Auto E-commerce Market Report

November 2021

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Chapter 1- India macroeconomic overview

1.1. Global and Indian macroeconomic view

The global economy experienced a significant downturn in calendar year 2020 (CY'20) due to the COVID-19 pandemic. Economic activity and financial markets were impacted as countries enforced lockdowns. Due to this, countries had to undertake significant fiscal measures, amounting to ~12% of global GDP, to mitigate the adverse impact of the pandemic. Thus, the adverse economic impact is expected to be lesser than initially expected and recover in CY'22. As per the International Monetary Fund (IMF) forecasts, the global economy is expected to grow by 6% in CY'22, before tapering to 3% by CY'26.[1]

India has been witnessing a growth in GDP of over more than 6% since CY'16. However, due to COVID-19 pandemic and lockdown restrictions on economic activity, GDP contracted by 7.3% in CY'20. The pandemic and its subsequent lockdowns prompted supply chain disruptions that led to a decline in private consumption and investments.

Economic growth is projected to bounce back in CY'21, driven by pent-up demand for consumer and investment goods. V-shaped economic recovery is expected, with GDP likely to grow by 9.5% in CY'21. The main drivers of the economy would be agriculture and industry. The recovery of the services sector is expected to take longer, as the second lockdown affected hotels, restaurants, tourism, retail malls, etc.

The Indian economy is thus gradually recovering from the impact of the second wave of coronavirus, supported by several government policy measures, targeted fiscal relief and rapid roll out of the vaccination drive across the country. In CY'20, monetary easing, supportive financial regulation and fiscal support were deployed to counter the recessionary effects of the lockdown. Policy fine-tuning is now underway in each area. The Reserve Bank of India (RBI) has undertaken conventional and unconventional stimulus measures and stepped up to its role of being the monetary policy administrator.

As per the RBI's Monetary Policy Report in October 2021, inflation levels were on rise in May 2021 and June 2021 and crossed the 6% upper limit due to supply-side pressures in food, fuel and core inflation. However, in August 2021, inflation eased to 5.3%, aided by a moderation in momentum and favourable base effect. Further, RBI in its monetary policy meeting in August 2021, chose to focus on economic growth over inflation. In its Financial Stability Report, July 2021, the monetary authority had stated that the increasing inflation is transitory in nature and with international commodity prices facing a broad-based upswing and global and domestic supply chain facing disruptions the situation would only improve with COVID-19 restrictions being removed and economic activity reviving.

1.2. Key economic indicators

Gross domestic product

In CY'20, India's economy became the third largest in the world in terms of purchasing power parity adjusted gross domestic product (GDP).[2] Over the past three decades, India has been one of the 18 outperforming emerging economies to achieve robust and consistent GDP growth.[3] India has been witnessing GDP growth of more than 6% since CY'16. While established economies such as the USA and China will continue to dominate the global economy over the next five years, emerging markets including India will act as growth engines for the global economy. As per the International Monetary Fund (IMF) forecasts, India's GDP is expected to grow at 9.5% in CY'21, faster than the GDP growth rate of the USA (expected growth rate in CY'21 - 6%) and China (expected growth rate in CY'21 - 8%). As the

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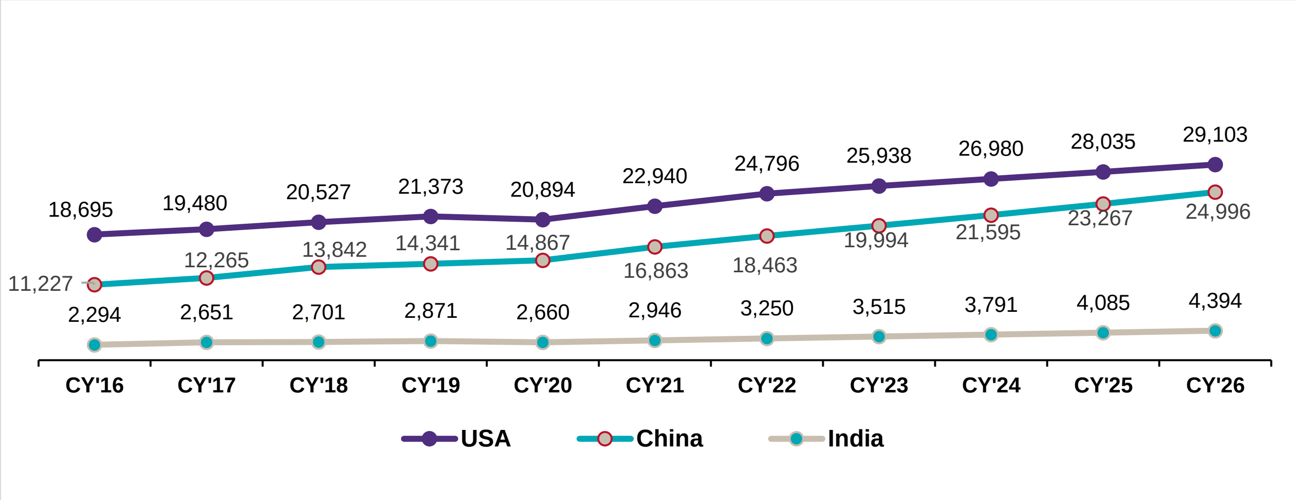
[1] "China's growth set to drive global economy in post-pandemic years", Business Standard, April 2021
[2] "India retains position as third largest economy in PPP, global actual Individual consumption, capital formation", Economic Times, June 2020
[3] "India's turning point: An economic agenda to spur growth and jobs", August 2020

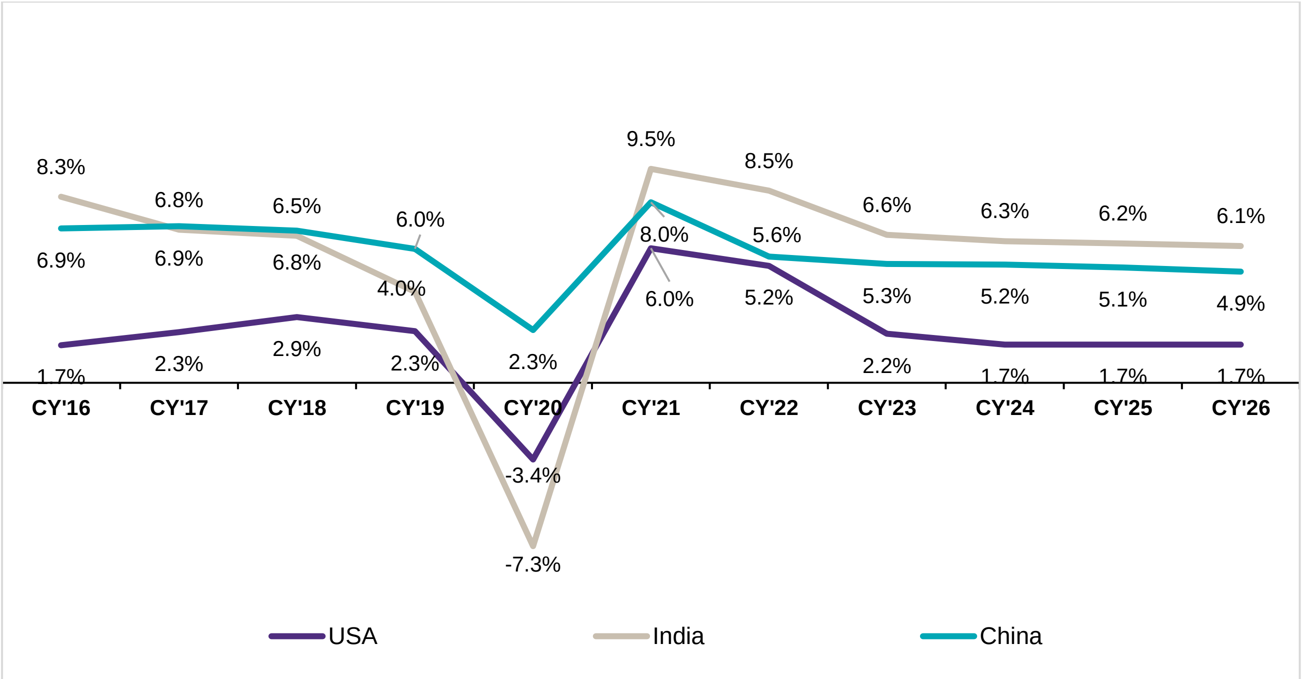
economy stabilises to a healthy GDP growth rate of 6% to 7% post recovery from effects of COVID-19 pandemic, thereafter, India's GDP is expected to reach USD 4,394 billion by CY'26, as shown in the figures below. Market trends such as increasing urbanisation, rising incomes and demographic shifts coupled with greater focus towards health and safety are expected to accelerate growth of the Indian economy from CY'22 to CY'26.

Figure 1: GDP (current prices) for India, the USA and China (USD billion)



Source: International Monetary Fund Country Data Statistic for the USA, China and India

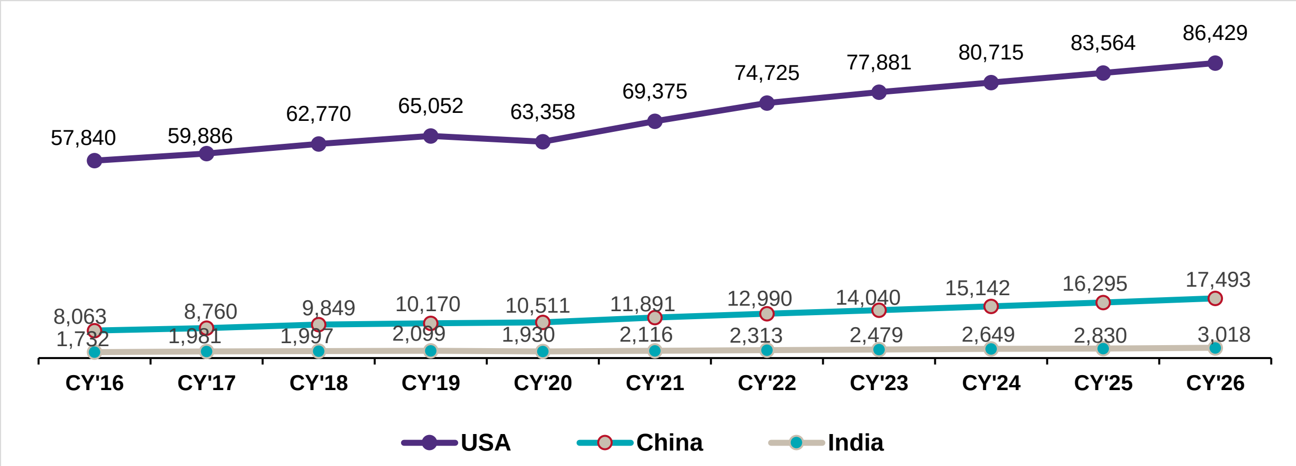
Figure 2: Real GDP Growth (At constant prices) growth rate for India, the USA, and China (%)



Source: International Monetary Fund Country Data Statistic for the USA, China and India

In CY'20, US GDP per capita was around six times the size of China's and almost thirty times that of India. Over time, these gaps are projected to narrow. India will be supported by relatively fast-growing population, boosting domestic demand and the substantial size of the workforce. India's per capita GDP is expected to grow at a CAGR of 7% between CY'21 and CY'26, as against 4% for the USA and 8% for China.

Figure 3: GDP per Capita (current prices) for India, the USA and China (USD)



Source: International Monetary Fund Country Data Statistic for the USA, China and India

Gross value added

As per CARE Ratings estimations, India's gross value added (GVA) is expected to increase by 10.2% in FY'22. This is based on the normal monsoon assumption which will lead to stable agricultural output.

Construction, trade and hospitality, manufacturing, mining, and quarrying, and industrial sectors witnessed decline between FY'20-FY'21 due to second wave of COVID-19 pandemic, owing to weakness in domestic and global demand, temporary closure of production units during the lockdown and supply constraints. However, these sectors are expected to recover in FY'22.

The industrial sector will witness buoyancy with mining, manufacturing and construction registering double digit growth rates over negative growth in FY'21. This will be supported by growth in the automotive and textile sector. The manufacturing sector GVA stood at INR 25,857 billion in FY'21 and is expected to grow by 12.8% in FY'22[4]. Services sector is expected to grow by 11.6% with all the three segments registering double digit growth.

Table 1: Gross value added (base year: 2011-12) at current prices (INR billion)

Sector wise GVA profile

	In INR Billion			In %		
	FY'19	FY'20	FY'21	FY'19	FY'20	FY'21
Gross value added	**1,71,612**	**1,84,613**	**1,79,152**	**18%**	**18%**	**20%**
Agriculture, forestry and fishing	30,163	33,940	36,165	21%	19%	19%
Industry	36,331	35,517	33,623	2%	2%	2%
Mining and quarrying	3,772	3,558	2,921	16%	15%	14%
Manufacturing	28,053	27,123	25,857	3%	3%	3%
Electricity, gas, water supply and other utility services	4,506	4,836	4,845	61%	62%	61%
Services	1,05,118	1,15,156	1,09,363	8%	7%	7%
Construction	13,498	13,686	12,820	19%	19%	16%
Trade, hotels, transport, communication and services related to broadcasting	32,003	34,802	29,415	21%	21%	22%
Financial, real estate and professional services	35,425	39,158	39,508	14%	15%	15%
Public administration, defence and other services	24,193	27,508	27,620	18%	18%	20%

Source: NSO (National Statistics Office) under Ministry of Statistics and Programme Implementation (MOSPI)

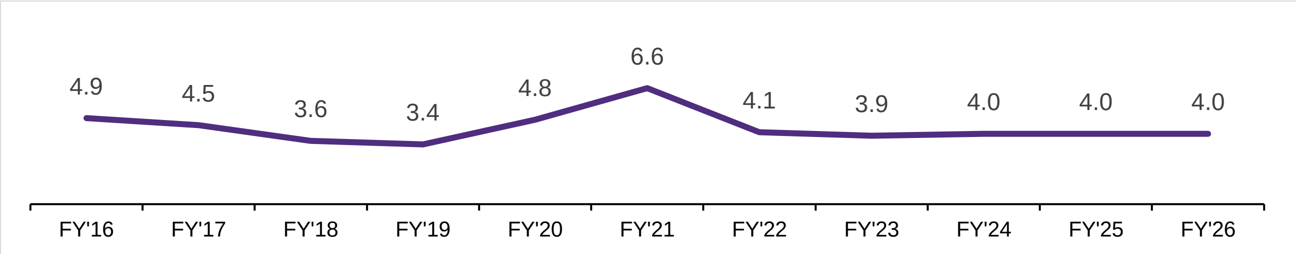
[4] GVA profile and estimates, Care Ratings, March 2021

Inflation

From the onset of COVID-19, inflation in India hovered around the upper range of the RBI's target inflation range (2-6%) and exceeded by 6% during the second wave. A steep rise in food prices, supply chain disruptions, and higher taxes on petrol and diesel resulted in upward pressure on consumer inflation during FY'20.

According to IMF projections, consumer price inflation in India is projected to remain elevated over the short term but is likely to ease off and settle around 4.0% through to FY'26 owing to a slow recovery in domestic demand and relatively low oil prices.

Figure 4: Consumer price inflation in India (In %)



Source: Prices and Inflation, Economic Survey Volume II 2020-2021

Industrial production

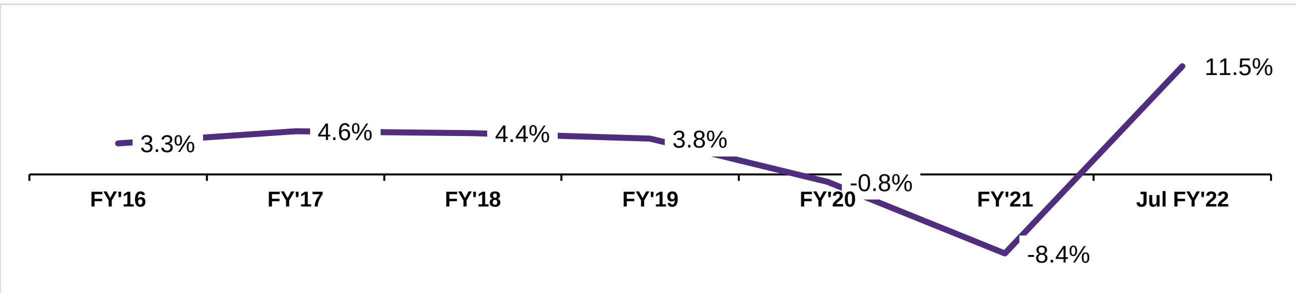
Industrial production contracted by 8.4% during FY'21 as compared to -0.8% in FY'20.

Industrial production rose by 22.4% in March 2021 due to favourable base as the government imposed nationwide lockdown a year ago during the same period due to the outbreak of the COVID-19 pandemic. Factory production came higher than market estimates of 20% led by strong growth in manufacturing and electricity output.

Manufacturing sector grew by 25.8% in March 2021 as the expansion in activity remained better than expected. In terms of industries, 20 out of 23 industry groups showed expansion during the month. Electricity sector output grew by 22.5% while mining output growth remained low at 6.1% due to -21.9% contractions in coal production and -3.1% decline in natural gas output during March 2021.

On use-based, capital goods or infrastructure expanded by 41.9% and 31.2% respectively on the favourable base of -38.8% and -24.3% contraction in March 2020. The consumer durables sector grew by 54.9% and non-durables at 27.5% on favourable base.

Figure 5: India's index of industrial production growth (%)



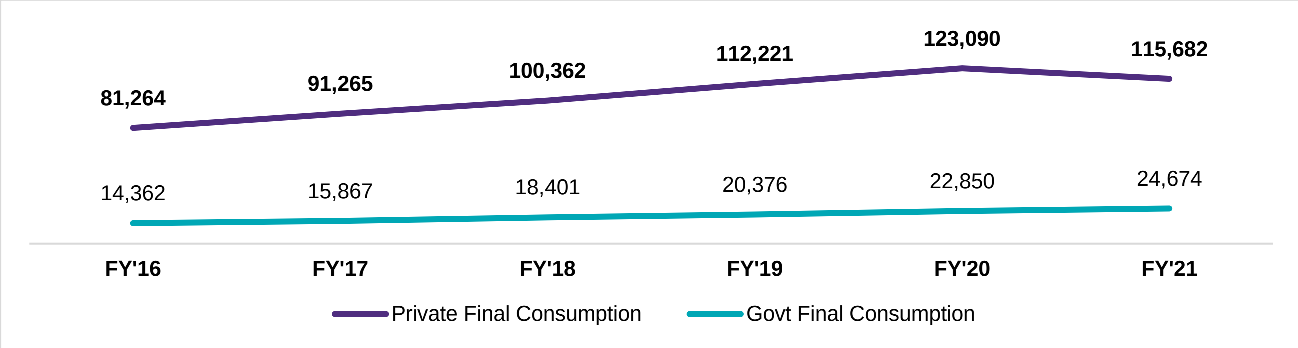
Source: NSO (National Statistics Office) under Ministry of Statistics and Programme Implementation (MOSPI)

The pandemic had slowed down India's consumer demand. However, with the Indian economy on its way to recovery, consumer spending is expected to build up in the second half of 2021.

In its Annual Report 2020-21, the RBI said that for a self-sustaining GDP growth trajectory post-COVID-19, a durable revival in private consumption and investment demand would be critical.

Fixed investments grew by only 2.8% in FY’20 as opposed to 8.2% in FY’19 and declined by 17.6% in FY’21. This trend is expected to turn around in FY’22, with growth of 14.3%.

Figure 6: Private final consumption expenditure and government final consumption expenditure in India (base year: 2011-12) at current prices (INR billion)



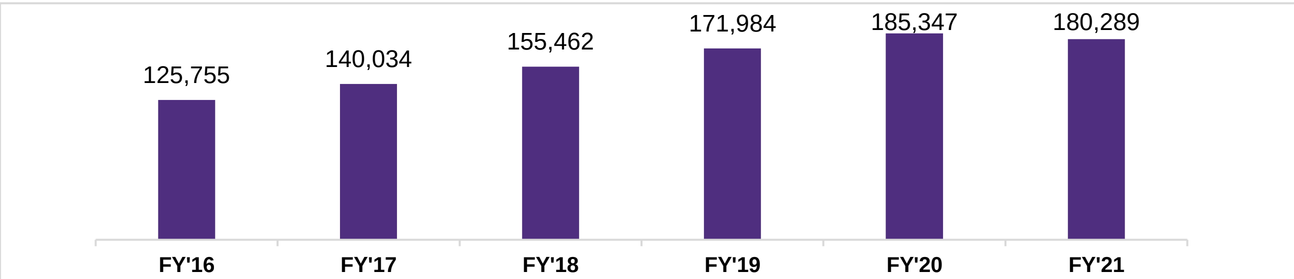
Source: NSO (National Statistics Office) under Ministry of Statistics and Programme Implementation (MOSPI)

Net disposable income

While India’s net national disposable income has been steadily increasing between FY’16 and FY’20, private consumption and fixed investments decreased in FY’21, mainly because savings have been rising amidst COVID-19 and economic uncertainty. This trend is expected to normalise once the pandemic induced disruptions abate.

