



Product Report 2023

# Omni Fintech, Digital Payments & Banking: A Digital Revolution

A Portfolio of Companies Revolutionizing Finance in India

**Enhance Safety, Enhance Growth, Enhance Returns**



# Omni Fintech, Digital Payments & Banking

## Revolutionizing Finance in India

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*“A portfolio of highly undervalued companies that are innovators and growth vector surfers, business performers, and market leaders in the digital transformation of the Indian Financial Services Sector”*



*“For a window on what this future looks like, we can look to India...”*

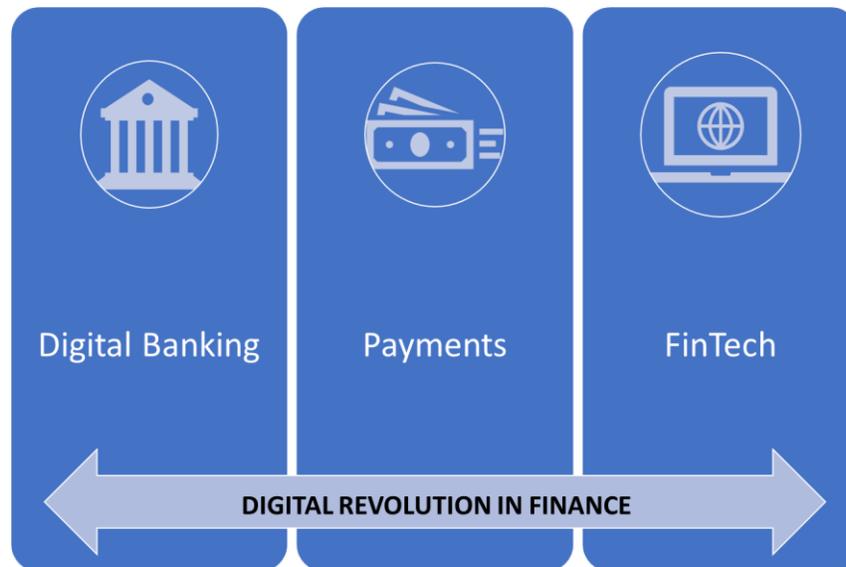
**--ACI Worldwide report on real-time payments**

Digitization has led to a sweeping change in the Indian Financial sector, bringing in a new era of significantly better customer experience, ease of use and convenience for customers. India is now being hailed as a pioneer in digital payments, thanks to the resounding success of the United Payments Interface (UPI) platform, and we believe that the digital explosion in the Indian Financial services sector has just begun. With further market penetration in all facets of financial transactions and traditional banking, the investment opportunity in Fintech, Digital Payments & Digital Banking is one of the most important **growth vectors** in the Indian economy today.

***This growth vector provides exposure to companies that provide and develop infrastructure critical to the digital transformation of the Indian Financial Services industry, including leading banks, tech companies, and companies which provide the necessary digital infrastructure to enable further technology-adoption.***

## 1. The Digital Revolution in Finance

The Indian financial sector has undergone nothing short of a digital explosion in the past decade, with new technologies improving, or in many cases, completely transforming almost all facets of the way we carry out day-to-day financial transactions. We can broadly categorize these transformations in the following aspects: **Digital Banking, Payments and FinTech.**



