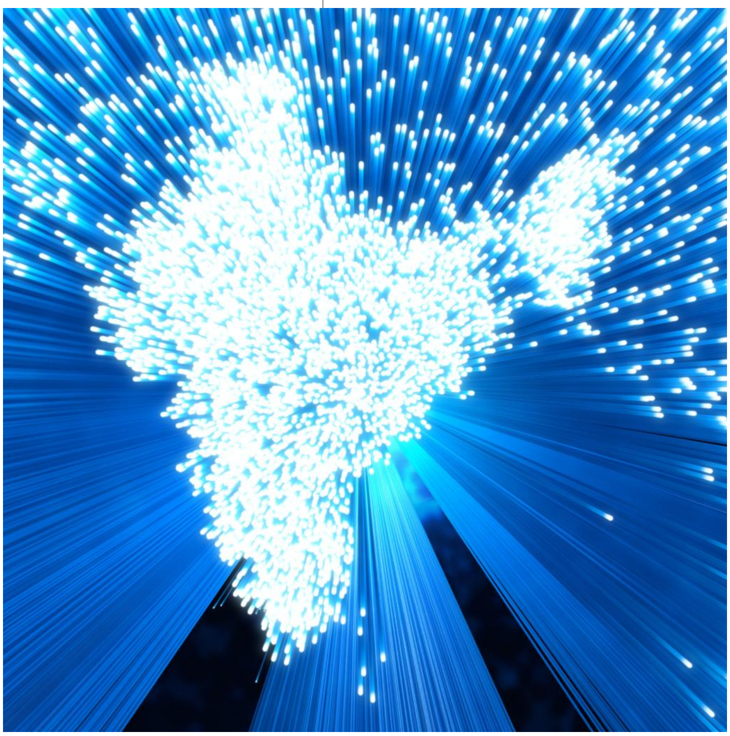
Deutsche Bank
Markets Research

Industry
Indian e-Commerce

Date
3 February 2015

Sub-Saharan Africa

Media



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F.I.T.T. for investors

No risk, no reward

Big potential market with low penetration

India is a large emerging market in terms of population and formal retail is still underpenetrated. E-Commerce spend today is mostly in online travel and the future growth of B2C e-tail (physical goods) is likely to be driven by large, well-funded competitors who can speed up online adoption. The key risk is how quickly profitability arrives given the size of the market, the intensity of competition, and consumer behavior. Market estimates put the current and future size of the Indian e-commerce market at only 3% to 7% of Chinese levels[1], with significant upside through consumer adoption.

[1] *Source: IAMAI-IMRB, e Marketer, iResearch. Deutsche Bank*

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Naspers
What does Naspers own in India? Investments include c.18% of Flipkart (a horizontal/broad-based B2C e-commerce site), c80% of Ibibo / RedBus (online bus and hotel bookings), and c100% of OLX India (online classifieds). We think that RedBus has a compelling market position (better gross margins, online travel accounts for most of e-commerce spend today, less direct/severe competition), although the sheer size of Flipkart and its market opportunity could capture investor mindshare and headlines. We believe that Naspers' **Indian assets are collectively worth at least cR20bn+ or R50+ a share today,** with potential upside of 3x to our estimate of R50/share based on market multiples.

Naspers' leading emerging market position should enable the group to benefit as internet penetration continues across its operating regions, creating additional markets and driving the next leg of revenue growth. **Buy, with a new target price of R1785 (up from R1670).**

MakeMyTrip
We've seen mobile play the role of leapfrog technology in many emerging markets and believe India is primed for something similar. While internet penetration in India has improved of late, it continues to lag all other BRIC countries. In 2013, Indian internet penetration was 15% according to the World Bank, behind China (46%), Brazil (52%), and Russia (61%). With smartphone shipments expected to increase from 136M in 2014 to 265M in 2018, internet penetration should grow sharply, driven by mobile. MMYT has invested heavily in mobile, and last quarter reported 29% of traffic and 14% of transactions from mobile. We believe this story provides a secular tailwind to MMYT, while falling oil, stable FX, and a growing economy create a supportive environment for consumers in the near term. **We reiterate Buy and our US$35 target price.**

Just Dial
We maintain our **Buy** on Just Dial. In our view, (a) consistent high growth in SMEs, (b) a healthy increase in internet users (18% CAGR over 2013-18) and within that rapid growth in mobile internet users (22% CAGR over 2013-18), (c) a likely 28% CAGR in digital advertising over 2013-18, and (d) an online classified market CAGR of 20% over 2013-18, will drive revenue from traditional advertising campaigns. **Our target price is INR1,800. Buy.**

Key Changes

Company	Target Price	Rating
NPNJn.J	1,670.00 to 1,785.00(ZAR)	-

Source: Deutsche Bank

[1] *Source: IAMAI-IMRB, e Marketer, iResearch. Deutsche Bank*

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Summary

India: the next great e-commerce market

India in a nutshell: India is a large emerging market in terms of population and formal retail is still underpenetrated. E-Commerce spend today is mostly in online travel and future growth of B2C e-tail (physical goods) is likely to be driven by large, well-funded competitors who can speed up online adoption. The key risk is how quickly profitability arrives given the size of the market, the intensity of competition, and consumer behavior. Market estimates[1] put the current and future size of the Indian e-commerce market at only 3% to 7% of Chinese levels, with significant upside through consumer adoption.

Large emerging market with little formal retail

Speed of e-commerce market development to be driven by promotion

Formal retail under-penetrated in India: Market estimates[2] put the size of the Indian retail market at cUS$350bn, but formal retail at only 5% of that total.

E-commerce nascent but growing: Market estimates[3] look for the overall e-commerce market to grow from US$22bn in 2014 to US$86bn in 2018 (40% CAGR). Within just B2C e-tail, estimates are for expansion from cUS$4bn in 2014 to cUS$18bn by 2018 (45% CAGR).

Wealth concentration could create a two-tier market

Formal retail only 5% of retail spend with FDI restrictions

E-commerce to target the wealthier demographics: c60m households (c25% of the overall population) in India control c60% of retail spend in 2015E; these households are forecast to double in absolute numbers by 2025, with spending power to triple over the same period[4]. Wealth concentration and limited broadband penetration (c11%) could potentially create a two-tier market: 1) wealthy cohorts, where online spend centers on consumer discretionary items (electronics, clothes, etc) and where the longer-term opportunity is in migrating their online spend to include consumer staples (diapers, consumables, food), and 2) the mass-market, where spend levels are likely to be lower but increasing mobile penetration, a lack of formal retail/alternatives, and sheer numbers could prove formidable over time.

E-Commerce estimated to reach cUS$86bn by 2018

E-Commerce could target the rich

Low internet penetration but high growth: Less than 20% of the population had internet access in 2013 (214m) but this figure looks set to grow to c500m by 2018 (c36%), driven by mobile internet penetration leapfrogging desktop[5].

Internet penetration low but increasing as mobile takes hold

Market cap per internet user is low: In Western markets, the market cap for the e-commerce sector on a per internet user basis is nearly 15x that of India. The ratio is nearly as stretched even when compared with similar emerging markets such as APAC, where the e-commerce market cap on a per user basis is nearly 10x that of India. This indicates the huge opportunity left for e-commerce penetration and growth in India. As discussed, India has over 200m internet users but less than 10% of those users purchase online. In the next few years (and decades), more retail spend is likely to shift online, closing the gap with its global peers.

Market cap per user for the e-commerce sector is low—Western markets 15x that of India

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[1] Source: IAMAI-IMRB, e Marketer, iResearch. Deutsche Bank
[2] Source: FICCI-KPMG, Deutsche Bank
[3] Source: eMarketer, IAMAI, Deutsche Bank, , exchange rate applied to INR estimates of 61.5 INR/USD
[4] Source: Netscribes, NCAER, MGI India
[5] Source: FICCI-KPMG, Deutsche Bank

Mobile devices forecast to be c70% of internet access: It is estimated that 61% of internet users in India in 2013 were accessing it using mobile devices. This share is expected to increase to 71% by 2018. Mobile 3G subscribers are expected to grow at a 54% compound rate through 2018E and the use of internet-ready smartphones is expected to compound at 38% through 2018E, at twice the rate seen in China. [6]

Most online spend today focused on travel

Most online spend today is focused on travel: c80% of estimated e-commerce spend today in India is on travel, with bus travel a small fraction of that figure. Naspers owns a company called RedBus, which we believe is worth cR1,250m today (only R2 per NPN share). We estimate that RedBus enjoys cR110m+ in revenue and saw 120%+ yr/yr growth in related GMV from 2010 to 2013E. Online travel agents' (OTA) business models enjoy high gross margins as physical fulfillment / delivery is not generally an issue.

FDI restrictions prevent 1PL B2C e-commerce platforms

Regulation matters: Foreign companies are not currently allowed to operate multi-brand 1PL B2C e-commerce models in India due to FDI (foreign direct investment) laws. As a result, online competitors have generally adopted a marketplace business model. Moreover, India is expected to simplify its tax system, encouraging fewer barriers to trade within India and potentially more efficient logistics system.

Cash on delivery still dominates

Cash on delivery: This model is still prominent as an estimated c60% of e-commerce purchases are paid and fulfilled with cash on delivery.[7] This limits the take-rate/monetization opportunity for a given transaction.

Credit and debit card penetration is low

Credit cards and online wallets: There are an estimated c200m people in India with credit or debit cards. Of this total, c75% are willing to shop online (150m) but only 5% have made transactions online (c10m people)[8]. Low levels of credit penetration is partly due to a lack of credit history and of an accurate mandatory unique identifier for citizens – something that the government is introducing (sometimes called a Unique Identification Number or "Aadhaar").

Logistics / infrastructure still an issue

Infrastructure still an issue: India has no standardized street address system and road conditions can be poor. E-commerce players like Flipkart have had to become quasi-logistics companies (warehousing, courier optimization, IT) to help improve the customer experience.

[6] Source: IDC and Deutsche Bank, FICCI-KPMG, Deutsche Bank
[7] Source: IAMAI, Deutsche Bank estimates
[8] Source: company presentation, Deutsche Bank estimates, population assumption 1.25bn people

Companies to watch

Naspers

What does Naspers own in India? Investments include c18% of Flipkart (a horizontal/broad-based B2C e-commerce site), c80% of Ibibo / RedBus (online bus and hotel bookings), and c100% of OLX India (online classifieds). We think that RedBus has a compelling market position (better gross margins, online travel accounts for most of e-commerce spend today, less direct/severe competition), although the sheer size of Flipkart and its market opportunity could capture investor mindshare and headlines. In addition, Naspers operates PayU in the country as part of its international footprint. We believe that Naspers' Indian assets are collectively worth **cR20bn+ or R50+ a share today,** with potential upside of 3x to our estimate of R50/share based on market multiples and growth forecasts. **We reiterate Buy with a new target price of ZAR 1785.**

Naspers (Buy, TP R1785) owns three assets in the region: 1) Flipkart, 2) RedBus, and 3) OLX India

We think these are worth at least R50 today, with potential upside of 3x

MakeMyTrip

We've seen mobile play the role of leapfrog technology in many emerging markets, and believe India is primed for something similar. While internet penetration in India has improved of late, it continues to lag all other BRIC countries. In 2013, Indian internet penetration was 15% according to the World Bank, behind China (46%), Brazil (52%), and Russia (61%). With smartphone shipments expected to increase from 136M in 2014 to 265M in 2018, internet penetration should grow sharply, driven by mobile. MMYT has invested heavily in mobile, and last quarter reported 29% of traffic and 14% of transactions from mobile. We believe this story provides a secular tailwind to MMYT, while falling oil, stable FX, and a growing economy create a supportive environment for consumers in the near term. **We reiterate Buy and our US$35 target price.**

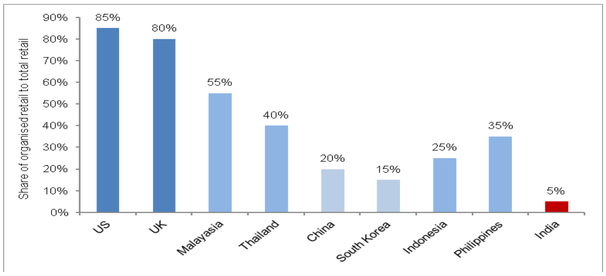
We like MakeMyTrip (Buy, TP US$35) and JustDial (Buy, TP INR1,800) based on stronger fundamentals.

Just Dial

We maintain our **Buy** on Just Dial. In our view, (a) consistent high growth in SMEs (Small and Medium Enterprises), (b) a healthy increase in internet users (18% CAGR over 2013-18) and within that rapid growth in mobile internet users (22% CAGR over 2013-18), (c) a likely 28% CAGR in digital advertising over 2013-18, and (d) an online classified market CAGR of 20% over 2013-18, will drive revenue from traditional advertising campaigns. **Our target price is INR1,800. Buy.**

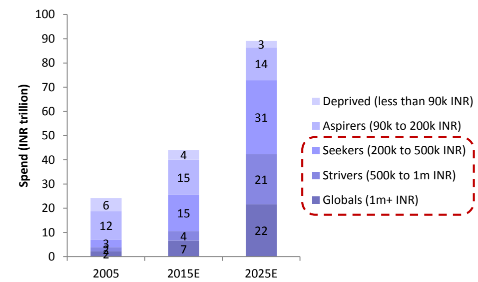
Key charts

Figure 1: Formal retail is underpenetrated in India (c5% of estimated total spend), allowing e-commerce…



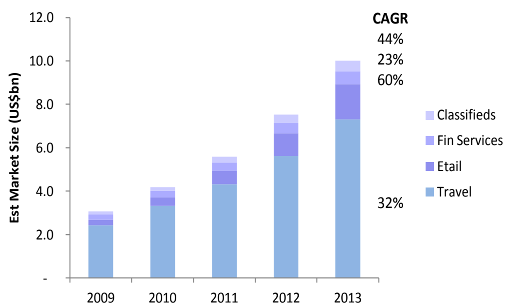
Source: FICCI-KPMG, Deutsche Bank

Figure 2: …to target the 25% of households who account for c60% of retail spend in 2015E (forecast to grow to c80% by 2025)



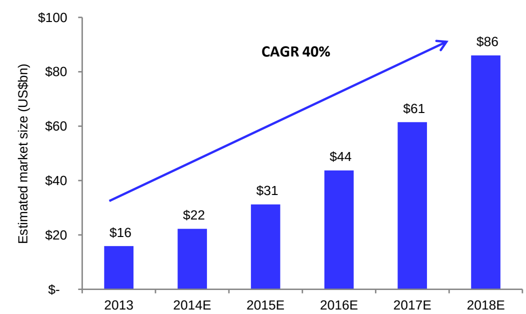
Source: Netscribes, NCAER, MGI India

Figure 3: Overall market growth in e-commerce was c35% from 2009 to 2012…



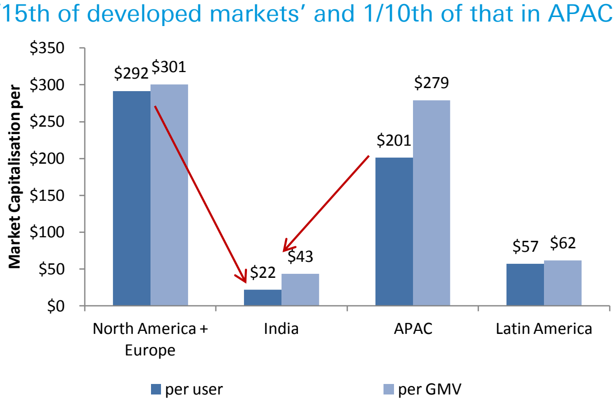
Source: eMarketer, IAMAI, Deutsche Bank, , exchange rate applied to INR estimates of 61.5 INR/USD to calculate US$ estimates

Figure 4: …with the overall e-commerce market set to grow to cUS$86bn by 2018E…



Source: NetScribes, Deutsche Bank, exchange rate applied to INR estimates of 61.5 INR/USD to calculate US$ estimates, figure includes online travel and other services

Figure 5: …although e-commerce market cap per user is 1/15th of developed markets' and 1/10th of that in APAC



Source: company financials, Thomson Reuters, Deutsche Bank, as of Jan 29 2015

Figure 6: Deutsche Bank's coverage of relevant shares include Naspers, MakeMyTrip, and Just Dial

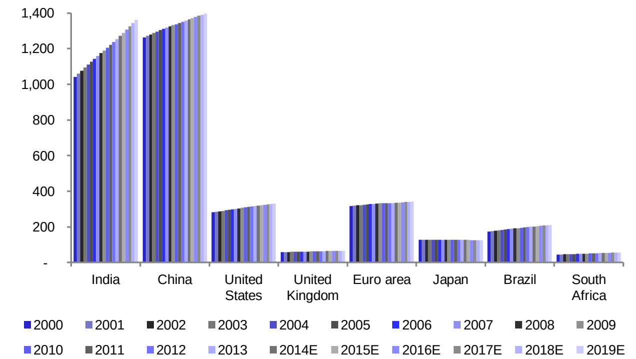
Company name	DB rating	Target Price	% upside from current price	Key points
Naspers	Buy	ZAR 1785	7%	- Flipkart - leading B2C marketplace - redBus - leading online bus ticket reseller - OLX India - leading broad-based online classifieds
MakeMyTrip	Buy	USD 38.00	44%	- improving fundamentals in air travel - improving macro for India - mobile to leapfrog PCs, powering internet penetration
Just Dial	Buy	INR 1800	16%	- strong growth in SME (small & medium enterprises) - strong growth in internet users particularly mobile - strong growth in digital advertising and online classifieds

Source: Thomson Reuters, Deutsche Bank, as of 29/01/2015

Is India the next China?

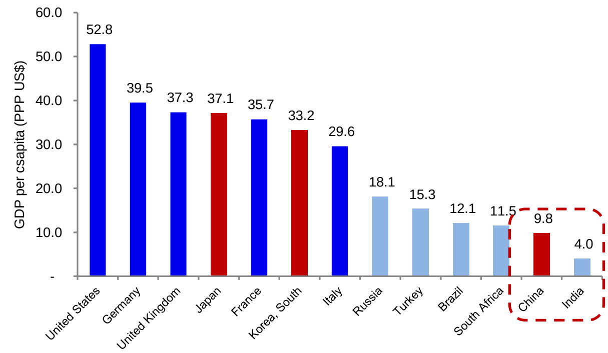
India is sometimes compared to China as the next e-commerce market to watch. Below we evaluate these markets on several dimensions to see how India stacks up against China and a group of established and emerging markets.

Figure 7: **Large population:** India's population of c1.2bn is forecast to grow at c1.4% from 2014 to 2019E



Source: World Bank, Deutsche Bank estimates

Figure 8: **GDP per capita** in India is **c40% that of China** (2013)…



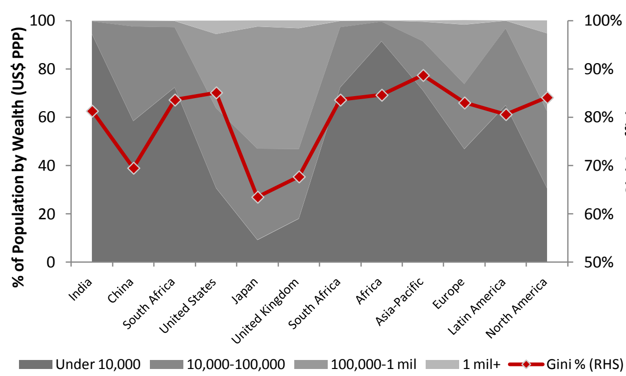
Source: CIA factbook, Deutsche Bank

Figure 9: …with **GDP per capita growth of c5%** forecast (over 2x developed markets' but below China's 7%)

GDP per capita growth	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014E	2015E	2016E	2017E
Developed Countries														
United States	1.9	2.8	2.4	1.7	0.8	(1.2)	(3.7)	1.7	1.1	1.5	1.1	2.0	1.9	1.7
United Kingdom	3.5	2.6	2.5	2.0	2.6	(1.5)	(5.9)	0.9	0.3	1.1	1.1	1.7	1.7	1.7
Euro Area										(0.4)	0.8	1.0	1.3	1.6
France	0.2	1.8	1.1	1.8	1.7	(0.6)	(3.6)	1.2	1.5	(0.5)	(0.3)			
Germany	(0.4)	1.2	0.7	3.8	3.4	1.3	(4.9)	4.2	3.3	2.4	0.2			
Italy	(0.5)	1.1	0.4	1.9	1.2	(1.8)	(5.9)	1.4	0.3	(2.6)	(2.3)			
Asian Countries														
China	9.3	9.4	10.7	12.0	13.6	9.1	8.7	9.9	8.8	7.7	7.3	7.0	6.7	6.7
Korea, Rep.	2.4	4.5	3.7	4.7	5.0	2.1	0.2	6.0	2.9	1.8	2.5			
Japan	1.5	2.3	1.3	1.7	2.2	(1.0)	(5.4)	4.7	(0.7)	1.7	1.7			
BRICS														
Brazil	(0.2)	4.4	2.0	2.9	5.1	4.2	(1.2)	6.6	1.8	1.3	(0.7)	(0.1)	1.1	1.9
Russian Federation	7.8	7.8	6.9	8.6	8.8	5.4	(7.8)	4.2	3.8	3.3	1.1			
South Africa	1.6	3.2	3.9	4.2	4.2	2.3	(2.8)	1.8	2.2	0.9	0.4	1.7	2.1	1.8
Turkey	3.8	7.9	7.0	5.5	3.4	(0.6)	(6.0)	7.8	7.4	0.8	2.8			
India	**6.2**	**6.3**	**7.7**	**7.7**	**8.3**	**2.5**	**7.1**	**8.8**	**5.3**	**3.3**	**4.1**	**5.1**	**5.1**	**5.6**

Source: World Bank, Deutsche Bank estimates

Figure 10: **Concentrated wealth:** c90%+ of Indian households have $10,000 or less in household wealth



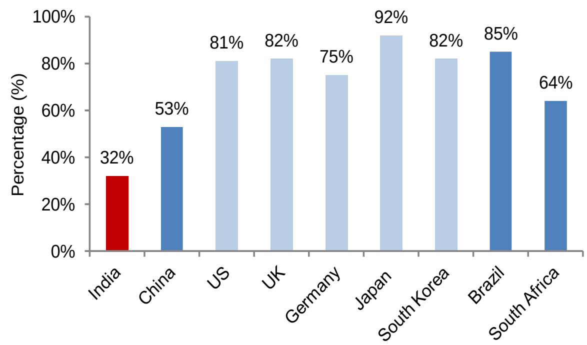
Source: OECD, Aus Bureau of Statistics, Eurostat, Bank of Japan ,IMF, US Fed Reserve Bank, South African Reserve Bank, Deutsche Bank

China and India both have populations in excess of 1.3bn, with wealth/income a key consideration. The average GDP per capita (PPP) for India is cUS$4k, while in China it is cUS$10k, with India growing at 5% vs. China's 7%. Only 6% of Indian households are estimated to have more than US$10,000 in accumulated wealth, with comparable e-commerce markets like China at 42% and the US at 69% of their respective populations.

Roughly 30% of India's population lives in urban locations, compared to c50% for China and 60% to 90% for selected developed markets and other BRIC countries.

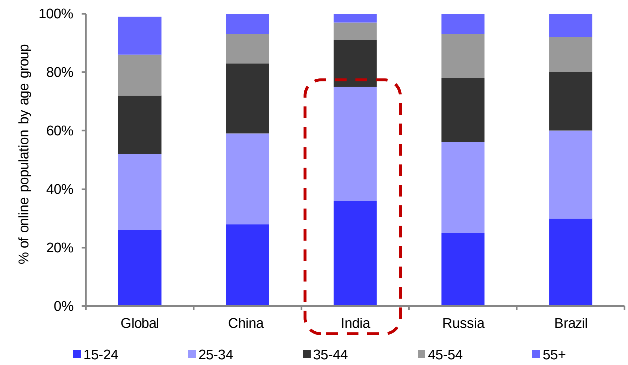
In the mobile context, India is more skewed towards younger internet users vs. China (c75% under 35 years old in India vs. c60% in China).

Figure 11: India is **less urbanized** than China (c30% vs. c50% of population living in urban settings)



Source: World Bank, Deutsche Bank

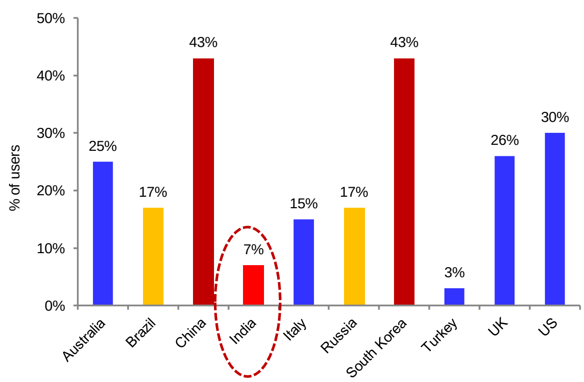
Figure 12: India has a **younger** online population **in mobile** (c75% of mobile internet users under 35 yrs old)



Source: ComScore, Deutsche Bank

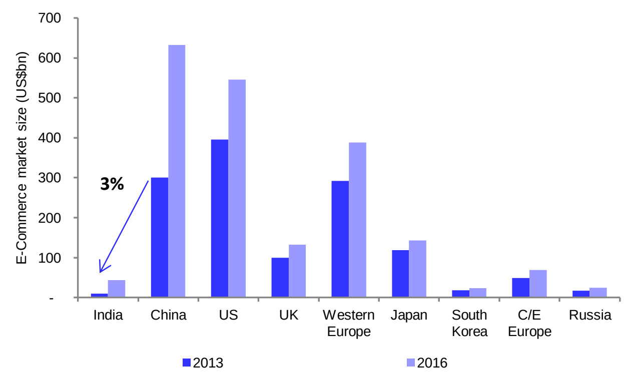
Purchasing behavior differs greatly for mobile e-commerce, with only c7% of mobile internet users in India purchasing online. This is well below China and South Korea at 40%+ and the US and UK at c25% to 30%.

