E-Commerce industry going through a period of consolidation

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Sparkling growth in information technology changed the whole dynamics of Indian retail market. Modern retailers entered into the market in form of attractive web portal and started offering huge variety of products through online stores. E-Commerce industry, a platform that allows users to purchase and sale of goods and services via electronic channels such as the Internet was evolved and has shown tremendous growth in last few years. The growth was supported by increased penetration of internet, growing use of smart-phones, focus on advertising, ease of shopping for customers, innovative payment options, attractive deals & discounts, and the rapidly changing lifestyle needs. Nowadays, people are not only buying electronics & fashion accessories online, but also purchasing daily essentials, furniture, vegetables and gift cards. With the quality assurance initiatives, easy returns and zero-cost EMI options, online shopping has become a stress-free task. In fact, online e-commerce players have realized the customer maturing with the ecosystem. The industry has come a long way since its inception and is continuously gaining momentum and value. However, compared to many developing & developed nations, e-commerce penetration in India is substantially low and there is significant room for growth and a market for various players to co-exist.

Major categories of e-commerce

As far as traditional e-commerce is concerned, there are four major categories

B2B (Business to Business): It refers to a situation where the exchange of products, services or information (e-commerce) between businesses, rather than between businesses and consumers. E.g. manufacturers selling to distributors or wholesalers selling to retailers. This new platform not only meeting the complex requirements of today's organizations, but also brought efficiency, convenience, choice, reach and lower transactional cost for users. For SMEs (Small and medium-sized enterprises), B2B portals is one of the best things that has happened. Having a B2B platform takes care of the distribution and advertising; SMEs need to concentrate only on their core business. B2B has enabled SME's growth in sales and helped them acquire new customers. Globally, B2B startups are running their business successfully, mainly in developed countries like US and China. According to a report, globally, by 2020, the B2B e-commerce market will be twice as large as the B2C market - $6.7 trillion vs. $3.2 trillion. About India, there is some expectation that B2B ecommerce industry in the country will grow to $700 billion by 2020. B2B e-commerce is lucrative, because unlike B2C model, it do not necessarily have to give heavy discounts to increase transactions.

B2C (Business to Consumer): B2C e-commerce includes all online transactions between businesses and consumers using personal computers (PC), laptops, smart-phones, tablets and smart-wearables, for example through online shops, physical stores (online in-store), email, QR codes, catalogs, etc. This new model is altering the ways businesses reaching to consumers and has made it quicker and easier for customers to make purchases whenever they want and wherever they are, not just when they are in stores. Increased access to global products and services at a click of a button, and delivery to even remote locations would further drive up the growth. The segment is further categorised in three parts-

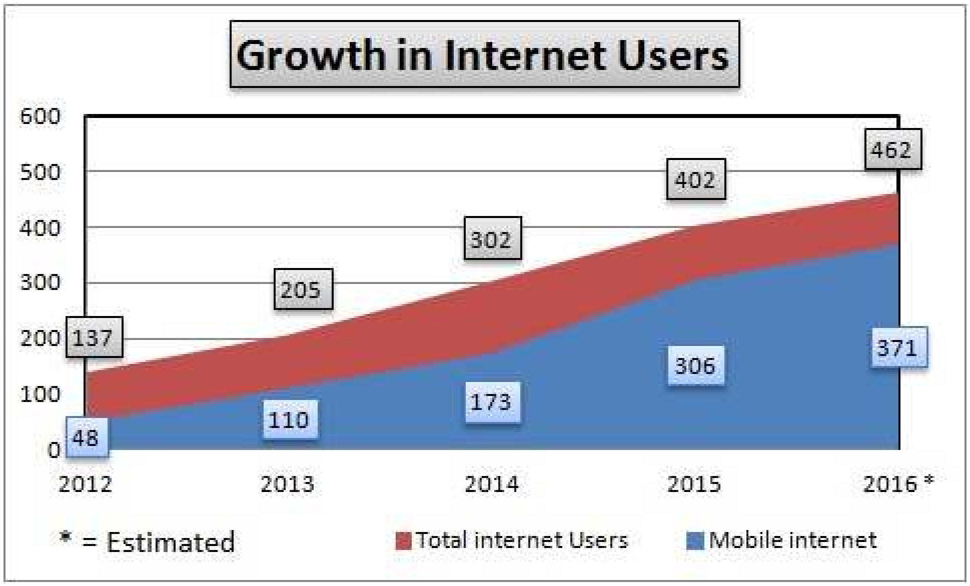
Several companies from this segment rely on discounting for customer acquisition leading to an absence of long-term sustainable business models. Many B2C e-Commerce companies globally, despite being operational for 5 to 10 years, report low profitability. The condition in India is no different i.e. a growing GMV (Gross merchandise volume) but at an overall loss. Example Flipkart, the Singapore-based holding company of India's largest e-commerce marketplace, posted a net loss of Rs 5,768.8 crore for the year through March 2016, up 86% from a year earlier. However, its overall revenue grew 50.3% from a year earlier to Rs 15,403.3 crore.

