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FINTECH ECOSYSTEM IN INDIA

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Abstract

India, a country with 1.3 billion people is one of the biggest emerging economies. India is developing faster than any other country in the world. Fintech in India is one of the fastest developing sectors after the tech sector. Introduction of Fintech has radically changed the financial service industry all over the world, and this effect can be seen in the Indian market as well. Indian Fintech market is expected to grow with CAGR 22% in the next five years. Indian Fintech market is expected to reach \$73 billion by 2020 in terms of transactions. The GDP of India is expected to boost \$700 billion by 2025 due to the growth of Fintech in the country.

Due to the complexity and peculiarities of the phenomenon, it can be difficult to understand Indian Fintech ecosystem for a novice user. This research gives simple understanding and some light on Indian Fintech ecosystem. To see these Fintech trends this research was conducted by analysing data of over 200 Indian Fintech companies. The Fintech density in different Indian cities and their size were analysed to understand the distribution of Fintech market in the country. Information regarding business models and channel to reach customers reflect how efficiently Fintech companies are working to acquire customers. Understanding foreign investment and key investors give an idea about growth and financing options available to Indian Fintech companies. Finally, capital raised, funding rounds and revenue data depict the ease of finance availability and current and prospective growth of Fintech market in India.

There can be some limitations to this work. This research is only carried out with the freely available public data but there may be possibilities of some results changing with including larger sample space or available data to work with.

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1 Introduction:

1.1 Introduction to Indian Economy:

India, a country with 1.3 billion people, is the 2nd biggest country in the world by population after China. India is the 5th largest economy by nominal GDP and 3rd largest by purchasing power parity (source: Wikipedia). India is the fastest growing economy in the world. The economy of India was at 7.3% growth rate in 2018 and it is forecasted to grow at 7.6% in the year 2019 (source: Asian Development Bank). The population of India is turning out to be a positive attribute in growth, as the young population in the working class is highest in the world. India, due to its population, is one of the biggest markets for businesses.

India has the third largest startup base in the world after the US and UK, according to a report by NASSCOM (source: Forbes India). India is home to about 7700 tech startups according to recent NASSCOM report. In 2018, 8 startups from India ventured into unicorn club, making the total Indian unicorns count to 18. In 2017, 1000 tech startups were added while in 2018 this number reached to 1200. Total funding in India to these startups increased from \$2 billion to \$4.2 billion from 2017 to 2018 (source: Entrepreneur India).

Currently, the three cities Bangalore, Mumbai and Delhi NCR have most of the startup density but slowly the number of startups is rising in Tier 2 and Tier 3 cities as well.

Tier 1 cities are big cities and metropolis. Tier 2 cities are state capitals, regional hubs, and smaller cities, and the rest of the cities are classified as Tier 3 cities (see Appendix).

These numbers indicate a huge growth in the Indian startup ecosystem and the Indian economy.

1.2 Introduction to Indian Fintech Market:

Moving on to the scope of Fintech space in India and the growth of this sector, first we have to understand the definition of Fintech. Review of more than 200 scientific papers citing the term “Fintech”, and later a scientific study on the definition of Fintech inferred that “Fintech is a new financial industry that applies technology to improve financial activities” (source: Wikipedia).

An alternative definition of Fintech is: “Fintech companies are businesses that leverage new technology to create new and better financial services for both consumers and businesses. It includes companies of all kinds that may operate in personal financial management, insurance, payment, asset management, etc.” (source: HuffPost).

India is a young nation with high growth in digital penetration and a large percentage of the unbanked or underbanked population, making it a growing and promising global space for Fintech. Fintech in India has grown rapidly in the last 5 years and has the potential to grow further at a faster pace. The rapid growth of Indian Fintech is fueled by a large customer base, an innovation-driven startup landscape, and efforts of the government to give an atmosphere to start a business (source: India Briefing).

According to NASSCOM, the Indian Fintech market is expected to grow at five-year CAGR of 22%. In terms of transaction value, Indian Fintech sector is expected to reach \$73 billion in 2020 from \$33 billion in 2016 (source: KPMG report). Fintech services such as wallets, payments, lending, insurance, and personal finance have changed the way in which businesses and consumers are doing transactions. India is adopting these trends very well, which puts this country on a global map for being an attractive market.

Indian Government policies and Regulators in the last 5 years have been friendly and supportive towards the startup ecosystem, especially Fintech. The government has taken few initiatives such as “Digital India” and “Smart Cities. These initiatives have promoted digital infrastructure development and led to attracted foreign investments.

These initiatives allowed India to improve ranking in ease of doing business. India improved 23 positions from last year and now stands at 77th rank (source: World Bank report 2019).

In the last 5 years, Regulators have been the key to enabling the development of Fintech sector. Primary areas where regulators have enabled some changes are consumer payments, payments, lending, security and wealth management. Some of these changes that have revolutionized Indian Fintech in a positive way are (source: 'Fintech in India' KPMG report):

- (i) Introduction to unified payment interface (UPI) with NCPI, which is revolutionizing digital payment and taking India closer to a cashless society.
- (ii) Consultation paper on regulating P2P lending market and emphasizing the potential of blockchain to Fintech firms and financial institutions.

Some of the companies, which had started a long time ago and cannot be considered as startups, has become a pioneer in Fintech space. These companies did not have the same Fintech atmosphere to grow in their early days as it is available today. These companies are little late but still, they are able to catch the pace of the industry and compete with innovative startups. One of such company is Billdesk, which is a pioneer in business payments.

Rest of the report is organized with the explanation of the following: Overview of Indian Fintech Ecosystem, Research Methodology, Research Data Analysis, and Conclusion. At the end report also displays the Bibliography and Appendix.

2 Overview of Indian Fintech Ecosystem:

Fintech has emerged as a new industry with high growth perspective in India due to the availability of the large market size. The NASSCOM – KPMG report “Fintech in India” estimates Indian Fintech software and services market to touch \$2.4 billion by 2020.

Investments in Indian Fintech market reached \$1.6 billion until Q3 in 2018(source: Fintech Global). Indian Fintech is flourishing due to the increasing demand for digital financial products, increasing smartphone users and support of venture capitalists. According to Cisco’s annual “Visual Networking Index” report, there will be 829 million smartphone users in India by 2022 (source: Quartz India).

Fintech industry is collaborating with technology vendors, financial institutions, university and research institutions, incubators, accelerators, and innovation lab. Prospective impact of Fintech and digital finance on Indian economy is substantial. A report from YES bank suggests that the impact on GDP will be a boost of \$700 billion by 2025, new deposits of \$800 billion and \$600 billion of new credit. Fintech and digital finance in India can create 21 million new jobs every year (source: YES Bank report).

New frontiers are changing the momentum of the Indian Fintech market. KPMG in its report “Fintech in India” has identified 7 themes that have the potential to redefine Indian Fintech industry. These themes are next generation payments, P2P lending, bank in box, financial inclusion, blockchain, robo-advisory, security, and biometrics. These themes can be seen in figure 1 (source: KPMG report).

Seven fintech themes

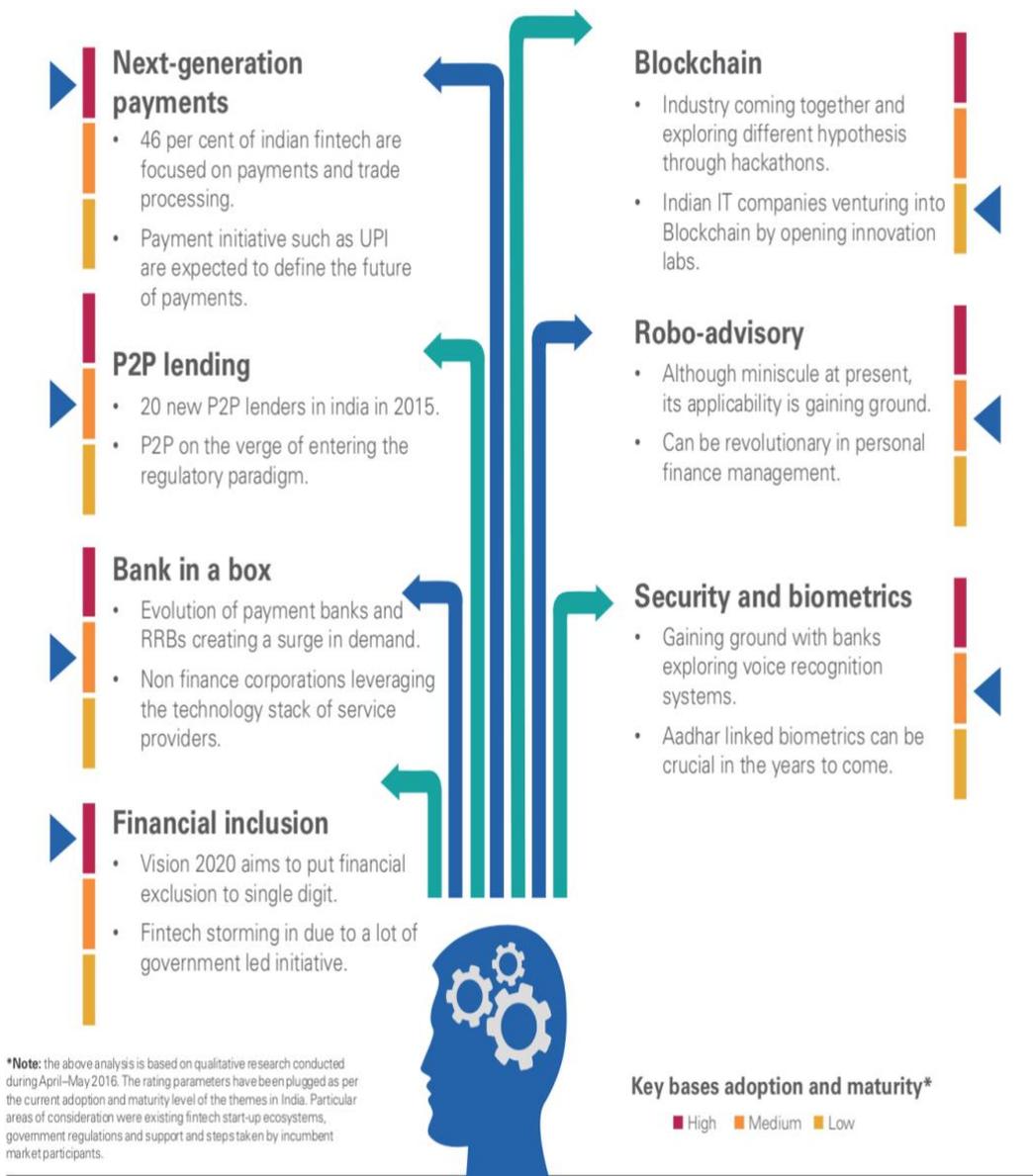


Figure 1 - Themes to Redefine Financial Service Sector

3 Research Methodology:

This section displays how the data for each relevant attribute were collected. To start with the research process for Fintech ecosystem in India, it was necessary to understand the Indian economy, Fintech as a sector and different categories in it. This process led to visualize the bigger picture of this industry and it was easier to understand the meaning behind different categories and their role in the economy.

This led to the initiation of the database and it was followed by knowing about companies from all kind of sources available i.e. Yourstory, Quora, Inc42, Fintech News, Lattice80, CBInsights, Owler, and Crunchbase. Criteria to include and exclude these companies was to look for the company on Crunchbase and LinkedIn and its tags and categories should contain Fintech or financial services. In the case of a company with these tags or category, it was put in the database as a Fintech company, on the other hand, absence of these tags or categories excluded the company from the database.

This database was not complete since the beginning, instead of while filling the companies name and their information in the database, these companies were checked with the competitors on Owler platform. These competitors were then re-checked on Crunchbase and LinkedIn to follow the inclusion criteria and were put in the database. This database grew slowly and was in a complete state with the data collected from mentioned sources and competitors from Owler.

