


E-commerce and consumer internet sector

India Trendbook 2023
February 2023

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Foreword

2022: YEAR OF THE RESET

E-commerce and consumer internet sector in India has been on a growth spree in the last few years due to continued improvements in digital infrastructure, digital adoption and pandemic-led changes in user behavior. E-commerce retail sales witnessed a 25% growth in 2022, with an expected compounded annual growth of 20% till 2030. With evolving market dynamics and maturing of the industry, internet businesses are realigning their business strategies to balance customer delight with resource efficiency.

Investors took a measured but optimistic approach in 2022, focusing on early-stage companies instead of late-stage ones. The total PE/VC funding raised by the Indian e-commerce and consumer internet start-ups in 2022 (US\$15.4b across 506 deals) was almost twice the funding in 2020 (US\$8.2b), in line with economic macros and capital deployment. However, US\$12.6b of this deployment was invested in H1 of 2022, likely spillover effects of momentum from 2021. Average ticket sizes fell from US\$60.5m to US\$30.5m. Even amidst this slowdown, a higher number of start-ups raised rounds between US\$5m to US\$25m from PE/VCs than the ones raising significantly large or small rounds.

While the “funding winter” was clearly apparent in 2022, high-impact sectors continue to show tremendous growth and widespread impact. Companies in AgriTech and HealthTech raised \$600M and \$779M in the last year, respectively. EdTech companies had to reconfigure their online and hybrid offerings to match consumer preferences as the pandemic subsided. Their growth, and hence capital infusion in the sector, slowed down but scaled startups still raised large rounds of investment in H1 of 2022.

2022 has been the year of realigning business goals toward sustainable growth. In 2021, the pandemic-induced digital adoption had created an anomaly in the velocity of the funding ecosystem. As consumer preferences and operational realities reset to hybrid formats in the last year, start-up trajectories, as a result of capital availability and deployment, also adjusted to measured valuations and a focus on profitable growth.

Businesses are moving from aggressive to efficient customer acquisition, from growth-oriented to resilient business models. Several firms have already announced their increased focus on improving retention metrics, operational excellence and attaining profitability. Prudent entrepreneurs are chasing the north-star metric of LTV-to-CAC, pumping the gas on customer acquisition only after their product-market fit has been achieved. Further, they are exploring new ways of cash generation, such as user and data monetization and expansion into new business segments.

2023 will witness Tier 2 and 3 cities driving the exponential growth of internet businesses. 2022 already saw a phenomenal increase in e-commerce activity in Tier 2 and Tier 3 markets as digital infrastructure and logistics networks expand beyond urban areas. Industry players are increasingly looking to convert first-time customers from these markets, by expanding supply chain networks, embracing multi-lingual content and leveraging innovative payment models. Social commerce has emerged as a channel for accessing and building a trusted and loyal customer base in these important and growing markets.

We remain excited about this space because of the pace of digital adoption, playing out of the demographic dividend, continued improvement in government initiatives and related infrastructure, India’s emerging relevance in global supply chains and the quality of entrepreneurship. These factors have reached dimensions where the e-commerce and consumer internet sector is going to be the largest value-creator, employer, and contributor to the GDP of India!



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Preface

India, which remains the fastest growing economy in the world, is projected to grow by 6.1% YoY in 2023. Home to the largest consumer base worldwide, the country presents an immense market opportunity for the e-commerce sector. Driven by improving digital infrastructure, 312 million online shoppers, and a supporting FinTech infrastructure, ranked first worldwide, India is poised to become a global e-commerce hub. While the growth is increasingly broad based, this rapid growth is also fueling growth in the periphery industry, particularly in online content creation, reverse logistics, warehousing, and financial services.

The Government of India's stupendous effort to provide an enabling infrastructure is also helping to establish market growth within the sector. Government-e-marketplace, an online platform for public procurement, witnessed over 160% growth YoY to attain the annual procurement of INR 1 lakh crore in 2022. The launch of Open Network for Digital Commerce (ONDC), a private non-profit company established by the Department for Promotion of Industry and Internal Trade of Government of India to develop open e-commerce, will further accelerate industry growth.

Various start-ups targeting this growth potential have now become the favorites for leading global and Indian investors. With over 16 e-commerce unicorns, the sector is attracting significant interest from Private Equity/Venture Capital (PE/ VC) funds to invest in India's e-commerce and consumer internet growth story. PE/ VC funds, which have helped change the landscape of the Indian economy by providing new and large investments, have invested over US\$62 billion within the sector in the previous three years.

This report is the latest edition of our annual series of e-commerce and consumer internet sector trends book. EY, IVCA and PeerCapital are proud to bring out this report to deliver a deep dive into PE/ VC activity, M&A and market consolidation. The report highlights investments, start-up financing stage, and the outlook for over 14 subsectors within e-commerce and consumer internet sector, to provide a complete 360-degree view to the reader. With this report, our intention is to catalyze India's positioning as one of the fastest-growing e-commerce markets worldwide, by highlighting the country's growing digital infrastructure and apprising readers of the huge consumption base present in India.





India e-commerce market

India promises a tremendous market potential with a strong digital ecosystem and robust customer base

India is among the most promising e-commerce market today, supported by the largest consumer base and a dense demand network. India's consumer digital economy is expected to be a US\$1 trillion in 2030, supported by rapid digitization and increasing investments.¹ The country leads in digital payments transaction (ranked 1st), internet user base (ranked 2nd), number of online shoppers (ranked 3rd) and global investments in digital shopping (ranked 2nd) with investments of US\$22 billion in 2021.

India is one of the **fastest growing retail e-commerce market** and witnessed record **US\$22 billion investments** in digital shopping, second highest worldwide.

E-commerce metrics	USA	China	India	
B2C E-commerce index 2020 ²	12	55	71	Up from 75 in 2019
E-commerce growth 2022E ³	9.4%	9.1%	25.5%	High growth compared to 9.7% worldwide
Retail E-commerce share of total retail sales ⁴	16.1%	46.3%	7.8%	Huge growth potential
Global Investment in Digital Shopping 2021 ⁵	1 st US\$51b	3 rd US\$14b	2 nd US\$22b	Second largest digital shopping investment across the globe

India provides the **largest consumer base** (in terms of population) and the **second largest shopper base** (with 312 million online shoppers) worldwide.

Huge consumption base	USA	China	India	
Population ⁶	340m	1,425m	1,428m	Ranked 1 st in population worldwide
Online shoppers ⁷	268m	842m	312m	Second largest shopper base worldwide
% of consumers who purchase groceries online ⁸	60%	91%	78%	Ranked 6 th in the world
Gross national income per capita (PPP) ⁹	US\$70,000	US\$19,000	US\$7,000	High growth potential

A market leadership position with **\$1.5 trillion UPI payments processed** in 2022 and the **second largest internet user base**, the digital infrastructure is a key enabler for E-commerce growth in India.

Digital infrastructure metrics	USA	China	India	
Smartphone penetration ¹⁰	74%	64%	46%	High potential to grow
Internet users ranking 2023 ¹¹	3 rd	1 st	2 nd	Bharatnet to further drive growth
Digital payments transaction 2020 ¹²	9 th	2 nd	1 st	Market leader with \$.15t UPI transactions in 2022

The market ecosystem is supported by rapid digitization, start-up growth, and government support

The rapid growth in Indian internet and e-commerce sector is enabled by a robust ecosystem, revolving around digitization, high data consumption, start-up growth, and increasing government support. India has the highest mobile data consumption rate in the world, supported by the fifth lowest data rates globally. A robust start-up ecosystem also ensures presence of 16 e-commerce unicorns in India, with the segment attracting PE/ VC investments of US\$15.4 billion in 2022.¹³ The Indian government is also playing an active role, helping enable e-commerce payments and digital transactions. Government-e-marketplace, an online platform for public procurement in India, witnessed 160% YoY growth in 2022.¹⁴

Robust ecosystem paves the way for sustained e-commerce growth

Digitization of SMEs¹⁵

160% Growth of Government-e-Marketplace MSME contribution to total business on GeM: 57%

194% Increase in SME revenue by adopting e-commerce

65% MSEs adopted/ upgraded their digital landscape

82% Kirana stores started using new digital business tools during pandemic

Indian consumers and businesses are increasingly shifting online, even for activities that used to be face-to-face or in-person, resulting in the merging of physical and digital worlds through e-learning,

High data consumption¹⁶

12 GB Highest mobile data consumption rate in the world (per user/ per month)

6:23 Average time spent online in India (Global average: 6:37)

US\$0.17 Average price of 1GB data in India (Global average: \$3.12)

156 minutes Time spent per day viewing entertainment content on their smartphones

Low data prices, along with greater time spent online, has resulted in users consuming high amount of information and entertainment via mobile devices

Robust start-up ecosystem¹⁷

Third Largest global ecosystem for start-ups with over 88k start-ups

16 E-commerce unicorns in India (109 e-commerce unicorns worldwide)

US\$15.4b PE/ VC investments in E-commerce sector in 2022

As Make in India expands to the technology industry, there is the rise of a burgeoning start-up ecosystem, fueled by growing investor interest and ease of doing business.

Government support to build Digital India¹⁸

346m Online transactions such as E-commerce and digital payments

US\$1.5t UPI transactions in 2022

2.2b CoWin vaccinations

5.6b DigiLocker documents issued

The Government of India has rapidly adopted digital platforms for e-governance initiatives

Source: TRAI, media articles

Rapid e-commerce growth is leading to development of peripheral industry

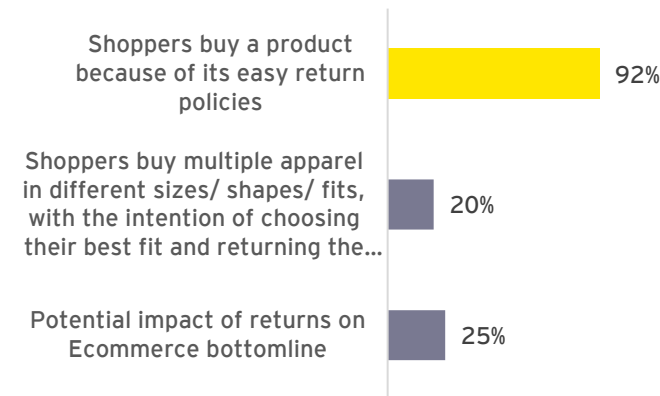
The rapid expansion of e-commerce has had a knock-on effect on many periphery industries. This has led to opportunities for a wide variety of support companies including those that specializing in infrastructure and logistics. Among the sectors capitalizing on this growth are online content creation, reverse logistics, warehousing, and financial services.

Growth in online content creation

E-commerce players are increasingly switching their focus from acquiring new customers to driving engagement. They are trying to convince users to stay on their platforms longer with the belief that this will correspond to more retail purchases. Companies have done this by expanding their moving into new services, gamifying promotions, and adding creative content.

An estimated 216 million shoppers will leverage video commerce in India by the end of 2022, which is a 47% increase from last year. This is almost half of the total E-commerce users in India. Further, while 33% shoppers each prefer an explainer video or customer testimonials video, another 32% prefer video demonstrating the product.¹⁹

Demand for reverse logistics

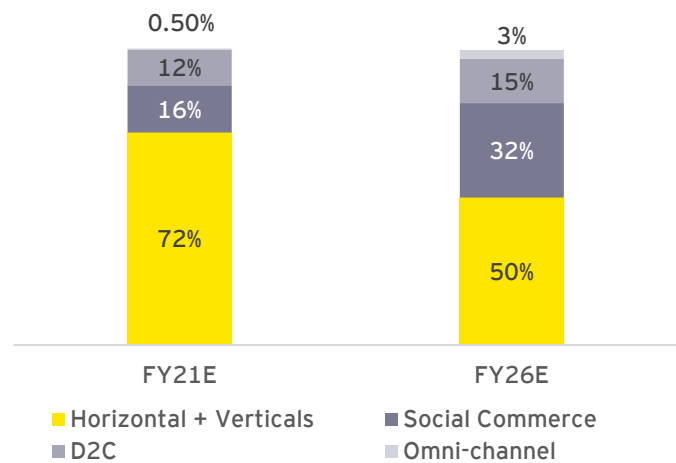


Source: Media articles

With customers checking the returns policy of a company as part of the decision-making process, there is a need for e-commerce firms to integrate reverse logistics as part of their business model. In India, the reverse logistics market is estimated at US\$ 29.54 billion in 2022 and is expected to reach US\$39.81 billion by 2027, registering a CAGR of 6.15%.²⁰

Source: BofA Global research report, media articles

Need for 3PL and warehousing



Source: BofA research

With E-commerce shipments expected to rise by CAGR 32% - 35% during FY20 - FY26E, there is a growing need for Third-party logistics (3PL) providers.²¹ Further, third-party logistics and e-commerce account for 60% of warehousing space, presenting an investment opportunity of \$3.8 billion.²²

According to a report by Confederation of Real Estate Developers' Associations of India (CREDAI) - Anarock, India will need to create adequate supply to meet an absorption of about 223 million sq ft of Grade-A warehousing demand over the next three years.²²

Financial services complimenting growth

The e-commerce and FinTech sectors continue to complement each sector's rapid growth. Starting from cash-on-delivery payments, the e-commerce industry now provides multiple innovative payment options such as payment gateways, credit/ debit cards, digital wallets, UPI, net banking, and buy now pay later (BNPL).

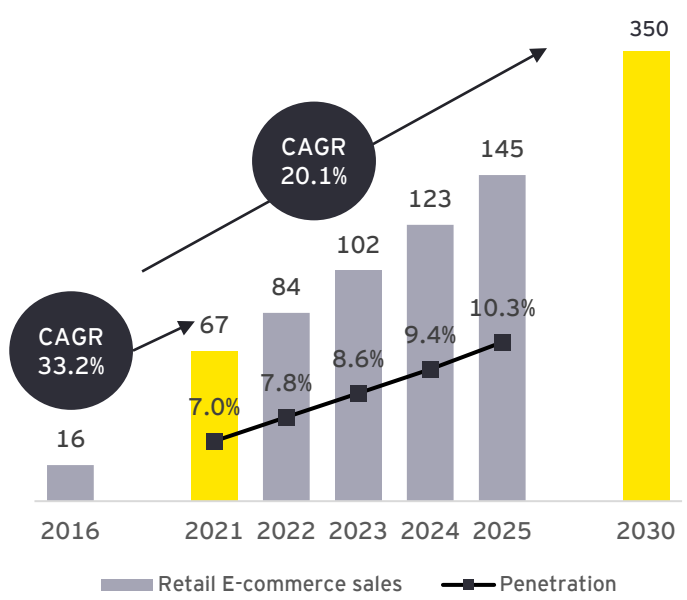
According to a research by Benori Knowledge, payments through BNPL will comprise 14% of the transaction value for e-commerce companies by 2026, growing nearly 5x from 3% of such transactions in 2021.²³

E-commerce moves towards the next phase of growth: stabilization

After a rapid growth of over 33% for the past five years (2016 - 2021), the Indian E-commerce industry is entering its next phase of development marked by focusing on building a sustainable business model. With this phase being marked by damp macroeconomic conditions, increasingly demanding customers and depleting cash influx, the E-commerce sales is expected to decelerate to a 20% CAGR in 2021-2030.

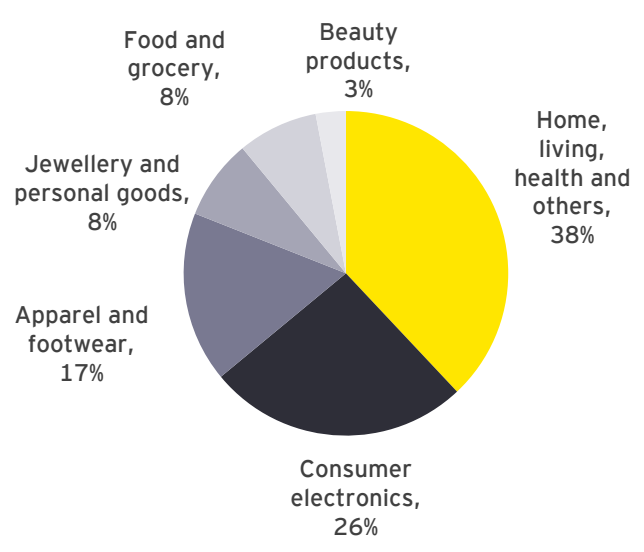


India e-commerce market size and penetration



Source: eMarketer, IBEF

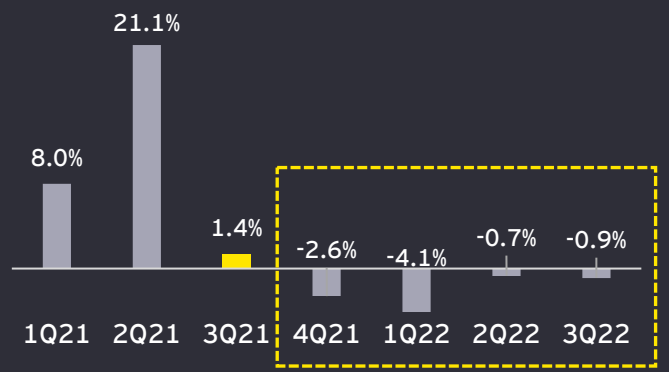
E-commerce retail sales by category (2022)



Source: Credit Suisse report

Rationale for market stabilization

Consumption moderation in FMCG sector (sales volume)



Source: NielsenIQ



High revenue shopping in retail stores as market reopens post COVID



Rising costs for shipping, fulfilment, labor, and customer acquisition



Decline in non essential purchases driven by rising inflation and macroeconomic uncertainty

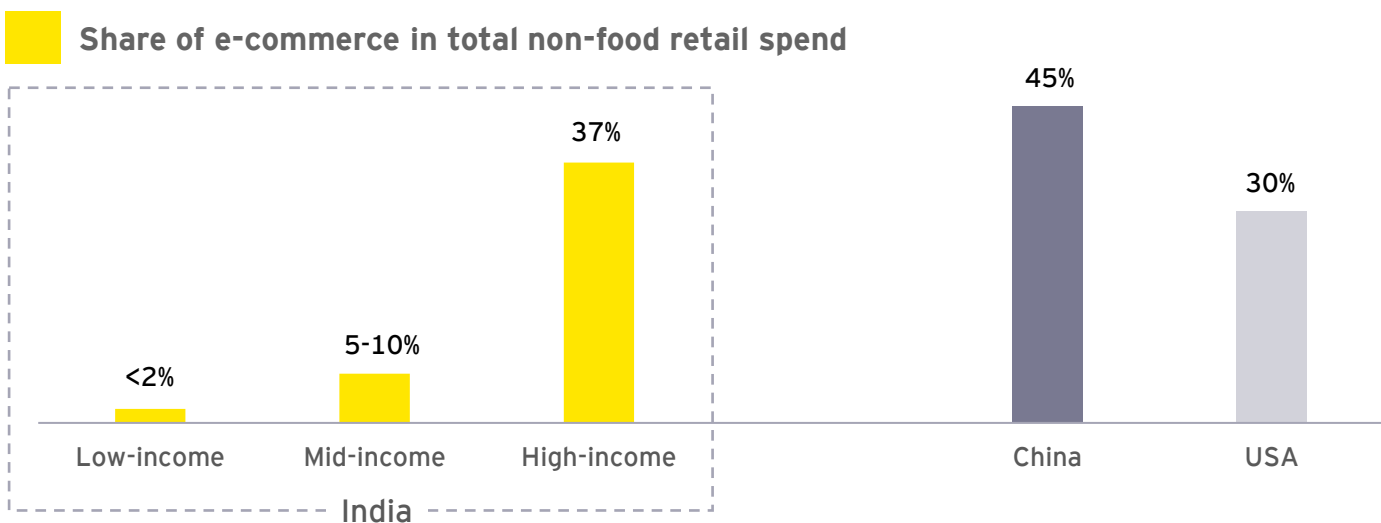


Shift in focus from customer acquisition to operational efficiency to help drive profits

Market stabilization clears the fog as industry players plan for profitability

Indian e-commerce sector is witnessing consumption growth moderating across categories, especially in segments considered to be discretionary such as non-food retail. Further, the festive sales offerings including Prime Day sale event and similar sales from other large vendors, which generally witness massive sales, remained subdued this year despite discounts being higher, highlighting the shift towards market stabilization.