C2B (Consumer to Business): In this category, the end consumers create products and services, which are consumed by businesses and organizations. It is completely opposite to the popular concept of B2C, where the companies make goods and services and sell to the end consumers. In India, the penetration level of this kind of business is very low. Gurgaon-based Droom has launched C2B (consumer to business) marketplace format, called QuickSell, which enables consumers to sell their used vehicles to auto dealers with a quick turnaround of the transaction. The sellers can upload a quick listing of their vehicles, receive offers from interesting buyers and accept the most feasible option to sell it online. In some C2B e-commerce platform, consumers post a project with a set budget online, and companies bid on the project. The consumer reviews the bids and selects the company. Elance is an example of this, it is a website, which allows businesses to post jobs, search for freelance professionals, and solicit proposals. They can evaluate the contractors applying for the job and, once a contractor is selected, communications and files are exchanged through the Elance system. Payment for either jobs, which can be hourly-rate or project-based jobs, is made by the client through Elance's system, which deducts a percentage of the fee as a commission.

C2C (Consumer to Consumer): The matrix of C2C e-commerce is different from traditional one, where customer goes to the business in order to purchase a product or service. In this platform, the business facilitates an environment where customers can sell goods or services to each other. There are many sites offering free classifieds, auctions, and forums where persons can buy and sell. For example OLX, the market leader in C2C classifieds in India connects local people to buy, sell or exchange used goods and services by making it fast and easy for anyone to post a listing through their mobile phone or on the web. Hundreds of millions of people in local markets around the world are already using OLX's online marketplace to find and sell a wide range of products, including computers, cell phones, furniture, sporting goods, services, cars, real estate, and many more. Recently, the company has leveraged innovative technology and deep consumer understanding to roll out improved and forward-looking product changes on its App that make the online classifieds experience safer, simpler, and social.

Factors to fuel growth

Increasing online consumer base: India's increasing Internet Penetration is providing promising opportunities for existing E-commerce companies to expand their reach. It has also created a strong ecosystem for new businesses to tap into growing markets and create solutions to address their demands. Going forward, the internet user base is likely to show strong growth as prices of data plans are falling and connectivity is getting better.



India's Internet Penetration has surged from 15% in 2013 to around 34% in 2016. India has already surpassed USA in terms of total number of Internet users, and thanks to rural expansion of Internet, this position will be maintained. India is the world's second largest country by the number of internet users, though only 12% (estimated in 2015) of the country's total internet users shop online, as compared to 66% to 73% in Brazil and Russia, and 53% in China. The increasing penetration rate marks the end of the era when E-Commerce companies can simply rely on the growth of the overall user population to bolster their traffic and usage. Now they have to work harder to attract visitors to their sites, or to download their applications, requiring billions in development, marketing and subsidy dollars.

Changing lifestyle of the consumer: Today the world is changing rapidly, so do the style statements and trends, which evolve as frequently as the weather and the newer generations live a more commercial, international lifestyle than their parents. E-commerce industry is fulfilling these needs by providing customers with latest products at their doorsteps at affordable price. In many medium to small towns, the online stores offer a wide range of domestic & international brands, which may not otherwise be easily accessible. Also, e-commerce sites provide better deals & discounts round the year, which may not be the case with retail store shopping.

