E-commerce and Consumer Internet Sector - India Trendbook 2019

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Contents

Foreword

The Indian economy is expected to maintain a GDP growth rate of close to 7% in FY19. While the growth is increasingly broad based, technology led disruptions across sectors like Financial Services, Retail, Healthcare etc are acting as catalysts, encouraging entrepreneurship, creating jobs and fostering an environment for more inclusive growth.

The Government's focus on creating a digital infrastructure under its Digital India program along with market enablers like availability of cheaper smart phones, declining data tariffs, and increasing digital literacy is helping promote the Government's agenda of inclusive growth by making products and services more accessible.

With over 430 million internet users, India is the second largest online market, ranked only behind China. Internet users in India are expected to increase to about 635.8 million by 2021. However, despite the large base of internet users, India continues to lag peer countries when it comes to internet penetration which leaves a significant scope for growth*. Nonetheless, steps like demonetization, GST and digital governance continue to act as tailwinds, encouraging the development and adoption of the digital economy framework. There have been some recent challenges (like the recent angel tax issue) and the government intent is to resolve. The upcoming e-commerce policy framework will also need to be reviewed for its implication on the sectoral growth.

The growing digital economy coupled with rising per capita income, and changing demographics presents a huge market potential that start-ups are targeting with technology-led disruptions. The high growth potential and the size of the market is attracting significant interest from Private Equity (PE) and Venture Capital (VC) funds to invest in India's E-commerce and Consumer Internet sector. PE/VC funds have helped change the landscape of the Indian economy by providing new and large investments into the Indian E-commerce and Consumer Internet sector, having invested over US$25 billion in the previous five years. The confidence of investors has rightfully grown over the years as evidenced by the increase in the size of deals in the Indian e-commerce and consumer internet sector. In 2018, 7 start-ups crossed the threshold into 'Unicorn" status and the Walmart-Flipkart deal gave highly profitable exits to Flipkart's early stage investors. All this has reset the mood, added stripes to India's credentials as a profitable investment destination and re-energized the early stage investing ecosystem in India, especially for the E-commerce and Consumer Internet sector.

Building on the trends set over the past couple of years, 2019 continues to show positive trends in investments and economic activity. IVCA and EY are proud to bring out this report, is a deep dive into PE/VC activity in the E-commerce and Consumer Internet sector. This report highlights investments, exit trends, and the sector outlook for all the main verticals within the broader E-commerce and Consumer Internet sector. I congratulate the EY team for putting together this insightful report and for their detailed work.

I thank you for your support and hope all of you will continue to participate in IVCA initiatives to further strengthen the private equity and venture capital ecosystem.

* *https://www.statista.com/topics/2157/internet-usage-in-india/, https://www.livemint.com/Industry/dVhGzLfAa7sktDp2Wad9pJ/Why-Digital-India-remains-a-distant-dream.html*

Padmanabh Sinha

Chairman IVCA
Managing Partner,
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Preface:

The Indian e-commerce and consumer internet sector has had multiple waves of entrepreneurship but it was in the last decade when the inflow of large amounts of capital from marquee global investors made its way to Indian shores and cemented itself as one of the most exciting destination and area for innovation and disruption.

The factors fuelling this digital economy over the last decade are manifold such as sustained growth in disposable income, the rise of internet penetration, availability of affordable smartphone, low mobile data tariffs, improved digital literacy, creation of digital payment acceptance infrastructure, continued support and stimulus provided by the Government through programmes (Start Up India, Stand Up India, Make in India).

With an ecosystem and systematic enablers in place, companies have taken to the challenge to solve relatively mundane problems that have also had significant disruption in traditional industries. India currently has over 430 million internet users, however digital transactions is still low and this provides for a massive opportunity for growth and expansion for e-commerce and consumer internet companies. The sector is expected to reach $200 Bn by 2027, and is a significant avenue to provide employment and building micro-entrepreneurship in the country. In 2018, 7 companies in the sector reached unicorn status proving investor confidence and willingness to back innovative products and services. Early 2019, has also continued to witness big early stage investments across sub-segments of E-commerce and consumer internet companies like Softbank's investment in Delhivery and Firstcry, Sachin Bansal's investment Ola; Other companies like 1mg, Zolostays and Medplus have also successfully raised investments.

Some of the key aspects we have witnessed over the last 12 months are also equally relevant to how the future is going to pan out which include:

(a) Converting online interactions to transactions: India has the one of the highest active number of internet users globally and given that average mobile data usage stands at 8gb/subscriber/month is a testament to the high level of digital interaction. However, majority of this data consumption is spent on entertainment, social media, product research and not on transactions.

(b) Rural commerce: With companies witnessing intense competition in urban cities along with the immense untapped or under tapped potential of tier 2/3 cities, the next wave of growth will be driven by success of e-commerce and consumer internet companies in these cities. The rural commerce sector is likely to be $10-$12 Bn[1] opportunity in the next 4 years. Many companies are tacking the challenges of rural markets, such as logistics, content, etc bringing down hurdles for expansion of products and services. We have already seen how logistics and social e-commerce companies are starting to see a surge in their offerings by helping not only solve issues but also help in onboarding new customers to the digital arena.

(c) Vernacular: One of the major barriers for adoption of digital services is the availability of content in local Indian languages. By 2021, the number of internet users in India using local languages will be 536 Mn, exceeding the number of internet users using English. With a growing base of Indian language users from both urban and tier 2/3 cities, it is essential that companies provide full stack of services available in the users language of choosing. Voice search is another important access point that needs to be enabled and optimized by industry players, which will certainly make for a convenient shopping experience and also keep bringing more consumers online.

(d) Omni-channel strategy: Offline-online play for retail chains and online companies provides for a much broader interaction touch-points with customers. We have seen a series of new models that are being deployed such as 'shop & drop', 'brick to click', 'click to brick', 'Manless stores', 'Integrated buying', omni-channel, etc all with a target of upselling and gaining customers while keeping convenience at its very core. Companies are now pivoting their 'brick and mortar' stores to experience centres.

(e) Data driven personalization: Providing customers product of choice based on past preferences or current searches have reaped rewards in terms of repeat customers across formats. This 'Digital Gold' allows for business to understand user behaviour and will continue to play a key role in shaping go-to-market strategies. With the demographic diversity of India, and the volume of customers onboarding services steadily increasing, harnessing relevant data to provide granular level personalisation will not only help customers but also provide an effective feedback loop for companies to tailor their process to the targeted customer base.

Another key development impacting this sector has been an evolving regulatory environment. Government regulations according to the Press Note 2 and recently released draft E-Commerce policy have significant impact on companies in this segment. In order to comply with the current direction of the policy companies need to adopt various strategies including change current operating model which would lead to increased cash burn, and stress on current supply chain network. In addition to the above, the draft policy also focusses on data and associated ownership as it suggests to treat data as a 'national asset' which needs to be regulated in terms of cross-border data flows, access / storage of data etc

Reference 1
https://www.ey.com/Publication/vwLUAssets/ey-rural-e-commerce-the-untapped-potential/$FILE/ey-rural-E-commerce-the-untapped-potential.pdf

Investments:

In 2018, E-commerce and Consumer Internet companies have raised over $7 billion in PE / VC capital (including Venture debt) spread over c. 200 deals of which $5.9 bn early stage capital, $1.3 bn was invested as expansion/growth capital. Whilst, late stage companies have attracted substantial capital, it is the early stage companies which has seen highest number of deal activity.

Major sectors which attracted PE / VC capital:

Sector	Funding ($m)	% of Funding	No. of deals	% of deals
HyperLocal	1,637	22.3%	15	7.0%
Travel & Hospitality	1,026	14.0%	8	3.8%
B2C (Horizontal and Vertical)	1002	13.6%	32	15.0%
EdTech	742	10.1%	18	8.5%
Wallets / Payments	564	7.7%	8	3.8%
B2B	540	7.3%	16	7.5%
Mobility	387	5.3%	16	7.5%
FinTech	348	4.7%	23	10.8%
HealthTech	260	3.5%	22	10.3%
Online Classifieds and services	236	3.2%	11	5.2%
Social	200	2.7%	14	6.6%
Gaming	104	1.4%	4	1.9%
Logistics Tech	78	1.1%	10	4.7%
Others	229	3.1%	16	7.5%
Total	**7,354**	**100.0%**	**213**	**100.0%**

OYO, Swiggy, Byjus, PayTm Mall, Pine Labs, Zomato, Udaan, PolicyBazaar, CureFit have collectively raised a lion's share ($4.6b in 2018) of the total investments into this segment. Majority of funding is towards building supply chain; expanding into new segments; global expansion; acquisition or consolidation; bring innovative product offerings to the market.

Further, the recent exits recorded by the investors in the recent past have also proved the trust is well placed by the PE / VC community in the start-up ecosystem. The Walmart-Flipkart deal is one of the largest deals in 2018, with the $16 billion acquisition, big investors have made 60% return on investment and has bolstered potential of the sector growth indicators. This deal inspires other companies to expand and grow and has also provides stimulus to new and existing investors who have made significant gains in this transaction. In addition to this there has been US$1.7 billion M&A/strategic Investments in the sector.

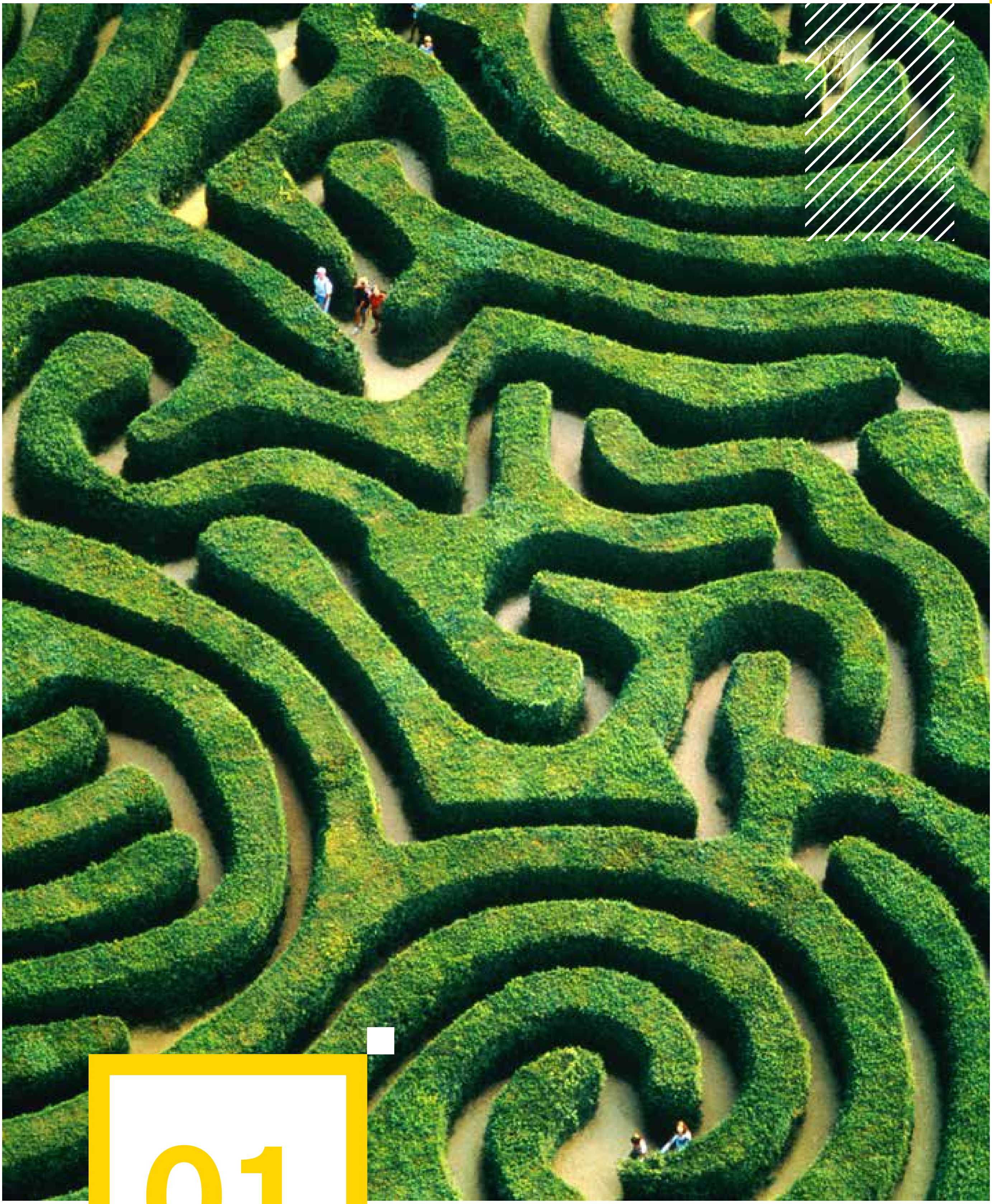
Other key investments made to help consolidation in the marketplace and / or secondary transitions are Alibaba's investment in BigBasket and PayTm, Tencent's investment in Dream11, Naspers investment in Byjus and Swiggy, have shown that Indian start-up ecosystem is thriving and is poised for next level of growth.

The growth projected in the sector, certainly augurs well for not only companies but also investors. There is also a new class of angel investors comprising experienced professionals and successful entrepreneurs who are investing alongside institutional investors, which helps investee companies source talent, gain operational and strategic benefits. Looking at this space, execution of strategies for better operational management and unit economics as well as greater control on the cash burn are important; but companies also need to constantly innovate and engage consumers more effectively to continue on the journey of keeping them online.

I hope you enjoy reading the trend book on one of the most dynamic and exciting sectors.

Ankur Pahwa

Partner and National Leader,
E-commerce and Consumer Internet,
Ernst & Young LLP



01

Hyperlocal

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A. Sector overview

There has been a paradigm shift in terms of the lifestyle preferences and buying trends among Indian consumers over the last decade. Urban India has gradually embraced consumerism and is increasingly opting for seamless services. The "near me" concept is catching up with the consumers with more and more large and small players entering the "hyperlocal" space.

Growing internet penetration, rise in the number of people using smartphones and increasing disposable incomes have acted as a catalyst for the hyperlocal sector while reshaping customer behavior and expectations.

Hyperlocal e-commerce industry in India has been significantly driven by growing numbers of start-ups, enhanced investments in last couple of years and "on-demand delivery" preference.

B. Investment rationale

The services delivered through hyperlocal business models have always had a large market, be it concierge, grocery, food or pharma. Though the sector witnessed a temporary slump in terms of deal activity as scale became a challenge with the pressure on unit economics, any optimization of logistics cost would have a direct impact on customer experience.

The PE/VC interest in hyperlocal delivery was revived with Google investment in Dunzo. Companies like Swiggy, Zomato, Grofers, Milkbasket, Dailyninja, etc. were able to raise funds for expansion. Companies focused on improving unit economics by improving order densities, frequency of delivery to achieve operating efficiencies and use technology to optimize operations and improve customer experience.

Latest fund raise by Swiggy has also been made to enable the company to launch operations into newer territories, acquire satellite kitchen companies/brands in order to improve unit economics.

While hyperlocal delivery has been primarily associated with grocery and food delivery services, there are also other areas of applications including e-pharmacy, concierge services, etc. Subscription services providing regular customer engagement are also strong enablers, this is only a small fraction of the potential market

Key PE/VC deals in the HyperLocal sector during last 2 years

Company	Investors	Total funding (US$ m)
Bundl Technologies Private Limited (Swiggy)	DST Global, Naspers, Meituan-Dianping, Accel, Bessemmer and others	1,390
Zomato Media Private Limited (Zomato.com)	Alibaba Group	210
Locodel Solutions Private Limited (Grofers.com)	Tiger Global and Softbank	62
Dunzo Digital Private Limited	Google and Blume Ventures	30
Faaso's Food Services Private Limited	Lightbox Ventures, Sistema Asia Fund, Evolvence India Advisors, Sequoia and RB Investments	21
DailyNinja Delivery Services Private Limited	Saama Capital, Sequoia and Matrix Partners	8
Aaidea Solutions Private Limited (MilkBasket)	Mayfield, Kalaari Capital, Blume Ventures, Unilever Ventures and Beenext	6

Source: *EY analysis of data from VCCEdge, Thomson ONE, Venture Intelligence*

Key M&A / Strategic Investments in the HyperLocal space in the last 2 years

Company	Investors	Total funding (US$ m)
Pisces eServices Private Limited	ANI Technologies Private Limited	32
Tonguestun Food Network Private Limited	Zomato Media Private Limited	18
Scootsy Logistics Private Limited	Bundl Technologies Private Limited	7
Eazydiner Private Limited	Beenext Pte Limited	6

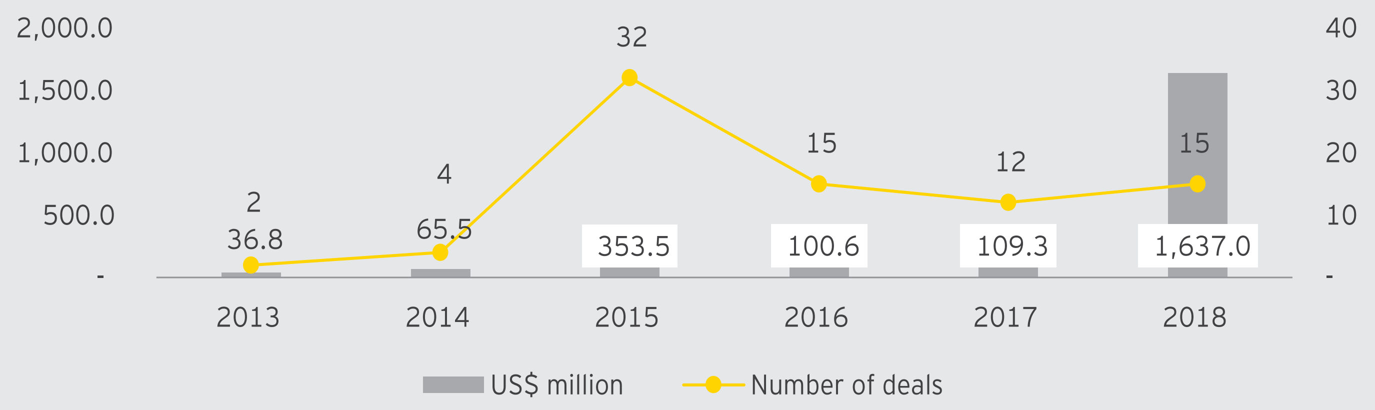
Source: *EY analysis of data from VCCEdge, Thomson ONE, Venture Intelligence*

Deal activity

PE/VC activity

The hyperlocal sector recorded 80 PE/VC investment deals in the period 2013-2018 aggregating to US$2.3 billion, mainly skewed by a single large US$1 billion investment in Swiggy by Naspers, DST Global and others in 2018. Swiggy accounts for US$1.4 billion, out of the total investments by PE/VC funds in the hyperlocal segment followed by Zomato at US$367 million and Grofers at US$253 million. Naspers, Tiger Global, Sequoia and Accel are some of the most active PE/VC funds in the hyperlocal segment.

