

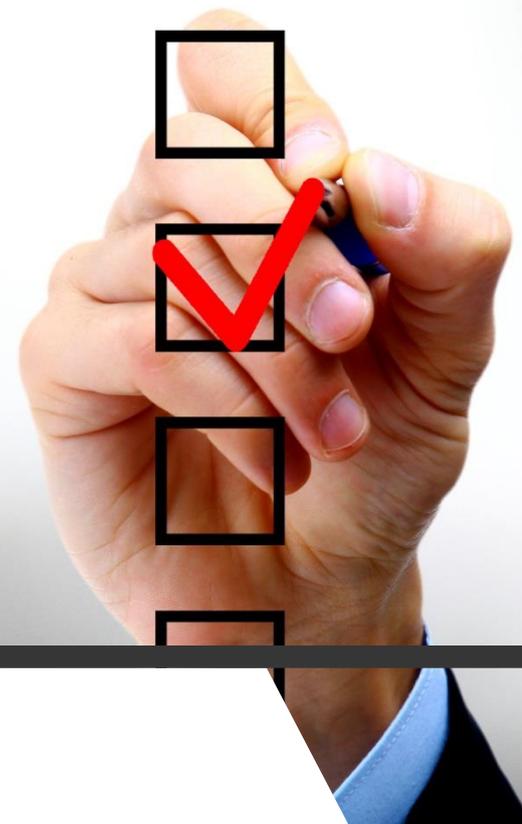


E-COMMERCE



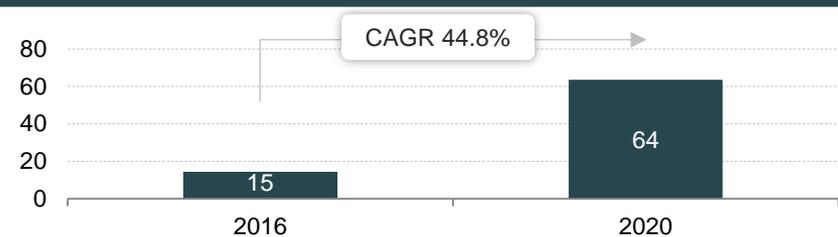
Table of Content

- ▶ Executive Summary.....3
- ▶ Advantage India.....4
- ▶ Market Overview6
- ▶ Porter’s Five Forces Framework.....15
- ▶ Strategies Adopted.....16
- ▶ Growth Drivers and Opportunities.....18
- ▶ Case Studies.....25
- ▶ Industry Associations.....28
- ▶ Useful Information.....30



- The Indian e-commerce industry has been on an upward growth trajectory and is expected to surpass the US to become the second largest e-commerce market in the world by 2034.
- The e-commerce market is expected to grow at a compound annual growth rate (CAGR) of 44.77 per cent from 2016-20 to touch US\$ 63.7 billion by 2020.
- With growing internet penetration, internet users in India are expected to increase at a compound annual growth rate (CAGR) of 15.6 per cent from 391.50 million at the end of 2016 to 700 million by 2020.
- Rising internet penetration is expected to lead to growth in ecommerce.
- India's internet economy is expected to double from US\$125 billion as of April 2017 to US\$ 250 billion by 2020, majorly backed by ecommerce.

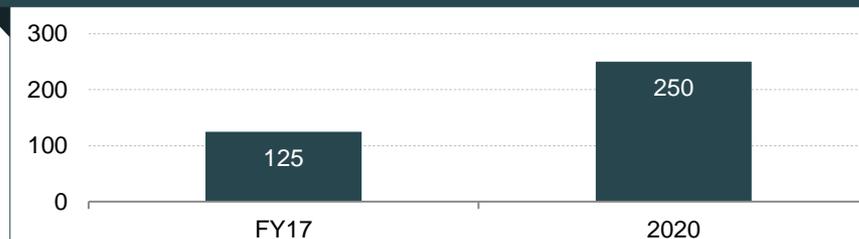
Indian E-Commerce Market (US\$ billion)



Internet users in India (million)



India's internet economy (US\$ billion)



Notes: CAGR - Compound Annual Growth Rate

Source: Media sources, Aranca Research



ADVANTAGE INDIA

- India is the fastest growing market for the ecommerce sector.
- Being driven by a young demographic profile, increasing internet penetration and relative better economic performance, India's E-commerce revenue is expected to jump from US\$ 30 billion in 2016 to US\$ 120 billion in 2020, growing at an annual rate of 51 per cent, the highest in the world.

- The recent rise in digital literacy has led to an influx of investment in e-commerce firms, levelling the market for new players to set up their base, while churn out innovative patterns to disrupt old functioning.
 - Private equity and venture capital investments in the e-commerce industry in India touched a record US\$ 11.2 billion in the first half of 2017, a 41 per cent rise over last year.

ADVANTAGE INDIA

Growing demand

Increasing Investment

Attractive Opportunities

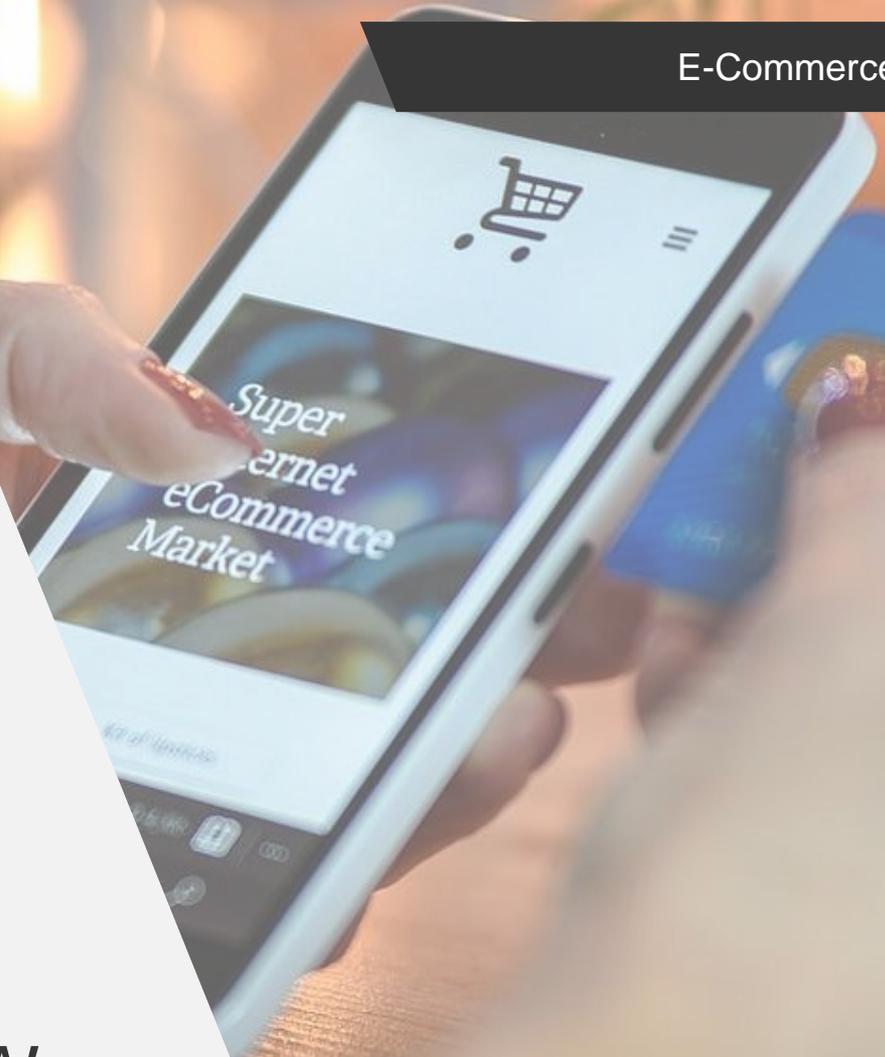
Policy support

- A lot of India's blue-chip PE firms had previously avoided investing in E-commerce but are now looking for opportunities in the sector.
- India's start-up ecosystem is growing supported by favourable FDI policies, Government initiatives like Start-up India and Digital India, as well as rising internet penetration driven by market players like Reliance Jio.

