

Investec India – Digital Media & E-Commerce
Building momentum in a rapidly evolving market



Demographic Headwinds all point towards colossal growth

By 2030, India will be the 3rd largest economy in the world

India is the world's second most populous country in the world, with over 1.2bn, ranked 3rd in terms of its PPP ranking, representing around 3% of world GDP in 2012

By 2030, India will be the third largest economy in the world, driven by a booming population and rapidly growing GDP per capita

In 2005, around 53% of consumption in India was in the rural area, but by 2025 over **62% of consumption will be in urban areas**

The Indian population is one of the youngest in the world, with over 65% under the age of 35

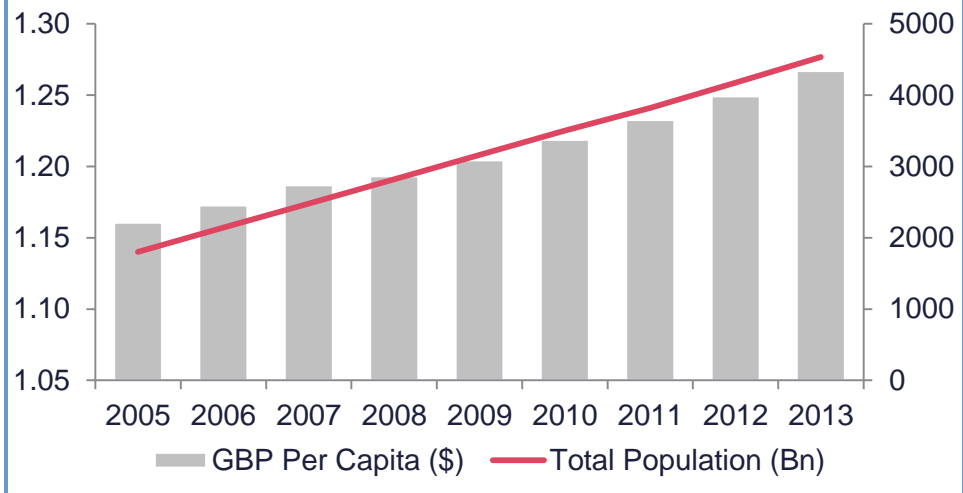
Real household disposable income has more than doubled since 1985, with per capita wealth per adult now at \$4,700

The urban population, currently at around 390m, is expected to reach 600m by 2030, aggregating an urbanisation rate of around 40%

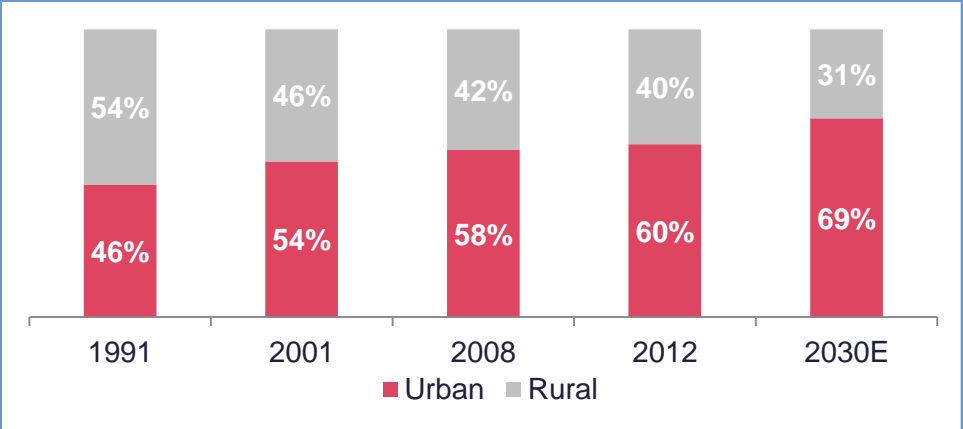
Cities are expected to account for around 70% of India's GDP by 2020

An increasingly stable political and regulatory environment is resulting in increased numbers of investors seeking to capitalise