PE/VC investments in the hyperlocal sector - annual trend (US$ million)

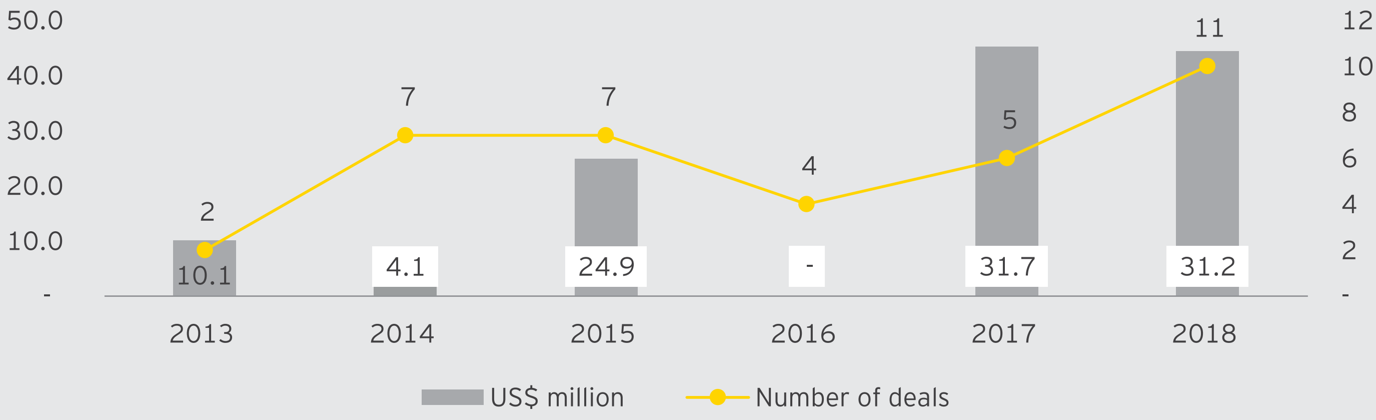


Source: *EY analysis of data from VCCEdge, Thomson ONE, Venture Intelligence*

M&A activity (including consolidation activity)

The HyperLocal sector recorded 36 M&A deals in the period 2013-2018 aggregating US$102 million. The segment is currently fiercely competitive with many players in the fray and we have seen very few M&A deals. However, the M&A activity is expected to pick up as it becomes difficult for some of the incumbents to sustain the cash burn.

M&A in the hyperLocal sector - annual trend (US$ million)



Source: *EY analysis of data from VCCEdge, Thomson ONE, Venture Intelligence*

C. Future outlook

Considering the recent developments and market trends, hyperlocal space will see more companies, including big players like Ola, Swiggy, Bigbasket, etc., to foray into different services like medicines, milk, cleaning, other personalized services.

With low entry barriers, companies in this segment will always have a looming fear of newer players coming in. Those who offer seamless services will carve their niche in this sector and survive in the long run. The existing players would look at bolstering volume through horizontal services and adding customer touch points. As the market expands, there will be consolidation in the segment; while there is certainly depth in the market, but unit economics will be difficult to achieve beyond two or three large scaled players.

The companies will continue to use Machine Learning (ML) and AI capabilities to focus on solving the key issues of the sector like route planning, order consolidation, estimating optimum time slots and overall servicing costs.

02

Travel and hospitality

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A. Sector overview

Digital transformation of the travel and hospitality sector continues to happen at a fast pace fueled by the growing number of millennial travelers, which regard experience and availability of free services like Wi-Fi and online check-in. In response to the new travelers, traditional companies in this space are fast adopting technologies. However, at the same time, new start-ups in this sector have also emerged that are giving a tough competition to the traditional hotel chains and travel operators.

The journey of the e-commerce travel and hospitality industry in India began with IRCTC launching its first transactional website in early 2000s, followed by the airline ticketing websites and then hotel booking platforms. While the other industries continue to follow predominantly traditional processes, the tourism industry has accepted e-commerce as its mainstay and has changed the dynamics of the industry.

Digital revolution has mushroomed travel portals as they cater to bookings of airline, hotel, car, bus, etc. These portals provide convenience to users and fulfil their requests in a hassle-free manner. Online travel portals have now become a one-stop shop and a hassle-free virtual store for customized travel solution.

Travel and hospitality companies have not stopped at mobile applications and/or accepting digital payments, however, start-ups in this space are experimenting with new cutting-edge technologies like big data analytics, AI/ML to predict patterns, to offer dynamic pricing to customers and increase customer engagement through use of chatbots. Further, they are also increasingly looking at usage of tools like IoT, augmented reality (AR)/virtual reality (VR) to improve brand loyalty and improve the decision-making process of travelers who otherwise like comparing the prices on multiple platforms before making a decision. Companies like OYO are also looking at expanding the services bouquet offered to its hotel partners and launching its brands like Oyo Townhouse, Palette Resorts, Silverkey and Oyo Home to ensure customer loyalty and brand recognition.

OYO has more than 200,000 rooms spread over India and China. In search of growth, the company is looking to enter newer territories of Japan, the UK and South East Asian markets.

Other notable players in this space include: MakeMyTrip, Yatra

B. Investment rationale

As per the recent study, the Indian travel market is projected to grow at 11%-12% to US$48 billion by 2020 and of which the online hotel bookings industry in India is expected to be US$4 billion by 2020.

The potential of the sector to bring organization in traditionally fragmented space with high commission rates, ability to use technology to drive dynamic pricing and increase wallet share, improve customer loyalty by improving customer experience, have attracted investors to the sector.

Travel and hospitality sector has seen quite a few significant investments in the past two years – while headlines have been dominated by OYO Rooms, there have been quite a few investments in unique travel solutions. The sector has also seen large investments due to the potential in the space being much greater

Key PE/VC deals in Travel & Hospitality space in last 2 years

Company	Investors	Total funding (US$ m)
Oravel Stays Private Limited (Oyorooms.com)	Blacksoil, Lightspeed Venture Partners, Sequoia, SoftBank and others	1,510
Casa2 Stays Private Limited (Fabhotels.com)	Accel and Goldman Sachs	25
Yatra Online Private Limited	InnoVen Capital	16
Le Travenues Technology Private Limited	Fosun Kinzon Capital and Sequoia	15

Company	Investors	Total funding (US$ m)
Travel Triangle	SAIF, Bessemer, RB Investments, InnoVen Capital and Fundamentum	25
Dtwelve Spaces Private Limited	Accel, Matrix Partners and Sequoia	10
Bona Vita Technologies Private Limited (GoFro)	MakeMyTrip Innovation Fund and H.I.S. Co. Limited	10
Stelling Technologies Private Limited (Railyatri)	Blume Ventures and Helion Venture Partners and others	8
ZoloStays Property Solutions Private Limited	InnoVen Capital and Nexus Ventures	6

Source: *EY analysis of data from VCCEdge, Thomson ONE, Venture Intelligence*

Key M&A/Strategic Investments in Travel & Hospitality space in last 2 years

Company	Investors	Total funding (US$ m)
MakeMyTrip Limited	Ctrip.com International Limited and MIHInternet SEA Pte Limited	165
Flight Raja Travels Private Limited	Ebix Singapore Pte Limited	75
Air Travel Bureau Limited	Yatra Online Private Limited	28
Nightstay Travels Private Limited	One97 Communications Limited	20

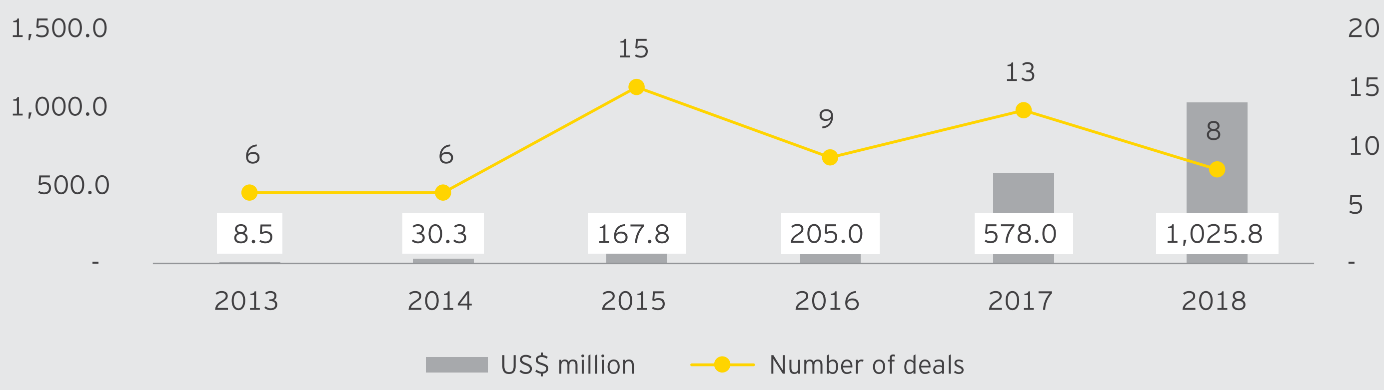
Source: *EY analysis of data from VCCEdge, Thomson ONE, Venture Intelligence*

Deal activity

PE/VC activity

The travel and hospitality sector recorded 57 PE/VC investment deals in the period 2013-2018 aggregating US$2 billion. It is among the top five sectors for PE/VC investments in the e-commerce space. The year 2018 was the best year for the segment accounting for 50% of all investments made in the sector mainly skewed by the US$1 billion investment made in OYO rooms by a group of investors including SoftBank, Sequoia, Lightspeed and others. Investments in OYO rooms account for more than 90% of PE/VC investments in this sector.

PE/VC investments in the travel and hospitality sector - annual trend (US$ million)

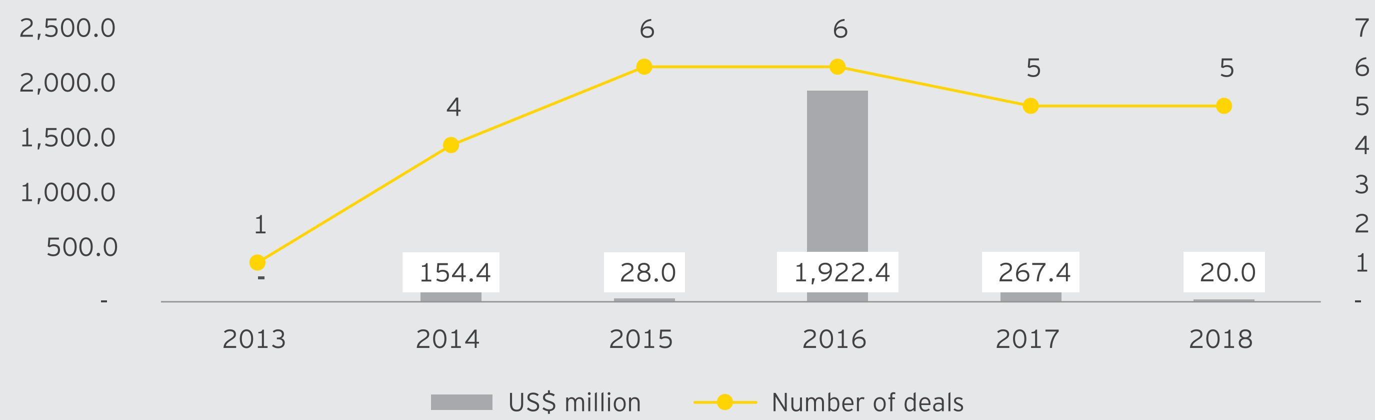


Source: *EY analysis of data from VCCEdge, Thomson ONE, Venture Intelligence*

M&A activity (including consolidation activity)

The sector recorded 27 M&A deals in the period 2013-2018 aggregating US$2.4 billion. It is the second largest segment in terms of value of M&A deals in the e-commerce sector. The travel and hospitality sector has witnessed one of the highest numbers of consolidation plays like MakeMyTrip-Ibibo, Cleartrip-Flyin, Ebix-Flight Raja and many more. Except for the US$1.3 billion MakeMyTrip-Ibibo merger, most of the other deals were much smaller in value.

M&A in the travel and hospitality sector - annual trend (US$ million)



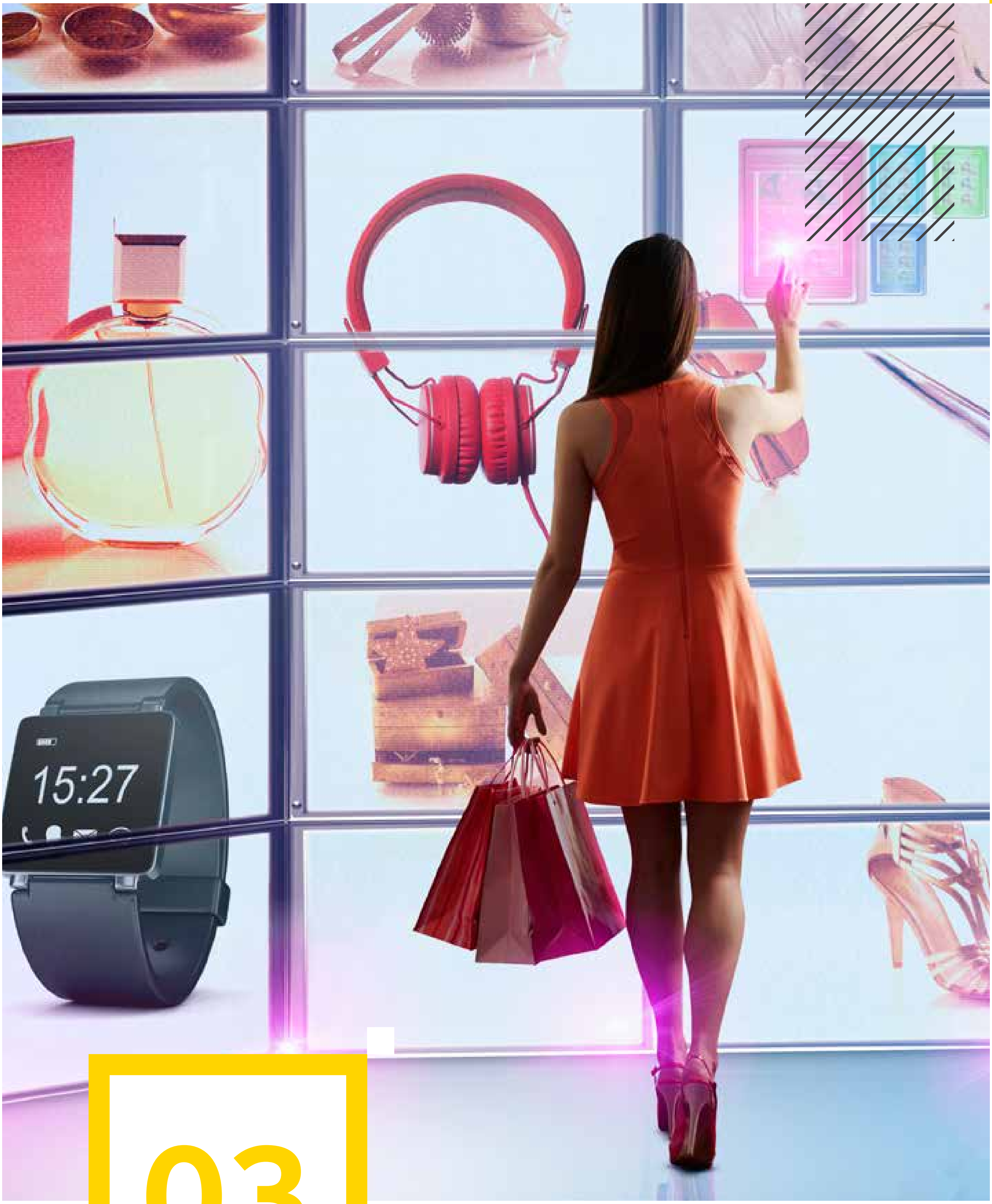
Source: *EY analysis of data from VCCEdge, Thomson ONE, Venture Intelligence*

C. Future outlook

While the sector is poised for continued growth, it continues to face numerous challenges like lack of consistent pricing on multiple booking platforms, inadequate information, lack of trust on the online reviews and pictures, greater trust placed on offline agents and availability of pay-at-the-hotel option for majority of offline bookings.

Companies may address these challenges with the usage of technology to enhance customer experience like IoT, AR/VR, Big Data analytics, intelligently using user generated content, usage of influencers and offering of personalized travel solutions. Companies in this space will continue to differentiate themselves with traditional players by combining innovative solutions both at the front-end and back-end which would drive improvement in customer experience and efficiencies across the value – chain. As the trend of international holiday gains prominence among the Indian population driven by increase in disposable income and aspirational values attached to such travels, Companies will also look to launch own brands and go global by entering into partnerships or acquire overseas businesses (including small hotel chains) particularly in SE Asia and select Western shores to ensure customer retention and increase brand loyalty. Further, they may also look towards expanding the portfolio of their services to complimentary offerings like food, local sight-seeing, local mobility solutions, etc.

After initial splash, companies like OYO is likely to launch its own brand to offer uniform customer experience and consequently to increase customer loyalty.



03

B2C

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A. Sector overview

Number of internet users has grown nearly two times in the last four years as number of users has crossed 500 million in 2018. This rapid increase in number of internet users attracted a number of new budding entrepreneurs to set up establishments by flooding the market with innovative pricing and stocking practices (marketplace vs inventory) while traditional players (brick and mortar stores) are catching up. Availability of numerous choices in terms of brands, discount offers, reduced delivery time, personalization, cash on delivery, digital payment infrastructure and easy returns have been major factors for development of the B2C E-commerce.

Apart from the back-end operating model, digital B2C players have also focused on breadth (not depth) of products in an attempt to showcase a large bouquet of products on one platform like traditional large departmental stores. This model attracted consumers in large numbers as initial adopters of online buying were consumers who were looking for discounts/deals on large number of product offerings. This space comprises of Flipkart, Amazon, Snapdeal and PayTM Mall which control more than 60% of the B2C horizontal sub-sector.

Soon after the success of the horizontal players, vertical focused digital businesses mushroomed in the retail eco-system. These businesses brought a deep understanding of their target customer segments and product categories. Maintaining a focus on categories enable a portal to design the entire customer experience around the specific needs of its target segment. The choice of vertical ranges across fresh and grocery products, electronics, apparel, baby care products, furniture, beauty and wellness and jewelry. Players are emerging as category leaders as these businesses are able to penetrate target categories deeply to offer a large range of products by spreading their operations beyond the top cities.

Initiatives such as newer product categories, use of experience centers, omni-channel strategy and expanding operations have helped players overcome some of these challenges. For example, initiatives like the convergence of offline-online models through an omni-channel strategy have brought in the benefit of touch and feel, which is lacking from a pure online play and enhances the customer experience.

Over time, B2C portals are gaining an adequate understanding of customers' buying patterns, moving away from a cost-plus model and playing a larger role in the pricing and packaging of products. For e.g., digital B2C companies have also invested in creation of brands which attract young millennial crowd comprising of a majority of the online shoppers who tend to be more brand conscious. These companies are forming innovative product bundles aligned with the needs of customers and thus ensuring greater customer engagement.