- In India 100 per cent FDI is permitted in B2B e-commerce,
- As per new guidelines on FDI in e-commerce, 100 per cent FDI under automatic route is permitted in marketplace model of e-commerce

Notes: FDI – Foreign Direct Investment

Source: Media sources, Aranca Research

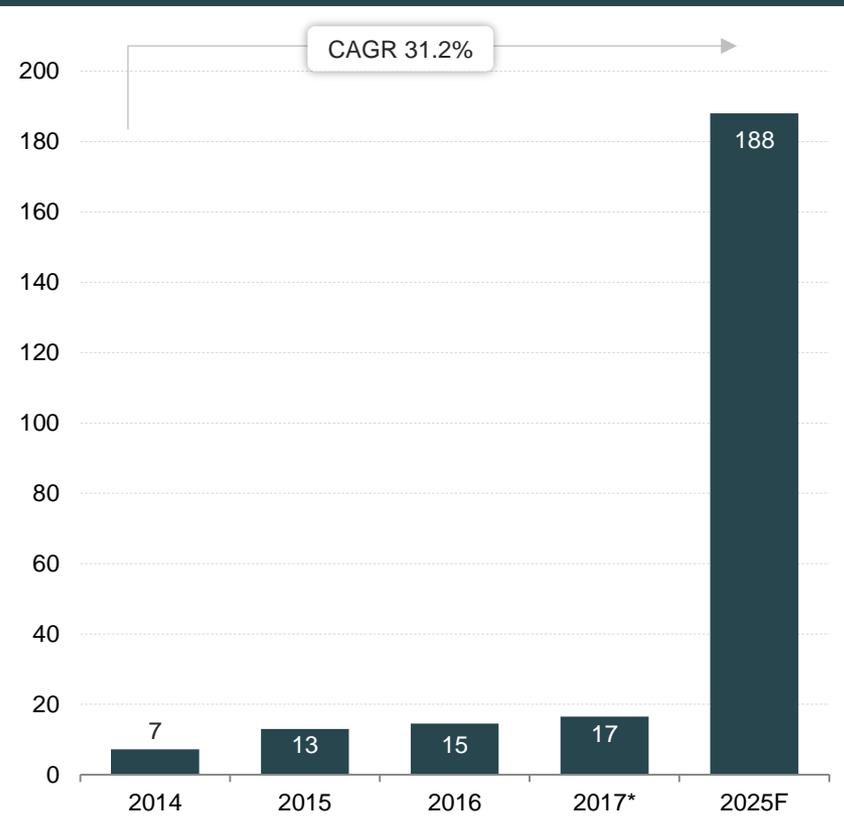


MARKET OVERVIEW

GROWTH OF E-COMMERCE IN INDIA

- Propelled by rising smartphone penetration, the launch of 4G networks and increasing consumer wealth, the Indian e-commerce market is expected to grow to US\$ 188 billion by 2025.
- E-commerce is increasingly attracting customers from Tier 2 and 3 cities, where people have limited access to brands but have high aspirations.
- With the increase in awareness about the benefits of online trading, there has been a significant rise in investment in E-commerce business. Hand in hand with offline trading, many established businesses, e.g. Shoppers Stop or Lifestyle, have setup online transaction channels.
- Earlier food and grocery were never thought of as items for online trading. However, with the change of working habits, and consumers opting for adaptability and convenience, there are now innumerable small and large E-commerce companies selling provisions and food items like Grofers, BigBasket, etc.
- Indian E-commerce industry is in a position to sustain itself as a viable business opportunity not only for established names but even for start-ups.

E-commerce Industry in India (US\$ billion)



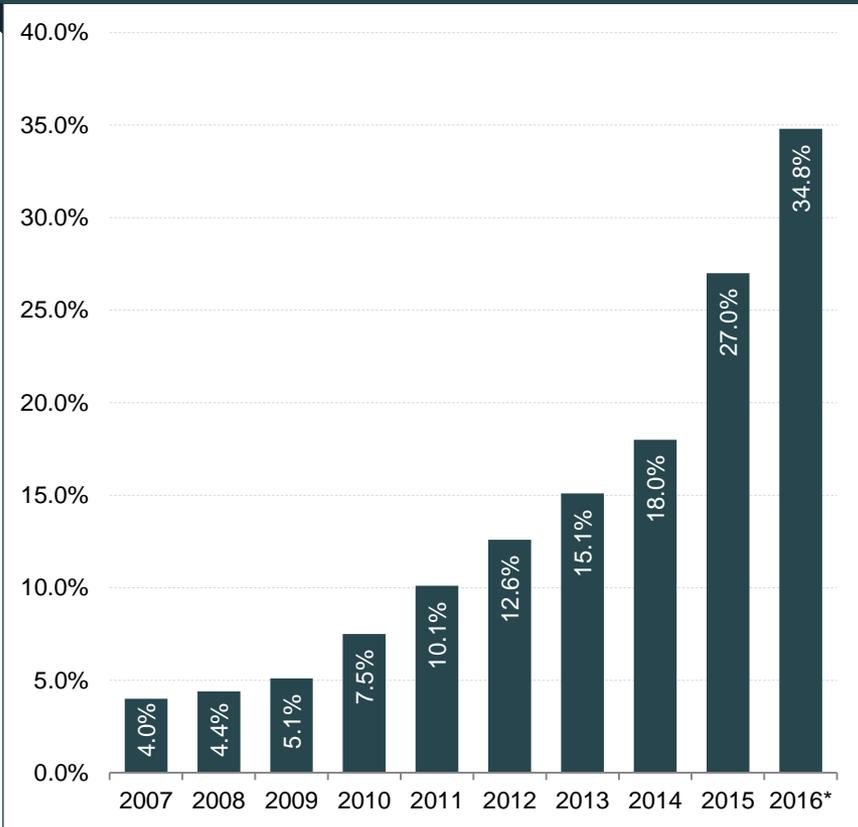
Notes: *Estimated, F - Forecasted

Source: Economic Times, PWC, Financial Express

RISING INTERNET PENETRATION IN INDIA

- Internet penetration in India grew from just 4 per cent in 2007 to 34.08 per cent in 2016, registering a direct increase of 89 per cent in 2016 over 2007.
- Urban India with an estimated population of 444 million already has 269 million (60 per cent) using the Internet.
- Rural India, with an estimated population of 906 million as per 2011 census, has only 163 million (17 per cent) Internet users. There is therefore a great opportunity for increasing penetration in the rural areas.
- Analysis of 'Daily Users' reveal that both in Urban and Rural India, the younger generations are the most prolific users of internet.
- Rising internet penetration is expected to drive ecommerce growth in India.

Internet Penetration in India



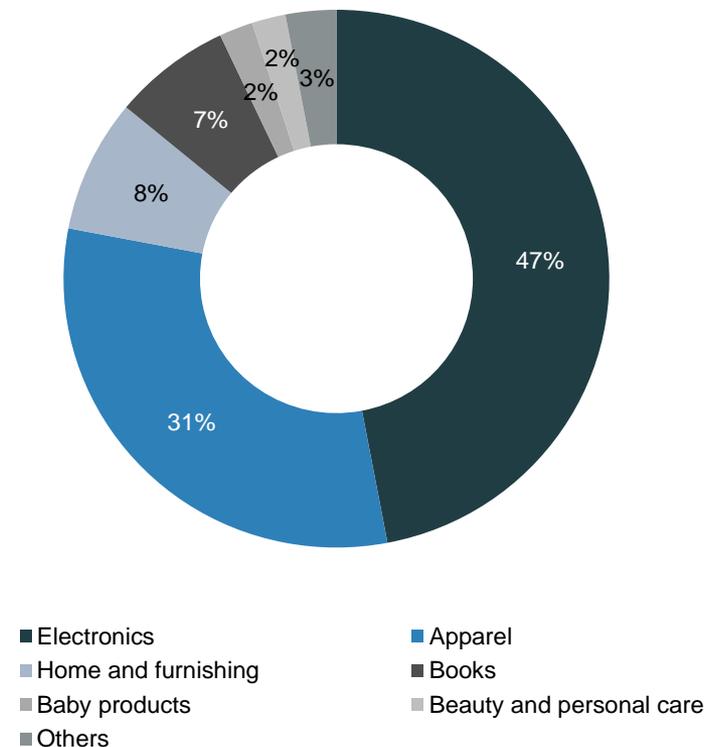
Notes: *As of December 2016

Source: Economic Times, Live Mint, Aranca Research

E-COMMERCE RETAIL MARKET

- The e-commerce retail market is estimated to be worth US\$ 12 billion in Gross Merchandise Value (GMV) terms as of 2016.
- Electronics is currently the largest segment in e-commerce in India with a share of 47 per cent and is expected to grow at a CAGR of 43 per cent by 2020.
- The apparel segment has the second highest share of 31 per cent in the e-commerce retail industry
- Currently, there are 1-1.2 million transactions per day in e-commerce retailing.