1.2bn people, GBP per capita growing strongly



Urban Vs Rural – share of India's GDP



Colossal market opportunity	Internet Penetration –scratching the surface	Mobile Internet Connections soaring																														
<ul style="list-style-type: none"> India will shortly overtake the USA to become the 2nd largest internet user base in the world <ul style="list-style-type: none"> India has a mobile phone base of over 900m, 3rd largest globally Over 430m of these are internet capable, 65m are smartphones India has over 50m Twitter users and 90m Facebook accounts As per recent reports by Nomura and Morgan Stanley, the E-Commerce market will be worth over \$40bn by 2018 This growth is driven by strong demographics, allied to the consumer and technological revolution 	<table border="1"> <caption>Internet Penetration by Country</caption> <tr><th>Country</th><th>Penetration (%)</th></tr> <tr><td>UK</td><td>87%</td></tr> <tr><td>USA</td><td>86%</td></tr> <tr><td>Japan</td><td>79%</td></tr> <tr><td>Russia</td><td>60%</td></tr> <tr><td>Brazil</td><td>49%</td></tr> <tr><td>China</td><td>44%</td></tr> <tr><td>India</td><td>13%</td></tr> </table>	Country	Penetration (%)	UK	87%	USA	86%	Japan	79%	Russia	60%	Brazil	49%	China	44%	India	13%	<table border="1"> <caption>Mobile Internet Connections (m)</caption> <tr><th>Year</th><th>Connections (m)</th></tr> <tr><td>2013</td><td>130</td></tr> <tr><td>2014</td><td>158</td></tr> <tr><td>2015</td><td>202</td></tr> <tr><td>2016</td><td>251</td></tr> <tr><td>2017</td><td>299</td></tr> <tr><td>2018</td><td>353</td></tr> </table>	Year	Connections (m)	2013	130	2014	158	2015	202	2016	251	2017	299	2018	353
Country	Penetration (%)																															
UK	87%																															
USA	86%																															
Japan	79%																															
Russia	60%																															
Brazil	49%																															
China	44%																															
India	13%																															
Year	Connections (m)																															
2013	130																															
2014	158																															
2015	202																															
2016	251																															
2017	299																															
2018	353																															
	<h3>E-Commerce Market Size</h3>	<h3>Payment Card Growth</h3>																														
	<table border="1"> <caption>E-Commerce Market Size (\$bn)</caption> <tr><th>Year</th><th>Market Size (\$bn)</th></tr> <tr><td>2013</td><td>8</td></tr> <tr><td>2014</td><td>10</td></tr> <tr><td>2015</td><td>15</td></tr> <tr><td>2016</td><td>24</td></tr> <tr><td>2017</td><td>36</td></tr> <tr><td>2018</td><td>43</td></tr> </table>	Year	Market Size (\$bn)	2013	8	2014	10	2015	15	2016	24	2017	36	2018	43	<table border="1"> <caption>Payment Card Growth (m)</caption> <tr><th>Year</th><th>Card Growth (m)</th></tr> <tr><td>2013</td><td>338</td></tr> <tr><td>2014</td><td>399</td></tr> <tr><td>2015</td><td>461</td></tr> <tr><td>2016</td><td>535</td></tr> <tr><td>2017</td><td>621</td></tr> <tr><td>2018</td><td>720</td></tr> </table>	Year	Card Growth (m)	2013	338	2014	399	2015	461	2016	535	2017	621	2018	720		
Year	Market Size (\$bn)																															
2013	8																															
2014	10																															
2015	15																															
2016	24																															
2017	36																															
2018	43																															
Year	Card Growth (m)																															
2013	338																															
2014	399																															
2015	461																															
2016	535																															
2017	621																															
2018	720																															

India will shortly overtake the USA to become the 2nd largest internet user base in the world

Over 200m active internet users, driven by young consumers

Government initiatives such as the National Broadband policy and National Telecom Policy 2012 have improved connectivity

The indian telecom sector adds between 8-10m subscribers every month, one of the strongest growth rates in the world

Growth is fuelled by three key factors:

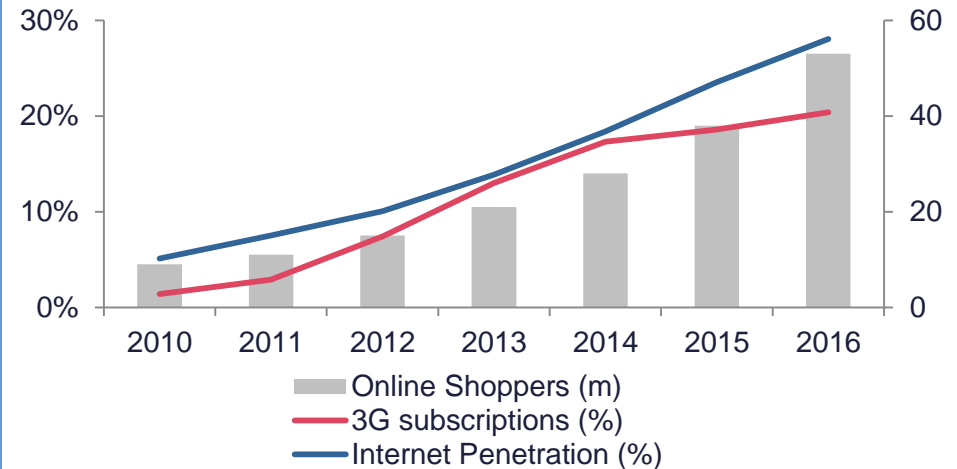
Rural growth – wireless density increases

Aggressive competitors– innovative marketing and promotion

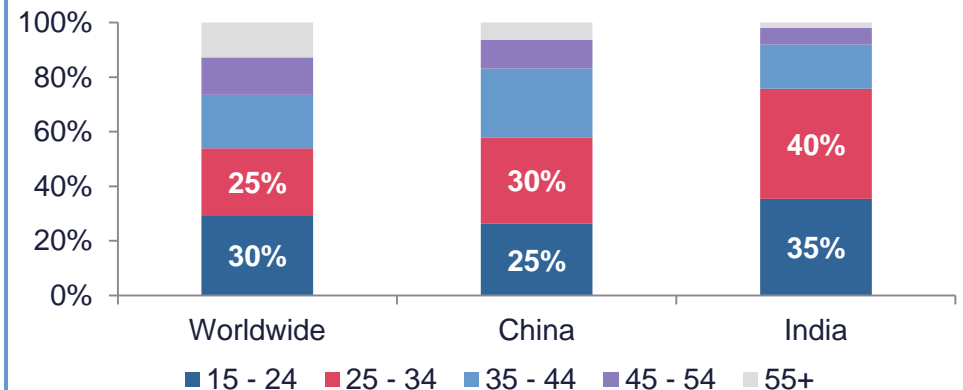
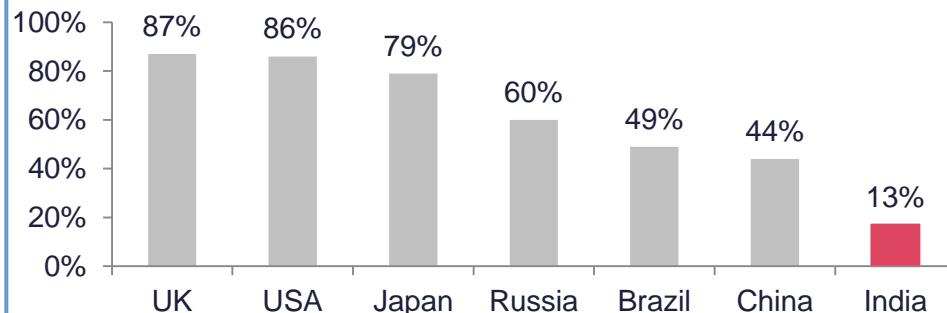
Pricing Strategies – lower prices, lower barriers to entry

All of this provides the perfect base for Digital Media and E-Commerce companies to capitalise on the improving infrastructure

Internet and Mobile Penetration is soaring....



The Indian internet population is the youngest in the world



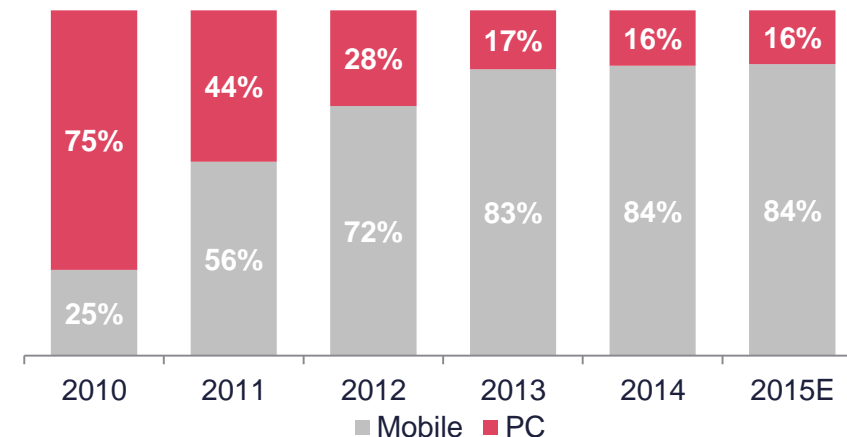
India has leapfrogged desktops – Mobile internet traffic surpassed desktop internet usage in May 2012