In the past few years, e-commerce has witnessed rapid adoption, with more than one-third of high-income households spending through online and digital channels. A majority of high-income households have increased their spend via the e-commerce medium in the last five years, however the adoption is expected to stabilize in the coming years.



Source: Credit Suisse

The share of e-commerce in high-income households is expected to flatten going forward, in-line with trends in other economies such as the US and China, where e-commerce share in overall spend began to stabilize when in the range of 30% to 40%.²⁴

With e-commerce growth stabilizing for the high-income group on the other hand and the industry witnessing higher competition, consumer internet and e-commerce firms need to turn to the mid-income and low-income groups to drive growth. These groups, spread out across rural, suburban and urban parts of the country, have lower spending capacities and hence would have a smaller average order value. Further, to cater to groups across different categories and demography, greater investment in supply chain networks and product portfolio would be required. All these trends point towards the stabilizing growth of the e-commerce firms in India..

Source: Media articles

A key impact of market stabilization is increasing consolidation in some of the e-commerce sectors such as hyperlocal food delivery and edtech. The Indian food delivery market, for instance, has transitioned from a multi-player market to almost a duopoly in the last five years. Industry consolidation is expected to place the incumbents in a stronger market position, with both higher buyer and a higher supplier power, which can help drive profitability for key players. Looking into recent commentary from leading Indian EdTech start-ups, profitability emerges as one of the top business objectives to achieve a sustainable business model in the long run. The Indian EdTech industry saw its first profitable unicorn last year, bootstrapped with positive cash flows since inception.

Focus shifts towards building operational efficiencies and optimizing costs

Driven by growing market stabilization and the need for sustainable business, e-commerce companies must focus on operational efficiency for cash generation and future growth

Driven by these growing challenges around sales moderating, decline in PE/ VC investments, and increased focus on profitability, e-commerce companies are looking for measures to develop a sustainable business. To achieve this, companies are now looking for means to unlock profits, including cost reduction measures, exiting business verticals, restructure business to gain operational efficiency, and ramping up seller subscription offerings.

While consumer services such as food delivery start-ups are looking to boost revenue from major metropolitan and Tier 1 cities to offset the lower unit economics of smaller towns and cities, EdTech firms are focusing on affordability and market consolidation. Industry players in some sectors are looking to focus on their core business through business restructuring and looking to generate new revenue streams in others.

Large global e-commerce firm

Driven by growing expenditures and lack of profitability, a large global e-commerce firm closed down parts of its India operations as part of its **cost-reduction campaign** amid global macroeconomic uncertainty. The company exited meal deliveries, service providing bulk doorstep deliveries of packaged consumer goods to small businesses and decided to shut down its distribution and EdTech offerings. The e-commerce firm now aims to focus on its core businesses and invested INR400 crores in the company's Logistics subsidiary to further enhance business operations synergy.

Large India-based e-commerce firm

An India based e-commerce company's B2B arm plans to **reorganise its business operations** to leverage existing **operational synergies** and drive **cost efficiencies**. This initiative strives to drive greater value to B2B customers which include kiranas, re-sellers and other businesses. The company also **scaled down its quick-commerce** service and consolidated the business with its next-day grocery delivery platform.

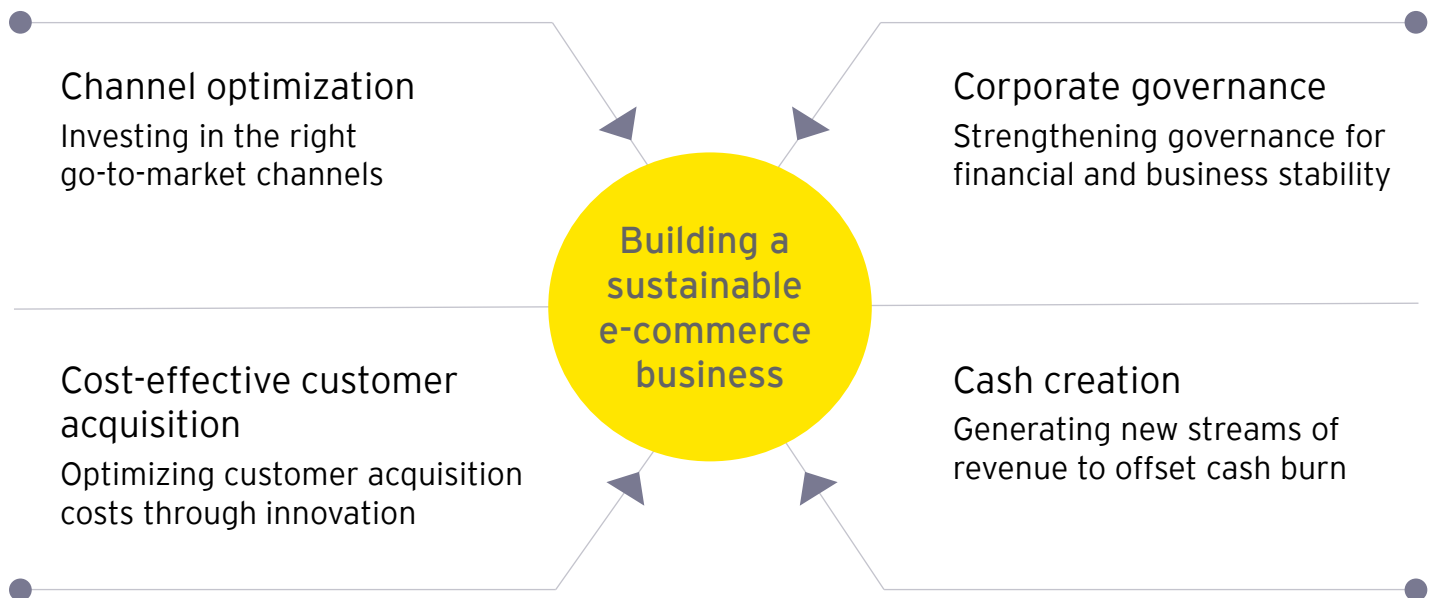
Indian social commerce start-up

An India-based social commerce start-up has **shut down its grocery business** in more than 90% of cities in India, resulting in job losses. In its path to achieve profitability, the company aims to enhance ad monetization, **ramp up seller services** - piloting financial services and cataloguing of products, for large sellers who are willing to **pay a subscription and reduce performance marketing spends** on acquiring customers.

E-commerce firms are looking to build a sustainable business by driving internal efficiencies

With evolving market dynamics, e-commerce businesses need to take a step back and reassess their existing business models to ensure scalable and sustainable growth to create value. It is essential to align growth and cost levers to boost profitability. Sustainable growth can be achieved by focusing on cash creation, building a strong organizational culture through governance and optimizing operations.

Building a sustainable e-commerce business



- ▶ **Channel optimization:** Despite continued strong growth in e-commerce, businesses need to acknowledge the fact that digital sales alone does not necessarily drive earnings. An omni-channel approach not only enhances the customer experience but also helps in the streamlining of business margins. Thus, it is essential for businesses to spend enough time on identification of the right channel mix from multiple options such as social media, marketplaces, search engine and offline modes.
- ▶ **Corporate governance:** As businesses focus on the next phase of growth, there is increasing focus on corporate governance to build investor and customer confidence. Some of the leading players in food delivery and online retail have strengthened their corporate governance team, while others have focused on business reorganization to drive long-term growth.
- ▶ **Cost-effective customer acquisition:** Customer acquisition is a key cost component for e-commerce businesses, and as they mature, they need to optimize customer acquisition costs through a greater focus on customer retention. Some industry players are also leveraging models such as subscriptions and building a diverse portfolio to upsell, therefore lowering customer acquisition costs.
- ▶ **Cash creation:** With e-commerce firms witnessing high cash burns, businesses are exploring new ways of monetizing their existing users and generating new revenue streams. Consumer internet and e-commerce companies are focusing on growth segments such as advertising and social commerce and monetizing user-generated content.

As the industry enters its next leg of growth, it is imperative for businesses to think about not just achieving but sustaining business growth.

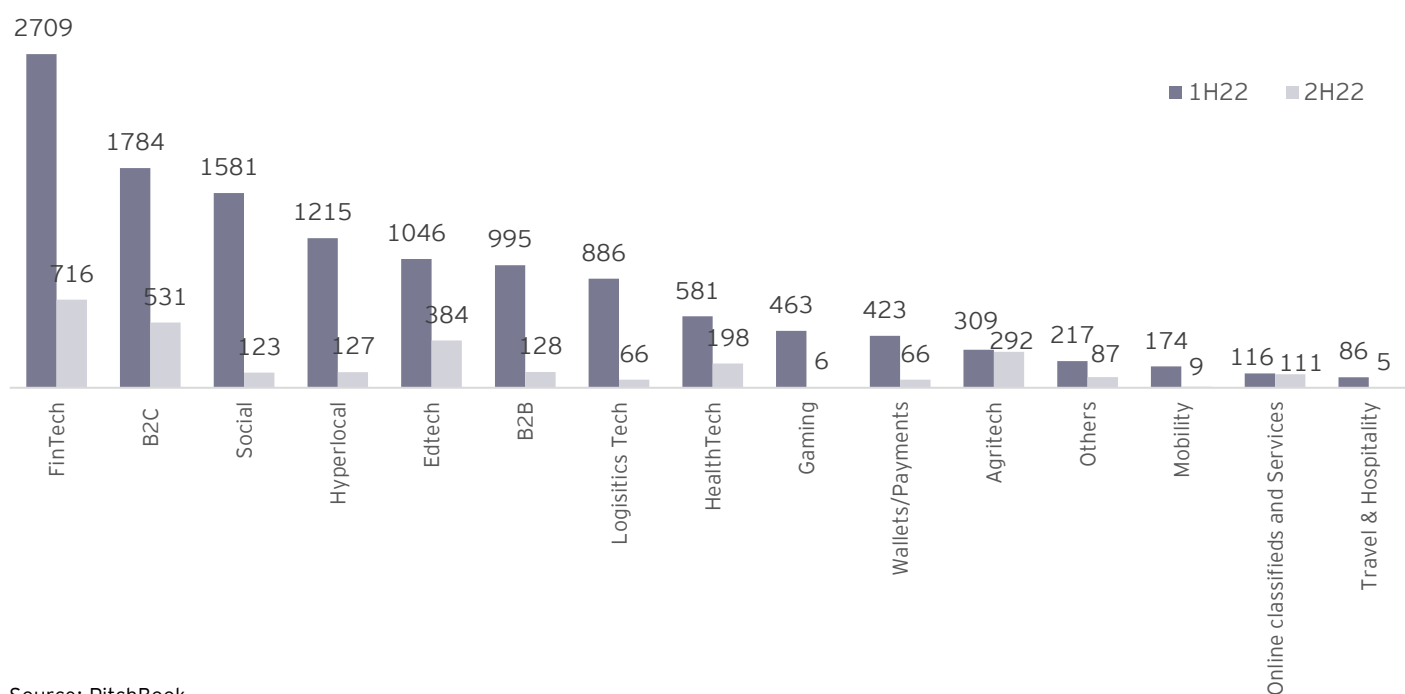
Indian internet and e-commerce witnessed subdued PE/VC investment in 2022

Indian Internet start-ups remain resilient

The year 2022 witnessed subdued PE/ VC investments, with e-commerce and consumer internet companies raising US\$15b in 2022. While the investments declined on a yearly basis, they remained higher than pre-pandemic levels.

PE/VC Summary						
Sector	2020		2021		2022	
	\$ of Funding	# of Deals	\$ of Funding	# of Deals	\$ of Funding	# of Deals
EdTech	1,833	59	3,641	75	1,430	51
Hyperlocal	1,642	30	2,527	28	1,342	17
FinTech	982	63	9,015	122	3,425	122
Social	565	53	3,428	56	1,705	32
Logistics tech	463	23	1,451	34	952	18
B2C (Horizontal and Vertical)	360	36	5,559	58	2,314	74
Online classifieds and Services	417	18	1,828	27	227	25
Gaming	346	10	914	18	469	17
Wallets/Payments	334	21	2,471	25	488	13
Mobility	252	20	1,610	21	183	11
HealthTech	236	34	1,724	59	779	40
B2B	138	22	2,443	46	1,123	33
Travel and Hospitality	131	10	1,170	12	91	3
AgriTech	49	17	616	38	601	40
Others	435	28	318	21	304	10
Total	8,183	444	38,716	640	15,433	506

PE/ VC funding continued its momentum in 1H22, followed by decline during 2H22



Source: PitchBook

The sector witnessed increase in mid-segment deals amid broader capital deployment; large VC funds available

E-commerce and internet investment overview

US\$15.4b

PE/VC Capital raised by Internet and E-commerce companies across 506 deals

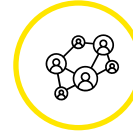
Highest funded sectors 2022 ▶



FinTech



B2C E-commerce



Social

US\$30.5m

Average investment ticket size

Highest funding growth (2019-22) ▶



EdTech



Gaming



Agritech

1 Increase in mid-segment deals

Despite subdued market conditions, the number of investments in 5 million - 25 million range continued to grow. The segment witnessed 10% increase in number of deals at 201 in 2022.

2 B2C segment grew in number of deals

B2C (Horizontal and Vertical) remained the only segment to witness growth in number of deals in 2022. The segment witnessed 74 deals in 2022, registering a growth of 27.5% YoY.

3 Broader capital deployment

A total of six sectors recorded PE/ VC investments of over US\$1 billion in 2022, while another three recorded investments of over US\$0.5 billion.

4 House of brands/roll-up firms

Investments around house of brands/ roll-up firms continued to gain traction with multiple large companies announcing investments in the theme.