The monsoon forecast and ideally a stable kharif harvest should bode well for rural incomes and thus higher private consumptions and fixed investment.

Figure 7: Net national disposable income in India (INR billion)



Source: NSO (National Statistics Office) under Ministry of Statistics and Programme Implementation (MOSPI)

1.3. Key demographic indicators

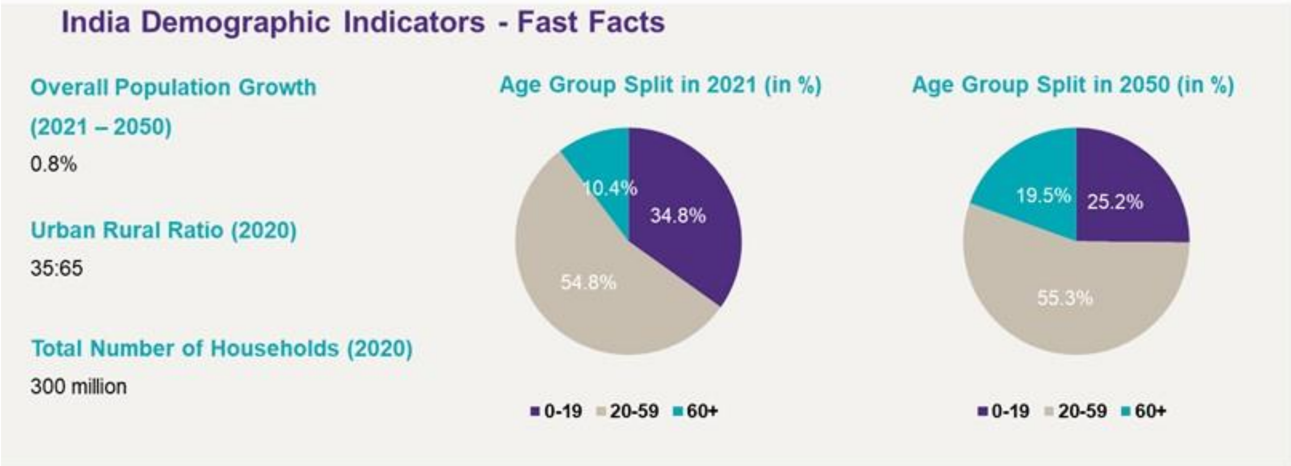
India will likely become the most populous country in the world by CY'50 surpassing China. India is expected to add nearly 259 million people to its population between CY’20 and CY’50. According to a recent United Nations (UN) report, India will remain the most populated country through the end of the current century.

With a population of more than 1.3 billion, India is one of the world’s largest economies. India has been touted as the next big economic growth story after China. One of the primary reasons for this has been its young population. It is expected as the young Indian population enters the working-age, it will lead to higher economic growth – a demographic dividend. The window began in CY’18 when the working-age population (20 to 59 years) began to grow larger than its dependent population – children and people above 59 years of age.

As the economy advances towards incentivising wealth creation, environmental sustainability and technological proficiency, urbanisation acceleration is inevitable in India. The Budget FY’22 has given an unprecedented cross-sectoral focus on urban India. The Ministry of Housing and Urban Affairs (MoHUA) has been allocated INR 545.8 billion. Almost half of this has been provisioned for the Pradhan Mantri Awas Yojana (at INR 275 billion)[5].

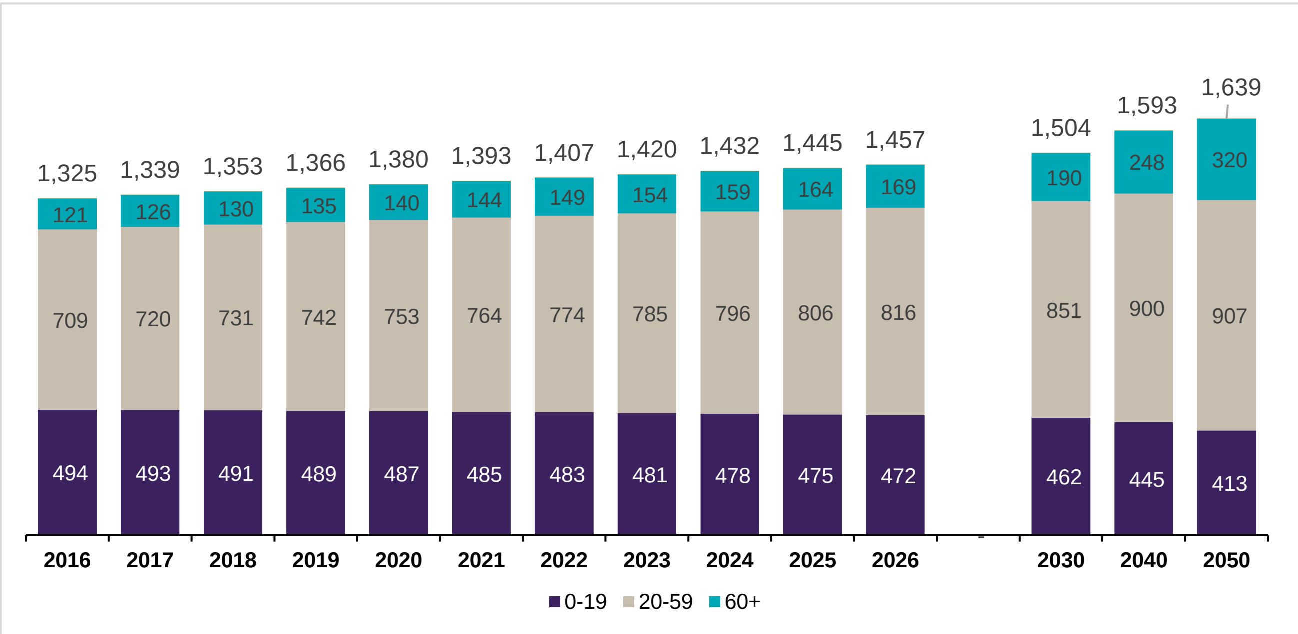
India's demographic profile has begun to evolve in a way that is potentially more favourable to economic growth. Over the past decade, the country's economic growth has been accompanied by the proliferation of the working-age population.

Figure 8: India's demographic indicators



Source: United Nations India Population Projections; World Bank Rural population as a % of total population in India

Figure 9: Total population in India (in million)

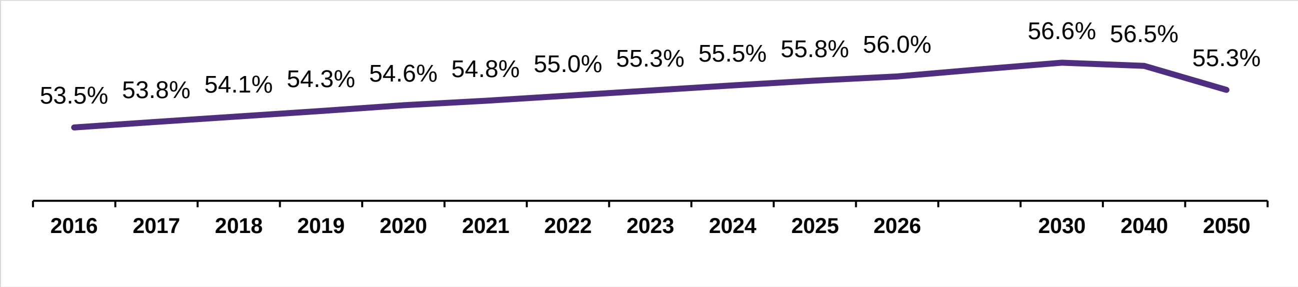


Note: Above statistics refer to 1 July as start of reference year

Source: United Nations India Population Projections

[5] "Union Budget 2021-22: The Urban Picture", Financial express, Feb 2021

Figure 10: Working Age (20-59 years) Population (% of total population)



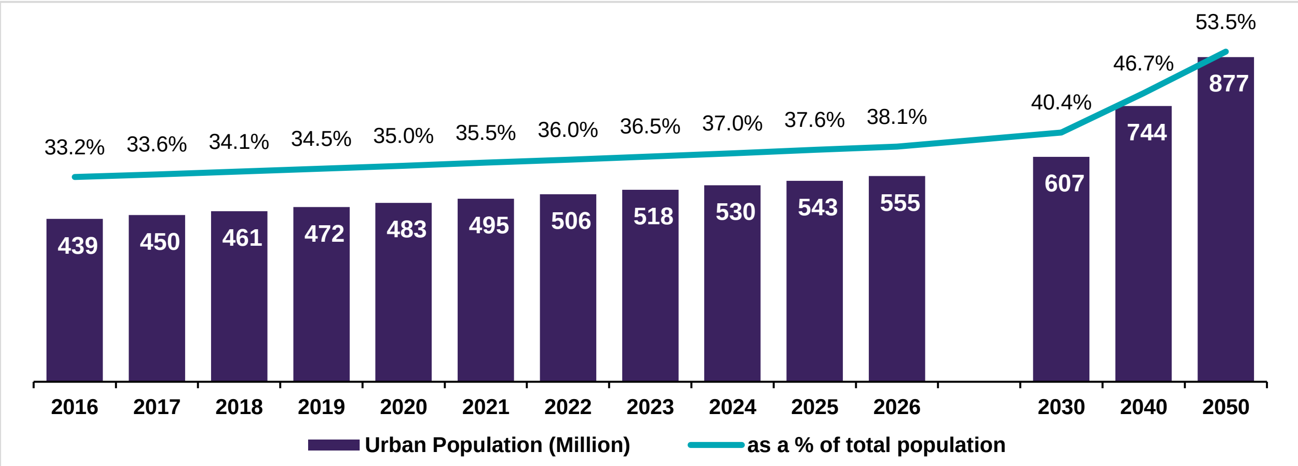
Note: Above statistics refer to 1 July as start of reference year

Source: United Nations India Population Projections

India has one of the youngest populations in an ageing world[6]. A key driver of this trend has been the steady decline in India's total fertility rate (TFR). The proportion of the working-age population in India is expected to increase to 56.5% in CY'41 from 54.8% in CY'21. This equals a growth of nearly 136 million people in the workforce. India's expanding working population and low age dependency, resulting in more people moving to the workforce, has led to an immense focus on the consumption-led and inward focused contributors to economic growth. By CY'25, one-fifth of the world's working age population will be Indian[7].

Urbanisation has a positive relationship with economic growth. A higher urbanisation level signifies a higher level of economic development. According to UN estimation, India's urban population of 483 million is projected to reach 877 million by CY'50, as shown in the figure below:

Figure 11: Projected urbanisation in India:



Note: Above statistics refer to 1 July as start of reference year

Source: United Nations Urban Population Projections - India

Cities will be core to India's economic growth as it will generate 70% of net new jobs by CY'30 and produce approximately 70% of GDP by CY'30[8]. Rapid urbanisation is expected to create another 15 metropolitan cities from CY'21 to CY'30.

Key factors that have led to urbanisation in India include increasing population and increasing migration rates from villages to towns and cities. At least two cities—Mumbai and Delhi—will be among the five largest cities in the world by CY'30. Many will be larger than the size of countries today in both population and economic output[9].

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[6] "One of the youngest populations in the world", Indbiz, June 2021
[7] An India Economy Strategy to 2035, A report to the Australian Government by Mr Peter N Varghese AO, 2018
[8] India's Urban Rising, Financial Times, April 2010
[9] India's Urban Rising, Financial Times, April 2010

Chapter 2 – Indian e-commerce market overview

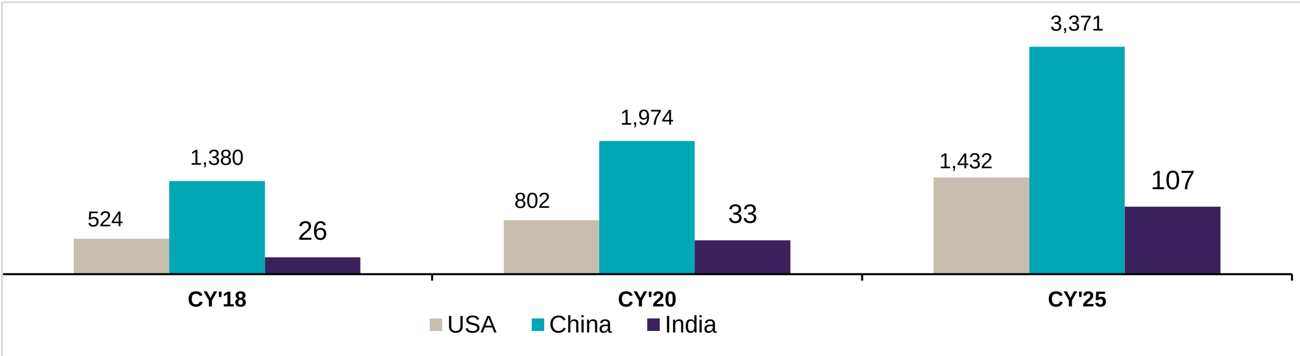
2.1. E-commerce market historical and outlook

E-commerce has transformed the way business is done across the globe. The USA and China are the largest markets for e-commerce in the world. This is largely due to the ease of doing business – there is a robust logistics infrastructure and high demand for cross border retailers. Over the past five years, China's e-commerce market has grown at a tremendous pace owing to its huge population and a keen desire to shop online and across borders. India is one of the fastest growing markets for e-commerce in the world, driven by discounts, advances in logistics and growth in smartphone penetration and data usage. The Indian e-commerce market is expected to grow at a compound annual growth rate (CAGR) of 27% in the next five years (CY'20 to CY'25), as compared to 11.3% for China and 12.3% for USA and is poised to emerge as one the leading e-commerce markets in the world.

The e-commerce market in India is projected to reach USD 107 billion by CY'25 with growing consumer preference to buy from the digital marketplace.

Much of this growth so far has been driven by increase in urbanisation, increased consumer spending, high penetration of internet and smartphone adoption. Technology enabled innovations like digital payments, hyper-local logistics, analytics driven customer engagement, increasing consumer awareness and digital advertisements are likely to support the growth going forward.

Figure 12: E-commerce market size for the USA, China and India (USD billion)



Note: Graph not to scale
Source: GT Analysis

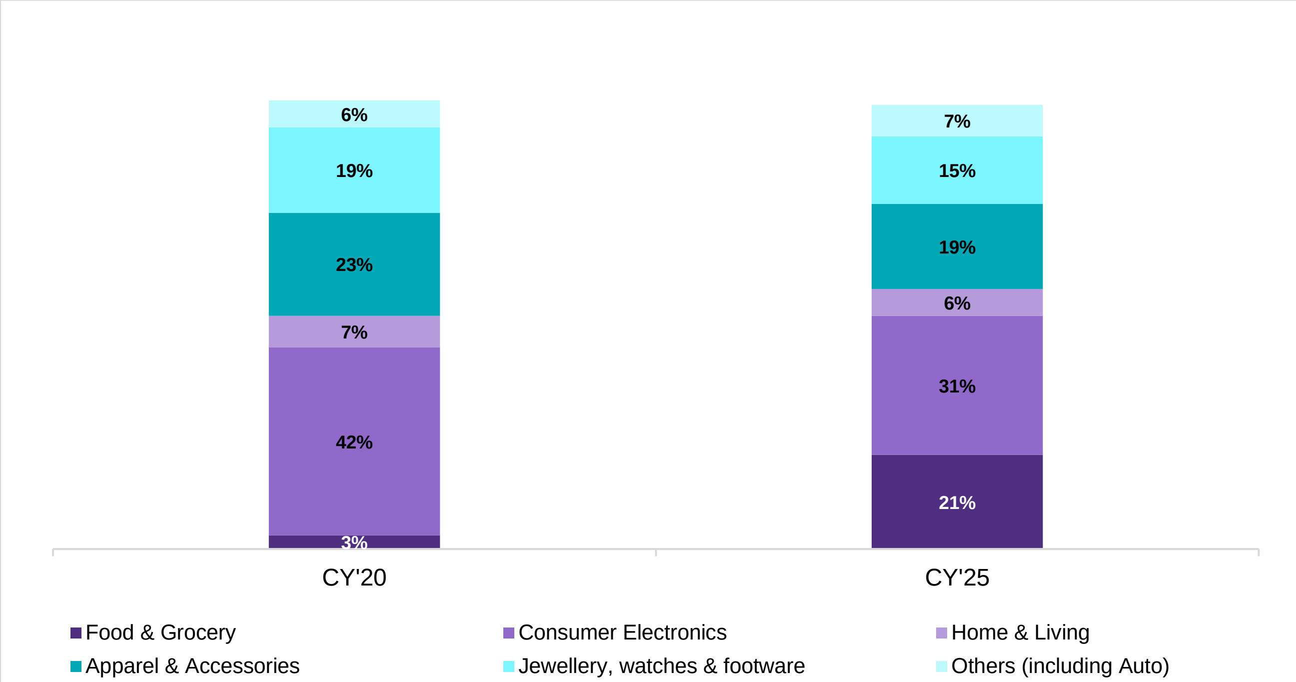
2.2. Split by key online e-commerce categories and penetration

The Internet has been causing a secular shift for all major retail categories online. Most businesses and consumers are looking for online solutions as a preferred choice. Thus, various segments in e-commerce are anticipated to witness significant growth. In CY'19, electronics was the largest contributor to online retail sales in India. It included mobile phones, gadgets, appliances, etc. Fashion is also one of the major categories searched on various e-commerce websites. It is not only for apparel shopping but also to research the latest fashion trends.

The consumer buying patterns and preferences have changed significantly with categories like health and pharma, groceries and food delivery witnessing a surge and exponential growth mainly due to the rising number of first-time shoppers.

Increasing personal mobility needs, social distancing, and concerns of hygiene in public transport are likely to drive demand for used cars. This will be followed by two-wheelers and budget new cars which will further boost prospects of used vehicle sales platforms. Close to 100% of pin codes in India have seen e-commerce adoption. More than 60% of transactions and orders in India come from Tier II cities and smaller towns. As many as 97% of postal codes ordered at least one item during FY20.[10]

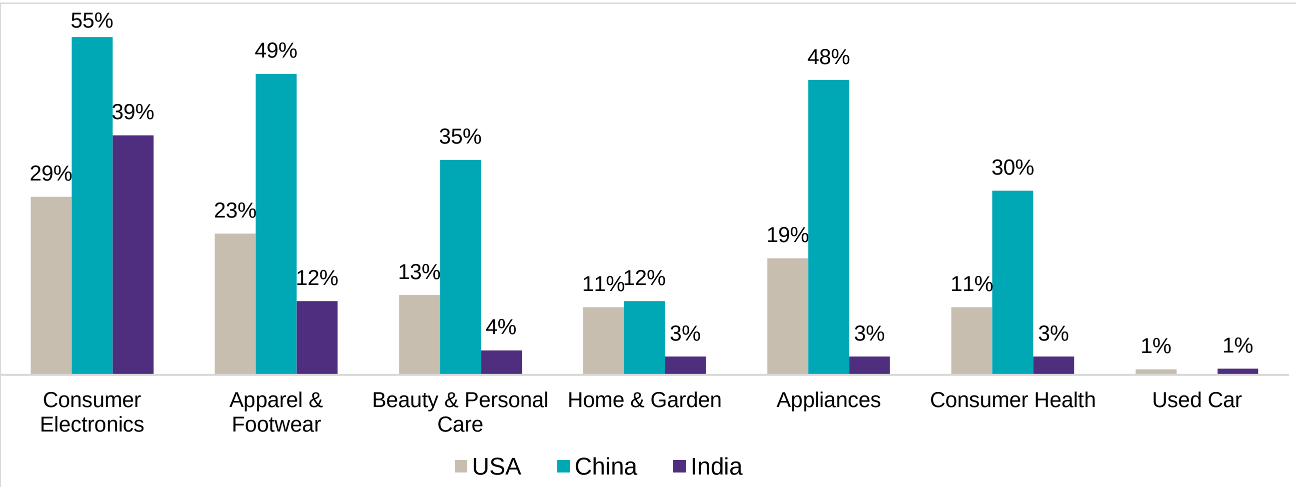
Figure 13: Composition of e-commerce market



Source: GT Analysis

COVID-19 has prompted a shift in e-commerce adoption around the world, owing to consumers' need for safety and convenience, and online is gaining traction in India as well.

Figure 14: E-commerce penetration USA, China and India (CY'19) (%)



Note: Penetration of auto e-commerce for US market refer to only used cars

Source: GT Analysis

[10] "Ecommerce", Invest India

2.3. Growth drivers for e-commerce market

- **Sharp increase in online shopping**

  There has been a dramatic increase in the number of consumers switching to online shopping. Digitisation of small and medium business enterprises has taken centre stage and investments in segments such as grocery, telemedicine, car trade is expected to increase. At present, 120 million Indians are shopping online and this is expected to increase to 350 million by CY'26.

- **Adoption of technology to augment services**

  Companies in the e-commerce sector are increasingly leveraging data, technology and innovation to increase customer satisfaction and experience. Players are also experimenting with robots, chatbots and customised-search algorithms to serve customers faster and better. Further, to give a more personalised experience, e-commerce platforms are adopting voice search technology.