Figure 13: **India has lower levels of online purchasing in mobile** (7% for India vs. 43% for China)



Source: IAMAI. Deutsche Bank

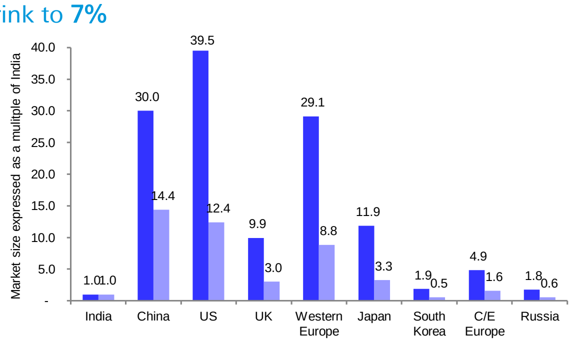
Figure 14: India's **e-commerce market** was only **c3%** the size of China's in 2013…



Source: IAMAI-IMRB, e Marketer, iResearch. Deutsche Bank

Market estimates put the current (2013) and future (2016) size of the Indian e-commerce market at only 3% to 7% of Chinese levels.

Figure 15: …but 2016 forecasts suggest that gap will shrink to **7%**



Source: IAMAI-IMRB, e Marketer, iResearch. Deutsche Bank

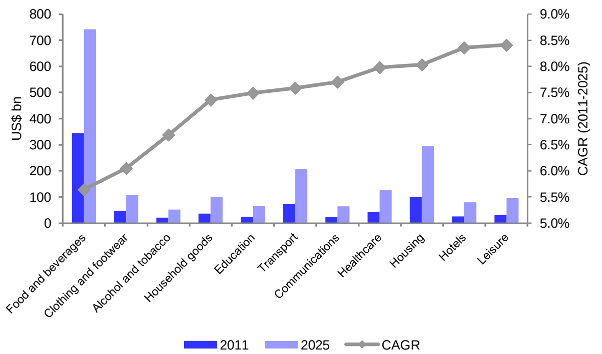
Retail in India

Most retail spending categories forecast to double/triple over next 15 years

Retail spend forecast to rise

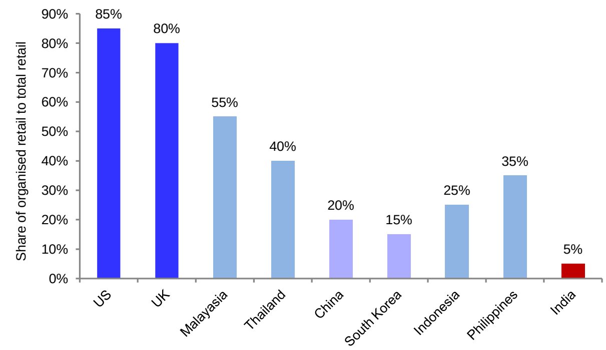
Market estimates show solid growth in retail spending in India over the next fifteen years, with most categories at 2x to 3x 2011 levels by 2025.

Figure 16: Retail categories show CAGRs ranging from 5% to 9% from 2011 to 2025 in India



Source: Tata industries, Reserve Bank of India, Deutsche Bank

Figure 17: Formal or organized retail is estimated to be only c5% of total retail sales in India



Source: FICCI-KPMG, Deutsche Bank

Formal retail under-penetrated in India

Market estimates put the size of the Indian retail market at cUS$350bn but formal retail at only 5% of that total. Limits on foreign direct investment (FDI) have preserved traditional/marketplace purchasing and continued fragmentation in retail.

Challenges for traditional 'big-box' retailers include 1) real estate challenges (high prices/limited availability), 2) high borrowing costs, 3) personnel issues, 4) supply chain challenges, and 5) political uncertainty (national/state level) around the legislation and implementation of FDI rules as they apply to retail.

Internet usage in India

Improving internet penetration in India is a large opportunity

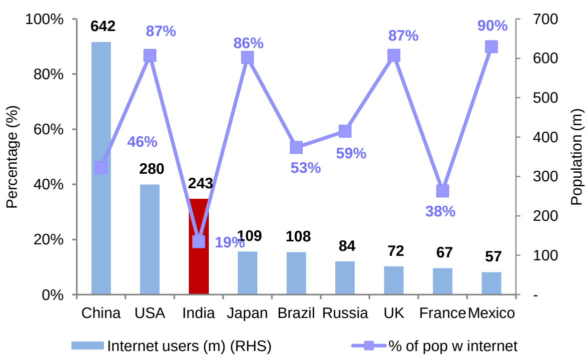
Although the absolute number of internet users looks impressive, India still struggles with low internet penetration. Some of the factors contributing to the low internet penetration are (a) limited broadband availability in rural areas, (b) poor connectivity due to low investment in the internet ecosystem, (c) last mile access issues, and (d) the dominance of English as a medium for information dissemination.

Mobile is a preferred mode for accessing the internet

We use a mix of market research and Deutsche Bank proprietary analysis to investigate

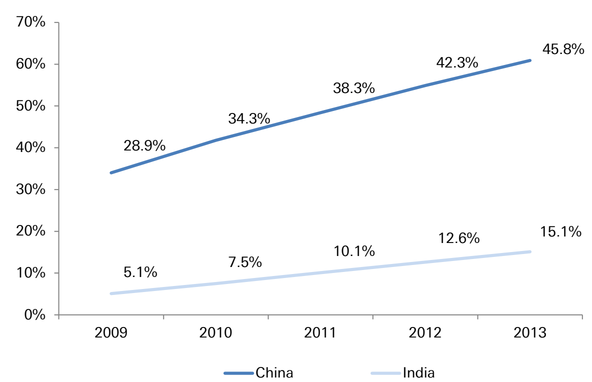
While urban users are the primary growth drivers, rural India is not left far behind. The mobile internet user base in rural areas has grown 28% since June 2013 and is estimated at 27m vs. 103m urban internet users at the end of 2013. While growth in the urban market could taper off in the future, internet penetration in rural areas should be a tailwind for growth in internet users. It is estimated that 61% of the total internet users in India in 2013 were accessing it using mobile devices. This share is expected to increase to 71% by 2018.

Figure 18: India is #3 in internet users globally but less than 20% of the population has internet access



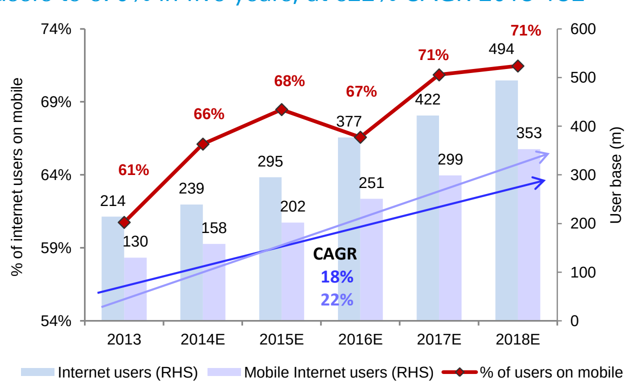
Source: Internet World Stats, Deutsche Bank

Figure 19: Internet penetration, India vs. China – India c1/3 that of China



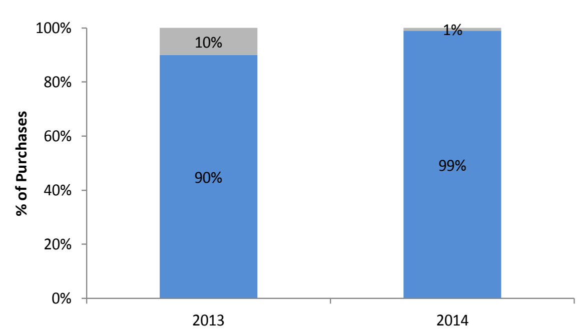
Source: FICCI-KPMG, Deutsche Bank

Figure 20: Mobile forecast to grow from c60% of internet users to c70% in five years, at c22% CAGR 2013-18E



Source: FICCI-KPMG, Deutsche Bank

Figure 21: Smartphones account for the majority of new purchases in India – 2013 vs. 2014



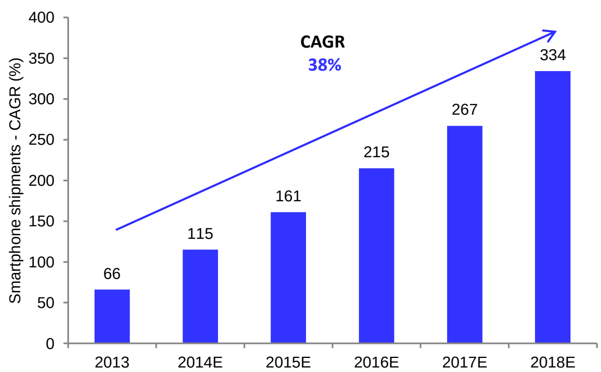
Source: Deutsche Bank (Brian Modoff, Signal to Noise—India Consumer Handset Survey, 08.083.14)

Speed and access to information on the go are the primary drivers of the proliferation in mobile internet usage. IAMAI-IMRB estimates that the amount spent on mobile internet as a percentage of the total amount spent on mobile grew from 43% in 2012 to 45% in 2013.

India shows strong growth in mobile…particularly 3G and smartphones

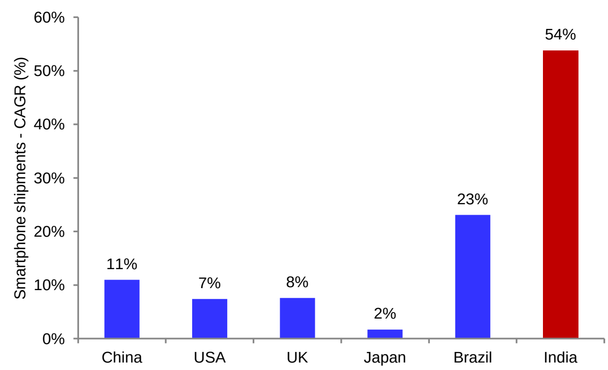
Among the key developed and developing countries, India is expected to witness the fastest growth in smartphone shipments. This will be one of the primary catalysts for growth of e-commerce, classifieds, and mobile advertising business in India. As average selling prices for smartphones continue to decline, smartphone shipments are expected to surpass feature phone shipments by the year 2016. At present, feature phones continue to account for a sizable share of c.85% of total handset shipments in India.

Figure 22: Use of internet-ready smartphones in India is expected to increase at 38% CAGR in 2013-18E…



Source: IDC and Deutsche Bank

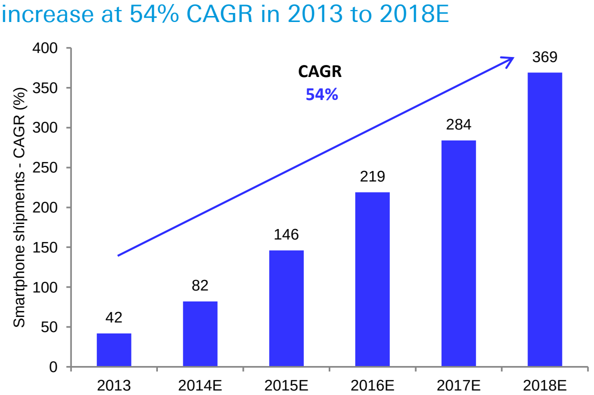
Figure 23: …with smartphone growth in India to handily outpace that in developed markets and China



Source: IDC and Deutsche Bank

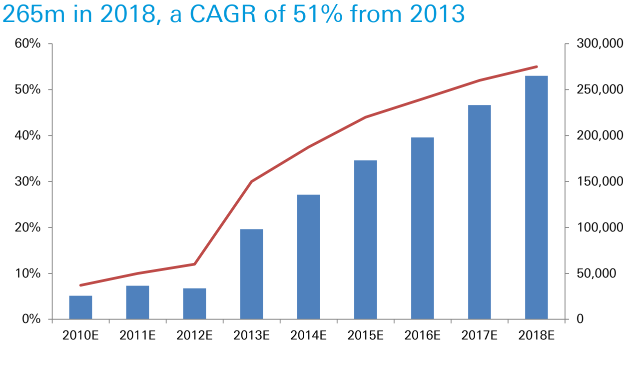
In addition, 3G adoption is at an inflection point in India. Three years after its launch, 3G has finally started to pick up in India. Investments by telecom operators in improving the infrastructure, affordable handsets, a decline in 3G rates, and aggressive marketing by telecom companies act as drivers for growth in 3G services. India currently has about 42m 3G connections, which is expected to shoot up to around 369m by the end of 2018.

Figure 24: Usage of 3G subscribers in India is expected to increase at 54% CAGR in 2013 to 2018E



Source: FICCI-KPMG, Deutsche Bank

Figure 25: Smartphone shipments forecast to reach 265m in 2018, a CAGR of 51% from 2013



Source: Deutsche Bank (Brian Modoff, New Handset Subscriber Model, 06.23.14)

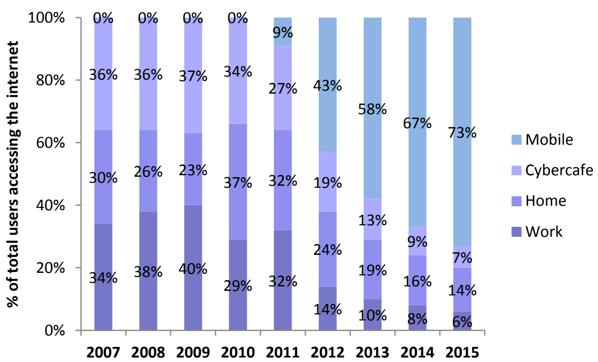
Playing leapfrog in mobile

Mobile is a leapfrog technology that has allowed hundreds of millions of people who have never owned a PC to access the internet. This dynamic has been most pronounced in emerging markets, where PC penetration is low and the falling cost of smartphones has increased penetration and expanded the market.

Mobile as the primary access point to the internet

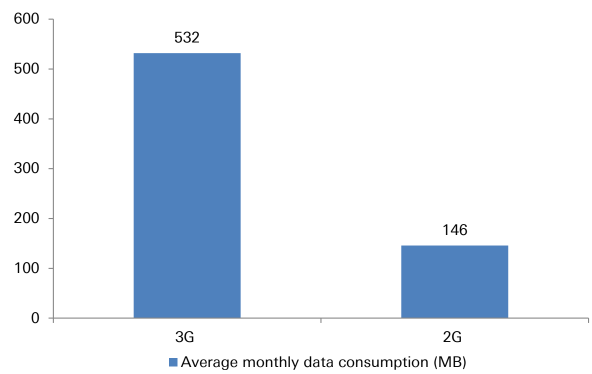
We've seen this dynamic play out in China, where in addition to e-commerce, gaming, and messaging, consumers use their smartphones to do everything from hailing a taxi to investing their savings and buying insurance (for more on this topic, please see our note *Exploring Facebook's Potential Payment Opportunities,* published on 26 September 2014).

Figure 26: Mobile to account for c70% of internet access by device type



Source: World Bank, IAMAI, Aranca, Deutsche Bank

Figure 27: 3G a key enabler for mobile internet in India… Monthly data usage: 3G vs. 2G



Source: Nokia Networks (NSB) and Deutsche Bank

Usage / behavior

While smartphone adoption is encouraging, increasing usage is another matter. In *Re/code,* Anand Chandrasekaran, Bharti Airtel's Chief Product Officer, estimates that only 10-15% of India's 900M mobile users have ever tried using the internet on their phones. Bharti Airtel has 206M mobile customers across India. Chandrasekaran is positive on the Indian mobile opportunity and believes that (1) the rollout of 4G networks, (2) increased adoption of apps, and (3) more help for customers to visualize the data they are using will help increase mobile internet usage. Currently, Bharti Airtel offers 4G in about 15 cities across the country, but the company is working to expand the network throughout the country.

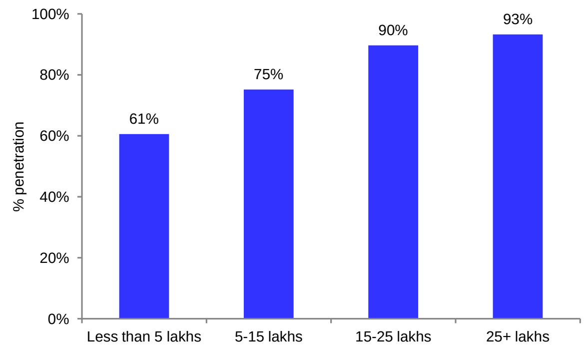
3G as a key enabler for internet browsing

There are indications that the increase in smartphones is boosting data usage in India. A study published by Nokia Networks (NSN) in March showed that in 2013 data generated by 2G and 3G devices increased 87% yr/yr in India. This growth was driven by 3G, up 146% yr/yr, which accounted for 43% of total network traffic. In December 2013, a 3G user consumed 532MB of data compared to 146MB for a 2G user. In major urban areas, average data consumption per users is as high as 1GB per month. Additionally, the average Indian smartphone user consumes 3x more data than the typical feature phone user, according to Bharti Airtel. The combination of (1) increasing smartphone penetration and (2) better networks bodes well for mobile internet usage looking forward.

Thus while smartphone shipments appeared to reach an inflection point in 2013, we think data usage is only just starting to move up the S-curve, and we think this bodes well for the future.

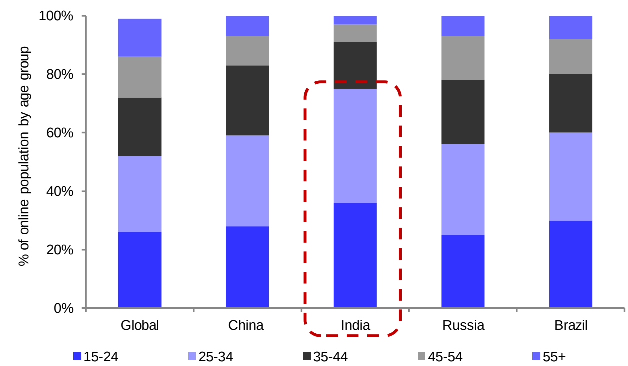
Unsurprisingly, smartphone penetration is strongest in the higher income demographic groups in India, as illustrated below.

Figure 28: Smartphone penetration is higher in the wealthier segments in India



Source: IAMAI, Deutsche Bank

Figure 29: c75% of mobile internet users in India are under 35 years old



Source: ComScore, Deutsche Bank

India's mobile internet population is younger

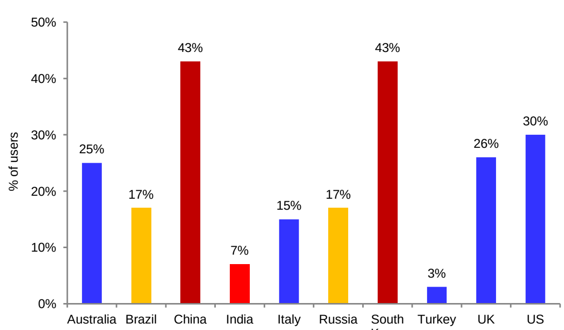
India is much more skewed towards younger mobile internet users compared to China (c75% under 35 years old in India vs. c60% in China).

Mobile shopping is nascent in India

The current penetration of mobile shopping is only c7% among smartphone users in India.

Today Indians do not generally shop via their mobile devices

Figure 30: Only 7% of mobile phone users shop via their devices



Source: IAMAI, Deutsche Bank

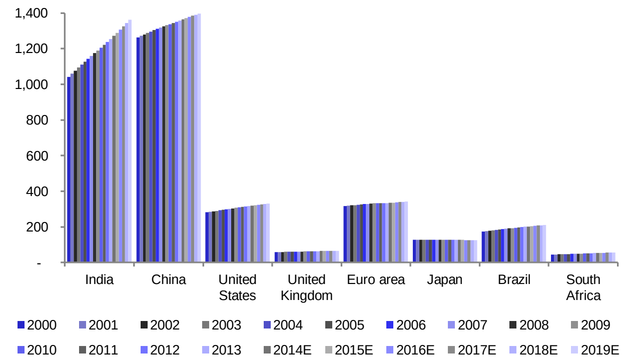
Demographics

India has a large population – most of it rural

India's population of c1.2bn is forecast to grow at 1.4% over the next five years, roughly double the rate of developed markets. Most of the population lives in rural locations across the country—c70% across age groups.

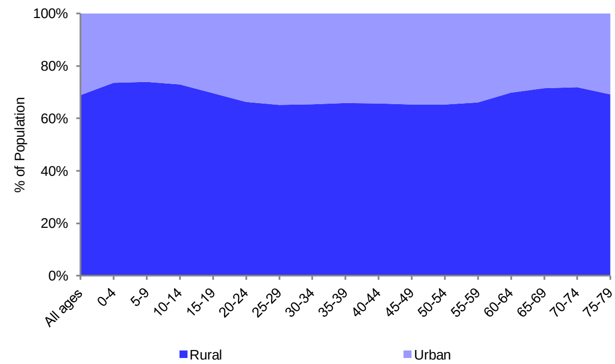
Large population that's mostly rural…

Figure 31: **Large population:** India's population of c1.2bn is forecast to grow c1.4% from 2014 to 2019E



Source: World Bank, Deutsche Bank estimates

Figure 32: **Mostly rural:** c70% of India's population lives in the countryside

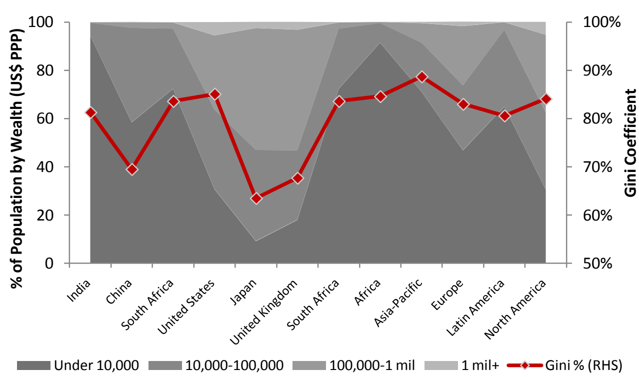


Source: Census Bureau of India, Deutsche Bank

Absolute wealth levels are not overwhelming when compared to other markets

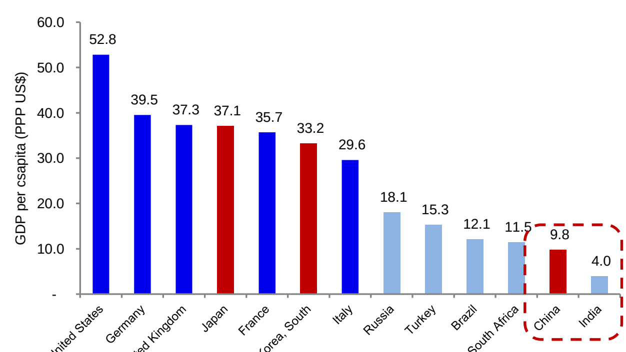
Over 90% of Indian households are estimated to have US$10,000 or less in wealth, with comparable e-commerce markets like China at 58% and the US at 31% of their respective populations.

Figure 33: **Concentrated wealth:** c90%+ of the Indian households have $10,000 or less in household wealth



Source: OECD, Aus Bureau of Statistics, Eurostat, Bank of Japan, IMF, US Fed Reserve Bank, South African Reserve Bank, Deutsche Bank

Figure 34: Overall **GDP per capita in India is c40% that of China** (2013 estimates)…



Source: CIA factbook, Deutsche Bank

Average GDP per capita in India at cUS$4,000 PPP, roughly c40% that of China

Market estimates put average GDP per capita in India at cUS$4,000 in purchasing power parity terms. These levels are roughly c40% that of China for comparative purposes. In addition, we look for 5% growth per year in GDP per capita from 2013 to 2017E.

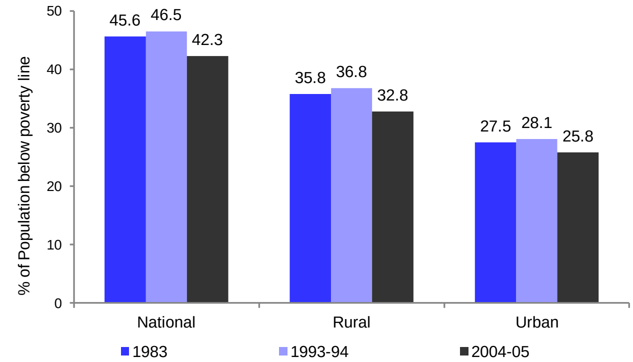
…with GDP per capita only c40% that of China and with lower levels of household wealth

Figure 35: …with **GDP per capita growth of c5%** forecast (over 2x developed markets but below China's 7%)

GDP per capita growth	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014E	2015E	2016E	2017E
Developed Countries														
United States	1.9	2.8	2.4	1.7	0.8	(1.2)	(3.7)	1.7	1.1	1.5	1.1	2.0	1.9	1.7
United Kingdom	3.5	2.6	2.5	2.0	2.6	(1.5)	(5.9)	0.9	0.3	1.1	1.1	1.7	1.7	1.7
Euro Area										(0.4)	0.8	1.0	1.3	1.6
France	0.2	1.8	1.1	1.8	1.7	(0.6)	(3.6)	1.2	1.5	(0.5)	(0.3)			
Germany	(0.4)	1.2	0.7	3.8	3.4	1.3	(4.9)	4.2	3.3	2.4	0.2			
Italy	(0.5)	1.1	0.4	1.9	1.2	(1.8)	(5.9)	1.4	0.3	(2.6)	(2.3)			
Asian Countries														
China	9.3	9.4	10.7	12.0	13.6	9.1	8.7	9.9	8.8	7.7	7.3	7.0	6.7	6.7
Korea, Rep.	2.4	4.5	3.7	4.7	5.0	2.1	0.2	6.0	2.9	1.8	2.5			
Japan	1.5	2.3	1.3	1.7	2.2	(1.0)	(5.4)	4.7	(0.7)	1.7	1.7			
BRICS														
Brazil	(0.2)	4.4	2.0	2.9	5.1	4.2	(1.2)	6.6	1.8	1.3	(0.7)	(0.1)	1.1	1.9
Russian Federation	7.8	7.8	6.9	8.6	8.8	5.4	(7.8)	4.2	3.8	3.3	1.1			
South Africa	1.6	3.2	3.9	4.2	4.2	2.3	(2.8)	1.8	2.2	0.9	0.4	1.7	2.1	1.8
Turkey	3.8	7.9	7.0	5.5	3.4	(0.6)	(6.0)	7.8	7.4	0.8	2.8			
India	**6.2**	**6.3**	**7.7**	**7.7**	**8.3**	**2.5**	**7.1**	**8.8**	**5.3**	**3.3**	**4.1**	**5.1**	**5.1**	**5.6**

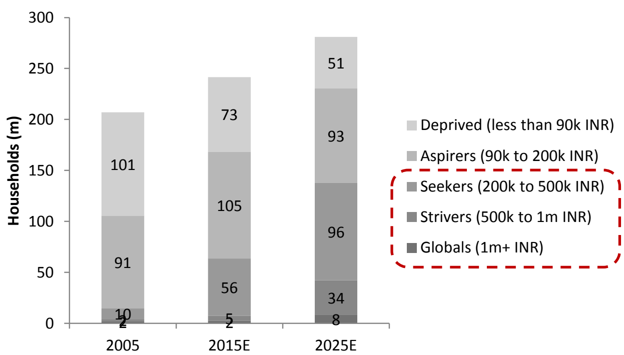
Source: World Bank, Deutsche Bank estimates

Figure 36: Rural sections of the country tend to skew poorer (i.e. **Wealth concentrates in the cities**)



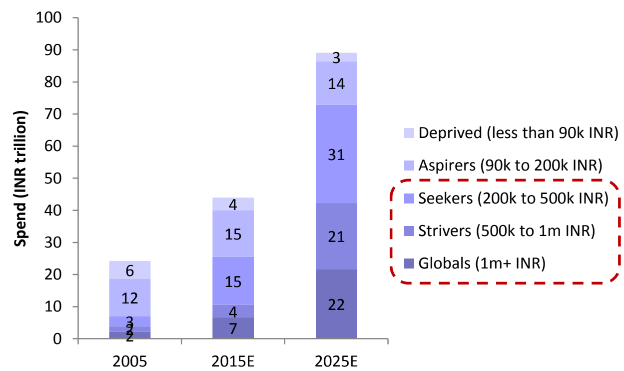
Source: *World Bank, Deutsche Bank*

Figure 37: c60m+ target households for e-commerce (c25% of total) in India based on wealth levels



Source: Netscribes, NCAER, MGI India

Figure 38: These households represent c60% of retail spend in 2015E, forecast to grow to c80% by 2025



Source: Netscribes, NCAER, MGI India

E-Commerce likely to target wealthier demographics

e-Commerce could target the wealth demographics

Wealth concentration (25% of households account for ~60% of spend) and limited broadband penetration (c11%) could potentially create a two-tier market: 1) wealthy cohorts, where online spend centers on consumer discretionary items (electronics, clothes, etc) and where the longer-term opportunity is in migrating their online spend to include consumer staples (diapers, consumables, food), and 2) the mass-market, where spend levels are likely to be lower but increasing mobile penetration, a lack of formal retail/alternatives, and sheer numbers could prove formidable over time.

