

# Heuristic Analysis of “Growth of PayTM”

Pranjal Dixit, Ashu Prakash, Tushar Tiwari

For the Course of Development Economics,

Indian Institute of Technology Kanpur

Kanpur, Uttar Pradesh, India

**Abstract** - Information Technology sector in India is making progress at rates way beyond what was expected 30 years back. The new India is tech-savvy and everyone in the country wants the best and most optimised strategies for their self-commerce. A company like PayTM has covered the entire online market of India. The number of transactions through the gateway of PayTM is second highest in the country after IRCTC. This paper analyses the all-round growth of the company in the e-commerce sector of India. PayTM started in 2010 as a mobile recharge company and currently it is everywhere in the commercial market. It has its own payments bank approved by the Reserve Bank of India and is currently the largest commercial market on the web in the country of 1.2 billion people.

**Keywords:** E-commerce, PayTM, E-commerce development, Demonetization

## INTRODUCTION

“Pay Through Mobile” or what most people commonly know as PayTM was established in August 2010 under One97 Communications Ltd as a prepaid mobile recharge website. The company is based out of Delhi NCR, India and is spearheaded by CEO Vijay Shekhar Sharma. Over the years, the company has undergone a paradigm change moving from a mobile recharge website to becoming India’s leader in e-commerce. The PayTM mobile wallet launched in 2013, now has over 200 million registered users. The company has expanded its base to allow users pay utility bills, book hotels, buy movie, bus and flight tickets, pay their loans and engage in many other financial services.

PayTM was one of the 11 entities out of 41 applicants that got a license from RBI to run a payments bank in February 2015 and is the second such service to go live in India after Airtel. As a payments bank it can accept a restricted deposit of up to 1 lakh per customer, can issue ATM cards, debit cards but cannot issue loans and credit cards. In 2015 PayTM acquired “Near.in” a multiservice provider for 2 million USD, further in 2016 it acquired three other companies “Shifu” a consumer behaviour prediction platform for 8 million USD, “Edukart” a higher education enrolment platform and “Shopsity” an e-commerce start-up thereby strengthening its Online-to-Offline (O2O) network.

PayTM has so far raised more than INR 4637 Crores, with over 40% stake the biggest stakeholder in the parent company One97 Communications is China’s Alibaba group. In its initial stages the company received a round of

funding from Ratan Tata and Alipay finances. Other key investors include MediaTek (INR 400 Crores), SAIF partners (INR 62 Crores), Intel capital, Sapphire Venture, Silicon Valley Bank and ANT financial.

PayTM processes the second largest number of e-transactions daily coming next to IRCTC. The company had a workforce of 13,000 in January 2017 and aims to add another 3000 in this financial year. The company which has an Alexa global rank of 351 became India’s first 100 million user product in August, 2015. PayTM recently expanded its consumer base to Canada where it launched a utility bill payments services, on 16 March 2017. The company has made significant investments in Tap Chief, Jugnoo, LogiNext Solutions, Little and Gadgets 360. Recently it spent a hefty amount of INR 200 Crores to become the title sponsor of the Indian Cricket Team.

Although there are a number of e-wallet providers, PayTM’s revenue model, diversification, ability to collaborate with other financial service providers and propensity to expand consumer base have helped it maintain itself as the leader in this field, although demonetization in India helped it significantly increase its revenue the road ahead poses various challenges for the company which have been discussed towards the end of the paper.

## OBJECTIVE & MOTIVATION:

Information Technology sector in India is making progress at rates way beyond what was expected 30 years back. The new India is tech-savvy and everyone in the country wants the best and most optimised strategies for their self-commerce. The government as a means of curbing corruption and increasing transparency is favouring the use of internet and e-commerce. Department of Electronics & Information Technology, Government of India launched the programme Digital India promoting the internet usage in the country. The vision of this programme is to transform India into a digitally empowered society and knowledge economy. Our honourable Prime Minister Mr Narendra Modi said: "E-Governance is an essential part of our dream of digital India, the more technology we infuse in governance, the better it is for India". Recently, the ministry proposed to go cashless by waiving the service tax on card transactions.

A huge growth in PayTM’s revenue came post demonetization when currency notes of ₹ 500 and ₹ 1000 were barred and 86% of the currency in the country was drawn out of circulation, due to the government’s inability

to bring adequate cash back into circulation people were thus forced to resort to e-wallets. We do multiple e-transactions every day and this has become a common feature for almost everyone in the country. PayTM is one of the leaders in this sector in India. Even small grocery and paan shops are now accepting money through PayTM. The motivation to write this paper lies herein.

The objective of this paper is to analyse the system of e-commerce through the leader PayTM which started off as a mobile recharge website and now has its own payments bank approved by the Reserve Bank of India. A large number of transactions occur daily via PayTM's payment gateway. Giants like PayTM will have a significant impact on the development of the economy of India and will help pave the way for a cashless and more pellucid economy.