- **Rise in collaboration between retail and online players**

  In April 2020, Reliance formed partnerships with local grocery stores in Mumbai through WhatsApp. This was done to carry out home delivery of essentials.[11]

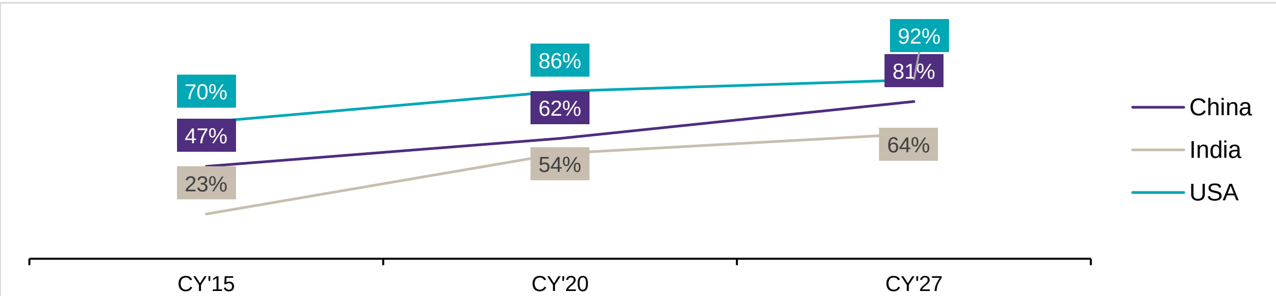
  In May 2020, PepsiCo India partnered with Dunzo for its snack food brands that include Lay's, Kurkure, Doritos and Quake.[12] In May 2020, Hershey India partnered with Swiggy and Dunzo to launch their flagship online store in order to increase reach.[13]

  With increase in online shopping coupled with rise in exchange and refund orders has led to a decrease in on-time deliveries.

2.4. Internet penetration and subscriber base

Over the past couple of years, internet penetration has steadily increased across the globe. As of CY'20, among the USA, China and India, the USA has the highest internet penetration rate (86%), followed by China (62%) and India (54%). Despite internet's widespread use in India, a significant portion of the Indian population is still not connected to the internet, signifying headroom for growth. Going forward, the internet penetration in India is expected to reach 64% by 2027, on the back of increasing accessibility, awareness, and spurt of smartphone usage.

Figure 15: Penetration rates of internet (% of overall population) in USA, China, and India



Note: India data is till March of the calendar year and the penetration rate for India has been calculated on the basis of internet subscribers as a % of total population

Sources: GT Analysis

[11] "Reliance begins using WhatsApp for grocery deliveries through JioMart", Business Standard, April 2020
[12] "PepsiCo India ties up with Dunzo for doorstep delivery of its snack brands", Hindu Business Line, May 2020
[13] "Chocolate maker Hershey India partners with Swiggy and Dunzo to widen reach post lockdown", Economic Times, May 2020

As of March 2021, India has an internet subscriber base of around 825 million[14]. More and more individuals are now spending time online than ever before. Driven by the Digital India programme, there has been a consistent increase in the number of total internet subscribers in India.

The number of households carrying out online transactions in India is estimated to grow from 150 million in 2020 to 230 million in 2025.[15] In terms of the data usage, per subscriber data usage increased from 3GB in FY'14 to 148GB in FY'21, a seismic growth of 49 times since FY'14.[16]

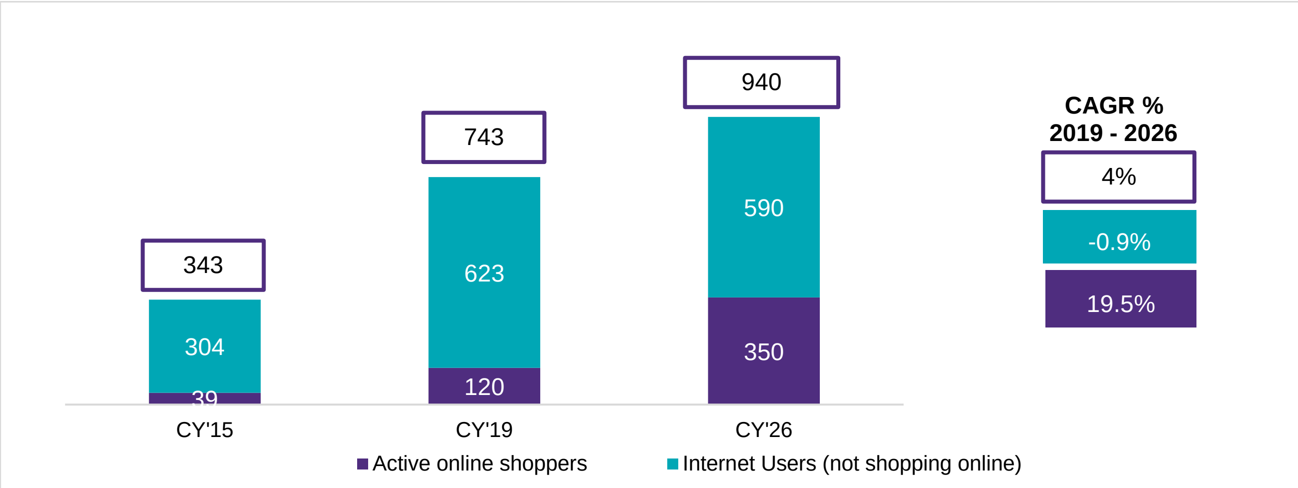
The mean broadband download speed stood at 62.45 Mb per second (Mbps) in August 2021, an increase from download speed of 60.06 Mbps recorded in July 2021 and a significant growth from 40.45 Mbps recorded in July 2020.[17] The launch of 5G network in India has the potential to increase the median download speeds in the country up to 10 times from the current position as compared to 4G-LTE.[18]

Table 2: Trend of internet subscriber base in India

In million	Q1 FY'20	Q1 FY'21	Q4 FY'21	Growth Rate (2020-2021)
1.Wired internet subscribers	**22**	**23**	**26**	**6.4%**
2. Wireless internet subscribers	**644**	**726**	**799**	**12.8%**
2.1 Mobile wireless (mobile & dongle)	643	725	799	12.8%
2.2 Fixed wireless	0.6	0.6	0.7	14.5%
Total Internet Subscribers	**665**	**749**	**825**	**12.6%**

Source: Telecom Regulatory Authority of India

Figure 16: Internet users and active online shoppers in India (million users)



Source: GT Analysis

[14] "The Indian Telecom Services Performance Indicators", TRAI, March 2021
[15] "Retail & Ecommerce", Invest India, September 2021
[16] "The Indian Telecom Services Performance Indicators", TRAI, March 2021
[17] "India records its highest-ever fixed download speeds on the Global Index in August 2021: Ookla", Hindu Business Line, September 2021
[18] "India's upcoming 5G rollout could bump up broadband speeds by 10 times: Ookla", Hindu Business Line, August 2021

At present, only 20-25% of people who have internet access are using online platforms for commerce, and this has been heavily skewed toward metro and Tier 1 consumers. However, active internet use in rural towns and in Tier 3 and Tier 4 towns is gradually growing and is expected to increase sharply over the next five years.

Figure 17: Funnel of internet subscribers to active shoppers

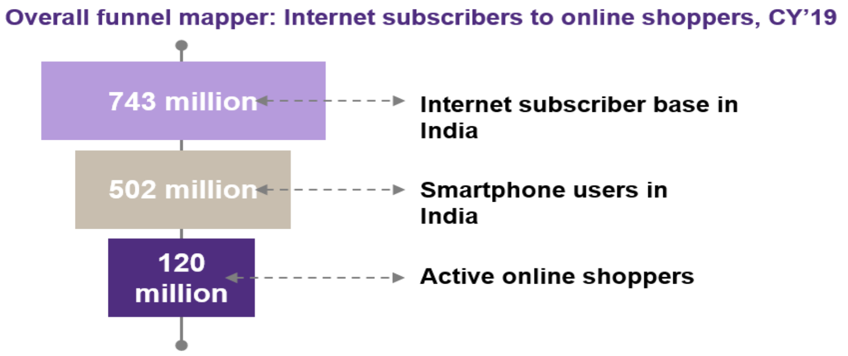
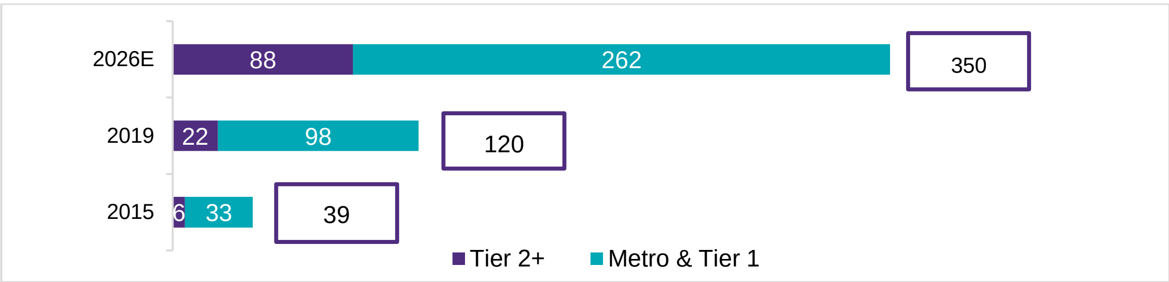


Figure 18: Split of active online shoppers[19] by geography (million users)

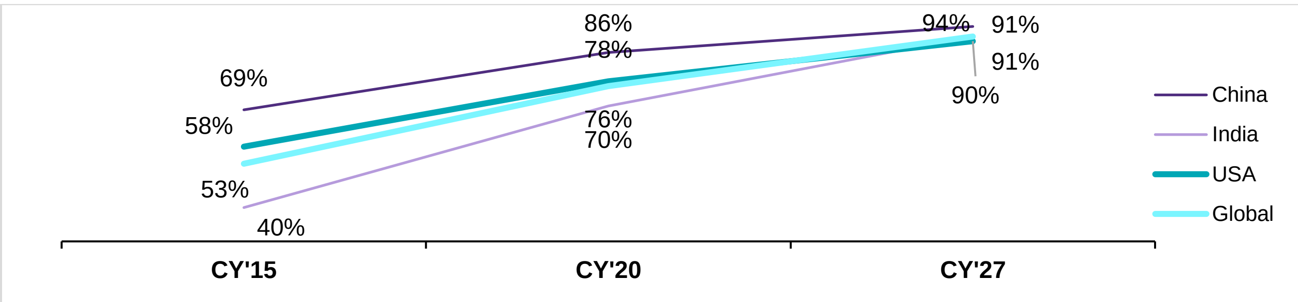


Source: GT Analysis

2.5. Smartphone penetration and subscriber base

As of CY'20, among China, India and USA, China has the largest proportion of households possessing smartphones, followed by USA and India. High adoption rates and fast replacement cycles are the primary factors driving growth for smartphones in China and USA. Over the past five years, there has been a remarkable growth in the number of households possessing smartphones in India owing to availability of low-cost alternatives from local and global brands, and high adoption rate of first-time users. The percentage of households possessing smartphones in India has risen from 40% in CY'15 to 70% in CY'20 and is expected to outpace growth of the China market to reach 91% by CY'27 as shown in the figure below.

Figure 19: % of households possessing smartphones in India, China, and USA



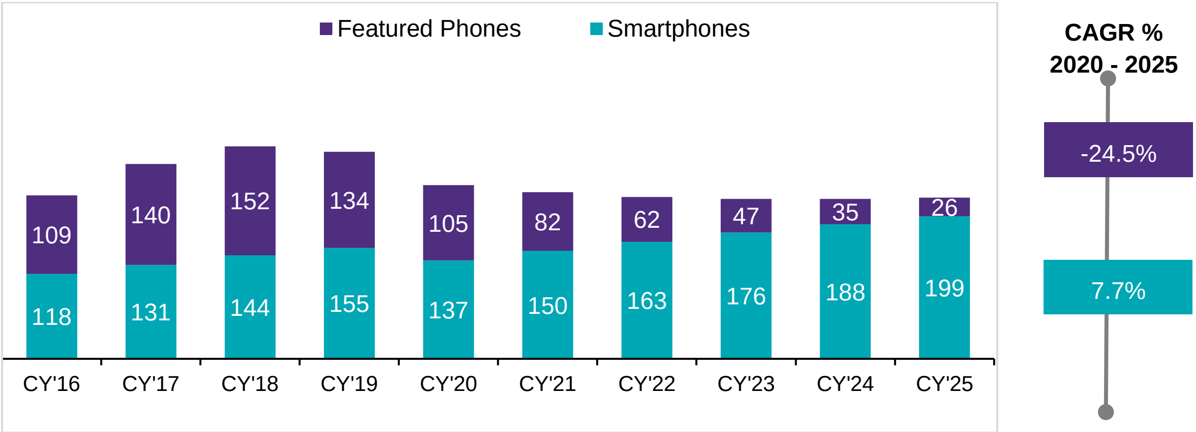
Source: GT Analysis

[19] Active online shoppers represent shoppers who have transacted online during a year

India is the second largest smartphone market in the world in CY'20. It is expected to remain a growth driver for the global smartphone industry in the next five years and is expected to grow at a CAGR of 7.7% for smartphone. India was also one of the fastest growing smartphone markets, with an CAGR of 5.3% from CY'15 to CY'20.

Overall, India's mobile phone shipments was estimated at 242 million units in CY'20, of which smartphones capturing 57% of the total shipment by volume. Increasing smartphone usage offers a lucrative opportunity for companies to boost their e-commerce sales. Approximately 97% of the internet users across India access the internet through mobile devices.[20]

Figure 20: India mobile phone shipments (in million units)



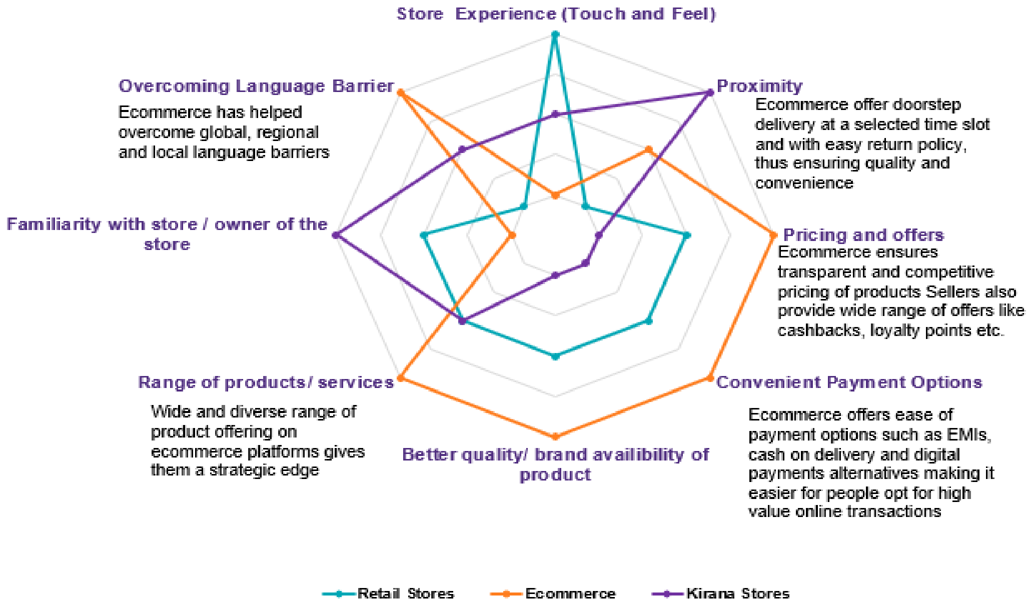
Source: GT Analysis

Smartphone penetration in India is driven by increase in availability of smartphones with vernacular language support. COVID-19 has pushed India's digital transformation as more and more customers rely on digital services to meet their business and personal needs, whether it's digital payments, remote health consultations, online retail, or video conferencing. As a result, the average monthly mobile data usage per smartphone continues to rise, owing to people's increased smartphone usage while being at home. The average traffic per smartphone in India stands second highest globally and is projected to grow to around 40GB per month in CY'26. By the end of CY'21, 5G mobile subscriptions will exceed 580 million, driven by an estimated one million new 5G mobile subscriptions every day.[21]

[20] "97% per cent of users access Internet through mobiles: Study", Hindu Business Line, March 2019
[21] "26 per cent mobile subscribers will have 5G in India by 2026, says Ericsson Mobility Report", India Today, June 2021

2.6. Push factors related to e-commerce marketplace

The push factors that are catapulting e-commerce in India are - convenience, competitive pricing, price comparisons, range of products/services, scheduled delivery time, easy return policy, multiple payment options, avoiding crowded stores, no need to travel, and overcoming the language barrier.



Customers in India are getting accustomed to next day delivery of products. Quick and efficient delivery becomes extremely critical to facilitate convenience. This has led to a rise in number of fulfilment and delivery companies.

A large number of e-commerce players today outsource a part of their business to overcome challenges such as timely delivery of the product, ensuring consistent quality, resource shortage, availability of space to stockpile quantities of the products, etc. A significant number of e-commerce companies have benefitted by strengthening their backend supply chain through fulfilment and delivery services. Some of the key advantages are avoiding long-term leases, onboarding experts, utilising time to optimise infrastructure support, and cost reduction.

E-commerce players are thus strategising and revolutionising their business around a hyperlocal delivery model

Why?

- The present scenario with shift in consumption patterns, disrupted supply chains and most consumers stuck at homes due to coronavirus pandemic, offers an opportunity for services like hyperlocal to grow
- Customer today prefer hassle free doorstep delivery of quality product or service swiftly

What?

- Hyperlocal empowers local offline businesses to connect to the end customer through a digital platform
- It enabling quick deliveries since it covers short distances
- The model has been adopted by across segments such as food, logistics, groceries, pharmacies, horizontal and concierge services

How?

- In this business model, the logistics provider acquires the requested product from nearby shops and delivers it to the customer
- The moment request is placed it can be monitored real time by the customer during entire delivery process

Solution?

- Small sellers get the infrastructure to connect with their customers
- This model enables last mile delivery
- Helps to control associated costs, time, and resource optimisation
- Hyperlocal offers transparency and real-time updates for smooth last-mile deliveries

The adaption of the hyperlocal model becoming a business reality is evident in its demand in the grocery space that is always considered to be the toughest segment to penetrate within the online commerce bandwagon.

Hyperlocal e-commerce has been driven by rising consumer demand fuelled by the increasing number of well-funded start-ups, curated products and services and the promise of on-demand delivery.

2.7. Impact of COVID-19 on the e-commerce market in India

In April 2020, the e-commerce industry in India suffered a decline in the number of orders placed. This was a direct consequence of the nationwide lockdown enforced in the last week of March 2020. However, online sales began to rise in the next few months, with over 20% in July that year as the gradual unlocking of the economy began.[22] The impact of the increase in sales volume was seen when Amazon India announced its plans to create nearly 50,000 seasonal opportunities across its fulfilment and delivery network to meet customer requirements.[23]

COVID-19 has impacted the e-commerce market in the following ways:

- **Structural shift in shopping behaviour**

  The pandemic led to a structural shift in the shopping behaviour with a large number of consumers and businesses relying on e-commerce.

  Flipkart witnessed new user growth of nearly 50% after the lockdown, with Tier 3 regions and beyond registering the highest growth of 65% during the unlock (July-September) phase last year.[24]

  The pandemic saw more consumers exploring their new options catapulting brand loyalty within a few clicks. Brands learned that they needed a plan to be available, accessible, and continue to delight. Consumer patterns were changing rapidly, and they needed to act fast to win in the new normal.

- **Increased acceptance of digital payments**

  Outbreak of COVID-19 has triggered the increase in online transactions. Individuals are now comfortable using online platforms which was not the case earlier, hence online purchases across different e-commerce platforms have witnessed a massive boost. While hygiene was the primary reason in increase of digital payments, other factors like convenience, ease of use, acceptance, and incentives have given impetus to this adoption.

  The ongoing pandemic has brought a paradigm shift, as awareness and adoption of digital payments in Tier 2 and 3 cities have increased drastically.

- **Rise in first time users (FTUs) and companies focusing on Tier 2 and 3 cities**

  In India, the pandemic has led to a rise in the number of FTUs who have been so far inhibited to shop online. The pandemic has made every age group shop online. In India, for instance, cash withdrawals have fallen sharply during the pandemic. Simultaneously, though, the use of the Indian online payment platform, UPI, has risen dramatically.

  Leading e-commerce companies are focusing on cities beyond the metropolitan cities. Currently, Tier 2 and above contribute around 17% of the total active online shoppers in India, and this is expected to increase to 26% by CY'26.

2.8. Government policies impacting e-commerce in India

Government regulations continue to positively impact the e-commerce sector in India:

- **5G Network**

  Major investments made by the Government of India in rolling out fibre network for 5G will boost e-commerce. Improved internet services will enhance and improve consumers online screen time experience.

