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THE BOTTOM LINE

Fintech Edition

Networth
The Finance Club

beta

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Finance and Investments club

Credence Capital

FOREWORD

Dear Readers,

Hope this finds you well. We are pleased to launch the ninth edition of The Bottomline – a joint initiative of the finance and investment clubs of IIM Ahmedabad, IIM Bangalore, IIM Calcutta and IIM Lucknow.

The Indian Fintech Landscape is exploding and this fintech special edition couldn't have come at a better time. In terms of fundraising, 2021 is on track to be the biggest year yet with Indian fintech startups already raising $2 Billion in investments in the first half of the year. Indian merchant commerce platform Pine Labs has been the quickest off the blocks as it raised over $ 600 million at a $3 Billion valuation and looks to IPO in the next 12-18 months. Digital payments giant PayTM is not far away as it looks to raise Rs 16,600 in what could be one of the biggest Indian IPOs in a decade. Elsewhere, BharatPe, a fast growing Indian fintech startup, was in the news for its compelling joining proposition - BMW Superbikes and all-expense paid trip to the T20 World Cup in Dubai - for engineers restarting an online debate on how difficult it is for Tech startups to land software talent amids this funding boom.

Neobanks such as FamPay, Niyo and Jupiter are making waves in the credit cards space as they look to innovate with digital layers and features on top of the traditional credit card system. Buy Now Pay Later (BNPL) is also emerging as a subsegment to watch out with the big players already announcing their intentions. Stripe has acquired Australian BNPL player Afterpay for $29 Billion and Klarna raising $639 million at a post-money valuation of $45.6 billion in June. This makes Indian competitors like LazyPay and Simpl companies to watch out for in the next 12-18 months.

The Indian Government is not to be left behind in fintech innovation as it looks to launch e-RUPI next month, an electronic voucher to simplify and secure the process of Direct Benefit Transfers (DBT) for welfare schemes. E-RUPI will function via an SMS string or QR code which can be sent to the beneficiary's phone and which will be redeemable at designated centres. There will be no need for any physical interface like a debit or credit card, mobile banking application, or anything else.

Our contributors to this edition have delved on some of these topics with great insights. As always, any feedback from our readers is welcome and we strive to achieve new heights with each subsequent edition.

Happy reading!

The Editorial Team

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PRINCIPAL PROTECTED MARKET LINKED DEBENTURE – WINT WEALTH

Wint Wealth is a young initiative by 4 IITians who aim to provide a platform for retail investors to invest in a product that lies between Debt (low risk & returns) and Equity (high risk & returns). Wint Wealth boasts start-up honchos Nitin Kamath (Zerodha), Kunal Shah (CRED) & many more as its investors.

These first-generation entrepreneurs struck gold with Principal Protected Market Linked Debenture (or PP MLD). PP MLD is not a new product per se, but the real break-through was to make this product available to retail investors – in multiples of (as low as) Rs. 10,000 and that too in a transparent manner.

To understand the concept of PP MLD, we need to have a basic understanding of two process called 'Asset Securitization' or 'Assignment of Receivables'. There are few legal differences between the two, but we will look through them in this article.

- An NBFC has given multiple loans to various consumers and now wants raise capital to give more loans.
- The NBFC will issue securities on the strength of its loan receivables, i.e., it will pool together multiple loans.
- The payment terms of these securities will be guaranteed by a special purpose vehicle (SPV).
- The SPV collects payments of the pooled loans from individual borrowers, which are in turn used to repay the investors.

Let us look at how a PP MLD works for investors:

- **Principal Protected:** The principal component of these instruments is covered by underlying loan collaterals.
- **Market Linked Debentures:** These securities have a unique repayment covenant which links the repayment of the debenture to the vagaries of equity indices. For example, the covenant will be worded as given below:

  "The coupon rate on the PP MLD will be 10%. In case the BSE Sensex 30 falls below 80% of its current market level as on the allotment date, the coupon rate on the PP MLD will be nil."

This clause makes the returns on PP MLDs linked to equity markets, which enables them to enjoy taxation akin to that of equity shares & equity mutual funds. This is the ***biggest selling point*** of the PP MLDs to HNI Investors because:

- Debt instruments (corporate bonds, debt mutual funds) must be held for 36 months to attract lower taxation under the existing tax-rules on long-term capital gains (LTCG).
- It is almost certainly unlikely that BSE Sensex will fall below 80% of its current value in a span of 18-24 months and so there is very little risk effectively.
- Harshal is a Chartered Accountant with 4+ years work experience in Corporate Treasury at Reliance Industries Limited. He is a proud Mumbaikar and likes to hit the gym or play football.

Particulars	Fixed Deposit	Debt Mutual Funds	Principal Protected Market Linked Debenture	Equity Mutual Fund
Expected Return (18-24 months)	4.5% to 5.5%	5% to 7%	9% to 11%	0% to 20%
Credit Risk	Very low	Low	Very Low	N.A.
Liquidity Risk	Moderate	Low	High	Low
Taxation	Interest is taxed at individual slab rates.	LTCG Taxation after 36 months	LTCG Taxation after 36 months	LTCG Taxation after 36 months

Here are some of the past issuances of PP MLDs managed by Wint Wealth:

Particulars	Wint Gold	Debt Mutual Funds	Principal Protected Market Linked Debenture	Equity Mutual Fund
Issue Size	15 crores	20 crores	20 crores	10 crores
Tenor	15 months	18 months	24 months	18 months
Expected Return	11% p.a.	9.5% p.a.	10.25% p.a.	11% p.a.
Underlying	Interest is taxed at individual slab rates.	LTCG Taxation after 36 months	LTCG Taxation after 36 months	LTCG Taxation after 36 months
Loans (UL)	Gold loan	Business Loans against Property	Vehicle Loans	Gold loans
IRR of UL	23.01%	10%+	20.07%	19.50%
NBFC	Dhanvarsha Finvest	Ugro Capital	Kogta Financial	Kanakadurga Finance
Asset cover	1.25 times	1.25 times	1.2 times	1.2 times

Source: *Wint Wealth – Explore Assets (2021, July 26) - https://www.wintwealth.com/*

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EXCITING FUTURE TRENDS IN THE INDIAN FINTECH LANDSCAPE

Oxford Learner's Dictionary explains Fintech as "computer programs and other technology used to provide banking and financial services". This definition has now expanded for practical purposes and includes all the technologies trying to disrupt the traditional modes of banking. The use of technology in finance creates new markets and/or cost-effectively provides access to existing markets. E.g. Paytm has changed how Indians do banking – from time-bound banking with NEFT/RTGS to instant money transfers between individuals.

Imagine this - You went to buy groceries at your neighbourhood convenience store and forgot your wallet. Knowing you for ages, the shopkeeper permits you to pay him next time you come to the store. This is the "Buy Now Pay Later" (BNPL) concept, an alternative to a credit card or a loan (products where not everyone is eligible). Fintech firms tie-up with companies and provide a free credit period of 15-30 days to customers to pay off the purchase price fully (to meet funds mismatch like delayed salary credit) or convert it into EMIs. They generally charge interest between 20-36% per annum, making it an attractive financial product with broad customer appeal. Amazon has launched this scheme across specific product categories, and Apple is in talks with Goldman Sachs to launch the scheme. Travel companies (SOTC, Thomas Cook) are also offering a variety of this scheme to its customers by offering to finance the holiday. "Holiday Now, Pay Later" scheme allows travellers to pay the cost of the tour after the holiday. Roughly 3% of the transactions in the domestic e-commerce payments in India pertain to BNPL in 2020 (Source: Statista).

Major Players in BNPL:

Simpl.

