

# Time to invest in e-commerce?

Business-to-consumer transactions are a high-growth market but options for retail investors are limited. Here are some:

RAM PRASAD SAHU & SHEETAL AGARWAL

The Indian internet user base is the third largest in the world but the business to consumer (B2C) e-commerce market is estimated to be only \$13 billion. However, a predominantly young user population, lower device and access costs, as well as higher internet speeds and smartphone penetration, is expected to help boost growth.

Given the expected rise in customer base and supporting environment for internet adoption, Credit Suisse analysts estimate e-commerce retailing or e-tailing would have a market value of \$60 bn by 2020. India has about 250 million internet users, with barely a tenth (25 mn) being online shoppers. This number is expected to double over the next six years.

While 70 per cent of current e-commerce is contributed by the online travel segment, with the rapid rise of various niches such as classifieds (Olx, Quickr) and e-tailing (Flipkart, Snapdeal), one may expect the share of other segments to increase. Given the potential, funding for some of the larger Indian e-commerce companies has not been a problem and should help these firms

### RIDING ON E-COMMERCE GROWTH

In ₹ crore	Net sales*	% change y-o-y	Net profit*	% change y-o-y	CMP (₹)	P/E (x)
Mold-Tek Packaging	273	37.8	11	118.7	198.5	13.5
TCPL	417	12.7	16	28.9	249.3	17.6
Manjushee Technopak	485	24.1	33	26.6	404.9	16.6
Kanpur Plastipack	225	32.3	10	39.1	56.3	4.3
Gati	1,504	19.7	35	262.2	176.2	44.0
Transport Corporation	2,070	5.0	64	22.2	203.8	21.5
Gateway Distriparks	1,041	8.1	143	17.5	265.1	20.2
Blue Dart	2,006	13.1	118	-26.1	5,247.5	124.2
Info Edge	529	17.7	139	39.1	862.4	129.4
Just Dial	492	27.5	121	51.1	1,629.1	94.7

CMP: Current market price; P/E: Price to earnings; \*Trailing 12 months ended June 2014; Compiled by BS Research Bureau

Source: Capitaline

expand operations.

For investors, though, there are very few listed options. Most analysts highlight names such as Info Edge, Just Dial and Blue Dart that investors could consider to ride the Indian e-commerce boom. MakeMyTrip is another but is listed in the US markets. Investors should remember that valuations are rich for most of these companies and a correction in share prices could be a good time to consider these.

#### Blue Dart Express

This company has 49 per cent of the organised air express market. It gets about 18 per cent of revenues from the e-com-

merce segment. The online commerce segment is expected to boost its overall growth, given the 50-60 per cent sectoral growth expected over the next five years. The Ebitda (earnings before interest, taxes, depreciation and amortisation) margin is 12 per cent and the higher share of e-commerce revenue, which has a margin upwards of 15 per cent, means higher profitability for the company. Its strong customer base, extensive network and technology support from parent DHL Express should help the company gain the most from the express services segment and particularly the fast

growing e-commerce business.

While analysts believe e-commerce will be a key growth driver, the stock trades at an expensive 59 times its FY16 earnings per share estimates. The valuations have surged mainly from April this year. In this backdrop, investors could await a meaningful correction before considering the stock.

#### Info Edge

Info Edge owns a host of classified websites -- Naukri.com, 99acres.com, Zomato.com and Jeevansathi.com, among others. Naukri.com and 99acres.com are leaders in their respective domains and account for most

of the revenue (Naukri.com for most of the profit). Economic recovery augurs well for both these. For Naukri.com, competition is limited in the lower-to-mid segments where it dominates. Yet, high competition from MagicBricks, CommonFloors, IndiaProperty and Housing.com is a key concern and could delay the break-even event of 99acres to FY17, believe analysts.

Zomato and Meritnation are growing well but require continuous investments. As the smaller businesses attain scale and break even, Info Edge's profits will become more diversified. Jeevansathi.com is a number three player and is making losses. The management does not plan to make big investments to revive this portal. Overall, analysts expect Info Edge's revenue and net profit to grow at an annual 23 per cent and 29 per cent, respectively, over FY14-17. Additionally, Info Edge owns strategic stakes in early stage ventures such as policybazaar.com, mydala.com and happilymarried.com. These offer scope for monetisation (listing, private equity investment) in the medium to longer term. However, while investment in start-ups is a growth opportunity for Info Edge, it is also a key risk. The company

has written off loss-making businesses earlier and the possibility of more of such cannot be ruled out, given the nature of the businesses. The good part is Info Edge's total investments in these are not significant enough to be a major worry.

#### Just Dial

Just Dial is India's leading local search engine on the voice medium. Its online (website) and mobile application search platforms are still nascent. The number of searches on the internet, though, are rising for Just Dial and presents a huge growth opportunity. The company recently launched Search Plus, which combines searches with offline transactions.

For example, a user can search for a local restaurant and book a table/order food there as well. The offering is in a nascent stage and will play an important role in Just Dial's internet and mobile business growth. High competition from peer search engines (Google Plus, Askme, Getit) and vertical websites (Zomato, bookmyshow) is a key risk. Only two to three per cent of Just Dial's total users are paying clients and, hence, the potential for monetisation remains high.



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# Cashing on the e-commerce opportunity

Business to consumer transactions are a high growth market but options for retail investor are limited to a few names. A brief look at some of these

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Though India's current size of internet users and shoppers is small compared with countries such as China, what has helped the domestic e-commerce segment grow 80 per cent in calendar year 2013 (CY13) has been the evolution of the internet. Analysts at ICICI Securities say the transition to the digital medium has come with the number of internet users doubling in three years, 200 per cent year-on-year growth in smartphone shipments in CY13 to 50 mn units, and introduction of innovative business practices like 'cash on delivery' to suit local preferences.

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