E-Commerce market cap per internet user today

Indian e-commerce market cap per user is 1/15th of that in developed markets and 1/10th of that in APAC

In Western markets, the market cap for the e-commerce sector on a per internet user basis is nearly 15x that of India. The ratio is nearly as stretched even when compared with similar emerging markets such as APAC, where the e-commerce market cap per user is nearly 10x that of India. This indicates the huge opportunity that remains for e-commerce penetration and growth in India. As discussed, India has over 200m internet users but less than 10% of those users purchase online. In the next few years (and decades), more retail spend is likely to shift online, allowing India to close the gap with global peers.

Figure 39: E-Commerce market cap per internet user by region

All E-Commerce Ecommerce Companies	Market Cap USD ($m)	GMV 2014 ($m)
North America + Europe, 310m Internet users in NA & 560m in Europe		
Amazon	147,583	155,259
eBay	67,516	89,985
Wayfair	1,686	1,277
Zulily	3,200	1,220
Groupon	4,849	7,602
ASOS	3,245	1,823
Zalando	6,872	2,800
AO World	1,910	786
Yoox	1,408	666
Boohoo	409	246
All others	15,000	
Total NA + Europe	**253,676**	**261,663**
Per user Mcap & GMV	**$292**	**$301**
Latin America, 275m Internet users		
MercadoLibre	5,702	7,294
B2W Digital	2,187	3,765
Cnova	2,753	5,915
All others	5,000	
Total LatAm	**15,643**	**16,973**
Per user Mcap & GMV	**$57**	**$62**
APAC, 1.4B Internet users		
Alibaba	218,895	368,652
JD.com	34,799	18,346
Vipshop	12,854	3,653
All others	15,000	
Total APAC	**281,548**	**390,651**
Per user Mcap & GMV	**$201**	**$279**
India, 214m Internet users		
Just Dial	1,796	
Infoedge	1,832	
MakeMyTrip	1,034	1,261
All others		8,000
Total India	**4,662**	**9,261**
Per user Mcap & GMV	**$22**	**$43**

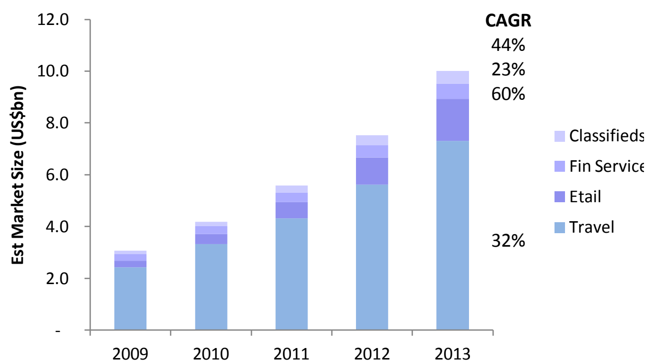
Note: * Aggregate private ecommerce companies in their respective markets
Source: Deutsche Bank, Market Cap as of Jan 29 2015

E-Commerce in India

E-Commerce overall annual market growth of c35% to 40%: Market estimates put recent historical growth at c35% from 2009 to 2013, with e-tail the fastest grower at c60% yr/yr. Forecasts look for this to accelerate to c40% yr/yr from 2013 to 2018. We caution that market growth is partly dependent upon consumer behavior as well as marketing and promotional spend.

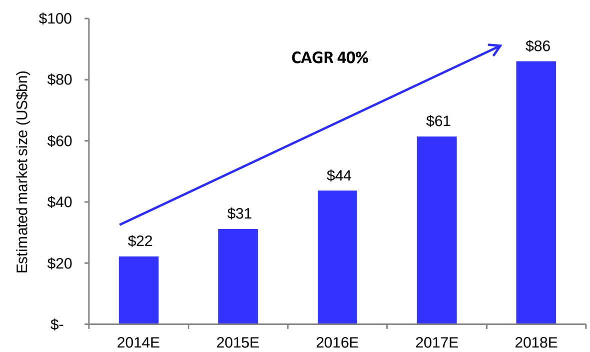
E-Commerce estimated to reach cUS$86bn by 2018

Figure 40: Overall market growth in e-commerce was c35% from 2009 to 2012…



Source: : eMarketer, IAMAI, Deutsche Bank, , exchange rate applied to INR estimates of 61.5 INR/USD to calculate US$ estimates

Figure 41: …with growth set to accelerate to c40% from 2013 to 2018E



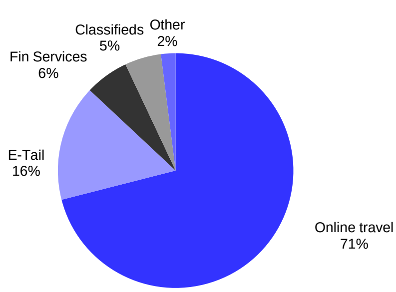
Source: NetScribes, Deutsche Bank, exchange rate applied to INR estimates of 61.5 INR/USD to calculate US$ estimates, figure includes online travel and other services

Travel still accounts for most of e-commerce spend today. Estimates put online travel (rail, air, bus, hotel, and tours) at c71% of e-commerce spend, with B2B / B2C e-commerce at c5%. Within online travel, **air travel is c50-60% of spend.**

Most online spend today is focused on travel

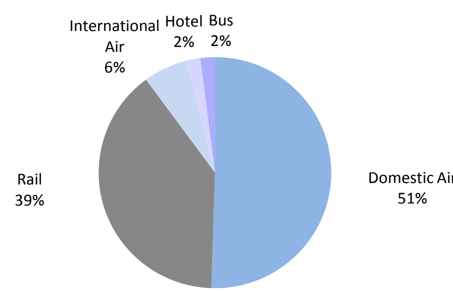
Online purchasing for bus travel is small compared to air travel. Only c2% of online spend for travel is on bus tickets.

Figure 42: Online travel 70%+ of e-commerce spend today in India…



Source: World Bank, IAMAI, Aranca, Deutsche Bank

Figure 43: …with bus travel a very small portion of the online travel spend

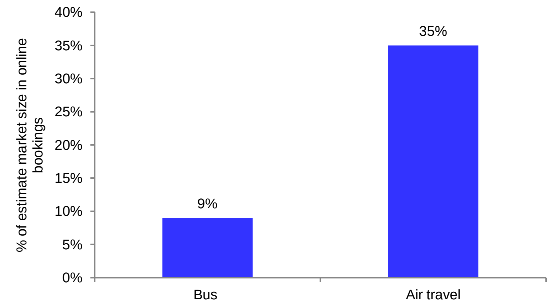


Source: World Bank, IAMAI, Aranca, Deutsche Bank

Penetration rate in spend on bus travel is small relative to air travel. RedBus estimates that only c9% of spending on bus tickets is through online bookings, compared to c35% of air travel in India.

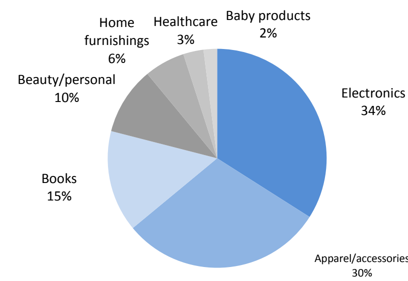
B2C e-tail (physical goods) is nascent: Within B2C e-tail, three categories (consumer electronics, apparel, and books) make up c80% of current spend.

Figure 44: Online travel 70%+ of e-commerce spend today in India



Source: World Bank, IAMAI, Deutsche Bank

Figure 45: c80% of spend within B2C e-tail is in three categories – electronics, apparel, books/media



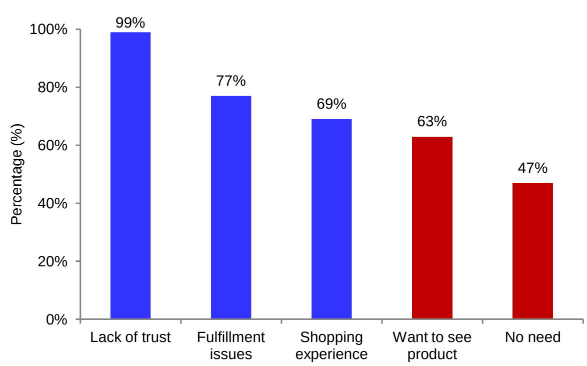
Source: IAMAI, Deutsche Bank

Challenges

Why don't people shop online?

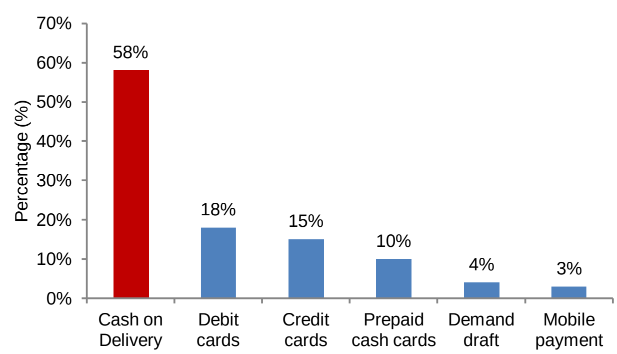
Adoption of e-commerce is driven by multiple factors, including the value proposition to customers, enabling technology (ease of payment, interface), and consumer attitudes / fears about shopping online.

Figure 46: Reasons given why people don't shop online



Source: IAMAI-IMRB, Deutsche Bank

Figure 47: Cash on delivery still prominent among delivery methods



Source: IAMAI, Deutsche Bank estimates

Lower conversation rates: We estimate that current conversion rates (visitors to purchasers) are sub 2-3%. For reference, other high-growth emerging markets like China enjoy rates of c3.5%. This is both an opportunity and a challenge. We estimate there are 200m+ internet users in India, of which c90m visit online shopping sites and 14-15m actually purchase items online.

Conversion rates are low by comparison

Competition from portal/search players: JustDial's (TP INR1800, Buy) new business strategy includes marketplace/e-commerce offerings as opposed to its traditional advertising revenues from search.

Gratification/interaction: E-Commerce transactions don't allow a consumer the ability to touch/try goods, or physically return goods. There are no shop assistants to guide purchasing and consumers cannot bargain online.

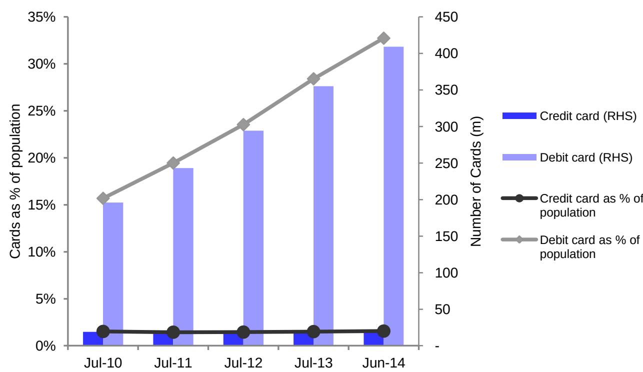
Low penetration of credit cards: Market estimates suggest there are c20m credit cards in India (out of a population of c1.3bn), with penetration of less than c1% of households.

Card penetration is low in India – this is a challenge

Use of debit cards: c95% of transactional value on the 400m+ debit cards is through automated teller machines (ATM), not points of sale (POS). Thus, the potential opportunity for displacing retail sales through debit cards may be smaller than debit statistics may suggest.

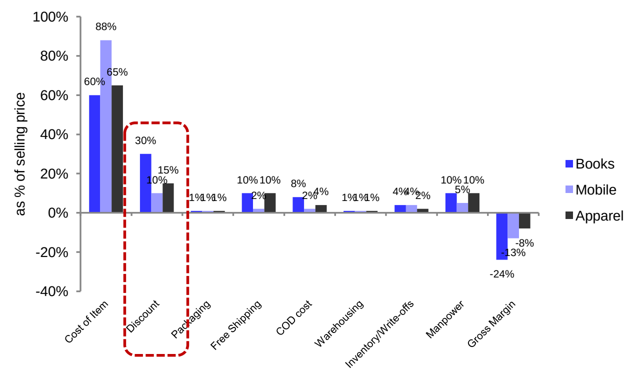
Online wallets are a challenging opportunity: Extremely low levels of credit card penetration and usage behavior in debit cards could indicate a challenging opportunity for online merchants to establish online wallets (where consumers can store payment details, e.g. Paypal, Amazon Payments, etc).

Figure 48: The number of credit cards is flat at c20m, while debit cards have grown c20% yr/yr



Source: company presentation, Deutsche Bank estimates, population assumption 1.25bn people

Figure 49: Discounting can lead to negative gross margins, which can only partially be improved by scale



Source: company presentations, Deutsche Bank estimates

Small baskets can frustrate profitability: Some costs of fulfillment are driven by size and weight, which do not necessarily scale with purchase price. This can lead to lower profitability for marginal sales/smaller shopping baskets.

Competitive advantage in e-commerce

We can take lessons from how Western market e-commerce evolved as a proxy for what could happen in emerging markets globally (including India). Key success factors for e-commerce businesses include the following:

1) **First mover advantage (or "first to scale" advantage) is huge:** Brand-awareness matters in e-commerce and attempts to acquire customers inorganically against scaled businesses with strong brands and high levels of organic traffic could be extremely costly and may not be successful.

2) **Localization:** Another key reason local companies win vs. larger international players is their ability to tailor service and product offerings to local markets.

3) **Quality of management:** In consumer internet, the team usually matters most at the formation phase of a market. Better management teams should be able to out-execute the competition.

4) **Financing:** Scale (brand, logistics, customer base) requires money and thus financing can be a source of competitive advantage.

Figure 50: Overview of Indian e-commerce by segment

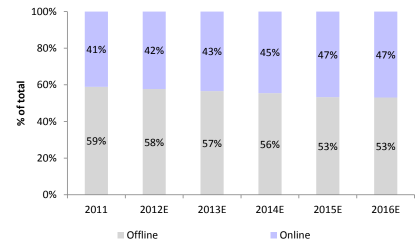
Sector	Companies	Example companies elsewhere	Key success factors	Target Margins	Comments
Marketplace	Flipkart Snapdeal Amazon India Ebay.in	eBay Ratuken	Gross Merchandise Value Number of merchants Number of transactions Take rate Payment options	- Gross 70-80% - EBIT 20-25%	• Regulations prevent FDI in B2C multi-brand retail • 1PL B2C e-commerce plays forced to morph their models (some pure marketplace while some create Indian subsidiary / partner companies) • Quest for GMV/customer base can lead to loss leaders / negative gross profit • Convenience / fulfillment as the next KPI
General eTail	Flipkart (old model)	Amazon	Logistics / 3PL # of SKUs / Product selection Cost of customer acquisition	- Gross 25-30% - EBIT 4-6%	
Vertical eTail	Myntra (Flipkart) Jabong (Rocket) Firstcry DIGIworld	Asos Barneys Diapers.com B&H Photo	Cost of customer acquisition Working capital Build of user base	- Gross 40%+ - EBIT 7-12%	• Better margins generally speaking • Curation / community element • Combination of white-label and OEM brands
Horizontal Online Classifieds (OC)	OLX Quikr Sulekha ClickIndia Justdial	Craigslist OLX 58.Com Avito	User base Cost of customer acquisition Conversion rates to paying user	- Gross 80-90% - EBITDA 25-50%	• Network effects / 'winner takes all' • Stronger brand later on but lower average value of customer vs vertical plays
Vertical OC – Matrimony	Shaadi, JeevanSathi	Match.com Chemistry.com Jdate	User base Traffic Cost of customer acq		• Somewhat specific to culture • Paid memberships
Vertical OC – Auto	Carwale Cardekho Indian Auto	Autotrader.com Cars.com Carsales.com	# of dealerships signed up Cost of customer acquisition Add-on financial services		• Subscription fees / models from dealers • Lead generation / paid listing (advertising)
Vertical OC – Real Estate	99acres MagicBricks Indiproperty	Trulia / Zillow Property24 REA Group			• Paid listings • Fees from developer s, builders, brokers
Vertical OC – Jobs/Recruitment	Naukri Monster TimesJobs	Monster.com Linkedin			• Job listings • Employer branding / access to CV databases
Payment	PayU Paisa (EBay)	Paypal Mercado Pago Google Wallet Amazon Payments	Transaction volumes Take rate	- Gross 50-60%	• Cash-on-Delivery still dominant method • Credit card under-penetrated into population • Most buyers uncomfortable to buy online with debit cards
Travel	Redbus / Ibibo Cleartrip Makemytrip IRCTC	Expedia Kayak Travelocity Swissrail	User base Take rate / margin from OEMs OEM buy-in / signups	- Gross 90%+	• Travel is most of Indian e-commerce today • Bus still under-penetrated • NPN to link up Ibibo and Redbus

Source: company financials, Deutsche Bank estimates

The online classifieds market in India

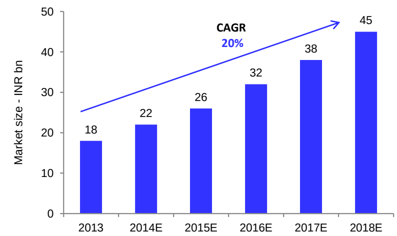
The online classifieds market is being driven by the strong growth in online advertising, which is expected to increase from INR15.4bn in 2011 to INR55.1bn in 2015. Favorable demographics, new-age entrepreneurs, and a growing services sector are key to the online classifieds market in India. In addition, the proliferation of tablets and mobile devices is playing an important role in the continued growth of online classifieds. Online properties such as websites, mobile sites, apps, games, videos, etc. actively support the online classifieds industry.

Figure 51: Classifieds – the migration from offline to online



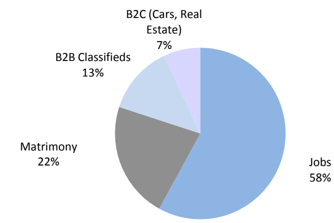
Source: NetScribes, Deutsche Bank

Figure 52: Size estimates for the Indian online classifieds market



Source: FICCI-KPMG, Deutsche Bank

Figure 53: Online classifieds appears to be mostly a jobs market



Source: Crisp Idea, Deutsche Bank

Figure 54: Online classified models in India

Strategic segments	Categories	Key players	Revenue model	Growth drivers
Horizontal Classifieds	General (non category specific)	Olx, Quikr, Sulekha, ClickIndia, Justdial	Online advertising, featured listings, paid listings and value added services	▪ Growing internet user base
Vertical C2C Classifieds	Matrimony	Shaadi, JeevanSathi, Bharatmatrimony	Paid memberships	▪ Growth in digital ad spend
Vertical B2C Classifieds	Auto	Carwale, Cardekho, India Automobile	Lead generation, paid listing, subscription fees from dealers, auto financing, auto insurance	▪ Young population/positive demographics
	Real estate	99acres, MagicBricks, Indiproperty	Paid listing, fees from developers, builders and brokers	▪ New ventures and growth in service sector
	Food and entertainment	Zomato, Burrp	Paid listings	
	Recruitment	Naukri, Monster, TimesJobs	Job listings, employer branding, access to database, VAS	

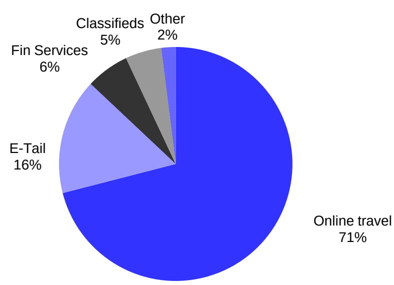
Source: FICCI-KPMG, Deutsche Bank

The online travel market

Online penetration in bus ticket sales at c6% today

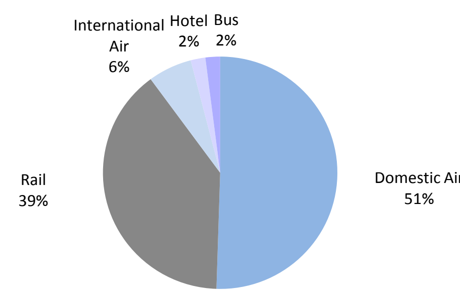
As highlighted earlier, online travel makes up most of the current e-commerce spend in India but bus travel (RedBus's traditional focus) accounts for a very small percentage of that. Moreover, the industry is under-penetrated as the company estimates that online tickets only account for c6% of bus tickets sold in India by value. Competitors within the online space are largely focused on air travel (Cleartrip, MakeMytrip (TP US$35, Buy)) and hotel bookings – an area that RedBus has ventured into recently. There is also a competitive offering in rail travel as the Indian Railway Catering and Tourism Corporation (IRCTC) provides an online ticketing portal. PhoCusWright estimates online travel bookings in India will grow at a 17% CAGR from 2012 to 2016, reaching almost US$13bn in 2016. The market is currently dominated by domestic air and rail.

Figure 55: Online travel is 70%+ of e-commerce spend today in India…



Source: World Bank, IAMAI, Aranca, Deutsche Bank

Figure 56: …with bus travel a very small portion of the online travel spend

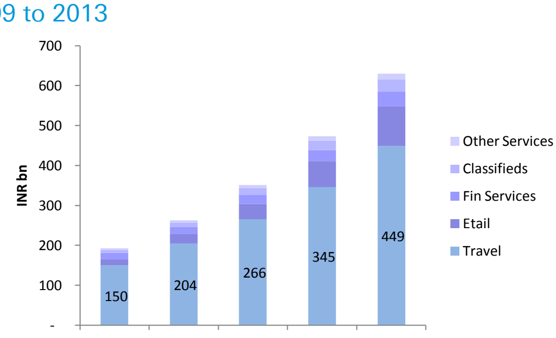


Source: World Bank, IAMAI, Aranca, Deutsche Bank

Trends in bus traffic

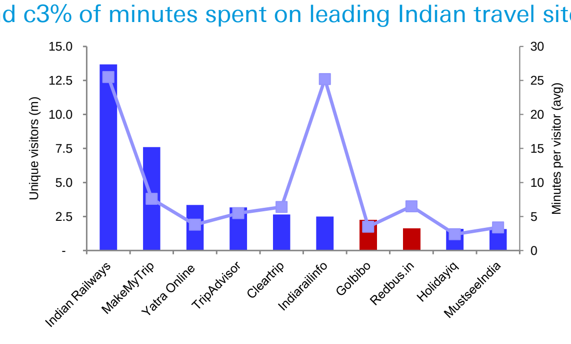
We believe that offline booking for bus travel is the key competitor for RedBus. Online penetration in bus ticket purchasing is low, partly because bus travel addresses less wealthy demographics with possibly lower levels of internet penetration and e-commerce experience, trust, or savviness. Moreover, the company estimates that c25% of customers are first time bus travelers.

Figure 57: Online spend on travel grew c30% yr/yr from 2009 to 2013



Source: eMarketer, IAMAI, Deutsche Bank

Figure 58: NPN collectively holds c10% of unique visitors and c3% of minutes spent on leading Indian travel sites

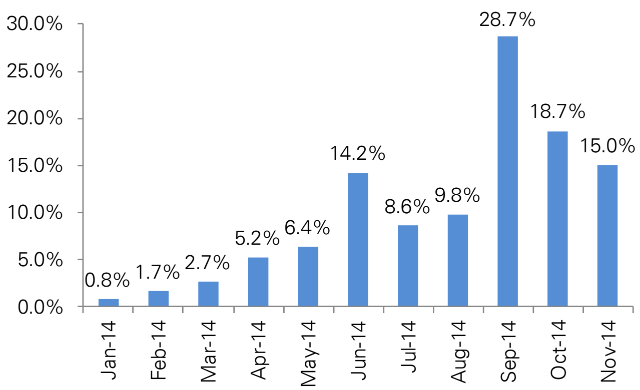


Source: comScore, Deutsche Bank as of June 2013

Indian air market on the mend

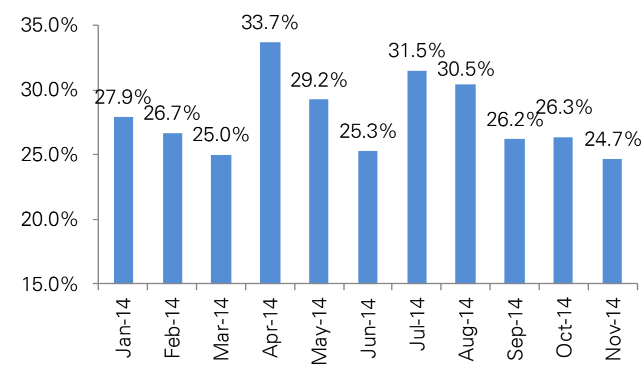
Headwinds in the Indian air market have dissipated and recent data has been encouraging. Domestic traffic trends from the DGCA (Directorate General of Civil Aviation) suggest robust domestic traffic growth of 15% yr/yr in November 2014, despite tough comps (Figure 59). Trends in international passenger traffic have also been strong (Figure 60).