#### *Literature Survey:*

According to Das et al (2015), e-commerce is growing exponentially in Indian markets. This growth in internet usage is increasing day by day in the world and so in India. Internet using population is growing so fast that soon India will be at number one in the world. Currently, India is ranked at second preceding the United States. The country has seen an unbelievable growth in internet usage in 2000 – 2016 by 9142.5%. But still only 36.5% of Indian population uses the internet and so there is a big scope of increasing the online market in the future. (Data Source: [www.internetworldstats.com](http://www.internetworldstats.com)). According to the same study Das et al (2015), the online travel business accounts of 70% of the total e-commerce in India. International trade is growing and foreign investors are understanding the potential for investing in Indian e-commerce sector. Internet giants like Google, Facebook and Microsoft are investing in India. Recently Chinese e-commerce company Alibaba group invested a huge amount of money in a Delhi NCR based start-up PayTM run under the parent company One97 Communications. These e-commerce companies have also started their logistics component for expanding their business.

The research Chanana et al (2012) extends literature on e-commerce, since the commercialization of the internet in 1994 there has emerged a new medium of commerce popularly known as e-commerce. These companies have five types of business categories known as business-to-business (B2B); business-to-consumer (B2C); business-to-

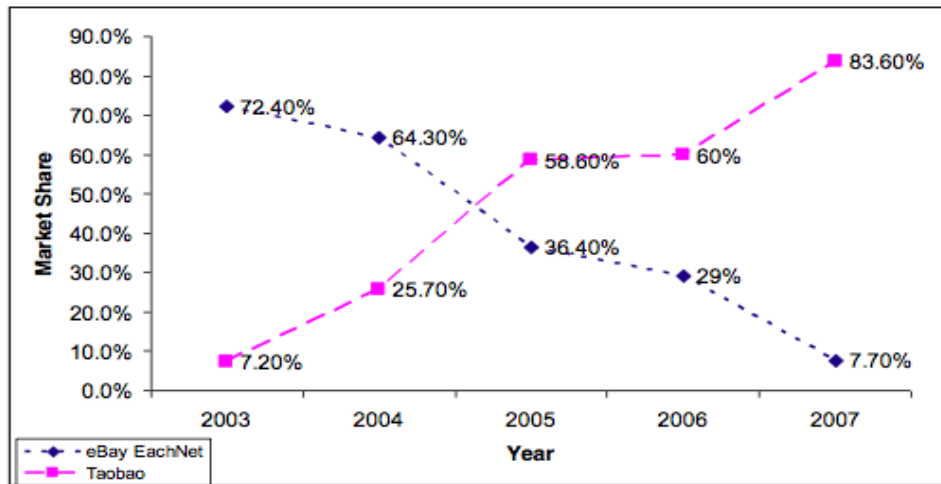
government (B2G); consumer-to-consumer (C2C); and mobile commerce (m-commerce). PayTM is nearly in every category. Forrester, a leading global research and advisory firm has claimed that e-commerce market in India will soon grow the fastest in the Asia-Pacific region at a compound annual growth rate of around 60%. This means PayTM has come to the right place at the right time. The business model of PayTM is so synchronised with the current economic situations in the country that they are growing on their own without any external effort. The paper also lists some future prospects of India in the e-commerce world.

Ghuman et al (2016) is a case study on e-payment giants: PayTM and Freecharge. The research includes the historic details and current scenario of PayTM. One97, the parent company of PayTM started its business from a mobile recharge company to becoming the country's largest e-commerce company that now has its own payment bank. Its diverse expansion made it reach to the root level of the consumers. The company has customers both from villages and metropolitans. As a result, PayTM is in the top seven e-commerce companies in the country to have a net worth of at least a billion dollar. The company has a customer base of more than 100 million. They have around 13000 working employees and a total fundraise of \$1.83 Billion.

William Barnett et al (2010) study on Taobao vs ebay China analyses the growth of Taobao a locally found firm that countered eBay's dominance in the Chinese e-commerce market by forging partnerships and giving customers a reliable payment platform, this shows similarity to PayTM's growth in India despite the presence of many international and local giants. Eachnet.com started 1990 was the leader in e-commerce in China ebay acquired the company for \$180 million in 2003 consolidating it as the biggest firm in e-commerce in China. However, starting 2004 Taobao started posing serious problems to ebay in this sector, with its better and user friendly payment gateway, better understanding of the local market and ability to form partnerships with local dealers it soon became the leader in China's online market. Taobao shares in the market increased from 7.20% in 2003 to 83.60% in 2007 while those of eBay declined from 72.40 % to 7.70% over the same period. Figure 1 shows a detailed analysis for the same.

Figure 1.

### eBay EachNet and Taobao's Market Shares



Source: Compiled by iResearch Consulting Group data.