E-commerce retail market by value (2016)

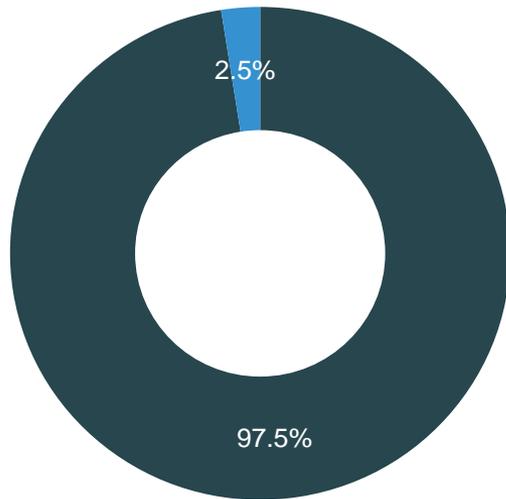


Notes: CAGR – Compound Annual Growth Rate

Source: KPMG Report – E-commerce Retail Logistics India

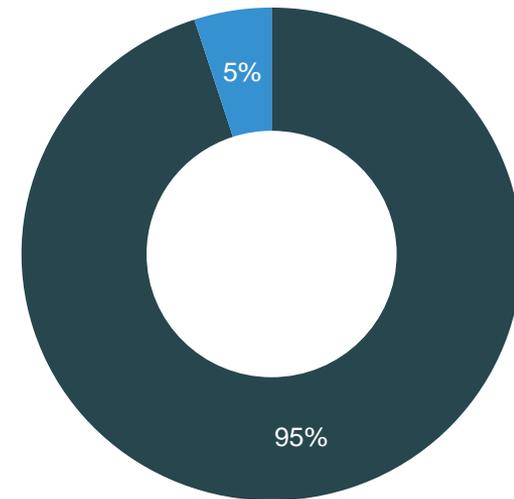
ONLINE RETAIL VS TOTAL RETAIL IN INDIA

Online retail out of total retail in India (2016)

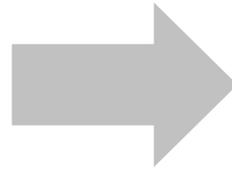


■ Offline Retail ■ Online Retail

Online retail out of total retail in India (2020)



■ Offline Retail ■ Online Retail

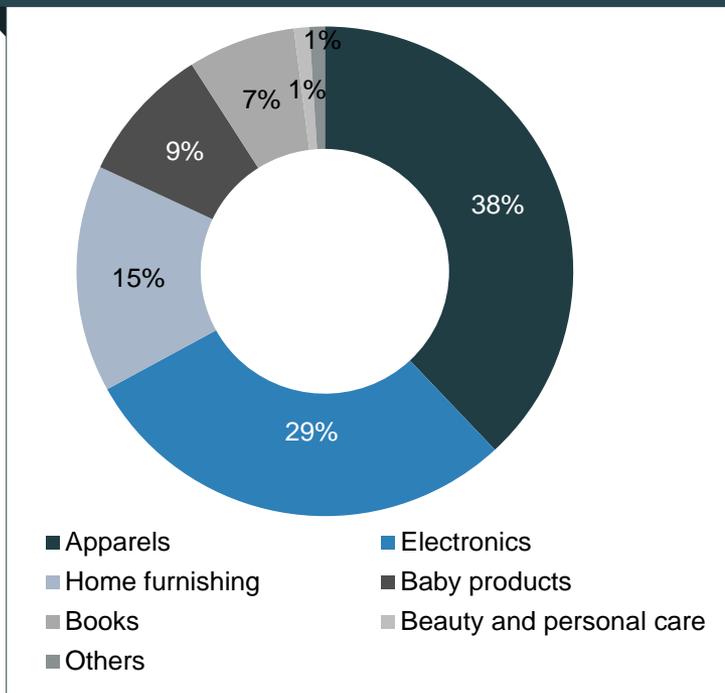


- There are a lot of opportunities for e-retailers in India to capitalise upon with the gradually growing internet penetration in India.
- The penetration of online retail in India's total retail market is expected to rise from 2.5 per cent in 2016 to 5 per cent by 2020.

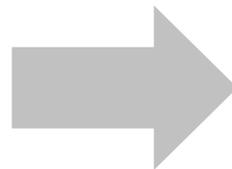
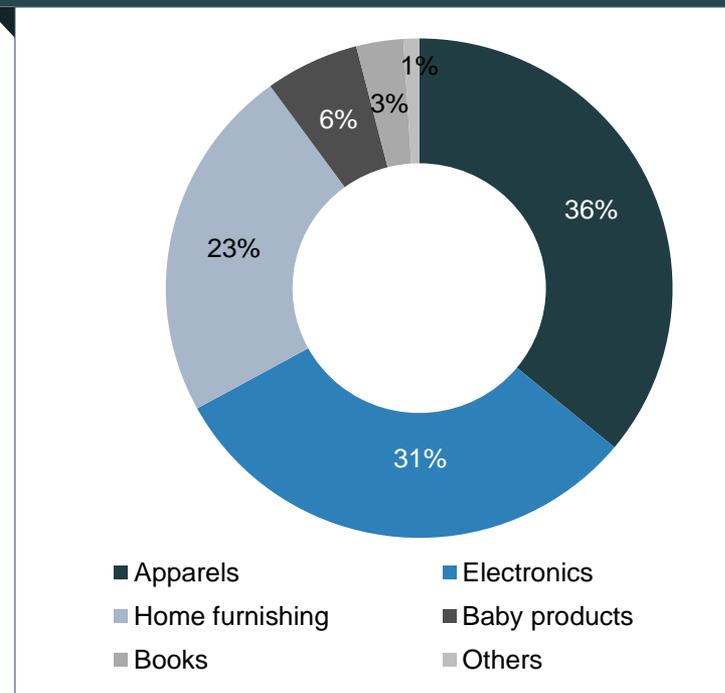
Source: KPMG Report – E-commerce Retail Logistics India

E-COMMERCE RETAIL LOGISTICS MARKET IN INDIA

E-commerce retail logistics market in India (2016)



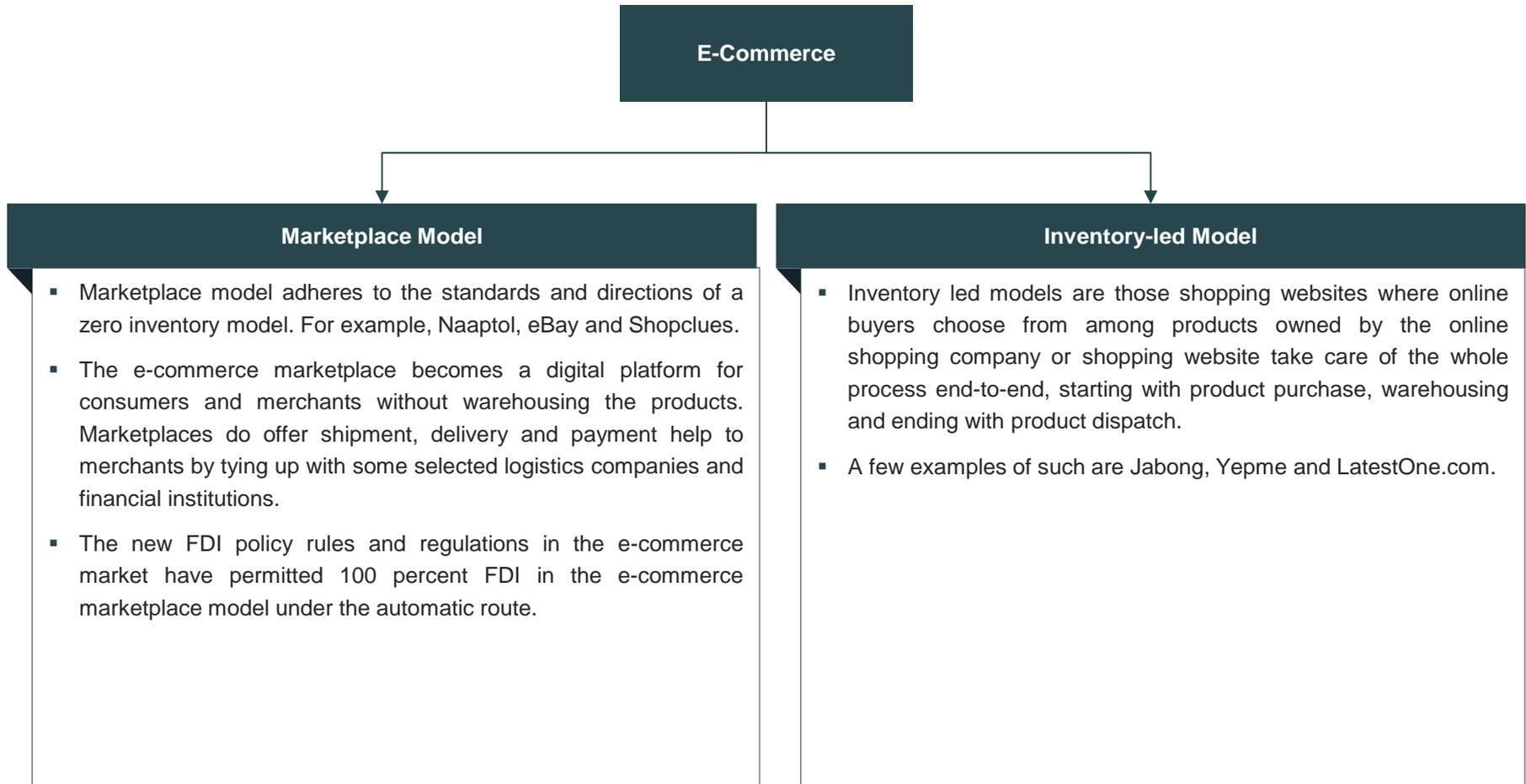
E-commerce retail logistics market in India(2020)



- Logistics is a major driver of the e-commerce retail industry and is an important point of differentiation between market players aiming at better customer satisfaction and service.
- The logistics sector pertaining to the e-commerce industry in India stood at US\$ 460 million in 2016 and is expected to grow at a CAGR of 48 per cent to reach US\$ 2.2 billion by 2020.