Figure 59: Indian domestic traffic growth yr/yr



Source: DGCA, Deutsche Bank

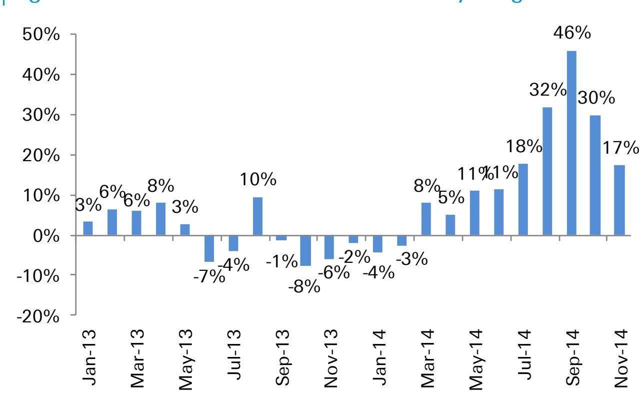
Figure 60: Indian international traffic growth yr/yr



Source: DGCA, Deutsche Bank

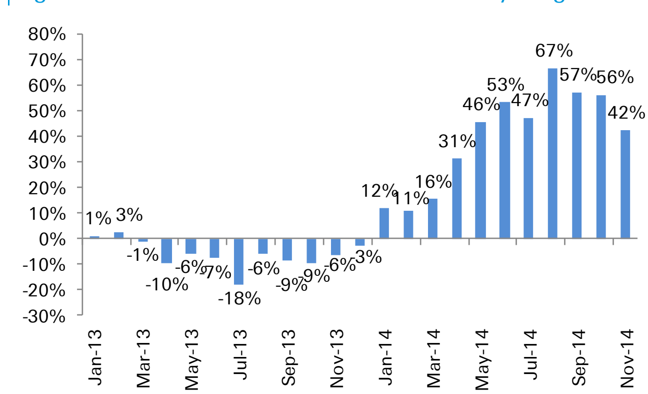
Moreover, the two-year growth trends show significant upside in September, in part as a result of airfare wars between the airlines to capture market share. In September, stacked two-year passenger growth was 46% domestically and 57% internationally (**Figure 61** and **Figure 62**).

Figure 61: Indian domestic traffic – two-year growth



Source: DGCA, Deutsche Bank

Figure 62: Indian international traffic – two-year growth



Source: DGCA, Deutsche Bank

Foreign carriers could help spur development

India has also taken strides to open the domestic air market to more foreign competitors, albeit slowly. The first foreign player to fly in India was Air Asia. We believe the increase in supply provided by Air Asia is minimal at this point, though it should grow with time. The *Economic Times* recently reported that Air Asia plans to introduce ten more planes to India in 2015, bringing its fleet there to 15. The company also plans to announce two new routes soon, though it didn't comment on the specifics.

In addition to Air Asia, in July the DGCA granted approval to Vistara, a joint venture between the Tata Group and Singapore Airlines. Vistara plans to have a fleet of 20 A320s operating domestically within five years. The DGCA also announced that it was planning to grant additional licenses to new air operators within India.

According to a report published by the Center for Asia Pacific Aviation, India's domestic air passenger traffic is expected to grow to 175M in 2021 from 60M in 2013. While the near-term impact of new air operators is likely to be limited, opening the Indian air market to more foreign participants should benefit its development.

SpiceJet situation bears watching but appears on track for financial injection

One near-term risk to MakeMyTrip is SpiceJet's precarious financial situation. SpiceJet's financial crisis came at a time when the Indian air industry was still recovering from the aftereffects of Kingfisher Airline's bankruptcy. Kingfisher's bankruptcy was very disruptive to air travel in India and some investors fear that SpiceJet might have a similar fate.

Prior to its recent financial troubles, SpiceJet had a significant market share in the domestic airline segment (~18%) and a collapse of the company could result in higher airfares and lower traffic growth. The sudden liquidity squeeze at SpiceJet led to cancelled flights, oil companies and airport authorities denying credit and demanding the company clear its dues, and delayed employee payments and terminations. Amid these issues, SpiceJet has lost market share recently. According to the *Economic Times*, a cash crunch led the carrier to cancel over 1,800 flights in December and SpiceJet is currently operating 230 flights per day, compared to 345 per day in July.

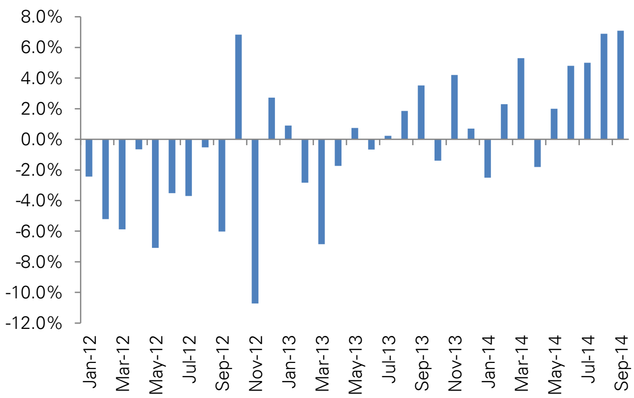
To save SpiceJet from its woes, its co-founder, Ajay Singh, who exited the company in 2010, has returned to take control. SpiceJet's change of ownership is likely a positive for the industry, as a group of investors, led by Ajay Singh, presented a revival plan to buy out the entire stake (~58%) of Kalanithi Maran and KAL Airways, its current owners. The revival plan includes fleet rationalization, management changes, and employee rationalization, to name a few. Recently the revival plan has been approved by the Civil Aviation Ministry and the transfer of ownership is under review by stock market regulators.

However, troubles continue to mount as aircraft leasing companies are cautious and are taking precautionary measures by terminating lease agreements to planes given to SpiceJet. BOC Aviation, an aircraft leasing company, has recently terminated three planes leased to SpiceJet and seeks clarity from the DGCA on the airline's future course of action. Any meaningful capacity reductions could lead to higher ticket prices, reducing volumes in India and hurting MakeMyTrip's air segment.

Hotel data trending in the right direction

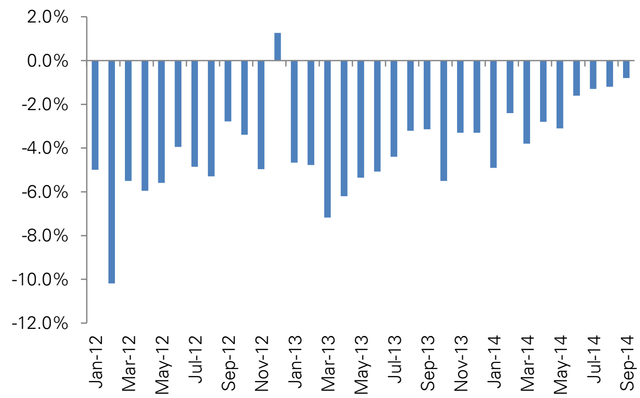
While hotel data is not as robust as air data, they are moving in the right direction. Occupancy rates have been improving, reaching 59% in September, up 7ppts yr/yr (Figure 63). While ADRs continue to decline on a yr/yr basis, the magnitude of these declines has become less severe in recent months (Figure 64). We estimate that hotel bookings will grow to 33% of MakeMyTrip's booking mix and 48% of net revenue in FY-15, compared to 25% and 38%, respectively, in FY-14, a positive given the segment's higher take rates compared to air.

Figure 63: Hotel occupancy rates (yr/yr)



Source: STR and Deutsche Bank

Figure 64: ADR growth (yr/yr)

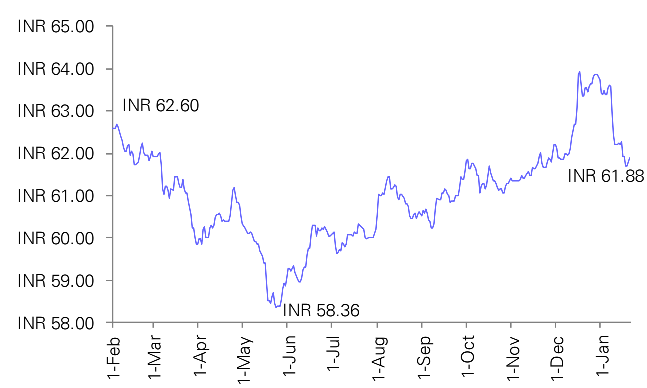


Source: STR and Deutsche Bank

FX and oil impact

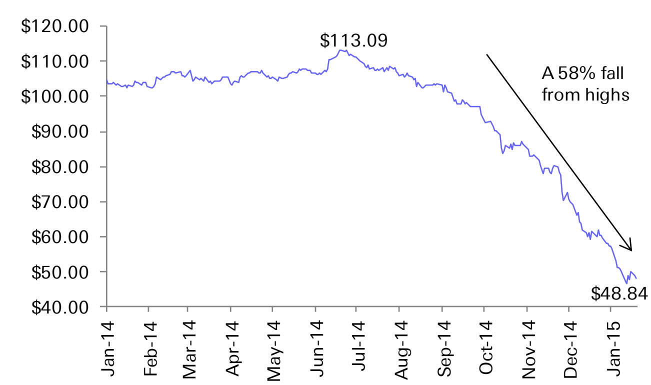
After a bout of volatility earlier in 2014, the Indian Rupee has leveled off in the low 60s (**Figure 65**). Our FX strategy team expects the Rupee to maintain these levels, with a forecast of 63 in 3Q15 compared to a spot rate of 61. Additionally, oil prices have been declining since July, a positive for airlines and consumers (**Figure 66**). As a result, the Indian government has cut jet fuel prices by 4%, effective October 2014. This could result in lower ticket prices and consequently higher air demand and/or more profitable airlines.

Figure 65: USD/INR movement



Source: Oanda.com, Deutsche Bank

Figure 66: Brent crude oil movement



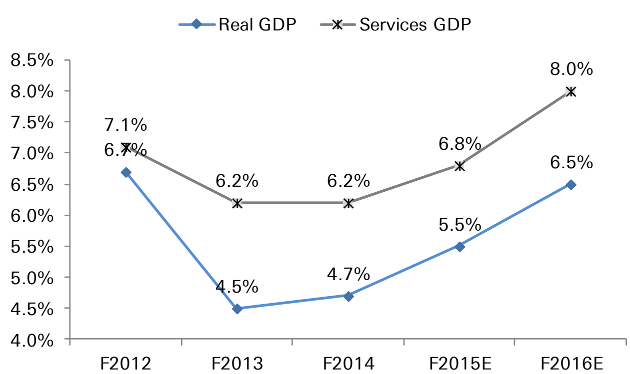
Source: Thompson One, Deutsche Bank

Supportive macro trends

From a macro perspective, our Asia Pacific economists remain upbeat on India. They forecast 5.5% GDP growth for F2015 and 6.5% growth in F2016 (Figure 67). At the same time, they are forecasting a moderation in inflation going forward due to stable food and commodity prices (Figure 68). The combination of higher growth and lower inflation could boost consumer confidence and foster demand for travel. We think this positive macro backdrop bodes well for Indian travel spending and MakeMyTrip.

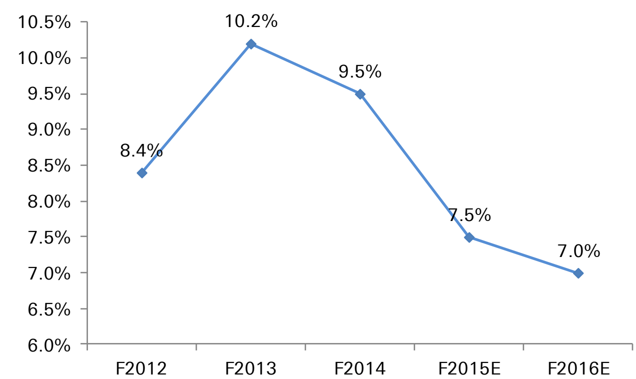
On 15 January, the Reserve Bank of India (RBI) reduced its benchmark interest rate 25bps to 7.75% in a surprise move. The motivation for this appears to be tame inflation data, with inflation of 5% in December below the RBI's unofficial target of 6%. What's more, while the slump in commodity prices is hurting many emerging countries, India stands to benefit from lower commodity prices as it is a net importer. For example, India imports 80% of the oil it consumes. Lastly, even as the World Bank slashed its global growth estimate for 2015, it maintained its forecast of 6.4% GPD growth for India. We see manageable inflation, declining interest rates, and lower energy prices creating a favorable environment for the Indian consumer.

Figure 67: GDP growth rate in India – DB forecasts



Source: DB APAC Economics team, Deutsche Bank

Figure 68: CPI yr/yr average



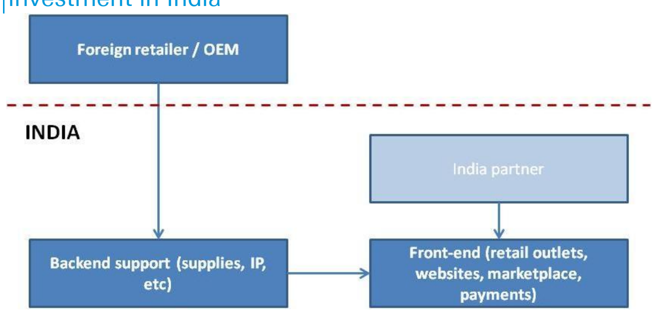
Source: DB APAC Economics team, Deutsche Bank

Regulations

Regulation prevents traditional 1PL B2C e-commerce for foreign entities

Except for sectors of strategic importance, there is a small list of sectors in which FDI is currently prohibited. Presently, this list includes retail trading (except for 'single brand' retail trading). For wholesale trading ('cash-and-carry'), 100% FDI is permitted without government approval. However, the government has prescribed certain operational guidelines for companies in the wholesale trading sector. Wholesale trading is defined as the sale of goods or merchandise to retailers, industrial, commercial, institutional, or other professional business users, or to other wholesalers and related subordinated service providers. The test for determining whether a sale is wholesale or not is the type of customer to whom the sale is made, and not the size and/or volume of sales. E-Commerce activities are also governed by the principles mentioned above, i.e. companies can engage only in B2B e-commerce trading and not in retail trading. This has led online merchants to adopt marketplace-like models. In addition, most e-commerce companies and multi-brand retail trading companies have taken the B2B route for raising foreign capital or formed strategic joint ventures with foreign retailers. An example structure is given in Figure 69.

Figure 69: Schematic for foreign retailer / e-commerce investment in India



Source: FICCI-KPMG, Deutsche Bank

Taxation

Taxation in India is fragmented, encouraging a decentralized logistics network.

Deficiencies in logistical infrastructure are constraints, as are tax considerations. India levies multiple taxes, including a Central Sales Tax (when goods cross state borders) and VAT (when goods are sold within a state where a warehouse is located). This, in turn, encourages a decentralized network with relatively small state-based assets (vs. larger facilities/more efficient operations). The planned implementation of a Goods and Services Tax (GST) could encourage consolidation of distribution networks and growth of larger warehouses.

Uniform tax scheme in form of GST scheduled to be introduced in 2016

A Goods and Services Tax is a comprehensive tax levy on the manufacture, sale, and consumption of goods and services at a national level, scheduled to be introduced in 2016. Through a credit mechanism, this tax is collected on value-added goods and services at each stage of sale or purchase in the supply chain, allowing the GST paid on the purchase of goods and services to offset the GST payable on the supply of goods or services. The end consumer bears the tax as the last person in the supply chain. The hope is that GST could improve tax collection / economic development by breaking down tax barriers between states and integrating India through a uniform tax rate.

Rating
Buy

Sub-Saharan Africa
South Africa

Media

Company
Naspers

Reuters	Bloomberg
NPNJn.J	NPN SJ

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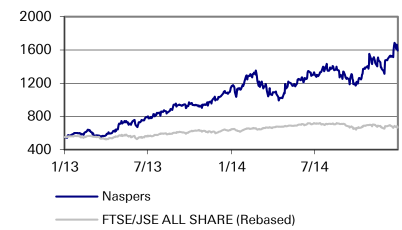
Price at 16 Jan 2015 (ZAR)	1,560.00
Price Target (ZAR)	1,785.00
52-week range (ZAR)	1,704.00 - 992.00

Price/price relative



Performance (%)	1m	3m	12m
Absolute	15.6	32.3	35.4
FTSE/JSE ALL SHARE	2.2	4.4	3.7

Source: Deutsche Bank

Stock data

Market cap (ZAR)(m)	667,682.0
Shares outstanding (m)	401
Free float (%)	–
FTSE/JSE ALL SHARE	48,458.2

Source: Deutsche Bank

Key indicators (FY1)

ROE (%)	19.9
ROA (%)	10.5
Net debt/equity (%)	22.8
Book value/share (ZAR)	194.1
Price/book (x)	8.0
Net interest cover (x)	1.0
EBIT margin (%)	2.8

Source: Deutsche Bank

India - large potential market, but not a gimme

We reiterate our Buy recommendation, updating our model for H1FY15 results

Naspers' investment case remains attractive to us: it is a leading South African and emerging market media holding conglomerate with a diversified portfolio of media and internet holdings. We see the company continuing to invest in both its e-commerce and Pay TV initiatives, suppressing near-term profitability. This growth does not come without risks. Our FY15 diluted core HEPS estimate is R29.67 and our target price for Naspers is R1785, applying a sum-of-the-parts valuation and assigning a higher valuation to Naspers' stake in Tencent. Buy.

What does Naspers own in India?

Investments include c18% of Flipkart (a horizontal/broad-based B2C e-commerce site), c80% of Ibibo / RedBus (online bus and hotel bookings), and c100% of OLX India (online classifieds). We think that RedBus has a compelling market position(better gross margins, online travel accounts for most of e-commerce spend today, less direct/severe competition), although the sheer size of Flipkart and its market opportunity could capture investor mindshare and headlines.

No reward without risk / conservative forecasts

India is a nascent e-commerce market with large potential (cUS$86bn in 2018) but is fraught with risk in terms of execution, funding, and competitors. E-Commerce enjoys improving drivers (internet access, GDP per capita growth, and consumer experience) but also still faces challenges (credit card/debit card penetration and usage). Wealth is relatively concentrated, and market estimates put current and future Indian e-commerce market sizes at only **3% to 7%** of Chinese levels.

We value Naspers at R1785 a share (up from R1670)

Our primary valuation methodology is a sum-of-the-parts model. We value the listed investments (Tencent, Mail.ru) at underlying price targets translated at a forward exchange rate. We apply a 20% holding company structure discount to these investments. For unlisted investments, we use a combination of forward estimated EV/Sales and EV/EBITDA multiples as well as acquisition prices. We see Tencent results and forex as key risks given the importance of Tencent earnings to Naspers. A further risk is that investment in e-commerce and Pay TV does not generate sustainable returns, leading to impairments and eroding future cash returns.

Forecasts and ratios

Year End Mar 31	2014A	2015E	2016E
Revenue (ZARm)	62,728	75,245	89,807
EBITDA (ZARm)	6,391	6,928	11,746
DB EPS (ZAR)	21.25	29.67	53.74
P/E (DB EPS) (x)	**79.5**	**57.0**	**31.4**
EV/EBITDA (x)	99.6	90.0	51.5

Source: Deutsche Bank estimates, company data

[1] DB EPS is fully diluted and excludes non-recurring items

[2] Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close

Model updated:28 January 2015

Running the numbers

Sub-Saharan Africa

South Africa

Media

Naspers

Reuters: NPNJn.J Bloomberg: NPN SJ

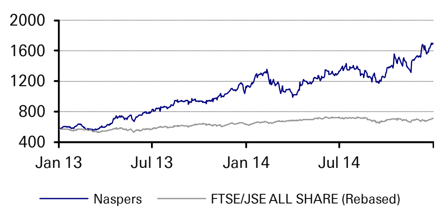
Buy

Price (29 Jan 15)	ZAR 1,690.00
Target Price	ZAR 1,785.00
52 Week range	ZAR 992.00 - 1,704.00
Market Cap (m)	ZARm 667,682
	USDm 57,858

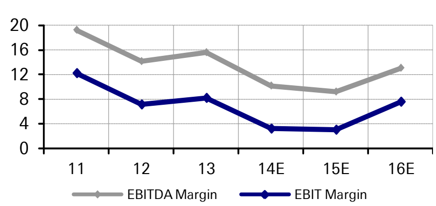
Company Profile

Naspers is an emerging markets focused media group with principal operations in internet platforms (focussing on commerce, communities, content, communication and games), pay-television and the provision of related technologies and print media (including publishing, distribution and printing of magazines, newspapers and books).

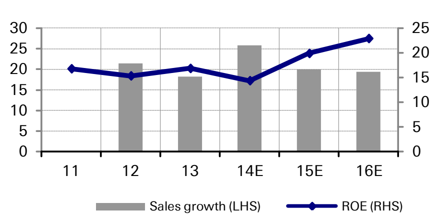
Price Performance



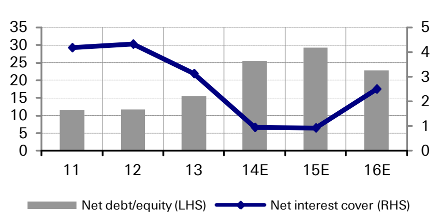
Margin Trends



Growth & Profitability



Solvency



John Kim
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Fiscal year end 31-Mar	2011	2012	2013	2014E	2015E	2016E
Financial Summary						
DB EPS (ZAR)	15.52	17.85	21.64	21.25	29.67	53.74
Reported EPS (ZAR)	15.52	17.85	21.64	21.25	29.67	53.74
DPS (ZAR)	2.70	3.35	3.85	4.25	5.30	6.32
BVPS (ZAR)	108.6	126.5	139.6	167.4	202.0	244.8
Weighted average shares (m)	375	376	385	395	401	407
Average market cap (ZARm)	124,449	138,811	197,246	667,682	667,682	667,682
Enterprise value (ZARm)	107,598	116,031	172,800	636,499	623,167	605,433
Valuation Metrics						
P/E (DB) (x)	21.4	20.7	23.7	79.5	57.0	31.4
P/E (Reported) (x)	21.4	20.7	23.7	79.5	57.0	31.4
P/BV (x)	3.31	3.38	4.10	10.09	8.36	6.90
FCF Yield (%)	3.0	2.4	3.3	nm	nm	0.4
Dividend Yield (%)	0.8	0.9	0.8	0.3	0.3	0.4
EV/Sales (x)	3.1	2.8	3.5	10.1	8.3	6.7
EV/EBITDA (x)	16.1	19.4	22.2	99.6	90.0	51.5
EV/EBIT (x)	25.3	38.5	42.2	315.4	272.8	88.7
Income Statement (ZARm)						
Sales revenue	34,746	42,183	49,869	62,728	75,245	89,807
Gross profit	6,695	5,974	7,786	6,391	6,928	11,746
EBITDA	6,695	5,974	7,786	6,391	6,928	11,746
Depreciation	857	489	1,493	1,942	3,121	3,509
Amortisation	1,581	2,469	2,194	2,431	1,522	1,413
EBIT	4,257	3,016	4,099	2,018	2,285	6,824
Net interest income(expense)	-1,018	-697	-1,310	-2,127	-2,460	-2,724
Associates/affiliates	3,290	3,869	8,778	10,835	17,367	20,385
Exceptionals/extraordinaries	-23	-94	-2,137	-1,201	0	0
Other pre-tax income/(expense)	1,503	-740	-149	-101	47	0
Profit before tax	8,009	5,354	9,281	9,424	17,238	24,486
Income tax expense	1,861	2,059	2,533	2,895	3,162	3,851
Minorities	687	587	701	778	956	1,453
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	5,461	2,708	6,047	5,751	13,121	19,182
DB adjustments (including dilution)	2,357	6,526	4,680	5,296	3,033	2,923
DB Net profit	7,818	9,234	10,727	11,047	16,154	22,106
Cash Flow (ZARm)						
Cash flow from operations	5,270	5,394	10,035	3,274	2,591	8,643
Net Capex	-1,555	-2,033	-3,521	-3,894	-4,870	-5,838
Free cash flow	3,715	3,361	6,514	-620	-2,279	2,806
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	-882	-1,012	-2,768	-1,676	-2,105	-2,511
Net inc/(dec) in borrowings	6,497	1,355	0	7,724	5,705	0
Other investing/financing cash flows	-7,756	-2,314	670	2,173	564	0
Net cash flow	1,574	1,390	4,416	7,601	1,884	294
Change in working capital	*0*	*0*	*0*	*0*	*0*	*0*
Balance Sheet (ZARm)						
Cash and other liquid assets	8,731	9,825	15,653	13,664	12,602	13,442
Tangible fixed assets	7,561	8,879	13,716	17,053	17,963	19,181
Goodwill/intangible assets	21,164	21,768	26,395	31,513	31,513	31,513
Associates/investments	24,062	30,659	35,195	50,675	70,950	89,296
Other assets	8,337	10,147	12,304	15,697	18,454	21,647
Total assets	69,855	81,278	103,263	128,602	151,482	175,079
Interest bearing debt	13,662	15,643	24,290	31,104	36,974	36,974
Other liabilities	13,251	16,059	23,120	29,293	31,429	34,946
Total liabilities	26,913	31,702	47,410	60,397	68,403	71,920
Shareholders' equity	40,662	47,515	53,741	66,153	81,016	99,644
Minorities	2,280	2,061	2,112	2,052	2,063	3,515
Total shareholders' equity	42,942	49,576	55,853	68,205	83,079	103,160
Net debt	*4,931*	*5,818*	*8,637*	*17,440*	*24,372*	*23,532*
Key Company Metrics						
Sales growth (%)	nm	21.4	18.2	25.8	20.0	19.4
DB EPS growth (%)	na	15.0	21.2	-1.8	39.6	81.2
EBITDA Margin (%)	19.3	14.2	15.6	10.2	9.2	13.1
EBIT Margin (%)	12.3	7.1	8.2	3.2	3.0	7.6
Payout ratio (%)	16.8	18.1	17.4	19.5	17.4	11.5
ROE (%)	16.8	15.3	16.9	14.4	19.9	22.9
Capex/sales (%)	4.7	5.1	7.1	6.2	6.5	6.5
Capex/depreciation (x)	1.9	4.4	2.4	2.0	1.6	1.7
Net debt/equity (%)	11.5	11.7	15.5	25.6	29.3	22.8
Net interest cover (x)	4.2	4.3	3.1	0.9	0.9	2.5

Source: Company data, Deutsche Bank estimates

Investment thesis

Outlook

Our valuation of Naspers is most sensitive to the value assigned to Tencent, although over the next 12 months we do not see a re-rating of Tencent (or require one to justify our investment case). We expect 2015 to be another investment year for Naspers, depressing margins. In the nearer term, while our valuation is depressed as we reflect one-year forward earnings numbers on heightened development spend, it still offers significant potential upside. In the medium term, we see a turn in the cash investment cycle, particularly in the internet businesses, as these investments reach scale, releasing margin pressure. Naspers' leading emerging market position enables the group to benefit as internet penetration continues to increase across its operating regions, creating additional markets and driving the next leg of revenue growth. Buy.