Some of these companies were not well known and smaller in size. Further, the quest was to build the database and deciding what attributes and data points are required to make it a relevant database. The attributes searched for different Fintech were: capital raised, revenue, last funding round, business category, business model, key investors, and channel to reach the customer. Further on, it was realised that data about company's

geographical location, foundation year, number of employees and information about founders including male and female proportion was also important to know the presence of companies.

This data was then categorised in micro-categories. Since India is a huge country, it was necessary to divide the geographical location data into three parts such as city, state, and region. India mainly has 5 regions such as North India, South India, Western India, East India, and Central India. The country has 29 states and 7 union territories, and these union territories are governed by the central government while each state has its own government. These states and union territories have several cities.

There was an exception with the city name in geographical location category. Delhi is a large city and region. Delhi consists of many areas and cities from other states and they are referred to as Delhi National Capital Region or Delhi NCR. In this report, New Delhi, Gurgaon, and Noida have been merged as one city as Delhi NCR, since they are in the vicinity and considered as Delhi NCR collectively.

Foundation year was the year data simply collected. Number of employees were categorised for simplicity in 8 categories: 1-10, 11-50, 51-100, 101-250, 251-500, 501-1000, 1001-5000 and 5001-10000. Moving on to founders information, it was divided into 4 micro categories such as Founder's Name, Number of Founders, Number of Male Founders and Number of Female Founders.

The main sources of information were some well-known platforms such as Crunchbase, Owler, LinkedIn, Glassdoor and lastly website of the respective company. Crunchbase was the primary source for the first set of data such as the company's geographical location, website, founders information, number of employees and foundation year. This data was then cross-checked with other platforms such as LinkedIn, Glassdoor and company website. In case of conflict in the data on different platforms, priority was given to Crunchbase and company website.

Moving on to the second set of data such as business category, business model and customer channel. Primary sources for this data were again Crunchbase, LinkedIn, Glassdoor and company website. This data set was delicate compared to the previous data set since this data set could not be retrieved directly just by looking at Crunchbase website or other platforms.

Data for attributes business model and business category was retrieved by searching for any particular company and looking at the description about the company and different tags or specialities mentioned on Crunchbase, LinkedIn, Glassdoor and company website. It was required to search from about section on LinkedIn, overview section on Glassdoor, categories, and description from Crunchbase and about section on the company website. This data was then interpreted and analysed in terms of service to customers or businesses. Business model was divided into 4 types of models, namely B2B, B2C, B2B2C, and P2P.

Business category was divided into 11 categories: wallets & consumer payments, payments, lending, P2P lending, insurance tech, enterprise solutions, credit rating, banking tech, blockchain or cryptocurrency, consumer finance or personal finance management and finally investment tech. These categories can be explained in detail with a deeper insight:

- (i) **Alternative Lending:** Companies in this category offers financial products or loans to consumers and businesses. Some companies focus on supply chain loans for MSMEs to enable financial inclusion such as LendingKart, Aye finance, Capital Float, Incred, and Neo Growth. Some companies focus on financial products and loans for consumers such as BankBazaar, PaisaBazaar, and Fino Paytech.
- (ii) **P2P Lending:** Companies in this category offers a platform to enable lenders and borrowers to meet their respective goals. In this model credit risk is transferred from banks and financial institutions to individual lenders. Some companies in this category are FairCent and i2i Funding.

- (iii) **Payments:** Companies in this category help merchants to process payments by providing solutions. These solutions may include a mobile payment gateway, point-of-sale systems (pos), electronic payments, etc. This category is mainly focused on payments related to businesses. Some promising companies in this category are mSwipe, Ezetap, Billdesk, Pine Labs and Razorpay.
- (iv) **Wallets & Consumer Payments:** Companies in this category are a bridging force between consumers and merchants. Regulatory initiatives such as UPI, India Stack, etc. has revolutionized the mobile payments and digital payments. These companies enable mobile payments and transaction, digital payment, wallets and peer to peer (P2P) payment. Paytm, the largest Indian Fintech and a unicorn falls in this category. Some other promising companies in this category are Freecharge, MobiKwik, and PhonePe.
- (v) **Insurance Tech:** Companies in this category provide consumer insurance products. In this category, there are also insurance aggregator and comparison platforms. PolicyBazaar is a unicorn and the largest insurance tech company in India. Some other promising companies in this segment are Coverfox, digit Insurance, Acko General Insurance, and Turtlemint.
- (vi) **Investment Tech:** Companies in this category assist consumers in managing investments, wealth and helping them to grow personal wealth. These companies are using technologies such as artificial intelligence, robo-advisor, etc. to enable investment strategies. Some of the promising companies in this segment are Zerodha, Scripbox, Fisdom, FundsIndia and Tauro Wealth.
- (vii) **Credit Rating:** Companies in this category provide credit scores to consumers and help them to improve it. Some companies also focus on providing borrower's credit profiles, credit risk assessment and solutions to lending institutions. Some promising companies in this segment are Credit Sudhaar, Credit Vidya and Credit Mantri.

- (viii) Enterprise Solutions: Companies in this category works in the B2B segment and they provide various solutions to businesses such as expense management solutions, debt collection and recovery process support, etc. Some of the promising companies in this segment are Fyle, Finly and Happay.
- (ix) Personal Finance: Companies in this category helps consumers to manage their money, tax filing, and expense management. Some promising companies in this category are ClearTax, Walnut, and QwikSilver.
- (x) Banking Tech: Companies in this category are providing innovative solutions to banks and financial institutions. Some of these solutions are blockchain solutions, digital onboarding and regulatory processing, compliance, risk and analytics solutions.
- (xi) Cryptocurrency: Companies in this category provide a trading platform for the cryptocurrency, cryptocurrency wallet, and digital asset exchange. This segment is very new and less developed.

Channel data was gathered by looking at the website if the Android or iOS mobile app is available to download or a simple Google search to download the mobile app. There were 3 different kinds of most popular channels such as website, Android app and iOS app. Further on, this data was divided into three categories such as only website, two channels as a website and Android app and finally all three channels.

Moving on to the third set of data related to investment and revenue, it can be found as key investors, capital raised, last funding round and revenue. Primary sources for this information were Crunchbase and Owler. Information about key investors, capital raised and last funding round was directly retrieved from funding rounds and investors section on Crunchbase. Key investors attribute was then used to know about the presence of foreign investors because they are one of the main drivers of growth of Fintech sector in

India. This information was gathered by looking at the profile of these investors and their headquarters from Crunchbase or simple Google search.

This data was then divided into three categories such as Foreign investment, Local investment and lastly undisclosed information. It was put in the category of foreign investment if the company had any foreign key investor since it shows about foreign investment as part of total capital raised by the company, so it can be a mix of foreign and local investors or only foreign investors. The second category was local investment, which was chosen if the investment was made only by investors based in India. The third category was undisclosed, which was chosen when key investors data was not available.

Information about key investors was also used to know the big investors with the most number of investments. Moving on to capital raised data, it was mentioned as the number retrieved from Crunchbase total funding amount section and in case of data unavailability, it was mentioned as undisclosed. Similarly, last funding round data was retrieved from Crunchbase funding round section. In case of undisclosed information or unavailability of information, it was as put as undisclosed in the database.

Further on, primary sources for revenue data were Crunchbase and Owler. Revenue data were gathered from competitors and revenue by Owler section on Crunchbase and then it was cross-checked on Owler, but the priority was given to Crunchbase data. In case of data unavailability on Crunchbase, it was checked on Owler and if it was unavailable on Owler as well, it was put as undisclosed on the database. Some additional data such as acquisition details of acquired companies and valuation was also gathered through Crunchbase and funderbeam but due to the lack of uniformity in the source, it was not used in the final analysis.

At this point, database was completely populated and the next important step was to draw this data on the charts for direct and cross analysis. Different categories of charts were used, such as 2-d clustered, 2-d stacked chart, 2-d pie chart, treemap, and sunburst. After drawing this data on charts, the next part was to analyse this data, which is shown in the next segment. The Fintech database for this research was last updated on 15-March-2019.

The purpose of the study is to know Indian Fintech ecosystem and understand the growth opportunities in detail, in particular considering the distribution in business categories, cities in which Fintech is growing, foreign investment activities, etc.

4 Research Data Analysis:

This research was carried out with the data of 210 companies in Fintech space in India. This data can be analysed with many key attributes from the database, in particular city, region, number of employee, founders' profile, business model, business category, channel to reach the customer, key investors, foreign investment, capital raised, last funding round and revenue in the year 2018. This is a descriptive analysis of the collected data. Analysing this gathered data was carried out in two directions, with a direct analysis and cross analysis.

4.1 Direct Analysis:

Direct analysis is taking one attribute and mapping a number of companies with respect to that attribute.

4.1.1 Fintech Companies in Different Indian Cities and Regions:

India can be divided into 5 main regions, where each region is substantially a very large area consisting of several states. North India, South India, Western India, Eastern India, and Central India. The total number of companies versus the founding cities is shown in figure 2. Most of the companies are situated only in three big cities such as Mumbai, Bangalore and Delhi NCR(National Capital Region).

Bangalore is the tech capital of India, also called as “Silicon Valley of India”. This allows Bangalore to have all the required tech space and investment activities. Mumbai, on the other hand, is the financial capital of India, where all the large financial institutions and trading market resides. Mumbai is also growing faster in tech space. These factors make Mumbai as one of the favourable city for Fintech.

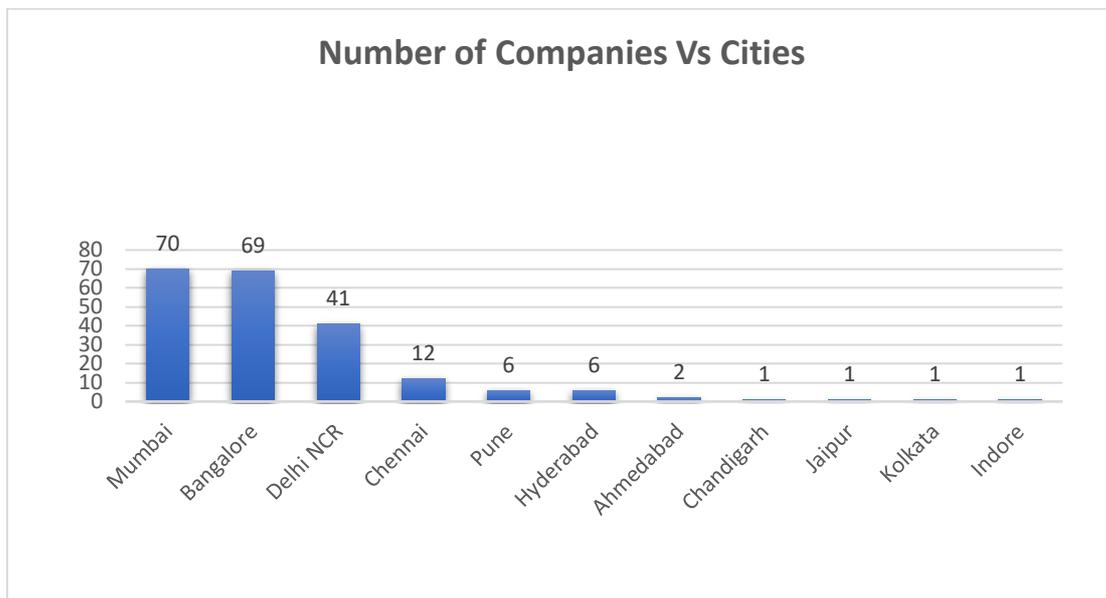


Figure 2 - Number of Companies Vs Cities

Lastly Delhi NCR, a large area including capital New Delhi and expanded to cities like Gurgaon and Noida. This area has recently been developed on a larger scale due to the expansion of the capital city. Gurgaon and Noida have grown in terms of tech space and financial space in the last 10 years, which makes Delhi NCR another favourable city for Fintech. As of now, Indian Fintech market is limited to these three cities but it is prospected to grow in Tier 2 and Tier 3 cities as well.

