



# FinTech: Voice Of Indian **MSMEs**

Impact | Change | Benefits | Trends

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FinTech is to the world of commerce what Uber is to the transportation industry – quick, effective, economical, user-friendly and available on demand. It is an idea whose time was long overdue – especially as far as the MSME sector is concerned. The technology has the potential to transform almost every aspect of MSME finance, and build avenues of growth where hardly any existed.

Economic liberalization, in 1991, brought both opportunities and threats to large corporations, by removing the license raj and opening up markets to global competition. Access to finance was now supplemented with access to markets beyond Indian borders and, thanks to this leverage, many large businesses went on to become behemoths.

In sharp contrast, small businesses have not had a single watershed moment in Indian history. Government reforms have, historically, incentivised large businesses and provided incremental benefits to MSMEs. Dedicated policy making notwithstanding, archaic labour laws, tax regimes and working capital constraints have further skewed the playing field against the small entrepreneur.

Given this background the speed at which the FinTech industry is bringing more and more customer-friendly innovations to the market is a clarion call to the MSME sector. The “simple, honest, reliable” Link Commerce solution that Instamojo is devising is the gateway for MSME growth. The family of support solutions this foundation hosts would be the digital single window for small business.

Having transformed 5 lakh MSMEs with its economical, easy-to-use, payment gateway solution Instamojo is ideally positioned to scale its success to the entire MSME fraternity.

Our partnership with Instamojo has further fuelled Dunzo’s mission of enabling local commerce across every area, in every city. This report carries rich insights on the FinTech industry evolution and an exciting prognosis for the immediate future of Digital Payments. I wish Instamojo great success in its endeavour and we can’t wait to see what the future holds.

**Kabeer Biswas**  
*Co-Founder and CEO, Dunzo*

## May a hundred million enterprises bloom!

The digital revolution has spurred innovation at an unprecedented scale and pace. It has democratized technological opportunities, changed our lives and the world of work, and pushed organizations to remodel themselves. The impact of this ongoing revolution is being felt across geographies and industries, in ways big and small. It is hard to imagine a domain that is isolated from this change.

The most pertinent point technologists should ponder upon, however, is how this change can be truly transformational and far reaching. How the digital revolution can transform the lives of the common man – the *aam aadmi*. At Instamojo, we are on a mission to build solutions that do just this. By pioneering the “Link Commerce” category in FinTech, we have committed ourselves to develop tools that can have a profound impact on millions of livelihoods.

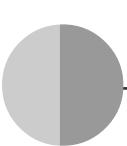
The MSME (Micro, Small and Medium Enterprises) sector in India is a vital cog in India’s development wheel. Today, 6.3 crore MSMEs employ 11.1 crore people and contribute 28.77% of India’s GDP, in spite of several hurdles that lie in their path. Instamojo understands the travails of the MSME entrepreneur. Our flagship digital transaction solutions, augmented with a complete digital ecosystem, focus sharply on solving for the myriad problems faced by MSMEs.

FinTech gained early traction in India, with the industry clocking INR 55,000 crore in revenues by 2016. It has redefined the delivery of commerce by bringing together technological innovation and a high degree of usability. The digital opportunity for MSMEs to tap into latent market demand, ease cash flows, access credit and manage finances to chart out growth is unprecedented. Government initiatives to formalize and digitize the economy is a shot in the arm for MSMEs as well.

Digital payments are, arguably, the most fundamental FinTech solution / product that MSMEs could benefit from. Link Commerce is the simplest, and most user-friendly product category within Digital Payments. Over the coming months and years, this transactional foundation will support a range of solutions devised to help MSMEs win in the marketplace. Instamojo is dedicated to help the 6.3 crore MSMEs in their journey to this destination.

**Sampad Swain**

*and the Instamojo Team*



- The Indian FinTech software and services industry has emerged as an INR 55,000 crore market, as of 2016, and is set to grow 1.7 times to INR 96,400 crore, by 2020
  - The industry processed INR 3.65 lakh crore (estimated) in transactions in 2018 and will process transactions worth INR 7 lakh crore (projected) by 2022.
- Three major factors have driven the growth of the industry, in India, so far
  - Growing domestic internet user base [50 crore as of June 2018 – estimated].
  - Growth of the domestic smartphone user base [33.7 crore as of December 2018 – estimated].
  - Government initiatives such as Digital India, JanDhan Yojana, Demonetization and Aadhaar.
- The four FinTech industry segments are set to exhibit phenomenal transaction value growth over 2018 – 2022 in India
  - Digital Payments [INR 3.58 lakh crore in 2018 to INR 6.75 lakh crore in 2022].
  - Alternative Lending [INR 1,659 crore in 2018 to INR 9,172 crore in 2022].
  - Alternative Financing [INR 330 crore in 2018 to INR 888 crore in 2022].
  - Personal Finance [INR 5,915 crore in 2018 to INR 14,536 crore in 2022].
- Digital Payment instruments, the most popular FinTech solution group in India, grew at 18.47% CAGR over 2013–2017, with growth peaking at 33% in 2016
  - Future growth is estimated from roughly INR 3.44 lakh crore in 2016 to INR 34.4 lakh crore by 2020, constituting around 15% of GDP.
- The 6.3 crore enterprises strong MSME sector, which contributes 28.77% of India's GDP and 31.6% of Gross Value Added (as of 2015-16), is plagued by the following four fundamental problems and a number of other constraints
  - Lack of consistent business orders and transactions – impacting their income.
  - Inadequate capital – because of the absence of tangible assets.
  - Inefficient market linkages – no formal marketing ecosystem that they can afford.
  - Regulatory hurdles – making it hard to start, run or close a business.
- Adoption rates of new-age digital payment modes, in India, peaked overnight during Demonetization and the introduction of GST has sustained this early momentum
  - Digital payments represent 16.88% (B2C) and 14.45% (B2B) of all domestic MSME transactions.
  - Cash and POS transactions constitute 58.4% (B2C) and 45.88% (B2B) of all domestic MSME transactions.
- Four initiatives by the Government of India have had both an immediate and a lasting impact on business in general, and payments behaviour in particular
  - Demonetization: 33% to 50% of MSMEs – across different business size and geography – witnessed a shift away from cash to digital payments and cheques.
  - Goods and Services Tax: is set to formalize the economy and create a digital data trail which will drive growth and online credit access for MSMEs.
  - Aadhaar: will simplify KYC, extend financial inclusion and promote ease of doing business for MSMEs via the Udyog Aadhaar Number.
  - Digital India: supports a host of digital payment systems including Aadhaar Enabled Payment System (AEPS), Bharat Interface for Money (BHIM), DigiDhan and DigiLocker.



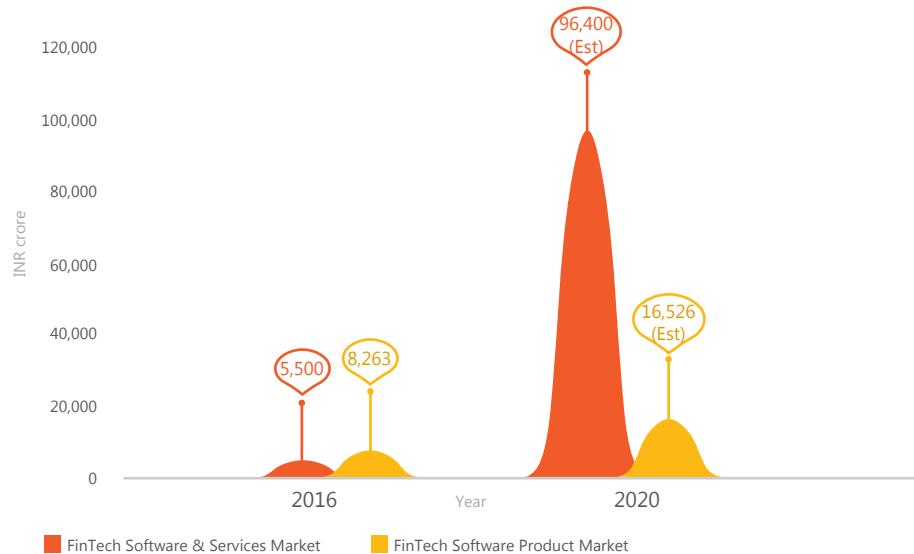
- Many critical factors, along with the advent of FinTech, have caused a spike in volume and value growth in mobile wallet and PoS usage
  - The critical factors that drove usage: Post-demonetization demand, digital opportunity for growth, risk associated with cash-only operations, multichannel consumer journeys, better customer service and payment options, cash-related logistics, and data analytics.
  - Mobile wallet and PoS usage witnessed 25% volume growth and 9% value growth in FY 2015-16 and 31% volume growth and 25% value growth in FY 2016-17.
- Digital payment adoption rates across sectors, geography and platform have undergone significant transformation
  - Most sectors have achieved adoption rates between 9% and 15%
  - Metro cities have high rates of adoption of digital payments (69% to 87%), while adoption rates in tier-2 cities are substantially lower (30% to 35%).
  - Mobile apps (74%), traditional website (53%) and mobile-website (40%) have the highest digital payment adoption rates among platforms.
- The growth of the Link Commerce space in India, over the past two years, is marked by a rapid, all-round, adoption by volume, segment and geography
  - Retail, Consumer Goods, Entertainment and Media, Financial Services and Products and Other Services exhibited 100%-plus growth rates in either of the two financial years in consideration (2016-17 and 2017-18).
  - Eight of the twelve sectors exhibited three digit growth rates and two exhibited near-100% growth, during 2017-18.
- Transaction volumes have grown rapidly, over the three years in consideration, for the overall Link Commerce market in India. Findings from a forecasting analysis are –
  - The trend line is on an accelerating trajectory and growth forecast for the next six months is seen to be exponential.
  - Top sub-sectors: Education and Jobs, Financial Services and Products, Travel, Health and Personal Care, Art, Craft and Collectables.