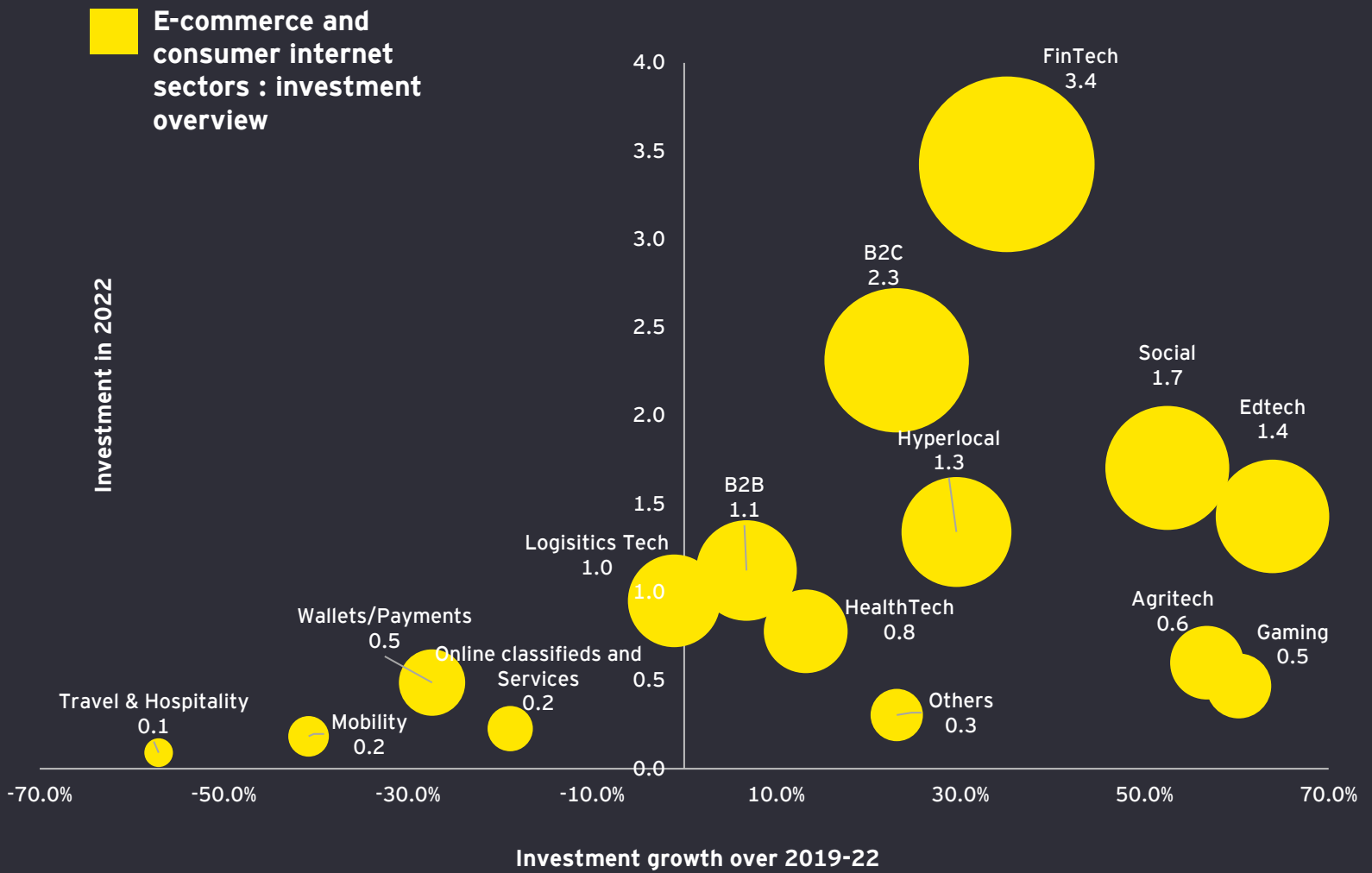
5 Large VC capital available

Based on data on new funds launched in 2022, VC investors are estimated to have ~US\$16 billion to invest in start-ups. Further, of the 62 new funds which launched in 2021 and raised US\$6 billion in fresh capital, a large portion is yet to be invested.²⁵

6 Subdued momentum during 2H22

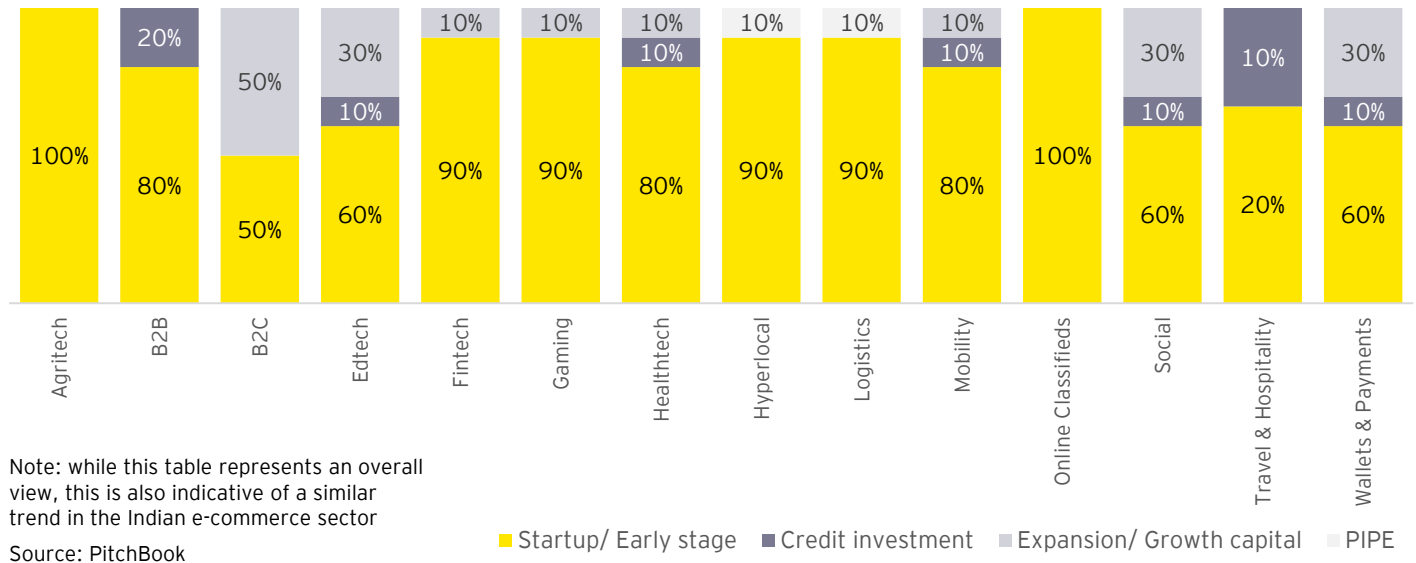
While PE/ VC investments grew by 15% YoY during 1H22, the momentum declined in the second half at ~90% YoY.

While FinTech witnessed majority funding, EdTech remains the fastest growing sector for PE/ VC investments



Majority funding in Start-up/ Early-stage in top 10 deals across sectors

Despite the funding slowdown, 2022 emerged as the year with the highest seed funding between 2019 and 2022. Start-ups/ Early stage companies comprised >50% of top 10 deals across all sectors, driven by improvements in capital efficiency which helped them remain attractive to both domestic and foreign investors.



2022 witnessed significant M&A activity with more than 200 start-up acquisitions in the e-commerce and allied sectors

The year 2022 witnessed over 200 start-up acquisitions in the e-commerce and allied sectors. The deals are driven by a focus on market consolidation. The top eight deals contributed to US\$2.1b in total deal activity in 2022.²⁶ Further, the year also witnessed 2 new IPOs, namely for Delhivery and Kfintech.

Top consumer internet and e-commerce M&A deals in 2022

Start-up	Sector	Acquired by	Amount (US\$m)
Blinkit	Hyperlocal	Zomato	568
Owndays	B2C e-commerce	Lenskart	400
Pickrr	Logistic tech	Shiprocket Fulfiment	200
Clovia	B2C e-commerce	Reliance Industries Limited	125
Northwest Executive Education	EdTech	Great Learning	100
OpenQ	FinTech	PhonePe	75
Wealthdesk	FinTech	PhonePe	75

**IPOs
launched in
2022**

Delhivery
Logistics and
supply chain

**Kfin
Technologies**
Financial services platform



Sectoral view

EdTech

FinTech

Gaming

B2C e-commerce

B2B e-commerce

logistics tech

online classifieds and services

AgriTech

Hyperlocal

HealthTech

social commerce

travel and hospitality

mobility

payments and wallets



EdTech

TAKING EDUCATION HYBRID

With K12 segment reaching maturity, EdTech players are focusing on growth segments such as corporate learning and hybrid model to drive profitability. Producing some of the largest start-ups in the country, the EdTech segment is expected to grow at a CAGR of 18% till 2027.



Primary and secondary supplemental education



Test preparation



Reskilling and upskilling



Higher education



Language and casual learning

Sector snapshot

US\$3.6b

Expected industry revenue in 2025²⁷

9,043+

No. of start-ups²⁸

US\$1.4b

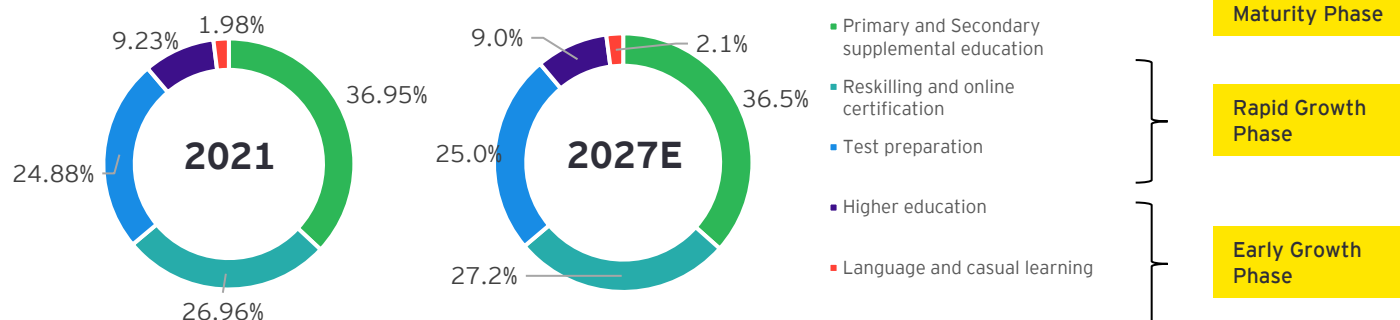
PE/ VC investments in 2022 across 51 deals

7

No. of unicorns²⁹

Indian e-learning market was estimated at US\$1.5b in FY22, further expected to reach US\$3.6b by 2027, expanding at a CAGR of about 18.2%.³⁰ EdTech sector kicked 2022 off adjusting to the post pandemic world, the year was also marked by challenging macroeconomic conditions and shifting geopolitical dynamics.

Share based on category Snapshot



Key trends in the sector

AI and Gamification for improved experience

Gamification is the most prevalent trends among EdTech providers to encourage learning process through immersive experience. Simulated labs, experiential centers and gamified content could become the preferred mode to explore the academics by the turn of this decade. There are many emerging technologies which, when applied seamlessly to education, can facilitate 'learning by living it.'

Focus on profitability - acquisition and tapping overseas market

EdTech companies are looking the forward way to become profitable after the sector, seeing a sharp hit with things going back to normal. Therefore, e-learning companies are eyeing on the international market either by acquisition or expansion, which can help them in being profitable in the long run. Leading Indian EdTech giant recently appointed a senior vice president to lead its global expansion plans.³²

Hybrid to gain momentum

Online learning lacks in term of providing the real time interaction, in-class peers bonding and doubt clearing with instructor therefore most online players are establishing offline counterparts to overcome these challenges and create a perfect blend of online and offline (hybrid).

Educating the educator

During the pandemic, schools and other educational institutions experienced a steep upward curve learning about integrating technology into their traditional classroom. The trend is expected to continue even as the restrictions are lifted with concerned effort to upskill educators in the use of tech enabled pedagogical techniques that bring their classroom in smooth functioning.

Increasing prominence of upskilling and corporate learners

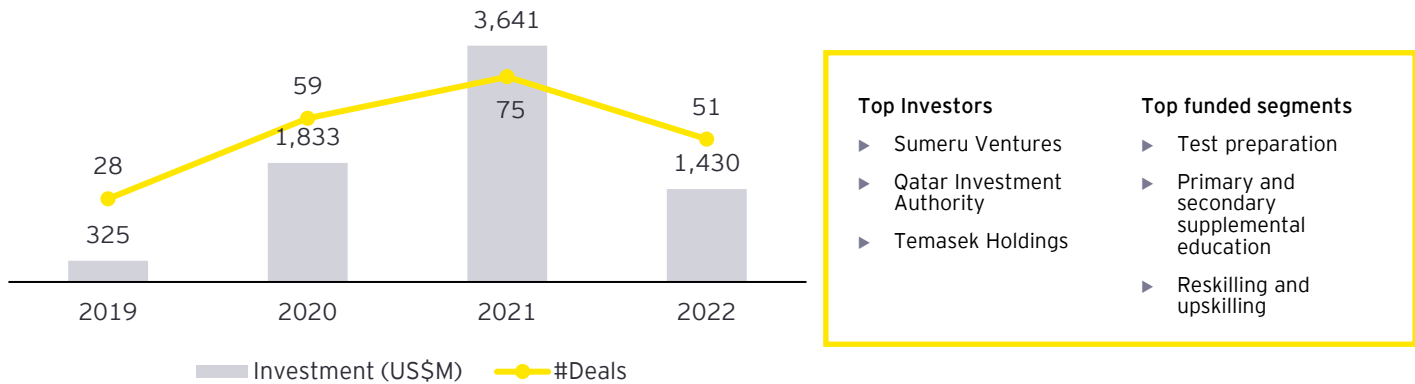
While the K12 segment was impacted in 2022 as schools reopened, the industry witnessed increasing traction in the higher education, certifications and upskilling segments. Corporate learning EdTech firms have started offering a range of instructional video courses for professionals, performing better than K-12 businesses.

OUTLOOK

Over the next few years, hybrid education is expected to take deeper roots in India, with growing affordability of smart devices and data, cascading benefits of Digital India and an influx of enabling government programs such as Swayam, Atal labs and PM e-Vidya. Indian edtech firms will continue to expand in international markets to drive growth. The B2B edtech model is expected to gain further traction as industry players expand beyond the learning segment.

PE/ VC investments in the EdTech sector continue to focus on improving quality of offerings and deeper market penetration

PE/VC investments in Ed-tech sector (US\$ million)



Source : EY analysis

Key PE/VC deals in Ed-tech sector in 2022

Think and Learn Pvt. Ltd (Byju's) US\$400m	Sumeru Ventures, Vitruvian Partners, and BlackRock
Think and Learn Pvt. Ltd (Byju's) US\$250m	Qatar Investment Authority (QIA) and other existing investors
UpGrad Education Pvt. Ltd. US\$225m	Temasek Holdings Pvt. Ltd., ETS Strategic Capital, Family Office of Lakshmi Mittal, Family Office of Sunil Bharti Mittal, Lupa Systems
Physicswallah Pvt. Ltd. US\$100m	Westbridge Capital Partners LLC, GSV Ventures
Bunch Microtechnologies Pvt. Ltd. US\$70m	Alpha Wave Incubation Fund, Chimera Investments LLC, Tiger Global Management LLC, RTP Global Advisors

Key investment rationale



Business expansion, branding, expansion of learning centres with improvement in quality of offerings



Cross-border expansion of EdTech offerings with deeper market penetratio



FinTech

FUTURE-READY FINANCE

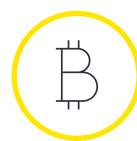
Indian FinTech industry has witnessed significant growth in recent years, driven by a combination of factors including large youth population, a fast growing economy, increasing access to smartphones and low cost data, and the government's push towards digital economy. Paperless lending, mobile banking, WealthTech, InsurTech, Decentralised Finance (Defi), buy now pay later are some of the emerging concepts are already being adopted in India.



Alternative lending



InsurTech



Digital assets



Payments



Consumer finance



RegTech



WealthTech

Sector snapshot

US\$150b

Expected industry value by 2025³³

US\$3.4b

PE/ VC investments in 2022 across 122 deals

2,000+

No. of FinTech startups in India³³

23

No. of unicorns³³

India has emerged as the third largest FinTech ecosystem with 7,46,034 companies in the domain. From lending and insurance to wealth management and digital payments, Indian FinTech firms are adopting technologies such as AI/ML and cloud computing to disrupt traditional financial services. The industry is also supported by government's focus on creating a paperless, cashless economy and RBI's adoption of blockchain to launch digital currency, Digital Rupee - Wholesale (e₹-W) and Rupee-Retail (e₹-R)³⁵. India has 23 FinTech firms which have gained 'Unicorn Status', with 20%³³ of start-up unicorns from the FinTech space.

Key trends in the sector

Digital lending

- ▶ Digital lending witnessed US\$9.3b³⁶ investment during 2017-21. It is expected to reach US\$515b book size by 2030, driven by innovations in product and business models.
- ▶ With an aim to improve flow of credit to the unserved and underserved sectors of the economy, co-lending is expected to emerge as a marketplace model, helping lending partners mitigate their risk exposure.
- ▶ Additionally, there has been a rise in ticket sizes and higher demand from Tier-II, III and IV markets, along with better risk management and service delivery models.

Technology integration

- ▶ FinTech players are integrating AI/ML for data processing and trends identification, blockchain to process letters of credit, GST invoices, etc.
- ▶ Additionally, there has been an emergence of Decentralized Finance (DeFi) start-ups, such as Unbound Finance, Sublime, etc., powered by blockchain and digital asset technology, to manage financial transactions.

Integration with other verticals

- ▶ There is future potential to be tapped into Agri+FinTech start-ups and Prop+FinTech start-ups as multiple firms emerge in the intersecting space.
- ▶ Intersection of FinTech with retail and health sectors can be leveraged to address globalization and unaffordability issues in the value chain, respectively.

Use cases in new segments

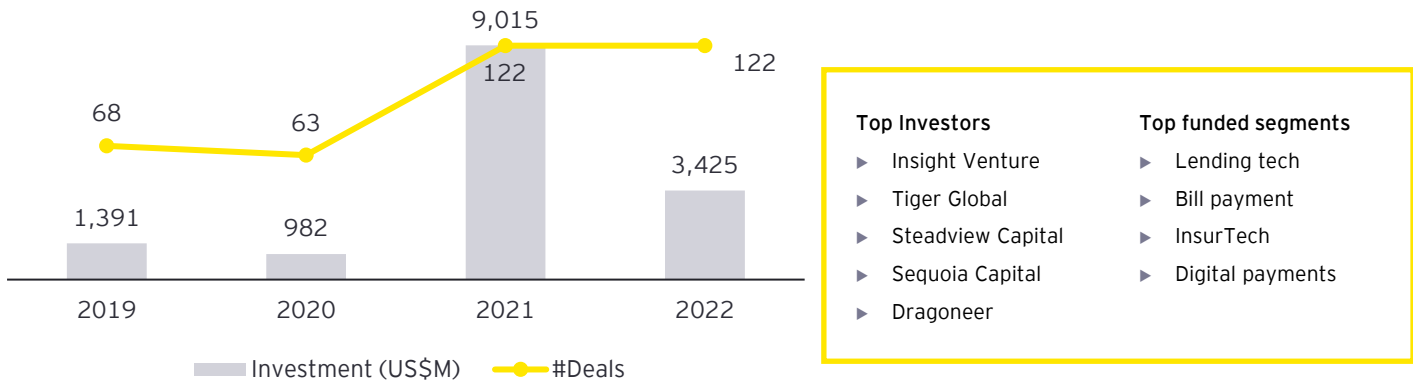
- ▶ InsurTech witnessed significant growth in recent years with over 14,037 InsurTech startups in the country and 2X37 funding growth during 2020-22.
- ▶ WealthTech market is likely to witness similar trend, with growth to US\$237b by 2030³⁶ and rise of innovative solutions such as micro investing and robo-advisors.
- ▶ The industry has also witnessed emergence of personalised solutions from Neobanks, financial service providers entirely digital with no branches.