#### Working of the company and Revenue Model:

The company One97 as a whole has several revenue-generating practices, e-commerce being the most important one, they also generate valuation via OTA bookings, payments generation and mobile wallet,

PayTM is just one of the subsidiaries of this conglomerate. In an article published in [4] Unicornomy, states that “It’s important to note that PayTM is not a regular e-commerce company, it is a full-fledged Payments Bank Company”. The various revenue areas of PayTM are web and app e-commerce, payment and wallet integration, seller services and payments bank. The model that the company uses is a simple commission system, the shopping area of PayTM is a B2C e-commerce where customers can choose the products, add them to their cart (known as shopping bag), find discounts and/or promo codes and order them. After this, the seller’s job begins, the seller ships the product to the customer via courier. The seller gets his agreed price of the product minus the commission charged by PayTM for finding a customer. The maximum cut that PayTM charges from a seller is around 20% of the selling price. This cut amount excludes taxes and discounts. The other revenue source for the company is its payments bank.

PayTM also takes delivery charges these are completely at the discretion of the company and see no government intervention, this delivery charge is the convenience or listing fee that the company takes. Overall, the company has a business model which is perfectly balanced for both online product selling and payment integrations. PayTM can be used for paying various utility bills these days. People use PayTM e-wallet for bill payments of DTH, internet connections, prepaid and post-paid phones, insurance premiums, loans and EMI payments, electricity, metro. The company even sells gold on its website. The company receives a commission on every payment made through its gateway. People prefer PayTM to the conventional methods of paying bills for the discounts in the form of cashbacks and coupons, PayTM also charges a

very nominal fee when users opt for coupons. The specified amount of cash comes back to the wallet. The users may use the wallet money later in their future transactions. This wallet money cannot be withdrawn back into one’s bank account.

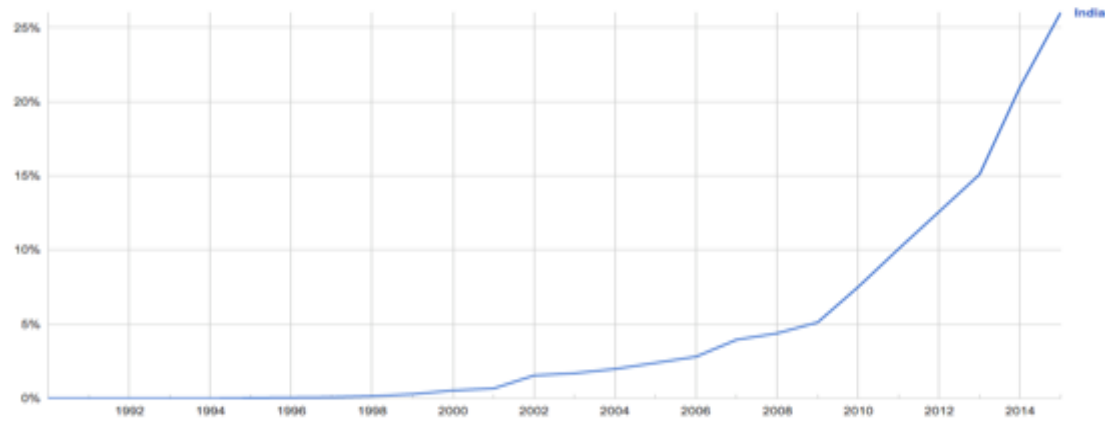
The wallet is also a good source of revenue for PayTM. After demonetisation, people started keeping large amounts in their PayTM wallets. PayTM has integrated its wallet with various companies like UBER and also aims to partner with IRCTC in near future. It works same as the payment gateways. PayTM discounts the transaction amount by 1 – 3% and gives the rest to the seller.

#### PayTM vs Other e-commerce firms:

The strategy PayTM follows is different from other e-commerce companies in India. Along with the selling business, the company has its payments bank which is unique as compared to other e-commerce firms. PayTM and Freecharge, both started in August 2010 while only the former made it to billion dollars. PayTM covers the market widely than any other e-commerce company in India. See, for example, Flipkart, Snapdeal or Amazon deals with only physical consumer products and Freecharge or Mobikwik works mainly for recharges. Companies like Yatra.com or IRCTC indulge in just e-travel companies. PayTM covers these all-together. Apart from these, PayTM does some unique online businesses like selling gold or paying for loans or insurance premiums. Not only this, it also allows people to pay their bills. Almost all the electricity boards in India have collaborated with PayTM for paying their bills. The company also gives special offers like cashbacks or vouchers for paying via its portal. This easy to use interface is also one reason for the high number of transactions. Another feature that PayTM has is its transaction failure policy, while paying from any bank if the transaction fails PayTM returns all the amount in its wallet. For example, recharging a DTH connection from its own website is risky than recharging the same via PayTM as in the case of any failure, the transaction amount slides back to the wallet.