## Industry Profile

Delivery of financial services is being rapidly transformed by technology. The world over a host of FinTech start-ups are delivering software and services that are redefining the way people, organizations, businesses and governments transact with each other, by competing and partnering with the traditional banking and financial services sector.

India is in step with this transformation, ably complimented by the government's Digital India initiative. The Indian FinTech software and services industry has emerged as an INR 55,000 crore market, as of 2016, and is set to grow 1.7 times by 2020 to INR 96,400 crore<sup>1</sup>. The industry processed an estimated INR 3.65 lakh crore in transactions in 2018 – a number that is projected to grow at 17.8% CAGR to INR 7 lakh crore by 2022<sup>2</sup>.

### Indian FinTech Market Size: 2016 to 2020



Source: FinTech in India – a global growth story, KPMG-NASSCOM 10000 Startups, June 2016

## Growth Drivers

A predominantly cash driven economy, India has taken overwhelmingly well to FinTech and has spawned enormous opportunities in Digital Payments, Alternative Lending, Alternative Financing and Personal Finance. Three major factors have driven the growth of the industry so far –

**Growing Internet-user base:** The number of internet users in India grew 11.34%, year-on-year, to 48 crore in December 2017, and is estimated to have grown to 50 crore by June 2018.

**Growth of smart-phone users:** The number of smartphone users in India has surged over the last 3 years to 29.16 crore in December 2017, and is estimated to grow to 33.7 crore by December 2018<sup>3</sup>.

### In India FinTech can

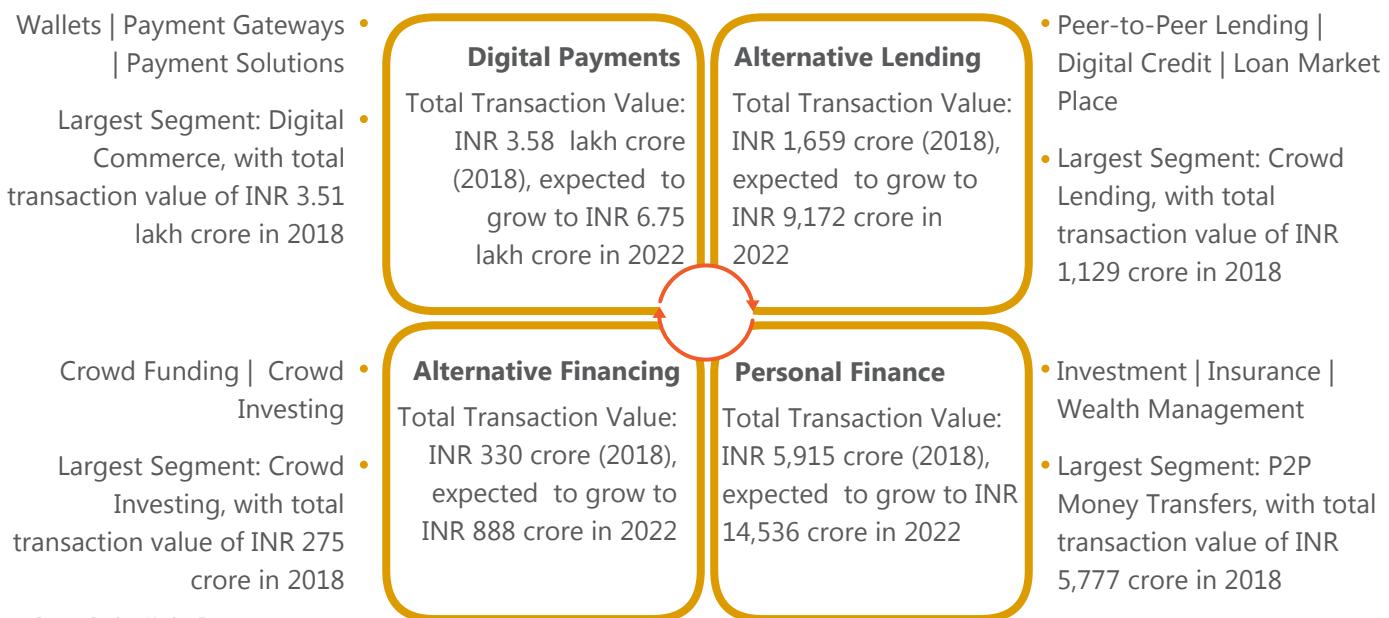
- ▶ fill the credit gap of INR 28 lakh crore for MSMEs
- ▶ create 2.1 crore new jobs and boost GDP by INR 48.2 lakh crore, by 2025
- ▶ bring in INR 16,526 crore in investments by 2020
- ▶ reduce systemic leakages by INR 13,772 crore and subsidies by INR 20,658 crore

**Government Initiatives:** Digital India is promoting digitization of businesses and transactions, JanDhan Yojana is promoting financial inclusion with 19 crore bank accounts opened as of 2017, Demonetization increased the share of digital transactions by an immediate 22% and by 67% between 2016-17 and 2017-18 and Aadhaar, with more than 100 crore registrations, serves as a simplified verification step.

## Industry Structure

Broadly, FinTech has four industry segments – Digital Payments, Alternative Lending, Alternative Financing and Personal Finance. The **Digital Payments** segment comprises P2P (person-to-person), P2M (person-to-merchant), G2P (government-to-person) and such other fund transfer services.

**Alternative Lending** is made up of lending market places (peer-to-peer as well as institutional).



Source: Statista Market Forecast

**Alternative Financing** deals with crowd and equity funding platforms, and NBFCs that use alternative scoring and digital channels to acquire borrowers.

**Personal Finance** comprises technologies that help manage financial planning, personal spends, investments and credit profiles, and deal with tax filing and compliance requirements.

**BankTech** and **InsurTech** are technology stacks in the Personal Finance segment. BankTech delivers services that leverage big data and blockchain to analyse spending patterns and build risk profiles. InsurTech is an aggregator technology that leverages Internet of Things and Wearables.

## Types of Digital Payment Instruments

- Banking cards
- USSD
- Aadhaar Enabled Payment System (AEPS)
- UPI
- Mobile Wallets
- Bank pre-paid cards
- Point of Sale (PoS)
- Internet Banking
- Mobile Banking
- Bharat Interface for Money (BHIM) app

## Industry Dynamics

Two-thirds of all the FinTech companies in India are focused on two FinTech solution offerings – Payment Processing and Banking. Digital Payment instruments are the most popular FinTech solution group and have grown at 18.47% CAGR over 2013–2017, with growth peaking at 33% in 2016. The immediate future for this class of solutions is far more robust – growth over 2017–2023 is projected at 58.9% CAGR. It received a huge boost during Demonetization and is estimated to grow from roughly INR 3.44 lakh crore in 2016 to INR 34.4 lakh crore by 2020, constituting around 15% of GDP<sup>4</sup>.

<sup>4</sup>Leading the cashless charge – Evolution of the digital wallet industry in India, Deloitte Analysis Report, 2017.