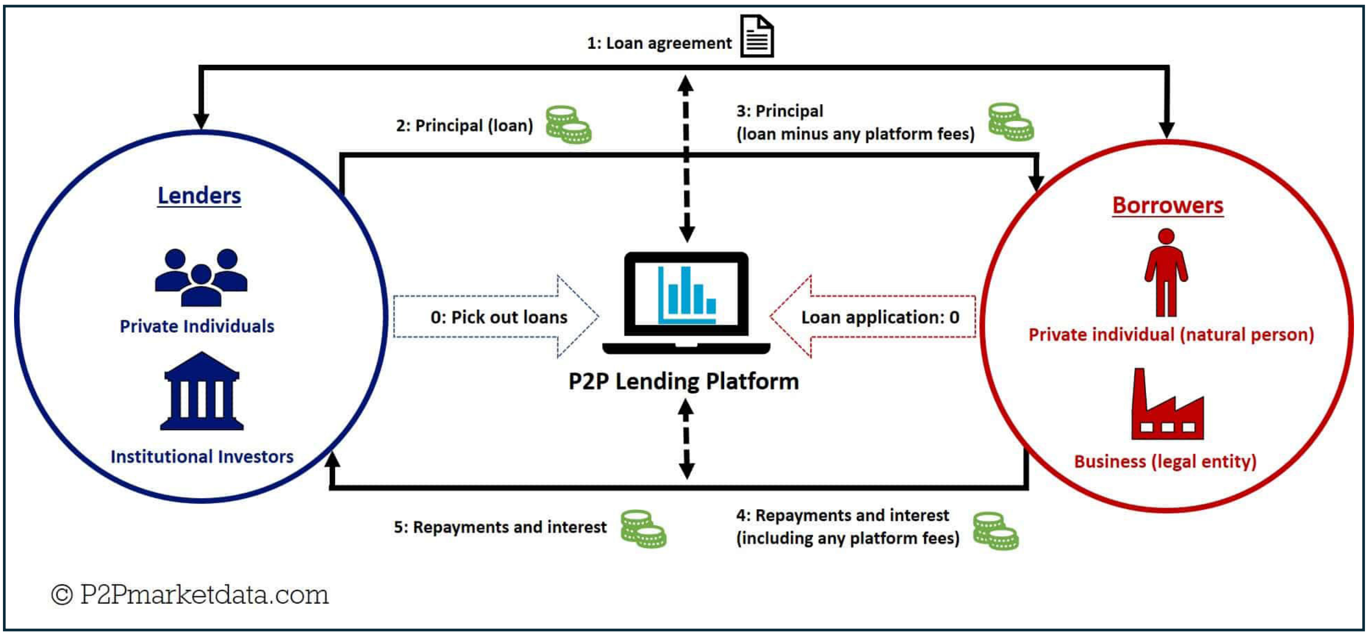
- Outstanding balance needs to be cleared every 15 days and firm doesn't charge any interest but levies penalties on payment default. Saw an increase of 1.5x in average ticket size in 2020.
- Claims to have partnered with 4,500+ merchants across India with 7 Mn+ users.
- Raised over $26Mn to date from investors including IA Ventures and Green Visor Capital.

Zest Money.

- Offers interest free EMI options with select lenders unlike Simpl. Claims to have 6Mn+ users on the platform and saw 50% growth in avg ticket size of ed-tech transactions.
- Raised over $68Mn to date from investors including Goldman Sachs, Naspers.

Lazy Pay.

- Combines product offering of Simpl and Zest Money i.e. customer can clear their dues every 15 days or convert them into EMIs.
- Operated by PayU Finance, which belongs to PayU, a digital platform firm owned by Naspers.



P2P (Peer to Peer) lending is another emerging trend in the fintech domain that is helping investors buck the trend of falling interest rates on FD. P2P companies are generally tech companies which connects lenders and borrowers through a digital platform. The borrowers usually pertain to marginalized sections of society that banks are unwilling to cater to due to inadequate credit history or other reasons. The ticket size of the loan is small (max. Rs. 50,000 per borrower). Interest rate normally ranges between 15-25% per annum. Fintech firms charges commissions from lenders and processing fees from customers.

Major Players include LenDenClub, Faircent, Lendbox, Lendingkart and Finzy.

Both BNPL and P2P lending are disrupting the traditional banking sector. BNPL is helping companies increase their sales by giving flexibility to customers to pay in part for the purchase. P2P lending, on the other hand, allows investors to lend their surplus liquidity and earn higher returns than a savings account. It will be interesting to see how these products develop over time to meet the customers' needs.

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HOW DOES BLOCKCHAIN GAMING WORK?

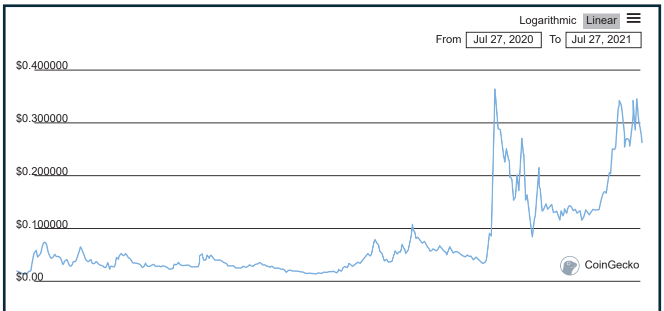
I hope you remember the Mario game we played when we were kids. We've had several tasks during the game to complete and collect coins. However, the coins in real life had no buying power. However, what if somebody says that there is a game that gives you real-life money that has value?

Let me tell you about the game that's going to get you real money. You can convert the currency you earn in this game into real money through the exchange platform. Many people from the Philippines have left their job for this game - the Axie Infinity. Axie Infinity is a blockchain-based game. You can earn credits, which can be traded on exchange platform for cash. Axie platform awards players with the use of blockchain technology for contributing to the ecosystem.

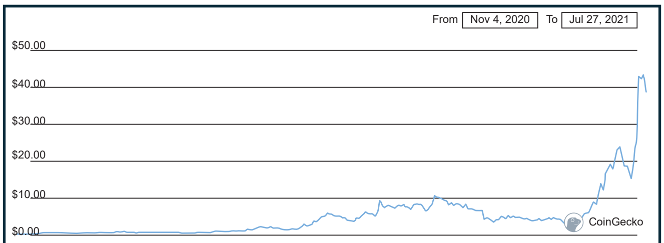
To begin with the game, you have to link your digital wallet with the game's website and buy three token Axies, starting at around USD 200 which may go beyond that also. Axies are tiny creatures in the game, you can battle, collect and develop them, which can be sold later in the market. Each Axie has a different value based on the powers it possesses. To breed and produce abilities in Axies you require Smooth Love Potions (SLP). This SLP can be acquired by accomplishing/completing different tasks and also can be farmed by players on the farm-land. When a player breeds an Axie it has to give away SLP and AXS (Axie Infinity Shards).

SLP and AXS is nothing but non-fungible token (NFT) which represents objects in the real world. These tokens derive value from art, picture, GIF, downloaded file, etc. With the help of NFT, you can own the original item based on which it is formed, and also it serves as a certificate of ownership. NFTs are supported by the Ethereum blockchain, which is a cryptocurrency like Bitcoin. They can be purchased/sold online and has the similar coding system as crypto. Out of the entire cryptocurrency market, market capitalization of AXS is 0.15%, while the Bitcoin's share is 46% and Ethereum's is 18%.

SLP was first launched in 2020. In July 2020, its price was USD 0.016, while within one year, the price increased to USD 0.26 (increased 16 times). Also, AXS has reached USD 0.13 to USD 38 in July 2021 within a year (increased 292 times). The Axie Infinity has more than 2.5 lakhs daily active users, and the most expensive Axie sold till now is 300 ETH which comes to USD 6,75,000 as per exchange rate in July 2021. There is no cap on the number of SLPs; it grows as players increase, while AXS's are limited up to 270 million. These tokens can be exchanged on platforms like Uniswap, Binance, Digifinex, and other platforms for real money.