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[22] "Impact of COVID-19 on orders placed in the e-commerce industry in India from February to September 2020", Statista, April 2021
[23] "Amazon India creating 50,000 seasonal opportunities across fulfilment, delivery", The Hindu, May 2020
[24] "Lockdown proved inflection point for e-commerce in India", Hindu Business Line, March 2021

- **Increase in FDI**

  To increase the participation of foreign players in e-commerce, the Indian Government raised the limit of foreign direct investment (FDI) to up to 100% (in B2B models). An increased influx of foreign investments will result in boosting e-commerce infrastructure and will further improve customer experience.

- **Consumer Protection (Ecommerce) Rule, 2020**

  Rules delineate roles and responsibilities for the marketplace and sellers and will reinforce competition and efficiency within the Indian e-commerce market. Regulation will ensure fair and transparent practices in the e-commerce sector.

- **Open Network for Digital Commerce (ONDC)**

  Providing equal opportunities to all market players to make optimum use of the e-commerce ecosystem, the Department for Promotion of Industry and Internal Trade (DPIIT) will set protocols for cataloguing, vendor discovery, and price discovery by utilising its ONDC. Regulation will not only add quality and transparency but competitive placement of products and services.

- **Draft Ecommerce (Amendment) Rules, 2021**

  The government has banned specific flash sales or back-to-back sales which limit customer choice, increase prices and prevent a level playing field. The rules have also introduced the concept of fallback liability under which e-commerce firms will be held liable in case a seller on their platform fails to deliver goods or services due to negligent conduct which causes loss to the customer. These rules will protect the consumers' interest, thereby providing greater trust to those shopping online.

The Indian government's 'Digital India' initiative is expected to boost the e-commerce industry over the coming years.

The Digital India programme, launched in July 2015, is a flagship programme of the Government of India with a vision of transforming India into a digitally empowered society and knowledge economy. The key pillars of Digital India are:

1. **Broadband Highways** - This covers three subcomponents, namely Broadband for All - Rural, Broadband for All - Urban and National Information Infrastructure (NII). NII would integrate the network and cloud infrastructure in the country to provide high speed connectivity and cloud platform to various government departments up to the panchayat level.
2. **Universal access to mobile connectivity -** This initiative focuses on network penetration and filling the gaps in connectivity in the country. As part of the comprehensive development plan, providing mobile coverage to uncovered villages has been initiated.
3. **Public Internet Access Programme -** The two subcomponents of Public Internet Access Programme are Common Services Centres (CSCs) and Post Offices as multi-service centres.
4. **E-governance -** Government process re-engineering using IT to simplify and make the government processes more efficient for transformation to make the delivery of government services more effective across various government domains to be implemented by all ministries and departments.
5. **e-Kranti –** Promotion and transformation of e-governance in the country.
6. **Information for all** – Launch of open data platform, engagement of social media by government, and online messaging to citizens.
7. **Electronics Manufacturing** – Focuses on promoting electronics manufacturing in the country with the target of NET ZERO Imports as a striking demonstration of intent.
8. **IT for Jobs** - This pillar focuses on providing training to the youth in the skills required for availing employment opportunities in the IT/ITES sector.
9. **Early harvest programmes –** Pillar focusing on biometric attendance in schools, Wi-fi in all universities, public Wi-Fi spots, and national portal for lost and found children.

Digital India initiatives has helped to spur awareness and availability of internet and usage of mobile phones across India, thus providing the underlying connectivity for e-commerce.

Government's boost to digital infrastructure and participation by banks and NBFCs further aids e-commerce sellers and buyers.

The Government of India along with various financial institutions have created digital infrastructure to pace up India's digital adoption:

Identity	Payment	Data Security
Aadhar	AePs	DigiLocker
eKYC	UPI	
eSign	IMPS	

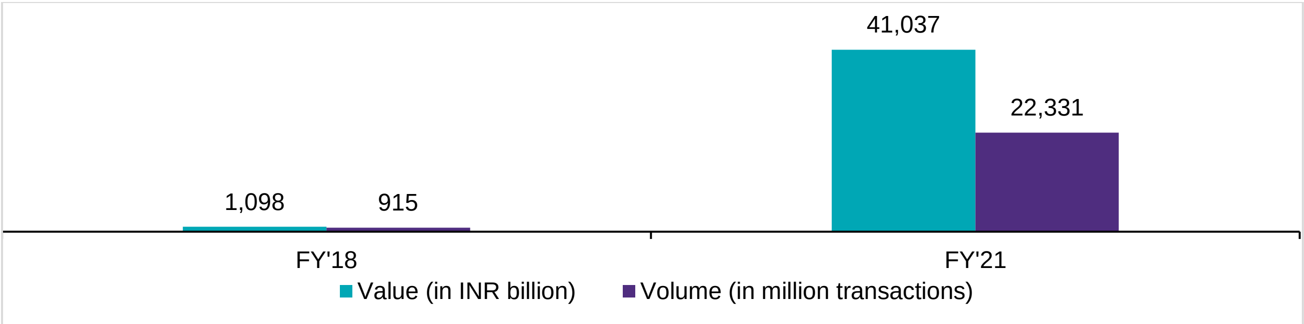
Aadhar

The UIDAI was created with an objective to issue unique identification (UID) numbers, named Aadhaar, to citizens of India. It is not only robust to eliminate duplicate and fake identities but it can also be verified and authenticated easily and in a cost-effective manner.

Unified Payments Interface (UPI)

Platforms such as UPI have gained traction due to their low cost of service and reduced ATM costs for banks. They offer secure and easy transactions for consumers. It is regulated by the RBI and facilitates the instant transfer of funds between two banks on a mobile platform. This has made it one of the most desired modes of payment. Moreover, the COVID – 19 pandemic and the lockdown accelerated the adoption of digital financial services in both rural and urban households. The UPI transaction volume has grown at a CAGR of 190% from FY'18 to FY'21 to reach 22.3 billion transactions in FY'21. The average transaction size has grown from INR 1,200 in FY'18 to INR 1,838 in FY'21.

Figure 21: UPI transaction volume (in million transaction) and value (in INR billion)



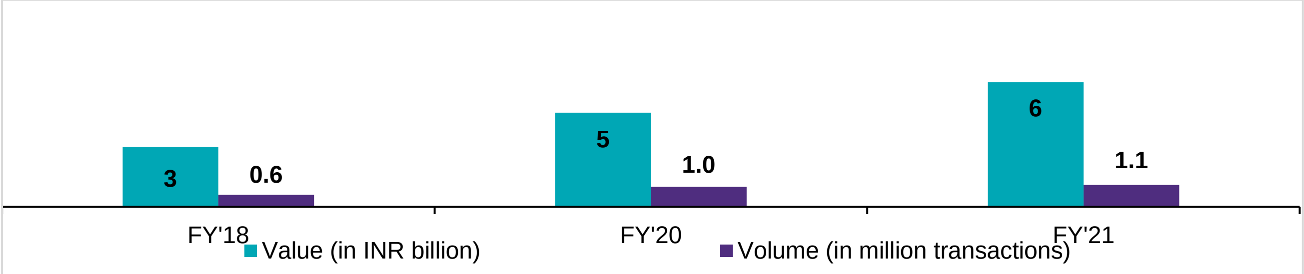
Sources: RBI

Aadhaar Enabled Payment Services (AePS)

It empowers individuals to use Aadhaar as an identification to access bank accounts. Services it offers allow customers to perform basic banking transactions with ease. The transaction volume has grown from 0.6 million transactions in FY'18 to 1.1 million transactions in FY'21, with an overall transaction value of INR 6 billion.[25]

[25] "RBI Annual Report Publication", RBI, August 2020

Figure 22: AePS Transaction volume (in million transactions) and value (in INR billion)



Source: RBI

Banking channels assisting e-commerce growth in India:

- Banks have started extending e-Smart SME e-commerce Loans.
- SBI was the first bank to launch this offering in collaboration with Snapdeal. Later, banks such as Canara Bank, Syndicate Bank, Bank of Baroda and Punjab National Bank launched their e-commerce loan schemes.
- Capitalising on the strengths of large existing customer base and efficient payment gateways, banks are not only complementing the e-commerce players like Amazon, Flipkart and non-bank payment aggregators but also improving the backend supply chain of e-commerce in India.
- Several Non-Banking Financial Corporations (NBFCs) are also engaged in extending e-commerce loans to e-sellers who trade their goods or services on popular online portals such as Amazon, Flipkart, etc.
- E-commerce marketplaces are using transaction data of thousands of vendors on their platforms to help them raise working capital through tie-ups with banks and financial service firms.

2.9. Outlook

Triggered by the ongoing e-commerce boom, the auto e-commerce market too has witnessed a surge.

The Indian auto e-commerce market was valued at INR 207 billion in FY20 and it is projected to reach INR 2,200 billion by FY26, registering a CAGR of 48.3% between FY20-FY26. India's leading online car sales platforms have witnessed a 175% surge in inquiries for used cars since mid-2020.[26] The digital revolution is positively disrupting used-car retailing. These portals put consumers in the spotlight and the user experience, convenience backed by technology is attracting more users to transact.

More customers are turning to digital channels due to seamless service offerings that include hassle-free registration certificate transfer, car checks, security checks, and payments.

The increasing number of sales and inquiries is indicative of consumer confidence in online platforms. Companies have reported 20% growth year-on-year in lead conversion for September to October in 2020.[27]

Some of the key players in auto tech are:

- **International players:** Carvana, Vroom, Shift, Carmax
- **Domestic players:** Droom (auto e-commerce), Cars24, CarTrade, Spinny, CarDekho

[26] "Pandemic spurs growth for used car and two-wheeler marketplaces", Techcircle, Feb 2021
[27] "Online Inquiries for Used Cars under Rs3 Lakh Jumped 175% amidst COVID Pandemic: Report", Moneylife Digital Team, January 2021

Drivers of online auto market:

- Convenience
- Greater readiness to use online services
- Price comparison
- Expert and user reviews
- Comprehensive specifications, photos and videos

Impact

- Online platforms are witnessing a 36% increase in traffic year-on-year
- Companies in online trade space have witnessed a 175% surge in inquiries for used cars in CY'20
- 146% rise in car-loan leads through online platforms (Sep'19 vs Sep'20)
- In CY'20, ~ 94% of used-car buyers research online to buy or sell their vehicle

The following trends are expected to be witnessed in the e-commerce market in India:

- **Focus on smaller towns**

  Indian e-commerce sites are gradually shifting their focus from the metro and Tier 2 cities to smaller towns in sync with the proliferation of access to the internet and smartphones. While major brands are not physically present in Tier 2 and Tier 3 cities, e-commerce makes these brands available to people across India.

- **Technological innovations**

  Technological innovations will be crucial for e-commerce firms to stay ahead in the highly competitive market. Technology-enabled innovations like digital payments, hyper-local logistics, analytics-driven customer engagement and digital advertisements will likely support the growth in the sector.

- **Improve online purchase paths**

  E-commerce being extremely competitive would come up with solutions improving:

  - robust search and filtering
  - personalisation
  - enriched purchase information
  - streamlined returns and exchange
  - ensuring quality

- **Increase demand in auto e-commerce market**

  The used car market is likely to witness steady growth due to increasing urbanisation, consumer spending, and rising demand for owning vehicles due to hygiene hazards and others. Driven by the growth of the used car market, the online auto market is likely to grow. Considering the wide range of benefits compared to physical stores, a vast majority of consumers are likely to shift to online purchases.

The following growth drivers will continue to fuel the growth in e-commerce in India:

- **Demographics advantage**

  According to the World Bank Statistics, around 34% of its population living in urban areas in 2019.[28] Increase in urbanisation is largely driven by rapid rise in technology and digital adoption. Moreover, urbanisation has led to convergence in investments, consumption and opportunities across India.

  Between 2015 and 2019, India witnessed a steady growth in its GDP per capita and consumer spending. However, in 2020, with ongoing COVID-19 pandemic the economies globally witnessed an unprecedented downturn, but the recovery for e-commerce sector is expected to be fastest.

[28] Urban population as a % of total population, World Bank Data, 2020

- **Rising smartphone and internet penetration**

  The ongoing digital transformation in the country is expected to increase India's total internet user base to 1,100 million by CY'26.

  Household smartphone penetration is expected to increase from 70% in CY'20 and is expected to increase to 91% by CY'27. Such factors are expected to lead to an increase in penetration of the Indian e-commerce market.[29]

- **Increasing government support**

  The Government of India has launched several schemes to support the industry. This includes initiatives like Digital India, which aims to introduce people to online modes of commerce. It has also eased FDI norms, allowing 100% FDI in B2B e-commerce and 100% automatic FDI in the marketplace model of e-commerce.

  Providing equal opportunities to all market players to make optimum use of the e-commerce ecosystem, the Department for Promotion of Industry and Internal Trade (DPIIT) will set protocols for cataloguing, vendor discovery, and price discovery by utilising its Open Network for Digital Commerce (ONDC).

- **Improvements in digital payment infrastructure**

  Consumers have become more comfortable using digital payment platforms such as mobile wallets and UPI platforms.

  Further, the online retail segment provides various credit and payment options to customers – driven by developments in technology and cybersecurity. Such improvements are expected to boost the number of customers preferring e-commerce as it is more convenient.

  India has taken rapid strides in advancing government e-payments, as a result it has moved up to 28th rank in 2018 from 36th in 2011 in Government E-payments Adoption Ranking (GEAR).

  The value of mobile payment app Bharat Interface For Money (BHIM) transactions increased significantly after 2018, among the cashless payment options currently BHIM has overpowered the debit card payments.

While the following challenges continue to surround the sector:

- **Cash on delivery**

  Despite increased penetration of digital payments in India, there still is a section of people who are uncomfortable with digital transactions. Ensuring touchless delivery of services many e-commerce companies have dropped the 'cash on delivery' option.

- **High returns**

  A lot of e-commerce customers are first time buyers, as a result they are not sure of the products they want to order and hence they return the good post-delivery. Reverse logistics involved in returns are extremely expensive which impact the profitability.

- **Uneven address and postal codes**

  Given the lack of standardisation in addresses, delivery to the exact locations become a challenge for e-commerce players. As a result, timely delivery of goods becomes an issue resulting in order cancellations.

- **Delayed deliveries**

  An increase in online shopping coupled with a rise in exchange and refund orders has led to a decrease in on-time deliveries.

[29] "Number of smartphone users in India from 2010 to 2040, with estimates until 2040", Statista, July 2021

Chapter 3 – Indian auto market overview

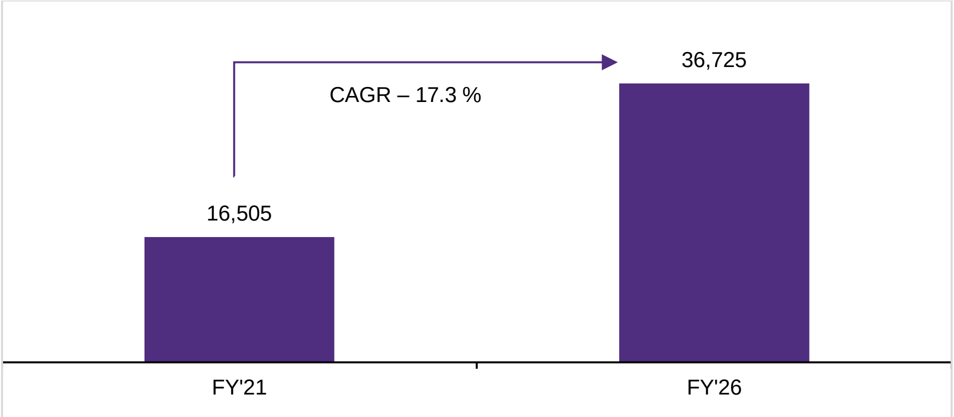
3.1. Auto market landscape in India

The automotive industry in India is a significant driver of macroeconomic growth and technological development, representing 7.1% of India's GDP and contributing to 37 million employment generation in FY21. Going forward, the government expects this to increase to 12% and employ 50 million people by FY26.[30]

India is currently the fifth-largest automotive industry and is expected to be the world's third-largest automotive industry in terms of volume by FY26[31], it will be propelled by demographic drivers such as rising disposable income, growing middle class, urbanisation and a growing preference for personal mobility.

The automobile market in India is poised to grow at 17.3% CAGR from FY21 to FY26 to reach INR 36,725 billion by FY26.

Figure 23: Automobile market in India (INR billion)



The automobile market includes new vehicles, used car market, used two-wheelers market and auto services market (including auto loans, auto insurance, automotive tyre and automotive after-market).

Source: GT Analysis

Drivers for automobile demand in India:

- **Increased urbanisation**

  India is witnessing a sharp growth in urbanisation as economic activity is still concentrated in the urban pockets of the country. Globally, there exists a strong correlation between urbanisation and vehicle demand. With increasing urbanisation, demand for vehicles is also expected to grow strongly.

- **Favourable demographics and rising aspirations**

  India has one of the largest youth populations that is entering the workforce. Increasing disposable income in India has resulted in higher aspirations, leading to a reduction in the average duration of ownership and higher demand for vehicles.

- **Increasing women participation in the workforce**

  Rising participation of women in the workforce has also led to increased demand for vehicles owing to the higher need for personal mobility.

[30] "Govt aims to raise auto sector contribution to GDP, job creation", Business Standard, August 2021
[31] "Automobile", Invest India, September 2021; Sales of new vehicles, OICA

- **Shift towards personal mobility**

  Consumers are shifting away from using public transport and ride-sharing services due to increased focus on personal safety and hygiene. This trend is expected to continue to drive the demand for vehicles.

- **Premiumisation**

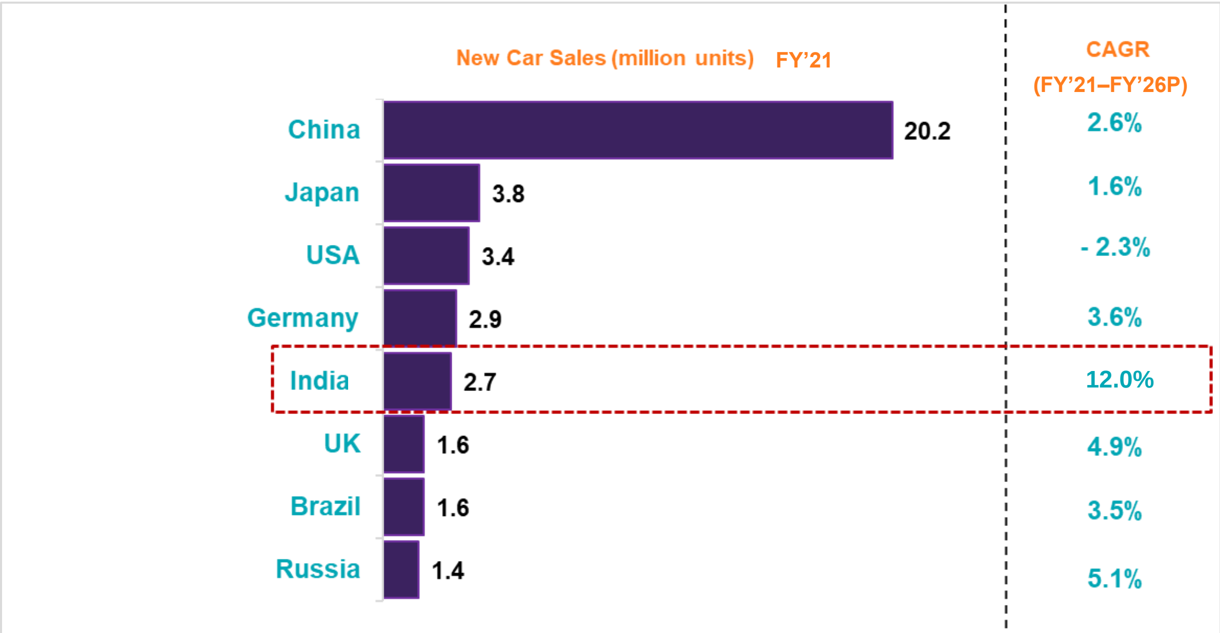
  The increasing income levels has led to a shift in buyers' preference towards premium car categories like SUVs due to comparatively more space, better comfort, driving experience and manoeuvrability, compared to sedans or hatchbacks.

3.2. New vehicles market

New passenger cars market:

India is the world's fifth largest car market in the world by sales volume in 2020 and is expected to grow at the fastest rate among developing and developed nations, growing at a CAGR of 12.0% from FY21 to FY26.