Pre Demonetisation:

Figure 2.



Internet Users as % of population

Source: Google Public Data from World Bank

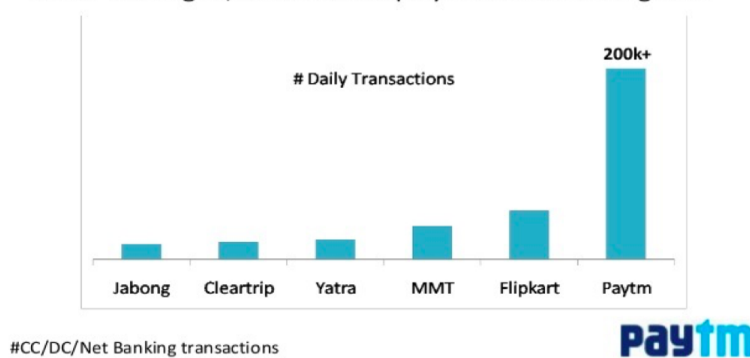
PayTM's entire business was conducted on the internet, though it has very recently launched non-web based transaction methods. The surge in internet users helped the firm to establish its base in the market. The company created a user base of 25 million wallet users and 10 million app downloads and over the years has earned many accolades the PayTM iOS app was declared as best app in the Mobile/DTH Recharge & Shopping Category, PayTM has been awarded as 'Most Innovative Start-up of the Year' at the Entrepreneur India event organized by Franchise

India. The company aimed at a targeted revenue of \$4 billion by the end of 2015 however the growth was not very swift and by mid-2015 PayTM was completing orders about \$15 million and could only increase to \$100 million by the end-2015. Despite low growth than what had been expected the company consolidated itself as the leader in e-commerce in India completing more transactions than many of the other leading firms combined this is evident from Figure 3 below.

Figure 3.

### Paytm – M/E-Commerce Leader

More transactions happen on Paytm every day than on other leading m/e-commerce players combined together



#CC/DC/Net Banking transactions



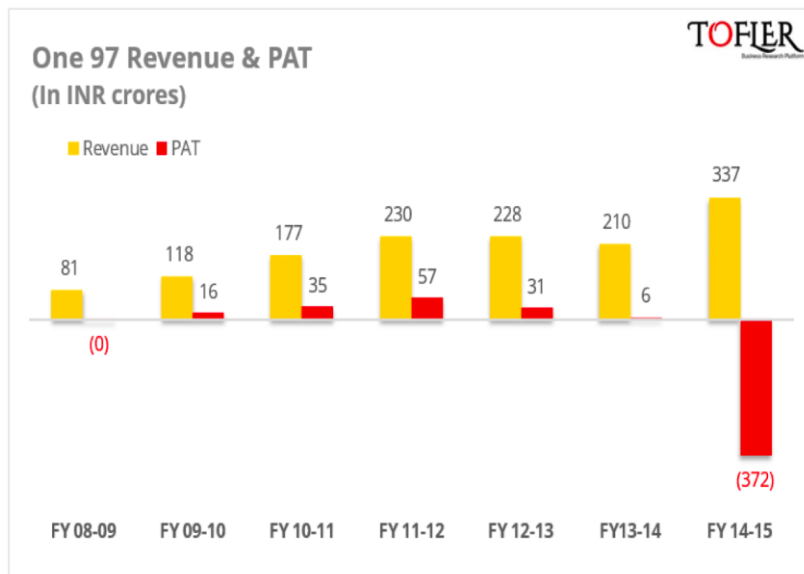
Source: Case Study of PayTM, Delhi School of Internet Marketing

With of over \$1 billion valuation as of October 2015, PayTM was handling 75 million order a month and has over 50,000 merchants all over India.

PayTM and Uber: PayTM's major client till 2015 was car service provider Uber, which had developed a smartphone-based, ride-hailing app as a way to compete with traditional

taxi companies it initially used PayTM's mobile gateway as the sole payment mode for Uber rides in India apart from paper currency. However, in 2015 Uber revised its payment policy and added a variety of payment options, such as debit cards, credit cards, along with several other mobile wallet providers. This was a big blow for the company as Uber on a daily basis averaged around 200,000 users per day.

Figure 4.