Valuation

Our primary valuation methodology is a sum-of-the-parts model. We value the listed investments (Tencent, Mail.ru) at underlying price targets translated at a forward exchange rate, in line with our house exchange rate view. We apply a 20% holding company structure discount to these investments. For unlisted investments, we use a combination of forward estimated EV/Sales and EV/EBITDA multiples as well as acquisition prices. Most of these businesses are still in development phases with insufficient data. The rump consists of a defensive, high-margin, subscription-based Pay TV operation and an e-commerce business that is well positioned in significant emerging markets.

Risks

Given Tencent's significance within Naspers' valuation, slowing growth in China is a key risk. A further risk for Naspers is that the current high investment level in e-commerce and Pay TV does not generate sustainable returns, leading to further impairments and eroding future cash returns to shareholders. Given the scale of foreign investments and forex commitments, significant fluctuations in the ZAR/USD could put pressure on cash flows. Competition in the local pay TV business, although not currently significant, would put pressure on margins for the rump business.

India: the next great e-commerce market?

India in a nutshell: India is a large emerging market in terms of population and formal retail is still underpenetrated. E-Commerce spend today is mostly in online travel and future growth of B2C e-tail (physical goods) is likely to be driven by large, well-funded competitors who can speed up online adoption through aggressive promotions/discounts and resulting customer acquisition. The key risk is how quickly profitability arrives given the size of the market, the intensity of competition, and consumer behavior.

Wealth concentration (25% of households make up ~60% of spend) and limited broadband penetration (c11%) creates a potential two-tier market: 1) wealthy cohorts, where online spend centers on consumer discretionary items (electronics, clothes, etc) and where the longer-term opportunity is in migrating their online spend to include consumer staples (diapers, consumables, food), and 2) the mass-market, where spend levels are likely to be lower but increasing mobile penetration, a lack of formal retail/alternatives, and sheer numbers could prove formidable over time.

We are interested in this market as Naspers has made significant investments in the last few years. We believe that Naspers' Indian assets are collectively worth **cR20bn+ or R50+ a share today** but analysis of market multiples indicate potential upside of 3x to our estimate of R50/share.

What does Naspers own in India? Investments include c18% of Flipkart (a horizontal/broad-based B2C e-commerce site), c80% of Ibibo / RedBus (online bus and hotel bookings), and c100% of OLX India (online classifieds).

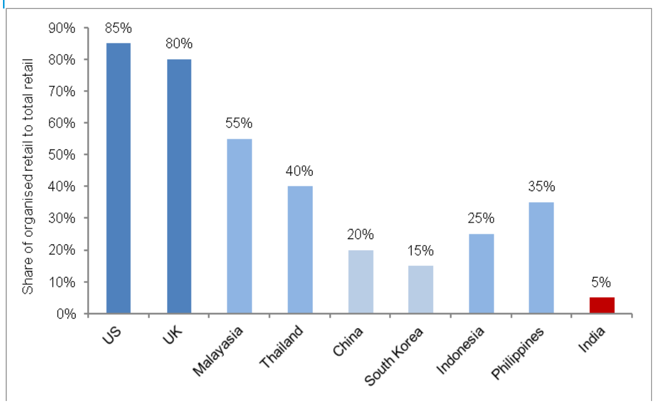
E-Commerce nascent but growing: Market estimates look for the overall e-commerce market to grow from US$22bn in 2014 to US$86bn in 2018 (40% CAGR). B2C e-tail is expected to grow from cUS$4bn to cUS$18bn by 2018 (45% CAGR).

Mobile devices forecast to be c70% of internet access: It is estimated that 61% of the total internet users in India in 2013 were accessing it using mobile devices. This share is expected to increase to 71% by 2018.

Most online spend today is focused on travel: c80% of estimated e-commerce spend today in India is on travel, with bus travel a small fraction of that online figure. Naspers owns a company called RedBus, which we believe is worth cR1,250m today (only R2 per NPN share). We estimate that RedBus enjoys cR110m+ in revenue and saw 120%+ yr/yr growth in related GMV from 2010 to 2013E. Online travel agents' (OTA) business models enjoy high gross margins as physical fulfillment / delivery is not generally an issue.

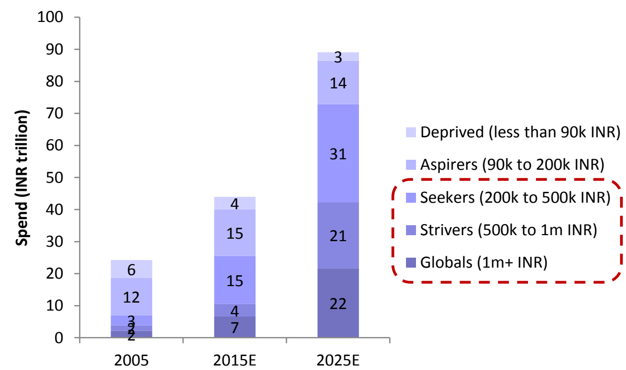
Key charts

Figure 70: Formal retail is underpenetrated in India (c5% of estimated total spend), allowing e-commerce…



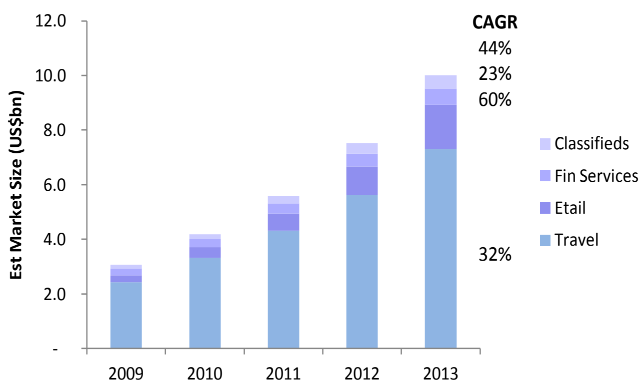
Source: FICCI-KPMG, Deutsche Bank

Figure 71: …to target the 25% of households who account for c60% of retail spend in 2015E, forecast to grow to c80% by 2025



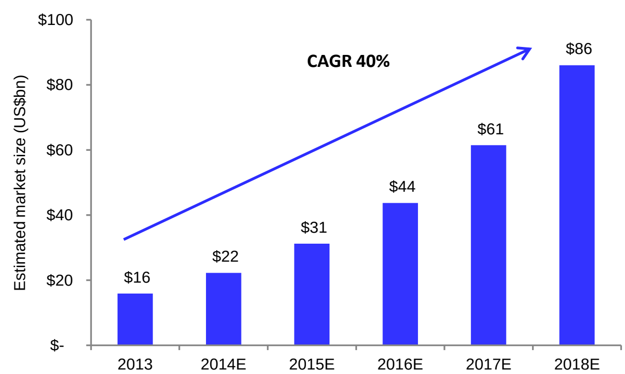
Source: Netscribes, NCAER, MGI India

Figure 72: Overall market growth in e-commerce was c35% from 2009 to 2012…



Source: eMarketer, IAMAI, Deutsche Bank, , exchange rate applied to INR estimates of 61.5 INR/USD to calculate US$ estimates

Figure 73: ...with the overall e-commerce market set to grow to cUS$86bn by 2018E



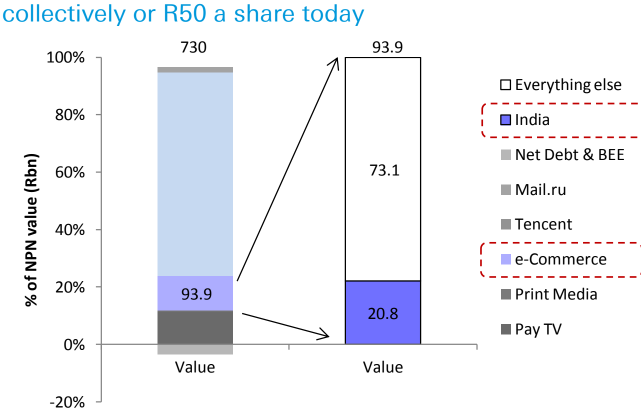
Source: NetScribe, Deutsche Bank, exchange rate applied to INR estimates of 61.5 INR/USD to calculate US$ estimates, figure includes online travel and other services

Figure 74: Naspers owns three main assets in the region (Flipkart, RedBus/Ibibo, and OLX India)…

Sector	Companies	Key success factors	Comments
Marketplace	**Flipkart** Snapdeal Amazon India Ebay.in	Gross Merchandise Value Number of merchants Number of transactions Take rate Payment options	• Regulations prevent FDI in B2C multi-brand retail • 1PL B2C e-commerce plays forced to morph their models (some pure marketplace while some create Indian subsidiary / partner companies) • Quest for GMV/customer base can lead to loss leaders / negative gross profit • Convenience / fulfillment as the next KPI
Online Classifieds (OC)	**OLX** Quikr Sulekha ClickIndia Justdial	User base Cost of customer acquisition Conversion rates to paying user	• Network effects / 'winner takes all' • Stronger brand later on but lower average value of customer vs vertical plays
Travel	**Redbus / Ibibo** Cleartrip Makemytrip IRCTC	User base Take rate / margin from OEMs OEM buy-in / signups	• Travel is most of Indian e-commerce today • Bus still under-penetrated • NPN to link up Ibibo and Redbus

Source: Deutsche Bank

Figure 75: ...which we think are worth at least cR21bn collectively or R50 a share today



Source: Deutsche Bank estimates

Valuation

We value the Indian assets at R50 a share but….

Previously we valued most of Naspers' e-commerce assets in India on a book value basis—the exception being OLX India, which is a component of our Online Classifieds segment (valued on a mix of forward sales and EBITDA multiples). From Figure 76 we can see that India represents at least 22% of our overall valuation of e-commerce. We believe that Naspers' Indian assets are collectively worth **cR20bn+ or R50+ a share today,** but an analysis of market multiples indicates potential upside of 3x to our estimate of R50/share.

…an analysis of market multiples indicates potential upside of 3x to our estimate of R50/share

Figure 76: We are more positive: NPN e-commerce initiatives now account for 13% of our new target price based on our revised estimates

Napsers' previous target price	**1,670**			
Napsers' current target price	**1,785**			
New valuation (R m)		**Value**	**New valuation per share**	**Value**
Marketplaces		14,792	Marketplaces	36
eTail ex Flipkart		32,193	eTail ex Flipkart	79
Payments		3,532	Payments	9
Online Classifieds		19,117	Online Classifieds	47
Avito		2,440	Avito	6
Other		16,677	Other	41
Other		3,438	Other	8
Flipkart		19,800	Flipkart	48
Redbus		1,000	Redbus	2
Sub-total		**93,872**	**Sub-total**	**276**
Valuation used for Sum of Parts	**93,872**		% change from old estimate	111%
per NPN share	**229**			
as % of previous target price	13.7%		**Incremental value per share vs new est**	**145**
as % of new target price	**12.9%**		**as % of new target price**	**8.1%**
Incremental % of share from old estimate				
as % of previous target price	5.9%			
as % of new target price	5.5%			
Old valuation for E-commerce assets (R m)				
Sub-total	53,749			
per NPN share	**131**			

Source: company financials, Deutsche Bank estimates

Flipkart

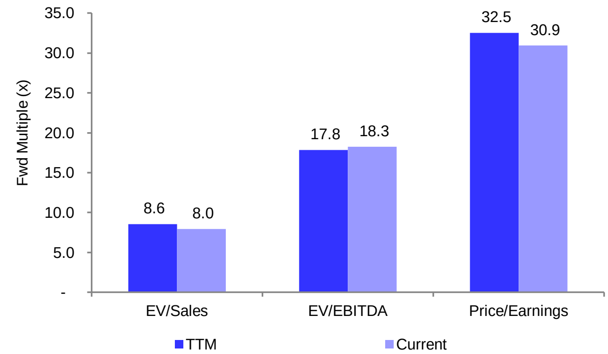
We believe that current valuations (at the growth equity stage) could be using run-rate GMV and revenue multiples to underpin recent capital raisings. We estimate that Naspers' stake in this asset is worth at least **cR20bn today** or **R48 a share.** We value Naspers' stake in Flipkart based on the last round of valuation (cUS$11bn post-money), making Naspers' c18% share worth cR20bn. We believe that the high growth potential of the market / business model is partly offset by intense competition, significant execution risks, and variables outside of Naspers' and Flipkart's control. Hence, we believe that such an asset with a growth equity risk/reward profile is best valued using growth equity or last round valuation techniques. Below we highlight our estimates for recent funding events for Flipkart.

Figure 77: Flipkart has been active in fundraising in recent years – its last round cUS$11bn post-money

US$m	Sep-09	Jun-10	Jun-11	Aug-12	Jul-13	Oct-13	May-14	Jul-14	Dec-14
Capital raised	1	10	20	150	200	160	210	1,000	700
Pre money				725	1,300	1,440	2,590	6,000	10,300
Pct at risk				20.7%	15.4%	11.1%	8.1%	16.7%	6.8%
Naspers capital				81	129		51	180	126
Naspers stake				10.0%	16.7%	18.0%	17.7%	18.0%	18.0%
Estimated valuation				875	1,500	1,600	2,800	7,000	11,000
Estimated run-rate GMV								3,000	5,000
GMV growth rate									66.7%
Implied multiple								2.3	2.2
Estimated run-rate revenue				40		320			1,000
Implied multiple				22.1		5.0			11.0

Source: press releases, Deutsche Bank

Figure 78: The peer group averages c8.0x fwd EV/Sales and c18x EV/EBITDA for Online Classifieds



Source: Thomson Reuters, Deutsche Bank, average includes Schibsted, Carsales.com, REA group, Seek, Vostok Nafta (Avito), 58.com, as of 29/01/2015

RedBus / Ibibo

In June 2013, Naspers acquired an 80% interest in RedBus for US$100m through the Ibibo JV. While we are excited by the longer-term growth prospects of the business, we value the assets at the acquisition price while we await greater clarity/transparency on how the growth in GMV filters into the company's financial performance. We estimate that Naspers' stake in this asset is worth **cR1bn today** or **R2 a share.** Given the dynamics and economics of the business model, we believe that this is a very conservative estimate.

OLX India

We value OLX India as part of our overall valuation for Naspers' online classifieds assets, which are valued on a mix of forward sales and EBITDA multiples that are then adjusted for estimated ownership in the respective assets. Net, we believe that Naspers' stake in the **Online Classifieds assets overall** is worth **cR19bn today** or **R47 a share** – and OLX India is part of this.

What's the potential upside?

We see significant upside based on the high-growth nature of the Indian e-commerce market. Flipkart is the largest of Naspers' investments. Below we grow forward Flipkart's GMV and revenue footprint and show the implied valuation for a higher-growth e-commerce platform. We then replicate the process for the RedBus investment. That said, significant longer-term growth rates could be required to support high multiples.

Flexing our assumptions, we see a potential impact of cR150 a share for NPN (3x our current estimate)

Figure 79: Trending Flipkart's growth shows significant upside over the next five years (c3x current valuation)

	FY15E	FY16E	FY17E	FY18E	FY19E
Est. run-rate GMV (US$m)	5,000	7,000	9,800	13,720	19,208
growth rate		40%	40%	40%	40%
Multiple	2.25	2.25	2.25	2.25	2.25
Implied valuation (US$m)	11,250	15,750	22,050	30,870	43,218
Value per NPN share (ZAR)	49.5	69.2	96.9	135.7	190.0
Est. run-rate revenue (US$m)	1,000	1,400	1,960	2,744	3,842
growth rate		40%	40%	40%	40%
Multiple	11.0	11.0	11.0	11.0	11.0
Implied valuation (US$m)	11,000	15,400	21,560	30,184	42,258
Value per NPN share (ZAR)	48.4	67.7	94.8	132.7	185.7
Market estimate - B2C eTail (US$bn)	7.7	10.7	14.2	17.5	
Implied mkt share for Flipkart	13%	13%	14%	16%	

Source: press releases, Deutsche Bank estimates, exchange rate of 10x ZARUSD applied, 18% ownership of Flipkart by NPN and 409.5m NPN shares outstanding

Figure 80: Trending RedBus's growth shows significant upside over the next five years (c5x current valuation)

	FY15E	FY16E	FY17E	FY18E	FY19E
Est. run-rate GMV (US$m)	1,282	1,923	2,885	4,327	6,490
growth rate		50%	50%	50%	50%
Multiple	1.0	1.0	1.0	1.0	1.0
Implied valuation (US$m)	1,282	1,923	2,885	4,327	6,490
Value per NPN share (ZAR)	25.0	37.6	56.4	84.5	126.8
Est. run-rate revenue (US$m)	128	192	288	433	649
growth rate		50%	50%	50%	50%
Multiple	6.0	6.0	6.0	6.0	6.0
Implied valuation (US$m)	769	1,154	1,731	2,596	3,894
Value per NPN share (ZAR)	3.4	5.1	7.6	11.4	17.1

Source: press releases, Deutsche Bank estimates, exchange rate of 10x ZARUSD applied, 80% ownership by NPN and 409.5m NPN shares outstanding

Figure 81: Sensitivity table – Flipkart GMV growth vs. multiple (US$m)

		GMV growth rate						
		20%	30%	40%	50%	60%	70%	80%
	1.00	10,368	14,281	19,208	25,313	32,768	41,761	52,488
	1.25	12,960	17,851	24,010	31,641	40,960	52,201	65,610
	1.50	15,552	21,421	28,812	37,969	49,152	62,641	78,732
GMV	1.75	18,144	24,991	33,614	44,297	57,344	73,081	91,854
Multiple	2.00	20,736	28,561	38,416	50,625	65,536	83,521	104,976
	2.25	23,328	32,131	43,218	56,953	73,728	93,961	118,098
	2.50	25,920	35,701	48,020	63,281	81,920	104,401	131,220
	2.75	28,512	39,271	52,822	69,609	90,112	114,841	144,342
	3.00	31,104	42,842	57,624	75,938	98,304	125,282	157,464
	3.25	33,696	46,412	62,426	82,266	106,496	135,722	170,586
	3.50	36,288	49,982	67,228	88,594	114,688	146,162	183,708

Source: Deutsche Bank estimates

Figure 82: Flipkart GMV growth vs. multiple (US$m) – implied value per NPN share (ZAR)

		GMV growth rate						
		20%	30%	40%	50%	60%	70%	80%
	1.00	46	63	84	111	144	184	231
	1.25	57	78	106	139	180	229	288
	1.50	68	94	127	167	216	275	346
GMV	1.75	80	110	148	195	252	321	404
Multiple	2.00	91	126	169	223	288	367	461
	2.25	103	141	190	250	324	413	519
	2.50	114	157	211	278	360	459	577
	2.75	125	173	232	306	396	505	634
	3.00	137	188	253	334	432	551	692
	3.25	148	204	274	362	468	597	750
	3.50	160	220	296	389	504	642	808

Source: Deutsche Bank estimates, exchange rate of 10x ZARUSD applied, 18% ownership of Flipkart by NPN and 409.5m NPN shares outstanding

Figure 83: Sensitivity table – Flipkart revenue growth vs. multiple (US$m)

		Revenue growth rate						
		20%	30%	40%	50%	60%	70%	80%
	5.0	10,368	14,281	19,208	25,313	32,768	41,761	52,488
	6.0	12,442	17,137	23,050	30,375	39,322	50,113	62,986
	7.0	14,515	19,993	26,891	35,438	45,875	58,465	73,483
Revenue	8.0	16,589	22,849	30,733	40,500	52,429	66,817	83,981
Multiple	9.0	18,662	25,705	34,574	45,563	58,982	75,169	94,478
	10.0	20,736	28,561	38,416	50,625	65,536	83,521	104,976
	11.0	22,810	31,417	42,258	55,688	72,090	91,873	115,474
	12.0	24,883	34,273	46,099	60,750	78,643	100,225	125,971
	13.0	26,957	37,129	49,941	65,813	85,197	108,577	136,469
	14.0	29,030	39,985	53,782	70,875	91,750	116,929	146,966
	15.0	31,104	42,842	57,624	75,938	98,304	125,282	157,464

Source: Deutsche Bank estimates

Figure 84: Sensitivity table – Flipkart revenue growth vs. multiple (US$m) – implied value per NPN share (ZAR)

		Revenue growth rate						
		20%	30%	40%	50%	60%	70%	80%
	5.0	46	63	84	111	144	184	231
	6.0	55	75	101	134	173	220	277
	7.0	64	88	118	156	202	257	323
Revenue	8.0	73	100	135	178	230	294	369
Multiple	9.0	82	113	152	200	259	330	415
	10.0	91	126	169	223	288	367	461
	11.0	100	138	186	245	317	404	508
	12.0	109	151	203	267	346	441	554
	13.0	118	163	220	289	374	477	600
	14.0	128	176	236	312	403	514	646
	15.0	137	188	253	334	432	551	692

Source: Deutsche Bank estimates, exchange rate of 10x ZARUSD applied, 18% ownership of Flipkart by NPN and 409.5m NPN shares outstanding

Sum-of-parts valuation

We value Naspers on a sum-on-parts basis, where stakes in publicly listed entities Tencent and Mail.ru are valued based on Deutsche Bank target prices, pay TV assets based on forward EV/EBITDA multiples, print assets based on forward P/E multiples, and e-commerce assets based on a combination of forward EV/Sale and EV/EBITDA multiples. We apply a 20% holding company discount to Naspers' stakes in Tencent and Mail.ru.