Innovative payment options & alternative financing schemes: The availability of new payment options boosted the e-commerce industry. The payment landscape has evolved considerably. In addition to credit and debit cards, cash cards have also emerged in the market. Internet banking, electronic wallets and mobile payment are some alternative options. Furthermore, easy availability of finance at a competitive cost with minimal or no security also drive the industry demand.

Growing demand from Rural India: Following the Union budget's focus to boost rural economy and promote digital transactions, India's e-commerce and online market place are seeing tremendous opportunities coming from the rural areas. The government is also focusing on infrastructure, which will eventually add up to better functioning of logistics and there by connecting town which were not accessible previously. Furthermore, with the increased penetration of smart phones and internet, the industry is expecting a large base of first time online consumers to come from rural areas this year. Many online platforms are currently focusing on these areas. For example Voonik, which already covers more than 28,000 pin codes and more than 70% of its demand comes from Tier II and Tier III towns.

Exclusive partnerships with leading brands: Many ecommerce companies are increasing their fashion categories, launching private brands and hunting for more exclusive partnerships to increase sales of a category that offers higher margins than smart-phones and televisions. For example, Amazon, which is expanding its private label portfolio and launching newer product lines, as it looks to differentiate its offering from Flipkart, Snapdeal, Myntra and Jabong. In recent months, Amazon has also signed partnerships with leading brands such as Aeropostale, Arrow and Swarovski on certain product lines.

Increase in internet-enabled devices (growing mobile phone users): Strong growth in affordable electronic devices to access the internet, including personal computers (PC)/ laptops, mobile phones (mainly smart-phones) and tablets are driving growth for e-commerce retailing in India. According to TRAI, the country's mobile phone subscriber base crossed 1 billion as of March 2016, particularly due to huge increase in smart phone sales in the country during the last few years. Today, over 50% of the orders for e-commerce retail giants gets placed via mobile apps. This is due to an availability of high-speed 3G & 4G internet connectivity at reasonable prices, which has led to an increase in transactions done via mobile. In terms of traffic, bigger e-commerce retail companies draw as high as 50% to 70% of their total traffic through mobile.

India's economic growth

Growth of any industry, whether it be in retail, wholesale, finance, farming, transportation, construction, or manufacturing, greatly depends upon the growth of the country's economy. India is the world's fastest growing major economy, with the gross domestic product (GDP) growth of 7.6% in FY16. Strong macro-economic fundamentals, favourable business sentiments and a downward trend in interest rates are significant positives for the economy. According to recently announced data, the country's GDP growth for the October-December FY17 came in at 7.0%, a tad slower than 7.4% in the previous quarter. While the year-end figure is lower than that of the prior quarter, India is still expanding at a faster pace than many major emerging markets 'Brazil, China or Russia.

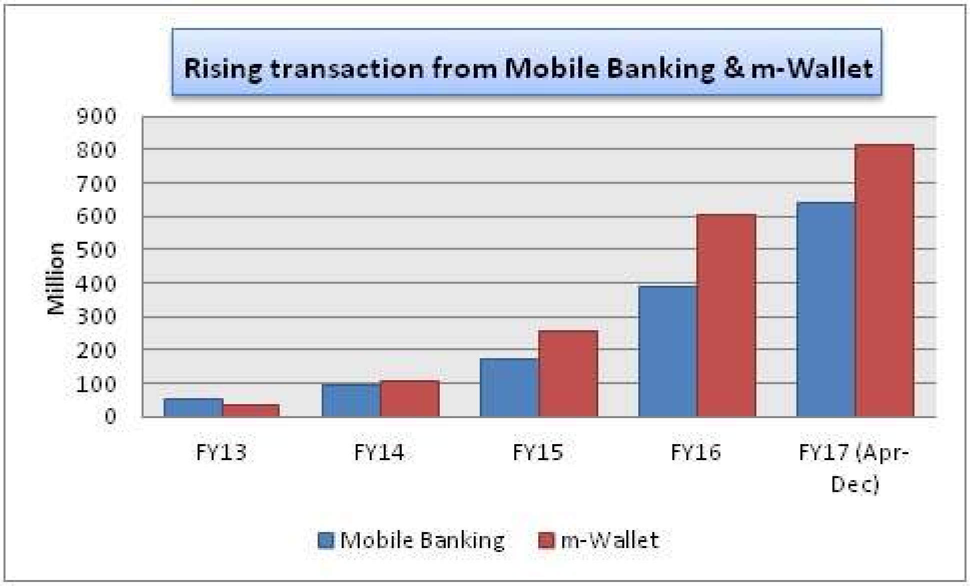
India's services activity bounced back into expansion mode for the first time in four months in February (2017), providing further proof that the effects of demonetization may be fading. The Nikkei/IHS Markit Services PMI rose to 50.3 in February from 48.7 in January. The turnaround in services activity and inflows of new work came from the financial intermediation and 'other services' categories, the sectors most impacted by demonetisation, which was announced on November 8. Furthermore, the Nikkei India Manufacturing PMI rose to 50.7 in February from 50.4 in January, suggesting a similar recovery. Indian manufacturers benefited from recovering demand and raised production volumes in response to another expansion in inflows of new work.