## MSMEs – a critical component of India's growth story

India has the second largest number of MSMEs in the world – 6.3 crore enterprises. MSME is the largest job creating sector, employing 11.1 crore people (8.5% of India's population). 90% of all enterprises in the country are MSMEs and they contributed 28.77% of India's GDP and 31.6% of Gross Value Added (GVA) in 2015-16<sup>5</sup>. They foster entrepreneurship and contribute significantly to the economic and social development of the country.

The sector has seen tremendous growth over the years in spite of constraints of infrastructure, market linkages and institutional credit. The business model demands low investment and is typically managed hands-on by the entrepreneur.

With the Union Cabinet redefining the manner in which MSMEs are classified the spotlight has turned towards the services MSME. The Services sector, as a whole, contributes 58% of the nation's GDP. Developing economies, such as India, are heavily reliant on small businesses, especially service providers. More than 2 crore MSMEs providing myriad services ranging from Astrology to Automobile servicing, Movers and Packers to Travel Services, Small IT services to Yoga instructors fuel the engine of growth from their own small set ups. The magnitude of their influence on the economy reflects in the astounding statistics listed above.

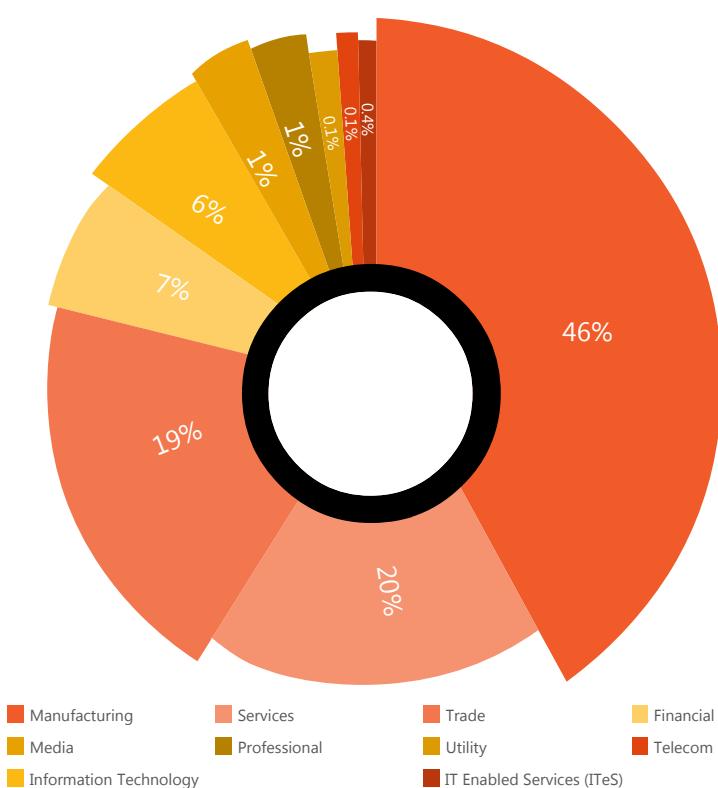
### MSMEs in India account for

- 40% of all exports
- 69% of all employment
- 45% of the industrial output
- 13 lakh new jobs per year

22 lakh women-led enterprises

INR 1.72 lakh crore market opportunity by 2020

### MSME Sectors in India: as per the old convention



Source: Catalysing MSME entrepreneurship in India, June 2017|KPMG

The Government of India has changed the basis of classification of enterprises from the traditional, plant, machinery and equipment investments based, to one that is based on annual turnover, without distinguishing between Manufacturing and Services, as of March 2018. As per the new classification methodology –

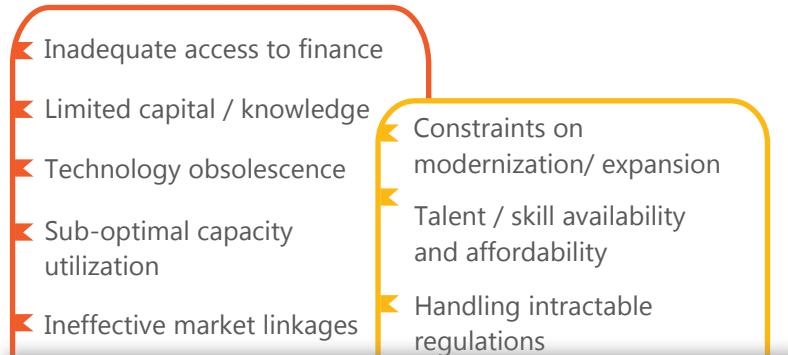
- Micro Enterprises** are those with annual turnover not exceeding INR 5 crore,
- Small Enterprises** are those with annual turnover more than INR 5 crore but less than INR 75 crore, and
- Medium Enterprises** are those with annual turnover more than INR 75 crore but less than INR 250 crore.

<sup>5</sup>Annual Report, Ministry of Micro, Small and Medium Enterprises, 2017-18.

## THE MSME MARKET

Inadequate access to finance aggravates the working capital problems MSMEs face due to lack of enough business, inordinate delays in payments from customers, gap in bank funding or a combination of all of these factors. About 60% of B2B MSMEs report having payment cycles as long as 60 days and 35% report receiving payments well after 90 days.

### Hurdles in the MSME growth path



India had the largest average Days Sales Outstanding (80 days) within the Asia Pacific region, as of 2013 . A significant proportion of Indian MSMEs also believe that their most crucial challenge is a dearth of access to finance and credit instruments<sup>7</sup>.

### MSME Challenges

MSMEs play a critical role in India's economic development in spite of a number of hurdles faced in their growth path – right from the inception stage to day to day running of business. The ecosystem, comprising government departments, banks and financial institutions and corporate customers, imposes a range of restrictions on the MSME.

Services MSMEs face four fundamental problems: a) Lack of consistent business orders and transactions – impacting their income b) Inadequate capital – because of the absence of tangible assets c) Inefficient market linkages – no formal marketing ecosystem that they can afford d) Regulatory hurdles – making it hard to start, run or close a business.

### Sizing up the unmet Credit Deficit among Indian MSMEs

Revenue Segment (INR)	No of Units (lakh)	Credit Demand (INR '000 crore)	Bank Credit Supply (INR '000 crore)	Credit Gap (INR '000 crore)
<15 lakh	414	414	92	322
15-30 lakh	56	168	62	106
30 lakh-1.5 crore	45	477	203	274
1.5 crore - 3 crore	13	234	103	131
3 crore - 18 crore	18	720	357	363
<b>Total</b>	<b>546</b>	<b>2013</b>	<b>817</b>	<b>1196</b>

Instamojo has been experimenting on extending business loans to its sellers and merchants by partnering with various NBFCs. This lending program is open exclusively for Instamojo users. Instamojo will grant instant loans to SMEs via an app – adding a credit feature to its mobile app through which merchants will be able to avail low-ticket instant loans between INR 10,000 and INR 80,000.

<sup>6</sup>Attradius report, 2013

<sup>7</sup>Analyzing Indian SME perceptions around Union Budget 2014-15, Greyhound Knowledge Group, 2015

Source: Deloitte Analysis, MSME Annual Reports, RBI

## Digital Payments – Segments

Ubiquitous adoption and usage of mobile-internet and smartphones has transformed the digital payments landscape in India. Radically superior usability makes today's mobile apps more efficient than their non-mobile counterparts and enables new payment capabilities. This, coupled with innovations in payment access, security technologies to counter fraud and multi-factor authentication have catalysed the digital payments transformation.

