

## E-Commerce Industry – Update and Outlook

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### E-Commerce in India

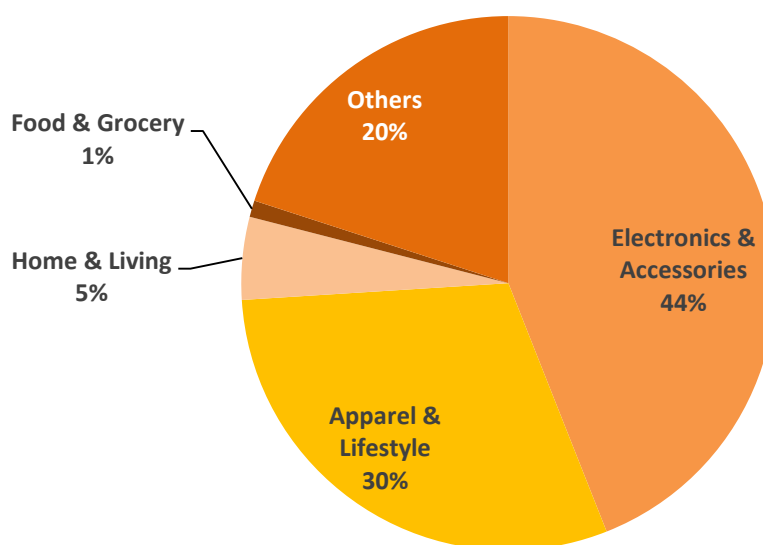
E-commerce or Electronic commerce or also known as E-tail (Electronic retailing) is defined as buying and selling of goods and services using the internet along with transfer of money and data for execution of such transactions.

E-commerce is expanding steadily in the country with changing the whole operational business model. With advancements in quality of internet access, payments and computing on mobility platforms, changed consumer behavior with a large active internet user base, customers have the ever increasing choice of products at the lowest rates by various retailers. E-commerce is probably creating the biggest revolution in the retail industry, and this trend would continue in the years to come. Currently India's internet penetration stands at around 35-40%. With growing internet penetration, internet users in India are expected to increase from 446 million in 2017 to about 830 million by 2021. As of September 2018, internet subscribers in India stood at 560 million people.

Some of the major E-commerce players in the country are Flipkart, Amazon, Jabong, Nykaa, Myntra, ShopClues, eBay, etc.

As of 2018, electronics continues to be the largest contributor to online retail sales in India with a share of about 40-45%, followed by apparel and lifestyle at 25-30%.

**Chart 1: Category-wise split of E-commerce sales**



Source: Industry

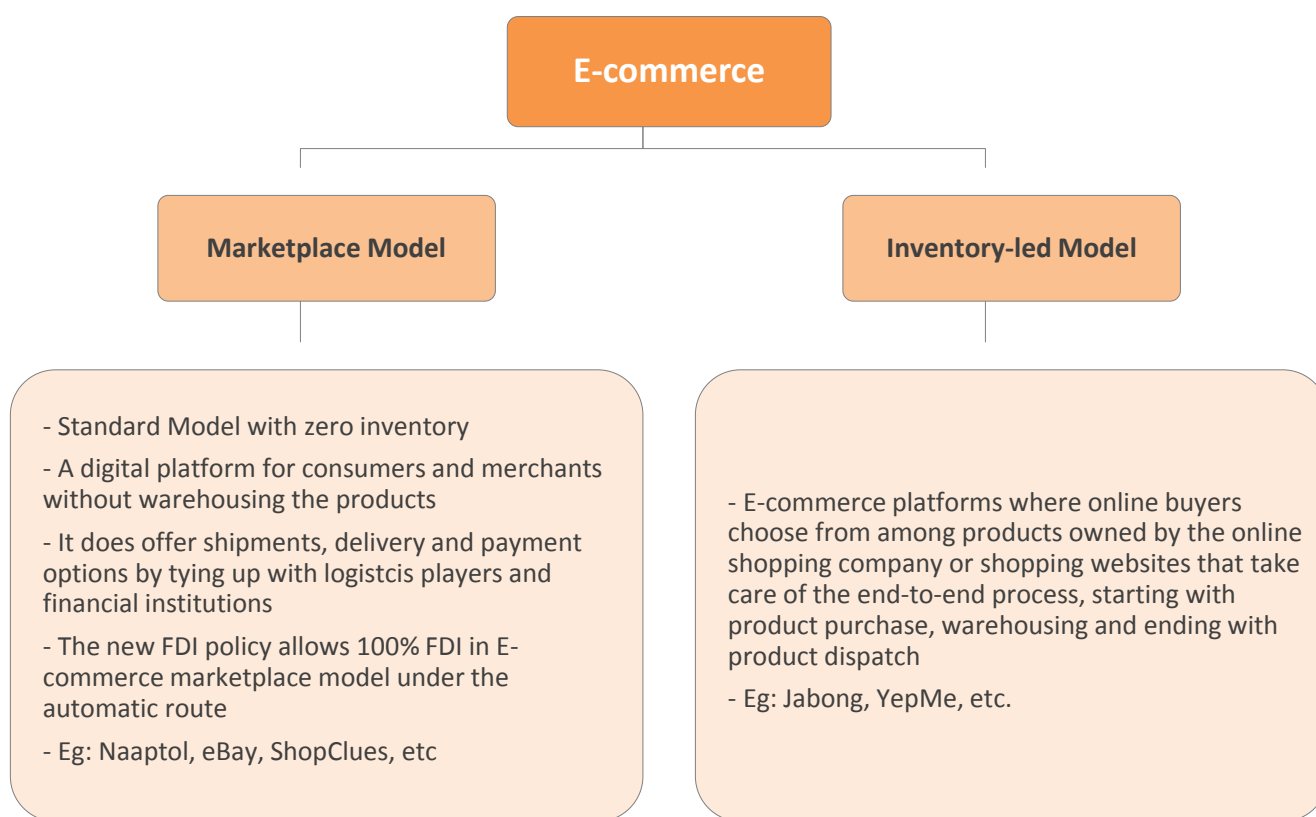
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**E-tail in India can be broadly categorized as under:**