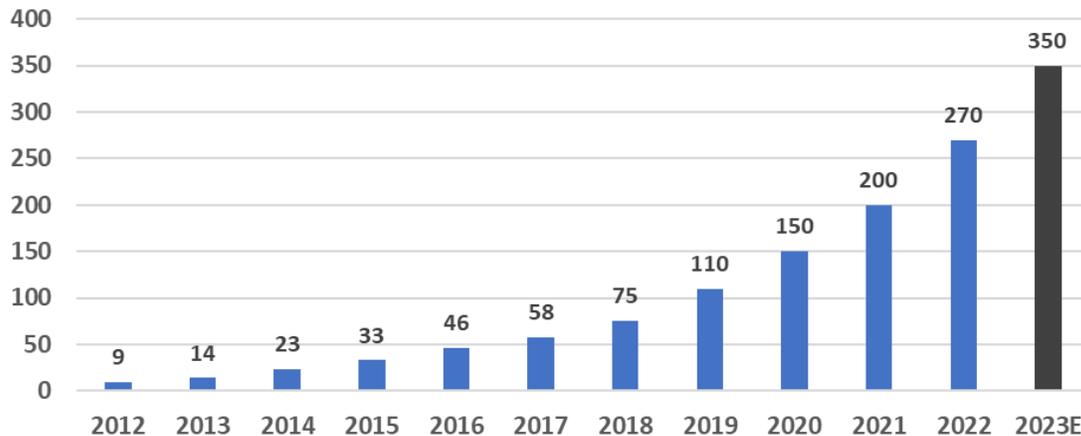
### 1.1 Digital Banking

#### 1.1.1 The Rising Wave of Neo-Banks

Digital Banking, simply put, is banking done through the digital platform. Digital Banking in India has come a long way from the “internet banking” days in the mid-2010s, with an ever-increasing scope of activities, which has gotten rid of a lot of paperwork and bottlenecks that otherwise existed in traditional banking. The higher speed, ease of use and convenience has meant that most large and flagship banks in India have aggressively adopted technologies to go digital with most of their offerings. Mobile banking has also witnessed significant growth in the past decade, providing an additional incentive to move to digital.

An important marker of the above is the exponential growth of digital lending in India, which has witnessed an annualized growth rate of ~41% since 2012, currently amounting to \$270 billion in 2022, and expected to hit \$1.3 trillion by 2030<sup>i</sup>, which is expected to be 60% of the country’s financial technology market by that year<sup>ii</sup>.

## Digital Lending in India (\$ bn)



This digital banking ecosystem is also synonymously known as **Neo-Banks**, which can currently take the form of three different business models<sup>iii</sup>:

Front-End Only	Full-Stack	Autonomous Unit of Traditional Banks
<ul style="list-style-type: none"> <li>• Neo-Bank partner with existing licensed incumbent banks to offer “over-the-top” services to lend and issue deposits digitally.</li> <li>• E.g. RazorPayX, Dave</li> </ul>	<ul style="list-style-type: none"> <li>• Entities that are fully functional banks, regulated by RBI and issue deposits/loans from their own balance sheet.</li> <li>• E.g. Starling, Webank, Monzo</li> </ul>	<ul style="list-style-type: none"> <li>• In-house digital banking entities of licensed incumbent banks, which compete with standalone Neo-Banks</li> <li>• E.g. 811 (Kotak Mahindra Bank), Yono (SBI)</li> </ul>

We will discuss the overlap between standalone digital banks and in-house digital banks in further detail in Section 1.3.

### 1.1.2 Government Frameworks and Incentives

The RBI recently released its guidelines on digital lending, lending an additional framework for new entrants in the market<sup>iv</sup>. In July 2022, the Niti Ayog also released a proposal for a Licensing & Regulatory regime for Digital Banks in India.

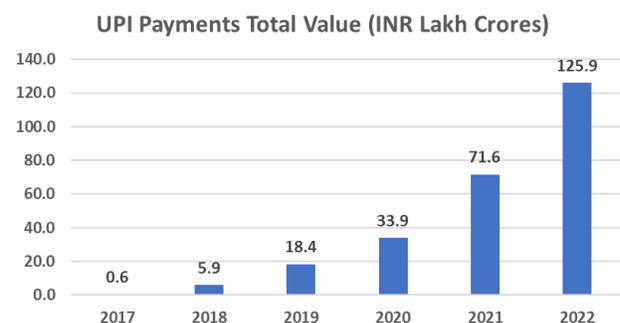
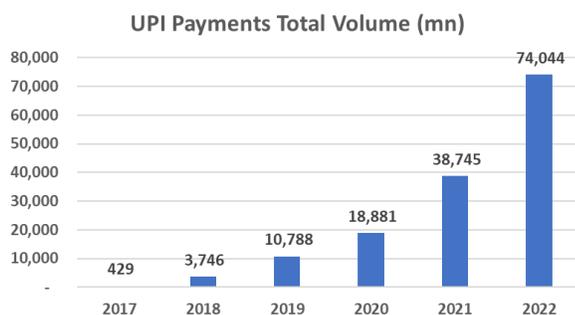
As an initiative to commemorate India’s 75<sup>th</sup> year of independence, the government announced 75 new Digital Banking Units (DBUs) in 75 districts in the country<sup>v</sup>. The DBUs are set up in collaboration with 24 public and private sector banks, and will be brick-and-mortar outlets equipped with tablets and internet services to provide a host of digital banking facilities, including but not limited to passbook services, opening savings accounts, transfer of funds, fixed deposits.

