackers etc. enable, as well as motivate, fitness club members to track their vitals, share progress and work towards their fitness goals
- **Online nutrition:** Fitness enthusiasts are turning to coaches on fitness apps, influencers, YouTube channels and more to understand and plan their dietary needs to supplement their fitness activities
- This all feeds into the increasing awareness around the need for fitness

FIGURE 3: KEY GROWTH DRIVERS OF THE FITNESS CENTER SECTOR IN INDIA [SOURCE: ANALYSYS MASON, 2023]

Competitive landscape and key success factors

The fitness center sector in India is highly fragmented and remains dominated by independent unorganized centers catering to specific micro-markets. Realizing this huge opportunity, multiple international brands like Gold’s Gym, Anytime Fitness, and Multifit have set-up their operations in India over the past decade, however, they have only garnered a small share of this huge addressable market. This has enabled the entry and scaling-up of domestic players, like Cult.fit and Sarva,

rapidly over the last few years. This sector is poised for the emergence of new entrants which can cater to the evolving needs of customers, especially in the light equipment phygital fitness category.

Some of the key organized players in this sector, including Cult.fit, Anytime Fitness, Gold’s Gym, Sarva, and Fitpass, have been able to achieve scale through creating their unique market positioning and moats. Provided below is brief comparative analysis of such select organized players:








Metric	 cult.fit	 ANYTIME FITNESS	 GOLD'S GYM	 CrossFit	 MULTIFIT	 SARVA	 FitPass
Established	2016	2012	2002	2010	2015	2013	2015
Cities/towns covered	35+	35+	95	10	10	40	40
Number of fitness centers (pan-India)	450+ (including partners)	115+	150+	25+	32	91 (including partners)	5500+ partnerships
Operating model	Own and franchise centers	Franchise model	Franchise model	Affiliate model	Franchise model	Own and third-party centers	Aggregator model
Estimated market share	~9%	~3%	~3%	n/a	~1%	~1%	n/a
Memberships (pan-India)	300 000 ¹	80 000–85 000	~95 000	n/a	30 000	30 000	500 000+
Annual retention rate	45–50%	25–30%	25%	n/a	35%	60% (half-yearly rate)	n/a
City with maximum presence	Bangalore	Delhi-NCR	Pune	Bangalore	Pune	Bangalore	Delhi-NCR
Market positioning	Interesting workouts for working population; overall fitness	Convenience (24x7 access to a good gym)	Best fitness center – finest equipment and trainers	Fitness through sustainable and enjoyable workouts	Functional fitness and strength training brand; diverse workouts	Innovative yoga methods for mindfulness and physical wellbeing	Single membership to a fitness network of gyms and fitness studios
Type of offering	Independent workout	✓	✓	✓	✓	✗	✓
	Guided group classes	✓	✓	✓	✓	✓	✓
	Personal training	✓	✓	✓	✓	✓	✓
	Home workout tutorials	✓	✓	✗	✗	✗	✓
	Nutrition and supplements	✓	✓	✓	✓	✗	✓
Workout formats offered	Yoga, boxing, strength/conditioning, sports conditioning, dance, HIIT, own formats (HRX, Prowl)	Equipment-based strength / conditioning and cardio and some group classes, functional training	Equipment-based strength/conditioning and cardio, some group classes (Zumba, yoga, etc.), functional training	Cardio, strength training, gymnastics for adults and kids, group classes	Functional training, HIIT, MMA, calisthenics, strength/conditioning, looping, boxing, Tabata, own formats (Animal form, Multisport)	25 types of yoga (basketball yoga, wall yoga, power yoga, etc.)	Yoga, Zumba, Pilates, CrossFit, kickboxing, dance, gym workout, etc.

