

IE Insight

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Indian Payments Industry: Mobile POS Solutions



IndigoEdge

Bangalore | Paris

OVERVIEW – LARGE NUMBER OF CARDS, LOW POS TRANSACTIONS



Retail market Rs 25,000 bn
 ↑10%+
 15 M outlets



Org. retail Rs 2,000 bn
 ↑20%+



20 M credit cards, ↑6%
 350 M debit cards, ↑20%



120k, across 5000 centers
 Volume - 500 M /mth
 No of ATMs ↑20%
 ATM txn ↑12%



1 M terminals across 700 centers
 Volume - 85 M /mth
 Terminals ↑50%
 No of Txn ↑35%

The value of POS transactions in India is ~\$25 bn across ~1 bn transactions. Average number of transactions per POS terminal is under 1,000 per annum. The average swipe on a credit card is over Rs 3,000 and on a debit card is over Rs 1,600. The typical retail transaction ticket size would be much lower. This shows that card payments are skewed towards high ticket spends.

Only about 250,000 retail outlets across 700 cities and towns in India are equipped with a POS terminal. The low

penetration does not reflect the reluctance of the consumer to use cards. The number of ATM transactions stands testimony to the potential volume of card transactions.

Although debit cards are over 95% of all cards in India, they account for only about 58% of POS transactions. Further, POS transactions on debit cards are just about 10% of the number of ATM transactions. This clearly shows the potential for growth of debit card POS transactions, if there is adequate access to POS terminals.

Growth Drivers for Payments

1. **Demographic Factors** – Urbanization, increase in banking, growth of modern retail
2. **Technology adoption** – mobile, internet penetration is increasing rapidly
3. Regulatory Developments:
 - a. **RuPay** – If NCPI in India can replicate the success of UnionPay in China, India will see a dramatic decrease in cost of transaction.
 - b. **Lower MDR on Debit Cards** – capped between 0.75% and 1% for all transactions. The differential pricing between credit and debit cards is finally here!

Issues facing the POS Terminals Market

1. **Lack of profitability of the existing Merchant Acquirers.** The current MA model has low spreads and barely covers variable costs. This model makes it unviable to service a small/medium merchant. The MA bears the cost of the terminal and has to recover it through monthly fees and service charges.
2. **Poor use of technology** – The business calls for extreme cost control and efficiency. However, most POS players under-use technology for customer service. Merchants are used to service technicians doing site visits to perform simple

upgrades and servicing, which can easily be done

OTA with telephone support.

Market Needs

1. **POS terminals need to reach the 5,000+ centers that have ATMs.** There are over 14 mn retail outlets without POS terminals in the country. Of these, about 5 million merchants have sales volumes that justify a card swipe terminal.
2. **Low-cost POS devices:** India is a country with a majority of low-ticket transactions. Addressing the market requires economic equations that are different from the ones used in the Western world.
3. **Consumer education/ awareness** around security of card usage, reward points associated with card swipe and other benefits.
4. **Value proposition to Merchants and Education –** POS players need to show the financial and marketing muscle to accelerate adoption and could explore a unified approach to market with Credit Card players and other technology providers. Surveys show that merchants also tend to distrust card payments and fear delayed receipts.
5. **Viable Strategy and Long Term Vision of** Merchant acquirers. A company attempting to break the mould needs to develop a solid, long term strategy to survive in a highly competitive market.

MOBILE POS – NEW TREND, VC INVESTMENTS, URBAN/ DOOR DELIVERY FOCUS

The focus is still on the Urban markets and modern conveniences. The target markets for M-POS players are ecommerce, home delivery businesses – restaurants, taxi service providers, insurance agents, pathology labs and similar businesses.

Further, the traditional POS terminal players are promoting the GPRS versions of the same device.

Below is an indicative list of companies in the mobile-POS terminal space.

Company	Funding	Products
M SWIPE Mumbai	Investment from Matrix Partners.	Audio jack plug in machine. Java, iOS, Android app support.
EZETAP Bangalore	Silicon Valley investors	Java and Android only. iOS, Windows under development.
MRL POSNET Chennai	Self funded	Android only. Touch screen reqd. PIN based not supported.
MOSAMBEE Mumbai	SIDBI Ventures	Card reader, audio jack plug in.

PAYMATE INDIA Mumbai	KPCB, Sheralo, Mayfield	No swipe attachment. App based payment system.
IKAAZ Bangalore	Self funded	NFC based system. Caught in a bit of chicken-and-egg situation.
MOBI SWIPE Mumbai	One97 Mobility Fund	<possibly in development stage>

COMPETITION FROM MOBILE PAYMENTS AND PRE PAID INSTRUMENTS

There is some competition brewing in alternate payment mechanisms. These mechanisms do not require a physical POS terminal and process payments through online payment gateways or through closed loop systems.

Mobile wallets and payments are gaining in traction, particularly in services around bill payments, mobile/ DTH recharges and more. Companies like Paymate, PayTM, Y Pay Cash and others are making steady in-roads.

Pre-paid instruments ranging from the paper-based Sodexo and Ticket coupons to closed loop cards like Itz Cash or Done card to Gift certificates to open loop cards issued by various banks are another mechanism becoming increasingly popular.

Again, there is significant investor interest in the sector with companies like Itz Cash, Beam Money, Qwikilver, Zipcash having raised significant investments.

CONCLUSIONS

Data shows the dependence of card usage on availability of POS terminals. The IAMAI Report “Road to Less Cash” clearly shows the card usage is highest in Bangalore, where 33% of organized retail outlets have POS terminals.

There is a big opportunity to disrupt the payment acceptance market in India. A lack of “value offerings” in

the POS sector has resulted in low card usage at POS. The huge growth projected for the retail sector will require significant progress on efficient payment systems. The market is both underserved and growing, leading to tremendous potential. A company that can strategize on business and technology to deliver a highly efficient mobile-POS solution can rapidly become a leader in the industry.

ABOUT US



INDIGOEDGE MANAGEMENT CONSULTANCY PVT LTD

A boutique Investment bank founded in 2006, with a team of strategic deal-makers focused on Europe and India. With offices in Bangalore and Paris and a strong team with diverse sector expertise, IndigoEdge has delivered exceptional value.

In the payments industry, we have been involved with various strategic initiatives with a **pre-paid solutions leader** across 7 countries. Engagements included pricing strategy, combating competition, sales organization, new product launch, balanced scorecard design and roll out, post acquisition integration and more.

In 2012, our team members were business advisors and **investment bankers to a company specialized in doorstep banking / payments delivery to unbanked populations**. We were initially involved in business transformation and eventually in the sale of the company to a large global KPO.

IndigoEdge was the advisor to an **online payment gateway company** on their strategic sale to a European leader in payments.

Francois Montrelay – Managing Partner is a former SVP in charge of Strategy, Marketing and Services of the Payments Business of **ABN AMRO**.



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