Notes: CAGR – Compound Annual Growth Rate

Source: KPMG Report – E-commerce Retail Logistics India



Source: PWC

PRIVATE INVESTMENTS IN E-COMMERCE

- Private equity and venture capital investments in the e-commerce industry in India touched a record US\$ 11.2 billion in the first half of 2017, a 41 per cent rise over last year.
- The first half of 2017 recorded 26 start-up funding deals of value US\$ 100 million and above, aggregating to US\$ 7.7 billion and accounting for 68 per cent of investments during the period.

Funding Activities (As of August 2017)

Company	Investor	Funding (US\$ million)
Flipkart	SoftBank	2,500
Droom	Asset Management (Asia) Ltd, Digital Garage Inc	20
1 mg	HBM Healthcare Investments, Maverick Capital Ventures, Sequoia India, Omidyar Network and Kae Capital	15
Jumbotail	Kalaari Capital, Nexus India Capital Advisors	8.5
Chumbak	Blacksoil Capital Pvt. Ltd	1.7
Spinny	Blume Ventures, Indian Angel Network, Kunal Shah, Sandeep Tandon	1
GoFynd	Anand Chandrasekaran, Rajiv Mehta, Ramakant Sharma	0.5
Infibeam	Bennett, Coleman and Company Ltd	0.13
LensKart	Ronnie Screwvala	0.05

Source: Media sources, Aranca Research

KEY PLAYERS



PORTER'S FIVE FORCES FRAMEWORK ANALYSIS

Threat of Substitutes ●

- **High** – Threat of substitutes is high as there are a lot of sellers with similar products and services; and there is no switching cost for customers.

Bargaining Power of Suppliers ●

- **Low** – Bargaining power of suppliers is low as there are many suppliers in the market, and therefore the ecommerce companies have the power to choose their suppliers.

Competitive Rivalry ●

- **High** – Competition among major players is very high, as there is no switching cost for customers. The players are constantly competing on the basis on price as well as other factors that influence buyers' choice like quick delivery, discounts and offers, variety, customer service etc.

Bargaining Power of Buyers ●

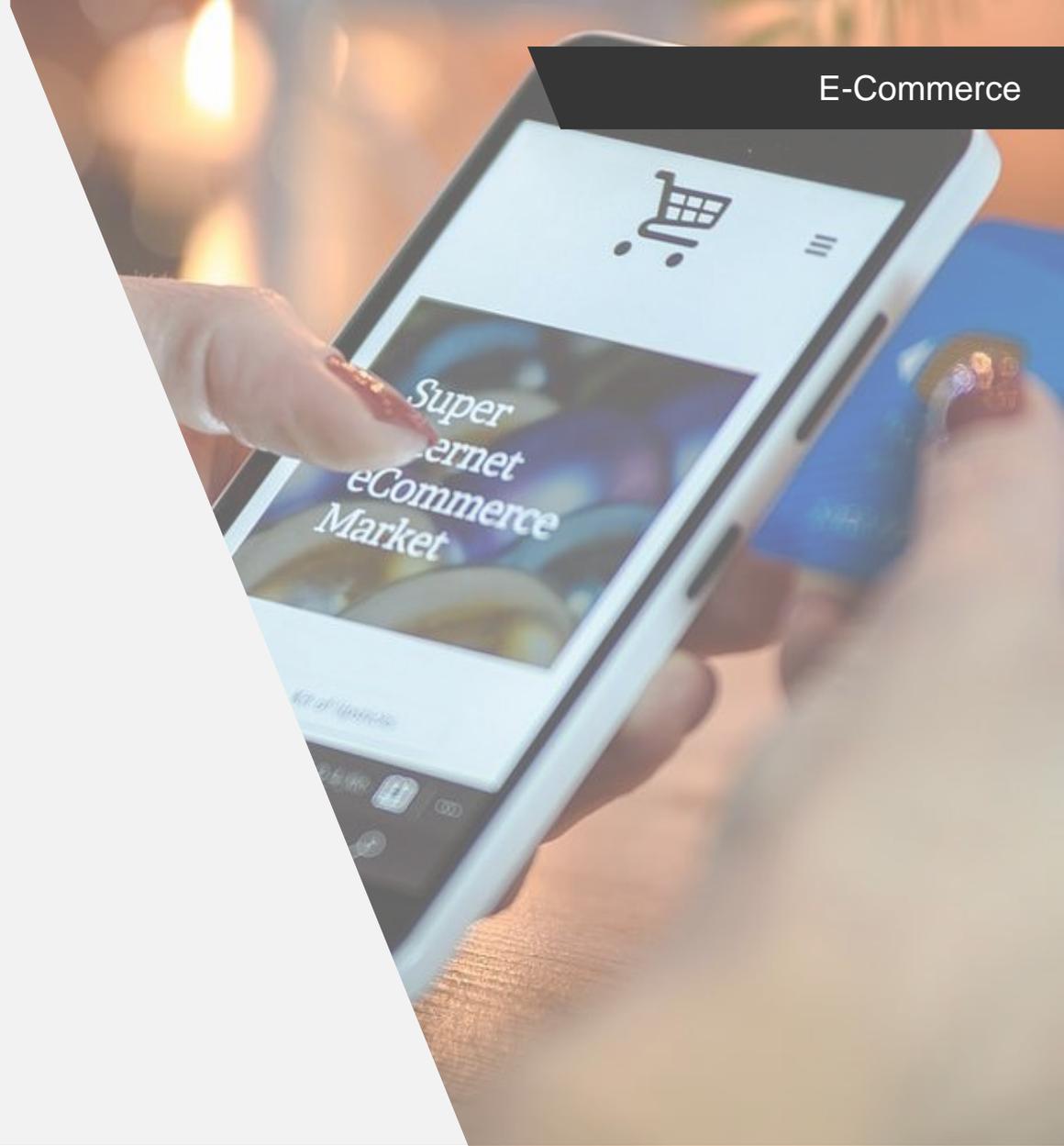
- **High** – Bargaining power of customers is very high as there are many players in the market with similar products and there is no switching cost. Buyers prefer the company that offers the best price among other factors.

Threat of New Entrants ●

- **High** – Threat of new entrants is high, as there is very little cost involved in setting up an ecommerce website.

- Positive Impact
- Neutral Impact
- Negative Impact

STRATEGIES ADOPTED



STRATEGIES ADOPTED

Expansion

- E-commerce companies are gradually expanding to different cities, regions and even countries. They are also expanding their product range to cater to a larger amount of people.
- In May 2017, Uber launched UberEats, an on-demand food delivery app in India
- As of July 29, Amazon India has pledged US\$ 500 million for the expansion of its food retail business in India.

Ancillary services

- One of the biggest advantage of E-commerce is that along with the core product or service it can also provide numerous ancillary services without having to invest a lot.
- Amazon India introduced one day delivery guarantee on purchases for a nominal fee. Flipkart started with same day guarantee in 2013 too.
- Flipkart introduced its own payment gateway Payzippy and also, its own logistics and supply chain firm Ekart.
- E-commerce websites are also introducing e-Wallet services; for example - Amazon's Pay Balance.