Source: SLP Price Chart - Coingecko.com



Source: AXS Price Chart - Coingecko.com

The platform earns revenue by collecting charges of 4.25% on the sale of Axie in SLP and AXS. In the beginning, Axie network will be dependent on new entrants. After some time, even new capital will be introduced into the ecosystem using revenue streams such as advertising, sponsorships, etc. as mentioned in the whitepaper issued by the company. Around

20% of the total issue of AXS is for players' community to be given through missions, breeding Axies, winning tournaments, etc. In case a player holds tokens for the stipulated period, they will also be allotted rewards. It is also considering undertaking the public and private sale of tokens.

This is a whole structure in which Axie Infinity functions. Even though it is undertaken using blockchain technology, it can be concluded from the past that the price effect of Bitcoin does not have a significant impact on SLP and AXS. Axie Infinity has helped players from the Philippines, Venezuela, other economies earn more income than the average income. It has developed peer-to-peer pricing of commodities and made the game's purchase of assets safer for players due to blockchain technology. The whitepaper issued by Axie Infinity has given a roadmap for providing value to users, but server issues recently encountered by the company may wipe out all user data. Even though returns from blockchain gaming are lucrative, before diving into it, getting a proper idea of the same is essential.

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PAYTM - GETTING READY FOR THE LARGEST IPO IN INDIA

Fintech, as the name suggests is a fusion of two words- 'Finance' and 'Technology'. It refers to automation of financial services through use of technology. The Indian economy has seen emergence of 1,500+ fintech start-ups between 2015 and 2020. India's fintech market is expected from $31 Bn in 2020 to grow to $84 Bn by 2025, at a CAGR of 22%. The shift in trend towards digital payments and new product offerings shall pave the way for higher growth and M&A activity in this sector.

A household name among fintech companies is Paytm, which started as a digital wallet provider in 2009 and since, has diversified into UPI, post-paid services, insurance offerings, investment offerings and others. Paytm posted revenue of USD 0.4 billion and has more than 58 million account holders.

Paytm has already filed draft prospectus with SEBI for India's largest IPO till date at a valuation of USD 25 billion. The previous largest IPO was Coal India at valuation of USD 22.6 billion. Total size of fund raise will be USD 2 billion will be raised, of which half will be secondary sale existing investors' shares such as Ant Financials, Softbank, SAIF Partners and while balance is primary fund raise.

Of the primary fund raise, USD 0.6 billion will be used for acquisitions of consumers and merchants, USD 0.2 billion for acquisitions and strategic partnerships and the balance for general corporate purposes.

Let's add one interesting tale to this story. Paytm incurred a loss of USD 0.2 billion in FY21, although the losses reduced by 42% from USD 0.4 billion in FY20. The question now lies how Paytm commands such a high value although it is yet to become break-even. As per analysts, the rising heft of Paytm's non-payment services could hold the key to when the company will break even.

According to Bernstein Private Wealth Management, Paytm's non-payment services hold the key to company occupying superior value. It is decreasing reliance on payment services and expanding into credit tech, insurance tech and wealth tech. These three product categories will make Paytm the 'super-app' of financial services.

The credit technology vertical has already made a strong start on disbursals, which have grown month on month. The mutual fund distribution business under Paytm Money has also made a solid start. Paytm is also looking to acquire a general insurance company to get a foothold in health and vehicle insurance. The non-payment segment services are expected to grow at a CAGR of 380% (overall company growth at 87%) and take Paytm's revenue to USD 1 billion by 2023 and break-even in that year.

However, all these numbers are shrouded with uncertainty. It cannot be ruled out that Paytm faces risk from online portals, other payment gateways. For instance, increase of popularity of PhonePe and GooglePay UPIs led to decline in Paytm usage in the past and forced them to enter into UPI segment. Further, Paytm has been known for lack of customer support and satisfaction. Only time will tell whether the stock market will accept the valuation that Paytm desires and whether the company will be able to deliver on expectations.

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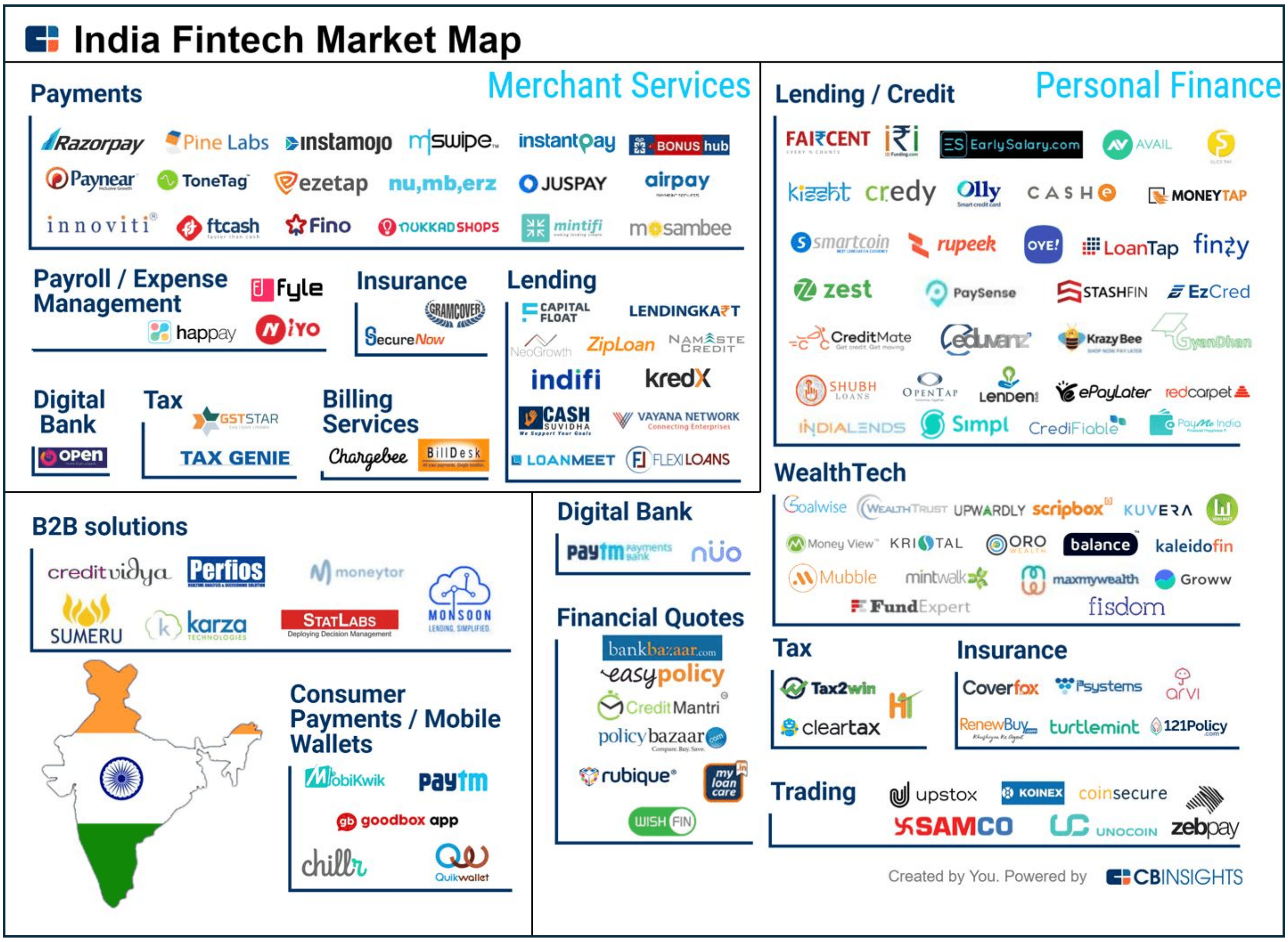
CASE FOR SUPPORTING THE NASCENT FINTECH SPACE



In recent times, banks in India have been facing tumultuous events in the past five to six years. The ratio of non-performing assets to advances exceeded 11% in 2019, according to the Database on Indian Economy published by the Reserve Bank of India. Since the traditional banks are the significant contributors of credit in our country and also lend to the non-banking financial sector, any damage to its functioning is bound to impact our economy profoundly. The public sector banks are more severely hit accounting for 90% of total NPAs in India. At a cumulative level, the PSBs collectively owed almost INR 6.8 trillion in NPAs in the fiscal year 2020. This value had registered a decline from FY 2018, indicating a slight relief; however, the reason can be either better lending procedures or a reduction in overall lending.

