



### Raising Amazon mkt share est.; closing gap with Flipkart

In our [Part 1](#) and [Part 2](#) of Clash of the titans series we had quantified the size of Indian e-com market and highlighted the big 3 - Flipkart, Amazon, Snapdeal (investee cos of the global titans Amazon, Softbank, Naspers and Alibaba) to dominate the market. In this note, we increase our market share estimates for Amazon as our recent on the ground checks indicate that Amazon is gaining traction especially in the high-end urban markets and is able to improve its brand loyalty on the back of the investments it has made in infrastructure/brand etc. We now expect Amazon's GMV market share to improve to 37% by 2019 (original: 31%) from 21% in 2015 and expect it to be close no 2 behind Flipkart. We also increase our market GMV est. as we expect Jio launch and increasing competitive intensity to help improve cellular telecom infrastructure.

### Alibaba's direct entry in early 2017: Looking to acquire?

Alibaba is looking to enter into the Indian e-commerce market by early next year as a more direct entry (as per media), despite it having investments in PayTM/Snapdeal. We note that similar to Amazon, Alibaba likely considers India as the next big market apart from its home market and is looking to gain traction there. Given Amazon's improving position in the Indian market, for Alibaba to gain a faster traction, we are not surprised that the media has speculated about possible acquisitions. According to press reports (ET, Aug 18) Alibaba could be looking to enter the market by acquiring a smaller e-com company; the article mentions Shopclues and then merging it with PayTM. Other proposals being considered, according to the same article, are namely acquiring a stake in Flipkart. No official comments have been made from the company. It remains to be seen how Alibaba gains traction, especially at a time when Amazon is improving its foothold.

### Amazon also has potential to be number 1

Our US analyst in today's [Amazon note](#) highlights that India could become Amazon's second largest market. Given Amazon CEO's focus on India, this market could continue to see further investments (apart from the budgeted US\$ 5 bn), management focus and localizing some of the best practices from the US market. On our estimates India could potentially generate 21% of Amazon's International GMV; \$81bn in GMV and \$2.2bn in operating profit by 2025. In our view, if other Indian e-com companies do not continuously innovate and receive timely adequate funding, then we see potential for Amazon to emerge as No 1 e-com platform in India. Indeed, for last couple of months, Amazon India gross sales are higher than that of Flipkart standalone (excludes Myntra). We note that Amazon has tied up with Vakrangee (a franchisee with strong presence in rural/underdeveloped areas) to fortify its rural presence at relatively lower investments.

### Naspers has higher India exposure; Zee an indirect play

We rate Amazon, Softbank, Naspers and Alibaba as Buy and note that among these, Naspers has relatively higher exposure to India e-commerce story. In our India coverage, we consider Zee to be beneficiary from the e-tailing boom and expect Justdial (Underperform) to be negatively affected from higher competition from verticals/ horizontals.

>> Employed by a non-US affiliate of MLPF&S and is not registered/qualified as a research analyst under the FINRA rules.

Refer to "Other Important Disclosures" for information on certain BofA Merrill Lynch entities that take responsibility for this report in particular jurisdictions.

**BofA Merrill Lynch does and seeks to do business with issuers covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.**

Refer to important disclosures on page 18 to 21. Analyst Certification on page 13. Price Objective Basis/Risk on page 11.

India  
Internet

**Sachin Salgaonkar >>**

Research Analyst  
DSP Merrill Lynch (India)  
+91 22 6632 8667  
sachin.salgaonkar@baml.com

**Justin Post**

Research Analyst  
MLPF&S  
+1 415 676 3547  
justin.post@baml.com

**Eddie Leung >>**

Research Analyst  
Merrill Lynch (Hong Kong)

**Cesar Tiron >>**

Research Analyst  
MLI (UK)  
cesar.tiron@baml.com

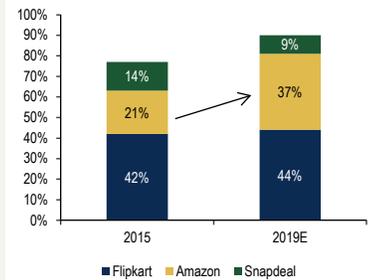
**Yoshiyuki Kinoshita >>**

Research Analyst  
Merrill Lynch (Japan)  
yoshiyuki.kinoshita@baml.com

**Karan Parmanandka >>**

Research Analyst  
DSP Merrill Lynch (India)  
karan.parmarandka@baml.com

**Exhibit 1: Top3 e-com players mkt share**



Source: BofA Merrill Lynch Global Research estimates

# Contents

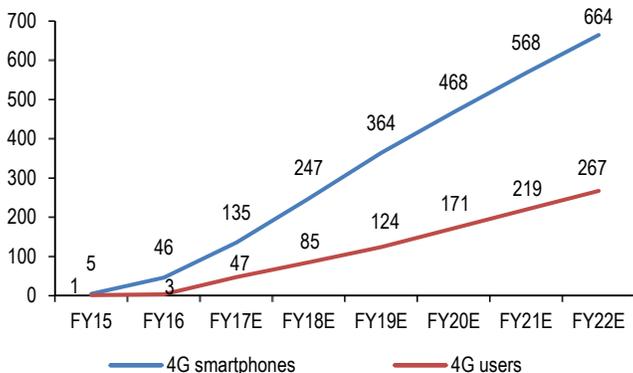
---

Raise e-com est; Amazon gaining traction	3
Amazon – Gaining traction over others?	4
Alibaba – Looking to make a direct entry?	6
Flipkart – bruised but still remains leader	7
Appendix: Details on Vakrangee’s tie-up with Amazon	9

# Raise e-com est; Amazon gaining traction

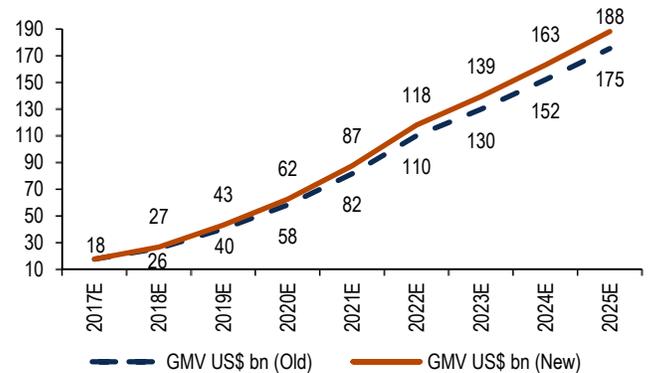
- Better internet penetration as Jio launches:** We raise our e-commerce GMV estimates by 7% to \$62bn in CY'20, on back of the better than expected benefits from Jio service launch and 7<sup>th</sup> pay commission estimates. While the launch was always expected, we were surprised by Jio's lowest tiered offering (\$2.2/month), which indicates that Jio could also look to go after the low ARPU subscriber base. Furthermore Jio launch is forcing other telcos to also improve their network and leading to cheaper smartphones coming into the market. In our view, Jio's services will expand internet penetration faster than our earlier estimates, and lead to faster pickup of the e-commerce industry.

**Chart 1: India 4G Smartphones and 4G users**



Source: BofA Merrill Lynch Global Research estimates

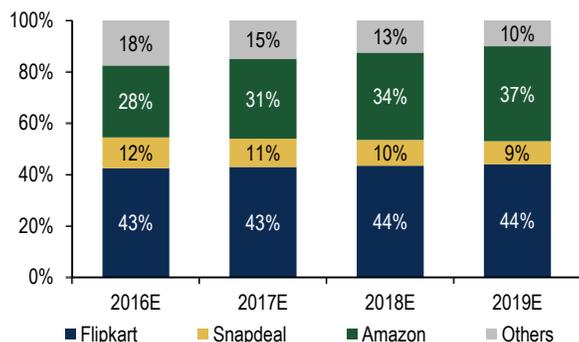
**Chart 2: Change in e-tailing GMV estimates**



Source: BofA Merrill Lynch Global Research estimates

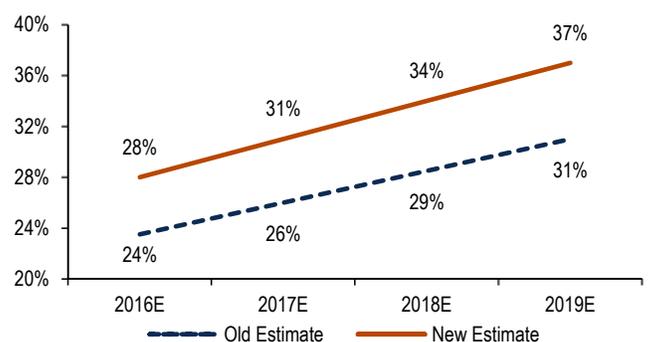
- Benefits from 7<sup>th</sup> pay commission:** The government has passed the 7<sup>th</sup> Pay commission, which will result in an overall hike of 23.5% in the salaries of government employees. This is likely to result in an incremental spending of c. \$10.75bn every year on salaries of 10mn employees. In our view, this will result in an increase of disposable income in the hands of people, leading to increased consumption demand – in turn helping increased buying on e-commerce websites
- Raising market share assumptions for Amazon:** On the back of increased traction and investments made by Amazon over the past year, we are increasing our market share assumptions for Amazon and now forecast it to gain 37% market share by 2019 (6% higher than earlier estimate of 31%). Our market share estimates for Flipkart largely remain unchanged at 44% but our Snapdeal's GMV market share reduces to 9% (from 10% earlier). We note that Snapdeal management is focusing more on revenue growth/profitability and not so much towards GMV growth.