B. Investment rationale

Reasons like increasing internet penetration and adoption of online shopping, growth in enabling infrastructure like payment and logistics, will continue to drive the growth in this sector in the future.

Apart from above, increase in disposable income of the target customer segment, deeper knowledge of customers' tastes and preferences have also contributed to PE/VC investments euphoria in this space.

Despite the optimism relating to growth enablers, investors were cautious as number of deals declined in last two years compared to initial excitement around this sector. Having said that, investors chose to write bigger checks for mature start-ups as it was evidenced by late stage deals.

Key PE/VC deals in the B2C space in last 2 years

Company	Investors	Total funding (US$ m)
Flipkart India Private Limited	SoftBank	2,500
Paytm E-commerce Private Limited	SoftBank	400
Supermarket Grocery Supplies Private Limited (Bigbasket.com)	IFC, Sands Capital, Abraaj Capital and others	212
Home Interior Designs E-commerce Private Limited	Bessemer Venture Partners, Jungle Ventures Asia Fund, Goldman Sachs (Principal Investments), Helion Venture Partners and TPG	110
Lenskart Solutions Private Limited	PremjiInvest, Unilazer Ventures and others	66
Zilingo Pte Limited	Sequoia, Venturra Capital, Sofina SA and others	54

TrendSutra Platform Services Private Limited (Pepperfry)	State Street Global Advisors	39
G S E-Commerce Private Limited	Fireside Investment and Westbridge Capital	29
Fsn E-Commerce Ventures Private Limited(Nykaa)	Lighthouse	16
JBR Interio Technologies Private Limited	JLL India Real Estate Technology Ventures and SRI Capital	16
Naaptol Online Shopping Private Limited	New Enterprise Associates, JP Morgan Partners and others	15
Jasper Infotech (SnapDeal)	Nexus Ventures and others	15
eShakti.com Private Limited	BlackSoil Capital and Paragon Partners	13
Zero Effort Technologies Private Limited	Helion Venture Partners, Sequoia and others	12
Homevista Decor and Furnishings Private Limited	Sequoia, Accel and RB Investments	10

Source: *EY analysis of data from VCCEdge, Thomson ONE, Venture Intelligence*

Key M&A / Strategic Investments in the B2C space in last 2 years

Company	Investors	Total funding (US$ m)
Flipkart India Private Limited	Walmart Inc	16,000
Flipkart India Private Limited	Ebay, Microsoft and Tencent	1,400
Paytm E-Commerce Private Limited	Alibaba Gzroup	200
Nykaa E Retail Private Limited	Max Ventures & Industries Limited, Sunil Kant Munjal, Harsh Mariwala and Dalip Pathak	36
Delightful Gourmet Private Limited	Nichirei Corp	25
CapriCoast Home Solutions Private Limited	Homevista Decor & Furnishing Private Limited	14
Koovs PLC	Future Lifestyle Fashions Limited	7

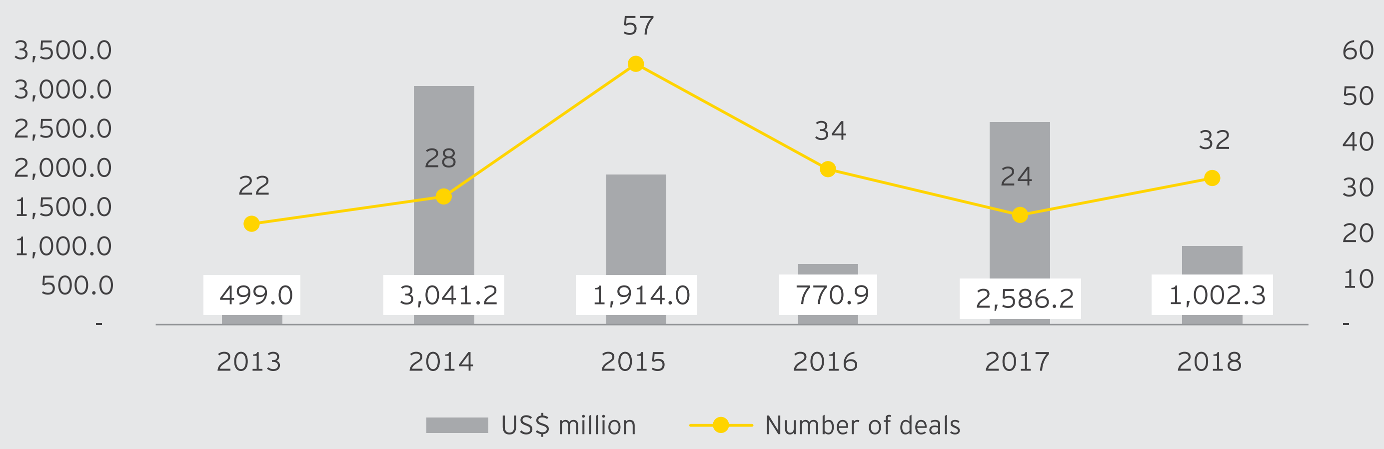
Source: *EY analysis of data from VCCEdge, Thomson ONE, Venture Intelligence*

Deal activity

PE/VC activity

The B2C sector recorded 197 PE/VC investment deals in the period 2013-2018 aggregating US$9.8 billion. B2C sector has been one of the most active segment in the e-commerce space in terms of both deal value and volume accounting for almost a third of all investments in the e-commerce sector. Deals involving Flipkart have accounted for more than US$5 billion of these investments. It was one of the initial sectors to receive PE/VC funding and has witnessed some of the largest deals in the e-commerce sector. Some of the first unicorns in the Indian start-up ecosystem were in the B2C sector. Flipkart, Snapdeal, Bigbasket, Lenskart, Firtcry and Pepperfry were among the most prominent players in this segment to receive PE/VC funding. Softbank, Tiger global, Sequoia and Naspers have been the largest investors in the B2C sector.

PE/VC investments in the B2C sector - annual trend (US$ million)

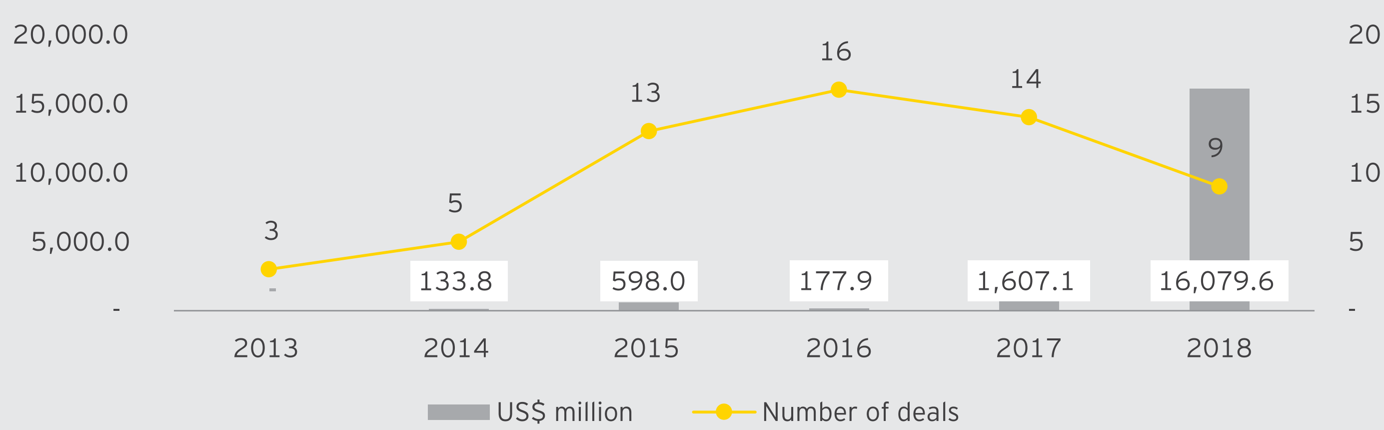


Source: *EY analysis of data from VCCEdge, Thomson ONE, Venture Intelligence*

M&A activity (including consolidation activity)

The B2C sector recorded 60 M&A deals in the period 2013-2018 aggregating US$18.6 billion. At US$16 billion, the Walmart-Flipkart deal has been the largest ever deal, not only in the Indian e-commerce space, but in the Indian PE/VC industry overall. In addition to the consolidation witnessed within the B2C e-commerce space like that of Flipkart-Myntra, the sector has also witnessed many deals involving the traditional offline format consumer brands investing in B2C e-E-commerce companies. Deals like Tian-Caratlane, Emami-The Man Company, Marico-Beardo, Kalyan Jewellers-Candere, CEAT-Tyresnmore, etc. reiterate the growing importance of the e-commerce segment for companies in the consumer facing segment.

M&A in the B2C sector - annual trend (US$ million)



Source: *EY analysis of data from VCCEdge, Thomson ONE, Venture Intelligence*

C. Future outlook

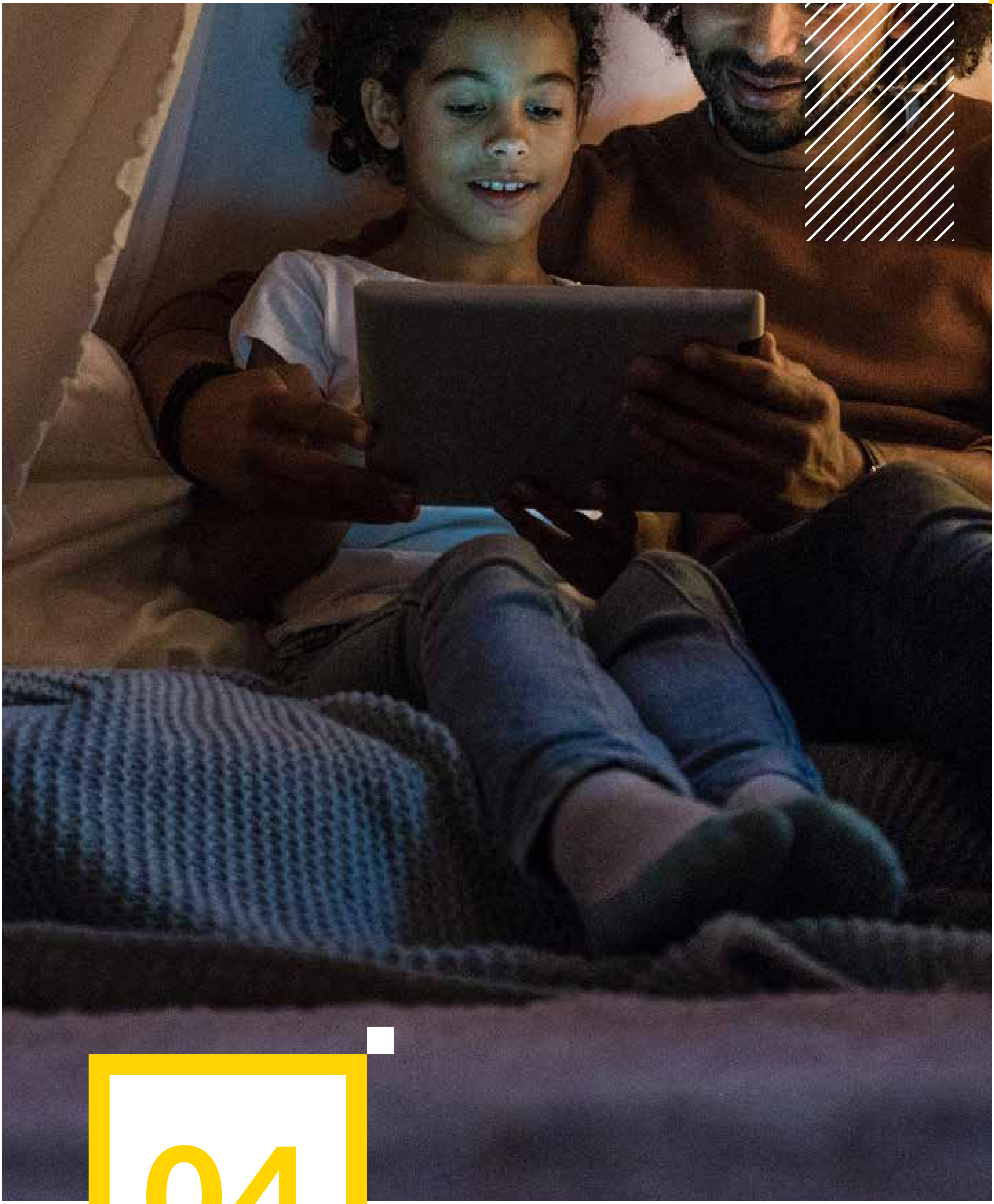
While the segment is crowded, companies are looking to take a differentiated approach to attract and retain online buyers. The companies are increasingly looking to launch online-first brands (like Replay, Dorothy Perkins, etc.) to build customer loyalty.

It is expected that in coming years, a large number of new online buyers would hail from tier II/III/IV towns. The rural e-tail market presents US$10b-US$12b opportunity for e-commerce firms in the next four years. With increased investment into infrastructure, the old problems of rural e-commerce are slowly disappearing. The availability of cheap smartphones and data tariffs will further fuel the growth or e-commerce from places others than Tier 1 cities.

Companies need to focus on categories geared towards micro market orientation which would lead to greater adoption and recall factor. Other models which may see increased adoption would be shift from pure online play to omni-channel play, which provides customers with a unified experience at multiple-touchpoints providing the advantages of both online and offline sales channels.

Notwithstanding above, India still lags China and the US in terms of adoption of online shopping among internet users. Key challenges like lack of consistent government policies, lack of touch and feel, concerns with fitting in case of fashion, lack of knowledge about return policy, lack of trust around post-sales service capabilities, slow adoption of digital payments, doubts around availability and timely delivery, will continue to haunt the industry. However, companies should find ways to not only retain current frequent online shoppers but convert offline shoppers to new online buyers and increase share of their wallet across customer lifecycle.

On policies framework front as well, it appears from recent announcement of draft policy that government is moving towards having a consistent policy framework which should provide clarity, going forward.



04

EdTech

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A. Sector overview

Education in India is one of the most aspirational spend categories and integral for growth and progress of the country. While a lot is said about India's huge demographic dividend with one third of the population being less than 20 years, what is equally important in balance is the shortfall in the number of schools, colleges and universities as the shortage on the skills development side. In this backdrop, edtech has tremendous potential in bridging the gap and it can be a game changer in disseminating of knowledge across the spectrum.

Companies operating in the space have witnessed a slew of developments in the recent years with each version making progressive improvements in the UI/UX of their interface using learnings, user behavior and user adoption of new methodologies. The biggest advantage of this space is that it moves away from the one-size fits all methods of teaching into a more adaptive learning and personalization and most importantly, the convenience of whenever, wherever and however the user would like to learn. This has been one of the key factors in uptake of this technology.

This sector has also been a key adaptor of deep-tech such as AI, VR and Analytics to allow for better content and value-add. While it not meant to replace traditional classroom teaching, it is increasingly becoming a good supportive structure to the eco-system.

B. Investment rationale

PE/VC firms have been keen to invest in the space not only in the K-12 segment but also open online courses, consumer and corporate focused, reskilling/upskilling program generators. There is also a burgeoning digital skill divide in our country and edtech companies are starting to step in to reduce the gap. The lifetime value of a customer (in this case, students) once comfortable on a platform can be quite high if there is quality content driven engagement, along with low cost of content creation – crucial for edtech firms to achieve success.

India is an underpenetrated market in the edtech space and ripe for disruption and investments. India has the one of the largest school going population and parents are willing to invest in their child's educational requirements. Traditional educational institutions are unable to service all the needs of students, thus providing edtech companies a vast marketplace to tap into.

While the biggest investment in 2018 belonged to Byju's raising US$540m from Naspers, CIPPIB and General Atlantic making it the first Indian unicorn in the edtech industry, close to US$100m was raised by competitors such as Toppr, Vedantu, Unacademy and Thinkzone.

Key PE/VC deals in the EdTech space in last 2 years

Company	Investors	Total funding (US$ m)
Think and Learn Private Limited (Byju)	General Atlantic, Naspers, CPPIB and Verlinvest	670
Sorting Hat Technologies Private Limited (Unacademy)	Blume Ventures, Nexus Ventures, Sequoia, SAIF Partners and others	52
Haygot Education Private Limited (Toppr)	Kaizen PE, Alteria Capital, Brand Capital, Eight Roads Ventures, Helion Ventures and SAIF Partners	44
Eruditus Education Private Limited	Sequoia and Bertelsmann India Investments	40
Toppr Technologies Private Limited	Helion Ventures, Eight Roads Ventures, SAIF Partners and others	20
Vedantu Innovations Private Limited	Omidyar and Accel	18
Cue Learn Private Limited	Sequoia	15
Springboard	Costanoa Ventures, Moneta Ventures and others	10
Flinto Learning Solutions Private Limited	Lightbox and others	7

Source: *EY analysis of data from VCCEdge, Thomson ONE, Venture Intelligence*

Key M&A/Strategic Investments in the EdTech sector during last 2 years

Company	Investors	Total funding (US$ m)
Indiavidual Learning Private Limited (Embibe)	Reliance Industries Limited	180
Tata Interactive Systems Limited, Tata Interactive Systems GmbH and Tata Interactive Systems AG	MPS Limited	12
Edvista Educational Services Private Limited	AEON Learning Private Limited	10
Smartclass Educational Services Private Limited	Ebix Inc	8
BetterU Education Corp	HT Overseas Pte Limited	8
Applect Learning Systems Private Limited	Info Edge (India) Limited	6

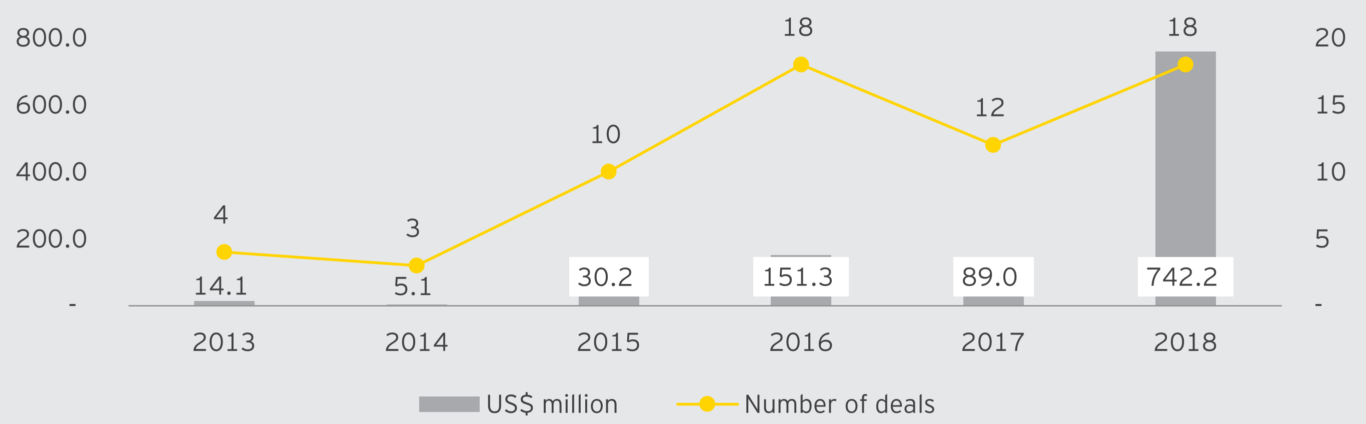
Source: *EY analysis of data from VCCEdge, Thomson ONE, Venture Intelligence*

Deal activity

PE/VC activity

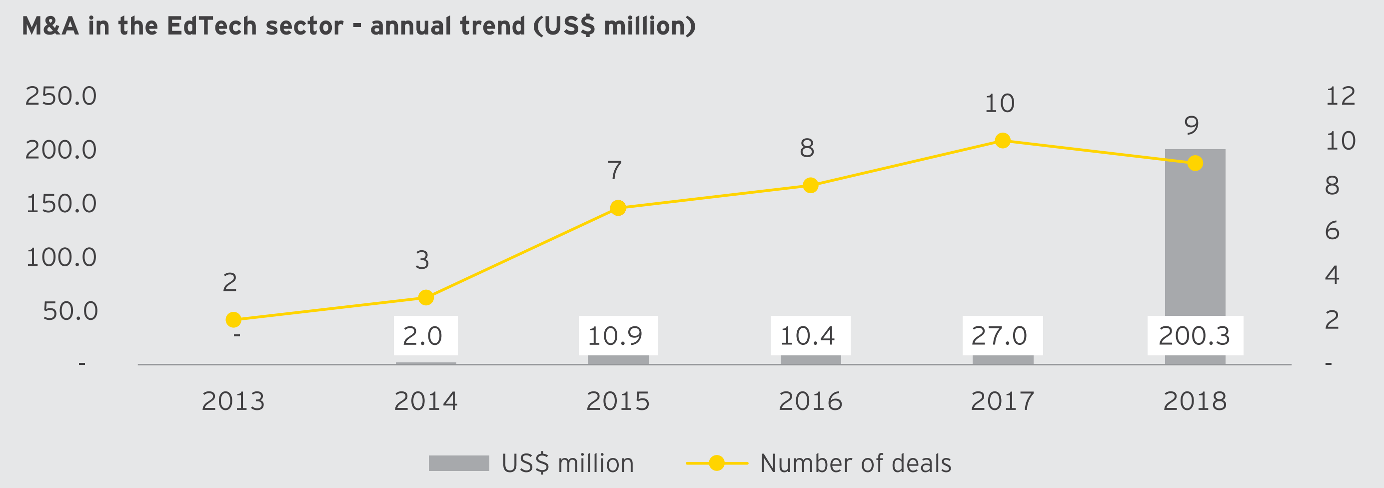
The EdTech sector recorded 65 PE/VC investment deals in the period 2013-2018 aggregating US$1 billion. Unlike B2C e-commerce, edtech has seen very few players with Byju's being the most prominent one, receiving 80% of all investments in this sector in the period 2013-2018, most of which were made in 2018.