**A. Based on location**

- **Domestic** – sale within India (Amazon, eBay, Flipkart, Snapdeal, Shoppers-Stop, Reliance, Croma, etc)
- **Cross-Border** – sale in India from outside India. (The U.S. is one of the top ten countries for cross-border shopping for Indian buyers. Baby supplies, toys, clothing, footwear, automotive, wearables and accessories, jewelry, watches, personal care and health products and digital entertainment and educational services are some of the leading categories for cross-border B2C ecommerce. Challenges restricting the growth of cross-border ecommerce include high shipping costs, import duties and complexities in returns and exchanges)
- **B2C** – sale between etailer and consumer (Flipkart, Myntra, Jabong, Amazon, Snapdeal, eBay, PayTM, Shopclues, Pepperfry, Zomato, BigBasket)

**B. Based on Model followed**



Source: India Brand Equity Foundation (IBEF)

- In December 2018, the government announced several restrictive changes to the FDI policy on online retailers aiming to check deep discounting and predatory pricing.
- According to the new policy, online retailers have been barred from entering into exclusive deals with brands to sell products on their platforms
- Also, the government has enforced a 25% cap on the inventory that an e-commerce company can buy from a single vendor
- These changes will come into effect from February 1, 2019 as per the notification

### C. Based on Number of brands

#### - Single brand and multi brand –

- a. Company owns and sells goods online under single brand eg. – Sony, Nike, Adidas, etc
- b. E-commerce players that sell goods of more than one brand on their websites eg: - Shoppers Stop, Big Bazaar, etc

Online retail business is the next generation format which has high potential for growth in the near future. After conquering physical stores, retailers are now foraying into the domain of e-retailing to leverage the digital retail channels (e-commerce), which would enable them to spend less money on real estate while reaching out to more customers in Tier II and Tier III cities.

**It has been found that India's e-commerce is one of the fastest growing channels for commercial transactions. E-commerce in India is growing at an annual rate of 51%, the highest in the world, and is expected to jump from US \$38.5 billion in 2017 to US \$200 billion in 2026 according to ASSOCHAM-Forrester study paper.** The retail sector is also showing a promising trend of 11% CAGR and CARE Ratings expects retail industry to reach US \$1 trillion by 2020. Currently the Indian Retail Industry stands at US \$670 billion – of which organised retail accounts for only about 9%, (in China, organised retail accounts for 20%) i.e., US \$60 billion, while the unorganised retail market holds the rest.

**E-commerce industry in India at US \$38.5 billion, accounts for only 5.7% of the overall Indian Retail industry.** According to ASSOCHAM, the value of online retail purchases made by consumers in India is projected to cross US\$100 million by 2017.

The online retail growth has followed a disruptive course across markets. In relatively mature markets, like US, where the organised retail penetration is high, multi-channel retail chains lead to online markets. While in newer markets like India (with about 10% organised retail of which about 1.2% share held by e-tail) and China (with 20% organised retail), web-only players are dominating the market given the low organised retail penetration.