**Chart 3: India e-commerce GMV market share split (%)**



Source: BofA Merrill Lynch Global Research estimates

**Chart 4: Amazon India market share: Old vs New estimates**



Source: BofA Merrill Lynch Global Research estimates

**Exhibit 2: Global companies backing India e-commerce market: We rate all of them as Buy**

Company	Rating	M.Cap USD m n	3 yr CAGR 2015-18E			EBITDA Margin 2016	Price / Sales (x)		EV / Sales (x)		EV / EBITDA (x)		P / E (x)		Div. Yield 2016	FCF Yield 2016
			Revenue	EBITDA	EPS		2016	2017	2016	2017	2016	2017	2016	2017		
Amazon.com	BUY	360,362	22%	34%	63%	12%	2.6	2.2	2.6	2.1	22.2	16.9	71.2	48.2	0.0%	2.1%
SoftBank Group	BUY	78,205	1%	6%	22%	28%	0.9	0.9	1.1	1.1	3.9	3.6	7.4	10.9	0.7%	1.7%
Alibaba	BUY	248,579	36%	31%	-8%	33%	10.9	8.3	9.8	7.4	29.3	22.2	53.0	37.7	0.0%	3.0%
Naspers	BUY	76,123	10%	28%	40%	6%	12.1	10.9	10.7	9.6	175.3	93.9	35.4	23.9	0.3%	0.0%
<b>Average</b>			<b>16%</b>	<b>30%</b>	<b>31%</b>	<b>20%</b>	<b>6.8</b>	<b>5.2</b>	<b>6.2</b>	<b>4.8</b>	<b>25.8</b>	<b>19.6</b>	<b>44.2</b>	<b>30.8</b>	<b>0.2%</b>	<b>1.9%</b>

Source: BofA Merrill Lynch Global Research estimates, Bloomberg

## Amazon – Gaining traction over others?

- Making investments; global management focus remains high:** After failure to establish dominance in the Chinese market, Amazon is keen to succeed in India. The company has suggested that India could become its second largest market (after US) and plans to invest \$5bn in its India business, underscoring the importance of India for the company. While revenues are relatively small to Amazon's global scale, we estimate Amazon India could generate \$81bn in GMV and \$2.2bn in operating profit by 2025. For details also refer to our US analyst's [Amazon note](#).

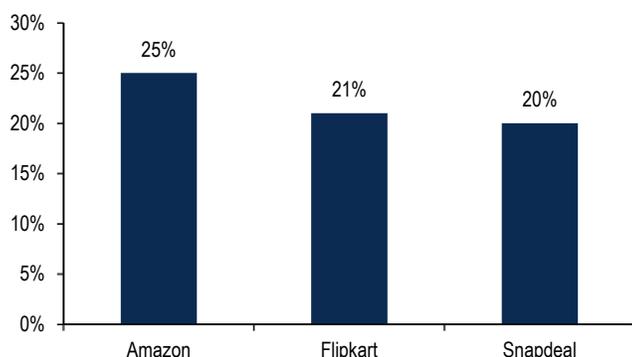
**Exhibit 3: Comments from Amazon con-call**

	Key topic	Comment
1Q16	Investments	We are making large investments in India. Very excited about what we see and we will continue to invest heavily in India.
	Regulation	We are happy to see recent clarifications and we are happy to operate in any regime. The more the clarity, the better for us.
	Innovation	Very exciting time in India and again, the invention is off the charts. We are inventing things in India that do not exist in other parts of the world
	Customer response	For the second year in a row, customers selected Amazon India as Amazon's most trusted online shopping brand
	New initiatives	During the quarter rolled out Tatkal program for fast onboarding of sellers; already reached sellers in 25 cities and are helping them expand their business
2Q16	India Opportunity	We are very encouraged by what we have seen so far in India, and from the initial response that we have seen from customers as well as sellers
	Team	We have a great team of Amazonian's who have been very inventive in India. Every time there is a different obstacle, they'll invent around it
	Amazon Prime	We are very excited about the Amazon Prime program which we launched in India. In hundreds of cities, we'll now have unlimited free one-day and two-day delivery. We are also starting to see exclusive online sales partnerships. Prime Video will also be launched with both Indian and Global content

Source: BofA Merrill Lynch Global Research, Company data

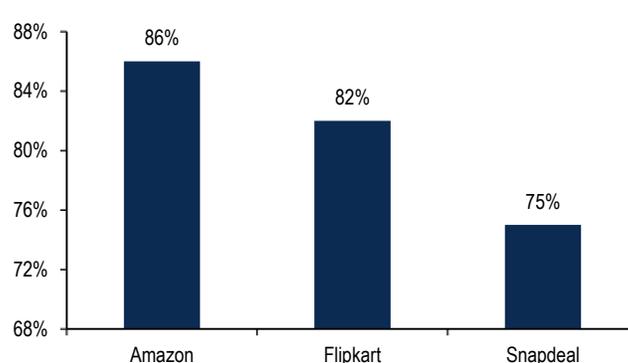
- Brand/reliability working in favor:** Amazon has been able to benefit from global brand and establishing reliability of service among consumers, concentrating on offering superior customer service and wider assortment of products. Amazon also appears to have momentum building brand equity with sellers, and lead Flipkart and Snapdeal in Indian seller brand recall and overall awareness. The key recent initiative in India was the July'16 launch of Prime in 100 cities in India, which promises faster deliveries, exclusive discounts and in future content streaming services to subscribers. Prime membership in India costs Rs. 499 (~\$7.50) per year, but this will increase to Rs. 999 (~\$15) on expiry of the promotional period.

**Chart 5: What is the first eCommerce brand that Indian sellers recall?**



Source: Nielsen's E-commerce Sellers study Q1 2016

**Chart 6: Overall awareness of eCommerce brands among Indian sellers?**



Source: Nielsen's E-commerce Sellers study Q1 2016

- Vakrangee tie up increasing penetration:** Amazon's tie up with Vakrangee is helping it to penetrate the rural hinterland and urban slums, wherein it is otherwise difficult for e-com companies to reach. As of June'16, Amazon is already active in more than 1k outlets, with plans to increase to 75k outlets by 2020. As part of Amazon's project Udaan, it has tied up with 10 partners in India catering to 120 location/cities with a vision to bringing the firm within 5 minutes of everyone. These tie-ups have helped Amazon to: (1) Develop a stronger presence in underdeveloped areas (2) Access a different subs base, and (3) Improve last mile connectivity. More details mentioned in Appendix.
- Launches Prime, Flipkart Snapdeal counter with own offerings:** Amazon launched its global premium membership service Amazon Prime in July. As part of the membership, consumers are given extra benefits like faster, free shipments and in future plans to give access to video streaming services when launched. The service is priced at Rs. 499 per year (\$7.5), which is slated to go up to Rs. 1k (\$15) on ending of the initial promotional period. In response, Flipkart and Snapdeal have launched Flipkart Advantage and Snapdeal Gold respectively. These services are free of cost for the shoppers and offer benefits like faster and free shipping and added assurance of quality. We note, that Flipkart already has a paid premium service called Flipkart First, launched two years ago, but has not seen much traction in terms of membership.

**Exhibit 4: Comparison of Amazon, Flipkart and Snapdeal premium plans**

	Amazon Prime	Flipkart Assured	Flipkart First	Snapdeal Gold
Launched	July'16	August'16	June'14	August'16
Cost	Rs. 999 per year (Rs. 499 per year in the promotional period).	Free of cost on eligible products	Rs. 500 per year	No additional cost (applicable when consumer prepay s electronically)*
Delivery	Faster Delivery	Faster Delivery	Faster Delivery	Faster delivery
Shipping	Free shipping	Free Shipping	Free Shipping	Free Shipping
Quality /Discounting	Early access to discounting deals	Assurance of quality	Early access to discounting deals	Assurance of quality
Others	Free video content streaming**	Transit Safety Packaging	Priority customer service	Extended 14 day return policy

\*As against Cash on Delivery (CoD)

\*\*Service yet to launch

Source: Amazon, Snapdeal, Flipkart, BofA Merrill Lynch Global Research

## Alibaba – Looking to make a direct entry?

- **Launching by early next year?:** According to press reports, Alibaba is looking to enter into the Indian e-commerce market by early next year, and has already made its senior level hires. The company already has investments in both payments and ecommerce businesses with investments in PayTM and Snapdeal respectively, but is now looking at a more direct entry. In our view, Alibaba likely sees India as the next big growth destination after China, and is possibly looking to leverage on its expertise that straddles the entire purchase cycle: C2C, B2B, B2C, payments system etc. to create a differentiation with the local leaders.
- **And reportedly along the way looking to consolidate:** According to press reports (ET, August 18) Alibaba could be looking to enter the market by acquiring Shopclues and then merging it with PayTM. Shopclues, valued at \$1bn has an annual GMV of \$750mn, and is positioned as an online flea market, targeting value shoppers with cheaper and unbranded merchandise. Other proposals being considered, according to the same article, are namely acquiring a stake in Flipkart. No official comments have been made from the company..
- **Similar to Amazon, next growth India:** While the Indian e-com market is small being c. only \$12bn GMV, vs more than \$500bn each for both China and USA, India being home to the largest number of internet users behind China and with internet penetration at only around 25%, the India e-commerce is expected to increase sharply to US\$188bn (CAGR of 22%) in next 10 years. Besides the Indian demographics/market is perceived similar to that of Chinese in many aspects.