Moreover, a slight improvement in the manufacturing order-to-inventory ratio to 1.12 in February from 1.10 in January suggests that activity may improve in coming months. Interestingly, manufacturers are seeing higher buoyancy in new orders than service providers, with much of it coming from external demand. However, both manufacturing and services have some way to go before reaching pre-demonetisation levels.

Key development in last few years

Wider use of postal department: Indian Posts with its extensive reach of 19 thousand pin-codes and 1.54 lakh post offices across India has set-up dedicated processing centers to handle last-mile deliveries of the e-Commerce companies. Many e-Commerce companies like Amazon, Flipkart, Yepme, Shopclues, Naaptol, etc. and 800 other companies have tied up with the postal department for smooth delivery. The postal department's revenue from COD (cash on delivery) consignments from e-commerce majors surged to Rs 1,300 crore in the year ending March 2016, up from Rs 500 crore in 2014-15, and just Rs 100 crore in 2013-14. Moreover, in a bid to strengthen its position in the e-commerce market, postal department has proposed to invest Rs 322 crore till 2019-20 to augment parcel handling capacity through which it projects to earn a revenue of Rs 1,608 crore.

People getting more comfortable with online transaction: Mobile Banking & m-Wallet are getting more popular among Indian youth. As is evident in the graph, the number of m-Wallet transaction and Mobile Banking transaction increased from 32.70 million and 53.30 million in FY13 to around 603.98 million and 389.49 million in FY 16. During the first nine months of current fiscal, these transactions have reached to 813.91 million and 638.51 million.



M-payment & m-Wallet are crucial drivers for the growth of the e-commerce industry in India. People can shop online; book movie tickets, rail or flight tickets; and pay their bills by making m-payment through their debit and credit cards. Also, some e-commerce companies operate only through mobile application and do not have web presence, which require only m-payment. Furthermore, almost all the e-tailing players in the country have tied up with one or more m-wallet companies to attract customers with huge discounts and cash-backs, when paying through these wallets. While EMIs and digital wallets account for less than 2% share currently, they will grow faster than plastic money. Convenience and ease of doing the transaction are the key growth drivers of the Indian m-wallet market.

100% FDI in online retail: Government of India has allowed 100% Foreign Direct Investment (FDI) in online retail of goods and services through the automatic route, thereby providing clarity on the existing businesses of e-commerce companies operating in India.

Impact of demonetization in E-commerce: Like many other sectors, demonetization (withdrawal of high value Rs 1000 and Rs 500 currency from circulation) has also adversely affected the online shopping. Most of the orders placed during November and December with the cash on delivery option could not be delivered because the online retailers could not accept old notes. All the overheads and the costs incurred in shipping the orders go a waste in case of undelivered orders. This is indeed a significant loss for the e-commerce players. Moreover, many E-commerce players were forced to stop 'cash-on delivery' payment modes on their site. Certain eCommerce players like Flipkart and Snapdeal made restrictions on the order purchase value to below Rs 1000. However, on positive side, demonetization has given a boost to digital payments and encouraged people to shop online. Going forward, this will provide an opportunity for ecommerce players to push customers towards adopting cashless instruments & modulate business models to incentivize cashless instruments.