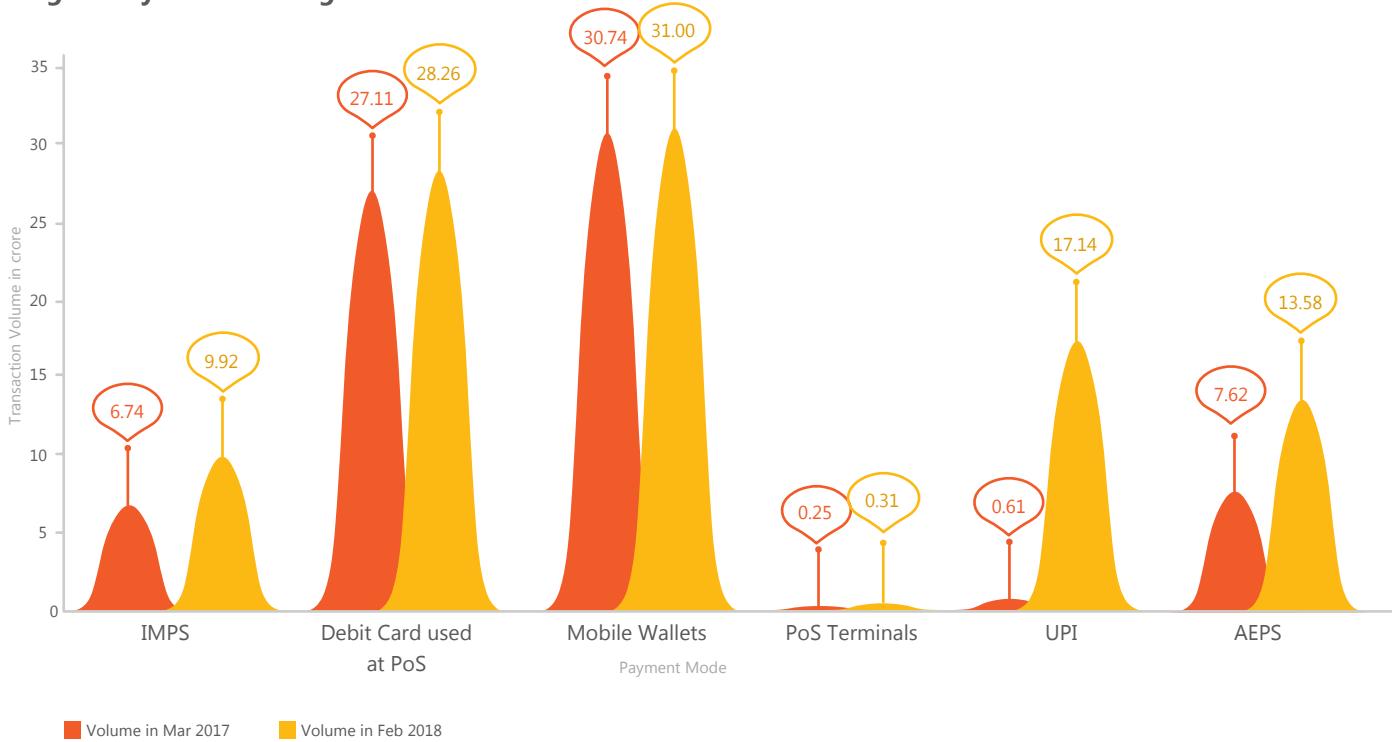
## Four global mega-trends shaping the Payments landscape

- The Digital revolution
- NextGen payment service providers

- Enhanced customer experience
- Regulations as an enabler

The digital payments industry in India is estimated to grow from about INR 3.44 lakh crore in 2016 to INR 34.4 lakh crore, by 2020, and contribute 15% of India's GDP<sup>8</sup>. The shift to new mobile-based payment methods from older methods such as debit and credit cards is significant. Demonetization has accentuated this shift. The value of transactions using digital wallets has increased by 64% from December 2016 to December 2017 due to access, adoption, and the instant nature of payments<sup>9</sup>.

## Digital Payment modes growth



**IMPS:** The Immediate Payment Service is an instant interbank electronic fund transfer service through mobile phones.

**Debit Card used at PoS:** The conventional card-based payment at retail billing counters (PoS – Point of Sales terminals).

**Mobile Wallets:** are app-based stored value cards funded through debit / credit cards or NEFT.

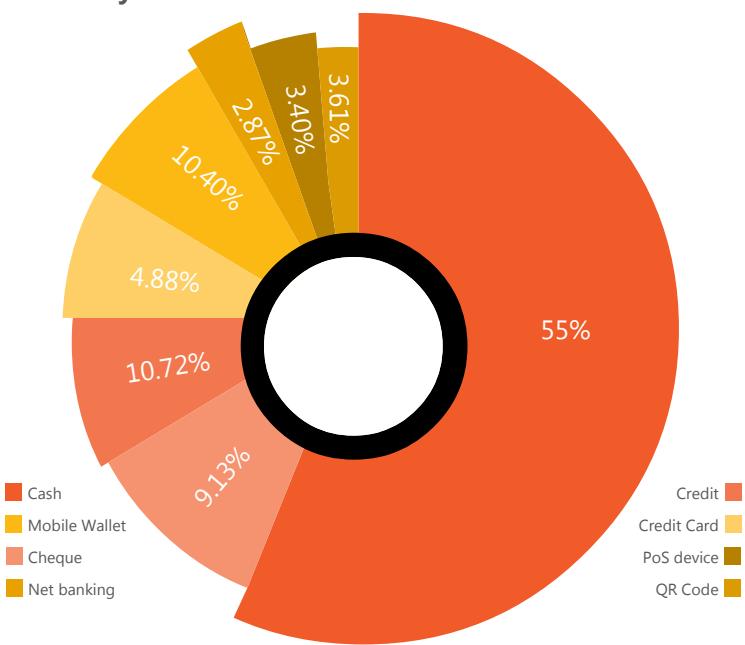
**UPI:** Unified Payments Interface is a system that powers multiple bank accounts into a single mobile application.

**AEPS:** is a bank led model which allows online interoperable financial transaction at PoS (Point of Sale / Micro ATM) through the Business Correspondent (BC) / Bank Mitra of any bank using the Aadhaar authentication.

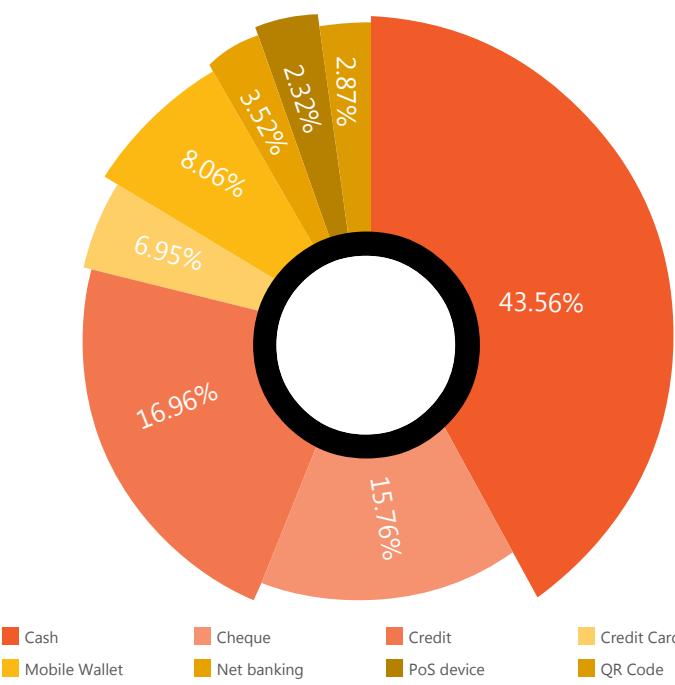
### Payment practices in the MSME sector

Traditionally, MSME consumer transactions were cash or conventional debit and credit card, and B2B transactions were cash, cheque and NEFT / RTGS. New-age digital payment modes did see limited adoption earlier – especially among B2C MSMEs. However, adoption rates peaked overnight due to the Demonetization initiative and the introduction of GST sustained the early momentum.

#### MSME Payment mode breakdown - B2C



#### MSME Payment mode breakdown - B2B



India has been a predominantly cash-based economy. Prior to Demonetization about 68% of all transactions were cash<sup>10</sup>. In retail transactions, ATM cash withdrawals and POS transactions, together, fell from 91% in September 2016 to 74% in March 2017, and clawed their way back up to 82% by January 2018. Digital payments rose from 9% to 26% and settled at 18% across these time frames.

The present scenario in case of MSMEs, overall, is substantially different as far as cash and POS transactions are concerned – they constitute 58.4% (B2C) and 45.88% (B2B) of the overall transaction pie. Digital payments represent 16.88% (B2C) and 14.45% (B2B) of all MSME transactions<sup>11</sup>.

<sup>10</sup>Credit Lyonnais Securities Asia, November 2016

<sup>11</sup>Digital payments will pay off in time, The Economic Times, November 2017

## The impact of government initiatives on MSME behaviour

The Indian MSME sector has borne the brunt of government policies over the past four years. Regardless of the nature of the overall impact the following four steps by the government have had both an immediate and a lasting impact on business in general, and payments behaviour in particular.

### Goods and Services Tax [GST]

Formalization of the economy, one of the primary objectives of GST, has forced MSMEs to create digital trails of transactions.

This, along with digital filing of taxes, will create useful data, which will allow new-age Fintech lenders to accurately assess creditworthiness of MSMEs

The data also aids FinTech lenders to mass-customize their offerings and elevate the sector from the current, under-served, levels.

GST will provide an opportunity for MSMEs to digitize their transaction management, making it efficient for future growth through best practices.

### Demonetization

Around 41% of MSMEs witnessed a shift away from cash to digital payments and cheques.