#### In India, the category-wise spilt of E-commerce is as under:

| Category                  | Approx share (%) |
|---------------------------|------------------|
| Electronics & Accessories | 40-45            |
| Apparel & Lifestyle       | 25-30            |
| Home & Living             | 5-7              |
| Food & Grocery            | 2-3              |
| Others                    | 20-30            |

*Note: Lifestyle includes footwear, bags, belts, watches, wallets, etc*

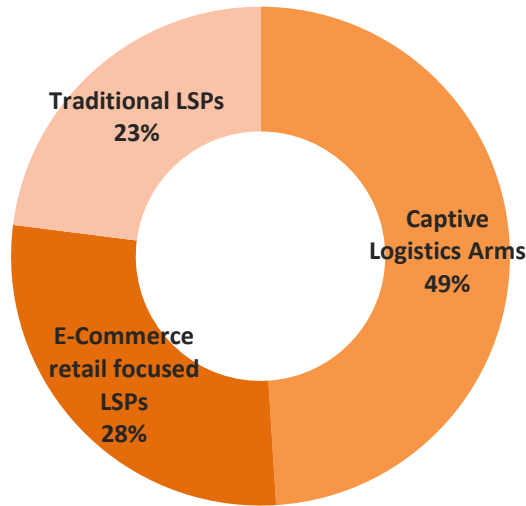
Source: Industry

#### E-commerce retail logistics market in India

- In 2018, the E-commerce retail logistics market in India was estimated at US\$ 1.4 billion
- Currently, nearly 2 million shipments are being handled on daily basis with metro cities contributing about 50% of this demand while about 10-12% comes from Tier I cities and the balance comes from Tier II and below cities.
- E-commerce retail industry continues to be majorly driven by logistics and is crucial in differentiation between market players aiming at better customer satisfaction and service.

- Usually large retailers execute shipments through in-house logistics arms, however, recently many E-commerce focused logistics service providers (LSPs) and traditional LSPs have been gaining market in terms of shipments executed.
- Full-fledged operations of India Post’s E-commerce portal leveraging its parcel business network has been launched in December 2018.

**Chart 3: E-commerce Retail Logistics landscape in India (2018)**



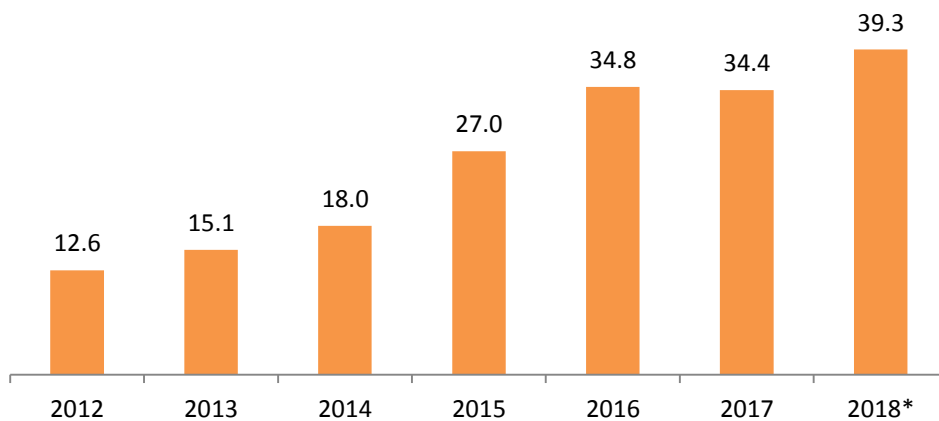
Source: India Brand Equity Foundation (IBEF)

**Key Growth drivers of E-tail in India**

**1. Increased internet penetration**

- Each month, India is adding approximately 10 million daily active internet users to the internet community supporting the ecommerce industry which is the highest rate in the world
- As of June 2018, India’s internet penetration in the urban areas stood at 82.1% and 19.5% in the rural areas
- Number of active internet users in the country is the second highest globally and data usage of 8 GB per subscriber per month is comparable to developed countries.

**Chart 2: Internet penetration in India (%)**



Source: India Brand Equity Foundation (IBEF)

**2. Young population**

- With the biggest youth population, India is adopting e-commerce at a quick rate.
- Indian youth is using technology and shopping online from books to FMCG to apparels. According to data released by India Brand Equity Foundation (IBEF), the retail industry in India is expected to grow to US\$ 1.3 trillion by 2020.
- Also, the popularity of web series among millennials is growing immensely.