Industry Analysis using Porter's Five Forces Model

Bargaining power of buyers (High): with the E-Commerce industry in full expansion mode, there are a lot of campaigns, policies and processes to gain and retain customers. Today customers are more aware and wiser and research all the option of shopping before taking actual purchasing decision. Therefore, bargaining power of customers is high as there are many competitors and/or the supply of the product in the market is in surplus.

Bargaining power of suppliers (Low): Every month tens of millions of sellers list their products on various marketplaces; hence their individual bargaining power is limited. Further, the customer acquisition costs have been rising day by day due to higher competition. Cash on delivery, Easy returns, Cheap price, Exchange offers and Same day delivery etc. ' all these initiatives are taken by sellers to gain more and more customers. With this intense completion in this E-Commerce industry, suppliers have low bargaining power.

Competitive rivalry (High): With the entry of eCommerce giants such as Amazon and Alibaba, the competition in Indian retail market has intensified. These players have a deep pockets and the patience to drive the domestic eCommerce market. Furthermore, their in-depth knowledge and best practices from their international experience give them a further edge. These companies have been part of markets where they have seen the online market evolve and are aware of the challenges and strategies to address issues thereof. However, Indian players are not lagging behind. In order to compete with the international entities, they are improving their focus on expanding sellers and selection on their platforms, innovating on multiple customer touch points, and providing seamless and rapid delivery services. Going forward, steep competition is likely to continue, with these eCommerce companies experimenting with different ways to attract customers and increase online traffic.

Entry of new competitors (High): Since the e-commerce industry has no entry barriers from the government or technological perspective, it is very attractive for other companies to enter into this market. Also, the technology is improving every second or even minute, which means people can create a website in five minutes. Therefore, the threat of new entrants is very high.

Threat of substitute products (High): In the E-Commerce industry, there are a lot of options and varieties available for the same product with less differentiation. Since there are a lot of sellers competing in the same space, pricing plays a crucial role in gaining more market share. With no switching cost for the buyers, the current E-Commerce industry has a huge threat from substitute products.

SWOT Analysis for E-commerce industry

STRENGTHS

- The industry has been directly and indirectly supporting many MSMEs and SMEs in India and has a favourable cascading effect on other industries. (helping connect small merchants with customers across the country)
- India's retail opportunity is significant and supported by various factors such as the demographic dynamics (growing young population and improving standards of living), deeper internet penetration, explosion of social-media platforms, and jumped in smart-phone penetration.
- Availability of high-speed 3G & 4G internet connectivity at affordable prices, leads to an increase in transactions done via mobile.

WEAKNESSES

- GMV of B2C e-Commerce companies is growing but so are the losses.
- The lack of a uniform tax structure leads to several issues such as double-taxation or impediments in the free flow of goods across the country.
- The growth of the B2B e-Commerce segment is slower as compared to the B2C e-Commerce segment in India. In B2B e-Commerce segment, many companies need to have a strong business model, long-term logistical arrangements with rail, road and ports and also adhere to stringent regulatory and taxation governance.
- CoD remains a popular mode of payment for the county's online transactions, which resulting high administration costs even for e-Commerce companies, which eventual reduces their margins.
- Intense competition & heavy discounting has resulted customer acquisition & retention costly

OPPORTUNITIES

- The government's Digital India project aims to offer online government services, which will have mobile phone as the backbone for its delivery.
- Increased access to global products & services at a click of a button, and delivery to even remote locations would further drive up this the e-commerce industry.
- To bridge the shortage of skilled work force, Indian government has set a target to train 40.2 crore people under the new National Policy for Skill Development by 2022.
- For Indian e-commerce players, the proposed tax collected at source (TCS) on them under the much-awaited goods and services tax (GST) being capped at one percent.
- The government's initiatives like 'Startup India Standup India' will help more and more start-ups in this industry especially in logistics and payments space to grow and join the ecosystem making it more sustainable

THREATS

- Lack of financial training & technological understanding pose a challenge for the adoption of the e-Commerce way of doing business.
- TCS on e-commerce companies under the GST regime could lead to a steep rise in transaction costs and also discourage e-commerce.
- The challenge in delivering orders quickly & efficiently often depends on size, scale and location, which demands the use of specialist freight services increasing cost considerably.
- Inadequate vendor background checks by concern party resulting in third party fraud risks. Besides, presence of black listed companies in the ecosystem (who tend to re-apply under a new name to register in the system) in the absence of adequate vendor due diligence.

