PAYMENTS

Clicks are down: a big shift in digital payments is being written in the confines of four walls

The lockdown has a nightmarish impact on the digital-payments startups. While they are looking for ways to keep their heads above the water, no one is planning to cut jobs. But after the pandemic, a different industry will emerge, with smaller players falling off the fintech map. Second of a three-part series.

Arti Singh • 16 Apr 2020 • **16 Mins Read**

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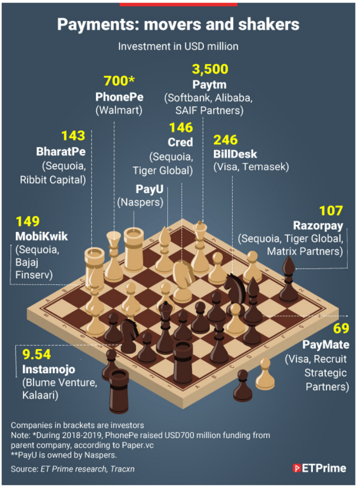
The 'smiling' faces of startup founders and CEOs in social media can't hide reality — they are all losing their shit. With the world's largest lockdown extended till May 3, the worry lines have deepened. During the first phase of the lockdown, companies across sectors saw 50%-100% decline in business, pay cuts, shutdown of units, and layoffs. The second phase could make the ride even bumpier.

Like all other sectors, fintech, termed a 'sunrise' industry by the NITI Aayog, is trapped in the closed lanes of a national lockdown. A limping supply chain is making things even more arduous.

In this second instalment of a three-part series on the challenges faced by the fintech companies, we reached out to prominent digital-payments players to see how they are coping with the situation. The first part of the story captured the challenges faced by offline-payments players.

As Naveen Surya, chairman emeritus at Payment Council of India, says, it's going to be a long haul. "This is a health crisis and not a financial crisis. Even if you allow movement [of people and traffic], there will be relapse. Till [the time the crisis is over], there will be instability by partial or complete shutdown again and again." He says the root cause lies in finding the cure which is at-least 9-12 months away. "Until then, there is no normalcy," he adds.

Given the gravity of the situation, the top bosses of the digital-payments players we spoke to are unanimous about the nightmarish impact on their businesses. But none of them is planning to cut jobs, at least for now. They also talked about the areas that can offer a silver lining, the strategies they are putting in place, and how the complexion of the industry will change after the crisis.



Payments: movers and shakers

Investment in USD million

Companies in brackets are investors

Note: *During 2018-2019, PhonePe raised USD700 million funding from parent company, according to Paper.vc

**PayU is owned by Naspers.

Source: *ET Prime research, Tracxn*

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Before we tell you how each company is holding up, let's take a quick look at how different the industry's business philosophy was before the virus outbreak.

The online-payment space within the fintech universe houses the maximum heavyweights, some backed by huge venture-capital money and some have parents with deep pockets. For long, the payments business has become a 'free business', from a 'fee business'. In the last few years, the big boys have been bulking up in terms of the number of services they offer. This "loaded and sexy" look was possibly created to spread a "false" sense of happiness among the investors. But profitability was still elusive for most. The current crisis will put the focus on survival above anything else.

Here's a look at the impact of the storm and how companies are planning to ride it.

PhonePe: a silver lining amid slide in transactions
It's a tough ride for PhonePe. Online transactions on the merchant side are down by about 65%-70%. Its offline business has witnessed a 50% decline.

Sameer Nigam, PhonePe founder, however, puts on a brave face.

"The silver lining is recharge and bill payments such as DTH recharges, utility payments like gas and electricity are at an all-time high. And, e-commerce accounts for less than 5% of the business, which is now more than ever."

Bill payments in the tier-II, tier-III cities, small towns, and villages have mostly been done offline. But the lockdown has forced most of these transactions to shift online, believe many industry players.

But, aren't utility bill payments and recharges once-a-month transactions?

Nigam says, "[Earlier] a lot of feature-phone users were not able to do online recharges and bill payments. But now many are using PhonePe, and possibly other apps, to recharge for their friends and families [too]."

