

INTERNET ECOSYSTEM IN INDIA

With the advent of Reliance Jio's affordable internet prices in 2016, there has been a meteoric increase in the number of internet users in India. The Covid-induced lockdowns have transformed these internet "users" into potential internet "customers". These lockdowns have also created a structural shift in consumer behaviour that is driving significant online adoption across categories – a shift that is likely to be permanent and large, as new consumers in India get used to transacting from the comfort of their homes. Despite the Covid crisis, India's world-class fintech architecture (government and private) is enabling ease of commerce at scale. Digital payments continue to be on the up with the UPI network (government online payment rails) recording 2.2 billion transactions/\$52 billion in November 2020. We expect increase in adoption across eCommerce, FinTech/Digital Payments, E-Groceries/Food Delivery, education/EdTech and Online Gaming.

1. **eCommerce:** The increase in internet penetration, higher per capita income, broader selection, and convenient delivery are driving adoption and growth of eCommerce in India. This sector is expected to grow from \$24 billion in 2018 to \$133 billion in 2025 at 30% CAGR.
2. **Payments/Fintech:** India is an attractive market for fintech disruption driven by increasing internet/smartphone penetration coupled with low banking penetration. Penetration of digital Consumer-to-Business (C2B) payments (cards, UPI, wallets) is expected to increase from ~9% of GDP in 2018 to ~30% of GDP in 2025. Card spends (debit + credit) are expected to grow at ~23% CAGR. Overall share of UPI is expected to increase 50-55% of digital payments by 2025, while cards would be 40-45%.
3. **Life services/food delivery:** This sector includes food delivery, ride hailing, and online travel booking. The sector has been seeing tailwinds primarily due to the convenience provided during the Covid lockdown as well as poor infrastructure in larger cities. The market is expected to grow from \$13 billion in 2018 to \$61 billion in 2025.
4. **EdTech:** Key factors that have contributed to the growth of this sector include the significantly lower costs for delivering education at scale online, increased internet/smartphone penetration, poor existing infrastructure and a large untapped consumer base. The EdTech market is expected to grow from \$0.7 billion in 2019 to \$3.5 billion in 2022 at 60% CAGR.

LISTED INDIAN TECH COMPANIES

The table below lists the few tech companies listed on the Indian bourses. While India has had very few tech companies that have gone public, these companies have consistently grown over the past five years and provided investors with solid returns.

Company	Market Cap (\$ billion)	FY20 Revenue (\$ million)	FY20 PAT (\$ million)	Market Cap to Sales ratio	P/E Ratio	Free Float %	Daily Average Trading Volume
Reliance Jio Platforms (Reliance's digital services arm)	61 (Unlisted, but part of the listed Reliance Industries)	7,242 (64% CAGR over 2 years)	740	8.4x	82.4x	NA	NA
Info Edge (Online Classifieds Company)	7.4 (29x return since listing in 2006)	177 (12% CAGR over 5 years)	-32	41.8x	NA	59%	505,000 (0.4% of shares outstanding)
IndiaMart (B2B Online Marketplace)	2.0 (5x return since listing in 2019)	86 (29% CAGR over 5 years)	20	23.3x	100.0x	31%	145,000 (0.5% of shares outstanding)
Justdial (Local Search Engine)	0.5 (1x return since listing in 2013)	129 (10% CAGR over 5 years)	37	3.9x	13.5x	71%	2,736,000 (4.5% of shares outstanding)

Source: Public filings, National Stock Exchange

Note: Market Cap as at 7th December 2020

Reliance Jio Platforms: Jio Platforms is Reliance's digital arm that houses its telecom and digital offerings. At the centre of Jio Platforms is Jio Infocomm - with its almost 400 million subscribers. The Jio network connectivity is the basic foundation for offering digital services to millions of Indians. Through its telecom arm, the company offers wireless, home broadband, and enterprise broadband services. Jio Platforms also have an ecosystem of apps that provide digital services across segments such as communication, video, music, gaming and entertainment, home solutions, security, and health, among others.

Info Edge: As one of the few pure play internet companies in the country, Info Edge is an online classifieds company in recruitment, matrimony, real estate, education and related services operating through its online portals - Naukri.com, Jeevansathi.com, 99acres.com, shiksha.com and Quadrangle.in. The company has also invested in multiple Digital and Technology companies such as Zomato and Policybazaar.

IndiaMart is an online marketplace that facilitates trade between manufacturers, suppliers & exporters. The company focuses on providing a platform to Small & Medium Enterprises (SMEs), Large Enterprises as well as individuals. IndiaMart has over 113 million+ buyers, 6.2 million+ suppliers and 69 million+ products and services on the platform.