PE/VC investments in the EdTech sector - annual trend (US$ million)



M&A activity (including consolidation activity)

The EdTech sector recorded 39 M&A deals in the period 2013-2018 aggregating US$251 million. Except for one deal of US$ 180 million in 2018, this sector has witnessed a very few M&A deals, most of which were below US$10 million in value.



Source: *EY analysis of data from VCCEdge, Thomson ONE, Venture Intelligence*

C. Future outlook

The high growth potential for the sector will continue to attract more investors going forward. The sector is growing rapidly and is likely to be US$2b market in the next three years.

The impact that edtech has had on education is evident as many traditional offline players are working to add online as an important part of their offline content and hence becoming more omni-channel. Given the continuous learning experience that are needed to build skill/upskill, this certainly creates significant potential across all segments including primary/secondary higher education, test preparation, re-skilling courses and interest based casual learning programs.

In the coming years, some emerging trends that are likely to see an uptick are:

(a) Greater use of emerging technologies like AI, ML,AR,VR, etc. to provide a more immersive and engaging learning experience.

(b) Designing of content and delivery mechanism based on principles of game theory

(c) Drive greater engagement through gamification

(d) Local language content curation which will broaden the base

(e) Overseas expansion across geographies

While there are significant opportunities, companies will continue to focus on bringing down their cost of acquisitions, improving engagement therefore retention and most significantly quality of content and delivery with growing scale.

05

Payments and wallets

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A. Sector overview

Whilst, India has traditionally been a cash economy with large levels of cash in circulation, increasing digital penetration, consistent growth in retail electronic payment systems (like National Electronic Fund Transfer (NEFT), Immediate Payment Service (IMPS), Real Time Gross Settlement (RTGS), card payments and mobile banking), no-frill bank accounts and development of payment acceptance infrastructure have resulted in a significant uptick in digital payment transactions backed by young, tech-savvy population and introduction of innovative products in the payment space.

The payment acceptance infrastructure has been significantly upgraded with many new merchants accepting digital payments in both online and offline channels. Recent technological advancements supported by the government like Unified Payments Interface (UPI)/BHIM and platforms like Google Pay, Phone Pe, etc. promoted by private players have further given a boost to digital payments.

As per RBI, payment systems recorded robust growth in 2017-18, with volume and value growing at 44.6% and 11.9%, respectively. Electronic transactions as a percentage of total volume of retail payments increased to 92.6% in 2017-18 from 88.9% in 2016-17.

During 2017-18, the number of transactions carried out through credit cards and debit cards aggregated to around 4.7 billion. Prepaid payment instruments (including smart cards, online or mobile wallets and paper vouchers) were used in around 3.5 billion transactions, valued at INR1,416 billion. Mobile banking services grew in terms of both volume (92%) and value (13%) with number of registered customers increasing by 54% from 163 million in March 2017 to 251 million in March 2018.

B. Investment rationale

Initiatives such as Jandhan Yojana, Aadhaar, launch of BHIM app and UPI have largely driven financial inclusion and improved the payment acceptance infrastructure in India. Additionally, it is expected that over the next few years, payment scenes will evolve more rapidly due to innovations introduced by disruptive market players and mass adoption of digital payments by young population to provide a catalyst for payment companies in India.

PE/VC interest was seen in both the offline and online payments space. The space saw marquee large ticket size deals as well as small investments in nascent companies. As evidenced by three large ticket size deals and particularly the PayTM deal, PE/VC investors have bet big on the success of large payment companies.

Key PE/VC deals in the Payments and wallets space in last 2 years

Company	Investors	Total funding (US$ m)
One 97 Communications Limited (PayTM)	Berkshire Hathaway and SoftBank	1,700
Pine Labs Private Limited	Temasek and PayPal	125
Yapstone Inc	PremjiInvest	71
InstaRem Pte. Limited	Vertex Ventures, The SBI FMO Fund, MDI Ventures, Beacon Venture Capital and others	45
GaragePreneurs Internet Private Limited (SlicePay)	Blume Ventures, Simile Venture Partners and others	21
Finnovation Tech Solutions Private Limited	Shunwei Capital Partners, E-City Ventures and others	8
Paysense Services India Private Limited	Naspers, Jungle Ventures and Nexus Ventures	5
One Mobikwik Systems Private Limited	Sequoia	5

Source: *EY analysis of data from VCCEdge, Thomson ONE, Venture Intelligence*

Key M&A / Strategic Investments in the Payments and wallets space in last 2 years

Company	Investors	Total funding (US$ m)
SBI Cards & Payments Services Limited (GE Capital)	State Bank of India	179
ItzCash Card Limited	Ebix Inc	121
MRL Posnet Private Limited	Worldline SA	105
Accelyst Solutions Private Limited	Axis Bank Limited	57
FX Mart Private Limited	Flipkart Payments Private Limited	39
One MobiKwik Systems Private Limited	Bajaj Finance Limited	35
Thumbworks Technologies Private Limited	Capfloat Financial Services Private Limited	30
Atom Technologies Limited	NTT Data Corp	9

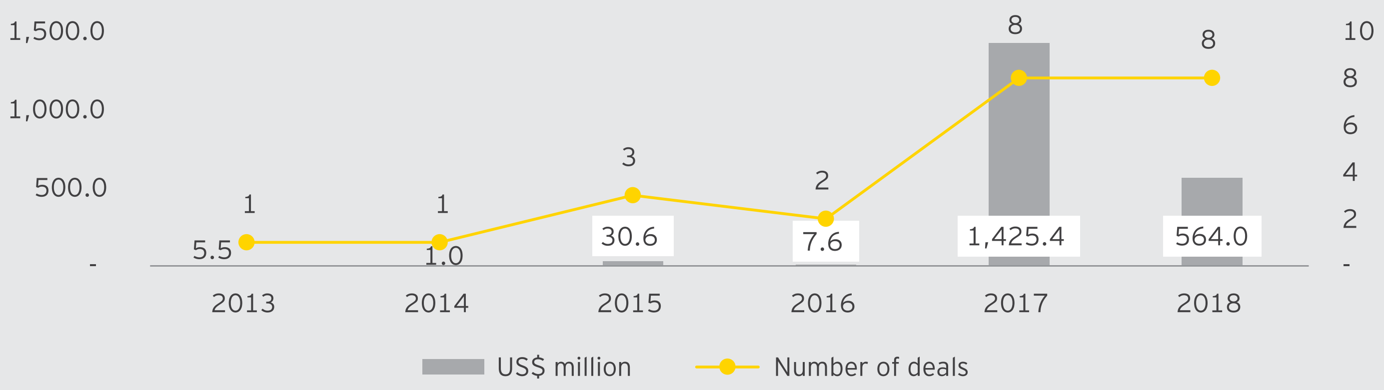
***Source:** EY analysis of data from VCCEdge, Thomson ONE, Venture Intelligence*

Deal activity

PE/VC activity

The payments and wallets sector recorded 23 PE/VC investment deals in the period 2013-2018 aggregating US$2 billion. This is skewed by a single large US$1.4 billion investment in Paytm by SoftBank. Paytm has received 85% of all dollar value of investments in this sector and is the leader in the payments and wallets space.

PE/VC investments in the Payments & wallets sector - annual trend (US$ million)

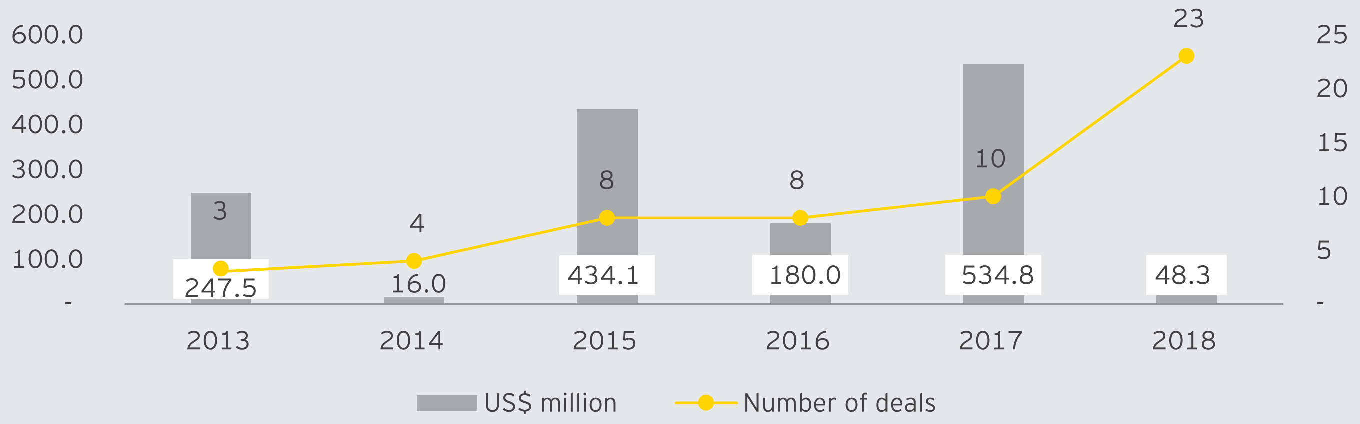


***Source:** EY analysis of data from VCCEdge, Thomson ONE, Venture Intelligence*

M&A activity (including consolidation activity)

The payments and wallets sector recorded 56 M&A deals in the period 2013-2018 aggregating US$1.5 billion. M&A in this segment has been quite active with many B2B and B2C e-commerce players looking to shore up their technology platforms with payment capabilities acquiring/investing in start-ups in this sectoral space.

M&A in the Payments & wallets sector - annual trend (US$ million)



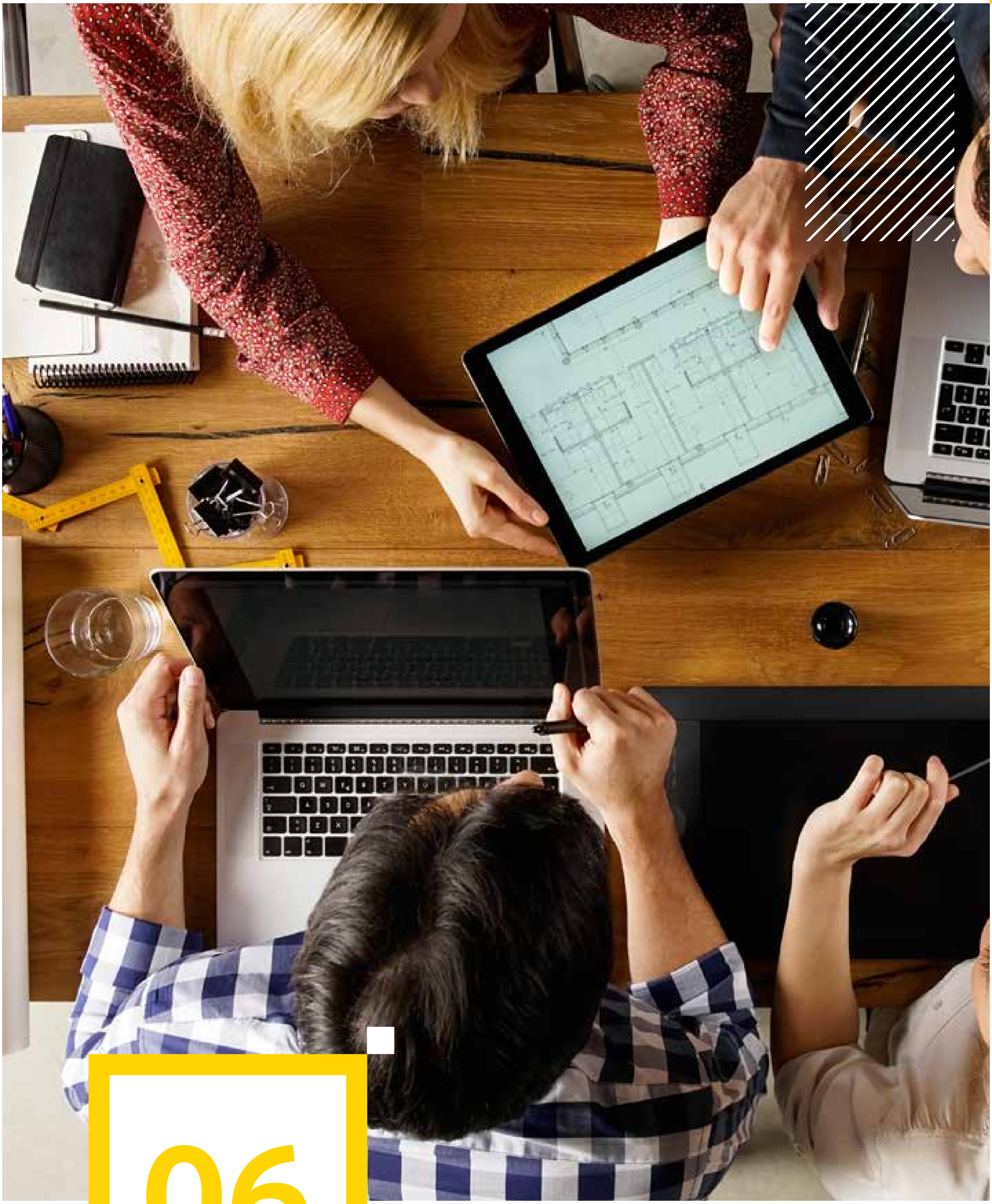
Source: *EY analysis of data from VCCEdge, Thomson ONE, Venture Intelligence*

C. Future outlook

Smaller payment gateways and wallet companies have found it hard to raise PE/VC capital, however, this may change due to the increase in the adoption of digital transactions in the rural and retail economy.

Digital transactions are expected to increase in both value and volume as the formal economy is digitized and informal sector is brought into the formal fold through the changes in government policies.

In the near future, it is expected that the payment platforms will not only offer commoditized solutions but also provide innovative solutions that will cater to changing lifestyles of consumers, change in demography, significant improvement in digital technology, consumer demand for easier-to-use services, continuous government's push towards financial inclusion, and the explosion of



06

B2B

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A. Sector overview

While B2C e-commerce has hogged all the headlines, B2B continued to silently scale rapidly. The potential of B2B is in fact reflective in the B2C only being 3% of the retail spend; and that too organized retail is only 12%-15% of the total retail spend. It is no surprise then that B2B is globally 2x of B2C and India is following a similar trajectory.

B2B adds a significant value to the supply chain especially in tier II and tier III cities where access to products, inventory holdings and pricing is always a challenge. The B2B (2C) segment is driven by consumer durables (mobile and mobile accessories), apparels, home furnishings and more recently FMCG products. Industrial supplies and construction materials are a focused segment where some players have carved a niche for themselves. It is largely B2B and used for institutional consumption.

Technology has made the supply chain more digital across the entire ecosystem, from retailers to wholesalers and distributors. All this digitalization improves serviceability, stickiness and personalization, ultimately improving earnings and working capital for retailers.

B. Investment rationale

The B2B market represents a large untapped opportunity and many companies are building local solutions to serve this under carved market. While B2C players have struggled with unit economics given their lower average order value (AOV) and high transaction costs; B2B on the other hand has better unit economics by higher AOV and volumes despite lower average transactional costs.

The unit economics also comes with the advantage of higher lifetime value given the stickiness and higher order velocities, which ultimately help in faster payback. The high growth potential and faster path to profitability make this an attractive sector from an investment perspective.

The significance of this sector has been validated when B2B e-commerce startup "Udaan" raised US$225m in series C funding by DST Global and Lightspeed Venture Partners becoming the fastest-ever Indian start-up to reach unicorn status. Another big investment deal done in the space is ShopX raising US$35m from Fung Strategic Holdings to further fuel their expansion plans. The B2B e-commerce business provides a massive opportunity considering the negligible online presence of the sector, providing great opportunity for both players and investors.