Almost 50% of the MSMEs with annual revenue of INR 2 crore or less saw a substantial shift away from cash transactions.

About 33% of the MSMEs with revenues above INR 25 crore witnessed a greater shift towards digital payments.

MSMEs from Tier 2 cities and smaller towns have also seen a significant shift of around 42% to cheque or electronic payments.

### Digital India

The Digital India initiative is the bed rock of e-governance and the less-cash society the government is aspiring to nurture India into.

As an umbrella program the initiative supports Aadhaar Enabled Payment System (AEPS), Bharat Interface for Money (BHIM), DigiDhan and DigiLocker.

Digital India supports Direct Benefits Transfer (DBT) which aims to reengineer welfare schemes for simpler, accurate and faster flow of information and funds.

The initiative also fuels platforms such as IndiaStack - a set of APIs that utilizes a unique digital Infrastructure to enable cashless delivery of services.

### Aadhaar

Aadhaar, as the defacto standard for unique identity, helps online authentication of KYC data - a shot in the arm for further adoption and usage of digital payments.

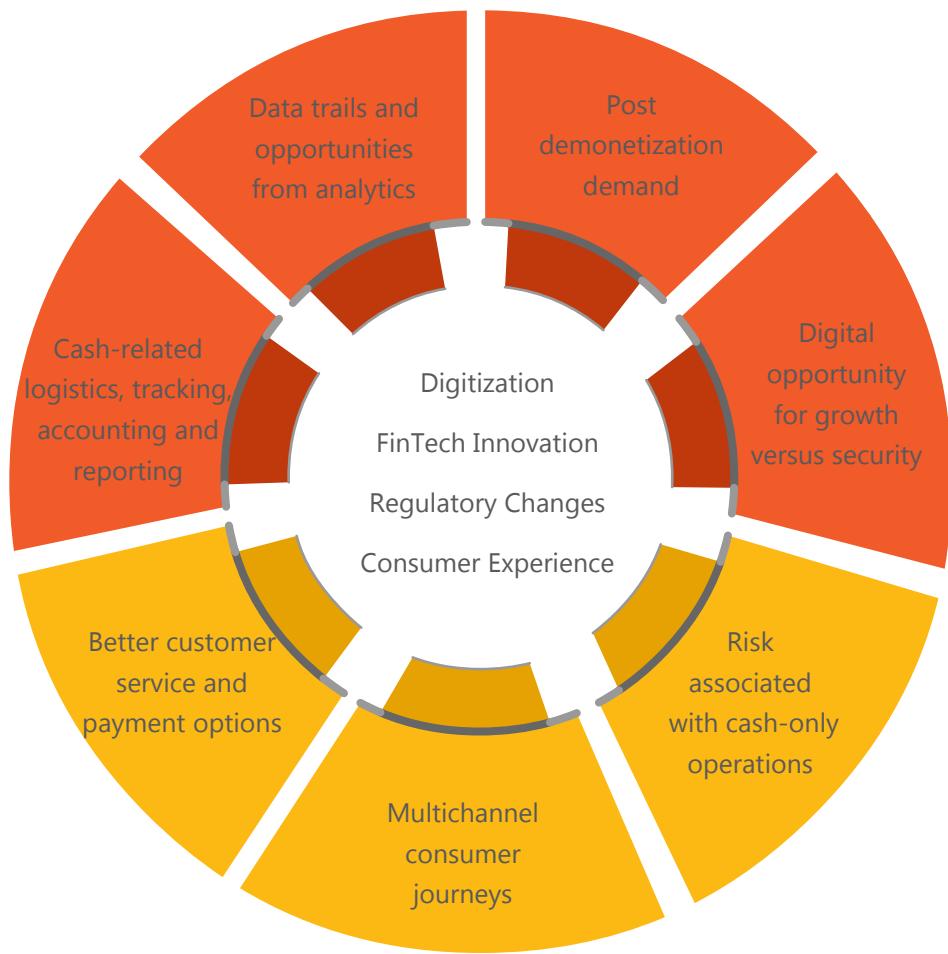
Simplification of the KYC process along with biometric identification of Aadhaar has extended financial inclusion for nearly 30 crore people.

With Aadhaar payment service providers will be able to acquire consumers online and mass-cutomize the user experience for millions.

MSME entrepreneurs are entitled to a unique "Udyog Aadhaar Number". It is a path breaking step to promote ease of doing business for MSMEs.

## Critical factors driving MSME digitization

MSMEs in India have their own, unique, needs and aspirations that determine the trajectory of digital payments adoption in the sector. Given the specific operating challenges they face and the digital opportunity, the following seven critical macroeconomic factors will determine how the sector takes to the digital payments regime.



Consumer willingness to use cashless payment options has significantly increased with the advent of FinTech. Frictionless and secure digital transactions are vital in scaling an MSME business and making it more profitable. In a digital regime, the risks and consequences of operating with cash, lack of transparency and the need to window dress accounts, are a source of stress for the MSME entrepreneur.

MSMEs need to offer multichannel experiences to accommodate evolved consumer decision processes and their journey towards purchase and post-purchase satisfaction. Digital payment options enable MSMEs to design rewards and privileges, provide superior customer service, and cut down on the effort and the cost of managing cash. Finally, more payment options enable the MSME to acquire more customers and grow the business.

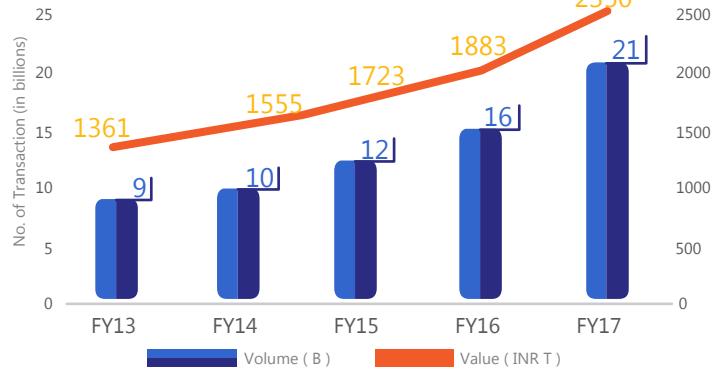
Instamojo witnessed an 82% growth in merchant registrations in November, 2016 and 2x growth in the following month. However, out of the total merchant sign-ups between November 2016 and March 2017, only 30% SMEs continued to use digital payments as of October 2017.

## Digital payments adoption in the MSME sector

There has been a steady growth in mobile wallet and PoS usage volumes over the past five years. Both volume and value of digital payments have accelerated during the last two years – 25% volume growth and 9% value growth in FY 2015-16 and 31% volume growth and 25% value growth in FY 2016-17.

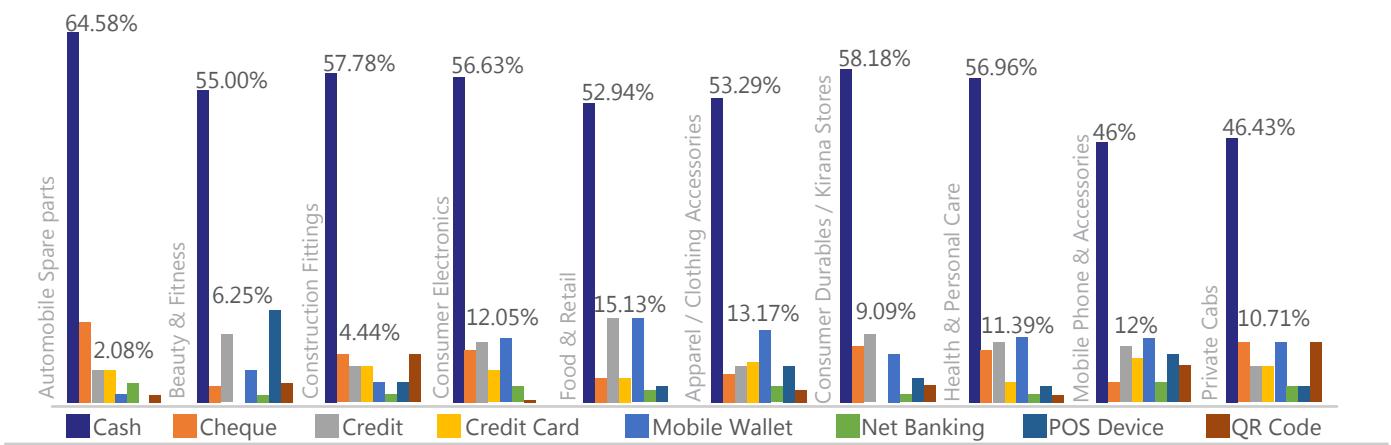
FinTech has caused a definitive shift from cash and other conventional payment modes to digital modes. Considering mobile wallet adoption as representative of the broader Digital Payment category, seven of the ten sectors studied displayed significant adoption. Consumer Electronics, Food Retail, Apparel / Clothing Accessories, Consumer Durables / Kirana Stores, Health and Personal Care, Mobile Phones and Accessories and Private Cabs have achieved near-10% or higher adoption rates, right up to 15%.