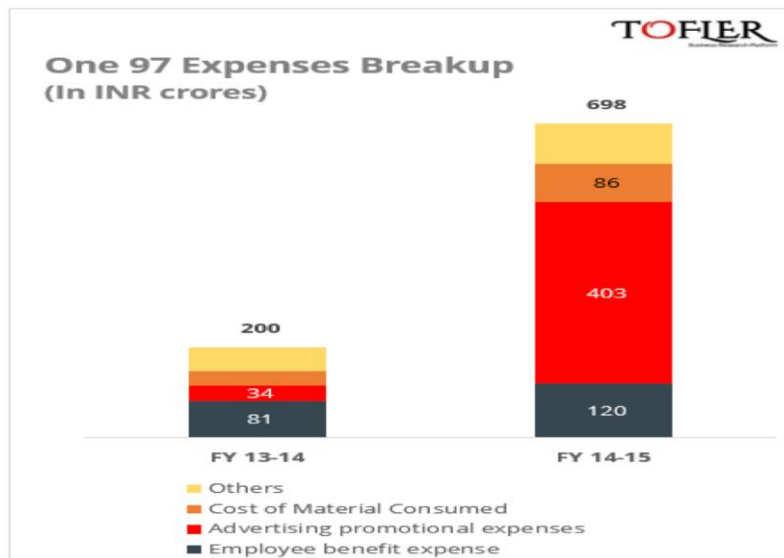


Source: PayTM financials, Trak.in

The diagram (Figure 4) above, shows One97’s growth of revenue since its inception, the growth can be seen in tandem with the increase in number of internet users over

the country. The Advertising and promotional expense, which stood at 57.8% of the total expenses, this is illustrated in Figure 5 below.

Figure 5.



Source: PayTM financials, Trak.in

**Post Demonetisation:**

PayTM growth had almost stagnated in the middle of 2016, the use of its e-wallet was growing but not at a very swift rate. On 8th Nov’16, the Government of India ceased the legal tender of INR 500 and INR 1000 notes. As Reserve Bank of India(RBI) was not able to supply this huge amount of currency in a short time the following months witnessed a huge gap between the demand and supply of new currency notes, in wake of this people were forced to resort to e-wallets and other methods for transactions. Shopkeepers, roadside vendors all resorted to e-

transactions during this time. PayTM’s advertisement campaign "PayTM Karo" resonated with the minds of the people and helped it take full advantage of the opportunity that presented itself. A lot of investment by the company following demonetisation helped it become the most used wallet in the country. In 2016, the company had also invested a huge sum in becoming the title sponsor of the Indian cricket team and this played off quite well as the timing of a many cricket matches coincided with demonetisation.

To cope up with the increased demand the company hired 1500 employees in December 2016. Post demonetisation users were adding INR 150 crores daily this figure increased almost four-fold when compared to pre-demonetisation when people were adding about INR 40 Crores on a daily basis. The average money in the wallet soared from INR 65 to INR 228. In November 2016 the company added 0.15 million merchants in its 1 million merchant network. Post demonetisation PayTM daily transactions increased to 5 million a week which is roughly equal to the combined average of a number of transactions by credit and debit cards daily. To expand its reach PayTM hired 20,000 sales people in 650 districts in the months of December 2016 and January 2017. To administer the increase in the number of daily transactions PayTM bought 1,300 new servers to build a network that could support 10 million transactions a day, that would help it virtually double its capacity.

However, by March 2017 RBI had pumped back about 85% of the currency that had been brought out of commission, as a result of the use of e-wallets and also PayTM in the country has shown a decline.

The road ahead:

This section is majorly divided into two parts the path ahead in e-commerce and that as a payments bank

E-commerce:

With an internet base of about 462 million in 2016 that is expected to rise drastically in the years to come, India is a potentially huge market for e-commerce. The country has the second-largest user base in the world however the penetration of e-commerce is quite low. The worth of e-commerce in India went up from \$3.9 billion in 2009 to \$12.6 billion in 2013, hence there is a lot of scope for the company to expand its base in this sector.

The Indian e-commerce market till 2015 had home-grown giants like Flipkart and Snapdeal along with American major Amazon. When PayTM was just in its initial stages these giants had their roots deep in the Indian market. They had already invested millions of dollars into building the supply chain, back-end logistics and customer support. It has done well to rise in this environment however, if PayTM wants to remain at its position its strategy of offering zero commission to vendors may not be enough, it will have to build strong backend logistics to facilitate fast and smooth delivery for minimal consumer complaints. Also interest shown by giants such as Alibaba in the Indian market may threaten PayTM's position in the future.

Payments bank:

The challenges faced by these payment banks have been divided here by the consumer base which has been divided into two major categories the banked segment that refers mostly to people in urban areas, the unbanked segment which refers mostly to the rural segment and the not so tech-savvy people. When considering the banked segment, the biggest challenge is the resistance to change from the traditional banking system, also payments banks pose various security and reliability issues. While considering

the unbanked population, banking illiteracy poses the biggest problem. People are either not aware or are reluctant to use e-wallets and consider cash as the only reliable option for making transactions. Amenities such as internet, smartphones are still esoteric in the country.

Focusing on good technology, better and more secure methods for transactions using apt marketing strategies to increase the awareness regarding this payment mechanism, giving more incentives to the users such as cashbacks, discounts, bonus and royalty points are few ways that payments bank can make their way into the current banking ecosystem of the country.