Key PE/VC deals in the B2B space in last 2 years

Company	Investors	Total funding (US$ m)
Hiveloop Technology Private Limited (Udaan)	Lightspeed, DST Global and others	275
63Ideas Infolabs Private Limited (Ninjacart)	Accel India, HR Capital Partners, Trifecta Venture Debt Fund and others	46
Power2sme Private Limited	InnoVen Capital, Kalaari Capital, Accel, IFC and others	42
10i Commerce Services Private Limited (ShopX)	Fung Capital Asia Investments	35
OFB Tech Private Limited (Ofbusiness)	Matrix and others	30
Moglilabs Private Limited	Accel and IFC	23
Smartpaddle Technology Private Limited (Bizongo)	B Capital, IFC, Accel and IDG ventures	22
Mogli Labs India Private Limited (Moglix)	IFC, Rocketship, Accel Partners and Jungle Ventures	12
Legal Raasta Technologies Private Limited	Impanix Capital Advisors	5

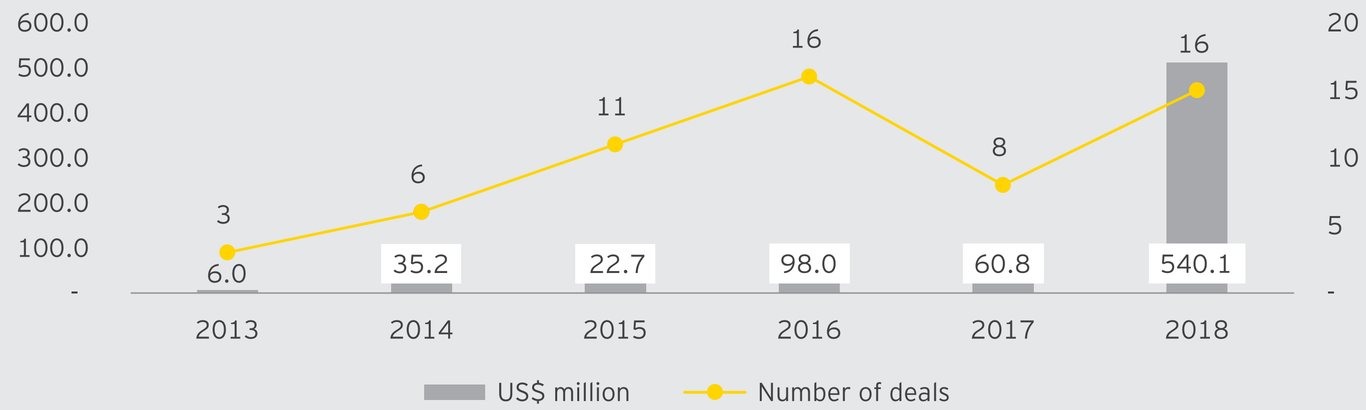
Source: *EY analysis of data from VCCEdge, Thomson ONE, Venture Intelligence*

Deal activity

PE/VC activity

The B2B sector recorded 60 PE/VC investment deals in the period 2013-2018 aggregating US$763 million with 2018 accounting for 71% of the dollar value of deals mainly due to two US$100 million plus deals. 2018 recorded the largest deal in the B2B sector – Lightspeed and DST Global's US$225 million investment in Udaan a market place for manufacturers, wholesalers, traders and retailers. Prior to 2018, the B2B segment had recorded limited deal activity with the largest deal in the five years preceding 2018 being of US$36 million.

PE/VC investments in the B2B sector - annual trend (US$ million)

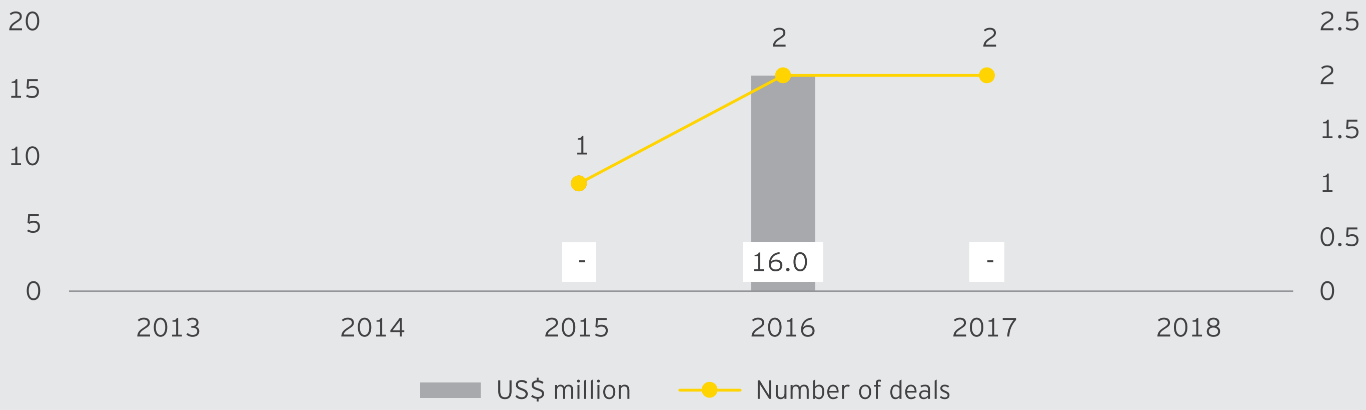


Source: *EY analysis of data from VCCEdge, Thomson ONE, Venture Intelligence*

M&A activity (including consolidation activity)

M&A in the B2B sector has been almost non-existent with only five deals in the period 2013-2018. The online space for the B2B segment is still evolving with many players still following the traditional modes of trade and commerce.

M&A in the B2B sector - annual trend (US$ million)



Source: *EY analysis of data from VCCEdge, Thomson ONE, Venture Intelligence*

C. Future outlook

While the early days of B2B have been focused on the digital supply chain, onboarding retailers and changing buying behavior, the future will be driven by improved logistics efficiency, data driven demand generation and therefore shorter consumption cycles and better working capital.

Growth opportunities for players in this segment would include improving distributed logistics and larger product catalogues and discovery. In the future, there may be opportunities for players to introduce private label products to feed the existing supply chain and also look at opportunities of direct manufacturing tie-ups to improve unit economics and assortments.

Another opportunity for B2B players will be leveraging their networks to support the B2C players who don't compete with them. Ultimately, as the ecosystem builds, B2B users will become comfortable to transact on B2C side as well and the B2B players can support data driven tie-ups with B2C players. Omni-channel in B2B is also a reality given the multiple segments it can operate in but given SMEs are the drivers of consumerization, B2B (bottomline and offers) are significant to the ecosystem.

Supply chain financing and credit financing are catching the attention of players to leverage on. This is likely to help them building a larger B2B business given the lack of credit in these markets and possibly also open other avenues to feed the supply chain pipe with service offerings, including insurance, health services, digital payments, etc. This full stack model certainly makes for a compelling opportunity.

07

Mobility

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A. Sector overview

India shares several structural causes of car-sharing with these markets: mega cities, traffic congestion and parking shortages. Mobilization is being seen as a segment that can be an effective and sustainable solution to address the structural challenges in the transportation sector largely emanating from lack of infrastructure (roads, parking, etc.) and first/last mile connectivity. Structural changes such as urban congestion combined with technology enablers are leading to the emergence of new types of mobility solutions and shifts in the mobility mindset of customers. There has been a rapid growth not only in cab aggregators but also in other aspects of the mobility landscape such as route optimization and public transport.

While demand for automobile ownership in India is likely to remain high as there is an aspirational value attached to it. There has been a proliferation of alternative mobility models especially on the app-based cab aggregators that have become an integral part of the ecosystem and have a large customer base and multi-billion-dollar valuations in relatively short spans of time.

While cab aggregators have been around for a while, micro-mobility is the key solution that is trying to address the first/last mile connectivity problem that is being faced – while cab aggregators including ride sharing and pooling have helped create an effective system, the infrastructure still is not able to keep pace with demand and hence micro-mobility is helping bridge the gap.

Multiple players have emerged to meet specific needs in the increasingly multimode mobility ecosystem. Bike apps such as Rapido, ONN Bikes, Wickedride, Vogo and Yulu offer first/last-mile transportation services. Other offerings help commuters choose the most efficient route across different modes of transportation and enable making easy reservations from a unified platform. Zophop is one such start-up that provides route optimization across buses, passenger trains, metro rail, auto rickshaws and taxis with live ETA updates and smart ticketing. Abhibus, Travelyaari and RedBus tap into the demand for convenience within the public transportation system by offering apps that enable bus booking and seat reservation.

B. Investment rationale

Smart transport being bedrock of future cities along with cost, convenience, carbon footprint and health benefits across all modes of transport will help boost investor sentiment.

With US$300m invested by PE/VCs in the space in 2018, there is confidence in the need and demand in the sector. While cab aggregators will continue to see more investments as they scale, the self-ride segment has the ability to scale rapidly given the supply side constraints are easy to manage. And the growing popularity of first/last mile companies and adoption is clearly making them an interesting investment proposition. With IoT technology in play, scale is getting easier to understand, though the parking infrastructure is still a challenge despite appropriate government and corporate tie-ups are in place.

The capital needed to scale will continue to be high, some of the key impactful players may see mega raises as they scale. Use of EV infrastructure may also provide opportunities to deploy capital even as the EV infrastructure being built gets scaled to meet mobility demands.

Key PE/VC deals in the mobility sector in last two years

Company	Investors	Total funding (US$ m)
ANI Technologies Private Limited (Olacabs.com)	Falcon Edge Capital, UC-RNT Fund, Temasek, Tencent, Softbank and others	1,527
A S Justride Tours and Travels Private Limited	Das Capital and others	30
ZoomCar India Private Limited	Sequoia, Empire Angels, Nokia Growth Partners and others	19
Wickedride Adventure Services Private Limited (Metro Bikes)	InnoVen Capital, Sequoia and others	12#
Super Highway Labs Private Limited (Shuttl)	Sequoia, Lightspeed and others	11
Vogo Automotive Private Limited	Alteria Capital, Matrix and others	8*
Lithium Urban Technologies Private Limited	IFC	8

Source: *EY analysis of data from VCCEdge, Thomson ONE, Venture Intelligence*

Notes: * ANI Technologies has committed $100m in fresh funds to Vogo; # IDG and other investors have shown interest in putting $13m in Wickedrides

Key M&A/Strategic Investments in the Mobility sector in last 2 years

Company	Investors	Total funding (US$ m)
Zipgo Technologies Private Limited	Essel Green Mobility Limited	44
Primemover Mobility Technologies Private Limited	Hyundai Motor Co Limited, Telma Investments Private Limited and Sunjay Kapoor	14

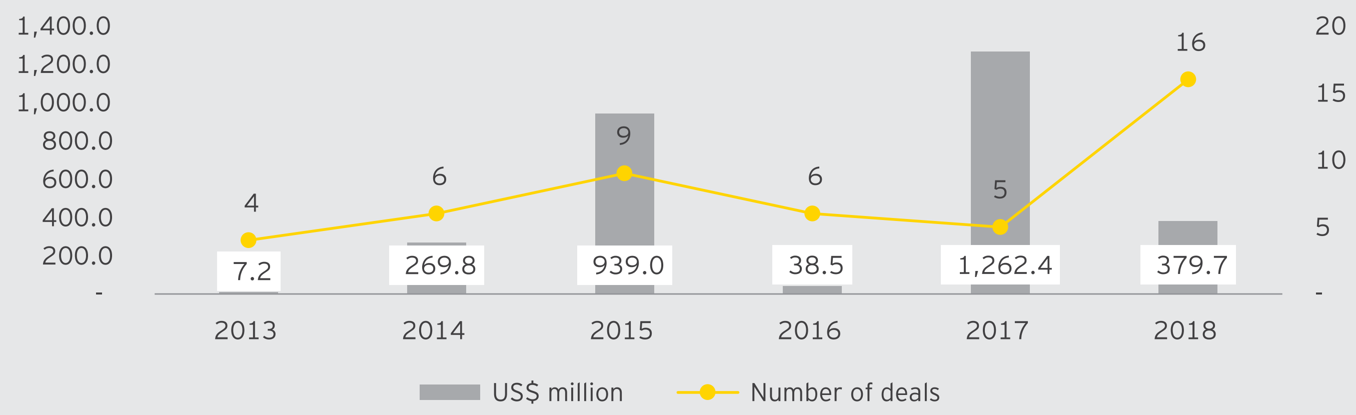
Source: *EY analysis of data from VCCEdge, Thomson ONE, Venture Intelligence*

Deal activity

PE/VC activity

The Mobility sector recorded 22 M&A deals in the period 2013-2018 aggregating US$402 million. The largest M&A deal in the sector saw Ola acquiring Serendipity Infolabs Private Limited, a Bangalore based taxi booking service, for US$ 200 million.

PE/VC investments in the mobility sector - annual trend (US$ million)



Source: *EY analysis of data from VCCEdge, Thomson ONE, Venture Intelligence*

M&A activity (including consolidation activity)

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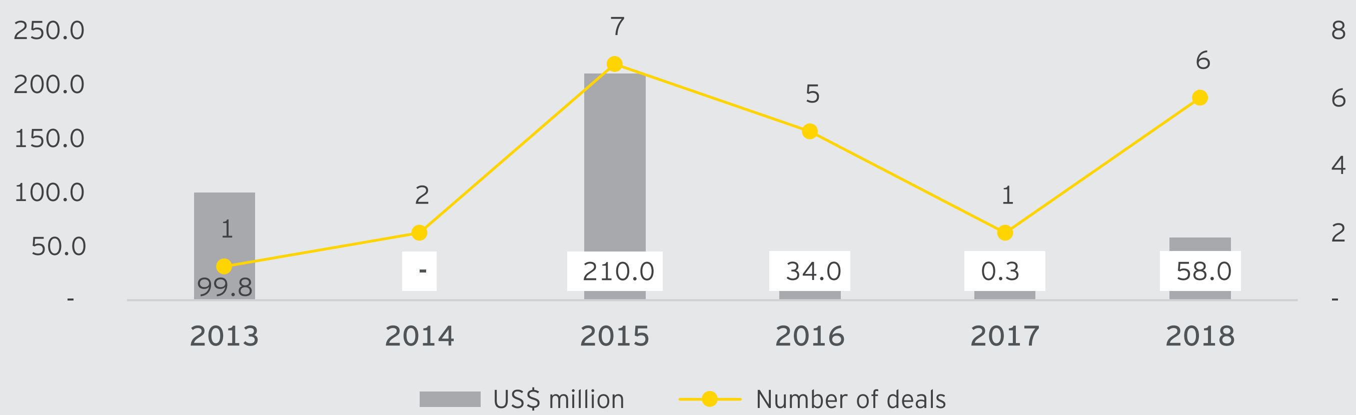
M&A in the mobility sector - annual trend (US$ million)



Source: *EY analysis of data from VCCEdge, Thomson ONE, Venture Intelligence*

C. Future outlook

New technologies and modes of transport are already disrupting the status quo and changing the way people move. The pace of innovation is rapid and filled with opportunity, as well as risk, because decisions made today will lock in infrastructure for decades to come.

Two important future trends; greater adoption of electric vehicles both two and four wheelers to curtail pollution levels and bringing down associated fuel costs and the second is to associate with an offline model for can aggregators to cater to tier II cities.

We are also slowly witnessing a shift where owning a car is no longer a necessity. Alternative modes of travel have filled the gap left by traditional public transportation systems.

As companies achieve scale, unit economics should continue to get better giving the high recall value that these companies are likely to see especially in first/last mile micro mobility side as the rides are more predictable which make supply planning easier and hence result in a better customer experience.

While bike taxis have been around, the regulation side of things have been uncertain; but once established, these bike taxis will also significantly improve on-demand mobility. Gojek is an example of high growth opportunities globally. Players will also have the opportunity to move into adjacent areas of services once a certain scale is achieved and that will also make for a more engaging ecosystem.

As technology in the space picks up, the future trend seems to be better travel time prediction, increase in eco-friendly transport options, pick-and-go bicycle sharing platforms and easier adoption of public transportation.

08

FinTech

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A. Sector overview

Fueled by a large market base, evolving government policies and regulations and increased smartphone usage in sub-urban and rural areas, FinTech companies are offering cheaper, agile, convenient and innovative banking and insurance solutions through extensive use of automation and technology, as compared to their traditional peers. The traditional model of a business turning directly to its bank or a conventional insurance provider is no longer the only game in town.

From crowdsourcing to mobile payments to unsecured funds on demand, consumers now have ample choices. Setting up a new business and expanding it has never been cheaper.

B. Investment rationale

India has a large untapped market for FinTech start-ups – about 40% of the population is currently not connected to banks and about 80%-85% of payments are still made in cash. Moreover, as much as 90% of small businesses are not linked to formal financial institutions. These gaps in access to banking institutions and services offer an important scope to develop FinTech solutions (such as funding, finance management) and expand the market base.

According to NASSCOM, the FinTech industry is expected to grow by 1.7 times and will be valued at approximately US$8 billion by 2020

The increasing disposable incomes of urban users, small and medium businesses' increasing inclination towards the use online commerce for financing needs, relatively long turnaround time of traditional players and digitization of value chain across the nation, have provided a shot in the arm of the FinTech companies and marketplaces like Policy Bazaar, BankBazaar, Acko General Insurance, etc.

Key PE/VC deals in the FinTech space in last 2 years

Company	Investors	Total funding (US$ m)
ETechAces Marketing and Consulting Private Limited (PolicyBazaar)	SoftBank, Temasek, Tiger Global, Pi Ventures and Others	280
Zen Lefin Private Limited (Capital Float)	Sequoia, IFMR, Saif Partners, Ribbit & Others	48
OnEMi Technology Solutions Private Limited (Kissht)	Ventureast, Endiya Partners, Sistema and others	42
Acko General Insurance Limited	Amazon, SAIF, Catamaran, Accel and others	42
Lendingkart Technologies Private Limited (lendingkart.com)	Saama, Mayfield, India Quotient, Bertelsmann, Sistema and others	21
Rubique Technologies India Private Limited	Kalaari Capital, Recruit Holding, Blacksoil and others	20
Social Worth Technologies Private Limited (EarlySalary)	Eight roads, DHFL, IDG Ventures and others	20

Source: *EY analysis of data from VCCEdge, Thomson ONE, Venture Intelligence*

Key M&A / Strategic Investments in the FinTech space in last two years

Company	Investors	Total funding (US$ m)
A & A Dukaan Financial Services Private Limited (Bank Bazaar)	Experian PLC	30
Zen Lefin Private Limited	Amazon India Limited	22
ETechAces Marketing & Consulting Private Limited (Policy Bazaar)	Info Edge (India) Limited	8
Digikredit Finance Private Limited	Accion Venture Lab and Capital First Limited	7

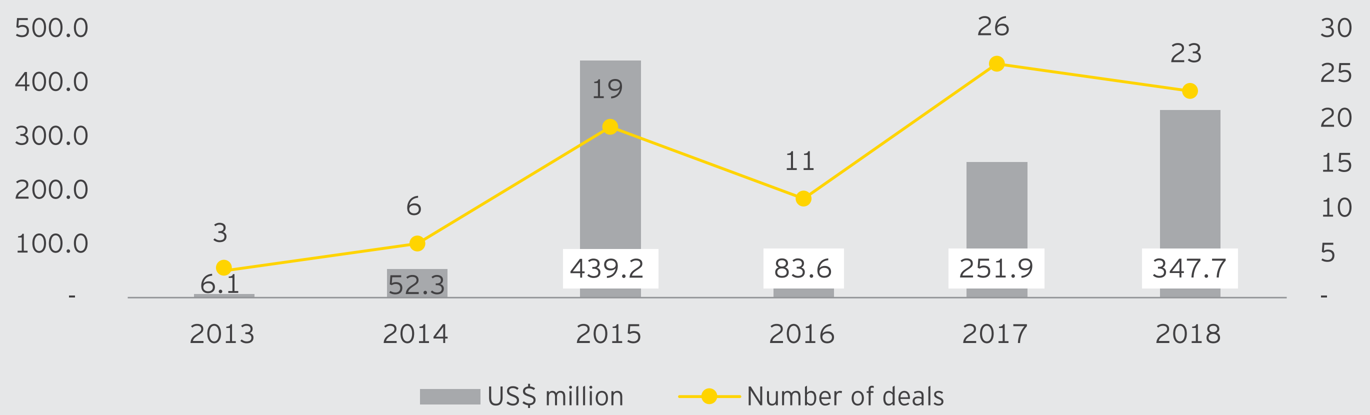
Source: *EY analysis of data from VCCEdge, Thomson ONE, Venture Intelligence*

Deal activity

PE/VC activity

The FinTech sector recorded 88 PE/VC investment deals in the period 2013-2018 aggregating US$1.2 billion. This sector has recorded a consistent deal activity over the years with an average deal size of US$15.5 million. Insurance broking/distribution and online lending platforms were the most preferred online Fintech platforms by PE/VC investors. Policy Bazaar, Easypolicy and Lendingkart were the top recipients of PE/VC investments.