Fintech companies density in various regions of India can be seen in figure 3, which shows that almost all of the companies are in 3 regions: South India, Western India, North

India. These regions separately consist of a single large city which has a large number of companies as we have already seen in the previous chart.

North India has Delhi NCR as the main City, South India has Bangalore as the main city and Western India has Mumbai as the main city. So now this distribution in regions can easily be understood with the cities data as mentioned in the previous chart.

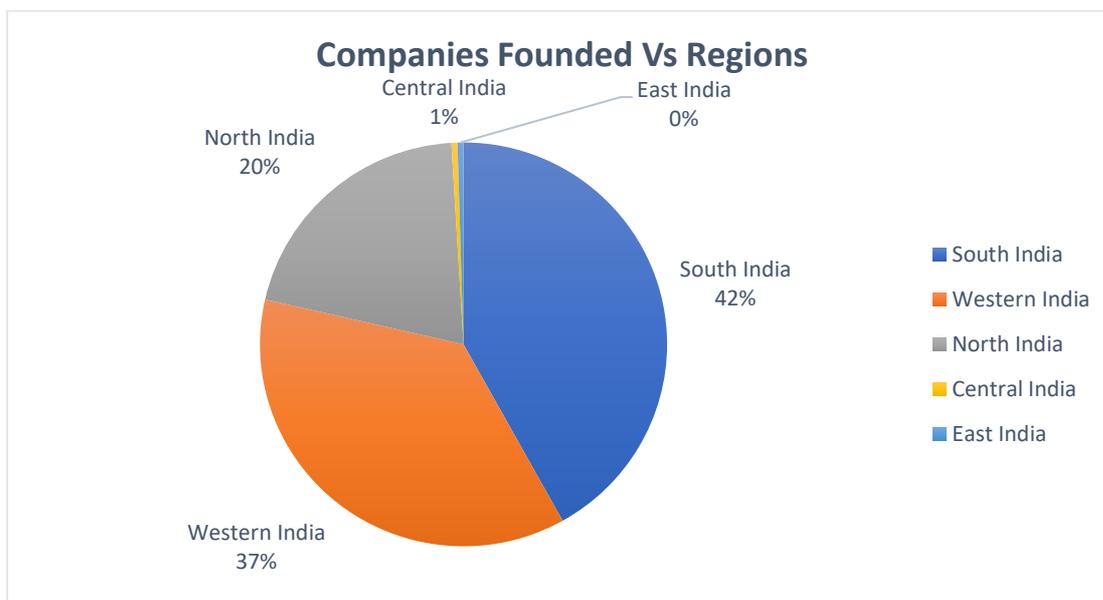


Figure 3 - %Total Companies Vs Regions

4.1.2 Indian Fintech Companies Founded in Different Years:

Analysis of companies founded in different years can be seen in figure 4. 3/4th of total companies have been founded after 2012 and 90% after the year 2008. Globalisation has played a key role in this technological surge. A huge spike in the year 2015 is evident, this year accounts for 26% of total companies. This sudden spike in 2015 and then a change in these numbers in the last couple of years can be understood with following facts.

In the year 2015, GDP growth rate was at 8.15%, highest since the last 5 years (source: World Bank Data). Government policies were made more business-friendly with the new government coming into power in the year 2014. Regulators took some initiatives such as UPI, India Stack and regulating P2P which affected Fintech in a positive way in 2015. Until 2015, technological space had been also evolved and developed, which gave fuel to new Fintech companies.

Companies founded in 2015 are at growth stage now and it is easier to find data about companies in this stage. In big cities like Mumbai, Bangalore, Delhi NCR people are turning more and more into entrepreneurship.

Lending dominates in all these 4 years since a large population of India was underbanked or unserved until the year 2015. Then came “Pradhan Mantri Jan Dhan Yojna” with the new government, which is a scheme to open bank accounts for the unserved or unbanked rural population of India.

Factors like ease of doing business, capital availability, friendly government policies and regulations, technological availability and innovation, large customer base, emerging economy, have influenced the start of new businesses in the last 4 years. There might be many startups at the inception stage in the last couple of years but their data is not available at public space, especially from the year 2018.

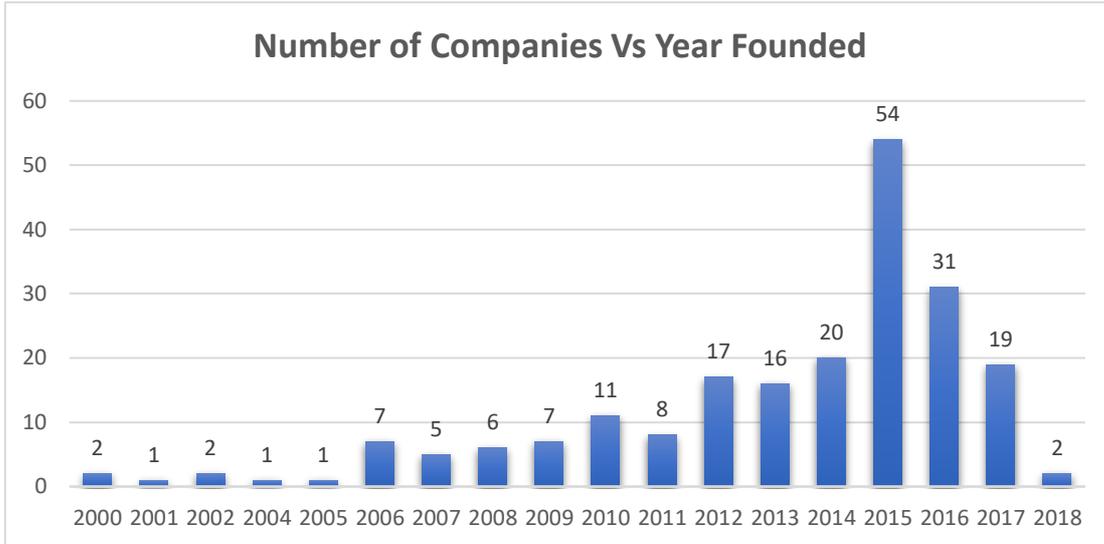


Figure 4 - Number of Companies Vs Year Founded

4.1.3 Indian Fintech Companies and their Founding Members:

Depending on the number of founders, Indian Fintech companies can be categorized in three categories, which can be seen from figure 5. 70% of the companies are founded by 2 or less, and 31% companies are founded by only one founder. Founder's profile can be seen in figure 6, 89% of total founders are the only male. Only 1% of companies are founded by only female founders and 11% of companies have 1 or more female founder.

This data shows a big gender gap in Indian Fintech market. India's low ranking in overall women entrepreneurs reflects in Fintech companies as well. One of the reason can be cultural bias.

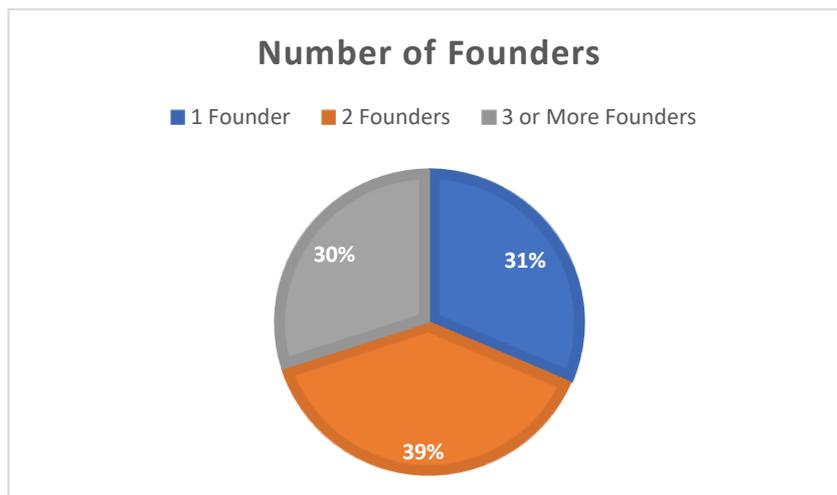


Figure 5 - % Total Companies Vs Number of Founders

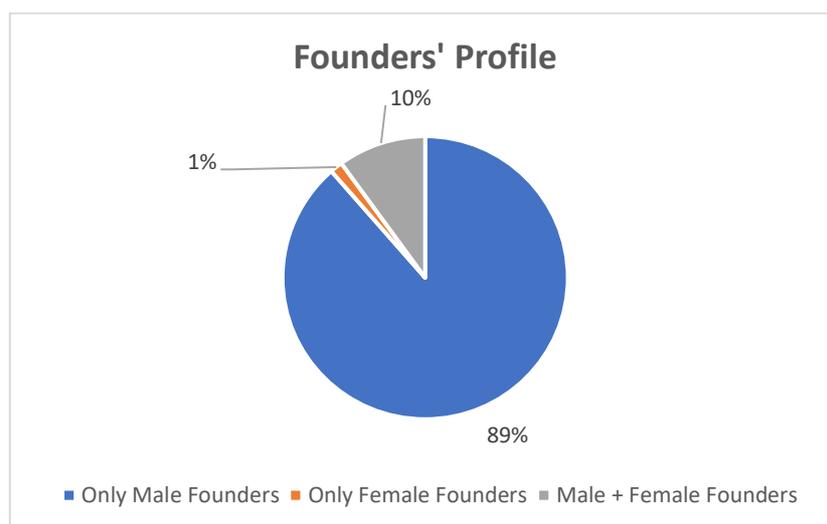


Figure 6 - % Total Companies Vs Founder Profile

4.1.4 Size of Indian Fintech Companies:

The distribution of the Fintech companies in terms of the number of employees can be seen in figure 7. This figure shows that 42% of Indian Fintech companies are very small in size based on the number of employees. 73% of total companies in Indian Fintech have less than 100 employees, which shows that Fintech ecosystem is still very young and it is

growing. Very few companies (4% of total companies) have more than 1000 employees, and most of them are older.

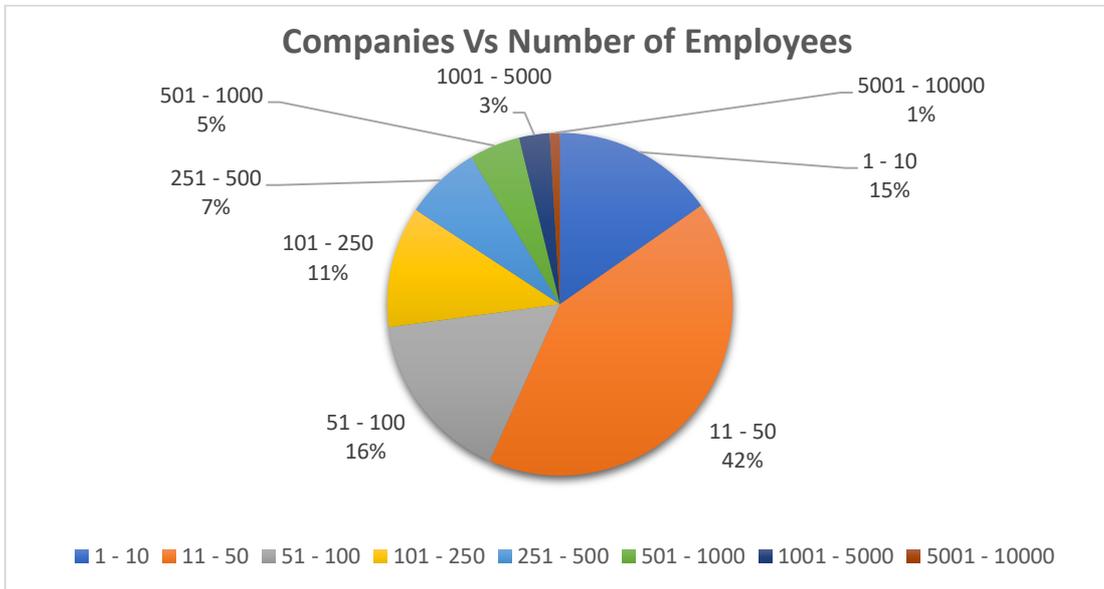


Figure 7 - % Total Companies Vs Number of Employees

4.1.5 Companies with Business Models, Categories and Channels:

Market share of different Business models is shown in figure 8. More than half of the companies are in B2C space. There is a huge scope in Indian Fintech B2B market. Estimations for Indian Fintech ecosystem suggests a huge growth in the B2B market. Businesses are still underserved in India and B2B Fintech companies can leverage from this scope and gain substantially.