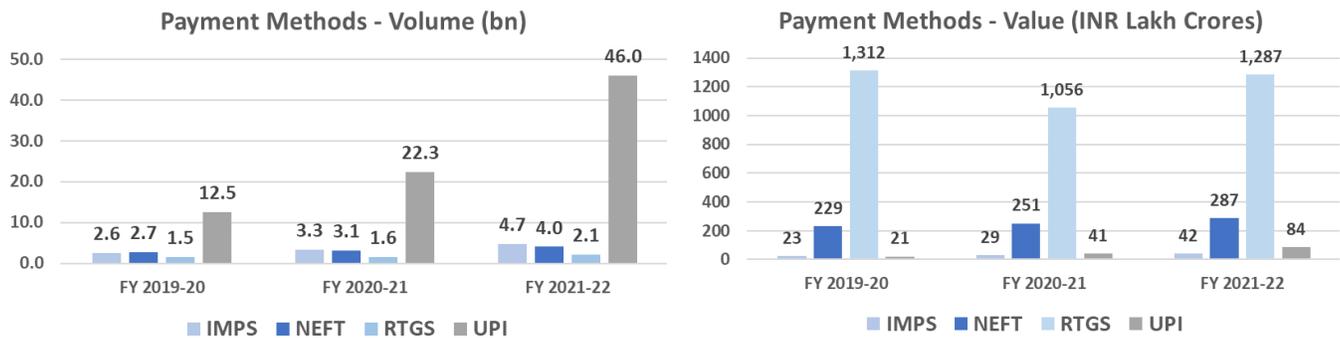
## 1.2 The Astronomical Journey of Digital Payments

The one perceptible change experienced by every Indian citizen from every socio-economic background is the exponential adoption of digital payments, enabled primarily by the Unified Payments Interface (UPI) technology developed by the National Payments Corporation of India (NPCI). The interface – which facilitates inter-bank peer-to-peer (P2P) and peer-to-merchant (P2M) transfers through a mobile device – has witnessed an astronomical adoption rate in the last 5 years, increasingly becoming the *de facto* mode of transferring money for retail transactions in India. UPI can be used on more than 70 mobile apps, with 3 apps dominating the national market share (PhonePe at 50%, Google Pay at 35%, and Paytm at 10%). The following figure puts into perspective the present scale of UPI infrastructure in India.



As of Jan 2023, a total of 385 banks are Live for transactions on UPI. In 2022, the annual volume of transactions was ~74 billion (over 50 transactions per capita per year), with a total Rupee value of ~INR 126 lakh crores (~\$ 1.6 trillion)<sup>vi</sup>. That annualized growth rate for volume and value of UPI transactions stand at 180% and 194% respectively. These growth numbers seem almost difficult to grasp, and are a testament to the paradigm shift caused by UPI in how we conduct financial transactions. UPI is also catching up in volumes and value as compared to traditional/legacy modes of transfers such as NEFT, RTGS and IMPS<sup>vii</sup>.





A common argument against UPI is that the platform is essentially free for use, generating hardly any direct revenues. However, this dismissal would be a mistake due to the following reasons:

- Given the mass scale of adoption of these platforms in India, one should compare them to other platforms which also generate no direct revenue from subscription fees but have a huge user base in India. Consider platforms like Google search engine, YouTube, Facebook, Instagram, etc. These have a large number of users who use the platforms for free. Despite the “free” use of its platforms, Google India had gross advertising sales of nearly Rs 14,000 crore in FY2021. Similarly, Facebook India reported gross advertising revenues of nearly Rs 9,000 crore in FY2021.
- Following up from the previous point, with 50-100 billion UPI transactions in the country, UPI represents a treasure trove of financial transaction data which can further be used for customized offers on products and services they offer. The more the value-add to the users, the more the monetization for the company which owns the platforms. This transaction data is also extremely valuable to Artificial Intelligence (AI)-oriented firms, who can use this data to train their algorithms, allowing for further individual customization of financial products in future.