PayTM in India's Development:

The e-commerce as has been mentioned earlier has seen an outstanding growth in 2014 - 2016. The growth was because of the high rate of technology adoption led by the increasing use of devices such as smartphones, tablets and notebooks, and access to the internet. Because of e-commerce companies like PayTM this sector in India has grown by a compound annual growth rate (CAGR) of 34% since 2009. That is why to get the maximum benefit, public sector firms like "Delhi Jal Board", "South Bihar Power Distribution", "BSNL", etc, have adopted e-commerce by partnering themselves with PayTM. A company like PayTM is making India a digital nation with an approach towards corruption less society. The number of middlemen involved when you buy a product is reduced as companies like PayTM have a transparent system of knowing the seller. Government can ensure right taxes on every product. It becomes difficult for one to evade taxes with all the transaction data available online. The e-commerce sector comes under the Information Technology sector. The sector has increased its contribution to India's GDP from 1.2% in 1998 to 7.5% in 2012. According to NASSCOM, the sector aggregated revenues of US\$147 billion in 2015, where export revenue stood at US\$99 billion and domestic at US\$48 billion, growing by over 13%, since PayTM is the largest e-commerce company in India, it makes a significant impact in the Indian economy.

Results from the survey:

We conducted a survey of the IIT Kanpur junta regarding the usage of e-wallet and got a total of 445 responses. The questions in the survey included

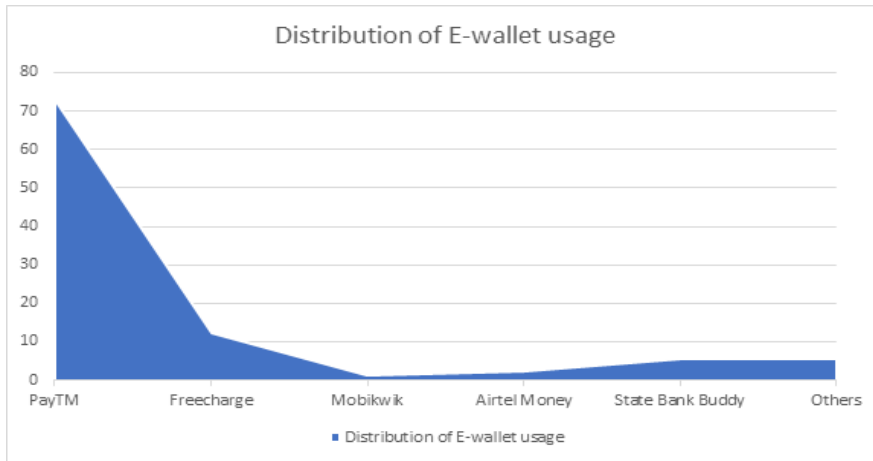
- The wallet that they use the most
- When did they start using the e-wallet?
- Average no. of transactions in a month
- Average money in e-wallet
- Have you ever used PayTM for utility bill payments?
- Have you ever used PayTM for booking tickets (travel and entertainment both)?

The last four questions were only for PayTM users.

73% people chose PayTM as their primary e-wallet, while only 5.6% opted for State Bank Buddy. The skewed nature of the percentage distribution graph is a mark of the

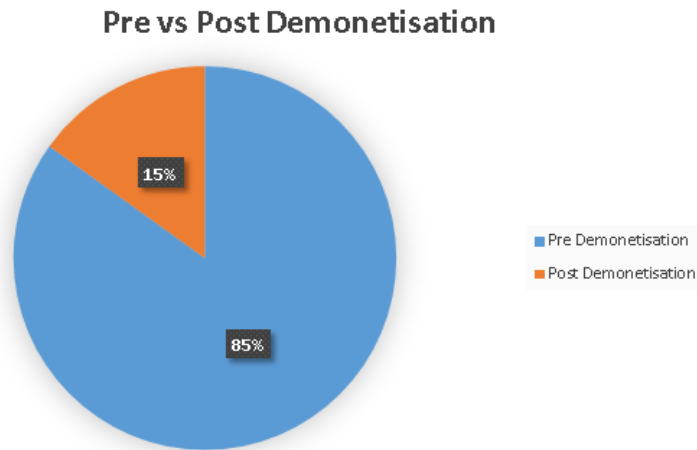
popularity of PayTM in the campus community. See Figure below.

Figure 6.