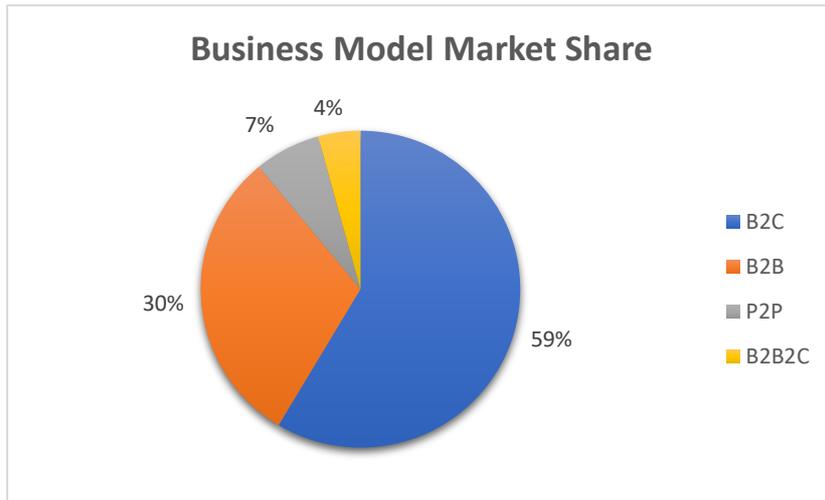


Figure 8 - % Total Companies Vs Business Models

Moving on to business categories, figure 9 shows that 31% of companies are in lending space. Lending includes financial products and loans to direct Customers and SMEs. P2P lending stands at 7% and on a broader level including both categories alternative lending and P2P lending, covers 38% of total Fintech Space, a huge market segment.

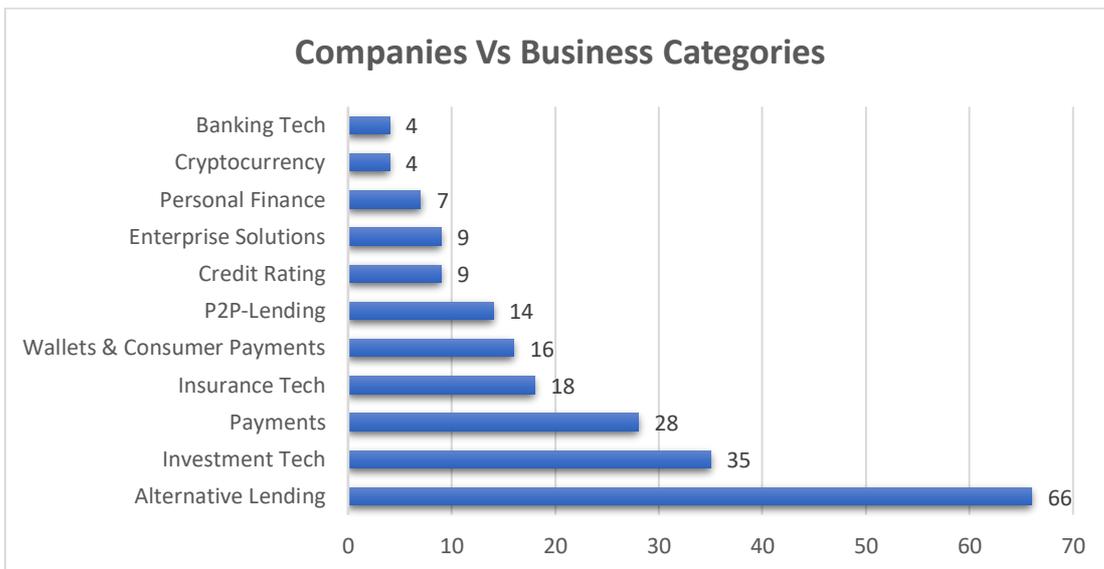


Figure 9 - Number of Companies Vs Business Categories

Other segments with considerable market size are Investment tech with 17% coverage, Business Payments with 13%, insurance tech with 9% and wallets & consumer payments with 8% market space. Lending segment is moving towards maturity while other segments like insurance tech, investment tech, payments, wallets & consumer payments and P2P lending are growing fast. Cryptocurrency and banking tech segments are at a very small scale and can be one of the categories to look for in the future.

Channels to reach customers can be categorised in three categories and can be seen in figure 10. It is evident that 44% of total companies are still reaching to customers through the website only since there are many companies in B2B space or P2P lending space that do not have mobile application channel. On the other hand, 56% of companies provide Android application while only 26% of companies provide the iOS application. This distribution can be further explained with the fact that the Android market share in India is around 90% while iOS market share is around 3% (StatCounter Global Stats). Most of the iOS market share is captured in big cities. This explains the higher number of Android app-based companies.

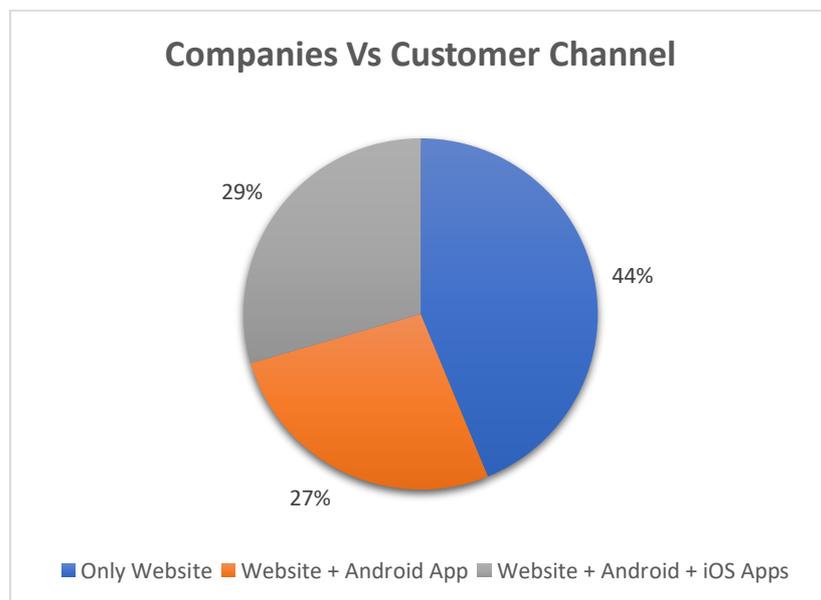


Figure 10 - % Total Companies Vs Channel

4.1.6 Companies with Capital Raised and Revenue:

Capital raised by companies can be seen in figure 11. Capital raised analysis is based on 163 companies with disclosed data from total of 210 companies. Total capital raised by the companies with disclosed data is around \$6.7B. It can be observed that 39% companies are in the category of \$1 - \$10 M funding, and 32% companies have raised \$10 - \$100 M. This shows that Indian Fintech market is a very attractive market for investors. More than 3/4th companies were able to raise more than \$1 M. Paytm is the only company to raise more than \$1B, raising \$2.8B.

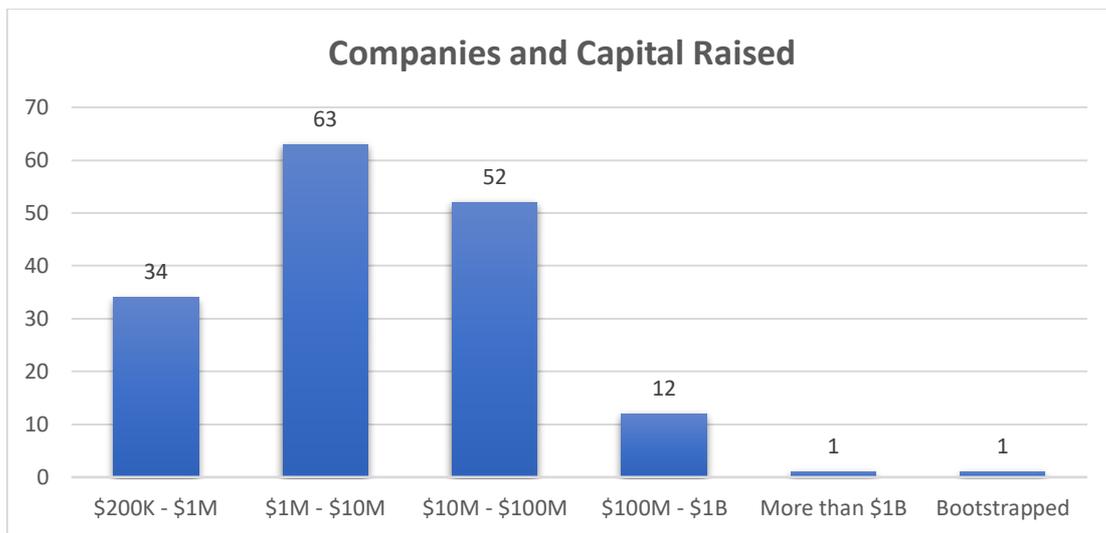


Figure 11 - Number of Companies Vs Capital Raised

Revenue in the year 2018 can be seen in figure 12. Similar to previous analysis, this analysis also excludes the companies with undisclosed data and is based on available data of 173 companies. Total revenue generated in the year 2018 stands around \$1.1B. It can be observed that 54% companies generated revenue in the range of \$1 - \$5M and 19% of total companies in the range of \$5 - \$50 M and 25% companies generated less than \$1M. These numbers show that large part of Indian Fintech companies are small and they are

growing. The large and growing Indian customer base is helping companies to generate revenues and showing a promising start.

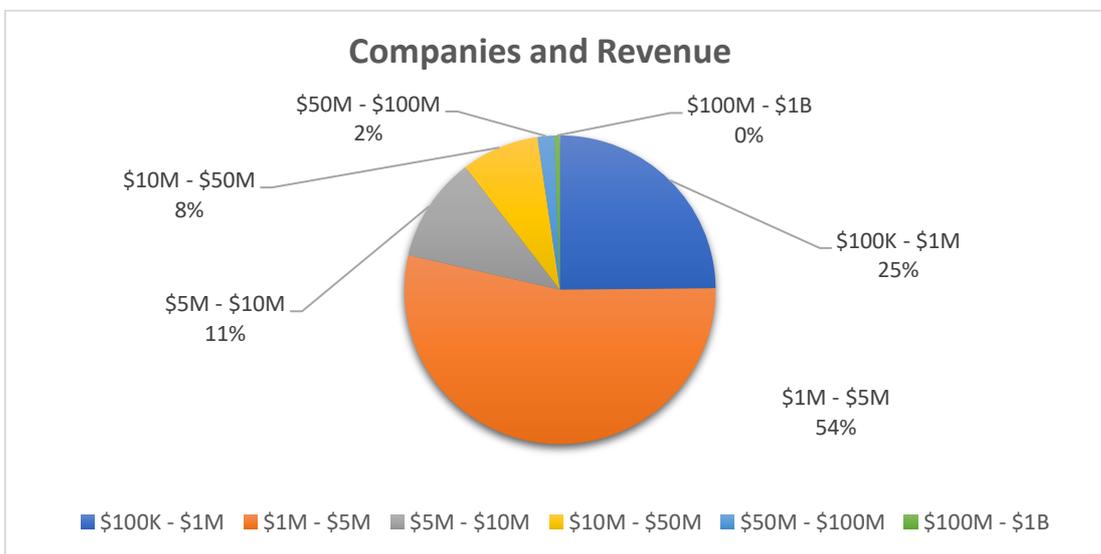


Figure 12 - % Total Companies Vs Revenue

4.1.7 Companies with Last Funding Round and Foreign Investment:

Indian Fintech companies with their last funding round can be seen in figure 13. This analysis excludes companies with undisclosed last funding round, which leads to 174 companies with sample space. Pre-seed and seed stage combined accounts for 37% of companies. Looking at Series A, B, C, D, E, F, and Venture Series Unknown data, it can be observed that more than half companies are in venture series, which shows the growth and maturity of companies. Venture Series Unknown means that the company's last funding round was Venture Capital Series funding but the series is undisclosed and it can be one of Series A, B, C, D, E, and F.