**3. Promotional prices by online retailers**

- Indian buyers are price conscious and believe in high bargaining. Deals and discounts have been the trump card of these Indian e-commerce players as rates are much lower for most products online vis-à-vis same products available off line
- Debit card transactions or the Cash-less transactions or digital transactions have been considered more comfortable by customers vis-à-vis withdrawals from ATMs for offline purchases

**4. Convenience**

- Convenience in terms of time, payment options, wider choice of products, different brands at one place, discounts and EMIs, etc while shopping proves to be an advantage for the e-commerce industry

**5. Cash-on-delivery options, manufacturer's warranty:**

- Cash-on-delivery is the most preferred payment option with about 45% of buyers opting for it in India

**6. Improved supply side**

- Discounts, promotions, product details, hassle free returns, cash on delivery options, etc

**Strategies adopted by E-commerce players****1. Expansion**

- Companies are expanding into different cities, regions and even countries. Also, players are expanding product range to cater to demand from large groups

**2. 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 huge investments
- For eg: Amazon has started video streaming for a subscription fee with Amazon Prime. India is currently the fastest growing market for Amazon Prime
- Flipkart introduced its own payment gateway Payzippy and also, its own logistics and supply chain firm Ekart
- Many e-commerce players are introducing e-wallet services

**3. Assisted Commerce**

- To expand their reach, brands are tying up with assisted E-commerce organisations which provide local merchants with a platform to place their orders in areas where internet penetration is low

**4. Subscription based services**

- E-commerce companies are adopting subscription model to provide extra benefits and tailored services to customers to suit their needs.
- For eg: Amazon Prime by Amazon, Flipkart First by Flipkart gives subscribers early access to some selected deals, free same day delivery, priority customer services, etc

## 5. Personalised experience

- 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.

Source: India Brand Equity Foundation (IBEF)

### Major deals/developments in E-commerce Industry in India:

- Initially, many blue chip PE firms resisted investments in Indian E-commerce industry. However, with the recent upsurge in digital literacy in the country, the industry has witnessed an influx of investment providing market for new firms to set up their base.
- The industry witnessed 21 private equity and venture capital deals amounting US\$ 2.1 billion during 2017 and 40 deals valuing US\$ 1,129 million during H1 2018.
- Flipkart, after getting acquired by Walmart for US\$ 16 billion, is expected to launch more offline retail stores in India to promote private labels in segments such as fashion and electronics. In September 2018, Flipkart acquired Israel based analytics start-up Upstream Commerce that will help the firm to price and position its products in an efficient way.
- Flipkart is also expected to launch more offline retail stores in India to promote private labels in fashion and electronics segment
- Paytm has launched its bank - Paytm Payment Bank. With no minimum balance requirement and free virtual debit card, Paytm bank is India's first bank with zero charges on online transactions
- Paytm Mall, is planning to expand its groceries segment with expectations of higher Gross Merchandise Value (of approximately US\$ 3 Billion)
- As of June 2018, Google was also planning to enter into the E-commerce space by November 2018. India is expected to be its first market.
- In September 2018, Flipkart acquired Israel based analytics start-up 'Upstream Commerce' that will help in pricing and positioning its products in an efficient way.
- In October 2018, Amazon saw a 60% growth in new India customers.
- In the festive month beginning October 10, 2018, Gross Merchandise Value (GMV) expanded y-o-y for Flipkart at about 90% and for Amazon at about 70%.
- As of December 2018, Amazon is planning to buy stakes in Future Retail to enter into physical retail sector in India.
- Google and Tata Trust have collaborated for the project 'Internet Saathi' to improve internet penetration among rural women in India
- E-commerce is increasingly attracting customers from Tier II and III cities, where people have limited access to brands but have high aspirations. They are also expanding their product range to cater to the larger group.

### Government initiatives

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 programs will likely support the e-commerce growth in the country. Some of the major initiatives taken by the government to promote the e-commerce sector in India are as follows:

- 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% (in B2B models).
- In the Union Budget of 2018-19, government has allocated Rs 8,000 crore (US\$ 1.2 billion) to BharatNet Project, to provide broadband services to 150,000 gram panchayats

- As of August 2018, the government is working on the second draft of e-commerce policy, incorporating inputs from various industry stakeholders.
- Through its 'Digital India' campaign the Government of India is aiming to create a trillion dollar online economy by 2025.
- The Indian Space Research Organization (ISRO) has announced to launch three more satellites aiding the government's Digital India programme to improve bandwidth connectivity to rural India