PE/VC investments in the FinTech sector - annual trend (US$ million)

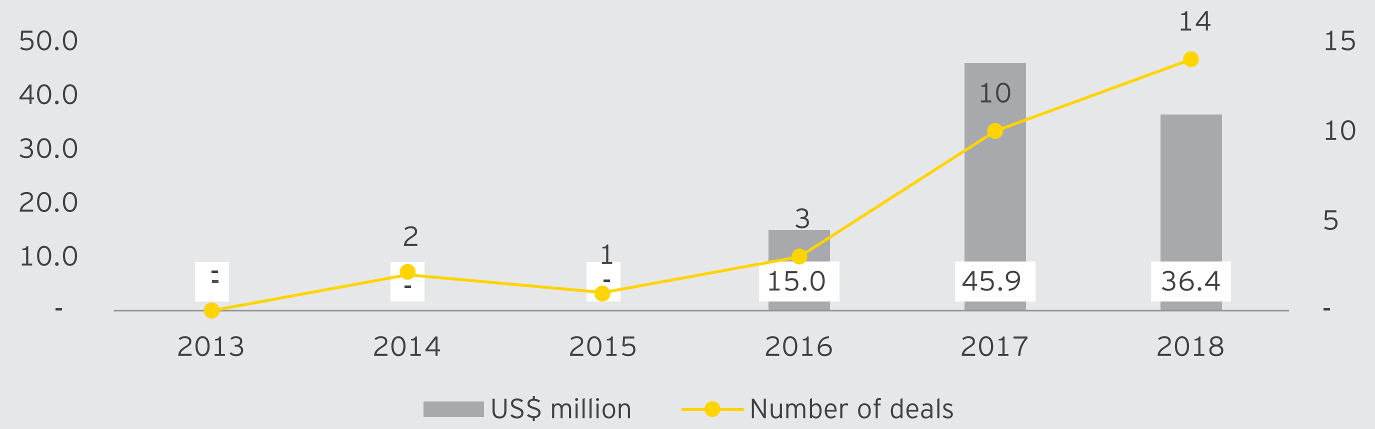


Source: *EY analysis of data from VCCEdge, Thomson ONE, Venture Intelligence*

M&A activity (including consolidation activity)

The Fintech based e-commerce sector recorded 30 M&A deals in the period 2013-2018 aggregating US$97 million. The M&A activity in this sector has been limited as it is in a nascent stage with many evolving business models that are currently gaining scale and shoring up investments. The deal activity has picked up over the past couple of years as legacy players in the financial services sector are looking to improve their Fintech capabilities and picking up stakes in start-ups

M&A in the FinTech sector - annual trend (US$ million)



Source: *EY analysis of data from VCCEdge, Thomson ONE, Venture Intelligence*

C. Future outlook

The sector will continue to see high investor interest, particularly for players with cutting-edge technology and strong unit economics. Companies offering innovative products/services will continue to grow. Smaller players will have to sharpen the offerings to continue to be relevant else they will find it difficult to raise capital, there is also likeliness of smaller players moving to consolidation if they face difficulty in staying afloat.

With the increasing traction in e-commerce space, FinTech companies focusing on B2B loans (like Capital Float, LendingKart, Incred, etc.) and B2C loans (like Early Salary and Rupeek) will see increased volumes of loan applications to address working capital needs or rising urban-lifestyle needs. Companies offering innovative insurance solutions would also see increased traction in the next few years.

Adoption of Blockchain and Big Data through Artificial Intelligence (AI) would drive the creation of new business models and services (like chatbots, robot advisors, automatic processing and security). The focus of the existing players would be on providing top-notch customer service, flexible products and services and quick disbursement of funds/insurance policies and bringing about efficiency in operations to drive profitability.

The companies with distinct business models, strong underwriting processes, quick turnaround time and local presence in key business hubs would continue to attract investors' interest. The large untapped rural and sub-urban market, which currently largely uses traditional or unorganized means of raising finance and has very limited insurance coverage, will also attract PE/VC interest.

The sector may face some serious headwinds, given the liquidity issues for NBFCs and dependency of the lenders on this sector. While the situation is easing up, the cost of capital will certainly increase.

Government regulations around these companies would act as a threat to the innovation that the FinTech segment thrives on. For e.g., the Supreme Court's restrictions on the use of Aadhaar for e-KYC has impacted the entire banking industry and fintech players are more impacted given their size and additional cost for compliance. The more stringent the rules are, the more difficult it will be to create value out of advanced technology. However, if implemented the right way, regulations can also help promote the way FinTech companies will function in India.

09

Health tech

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A. Sector overview

Access to healthcare in India is a significant problem and reflected in our poor doctor-patient ratio at a country level, which only gets compounded when you look at tier II and III cities where the metrics are more dismal.

With this backdrop, the healthtech sector is significant and has the ability of alleviate the issues around quality, cost and access to healthcare. While India is estimated to be a US$280b healthcare market, very little of that is technology driven and companies are working towards this changing dynamic to upgrade the healthtech ecosystem. While healthtech is a small portion of this at the moment, technology is bringing down costs and improving scale of growth through innovation, both in technology and services, with over 4800 start-ups. Active healthtech startups in India provide further validation of companies stepping up to the challenge to improve healthcare across the board.

The offerings are diverse and include doctor-patient platforms, online access to genomic tests, home care solutions for patients, eye scanning devices, hospital information portals, preventive care alert services, diet calorie counters, cloud solutions for medical records, e-commerce marketplaces for medical services, fitness apps and wearables, and cancer scanning devices powered by the Internet of Things (IoT).

Advanced heathtech startups are solving more complicated problems like tech-enabled monitoring, diagnosis and treatment. Some of the major sub-verticals under the healthTech space are – aggregators, e-pharmacy, personal health and fitness discovery, health information management, tech-enabled diagnosis services and anomaly detection, telemedicine and medical devices.

Better penetration of insurance, higher incomes, increased awareness about personal health and hygiene, availability of wearables are some of the key factors in driving growth in the sector.

B. Investment rationale

The Indian healthcare system faces many challenges – It is unorganized and is unevenly distributed in various parts of the country. Documentation and medical history are virtually non-existent. There are immense pressures on the healthcare system which inevitably leads way for innovation to improve the doctor-patient ratio, low cost treatment, preventive healthcare and faster diagnosis. This gap has led to a surge in consumer-driven healthTech startups, especially in the enabling side of healthcare and it seems to be an obvious solution to the complex healthcare problem in India as these also are fairly capital efficient.

PE/VCs have invested close to US$600m in heathtech startups in India in 2018 an all-time high in homegrown heathtech startups. PE/VCs have seen immense potential in companies such as CureFit, Netmeds and Pharmeasy. Investments in health-tech startups have been rising steadily with 2016 and 2017 recording US$163 million and US$343 million, respectively. Technology, connectivity and government initiatives (such National Accreditation Board for Hospitals and Healthcare (NABH) providers implementation and Ayushman Bharat) have helped put a spotlight and catapult spotlight on the sector with PE/VCs showing increasing confidence among the startups who are trying to disrupt healthcare with the increasing need of new methods to solve a long existing problem of last-mile delivery and costs associated.

Key PE/VC deals in the healthtech sector in last two years

Company	Investors	Total funding (US$ m)
CureFit Healthcare Private Limited	Accel, IDG Ventures, Kalaari Capital and others	145
Practo Technologies Private Limited	Sequoia, Matrix, Tencent and others	55
NetMeds Marketplace Private Limited (Netmeds.com)	Sistema Asia Fund and others	49
91Streets Media Technologies Private Limited	Bessemer Venture Partners, Trifecta Venture Debt Fund I, InnoVen Capital and others	36
Ascent Meditech Limited	LeapFrog	20
1MG Technologies Private Limited (1mgayush.com)	Sequoia, Omidyar Network, Maverick Capital and others	15

Corner Store Technologies Private Limited	Nexus Ventures, SAIF Partners and others	11
Bright Lifecare Private Limited (HealthKart)	Sequoia, IIFL and others	10
Phasorz Technologies Private Limited	Rebright Partners, Bessemer Venture Partners and others	7
SigTuple Technologies Private Limited	Accel, IDG Ventures, Endiya Partners, Pi Ventures and others	6

Source: *EY analysis of data from VCCEdge, Thomson ONE, Venture Intelligence*

Key M&A/Strategic Investments in the HealthTech sector in last 2 years

Company	Investors	Total funding (US$ m)
Sasta Sundar Shop Private Limited	ROHTO Pharmaceutical Co Limited	5

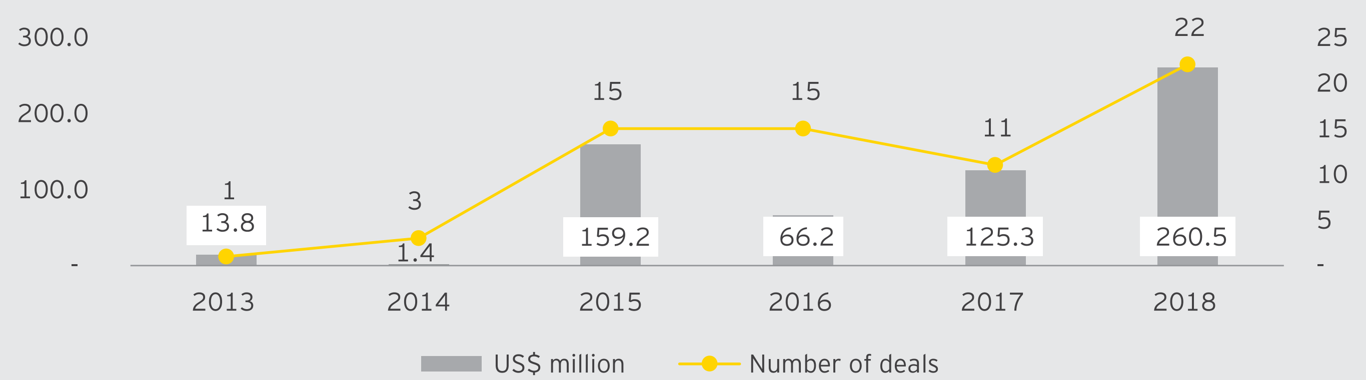
Source: *EY analysis of data from VCCEdge, Thomson ONE, Venture Intelligence*

Deal activity

PE/VC activity

The **healthtech** sector recorded 67 PE/VC investment deals in the period 2013-2018 aggregating US$626 million with 2018 being the best year in terms of both value and number of deals. Some of the most prominent players to receive PE/VC funding in this space include Curefit, Practo and Netmeds. Tencent, Accel, Kalaari and Sequoia were among the top investors in this segment.

PE/VC investments in the healthtech sector - annual trend (US$ million)

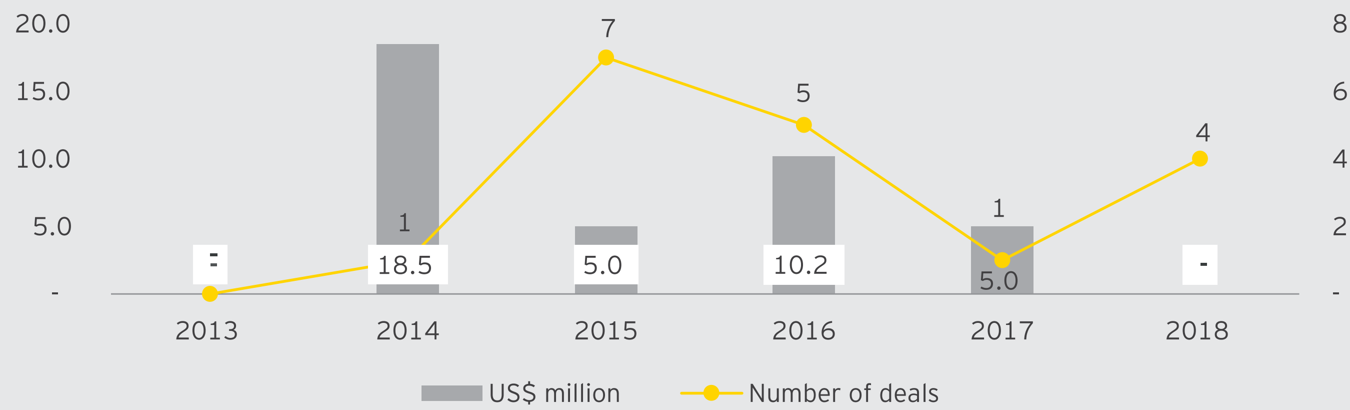


Source: *EY analysis of data from VCCEdge, Thomson ONE, Venture Intelligence*

M&A activity (including consolidation activity)

The **healthtech** sector recorded 18 M&A deals in the period 2013-2018 aggregating US$39 million. The M&A activity has been very limited as the space is still evolving and most of the pioneers are still building scale.

M&A in the healthtech sector - annual trend (US$ million)



Source: *EY analysis of data from VCCEdge, Thomson ONE, Venture Intelligence*

C. Future outlook

India has a unique opportunity to leapfrog one generation of healthcare learning, by building an affordable innovation model, that is driven by technology adoption in the healthcare industry.

AI, Blockchain, Data analytics and electronic health records have steadily seen a rise in activity and set the stage. We have seen companies expand their services in areas of digitization of medical records, gene therapy, telemedicine and Internet of Medical Things (IoMT). This is also an interesting area of e-commerce that has seen an uptick in subscriptions business.

Tech-enabled innovations will continue to investigate the existing healthcare systems and transforming them into smart delivery mechanisms.

While historically, the focus of the segment has been on telemedicine, e-commerce aggregation, consumer-focused apps and information management, going forward the focus will be more to building better home healthcare and diagnostics infrastructure, connected healthcare monetizing systems that are using deep tech from a prevention of major disease occurrence other than curative focus and disease management. Given that a significant part of health care spend in India is out of pocket supporting services like healthcare financing, credit and micro insurance are also important for better health management.

10

Social commerce

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A. Sector overview

India has adapted well to social media channels like Whatsapp and Facebook where influencers play a major role in nudging followers. There has been an evolution in the definition of the influencers in our social circles from a mere one-on-one personal connection to a more social media-based interactions which cater to style, fashion and utility of younger generation.

Given the change in the way we interact and get influenced by, has given rise to social commerce. This relatively recent type of new-age commerce is helping monetize personal and aspirational influences people carry in society. Social commerce while initially driven primarily by Facebook and Whatsapp, have witnessed an advent of social e-commerce companies that are further enabling commerce by providing ease in product curation, end-to-end logistics, personalization, etc.

An interesting facet of this model of e-commerce is that it has provided budding entrepreneurs especially women an attractive platform. There are estimated 18 lakh women selling goods worth US$8 billion through social platforms, providing not only employment but also financial independence. These social commerce platforms are primarily driven by beauty products, fashion and lifestyle-based goods.

B. Investment rationale

One of the most appealing aspects for investors in social commerce is the low cost of customer acquisition. Most e-commerce start-ups are crippled by this customer acquisition cost given the extremely competitive market. Since social commerce uses existing mediums like Facebook and WhatsApp that already have a significant user base and trust-based influencers, they have the ability to bring down the cost significantly.

While this segment of commerce has witnessed a slower growth rate it will continue to be appealing given the potential – both in terms of customer base as well as providing a platform to individuals who have a desire to be entrepreneurs but have limited means of doing so. It also helps addressing one of the biggest challenges for people not transacting online in India i.e., trust. This trust factor also helps business metrics such as low return rate of goods.

Social commerce companies also help/incentivize small-scale seller not only to get onto the platform and help increase sales but also the need in the small-scale industry to improve catalogue management, distribution, payment management and logistics, which can further lead to a growth spurt in the sector. With majority of the users of the platform from tier II and III cities, aiding to the impulse buying behavior and discovery platform that populace in these areas might not be aware of traditional e-commerce platforms.

Key PE/VC deals in the Social Commerce space in last 2 years

Company	Investors	Total funding (US$ m)
Mohalla Tech Private Limited (ShareChat)	Shunwei Capital, Lightspeed Ventures, SAIF Partners and others	117
Meesho Inc.	Shunwei Capital Partners, SAIF Partners, Venture Highway, Sequoia, DST Global and others	65
TVF Media Labs Private Limited	SAIF Partners, Nexus Ventures and IL&FS	11
Ver Se Innovation Private Limited (Dailyhunt)	Falcon Edge Capital	6

Source: *EY analysis of data from VCCEdge, Thomson ONE, Venture Intelligence*

Key M&A/Strategic Investments in the Social Commerce space in last 2 years

Company	Investors	Total funding (US$ m)
Saavn Media Private Limited	Reliance Industries Limited	227
J2 Interactive Co Limited-Mx Player	Times Internet Limited	200
Gamma Gaana Limited	Tencent Holdings Limited	115

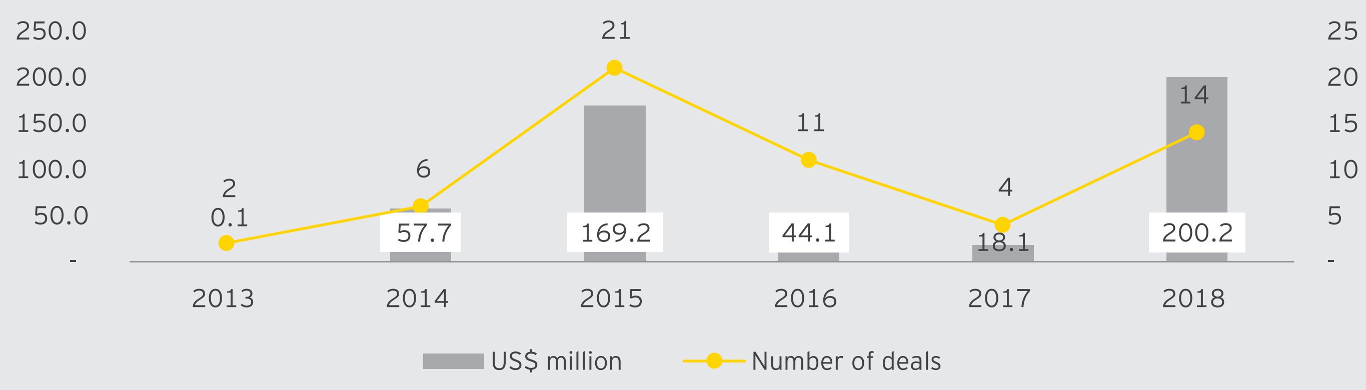
Source: *EY analysis of data from VCCEdge, Thomson ONE, Venture Intelligence*

Deal activity

PE/VC activity

The social commerce sector recorded 58 PE/VC investment deals in the period 2013-2018 aggregating US$489 million. While the segment has recorded couple of large deals of around US$100 million, the average deal size has been around US$10 million. The maximum deals have happened in the content streaming space.

