Consumer Tech Stocks

From Here to Where?

Stocks of Zomato, India's leading foodtech firm, gained nearly 80% in the last six months, while Paytm shares rose 44% during this period. What is driving investor frenzy for Indian consumer tech stocks?

After telecom companies like Airtel and Reliance Jio, if there is one sector that touches the life of an ordinary soul significantly, it is consumer tech. It is the umbrella term generally used to describe using technology to reach retail customers. Main categories include food delivery, ticket booking, gaming, education, and healthcare.

The space is inundated with startups. India is home to some 27,000 tech startups growing at an annual clip of 1,300. Nearly 100 of them have grown to claim the status of unicorns (company with more than $1 bn in valuation). Presently, it is estimated that about 25 listed consumer tech companies are available for investors.

The interesting aspect of consumer tech is the confluence of technology with several verticals like finance, healthcare, education, entertainment, etc. Technology has no borders and can essentially disrupt almost all industries. Hence, the outsized interest in this new emerging opportunity called consumer tech.

There are several macro tailwinds that are aiding this interest. First and foremost, India is the most populous country in the world followed by China. The per capital income for India has been increasing slowly but steadily from $1,400 in 2014 to $2,200 in 2014, and to $2,450 in FY2023; it is expected to nearly double (to reach $4,000) by FY2030. However, what is interesting is the increasing number of households, which is projected to increase from 190 million (2022) to nearly 300 million by 2030. That is a large enough pie for any business opportunity leave alone consumer tech. In fact, studies show that India is emerging as a good landscape for high income households as well. The number of high-income households is projected to grow from 15 million (2002) to nearly 30 million by 2030, lending support to opportunities in luxury tech. Concomitant with this is the growth in disposal income and Internet penetration that makes the business case very strong. Companies that are in the consumer tech business seamlessly integrate three types of technologies, i.e., core, adjacent and transformative. A good example of core technology would

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be customer relationship management (CRM), example of adjacent technology can be virtual reality (VR), while Generative artificial intelligence can be touted as transformative technology.

While the story of technology companies started very broadly with e-commerce, the hectic growth has now sprouted several sub-layers within the space. Notable among them would be D2C, Quick Commerce, Live Commerce, and Social Commerce. The D2C refers to direct to consumers where one can eliminate the middleman, which would lead to higher margins for the service provider. Brand power is an important attraction here. Quick Commerce promises faster deliveries (10 minutes in some cases!) and hinges on efficient coordination among technology, operations, personnel, facilities and promotions. Social commerce hinges on enabling far-flung consumers to enjoy the fruits of unbranded products based on social media synergies. Live commerce is conceptualized on live interaction to enhance consumer willingness to engage. The idea here is just to explain how the business model of consumer tech is a complicated mix of business and technology and hence not easy to interpret.

China can be an interesting example of how consumer tech has evolved since it happens to be a close comparison from a population point of view. The new e-commerce comprises segments like D2C as explained earlier. India has a lot of catching up to do when we look at the comparative numbers with China. This also spells tremendous opportunities, going forward.

Consumer tech startups: Not too many success stories

Consumer tech companies face several challenges including funding. Hence, most of them commence their journey as startups and are invariably funded by VC companies. In any typical VC funding profiles, the success rate is only about 10% and hence investment in tech startups is laden with huge risks. While the 100+ unicorns can be good case studies of success, it should be looked in the context of 27,000 startups. That's a meager (success) percentage indeed. In this fiercely competitive environment, companies resort to Growth At All Costs (GAAC) leading to significant price wars and discounts. The idea is to capture good market share (in what is generally described as Total Addressable Market) which many a times results in winners

Consumer-Tech Stocks' Performance: How Do They Stack Up?									
S. No.	Company	Business / Well-known Product	M-Cap (₹ in cr)	IPO Price**	Current Price	6M	Since IPO* (Annualized)	Current to Peak
1.	Zomato Ltd.	Zomato - Food Delivery, Blinkit - Grocery Delivery	83,144	76.0	98.8	78.2%	13.0%	–38.4%
2.	Info Edge (India) Ltd.	Naukri, IIM Jobs, 99 Acres, Jeevan Sathi	58,224	80.0	4,515.8	24.8%	27.1%	–35.7%
3.	One97 Communications Ltd.	PayTM	54,811	2,150.0	864.6	43.9%	–39.4%	–51.9%
4.	Fsn E-Commerce Ventures Ltd.	Nykaa - Beauty and Fashion	41,392	187.5	145.2	4.5%	–13.0%	–65.1%
5.	PB Fintech Ltd.	Policybazaar, Paisabazaar	35,170	980.0	788.4	29.6%	–11.2%	–45.6%
6.	Indiamart Intermesh Ltd.	IndiaMART - Online Marketplace	19,143	486.5	3,131.9	25.5%	55.8%	–36.0%
7.	CE Info Systems Ltd.	Digital map data, GPS navigation and location-based services	8,819	1,565.0	1,632.6	53.8%	2.5%	–12.0%
8.	Easy Trip Planners Ltd.	Ease My Trip - Holiday Planners	6,767	11.7	39.0	–17.0%	62.2%	–43.1%
9.	Cartrade Tech Ltd.	CarWale, CarTrade, BikeWale - Automobile Services Platform	2,619	1,618.0	559.4	37.3%	–40.2%	-64.6%
10.	Nifty 50	Benchmark	-	-	19,993.2	16.8%	-	0.0%
11.	Nifty IT	Benchmark	-	-	32,977.9	13.6%	-	–16.2%

Note: Price, Returns, P/E, P/B, Div. Yield are based on Sep 12 close price; * – If invested in IPO at the upper band of the price range; ** – IPO price adjusted for Corporate actions. Source: *Refinitiv*

take it all (like Amazon). Also, most of these startups may show impressive growth due to low base effect, but can fail miserably on profitability measures. No doubt, this has meant the universe of profitable consumer tech companies remains small.

Tread cautiously

How can one make an investment case here? Since most of them are startups, main funding happens at the VCs level. Hence, if you are a VC player you will most probably be having excellent familiarity with the sector. However, many of these VCs eventually look to cash in their investments and that's why we may see many more IPOs coming up periodically. A look at all the recently listed consumer tech companies reveals quite a few interesting aspects. It is a mixed bag with both successes and failures strewn all over the place; although, we notice a great bounce back took place in the last six months. Among the companies with the best returns, one standout performer has been Easy Trip Planners, which provided an annualized return of 60% since its initial public offering (IPO), although its market cap is quite small. Among the losers, a notable name is Paytm. After a fabulous listing—at ₹2,150—late last year, its shares have headed south since then. It recently hovered around ₹864 level, leading to an annualized loss of nearly 40% since IPO. Unfortunately, the universe of listed consumer tech stocks is too small to arrive at a conclusion. At the same time, given the macro backdrop (as described before in this article), the potential for growth is huge.

From a portfolio perspective, investing in these companies during IPO can mean that odds are very much against investors. For highly oversubscribed issues, the probability of allotment reduces and hence the final investment value can be very low to make any significant impact on one's portfolio. Also, in hindsight it may be possible to see the winners and losers, but in prospect, it is almost always impossible to identify them (interestingly, this logic applies to all other listed stocks as well). Hence, a prudent portfolio strategy is to invest some consistent amount in consumer tech companies after they are listed (preferably in a systematic way). Post this, one can continue to top up successful companies and eliminate loss-making ones in their portfolio. The success and failures should be measured from a stock market return perspective.

However, as the investible universe expands from a measly 25 listed stocks at present, investors can look to reap great rewards, going forward. ■

Happy investing!

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