OUTLOOK

The FinTech sector has witnessed high growth in recent years and driven digital adoption across multiple use cases. Government focus on digital economy through initiatives such as Inter-Ministerial Steering Committee on FinTech, Joint Working Groups on FinTech, GIFT City, etc., favourable regulatory environment, and development of open banking ecosystem are likely to increase demand for digital financial services. Although the industry witnessed slowdown in 2022, with reduced funding, it is expected to reach US\$200b in revenue by 2030³⁶. Rise of unicorns, soonicorns, start-ups and transformative services from incumbents, along with increasing popularity of segments such as digital payments are expected to fuel this growth.

9 out of 10 top PE/VC investments in the FinTech sector focus on start-ups and early stage financing

PE/VC investments in the FinTech sector (US\$ million)



Source : EY analysis, Tracxn

Key PE/VC deals in FinTech sector in 2022

EQX Analytics Pvt. Ltd. US\$270m	Uncorrelated Ventures, Fasanara Capital and Abstract Ventures
Chargebee Inc. US\$250m	Insight Venture Management LLC, Sapphire Ventures LLC, Steadview Capital Management LLC, Tiger Global Management LLC, Sequoia Capital
Dreampug Technologies Pvt. Ltd. US\$140m	GIC, Sofina, Tiger Global, Falcon Edge, Dragoneer
CredAvenue Pvt. Ltd. US\$137m	B Capital Group Partners L.P., Insight Venture Management LLC, Lightspeed India Partners III, LLC, TVS Capital Funds Pvt. Ltd., Sequoia Capital India Growth Fund III Ltd., Dragoneer Investment Group LLC, Lightrock India
Neblio Technologies Pvt. Ltd. US\$135m	Coinbase Ventures, Draper Dragon, Kindred Ventures LLC, Kingsway Capital Partners Ltd., Polychain Capital LP, Republic Capital Advisers LLC, Steadview Capital Management LLC, Cadenza Capital Management Ltd., Pantera Advisors LLC, B Capital Group Partners L.P.

Key investment rationale



Emergence of new use cases in the InsurTech segment



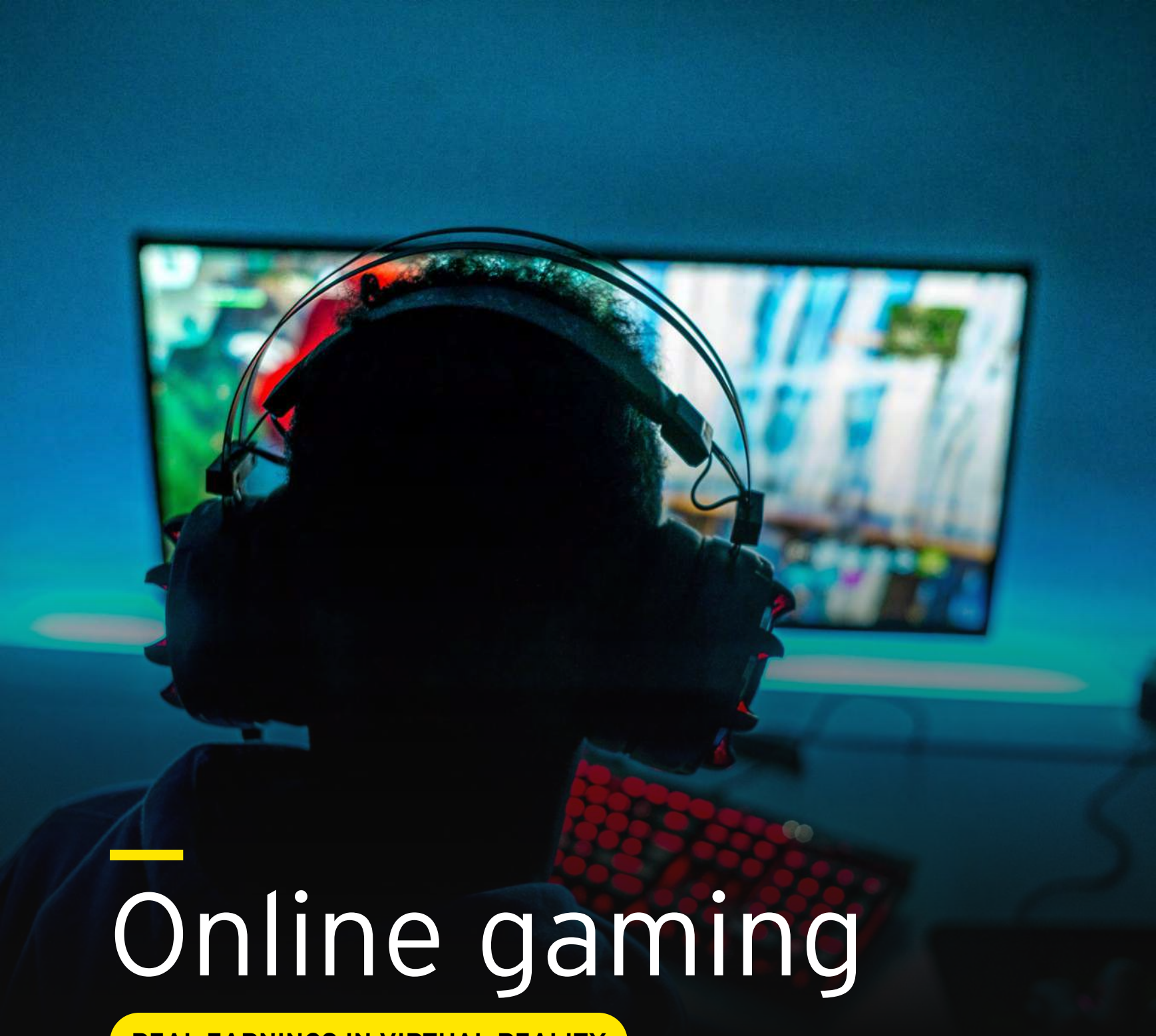
High growth of FinTech industry in India



Increasing popularity of digital lending and payments



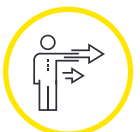
Potential for integration with other verticals



Online gaming

REAL EARNINGS IN VIRTUAL REALITY

Online gaming has been growing exponentially in India, driven by mobile and cloud gaming with around 420 million gamers and a 500+ million strong digitally native population aged between 15-35. The industry has interesting opportunities ahead, with technologies such as metaverse and blockchain ready to change the game.



Casual and Hyper casual



Mid and hardcore



Real Money Gaming



PC and console



Esports

Sector snapshot

US\$8.6b

Expected industry revenue in 2027³⁸

1,130+

No. of start-ups³⁹

US\$469m

PE/ VC investments in 2022 across 17 deals

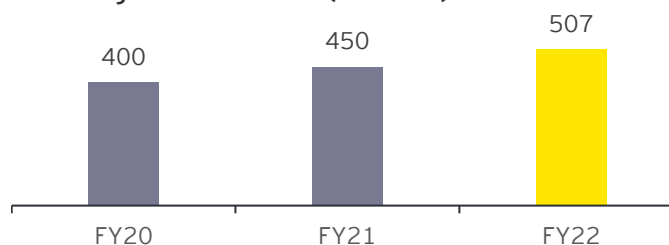
3

No. of unicorns⁴⁰

Indian gaming sector has seen notable growth in recent years owing to increased internet penetration and affordability of mobile phones. Indian gaming sector is expected to grow at CAGR of 27% from US\$ 2.6 billion in FY22 to US\$8.6 billion in FY27.⁴¹ Uttar Pradesh, Maharashtra, Rajasthan, Bihar and West Bengal have ranked as top 5 gaming states as while Odisha, Punjab and Tamil Nādu saw the highest growth rates. Carrom, Poker, Fruit Dart, Block Puzzle, Snakes & Ladders, and Ludo Dice are the most popular games in country.⁴²

The count of online gamers in India grew to reach around 507 million in FY22, an increase of about 57M was recorded. This growth mostly accounts to tier 2 and tier 3 cities of India which has outpaced Delhi, Mumbai, Bengaluru and other metropolitan cities moreover states like Odisha, Punjab, Tamil Nadu, Puducherry and Himachal Pradesh have got the most year-on-year increase in mobile gamers.⁴³

Online gamers in India (millions)



With the emergence of new technologies, better internet connections, innovative gaming products, and rapidly evolving content creation and consumption trends, the future of Indian gaming looks brighter than ever before.

Key trends in the sector

2 Billion mobile players by 2027 thanks to 5G

Mobile gaming has emerged as one of the biggest drivers for the gaming and sports industry. Considering the increased proliferation of the 5G networks in India in 2023, mobile gamers can have access to a faster speeds, lower downtime, and smooth connection while playing the mobile games. Therefore making mobile gaming more enjoyable and Indian players.⁴⁴ About 94% of the casual gamers in India were mobile gamers in FY21⁴⁵

Block chain and P2E : Real earning on games

Currently some of the industry leaders plan to incorporate NFTs in-game which will open up new opportunities for attracting players as it would be a good source of income. As a result, boosting creative inputs from users also boost the economy of certain degree during the predicted periods of recession.⁴⁷

E-sports being recognized by Government of India

Government of India has official recognized e-sports as sports on December 23, 2022.⁴⁶ This recognition will allow esports athletes to receive the same recognition and support as the traditional sports athletes and will also pave the way for the development and growth of the esports industry in India. Therefore we can expect a significant rise in the number of professional esports athletes, teams, tournaments and organization.

Virtual reality - Metaverse

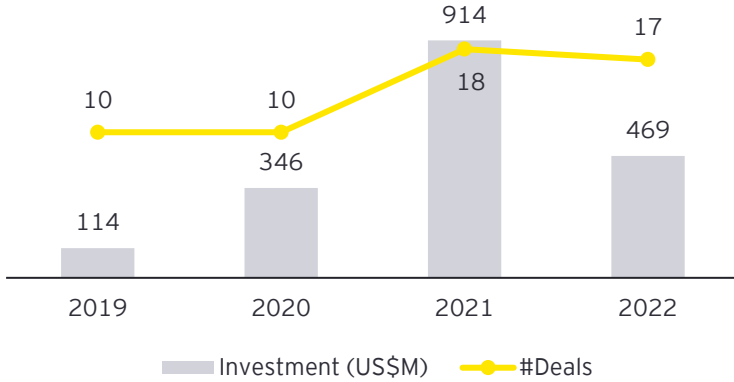
2023 is all about rise of a new economy which thrives on creativity and collaboration. The world is going to be more connected going forward and the games are the forefront of it. Now with Augmented and Virtual Reality (AR/VR) in the picture, games will be become more of social space with no boundaries. The future is hosting of esports events in the metaverse, where players can experience being amidst the other fans while witnessing professional players compete.

OUTLOOK

In 2023, new trends are going to rule the domain in the games industry, from casual gaming to the acceptance of the metaverse; some of the upcoming gaming trends that have been shaping or expected to shape the industry in future are about the wearable tech to become more popular such as portable gaming devices with transmitting sensors, rise of casual gaming as a form of relaxation, and emergence of next generation gaming as the 5G gains its peak.

PE/VC investments in online gaming sector focus on real money gaming and exploring potential of metaverse

PE/VC investments in online gaming sector (US\$ million)



Top Investors

- ▶ Dream Capital
- ▶ Nepean Capital and others
- ▶ Tiger Global Management LLC
- ▶ 9Unicorns Fund

Top funded segments

- ▶ Real Money Gaming
- ▶ Esports
- ▶ Casual and Hyper casual

Source : EY analysis

Key PE/VC deals in online gaming sector in 2022

Digital Collectibles Pte. Ltd. US\$120m	Dream Capital, Alpha Wave Global
Cashgrail Pvt. Ltd. US\$102m	Nepean Capital, WestCap Group, Tomales Bay Capital, AJ Capital, Matrix Partners India and Orios Venture Partners
Faze Technologies Inc. US\$100m	Tiger Global Management LLC, Sequoia Capital India Advisors Pvt. Ltd., Mirae Asset Global Investments Co. Ltd., Insight Venture Management LLC, Courtside VC, Coatue Management LLC, B Capital Group Partners L.P., CR7US
Play Games24x7 Pvt. Ltd. US\$75m	Tiger Global Management LLC, The Raine Group LLC, Malabar Investment Advisors Pvt. Ltd.
Rooter Sports Technologies Pvt. Ltd. US\$25m	9Unicorns Fund, Capital A, Duane Park Pvt. Ltd., March Gaming, Lightbox India Advisors Pvt. Ltd., ADvantage Sports Tech Fund, Goal Venture Partners I, LLC, lead Sports and Health Tech Partners

Key investment rationale



Explore the potential of metaverse to create a new form of engagement with sports celebrities



To scale the user base and game-streaming community, global expansion of business



Increased investment in NFT platforms



B2C e-commerce

OMNICHANNEL COMMERCE

Driven by innovative business models such as direct to consumer (D2C), quick commerce and social commerce, B2C e-commerce continued its rapid growth in 2022 as well. The market is expected to grow from US\$105.0 billion in 2022 to US\$181.2 billion by 2026 at a CAGR of 14.62% between 2022 to 2026.



D2C



Social Commerce



Marketplace
(Vertical)



Marketplace
(Horizontal)



E-commerce
Enabler



Recommerce

Sector snapshot

US\$181.2b

Expected gross merchandise value in 2026⁴⁸

US\$2.3b

PE/ VC investments in 2022 across 74 deals

14.6%

Estimated CAGR during 2022 - 2026

10

No. of unicorns

The Indian B2C e-commerce industry was valued at \$105.0 billion in 2022⁴⁸, led by high e-commerce penetration in tier 1 cities, and continued expansion in tier 2 and 3 markets, that accounted for 61% of the overall market share in 2022, up from 53.8% in 2021⁴⁹. Today, 53% of the consumers from non-metros prefer online shopping, and 80% of Indian consumers prefer to shop from their smartphones. Further, availability of internet and mobile connectivity, the rising purchasing power of consumers, the expansion of e-commerce & online marketplaces and proliferation of digital payments are further driving growth in the sector.



During festivities, the e-commerce sales in India touched **US\$5.7 billion** in gross merchandise value (GMV), registering about **27% YoY growth**.⁵¹

Key trends in the sector

Rise of omni-channel strategies such as Buy Online, Pick-up in Store (BOPIS)

- ▶ According to a survey in 2021, 74% shoppers in India are omni-channel buyers⁵⁰.
- ▶ BOPIS gives customers the benefit of browsing and selecting a product from their home or wherever are.
- ▶ With BOPIS, retailers have also seen incredible business growth, new upselling and cross-selling opportunities, increased sales, reduced shipping costs, and trouble-free inventory management

Direct-to-Consumer (D2C)

- ▶ India is home to about 600 D2C brands, with an estimated combined revenue of around US\$2 billion⁵³. Growing number of mobile and internet connections (1.2 billion mobile connections and 850 million internet connections) with the cheapest data costs across the world are the driving factors for growth of D2C brands in India.
- ▶ D2C market is expected to grow from US\$12b in FY22 to reach ~US\$60b in FY27 at 38% CAGR⁵⁴.

Buy Now, Pay Later (BNPL)

- ▶ BNPL payment option enables customers to make an online purchase and facilitate the payment via third party that pays on their behalf.
- ▶ The BNPL GMV in India is expected to reach US\$97.7 billion by 2028⁵⁵.

Augmented reality (AR) e-commerce

- ▶ With AR, businesses can create interactive, life-size 3D models for different products. Furniture retailers offer AR applications that allow consumers to shop numerous furniture products online and virtually preview and place the item in their home before purchasing.

Government initiatives

- ▶ India government has launched a platform called open network for digital commerce (ONDC), that will allow buyers and sellers to connect and transact with each other online irrespective of the application in use. The step is taken in direction to end the dominance of international players in the sector.

Fashion and personal care growth in Tier 2, 3 cities

- ▶ Beauty and personal care reported growth rates of 143% and 132% in order value as compared to 2021.
- ▶ E-commerce market share of Tier 3 cities grew from 34.2% in 2021 to 41.5% in 2022, while Tier 2 cities rose from 19.4% to 21.4% during the period.⁵²

Assisted commerce

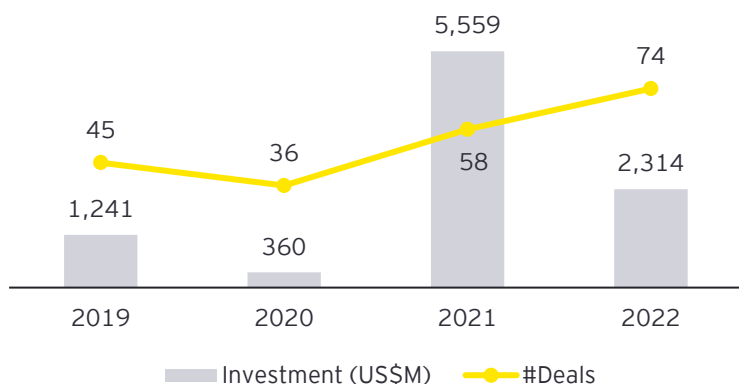
- ▶ Leading Indian e-commerce firms are focusing on enhancing assisted commerce interventions such as video commerce as it can help unlock next wave of digital shoppers in categories like FMCG, Home & General Merchandise, where customers have a lot of queries and require personalization.