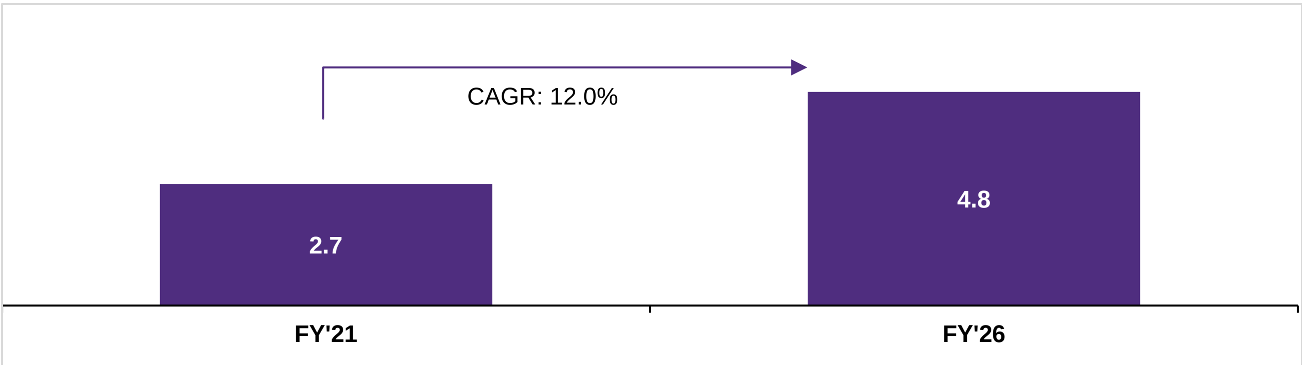
Figure 24: New passenger car sales, global positioning (in million units), FY'21



Source: GT Analysis

Note – Data for countries other than India refers to calendar year period

Figure 25: New passenger car sales in India (in million units)

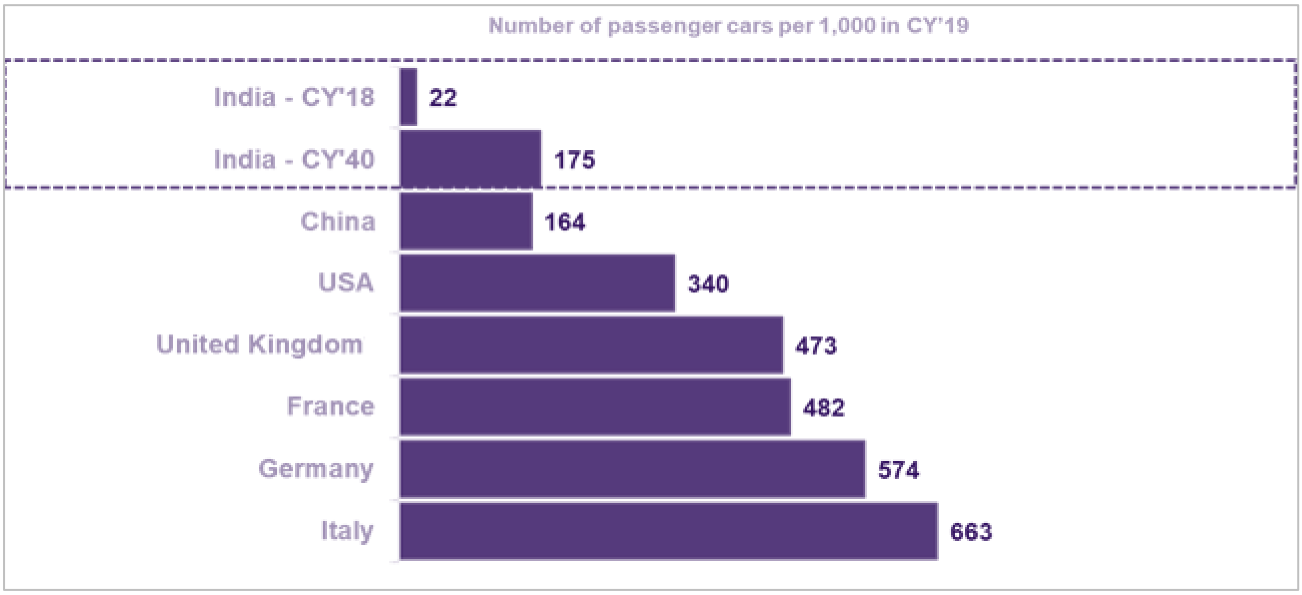


Source: GT Analysis

The car market is expected to grow owing to a decrease in the average duration of ownership driven by increasing disposable income and higher aspirations. The replacement cycle of cars in India has gone down from 55 months in CY06 to 40 months in CY19.

Also, growth in India's motorisation rate, which is currently one of the lowest in the world at approximately 22 cars on every 1,000 people in 2018, to approximately 175 cars on every 1,000 by 2040 to further drive growth.

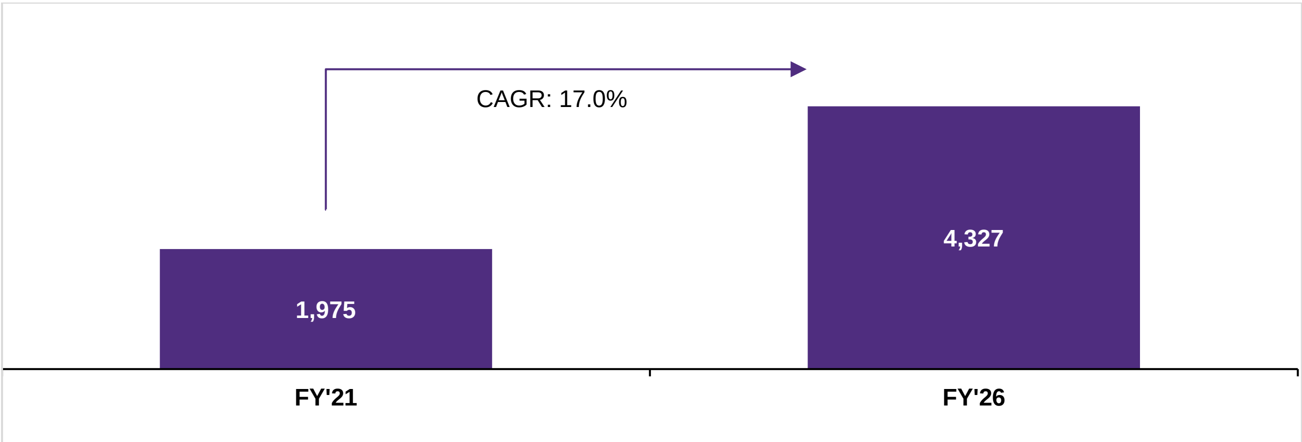
Figure 26: Motorisation rates, global comparison, passenger cars per 1,000 population CY'19



Source: United Nations Economic Commission for Europe (UNECE), Eurostat, GT Analysis
*For United States and United Kingdom, Motorisation rate is for CY'18

In terms of value, the size of the new car was valued at INR 1,975 billion in FY21 and is expected to grow at a CAGR of 17.0% between FY21 and FY26 to reach INR 4,327 billion in FY26.

Figure 27: New passenger car sales in India (in INR billion)

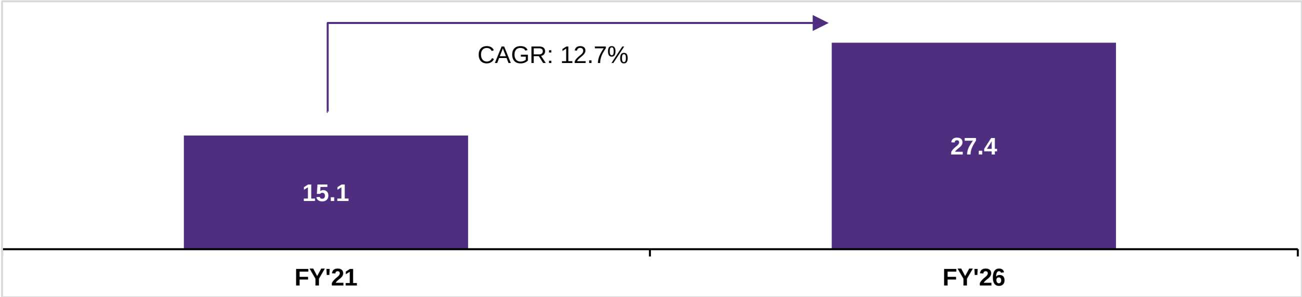


Source: GT Analysis

New Two-wheeler market:

India is the largest manufacturer of two-wheelers in the world. Also, the two-wheeler is one of the largest segments of the Indian automotive industry with a volume share of 81.0% of total production in FY21. The two-wheeler sales are forecasted to grow at a CAGR of 12.7% between FY21 and FY26 to reach 27.4 million units.

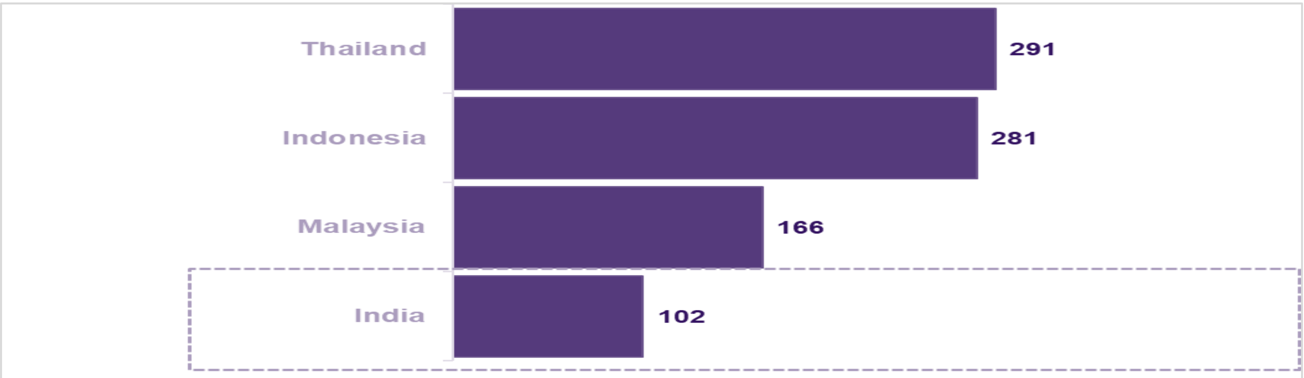
Figure 28: New two-wheeler sales in India (in million units)



Source: SIAM, GT Analysis

India, despite being the largest manufacturer of two-wheelers in the world, has one of the lowest penetration at 102 per 1000 people which is less than half the penetration levels in Indonesia and Thailand, hence providing a large untapped opportunity.

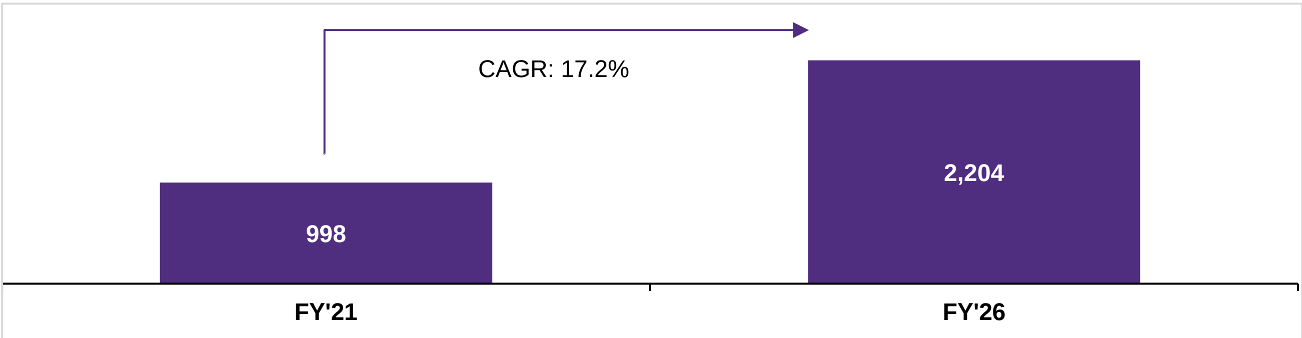
Figure 29: Motorcycles and scooters penetration per 1,000 population CY'18



Source: GT Analysis

The new two-wheeler market was valued at INR 998 billion in FY21 and is expected to grow at a CAGR of 17.2% between FY21 and FY26 to reach INR 2,204 billion in FY26.

Figure 30: New two-wheeler sales in India (in INR billion)

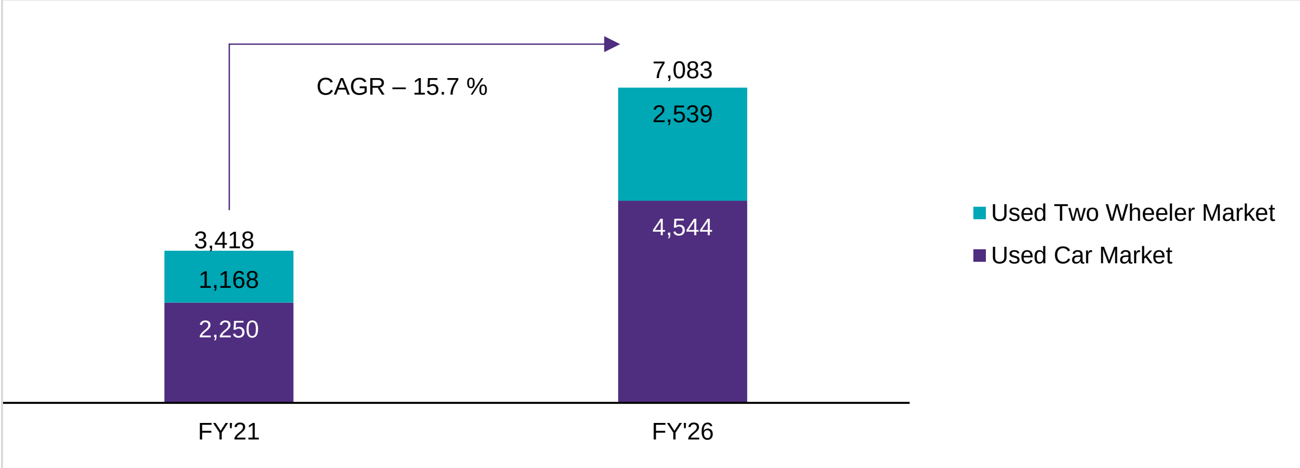


Source: GT Analysis

3.3. Used vehicles market

The used vehicle's market is expected to reach INR 7,083 billion by FY26, growing a CAGR of 15.7% from FY21. With people shifting more towards personal mobility as compared to public transport after the onset of the pandemic, the demand for used vehicles has increased as they offer a lower cost of ownership. Further, faster replacement cycles of the vehicles among consumers have pulled up both the demand and supply for used vehicles.

Figure 31: Used vehicles market in India (in INR billion)



Source: GT Analysis

The growth drivers for the used vehicle market are:

- **Growth of the organised sector**

  With the emergence of an organised sector, the demand for used cars has witnessed a rise, owing to the improved quality standards for buying and selling used cars. Furthermore, convenience, price transparency and ease of vehicle discovery have enabled the supply of better-quality vehicles. Also, the inspection process deployed has led to the supply of quality and certified vehicles in the market, further driving the demand for used vehicles.

- **Rise of online platforms**

  The rising penetration of online platforms in the used car market has enabled dealers to boost their reach for a larger audience.

- **Reduced ownership duration of new vehicles and GST[32] rates**

  Reduced first ownership period of vehicles is also responsible for the rise of the used vehicle industry. Another key growth driver of the used vehicle market is the revision of the GST rate on used cars from 28% to 12-18%.[33]

- **Increasing financial penetration**

  Several lenders have turned toward funding used cars to increase their footprint and protect their margins. The used car finance penetration stood at 17% in 2019 and is estimated to increase to 21% in 2021 and further increase to 35% in 2025.

- **Favourable government initiatives**

  In September 2021, the Ministry of Road Transport and Highways (MoRTH) introduced the Bharat series (BH) number plates for vehicle registration to make the inter-state vehicle transfer hassle-free. Earlier, a no-objection certificate (NOC) was to be obtained from the current state and then the vehicle would need to be re-registered in

[32] GST - Goods and Services Tax is an indirect tax imposed on the supply of goods and services
[33] "Dramatic cut on GST on used car transactions", Autocar India, January 2018

the next state where the vehicle would be relocated. The new regulation is likely to increase the sales of used cars by allowing the seamless transfer of vehicles from one state to another.

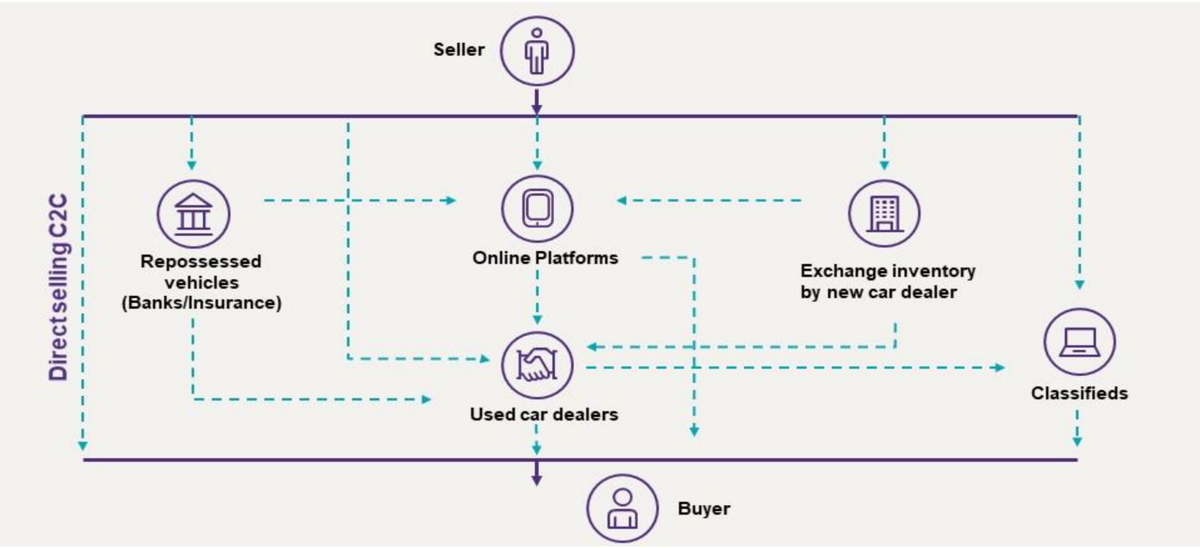
- **Increased demand for used luxury cars**

  Many affluent buyers have started selling or exchanging luxury cars as it has become more convenient and accessible to use these services. The high rate of depreciation value of the luxury cars, the fast-growing base of the young population, increasing disposable income of the consumers and rapid urbanisation are some of the major factors driving the growth of used luxury cars.

Used vehicles value chain:

The entire automotive ecosystem in India is highly unorganised, fragmented, and complex. A used vehicle can move from a seller to an end buyer via multiple channels. Online platforms play an important role across the value chain by connecting different stakeholders across the stages of the transaction, as shown in the figure below.

Figure 32: Used passenger car ecosystem



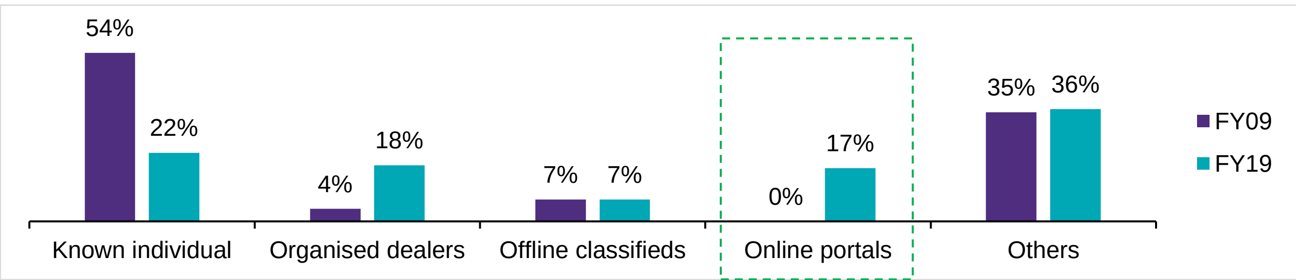
Source: GT Analysis

Emergence of online platforms:

The entire vehicle purchasing journey is undergoing digital transformation, from pre-buying browsing and researching to pricing comparison, finding a dealer, financing options, value-added services and purchase. Similarly, the customer's process of selling their vehicles is also becoming increasingly digital, from online pricing discovery to the identification of possible buyers and dealers, auctioning processes, payments and post-sale processes.

Moreover, customers are increasingly pivoting towards online channels to conduct their used car purchases. As of FY19, approximately 17% of unit sales were initiated by online portals compared to 0% a decade ago.