### Exhibit 5: Alibaba's entry into India

#### Alibaba in India

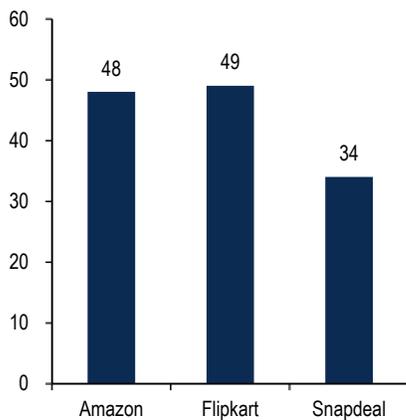
Alibaba owns 40% stake in online payment company Pay TM, which also has an e-commerce arm. The group also owns a 4% stake in Snapdeal
Alibaba is reportedly aiming to enter the India e-commerce market by early next year by way of acquisitions to quicken the pace of growth in the country
Alibaba has begun setting up its core India team by making some senior level hires. The company has also started hiring in the area of technology
Alibaba is reportedly looking to acquire Shopclues (valued at US\$ 1 bn) and later merge it with Pay TM. Alibaba has already started the process of separating Pay TM's core payment business and the smaller commerce business into two separate entities.
Alibaba is also looking to invest in Indian logistics companies specialising in delivery for online retail, and has reportedly held talks with Delhivery and Xpressbees
Alibaba is reportedly evaluating options of setting up a data center in India which would bolster its AliCloud public cloud services in the country and compete with its rivals

Source: Media articles, BofA Merrill Lynch Global Research

# Flipkart – bruised but still remains leader

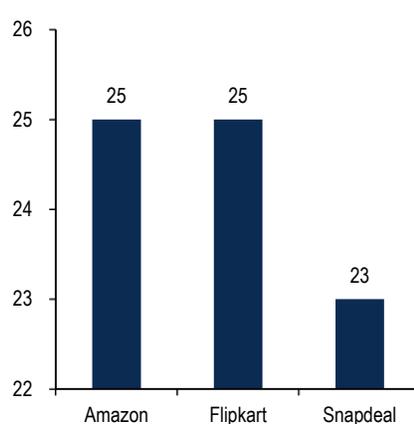
- Expect to remain market leader; but gap with Amazon closing:** In the last 12-18 months several of Flipkart's strategies (like focusing on mobile only etc) have not worked. The company also saw some senior level exits, some restructuring including a change of CEO. The slowdown in funding also did not help (although Flipkart has adequate cash on its books). The period also saw some valuation markdown by its existing investors. While we expect Flipkart to remain a leader, we expect its market share gap with Amazon to slowdown. By 2019, we expect Flipkart's GMV market share to be 44% and Amazon to be a close number 2 with GMV market share of 31%.
- Recent surveys indicate Flipkart still at top:** Flipkart still remains the market leader in India with a market share of c.43%. Even though Amazon has been gaining share, most of its gains have come at the expense of Snapdeal and other sellers. Even in terms of customer satisfaction, reports indicate that it remains the leader, ahead of both Amazon and Snapdeal. In a recent survey ranking e-commerce sites on shopping experience, value and trust, Flipkart came out on top with an approval rating of 95%, ahead of Amazon at 87% and Snapdeal at 66%.

**Chart 7: RedSeer May-July '16 ELI scores: Great Experience**



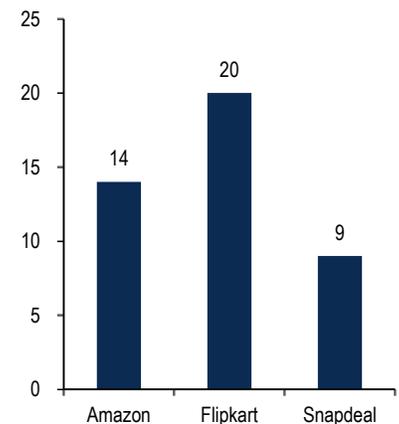
\*ELI: e-tailing Leadership Index  
Source: Mint, RedSeer

**Chart 8: RedSeer May-July '16 ELI scores: Best Value**



\*ELI: e-tailing Leadership Index  
Source: Mint, RedSeer

**Chart 9: RedSeer May-July '16 ELI scores: Most trusted brand**



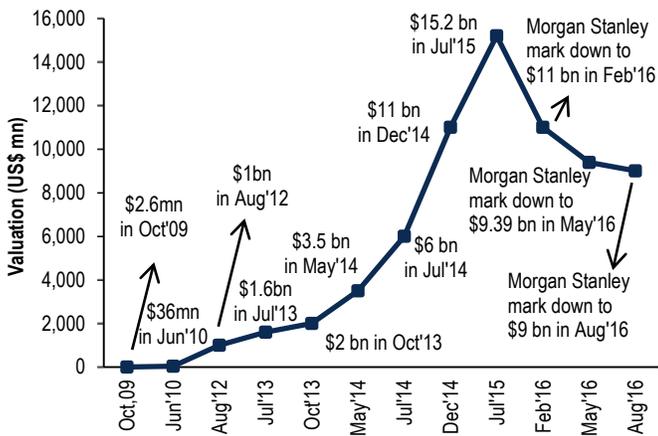
\*ELI: e-tailing Leadership Index  
Source: Mint, RedSeer

- Jabong acquisition helps fortify GMV lead:** In July'16, Flipkart announced the acquisition of Jabong for \$70million. With a GMV of close to \$800mn as of Jan'16, Jabong is the second largest fashion only e-commerce portal (behind Flipkart owned Myntra). Apart from solidifying its GMV lead, the acquisition along with Myntra, gives Flipkart more than 50% share of the online fashion category, which enjoys the highest margins and is also one of the fastest growing verticals globally.
- Funding key to remain aggressive in future:** With Amazon committing investments of \$5bn for its Indian operations, it is imperative for Flipkart to remain well funded in order to compete and have a sense of comfort around stability. In aggregate Flipkart has raised a total of \$3.15bn, with the last raise of \$700mn in July'15 at a valuation of \$15bn. While media reports indicate that Flipkart still has in excess of \$1bn cash with it, in our view, future funding will remain key for the company to keep investing and remain aggressive in the business.
- Flipkart, Amazon to compete during the upcoming festive season:** According to press reports (ET Sep12), both Flipkart and Amazon are looking to aggressively compete for market share in the upcoming festive season quarter. Flipkart's annual

Big Billion Day (BBD) sales event is scheduled to take place on October 1<sup>st</sup>. In a preemptive move, Amazon is likely to advance its Grand Festival Sales from the earlier scheduled mid-October to October 1. Flipkart is looking to spend an aggregate of Rs. 300mn on BBD excluding digital marketing expenditure and is likely to also see participation from Myntra, its fashion focused arm. Amazon on the other hand, is expected to spend 2-3x times of Flipkart for marketing (with a budget of Rs. 1.2-3bn) and run from October 1-5.

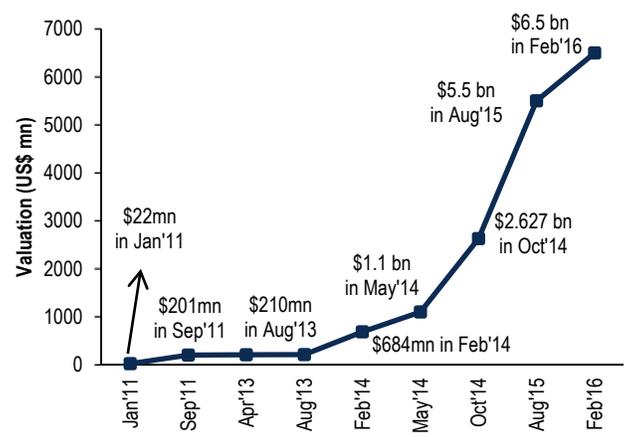
- Snapdeal's market share tapering:** The third largest player in the industry, Snapdeal has shifted its focus from GMV to profitability. As a result it has cut operational costs, consumers discount in a bid to drive efficiency and in the process has ceded some market share to its rivals. We continue to build a small decline in Snapdeal's market share and see it declining to 9% from 12% in CY'16. Snapdeal also has taken a brand hauling exercise wherein the company unveiled a new logo, and change in brand colour palettes. As part of the rebranding exercise, Snapdeal is looking to spend Rs.2bn on marketing over the next two months. As per the company, the rebranding is a part of the efforts to keep appealing to a newer generation of future shoppers.

**Chart 10: Flipkart valuation trajectory**



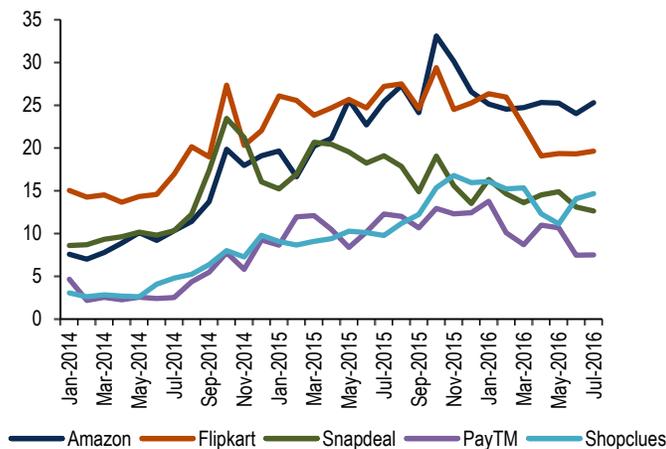
Source: Media reports, BofA Merrill Lynch Global Research

**Chart 11: Snapdeal valuation trajectory**



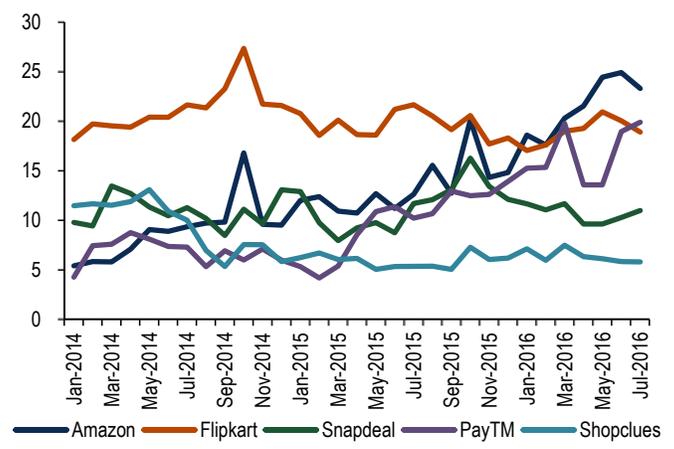
Source: Media reports, BofA Merrill Lynch Global Research

**Chart 12: Monthly unique visitors ('000) for leading e-commerce firms**



Source: Comscore

**Chart 13: Average minute per user for leading e-commerce firms**



Source: Comscore

## Appendix: Details on Vakrangee's tie-up with Amazon ([link](#))

**Tie-up with Amazon:** In July'15 Vakrangee tied up exclusively with Amazon India. As part of the 5 year agreement, Amazon will use V-Marts as physical ordering and collection point for Amazon's products and will pay 4-15% of the GMVs as commission to Vakrangee. Given its exclusive tie-up, Vakrangee will not be carrying products of competitors like Flipkart and Snapdeal. Vakrangee started rolling out stores facilitating Amazon since Nov-15. Currently it has c. 1,000 such stores.