Also, payments for grocery shopping are at an all-time high.

But e-grocers also have a limited bandwidth. Many people are complaining about not getting delivery slots. Nigam agrees and says it's hard to get slots because availability is a challenge but when the order goes through, people are paying only digitally. The same goes for food delivery. "So, the overall volume is down in the [grocery] category, but digital-payment adoption is high. So, that offsets some of the damages for the payment's players," he believes.

The problem, according to him, is something else and nothing to do with the Covid-19 pandemic. "It is the backlog of zero MDR," he asserts. The industry bodies have been lobbying for some relaxation but now the country is facing a different challenge. "We can't tell the government to bring some financial sanity. So, the [digital] transactions may be at an all-time high, but if we can't make money, it will not go beyond a point," Nigam says.

He further points out that the merchant discount rate (MDR) on Visa and Mastercard is not zero; EMI-led payments or lending, for which there is a desperate demand right now, are not zero. "There are many payment instruments from where you can make money, and many services on which revenues can be made," he adds.

"[With] Switch or Stores [features] on the PhonePe app, merchants are paying us for value-added services such as discovery and distribution. PG (payment gateway) is a very small business, so zero-MDR doesn't impact us much today. If MDRs were healthy, we would have been accelerating digitisation of consumers faster with UPI. After taking all the revenues and incentives away [with zero-MDR], the government and NPCI are running a 'UPI *chalega'* campaign, but no bank is pushing UPI for obvious reasons," he says.

While the company did not share the absolute numbers, the following numbers might offer some hint.

PhonePe claimed it had processed over INR4,000 crore worth of transactions in 24 hours after a service outage post the Yes Bank crisis. In January, Yes Bank processed 39% of the 1.3 billion UPI transactions in the country, the majority of which was processed by PhonePe. The PhonePe platform used to process 20 million transactions on an average day before lockdown. Most of it came from UPI. PhonePe's annual payments value is pegged at USD180 billion.

Razorpay: food delivery holds the fort, neo-banking hit
The payments-gateway company currently has three fronts open — payments, lending, and neo-banking.

Harshil Mathur, Razorpay co-founder and CEO, says on the core payments side, there was an initial uptick in the first week of March, as people were staying indoors and ordering online, especially in the metros. But with the lockdown, everything, from food ordering to online grocery to e-commerce, went down because the delivery service was impacted.

"Currently, we are seeing a 30% drop in overall transactions, compared to the baseline. Only sector that is performing is food delivery, and a little bit of e-commerce," Mathur reveals. Bill payments and gaming have gone up, while tours and travels are completely shut.

Razorpay powers payments for 800,000 merchants.

Mathur believes that overall utility payments must have also come down given the overall economic perspective. But right now, almost 70% of the bill payments are happening online, compared with 3%-5% earlier. Mathur hopes this won't come down because people are not going to go back to offline anymore.

Sharing March 1-15 vis-à-vis March 16-31 transaction numbers in percentage terms, Razorpay says it saw financial services contributed 24% in March (1 to 31) but saw an overall decline of 11%; online gaming registered 30% growth; utilities payments were up 53%; tours and travel saw a decline of 47%; online groceries grew 18% during mid-March from 9% earlier (February-March 15) but saw a decline of 53% towards the end of March; media and entertainment (OTT/DTH) witnessed a 20% growth; IT services grew by 37%; non-profit organisations' transactions skyrocketed 64% in the last 15 days of March.

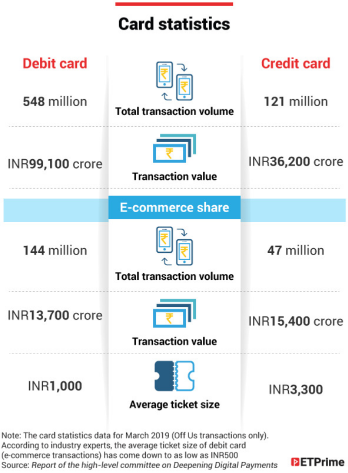
"People staying at home are not disrupting as much, but a supply chain under lockdown is creating a mess," Mathur says.