Figure 85: Naspers valuation: sum-of-parts

Naspers: Sum - of - the - parts

	Sales	EBITDA	EBIT	NPAT	Sales (x)	EBITDA (x)	PE(x)	GMV / Sales Value	EBITDA Value	PE Value	Acquisition Value	Exch rate	Price target	Holding	Net Value
PAY TV															**90,273**
South Africa		9,860	8,667	6,240		9.0			88,740					80%	70,992
Sub-Saharan Africa		1,928	1,087	782		10.0			19,281					100%	19,281
PRINT MEDIA															**2,367**
Media24		727	406	292			8.5			2,483				85%	2,110
Abril		162	21	15			8.5			128	2,600			30%	128
BMC													1,547	10%	153
E-COMMERCE															**93,872**
Marketplace	6,161	801			3.0	15.0		18,484	12,015					97%	14,792
eTail ex Flipkart	14,452	1879*			3.0	15.0		43,355	28,185					90%	32,193
Flipkart								110,000						18%	19,800
Payments	1,087	306*			3.0	15.0		3,260	4,590					90%	3,532
Classifieds	2,651	795*			10.0	20.0		26,506	15,900		-			90% / 18.6%	19,117
Avito	1,272	676			10.0	20.0		12,720	13,520					19%	2,440
Other	2,414	646*			10.0	20.0		24,140	12,920					90%	16,677
Other Internet Online Services	2,201	69*			3.0	15.0		6,604	1,035		-			90%	3,438
Redbus											1,250			80%	1,000
Rump Enterprise Value															**186,537**
Net debt															-25,046
BEE preference shares															-1,439
Rump valuation															160,052
LISTED ASSOCIATES															
Tencent		19,281	17,074	13,700						-		1.43	694,494	34%	694,494
Mail.ru		1,579	1,316	1,065						-		10.69	18,400	29%	18,400
															712,894
Holding Structure Discount														20%	570,316
Total market value															730,368
Issues shares (net treasury)															409,078
Value (cps)															**178,540**
Value of listed associates (cps) on DB price targets and forward exchange rates														78%	139,452
Value of Rump (cps)														22%	39,088
ON SPOT - TENCENT & MAIL.RU															
LISTED ASSOCIATES															
Tencent (HK$SPOT)													631,564	34%	631,564
Mail.ru ($SPOT)													10,659	29%	10,659
															642,223
Holding Structure Discount														20%	513,779
Total market value															673,831
Issues shares (net treasury)															409,078
Value (cps)															**164,719**
Value of listed (cps)														90%	148,542
Value of Rump (cps)														24%	39,088

** assumes normalized margins using analysis of peer companies/similar business models, as of 29/01/2015*
Source: Company data, Deutsche Bank estimates

Figure 86: Analysis of comparable companies

	VALUATION	Share Price	MARKET CAP		12MTP	RATING*	Enterprise Value / Sales			Enterprise Value / EBITDA			Enterprise Value / EBIT			Price / Earnings			EPS CAGR		DIV YIELD (%)			ROE (%)			PEG	
			lccy bn	US$ bn			2013	2014E	2015E	2013	2014E	2015E	2013	2014E	2015E	2012	2014E	2015E	2014E	2015E	2013	2014E	2015E	2013	2014E	2015E	2014E	2015E
Ticker	**Company components**																											
NPNJn.J	Naspers	1,690	677,697	58,726	1,670	Buy	8.2	6.8	NA	87.6	52.3	NA	293.5	102.2	NA	48.5	33.6	NA	44%		0.3	0.3	NA	19.9	23.8	NA	1.1	
0700.HK	Tencent	135	1,223,235	157,786	156	Buy	11.8	9.4	7.3	25.8	19.9	15.0	29.7	22.7	17.1	41.9	29.4	23.5	42%	25%	0.2	0.3	0.4	34.4	32.6	30.7	1.0	1.2
MAILRq.L	Mail.Ru	16	3,233	3,233	22	Buy	6.5	5.8	4.7	14.3	13.6	10.5	17.8	17.0	12.6	22.3	22.8	16.7	-2%		-	-	-	15.7	7.7	9.7		
Ticker	**Print Media**																											
SBST.OL	Schibsted	500	53,637	6,865	520	Hold	3.9	3.6	3.5	47.9	28.5	23.3	79.0	38.1	29.8	811.7	91.0	60.7	792%	50%	0.7	0.8	0.9	2.0	7.7	11.1	1.0	1.8
LAGA.PA	Lagardere	25	3,064	4,180	-	No Recommendation																						
FXJ.AX	Fairfax Media Ltd	1	2,106	1,670	1	Hold	1.1	1.1	1.1	6.7	6.4	6.1	9.0	8.9	8.4	14.2	14.0	13.1	1%	7%	4.6	4.6	4.6	7.4	7.4	7.7	9.7	
	Mean						**2.5**	**2.4**	**2.3**	**27.3**	**17.4**	**14.7**	**44.0**	**23.5**	**19.1**	**412.9**	**52.5**	**36.9**	**397%**	**50%**	**2.6**	**2.7**	**2.7**	**4.7**	**7.5**	**9.4**	**5.3**	
	Median						**2.5**	**2.4**	**2.3**	**27.3**	**17.4**	**14.7**	**44.0**	**23.5**	**19.1**	**412.9**	**52.5**	**36.9**	**397%**	**28%**	**2.6**	**2.7**	**2.7**	**4.7**	**7.5**	**9.4**	**5.3**	
Ticker	**Chinese Internet**																											
0700.HK	Tencent	135	1,223,235	157,786	156	Buy	11.8	9.4	7.3	25.8	19.9	15.0	29.7	22.7	17.1	41.9	29.4	23.5	42%	25%	0.2	0.3	0.4	34.4	32.6	30.7	1.0	1.2
BIDU.OQ	Baidu	220	77,033	77,033	261	Buy	9.1	6.1	4.3	27.0	17.9	12.7	33.2	21.0	13.6	33.4	23.2	17.9	44%	30%	-	-	-	29.4	30.2	28.4	0.8	0.8
JD.OQ	JD.com	NA	29,697	29,697	27	Hold	1.4	0.9	0.7	NM	NM	NM	NM	NM	NM	NM	NM	262.3			-	-	-	(25.1)	(7.2)	(5.6)		
NTES.OQ	NetEase Inc.	109	14,084	14,084	86	Hold	5.3	4.3	3.6	13.0	10.5	8.4	13.6	11.0	8.8	17.8	15.7	13.8	14%	13%	1.3	1.5	-	21.3	20.7	20.2	1.3	1.2
SFUN.N	SouFun	6	2,581	2,581	9	Buy	3.0	1.8	1.3	8.3	8.9	4.9	8.4	9.1	5.0	12.8	17.3	12.4	-26%	39%	3.1	-	-	41.2	24.2	25.2	(0.5)	0.4
YOKU.N	Youku Tudou	17	2,760	2,760	19	Hold	1.8	1.3	0.9	NM	73.2	11.8	NM	NM	28.0	NM	79.6	30.5			-	-	-	(5.9)	(0.5)	2.1		
SINA.OQ	Sina Corp	36	2,416	2,416	50	Buy	1.1	0.9	0.6	NM	12.2	4.5	NM	35.8	6.6	44.6	43.3	17.6	3%	146%	-	-	-	7.2	4.7	9.3	14.8	0.3
SOHU.OQ	Sohu.com Inc	56	2,170	2,170	56	Hold	1.2	1.1	0.9	NM	19.2	5.8	NM	NM	14.1	NM	NM	25.0			-	-	-	(15.6)	(9.3)	5.6		
VIPS.N	Vipshop	22	1,154	1,154	25	Buy										92.0	45.3	25.6	103%	77%	-	-	-	31.4	40.7	43.8	0.9	0.6
RENN.N	Renren Inc	3	1,045	1,045	2	Sell			1.2	NM	NM	NM	NM	NM	NM	31.8	NM	NM			-	-	-	0.2	(8.3)	(9.3)		
FENG.N	Phoenix New Media	8	592	592	8	Hold	1.1	0.7	0.4	6.8	5.0	2.2	7.5	5.5	2.4	11.9	12.6	9.0	-6%	39%	-	-	-	14.8	11.8	15.1	(2.1)	0.3
	Mean						**4.0**	**2.9**	**2.1**	**16.2**	**20.9**	**8.2**	**18.5**	**17.5**	**12.0**	**35.8**	**33.3**	**43.8**	**25%**	**53%**	**0.4**	**0.2**	**0.0**	**12.1**	**12.7**	**15.1**	**2.3**	**0.7**
	Median						**1.8**	**1.3**	**1.1**	**13.0**	**15.1**	**7.1**	**13.6**	**16.0**	**11.2**	**32.6**	**26.3**	**20.7**	**14%**	**39%**	**-**	**-**	**-**	**14.8**	**11.8**	**15.1**	**0.9**	**0.6**
Ticker	**Internet - Local Services**																											
GRPN.OQ	Groupon	7	4,971	4,971	8	Buy	1.2	1.1	NA	28.3	19.4	NA	NM	66.1	NA	137.4	NM	NA			-	-	NA	(12.9)	(14.7)	NA		
JUST.NS	Just Dial Ltd	15	109,347	1,782	1,800	Buy	17.3	12.5	9.2	59.2	37.0	22.8	68.3	40.5	24.7	84.4	51.8	33.5			0.2	0.3	0.3	22.1	28.9	33.9		
WWWW.OQ	Web.com	15	750	750	18	Hold	2.2	1.9	NM	7.6	6.7	NM	14.9	11.9	NM	482.0	13.7		3406%		-	-	-	0.8	23.9	NM		
ANGI.OQ	Angie's List, Inc.	5	275	275	7	Hold	0.9	0.9	NA	NM	21.6	NA	NM	197.1	NA	NM	60.8	NA			-	-	NA	NM	NM	NA		
	Mean						**5.4**	**4.1**		**31.7**	**21.2**		**41.6**	**78.9**		**234.6**	**42.1**								**12.7**			
	Median						**1.7**	**1.5**		**28.3**	**20.5**		**41.6**	**53.3**		**137.4**	**51.8**								**23.9**			
Ticker	**Internet - Ecommerce**																											
AMZN.OQ	Amazon.com	312	142,328	142,328	350	Buy	1.8	1.5	1.3	33.3	30.2	22.7	178.6	NM	NM	117.5	168.5	109.9	-30%	53%	-	-	-	2.8	(3.2)	(0.2)		3.2
EBAY.OQ	eBay Inc.	54	67,531	67,531	54	Hold	3.3	3.0	2.6	12.1	11.5	9.6	16.9	15.6	13.1	20.3	18.1	16.1	12%	13%	-	-	-	13.4	13.3	14.4	1.6	1.4
ZALG.DE	Zalando	44	5,258	5,947	20	Hold	1.9	1.5	1.2	58.0	26.5	17.0	94.6	35.4	21.5	104.7	41.6	26.9	152%	55%	-	-	-	6.1	11.5	15.4	0.7	0.8
MELI.OQ	MercadoLibre	128	5,637	5,637	100	Hold	NM	NA	NA	NM	NA	NA	NM	NA	NA	NA	NA	NA			NA	NA	NA	37.1	NA	NA		
ASOS.L	ASOS	7	1,937	2,936	2,400	Hold	1.6	1.3	1.0	30.1	21.2	15.5	47.5	31.5	21.8	72.3	46.4	33.1	56%	40%	-	-	-	16.7	18.0	20.7	1.3	1.2
LQDT.OQ	Liquidity Services Inc.	8	484	484	-	No Recommendation																						
	Mean						**2.2**	**1.8**	**1.6**	**33.4**	**19.7**	**14.0**	**53.0**	**27.5**	**18.8**	**78.7**	**68.6**	**46.5**	**47%**	**40%**				**15.2**	**9.9**	**12.6**	**1.2**	**1.6**
	Median						**1.9**	**1.5**	**1.2**	**30.1**	**21.2**	**15.5**	**47.5**	**31.5**	**21.5**	**88.5**	**44.0**	**30.0**	**34%**	**47%**				**13.4**	**12.4**	**14.9**	**1.3**	**1.3**
Ticker	**Internet - Search / Networks / Advertising**																											
GOOG.OQ	Google	511	172,627	172,627	615	Buy	1.9	1.3	NA	4.7	3.2	NA	6.0	4.1	NA	20.0	17.9	NA	11%		-	-	NA	14.7	14.3	NA	1.8	
FB.OQ	Facebook, Inc.	78	188,780	188,780	90	Buy	NM	NM	NA	NM	NM	NA	NM	NM	NA	NA	NA	NA			NA	NA	NA	12.1	13.0	NA		
AOL.N	AOL	44	3,604	3,604	46	Buy	NM	NA	NA	NM	NA	NA	NM	NA	NA	NA	NA	NA			NA	NA	NA	4.2	NA	NA		
DMD.N	Demand Media, Inc.	4	78	78	8	Hold	0.1	0.2	NA	1.0	0.7	NA	NM	3.1	NA	NM	58.6	NA			-	-	NA	(0.2)	14.8	NA		
	Mean						**1.0**	**0.8**		**2.8**	**2.0**		**6.0**	**3.6**		**20.0**	**38.3**				**-**	**-**		**7.7**	**14.0**			
	Median						**1.0**	**0.8**		**2.8**	**2.0**		**6.0**	**3.6**		**20.0**	**38.3**				**-**	**-**		**8.1**	**14.3**			
Ticker	**Internet - Travel**																											
PCLN.OQ	Priceline.Com Inc	1,015	51,674	51,674	1,375	Buy	6.9	5.8	5.0	18.5	15.1	13.3	19.4	16.1	14.3	24.3	19.5	18.4	25%	6%	-	-	-	35.0	33.8	29.7	1.0	3.4
EXPE.OQ	Expedia Inc.	87	11,137	11,137	78	Hold	1.9	1.6	1.3	11.9	9.2	7.5	19.1	14.0	11.0	21.8	20.6	17.7			-	-	-	20.8	23.0	20.5		
AWAY.OQ	HomeAway	26	2,498	2,498	35	Buy	4.4	3.6	2.9	16.8	14.9	12.1	19.5	18.1	15.0	42.7	43.2	37.8	-1%		-	-	-	6.5	6.0	6.5		
MMYT.OQ	MakeMyTrip	24	909	909	35	Buy	7.2	5.6	4.1	NM	NM	NM	NM	NM	NM	NM	NM	NM			-	-	-	(147.2)	(10.7)	(4.7)		
	Mean						**4.4**	**3.6**	**2.9**	**14.2**	**11.8**	**9.9**	**18.8**	**15.3**	**12.8**	**27.1**	**25.5**	**22.9**	**12%**		**-**	**-**	**-**	**(10.6)**	**20.4**	**17.2**	**1.0**	
	Median						**4.4**	**3.6**	**2.9**	**14.4**	**12.0**	**9.8**	**19.3**	**15.0**	**12.7**	**23.0**	**20.0**	**18.1**	**12%**		**-**	**-**	**-**	**20.8**	**23.0**	**20.5**	**1.0**	
Ticker	**Internet - India**																											
JUST.NS	Just Dial Ltd	1,553	109,347	109,347	1,800	Buy	17.3	12.5	9.2	59.2	37.0	22.8	68.3	40.5	24.7	84.4	51.8	33.5	63%	55%							1.3	0.9
MMYT.OQ	MakeMyTrip	24	909	909	35	Buy	7.2	5.6	4.1	NM	NM	NM	NM	NM	NM	NM	NM	NM			-	-	-	(147.2)	(10.7)	(4.7)		

Source: Deutsche Bank estimates, as of 29/01/2015

Flipkart

Flipkart's run-rate GMV estimated to be cUS$5bn

Flipkart started as an online bookstore similar to Amazon and now sells products across categories, including fashion and electronics. The company has added a number of additional product categories, including white-goods, furniture, and apparel. Estimates put Flipkart on a US$5bn run-rate for annualized gross merchandise value in late 2014.

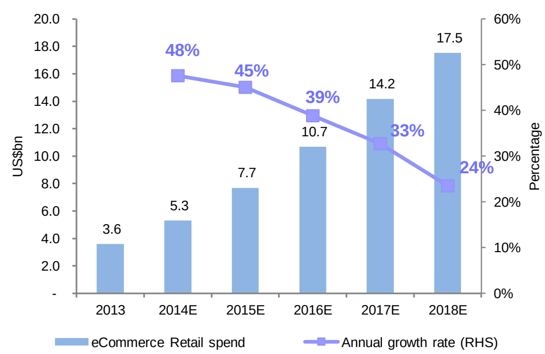
In 2013 Flipkart set up W.S. Retail to address FDI restrictions in B2C e-tail

Incorporated in Singapore, Flipkart is subject to FDI restrictions on ownership of B2C assets by foreign entities. Consequently, the company created a separate entity called W.S. Retail (incorporated) in India to comply with these regulations. W.S. Retail provides the logistics and inventory in certain categories to create a 1PL-like experience. In February 2013 Flipkart moved to a marketplace model whereby third party merchants sell goods to shoppers through the website.

Flipkart the first 1PL broad-based e-commerce platform. Main competitors include Snapdeal and Amazon India

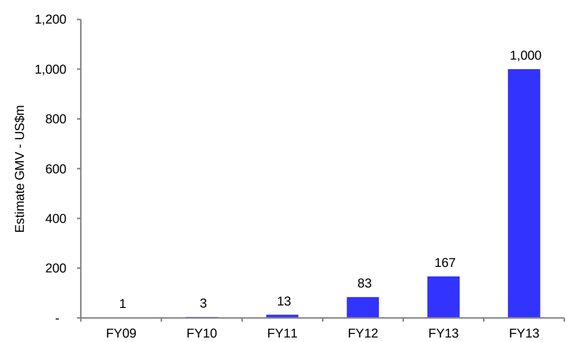
An early market leader in horizontal/broad-based e-tail, Flipkart has shown impressive growth in estimated GMV and revenues, as illustrated below. It faces competition from other broad-based players like Snapdeal and Amazon India and from more focused vertical e-tail players.

Figure 87: **Market size:** forecast annual growth of c40% for B2C e-tail in 2013-18E, from cUS$5bn in 2014 to cUS$18bn in 2018



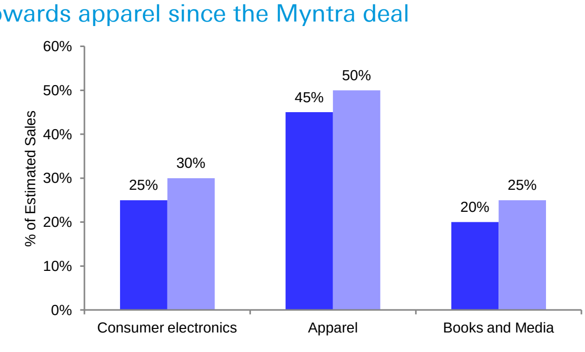
Source: eMarketer, Deutsche Bank

Figure 88: **GMV:** Growth in GMV has been impressive for Flipkart



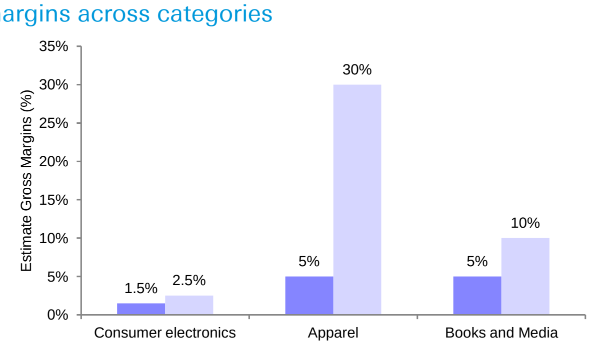
Source: press releases, media, Deutsche Bank

Figure 89: **Sales mix:** estimated sales split has veered towards apparel since the Myntra deal



Source: Deutsche Bank estimates

Figure 90: **Margins:** a degree of variation in gross margins across categories



Source: Deutsche Bank estimates

Naspers owns c18% of Flipkart, having participated in several rounds of financing starting in 2012. Other notable investors include Tiger Global, GIC, Accel Partners, DST Global, ICONIQ Capital, and Morgan Stanley Investment Management, amongst others.

Naspers doesn't have a controlling equity stake in Flipkart

Flipkart acquired Myntra in 2014: Myntra is a leading e-commerce merchant focused on fashion. Fashion retail enjoys superior gross margins (we estimate c35-40%, or up to 60-70% for white-label products). For Flipkart, Myntra offers white-label apparel through its private brands such as Anouk, Dress berry, and Roadster, which could be margin accretive in the longer term.

Myntra acquired in 2013 -- fashion retail with higher gross margins

Logistics ambitions: Flipkart's supply chain includes six warehouses and its own logistics company called eKart, which reaches over 150 cities through third-party logistics partners. Flipkart plans to expand its warehousing facility to Tier-II and Tier-III cities and extend eKart services to other e-commerce companies.

eKart to offer logistics beyond the Flipkart family of companies

Competition

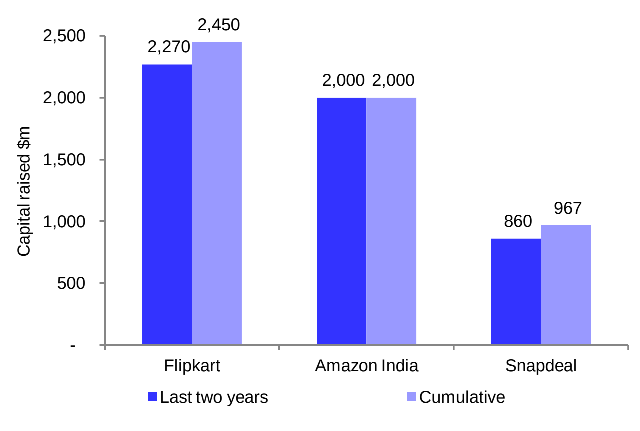
Beyond Flipkart, we look at competitor behavior to assess market potential and dynamics. In our view, larger direct competitors include Amazon India and Snapdeal. We believe that Amazon India, Flipkart, and Snapdeal all operate a marketplace business model. Below we highlight select operational and financial information and comparative metrics for these competitors to benchmark Flipkart's competitive market position—although we do caution that direct comparisons are not perfect (i.e. not all customers or suppliers are of equal value).

Figure 91: Comparative table – operational metrics and fee structures for select e-commerce sites in India

Figures	Flipkart	Amazon	Snapdeal	eBay
Marketplace size				
Sellers	1,000	2,500	20,000	30,000
Users / visitors		7.0		2.1
Product listings		450,000	4,000,000	1,500,000
Pricing				
Subscription	Free	c500INR/mo	Free	c500INR/mo
Listing	Free	c10INR/sale	Free	c10INR/sale
Payment engine	Free	Free	Free	4.50%
Commission range	4% to 20%	5% to 15%	4% to 20%	1% to 7%
Shipping				
Do it Yourself	Yes	Yes	Yes	Yes
Shipping provided	eKart	for FBA sellers	eKart	Powership
Estimated cost	35INR/500g	42INR/500g + 1% item value	40INR/500g	45INR/500g
Packaging				
Provided?	No	No	Yes	No
Estimated cost				3INR/order
Period for payback	Ship date + 7 bus days	Ship confirmation + 7 bus days	Ship date + 3 weeks	On Ship confirmation

Source: company websites, Deutsche Bank

Figure 92: Since Amazon's commitment to enter India, Flipkart and Snapdeal have raised cUS$3bn to scale up



Source: company press releases, Deutsche Bank

Beyond operational traction, we also measure capital raised to date as we believe these platforms are currently not profitable with expansion / growth coming from cash reserves. Amazon has committed cUS$2bn to its Indian expansion effort. Flipkart, in turn, has raised cUS$2.3bn in capital and Snapdeal cUS$860m since Amazon committed to this market in June 2013.

Competitive advantage

We can take lessons from how western market e-commerce evolved as a proxy for what is likely to happen in emerging markets globally (including India). There are several reasons why Flipkart could emerge as the leading player:

1) **First mover advantage (or "first to scale" advantage) is huge:** Flipkart has built the most brand-awareness in e-commerce in India; trying to acquire customers inorganically in competition with a business like Flipkart with its strong brand and organic traffic could be extremely costly and may not be successful. This, combined with solid execution, is the single biggest driver of success in e-commerce. Alibaba has it in China, Amazon in the US.

2) **Localization:** Another key reason local companies win vs. larger international players is their ability to tailor service and product offerings to local markets. This is evident in China, where consumer habits, behaviors, form factors (mobile first), politics, and logistics/fulfillment are unique to the market. Simply exporting an existing model that works in another country and trying to retro-fit it to the local market may not work, as evidenced by Amazon's experience in China.

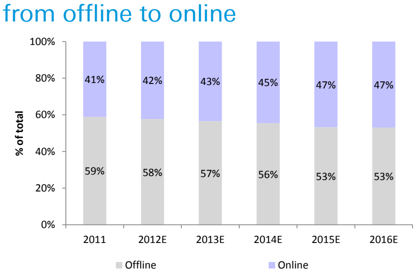
3) **Quality of management:** In consumer internet, the team usually matters most during the formation phase of a market. Based on our checks, Flipkart has the smartest and most talented management team in India e-commerce, and that team should be able to continue to out-execute the competition.

4) **Financing:** Flipkart has raised more money specifically for India than any other company, so it not only has the talent but also the resources to back it.

The online classifieds market in India

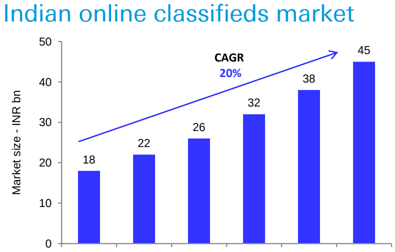
The online classifieds market is being driven by the strong growth in online advertising, which is expected to increase from INR15.4bn in 2011 to INR55.1bn in 2015. Favorable demographics, new-age entrepreneurs, and a growing services sector are driving the online classifieds market in India. In addition, the proliferation of tablets and mobile devices is playing an important role. Online properties such as websites, mobile sites, apps, games, videos, etc. actively support the online classifieds industry.

Figure 93: Classifieds – the migration from offline to online



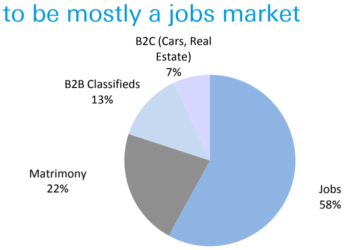
Source: NetScribes, Deutsche Bank

Figure 94: Size estimates for the Indian online classifieds market



Source: FICCI-KPMG, Deutsche Bank

Figure 95: Online classifieds appears to be mostly a jobs market



Source: Crisp Idea, Deutsche Bank

Figure 96: Online classifieds models in India

Strategic segments	Categories	Key players	Revenue model	Growth drivers
Horizontal Classifieds	General (non category specific)	Olx, Quikr, Sulekha, ClickIndia, Justdial	Online advertising, featured listings, paid listings and value added services	▪ Growing internet user base
Vertical C2C Classifieds	Matrimony	Shaadi, JeevanSathi, Bharatmatrimony	Paid memberships	▪ Growth in digital ad spend
Vertical B2C Classifieds	Auto	Carwale, Cardekho, India Automobile	Lead generation, paid listing, subscription fees from dealers, auto financing, auto insurance	▪ Young population/positive demographics
	Real estate	99acres, MagicBricks, Indiproperty	Paid listing, fees from developers, builders and brokers	▪ New ventures and growth in service sector
	Food and entertainment	Zomato, Burrp	Paid listings	
	Recruitment	Naukri, Monster, TimesJobs	Job listings, employer branding, access to database, VAS	

Source: FICCI-KPMG, Deutsche Bank The online travel market in India

OLX India

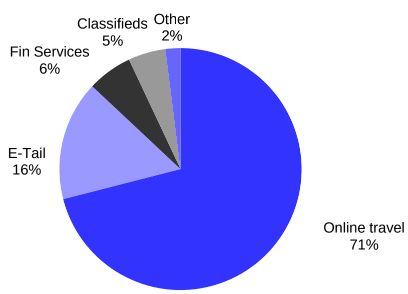
Operating a broad-based online classifieds platform (rather than focused verticals like autos or jobs) presents a series of opportunities/challenges for OLX. We estimate that a majority of revenue generated from online classifieds comes from jobs, automotive sales, and real estate. We see Quikr as OLX India's main competition, although there are a variety of more focused classified platforms in the country. Given relatively low barriers to entry, we see relative market size and improving the cost of customer acquisition (i.e. brand/more free customer additions) as key for longer-term viability.

The online travel market

As highlighted earlier, online travel accounts for most of the current e-commerce spend in India, but bus travel (RedBus's traditional focus) makes up a very small percentage of that. Moreover, the industry is under-penetrated as the company estimates that online tickets only account for c6% of bus tickets sold in India by value. Competitors within the online space are largely focused on air travel (Cleartrip, MakeMytrip (TP US$35, Buy)) and hotel bookings – an area that RedBus has ventured into recently. There is also a competitive offering in rail travel as the Indian Railway Catering and Tourism Corporation (IRCTC) provides an online ticketing portal.