OUTLOOK

India is among the fastest growing e-commerce market and it is set to become the second-largest e-commerce market by 2034. It is expected to reach US\$350 billion by 2030⁵⁶ with major contribution from D2C segment. The country's B2C GMV is estimated to reach at US\$181.2 billion by 2026⁴⁸. Technology-enabled innovations, digital payments, hyper-local logistics, analytics-driven customer engagement & digital marketing and government initiatives such as Open Network for Digital Commerce (ONDC) are likely to support this growth.

Global and local geographic expansion remains focus for PE/VC investments in the B2C e-commerce sector

PE/VC investments in the B2C e-commerce sector (US\$ million)



Top Investors

- ▶ Temasek Holdings
- ▶ Jungle Ventures
- ▶ Tencent
- ▶ Alpha Wave Ventures
- ▶ K.K.R & Co.

Top funded segments

- ▶ FMCG, Fashion and Appliances
- ▶ Baby products
- ▶ Home Decor

Source : EY analysis

Key PE/VC deals in B2C e-commerce sector in 2022

Flipkart India Pvt Ltd. US\$264m	Tencent
BrainBees Solutions Pvt. Ltd. US\$240m	National Investment and Infrastructure Fund II (NIIF), PI Opportunities Fund I
Home Interior Designs E-commerce Pvt. Ltd. US\$180m	Jungle Ventures Asia Fund, Venturi Partners, Ingka Investments, K K R and Co.
Bright Lifecare Pvt. Ltd. US\$135m	KAE Capital Fund, 4Point9 Capital Advisors LLP (A91 Partners), Temasek Holdings Pvt. Ltd.
Lenskart Solutions Pvt. Ltd. US\$125m	Alpha Wave Ventures, Epiq Capital Fund

Key investment rationale



B2C e-commerce start-ups are amongst the fastest unicorns



Large underpenetrated pool of target audience in tier 2 and 3 markets



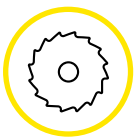
Investment towards global expansion of Indian brands



B2B e-commerce

CUSTOMER-CENTRIC APPROACH

While B2B e-commerce has traditionally remained smaller than the B2C e-commerce market, it is steadily growing as businesses increasingly adopt the online channel for B2B trade. Strong support from the government, rising adoption of technologies such as artificial intelligence, focus on customer experience and transformation in logistics is expected to drive growth in the sector.



Industrial supplies
and machinery



Building and
construction



Electronics and
electrical



Healthcare/
life sciences



Fashion and
accessories

Sector snapshot

US\$100b

Expected gross merchandise value in 2030⁵⁷

US\$1.1b

PE/ VC investments in 2022 across 33 deals

50%

eB2B users are willing to further increase their spends in 2023

3

No. of unicorns⁶¹

The Indian B2B e-commerce market was at US\$5b in 2021 and is expected to reach US\$100b in GMV by 2030⁵⁷, driven by digital acceleration of B2B marketplace, digitization of supply chain and evolution of new payment and financing methods. Driven by the necessity during the pandemic and government's push to digitization of commerce, B2B marketplace platforms are on rise and becoming the integral part of the operations of retailers, wholesalers and distributors. E-Commerce companies focusing on partnering with B2B logistics companies to ensure the procurement of raw materials and delivery of final product to the retailer on time and with accuracy.

Key trends in the sector

Transformation in logistics:

The government's warehousing policy, recently announced National Logistics Policy framework (brings transformative approach to the logistics ecosystem) and Unified Logistics Interface Platform (brings all digital services related to transportation on a single platform) might impact the Indian B2B e-commerce market for the next phase of growth as e-commerce is one of the prominent driver of Indian warehousing market volumes and logistics.

Government promoted e-marketplaces:

After the launch of Government e-Marketplace (GeM) in 2016 to facilitate online procurement by various government departments and PSUs, the Indian government has launched Indian Business Portal in 2022, a business-to-business (B2B) platform that connects Indian exporters with foreign buyers to help SMEs, start-ups and other small businesses.

Advancement in the development of enabling Infrastructure:

The government has deployed a legal framework for enabling e-commerce, including streamlining of the license process. It has notified consumer protection rules for e-commerce and increased the FDI limit in B2B e-commerce to 100% to invite foreign direct investment into the sector.

AI & ML:

B2B e-commerce companies are adopting AI, Big Data and Blockchain technologies for real time tracking of orders and to reduce the overall cost of operations. A report notes that AI has a positive impact on B2B sales with 50% more leads, shorter calls by nearly 50% and between 40-60% drop in costs.⁶²

Platform led credit solutions:

Nearly 80% of the 63 million+ MSMEs in India still lack access to formal sources of credit. Innovations such as technology-based invoice financing offered via B2B marketplace platforms made a huge difference in 2022 and will continue to do so in 2023 as well.⁵⁹

Taking the D2C approach:

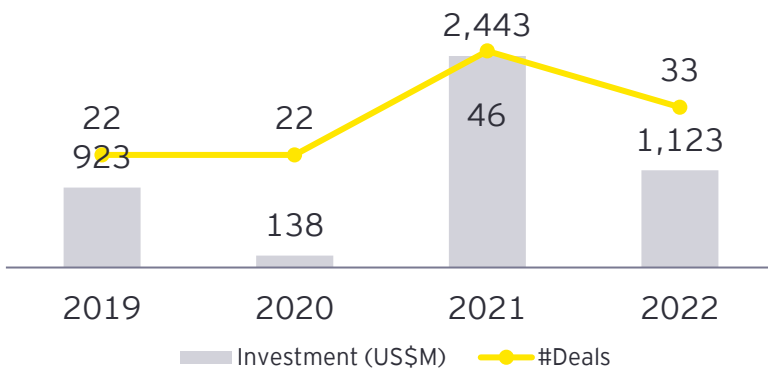
Though D2C is primarily for B2C brands, the B2B segment is also taking its learnings from the D2C model. From data mining to understanding individual buyers' purchase habits and patterns, to features like AI-powered live search and product recommendation engines, B2B e-commerce has adopted many of the features of B2C e-commerce - in order to create a customised experience for customers. 63% of the B2B companies are focusing on providing personalised experience to the wholesale customers with the help of analytics.⁶³ Data analytics have been a part of the B2B e-Commerce solutions, and is being used to improve the overall customer experience.

OUTLOOK

India's B2B retail general trade opportunity is expected to reach around US\$1.2 trillion by 2030 with e-commerce B2B taking up a share of 8%.¹⁴ The market will continue to evolve in 2023 with a focus on third-party marketplaces, omnichannel sales and personalisation. The multi-category segment with larger coverage both category-wise and regionally is expected to gain traction in the coming years. The e-commerce B2B platforms will focus on providing resolution for issues such as high prices, no credit option, untimely delivery and low quality of products.

Early stage financing dominates the PE/VC investments in B2B e-commerce sector

PE/VC investments in the B2B e-commerce sector (US\$ million)



Source : EY analysis

Top Investors

- ▶ Alpha Wave Global
- ▶ Tiger Global Management
- ▶ VBG Realty
- ▶ Blacksoil Asset Management
- ▶ Blacksoil India Credit Fund
- ▶ Corsa Ventures
- ▶ Walton Street India

Top funded segments

- ▶ Lifestyle, FMCG, Electronics, Pharma and General Merchandise
- ▶ Industrial Tools
- ▶ Speciality Finance

Key PE/VC deals in B2B e-commerce sector in 2022

HiveLoop Technology Pvt. Ltd. US\$250m	VBG Realty LLP, Blacksoil Asset Management, Blacksoil India Credit Fund, Corsa Ventures, Walton Street India and others
Mogli Labs Pvt. Ltd. US\$250m	Alpha Wave Global, Tiger Global Management LLC, Ward Ferry
Oxyzo Financial Services Pvt. Ltd. US\$200m	Alpha Wave Global, Tiger Global Management LLC, Norwest Venture Partners, Matrix India Asset Advisors Pvt. Ltd.
Hella Infra Market Pvt. Ltd. US\$50m	Mars Unicorn Fund (Liquidity Group)
Infifresh Foods Pvt. Ltd.. US\$50m	Ankur Capital Fund II, Incubate Capital Partners, Matrix India Asset Advisors Pvt. Ltd., Accel India Management LLP, Prosus Ventures, Internet Fund VII Pte. Ltd. (Tiger Global)

Key investment rationale



Higher profit margins with less investment



Investment for technological advancement and improved customer experience



Huge market potential with a large addressable market



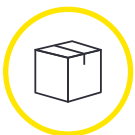
Fast-track order fulfilment with cloud-based e-commerce systems



Logistics tech

CONSOLIDATION OF TRADITIONAL LOGISTICS

Organizations along with start-ups in logistics tech are figuring out innovative business models to try and consolidate much fragmented logistics sector and moving toward Tier 2 and Tier 3 cities with their offerings around on-demand logistics, smart warehousing, fleet management platforms and green logistics.



Warehousing Solutions



Enablement/
Support services



Transportation/
Fleet management



Supply chain
finance



B2B procurement
and distribution

Sector snapshot

US\$10.1b

Expected E-commerce logistics market revenue by 2027⁶⁴

US\$952m

PE/ VC funding in 2022 across 18 deals

2,263+

No. of logistics tech start-ups in India⁶⁶

6

No. of logistics tech unicorns⁶⁷

With post pandemic supply chain disruptions, logistics was facing severe capacity constraints, excessive delays, driver shortages and incredible freight rates. These challenges have led to technological advancements in the logistics tech sector. It has been able to automate the freight matchmaking process with data science, leverage cloud-based platforms to implement elastic logistics, and implement warehouse automation with robotics. Indian logistics automation market which shows CAGR of 13.28% during the 2021 to 2026 period also suggests further growth of logistics tech sector.⁶⁵ Post COVID-19, the changing consumer behavior has also led to the expansion of digital purchasing, propelling e-commerce in India. Thus, transportation for e-commerce is predicted to rise to nearly 10.5 billion shipments by 2025 from 2.55 billion shipments in 2020.⁶⁴

Key trends in the sector

Focus on cross-border commerce

By 2025, International cross-border shipping from India is expected to be valued at around US\$129 billion.⁶⁸ With a push from the government through National Logistics Policy and rising cross border logistics platforms, Indian startups are preparing to tap global markets. One of the biggest e-commerce player has also launched a cross-border logistics platform, providing end-to-end support to Indian exporters.⁶⁹ Another cross-border supply chain startup has setup biggest tech and R&D centre with a planned expenditure of US\$36.2 Mn over next 3 years.⁷⁰

Reaching the last mile

Drones have become increasingly popular in modern logistics operations as programs like Drone Shakti, Drone-As-a-Service and Digital Sky are being promoted by Indian government to support drone operations. Since improvised drone rules in 2022, more than 15 states have conducted drone demonstrations and feasibility pilots since then.⁷² Food delivery startups have even completed test deliveries of food with drones having payload of 5Kg, covering 5Km in 10 min.⁷²

Flexibility with elastic logistics

Elastic logistics allow customer centric organizations to leverage third-party logistics and on-demand warehousing to adjust to the fluctuating demand. It can be implemented using AI, which helps with predictive analytics in improved shipment ETAs, route optimization, real time visibility in transport system and IoT enabled fleet management solutions. One of the start-ups focusing on rural market and having distribution network of variable capacity has been able to aggregate supply from over 300 brands in over 80,000 villages across 28 states.⁷¹

Toward Green Logistics

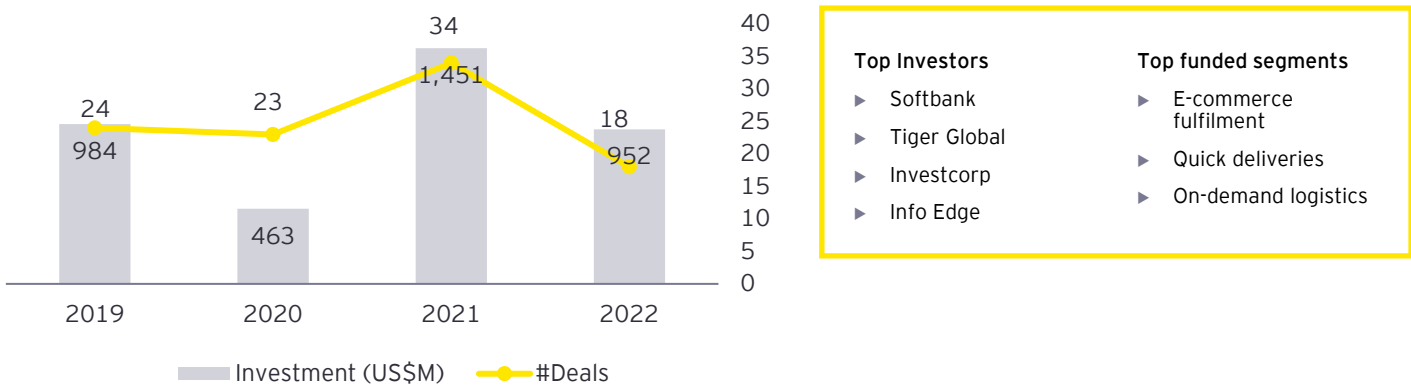
As per NITI Aayog and Rocky Mountain Institute (RMI) reports, by 2050 India can save around Rs 3.11 lakh crore worth of fuel through sustainable transportation practices and reduce 10 gigatons of CO₂.⁷³ Smart warehouses with energy management systems, alternative fuels like ethanol, hydrogen, etc., maximum asset utilization with reverse logistics and digital tools and platforms help in tracking and managing emissions. A start-up focusing on Tier 2 India is a full-stack, tech-enabled green logistics company that provides end-to-end logistics solutions and has partnered with leading e-commerce platforms.

OUTLOOK

Future of logistics tech is supported by various government initiatives, demand from Tier 2 and Tier 3 cities, rise of direct-to-consumer demand and growing e-commerce market. Indian e-commerce market was valued at US\$3.4b in 2021 and is expected to grow at CAGR of 21% from 2022 to 2027.⁶⁴ Due to intensifying demand, there has been an increasing market share of Tier 2 segment at 35% in 2022 from 26% in 2019 which will drive logistics tech in Tier 2.⁶⁴ The future of this sector shine brighter with emergence of innovative business models such as 'Rapid Commerce' (Delivery in 10-30 mins) and on-demand delivery.

Rational for major PE/ VC investments in the logistics tech sector revolves around e-commerce fulfilment and quick deliveries

PE/VC investments in the Logistics tech sector (US\$ million)



Source : EY analysis, Tracxn

Key PE/VC deals in Logistics tech sector in 2022

ElasticRun US\$332m	SoftBank, Prosus Ventures, Goldman Sachs
Xpressbees US\$300m	ChrysCapital Investment Advisors India Pvt. Ltd., Investcorp Private Equity, Tarrant Capital IP, LLC, Norwest Venture Partners, Blackstone Growth
Delhivery US\$68.17m	Tiger Global, OMERS, Steadview, Amansa, GIC, MAS, Government Pension Fund Global, Alpha Wave Ventures II, IIFL Special Opportunities Fund
Loadshare US\$40m	Tiger Global, Filter Capital, 57 Stars, existing investors CDC Group and Matrix Partners India
Ecom express US\$39m	Warburg Pincus, CDC Group and Partners Group

Key investment rationale



Robust logistics and channel framework ensuring uninterrupted supply and support to rural customers.²⁷



Business expansion in emerging segments like quick commerce.



Online classifieds

OMNICHANNEL EXPANSION

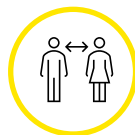
Online matrimonial classifieds are expanding at a CAGR of 30.7% to reach US\$13.2 by 2027, driven by increasing internet penetration and expansion in multiple segments. Industry players are leveraging the omnichannel approach to boost offline presence and build a strong brand.



Real Estate



Recruitment



Matrimonial



Automobiles



Multi-segment

Sector snapshot

US\$13.2b

Expected industry revenue in 2027⁷⁴

US\$227m

PE/ VC investments in 2022 across 25 deals

2

No. of unicorns⁷⁵

Indian digital advertising market is expected to grow from US\$2.9b in 2021 to US\$6.2b by 2025, witnessing a CAGR of 16.4% over 2021-2025F.⁷⁶ online classifieds and services, a subset of the digital advertising industry, is dominated by C2B, B2C, C2C classifieds, online real estate, online matrimony, online recruitment and online automobile classified market. Indian online matrimonial and classified market is expected to grow at a CAGR of 30.7% to reach US\$13.2B by 2027.⁷⁷

Industry growth has been driven by growing digitization and higher internet usage during the last decade as internet tariffs dropped significantly. The number of people with access to the internet continue to rise, providing classified companies with the opportunity to interact and target a wider audience.



Others including online classified spend across devices⁷⁸

While the industry faces issues such as low profitability, higher customer acquisition cost, fake products and spam and fraudulent transactions, industry players are aiming to maintain traffic through extensive advertising by enabling brand recall, differentiated technology and unmatched user experience.