Figure 33: Rising preference for online portals in used passenger car sales

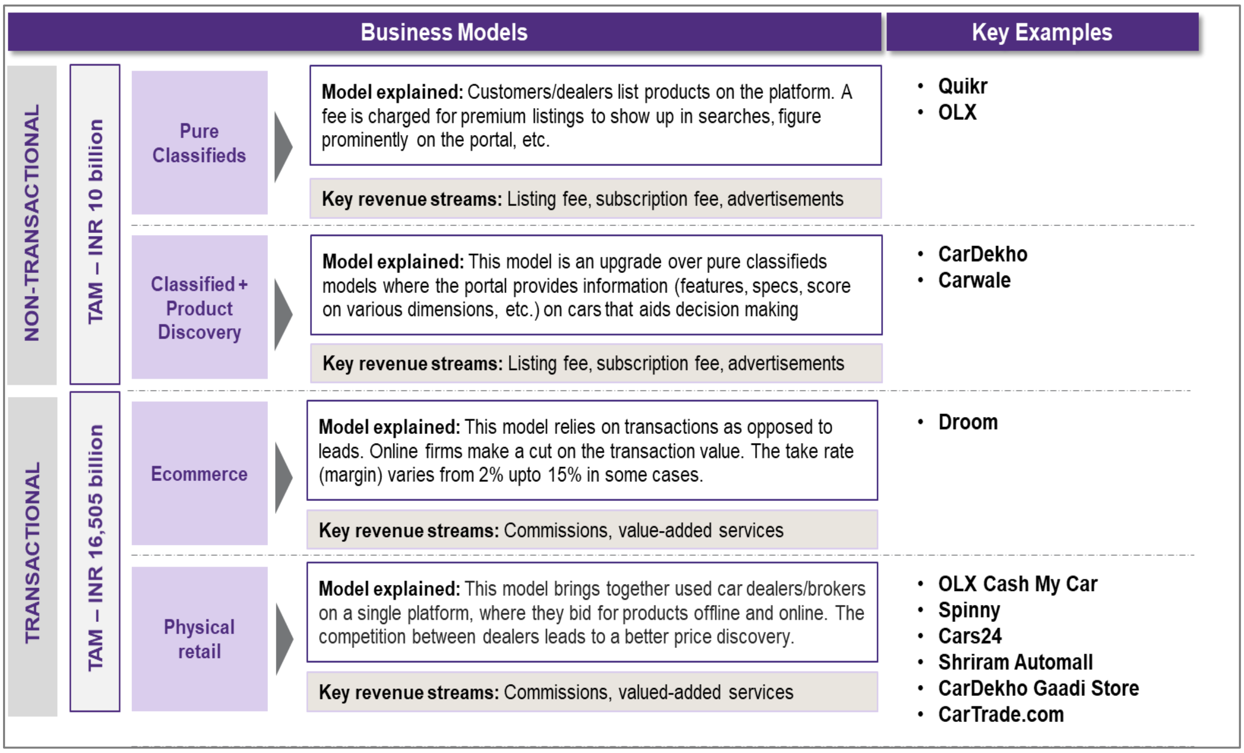


Source: GT Analysis

Existing models in used vehicles market:

Traditionally, pure classifieds and discovery-based platforms dominated the online used automobile market. However, the market is now shifting towards transaction-based models, which provide significant added value for both dealers and end-users, as well as a stronger monetization path for the platform. The trend is evident in the way even the classifieds and discovery-based platforms have launched transaction-based product offerings.

Figure 34: Business models in the used vehicles market

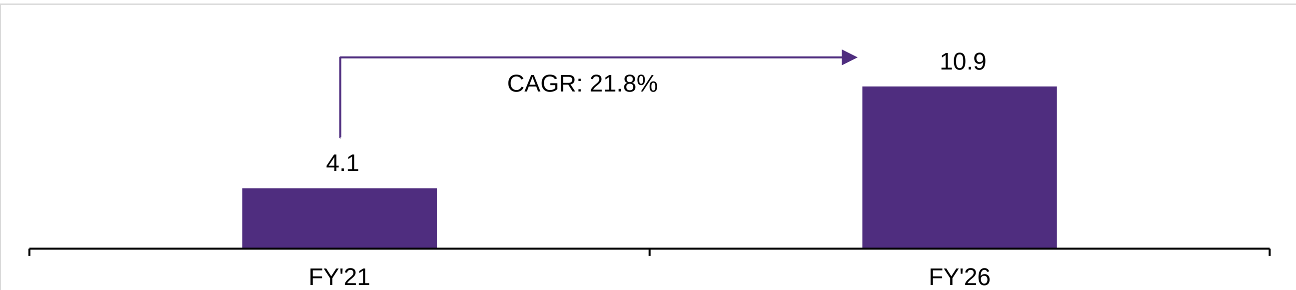


Source: GT Analysis

Used passenger car market in India:

The used passenger cars market in India is expected to grow from 4.1 million units in FY21 to reach 10.9 million units by FY26 at a CAGR of 21.8%. With the increasing acceptance towards the purchase of used vehicles there exists a significant potential for growth.

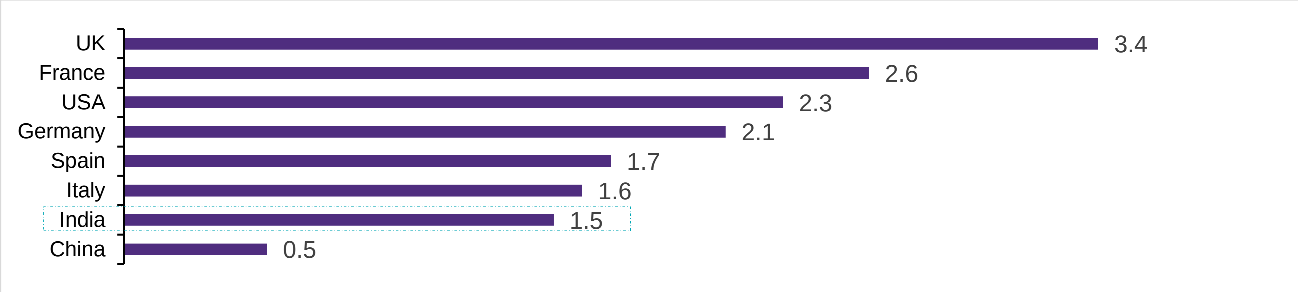
Figure 35: Used passenger cars market in India (in million units)



Sources: GT Analysis

At 1.5, India has one of the lowest used-to-new car ratios globally as of FY21. In developed countries like UK and USA, it stands at 3.4 and 2.3 respectively.

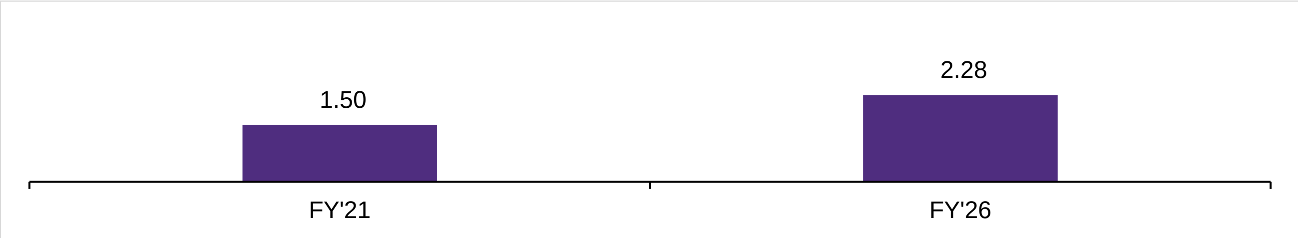
Figure 36: Used to new passenger car ratio, global comparison (FY'21)



Source: GT Analysis

India is on the cusp of maturing stage and used to new car ratio is expected to increase to 2.28 in FY26, growing at a CAGR of 8.8% between FY21 and FY26. This increase in ratio signifies a significant potential for the used cars industry.

Figure 37: Used to new car ratio



Source: GT Analysis

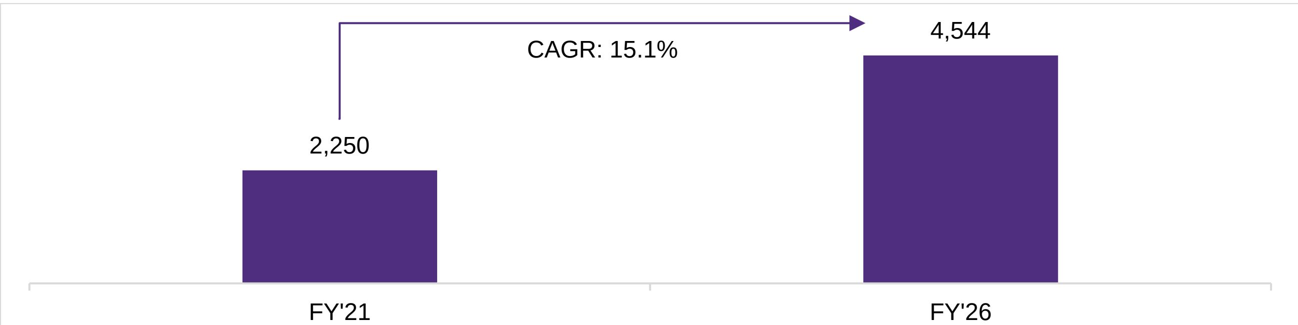
The growth in the cars market is also driven by the declining replacement cycle of cars which has dropped from approximately 55 months in CY'06 to approximately 40 months in CY'19. The increase in demand for cars is further driven by the rising middle class, frequent relocation of the working population in metros, and rising demand in Tier 2 and beyond cities.

Figure 38: India passenger car replacement cycle (in months)

Source: GT Analysis

The used car market in India was valued at INR 2,250 billion in FY21 and is expected to grow to INR 4,544 billion by FY26, growing at a CAGR of 15.1 % from FY21.

Figure 39: Used passenger car market size in India (INR billion)

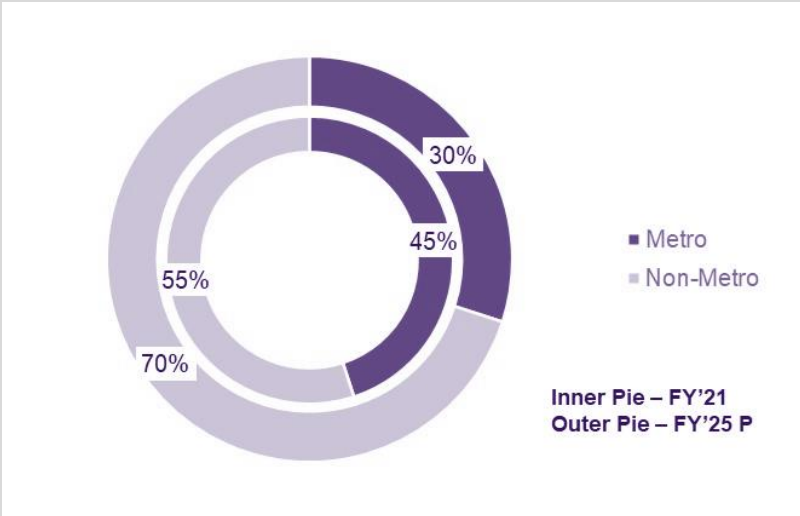


Source: GT Analysis

Geographical distribution of the used passenger car market in India:

In India, Tier 1 and 2 cities have always been a strong market for used cars. The growing presence of organised dealers is expected to drive the demand for used cars across the country, especially in the urban markets. However, tougher emission norms and growth of shared mobility services, including public transportation, is expected to affect the share of used cars in metro cities.

Figure 40: City tier split (as % share of used passenger car sales)

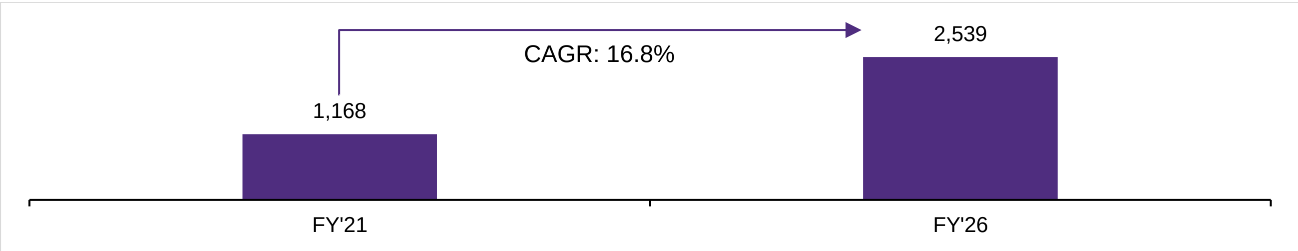


Source: GT Analysis

Used two-wheeler market in India

The used two-wheeler market was valued at INR 1,168 billion in FY21 and is expected to grow to INR 2,539 billion by FY26, growing at a CAGR of 16.8%. The availability of easy finance options and more women opting for personal transport are the key drivers behind the growth of used two-wheelers in India. The replacement cycle for two-wheelers has come down from 7-8 years to 3-5 years in a decade.[34] Further, the growth of this segment is also driven by the rising aspirations of Indian consumers, frequent launches of two-wheelers which have led to a greater supply of used vehicles in the market.

Figure 41: Used two-wheeler market size in India (in INR billion)



Source: GT Analysis

Issues faced by dealers in India:

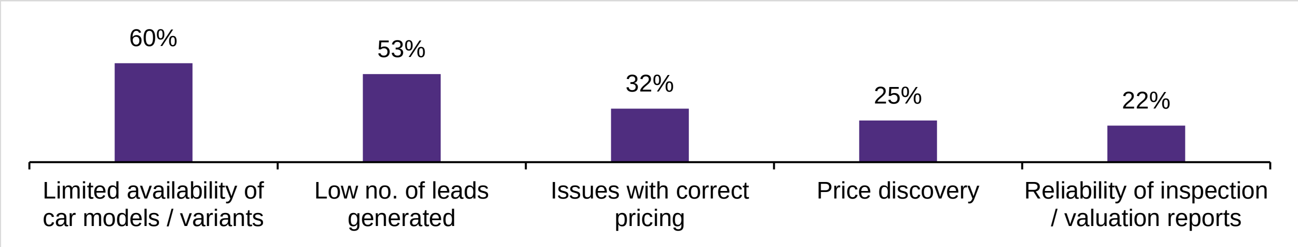
Despite several opportunities in used passenger car sales, dealers face issues in sourcing. 60% of local used car dealers face issues with limited availability of car models/variants and 53% of dealers face challenges due to low volume of leads generated. The economics of dealerships depend largely on sales volume, gross margin, and customer acquisition efficiency. Traditional marketing channels, including television, radio, and newspaper can effectively target locally but are

[34] "Pre-owned two-wheelers grow faster than new vehicles", Business Standard, May 2017

inefficient in reaching the small percentage of consumers who are actively in the market to buy a car. Customers on online portals are in-market customers and therefore of great value to dealers.

In addition, limited information on vehicle buyer preferences in local areas has also been another cause of inefficiency in the vehicle sourcing process. Dealers who end up with "unwanted stock" (i.e., the stock that is not in demand in the local area) can turn to auction houses to dispose of them, generally meaning that they sell at trade, rather than retail price, which typically results in a lower price and hence lower margins, in exchange for improved inventory turnover.

Figure 42: Key issues faced by local used car dealers in sourcing cars (Sample Size – 192)



Source: GT Survey

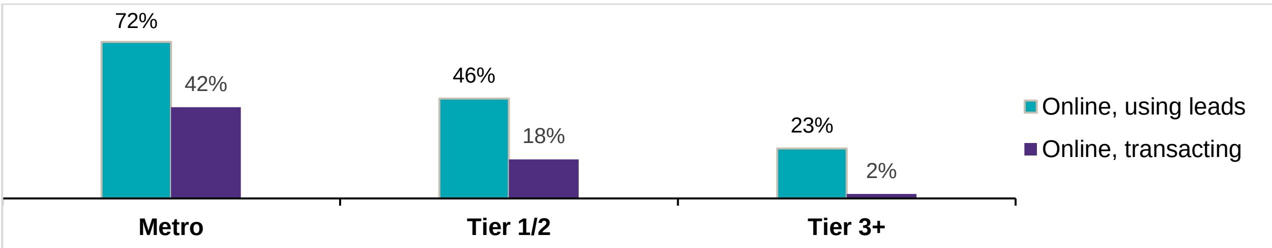
Aside from sourcing issues, dealers also incur higher operating costs such as inventory and associated infrastructure costs. As per primary interactions, the average inventory maintained by a mid-sized local dealer range from 18-30 used cars with an average inventory cost of INR 15 million. This is financed either through their own funds or is funded through working capital loans which range from 7%-10%. The dealers also need to incur the real estate cost to maintain this fleet of used cars. On average, dealers maintain an area of 200 square feet - 1,200 square feet with them that incurs them a monthly cost of INR 20,000-125,000. The average employee headcount for a dealer range from 2-10 with an average salary of INR 20,000- 25,000. In terms of the marketing costs, a monthly subscription fee of INR 2,000-10,000 is incurred by the dealer to get listed on classified platforms.

Due to market characteristics such as expensive real estate, high cost of capital, low-trust market, inadequate enforcement of consumer protection laws, absence of large-format modern retail and an unorganised market with a fragmented seller base make the operation of physical automobile dealerships with inventory less viable.

The online B2C platforms have increased the number of buyers that the dealer can sell their inventory to via online classifieds and third-party websites and ensure that there is high inventory turnover which frees up the working capital to acquire more used cars.

Transaction based models have been successful in onboarding approximately 25% of dealers base and are all set for multi-year growth led by deeper penetration and increasing wallet share. In FY19, 42% of dealers in metros had already boarded transaction-based models while there exists significant room for expansion in Tier2/3 cities. This has further increased in FY21 as dealers moved to online platforms during COVID-19 led lockdowns as more and more people started transacting online.

Figure 43: Dealer split by tiers, FY'19



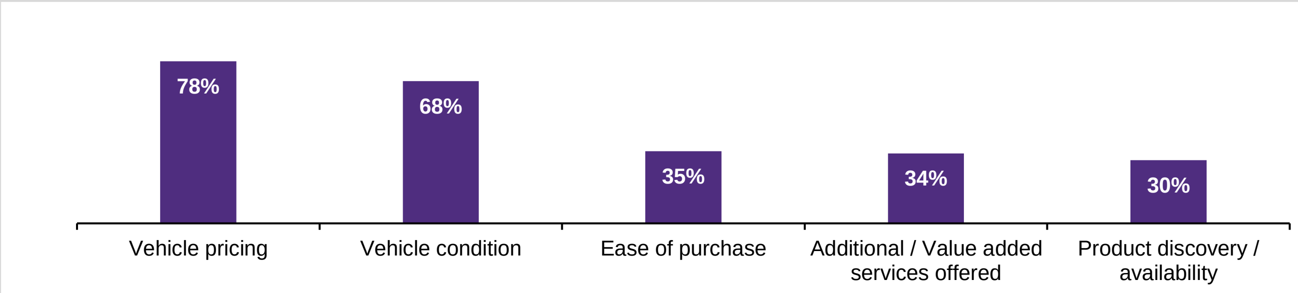
Source: GT Analysis

Customer criteria for channel preference in used passenger car market:

As per Auto Gear Shift India Report", Google, 2020, when buying a used car over 90% of buyers use online channels across their purchase decision, including for discovery, research, pricing comparison and value-added services. 94% of the used car buyers research online while 100% of used car sellers research online. 70% of the used car buyers and sellers discover their dealer online through search engines, dealer websites and brand websites.

When buying a used car, vehicle pricing and vehicle condition are the most important factors for customers, as shown in the figure below.

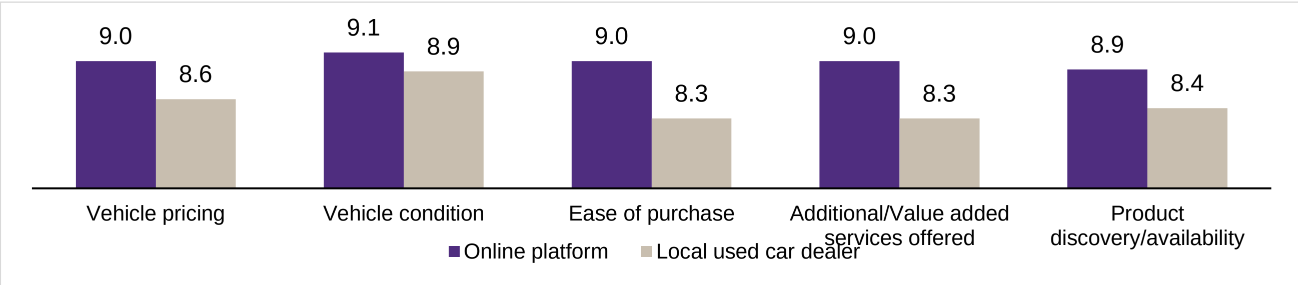
Figure 44: Key criteria for customers when choosing to buy a used car (Sample Size - 297)



Source: GT Survey

Online platforms are rated higher than offline platforms across all parameters, particularly for ease of purchase and additional/value added services, as shown in the figure below.