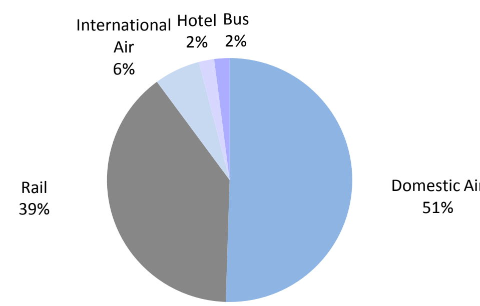
Online penetration in bus ticket sales stands at c6% today

Figure 97: Online travel accounts for 70%+ of e-commerce spend today in India…



Source: World Bank, IAMAI, Aranca

Figure 98: …with bus travel a very small portion of the online travel spend

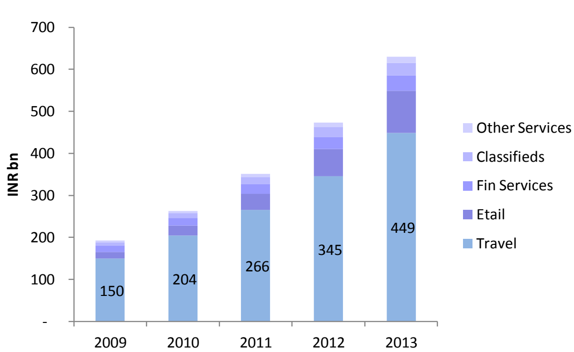


Source: World Bank, IAMAI, Aranca

Trends in bus traffic

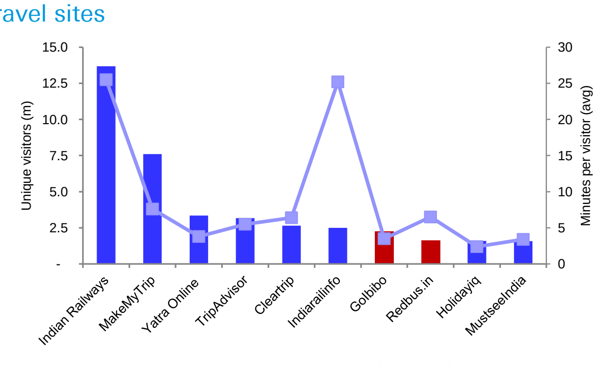
We believe that offline booking of bus travel is the key competitor to RedBus. Online penetration in bus ticket purchasing is low, partly because bus travel addresses less wealthy demographics with possibly lower levels of internet penetration and e-commerce experience, trust, or savviness. Moreover, the company estimates that c25% of customers are first time bus travelers.

Figure 99: Online spend on travel grew c30% yr/yr from 2009 to 2013



Source: eMarketer, IAMAI

Figure 100: NPN collectively holds c10% of unique visitors and c3% of minutes spent on leading Indian travel sites

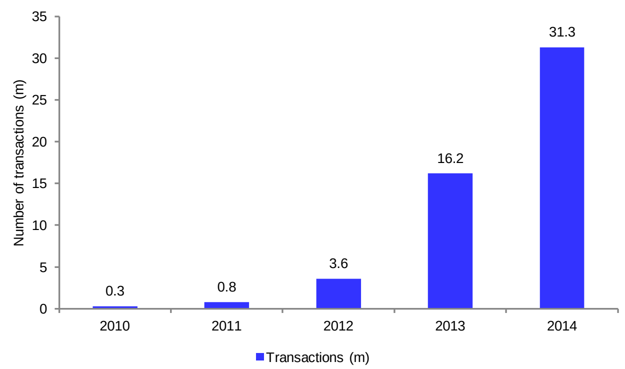


Source: comScore, Deutsche Bank as of June 2013

RedBus / Ibibo

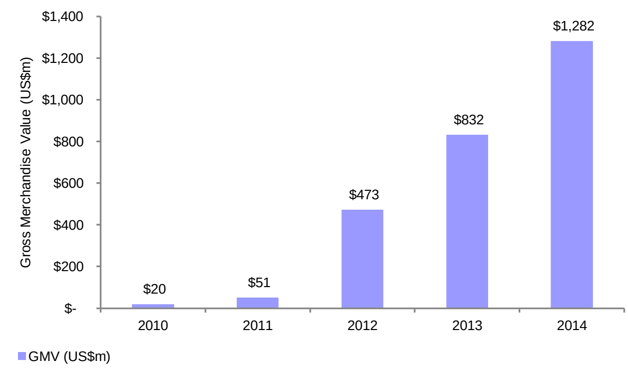
Ibibo is a joint venture held by Naspers (80%) and Tencent (20%) in India. Recently, Ibibo bought out RedBus, India's #1 bus ticketing platform (founded in 2005). The RedBus model offers online purchase of bus tickets with no booking charges, monetizing through discounts sourced from the bus operators. The platform offers 1,500+ bus operators and c80,000 routes in India, providing a consolidated view of what could be considered a very fragmented industry. RedBus has expanded its sales channels beyond the internet to include phone, home delivery, and physical outlets (30k+).

Figure 101: Number of transactions through Ibibo / RedBus doubled in 2014…



Source: company presentation, Deutsche Bank

Figure 102: …with GMV up 50% in 2014 from 2013 levels



Source: company presentation, Deutsche Bank

Rating
Buy

North America
United States

TMT
Internet

Company
MakeMyTrip

Reuters	Bloomberg
MMYT.OQ	MMYT US

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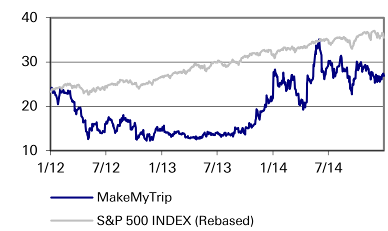
Price at 29 Jan 2015 (USD)	24.30
Price target	35.00
52-week range	35.13 - 19.25

Price/price relative



Performance (%)	1m	3m	12m
Absolute	-7.2	-13.5	10.8
S&P 500 INDEX	-3.3	2.0	13.9

Source: Deutsche Bank

Stock data

Market Cap (USDm)	908.7
Shares outstanding (m)	37.4
Free float (%)	100
Volume (29 Jan 2015)	130,464
S&P 500 INDEX	2,021.25

Source: Deutsche Bank

Key indicators (FY1)

ROE (%)	-147.2
ROA (%)	-83.3
Net debt/equity (%)	-23.2
Book value/share (USD)	4.32
Price/book (x)	5.6
Net interest cover (x)	–
EBIT margin (%)	-15.6

Source: Deutsche Bank

H&P slowdown looks temporary; reiterating Buy

Progress in mobile and share gains keep thesis intact
We reiterate our Buy rating on MMYT shares, despite weak H&P segment bookings growth, as we expect F4Q growth to bounce back as SpiceJet normalizes and standalone hotel growth remains torrid. MMYT continues to benefit from growing Internet penetration driven by mobile, which is approaching almost half of traffic and over 33% of domestic hotel bookings. Despite a somewhat clumsy explanation of the H&P softness, we see our bullish thesis intact and see lower oil, a stable Rupee, tame inflation, and positive economic momentum as positives for MMYT and the Indian consumer.

Having stabilized, passenger traffic now shows signs of improvement
Air traffic trends stabilized over the past year, following the wash out with Kingfisher that in part led to our downgrade in Sept. 2012. Recent domestic air traffic trends have been positive, setting the stage for more upside potential to estimates. We have seen Air Asia and Vistara, a JV between Singapore Airlines and the Tata Group, enter the market, and incumbent airline IndiGo recently placed the largest order for planes that Airbus has ever received, showing confidence in the long-term outlook. Falling energy prices are a near-term positive, with ticket prices likely to fall, further boosting demand.

New government bodes well for Indian macro and for travel
India's new government has sparked a renewed optimism on the ground, as the new PM vows to break the spell of economic stagnation, and make it easier to do business in India. Within travel, the government is looking to increase tourism. More specifically, there are initiatives to streamline the visa process for tourists, build airports for second and third tier cities, cut jet fuel taxes, and incentivize the construction of new hotels.

Mobile a leapfrogging technology to boost Internet penetration in India
We've seen mobile play the role of leapfrog technology in many emerging markets, helping to greatly expand internet usage. While internet penetration in India has improved of late, it continues to lag all other BRIC countries. In 2013, Indian internet penetration was a paltry 15% per World Bank statistics, well behind China (46%), Brazil (52%), and Russia (61%). But with 136M smartphones expected to be sold in India this year growing to 265M in 2018, we see the potential for internet penetration to grow sharply, driven by mobile. MMYT has invested heavily in mobile, and last quarter reported 29% of traffic and 14% of transactions from mobile. We believe MMYT is well positioned to benefit from incremental mobile bookings.

Valuation and risk
Our $35 TP (from $38 previously) is based on a weighted average of 25x EV/EBITDA (from 30x previously), 6x EV/Sales, and a 3.5% FCF yield on our FY- 17E (was FY-16E). Downside risks to our Buy rating include competition, potential lower commissions, slower market development, FX risk, emerging market risk, inflation/macro and slowdown in the Indian travel market.

Model updated:28 October 2014

Running the numbers

North America

United States

Internet

MakeMyTrip

Reuters: MMYT.OQ Bloomberg: MMYT US

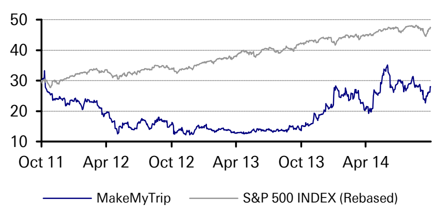
Buy

Price (29 Oct 14)	USD 28.09
Target Price	USD 35.00
52 Week range	USD 13.65 - 35.13
Market Cap (m)	USDm 1,050
	EURm 823

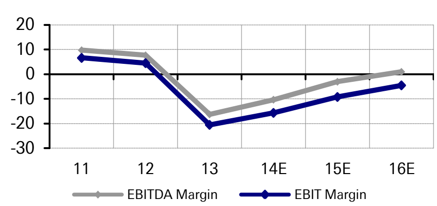
Company Profile

MakeMyTrip is an Indian online travel company offering products and services for travel to/from India. Its products and services include air tickets, hotels, packages, rail tickets, bus tickets and ancillary travel services. The company markets its services to Indians and to non-resident Indian markets around the world. MakeMyTrip Limited was founded in 2000 and is based in Gurgaon, India.

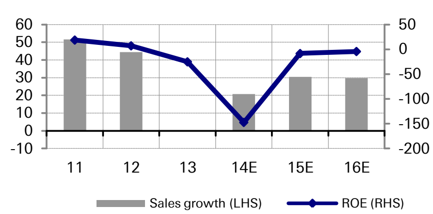
Price Performance



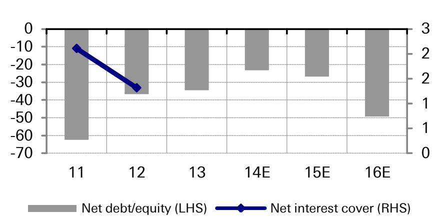
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Mar	2011	2012	2013	2014E	2015E	2016E
Financial Summary						
DB EPS (USD)	0.13	0.18	-0.71	-5.11	-0.32	-0.17
Reported EPS (USD)	0.13	0.18	-0.71	-5.11	-0.32	-0.17
DPS (USD)	0.00	0.00	0.00	0.00	0.00	0.00
BVPS (USD)	2.18	3.24	2.70	4.32	3.85	4.13
Valuation Metrics						
Price/Sales (x)	17.6	10.2	6.6	9.9	7.6	5.8
P/E (DB) (x)	232.7	132.7	nm	nm	nm	nm
P/E (Reported) (x)	232.7	132.7	nm	nm	nm	nm
P/BV (x)	13.4	7.1	5.2	6.5	7.3	6.8
FCF yield (%)	0.5	0.6	1.8	nm	0.5	3.7
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0	0.0
EV/Sales	16.6	9.2	5.7	8.5	6.5	4.8
EV/EBITDA	169.4	119.1	nm	nm	nm	475.6
EV/EBIT	249.0	202.1	nm	nm	nm	nm
Income Statement (USDm)						
Sales	61	88	88	106	139	180
EBITDA	6	7	-14	-11	-4	2
EBIT	4	4	-18	-17	-13	-8
Pre-tax profit	2	1	-19	-193	-13	-7
Net income	5	7	-28	-194	-13	-7
Cash Flow (USDm)						
Cash flow from operations	7	11	14	-181	13	52
Net Capex	-1	-6	-3	-6	-7	-8
Free cash flow	5	5	11	-187	6	44
Equity raised/(bought back)	0	0	0	0	0	0
Dividends paid	0	0	0	0	0	0
Net inc/(dec) in borrowings	0	0	0	0	0	0
Other investing/financing cash flows	50	-9	-19	-2	0	0
Net cash flow	55	-4	-8	-189	6	43
Change in working capital	*0*	*-3*	*16*	*-4*	*5*	*28*
Balance Sheet (USDm)						
Cash and cash equivalents	52	44	37	38	44	87
Property, plant & equipment	4	7	9	9	11	13
Goodwill	0	0	0	0	0	0
Other assets	57	119	149	223	230	245
Total assets	113	170	195	270	285	345
Debt	4	0	1	0	0	0
Other liabilities	33	51	91	107	123	169
Total liabilities	37	51	93	108	123	169
Total shareholders' equity	76	119	102	162	162	176
Net debt	*-48*	*-44*	*-35*	*-38*	*-44*	*-87*
Key Company Metrics						
Sales growth (%)	51.6	44.4	0.0	20.7	30.4	29.8
DB EPS growth (%)	na	39.4	na	-619.5	93.7	47.8
Payout ratio (%)	0.0	0.0	nm	nm	nm	nm
EBITDA Margin (%)	9.8	7.7	-16.2	-10.3	-3.0	1.0
EBIT Margin (%)	6.7	4.5	-20.5	-15.6	-9.2	-4.5
ROE (%)	18.8	7.2	-25.1	-147.2	-8.3	-4.2
Net debt/equity (%)	-62.5	-36.7	-34.5	-23.2	-26.9	-49.2
Net interest cover (x)	2.1	1.3	nm	nm	nm	nm
DuPont Analysis						
EBIT margin (%)	6.7	4.5	-20.5	-15.6	-9.2	-4.5
x Asset turnover (x)	0.7	0.6	0.5	0.5	0.5	0.6
x Financial cost ratio (x)	0.5	0.2	1.1	1.3	1.1	0.9
x Tax and other effects (x)	2.3	7.3	1.5	8.8	1.0	1.0
= ROA (post tax) (%)	5.9	5.0	-15.1	-83.3	-4.9	-2.3
x Financial leverage (x)	3.2	1.5	1.7	1.8	1.7	1.9
= ROE (%)	18.8	7.2	-25.1	-147.2	-8.3	-4.2
annual growth (%)	*-20.9*	*-61.6*	*na*	*-487.1*	*94.3*	*49.4*
x NTA/share (avg) (x)	0.7	2.5	2.8	3.5	3.8	4.0
= Reported EPS	0.13	0.18	-0.71	-5.11	-0.32	-0.17
annual growth (%)	*na*	*39.4*	*na*	*-619.5*	*93.7*	*47.8*

Source: Company data, Deutsche Bank estimates

Maintaining Buy

We maintain our Buy recommendation on MakeMyTrip due to (1) improvements in the Indian air market, (2) increasing internet penetration in India, and (3) a more supportive macro and regulatory outlook.

Air tends improving

When we downgraded MakeMyTrip in September 2012, we noted disarray in the Indian air market, which accounts for the majority of the company's bookings and revenue. After over a year of choppy air travel trends, we have seen consistent growth return to the Indian air market. What's more, the emergence of new foreign entrants in air, lower energy prices, the possibility of lower jet fuel taxes, and plans to open 50 new airports throughout the country are all supportive of the continued development of India's air market.

Mobile helping India play catch-up

In terms of internet penetration, India lags behind all other BRIC countries. In 2013, internet penetration in India was 15% compared to 46% in China, 52% in Brazil, and 61% in Russia. However, as we've seen elsewhere in the developing world mobile is helping the country catch up. Deutsche Bank forecasts that smartphone shipments in India will grow from 98M in 2013 to 265M in 2018, a 51% CAGR. The combination of falling smartphone prices and rising incomes will give hundreds of millions of new users internet access for the first time. We believe MakeMyTrip is well positioned to benefit from higher internet penetration and incremental mobile bookings.

Modi instills confidence

In mid-May, Narendra Modi and his pro-growth Bharatiya Janata Party won elections in convincing fashion, giving India a much-needed boost of confidence. Since his election, the Indian stock market has rallied and the Rupee has stabilized. Mr. Modi is expected to unveil reforms to cut some of India's infamous red tape and help promote growth. Importantly for MakeMyTrip, promoting technology and tourism are two of his priorities. Specific initiatives include streamlining the visa process for tourists, expanding airport infrastructure, cutting state jet fuel taxes, and incentivizing the construction of hotels.

Valuation

Buy with $35 price target

We maintain our Buy rating on shares of MakeMyTrip with a price target to $35. Our price target is based on a blended average of 25x EV/EBITDA multiple, 6x EV/net revenue multiple, and a 3.5% FCF yield on our FY-17 estimates.

Figure 103: Valuation

Current Price	$24.69			
Basic shares	42.0			
Fully Diluted Shares Outstanding	43.7			
Current Market Cap	$1,078			
Less: Cash and Cash Equivalents	143			
Plus: Debt	0			
Adjusted Enterprise Value	$936			
EV to EBITDA		FY15E	FY16E	FY17E
Adjusted EBITDA		$10	$22	$35
Current EV/EBITDA Multiple		97.9x	43.0x	27.1x
Target Multiple		**25.0x**	**25.0x**	**25.0x**
Enterprise Value		239	544	864
Plus: YE Cash		134	187	244
Less: YE Debt		0	0	0
Equity Market Capitalization		425	783	1,161
FY End Projected Sharecount		42	42	43
Implied Stock Price on Forward EBITDA		$10	$18	$27
EV to Sales		FY15E	FY16E	FY17E
Net revenue		$137	$177	$230
Current EV/Sales Multiple		6.8x	5.3x	4.1x
Target Multiple		**6.0x**	**6.0x**	**6.0x**
Enterprise Value		$825	$1,061	$1,378
Implied Stock Price on Forward Sales		$24	$31	$39
FCF Yield		FY15E	FY16E	FY17E
FCF per Share		($0.21)	$1.25	$1.34
Current FCF Yield		-0.8%	5.1%	5.4%
Target Yield		3.5%	3.5%	3.5%
Implied Stock Price on Forward FCF		($6)	$36	$38
	Average			$35

Source: Company reports, Deutsche Bank
Note: FY-17 represents the 12-month period ending in March 2017.

Risks

Downside risks include a macroeconomic slowdown, the hyper-competitive market for online travel (and OTA acquisitions), agreements with travel suppliers, dependence on third party relationships, the growth of online penetration in India, fluctuations in foreign exchange, and disruption in travel due to regional turmoil, including terrorism.

Figure 104: MakeMyTrip income statement

	FY 2010A	FY 2011A	FY 2012A	F1QA Jun-12	F2QA Sep-12	F3QA Dec-12	F4QA Mar-13	FY 2013A	F1QA Jun-13	F2QA Sep-13	F3QA Dec-13	F4QA Mar-14	FY 2014A	F1QA Jun-14	F2QE Sep-14	F3QE Dec-14	F4QE Mar-15	FY 2015E	FY2016E	FY2017E
Gross Bookings	$465,876	$742,437	$992,958	$271,472	$261,980	$324,424	$311,682	$1,169,559	$335,496	$272,554	$311,325	$341,842	$1,261,217	$432,176	$339,054	$401,325	$424,342	$1,596,897	1,991,897	2,491,897
YoY Change	49%	59%	34%	3%	7%	37%	26%	18%	24%	4%	-4%	10%	8%	29%	24%	29%	24%	27%	25%	25%
YoY Change (excluding FX)			42%	23%	29%	45%	34%	32%	28%	11%	10%	25%	18%	39%	28%	27%	23%	29%	26%	25%
QoQ Change	*NA*	*NA*	*NA*	*10%*	*-3%*	*24%*	*-4%*	*NA*	*8%*	*-19%*	*14%*	*10%*	*NA*	*26%*	*-22%*	*18%*	*6%*	*NA*	*NA*	*NA*
Net Revenues (Gross Profit)	40,283	61,070	88,185	23,883	20,155	22,354	21,773	88,165	26,010	23,309	28,548	28,528	106,395	35,453	30,240	35,921	37,118	138,732	180,097	238,121
YoY Change	61%	52%	44%	13%	-6%	-6%	-1%	0%	9%	16%	28%	31%	21%	36%	30%	26%	30%	30%	30%	32%
YoY Change (excluding FX)			53%	36%	14%	0%	6%	12%	13%	23%	46%	50%	32%	44%	34%	24%	29%	33%	31%	32%
QoQ Change	*NA*	*NA*	*NA*	*8%*	*-16%*	*11%*	*-3%*	*NA*	*19%*	*-10%*	*22%*	*0%*	*NA*	*24%*	*-15%*	*19%*	*3%*	*NA*	*NA*	*NA*
Operating Expenses																				
Personnel	16,562	14,399	26,521	7,618	7,534	9,561	9,808	34,520	9,800	10,715	8,339	8,366	37,221	10,794	9,979	11,315	12,249	44,338	53,963	67,799
Other Expenses	28,161	40,699	54,869	15,744	14,876	17,925	19,409	67,954	20,452	17,208	19,974	22,482	80,116	26,273	21,168	25,145	25,982	98,568	124,330	159,575
D&A	1,570	1,911	2,790	719	769	1,016	1,249	3,753	1,316	1,303	1,411	1,662	5,692	2,036	2,100	2,200	2,225	8,561	9,845	11,321
Total Operating Expense	46,292	57,009	84,180	24,081	23,178	28,502	30,466	106,227	31,568	29,226	29,724	32,510	123,029	39,103	33,247	38,660	40,456	151,467	188,137	238,695
Operating Profit	(6,010)	4,062	4,005	(198)	(3,023)	(6,148)	(8,693)	(18,062)	(5,448)	(5,884)	(1,176)	(2,814)	(15,322)	(3,362)	(3,007)	(2,739)	(3,339)	(12,447)	(8,040)	(575)
Operating Margin	*-15%*	*7%*	*5%*	*-1%*	*-15%*	*-28%*	*-40%*	*-20%*	*-21%*	*-25%*	*-4%*	*-10%*	*-14%*	*-9%*	*-10%*	*-8%*	*-9%*	*-9%*	*-4%*	*0%*
Stock-based compensation	NA	527	6,894	2,704	2,851	3,246	2,867	11,667	3,009	4,010	2,016	2,062	11,097	2,567	3,024	3,592	3,712	12,895	21,612	26,193
Other one-time items						676	329	1,005	448	333	550	(592)	774	1,062				1,062		
Proforma Operating Profit	NM	4,589	10,900	2,506	(172)	(2,227)	(5,497)	(5,390)	(1,990)	(1,540)	1,389	(1,345)	(3,451)	267	17	853	373	1,510	13,571	25,618
PF Op Margin		7.5%	12.4%	10.5%	-0.9%	-10.0%	-25.2%	-6.1%	-7.7%	-6.6%	4.9%	-4.7%	-3.2%	0.8%	0.1%	2.4%	1.0%	1.1%	7.5%	10.8%
Adjusted EBITDA		6,500	13,690	3,225	597	(750)	(4,248)	(1,637)	(673)	(237)	2,801	317	2,241	2,303	2,117	3,053	2,598	10,071	23,416	36,940
EBITDA Margin		10.6%	15.5%	13.5%	3.0%	-3.4%	-19.5%	-1.9%	-2.6%	-1.0%	9.8%	1.1%	2.1%	6.5%	7.0%	8.5%	7.0%	7.3%	13.0%	15.5%
Finance Income		1,625	1,994	887	1,780	954	1,076	4,697	1,094	387	421	1,201	3,102	737	1,250	1,250	1,250	4,487	6,000	6,000
Finance Costs		3,549	5,029	1,672	446	1,415	2,093	5,625	4,633	2,000	809	994	8,436	1,284	1,284	1,284	1,284	5,136	5,000	5,000
Total Finance Costs	189	1,924	3,035	785	(1,334)	461	1,016	928	3,539	1,613	388	(207)	5,334	547	34	34	34	649	(1,000)	(1,000)
Other Income									110	34	-	1,168	1,312	288				288	-	-
Share of loss of equity-accounted investee									(50)	(42)	(27)	(52)	(171)	(29)	(25)	(25)	(25)	(104)	(100)	(100)
Profit Before Tax	(6,198)	2,138	970	(983)	(1,689)	(6,609)	(9,709)	(18,990)	(9,037)	(7,539)	(1,592)	(2,659)	(20,827)	(3,938)	(3,066)	(2,773)	(3,372)	(13,095)	(7,040)	425
Income Taxes	9	(2,692)	(6,078)	(172)	(461)	(1,374)	10,606	8,599	55	(16)	36	3	79	26	25	25	25	101	100	100
Profit After Tax	(6,207)	4,830	7,048	(810)	(1,228)	(5,236)	(20,315)	(27,589)	(9,091)	(7,523)	(1,628)	(2,663)	(20,906)	(3,964)	(3,091)	(2,798)	(3,397)	(13,196)	(7,140)	325
PF Adjustments				(172)	(461)	(554)	10,935	9,876	55	(16)	36	3	79	26	25	25	25	101	100	100
Stock-based compensation		527	6,894	2,704	2,851	3,246	2,867	11,667	3,009	4,010	2,016	2,062	11,097	2,567	3,024	3,592	3,712	12,895	21,612	26,193
IPO Costs		2,087											-							
Gain on derivatives		(48)		91	(8)	(8)	(11)	4	204				204							
Interest accretion on preference stock		426		7									-							
Other									725	613	803	72	2,247	1,562						
PF Net Income		7,821	8,995	1,819	1,154	(2,553)	(6,524)	(6,103)	(5,098)	(2,916)	1,227	(526)	(7,279)	191	(42)	794	314	1,257	14,471	26,518
Shares outstanding	29,846	36,513	38,234	38,484	37,197	37,410	37,497	37,315	37,618	37,667	37,746	38,309	37,886	41,687	41,895	42,104	42,315	42,062	42,687	43,312
Proforma EPS	($0.18)	$0.21	$0.24	$0.05	$0.03	($0.07)	($0.17)	($0.16)	($0.14)	($0.08)	$0.03	($0.01)	($0.19)	$0.00	($0.00)	$0.02	$0.01	$0.03	$0.34	$0.61
GAAP EPS	($0.35)	$0.21	$0.18	($0.02)	($0.03)	($0.13)	($0.52)	($0.71)	($0.24)	($0.20)	($0.04)	($0.07)	($0.55)	($0.10)	($0.07)	($0.07)	($0.08)	($0.31)	($0.17)	$0.01
As a % of Net Revenue																				
Gross Margin	48%	49%	45%	37%	44%	35%	39%	39%	34%	49%	41%	47%	42%	37%	45%	38%	39%	40%	33%	32%
Personnel Cost	41%	24%	30%	32%	37%	43%	45%	39%	38%	46%	29%	29%	35%	30%	33%	32%	33%	32%	30%	28%
Other Expenses	70%	67%	62%	66%	74%	80%	89%	77%	79%	74%	70%	79%	75%	74%	70%	70%	70%	71%	69%	67%
D&A	4%	3%	3%	3%	4%	5%	6%	4%	5%	6%	5%	6%	5%	6%	7%	6%	6%	6%	5%	5%
Operating Margin	-15%	7%	5%	-1%	-15%	-28%	-40%	-20%	-21%	-25%	-4%	-10%	-14%	-9%	-10%	-8%	-9%	-9%	-4%	0%
Stock compensation expense			8%	11%	14%	15%	13%	13%	12%	17%	7%	7%	10%	7%	10%	10%	10%	9%	12%	11%
PF Operating Margin	NM	8%	12%	10%	-1%	-10%	-25%	-6%	-8%	-7%	5%	-5%	-3%	1%	0%	2%	1%	1%	8%	11%
Tax Rate	0%	-126%	-626%	0%	0%	0%	-109%	-45%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%
Net Income	-15%	8%	8%	-3%	-6%	-23%	-93%	-31%	-35%	-32%	-6%	-9%	-20%	-11%	-10%	-8%	-9%	-10%	-4%	0%

Source: Company reports, Deutsche Bank

Rating
Buy

Asia
India

Technology
Software & Services

Company
Just Dial Ltd

Reuters	Bloomberg
JUST.NS	JUST IN

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Price at 29 Jan 2015 (INR)	1,552.95
Price target - 12mth (INR)	1,800.00
52-week range (INR)	1,847.00 - 1,005.00
Bombay Stock Exchange (BSE 30)	29,682

Dialing all the right numbers

Greater investment in search plus delay benefits from operating leverage

JustDial is a leading horizontal search engine in India with a large, rapidly growing database of business listings and users. The transition from search engine to search + transaction engine (through new prods like search + marketplace services) is well timed. We expect high growth in (a) online classifieds market, (b) digital adv., (c) rising internet usage (esp. mobile) and proliferation of ecommerce, to drive revenue growth, while greater monetization of existing listings should drive operating leverage. We maintain Buy with a target price of INR1,800.