This is why we refer to Digital Payments as a **Latent Growth Vector**, The growth vector exists, but it is latent and yet to be significantly monetized. This is more like a high-risk, high-return, venture capital-like investment.

### 1.3 FinTech – The Digital Revolution in Finance

Having discussed the Digital banking and payment facets in India, it is essential to discuss the engine driving both these aspects in the country. FinTech – an acronym for financial technology – refers broadly to companies that use technology to offer financial services. With a FinTech adoption rate of 87% compared to the world average of 64%<sup>viii</sup>, India remains one of the fastest growing FinTech markets in the world. Broadly speaking, the FinTech market can be categorized by type into Digital Payments, Alternative Lending and Personal Finance. Consequently, FinTech plays a crucial role in the expansion of both categories discussed before, namely Digital Banking and Digital Payments.

### 1.3.1 What is Enabling the FinTech Revolution in India?

The most crucial enabler of digital transformation in finance is - not surprisingly – technology. Some key government-enabled technology initiatives that have helped in creating a favorable FinTech investment environment in the country are:

- **India Stack:** A set of APIs which allows governments, businesses, startups, and developers to have access to a unique digital infrastructure, helping them build solutions towards a faster, more-efficient, paperless, and cashless financial system.
- **UPI (United Payments Interface):** An advanced mobile payment system for quick and cashless inter-bank transfers (discussed in detail in section 1.2).
- **Digital Rupee:** Launched by the RBI as the Central Bank Digital Currency (CBDC), the digital rupee of e-rupee is the electronic version of cash in India, designed to improve efficiency in inter-bank payments.

### 1.3.2 Is FinTech only Start-Ups?

Indian FinTech startups have attracted investments upward of \$35 billion since 2000<sup>ix</sup>, out of which almost \$10 billion came in 2021 owing to a post-pandemic environment with expectations of higher adoption rates of newer technologies and applications. However, owing to tougher global financial conditions and news of governance and corporate irregularities in some of these startups, the party may not continue as well as it has so far, with big-ticket investors demanding real monetization and profitability and not just blind growth driven by aggressive marketing. Already, fundraising has witnessed a flattening in 2022 as compared to 2021.

This brings us to the term “FinTech” itself, and whether it would be right to apply the term only to high-growth startups funded by global venture capital firms. In fact, FinTech is applicable equally to legacy financial institutions – such as large private and public sector banks – which are turning around their service models to incorporate newer technologies to enable faster and more efficient delivery of services, i.e. traditional banks that are actively carrying out digital transformation (explained in Section 1.1.1 as “Autonomous Units of Traditional Banks”).

In this regard, it is important to view “FinTech” as a broader term as compared to how it is used in mainstream media. With traditional banks having stronger balance sheets, and a loyal customer base built over decades of performance and brand-building, it can be argued that it is the digital transformation within these banks that will be the main growth vector for digital banking going forward, rather than just the proliferation of growth-focused startups which lack the necessary long-term footing or a fiercely loyal customer base.

The following are some recent initiatives of large legacy banks in India which demonstrate how they are driving technology adoption and digital transformation at an equal footing with modern day FinTech firms<sup>x</sup>:

- ICICI Bank, Axis Bank, IDFC First Bank and Yes Bank partnered with Credgenics – a digital debt collection firm – as a move to reduce loan servicing costs.
- Federal Bank has tied up with FinTech start-ups EpiFi and Jupiter to digitize the opening of new savings accounts.
- HDFC Bank has set-up an in-house “Digital Factory” and “Enterprise Factory” as initiatives to fast-track newer technologies.
- Axis Bank has also set-up an in-house “Thought Factory”, specifically to partner with FinTech startups and emerging technologies. The bank already has ongoing partnerships with FinTech players such as S2Pay, Perpule, Pally and Paymatrix.