Mobile fuelling growth

By the end of 2014, the total number of mobile phone users globally will be over 4.5bn, of which over 2bn of these will have internet access, and over 1.7bn will be smartphones

- India has a mobile phone base of over 900m, 3rd largest globally
- Over 430m of these are internet capable, 65m are smartphones
- India has over 50m Twitter users and 90m Facebook accounts

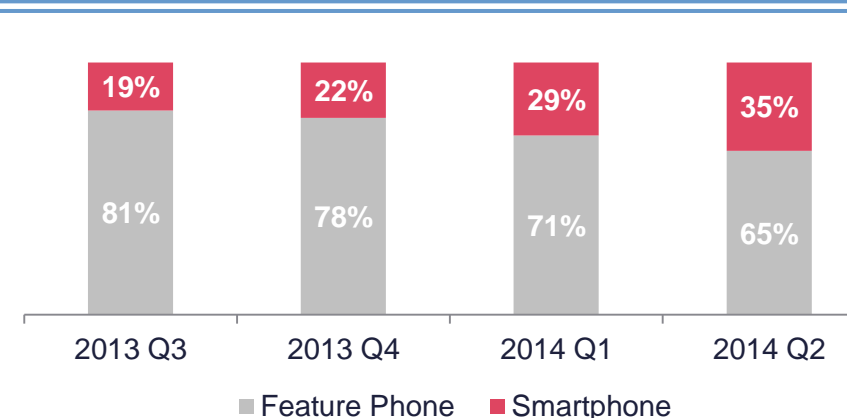
Of the 300m internet connections, 240m are on mobile



3G Handset growth driving the market

	2012	2015
Mobile Subscriptions	780 million	1.073 billion
Mobile Teledensity (%)	90%	115%
3G enabled handsets	172 million	475 million
3G Subscription (% of total)	7.4%	18.6%

The changing face of the Indian mobile phone market






China a powerful precedent for the Indian Consumer Growth Story

Over 200m active internet users

In terms of statistics, there are striking similarities between the Chinese market 8 years ago and India today

Over the past 8 years the Chinese economy has grown at a huge rate, with many of its most successful E-Commerce and Digital Media companies listing in the USA and seeing their market value soar

India had very similar statistics in 2013 to China in 2005

			
	2005	2013	2013
Per Capita Disposable Income	\$871	\$2,436	\$1,163
Internet Population	111m	538m	120m
Penetration	8%	38%	11%
Online Buyers	22m	227m	15m

Retail Market Comparison

	China	India
Total retail size	\$2,380bn	\$500bn
E-Commerce market	\$119bn	\$10bn
E-Retail in 2012	\$23bn	\$720m
E-Retail by 2015	\$50bn	\$10bn

A range of successful precedents

- **Notable Chinese success stories in the space:**
- **JD.com** – one of the largest B2C online retailers in China – it has an english language website enabling it to ship worldwide
- **Alibaba** – listed triumphantly on the NASDAQ recently, rising 40% on day 1. The largest E-Commerce player in the world
- **Ctrip.com** – Online travel agency, allowing customers to book flights, train tickets, hotels and package deals
- **58.Com**- China's largest classifieds company, providing ads for flat rental, recruitment, second-hand goods and car sales
- **Tencent** – China's largest media company, particularly active in mobile and video advertising

India will be the 3rd largest E-Commerce market in the world by 2019

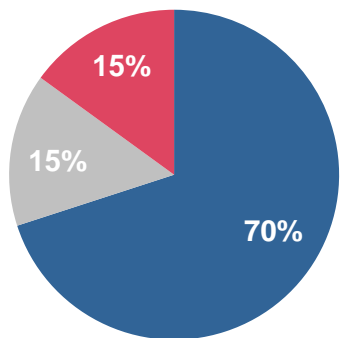
A \$22bn market in five years

- The E-Commerce market is already worth \$10bn, and could be worth as much as \$50bn over the next five years, driven mainly by online retail
- Business models are becoming established, with monetization proven, and high-profile VC exits, as investment floods the sector
- Increased numbers are transacting online, with over 27m online shoppers in 2014, increasingly through mobile devices
- The precedent of China is key- the E-Commerce market there has gone from ~\$2bn in 2005 to \$200bn in 2012