FIGURE 4: COMPARATIVE ANALYSIS OF SUCH SELECT ORGANIZED PLAYERS [SOURCE: ANALYSYS MASON, 2023]



FIGURE 5: KEY SUCCESS FACTORS ENABLING FITNESS CENTERS TO SCALE [SOURCE: ANALYSYS MASON, 2023]

Unit Economics

Unit economics of fitness centers vary based on several factors such as city-tier, location, footfall, utilization, pricing strategy, and cost structures. Some of these factors are dependent on the center being equipment heavy vs light:

- Equipment-light centers are able to utilize a higher proportion of their usable area, resulting in a greater number of users and revenue in the same area, and is the key driver for better unit economics for equipment light centers

- Equipment heavy centers have an EBITDA break-even utilization of ~30%, which is much higher than 15-20% for equipment light centers
- Centre setup cost is relatively much higher for equipment-heavy fitness centers due to cost of equipment (which is usually ~40% of the total capex for them) compared to equipment light centers (~15-20% of total). Lower capex results in a higher EBIT margin and better RoCE for such equipment light centers

Metric	Equipment-light centres		Equipment-heavy centres		
	Values	Values as % of revenue	Values	Values as % of revenue	
Size of the centre (Sq. ft.)	4,000		4,000		
<i>% usable area</i>	70%	65-70%	45%	40-45%	
Usable area (Sq. ft.)	2,800		1,800		
Total member capacity	~1,300		~1,450		
<i>Average utilisation (%)</i>	80%		45%		
Active members (#)	~1,100		~650		
Monthly revenue (INR Mn)	2.2	100%	1.2	100%	
Direct Costs	Rent and maintenance (INR Mn)	0.4	15-20%	0.5	40-45%
	<i>Rent per sqft (INR)</i>	100		126	
	Electricity (INR Mn)	0.2	10-15%	0.2	10-15%
	Staff and admin cost	0.4	20-25%	0.4	25-30%
	<i>#trainers + #admin</i>	10+2		7+2	
	<i>Avg. salary per trainer / admin (INR)</i>	40,000		40,000	
	Marketing and payment gateway cost (INR Mn)	0.1	5-10%	0.0	1-5%
Total costs (INR Mn)	1.2	50-55%	1.0	85-90%	
Monthly EBITDA (INR Mn)	1.0	45-50%	0.2	10-15%	
Centre set-up cost (INR Mn)	15		25		
Annual EBITDA/ capex (proxy for RoCE)	~80%		~10%		

Usually longer peak hours for equipment-heavy centres result in higher capacity however, lower utilization observed compared to equipment-light centres

FIGURE 6: UNIT ECONOMICS OF EQUIPMENT LIGHT AND EQUIPMENT HEAVY FITNESS CENTRES [SOURCE: ANALYSYS MASON, 2023]

Even as some these prominent equipment light phygital fitness brands are yet to be profitable at company level, their unit economics at a center level are very lucrative. Given the huge headroom for growth, such players are

well poised to continue to grow, and this scale will enable them to further optimize their operations while reducing member acquisition costs, leading to much improved unit economics at company level as well.

Views on valuations

Region	Name	EV/Revenue	EV/ EBITDA	EV/ Center (INR Cr.)	No. of Centers
India	<i>Cult.fit²(est.)</i>	60.4	-	14.2	600
India	Talwalkars	9.8	14.4	4.50	200
US	Planet fitness	14.3	42.6	32.05	2,200
UK	PureGym	3.2	8.2	28.65	555
UK	The Gym group	5.6	19.5	22.68	286

FIGURE 7: VIEWS ON VALUATIONS [SOURCE: ANALYSYS MASON]

The Enterprise value per center for Indian Fitness facilities is significantly lower in comparison to their counterparts in the US, UK, and European regions. However, it is worth noting that despite this, certain players like Cult.fit have achieved high EV/Revenue ratios due to substantial funding rounds, their ability to provide leading digital-fitness solutions, and is indicating substantial headroom for further expansion and growth in revenue at center level. It is essential to recognize that India holds enormous potential for fitness startups, considering that only 0.3% of the population currently visits fitness centers.

The valuation of the online/digital-first fitness industry has the potential to surpass that of physical fitness centers. Digital fitness firms can reach a wider audience with lower capital and operational expenses compared to physical fitness centers. Furthermore, online fitness

offers enticing features such as live streaming of classes, social media challenges, on-demand workouts, and AI-powered workout training technology, making them a more lucrative option than traditional brick-and-mortar center.