The following table lays down some advantages and disadvantages of legacy banks in the digital banking space and modern/recent FinTech startups, especially in context of digital transformation and adoption by consumers:

Traditional Banks	Modern-Day FinTechs
Very loyal customer base (sometimes since decades) ✓	Customer acquisition is very recent (driven by aggressive marketing) ✗
Strong balance sheets and consistent profitability ✓	Mostly unprofitable; track record of financial performance limited ✗
Strong corporate governance ✓	Weak corporate governance ✗
Enjoys high degree of customer trust; very strong household brand names ✓	Customer trust is overall low; brand names relatively recent ✗
Low-growth; longer administrative processes to introduce new technologies ✗	High-growth; fast-moving nature of business means introduction of new-technologies is quicker ✓

It is clear from above examples that the bulk of growth in the digital banking space will come not from pure FinTech startups alone, but from a synergy of legacy banks and institutions working closely with FinTech firms and developing their own in-house technologies that enable digital transformation and adoption across a wider spectrum of Indian consumers.

## 2. The Omni Fintech, Digital Payments & Banking Portfolio

With the above information in mind, the following table lays down the theme and constituents of the **Omni Fintech, Digital Payments & Banking** portfolio. As mentioned earlier, the portfolio encompasses all elements that are vital for the digital transformation of the Financial services sector in India, from legacy banks adopting new technologies, leading firms that provide the necessary technological infrastructure to these banks, as well as some modern day FinTech firms that have revolutionized the digital banking/payments landscape in India in the past 10 years.

### OMNI FINTECH, DIGITAL PAYMENTS & BANKING – A PORTFOLIO OVERVIEW

#### Digital Banking

- Leading Indian banks with decades-long presence in the country
- Strong balance sheets and legacy customers
- Quickly moving towards further digitization of services

#### Technology and IT (Tech-Infra)

- Leading Indian IT companies with decades-long presence
- Global suite of products & solutions serving banks, insurance & other financial institutions from across the world
- Instrumental in digital transformation of financial institutions in India by providing necessary tech-infrastructure

#### FinTech Firms

- Leading FinTech startups (now listed) that are pioneers in bringing innovative payment and insurance solutions to customers
- Unicorns that led FinTech revolution in India in past 10 years

#### Exchanges/Ratings Agencies (Fin-Infra)

- Companies providing critical infrastructure necessary for smooth functioning of financial and securities transactions
- (Different from Tech-Infra because the core competence isn't generalized technology/IT, but a highly specialized skillset only designed for financial services)

# OmniInsight

*“Most market participants chase alpha but get risks, while one could chase safety and get alpha”*

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Former Professor/faculty at IIT Kharagpur & University of California and B.Tech (IIT Bombay), Masters and Doctorate, Columbia University, NY
- Columnist at Seeking Alpha, Mint, Moneycontrol, Economic Times

## About OmniScience Capital

A Global Investment Management firm focused on global equity investments empowered by its proprietary Scientific Investing philosophy.

OmniScience Capital is a joint initiative of Team OmniScience and the financial services conglomerate Asit C Mehta Group (35+ years, AUM: 3000 crores) to bring Scientific Investing to Indian and Global investors. [Read more...](#)

## Global Investment Focus

OmniScience’s vision is to provide global investors with global opportunities via SuperNormal Portfolios for US, India, and Transformative Technologies. Our Omni Supreme US and AIoT investment strategies help clients take exposure to US markets. [Read more...](#)

## Scientific Investing

Scientific Investing creates a SuperNormal Portfolio designed to survive and thrive through uncertainties, delivering optimal “Return on Safety”. [Read more...](#)

## Investment Platform

Investors can explore and invest in OmniScience strategies on [omniscience.smallcase.com](http://omniscience.smallcase.com)



**Ashwini Kr. Shami**

### EVP & Portfolio Manager

- Co-founder OmniScience Capital & leads advisory services and manages US, India & Technology portfolios
- At an earlier firm he set up one of the first Indian US SEC registered global money managers on the Interactive Brokers platform
- Previously worked at Goldman Sachs covering US and International stocks
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**Varun Sood**

### VP Quantitative Research

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