Inventory versus marketplace models

- Fulfilment, warehousing and shipping issues continually drag the inventory model – marketplace offers choice and price comparison for consumers
- Traditional retailers face significant challenges due to high rental costs in large cities and rising staffing costs

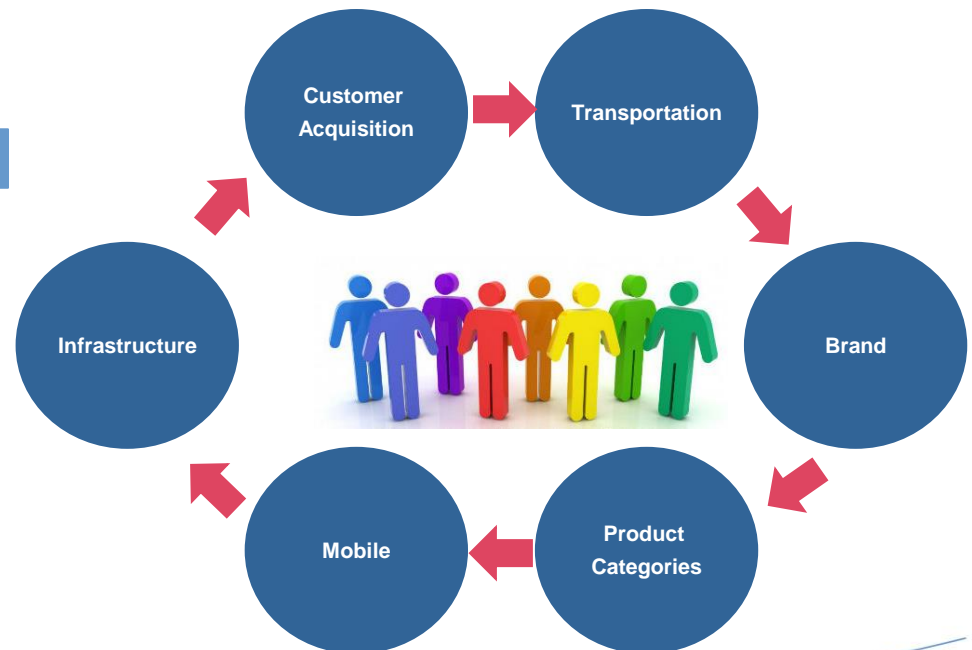
Travel and Retail account for 85% of the market



- Over 90% of the travel market revenues are through domestic air ticketing and railway segments
- Future growth likely to be driven through hotels and packages segment
- E-tailing is a lucrative opportunity, and the fastest growing segment

■ Travel ■ Retail ■ Other

Consumers demand an end-to-end retail solution



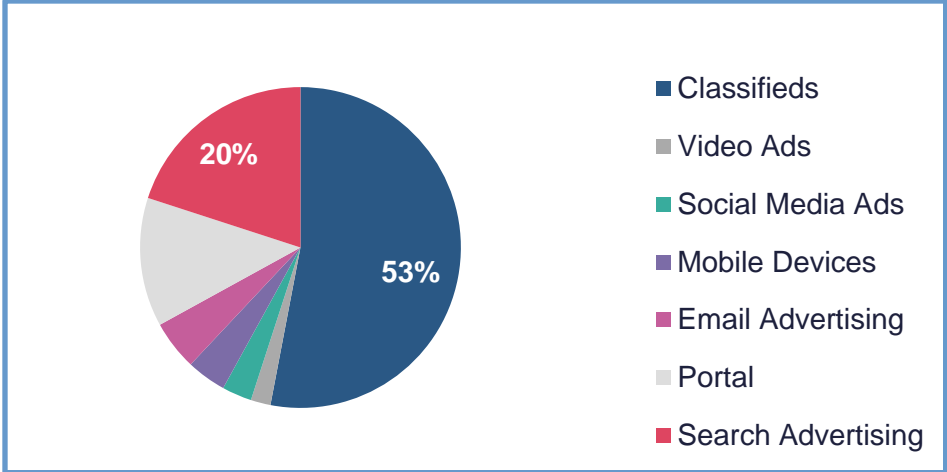
The digital advertising market in India is already worth \$1bn