These rigidities faced by the traditional banks reduce their functional efficiency and make a strong case for fintech to evolve in India in trying to fit our financial transactions onto a small mobile screen. Emerging companies are leveraging new technologies like the internet of things (IoT), blockchain, artificial intelligence, etc., to take finance to the next level.

A look at China's Ant Group provides a case study approach to see how a company, in its own words, moved from being a 'fintech' to 'techfin'. It pivoted from challenging the traditional incumbent banks to making them customers and used its low-cost funds in the payment business. Its signature loan products, Huabei and Liebei provide unsecured consumer loans with tenors of upto one year, enabling last mile connectivity by partnering with policy banks, large national state-owned banks, rural commercial banks, and trust companies in China. Its value proposition to its partner banks is its efficient management of risk. The bank revealed that it has more than 100,000 risk indicators for small and microfinance institutions. Before commencing on the partnership model, the bank itself underwrote the loans and packaged them into asset back securities (ABS) sold to risk-loving parties. However, the China Banking Regulatory Commission soon intervened and tightened the rules and banned banks and individuals from investing in these unsecured consumer-backed ABS. Ant soon adjusted to this and ventured into partnering with traditional banking institutions and modified its lending process.

This provides a learning case for India, which at present has more than 2000 fintech companies. A BCG report recently stated that there is a USD 100 billion value creation opportunity, and the fintech sector in India is targeted to reach a valuation of USD 150-160 billion by 2025. To enable the proliferation of this sector, RBI and SEBI will have to provide a comprehensive set of guidelines that shouldn't hamper innovation, especially in the early stage, and don't drive up operational costs. These guidelines should help consumers trust and make the Indian fintech space an attractive place to invest capital.

Unrestricted data flow is another possible caveat that can impose threats on the viability of the sector. Personal Data Protection Bill 2019 was a step in the right direction to protect citizens' data and rights. RBI also announced a detailed framework for a Regulatory Sandbox (RS) in 2019 for fintech products via which the companies can benefit from accommodative regulatory conditions. A joint survey conducted by BCG and FICCI revealed that 73% of Indian FinTech are considering international expansion. To reap the benefits of the much-needed technological innovation domestically, it is imperative for regulatory authorities to ensure a framework for ease of scaling and last-mile customer connectivity.

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IS FINTECH THE ANSWER TO SME FINANCE PROBLEMS IN INDIA?

The small and medium enterprise (SME) market plays a crucial role in India as well as in the global economy, proving to be the most desirable and an immensely innovative structure. The critical contribution of SMEs to economic development is a fact that is unanimously accepted. SMEs contribute a large share to the GDP of the country, generate jobs, help in poverty alleviation, and promote indigenous culture and traditions. The demonstration of their economically and socially advantageous effects has contributed to the recognition of the SME sector as a strategically relevant region for the economy.

In India, there are about 6 crore micro, small, and medium enterprises, which collectively employ 11.1 crore people and contribute 30% to the total GDP as of 2019. However, these enterprises continue to suffer the access to finance problem that is typical of SMEs around the developing world, especially from traditional formal sources such as banks. Around 40% of the total MSME credit demand is served by informal sources of credit, and as per the IFC Report 2018, the financing gap stands at INR 45 trillion. 40% of this will be served by informal credit, 25% through personal loans, and only about 20% by formal credit (Entrepreneur India, 2019, November 26).

The culprits to blame for the SME Finance problem in India are also the usual suspects. MSMEs do not have property or collateral to offer and most of them have insufficient credit history, bringing in the information asymmetry problem that makes it difficult for lenders to screen borrowers ex-ante. The MSMEs lack proper documentation and usually have weak balance sheets, making them credit risky. Long approval and loan disbursal periods of traditional finance providers, and the high-cost structures getting reflected in the high interest rates further amplify the problem.

India, as has the rest of the World, has seen a remarkable technology disruption in the form of the rise of alternate finance companies that are armed with technology and venture capital funding money. Most MSMEs in India have started taking to digital methods for business processes, payments, and online sales, which has increased comfort levels in making lending decisions. New-age lenders have started using data from smartphones, utility payments, bank statements etc, triangulating it with social media activity to make credit decisions. This has enabled businesses with low asset base and inadequate credit history to avail credit from these lenders, who in turn have gained share from banks in the SME Lending space.

Many companies with innovative ways of procuring and processing data have emerged. They draw data points into the lending platform's automated loan underwriting mechanism where algorithms assess credit risk. Moreover, the process of applying is simplified and disbursement and payment experiences are improved. Digital marketplaces are created for lenders and borrowers to interact with each other, with all lender and borrower data being third-party verified, thus eliminating traditional middlemen such as bank agents. Alternate lenders are drawing more and more data from social media networks and interactions to supplement IT returns and bank statements, thus improving risk assessment. The lending experience has also improved by leaps and bounds, with faster turnaround times, real-time tracking and updates, online documentation processes, and better customer support.

As always, strong institutional infrastructure has played a key role in the emergence of lending through FinTech. 'JAM' – Jan Dhan accounts, Aadhar, and Mobile phones have been a huge success. The emergence of digital KYC, data from Ministry of Corporate Affairs portal, EPFO data, utility payments, and GST returns data is facilitating loan processing time reduction and enhancing customer experience. New-age NBFCs are bringing in high-end algorithms to sift through borrowers and disburse funds quickly. The turnaround time has been reduced to 3 days in most cases.

The greatest positive impact of the new-age lending system has been the inclusivity. Digital lenders are lending to first-generation entrepreneurs and are increasing lending to small and medium businesses in tier II and tier III cities. With increased threat from digital lenders, banks are expected to come forward to retain their market share by partnering with FinTech companies to provide better customized lending solutions. As a result, cost of acquisition is likely to go down further.

The rise of alternate lenders truly marks an important landmark in SME Lending history, because never had there been a plethora of lenders competing for market share in the SME Lending space. The reduced physical touch points, simple documentation, and online processes have all played a role in increasing turnaround times, so much so that the loan disbursement times in most companies spans less than a week from application day. There have been hundreds of lending start-ups founded every year, with multiple funding rounds ensuring that they are flushed with cash to lend to SMEs. In future, further incentives and push towards such FinTech start-ups and conducive information and data environments in developing countries is the way forward to bridge the lending gap that glaringly stares at us.

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NEW UMBRELLA ENTITY

The digital landscape's growth has been on an upward trajectory for a decade now. Where demonetization paved way for moving from traditional cash system to digital payments, convenience came as an added benefit; COVID brought forth the necessity for the shift. With tough challenges come great opportunities. Currently markets are laying emphasis on fintech industry to keep up with the pace of development demanded and become more competitive globally. In Indian context, government is laying special emphasis on attracting new players to be a part of the foundation stage of our future ecosystem.

WHY NUE?

