Digital payments: When the pie is large but a few slice it up

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The online payments market is growing but there's little room for new entrants, with the incumbents cornering funding

Getting his salary through GooglePay every month is now a matter of routine for Prahalad Das, a cook in Chennai's Ramapuram locality. In Chitlapakkam, another borough of the city, Venugopal Ravi, a business executive, pays for his purchases, be it a food order on Swiggy or clothes at a luxury store, using payment apps and wallets. Like them, millions of Indians today have eschewed cash and gone digital when it comes to making or accepting payments.

Between FY17 and FY19, the number of digital transactions in India shot up by 139 per cent to 23,373 million transactions, according to Reserve Bank of India (RBI) data. The corresponding value of these transactions has soared to ₹1,638,495 billion over the same period. This data excludes transactions carried out using gateways.

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Given all of the above, it would be reasonable to expect start-ups to mushroom in the online payments space, which encompasses everything from gateways, wallets and networks, to point of sale solutions, processors and other alternatives to cash. It would also be reasonable to expect investments to pour in and fund their growth.

The numbers, however, paint a different picture. According to data from Tracxn, a firm that tracks start-ups, the number of new entrants in the online payments sector has declined steadily. In 2015, as many as 131 companies were founded, but this dipped to 49 in 2018. Mid-way through 2019, that number is down to just 11.

Digital transactions

	Share in value (₹ billion)	Share in volume (million)
2016-17	1,121,644	9,780
2018-19	1,638,495	23,373
% increase	46.07	139

Equity funding and number of companies founded in the online payments sector

Year	Equity funding amount ($ million)	No. of companies founded
2015	1,125.87	131
2016	247.93	81
2017	1,581.05	56
2018	680.79	49
2019	**234.40**	**11**

Source: RBI, Tracxn

The decline in the number of start-ups has coincided with a fall in equity inflows into this sector. From a high of $1,125.87 million in 2015, funding almost halved to $680.79 million in 2018.

In 2019, in the year to date, this has dwindled further, to $234.40 million. Most of this money has been cornered by the larger, well-established firms. There has also been no private equity funding in the sector since 2007.

Jostling for space

While there are various reasons for this decline, the primary ones are competition, early-birds cashing in, and a lack of variation in product offerings.

Early movers such as Paytm and Mobikwik have been successful in capturing a significant share of the market. These well-entrenched players have been trying to scale up their operations through incentives, cash-backs and other value-added services. With customer loyalty gravitating towards the known brands, new entrants, who have little to offer that is new either for customers or investors, are under immense pressure.

Investors, too, have preferred to place their bets on the established companies.

In 2017, the total equity funding in the online payments sector stood at $1,581.05 million. Of this, Paytm received 88 per cent, or $1,400 million, in its Series F round, from Softbank group.

Similarly in 2018, the total funding in the sector stood at $680.79 million. But here again, Paytm cornered 52.73 per cent of the money — $359.02 million. Pine Labs, a company that offers PoS software solutions for offline retailers and brands, grabbed another 30.4 per cent ($207 million). Perhaps it is not surprising then that Paytm is the only wallet that is a unicorn in the online payments sector. BillDesk, the other unicorn, is a payment gateway.

Published on June 27, 2019

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