Multi-channel solutions to target the emerging middle-class

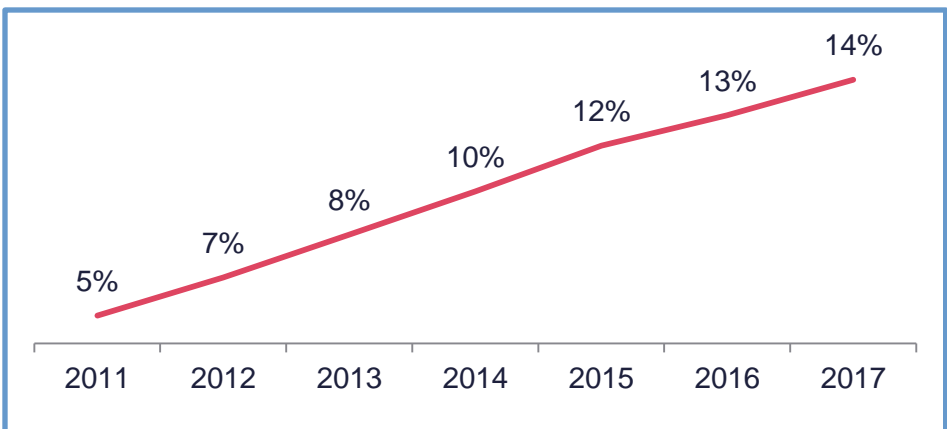
- While traditional media such as Television and Print presently dominate the industry, as in Western economies digital media is showing the highest growth rates
- India boasts over 950m mobile phone subscriber accounts, with over 100m using the internet, and over 50m on facebook
- Although corporates have been hesitant thus far to align their marketing strategies towards digital media, that is set to change as consumer behaviour trends towards digital media gather pace