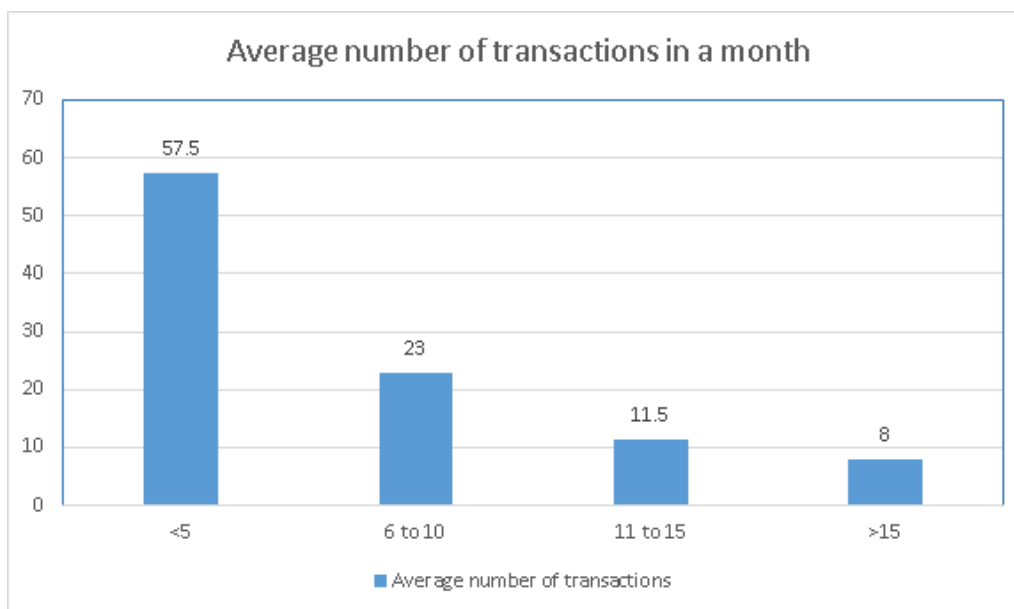
The response to when did they start using wallet seems to contrast the general notion as a higher percentage of the people started using the wallet pre demonetisation.

Figure 7.



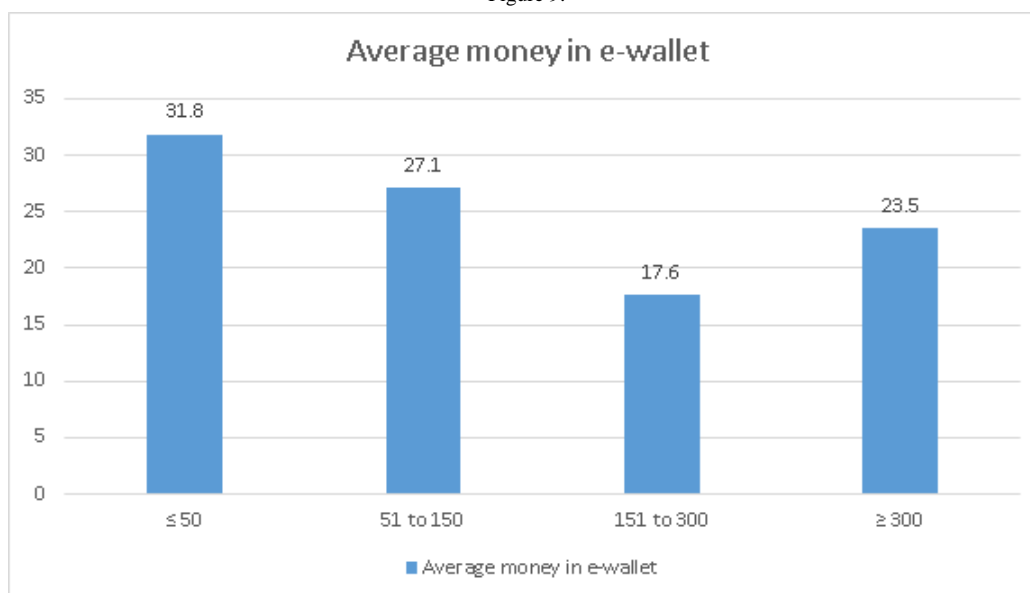
Response to the average number of transactions in a month and the average money in wallet is summarised in bar-graphs and the median reported.

Figure 8.



Median no. of transactions in a month: 4.35

Figure 9.



Median amount in wallet: INR 98.39

Among those who use PayTM a large proportion have been using it to book tickets (Travel and entertainment both) while majority do not use it for payment of bills this may be because people in the campus do not in general pay utility bills however many use PayTM for movie tickets because of different offers and discounts.

Figure 10.