Personalised Experience

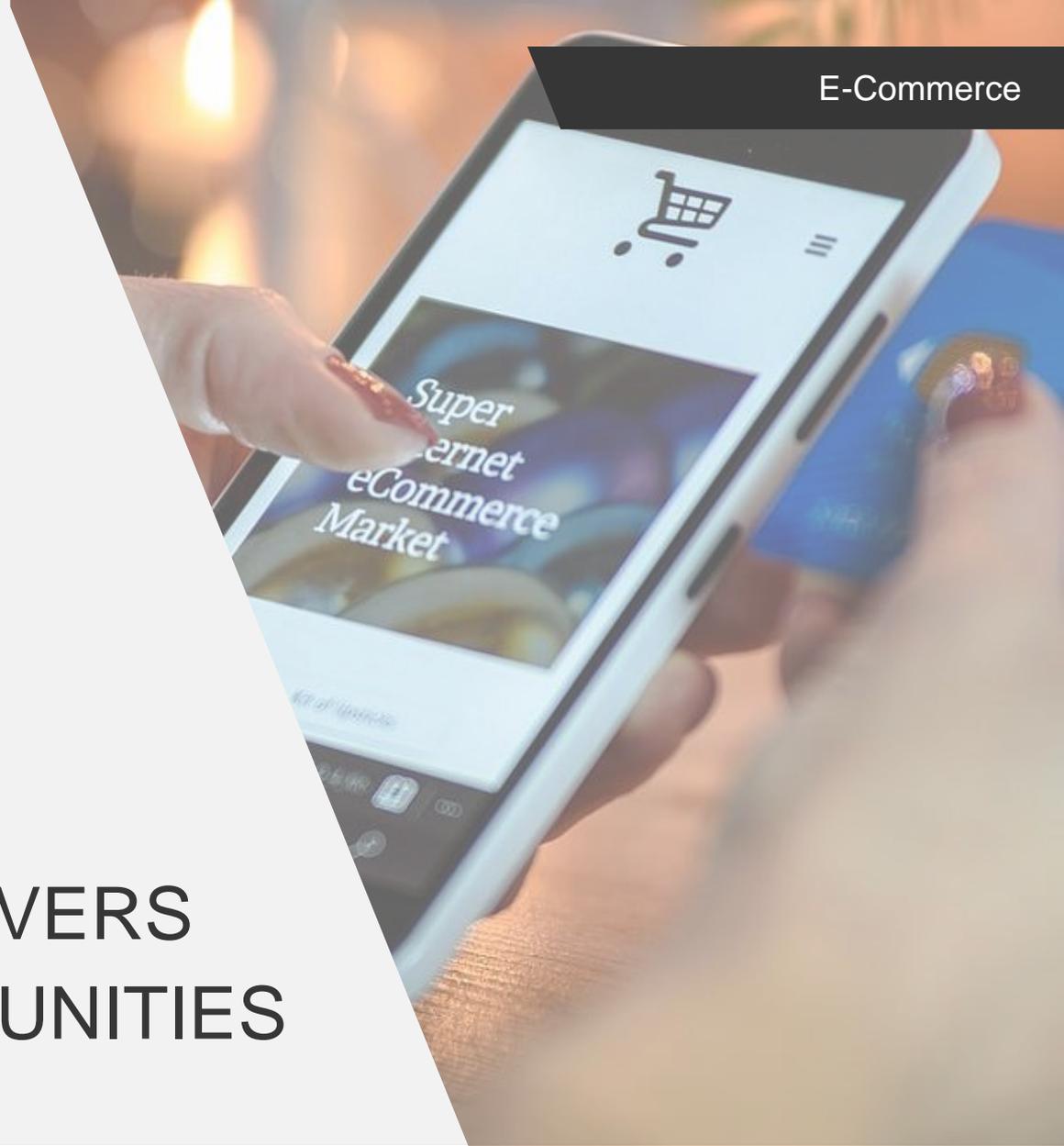
- Site visitors demand one-of-a-kind experiences that cater to their needs and interests. Technology is available, even to smaller players, to capture individual shoppers' interests and preferences and generate a product selection and shopping experience led by individualised promotions tailored to them.
- Many E-commerce websites provide personalised experience to customers to cater to their needs and interests depending upon their location, choices, products they like or buy, websites they visit etc.
- This strategy has helped companies to know customers' demands better and serve them accordingly.

Subscription for e-commerce

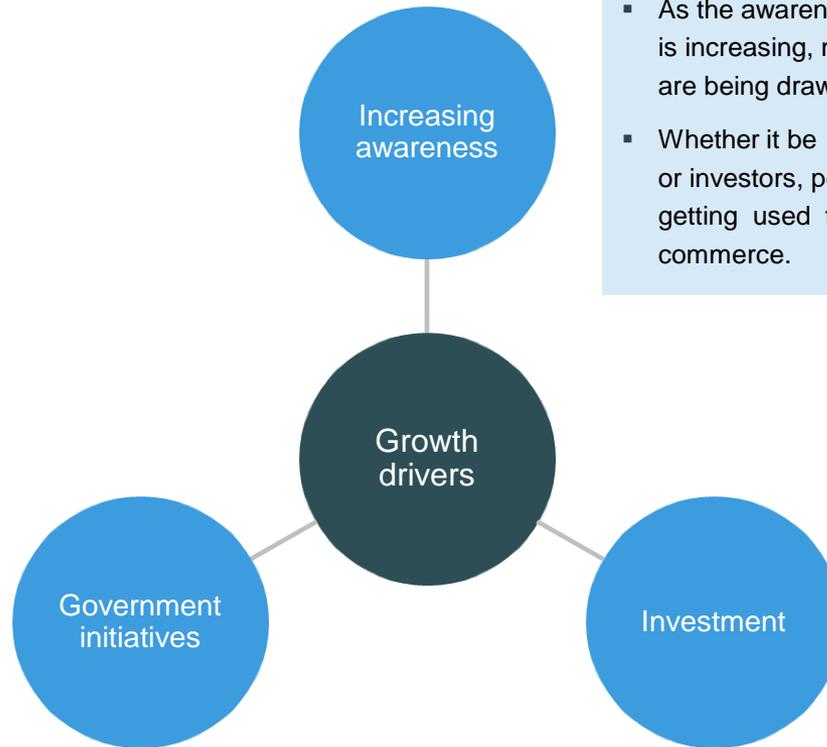
- E-commerce companies are increasingly adopting subscription model to provide extra benefits and tailored services to customers to suit their needs.
- Amazon introduced Amazon Prime, a subscription based service for Amazon customers, in 2016. members of Amazon Prime could avail early access to selected deals, free one day delivery and other benefits. Amazon Prime subscribers in India stood at around 5-6 million as of December 2016
- In 2014, Flipkart introduced Flipkart First, a premium subscription based services wherein a customer gets free delivery, discounted same day delivery, priority customer service etc.

Source: Media sources, Company websites, Aranca Research

GROWTH DRIVERS AND OPPORTUNITIES



GROWTH DRIVERS FOR E-COMMERCE



- As the awareness of using internet is increasing, more and more people are being drawn to E-commerce.
- Whether it be sellers, buyers, users or investors, people have started getting used to online mode of commerce.

- Government initiatives like Digital India are constantly introducing people to online modes of commerce.
- Favourable FDI policy is attracting key players.

- Increasing FDI inflows, domestic investment, support from key industrial players is helping in the growth of e-commerce.

Source: Aranca Research

Online Shoppers

- Number of online shoppers is expected to go up to 175 million by 2020*.
- Mobile-savvy shoppers are the backbone of India's online shopping industry.
- Men in India are more avid shoppers than women in part because of demographic and cultural differences.

Tier II and Tier III cities provide major sales

- Metro cities like Bengaluru, Mumbai, and Delhi, with population greater than 100,000, accounted for most online shopping in absolute numbers.
- Less densely populated regions generated a larger proportion of online sales. Nearly 60 per cent of Snapdeal's purchases came from cities classified as tier II and III.
- Flipkart also noted that "sales of branded products across categories saw a sharp increase, as more of tier 2 and tier 3 Indian towns took to shopping online."

Millennials are the most active

- Although shoppers between 25 and 34 years of age were most active on e-commerce portals, a surprising number of older people also shopped online in 2016.
- However, the age group of 15-34 years are the major consumers of E-commerce.
- The popularity of web series among millennials is growing immensely.

Convenience of E-commerce

- Discounts, added with a comfort of sitting at home and purchasing, is an effective driving factor of E-commerce.
- Chatbots and personal assistance apps have made transactions seamless.
- Increased ownership of smartphones is helping more Indians access shopping websites easily.
- One can get several brands and products from different sellers at one place. Also, one can get in on the latest international trends without spending money on travel; you can shop from retailers in other parts of the country or even the world without being limited by geographic area.
- Availability of various websites gives customers a lot of options to choose from.

Source: * Economic Times, Media sources, Aranca Research

FACTORS DRIVING E-COMMERCE GROWTH

Internet content in local languages

- Web content search in Hindi grew by 155 per cent in 2015 whereas that through mobile internet grew by 300 per cent in the same period.
- In a move to grab the opportunity, Snapdeal and Make My Trip had launched their apps in Hindi and a few other vernacular languages in 2014.
- Online retailers see this emergent segment as a new growth driver as the incremental growth in mobile subscribers can be credited mainly to people who are comfortable with languages other than English.