### Private investments in E-commerce

| Company        | Investor  | Funding (US \$ Million) |
|----------------|---|-------------------------|
| Flipkart       | SoftBank  | 2,500                   |
| BigBasket      | Alibaba Group Holding Ltd, Sands Capital, International Finance Corp, Abraaj Capital                  | 300                     |
| Udaan          | Lightspeed Venture Partners US and other  | 50                      |
| Capital Float  | Ribbit Capital, SAIF Partners, Sequoia India  | 45                      |
| Bank Bazaar    | Experian Plc  | 30                      |
| 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                      |
| Gozefo         | Sequoia Capital India, Helion Venture Partners and Beenext Pte Ltd                                    | 9                       |
| Jumbotail      | Kalaari Capital, Nexus India Capital Advisors   | 8.5                     |
| Blackbuck      | InnoVen Capital   | 7.7                     |
| KartRocket.com | Bertelsmann India Investments, Nirvana Digital India Fund   | 4.1                     |
| The Label Life | Kalpavriksh, Centrum group's maiden private equity (PE) fund  | 3.1                     |

Source: India Brand Equity Foundation (IBEF)

### Current rumble:

- The All India Online Vendors Association (AIOVA) in October 2018 filed a petition with the anti-trust body Competition Commission of India (CCI) alleging that e-commerce giant Amazon favours merchants that it partly owns, such as Cloudtail and Appario. A similar petition was filed against Flipkart in May 2018 by the same lobby group, claiming violation of competition rules through preferential treatment for select sellers.
- Following complaints from Indian retailers and traders, in December 2018, the commerce ministry announced some amendments to the existing E-commerce Policy. GoI in a statement said, India will ban e-commerce companies from selling products from companies in which they have an equity interest that are creating an unfair marketplace. The move will impact e-commerce majors such as Amazon.com and Flipkart Group, owned by Walmart, preventing deep discounts and regulating prices in the online marketplace.
- The government also said that the companies will be prevented from entering into exclusive agreements with sellers. The new e-commerce policy is applicable from February 1, 2019.
- E-commerce giants Amazon and Walmart-backed Flipkart have sought an extension (of at least 6 month) for implementation of new rules, stating that they require more time to understand the specifics of the new framework. Also, as per industry sources, the cost of compliance for large players like Amazon and Flipkart will go up significantly with the new policy coming to effect as on February 1, 2019.
- Confederation of All India Traders (CAIT) has requested the government to make it clear whether private labelling or branding is allowed under the foreign direct investment (FDI) policy in the e-commerce sector.



- However, All India Mobile Retailers Association (AIMRA), cellphone retailer body with over 25,000 cellphone retailers across country under its ambit, Confederation of All India Traders (CAIT) and smaller e-commerce players like Snapdeal and ShopClues have written to the government opposing any move to extend the February 1, 2019 deadline for online marketplaces to comply with foreign direct investment (FDI) rules, and urged that pressure for such relaxations need to be “resisted strongly”.

## Outlook

- E-commerce is expanding steadily in the country with changing the whole operational business model. With advancements in quality of internet access, payments and computing on mobility platforms, changed consumer behavior with a large active internet user base, customers have the ever increasing choice of products at the lowest rates by various retailers. E-commerce is probably creating the biggest revolution in the retail industry, and this trend would continue in the years to come.
- Online retail business is the next generation format which has high potential for growth in the near future. After conquering physical stores, retailers are now foraying into the domain of e-retailing to leverage the digital retail channels (e-commerce), which would enable them to spend less money on real estate while reaching out to more customers in Tier II and Tier III cities.
- **E-commerce in India is growing at an annual rate of 51%, the highest in the world, and is expected to jump from US \$38.5 billion in 2017 to US \$200 billion in 2026 according to ASSOCHAM-Forrester study paper.** The retail sector is also showing a promising trend of 11% CAGR and CARE Ratings expects retail industry to reach US \$1 trillion by FY20. Currently the Indian Retail Industry stands at US \$670 billion – of which organised retail accounts for only about 9%, (in China, organised retail accounts for 20%) i.e., US \$60 billion, while the unorganised retail market holds the rest.
- **E-commerce industry in India at US \$38.5 billion, accounts for only 5.7% of the overall Indian Retail industry. We expect this share to expand to about 12-15% going forward and cross US \$100 billion mark to reach US \$125 – US \$150 billion by FY20** supported by increased internet penetration supported by government’s Digital India scheme, convenience, promotional prices, improved supply side, payment options (cash on delivery option).