PE/VC investments in the social commerce sector - annual trend (US$ million)

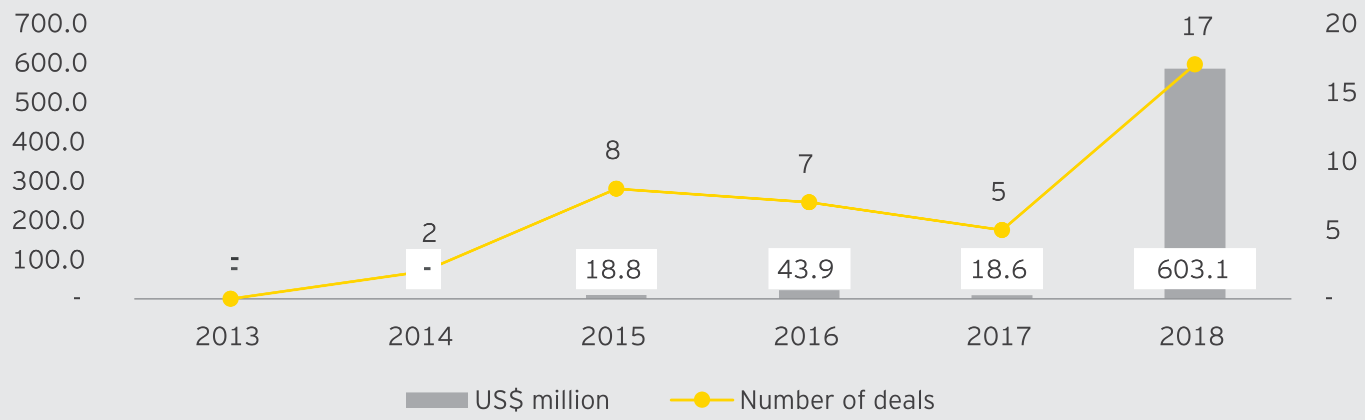


Source: *EY analysis of data from VCCEdge, Thomson ONE, Venture Intelligence*

M&A activity (including consolidation activity)

The Social Commerce sector recorded 39 M&A deals in the period 2013-2018 aggregating US$684 million. A single large deal which saw Reliance Industries Limited acquire Saavn for US$227 million for its media platform has skewed the numbers. Nonetheless, 2018 has being the most active both in terms of value and number of deals. The heightened M&A activity in the Social Commerce segment is on account of many traditional player looking to expand their presence in the digital media space.

M&A in the social commerce sector - annual trend (US$ million)



Source: *EY analysis of data from VCCEdge, Thomson ONE, Venture Intelligence*

C. Future outlook

While e-commerce brought in the first wave of online customers, it is expected that discovery-driven shopping in social commerce rather than search-based shopping will bring the next wave.

Social commerce in India is still in nascent stages and shows great promise of growth. This form of commerce brings in a natural cohesion of both social media and online shopping. With social media platforms witnessing exponential growth in India, the amount of time spent on it provides more opportunities for product discovery and a more personalized experience. As the hunger for content increases, so does the new and innovative ways for monetization.

While historically a large part of the business is in apparels, going forward there will be an expansion into other segments as well; companies will look to add more category options in the hands of the resellers, including building private label offerings.
The supply chain will also evolve for the non-apparel segment including direct tie-ups with manufacturers both India and overseas, especially China.

This segment will also see greater adoption of user generated content driven marketing as consumers tend to trust user generated content much more than traditional marketing. Voice and vernacular language will be important factors that will help achieve deeper penetration in this segment. While there are certainly existing and emerging companies in the sector, there are still large white spaces that exist, that make the sector attractive.

11

Gaming

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A. Sector overview

India is one of the top five countries for mobile gaming in the world. Mobile gaming is expected to cross US$1 billion in market size by 2020 with the mobile gamer base set to become 300 million by then. The booming opportunity has attracted global heavyweights like Alibaba, Tencent and Youzu, who have increased their investment in this sector.

The sector comprises of social games like Moonfrog, real money games like Ace2three.com, Rummy circle, etc. and fantasy games like Dream11.com

B. Investment rationale

India's gaming industry is accelerating rapidly, with about 80% of the mobile gaming population comprising 18- to 35-year-olds. Basis market reports, India has over 7.7 billion app downloads which is only next to China which has opened up a new gateway of opportunities for the gaming industry.

India is ranked second in both share of in-app gaming sessions and all gaming sessions in the world.

With the increasing adoption of smartphones and cheaper internet access in India, some insiders believe that the Indian digital gaming would grow three times in the next two to three years and surpass US$1 billion as it has a tremendous opportunity for monetizing traffic through marketers and advertisers. Coupled with higher levels of engagement and stickiness, the usage will drive targeted advertisement revenues.

On the social gaming side, there has been a significant focus on local games and while the revenue model as largely been freemium, subscription or advertisement driven, the richness of the content and use of AR/VR have led to higher engagement levels. While real money card games and real money fantasy games have had regulations to comply with, there is greater clarity on games of Skill vs Chance which makes the operating environment more certain and consistent.

Some of the big-ticket investments done in the gaming space such as Tencent's large investment round in the fantasy sports company "Dream11" also provides vernacular language content, and Clairvest Group's investment in "Ace2three" provides reaffirmed confidence in the gaming industry and anticipated trajectory.

Key PE/VC deals in the Digital Gaming sector in last 2 years

Company	Investors	Total funding (US$ m)
Dream11 Fantasy Private Limited	Tencent, Multiples, and Kalaari Capital	100
Nazara Technologies Limited	IIFL and others	79
Head InfoTech Private Limited (Ace2three)	Clairvest Group	73
SparSkills Technologies Private Limited (9Stacks)	Waterbridge Ventures	4

Source: *EY analysis of data from VCCEdge, Thomson ONE, Venture Intelligence*

Key M&A/Strategic investments in the Digital Gaming sector in last 2 years

Company	Investors	Total funding (US$ m)
Nodwin Gaming Private Limited	Nazara Technologies Limited	NA

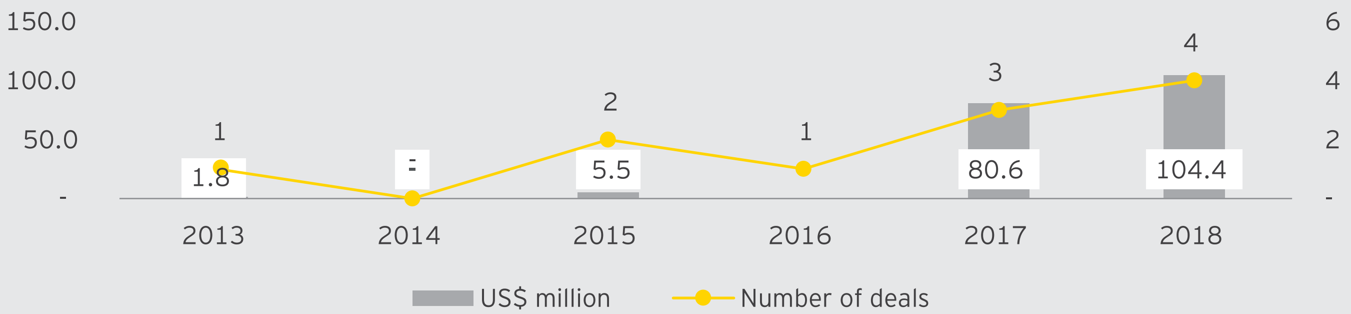
Source: *EY analysis of data from VCCEdge, Thomson ONE, Venture Intelligence*

Deal activity

PE/VC activity

The Digital Gaming sector recorded 12 PE/VC investment deals in the period 2013-2018 aggregating US$265 million and is the smallest segment in the E-commerce space for PE/VC investments. Two deals account for 68% of all investments in the sector during the review period – Tencent, Multiples and Kalaari Capital's acquisition of Dream 11 Fantasy Private Limited for US$ 100 million and IIFL and Rakesh Jhunjhunwala's US$79 million investment in Nazara Technologies Limited.

PE/VC investments in the Digital Gaming sector - annual trend (US$ million)

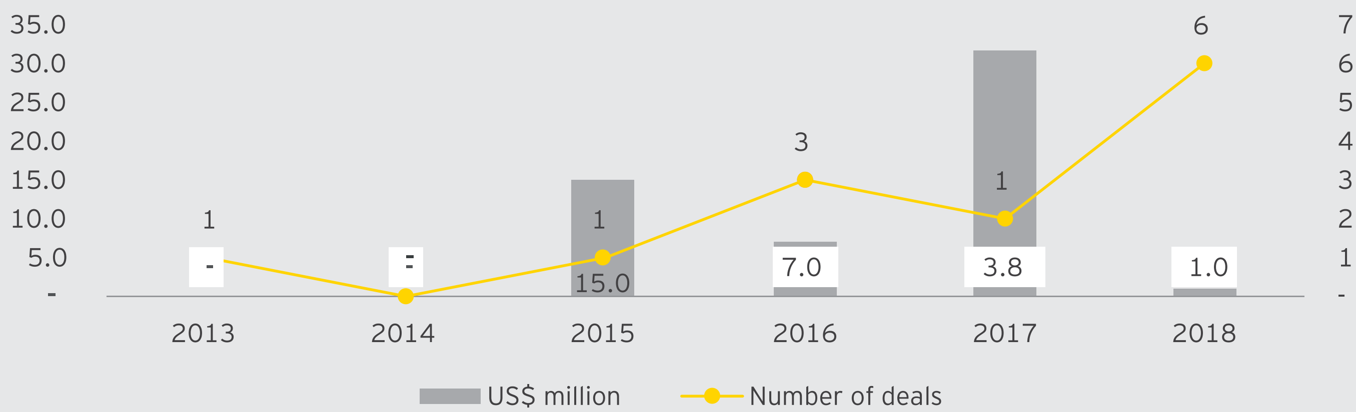


Source: *EY analysis of data from VCCEdge, Thomson ONE, Venture Intelligence*

M&A activity (including consolidation activity)

The Digital Gaming sector recorded 12 M&A deals in the period 2013-2018 aggregating US$27 million. Most of the M&A deals involves larger players in the gaming industry acquiring niche start-ups in the sector. Four out of the 12 M&A deals features Nazara Technologies Private Limited acquiring smaller start-ups in the segment.

M&A in the digital gaming sector - annual trend (US$ million)



Source: *EY analysis of data from VCCEdge, Thomson ONE, Venture Intelligence*

C. Future outlook

Interest in the Indian gaming sector will continue to increase and there newer avenues of monetization are likely to emerge. While global games have seen more downloads, localization in the Indian context is likely to push greater adoption, engagement and monetization. Real money multi-player card games like "Rummy" and "Teen patti" are expected to see exponential growth both in terms of revenue and also the number of users. Use of AR / VR technologies can enable the gaming industry to provide unique life like experiences to digital gamers participating in these card games.

Fantasy games especially focused on cricket and kabbadi are also expected to witness a stronger adoption and usage. This is because that fantasy games brings sports fans closer to gaming action as the users are encouraged to make changes to their selections through deep analysis of players' and teams' statistics. This results in a very high level of fans' engagement with the sport. With the numbers of internet users set to continue on its explosive growth path, Indian digital fantasy gaming industry is expected to grow exponentially.

On the back of initial success, celebrity themed games designed around fictional Bollywood characters like Dhoom 3: The Game, Fan: The Game, may continue to attract focus of the Companies. E-Sports is another segment which would continue to gain traction with the Indian gamers as the network infrastructure improves in the country.

12

Logistics tech

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A. Sector overview

Traditionally, the Indian logistics industry has been highly fragmented and unorganized with some estimates putting the share of the organized players at approximately 10% of the total market share. With the consumer base of the sector encompassing a wide range of industries, including retail, automobile, telecom, pharmaceuticals and heavy industries, the logistics industry has been increasingly attracting investments in the last decade.

Logistics spend in India is 13%-14% of the GDP with two third done through road, which suffers from poor road infrastructure and last mile connectivity. Various policy initiatives like building road infrastructure, dedicated rail freight lines, GST rollout impacting warehousing, e-way bill, passing of drone regulations, etc. are likely to improve the logistics network in the medium to long term. In the interim, companies like Elasticrun, Locus, Loginext are looking to apply technology to solve the demand supply requirements by using AI, analytics, internet of Things (IoT), etc. to fill the gap that exists in logistics infrastructure. At the same time, players like Rivigo and Blackbuck are revolutionizing the segment by using technology to organize the fragmented industry by connecting consumers with truck operators.

Start-ups in this segment are developing solutions aimed at improving all facets of the segment including productivity, transparency, end-to-end visibility, warehouse and yard management, fleet management, fuel cost management, customer relations and accessibility, real-time tracking and accountability.

There are four categories under Logistics Technology servicing various categories:

(a) Full stack and hub services – Blackbuck, Blowhorn
(b) Servicing SME companies – Porter and Trukky
(c) Servicing e-commerce companies – Delhivery, Shadowfox
(d) Home and corporate relocation services

While majority of the start-ups in this space are aggregators of third-party truckers that provide full stack solutions to customers, a few of them like Rivigo owns a portion of their fleet.

B. Investment rationale

Technology adoption is changing the operations of logistic companies and is helping make marginal improvement across the value chain; differentiation still needs to be established to provide the effectiveness of the model and the multi-layered supply chain doesn't make it easier.

Companies are using advanced algorithms and analytics to predict demand and meter supply, which results in determining the best routes and transaction pricing as well. On top of that, being full stack, they help manage the entire payout acceptance and settlement process. The add-on layers of financial services and vehicle credit, fuel and toll cards, servicing solutions, etc. create appropriate stickiness and engage needs grown for the players.

The overall outlook for the sector is bright as the sector is expected to see tremendous growth in terms of capacity through a host of ongoing and upcoming government initiatives like Bharat Mala, Setu Bharatam, district connectivity, Sagarmala, port-rail connectivity and development of 106 national waterways. Further, rising e-commerce footprint has also contributed to increase the demand for smart freight solutions which the traditional players were not equipped to provide.

Key PE/VC deals in the logistics tech sector in last 2 years

Company	Investors	Total funding (US$ m)
Zinka Logistics Solutions Private Limited (Blackbuck)	InnoVen Capital, IFC, Sands Capital Management LLC, Accel, and Sequoia	135
Diptab Ventures Private Limited (letstransport.in)	GMO Venture Partners and others	30
Shadowfax Technologies Private Limited	Eight Roads Ventures, NGP Adcisors, Qualcomm Venture Fund and others	22
Cogo Frieghts Private Limited	Accel	8
Camions Logistics Solutions Private Limited (GoBolt)	Aavishkaar Bharat Fund	6

Source: *EY analysis of data from VCCEdge, Thomson ONE, Venture Intelligence*

Key M&A/Strategic Investments in the LogisticTech sector in last 2 years

Company	Investors	Total funding (US$ m)
Resfeber Labs Private Limited	Orizonte Business Solutions Limited	8

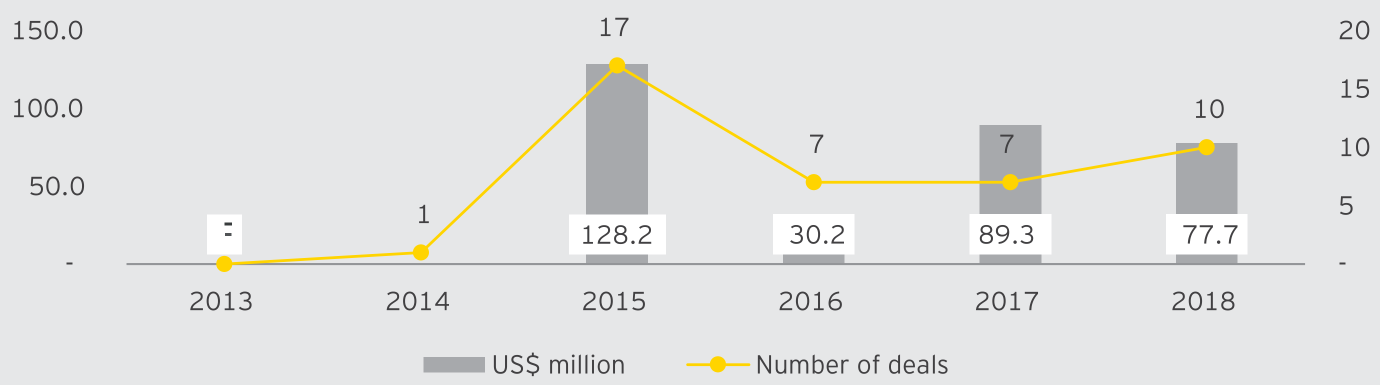
Source: *EY analysis of data from VCCEdge, Thomson ONE, Venture Intelligence*

Deal activity

PE/VC activity

The logistics tech sector recorded 42 PE/VC investment deals in the period 2013-2018 aggregating US$325 million. The most prominent players to receive these investments include Zinka Logistics Solutions Private Limited that operates the platform "Blackbuck" and Carthero Technologies Private Limited that operates the platform "Roadrunnr". Together, these two entities account for 50% of all PE/VC investments in the logistics tech space.