Overall, we believe that the fitness centre market in India is poised to grow, with revenues expected to grow at 16–18% CAGR in the coming years. Although the market is quite fragmented from a supply perspective with many localised players, we have seen the emergence of large national players such as Cult.fit in recent times and a few others with pan-India ambitions using a mix of brick-and-mortar and digital offerings. Given the positive unit economics per centre, we expect investor activity in the sector should pick up as more players scale up and come up with new and innovative offerings.

² FY21 losses for Cure.fit were close to INR 700 Cr.

About Analysys Mason (including a view into our internet transaction advisory experience)

Analysys Mason is a global specialist adviser on telecoms, media and technology (TMT), including consumer internet. Through our worldwide presence, we have delivered strategy advice, operations support and market intelligence to leading commercial and public-sector organizations in over 110 countries.

We have successfully completed around 775 strategy and operations advisory engagements for TMT clients in over 60 countries in the last three years alone.



Offices located in Europe, the Middle East, Asia and the Americas

For more than 30 years, our intellectual rigor, operational experience and insight have helped our clients in the telecoms space such as operators, government organizations and investors. We have also performed an equivalent amount of work with internet-first businesses across a wide array of strategic matters and have assisted investors in this domain on numerous transactions.

We are respected worldwide for the exceptional quality of our work, our independence and the flexibility of our teams in responding to client needs. We are passionate about what we do and are committed to delivering excellence to our clients. The company has over 430 staff worldwide, with headquarters in London and offices in Bonn, Cambridge, Dubai, Dublin, Hong Kong, Kolkata, Lund, Madrid, Manchester, Milan, New Delhi, New York, Oslo, Paris, Singapore and Stockholm.

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Key highlights of our consumer internet experience

- 1 • 150+ due diligence assessments of internet assets in South Asia, South-East Asia, the Middle East, Africa and Europe over the last couple of years
- 2 • 150+ commercial due diligence and market assessments in India/South Asia alone
- 3 • First port of call for due diligence assessments of internet assets for marquee investors globally
- 4 • Provided advice on investments worth over USD15 billion over last five years

Diligence experience in Consumer Internet verticals

- Ecommerce**
 - We have conducted 10+ full commercial due diligence assessments of horizontal e-commerce majors in the India and South-East Asia region
 - In more recent years (after the market changes on horizontal e-commerce), we have also conducted 5+ diligence assessments and market scans of vertically focused e-commerce players
- Hyper-local delivery**
 - We have been advisors to marquee private equity funds and financial institutions on over five commercial diligence assessments of leading hyper-local delivery players in the grocery and food delivery market
 - We have performed due diligence assessments for the leading players in grocery and food delivery twice recently
- Payments and mobile wallets**
 - We have supported 10+ commercial diligence assessments of leading digital wallet providers in India, South-East Asia and the Middle East including of a leading wallet provider in India
 - We have also assisted telecoms operators in developing their commercial and technical digital wallet strategy
- Cab aggregation**
 - We have conducted commercial due diligence assessments of the leading cab aggregator in India four times for different marquee hedge funds and financial institutions in the last seven years
 - We have also provided diligence support for the self-drive commercial car market and its leading player in India
- Content including OTT**
 - We have conducted full commercial and technical diligence assessments of multiple players across the video and music content value chain – from producers to distributors and streaming assets
 - We have also supported leading mobile operators in the region in developing their content and OTT strategy
- Others**
 - Over 15 diligence projects in the classifieds and online travel space
 - Multiple diligence assessments of mobile advertising, cloud computing, SaaS, and AI firms in various geographies
 - Full commercial diligence assessments of multiple ed-tech firms in India
 - Assessment of the fintech (online mutual funds, trading, and insurance) in India, with a focus on two emerging companies

About the authors



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Ashwinder has 15 years of strategy consulting and investment advisory experience in Digital/ internet and Telecoms sectors, having advised clients in South Asia, South-East Asia and Middle East regions. He has successfully led 50+ commercial diligences and strategy engagements in the internet sector for marquee financial investors, internet first businesses and telecom operators. His areas of expertise include due-diligence, business planning, cost transformation, digital transformation, and pricing.

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