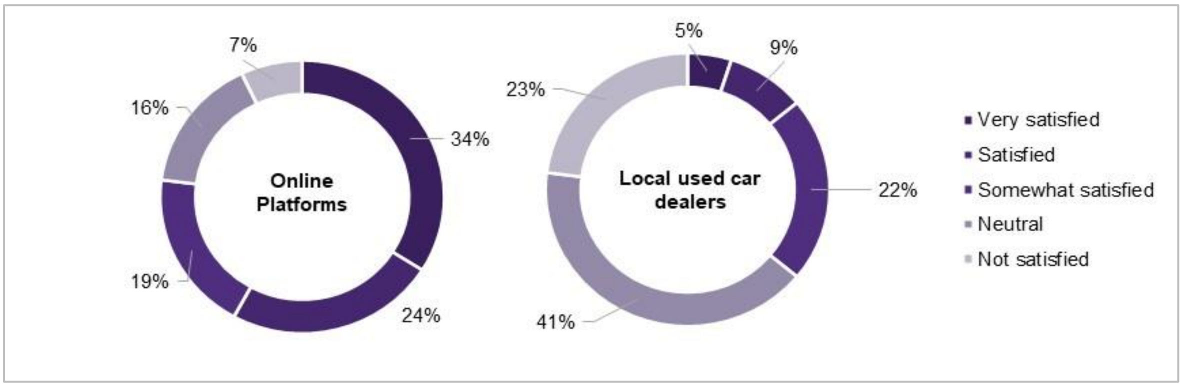
Figure 45: Performance rating of online platform vs local used car dealer (on a scale of 1-10) (Sample Size - 297)



Source: GT Survey

With more customers preferring online channels when purchasing or selling a used passenger car, these online channels see a better service performance rating when compared to offline channels. As per a GT survey, 34% of the respondents are very satisfied with the service performance of online platforms while only 5% are very satisfied with the local used car dealers.

Figure 46: Rating of service performance of channels (Sample Size - 297)



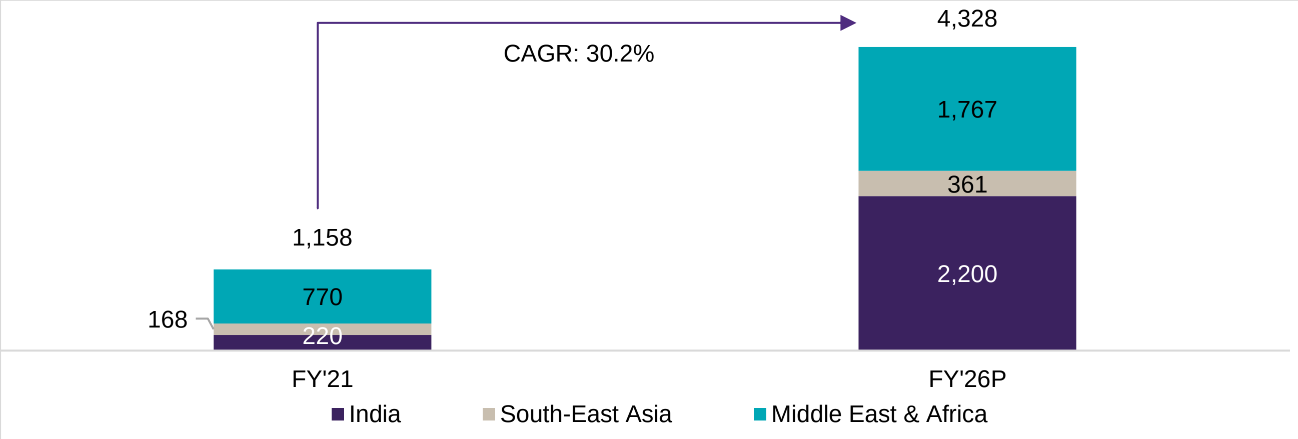
Source: GT Survey

3.4. Auto e-commerce and auto services market

Total Addressable Market (TAM) – Auto E-commerce in India, South-East Asia (SEA) and the Middle East & Africa (MEA):

The auto e-commerce market in India, SEA, and MEA stood at INR 1,158 billion in FY21 and is expected to grow at a CAGR of 30.2% to reach INR 4,328 billion by FY26.

Figure 47: Auto e-commerce market in India, SEA and MEA (In INR billion)



Source: GT Analysis

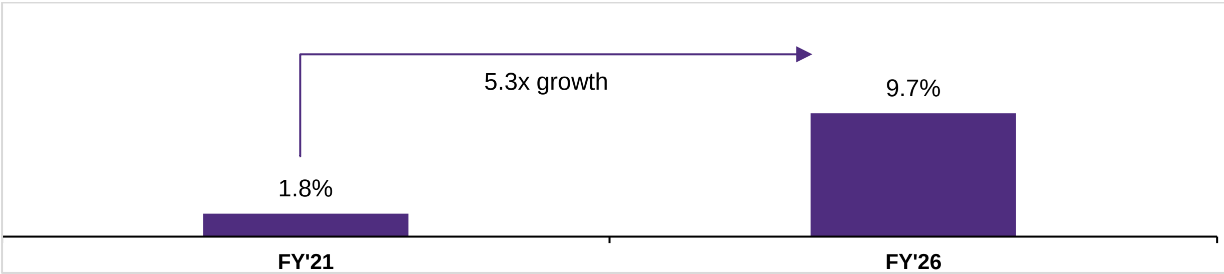
Note: Data for South-East Asia and the Middle East & Africa is for 2020 and 2026, and only includes the online vehicles market; Exchange rate for FY'26: 1 USD = INR 73.61

Auto e-commerce market in India:

The Indian auto e-commerce market is estimated at INR 220 billion in FY21. This is expected to grow at a CAGR of 58.5% over the next five years to reach INR 2,200 billion in FY26. COVID-19 has further accelerated the digitisation trend of the Indian auto sector. Growing comfort with digital channels has significantly reduced the need for physical interaction and simultaneously has increased the ability of the customers to evaluate a much larger universe of automobile choices than would otherwise be possible. Amidst evolving consumer needs and strong digitisation drivers such as increasing internet penetration, smartphone adoption and growth of e-commerce, the Indian automotive industry is ready for digital disruption.

In FY21, the share of auto e-commerce to total auto market[35] was estimated at 1.8% and this is expected to grow by 5.3x to 9.7% by FY26.

Figure 48: Auto e-commerce market penetration (in %)



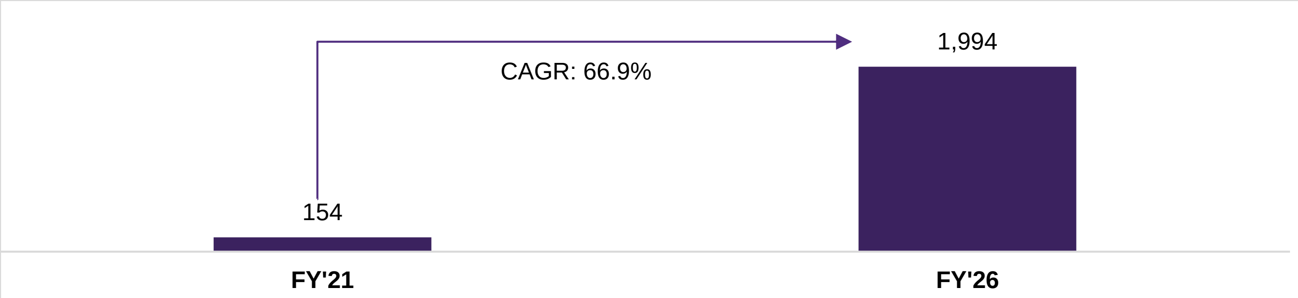
Source: GT Analysis

[35] For purpose of calculating auto e-commerce penetration, we have considered the auto market to include new vehicles, used vehicles, auto loans, auto insurance, aftermarkets and exclude auto components. Auto e-commerce market includes new vehicles, used vehicles, online used auto loans and online auto insurance

Used vehicles e-commerce market:

The Indian online used vehicle market was valued at INR 154 billion in FY21 and is projected to reach INR 1,994 billion by FY26, registering a CAGR of 66.9% mainly on account of the shift in customers' preference towards personal vehicles owing to an increased focus on health and hygiene in response to COVID-19. Moreover, due to the uncertain economic environment post-COVID-19, used vehicles are witnessing even stronger demand.

Figure 49: Used vehicles e-commerce market (INR billion)

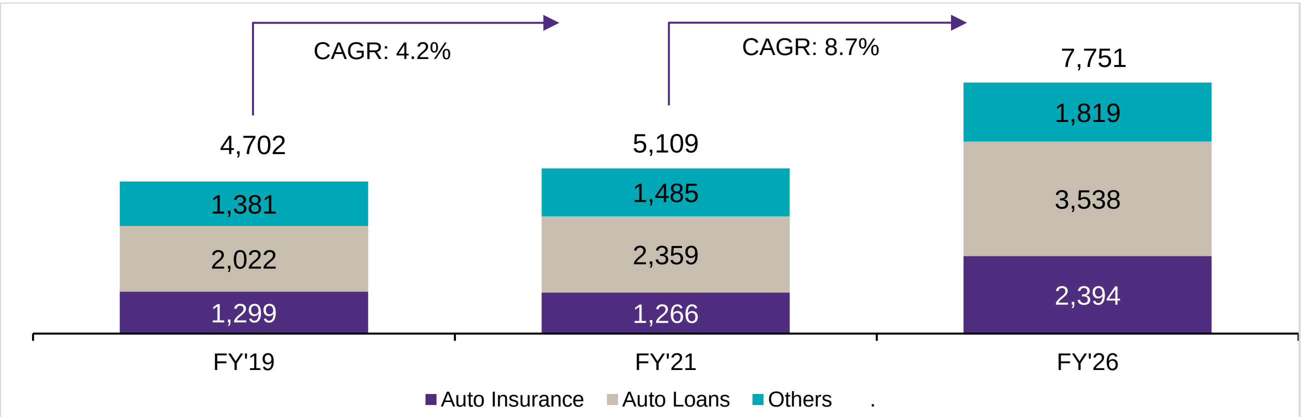


Source: GT Analysis

Auto services market in India:

The automobile service market includes auto loans, insurance, and other services.[36] In FY21, the auto loan segment accounted for 46.2% of the total auto services and auto insurance accounted for 24.8%.

Figure 50: Auto services market by segments (in INR billion)



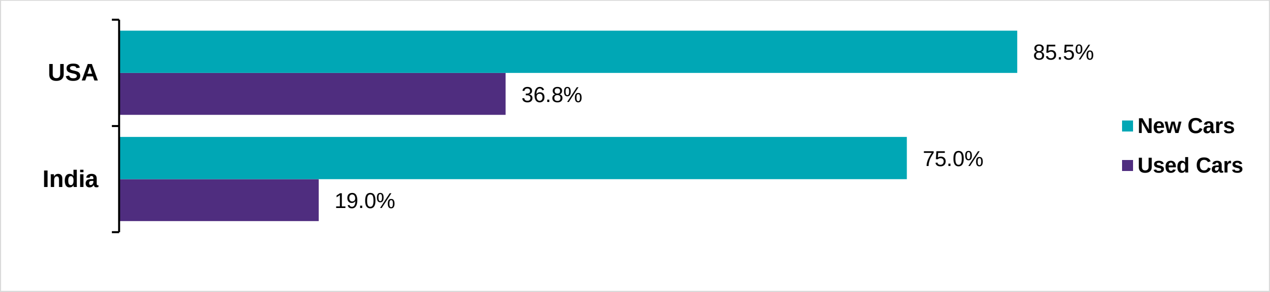
Source: GT Analysis

Auto loans market:

India is a large market for auto loans with INR 2,398 billion of vehicle loans were outstanding as of FY21, as per RBI. In India, 75-80% of new cars are purchased with an auto loan while approximately 100% of commercial vehicles are bought with a loan. Auto loan penetration for new two-wheelers is lower at 50-60%[37]. The vehicle loan market in India is expected to witness strong growth until FY26 on account of growing disposable income and increasing ownership of vehicles. The auto finance market is a key enabler of growth for the automotive market. However, auto financing in the used car and new car market in India is still largely underpenetrated in comparison to global markets including the USA.

[36] Aftermarket includes auto accessories and replacement parts
[37] Outstanding auto loans hit new high in FY21", Economic Times, Apr 2021

Figure 51: Car finance penetration in India and USA for used and new passenger cars, FY'20



Source: GT Analysis

In future, increasing adoption of digital portals, and bundling of finance products at the point of sale is expected to drive the finance penetration, which in turn will drive the growth in the sale of used and new vehicles.

Traditionally, banks and original equipment manufacturer (“OEM”)-owned Non-Banking Financial Company (“NBFCs”) have dominated the auto financing/loan segment in India. However, as consumers are increasingly moving online for their financial needs, over the past few years, online platforms including Droom have designed business models around the key pain points for borrowers (Customised Repayment Schedule, Quick loan decision, Favourable loan terms) as well as lenders (Verified customers and transaction assurance). The online auto players are adopting technologies such as data analytics, cloud computing, artificial intelligence, and machine learning to offer timely services to customers and improve the overall experience. Droom, through its product Droom Credit (which uses advanced algorithms to provide paperless and transparent financing options), offers instant auto loans.

Figure 52: Various business models for sale of auto loans

Models		Key Examples
OEMs	**Model explained:** OEMs, through their own portals allow the customers to avail loans through partnerships with leading banks and NBFCs **Monetization avenue**: Commission/Fee charges for loan facilitation	• Maruti Suzuki
Banks, NBFCs, Credit Unions	**Model explained**: This business model entails loan directly from a bank, finance company, or credit union. The customer agrees to pay, over a period of time, the amount financed, plus a finance charge **Monetization avenue**: Interest income	• AXIS Bank • ICICI Bank • SBI Bank
Finance Brokers	**Model explained:** Companies acting as an intermediary by matching borrowers to lenders and their loan products, assisting and advising borrowers on the loan application process and negotiating interest rates on loans, including car loans **Monetization avenue**: Commission/Fee charges for loan facilitation	• Bankbazaar.com • Paisabazaar.com
Physical branded dealer	**Model explained:** Dealers providing auto loans as a bundled service through partnerships with leading banks and NBFCs along with the provision of automotive services including sale of used and new vehicles, certification services amongst others **Monetization avenue**: Commission/Fee charges for loan facilitation	• Cars24
Online Players	**Model explained:** Online players providing auto loans as a bundled service through partnerships with leading banks and NBFCs along with the provision of automotive services including sale of used and new vehicles, certification services amongst others **Monetization avenue**: Commission/Fee charges for loan facilitation	• Droom
Online Content/ Delivery	**Model explained:** Online content players providing auto loans as a bundled service through partnerships with leading banks and NBFCs **Monetization avenue**: Commission/Fee charges for loan facilitation	• CarDekho

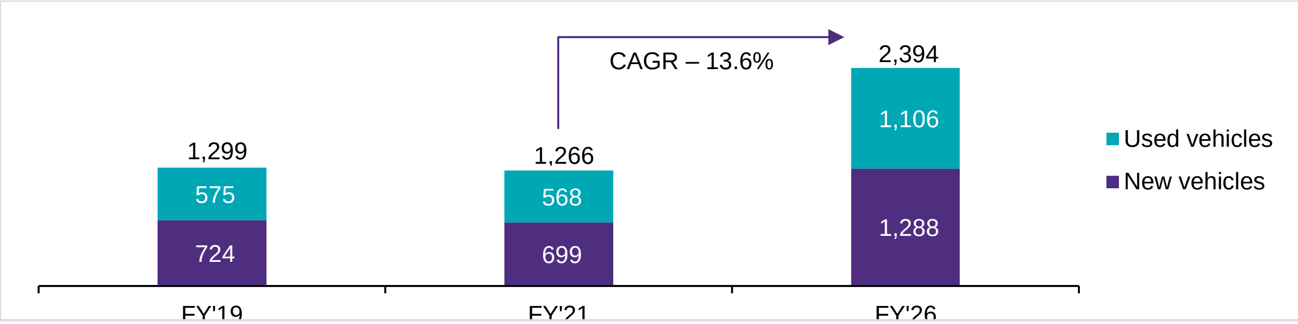
Source: GT Analysis

Auto insurance market:

The India auto insurance market was valued at INR 1,266 billion in FY21 and is projected to reach INR 2,394 billion by FY26, growing at a CAGR of 13.6%. Auto insurance in India forms the largest sector of the general insurance industry in India.[38] Motor premiums account for 34.1% of the total non-life premiums in India.[39]

[38] "Growing demand and awareness for car insurance in India", Outlook India, December 2019
[39] "BFSI – Insurance", Invest India, September 2021

Figure 53: India auto insurance market – used and new vehicles (in INR billion)



Source: GT Analysis

About 70 million vehicles have insurance in India against the approximately 180 million registered vehicles on Indian roads, signifying the strong potential for growth of the market.

Figure 54: Models for sale of motor insurance in India

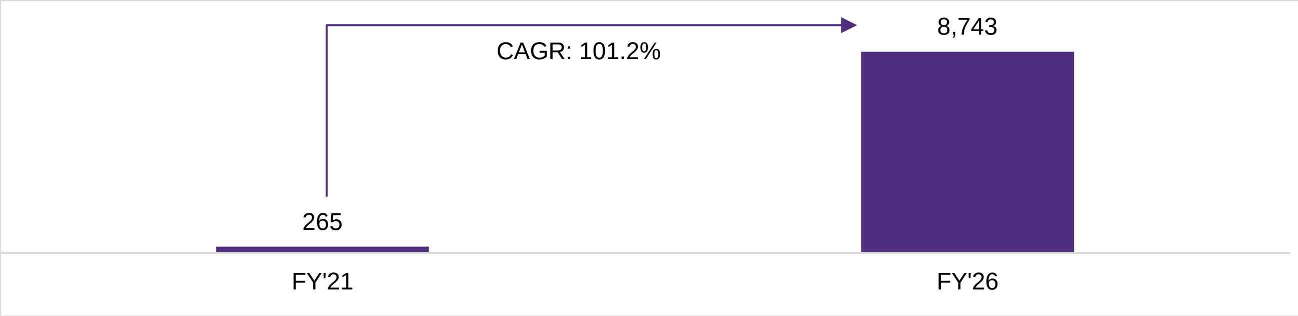
Models		Key Examples
OEMs	**Model explained:** Vehicle dealers offer motor insurers to buyers through a tie-up with an insurance company. They act as brokers/agents in the industry. As the vehicle insurance and purchase gets bundled for new vehicles, OEMs offer bundling discounts on the deal. Some OEMs waive off the first-year premium to make the purchase offer more lucrative to the buyer. **Monetization avenue**: Commission/Fee charges for insurance policy facilitation	• Maruti Suzuki
Aggregators	**Model explained:** Web aggregators are third-party portals where consumers can compare the various policies from all motor insurance companies operating in the country. They generate leads for the insurers. As per IRDAI, there are 24 licensed web aggregators for insurance in India. **Monetization avenue**: Commission/Fee charges for insurance policy facilitation	• Policybazaar.com • PolicyBachat • InsuranceDekho
Physical branded dealer	**Model explained:** Dealers providing auto insurance as a bundled service through partnerships with leading insurance companies along with the provision of automotive services including sale of used and new vehicles, certification services amongst others **Monetization avenue**: Commission/Fee charges for insurance policy facilitation	• Cars24
Online Players	**Model explained:** Online players offer one-stop solution primarily in the used vehicle segment where not only transaction is handled seamlessly but also insurance processes are bundled with the transaction **Monetization avenue**: Commission/Fee charges for insurance policy facilitation	• Droom
Online Content/ Delivery	**Model explained:** Online content players providing auto insurance as a bundled service through partnerships with leading insurance companies **Monetization avenue**: Commission/Fee charges for insurance policy facilitation	• CarDekho

Source: GT Analysis

Used auto loan e-commerce market:

In India, only approximately 19% of used cars are purchased with loans, while approximately 75% of new cars are sold with loans. The penetration of auto loans for used vehicles is low as 1) Valuation of used cars is a challenge for banks and NBFC who do not have the in-house valuation capabilities, and 2) Many of the used vehicle customers are first-time vehicle buyers with no past credit history. However, digital players are addressing these pain points by offering better financing options and providing independent vehicle inspection services to Banks and NBFCs, thereby reducing their risk. The online used auto loan market is anticipated to grow from INR 265 million in FY21 to INR 8,743 million by FY26, growing at a CAGR of 101.2%.

Figure 55: Used auto loan e-commerce market (in INR million)

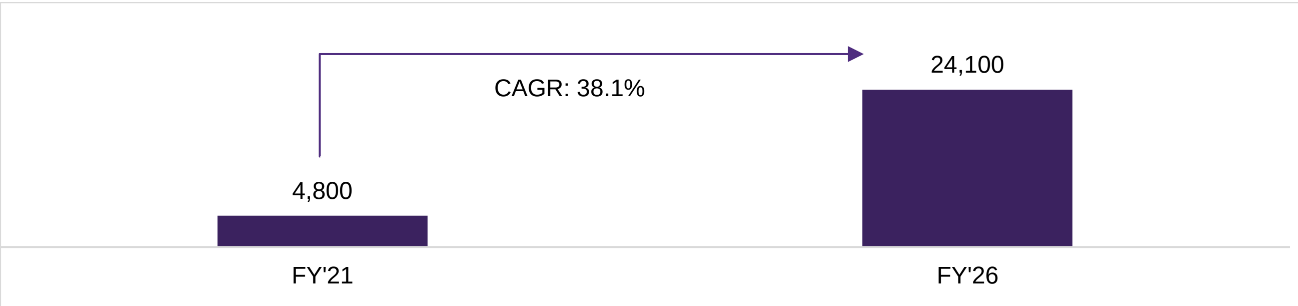


Source: GT Analysis

Auto insurance e-commerce market:

While auto insurance is mandatory for all vehicles plying on Indian roads, approximately 8% of 34 million private cars are still uninsured in India. Auto insurance continues to be the largest non-life insurance category, and digital players are driving penetration through lowers TATs and enhanced convenience. The online car insurance market stood at INR 4,800 million in FY21 and is expected to grow to INR 24,100 million by FY26 at a CAGR of 38.1%.