The neo-banking business of Razorpay is impacted.

Onboarding of new clients is paused. Since video-KYC for current accounts has not been rolled out yet, account opening is not possible right now, Mathur says. At the same time, merchants and SMEs are busy with their own issues and are not interested in opening new current accounts. The company claims its neo-banking platform, RazorpayX, which boasts of 10,000 merchant partners, processes USD3.5 billion in annualised transactions.

Razorpay, which facilitates loans to SMEs, admits that lending has slowed down significantly, and no new loans are given out currently. Because of the confusion around Reserve Bank of India's moratorium to borrowers and the fear of default, everyone has paused lending for now.

"Our business overall is down 40%-50%, and everything will be bad till the lockdown [is over]," Mathur informs.



Card statistics

Debit card		Credit card
548 million	Total transaction volume	**121** million
INR**99,100** crore	Transaction value	INR**36,200** crore
	E-commerce share	
144 million	Total transaction volume	**47** million
INR**13,700** crore	Transaction value	INR**15,400** crore
INR**1,000**	Average ticket size	INR**3,300**

Note: The card statistics data for March 2019 (Off Us transactions only).
According to industry experts, the average ticket size of debit card (e-commerce transactions) has come down to as low as INR500
Source: *Report of the high-level committee on Deepening Digital Payments*

PayU: pressure on GMV; eyes more EMI products

The Gurugram-based payments-gateway company, which powers payments of 350,000 merchants, does see lockdown impacting its underlying merchant business.

"On the payments front, we are processing a lot of government transactions. Because it is March-April, we are also processing a lot of insurance, utility payments, and essential services. The e-commerce and travel [segments] have taken a hit, which only means that we will miss our GMV target for the current quarter," Mohit Gopal, head of strategy, payments business, PayU India, is candid about the impact.

"Having said that, March-April was never an e-commerce heavy period, but an insurance and education-based period. We are probably at 75% of our normal numbers for the month of April," he says.

Gopal looks at the situation differently. He believes that fintech companies have advantage over businesses in other industries because major costs are people and for transaction processing. So, with the business going down, the banking cost, which is the biggest, has also gone down.

However, there could be challenges emerging from merchant partners.

“Some of their [merchants in the travel category] fundamental factor of production is no longer in existence. Even when they come back, there will be a lag factor to a certain extent. There will be 45-50 days of lag because a lot of merchants may not have their raw materials, and not be able to deliver. So, there will be a drop-in business and payments in the April-June quarter,” Gopal says.

Once the lockdown is lifted, a lot of e-commerce companies might go for ‘flash sale’ to get rid of inventory because there could be demand for some of the categories, Gopal believes.

PayU is not only a payment aggregator but it has invested heavily in lending, mostly consumer lending, in the last two years. As a payments partner, the company says it is thinking of building EMI products for its merchants that will help increase consumer spends and sales.

Instamojo: travel, entertainment hit; eyes new lenders
Unlike its payment-gateway peers PayU and Razorpay, Instamojo, which caters to small businesses, is not seeing much impact on its revenue. It’s other channels of income are e-commerce and lending.

Sampad Swain, co-founder and CEO, says only 15%-20% revenue has been impacted which is recovering fast. “I expect a V-shaped recovery, which means we expect the pre-Covid numbers in January-February to return, if not at the end of Q1, but at least in Q2.”

Instamojo, which powers payments for one million small businesses, mostly home-based entrepreneurs, says it has a diverse set of customers, and only travel and entertainment categories have fallen to almost 70%-80% levels. While in other categories like groceries, ed-tech, and small businesses, the business has doubled or trebled.

The company offers sachet loans (typically in the below INR5,000 bracket) to merchants against their sales on the Instamojo platform. This is a fast-moving product and till February, Instamojo has disbursed INR210 crore in loans. In February itself, the loan disbursement was INR15 crore. But in March, there was a 10%-20% fall with a disbursement of INR10 crore-INR12 crore, informs Swain.