Expanding its reach, Indian fintech sector is looking forward to setup a New Umbrella Entity (NUE) replacing the National Payments Corporation of India's (NPCI) sole authority and ownership of United Payments Interface (UPI). Considering the drawbacks of instilling such a huge responsibility and dependency on a single platform, setting up an NUE came into picture which would assuage the risk concentration and provide more options to consumers. It seeks to expand beyond ATMs, Aadhar based payment systems, clearing and settlement systems. Not only on the expansion front, NUE is accepted to bring in the quality and better service often associated with private enterprises.

Attracting bids from private investors and providing them a lucrative opportunity with a choice to venture into a for- profit venture, RBI has set the guidelines for different groups to foray into this coveted juncture. Many teams have come forward to take part in this virtual battle of establishing a new niche in the industry which includes the likes of PayTM, Amazon, ICICI Bank, HDFC, Kotak, Reliance Industries, Tata Group, and various others.

It further paves way for financial inclusion with these large conglomerates coming up with offers one cannot refuse to accept. Organizations aim at expanding their reach, in turn benefitting the Indian fintech landscape at large. Customers will be able enjoy the added benefits as the companies competing vie to increase customer base and market footprint.

SOUNDS PERFECT?

It actually isn't. Every beautiful change comes with its own cons.

Data is the biggest asset for any organization nowadays. It holds infinite potential for the companies to assess their market and measure consumer sentiments. Analyzing customer demand correctly, helps companies aptly measure the lifetime value of a product, making it more suitable to the needs of the buyers. On one hand NUE opens doors for seamless opportunities in the digital payments landscape, aims towards efficiency, and build a better network. On the other hand, it poses concerns regarding privacy and breach of using data related to users for personal gains and other purposes.

India has a long way to go to reach the culmination of financial inclusion, stop corruption, and become efficient in the fintech space. The measure is a great step in that direction and will also play a substantial role in contributing towards development. Data management is a major concern that needs to be addressed to carry forward the plan of stepping into new arenas in the payments space

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WHAT DOES THE FUTURE HOLD FOR FINTECH?

It is hard to take no notice of Fintech in these times, especially with all that has happened in the past year in the industry. Undeniably, there must be something exceptional about the potential of this industry, that the new fintech start-ups are getting extensive investments in Seed/Series-A funding, and the already established ones are achieving astronomical valuations. Fintech, the focal point in the economy today, will comprise an even greater part of our day-to-day activities in the future. Fintech will penetrate into various new sectors in an arguably short course of time, and the foundation stones have already been laid down in India. What lies ahead for FinTech, only time will tell but here are a few of my top expectations.

Embedded Fintech/Omnipresent Fintech: Embedded Fintech is exactly how it sounds; that is, the fintech industry being embedded into or integrated with various non-financial sectors. In simple words, it is just providing financial services via technology to a service that is traditionally non-financial. For example, when we purchase a product on Flipkart, it gives us an option of Flipkart pay later through which we can avail direct credit from the Flipkart app itself. The example cited above comes under embedded lending, a subcategory of Embedded Fintech. There are other subcategories as well, namely embedded banking, insurance, investments.

Neo Banks - Game changer for the banking industry?: Probably the most talked about topic in the industry currently; Neo banks are virtual banks with no physical presence and provide all the functions of a traditional bank in digital forms through mobile/web applications. Particularly in India, these Neo-banks do not have their own licenses; instead, they operate by forming strategic partnerships with the existing licensed banks. Needless to say, they are going to revolutionize the banking system of the country, and this process might have already started with the existing neo banks such as Niyo, Open, Instantpay and RazorpayX - the neobanking platform of fintech unicorn Razorpay.

Financial assistance services on the rise: Khatabook, world's fastest-growing SaaS company, is one of the pioneers in the financial assistance services. It helps MSME's in business management, tracking business transactions and lending while adding $200 million worth of transactions every day. Along with Khatabook, the emergence of various new start-ups and companies, including Melio, Quickbooks, Chargebee and many more, has made the Indian financial assistance services sector seem very promising. In the future, these applications will get increasingly accessible and hopefully, with AI by their side; they will experience tremendous growth.

Financial inclusion for (almost) all: The combination of e-KYC, UPI, IMPS and other such facilities in India has already opened up the doors to affordable and useful financial services for a broad section of society. Indisputably, the quality of such services will only increase in due course and ultimately lead to financial inclusion for nearly everyone in the country.

The argument for Fintech expanding expeditiously is firm and compelling. It is premised on the assumption that one way or the other, every economic transaction happening requires some sort of monetary payment being paid to the provider/seller, and since the whole country is shifting online, these financial payments should also be facilitated through a digital medium that is, in essence - Fintech.

To summarise, the FinTech industry of today, as I view it, is like a Banyan tree with sturdy roots, solid body and wide broads, and the spring is right by the door. It is ready to bloom, wherein its wide branches will start growing innumerable green leaves on them soon, that too spread out in every possible direction.

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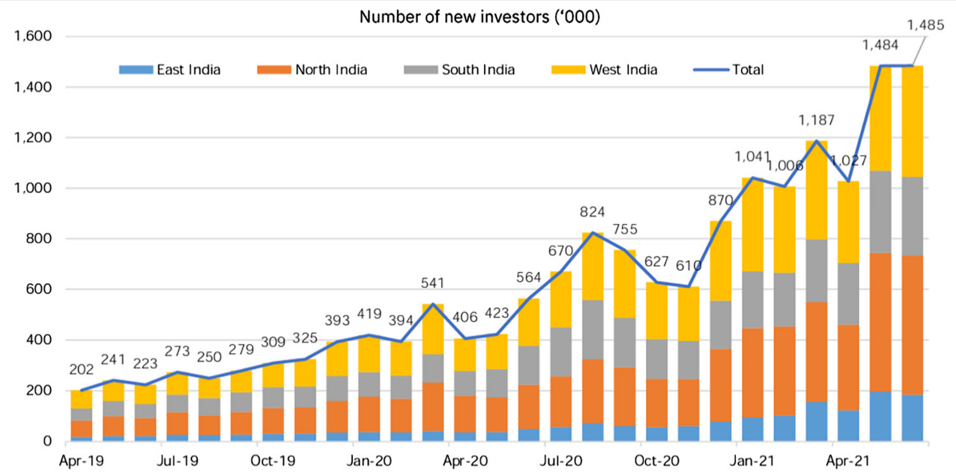
FINTECH INVESTMENT SERVICES AND WEALTHTECH – INDIA

2021 seems to be the year of startups with 15+ Indian startups becoming unicorns and Zomato going public. One of those unicorns is Groww, an online investment platform. Founded in 2016, Groww is one of the fastest startups to reach the unicorn status. Rapid growth of Groww is indicative of the capabilities that lies within FinTech Investment services and WealthTech in India. Zerodha, another FinTech investment services provider, which is equally lauded by both valuation lovers and growth enthusiast, is becoming the household name in India. FinTech brokerages have disrupted the traditional brokerage industry in India with their low costs of transactions & account management fess while making investment/ trading very simple, fluid, and a personal experience. As of 31st June 2021, Zerodha together with Upstox, 5Paisa, and Groww has more than 40% market share of brokerage industry in India. Zerodha becoming the market leader with 20% market share[1].

Disruption in FinTech investment services is attributed to growing interests of retail investors in India, especially the young generation investors and traders. Retail growth is consistent since past few years and has been a national phenomenon spreading in all regions of India and city tiers[2].