Figure 56: Auto insurance e-commerce market (in INR million)



Source: GT Analysis

How e-commerce is resolving structural issues

Online e-commerce platforms are solving major pain points faced by all stakeholders in the used vehicle industry – seller, used car dealer and buyer.

- **Information symmetry and transparency**

  E-commerce platforms resolve the issue of information asymmetry by providing price comparison, third party inspections and history of vehicle ownership, making it easier for the customers to make his or her purchase decision. They provide options to compare competing seller products, perform inventory checks and pick the best deal. The market has become more organised and regulated at the dealer level, which includes certification of used car dealers and other new measures catering to the needs of the customers. E-commerce channel leverages existing websites and online tools to provide customers with more information, including high-resolution pictures, complete car histories and a full list of repairs made during reconditioning. E-commerce portals are leverage artificial intelligence and data analytics on their platforms to facilitate research, car discovery, and transactions.

- **Convenient shopping experience through single platforms offering end to end buying and selling services**

  Auto e-commerce players enable a one-stop solution where not only is the transaction handled seamlessly but also processes such as registration transfer, loan closure for the seller, loan issuance for buyer and insurance, technical certifications and warranty are bundled with the transaction. The e-commerce portals are also providing different payment options, various financing benefits that make customers prefer online shopping.

- **Substitute for large-format modern retailing**

  The large-format retailing in India is primarily available for new cars and is available in limited areas for used cars. This poses a hurdle for customers in the selection process. Besides this, on the supplier's side, nationwide fulfilment costs are extremely high, requiring large capital investment, making a consolidated inventory in a single location immensely challenging. Automobile e-commerce platforms deliver a wide range of options for customers with home test drives and delivery facilities while cutting down on the capital required to run a physical retail showroom. Organised players are slated to offer over 100 car models at each yard along with access to an even larger inventory on their web platforms.

- **Increasing trust of customers in the quality of used cars**

  Considering the low repeat nature of a used car transaction, smaller used car dealers often resort to unfair practices such as meter tampering, misrepresenting car conditions or charging high prices to generate bigger margins for offline transactions. Used car buyers also benefit when dealing with online auto portals. The existing lengthy and complicated process of getting the ownership of the vehicle has thus become simplified quite extensively. The emergence of new online platforms has accelerated the formalisation of the used car market by enabling the aggregation of a large assortment of used cars, leading to faster fulfilment.

Positive impact of COVID-19

COVID-19 has accelerated digital adoption across industries with an increased preference for convenience and safety. Customer habits and behaviours have changed dramatically as a result of the pandemic. The dramatic rise in e-commerce amid movement restrictions induced by COVID-19 have increased online retail sales across geographies.

The automotive industry players are also moving towards digitisation to serve customers and promoting online sales. Companies are adapting end to end digitisation of sales with the launch of user-friendly online retail platforms. In addition, digital media is playing an increasingly important role in determining purchase decisions of car buyers - Online video is also playing a bigger role in the car-buying path to purchase. The evolution of e-commerce is expected to offer opportunities for all industry participants including the OEMs, OESs, workshops and garages, distributors, the end-customers, non-auto stakeholders, and mobility start-ups.

As people prioritise social separation and personal hygiene, there has been a trend away from shared mobility choices. This has effectively translated into a larger demand for affordable personal transportation, which may help automakers increase sales, particularly in the entry-level vehicle category. When the lockdown was lifted in China, a similar trend emerged, with car ownership outpacing car sharing. India is projected to follow a similar path, which might help the automotive industry reverse its downward sales trend.

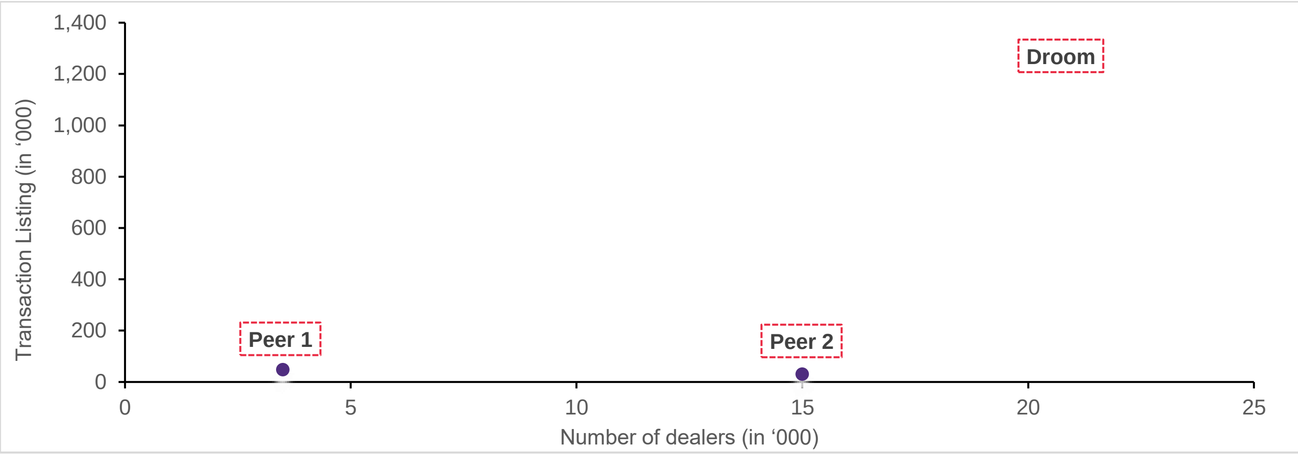
A growing preference for contactless digital transactions has emerged as a prominent trend that is projected to spill over into vehicle purchases. In after-sales, there had already been a shift toward online models, with growth in online appointment scheduling, doorstep pickup/delivery and online payments. The pandemic has also made evident the growing shift to asset-light models and preference for experience rather than ownership is fast gaining favour with millennials. In the automotive industry, this may translate into greater interest in car subscriptions and short-term leasing models.

In conclusion, a couple of factors played a vital role in changing the customer preference towards used and online vehicle buying and selling such as financial volatility, decrease in disposable income, inconvenience with ridesharing and comfort with own vehicle to prevent infection spread.

Chapter 4 – Competition Landscape

The automobile sector is one of India's largest and fastest-growing manufacturing sectors. Some of the key auto-tech players in the market are Droom, CarTrade, CarDekho, Cars24 and Spinny. With 20,725 dealers, Droom has one of the largest auto dealer networks in India. The rapid growth of online-only used passenger car dealers in the past several years validates consumers' willingness to buy cars online. As compared to some of the other major players, Droom is one of the leading players in terms of the number of vehicles listed online.

Figure 57: Droom's positioning vis-à-vis its competitors, Transactional listing, and number of dealers



Source: GT Analysis

Droom is one of the largest online automobile platforms in terms of transactions among players catering to individual buyers and sellers, dealers, and large enterprises. Droom has one of the largest auto dealer networks amongst its competitors and is the only major online transactional player in India. Droom has a well-established geographical presence across India with a full suite of ecosystem services with no inventory risk or a large pool of manual labour as shown in the figure below:

Key parameters	DROOM	CAR TRADE TECH	CARS24	CARDEKHO	SPINNY
Parent company	Droom Technology Ltd.	CarTrade Tech Ltd.	Cars24 Services Pvt Ltd	Girnarsoft Automobiles Pvt. Ltd.	Valuedrive Technologies Pvt. Ltd.
Founded	2014	2009	2015	2008	2015
Domestic presence	1,151 cities	80 cities	73 cities	11 cities	13 cities
International presence	Southeast Asia, Middle East, and Africa	N/A	Australia, UAE	Indonesia, Philippines, Malaysia	N/A
Primary selling format	B2C	B2B	C2B	C2B	B2C

Key parameters	DROOM	CAR TRADE TECH	CARS24	CARDEKHO	SPINNY
Business model	Transaction based – E-commerce *(Commission on transaction value)*	Transaction based - Physical Retail	Transaction based - Physical Retail	Non-Transactional – Classified and Product discovery	Transaction based - Physical Retail
Facebook likes	Over 6.5 million	Over 217,000	Over 410,000	Over 1.2 million	Over 109,000

Service Offerings

Droom offers one of the most comprehensive offerings among the major players in the industry that allows users access to a broad selection of vehicles through mobile apps and websites with comprehensive and accurate vehicle information and a seamless transaction experience. Droom is the only major Indian player with a completely online transactional model and amongst the market leaders in pure-play automobile e-commerce platforms.

Services – used vehicles	DROOM	CAR TRADE TECH	CARS24	CARDEKHO	SPINNY
Type of vehicles	Two-wheeler, Three-wheeler, Four-wheeler, Commercial Vehicles, Planes	Two-wheeler, Three-wheeler, Four-wheeler, Commercial vehicle, Construction Equipment, Farm Equipment	Four-wheeler, Two-wheeler	Four-wheeler	Four-wheeler
Sale of used vehicles	✓	✓	✓	✓	✓
Sale of new vehicles	✓	✗	✗	✗	✗
Sale of vintage vehicle	✓	✗	✗	✗	✗
Lead procurement	✓	✓	✗	✓	✗
Valuation services	✓	✓	✓	✓	✓
Vehicle certification	✓	✓	✗	✓	✓
RC Transfer	✓	✗	✓	✓	✓
Vehicle financing/ loans	✓	✓	✓	✓	✓
Insurance	✓	✓	✗	✓	✗
Warranty	✓	✗	✗	✗	✓

Financial parameters

As shown in the figure below, Droom has the largest Gross Merchandise Value among auto-tech players in India.

FY20 in INR million	DROOM[1]	CAR TRADE TECH[2]	CARS24[3]	CARDEKHO[4]	SPINNY[5]
Gross merchandise value (GMV)[40]	66,976	Data not available	29,981[41]	Data not available	Data not available
Operating revenue[42]	1,722	2,983	29,981	7,063	114
Adjusted revenue[43]	1,722	2,811	1,887	4,169	102
EBITDA[44]	-795	598	-2,672	-2,840	-717
EBITDA Margin[45]	-43.8%	12.4%	-8.7%	-44.0%	-440.7%
EBITDA as a % of GMV	-1.2%	Data not available	-8.9%	Data not available	Data not available
PAT	-896	313	-2,850	-3,265	-765
PAT Margin[46]	-49.4%	9.8%	-9.3%	-43.3%	-432.2%
PAT as a % of GMV	-1.3%	Data not available	-9.5%	Data not available	Data not available

1. Droom (Droom Technology Limited, formerly known as Droom Technology Private Limited): The subsidiaries include Droom Tech Logistics Private Limited, Droom Finance Tech Private Limited and Xeraphin Finvest Private Limited.
2. CarTrade Tech (Cartrade Tech Private Limited): The subsidiaries include Shriram Automall India Limited, Adroit Inspection Services Private Limited, CarTrade, Exchange Solutions India Private Limited, CarTrade Finance Private Limited and Augeo Asset Management Private Limited.
3. Cars24 (Cars24 Services Private Limited): The subsidiaries include Cars24 Financial Services Private Limited.
4. CarDekho (Girnar Software Private Limited): The subsidiaries include Girnarsoft Automobiles Private Limited, Girnar Care Private Limited, Carbay Pte Ltd (Singapore), PT Carbay Services Indonesia (Indonesia), Carbay Philippines Inc (Philippines), Advanced Structures India Private Limited, Girnar Software (SEZ) Private Limited, Girnar Insurance Brokers Private Limited, Girnarsoft Education Services Private Limited, Powerdrift Studios Private Limited and Girnar Finserv Private Limited.
5. ValueDrive Technologies: 15 months financials

Why auto e-commerce:

Droom does not operate through physical stores which provides it with an advantage over other competitors as it does not need to incur any inventory costs or Capex costs or operating costs related to maintaining physical stores. Its asset-light model also gives it the advantage of maintaining lesser working capital.

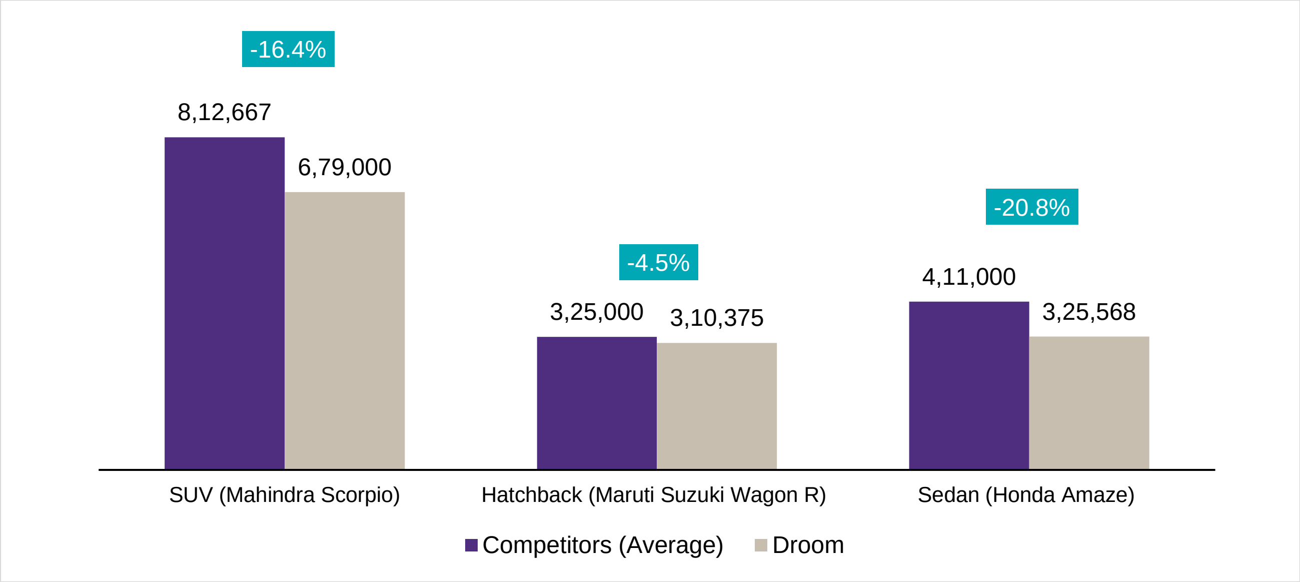
REVENUE MODEL	PURE PLAY E-COMMERCE	PHYSICAL RETAIL
No Capex for physical stores	✓	✗
No Operating costs physical stores	✓	✗
No Inventory risk	✓	✗
People light business	✓	✗

[40] Gross merchandise value (GMV) is the total value of vehicles and services sold on the platform. GMV is not available for players which are mix of business models
[41] For Cars24, its GMV has been assumed to be equivalent to its operating revenue as it undertakes purchase and sales of vehicles
[42] Represents "revenue from operations" for Droom, CarTrade Tech, Cars24, CarDekho and Spinny
[43] Following formula has been used to derive adjusted revenue: Adjusted Revenue = Operating revenue - purchase of stock in trade - change in inventory. Revenue adjustments has been performed for CarTrade Tech, Cars24, CarDekho and Spinny to compare them with Droom on like to like basis to adjust for inventory cost. For Droom, these adjustments are not applicable based on business model.
[44] EBITDA calculations includes other income. EBITDA is calculated as profit/(loss) after tax plus tax expense plus interest expense plus depreciation and amortization. For Droom, EBITDA is calculated as loss for the year plus total tax expense/ (credit), finance cost, depreciation and amortization expense
[45] EBITDA margin is calculated on total revenue and refers to percentage of EBITDA divided by Total Revenue
[46] Profit/(loss) after tax margin is calculated on total revenue and refers to percentage of Profit/(loss) after tax divided by Total Revenue

Price comparison

Droom offers end-consumers one of the largest selection of vehicles and at competitive prices as compared to its key competitors

Figure 58: Price comparison (in INR) for Droom and its competitors



Note – Prices for competitors were taken from their respective websites on October 9, 2021 between 1:30 pm to 3:30 pm. Data for Droom is the actual average sales price for YTD FY22.

Source: GT Analysis

Chapter 5 – International Markets

The auto e-commerce market in regions such as South-East Asia, Middle East and Africa have similar characteristics to India such as inefficient used vehicle sales process, lack of transparency and trust. These are large opportunities for auto e-commerce players. The total market opportunity for online passenger vehicles is USD 2.4 billion in South-East Asia and USD 11 billion in the Middle East and Africa in CY'20, which is expected to reach USD 4.9 billion and USD 24 billion respectively by CY'26.

South-East Asia:

South-East Asia has emerged as a fast-growing market for new and used vehicles, with used passenger car sales is expected to more than double in the next 5 to 7 years. Increasing use of e-commerce platforms, coupled with growth in sales of both new and used cars is expected to benefit players like Droom, who cater to the entire auto retail and services value chain.

The used car sales process has traditionally been very inefficient across developing nations in South-East Asia, which has followed the physical store model with multiple intermediaries and lack of transparency, creating an environment of distrust. This greatly hampered the potential for this space to grow further. Online models, however, have become prominent in the last 5 years and evolved from only lead generation to transaction-based models, thereby solving major challenges across stakeholders.

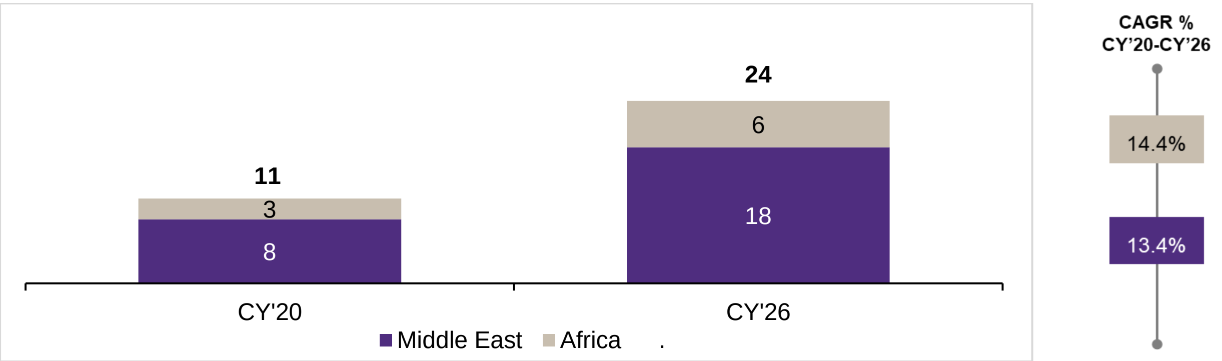
Middle-East and Africa:

The Middle East automotive sector is among the fastest-growing sectors in the region. This is driven by high disposable income, significant infrastructure development and a growing population. New business models, increased automation and digitisation are revolutionising the automotive industry in the region and has led to the development of auto e-commerce in the region as well. Players like Droom, who cater to the entire auto value chain, are expected to benefit from the fast-growing, high-value auto market.

Africa has a significantly large share of used passenger car sales, and this is expected to double in the next 6 years. While the e-commerce sector is in its nascent stage of development, growth in internet and smartphone usage is expected to benefit the sector. Auto e-commerce players with a long-term view of the market are expected to benefit from this trend.

An increase in online car selling platforms is expected to drive the online sales of new and used cars in the Middle East. The online passenger car market in the Middle East is expected to grow at a CAGR of 13.4% from CY'20 to CY'26 to reach USD 18 billion by CY'26 while in Africa it is expected to grow at a CAGR of 14.4% to reach USD 6 billion by CY'26. In Africa, South Africa is one of the leading consumers in the used cars market that import a massive number of used cars every year from the European countries, along with the USA, Japan, and the Middle East. Africa uses only 1% of the world's new vehicles produced and over 85% of those vehicles are bought by people living in the South African region.

Figure 59: Online passenger car market (in USD billion) in Middle East and Africa



Source: GT Analysis

Figure 60: Online Passenger Car Market – Used and New (in USD billion) in Middle East and Africa

USD billion	CY'20	CY'26	CAGR (CY'20 – CY'26)
Middle East			
Used passenger cars	7.5	14.9	12.2%
New passenger cars	0.8	2.7	21.8%
Total passenger cars	**8.3**	**17.7**	**13.4%**
Africa			
Used passenger cars	2.4	5.1	13.1%
New passenger cars	0.3	0.9	23.1%
Total passenger cars	**2.7**	**6.0**	**14.4%**

Source: GT Analysis

Currency conversion rate

The conversion rate has been used to covert USD values to INR values

	CY'15	CY'16	CY'17	CY'18	CY'19	CY'20	YTD CY'21 and onwards
USD to INR	64.12	67.18	65.11	68.41	70.39	74.10	73.61

	FY'16	FY'17	FY'18	FY'19	FY'20	FY'21	YTD FY'22 and onwards
USD to INR	65.41	67.06	64.45	69.90	70.90	74.22	73.94

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