“Our NPA is 0.01%. After the lockdown, we want to start conversing with new lenders too,” he adds.

PayMate: travel business under pressure
The Visa-backed enterprise-payments company says with an upheaval in the supply chain, its business is disrupted.

The travel part of the business is facing the heat and will take time to come back on its feet. “All industries, from manufacturing to retail, have been impacted and it cascades into the [entire] supply chain,” the company’s founder and CEO Ajay Adiseshann tells ET Prime.

The consumer demand in turn drives the B2B space. “Even if we are powering automobile-parts manufacturers, they in return supply to automobile companies. So, as long as there is no consumer demand, it’s going to impact the B2B, too,” Adiseshann says.

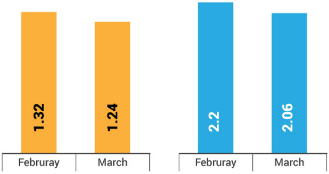
“In the near term – in the next one-two months — [our payments] volumes will be down by over 50%,” he says adding, “March volume was down by 40%, and it will further decline.”

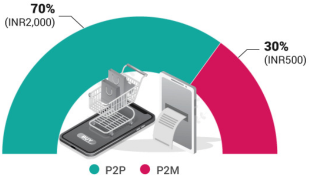
The company, which powers payments for 60 enterprises and 50,000 small businesses, is, however, hoping to see normalcy within 90 days after the lockdown is lifted, as it is sitting on a “good pipeline of new customers coming onboard.”

Payments universe

UPI in numbers

Volume in billion **Value in INR lakh crore**





UPI: peer-to-peer vs. peer-to-merchant

Average ticket size are in brackets
Source: *NPCI*

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For employees, the ship is still sailing

Walmart-owned PhonePe, which has nearly 1,200 corporate-office employees and around 8,500 offline-sales agents, says it won't lay off people. "We will rather shut down our offices and people will work from home, than cut salaries," Nigam says.

Naspers-owned PayU says there will be no job losses, and the company will continue to expand and hire even in these troubled times.

"Bob van Dijk (Naspers CEO) and Anirban Mukherjee (India CEO) have very clearly said that don't worry about the business because the business will come back, take care of your families," Gopal shares.

PayU employs 1,400-1,500 people across payments, lending, and Wibmo (the authentication service unit). Gopal says as of now the company is going normal with appraisals, but if things get worse, the company may take a re-look at things and may even defer it.

Sequoia-backed Razorpay, which employs 720 people, is hiring and scaling up. The appraisal reviews are also happening on time. "We already have a remote-hiring policy in place, and hired 10-15 employees last week in engineering, product, and operations, especially on the neo-banking side. And, 40 more freshers are joining in July. We rolled out 50 offers in December. We called each one of them and told them that all those offers continue to hold firm," Mathur says.

He adds that the company's financial planning has been restructured. This will help it have at least a 24-30-month runway. "We have an events team, but no offline events can happen at this time. So, we have asked them to conduct more online events like webinars. Direct marketing will go down. Therefore, we are telling the team to do more indirect marketing through channels and partners. General marketing has slowed down, so we are focussing more on doing marketing on donations right now."

Bengaluru-based Instamojo, which has 140 employees, claims that it did a bit of restructuring before the Covid outbreak which resulted in 10-12 people losing their jobs. "We are already a lean company," says Swain.

The Kalaari and Blume Venture-backed company, in January bought an e-commerce company Getmeshop, which employed 30 people. "We had to let go of 10-15 people because of redundancy," Swain adds. According to him, the company started doing a lot of cost optimisation and restructuring analysis around Q3 last year. "In next 10-15 days, we will be close to normal in terms of our revenues and margin."

Swain claims Instamojo has created at least 12-18 months of runway because it has been experiencing growth. He hopes to be profitable by 2021.