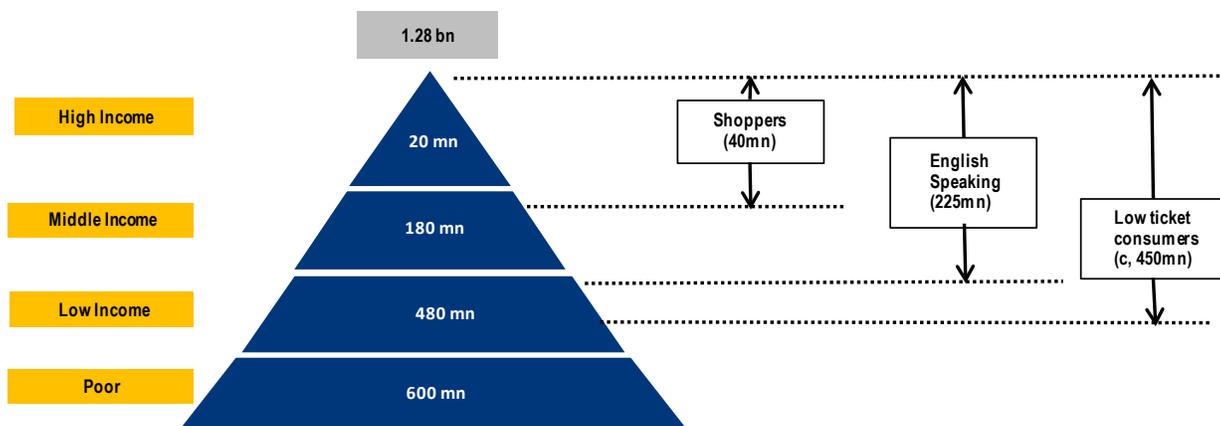
**Tie-up post detailed due diligence by Amazon India:** Before its tie-up with Vakrangee, Amazon India performed a lengthy due diligence process for about 18 months with PWC as the auditor, wherein they checked the corporate governance, labor policies among other things.

### Advantages for Amazon India from tie-up:

- **Gets stronger in rural areas:** Since its inception, in the e-commerce domain, Amazon has been strong in urban areas like Mumbai/Delhi with its competitors like Snapdeal/Shopclues strong in rural areas. The tie-up with Vakrangee gives Amazon the potential to increase its presence in rural areas in a cost effective manner.
- **Access to different subs-base:** The Vakrangee tie up gives Amazon India access to a completely different and untapped customer base. Based on our retail checks, each V-Mart outlet is generating close to 20-25 orders per day for Amazon, with a ticket size of close to Rs. 450. However, for mature outlets the company is seeing 80-100 orders per day with average order size of Rs. 700. As per company's experience, consumers start with ordering lower ticket items like daily groceries before moving to higher ticket purchases like apparel and electronics, which explains the outlets' slow maturity.
- **Improve last-mile connectivity:** Going forward, Amazon India and Vakrangee may also experiment with alternate delivery models which would see Vakrangee and its franchisees playing a deeper role in Amazon India's logistics chain.

**How does it work?** Under the arrangement, consumers within the V-Marts catchment area can approach the outlet, and order products on the website with the assistance of the booth attendant. Subsequently Amazon India delivers the products to the outlet, and collects back the returned goods. It saves costs of the last mile delivery and hence does not charge any delivery fees under the model.

### Exhibit 6: Amazon can address mid to low-income consumers not using mobile/internet with tie-up with Vakrangee



Source: BofA Merrill Lynch Global Research

**Likely to help Amazon India expand the addressable market:** In our view, with this kind of arrangement Amazon is able to expand its addressable market to consumers who do not own a mobile/smartphone and helps Amazon target mid-to-low-end income consumers.

Furthermore, we note that Amazon India continues to show a strong business momentum in India. Recent unconfirmed media articles have suggested that Amazon has overtaken Snapdeal to become India's second-largest online marketplace. In our view, if the partnership with Vakrangee is successful, then Amazon may accelerate the pace of growth and extend its market share in the ecommerce space.

## What is Vakrangee?

**Company background:** Vakrangee is a US\$ 1.5 bn market cap company which was incorporated in 1990 by Mr. Dinesh Nandwana and owns close to 40% of the company. Apart from banking services, the company also provides various ancillary services to the rural population through its last mile network. It has mainly two lines of businesses – eGovernance enabler and Vakrangee Kendra (providing last mile connectivity for goods and services).

- **eGovernance:** Vakrangee offers system integration services, and provides services such as collection of bills, printing of voter ID cards, recruitment services, health initiatives etc. The projects it is currently working on include UID (Unique Identification Project), SSA (Sarve Shiksha Abhiyan), PDS (Public Distribution System), RSBY (Rashtriya Swasthya Bima Yojana) amongst others.
- **Vakrangee Kendras (V-Marts)** are small outlets primarily in rural areas, intended to provide last mile services to the remote regions of the country. The different services provided through the Vakrangee Kendras include Banking, Insurance, ATM, eGovernance and e-Commerce.

Under its e-Commerce initiative, Vakrangee has exclusively tied up with Amazon India to stock and deliver its products to Kendra's catchment area in return for commission. As of March, 2016, the company has a total of 20K Vakrangee Kendras in operation and wants to extend them to 75K outlets by 2020, by which time the company expects c. 90% of its revenues to come from the Vakrangee Kendras business.

### Exhibit 7: Vakrangee divisional revenue break up

Segment	FY16 Revenue	FY20E Revenue	Area of Business	Type of service	Revenue model	Vakrangee Kendra Revenue split	
						Current	FY'20E
Vakrangee Kendra	53%	> 90%	Banking	Bank account opening Deposits, Retail loans, Direct Benefit Transfer, etc	Rs 20/ Account opening 48 bps of transaction size	30 - 35%	30%
			Insurance	Life/Non Life Insurance, Government schemes, Tie-up with Tata AIG to distribute product	10 - 25% commission	5 - 10%	5 - 10%
			E-Governance services	Card Enrolments, Utility Bills, Taxes, and Levies, etc Land records, Rail Tickets, Exam fee payments, etc	Varied based on type of service	10 - 15%	10%
			E-commerce	Mobile/DTH Recharge & bill payment, Education Exclusive tie up with Amazon India Other tieups - Redbus, Ricoh, M&M group	Mobile/DTH: 2 - 5% of Recharge Amazon: 4 - 15% of GMV	35 - 40%	45 - 48%
E-Governance	47%	< 10%	Legacy E-Governance project implementation	National E-Governance Plan (NEGP) projects like Unique Identification Project (UID), PDS, etc	Varied based on terms of contract		

Source: Vakrangee, including estimate figures given.

## Vakrangee-Amazon India store visit info

We visited 2 Vakrangee Kendras in Mumbai (mainly located in rural pockets). Below are a few observations from our visits:

- **Stores open for 12 hrs; Need low man-power:** The stores are open from 9 am to 9 pm every-day and 11 am to 9 pm on Sundays. The man-power in each of the stores was restricted to 2-3 people working on Amazon. The Amazon delivery staff came twice a day: once at 9.30 am and then at evening 7 pm. They handle reverse logistics, payment collection etc.
- **Assisted model for ordering:** A consumer comes and sits in front of a computer screen. The contents of the screen are shared with the Vakrangee representative. The representative orders all the contents the consumer wants and is later advised on pick-up date/time. There are no delivery charges for consumer and in almost all the cases it was cash-on-delivery. The consumer is encouraged to open the pack at the Kendra to check if it is damaged or in-line with expectations.
- **Key goods purchased:** The key goods purchased in the stores most of the times were mobile phones, clothes and other day to day related items like shampoo, soaps etc. When we visited, we found unique things like “Roti makers” being sold. We found consumers well versed with Amazon India value proposition and noted that they come to buy daily items as they viewed them as cheaper than buying in near-by offline shops.
- **Peak hours/Order sizes etc.:** The peak hours for these Kendras starts from 6 pm in evening where consumers come post their work hours to order. The stores we visited stated that when they opened, they were getting 10 orders/day but overtime with word-of-mouth publicity they are now getting 20-25 orders/day. The average ticket size of these stores is around Rs. 350. Based on our discussions with management, the centers achieves an avg. of 6-7% of commission.
- **Marketing done by Amazon India :** All marketing related activities are done by Amazon with Kendras not bearing any expenses. Mainly these are localized with “feet on the street” campaigns and pamphlets in local language with address of the Kendra. During key sales/promotions, the marketing activities pick-up with special banners in front of the Kendra.

We believe that overtime, Vakrangee has potential to fortify Amazon India’s presence in rural markets and amongst low-income groups by improving the addressable market for Amazon India.