Series A and B companies are at the growth stage and they account for 23%, while companies in other series funding rounds are fully matured. Companies with the secondary market, post IPO equity, M&A, private equity, debt financing, and corporate

rounds are fully matured and scaling up. These companies account for a very small share in the market. This data can be concluded by saying that Indian Fintech atmosphere is very young and growing but at the same time, it has substantial opportunities to raise capital and grow the company.

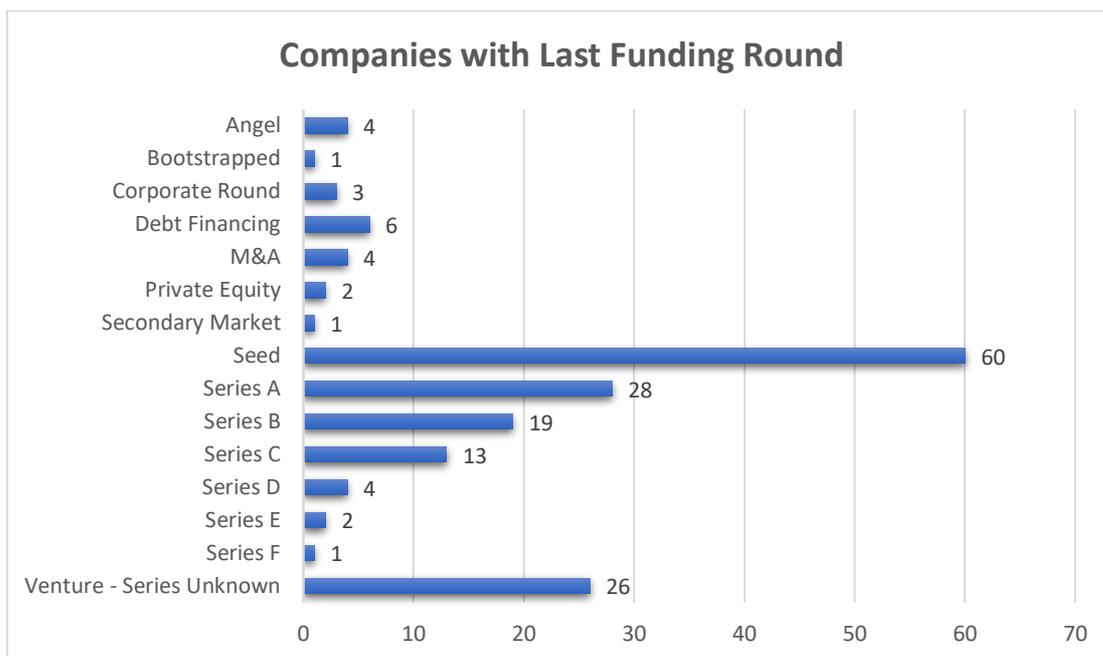


Figure 13 - Companies Vs Last Funding Round

Presence of foreign investors in Indian Fintech can be seen in figure 14. It shows the type of investment as Foreign investment or Local investment. Foreign Investment here refers as in any company lead investors has some or all foreign investors. Here in this representation, a company with foreign investment can have some local investors as lead investors but in the category of local investment, lead investors are only local investors.

Looking at the figure it can be observed that more than 50% of companies have foreign investment and 26% of companies have only Local investment. This shows that foreign investors are very active in Indian Fintech market. They can see huge growth prospects in the future and want to take advantage in this growing economy. Based on Indian Fintech database developed for this research, there are some lead foreign investors whose

investment is much more than others. Some of these investors are Sequoia Capital, Omidyar Network, Matrix Partners, Accion Venture Lab, and SAIF Partners.

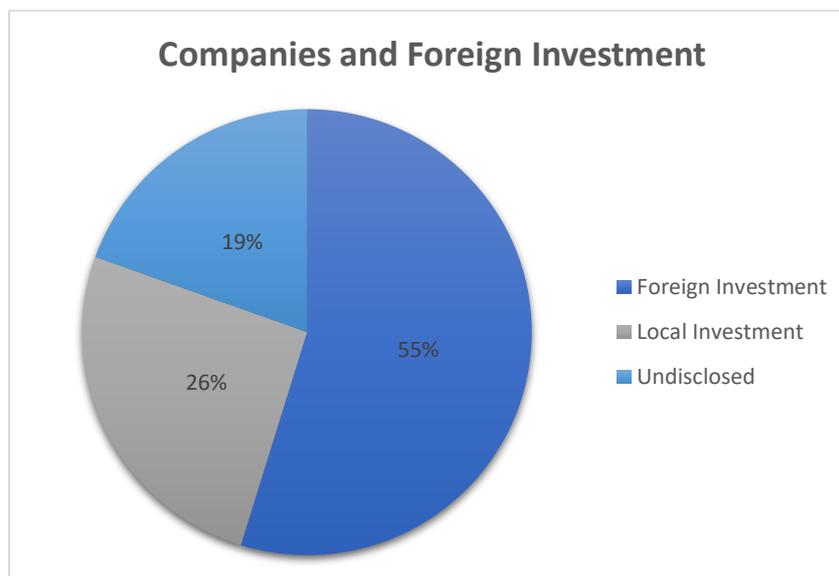


Figure 14 - % Total Companies Vs Foreign Investment

4.2 Cross Analysis:

Cross-analysis is taking more than one attribute and mapping a number of companies with respect to these attributes. Following are the different attributes and their cross analysis:

4.2.1 Female Founders in Different Cities, Regions and Business Categories:

It was observed from the previous analysis in figure 6 that female representation as entrepreneurs is very low in Indian Fintech Companies. Founders list is dominated by male founders, which shows a huge gender gap in the founders' category. Based on the data collected for this research in Indian Fintech database, there are 448 total founders and only 27 of them are Female founders, which is around 6% of female representation

in the founders category. Now looking at the Female founders in different cities, regions and business categories following analysis can be carried out:

Representation of female founders over total founders in different Indian cities and regions can be seen in figure 15 and figure 16. Data shows that female founders are more in numbers in Southern India in cities like Bangalore, Chennai, Hyderabad, Western India in cities like Mumbai and Pune and North India with Delhi NCR as the major city. In India, women are more empowered in urban areas, especially in big cities and it can be seen in cities like Bangalore, Mumbai, Delhi NCR, Chennai, and Hyderabad.

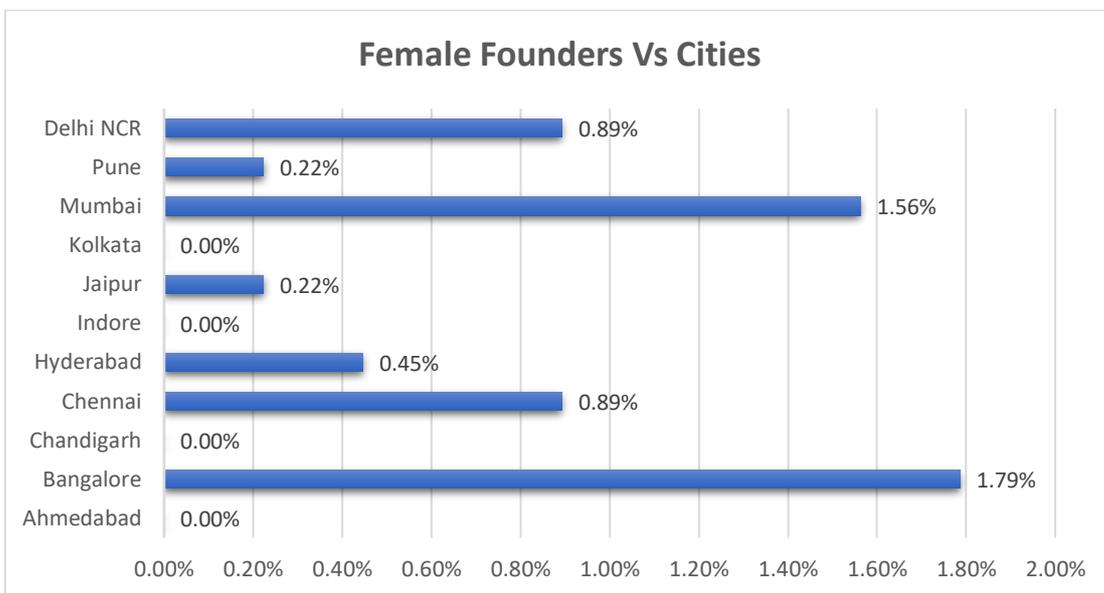


Figure 15 - % Female Founders in Cities over Total Founders

Female representation Indian region wise can be seen in figure 16, which shows that South India is much ahead than any other regions. This can be explained with the fact that the South Indian region has much more women education level and female literacy than any other region. This gives a base for women empowerment, awareness, and an atmosphere to pursue entrepreneurship. Overall globally, Fintech is one of the sectors where the gender gap is larger than any other sector.

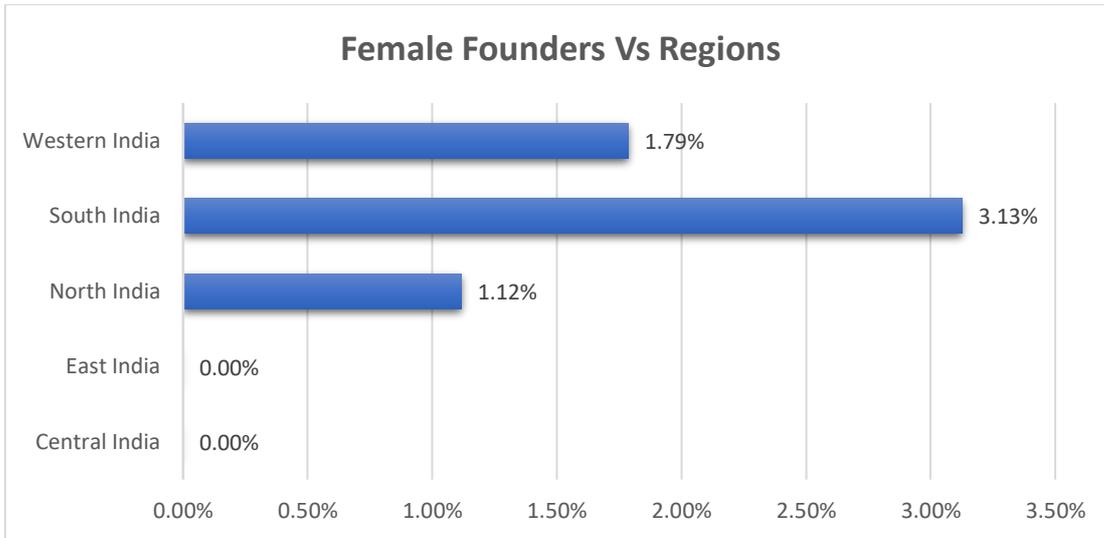


Figure 16 - % Female Founders in Regions Over Total Founders

Moving on to female founders in different business categories can be seen in figure 17. It can be observed that lending category has the highest number of female founders followed by the Investment Tech and P2P-Lending. This distribution can be explained in figure 9 that lending and investment tech has the highest number of companies and which reflects in female founders in these categories also.