Although the appraisal process is on at Instamojo, the financial component has been deferred for another quarter. Also, there have been salary cuts in order to extend the runway. "One-third of the company – anyone getting less than INR6 lakh per annum – is not touched. Two-thirds have taken a 10%-40% pay cut. I and the senior management have taken a 40% cut," Swain says.

This salary change is for full FY21, Swain informs. "If things get better or we become profitable this year, we will go back and revoke all the salary cuts. Just because we are reducing salaries, we are opening up our ESOP (employee stock ownership plan) pool," he adds.

PayMate, instead of taking a hasty decision on trimming the workforce, is looking at other ways. "We are in a good space in the mid and long term. We are a capital-efficient business and we are not a very high-burn company. Layoffs are the last option," Adiseshann tells ET Prime.

The company employs 100 people and is going through the appraisal process. Will it come into force? "In all probability, we will defer it for a period of time," he adds.

India's fintech map will never be the same

Beyond the likes of Paytm and PhonePe, there is a fintech universe that houses more than 3,000 companies. There is a yawning gap between the well-funded big boys and the ones who are somehow rolling on. The Covid-19 pandemic could change the fintech map forever.

The current crisis, along with the zero-MDR policy and archaic regulations, will take a toll on online-payments companies that are either in their seed- or pre-revenue stage of funding.

"The regulators are moving at the pace of some of the incumbents or established practices. But the industry is making an argument that let the technology play out and take a risk-based approach. One player, who played badly, allowed regulators to make prohibitive norms for everybody. This way startups won't be able to afford the base level of costs," Nigam says.

"Lot of lending companies and investment companies die prematurely. They can't absorb this kind of bureaucracy in a market where growth itself is so challenging and the business needs to pay on day zero. I thank my stars that we are well capitalised and have strong investors, we will be able to ride it out," he adds.

He opines that it's time for the regulators to rethink their fintech strategy – like why do you want players to waste money on sending SMSes on every transaction? "It makes sense with ATM transactions where you are [operating] outside of an app, but when you are inside an app, where you can see payment confirmation then and there, why does one needs to spend on SMSes? Nigam asks.

Even though the industry is seeing very few small internal funding rounds happening, it is quite clear that the industry will see a funding squeeze at least in the next 12 months. Swain, however, believes that most of the players can survive for six months.

"Companies raised funding to just grow, grow, and grow to show vanity metrics, and investors appreciated the vanity metrics. Now, people will go back to reality. AUM/valuation/GMV will all take a back seat," Nigam believes.

Gopal from PayU, too, thinks the focus will be back to fundamentals. "There are smaller aggregators who undercut us on rates and commercials, that's also likely to change because this crisis will bring out who is better and faster."

Razorpay's Mathur believes consumer-payments companies with high cash-burn rates and the ones that need funding every 6-12 months will suffer badly. "They will see a down-round so as to ensure that they survive," he says.

The bottom line

Fintech as a sector has mostly been on the growth mode, which makes conserving cash difficult. The smaller players, who don't have the scale, will gasp for breath. They might just shut shop or look for someone to acquire them.

Startups that raised just one round of funding and are one to three-year old will see a high mortality rate. There are around 2,000 companies in this bracket. "The need of the hour is that larger companies should collaborate with these companies and help them survive," says Surya from Payment Council of India, adding that the industry is trying to facilitate such partnerships.

The fintech boom in India emerged from the ashes of the 2008-2009 financial crisis. The dotcom bust in 2001, too, saw some winners coming out. Adiseshann of PayMate says, "Few of the existing players will come out of this crisis and emerge stronger. We will see the birth of a few newer ones with better models and lower burn rate in this period."

The rules of the game will be changed, with everyone going back to basics. The obsession for topping up the apps with additional features are fading off now. In the end, the cake will become plain vanilla and all the toppings will go.

(*Graphics by Sadhana Saxena and Abdul Shafiq*)

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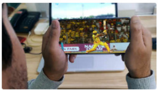

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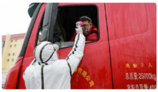

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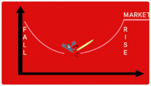

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