Growth in non-metro cities

- Consumer demand can be seen increasing even in small towns and cities.
- Less densely populated regions generated a larger proportion of online sales. Nearly 60 per cent of Snapdeal's purchases came from cities classified as tier II and III.
- Flipkart also noted that "sales of branded products across categories saw a sharp increase, as more of tier 2 and tier 3 Indian towns took to shopping online."

Mobile Commerce

- Online retailers' growing reach in town and cities beyond metros is driven by an increasing in usage of mobile internet in the country.
- Rise in smartphone usage is expected to reach 50 per cent penetration by 2020.

Cashless Transactions

- A net addition of nearly 140 million debit cards has been recorded in the country in the past few years. Usage of debit cards at points of sale terminal has increased by 86 per cent during the same period. This clearly reflects that people are getting comfortable with using debit cards for activities other than withdrawals at ATM.
- Many online retailers insist use of debit cards for high value transactions, this is however a welcome change. This will help e-tailers to increase their reach.

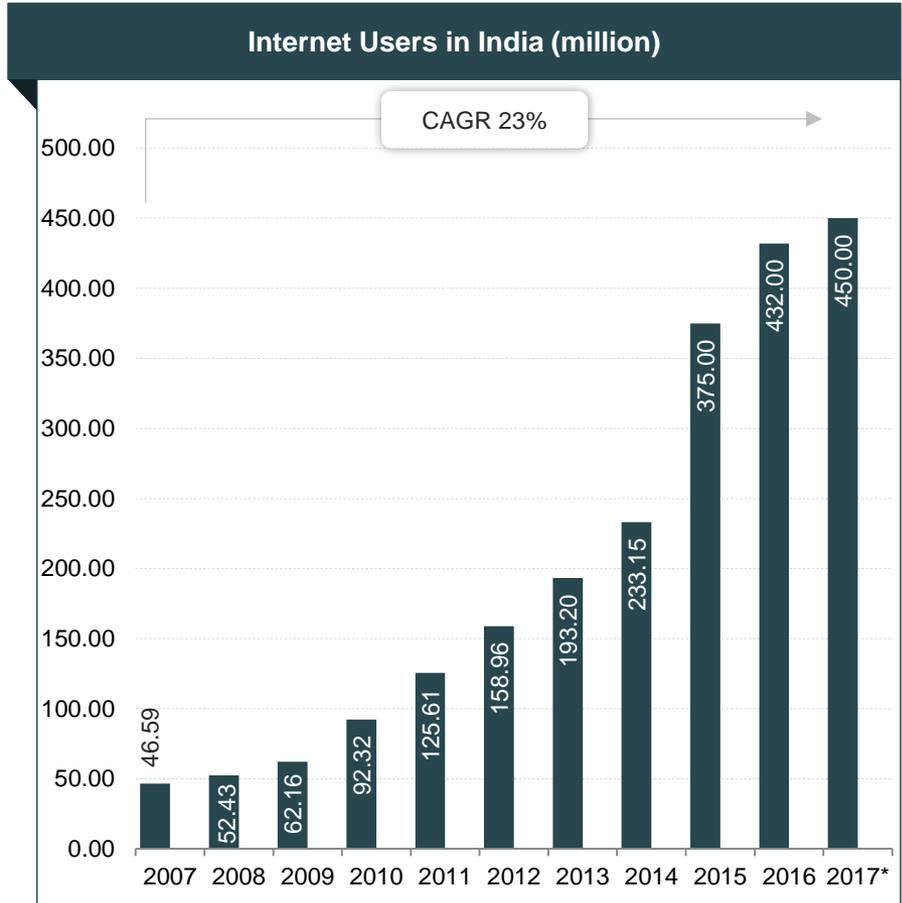
Growth of logistics and warehouses.

- Online retailers now deliver to "12,500-15,000 pin codes" out of nearly 100,000 pin codes in the country.
- With logistics and warehouses attracting an estimated investment of nearly US\$2 billion by 2020, the reach of online retailers to remote locations is set to increase.

Source: Media sources, Aranca Research

GROWTH OF INTERNET USERS

- The number of Internet users in India is estimated at 465 million as of June 2017, growing at a CAGR of approximately 23 per cent in the last decade.
- Urban India with an estimated population of 444 million already has 269 million people (60 per cent) using the Internet.
- Rural India, with an estimated population of 906 million as per 2011 census, has only 163 million (17 per cent) Internet users.
- 77 per cent of urban users and 92 per cent of rural users consider mobile as the primary device for accessing the internet, largely driven by availability and affordability of smartphones.
- In Urban India, the Internet user base grew by 7 per cent to 263 million for year-on-year period ended October 2016, which is estimated at 285 million as of June 2017
- For the same annual period ending October 2016, rural India's internet user base grew by 22 per cent between to 157 million and is estimated to be at 180 million as of June 2017.



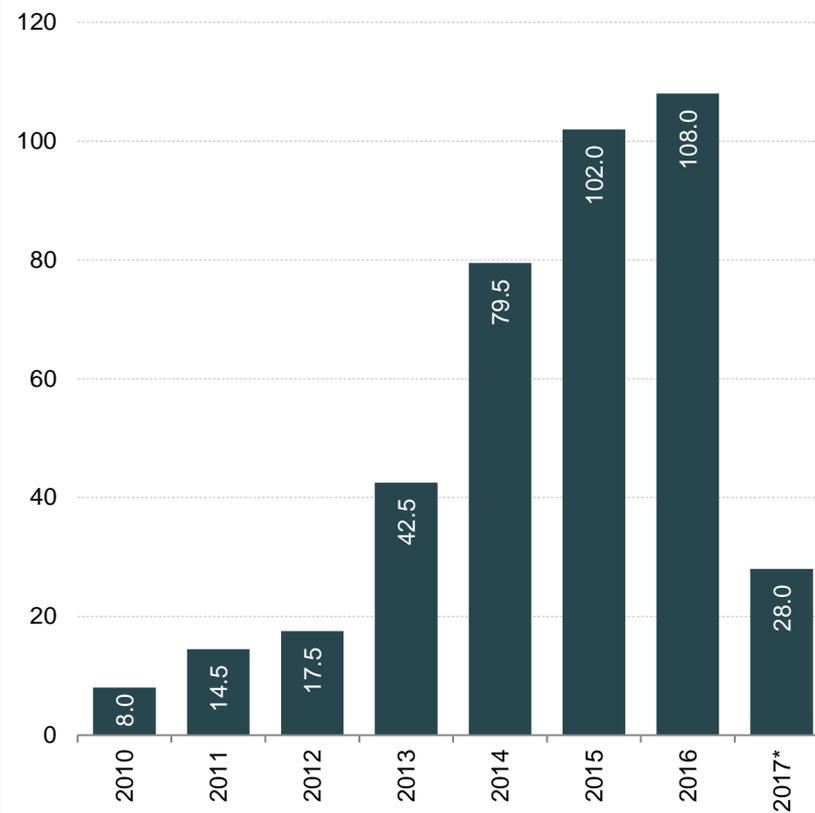
Notes: *Estimated as of June 2017

Source: Economic Times, Live Mint

INCREASE IN MOBILE SHIPMENTS DRIVING E-COMMERCE GROWTH

- The proliferation of mobile devices combined with internet access via affordable broadband solutions and mobile data is a key factor driving the tremendous growth in India's e-commerce sector.
- Smartphone shipments in India registered a growth of 15 per cent annually in the first quarter of 2017, reaching 29 million units.
- The overall smartphone shipment is expected to reach nearly 1.6 billion units in 2017.
- Mobile platforms have emerged as a major gateway for customer purchases as smartphones are increasingly replacing PCs for online shopping.
- Offline brands have now started focusing on online channels as well to gain extra market share.
- 65 per cent of the people who shop online, do so using their mobile phones.
- Mobile apps help the business to reach more customers as they are user-friendly and give ease of access to the customers, hence more and more companies are launching their mobile apps.
- Smartphone users in India are expected to reach 700 million by 2020.