Out of 7 crore users of BSE, 38% belong to 30-40 age bracket, followed by 24% in 20-30 age bracket,

S. No	Name of Stockbroker	# Active Clients	% Market Share
1	ZERODHA BROKING LIMITED	36,02,074	19.6%
2	RKSV SECURITIES INDIA PRIVATE LIMITED (UPSTOX)	21,41,095	11.7%
3	ICICI SECURITIES LIMITED	15,80,233	8.6%
4	ANGEL BROKING LIMITED	15,64,667	8.5%
5	HDFC SECURITIES LTD.	9,57,085	5.2%
6	5PAISA CAPITAL LIMITED	8,70,405	4.7%
7	NEXTBILLION TECHNOLOGY PRIVATE LIMITED (GROWW)	7,80,570	4.3%
8	KOTAK SECURITIES LTD.	7,43,206	4.0%
9	SHAREKHAN LTD.	6,79,333	3.7%
10	MOTILAL OSWAL FINANCIAL SERVICES LIMITED	5,64,034	3.1%



Source: NSE.
Note: East India includes Mizoram, Odisha, West Bengal, Assam, Manipur, Arunachal Pradesh, Tripura, Nagaland, Meghalaya, Sikkim, Chhattisgarh; West India includes Maharashtra, Gujarat, Madhya Pradesh, Daman & Diu, Goa, Dadra & Nagar Haveli; North India includes Bihar, Jharkhand, Uttar Pradesh, Uttarakhand, Haryana, Delhi, Punjab, Jammu & Kashmir, Himachal Pradesh, Chandigarh And Rajasthan; South India includes Telengana, Kerala, Andhra Pradesh, Tamil Nadu, Karnataka, Pondicherry, Lakshadweep And Andaman & Nicobar.

as of 7 June 2021[3]. COVID-19 and increasing technology penetration has only boosted these numbers. To cater these growing interests of retailers, especially Millennials and GenZ, we need customized services in mass supply. These FinTech services will not be restricted to investment facilitation but will take more mature forms of investment advisory and full-blown wealth management. Currently, only 4% Indian population has Demat accounts while 11% China and more than 32% USA population has Demat accounts, thus the potential for growth is massive[4].

What's Next in India – The WealthTech!

WealthTech is combination of Wealth Management and Technology. WealthTechs take help of Machine Learning (ML)/Deep Learning (DL) models, quantitative strategies, coded core finance knowledge, and data analysis to provide custom advisory services and to manage wealth. WealthTechs are growing all around the world but they are still in early stages. In India, WealthTech is in very nascent stage with few startups offering basic services [5]. Growth in WealthTech is slow due to low financial literacy and partially due to strict compliance/regulatory issues and early stage WealthTech technology. WealthTechs could provide more innovative products with better transparency/customer experience, all while charging lower fees/charges and servicing the masses.

In Dec 2020, SEBI has opened the path of FinTech in Mutual funds by relaxing MF entrance eligibility criteria. SEBI waived the norms pertaining to MF entrants requiring five years of experience in the BFSI business, three years of profitability, and a net worth of INR 50 crore [6]. Now, the entity would need to only have net worth of INR 100 crore. Since then, Groww has acquired IndiaBulls AMC, Sachin Bansal's Navi has offered its first mutual fund offering, PhonePe has registered their PhonePe Wealth services, and PayTm is also looking to register its wealth management arm. Earlier Nikhil Kamath, one of Zerodha founder, have also founded True Beacon, an AMC in late 2019.

Another dimension to WealthTech is hybrid models at traditional AMCs. Combining portfolio managers insights with AI/ML models could create wonders. Advantages of these hybrid models are removal of human biases/emotions and the rapid processing of huge volumes of data available.

Major issue with WealthTech is lack of trust. They don't have past performance records and are new thus making it hard to build trust with clients, our savvy Millennials and GenZ who are generally less risk averse could be a good target segment. With leaders like Sachin Bansal, who has proven track record, joining the WealthTech wagon this trust could be built-up.

Both FinTech investment services and WealthTech seems to have a great opportunity of growth in India and are exciting future companies to keep an eye on.

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By Shubham Agrawal

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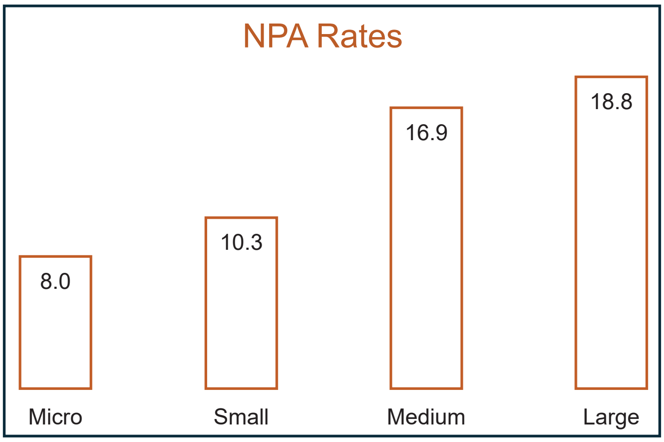
GOING BIG ON SMALL: FINTECH FOR MSMES

India's MSME sector, though one of the most potent tools for inclusive growth, still remains substantially credit-starved, with an estimated gap of $240 billion[1]. This, despite the fact that smaller businesses tend to default much less than larger ones.

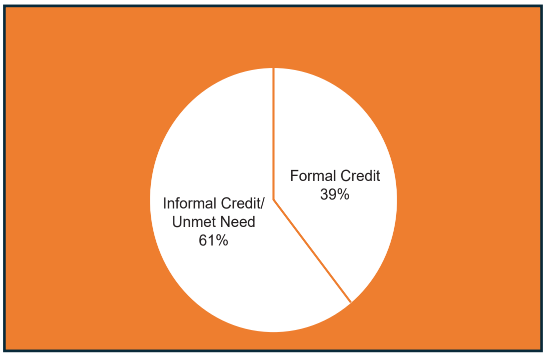


Why then, are banks wary of lending to them? Why do they face a credit crunch? There are two main reasons:

- They lack assets for collateral
- They do not have proper, formal credit history and scores

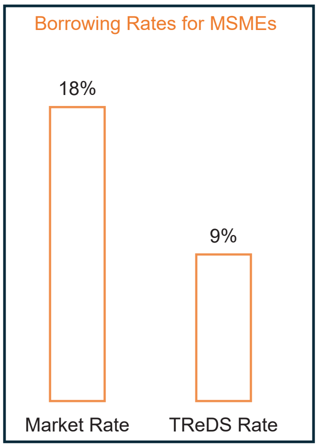
In the past few years, a number of fintech firms have emerged to provide efficient and sustainable solutions to these issues.

FinTech Lending



When it comes to lending to MSMEs, banks' biggest misgivings arise due to the asymmetry of information created by lack of formal credit history. Fintech startups are attempting to bridge this gap by moving beyond the conventional credit scoring metrics and gauging a borrower's repayment ability through the use of NLP (natural language processing) and machine learning algorithms on their income and cash flow statements, tax filings, psychometric evaluations, social media activity, etc.

Invoice Discounting



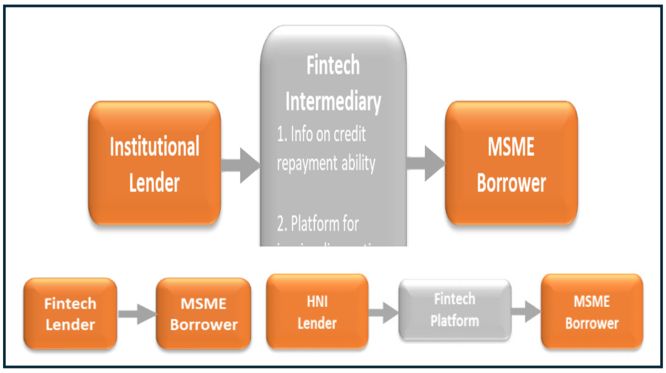
The issue of lack of asset for collateral is being tackled through invoice discounting, enabled by TReDS (trade receivables discounting service) introduced by the RBI. Essentially, it allows MSMEs to borrow against their trade receivables. Currently, there are three RBI-authorised digital exchanges (RXIL, M1Xchange, KredX) which allow MSMEs to act as sellers of the invoices in the discounting process.