## Price objective basis & risk

### SoftBank Group (9984 / SFTBF; JPY6587.00; B-1-7)

We base our PO of ¥8,240 on SOTP analysis and apply a conglomerate discount of 10%. We value Yahoo Japan at market value and Sprint at 7.4x (a premium to its past three-year average multiple of 5.5x) FY16E EV/EBITDA. We add the net contribution of equity method affiliate Alibaba using DCF-based valuation (discount rate 10%, terminal growth 4%). For SoftBank’s domestic telecom, distribution and other business segments, we apply an EV/EBITDA multiple of 6.0x to FY3/17 consolidated EBITDA after deducting Yahoo and Sprint, in line with KDDI’s theoretical fair share value. We assume USD/JPY of ¥105 at end-2016. We reflect ARM’s market value immediately prior to the acquisition being announced.

Downside risks to our PO: unexpectedly heavy rise in data volume driving higher-than

expected capex, missteps in tech choices, M&A failure, aggressive pricing by rivals, changes in handset sales strategies, disadvantageous regulatory changes, excessive market concerns about competition, and share prices fall of consolidated subsidiaries and equity-method affiliates. Upside risks: launch of attractive value-added services that can mitigate price competition, successful M&A, profit growth on unexpected efficiencies, advantageous regulatory changes, realization of investments, and rise in share prices of consolidated subsidiaries and equity-method affiliates. Developments regarding Masayoshi Son must also be monitored as he has substantial impact on management decision making.

#### **Alibaba (BABA; USD100.80; C-1-9)**

We use a multi-year DCF to capture the impact from the long-term growth profile of the eCommerce business, capex, and investments of the company. Our PO is US\$110, including US\$92 from our DCF valuation of the Alibaba operations (10% WACC, mid-term FCF FY18-25E CAGR of 21%, 4% terminal growth), US\$9 from its investments based on the reported value on the balance sheet, US\$9 from Ali's discounted option value of Ant Financials, which we value at about US\$68b based on FY18E PE comparison with domestic online finance peers.

Downside risks to our PO are: 1) value-destructive acquisitions and investments, incl. repeat funding needs and impairment, 2) expenses from geographical expansion, 3) regulation such as enforcement and policies such as VAT, 4) reputation risk related to disclosure and information transparency, 5) increasing service demand from customers, such as delivery and returns, 6) industry competition in O2O or video to result in coupon wars or large marketing or content costs, 7) industry deceleration off a large base, 8) macro economy, 9) dilution from more capital raising or equity incentive, 10) overhang of stakes of pre-IPO strategic investors. Upside risk to our PO: 1) a higher than expected valuation of Ant Financials in the VC market, 2) mobile monetization catching up faster-than-expected, 3) revenue contribution from cloud computing ramps up faster-than-expected

#### **Amazon.com (AMZN; USD771.49 ; B-1-9)**

Our price objective for Amazon is \$860 based on our sum of the parts analysis that values the AWS business based on 5.5x 2017 AWS revenues and the retail business at 1.1x our 2017 gross merchandise value (GMV) estimate. Our 5.5x AWS multiple is a modest premium to the SaaS comp group, and 1.1x multiple is a modest premium to a retail comp group. We think the premiums are warranted given stronger growth vs. peers and 25% y/y gross profit growth through 2017E.

Our \$860 price objective implies 2.5x 2017E sales, a multiple above the high end of Amazon's historical range of 0.8-2.1x. We would argue the historical P/S multiple should be increasing given positive 3rd party sales (3P) that is reported on a net basis, a higher AWS revenue contribution, and record gross profit margins. Slower growth today vs Amazon's history for the retail business would be a fair pushback on using a higher P/S multiples.

Downside risks to our price objective are a consumer spending slowdown, rich P/E multiple, margin or growth pressure from the digitization of media, more aggressive offline competition, hardware strategy, AWS investments and/or price cuts, Prime Instant Video content costs, and decelerating growth. The stock has been subject to heavy volatility in the past, based on margin trends, and this volatility could increase due to economic uncertainty.

#### **Justdial (XJHUF; INR476.55; C-3-7)**

We value Justdial using DCF-based methodology, as it captures the company's improving outlook with the search mix moving toward the high-margin mobile business. Our 12-month DCF-based PO of Rs.394 is derived using a WACC of 12.1% and a TGR of 5.0%.

Downside risks: (1) Higher investments by management into the business without generating revenue growth (2) Risks of increased competition from verticals/other horizontals moving into the space.

Upside risk: (1) Potential takeover target, (2) Further crunch in internet funding, (3) Faster-than- expected pickup of Omni

#### **Naspers (NAPRF; ZAR2452.46; B-1-7)**

Our PO of ZAR 2,820 is based on a SOTP basis, applying a 20% holding company discount to Naspers' listed associates.

Our SOTP valuation is based on a combination of DCF method for the pay-TV and print businesses, our analysts' valuations for Naspers' share of listed businesses. South Africa pay TV: valued using a 10-year DCF. WACC assumptions: risk free rate (RFR) 9.5%, equity risk premium (ERP) 5%, Beta 1. Terminal growth rate 3%. Sub-Saharan Africa pay TV: valued using a 10-year DCF. WACC assumptions: RFR 10%, ERP 5%, Beta 1. Terminal growth rate 4% Technology business: valued using a 10-year DCF. WACC assumptions: RFR 9.5%, ERP 5%, Beta 1. Terminal growth rate 2% Tencent: valued using a 10-year DCF with 9% discount rate, mid-term 15-20E FCF CAGR of 17% and 5% terminal growth. Mail.ru: valued using a 10-year DCF. WACC assumptions: RFR 5.5%, ERP 6.5%, Beta 1.3 Terminal growth rate 5%. Flipkart: latest funding round. OLX India: valued based on Quikr last funding round. Avito: transaction value. South Africa print business: valued using a 10-year DCF. WACC assumptions: RFR 7%, ERP 5%, Beta 1. Terminal growth rate 3%.

Risks to our PO are a) regulatory action in China, b) sharp FX movements in emerging markets currencies, especially ZAR, c) Tencent share price performance, and d) execution of Naspers' internet strategy.

#### **Zee Entertainment Enterprises (XZETF; INR515.55; C-1-7)**

Our PO of Rs. 593 is based on DCF. Our DCF valuation is based on a WACC of 11.2% and terminal growth of 4.5%.

Risks to our PO are: 1) Ad caps leading to channel fragmentation and 2) Delay in economic pickup may slow down advertising growth

## **Analyst Certification**

We, Sachin Salgaonkar, Cesar Tiron, Eddie Leung, Justin Post and Yoshiyuki Kinoshita, hereby certify that the views each of us has expressed in this research report accurately reflect each of our respective personal views about the subject securities and issuers. We also certify that no part of our respective compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

## **Special Disclosures**

In accordance with the SEBI (Foreign Portfolio Investors) Regulations, 2014 and with guidelines issued by the Securities and Exchange Board of India (SEBI), foreign investors (individuals as well as institutional) that wish to transact the common stock of Indian companies must have applied to, and have been approved as per SEBI (Foreign Portfolio Investors) Regulations, 2014. Each investor who proposes to transact common stock of Indian companies will be required to obtain Foreign Portfolio Investor (FPI) registration as per SEBI (Foreign Portfolio Investors) Regulations, 2014. Certain other entities are also entitled to transact common stock of Indian companies under the Indian laws relating to investment by foreigners. BofA Merrill Lynch reserves the right to refuse to

provide a copy of research on common stock of Indian companies to a person not resident in India. American Depositary Receipts (ADR) representing such common stock are not subject to these Indian law restrictions and may be transacted by investors in accordance with the applicable laws of the relevant jurisdiction. Global Depositary Receipts (GDR) and the Global Depositary Shares (GDS) of Indian companies, Indian limited liability corporations, have not been registered under the U.S. Securities Act of 1933, as amended, and may only be transacted by persons in the United States who are Qualified Institutional Buyers (QIBs) within the meaning of Rule 144A under the Securities Act. Accordingly, no copy of any research report on Indian companies' GDRs or GDSs will be made available to persons who are not QIBs.

DSP Merrill Lynch Limited (DSP Merrill Lynch) DSP Merrill Lynch provides the following services in India: Research, Equity Sales & Trading, Futures & Options, Electronic Trading, Equity Capital Markets, Debt Capital Markets and M&A. SEBI Regn Nos. Research Analyst: INH000000503, Stock Broking: INB/INF 011348134, INB/INF 231348138, Merchant Banker: INM000011625, Depository Participant: IN-DP-NSDL-223-2001. Address: Ground Floor, A Wing, One BKC, G Block, Bandra Kurla Complex, Bandra, Mumbai 400 051, India Tel: +91 22 6632 8000.

BofA Merrill Lynch is currently acting as financial advisor to Tencent Holdings Ltd in connection with its proposed acquisition of up to 84.3% of Supercell Oy from SoftBank Group Corp, which was announced on 21 June 2016.