Justdial provides local search-related services through multiple platforms such as website, mobile apps, phone and text. Justdial currently has a database of ~30 million listings with ~130 million quarterly unique users and 500 thousand paid campaigns.

COMPANIES WITH IPO PLANS

The public markets for tech and digital companies in India is still nascent with the presence of very few companies (excluding Reliance Jio Platforms) whose founders decided to go for an early listing. However, the past 5 years has seen a huge influx of capital (\$63 billion) into the digital start-up ecosystem which has enabled companies to hit critical mass and build quality at scale. From 10 unicorns in 2016, India now has 33 start-ups that have attained the unicorn status. The recent bull run in global tech stocks has also prompted many of India's tech unicorns to announce IPO plans in 2021/2022. Key segments like eCommerce, FinTech & EdTech have had strong growth, driven by the increase in online adoption. Leaders in these segments are gaining market share and improving unit economics. Presented below is a list of top companies primed for an IPO in 2021/2022.

#	Company	Business	Revenue/Gross Merchandise Value (GMV)	Valuation (\$ billion)	Revenue/GMV multiple	IPO plans	Investors
1	Flipkart	eCommerce	\$8.5 billion (FY2019 GMV)	25 (Jul-20)	2.9x	2021	Acquired by Walmart at a \$20 billion valuation in 2018
2	Zomato	Online Food Delivery	\$400 million (FY2020 revenue)	3.3 (Sep-20)	8.3x	2021	Ant Financials, Info Edge, Sequoia, Uber
3	Ola	Online Ride Hailing	\$340 million (FY2019 revenue)	7 (Sep-19)	20.6x	2021	Softbank, Tiger Global, Tencent
4	Delhivery	eCommerce Logistics	\$226 million (FY2019 revenue)	1.5 (Sep-19)	6.6x	2021/2022	Softbank, Carlyle, Tiger Global, Nexus Partners
5	Pepperfry	Online Furniture	\$113 million (FY2020 revenue)	0.5 (May-20)	4.4x	2021/2022	Bertelsmann, State Street, Norwest, Goldman Sachs, Zodiuss
6	Policybazaar	Online Insurance	\$120 million (FY2020 revenue)	1.5 (Jul-20)	12.5x	2022	Softbank, Info Edge, Tiger Global, Tencent
7	Paytm	FinTech	\$480 million (FY2020 revenue)	16 (Nov-19)	33.3x	2022	Softbank, Ant Financials, Berkshire Hathaway
8	Byjus	EdTech	\$370 million (FY2020 revenue)	10.8 (Sep-20)	29.2x	2022/2023	Sequoia, Naspers, Lightspeed
9	PhonePe	FinTech	NA	5.5 (Dec-20)	NA	2023	Acquired by Flipkart
10	BigBasket	Online Grocery	\$1 billion (June-20 GMV run-rate)	2 (Apr-20)	2.0x	2023	Ant Financials, Mirae Asset Venture Investments, CDC Group, Zodiuss
11	Lenskart	Online Optical Store	\$65 million (FY2019 revenue)	1.5 (Dec-19)	23.1x	NA	Softbank, Kedaara Capital, PremjiInvest, TPG, Chiratae Ventures
12	Oyo	Online Hotel Aggregator	\$950 million (FY2019 revenue)	8.4 (Oct-19)	8.8x	NA	Softbank, Lightspeed Venture, Sequoia Capital

Source: News articles, Bernstein Report "India Internet: Top 10 private Internet companies with IPOs in 2021 & beyond.."

CONCLUSION

It has always been a fact that overseas listings have had advantages in terms of a diverse pool of investors and better benchmarking of business models. In addition, in May 2020, the Indian government cleared the decks for direct overseas listing of local companies in permissible jurisdictions.

However, in the last decade, the Indian Digital and Technology market has come of age. Historically, although there have been very few Indian listings of Digital and Technology companies, the Indian equity markets have rewarded private equity/venture capital investors with attractive exits and even given multi-bagger returns post IPO. Further, the market comps for publicly traded Digital and Technology companies in India indicate that the public markets reward this sector with similar/higher valuations commanded in the private markets. Should some of these companies go public in the next 18-24 months, that would unlock shareholder value to the tune of ~\$100 billion, taking the total market cap of listed Digital and Technology companies in India from <\$10 billion currently to ~\$100 billion (excluding Reliance Jio Platforms). We believe it is an exciting time to be a part of the Indian Digital and Technology growth story especially as the IPO markets start showing signs of creating exponential shareholder value.