### Digital payments volume and value growth in India

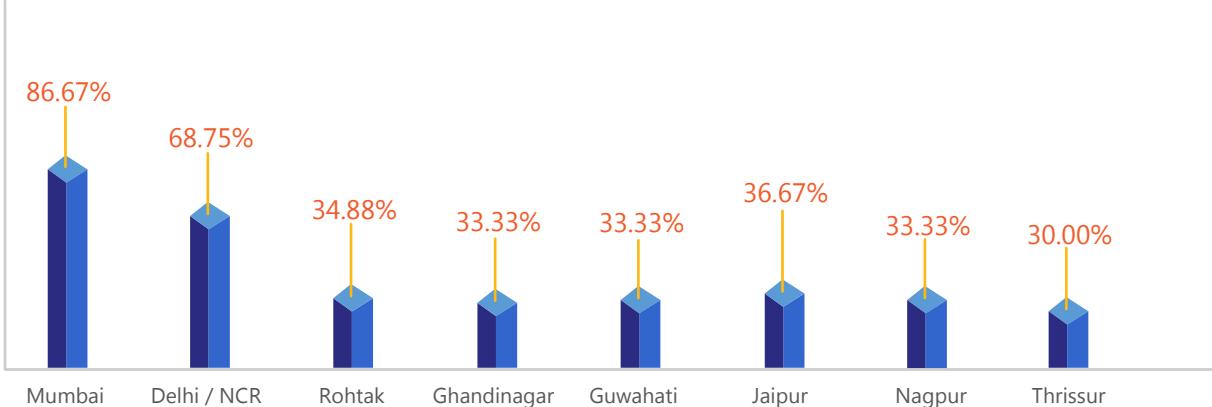


Source: *Leading the cashless charge – Evolution of the digital wallet industry in India*, Deloitte Touche Tohmatsu Limited, 2017

## Digital Payment adoption in India: payment modes by sector



## Digital Payment adoption in India: by Geography [Metro versus Tier-2 cities]

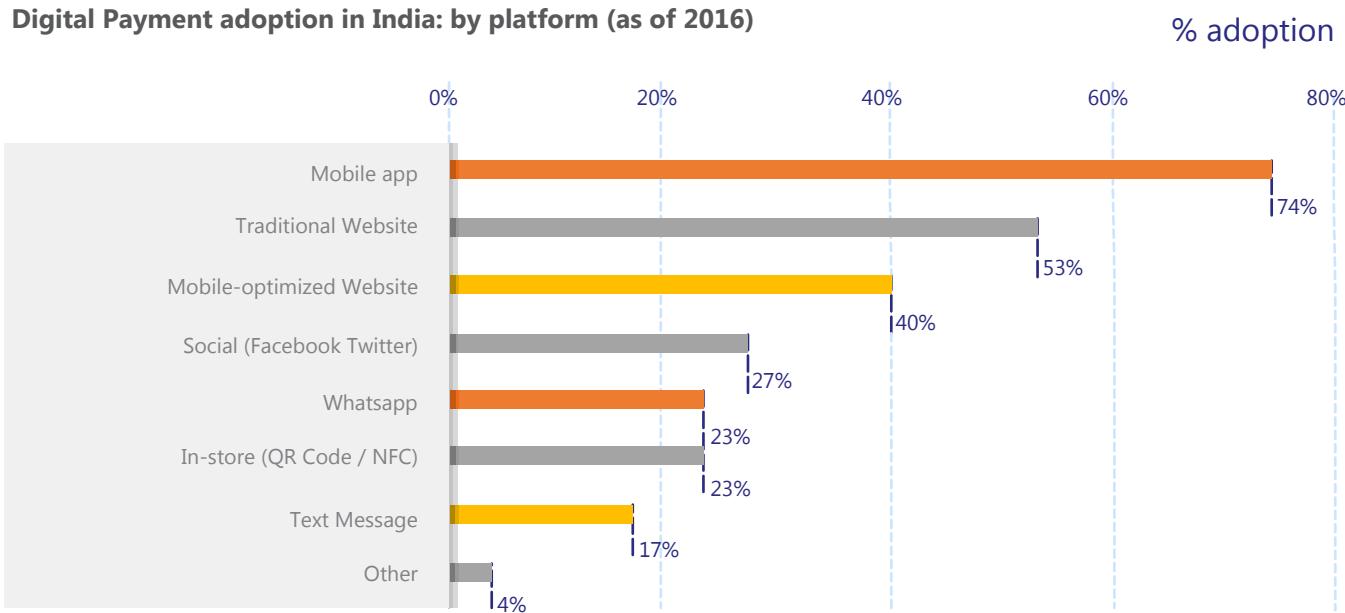


Source: *Demonetization and Merchants | The Promise, The Potential and The Practicality*, Deloitte 2017

Metro cities have a substantially higher rate of adoption of digital payments compared with Tier-2 cities – bordering on 7 or 8 out of every 10 people. Digital payments have touched the lives of 1 out of every 3 people in tier-2 cities.

High usability mobile apps are the top preferred transaction platform. Websites – traditional and mobile – are the next most preferred channels. Social media has gained good early traction, while text message (SMS) is the least popular.

**Digital Payment adoption in India: by platform (as of 2016)**



Source: Digital Payments in India – Not a Distant Dream, Euromonitor – Blog, 2017

The one main hurdle in the adoption of digital payments by MSMEs is transaction charges.

Optimal monthly card volume: INR 20,000 to INR 25,000 [to avoid paying a monthly commitment charge upwards of INR 150 to banks].

Instamojo charges 2% plus INR 3 per successful transaction with no preconditions.

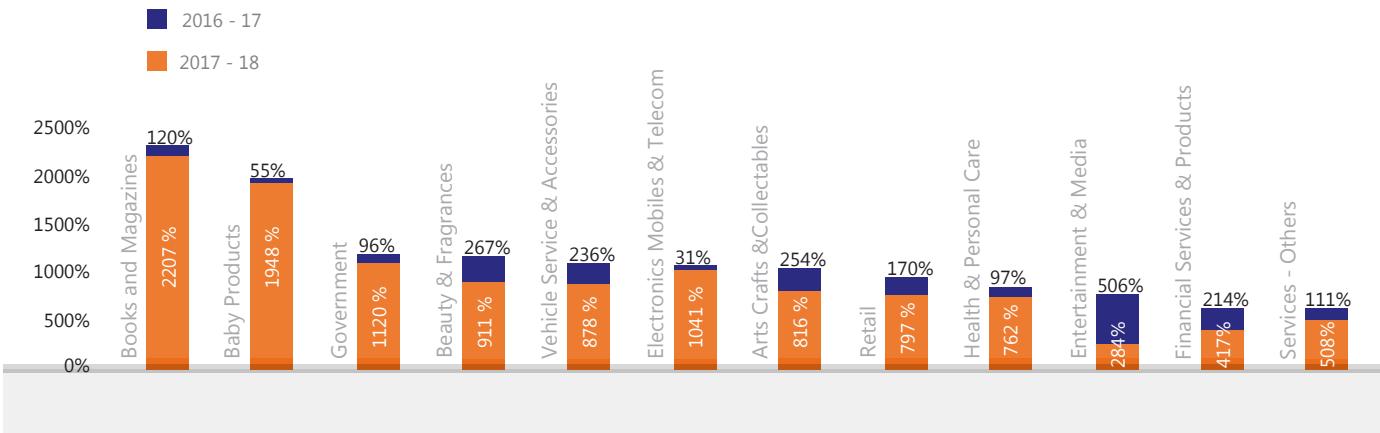
Source: Demonetization and Merchants | The Promise, The Potential and The Practicality, Deloitte 2017

## Link Commerce adoption by MSME

The Link Commerce space in India has seen a rapid, all-round, adoption by volume, segment and geography over the past two financial years.