India's Smartphone Shipments (millions)

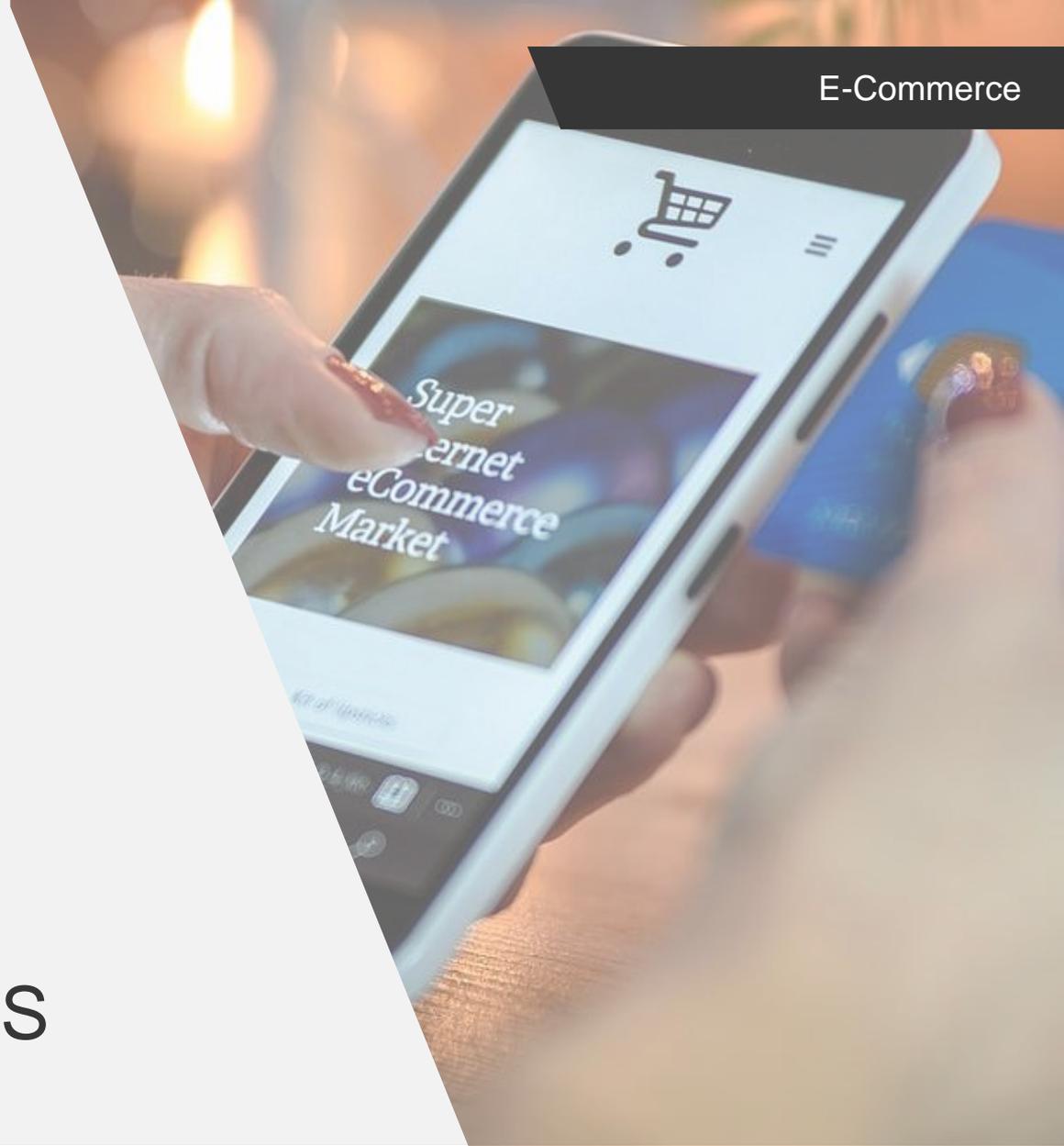


Notes: * As of March 2017

Source: IMF, World Bank

- Since 2014, the Government of India has announced various initiatives namely, Digital India, Make in India, Start-up India, Skill India and Innovation Fund. The timely and effective implementation of such programmes will likely support the e-commerce growth in the country.
- In the Union Budget of 2017-18, government has allocated US\$ 1.55 billion to BharatNet Project, announcing availability of high speed broadband connectivity on optical fibre and accessibility of wifi hot spots and digital services at low tariffs in more than 150,000 gram panchayats, by the end of 2017-18.
- A DigiGaon initiative will be launched to provide tele-medicine, education and skills through digital technology.
- Finance Minister Mr Arun Jaitley has proposed various measures to quicken India's transition to a cashless economy, including a ban on cash transactions over Rs 300,000 (US\$ 4,655.1), tax incentives for creation of a cashless infrastructure, promoting greater usage of non-cash modes of payments, and making Aadhaar-based payments more widespread.
- The Ministry of Electronics and Information Technology (IT) issued the draft rules for digital payments for public consultation, which aim to address the issues of consumer interest and security concerns.
- Government announced the launch of BHIM app. It will help increase digital payments in the country. BHIM app has been adopted by 12.5 million so far. The Government will launch two new schemes to promote the usage of BHIM; these are, Referral Bonus Scheme for individuals and a Cashback Scheme for merchants.
- Under the Digital India movement, government launched various initiatives like Udaan, Umang, StartUp India Portal etc.
- The recent announcement of GST roll out, another significant reform would help e-retail competitors streamline their supply chain and simplify their tax structure, while rationalising seamless integration of goods and services across the country. Moreover it will eliminate the dual taxes being imposed on the current ecommerce eco system.
- In order to increase the participation of foreign players in the e-commerce field, the Indian Government hiked the limit of foreign direct investment (FDI) in the E-commerce marketplace model for up to 100 per cent (in B2B models).
- The Government of India has distributed rewards worth around Rs 153.5 crore (US\$ 23.8 million) to 1 million customers for embracing digital payments, under the Lucky Grahak Yojana and Digi-Dhan Vyapar Yojana.

Source: Union Budget 2017-18, Media sources, Aranca Research

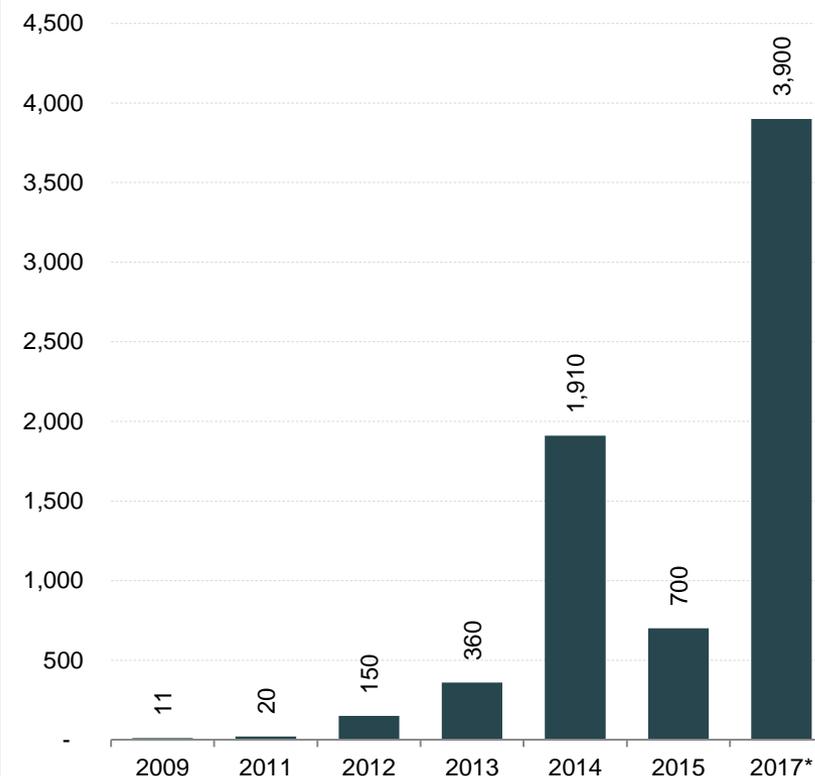


CASE STUDIES

FLIPKART: OVERVIEW

- Flipkart, an Indian E-Commerce company, started in October 2007 and is currently headquartered in Bengaluru.
- Flipkart was started by Sachin Bansal and Binny Bansal and as of March 2017, has 8000 permanent employees and 20000-25000 contract workers who form part of its supply chain.
- Flipkart is India's leading online marketplace with over 80 million products across more than 80 categories.
- As of April 2017, Flipkart was valued at US\$ 11.6 billion.
- Since 2009, Flipkart—now valued at US\$11.6 billion—has raised over US\$4 billion in 11 funding rounds. American investment firm Tiger Global participated in nine of them.
- Flipkart boasts of having 100 million users and 100 thousand sellers along with 21 warehouses.
- On average, Flipkart has around 8 million shipments per month.
- In 2016, Flipkart became the first Indian App to cross 50 million users.
- In April 2017, Flipkart raised US\$ 1.4 billion from Microsoft, eBay and Tencent and in August 2017, it raised US\$ 2.5 billion from SoftBank.
- In exchange of an equity stake in Flipkart, eBay made a cash investment of US\$ 500 million and sold its eBay.in business to Flipkart, in 2017.