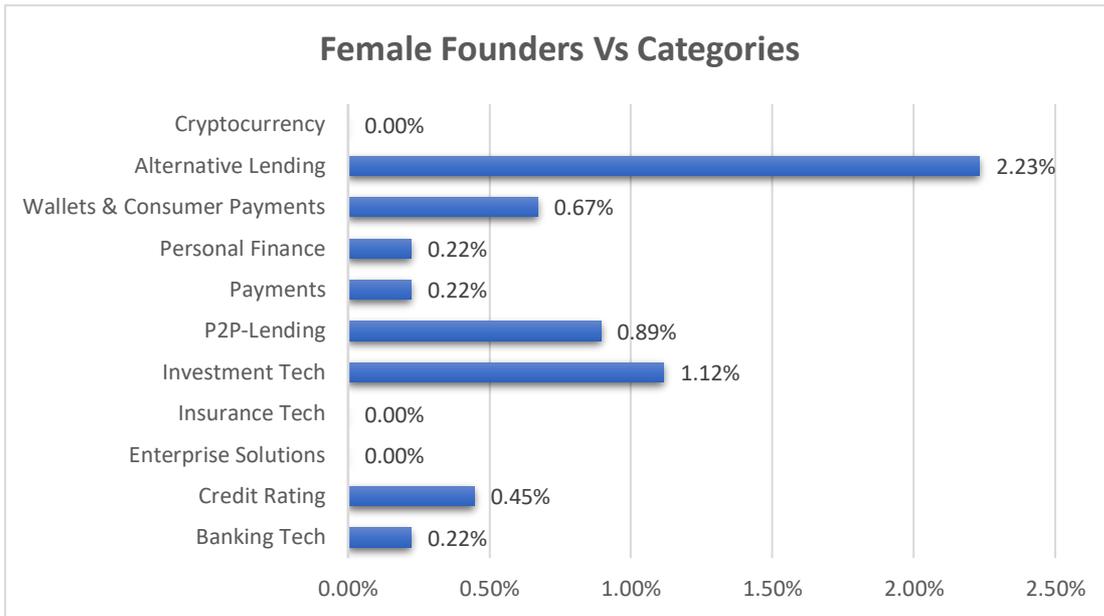


Figure 17 - % Female Founders Vs Business Categories

4.2.2 Categories with Business Models, Channel, and Investment:

The relationship between companies with different business categories and different business models can be seen in figure 18. Data inside the bracket next to each category shows the total number of companies. It can be observed from the figure that categories with the big number of companies are lending, investment tech, business payments, wallets & consumer payments and insurance tech. Investment tech and insurance tech are only focused on the B2C market. This shows that there can be scope for insurance tech companies in the B2B segment. Alternative lending is one of the most interesting segment since this segment consists of direct customer lending and SME lending, but still, Lending has 60% of companies in B2C and only 32% in B2B.

There is a huge SME market in India and financial inclusion of this segment can lead to a huge growth in SME lending in the future. Payments segment focuses only on B2B Payments with payment gateway, POS solutions for businesses. Payments segment companies also provide payment solutions to merchants or businesses. Wallets & consumer payments consist only B2C market since it is focused on direct consumers and

mobile users. It consists of mobile wallets, digital payments, instant money transfer with UPI.

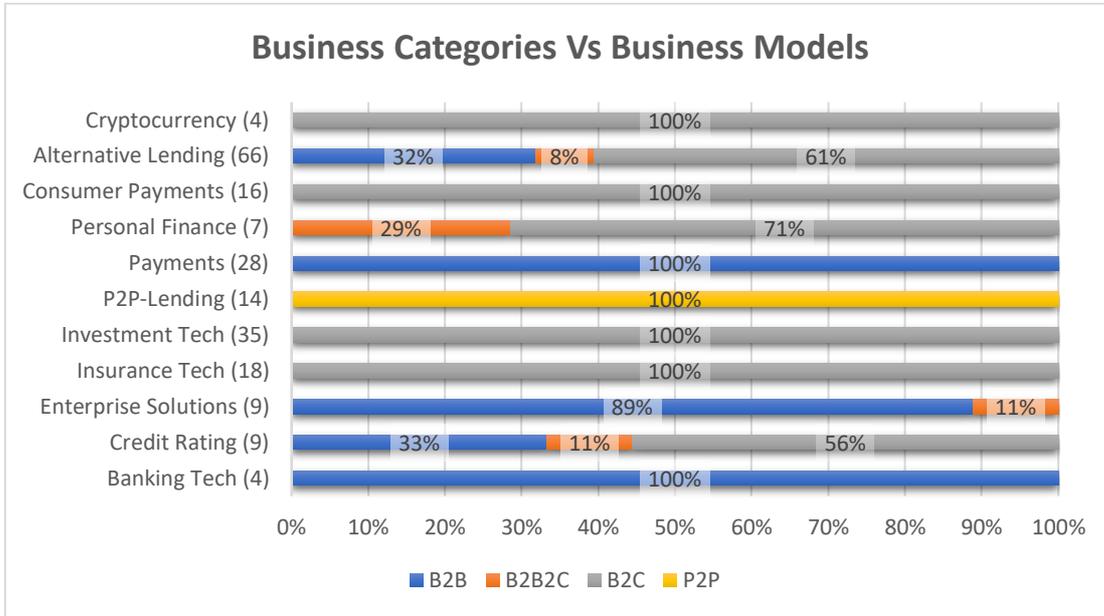


Figure 18 - Business Category Vs Business Model

The relationship between companies with different business categories and different customer channel can be seen in figure 19. Data in the bracket next to category show the total number of companies. It can be observed that payments and banking tech companies are based on the B2B model and they can manage mainly with the website. Wallets & consumer payments and investment tech segment companies target mainly urban population and they are also based on mobile, in order to reach the customer in all possible ways.

In consumer payments segment there is one company still operating only on the website, since it works only on utility bill payments and recharges. Insurance tech and P2P lending have still not evolved completely in terms of customer reach. Companies in these categories still have to reach to larger population with mobile application channel.

Enterprise solutions companies mainly provide corporate solutions for salaried employees and that is the reason they have 2/3rd customer reach via a mobile app. There are some companies which target directly enterprises and for them, it is suitable to be reached via the website. Cryptocurrency companies mainly focus on cryptocurrency wallet and trading platform. Main customers for companies in this category are the urban population with the smartphone, and they should be reached via a mobile app.

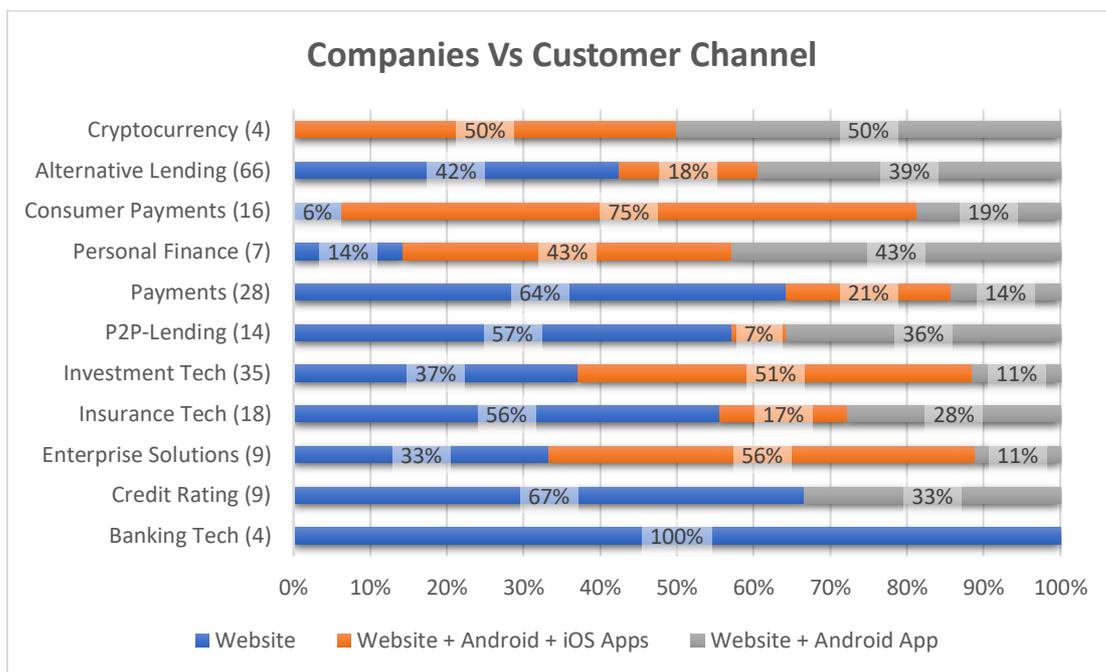


Figure 19 - Business Categories Vs Customer Channel

It can be observed from figure 18 that personal finance management companies are distributed mainly in B2C and B2B2C and this explains in figure 19 that 86% of companies are reaching consumers through mobile application channel. Credit rating companies are distributed more than 50% in the B2C segment and they help consumers to assess credit score and improve. These companies still have to penetrate a bigger market by reaching to consumers through mobile applications.

The relationship between companies with different Business categories and different type of investment can be seen in figure 20. Data inside the bracket represents the number of

companies. It can be observed that in categories such as lending, payments, wallets & consumer payments and insurance tech, foreign-invested companies are more than companies with only local investment, especially in lending, wallets & consumer payments and payments.

Each of these three has different reasons to be invested more by foreign investors. Lending is a mass market segment, and still has not reached to a huge market segment, especially in terms of B2B lending. B2B is a huge growing segment and a large part of the Indian population is financially unserved and underbanked, and that is the reason foreign investors foresee a huge return opportunity.

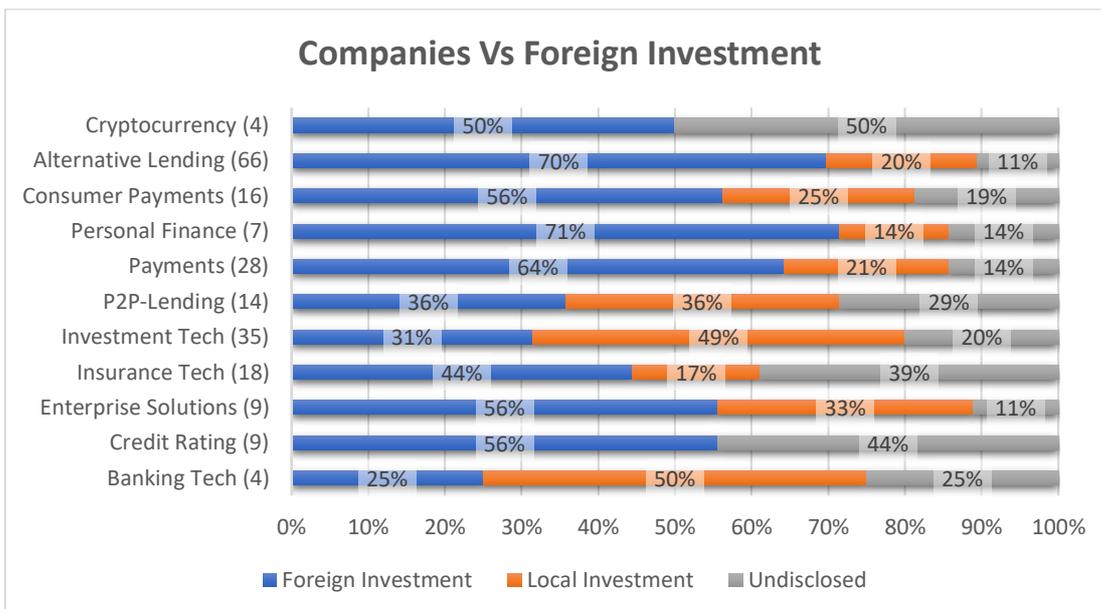


Figure 20 - Business Category Vs Foreign Investment

Wallets & consumer payments is also a huge market since smartphone users are increasing in India and they will reach to more than 800 million people by 2022 (source: Quartz India, Cisco). Recent initiatives by regulators such as UPI and now UPI 2.0, BHIM, Aadhaar, etc. has revolutionized digital payments and instant money transfer. This phenomenon has increased the transactions and consequently wallets & consumer payments segment has been on the rise. This attracts all the foreign investors in this

segment as they see huge growth and return opportunities. Paytm, a wallet and consumer payments company recently raised \$300M from Berkshire Hathaway (source: Forbes).

