



E-commerce Mega-Trends in India

May 29, 2019

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As a global equity analyst, one of the most interesting aspects of my job is identifying companies with innovative technology and solutions that disrupt mature industries.

But in emerging markets, sometimes the forces of disruption don't affect a single industry. Sometimes they affect a country's entire economy. That is happening in India today.

In the world's second-most-populous country, several major trends are coalescing to transform the way Indian companies and consumers transact. Changes spurred by 2016's demonetization, surging smartphone usage, and investments from large, multinational players point to big changes ahead for India's digital economy—and powerful opportunities for investors.

Early Stages of E-commerce

E-commerce is widely viewed to be at an inflection point in India. While the country trails only China in the number of internet users, both the percentage of the population with internet service and the penetration of e-commerce usage in India significantly lag international standards.

Only about a third of India's population was on the internet as of 2016, and cash is still the preferred payment method in the vast majority of transactions.[\[1\]](#)

As a result, the upside for e-commerce is enormous. India's e-commerce market is expected to grow from \$39 billion in 2017 to \$120 billion in 2020.[2]

Demonetization Spurs Digitalization

Indian Prime Minister Narendra Modi sought to bring banking to India's poor by semi-mandating free banking accounts for the population at large.

While this increased *access* to banking, it didn't gain much traction in terms of increasing *usage* of banking and digital transactions.

But that changed when the Indian government announced its demonetization initiative in November 2016.

The move to electronic payments got a big boost when the Indian government replaced all 500- and 1,000-rupee banknotes in circulation. While the move was designed, at least in part, to help with tax collection by bringing the shadow economy into the light, a follow-on effect has been a boost to digital transactions.

One study found that Indian online marketplace transaction value rose 93% and transaction volume increased 84% following demonetization.[3] Cash is still preferred in most cases, but the dramatic increase in the number of citizens with access to digital wallets bodes well for surging e-commerce penetration in the future.

Smartphones Go Mainstream

Another factor supporting the growth of India's digital economy is surging growth in smartphone usage.

India's smartphone revolution caught fire in 2016 when Reliance Jio stormed the market with low-cost service offerings, with customers paying an average of \$1.35 per month.

The effect will be revolutionary because consumers who previously had no access to communications via a landline now have internet, talk, text, and data—and all of the benefits and opportunities they bring.

Buoyed by cheaper smartphones, faster connectivity, and affordable services, the number of smartphone users in India is expected to grow from 292 million in 2017 to 491 million in 2022.[4] Smartphone adoption is expected to grow at close to 16% in 2018, the highest growth rate in any country included in eMarketer's study.

E-commerce Attracts Major Investments

Perhaps the strongest indicator of the potential upside for e-commerce in India is the breadth and depth of investment interest that's coming from international companies such as Walmart, Amazon, Softbank, Tencent/Naspers, and Alibaba.

In May 2018, Walmart announced its \$16 billion investment in Flipkart, India's leading e-commerce company. Amazon and Alibaba have both made multibillion-dollar investments in India as well. This level of interest and investment will act as an accelerator for e-commerce adoption.

Opportunities in Mature Industries

India's e-commerce industry is benefiting from several strong tailwinds that are pointing to sustained, transformative growth.

While hurdles remain, including a societal preference for cash over electronic payments, rising e-commerce penetration should create ample opportunities for digitally native companies to gain share in this massive market.

We are particularly interested in seeing how this will play out in mature industries. One such industry in India that is ripe for disruption is the travel industry. We are interested in seeing how digitally native companies in India are able to grow their earnings and capture a larger piece of the value chain while the country continues its transition to a digital economy.

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¹ Central Intelligence Agency World Factbook

² India Brand Equity Foundation (IBEF).

³ Agarwal, Sumit; Basu, Debarati; Ghosh, Pulak; Pareek, Bhuvanesh; and Zhang, Jian, "Demonetization and Digitization" (June 17, 2018).

⁴ eMarketer

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