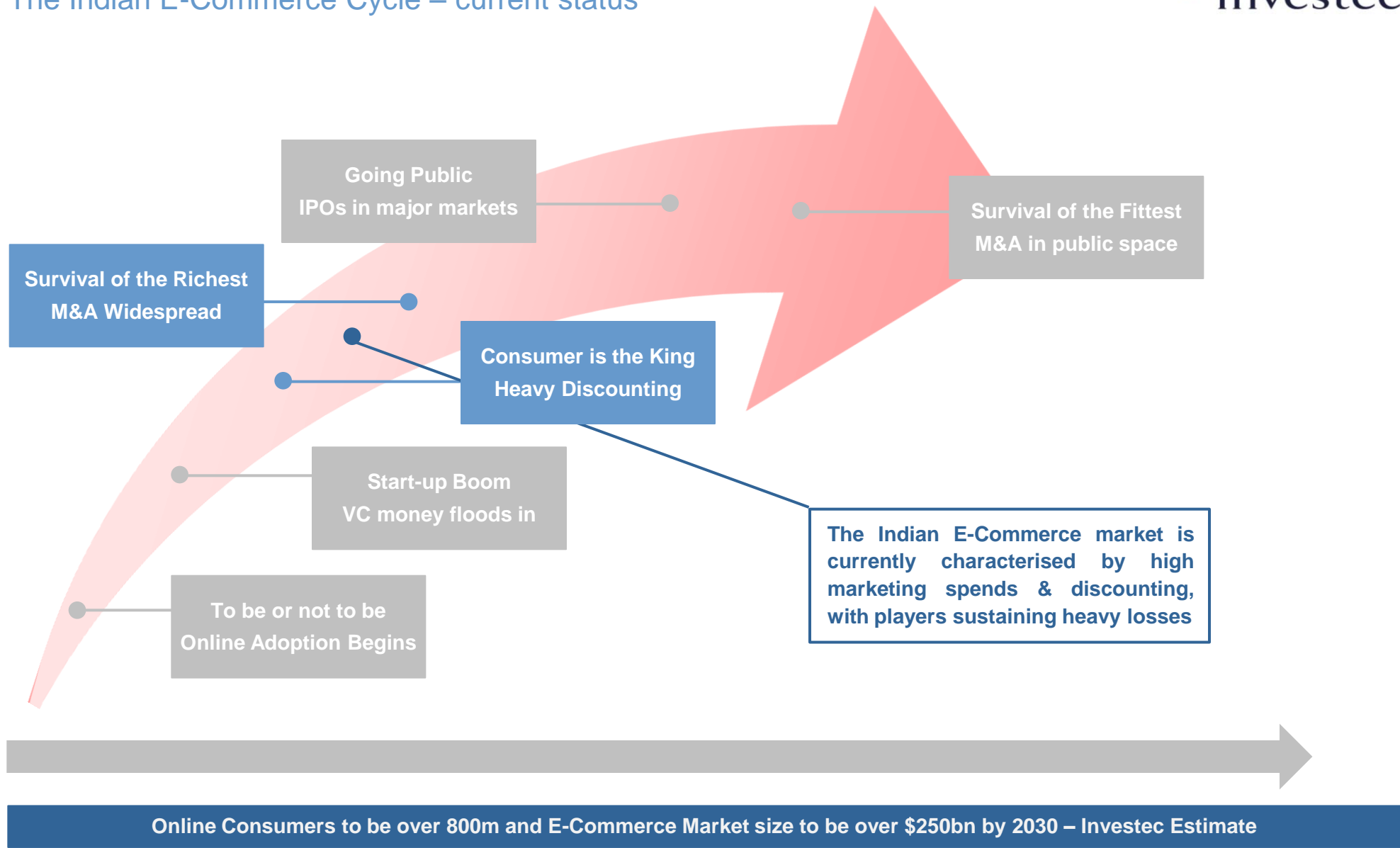


Market split: classifieds and video advertising driving growth



Forecast Digital Advertising as a % of total





B2C E-Commerce players

Classifieds & Services				Media & Entertainment		Retail		
Healthcare	Travel	Matrimony	Classifieds	Social Media	Search / Email	Fashion	Jewellery	Horizontals
practo, firststery, HEALTHKART	cleartrip, goibibo, makeMytrip	OLA, UBER, shaadi.com, bharatmatrimony.com	Quikr, OLX.in, Justdial	facebook, twitter, in, rediff.com	Google, YAHOO!	MYNTRA.com, voonik, JABONG.COM	CARAT LANE, BlueStone.com	flipkart.com, snapdeal.com
Jobs	Real Estate	Recruitment	Automobile	Entertainment	Informative	Grocery / Food	Furniture	
TIMESJOBS.COM, naukri.com, monster	HOUSING housing.com, magicbricks.com, 99acres.com	naukri.com, monster, TIMESJOBS.COM	carwale, CARDEKHO, CarTrade.com	YouTube, CULTURE MACHINE, zapak.com	zomato, KAPILA, indiaimes, b	BigBasket.com, SWIGGY, pepperfry, URBAN LADDER, PepperTap, G CROVERS	amazon, ShopClues, ebay	amazon, paytm

B2B Enablers

Customer Acquisition	Support And Fulfilment Services		
Digital Marketing	Couriers	E-Tail Owned	E-Tail Specialised
ExyMoron, zipdial, kerocio, tyroo, komli, ignite, VDOPIA, unmetric	BLUE DART, XGATI, aramex	ekart, GoJEVAS	Delhivery, Ecom Express
	Local Services	Payments	Banks Gateway
	LOCAL OYE, housejoy, UrbanClap	payu, BillDesk, Citrus, Avenues	HDFC BANK, ICICI Bank



Important for key players to negotiate the significant challenges the E-Commerce and Digital Media sectors face

The market for now is relatively small

- **The opportunity is there, but penetration at present remains low**
- Investment in infrastructure is needed to ensure the consumer growth trajectory fulfils its promise

Infrastructure and Connectivity

- **3G connectivity was only established in India in 2011, penetration however remains low**
- Rural India is hard to reach – average broadband speeds of 250 kbps are insufficient
- Prices of data remain high, although investment is being channelled to address this

International Competition

- **The aspiring Indian consumer is beginning to attract the attention of leading global players**
- Flipkart's recent fundraise was followed immediately by Amazon's decision to invest \$2bn
- Rumours in the market about Alibaba's interest in acquiring Snapdeal

Logistics and delivery

- **Consumers remain hard to reach, cash-on-delivery still common, delivery cumbersome**
- Successful players will be those that place the consumer at the heart of the process
- Marketplace models likely to prosper

Translating Growth into profit

- **Marketing costs remain high, few in the sector are profitable, domestic competition huge**
- VC Investment has been proven to generate revenue and traffic, but profitability remains elusive
- Large investments resulting in intense competition, lower prices, higher customer acquisition costs