Operating performance beats expectations

Just Dial's Dec-Q operating performance was ahead of our and Street estimates. Given lower-than-expected other income we have reduced our FY16 and FY17 earnings estimates by 3%. We maintain our Buy rating, however, with a target price of INR1,800. The comprehensive launch of search plus and transaction services in 4QFY15, supported by targeted advertising and marketing campaign, leads us to believe search plus initiatives will contribute meaningfully to revenues from 2HFY16E. We thus expect the company to deliver revenue and earnings CAGR's of 34% and 59% over FY15-17E.

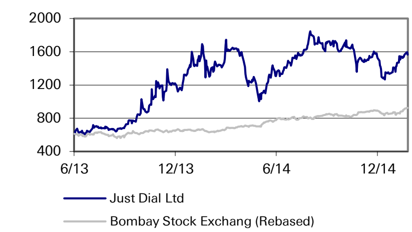
Greater focus on growing search plus business

The company has taken several measures to further increase its investments in the search plus and marketplace businesses. The board has passed a resolution enabling the company to raise up to INR10bn in equity. Operating margins will be stable in the medium term as excess profits are ploughed back to support growth initiatives. The company plans to use mass communication channels from 4QFY14 and has earmarked INR250-400mn for advertisement spends on popularizing its service offerings.

Retaining Buy with a target price of INR1,800

We value JustDial at 52x FY16E PE. This is in line with the average PE multiple and PEG for peers. Key risks: competition from larger search engines and online marketplaces.

Price/price relative



Performance (%)	1m	3m	12m
Absolute	15.6	6.1	3.8
Bombay Stock Exchange (BSE 30)	8.3	9.5	43.8

Source: Deutsche Bank

Stock data

Market cap (INRm)	109,347
Market cap (USDm)	1,779
Shares outstanding (m)	70.1
Major shareholders	–
Free float (%)	0
Avg daily value traded (USDm)	0.0

Source: Deutsche Bank

Key indicators (FY1)

ROE (%)	22.1
Net debt/equity (%)	-27.7
Book value/share (INR)	91.32
Price/book (x)	17.0
Net interest cover (x)	–
Operating profit margin (%)	25.3

Source: Deutsche Bank

Forecasts and ratios

Year End Mar 31	2013A	2014A	2015E	2016E	2017E
Sales (INRm)	3,627.7	4,612.9	5,935.3	8,024.0	10,628.6
EBITDA (INRm)	1,007.8	1,422.0	1,730.8	2,718.2	4,277.8
Reported NPAT (INRm)	684.6	1,206.0	1,296.1	2,111.0	3,265.9
Reported EPS FD(INR)	9.95	17.13	18.41	29.98	46.38
DB EPS FD(INR)	10.17	17.13	18.41	29.98	46.38
DB EPS growth (%)	30.7	68.4	7.5	62.9	54.7
PER (x)	–	62.7	84.4	51.8	33.5
EV/EBITDA (x)	–	49.1	59.2	37.0	22.8
DPS (net) (INR)	0.00	2.00	3.00	4.00	5.00
Yield (net) (%)	–	0.2	0.2	0.3	0.3

Source: Deutsche Bank estimates, company data

[1] DB EPS is fully diluted and excludes non-recurring items

[2] Multiples and yields calculations use average historical prices for past years and spot prices for current and future years, except P/B which uses the year end close

Model updated:29 January 2015

Running the numbers

Asia

India

Software & Services

Just Dial Ltd

Reuters: JUST.NS Bloomberg: JUST IN

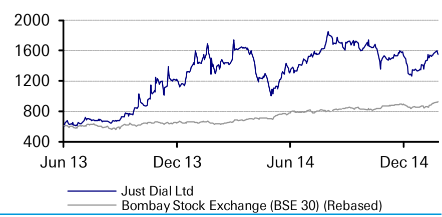
Buy

Price (29 Jan 15)	INR 1,552.95
Target Price	INR 1,800.00
52 Week range	INR 1,005.00 - 1,847.00
Market Cap (m)	INRm 109,347
	USDm 1,782

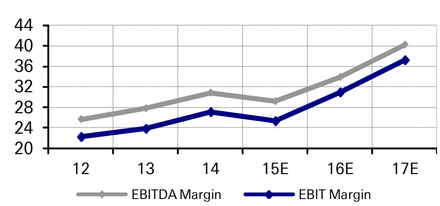
Company Profile

Just Dial is a pioneer and one of the leading local search engines in India. It provides users information and user reviews from its database of local businesses, products and services across India. Its search service is available to users through internet, mobile internet, telephone and text. It monetizes this database by running campaigns for its paid advertisers. As of Mar-14 it had a database of 11.8m listings with 262,150 paid campaigns.

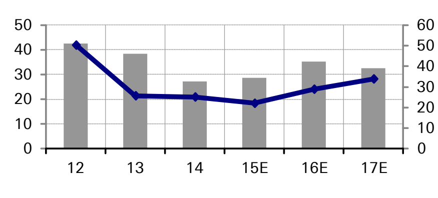
Price Performance



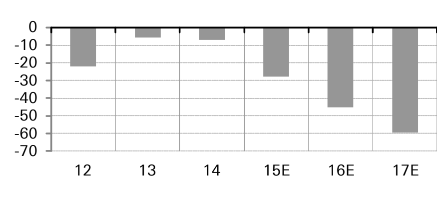
Margin Trends



Growth & Profitability



Solvency



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Fiscal year end 31-Mar	2012	2013	2014	2015E	2016E	2017E
Financial Summary						
DB EPS (INR)	7.78	10.17	17.13	18.41	29.98	46.38
Reported EPS (INR)	7.78	9.95	17.13	18.41	29.98	46.38
DPS (INR)	0.00	0.00	2.00	3.00	4.00	5.00
BVPS (INR)	19.0	64.0	76.2	91.3	116.9	157.9
Weighted average shares (m)	56	66	70	70	70	70
Average market cap (INRm)	na	na	75,261	109,347	109,347	109,347
Enterprise value (INRm)	na	na	69,858	102,540	100,597	97,716
Valuation Metrics						
P/E (DB) (x)	na	na	62.7	84.4	51.8	33.5
P/E (Reported) (x)	na	na	62.7	84.4	51.8	33.5
P/BV (x)	0.00	0.00	20.33	17.00	13.28	9.84
FCF Yield (%)	na	na	1.8	1.2	1.6	2.4
Dividend Yield (%)	na	na	0.2	0.2	0.3	0.3
EV/Sales (x)	nm	nm	15.1	17.3	12.5	9.2
EV/EBITDA (x)	nm	nm	49.1	59.2	37.0	22.8
EV/EBIT (x)	nm	nm	55.9	68.3	40.5	24.7
Income Statement (INRm)						
Sales revenue	2,621	3,628	4,613	5,935	8,024	10,629
Gross profit	1,312	1,830	2,327	2,923	4,644	6,882
EBITDA	672	1,008	1,422	1,731	2,718	4,278
Depreciation	90	144	173	229	237	322
Amortisation	0	0	0	0	0	0
EBIT	582	864	1,249	1,502	2,481	3,956
Net interest income(expense)	0	0	0	0	0	0
Associates/affiliates	0	0	0	0	0	0
Exceptionals/extraordinaries	0	-15	0	0	0	0
Other pre-tax income/(expense)	132	136	399	339	522	691
Profit before tax	713	984	1,649	1,841	3,003	4,646
Income tax expense	209	300	443	545	892	1,380
Minorities	0	0	0	0	0	0
Other post-tax income/(expense)	0	0	0	0	0	0
Net profit	504	685	1,206	1,296	2,111	3,266
DB adjustments (including dilution)	0	15	0	0	0	0
DB Net profit	504	700	1,206	1,296	2,111	3,266
Cash Flow (INRm)						
Cash flow from operations	902	1,038	1,436	1,657	2,217	3,223
Net Capex	-87	-263	-78	-356	-481	-638
Free cash flow	815	775	1,358	1,301	1,736	2,585
Equity raised/(bought back)	0	176	6	0	0	0
Dividends paid	0	0	0	-237	-316	-394
Net inc/(dec) in borrowings	-1	0	0	0	0	0
Other investing/financing cash flows	-313	-697	-1,070	339	522	691
Net cash flow	501	254	294	1,404	1,942	2,881
Change in working capital	*5*	*14*	*14*	*23*	*-233*	*-346*
Balance Sheet (INRm)						
Cash and other liquid assets	237	239	370	1,774	3,716	6,597
Tangible fixed assets	330	535	461	588	833	1,148
Goodwill/intangible assets	30	88	67	67	67	67
Associates/investments	1,772	5,064	5,034	5,034	5,034	5,034
Other assets	109	148	1,718	1,767	2,103	2,569
Total assets	2,478	6,074	7,650	9,230	11,752	15,416
Interest bearing debt	0	0	0	0	0	0
Other liabilities	1,405	1,823	2,305	2,826	3,553	4,345
Total liabilities	1,405	1,823	2,305	2,826	3,553	4,345
Shareholders' equity	1,072	4,251	5,344	6,404	8,199	11,071
Minorities	0	0	0	0	0	0
Total shareholders' equity	1,072	4,251	5,344	6,404	8,199	11,071
Net debt	*-237*	*-239*	*-370*	*-1,774*	*-3,716*	*-6,597*
Key Company Metrics						
Sales growth (%)	42.5	38.4	27.2	28.7	35.2	32.5
DB EPS growth (%)	69.3	30.7	68.4	7.5	62.9	54.7
EBITDA Margin (%)	25.7	27.8	30.8	29.2	33.9	40.2
EBIT Margin (%)	22.2	23.8	27.1	25.3	30.9	37.2
Payout ratio (%)	0.0	0.0	11.6	16.2	13.3	10.7
ROE (%)	50.3	25.7	25.1	22.1	28.9	33.9
Capex/sales (%)	3.3	7.2	1.7	6.0	6.0	6.0
Capex/depreciation (x)	1.0	1.8	0.4	1.6	2.0	2.0
Net debt/equity (%)	-22.1	-5.6	-6.9	-27.7	-45.3	-59.6
Net interest cover (x)	nm	nm	nm	nm	nm	nm

Source: Company data, Deutsche Bank estimates

Greater focus on growing search plus business

Operating performance beats expectations

Just Dial's Dec-Q operating performance was ahead of our and Street estimates. Given lower-than-expected other income we have reduced our FY16 and FY17 earnings estimates by 3%. We maintain our Buy rating, however, with a target price of INR1,800. The comprehensive launch of search plus and transaction services in 4QFY15, supported by a targeted advertising and marketing campaign, leads us to believe search plus initiatives will contribute meaningfully to revenues from 2HFY16E. We thus expect the company to deliver revenue and earnings CAGRs of 34% and 59% over FY15-17E.

Healthy improvement in business listings and paid advertising campaigns

While revenues at INR1.54bn (+29%yoy, 3.6% ahead of Street) were ahead of our estimates, EBIT margin at 28.5% (+387bps qoq) was 162bps above our estimates. Lower-than-expected other income led to the net income miss. However, the company has shown (a) steady improvement in the number of listings, which now stand at 14.7mn (+ 36% yoy), (b) healthy increase in paid advertising campaigns to 312,800 (+25% yoy), and (c) 2.8% yoy increase in realization per campaign.

Spending on creating awareness about its transaction business

The company is creating a master app which is expected to be fully functional by 4QFY15-end. It's seeing good traction for travel bookings, movie tickets, online shopping, etc. Management does not expect it to meaningfully monetize the transaction business in CY15. It will be using a combination of online and offline approaches to spending on the marketing of the search plus business with the sole motive of creating awareness.

Key comments made by management

Enabling resolution to raise equity up to INR10bn

The company's board has approved a capital raise of INR10bn through equity & related instruments. The timing of the fund raising will be decided in due course. The proceeds will be used for strategic business objectives and provide flexibility in pursuing suitable inorganic growth. The stronger balance sheet will enable the company to better address competition. Management ruled out plans of raising any debt funding for acquisitions or investment in strategic ventures in the future.

Margin outlook stable in the medium term as business investments get priority

The company is focusing on investing in its search plus and marketplace businesses. It will hence plough back excess margins towards these investments and therefore expects operating margins to remain stable in the medium term.

Advertising spending will be focused on expanding its search plus business offering, for which it is also improving its mobile app. The company plans to use mass communication channels from 4QFY14 and has earmarked INR250-400mn for advertisement spends on popularizing its service offerings. Marketing expenditure (excluding ad spend) will remain in the range of 3-5% of revenues.

Gaining traction in search plus offerings

The company is focusing on (a) higher participation from users to transact online, and (b) ways of enabling vendors to run and engage with the JD brand. Its recent completed offers include cloud-based applications for (a) doctors' appointments with up-scale integration of patient-related information with the regular app, (b) an application for taking restaurant orders and table reservations. Currently all of these features are available to the vendors for free and the company does not plan to monetize these meaningfully for another three to four quarters.

International markets are low priority

International markets are not critical at this time. The group is investing in regular content creation and is not focused on monetization.

Drop in employee headcount a quarterly aberration

The number of employees was down 10% qoq to 8,899. The management attributes this to natural attrition. Hiring should go up in the Dec-Q, and the company will add a net of 1,000- 1,500 employees in FY15E.

Valuation and risks

Valuation

We value JustDial at 52x FY16E PE. This is in line with the average PE (56x FY16E) multiple for peers and values the company at a PEG of 1, which is in line with sector peers. Our high target PE is well supported by (a) strong positive free cash flow and (b) high ROE (26%+) and (c) earnings CAGR of 57% over FY15-17E.

Risks

We identify five downside risks to our Buy recommendation. (1) Drop in search result rankings on Google can adversely impact search frequency and revenues. (2) Search plus and marketplace initiatives may take longer to ramp up. (3) Reputational risk due to faulty or damaged goods delivered. (4) Greater-than-expected competition in the classifieds business from large and established players like Google and Facebook. (5) Higher competition in the marketplace segment from ecommerce portals like Amazon, Flipkart, etc.

Appendix 1

Important Disclosures

Additional information available upon request

Disclosure checklist

Company	Ticker	Recent price*	Disclosure
Naspers	NPNJn.J	1,697.85 (ZAR) 30 Jan 15	6,14
Just Dial Ltd	JUST.NS	1,570.00 (INR) 2 Feb 15	NA
MakeMyTrip	MMYT.OQ	24.85 (USD) 30 Jan 15	1,2,7

*Prices are current as of the end of the previous trading session unless otherwise indicated and are sourced from local exchanges via Reuters, Bloomberg and other vendors . Data is sourced from Deutsche Bank and subject companies.

Important Disclosures Required by U.S. Regulators

Disclosures marked with an asterisk may also be required by at least one jurisdiction in addition to the United States. See Important Disclosures Required by Non-US Regulators and Explanatory Notes.

1. Within the past year, Deutsche Bank and/or its affiliate(s) has managed or co-managed a public or private offering for this company, for which it received fees.
2. Deutsche Bank and/or its affiliate(s) makes a market in securities issued by this company.
6. Deutsche Bank and/or its affiliate(s) owns one percent or more of any class of common equity securities of this company calculated under computational methods required by US law.
7. Deutsche Bank and/or its affiliate(s) has received compensation from this company for the provision of investment banking or financial advisory services within the past year.
14. Deutsche Bank and/or its affiliate(s) has received non-investment banking related compensation from this company within the past year.

Important Disclosures Required by Non-U.S. Regulators

Please also refer to disclosures in the Important Disclosures Required by US Regulators and the Explanatory Notes.

1. Within the past year, Deutsche Bank and/or its affiliate(s) has managed or co-managed a public or private offering for this company, for which it received fees.
2. Deutsche Bank and/or its affiliate(s) makes a market in securities issued by this company.
6. Deutsche Bank and/or its affiliate(s) owns one percent or more of any class of common equity securities of this company calculated under computational methods required by US law.
7. Deutsche Bank and/or its affiliate(s) has received compensation from this company for the provision of investment banking or financial advisory services within the past year.

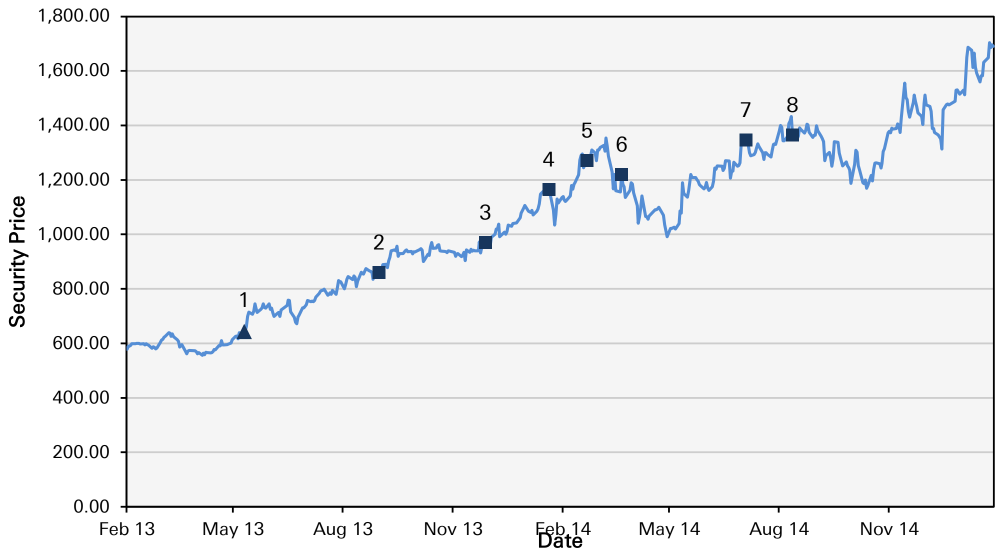
For disclosures pertaining to recommendations or estimates made on securities other than the primary subject of this research, please see the most recently published company report or visit our global disclosure look-up page on our website at http://gm.db.com/ger/disclosure/DisclosureDirectory.eqsr

Analyst Certification

The views expressed in this report accurately reflect the personal views of the undersigned lead analyst about the subject issuers and the securities of those issuers. In addition, the undersigned lead analyst has not and will not receive any compensation for providing a specific recommendation or view in this report. John Kim

Historical recommendations and target price: Naspers (NPNJn.J)

(as of 1/30/2015)



Previous Recommendations

Strong Buy
Buy
Market Perform
Underperform
Not Rated
Suspended Rating

Current Recommendations

Buy
Hold
Sell
Not Rated
Suspended Rating

*New Recommendation Structure as of September 9,2002

1.	13/05/2013:	Upgrade to Buy, Target Price Change ZAR715.00	5.	24/02/2014:	Buy, Target Price Change ZAR1,473.00
2.	03/09/2013:	Buy, Target Price Change ZAR935.00	6.	25/03/2014:	Buy, Target Price Change ZAR1,460.00
3.	01/12/2013:	Buy, Target Price Change ZAR1,054.00	7.	07/07/2014:	Buy, Target Price Change ZAR1,515.00
4.	23/01/2014:	Buy, Target Price Change ZAR1,316.00	8.	15/08/2014:	Buy, Target Price Change ZAR1,670.00

Historical recommendations and target price: Just Dial Ltd (JUST.NS)

(as of 2/2/2015)

Previous Recommendations

Strong Buy
Buy
Market Perform
Underperform
Not Rated
Suspended Rating

Current Recommendations

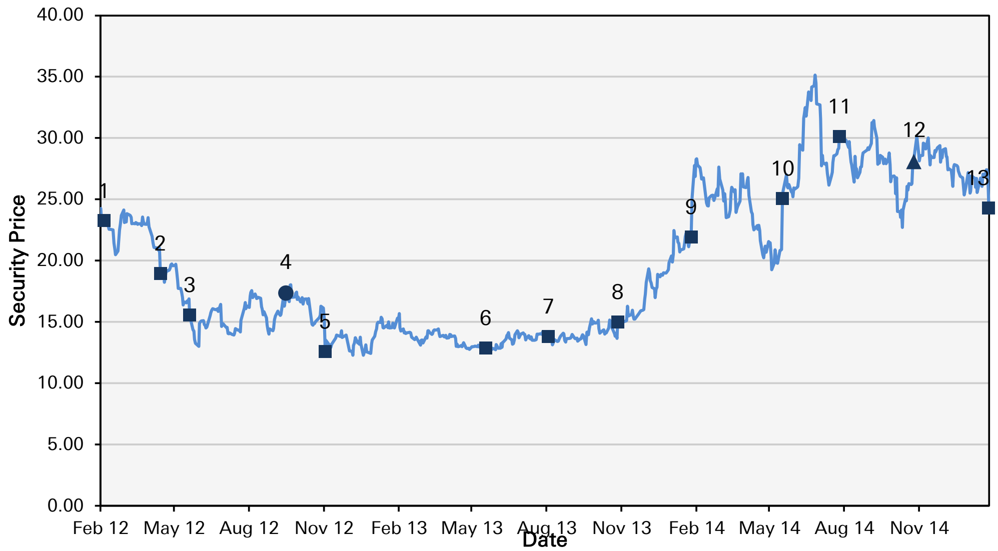
Buy
Hold
Sell
Not Rated
Suspended Rating

*New Recommendation Structure as of September 9,2002

1.	04/06/2014:	Upgrade to Buy, Target Price Change INR1,800.00

Historical recommendations and target price: MakeMyTrip (MMYT.OQ)

(as of 1/30/2015)



Previous Recommendations

Strong Buy
Buy
Market Perform
Underperform
Not Rated
Suspended Rating

Current Recommendations

Buy
Hold
Sell
Not Rated
Suspended Rating

*New Recommendation Structure as of September 9,2002

1.	10/02/2012:	Buy, Target Price Change USD28.00	8.	01/11/2013:	Hold, Target Price Change USD15.00
2.	19/04/2012:	Buy, Target Price Change USD25.00	9.	30/01/2014:	Hold, Target Price Change USD21.00
3.	25/05/2012:	Buy, Target Price Change USD19.00	10.	22/05/2014:	Hold, Target Price Change USD25.00
4.	20/09/2012:	Downgrade to Hold, USD19.00	11.	31/07/2014:	Hold, Target Price Change USD27.00
5.	07/11/2012:	Hold, Target Price Change USD12.00	12.	30/10/2014:	Upgrade to Buy, Target Price Change USD38.00
6.	23/05/2013:	Hold, Target Price Change USD11.00	13.	30/01/2015:	Buy, Target Price Change USD35.00
7.	08/08/2013:	Hold, Target Price Change USD13.00			

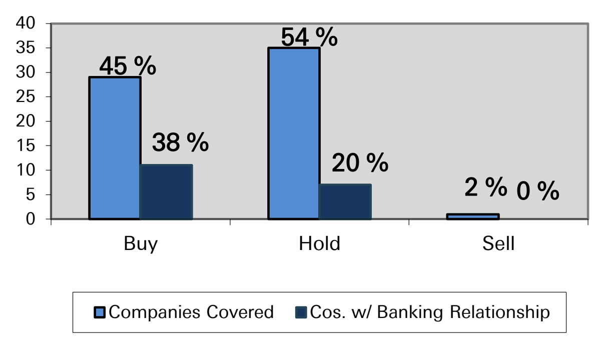
Equity rating key

Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus pro-jected dividend yield) , we recommend that investors buy the stock.
Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock
Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.
Notes:

1. Newly issued research recommendations and target prices always supersede previously published research.
2. Ratings definitions prior to 27 January, 2007 were:

    Buy: Expected total return (including dividends) of 10% or more over a 12-month period
    Hold: Expected total return (including dividends) between -10% and 10% over a 12-month period
    Sell: Expected total return (including dividends) of -10% or worse over a 12-month period

Equity rating dispersion and banking relationships



GEMs South African Universe

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