PE/VC investments in the logistics tech sector - annual trend (US$ million)

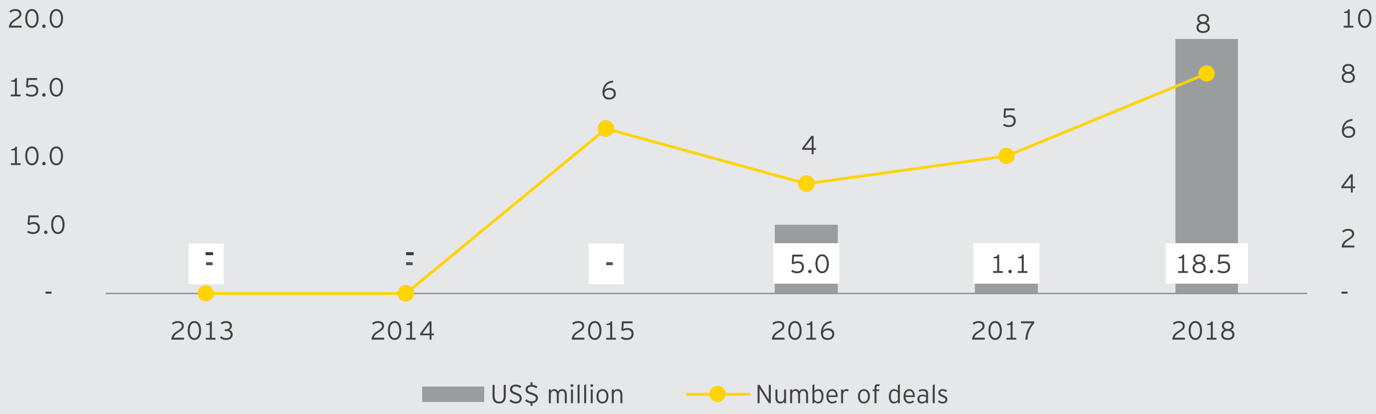


Source: *EY analysis of data from VCCEdge, Thomson ONE, Venture Intelligence*

Key M&A/Strategic Investments in the LogisticTech sector in last 2 years

The logistics tech sector recorded 42 M&A deals in the period 2013-2018 aggregating US$325 million. M&A activity in the logistics tech space has been limited with most of the deals happening in 2018. The largest M&A deal so far has been of US$7.7 million.

M&A in the logistics tech sector - annual trend (US$ million)



Source: *EY analysis of data from VCCEdge, Thomson ONE, Venture Intelligence*

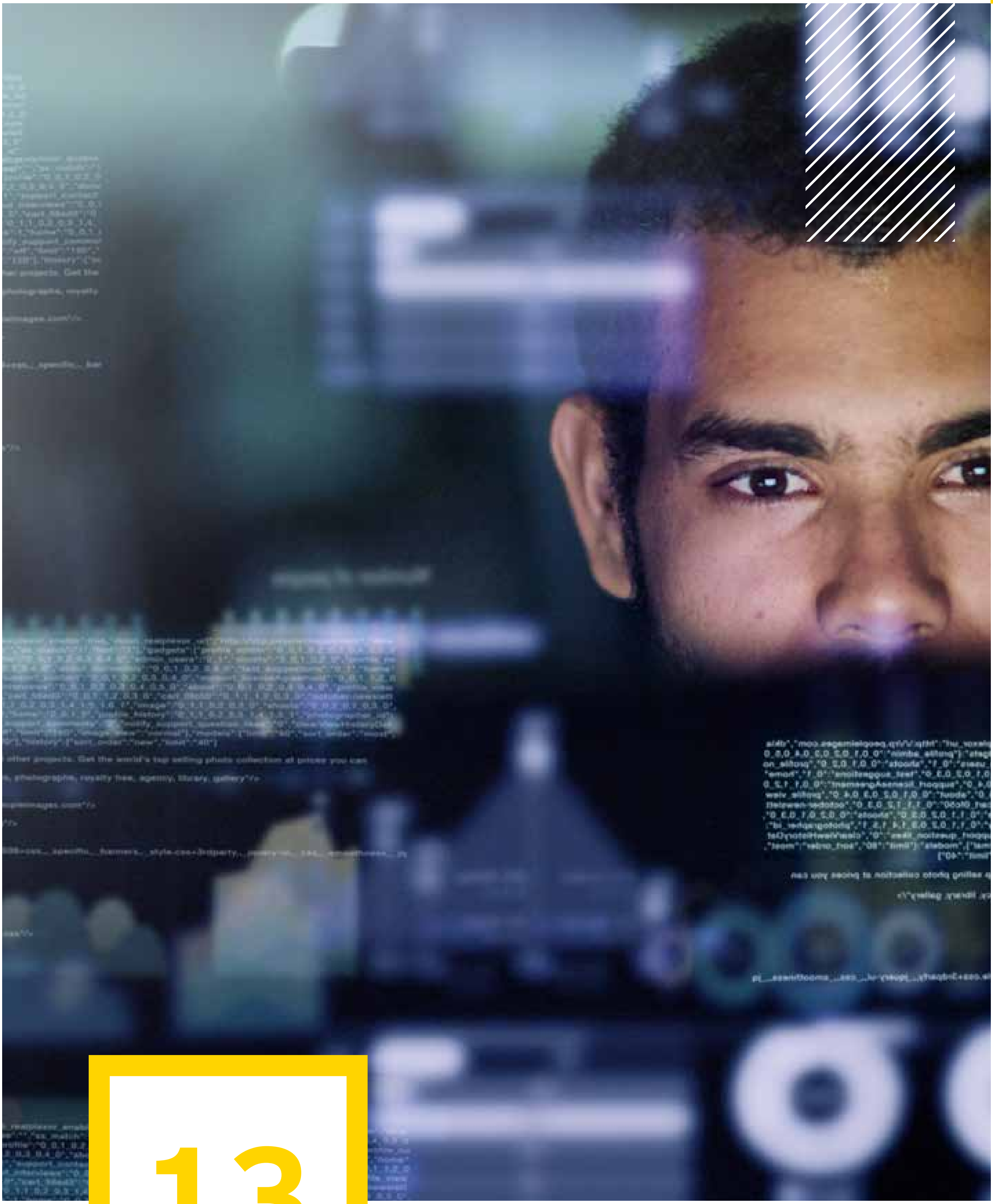
C. Future outlook

It is expected that the ongoing and upcoming government initiatives, growth in demand for transport and storage services, increased demand from end user industries, larger technology adoption, development of integrated facilities and fleet acquisitions by service providers and Third-party logistics providers will fuel growth in the coming days.

While many start-ups have realized that it is easy to start but difficult to scale in this space, the promising ones have found a strong footing basis backing of big ticket investors. This sector is particularly difficult to scale due to hidden execution complexities, wafer-thin margins and credit-based business models. Companies will look to expand offerings and provide ancillary services to scale, such as building financial services including lending and insurance.

However, players who can utilize technology to improve margins and offer cost benefits to their customers for them to move from unorganized to organized players, will scale faster and in turn attract investments.

In the search of scale, the logistics start-ups may also focus on tier II and tier III cities as most of the players are still focused on tier I cities. However, lack of large fleet owners in the country may continue to be a key challenge for players aiming to organize the highly fragmented sector. ML and automation will be important levers for efficiency and will be more impactful in the future, especially in warehouse management and technology.



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Online classifieds and services

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A. Sector overview

The Indian online classified industry has seen a rapid growth amidst major structural changes, introduction of new categories/ offerings, evolving business models, entry of multiple players and changing consumer behavior.

The digital classified industry has shown an enormous growth in the last couple of years and is projected to grow over US$1.2 billion by 2020. Companies like Quikr and Olx have historically dominated the online classified sector in India but there has been an advent of focused vertical players especially in cars, property, jobs, etc. that have changed the paradigm significantly.

The current market is dominated by C2B, B2C, C2C classifieds, online real estate, online matrimony, online recruitment and online automobile classified market. While the large players are grappling with issues like low profitability, higher customer acquisition cost, fake products and spam and fraudulent transactions, they are able to maintain traffic through extensive advertising by enabling brand recall, differentiated technology and unmatched user experience.

B. Investment rationale

The next phase of growth of digital classifieds is expected to be driven by the rapid growth of e-services, automobiles and real estate. The horizontal classifieds companies are expected to lead with about 30% market share of total digital classifieds in 2020. Google search trends reveal that the local searches across these categories have grown fourfold in the last four years, led by non-metros such as Pune, Ahmedabad, Chandigarh, Kochi, Coimbatore, Indore and Jaipur.

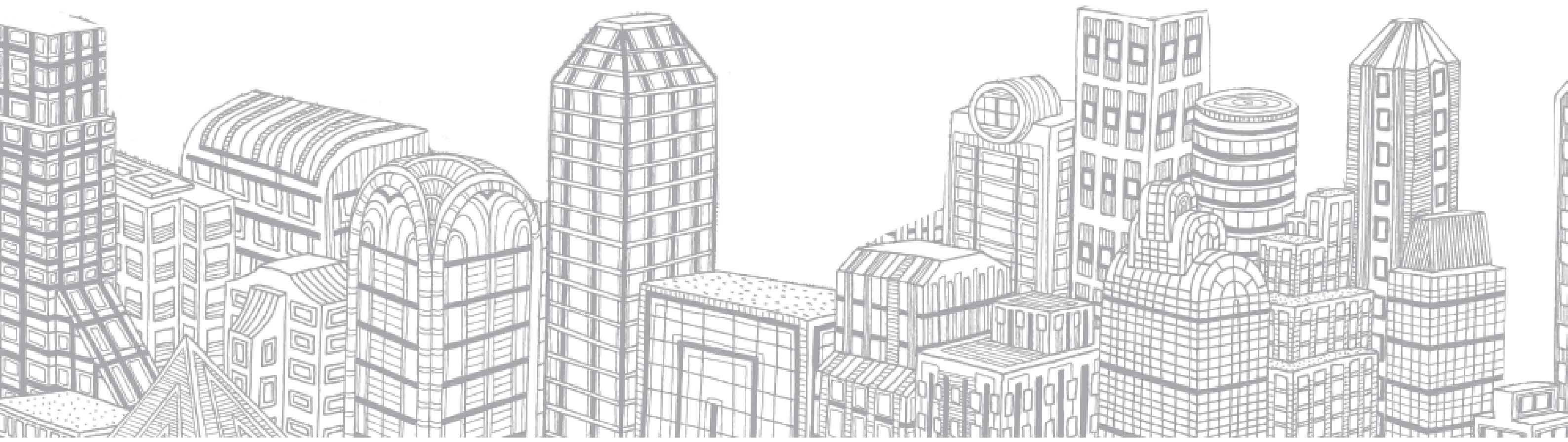
For larger horizontal players, the logical direction would be moving towards C2B model to improve control over transaction and conversations. There is also a likeliness of more opportunities in the refurbishment segment which also leads to differentiated value creation.

For the vertical, a focused customer experience provides greater stickiness and growth. Contract driven acquisitions in segments like real estate will only be possible for niche players which will ultimately create opportunities for micro market consolidation

Key PE/VC deals in Online Classifieds and services space in last 2 years

Company	Investors	Total funding (US$ m)
Girnar Software Private Limited (Cardekho)	Sequoia, Hillhouse Capital and Trifecta	104
Droom Technology Private Limited	Lightbox, Integrated Asset Management and others	20
Belong Technologies India Private Limited	Sequoia, Matrix	10
Quikr India Private Limited	Innoven Capital	8
Joveo Inc.	Nexus Ventures	5

Source: *EY analysis of data from VCCEdge, Thomson ONE, Venture Intelligence*



Key M&A/Strategic Investments in Online Classifieds and services space in last 2 years

Company	Investors	Total funding (US$ m)
Droom Technology Private Limited	Joe Hirao	30
Droom Technology Private Limited	Ellison Investments LLC, Digital Garage Inc and Toyota Tsusho Corp	30
Monster.com (India, SE-Asia & Middle East)	Quess Corp Limited	14

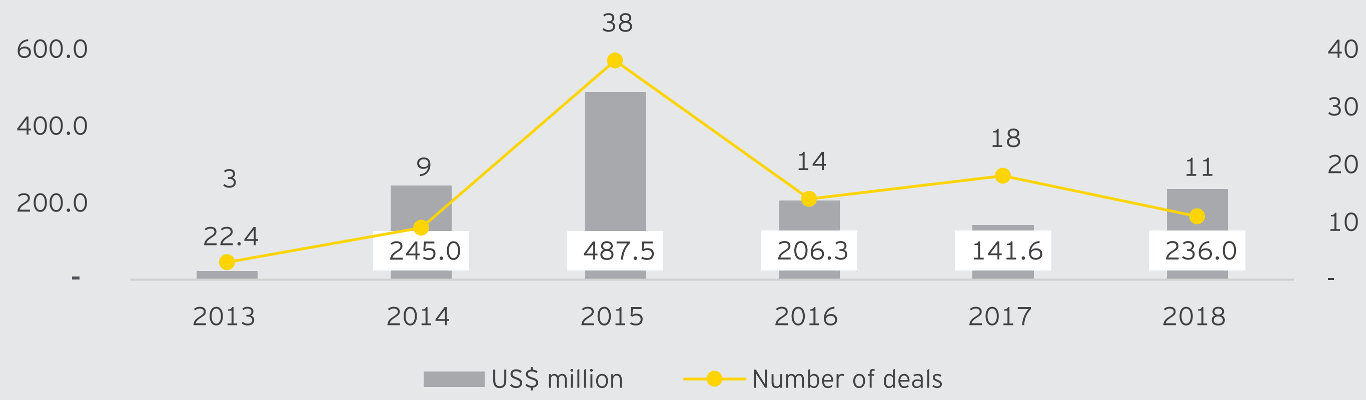
Source: *EY analysis of data from VCCEdge, Thomson ONE, Venture Intelligence*

Deal activity

PE/VC activity

The online classifieds and services sector recorded 93 PE/VC investment deals in the period 2013-2018 aggregating US$1.3 billion. This sector has recorded a consistent deal activity over the years albeit with smaller average deal size of US$17 million. Quikr, UrbanClap, Urban Ladder, CarTrade and Justdial were among the most prominent players to receive PE/VC funding. After B2C, online classified and services are the second largest in terms of number of PE/VC deals.

PE/VC investments in the online classifieds and servcies sector - annual trend (US$ million)

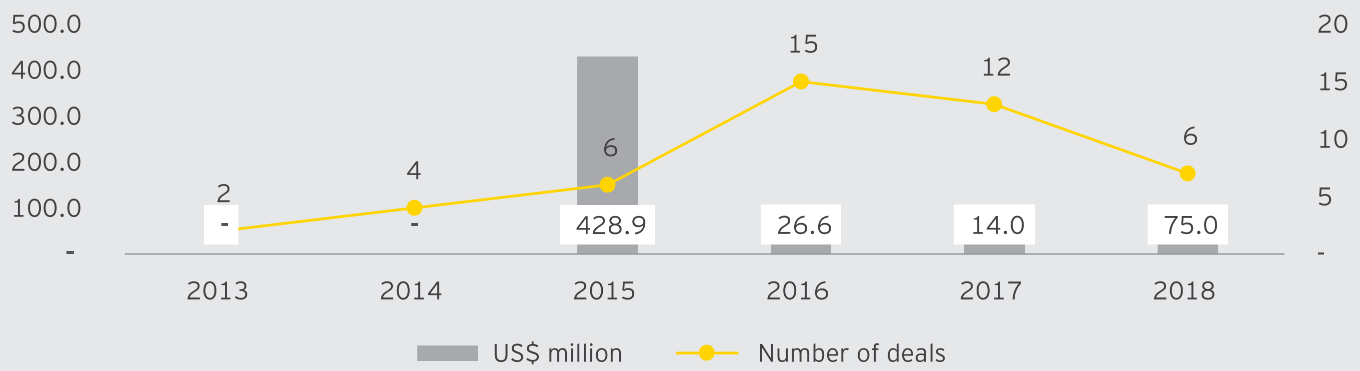


Source: *EY analysis of data from VCCEdge, Thomson ONE, Venture Intelligence*

M&A activity (including consolidation activity)

The Online Classifieds and Services sector recorded 45 M&A deals in the period 2013-2018 aggregating US$545 million. Quikr was the most active player in terms of number of M&A deals acquiring niche players like Glow Prime Technologies, FO Auto Technologies, ZapForce Technologies, Hiree and others. The largest deal in this space involved a US$427 million share buyback by Justdial.

M&A in the online classifieds and services sector - annual trend (US$ million)



Source: *EY analysis of data from VCCEdge, Thomson ONE, Venture Intelligence*

C. Future outlook

Online classifieds as an industry is developing dynamically with the archetypical digital business. Industry leaders have shown that the business model in classifieds is changing towards transactional revenues.

Leading players in each of the digital classified vertical may need to consolidate to grow volumes, improve conversion rates and enhance user experience.

In each of the market categories, there is room for current players and new entrants. Regardless of horizontal or vertical models, focusing on key markets and data-driven decisions regarding monetization and innovation will drive the industry forward.

Non-resident Indians (NRIs), largely constitute the target market for digital classifieds. Approximately 8%-9% of revenues of online real estate classified portals come from NRIs. Big players like Cardekho, Olx, Quikr, etc. would look to tap the international market for expansion.

As the digital classified segment undergoes a rapid transformation, a few challenges like unverified listings, optimization of CAC and low customer loyalty would need to be addressed to ensure profitable business models and customer retention. Convergence of online businesses is expected since the end customer is the same and there is a high possibility of e-tailing, e-services and digital classifieds to come together as a strong one-stop value proposition in the coming years. This would further enhance revenue streams, monetize possibilities and reduce overall cost of customer acquisition. For verticals like automobiles and real estate financing, lead generation and ancillary services like insurance spaces, etc. could also drive additional monetization.

While major players would try to increase adoption of online solutions, smaller players would focus more on providing niche services to a selected group of customers.

Dynamic transaction-based pricing models, monetization of data and investment in technology to drive differentiation amongst peers and creating unique customer experiences would be a key driver for investments in the near future.

Outlook

Over the past couple of years, we have seen how new and innovative solutions have proved themselves in the market. Some have disrupted traditional sectors while others have spurred new sectors altogether. While it is difficult to crystal gaze into what this dynamic industry can provide in the near future, no one can deny the potential the sector carries with it.

The trend we witnessed in terms of consolidation will continue into 2019. Segments in E-commerce and consumer internet space have depth but a higher burn needed to scale given the demographics and online adaptability which will result in aggregation. Also, companies will need to consolidate/acquire to add services and segments to expand the level of engagement with customers and utilize the pipe much better leading to better unit economics. Acquisitions by players will also happen in enabling technology company that support the companies in serving the market better with AI, voice/image enabled search, Blockchain, AR/VR, IoT, etc

Some of the unique innovations made in India are now finding takers across shores. With some of the bigger players taking the plunge and paving the way, global expansion should play out more. There are many geographies facing similar problems which are ripe for disruption and once scale is achieved in the segment in India, expansion to overseas markets is the next giant leap for companies.

As markets mature, similar to FY18 the surge in large investment rounds should continue in companies which are reaching scale and are ready for hyper growth. The start-up and VC ecosystem will continue to be relevant to the sector and be an important driver for capital, innovation and growth. The angel network and investors have also seen the significant value creation network as a result of the Walmart-Flipkart deal; they are likely to see this sector as an important investment opportunity especially in ancillary areas which feed e-commerce and consumer internet companies in areas like Technology, support, logistics, etc. This should also see increase interest from family offices and corporate VCs.

While regulations have been evolving, the government has taken steps to try and proactively address some of the concerns by talking to both industry players and investors groups. E-commerce policy including aspects of Data privacy policy, should hopefully be in place before the end of 2019 which should provide for a more consistent and operational certainty.

India is at an infliction point, where there is a change in the way we perceive digitally enabled services. By all estimates, the world in looking at India for innovations and unique service offerings and not only providing support and knowledge but also investments to back high growth potential segments in the e-commerce and consumer internet space. There has been consistent growth of FDI investments in India for the past couple of years, and we will continue to see the global community show confidence in India's ability to be a game changer in the E-commerce and Consumer Internet sector

Notes

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