Of the twenty nine sectors studied for the purposes of this analysis twelve sectors have exhibited phenomenal growth in at least one of the past two financial years. While the growth rate is disproportionately high across these twelve sectors in 2016-17 – thanks to Demonetization – eight sectors have followed it up with three digit growth rates and two sectors have done so with near-100% growth rates.

### Link Commerce adoption in India: volume growth



Data Source: Link Commerce transactions, Instamojo, 2015 – 2018

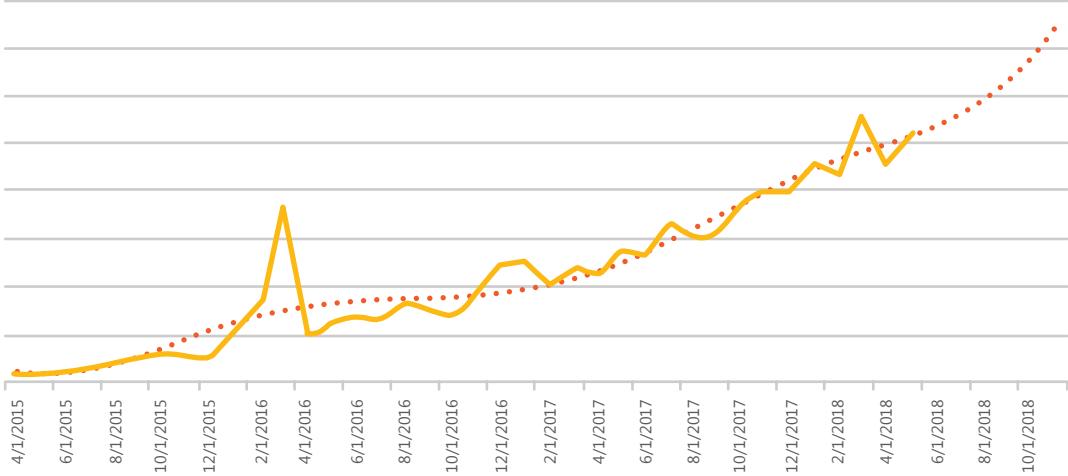
## Forecasting future scenarios – by sector

The Indian Link Commerce market saw rapid increase in adoption rates over the past three years (2015 – 2018). However, adoption is just half the battle won. Continued usage and increased market penetration are needed for sustained, long term, revenue streams. Further, sectors that show early promise need to be nurtured for continued performance and revenue contribution. An analysis of transaction volume, overall and by sector, over a three year period provides a glimpse into the future that might unfold.

Transaction volumes have grown rapidly, over the three years in consideration, for the overall Link Commerce market. Growth in volumes was volatile but relatively slower, during initial two years (April 2015 – March 2017). Volumes picked up pace, however, during the third year in consideration and growth accelerated.

The trend line is on an accelerating trajectory and growth forecast for the next six months is seen to be exponential.

### Link Commerce Transaction Growth



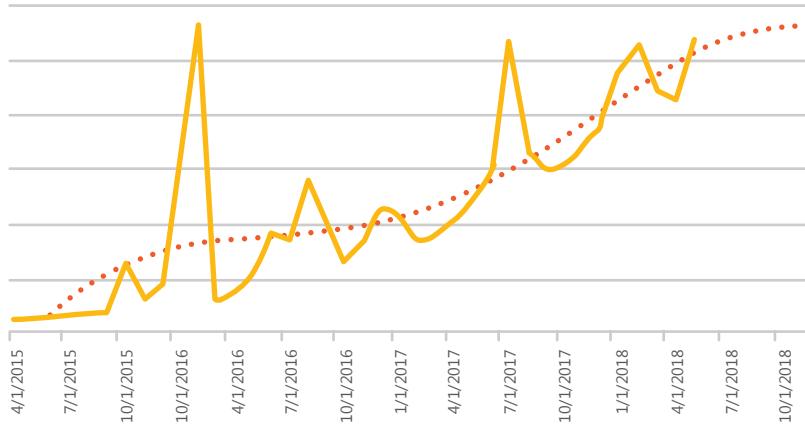
Data Source: Link Commerce transactions, Instamojo, 2015 – 2018

## Top Sectors in the Indian Link Commerce market: 6-month forecast (transaction volume)

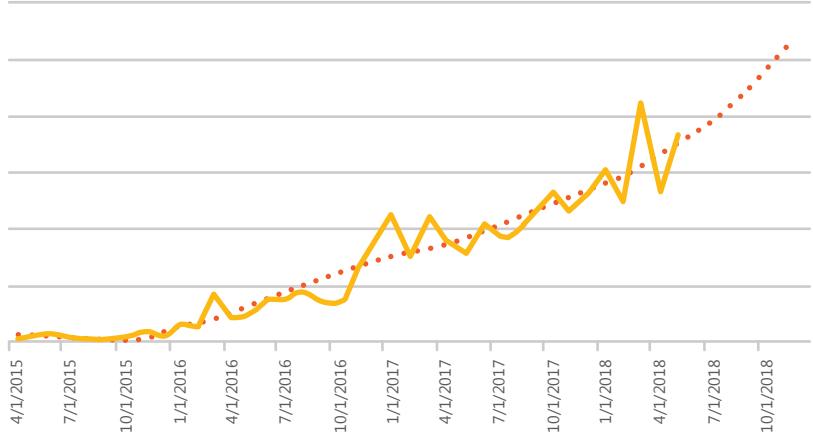
Education and Jobs leads the top sectors list, in terms of volumes, and is forecast to grow further. However, growth is likely to be relatively slow over the next six months. Financial Services and Products is seen to have a similar, relatively slow, growth forecast.

Although ranked third in terms of volume, growth will accelerate the highest for the Travel sector and follow an exponential trajectory. Health and Personal Care is also seen to have exponential growth forecast. The Art, Craft and Collectables sector is likely to grow linearly over the next six months.