Key trends in the sector

Adoption of new technology

Emerging technologies such as AI, ML, Deep Learning has had a pervasive impact across industries and integrated marketing communication is no exception. Technologies such as AR/VR bring a new dimension to digital advertising through personalized content curation, thereby increasing conversion chances. Leading players invests heavily on ML model, and are able to reduce the time it takes for a picture to appear on a user profile by 95% and cut the manual work to screen these pictures by 50%.⁷⁹

Strategic expansion to sustain growth

Global expansion are on the minds of multiple classified players. After saturation of the Indian market these players are going for international market to sustain growth. Leading industry player recently entered Bangladesh and further plans to tap Malaysia, and Sri Lanka.⁸¹

Share of local language ads increased

The share of ads in local languages continued to increase in 2022. According to YouTube Ads Leader board report, the top 10 most-watched advertisements were in regional languages. As the reach of the internet continues to be fueled by regional subscribers, it is expected that the share of language advertising will reflect that of TV. According to news article about 70% of Indians find local language digital content more reliable. Moreover, 88% of Indian language internet users are more likely to respond to a digital advertisement in their local language as compared to English, and 90% of all video consumption happens in local languages.⁸⁰

Increasing offline presence

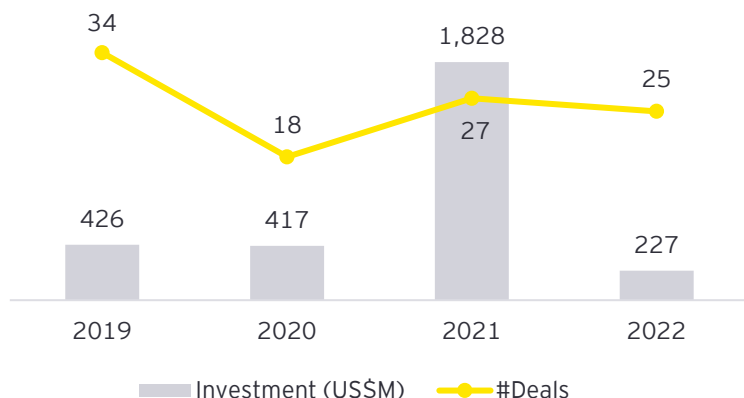
Players are focusing on building a widespread physical presence through franchises/partner dealerships to enable certifications, inspections, and warranty servicing. This will result in increase in monetization, mobilisation of new markets, sustainable business expansion and increased control. Leading Indian automobile classifieds platform has an offline presence in the form of physical storefronts with more than 155 locations throughout more than 35 Indian cities which helps user sell a used car in less than a day.⁸²

OUTLOOK

There has been a shift in the advertising industry from traditional advertising to digital advertising as it provides the companies with various advantages such as targeting a specific audience, measurability on the amount spent and traceability. The industry has ample room for growth, given the significant gap between the time people spend online and online advertising spends.

2022 saw limited PE/VC investments in Online Classifieds sector with highest deal of US\$55m

PE/VC investments in Online Classifieds sector (US\$ million)



Top Investors

- ▶ Lightrock and others
- ▶ Macquarie Capital and others
- ▶ Accel India Management and others
- ▶ Jungle Ventures

Top funded segments

- ▶ Recruitment
- ▶ Multi-segment

Source : EY analysis

Key PE/VC deals in Online Classifieds sector in 2022

Interviewbit Technologies Pvt. Ltd. (Scaler)
US\$55m

Lightrock, Sequoia Capital India Advisors Pvt. Ltd., Tiger Global Management LLC

Betterplace Safety Solutions Pvt. Ltd.
US\$40m

Macquarie Capital, SITE Capital Partners, Jungle Ventures and British International Investment

Awign Enterprises Pvt. Ltd.
US\$15m

Accel India Management LLP, Prosus Ventures, Sequoia Capital India Advisors Pvt. Ltd., DG Daiwa Ventures Inc., Sistema Asia Capital Pte. Ltd., KDDI Open Innovation Fund, Nexxus Capital, RingCentral Ventures

BetterPlace Safety Solutions Pvt. Ltd.
US\$12m

Jungle Ventures Pte. Ltd.

Isthara Parks Pvt. Ltd.
US\$10m

Eagle Proprietary Investments Ltd.

Key investment rationale



Disruption of tech skilling space and to explore India's strategic position as the global IT capital



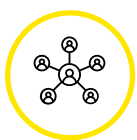
Market expansion, features and capability enhancements



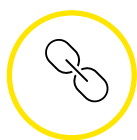
AgriTech

DIGITIZING THE GRASSROOTS

Although 2022 was a testing year for start-ups owing to microeconomic uncertainties, AgriTech remained resilient throughout. With huge potential for technology disruption in the sector, it is expected to witness substantial growth going forward. In last three years, start-ups in AgriTech space observed significant growth alongside rising interest from investors. In 2022, AgriTech witnessed funding of US\$601m across 40 deals.



Input market linkage



Output market linkage



Precision farming, analytics and advisory



Agri FinTech



Quality management and traceability

Sector snapshot

US\$34b

Expected AgriTech gross merchandise value (GMV) by 2027⁸³

US\$601m

PE/ VC investments in 2022 across 40 deals

1,822

No. of startups⁸⁴

With increased rural internet penetration and COVID-19 driving structural changes in the supply chain, India is fast moving towards agriculture digitalization, implementing advanced digital technologies such as data analytics, blockchain, AI/ML, IOT, etc. The AgriTech sector has witnessed a 10-11X growth (last 3 years) and raised US\$2b+ capital in the last 2 years⁸³. Adoption of digital technologies, increasing private capital interest, strong government support and consumer awareness and willingness to pay for quality produce are propelling the sector's growth. In India, demand has become organised more rapidly than supply, attracting higher interest in upstream areas such as the supply chain and services around farms and farmers.

Key trends in the sector

Government support:

- ▶ Government of India provides support for the AgriTech sector in the form of schemes and policies such as:
- ▶ INR500cr⁸⁶ accelerator for AgriTech start-ups
- ▶ Digital public infrastructure for agriculture
- ▶ 'Kisan Drones' for promoting crop assessment, spraying insecticides, and digitalization of land records, etc.

Sustainable agricultural practices:

- ▶ AgriTech startups such as GROWiT, Crofarm, AgroStar, etc. are helping Indian farmers focus on sustainable agricultural practices including protective farming, crop management, tech-powered tools, waste management, etc.

Disruptive business models:

- ▶ The industry is witnessing emergence of new and disruptive business models such as Farming-as-a-Service (FaaS), in which agricultural services are provided on a pay-per-use or subscription-based model and Farm-to-Business (F2B) model, which connects farmers directly to businesses
- ▶ There has been a transition of large, late-stage start-ups to 'full-stack' platforms to increase their share of the farmer's wallet and earn higher margins through value-added services

Strategic collaborations:

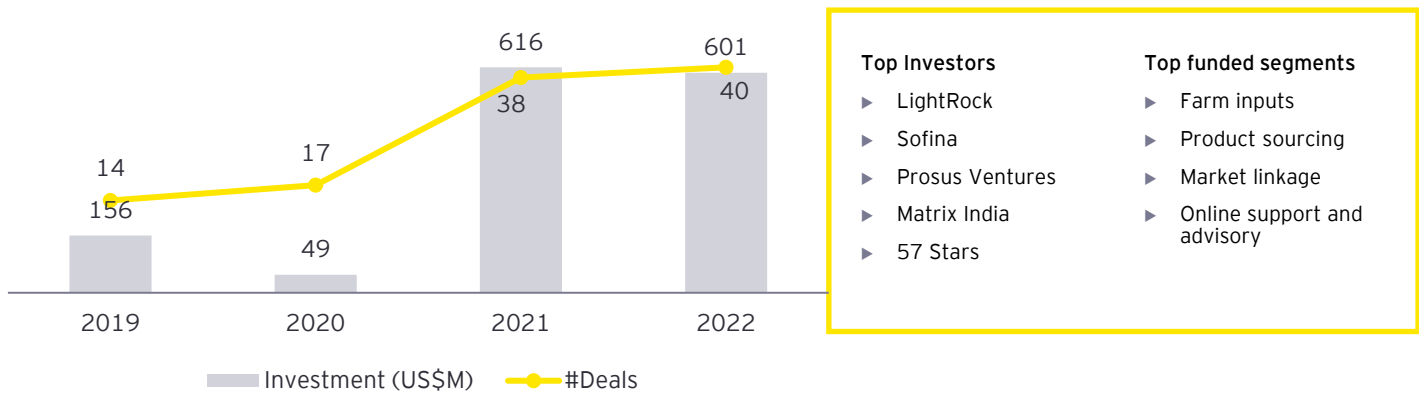
- ▶ Big tech players are increasingly collaborating with AgriTech startups. For example, the research arm of a global tech giant launched a CoE to focus on sustainable agricultural practices through data-driven farming

OUTLOOK

The Indian agriculture sector sees less than 1%⁸³ tech penetration, providing huge potential for the AgriTech industry. Funding is expected to grow in the near term, but the sector could face a potential slowdown in the medium term, given the global funding crunch. However, it is expected to scale up and have 8-10 start-ups with over US\$1b⁸⁵ in value each by 2027. The next wave of AgriTech growth in India is likely to come from technological advancements in sustainable inputs, in-farm solutions (farm management software, remote sensing and advisory, and farm automation), novel farming systems, traceability, and agri-carbon. Additionally, emerging sectors such as precision AgriTech and aquaculture also hold high potential for growth in the coming years.

PE/VC investments in the AgriTech sector remained at par with 2021, the year of exceptional funding

PE/VC investments in the AgriTech sector (US\$ million)



Source : EY analysis

Key PE/VC deals in AgriTech sector in 2022

Waycool Foods and Products US\$117m	LightRock, LightBox, FMO, Lightsmith, IFC, Redwood Equity, Gawa Capital
Green Agrevolution US\$60m	Sofina, Temasek
Greenizon AgriTech Consultancy US\$50m	Unitary Fund, Mirae Asset Global Investments India Pvt. Ltd., Blume Venture Advisors Pvt. Ltd., Northern Arc Capital Ltd., MAS Financial Services Ltd., Arkam Ventures Fund, Alteria Capital Advisors LLP, DG Daiwa Ventures Inc., GMO LLC, Snow Leopard Technology Ventures LLP
Green Agrevolution US\$44m	Lightrock India, Prosus Ventures, RTP Global Fund III, Sofina SA
Waycool Foods and Products US\$40m	57 Stars LLC

Key investment rationale



Huge potential for the AgriTech industry, with less than 1% tech penetration in agriculture sector



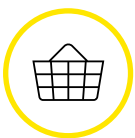
Growth potential in segments including sustainable inputs, in-farm solutions, aquaculture and precision agriculture



Hyperlocal

DIGITIZING UNORGANIZED RETAIL

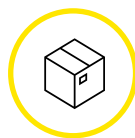
With ~214 million hyperlocal commerce shoppers in India, sector is currently attracting investments in diverse range of categories such as food, groceries, pharmacy, logistics, etc. Convenient access of every product, lightening fast deliveries, changing consumer behavior, growing digital payments and technologically advanced platforms have added to the growth of this sector.



Quick commerce/
Grocery delivery



Food delivery



Home utility



Logistics
services



Others

Sector snapshot

35-40%

Retail spending budget on online channels⁸⁷

US\$1.3b

Funding received by hyperlocal players in 2022 across 17 deals

14.2X

Estimated India hyperlocal delivery market growth during 2022 to 2032⁸⁹

25%

Of e-commerce platform market is represented by hyperlocal delivery apps⁸⁹

The pandemic really helped in boosting the demand for hyperlocal delivery platforms which have been there for some time but only became popular during and post COVID-19 mostly because of existing supply constraints and owing to the consumer awareness of its convenience, as well as increased digital literacy, and easy internet access. It is expected to register CAGR of 17.9% during 2021 to 2027⁹². Good discounts on bulk orders, free doorstep delivery and cashback offers are the major reasons behind its adoption. Some of the dominant sectors in the hyperlocal space are groceries, food delivery, home utility services and pharma.

Several startups have leveraged AI/ML in their operations using first-hand data collected by aggregator for applying analytics for personalization through targeted marketing, demand management or even inventory management, logistics planning, and also horizontal integration into other hyperlocal segments.

Key trends in the sector

Intelligent SaaS platforms

To gain a strong foothold in hyperlocal market, start-ups and organizations are building intelligent SaaS platforms that provide great co-ordination between multi-point pickups and delivery points, bringing in transparency through blockchain, AI, big data, etc. It also helps with complex logistics operations like fleet management, route planning and inventory management amongst other things.

Major Indian grocery delivery startups have been constantly working on innovations like placing orders from multiple vendors, price comparison options and product recommendations.⁸⁷

Multichannel customer engagement

To address challenges like customer retention, hyperlocal players need to build a loyalty loop with a greater focus on personalization, multichannel customer engagement, and brand building. As per customer experience report from Zendesk, 61% of customers will switch to another brand after just one bad experience, which is a 22% jump from the previous year.⁹⁵

One of the largest retailer in India is expanding its e-pharmacy chain to physical stores in shop-in-shop format strengthening its omnichannel play, offline customer engagement and last-mile delivery.⁹⁶ Another convenience retail startup which has expanded to over 100 stores in last 18 months has plans to grow 10X in 20+ cities to bolster its omnichannel presence and hyperlocal services.⁹⁷

* Quick delivery market comprises of Groceries, Personal Care, Fresh Food and Others

Rapid robotic deliveries

Considering pressure on supply chains for quick deliveries, several companies are already experimenting with drone deliveries which will be pivotal for the rapid delivery services, without risking rider's life. Several hyperlocal leaders are in discussions with drone service providers and have plans in this direction. As per Gartner, by 2026, more than one million drones will carry out retail deliveries compared to about 20,000 today.⁹³

Emerging business segments

E-commerce and Q-commerce are moving beyond essential segments like groceries, pharmaceutical, home utility and food, toward non-essential items like fashion, lifestyle and entertainment products.

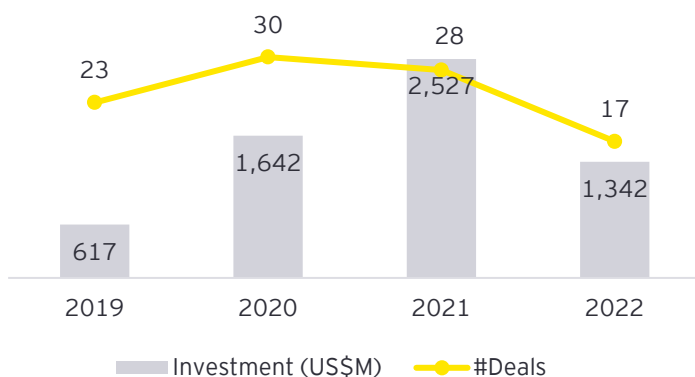
Startups like Gozars which is a D2C hyperlocal online fashion platform, delivers clothes to you shortly within 3 hours.⁹⁴ Another Indian quick commerce platform like Dunzo has expanded from groceries into quick deliveries of books within minutes.⁹⁸

OUTLOOK

Technology innovations are helping in solving key challenges like optimum route planning, peak hours management, multi-point pickups, fleet management, etc. are driving e-commerce market to hyper localism. Quick delivery, busy lifestyle, disposable income, increasing digitization also drives the growth. Considering hyperlocal segments, e-pharmacies are expected to grow at 16% from 2023 to 2032⁹⁰, online grocery market at about 34% (2022 to 2027)⁸⁷ and online food delivery market at 30% for a period of 2022 to 2027⁹¹ indicating stronger growth in the future. Given the industry-agnostic nature of hyperlocal market, it has potential to change the way we know e-commerce.

Portfolio and geographic expansion dominates PE/ VC deals in Hyperlocal sector in 2022

PE/ VC investments in the hyperlocal sector (US\$ million)



Top Investors

- ▶ Invesco
- ▶ Y Combinator
- ▶ Amansa Capital
- ▶ Iron Pillar

Top funded segments

- ▶ Food delivery
- ▶ Grocery delivery

Source : EY analysis, Tracxn

Key PE/ VC deals in Hyperlocal sector in 2022

Swiggy US\$700m	Sumeru Venture, IIFL AMC Late Stage Tech Fund, Alpha Wave Global, Ark Impact Asset Management Inc., Axis Growth Avenues AIF - I, Baron Capital Inc., Invesco Ltd., Kotak Investment Advisors Ltd., Prosus Ventures, Sixteenth Street Capital, Smile Group, The Qatar Investment Authority
Zepto US\$200m	Nexus India Capital Advisors Pvt. Ltd., Kaiser Permanente Ventures, Glade Brook Capital Partners LLC, Y Combinator Continuity Fund I LP, Lachy Groom
Licious US\$150m	Gruhas PropTech LLP, Amansa Capital Pte. Ltd., Axis Growth Avenues AIF - I, Kotak Pre IPO Opportunities Fund, Aman Gupta, Haresh Chawla, Nikhil Kamath, Nithin Kamath
Eat.fit US\$102m	Accel India Management LLP, Chiratae Ventures, Iron Pillar Capital Management Ltd., Sixteenth Street Capital, Binny Bansal, NB Ventures Ltd., Alteria Capital Advisors LLP, Nordstar Partners Ltd., Rukam Capital Fund, Winter Capital, Kunal Naresh Shah, Adil Allana, Rashmi Kwatra, Lydia Jett
Zomato US\$74.15m	Temasek

Key investment rationale



Advancements in technology, category development and business expansion across segments and geographies



Growth of Q-commerce and its expansion in Tier 1, and Tier 2 cities.



Health Tech

AFFORDABLE AND ACCESSIBLE HEALTHCARE

Much needed digital transformation for healthcare sector led to eventful 2022 and entering more opportunistic 2023. Government has been counting on healthtech to provide affordable and accessible healthcare to masses and incentivizing start-ups and large players for the same. Although start-ups have seen investment slowdown in 2022, they are moving toward consolidation phase seeing more of M&A deals.