The process seems to resemble that of securitisation and one wonders whether there is a prospect for the creation of an ABS with trade receivables as the underlying asset. In fact, in early 2020, India's first trade receivables securitization did go through, but the process took 20 months[2], while the average "days receivable" for MSMEs are only 3 to 6 months[3]. Thus, it would seem that despite its ability to connect MSME borrowers to a wider market, securitisation of trade receivables is not viable in India.

But by itself too, invoice discounting has the potential to lower MSMEs' costs of borrowing.

Apart from this, as intermediaries, fintech also helps MSMEs in electronic verification of documents, which reduces the processing time for loan approvals. As lenders, they can also provide loans at lower rates due to their own low costs owing to the lack of much physical infrastructure.

Following are some of the main business models of fintech companies in the small finance domain:



Additionally, some fintech firms are also helping MSMEs optimise their operating cycles by minimising days receivable and maximizing days payable, thus reducing the need for short term credit in the first place.

Challenges and Possible Solutions

With the existence of myriad opportunities, several fintech firms have come up to serve MSMEs. This would have fostered healthy competition, but for the lack of information among the borrowers. MSME borrowers, having been rejected by conventional banks, are often desperate for loans and do not analyse the different fintech offerings available to them. As a result, they end up compromising personal data – some loan apps have been known to capture location, personal messages, contacts, etc. A possible solution to this would be the establishment of a digital small-finance-loans-aggregator platform which gives a quick, comparative analysis of the existing fintech lenders or intermediaries. It would be even better if it were a government-maintained database, since registration could be made binding on firms – provided their nimbleness is not encumbered by the addition of bureaucracy and paperwork.

Another issue for fintech firms is that of their impact – although they have great potential to bridge the massive credit gap for MSMEs, they have still not been able to make a significant impact. One major reason is their low market penetration. Should they manage to forge partnerships with banks – especially public sector banks, since they are already mandated to lend to MSMEs under priority sector lending. With their extensive outreach, they can help disseminate the fintech firms' efficient solutions.

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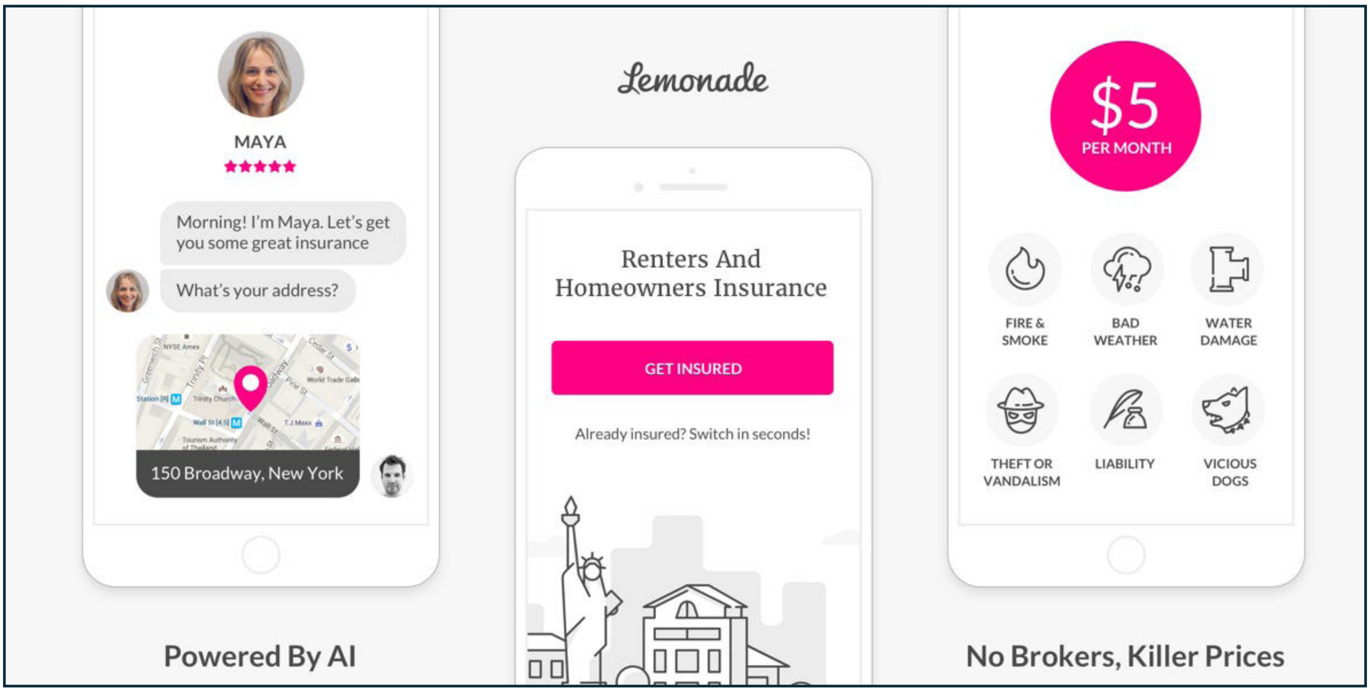
LEMONADE – REDEFINING INSURANCE



Urban Dictionary defines Insurance as "A business that involves selling people promises to pay later that are never fulfilled." At the very heart of the insurance business, there is a conflict of interest between the customer and the firm. This is the reason for the high false claims that are filed with firms making them reluctant to pay claims thus, creating a flawed business model.

Can technology be leveraged to change things and improve the customer experience? The Answer is Yes. Let us look at Lemonade, a new age Insurance-tech firm redefining the insurance industry.

Lemonade is an insurance company founded by Daniel Schreiber and Shai Wininger. Lemonade has two core engines that run the Business: Behavioural Economics and Artificial Intelligence. To better understand these engines, let us look at Lemonade's business model. Lemonade charges a flat fee and links every customer's insurance policy to a charity of their choice (this could be your college's dog shelter fund or your sister's green planet fund). When the insurance term ends, the unclaimed amount is directly donated to the charity. Interesting right? Lemonade essentially eliminates itself from the conflict while creating a game between you and a charity of your choice. Who are you more likely to cheat: A large corporate Insurance company or a local charity close to your heart? The model has worked wonders and false claims have dropped to single digits. Dan Ariely, a professor of Behavioural Economics (also the Chief Behavioural Officer at Lemonade) once said "If you tried to create a system to bring out the worst in humans, it would look a lot like insurance today." Well not anymore Dan, you changed it.

So where does technology come in?

Insurance policies are generally priced based on expected loss. Underwriters look at past data and try to guess how much a person like you owning a similar house is likely to claim. On top of this claim amount, a normal insurance firm would charge additional expenses to cover their acquisition costs, transaction costs, employee costs etc. Lemonade has been able to eliminate these costs by employing technology at its core and providing tremendous value to its customers. Founder of Lemonade, Daniel Schreiber said that 25% to 33% of claims made today are paid instantaneously with the help of Artificial Intelligence. The AI bots handle everything right from onboarding customers to crediting claims. Lemonade charges significantly lower than the industry average. Its rent insurance expenses are 68% below the industry average. Lemonade has been able to scale at rapid pace which is evident from its presence in 7 American states within a year of its launch.

Schreiber claims to have almost zero average employees in these states. Everything is managed virtually like a digital technology company. With the launch of Application Programming Interfaces (APIs), Lemonade has enabled businesses to integrate its insurance with their offerings, thereby entering into bot-to-bot conversations. Schreiber claims that this would reduce the transaction time to milliseconds. Use of bots has reduced the customer waiting time and claim processing time leading to an overall exceptional customer experience. Schreiber believes that they have successfully reduced the price point to a level where it is lower than a Spotify subscription thus changing insurance into an impulse purchase.