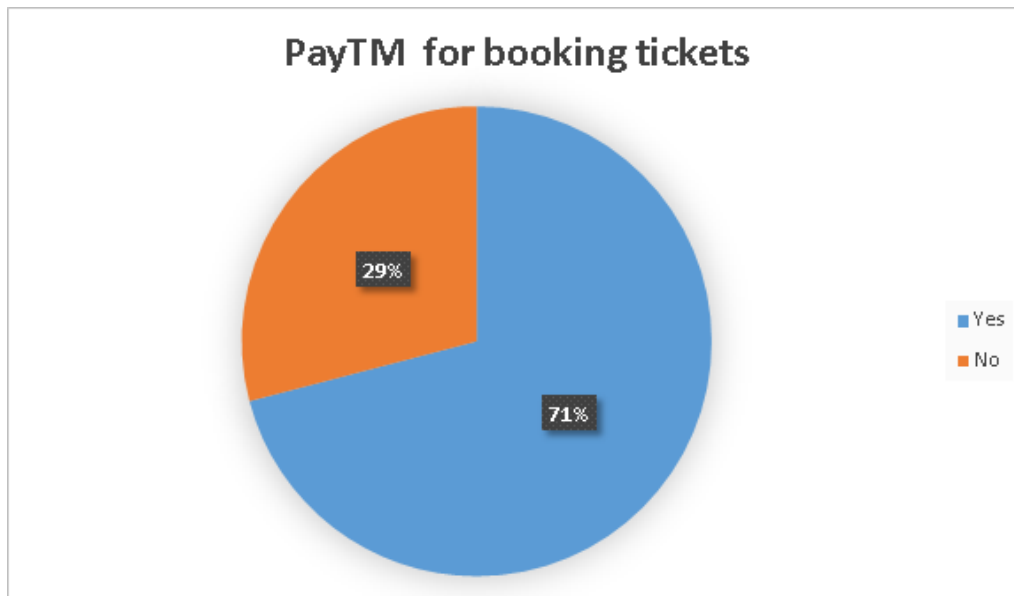
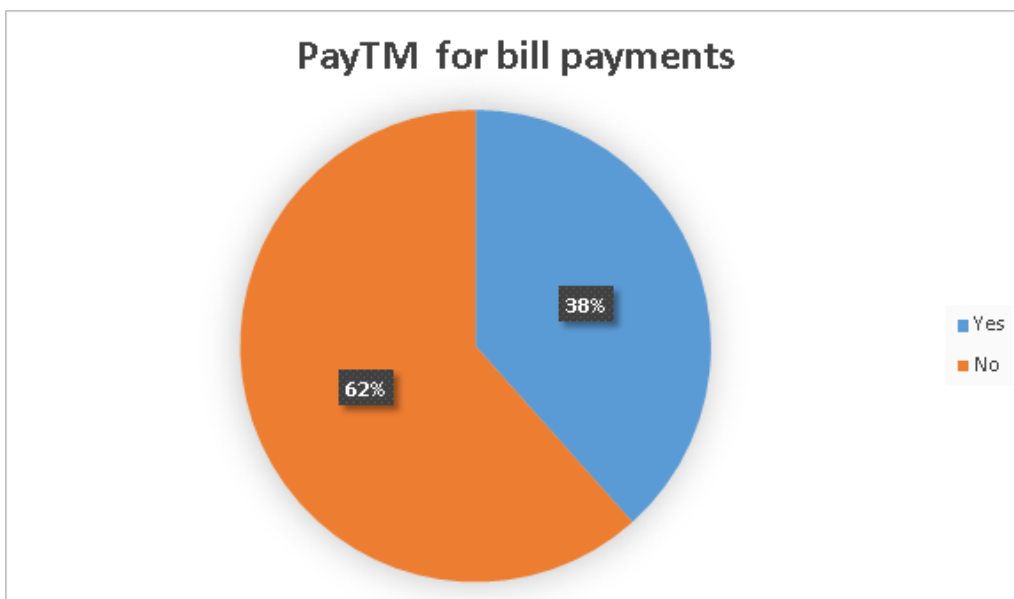


Figure 11.



REFERENCES:

- [1] Ara, A. Das, Kishore K. (2015). "Growth of E-Commerce in India" *International Journal of Core Engineering & Management (IJCEM)* Vol 2 Issue 4, 25–33.
- [2] Chanana, N. Goele, S. (2012). "Future of E-Commerce in India" *International Journal of Computing & Business Research*, ISSN (Online): 2229–6166.
- [3] Ghuman, K. Srivastava, S. (2016). "Recharging: The Right Way??" A case study on e-payment giants: Freecharge & PayTM" *IOSR Journal of Business and Management*, 87–92.
- [4] UNICORNOMY (2016). PayTM Business Model & Revenue Model Analysis, retrieved February 2016 from <https://unicornomy.com/paytm-business-model/>
- [5] "Indian IT-BPO Industry". NASSCOM. Retrieved 15 December 2012 from <http://www.nasscom.in/indian-itbpo-industry>
- [6] Padhy, P. Mishra, A. (2017). "E-commerce: Promoting Entrepreneurship in India" *SCIREA Journal of Agriculture*
- [7] Sharma, S. Mittal, S. (2012). "Prospects of E-Commerce in India" *Swami Devi Dayal Institute of Engineering and Technology*, Retrieved March 2012.
- [8] Barnett, W. Feng, M. Luo, X. (2010). "Taobao vs. Ebay China" *Stanford Graduate School of Business*, Retrieved April 2010.