Telemedicine



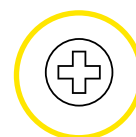
E-pharmacy



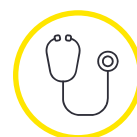
Fitness and wellness



Healthcare IT and Analytics



Home healthcare



Personal health management

Sector snapshot

US\$50b

Expected healthtech market size by 2033⁹⁹

70 Mn

Households to be catered by e-pharmacies by 2025¹⁰⁵

7,849+

Active Healthtech startups in India¹⁰¹

US\$779m

PE/ VC investments in 2022 across 40 deals

India's healthtech market is estimated to reach US\$50b in 2033 from US\$5 billion in 2023, growing at a CAGR of 39%.¹⁰⁰ The pandemic forced the healthcare system in India to move some part of its services to online mode, which gave boost to the healthtech industry. Healthtech will fill the gaps in the traditional way of healthcare delivery in India by increasing the reach while still being affordable. As predicted by FICCI, e-pharmacies will increase the reach by catering to 70 million Indian households by 2025 while startups are working on offering affordable solutions including regular tests like blood sugar tests, liver function, lipid profile, etc. Government initiative of Ayushman Bharat Digital Mission on the other hand crosses over 40 million linked health records and over 29 crore citizens have generated their unique Ayushman Bharat Health Accounts (ABHA) which contributes to building a comprehensive digital health ecosystem in India.¹⁰⁷

Key trends in the sector

Robust healthcare data repositories

By 2027, EHRs/EMRs market is forecast to reach US\$47b.¹⁰² According to the Ministry of Health and Family Welfare, over 4 crore digital health records are linked to the ABHA accounts, creating a stronger public health data repositories¹⁰⁷

Emergence of larger players in healthtech

One of the biggest e-commerce players is planning for pan-India expansion of its e-pharmacy offering whereas another is increasing its presence by offering top healthcare solutions and platforms¹⁰⁸. Big tech companies are also planning to capture its own niche in the sector through acquisitions and large-scale partnerships.

Growth of preventive healthtech market

Indian preventive healthcare market is expected to grow 2X to US\$197b by 2025 at a CAGR of 22%.¹¹¹ About 30% of the top 40 funded startups in preventive healthtech leverage AI/ML for medical imaging analysis, lifestyle personalization, health risk prediction, document extraction, etc.¹¹² Other technologies like cloud computing, IoT, analytics also help diagnostics startups in attracting customers for preventive health checkups.

Consolidation of healthtech startups

Digital health startups have experienced a slowdown in investments during 2022 compared to 2021. Startups are entering into consolidation phase with strategic M&A deals, especially as the funding dries up at the later stage rounds. Indian healthtech startups like Medibuddy acquired telehealth platform Clinix which helps in reaching patients in rural India. Another startup has acquired mobile health platform to expand in primary care.¹¹⁰

AI/ML, Cloud based platforms for efficient diagnosis

NITI Aayog has been testing application of AI in early detection of diabetes complications and in screening tool for eyes. AI will also help in creating human-centric AI solutions empowering healthcare staff to incorporate AI in their diagnosis. Also, government's cloud-based telemedicine platform serves four lakh patients daily, increasing the reach to masses.¹⁰³

Toward next-gen tech (XR/3D Printing)

3D printing market in India is expected to grow at 20.33% by 2028.¹¹³ Although currently in its nascent stage, medical 3D printing is set to grow with impactful applications in bioprinting, surgical preparations, prosthetic limbs, etc.

Whereas XR has applications in pain management, therapy, cognitive rehabilitation, and doctor's trainings as well.

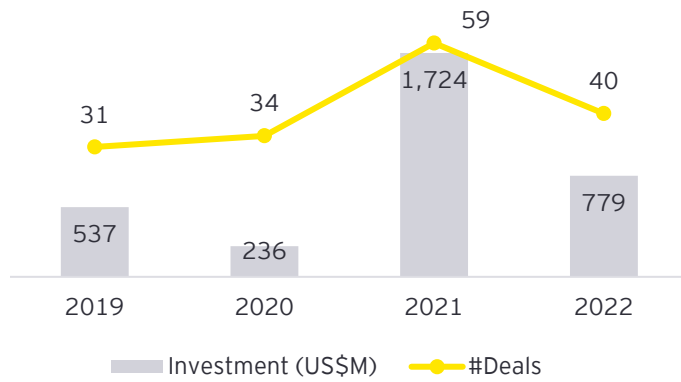
OUTLOOK

About 60% of patients and 65% of physicians prefer digital platforms over in-person consultations. Patient centric care, improved patient awareness, access to data, focus on preventive care, etc. have encouraged adoption of healthtech.¹⁰⁹

Indian government's emphasis on affordable and accessible healthcare, increasing public-private partnerships, growing large e-commerce and tech players foothold in healthtech, growing startup ecosystem, innovative applications of emerging technologies and evolution of value-based payment models will drive the growth in healthtech market in the future.

Focus on digital technologies attract PE/ VC investments in the healthtech sector

PE/ VC investments in the healthtech sector (US\$ million)



Top Investors

- ▶ Quadria Capital
- ▶ Lightrock India
- ▶ Lighthouse funds
- ▶ WestBridge

Top funded segments

- ▶ Telehealth
- ▶ Online retailing
- ▶ Fitness platforms

Source : EY analysis, Tracxn

Key PE/ VC deals in Healthtech sector in 2022

Medibuddy
US\$125m

Bessemer Venture Partners LP, Innoven Capital India Pvt. Ltd., Lightrock India, Quadria Capital Fund LP, FinSight Ventures, India Life Sciences Fund III LLC, JAFCO Asia Technology Fund II, Rebright Partners Pte Ltd., Alteria Capital Advisors LLP, Stride Ventures, Teamfund L.P.

Medika Bazaar
US\$65m

Healthquad Fund, KOIS Invest, Ackermans & van Haaren NV, CDC Group Plc, Creaeigis Advisors LLP, Lighthouse India Fund III Ltd.

Healthians
US\$54m

WestBridge, Trifecta Capital, Konark Trust and MMPL

GOQii
US\$50m

Mitsui and Co., Ltd., DSG Consumer Partners I, Edelweiss Financial Services Ltd., Cheetah Mobile Inc., Galaxy Digital Partners LLC, BlackSoil Capital Pvt. Ltd., Trifecta Capital Advisors LLP, Megadelta Capital Advisors LLP, Great Wall Club, Sumeru Ventures, Ratan Naval Tata, Vijay Shekhar Sharma

Dawaa Dost
NA

Grameen Impact India (GIII)

Key investment rationale



Expansion in Indian market and replicating the model globally



Scaling up business to reach masses and with affordable healthcare



Live/social commerce

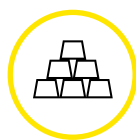
SELLING/BUYING VIA SOCIALIZING

As the Indian population becomes more digitally connected especially the untapped Tier-2 and -3 cities and rural India, the social commerce market in India is expected to shoot up in the next four to six quarters. Between 2022 to 2028, the social commerce gross merchandise value in India is estimated to increase from US\$8.3 billion to \$143.6 billion. The digital boom, changing consumer preferences of Gen Z and millennials and rise in demand of customized products are some of the driving factors of social commerce market in India.

Social commerce models



Reseller model



Group buying



Video commerce
(short content)

Sector snapshot

US\$143.6b

Expected gross merchandise value by 2028¹¹⁴

US\$1.7b

PE/ VC investments in 2022 across 32 deals

228m

No. of social commerce shoppers in 2022¹²⁰

1

No. of unicorns⁶¹

With pandemic acting as a key catalyst and fostering significant progress in the last two years, the Indian social commerce industry has grown three times faster than the conventional e-commerce segments. The industry is expected to grow steadily between 2022 to 2028 at a CAGR of 62.4%.¹¹⁴ This rage is steered by the changing consumer preferences of Gen Z and millennials, micro, small and medium enterprise (MSMEs) and the increasing usage of consumer electronics such as smartphones, laptops and tablets to access social media platforms. MSMEs in India has reimaged their growth through social commerce as it makes the business management easier through the power of social networks and the internet. Further, the active social media users are increasing every day in India and organizations are finding ways to convert their captive audience into clients. This rise in the number of social media users is another factor which is creating a positive outlook for the sector. Social media users in India is expected to grow to around 448 million in 2023.¹¹⁵

Key trends in the sector

Live Shopping

Millennials and Gen Z customers spend more time on social media than ever before in India and small video apps have recently gained appeal among these customers. Myntra's M-Live, Style-Squad, Myntra Studio, Flipkart-live, Amazon-Live are some of the examples which showcases the growing interest of e-commerce players in this area. The live commerce market in India is expected to reach a GMV of US\$4 to US\$5b by 2025.¹¹⁶

Rise of creator economy fueling social commerce

India has more than 50 million content creators¹¹⁷. As creators gain an audience, they also generate interest from brands that see the advantage of partnering with the young talent. Two-thirds of India's digitally active population follows an influencer online. This paves the way for brands to enhance communication with their customers by introducing shoppable through formats such as live and social commerce.

Technological advancements

Technological advancements is another trend which has revolutionized the social commerce market in India. With AI and ML, businesses will better target and personalize their marketing efforts on social media. In coming days, AR and VR will provide customers a more immersive shopping experience on social media.

Personalized experience

Social platforms today utilize algorithms to create personalized and targeted in-app shopping experiences for customers. For e.g., Instagram's 'recommended for you' page displays products of user's choice and interest with a tag that links to e-commerce store. Though, the intent was not to purchase but due to lucrative offers and eye-catching advertisement, users end up ordering the product.

Regional expansion and vernacular content

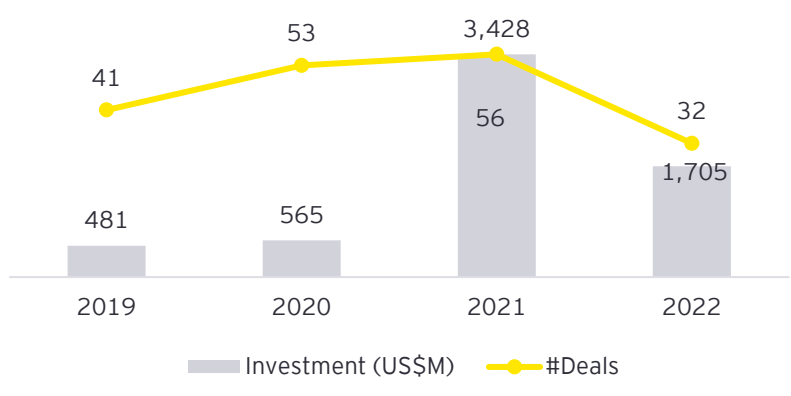
With social media influencers, continuous exposure to branded content through social platforms and the ever-expanding approach of e-commerce players have led to a strong consumer base in Tier II and Tier III cities. Additionally, vernacular has also acted as a major growth driver. As per March 2022, 78% of the active internet users are using social media in vernacular languages.¹¹⁸

OUTLOOK

With the increasing rate of digital disruption, the social commerce market is estimated shoot up in India in the coming days. Social e-commerce players are expected to grab ~5% of India's e-commerce market, at a CAGR of 65% between 2020 and 2025. For these players, ~25% consumers are estimated to be from Tier I cities, ~20% from metros and the remaining from Tier II and Tier III cities.¹¹⁹ In the coming future, the increasing use of social media will be seen to respond to customer inquires and complaints and to receive customer feedback and to provide immersive shopping experience through AR/ VR. Influencer marketing will be on the rise as brands promote their products to highly targeted audience.

PE/ VC investments in the social commerce sector targets AI-enabled customer engagement

PE/ VC investments in the social commerce sector (US\$ million)



- | Top Investors | Top funded segments |
|-------------------------------|----------------------------|
| ▶ Baillie Gifford and Company | ▶ Media/Content |
| ▶ CPP Investment Board | ▶ AI Content Creation Tool |
| ▶ Sofina SA | ▶ Business Services |
| ▶ Luxor Capital Group | ▶ Social Networking |
| ▶ GEM Global Yield Fund LLC | |
| ▶ Sumeru Ventures | |

Source : EY analysis

Key PE/ VC deals in social commerce sector in 2022

VerSe Innovation Pvt. Ltd. US\$805m	Baillie Gifford and Company, CPP Investment Board, Sofina SA, Luxor Capital Group, LP, Ontario Teachers Pension Plan, Sumeru Ventures
Instoried Research Labs Pvt. Ltd. US\$200m	GEM Global Yield Fund LLC
Merabo Labs Pvt. Ltd. US\$165m	Alpha Wave Incubation Fund (Falcon Edge), Tiger Global, Dragoneer Investments Group, Kora Capital and Unilever Ventures
Mohalla Tech Pvt. Ltd. US\$100m	Tencent
Solv Tech Solutions Pvt. Ltd. US\$75m	Creagis, ICICI Venture, Bessemer, Blume Ventures

Key investment rationale

- Create easier buying experience
- Potential to convert huge no. of social platform users into clients
- Enhance customer experience



Travel and hospitality

REDEFINING TRAVEL

As the industry recovers from the pandemic, it is supported by rising domestic and international travels by consumers. Evolving consumer preferences have given rise to new offerings such as staycations, workcations and pilgrimage travel.



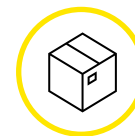
Hotel booking



Ticketing



Homestays



Packages

Sector snapshot

US\$50.9b

Expected industry revenue in 2028¹²¹

US\$91m

PE/ VC investments in 2022 across 3 deals

INR 0.3 lakh crores

Expected online travel market in 2027¹²²

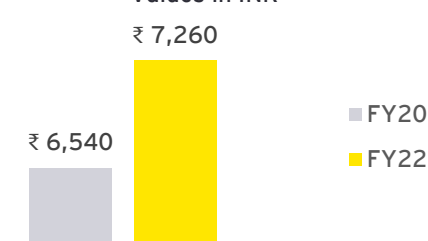
Travel and hospitality space have received its strength back after a downfall in the past two years by the pandemic. Domestic travel especially the leisure segment gave wind to the hospitality industry this year and is expected to continue into the coming years. According to the industry estimates after recovering from the impact of the COVID-19, hospitality industry has touched the occupancy of about 70% in the third quarter of 2022 to 2023¹²³

Upcoming India's G20 presidency which will convene the G20 Leaders' Summit for the first time in the country in 2023 will give travel and hospitality industry a strong boost as all the key people will be traveling to India and exploring different locations and the heritage sites of country.

Online travel market in India was estimated at INR1,410 billion in FY22 and is expected to reach around INR4,582 billion by FY27, growing at a CAGR of 26.5%.¹²⁴

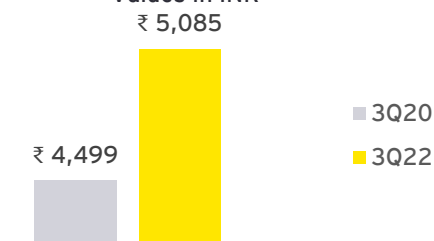
Average daily rates of room

Values in INR



Revenue per available room

Values in INR



Key trends in the sector

Shift of revenue travel from domestic to international

Compared to the 2019, price hike for international routes are about 23% and for domestic routes 66% and international travel recovery has reached to almost 75% compared to the pre COVID-19 levels.

EaseMyTrip registered about 30% growth in pre pandemic international flights in 2023.¹²⁵

Cultural destinations in demand

Cultural destinations were in strong demand in 2022. According to Ixigo data Varanasi saw more than 50% search queries via train and Tirupathi temple in Andhra Pradesh received the highest comeback with about more than 200% increase in train search queries for summer travel in 2022.¹²⁶

Personalization to help user

Online travel e-commerce platform are working on various algorithm to help bring personalization aspect for customer as this creates an experience which attracts user back to the same platform/site. Leading Indian travel booking platform is using sequential recommenders (Bert4Rec) for hotel ranking personalization.¹²⁷

Flexible booking options

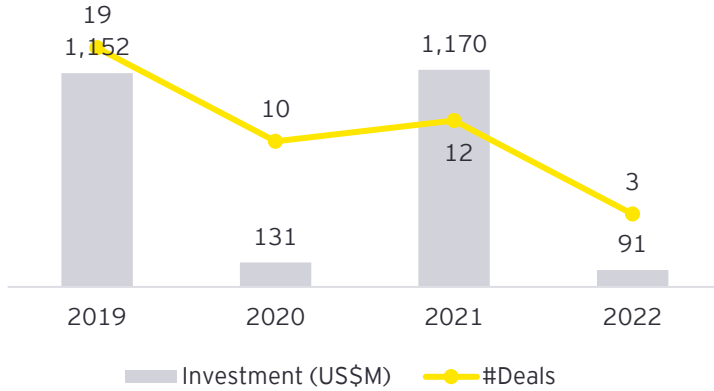
During the post-pandemic, with rapid changing COVID-19 restriction and world coming back to normal, Online travel firms provided various flexible options to customers such as contact less checking, last minute updates, no questions asked cancellation to customers.

OUTLOOK

Improved air and rail connectivity between Tier I and II cities has resulted in rapid domestic booking via online platform due to changed consumer preferences post pandemic. Looking at the changed consumer preferences e-travel aggregators re focusing more on domestic offerings such as staycation, workcations and pilgrimage travel.¹²⁸

PE/ VC investments in travel and hospitality sector remained subdued in 2022

PE/ VC investments in travel and hospitality sector (US\$ million)



Top Investors	Top funded segments
▶ Kotak Bank and others	▶ Homestay
▶ Matrix Partners India and others	▶ Ticketing
▶ DSG Consumer Partners	▶ Hotel Booking

Source: EY analysis

Key PE/ VC deals in travel and hospitality sector in 2022

Dtwelve Spaces Pvt. Ltd.
US\$57m

Kotak Bank, RBL Bank, Alteria Capital

Itilite Technologies Pvt. Ltd.
US\$29m

Matrix Partners India II LLC, Tenacity Venture Capital, Vy Dharana EM Technology Fund, L.P., Internet Fund VII Pte. Ltd.

Stay Vista Pvt. Ltd.
US\$5m

DSG Consumer Partners III, CA Holdings LLP, Capri Global Capital Ltd.