Will we see a similar shift in Indian Insurance space, or has the change already started? We have Digit, a leading general insurance company which has entered the digital insurance space but with more than 80% of its sales through the traditional offline routes, it still has a long way to go. Toffee Insurance is another digital insurance firm that targets millennials with customised insurance products. With around 400 million people in 35+ age groups and only 3% insured, the opportunities are huge. Leveraging technology can be a driver for fast growth at a huge scale. Things will only get interesting for the Insurance industry from here.

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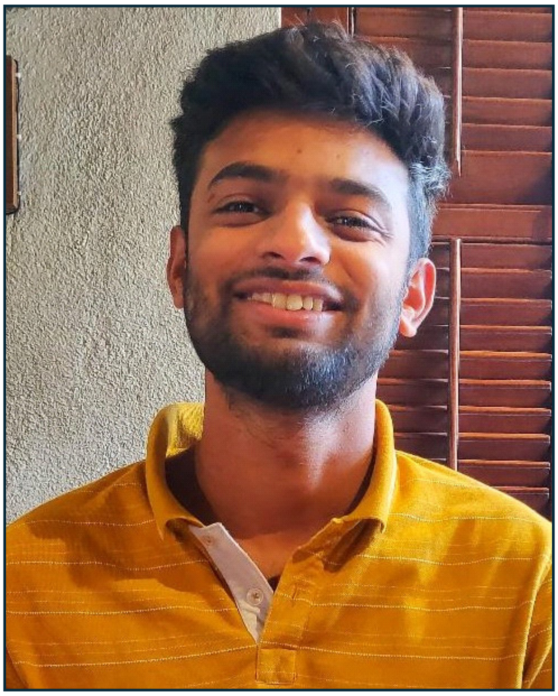

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REVIEWING COVID-19 IMPACT ON THE INDIAN IPO MARKET

The COVID-19 pandemic not only brought a public health crisis but also disrupted global economic activities. Local lockdowns, factory shutdowns, job losses, fall in income levels, and volatile demand levels have adversely impacted almost all the market sectors. Amidst stock market crashes, high uncertainty, fears of global recession, and negative economic growth indicators, the Indian primary markets witnessed what is termed as the 'Cold IPO period' (cold IPO markets are characterized by low IPO volume as issuers restrain from going public during a period of low investor confidence). Firms planning an IPO usually tend to wait for a reversal (i.e., hot IPO period). Understandably, going public during a hot IPO market allows firms to capitalize on the positive market sentiment and raise higher capital. Conceptually, we expect the firms with poor fundamentals to hold back their IPO plans during the COVID-19 induced cold IPO period. Arguably, only the firms with a proven track record and strong confidence (about fundamentals) dare to float the IPOs during the cold period (i.e., F.Y. 2020-2021). In this article, we investigate the IPO activity during the pandemic year and evaluate its short-term performance for up to five months from listing.

Indian IPO market witnessed a significant drop in volume, i.e., just 15 IPOs were issued in 2020. Figure 1 presents the IPO volume and the capital raised in the last five years for comparison. With declining growth rates, numerous bank failures, and a struggling auto sector, the Indian economy was undergoing a slowdown in the pre-pandemic year too. Issuers lacked the confidence to approach the new issues markets to raise capital. From the issuers' perspective, going public during a cold IPO period is always a tough decision. We notice that most of the firms that came up with new issues in 2020 were older firms, with an average age of 25 years (and median = 21 years). Mature firms having passed the test of time, understand the industry better and are better recognized by the investing community. The average asset base of the IPO firm was Rs. 5640 crores (and median = 1000 crores), and the average issue size was Rs 1750 crores (and median = 600 crores). Thereby, we can say that mature firms with a large asset base, strong fundamentals, and significant growth plans, which are recognized by the investors, usually approach the markets during such testing times. Further, such firms are welcomed by the QIBs, and they continue to perform well in the secondary markets as well.

Despite a low number of new issues, companies that went public in 2020 have fared impressively in the secondary market. We find average listing day returns (underpricing) as high as 43.34%. Although it is too early to comment on the long-run aftermarket performance of these firms, our analysis clearly shows that these IPOs have displayed a strong performance in the short-run period post

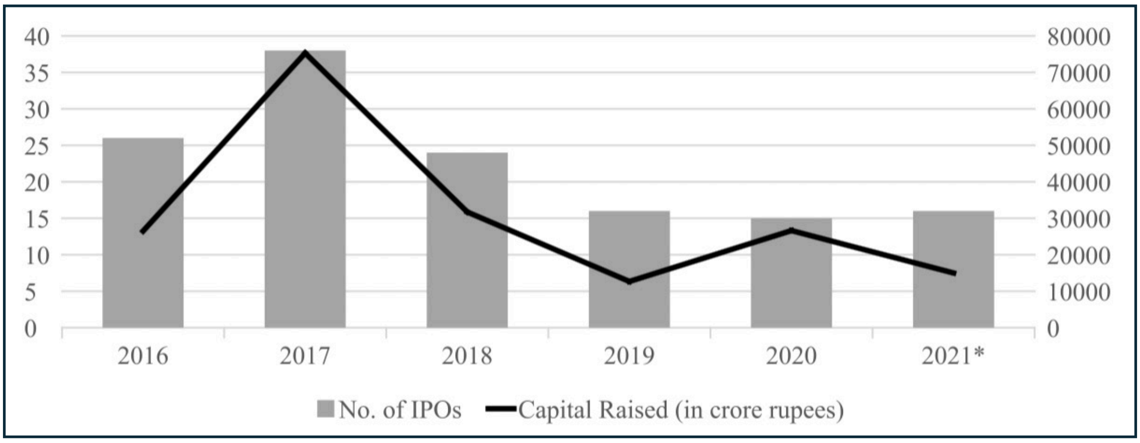

Figure 1. IPO Activity in India (Jan 2016 - March 2021)

Source: www.chittorgarh.com

*till March 2021

listing. Table 1 below presents the average returns earned on the investments made in IPOs for an average holding period of up to five months. One of the reasons for this high performance can be attributed to the sharp recovery of the market indices. The investments made at offer price have provided abnormally high returns over and above the market benchmark (NIFTY). More precisely, if an investor is allotted the shares of an IPO issued during the year 2020, he can earn as high as 74.40% (average) abnormal returns (i.e., over and above market benchmark) for the holding period of just five months. These figures are impressive as the academic literature has consistently emphasized the underperformance of IPOs in the post-listing period.

Additionally, these 15 IPOs were oversubscribed by 71 times (on average). The Qualified Institutional Buyers (QIBs) portion got oversubscribed by 60 times, while the retail investors bid the IPOs at an average rate of 21 times from the allotted quota. This provides further evidence that only quality IPOs (with better fundamentals) and having promising growth story dare to float in the new issues market during the cold IPO period.

With geopolitical issues, US-China trade tensions, BREXIT formalities, followed by the COVID-19 shock and U.S. Presidential election uncertainty, global IPO markets had been struggling since 2019. As the aforementioned issues have lost heat and the vaccination drives have stoked up investor confidence, global trends in Q4 for F Y. 2020-2021 show up steep recovery curves. We expect the Indian primary market also to follow this momentum of recovery. Early signs of exuberance can be seen as the number of IPOs in the last quarter of F.Y 2020-2021 has surpassed the total IPOs issued last year. We expect a large number of issues in the coming year as many private firms who had shelved their plans to go public last year would like to exploit early revival sentiment. Additionally, more technology-based, healthcare and life sciences companies are expected to go public in the near future.

Table 1. Aftermarket Performance of Indian IPOs issued in 2020.

Holding Period	No. of IPOs	Average Raw Returns (Relative to Offer Price)	Market Adjusted Returns (relative to Offer Price)
1 week	15	44.48	43.59
1 Month	15	38.45	32.67
2 Months	15	46.85	34.19
3 Months	14	59.52	40.91
4 Months	12	70.19	44.47
5 Months	10	103.03	74.40

Source: calculated by authors

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