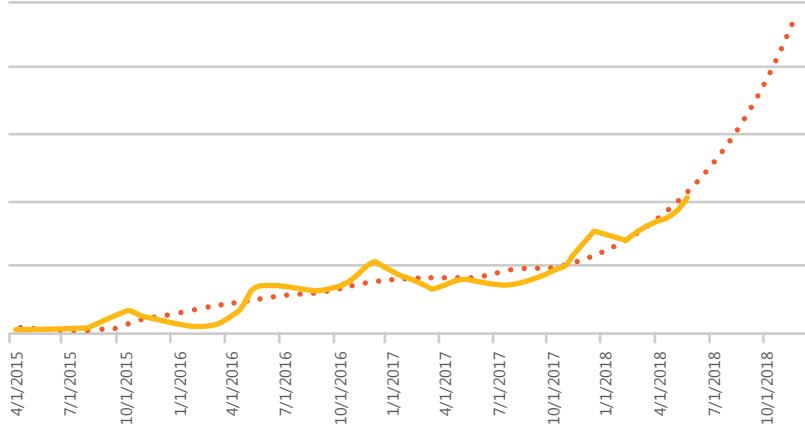
### Education and Jobs



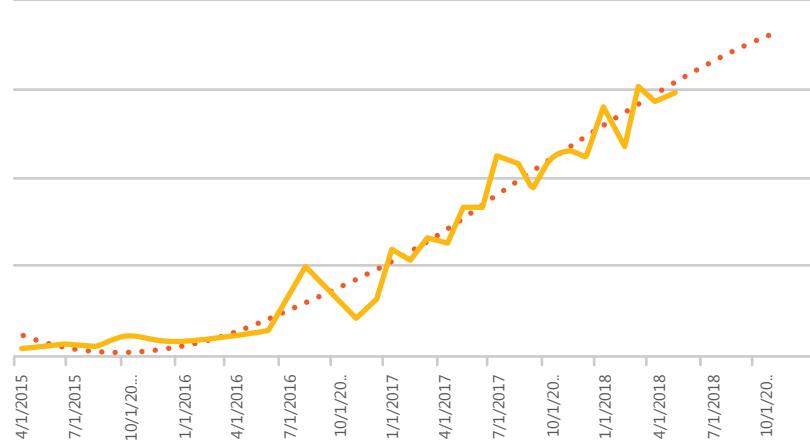
### Other Services



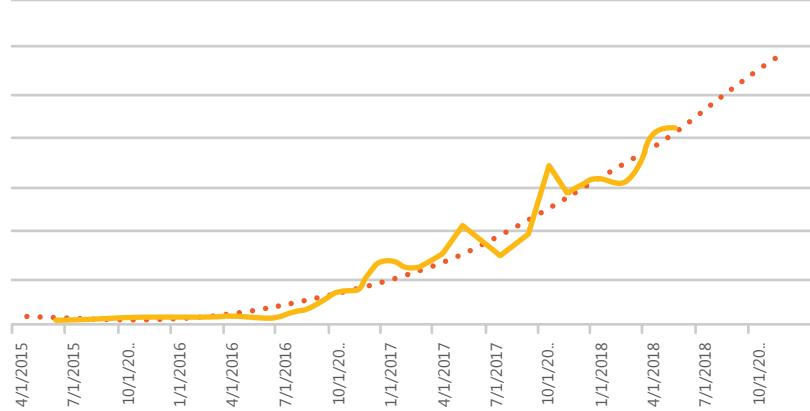
### Travel



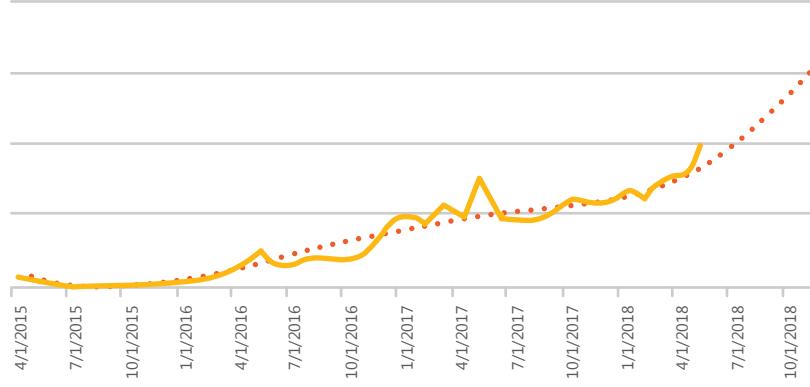
## Financial Services and Products



## Arts Crafts and Collectables



## Health and Personal Care



Data Source: Link Commerce transactions, Instamojo, 2015 – 2018

## Overview of Instamojo's success

Instamojo currently provides payment gateway services for 5 lakh small-and-medium businesses. The company's platform processed 30 lakh transactions and achieved 118% growth in Gross Merchandise Value (GMV) in FY 2017-18. Instamojo serves an estimated 10% of the MSME market that is digitally active and enables 30% of their total annual sales. It aims to cross INR 6,000 Crores in GMV by 2019.

**Travel:** Instamojo's versatile payments platform helps Vagabond Experiences, a travel company that curates offbeat trips and camps across India, collect 70%-80% of their total payments via its platform.

**Education and Jobs:** PTE Voucher Code, which helps students buy discounted PTE vouchers to appear for PTE Academic tests, grew its revenue 15 times in 4 years transacting with Instamojo.

**Tourism and Hospitality:** Instamojo has enabled SaffronStays, which curates and manage the hospitality operations of boutique homes, to deal with over 2,00,000 bookings at any given point of time.

**Ecommerce:** OpenOut, a platform for members to find interesting at-home events, runs its business through Instamojo Link Commerce on WhatsApp, its members not having to download and install an app.

**Services:** Through its easy to use interface and competitive pricing Instamojo has enabled LegalWiz.in to grow at the rate of about 20% month-on-month and clock more than 2,000 clients.

On a mission to enable the 6.3 crore MSMEs in India to conduct their business online and achieve growth through technology, data and design, Instamojo aims to create new opportunities and sustainable livelihoods.

### The Instamojo Value Proposition

**Making small and medium businesses truly 'Enterprising', by providing an efficient payment solution, business tools and valuable connections that can help businesses get a head start and grow confidently.**

## Curating Homestays Away from Home

### About SaffronStays:

SaffronStays started as an aggregator of homestays in 2015. At that time, the owner of the Matheran Parsi Manor homestay approached the founders Devendra and Tejas Parulekar to revamp and manage the home. That was when the idea for SaffronStays 2.0 was planted. SaffronStays now curates boutique homes and partners exclusively to manage the hospitality operations, branding, marketing and reservations thereby helping home owners monetise their otherwise dead assets.

**Biggest Business Challenge:** Bank transfers were time-consuming and tardy; On-spot payments from customers was difficult.

**Solution:** Payments on Whatsapp – Instamojo has a great feature that allows to generate a payment link that can be shared over WhatsApp (Our greatest tool for guest relations), and guests can pay remotely from whichever home they are staying at.

Refunds & Transaction Tracking – Refunds and reverse payments via Instamojo have helped overcome some technological barriers too. It was definitely an area where Instamojo played a crucial role in easing out the challenges faced, and helping track each transaction.

**Result:** The brand has acquired more than 35 exclusive homes across the country with a presence in Maharashtra, Goa, Tamil Nadu, Rajasthan, and Uttarakhand with a target of 100 homes by the end of FY 2018. At a given point of time, Saffron can deal with over 2,00,000 bookings too. Upto 15% of SaffronStays bookings are paid for via Instamojo.

**Client Feedback:** 'We find instamojo to be very intuitive and therefore easy to use. It is a simple product that directly addresses the expectation of a payment gateway. The ability to create links on the go, and share with our guests has helped us receive payments when they are travelling to, or enjoying their holidays at our SaffronStays homes.' —Tejas Parulekar, Founder, SaffronStays.

## Value Added Services

**Online Store:**

an ecommerce platform for MSMEs with integrated catalog, shopping cart and payment gateway.

**Instant Payouts:**

credit and lending, exclusive to Instamojo members.

**Third party app integration:**

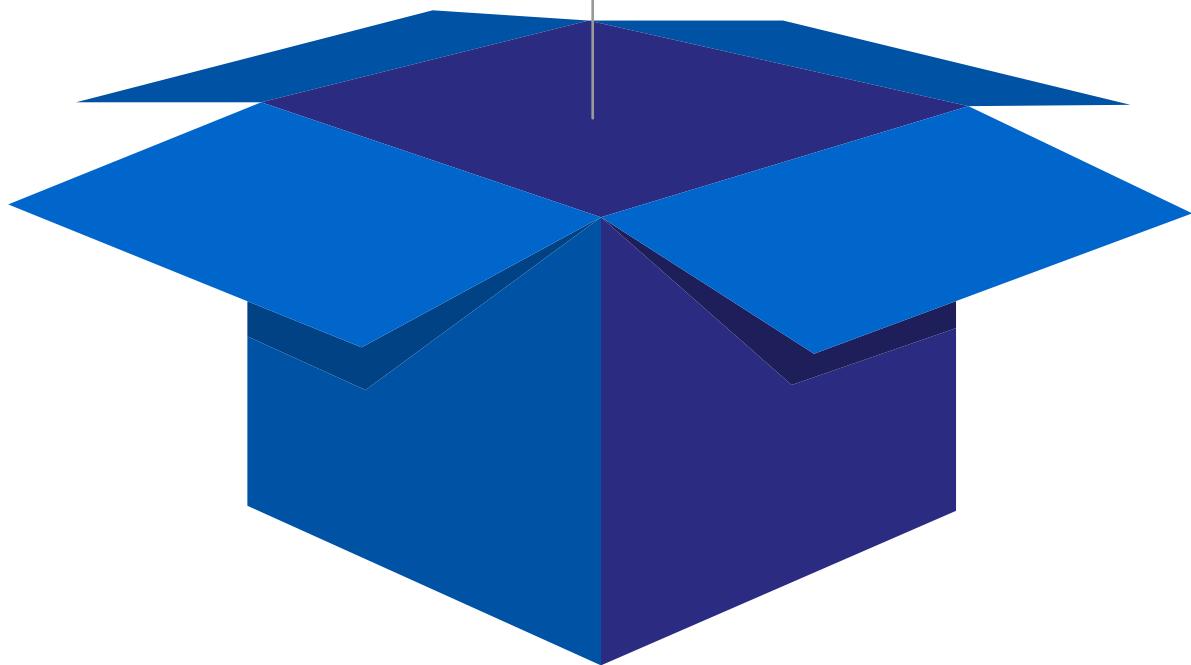
ubiquitous platform for MSMEs to integrate apps related to taxes, email, invoices, etc.

**Android App:**

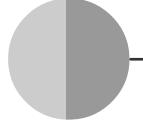
create Link Commerce, track sales, payouts, and get notified every time a sale is made.

**Integrated Logistics:**

shipping and delivery of orders members receive on the online store.



## Research and Analysis Methodology



- Secondary Research and hypothesis validation
- Broad macro-economic / regulatory / sector / industry trends
- Market and Instamojo transactions data analysis and forecasting
  - Link Commerce transactions data for the period 2015 – 2018

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# instamojo | FinTech: Voice Of Indian MSMEs

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