Key concerns

Rising complaints against e-commerce companies: Government has received over 1,300 complaints against direct selling and e-commerce companies till December 2016. A maximum of 449 complaints were against bookmyoffer.Com, followed by e-bay (135), snapdeal.Com (120), amazon.In (114), flipkart.Com (92), whaaky.Com (79), shopclues.Com (47), and paytm.Com (46). Furthermore, around 15 complaints were received against Homeshop 18, followed by jabong.Com (15), naaptol.Com (13), Shop CJ Network India (10), askmebazar.Com (6) and myntra.Com (2) during this period.

Declining valuation of ecommerce companies: In last one year, the country's Internet start-ups have struggled with shrinking private funding as global investors shifted their focus to business models that have a clear path to profitability. Venture funding in India more than halved to $3.3 billion in 2016 from $8.2 billion in the previous year. The funding shortage was accentuated by eroding valuations, which had at one point outpaced revenue growth. Recently, a mutual fund managed by Wall Street powerhouse cut the value of its shares in India's largest e-commerce firm for the fifth time valuing Flipkart at $5.37 billion. The funding shortage of the e-coms has been accentuated by eroding valuations, which had at one point outpaced revenue growth.

Stiff Competition: The Internet is a land of opportunity for even the smallest of businesses. However, many online startups can't survive in the face of strong, established competition. This is most often a problem when new ecommerce stores seek to sell the very same products that are offered by much larger retailers. For an example, it could be very difficult for a new ecommerce company to try to sell Samsung Smart-phone, which is already available at hundreds of online retailers, including, Amazon, flipkart, Ebay, snapdeal and many more. Furthermore, many foreign e-commerce companies have been expanding aggressively in India, stepping up competition for local ventures. Last year, Amazon more than doubled its investment commitment to India to $5 billion in a bid to turn the nation into its largest market after the U.S.

Predatory pricing by big retailers: A group of online sellers has written a letter to the Competition Commission of India (CCI), alleging that Flipkart's WS Retail and Amazon's Cloudtail indulge in predatory pricing and discounting when selling their private label products, destroying the business of smaller rivals. In every industry, large companies appear to have some innovative advantage over smaller companies.

No Real Investment (considering small startups): It is very easy to open an online store with small investment, but that doesn't means that a few hundred rupees is all that you will need to invest. Similar to any new business, an online store may require several rounds of infusions of capital and a significant amount of labor. However, several small retailers will happily invest Rs 50,000 or Rs 100,000 into a Brick-and-mortar store, but decline to invest Rs 5000 for an online one, which may actually have greater sales potential.

Outlook

Indian e-commerce industry has grown rapidly in last two decades, supported by growing young population, improving standards of living, deeper internet penetration and explosion of social-media platforms. The industry has not only changed the way the people shop, but also offers them convenience when they shop. However, in last few years, raising competition has broken the backs of many ecommerce companies. Furthermore, many heavyweights like Reliance, Mahindra and Future Group is expanding their own online ventures.

On the brighter side, Indian government has taken various steps for modernization and improving growth of the e-Commerce sector. With the launch of Digital India and Make in India, the Government of India has opened whole new arena for e-commerce industry. While Digital India provides improved technology and internet accessibility, Make in India supports in indigenizing product manufacturing. Going forward, artificial intelligence (AI) will change the way e-commerce industry operates, as it will provide a new ways of analyzing big data, helping retailers to engage with their customers on a new level and create superior customer experience by offering a right product to right person on right time.

Companies Financial Data In Industry

Company Name	CMP	MCAP	BOOK VALUE	DIV. YEILD %	TTM EPS	TTM PE
Just Dial Ltd.	522.00	3629.91	121.51	0.00	18.88	27.64
Info Edge (India) Ltd.	841.50	10200.34	162.18	0.36	18.87	44.60

Source – Ace Equity