**India - Consumer Coverage Cluster**

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Asian Paints	XSAFF	APNT IN	Prasad Deshmukh
	Dabur India	DBUIF	DABUR IN	Prasad Deshmukh
	Godrej Consumer	XGOCF	GCPL IN	Prasad Deshmukh
	Hindustan Unilever	HINLF	HUVR IN	Prasad Deshmukh
	Inox Leisure	IOXLF	INOL IN	Sachin Salgaonkar
	ITC Limited	ITCTF	ITC IN	Prasad Deshmukh
	Jubilant FoodWorks Ltd.	XLOEF	JUBI IN	Prasad Deshmukh
	PVR Ltd.	PVRLF	PVRL IN	Sachin Salgaonkar
	Zee Entertainment Enterprises	XZETF	Z IN	Sachin Salgaonkar
<b>NEUTRAL</b>				
	Titan Company Ltd	XNXAF	TTAN IN	Prasad Deshmukh
<b>UNDERPERFORM</b>				
	Colgate India	CPIYF	CLGT IN	Prasad Deshmukh
	DISH TV	XCETF	DITV IN	Sachin Salgaonkar
	Nestle India	XNTEF	NEST IN	Prasad Deshmukh

**Japan - Telecom/Media/Internet/Game Coverage Cluster**

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Capcom	CCOEF	9697 JP	Hiroyasu Eguchi
	Dentsu	DNTUF	4324 JP	Yoshiyuki Kinoshita
	Hakuhodo DY Holdings	HKUOF	2433 JP	Yoshiyuki Kinoshita
	KDDI	KDDIF	9433 JP	Yoshiyuki Kinoshita
	LINE	XLIRF	3938 JP	Hiroyasu Eguchi
	LINE	LN	LN US	Hiroyasu Eguchi
	Nintendo	NTDOF	7974 JP	Hiroyasu Eguchi
	Nintendo	NTDOY	NTDOY US	Hiroyasu Eguchi
	NTT	NTT	NTT US	Yoshiyuki Kinoshita
	NTT	NPPXF	9432 JP	Yoshiyuki Kinoshita
	NTT DATA	NTTDF	9613 JP	Hiroyasu Eguchi
	SCSK	XNJGF	9719 JP	Hiroyasu Eguchi
	SoftBank Group	SFTBF	9984 JP	Yoshiyuki Kinoshita
	SQUARE ENIX	SQNXF	9684 JP	Hiroyasu Eguchi
	Trend Micro	TMICF	4704 JP	Hiroyasu Eguchi
	Trend Micro	TMICY	TMICY US	Hiroyasu Eguchi
<b>NEUTRAL</b>				
	Nippon Television Holdings	NPTVF	9404 JP	Yoshiyuki Kinoshita
	NTT DoCoMo	DCM	DCM US	Yoshiyuki Kinoshita
	NTT DOCOMO	NTDMF	9437 JP	Yoshiyuki Kinoshita
<b>UNDERPERFORM</b>				
	Asatsu DK	AASUF	9747 JP	Yoshiyuki Kinoshita
	Fuji Media Holdings	FJTNF	4676 JP	Yoshiyuki Kinoshita
	KONAMI Holdings	KNAMF	9766 JP	Hiroyasu Eguchi
	KONAMI Holdings	KNMCY	KNMCY US	Hiroyasu Eguchi
	NRI	NURAF	4307 JP	Hiroyasu Eguchi
	Otsuka Corporation	OSUKF	4768 JP	Hiroyasu Eguchi
	TBS Holdings	TKOBF	9401 JP	Yoshiyuki Kinoshita
	TV Asahi Holdings	TVAHF	9409 JP	Yoshiyuki Kinoshita
	TV Tokyo Holdings	XALOF	9413 JP	Yoshiyuki Kinoshita
<b>RSTR</b>				
	Recruit Holdings	XIHBF	6098 JP	Yoshiyuki Kinoshita
<b>RVW</b>				
	OBIC	OBIIF	4684 JP	Hiroyasu Eguchi

US - Internet Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Alphabet	GOOGL	GOOGL US	Justin Post
	Alphabet	GOOG	GOOG US	Justin Post
	Amazon.com	AMZN	AMZN US	Justin Post
	Bankrate	RATE	RATE US	Nat Schindler
	eBay	EBAY	EBAY US	Justin Post
	Electronic Arts	EA	EA US	Justin Post
	Expedia	EXPE	EXPE US	Justin Post
	Facebook	FB	FB US	Justin Post
	Fitbit	FIT	FIT US	Nat Schindler
	IAC InterActive	IAC	IAC US	Nat Schindler
	LendingTree	TREE	TREE US	Nat Schindler
	Match Group	MTCH	MTCH US	Nat Schindler
	Netflix, Inc.	NFLX	NFLX US	Nat Schindler
	OnDeck Capital	ONDK	ONDK US	Nat Schindler
	priceline.com	PCLN	PCLN US	Justin Post
	Take-Two Interactive	TTWO	TTWO US	Justin Post
	TubeMogul	TUBE	TUBE US	Nat Schindler
	Wix.com	WIX	WIX US	Nat Schindler
	Yahoo!	YHOO	YHOO US	Justin Post
<b>NEUTRAL</b>				
	Activision	ATVI	ATVI US	Justin Post
	GrubHub	GRUB	GRUB US	Nat Schindler
	Pandora Media, Inc.	P	P US	Nat Schindler
	Quotient Technology Inc	QUOT	QUOT US	Nat Schindler
	Wayfair	W	W US	Justin Post
	Yelp	YELP	YELP US	Justin Post
<b>UNDERPERFORM</b>				
	Care.com	CRCM	CRCM US	Justin Post
	TripAdvisor	TRIP	TRIP US	Nat Schindler
	Twitter	TWTR	TWTR US	Justin Post
	ZYNGA	ZNGA	ZNGA US	Justin Post
<b>RVW</b>				
	Chegg	CHGG	CHGG US	Nat Schindler

APR - Online media Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Alibaba	BABA	BABA US	Eddie Leung
	Baidu.com	BIDU	BIDU US	Eddie Leung
	Baozun	BZUN	BZUN US	Binnie Wong
	Bitauto	BITA	BITA US	Nora Zhang
	Cheil Worldwide	CHMMF	030000 KS	Sean Oh
	Ctrip.Com-ADR	CTRP	CTRP US	Binnie Wong
	Info Edge	IFOEF	INFOE IN	Sachin Salgaonkar
	Innocean Worldwide Inc.	XZANF	214320 KS	Sean Oh
	Kakao Corp.	DAUCF	035720 KS	Sean Oh
	Makemytrip Limited	MMYT	MMYT US	Sachin Salgaonkar
	Naver Corporation	XNHF	035420 KS	Sean Oh
	NetEase, Inc	NTES	NTES US	Eddie Leung
	PChome Online Inc.	PNHFF	8044 TT	Ming Hsun Lee, CFA
	Sina Corp	SINA	SINA US	Eddie Leung
	Sohu.com Inc	SOHU	SOHU US	Eddie Leung
	Soufun	SFUN	SFUN US	Nora Zhang
	Tencent Holdings	TCTZF	700 HK	Eddie Leung
	Vipshop Holdings	VIPS	VIPS US	Binnie Wong
<b>NEUTRAL</b>				
	Imax China	IMXCF	1970 HK	Mandy Chan, CFA
	JD.com	JD	JD US	Eddie Leung
	Leju	LEJU	LEJU US	Nora Zhang
	Wanda Cinema	XWNMF	002739 CH	Mandy Chan, CFA
	WUBA	WUBA	WUBA US	Nora Zhang
<b>UNDERPERFORM</b>				
	Changyou.com Limited	CYOU	CYOU US	Eddie Leung
	Feiyu Technology	XFYIF	1022 HK	Nora Zhang
	Justdial	XJHUF	JUST IN	Sachin Salgaonkar
	Nasmedia Corp.	XNSMF	089600 KS	Sean Oh
	NCISOFT	NCSCF	036570 KS	Sean Oh
	Renren Inc.	RENN	RENN US	Eddie Leung
	Television Broadcasts Ltd	TVBCF	511 HK	Mandy Chan, CFA
<b>RVW</b>				
	The9 Ltd	NCTY	NCTY US	Eddie Leung

**EEMEA - Telecoms & Media Coverage Cluster**

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Bezeq	BZQIF	BEZQ IT	Haim Israel
	MegaFon	XCNTF	MFON RM	Haim Israel
	MegaFon	MFOYY	MFON LI	Haim Israel
	MTS	MBT	MBT US	Haim Israel
	MTS	MOJSF	MTSS RM	Haim Israel
	Naspers	NAPRF	NPN SJ	Cesar Tiron
	OTE	HLTOF	HTO GA	Haim Israel
	Saudi Telecom Company (STC)	XUTUF	STC AB	Hootan Yazhari, CFA
	Turk Telekom	TRKNF	TTKOM TI	Haim Israel
	VimpelCom	VIP	VIP US	Haim Israel
	Yandex	YNDX	YNDX US	Cesar Tiron
	Zain KSA	XOCTF	ZAINKSA AB	Hootan Yazhari, CFA
<b>NEUTRAL</b>				
	Etisalat	XDICF	ETISALAT UH	Hootan Yazhari, CFA
	Telkom SA	TKMJF	TKG SJ	Cesar Tiron
	Turkcell	XOFTF	TCELL TI	Haim Israel
	Turkcell	TKC	TKC US	Haim Israel
<b>UNDERPERFORM</b>				
	Mail.ru	MLRYF	MAIL LI	Cesar Tiron
	MTN Group	MTNOF	MTN SJ	Cesar Tiron
	Ooredoo (Qatar)	XTQQF	ORDS QD	Hootan Yazhari, CFA
	Rostelecom	ROSMF	RTKM RM	Haim Israel
	Vodacom	VODAF	VOD SJ	Cesar Tiron

## Disclosures

### Important Disclosures

**Equity Investment Rating Distribution: Media & Entertainment Group (as of 30 Jun 2016)**

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	38	46.91%	Buy	21	55.26%
Hold	23	28.40%	Hold	17	73.91%
Sell	20	24.69%	Sell	10	50.00%

**Equity Investment Rating Distribution: Technology Group (as of 30 Jun 2016)**

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	116	56.59%	Buy	90	77.59%
Hold	39	19.02%	Hold	28	71.79%
Sell	50	24.39%	Sell	32	64.00%

**Equity Investment Rating Distribution: Telecommunications Group (as of 30 Jun 2016)**

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	79	54.86%	Buy	67	84.81%
Hold	30	20.83%	Hold	23	76.67%
Sell	35	24.31%	Sell	20	57.14%

**Equity Investment Rating Distribution: Global Group (as of 30 Jun 2016)**

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	1560	49.41%	Buy	1178	75.51%
Hold	729	23.09%	Hold	552	75.72%
Sell	868	27.49%	Sell	547	63.02%

\* Issuers that were investment banking clients of BofA Merrill Lynch or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

**FUNDAMENTAL EQUITY OPINION KEY:** Opinions include a **Volatility Risk Rating**, an **Investment Rating** and an **Income Rating**. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: **A - Low**, **B - Medium** and **C - High**. **INVESTMENT RATINGS** reflect the analyst's assessment of a stock's: (i) absolute total return potential and (ii) attractiveness for investment relative to other stocks within its **Coverage Cluster** (defined below). There are three investment ratings: **1 - Buy** stocks are expected to have a total return of at least **10%** and are the most attractive stocks in the coverage cluster; **2 - Neutral** stocks are expected to remain flat or increase in value and are less attractive than **Buy** rated stocks and **3 - Underperform** stocks are the least attractive stocks in a coverage cluster. Analysts assign investment ratings considering, among other things, the **0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below)**. The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

\* Ratings dispersions may vary from time to time where BofA Merrill Lynch Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

**INCOME RATINGS**, indicators of potential cash dividends, are: **7 - same/higher (dividend considered to be secure)**, **8 - same/lower (dividend not considered to be secure)** and **9 - pays no cash dividend**. **Coverage Cluster** is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Merrill Lynch report referencing the stock.