Flipkart's funding (US\$ million)



*Notes: *As of August 2017*

Source: Economic Times, Flipkart, Business Line, Aranca Research

EVOLUTION OF FLIPKART

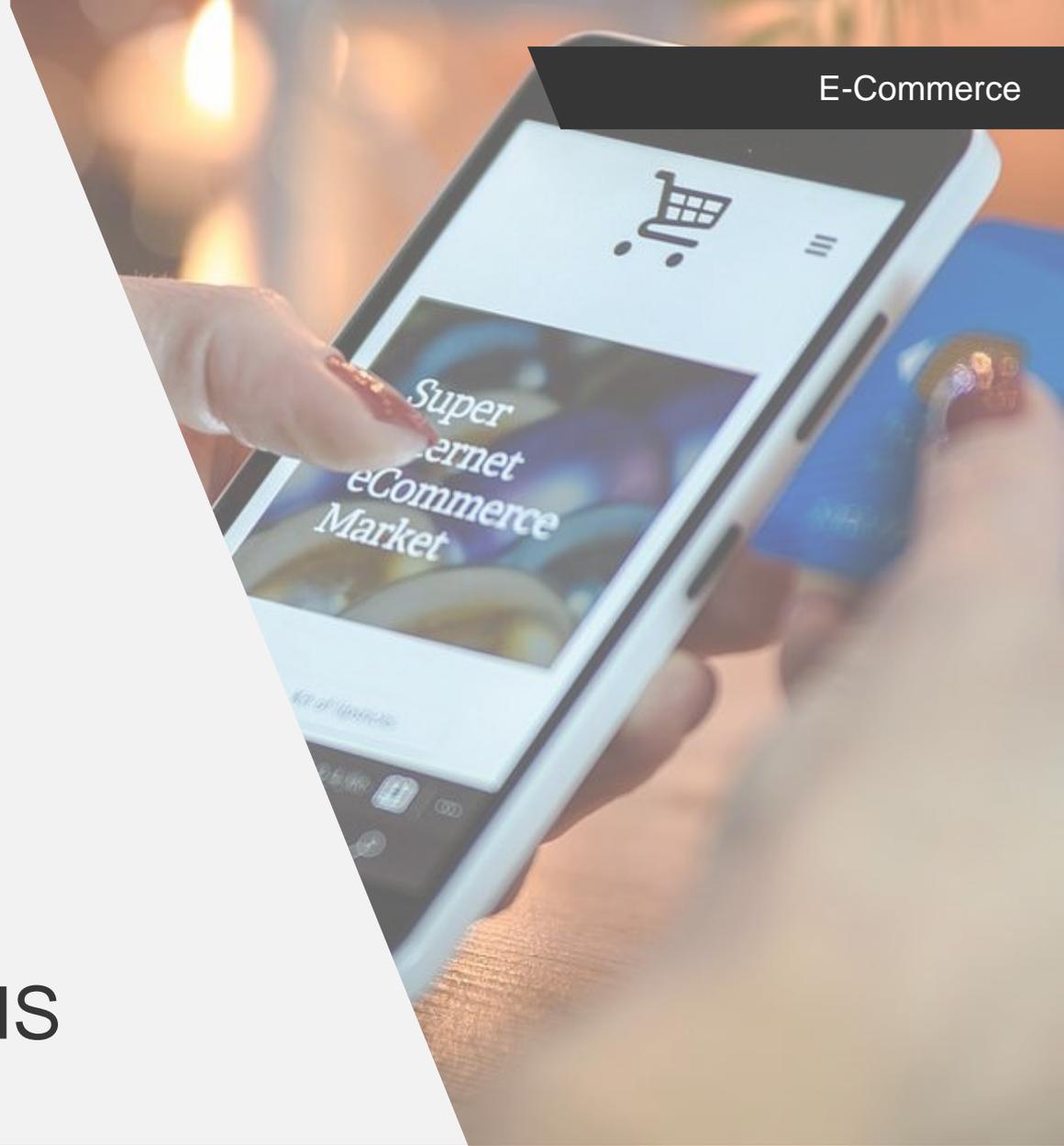
- Founded in October 2007 by Sachin Bansal and Binny Bansal with an investment of mere US\$ 6,200.
- Introduces music, movies and mobiles.
- Launches cash on delivery, card on delivery and prepaid wallet to store money online.
- Introduces 30 day replacement guarantee and also, a dedicated logistics for faster delivery.
- Receives funding from Tiger Global of US\$ 20 million in March 2011.
- Company valued at US\$ 1 billion
- Acquires Myntra for US\$ 300 million.
- Raises US\$ 210 million from DST Global.
- Receives a whopping US\$ 1 billion funding from GIC Singapore and existing investors.
- Raises US\$ 700 million, in 2014, from hedge funds like Greenoaks, Steadview Capital, Qatar Investment Authority and T. Rowe Price and the same amount from existing investors in 2015.
- Valuation shots up to US\$ 15.5 billion.



- Flipkart went online as a book retailer.
- Ashish Gupta, founder of Junglee and Helion Venture Partners funds Flipkart initially.
- Receives it's first funding in 2009 of US\$ 1 million from Accel Partners and US\$ 20 million from Tiger Global.
- Company valued at US\$ 50 million.
- Launches lifestyle and fashion products
- Launches payment gateway Payzippy.
- Becomes a unicorn startup in 2012. Announces US\$ 150 million round led by South African tech major Naspers.
- Raises US\$ 200 million from existing investors and US\$ 160 million from Morgan Stanley, Sofina, Vulcan Capital and Dragoneer.
- Valued at US\$ 1.6 billion
- Crosses 100 million registered users.
- In 2016, faces a major markdown and the valuation falls to US\$ 5.6 billion.
- Raises US\$ 1.4 billion from Tencent, Microsoft and eBay, in 2017
- As of April 2017, receives valuation of US\$ 11.6 billion.
- In August 2017, completes merger with eBay India.
- Receives US\$ 2.5 billion in funding from SoftBank in August 2017.

Source: Financial Express, Company website, Aranca Research

INDUSTRY ASSOCIATIONS



KEY INDUSTRY ASSOCIATIONS

e-Commerce Association of India

Address: 122, 1st Floor, Devika Tower
Corporate Business District, Nehru Place
New Delhi –110 019
Phone: +91 011 41582722
Fax : +91 011 41582722
Email: info@ecai.co.in

Retailers Association of India (RAI)

Address: 111/112, Ascot Centre, Near Hotel ITC Maratha,
Sahar Road, Sahar, Andheri (E)
Mumbai – 400099
Phone: +91 22 28269527 - 29
Fax: +91 22 28269536
E-mail: info@rai.net.in

USEFUL INFORMATION



- CAGR: Compound Annual Growth Rate
- GMV – Gross Merchandise Value
- FDI: Foreign Direct Investment
- FY: Indian Financial Year (April to March)
- GOI: Government of India
- INR: Indian Rupee
- US\$: US Dollar
- Wherever applicable, numbers have been rounded off to the nearest whole number

EXCHANGE RATES

Exchange Rates (Fiscal Year)

Year	INR Equivalent of one US\$
2004–05	44.81
2005–06	44.14
2006–07	45.14
2007–08	40.27
2008–09	46.14
2009–10	47.42
2010–11	45.62
2011–12	46.88
2012–13	54.31
2013–14	60.28
2014-15	61.06
2015-16	65.46
2016-17E	67.23

Exchange Rates (Calendar Year)

Year	INR Equivalent of one US\$
2005	43.98
2006	45.18
2007	41.34
2008	43.62
2009	48.42
2010	45.72
2011	46.85
2012	53.46
2013	58.44
2014	61.03
2015	64.15
2016E	67.22

Source: Reserve bank of India, Average for the year

DISCLAIMER

India Brand Equity Foundation (IBEF) engaged Aranca to prepare this presentation and the same has been prepared by Aranca in consultation with IBEF.

All rights reserved. All copyright in this presentation and related works is solely and exclusively owned by IBEF. The same may not be reproduced, wholly or in part in any material form (including photocopying or storing it in any medium by electronic means and whether or not transiently or incidentally to some other use of this presentation), modified or in any manner communicated to any third party except with the written approval of IBEF.

This presentation is for information purposes only. While due care has been taken during the compilation of this presentation to ensure that the information is accurate to the best of Aranca and IBEF's knowledge and belief, the content is not to be construed in any manner whatsoever as a substitute for professional advice.

Aranca and IBEF neither recommend nor endorse any specific products or services that may have been mentioned in this presentation and nor do they assume any liability or responsibility for the outcome of decisions taken as a result of any reliance placed on this presentation.

Neither Aranca nor IBEF shall be liable for any direct or indirect damages that may arise due to any act or omission on the part of the user due to any reliance placed or guidance taken from any portion of this presentation.