Business payments segment is also linked with wallets & consumer payments segment directly. As India is moving towards a cashless society with government's and regulator's initiatives, electronic payments and transactions are increasing and consequently it is increasing business payments market. Other segments like personal finance, enterprise solution and banking tech have a big market but these segments are growing slowly.

Insurance Tech has a lot to offer to the large mass market, but the companies in this segment are smaller in size in terms of capital raised and revenue. But this segment is the promising segment and foreign investment is prospected to increase.

This can be explained with the following fact that Insurance penetration in India is at 0.7% while other emerging economies of Asia-Pacific average at 1.4%. This shows that India has a huge scope of growth in the insurance segment which could affect the number of companies in Insurance Tech space. Companies will grow from the seed stage and this will attract more foreign investors (source: livemint).

4.2.3 Capital Raised in Different Cities, Regions and Foreign Investment:

Capital raised in different cities can be seen in figure 21. Total capital raised by all the companies is around \$6.7B. It can be observed that there 90% of capital has been raised in 3 cities: Delhi NCR, Mumbai, Bangalore. Delhi NCR has alone raised 58% of total capital. Digging deep in the database gives an explanation for this. It is found that only one company One97 Communication commonly known as Paytm contributes most of it. Paytm is one of the most popular unicorns from India in the wallets & consumer payments segment. Paytm has raised \$2.8 B so far and stands at \$18B valuation. Excluding Paytm, changes the equation and puts these three cities at par.

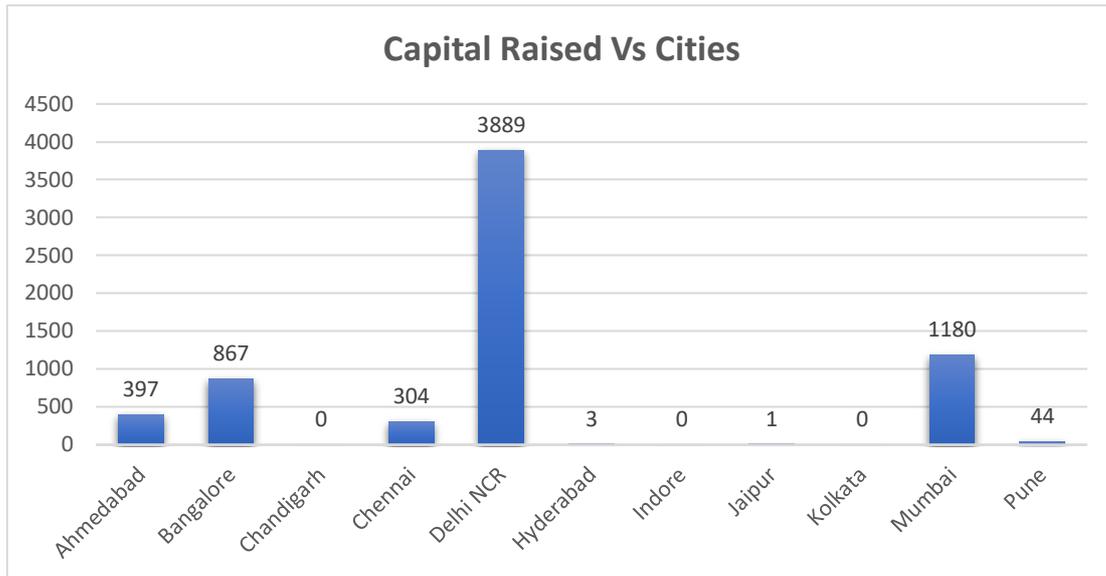


Figure 21 - Capital Raised (\$M) in Different Cities

These three cities have the most number of companies, so it is justifiable for the amount of capital raised in these cities. Comparing data from figure 2 and figure 21, average capital raised by each company in these cities can be calculated. In Mumbai average capital raised by any company is around \$17M and in Bangalore, it is around \$12.5M. On the other hand in Delhi NCR this data is around \$95M and excluding Paytm it becomes around \$27M per company. Delhi NCR has less number of companies, but they are more matured than Mumbai and Bangalore.

Capital raised with foreign investment is shown in figure 22. It is evident that companies with one or more foreign lead investors have raised around 90% of total capital raised. Data from figure 14 shows, the number of companies with foreign investors are 55% of the total but still, they are able to raise 90% of total capital raised.

This shows two phenomena, one is that if there are foreign investors as key investors, it increases the visibility of the company and chances of raising more capital. This works as a signalling effect and attracts other foreign or local investors. Secondly, foreign investors are investing in a big amount in each investment.

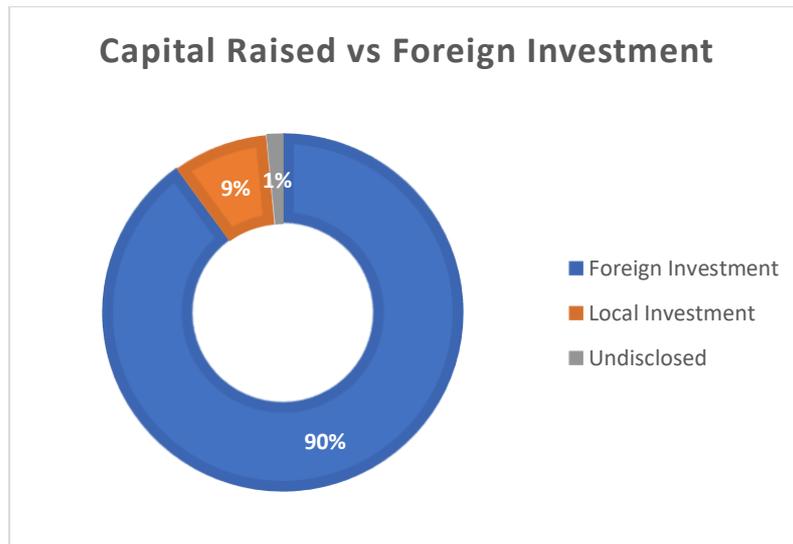


Figure 22 - Capital Raised Vs Foreign Investment

4.2.4 Capital Raised with Different Business Models and Categories:

Distribution of capital raised in different business models is shown in figure 23. Comparing figure 8 and figure 23, it can be seen that 59% of total companies are B2C companies but they were able to raise 71% of total capital raised. On the other hand, 30% of total companies are B2B companies, able to raise 25% of total capital.

This distribution shows that the B2C market is more attractive for investors compared to B2B. Moving on to P2P companies, they have raised very less capital. There are 7% of companies in P2P segment but they have raised only \$28M capital, which is 0.42% of total capital raised. It can be explained with following facts:

Firstly, most of the P2P companies are in the seed stage and this justifies the average capital raised by companies in this segment. Secondly, P2P lending companies don't require so much capital like companies in other categories, since P2P lending companies are providing a platform to meet two sides of people.

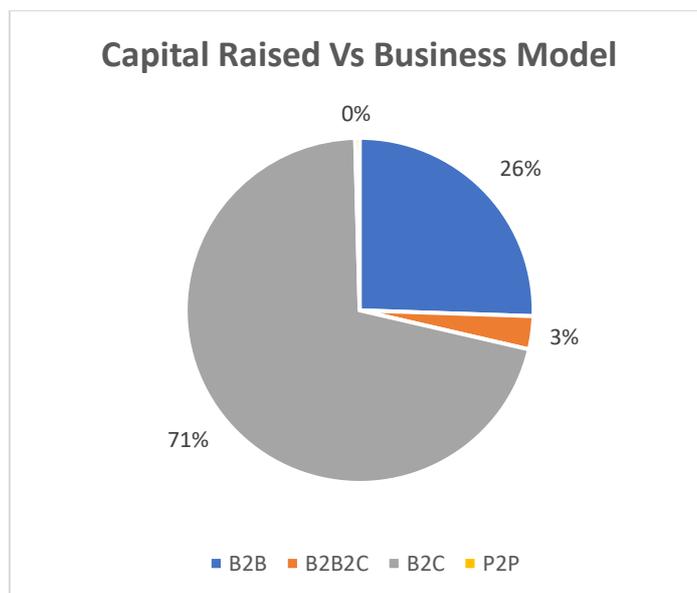


Figure 23 - Capital Raised Vs Business Models

The relationship between capital raised and different business categories can be seen in figure 24. Wallet & consumer payments category alone has raised around 52% of total capital raised. Wallets & consumer payments category consists of 10% of the total companies but it has raised 56% of the total capital raised. Looking into the research database, this phenomenon can be explained.

Paytm alone has raised \$2.8B, while remaining \$647M is raised by other 15 companies. Lending has 68 companies, which is approximately 31% of total companies and has raised around \$1.5B, which is approximately 22% of total capital raised. On the other hand, Investment tech has 17% of total companies and has raised only 1% of total capital.

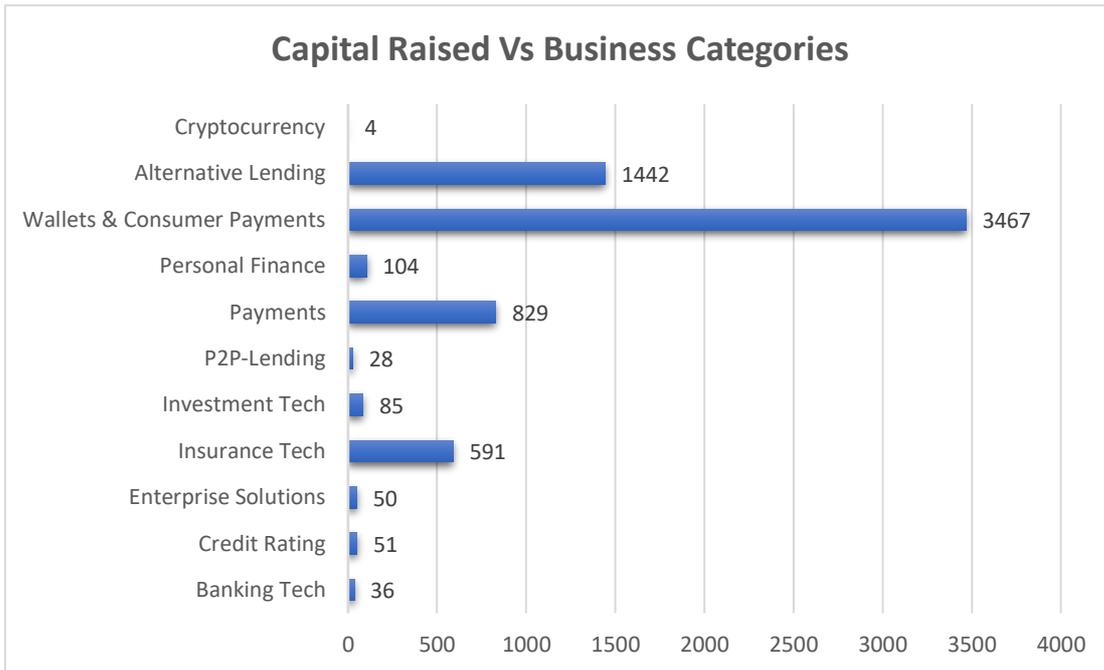


Figure 24 - Capital Raised (\$M) Vs Business Categories

4.2.5 Foreign Investment in Different Cities and Last Funding Round:

Foreign investment with respect to the last funding round can be seen in figure 25. Interesting data here can be found from pre-seed, seed stage and series funding. It can be seen from the chart that Angel to seed companies with foreign investor being part of the lead investors' increases from 25% to 47%. Similarly from Seed to Series A to Series F, it always increases.