Price charts for the securities referenced in this research report are available at <http://pricecharts.baml.com>, or call 1-800-MERRILL to have them mailed.

MLPF&S or one of its affiliates acts as a market maker for the equity securities recommended in the report: Alibaba Group, Amazon.com.

MLPF&S or an affiliate was a manager of a public offering of securities of this issuer within the last 12 months: SoftBank Group.

The issuer is or was, within the last 12 months, an investment banking client of MLPF&S and/or one or more of its affiliates: Amazon.com, Naspers, SoftBank Group.

MLPF&S or an affiliate has received compensation from the issuer for non-investment banking services or products within the past 12 months: Amazon.com, Naspers, SoftBank Group.

The issuer is or was, within the last 12 months, a non-securities business client of MLPF&S and/or one or more of its affiliates: Amazon.com, Naspers, SoftBank Group.

In the US, retail sales and/or distribution of this report may be made only in states where these securities are exempt from registration or have been qualified for sale: Justdial, Naspers, SoftBank Group, Zee Entertainment.

MLPF&S or an affiliate has received compensation for investment banking services from this issuer within the past 12 months: Amazon.com, Naspers, SoftBank Group.

MLPF&S or an affiliate expects to receive or intends to seek compensation for investment banking services from this issuer or an affiliate of the issuer within the next three months: Amazon.com, Naspers, SoftBank Group.

MLPF&S together with its affiliates beneficially owns one percent or more of the common stock of this issuer. If this report was issued on or after the 9th day of the month, it reflects the ownership position on the last day of the previous month. Reports issued before the 9th day of a month reflect the ownership position at the end of the second month preceding the date of the report: Zee Entertainment.

The country in which this issuer is organized has certain laws or regulations that limit or restrict ownership of the issuer's shares by nationals of other countries: Justdial, Zee Entertainment.

MLPF&S or one of its affiliates is willing to sell to, or buy from, clients the common equity of the issuer on a principal basis: Alibaba Group, Amazon.com.

The issuer is or was, within the last 12 months, a securities business client (non-investment banking) of MLPF&S and/or one or more of its affiliates: Amazon.com, Naspers, SoftBank Group, Zee Entertainment.

BofA Merrill Lynch Research Personnel (including the analyst(s) responsible for this report) receive compensation based upon, among other factors, the overall profitability of Bank of America Corporation, including profits derived from investment banking. The analyst(s) responsible for this report may also receive compensation based upon, among other factors, the overall profitability of the Bank's sales and trading businesses relating to the class of securities or financial instruments for which such analyst is responsible.

## Other Important Disclosures

From time to time research analysts conduct site visits of covered issuers. BofA Merrill Lynch policies prohibit research analysts from accepting payment or reimbursement for travel expenses from the issuer for such visits.

Prices are indicative and for information purposes only. Except as otherwise stated in the report, for the purpose of any recommendation in relation to: (i) an equity security, the price referenced is the publicly traded price of the security as of close of business on the day prior to the date of the report or, if the report is published during intraday trading, the price referenced is indicative of the traded price as of the date and time of the report; or (ii) a debt security (including equity preferred and CDS), prices are indicative as of the date and time of the report and are from various sources including Bank of America Merrill Lynch trading desks.

The date and time of completion of the production of any recommendation in this report shall be the date and time of dissemination of this report as recorded electronically on the platform in which the report was accessed.

Officers of MLPF&S or one or more of its affiliates (other than research analysts) may have a financial interest in securities of the issuer(s) or in related investments.

**BofA Merrill Lynch Global Research policies relating to conflicts of interest are described at <http://go.bofa.com/coi>.**

**'BofA Merrill Lynch' includes Merrill Lynch, Pierce, Fenner & Smith Incorporated ('MLPF&S') and its affiliates. Investors should contact their BofA Merrill Lynch representative or Merrill Lynch Global Wealth Management financial advisor if they have questions concerning this report. 'BofA Merrill Lynch' and 'Merrill Lynch' are each global brands for BofA Merrill Lynch Global Research.**

**Information relating to Non-US affiliates of BofA Merrill Lynch and Distribution of Affiliate Research Reports:**

MLPF&S distributes, or may in the future distribute, research reports of the following non-US affiliates in the US (short name: legal name, regulator): Merrill Lynch (South Africa): Merrill Lynch South Africa (Pty) Ltd., regulated by The Financial Service Board; MLI (UK): Merrill Lynch International, regulated by the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA); Merrill Lynch (Australia): Merrill Lynch Equities (Australia) Limited, regulated by the Australian Securities and Investments Commission; Merrill Lynch (Hong Kong): Merrill Lynch (Asia Pacific) Limited, regulated by the Hong Kong Securities and Futures Commission (HKSF); Merrill Lynch (Singapore): Merrill Lynch (Singapore) Pte Ltd, regulated by the Monetary Authority of Singapore (MAS); Merrill Lynch (Canada): Merrill Lynch Canada Inc, regulated by the Investment Industry Regulatory Organization of Canada; Merrill Lynch (Mexico): Merrill Lynch Mexico, SA de CV, Casa de Bolsa, regulated by the Comisión Nacional Bancaria y de Valores; Merrill Lynch (Argentina): Merrill Lynch Argentina SA, regulated by Comisión Nacional de Valores; Merrill Lynch (Japan): Merrill Lynch Japan Securities Co., Ltd., regulated by the Financial Services Agency; Merrill Lynch (Seoul): Merrill Lynch International Incorporated (Seoul Branch) regulated by the Financial Supervisory Service; Merrill Lynch (Taiwan): Merrill Lynch Securities (Taiwan) Ltd., regulated by the Securities and Futures Bureau; DSP Merrill Lynch (India): DSP Merrill Lynch Limited, regulated by the Securities and Exchange Board of India; PT Merrill Lynch (Indonesia): PT Merrill Lynch Indonesia, regulated by Otoritas Jasa Keuangan (OJK); Merrill Lynch (Israel): Merrill Lynch Israel Limited, regulated by Israel Securities Authority; Merrill Lynch (Russia): OOO Merrill Lynch Securities, Moscow, regulated by the Central Bank of the Russian Federation; Merrill Lynch (DIFC): Merrill Lynch International (DIFC Branch), regulated by the Dubai Financial Services Authority (DFSA); Merrill Lynch (Spain): Merrill Lynch Capital Markets Espana, S.A.S.V., regulated by Comisión Nacional del Mercado De Valores; Merrill Lynch (Brazil): Bank of America Merrill Lynch Banco Multiplo S.A., regulated by Comissão de Valores Mobiliários; Merrill Lynch KSA Company, Merrill Lynch Kingdom of Saudi Arabia Company, regulated by the Capital Market Authority.

This research report: has been approved for publication and is distributed in the United Kingdom (UK) to professional clients and eligible counterparties (as each is defined in the rules of the FCA and the PRA) by MLI (UK) and Bank of America Merrill Lynch International Limited, which are authorized by the PRA and regulated by the FCA and the PRA, and is distributed in the UK to retail clients (as defined in the rules of the FCA and the PRA) by Merrill Lynch International Bank Limited, London Branch, which is authorized by the Central Bank of Ireland and subject to limited regulation by the FCA and PRA - details about the extent of our regulation by the FCA and PRA are available from us on request; has been considered and distributed in Japan by Merrill Lynch (Japan), a registered securities dealer under the Financial Instruments and Exchange Act in Japan; is issued and distributed in Hong Kong by Merrill Lynch (Hong Kong) which is regulated

by HKSFC (research reports containing any information in relation to, or advice on, futures contracts are not intended for issuance or distribution in Hong Kong and are not directed to, or intended for issuance or distribution to, or use by, any person in Hong Kong); is issued and distributed in Taiwan by Merrill Lynch (Taiwan); is issued and distributed in India by DSP Merrill Lynch (India); and is issued and distributed in Singapore to institutional investors and/or accredited investors (each as defined under the Financial Advisers Regulations) by Merrill Lynch International Bank Limited (Merchant Bank) (MLIBLMB) and Merrill Lynch (Singapore) (Company Registration Nos F 06872E and 198602883D respectively). MLIBLMB and Merrill Lynch (Singapore) are regulated by MAS, Bank of America N.A., Australian Branch (ARBN 064 874 531), AFS License 412901 (BANA Australia) and Merrill Lynch Equities (Australia) Limited (ABN 65 006 276 795), AFS License 235132 (MLEA) distribute this report in Australia only to 'Wholesale' clients as defined by s.761G of the Corporations Act 2001. With the exception of BANA Australia, neither MLEA nor any of its affiliates involved in preparing this research report is an Authorised Deposit-Taking Institution under the Banking Act 1959 nor regulated by the Australian Prudential Regulation Authority. No approval is required for publication or distribution of this report in Brazil and its local distribution is by Merrill Lynch (Brazil) in accordance with applicable regulations. Merrill Lynch (DIFC) is authorized and regulated by the DFSA. Research reports prepared and issued by Merrill Lynch (DIFC) are done so in accordance with the requirements of the DFSA conduct of business rules. Bank of America Merrill Lynch International Limited, Frankfurt Branch (BAMLI Frankfurt) distributes this report in Germany and is regulated by BaFin.