Key investment rationale



Accelerating product innovations, brand building, and scaling up go-to-market teams



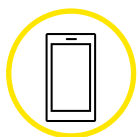
Multi-city expansion, branding and marketing, strengthening operations



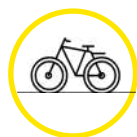
Mobility

TOWARD ELECTRIFICATION

The Indian mobility sector witnessed a decline owing to lockdowns. Companies witnessed difficulties from changing regulations at the regional level and shortage of driver partners. Funding crunch witnessed in most sectors in 2022 had a similar impact on mobility, prompting firms to look out for further ways for sustenance. Emergence of new mobility companies, growing interest in EVs and micromobility, and increase in tech-enabled use cases are expected to drive industry growth in the future.



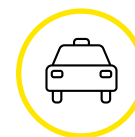
App based
cab booking



Micromobility



Self-drive rentals



Subscription based
ride services

Sector snapshot

US\$42.9b

Expected shared mobility market by 2027 (GMV)¹³¹

US\$183m

PE/ VC investments in 2022 across 11 deals

9.7b

Expected shared mobility vehicles in operation by 2027¹³¹

With hybrid work culture and changing consumer preferences, the Indian mobility sector has witnessed an increase in demand for vehicle leasing, subscription-based ownership and different modes of mobility such as ride hailing and sharing in recent years.

Similar to the 'funding winter' experienced by most sectors in 2022, investment in the mobility space declined from US\$1,610m in 2021 to US\$183m in 2022. Lockdown-induced reduction in ridership led firms to introduce innovative solutions and diversification into adjacent segments. Although a challenging environment is expected in the near future, the pandemic accelerated some beneficial trends such as increased electrification in two-wheel (2W) and three-wheel (3W) vehicles, growth of shared mobility owing to new use cases (last-mile delivery, ride hailing, and rentals). Changing vehicle ownership trends such as preference for shared transport and used cars, along with push toward e-mobility and micromobility provides opportunities for start-ups in the space.

Key trends in the sector

New mobility companies

Incumbent ride hailing platforms facing smaller upstarts, category-specific business models

- ▶ Rapido in the auto segment, BluSmart, eee-Taxi, Evera in the electric mobility segment, Quick Ride for carpooling, and blockchain-based mobility platform, Drife, are disrupting the market traditionally dominated by a few large players
- ▶ Additionally, e-scooter rental startups such as Bounce, Yulu, Vogo are working to revolutionize shared micro-mobility in urban India

Growing interest in Evs

Rising interest in clean and sustainable tech for transport has led to an increasing consumer interest in EVs

- ▶ From 2020 to 2021, there was 168%¹³² increase in EV registrations, with sales led by two- and three-wheelers
- ▶ In line with market demand, ride hailing, and taxi aggregators are continuously adding e-vehicles in their fleet
- ▶ The number of EV charging stations are expected to increase from 1,742 in 2022 to 100,000 by 2027 to accommodate the increasing demand from ~1.4 million EVs expected to be on the roads by then¹³⁰.

Emergence of Battery-as-a-Service

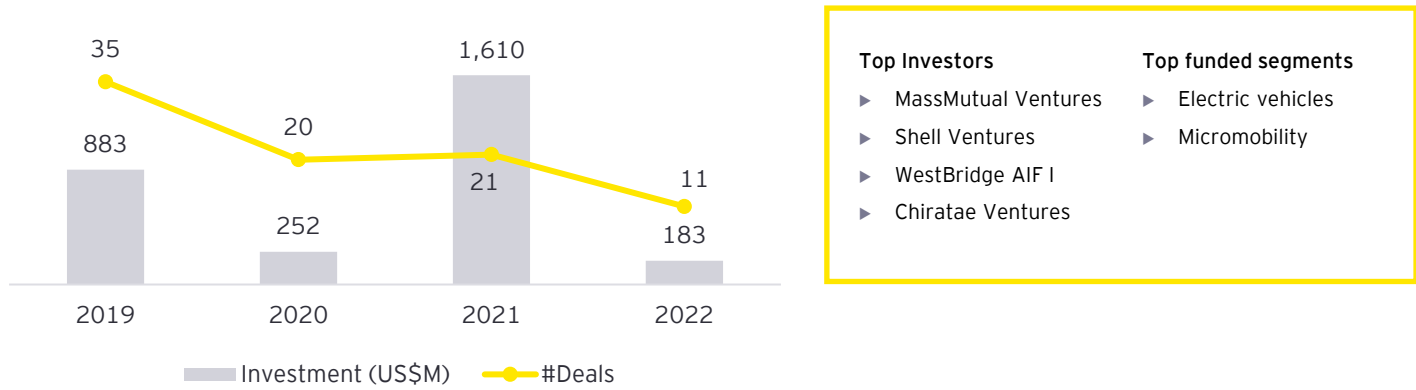
- ▶ In the Battery-as-a-Service (BaaS) model, users can purchase an EV without the battery, reducing the upfront cost of the EV by up to 30-50%¹³³, while the battery is provided in the form of a subscription or lease agreement
- ▶ The Niti Aayog released a draft battery swapping policy to make these vehicles interoperable and improve the efficiency of the ecosystem by pushing BaaS
- ▶ Entities such as Rapido, Bounce and Yuma Energy (set up by Magna-Yulu) have established battery charging and swapping infrastructure

OUTLOOK

Driven by ride-hailing, micromobility, and electric vehicles, the Indian shared mobility market is likely to grow at a CAGR of 25% during 2021-27¹³¹. The Indian used automotive industry is expanding rapidly, with potential to rise to US\$120b¹²⁹ by FY2026-27. Growth is expected to accelerate, driven by rise of tech-enabled used automotive platforms, easy access to finance, changing demographics and aspirations, and convenience of payment options. Need for personal mobility solutions, increased awareness of the environment and rise in prices of gasoline are likely to drive EV sales.

PE/ VC investor bet on EVs and micromobility in the mobility sector

PE/ VC investments in the Mobility sector (US\$ million)




Source : EY analysis, Tracxn


Key PE/ VC deals in Mobility sector in 2022

Qure.ai Technologies US\$40m	MassMutual Ventures Southeast Asia Fund I, HealthQuad Advisors Pvt. Ltd., Novo Holdings A/S
Roppen Transportation Services US\$37.9m	WestBridge AIF I, Nexus Ventures V Ltd
Sharify Services US\$25.7m	Shell Ventures
Expertia AI Technologies NA	Chiratae Ventures, Endiya Partners, Entrepreneur First Investment Manager LLP
Blu-Smart Mobility US\$25m	Green Frontier Capital, BP Technology Ventures Ltd., Stride Ventures, Alteria Capital, BlackSoil and UCIC

Key investment rationale



Huge potential for growth of electric vehicles



Emergence of micromobility



Payment and Wallets

FACELESS, PAPERLESS, CONTACTLESS

Digital Payments transactions have consistently increased over the last few years, as a part of the Indian Government's strategy to digitize the financial sector and economy. Leading FinTech players are driving UPI adoption in India, supplemented by merchants with user-friendly transaction interfaces, innovative offerings, and an open API ecosystem.

The market is expected to more than triple from US\$3t in 2022 to US\$10t by 2026, primarily driven by increasing online purchases and digital adoption in the country.



Payment gateway aggregator



P2M market (merchant payments)



Mobile payments

Sector snapshot

US\$10tn

Digital payments market size by 2026¹³⁴

US\$488m

PE/ VC investments in 2022 across 13 deals

74b

Digital payments through UPI in 2022¹³⁵

6

No. of unicorns¹³⁴

With popular payment instruments such as UPI, cards, and prepaid payment instruments like mobile wallets witnessing over 23 billion¹³⁶ transactions per quarter, India is becoming one of the fastest growing markets for digital payments globally. As of 2022, the country had ~350m online transacting users across e-commerce, shopping, OTT, travel and hospitality, and the number is expected double by 2030¹⁴³. Digital payments witnessed steep growth in the last two years, primarily driven by mass adoption of UPI for daily transactions. The JAM trinity (Jan Dhan, Aadhaar, mobile), with a combination of bank account penetration through the Jan Dhan Yojana program, Aadhaar-based unique identification numbers enabling KYC, and low-cost internet access, have also been instrumental in the adoption of digital payments.

UPI, termed as a revolutionary product in the Indian payment ecosystem, constituted over 40%¹³⁷ of all digital transactions in 2022, followed by debit and credit cards.

Key trends in the sector

Adoption of wearable payment devices

The integration of wearables and contactless payments is an emerging trend in the Indian payment system.

- ▶ Payment solutions such as TapTap by BillBox, Zakey Yespay RuPay ON-THE-GO by Zagggle, Axis Bank Wear 'N' Pay, and Titan Pay for SBI customers, are on the rise to address the need for fast, convenient and secure transactions.

Government support initiatives

- ▶ The Indian government has provided significant push to digital payments in the form of budgetary allocation of Rs.1,500cr for digital payments in FY24¹³⁸
- ▶ Additionally, the government announced incentives to promote RuPay Debit Cards and low-value BHIM-UPI transactions (P2M) in FY2022-23 with a financial outlay of Rs.2,600cr¹³⁹

Offline payments

The RBI as well as industry players have introduced innovative digital payments solutions which do not require internet access.

- ▶ For instance, players including Paytm and PhonePe launched UPI Lite to facilitate small ticket transactions up to Rs.200 in near-offline mode¹⁴⁰
- ▶ The RBI launched UPI123Pay to enable UPI payments without internet connection on ~400m¹⁴¹ feature phones in India

Focus on security

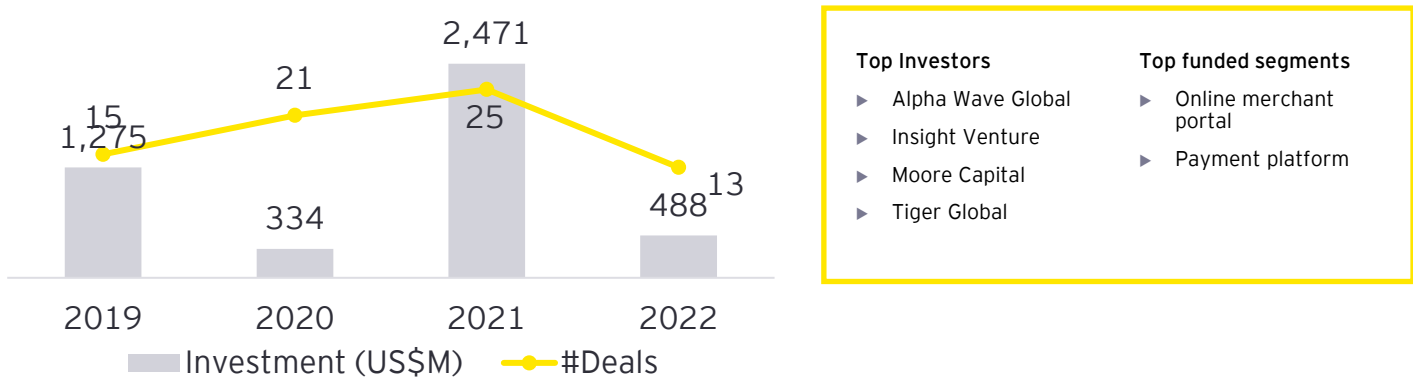
- ▶ The RBI launched Central Bank Digital Currency (CBDC) pilot in retail (Digital Rupee - Retail, e₹-R) and wholesale (Digital Rupee -Wholesale, e₹-W) segments, with components based on blockchain technology, as a step toward ensuring more secure and transparent transactions¹⁴⁴
- ▶ Additionally, the RBI allows card networks to tokenize card transactions, i.e., replace original card details with an alternative, unique code called a 'token' to ensure more security

OUTLOOK

The digital payments market in India is at an inflection point and is expected to more than triple from US\$3trillion in 2022 to US\$10trillion by 2026 primarily driven by increasing online purchases and digital adoption in the country¹³⁴. As a result of this exceptional growth, digital payments (non-cash) are expected to constitute almost 65%¹³⁴ of all payments by 2026 i.e., two out of three transactions (by value) would be digital. Although digital payments are expected to reach a saturation point by 2027¹⁴², it is expected to trigger innovation, technological advancements, and advanced banking solutions via integration of IoT, 5G, AI, and CBDC. New entrants with offerings such as buy now pay later (BNPL) and third-party application providers (TPAPs), digital payments' growth in Tier III-VI cities, and embedding payments into non-financial products such as peer-to-peer money transfer via social media platforms are likely to change in industry dynamics in the future.

Inorganic growth aspirations attract PE/ VC investments in the Payment/Wallets sector in 2022

PE/ VC investments in the Payment/Wallets sector (US\$ million)



Source : EY analysis, Tracxn

Key PE/ VC deals in payment/wallets sector in 2022

Pine Labs US\$150m	Alpha Wave Global
Razorpay Software US\$75m	Lightspeed Management Company LLC, Moore Capital Management LP
M2P Solutions US\$56m	Better Inc., Insight Venture Management LLC, MUFG Innovation Partners Co., Ltd., Tiger Global Management LLC
Dotpe US\$54.5m	IE Venture Fund I, PayU Corporate, V-Sciences Investments Pte. Ltd. (Temasek), MUFG Bank Ltd.
GaragePreneurs Internet US\$50m	Insight Venture Management LLC, Moore Capital Management LP, Tiger Global Management LLC, GMO Venture Partners Inc.

Key investment rationale



High technology adoption in the sector



Domestic expansion as there is scope for growth in Tier III-VI cities



Outlook

The future of Indian e-commerce and internet will be characterized by new models and sustainable commerce

With India representing one of the few large and under-penetrated (7.8% in 2022) e-commerce markets globally, the future for e-commerce looks promising. India's young, aspirational, and internet-connected consumer cohort is estimated to drive eCommerce adoption at a CAGR of 20% during 2021 to 2030, albeit a slower pace compared to the CAGR 33% growth that the sector enjoyed during the past five years.

Key trends in the sector

Sustainable e-commerce for a sustainable environment

- ▶ Leading global e-commerce firms are committing to reach net-zero carbon reductions by 2040, reduce shipping emissions, and reduce packaging waste. India now also has over **38 cleantech start-ups**, with the aim to provide clean energy solutions.
- ▶ While the Delhi government has set sustainable targets requiring **50% of all new two-wheelers** and **25% of new four-wheelers** to be **electric** by 2023, the Kerala government unveiled a **draft policy** to increase investments in sunrise sectors including **green energy and cleantech**.
- ▶ A leading India-based e-commerce firm launched **green sustainability store**, a virtual store providing products from over 40 globally certified sustainable product brands.
- ▶ **Growing consumer awareness for environmentally friendly solutions will only lead to increase in demand for sustainable e-commerce solutions.**

All-in-one super apps to increase industry competition

- ▶ With e-commerce maturing, the sector is witnessing development of various super apps. While large traditional players have expanded their offerings to include features like payments, money transfers, booking tickets.
- ▶ Several large conglomerates are also entering the Indian e-commerce market to launch all-in-one super apps. While one large conglomerate launched its super app in April 2022, another is also set to get into super app business.
- ▶ **Growing industry competition and the emergence of super apps will pave the way for further growth and innovation within the industry.**

Enhancing business by leveraging subscription economy

- ▶ E-commerce companies across subsectors are rapidly leveraging subscription services to ensure continuous cash flows. These are being leveraged to firstly, **enhance revenue**. While a global multimedia firm launched its subscription service to monetize its huge customer base in India, while a mobility firm launched **subscription care**, to deliver **after-sale services** for their electric vehicles (EVs).
- ▶ Secondly, subscriptions are being leveraged to increase customer repetition with a food delivery firms allowing its customers to subscribe to three-day, seven-day, 30-day plans to ensure **customer retention**.
- ▶ Thirdly, subscriptions are being used to launch new services, with a global technology player launching **UPI Autopay** in India for subscription-based services.
- ▶ **With broad-based use cases across revenue generation, new products, and customer service, the focus on subscription services will only grow.**

With several new funds launched in 2022, VC investors have ~US\$16 billion to invest in start-ups. Further, several funds which launched in 2021, are also left with capital which is yet to be invested.

Adding to the industry's demand and supply dynamics is the stupendous effort of the government, investment houses, large corporates and periphery industry toward the development of a nurturing ecosystem for e-commerce. The launch of Open Network for Digital Commerce (ONDC), a private non-profit company established by the Department for Promotion of Industry and Internal Trade of Government of India to develop open e-commerce will further accelerate industry growth. This will help propel and position India among the largest e-commerce hub globally.

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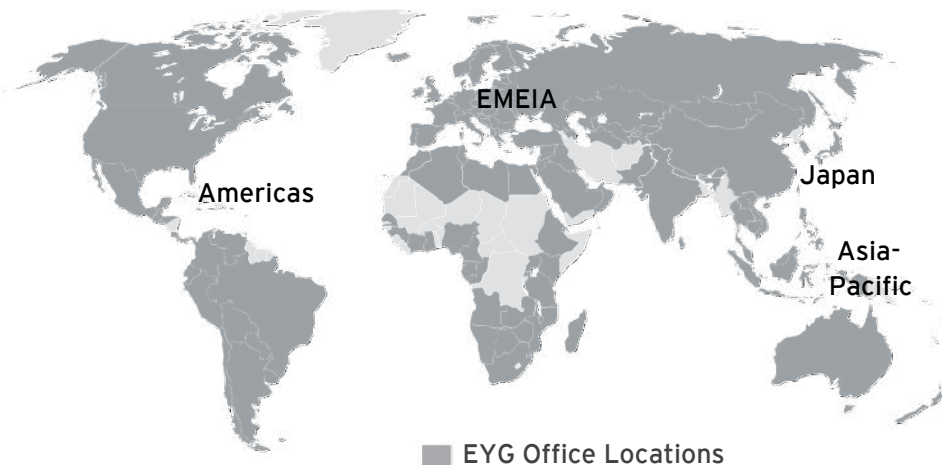
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