This can be explained as, moving from pre-seed to seed to series the amount of funding increases substantially, and companies mature and grow more. This increased their visibility in the market and results in attracting foreign investors. It can be observed that in Series D, E, F all the companies have foreign investors as part of their lead investors.

Companies with Venture Series Unknown are the companies, which are part of Venture capital series funding but their series is undisclosed. These companies have a high share

of foreign investors. Similarly, companies with debt financing as the last funding round also has a high share of foreign investors.

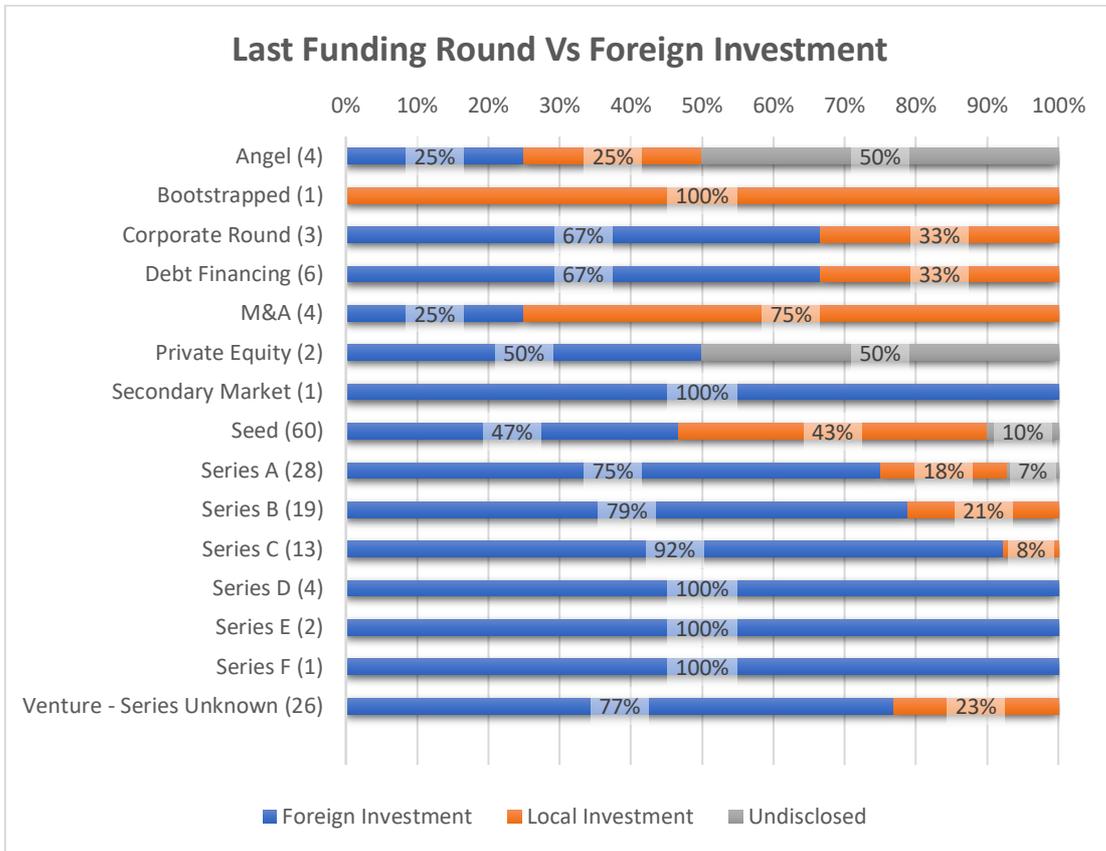


Figure 25 - Last Funding Round Vs Foreign Investment

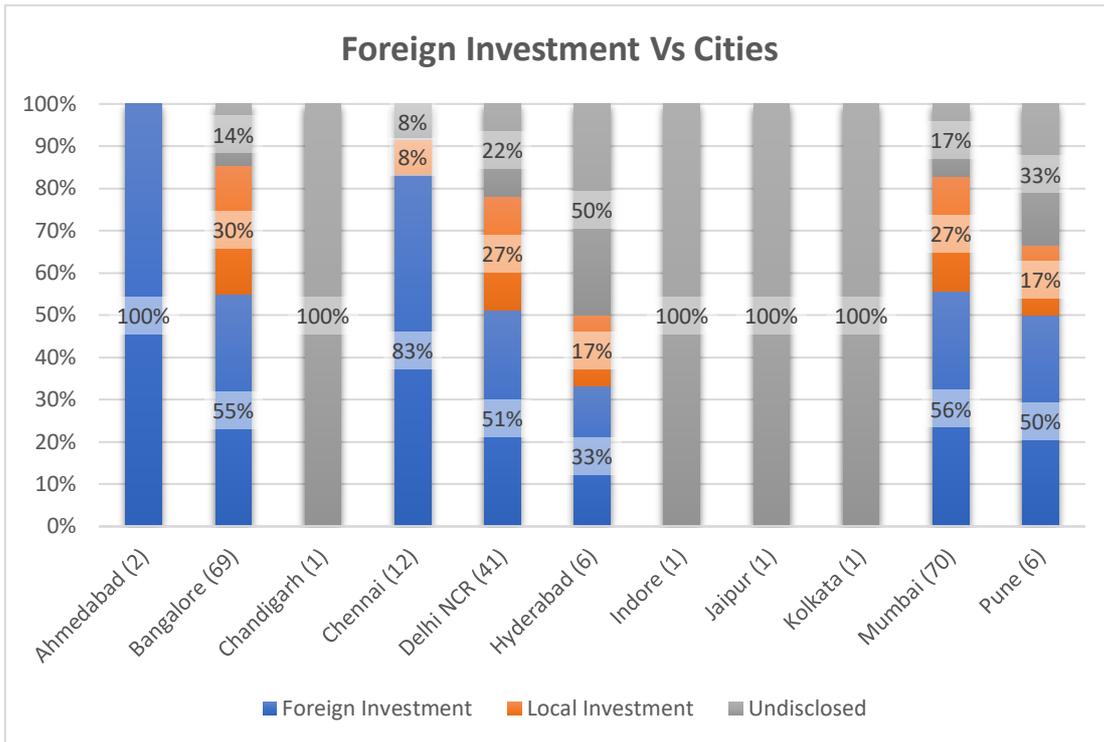


Figure 26 - Foreign Investment Vs Different Cities

Foreign investment in different cities can be analysed in figure 26. Cities which has a higher number of companies are Mumbai, Bangalore, Delhi NCR, and Chennai. In Mumbai, Bangalore and Delhi NCR, more than half of the companies have foreign investors as part of the key investors. Surprisingly Chennai has a high percentage of companies with foreign investors on board. Chennai takes advantage of being near Bangalore to attract foreign investors. This shows Bangalore, Mumbai and Delhi NCR are the cities where foreign investors show their presence and from there, they spread in all the cities in promising companies.

5 Conclusion:

The objective of this research was to understand the dynamics of Fintech in India by analyzing the collected data from different sources. The outcome of the research is the analysis of multiple attributes data such as geographic location, founders' profile, business models, customer channel, key investors, capital raised and revenue. The research provided some key results from the analysis of this data as follows. Most of the Fintech companies are based in three cities: Mumbai, Bangalore and Delhi NCR. These three cities also dominate in attracting most of the investors and thereby capital can be easily raised in these cities. These cities also have the biggest Fintech companies in terms of size, capital, and revenue.

Indian Fintech market is very young and growing and most of the companies are smaller in size and are still in the seed stage. The growth of Fintech in India started in 2012 but it picked the momentum from the year 2015. In terms of gender analysis, Indian Fintech founders list is completely male dominated with very minimal female representation. Fintech market at the moment is more inclined towards B2C. This segment has a higher number of companies consequently capital raised by B2C companies are much higher than B2B.

Business categories such as Alternative lending, business payments and wallets & consumer payments are most developed categories in terms of the number of companies and capital raised. Lending in the consumer market is moving towards maturity but SME lending still has high prospective growth opportunities. Categories to look for in the future are P2P lending and insurance tech. Companies with the presence of foreign investors have seen much more visibility and consequently higher capital and prospective growth.

Overall result suggests that Indian Fintech market is still limited to big cities but expected to grow in Tier 2 and Tier 3 cities and this will make a remarkable economic impact.

Future research should include transformation in Fintech market due to factors like open banking, artificial intelligence, and blockchain. It should also include the growth of companies in Tier 2 and Tier 3 Indian cities and the effect of this shift.

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Appendix

Acronyms

NASSCOM – The National Association of Software and Services Companies

UPI – Unified Payments Interface

NCPI – National Payments corporation of India

NCR – National Capital Region

BHIM – Bharat Interface for Money

Unicorn – A privately held company valued over \$1 billion

CAGR – Compound Annual Growth Rate

B2C – Business to Consumer

B2B – Business to Business

B2B2C – Business to Business to Consumer

P2P – Peer to Peer

SME – Small and Medium Enterprises

MSME – Micro, Small and Medium Enterprises

GDP – Gross Domestic Product

Useful Data to Understand Report

Total Companies – 210

Total Capital Raised by All Companies - \$6686 million

Total Revenue Generated by All Companies - \$1129 million

Total Founders – 448

Total Female Founders – 27

Key Investors – Sequoia Capital, Omidyar Network, Matrix Partners, Accion Venture Lab and SAIF Partners

Aadhaar – Aadhaar is a 12 digit unique identification number issued by the Indian Government to every individual resident of India (source: Wikipedia, “Aadhaar”).

UPI – A Unified Payments Interface is a single-window mobile payment system developed by National Payments Corporation of India. It eliminates the need to enter bank details or other sensitive information each time a customer initiates a transaction (source: Wikipedia, “Unified Payments Interface”).

UPI 2.0 – An upgraded version of UPI. Apart from existing UPI features, it also manages the UPI platform that facilitates instant fund transfer between two bank accounts on a mobile platform, without requiring the details of beneficiary’s bank account (source: Quora, “UPI 2.0”).

Digital India – A campaign launched by the Government of India to ensure the Government’s services are made available to citizens electronically by improved online

infrastructure and by increasing internet connectivity or by making the country digitally empowered in the field of technology (source: Wikipedia, “Digital India”).

Smart Cities Mission – An urban renewal and retrofitting program by the Government of India with the mission to develop 100 cities across the country making them citizen friendly and sustainable (source: Wikipedia, “Smart Cities Mission”).

Pradhan Mantri Jan Dhan Yojana – It is a financial inclusion program of Government of India, which is applicable to 20 to 65 years age group. This program aims to expand and make affordable access to financial services such as bank accounts, remittances, credit, insurance and pension (source: Wikipedia, “Pradhan Mantri Jan Dhan Yojana”).

BHIM – Mobile payment app developed by the National Payments Corporation of India, based on the Unified Payments Interface. It allows users to transfer money to other user’s bank account instantly by just using Mobile Number (source: Wikipedia, “BHIM”).

Tier 2 and Tier 3 Cities – Indian government has categorized cities in three categories based on various factors, the population is the key factor. Tier 1 cities are highly commercialized metropolis and they are the best cities in terms of living standards, health and infrastructure facilities, exposure and job opportunities. There are 8 Tier 1 cities currently in India like Bangalore, Mumbai, Delhi, Chennai, Hyderabad, Kolkata, Pune, Ahmedabad. Tier 2 cities are small and emerging industrial hubs. Rest of the cities falls under Tier 3 cities category. Tier 3 cities are very small cities with population less than 1 million (source: Wikipedia, “Classification of Indian cities”).