This research report has been prepared and issued by MLPF&S and/or one or more of its non-US affiliates. MLPF&S is the distributor of this research report in the US and accepts full responsibility for research reports of its non-US affiliates distributed to MLPF&S clients in the US. Any US person receiving this research report and wishing to effect any transaction in any security discussed in the report should do so through MLPF&S and not such foreign affiliates. Hong Kong recipients of this research report should contact Merrill Lynch (Asia Pacific) Limited in respect of any matters relating to dealing in securities (and not futures contracts) or provision of specific advice on securities (and not futures contracts). Singapore recipients of this research report should contact Merrill Lynch International Bank Limited (Merchant Bank) and/or Merrill Lynch (Singapore) Pte Ltd in respect of any matters arising from, or in connection with, this research report.

#### **General Investment Related Disclosures:**

Taiwan Readers: Neither the information nor any opinion expressed herein constitutes an offer or a solicitation of an offer to transact in any securities or other financial instrument. No part of this report may be used or reproduced or quoted in any manner whatsoever in Taiwan by the press or any other person without the express written consent of BofA Merrill Lynch. This research report provides general information only. Neither the information nor any opinion expressed constitutes an offer or an invitation to make an offer, to buy or sell any securities or other financial instrument or any derivative related to such securities or instruments (e.g., options, futures, warrants, and contracts for differences). This report is not intended to provide personal investment advice and it does not take into account the specific investment objectives, financial situation and the particular needs of any specific person. Investors should seek financial advice regarding the appropriateness of investing in financial instruments and implementing investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. Any decision to purchase or subscribe for securities in any offering must be based solely on existing public information on such security or the information in the prospectus or other offering document issued in connection with such offering, and not on this report.

Securities and other financial instruments discussed in this report, or recommended, offered or sold by Merrill Lynch, are not insured by the Federal Deposit Insurance Corporation and are not deposits or other obligations of any insured depository institution (including, Bank of America, N.A.). Investments in general and, derivatives, in particular, involve numerous risks, including, among others, market risk, counterparty default risk and liquidity risk. No security, financial instrument or derivative is suitable for all investors. In some cases, securities and other financial instruments may be difficult to value or sell and reliable information about the value or risks related to the security or financial instrument may be difficult to obtain. Investors should note that income from such securities and other financial instruments, if any, may fluctuate and that price or value of such securities and instruments may rise or fall and, in some cases, investors may lose their entire principal investment. Past performance is not necessarily a guide to future performance. Levels and basis for taxation may change.

This report may contain a short-term trading idea or recommendation, which highlights a specific near-term catalyst or event impacting the issuer or the market that is anticipated to have a short-term price impact on the equity securities of the issuer. Short-term trading ideas and recommendations are different from and do not affect a stock's fundamental equity rating, which reflects both a longer term total return expectation and attractiveness for investment relative to other stocks within its Coverage Cluster. Short-term trading ideas and recommendations may be more or less positive than a stock's fundamental equity rating.

BofA Merrill Lynch is aware that the implementation of the ideas expressed in this report may depend upon an investor's ability to "short" securities or other financial instruments and that such action may be limited by regulations prohibiting or restricting "shortselling" in many jurisdictions. Investors are urged to seek advice regarding the applicability of such regulations prior to executing any short idea contained in this report.

Foreign currency rates of exchange may adversely affect the value, price or income of any security or financial instrument mentioned in this report. Investors in such securities and instruments, including ADRs, effectively assume currency risk.

UK Readers: The protections provided by the U.K. regulatory regime, including the Financial Services Scheme, do not apply in general to business coordinated by BofA Merrill Lynch entities located outside of the United Kingdom. BofA Merrill Lynch Global Research policies relating to conflicts of interest are described at <http://go.bofa.com/coi>.

MLPF&S or one of its affiliates is a regular issuer of traded financial instruments linked to securities that may have been recommended in this report. MLPF&S or one of its affiliates may, at any time, hold a trading position (long or short) in the securities and financial instruments discussed in this report.

BofA Merrill Lynch, through business units other than BofA Merrill Lynch Global Research, may have issued and may in the future issue trading ideas or recommendations that are inconsistent with, and reach different conclusions from, the information presented in this report. Such ideas or recommendations reflect the different time frames, assumptions, views and analytical methods of the persons who prepared them, and BofA Merrill Lynch is under no obligation to ensure that such other trading ideas or recommendations are brought to the attention of any recipient of this report.

In the event that the recipient received this report pursuant to a contract between the recipient and MLPF&S for the provision of research services for a separate fee, and in connection therewith MLPF&S may be deemed to be acting as an investment adviser, such status relates, if at all, solely to the person with whom MLPF&S has contracted directly and does not extend beyond the delivery of this report (unless otherwise agreed specifically in writing by MLPF&S). MLPF&S is and continues to act solely as a broker-dealer in connection with the execution of any transactions, including transactions in any securities mentioned in this report.

#### **Copyright and General Information regarding Research Reports:**

Copyright 2016 Bank of America Corporation. All rights reserved. iQmethod, iQmethod 2.0, iQprofile, iQtoolkit, iQworks are service marks of Bank of America Corporation. iQanalytics®, iQcustom®, iQdatabase® are registered service marks of Bank of America Corporation. This research report is prepared for the use of BofA Merrill Lynch clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of BofA Merrill Lynch. BofA Merrill Lynch Global Research reports are distributed simultaneously to internal and client websites and other portals by BofA Merrill Lynch and are not publicly-available materials. Any unauthorized use or disclosure is prohibited. Receipt and review of this research report constitutes your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion, or information contained in this report (including any investment recommendations, estimates or price targets) without first obtaining expressed permission from an authorized officer of BofA Merrill Lynch.

Materials prepared by BofA Merrill Lynch Global Research personnel are based on public information. Facts and views presented in this material have not been reviewed by, and may not reflect information known to, professionals in other business areas of BofA Merrill Lynch, including investment banking personnel. BofA Merrill Lynch has established information barriers between BofA Merrill Lynch Global Research and certain business groups. As a result, BofA Merrill Lynch does not disclose certain client relationships with, or compensation received from, such issuers in research reports. To the extent this report discusses any legal proceeding or issues, it has not been prepared as nor is it intended to express any legal conclusion, opinion or advice. Investors should consult their own legal advisers as to issues of law relating to the subject matter of this report. BofA Merrill Lynch Global Research personnel's knowledge of legal proceedings in which any BofA Merrill Lynch entity and/or its directors, officers and employees may be plaintiffs, defendants, co-defendants or co-plaintiffs with or involving issuers mentioned in this report is based on public information. Facts and views presented in this material that relate to any such proceedings have not been reviewed by, discussed with, and may not reflect information known to, professionals in other business areas of BofA Merrill Lynch in connection with the legal proceedings or matters relevant to such proceedings.

This report has been prepared independently of any issuer of securities mentioned herein and not in connection with any proposed offering of securities or as agent of any issuer of any securities. None of MLPF&S, any of its affiliates or their research analysts has any authority whatsoever to make any representation or warranty on behalf of the issuer(s). BofA Merrill Lynch Global Research policy prohibits research personnel from disclosing a recommendation, investment rating, or investment thesis for review by an issuer prior to the publication of a research report containing such rating, recommendation or investment thesis.

Any information relating to the tax status of financial instruments discussed herein is not intended to provide tax advice or to be used by anyone to provide tax advice. Investors are urged to seek tax advice based on their particular circumstances from an independent tax professional.

The information herein (other than disclosure information relating to BofA Merrill Lynch and its affiliates) was obtained from various sources and we do not guarantee its accuracy. This report may contain links to third-party websites. BofA Merrill Lynch is not responsible for the content of any third-party website or any linked content contained in a third-party website. Content contained on such third-party websites is not part of this report and is not incorporated by reference into this report. The inclusion of a link in this report does not imply any endorsement by or

any affiliation with BofA Merrill Lynch. Access to any third-party website is at your own risk, and you should always review the terms and privacy policies at third-party websites before submitting any personal information to them. BofA Merrill Lynch is not responsible for such terms and privacy policies and expressly disclaims any liability for them. Subject to the quiet period applicable under laws of the various jurisdictions in which we distribute research reports and other legal and BofA Merrill Lynch policy-related restrictions on the publication of research reports, fundamental equity reports are produced on a regular basis as necessary to keep the investment recommendation current. Certain outstanding reports may contain discussions and/or investment opinions relating to securities, financial instruments and/or issuers that are no longer current. Always refer to the most recent research report relating to an issuer prior to making an investment decision.

In some cases, an issuer may be classified as Restricted or may be Under Review or Extended Review. In each case, investors should consider any investment opinion relating to such issuer (or its security and/or financial instruments) to be suspended or withdrawn and should not rely on the analyses and investment opinion(s) pertaining to such issuer (or its securities and/or financial instruments) nor should the analyses or opinion(s) be considered a solicitation of any kind. Sales persons and financial advisors affiliated with MLPF&S or any of its affiliates may not solicit purchases of securities or financial instruments that are Restricted or Under Review and may only solicit securities under Extended Review in accordance with firm policies. Neither BofA Merrill Lynch nor any officer or employee of BofA Merrill Lynch accepts any liability whatsoever for any direct, indirect or consequential damages or losses arising from any use of this report or its contents.