

Industry Report

May 2022

Opportunities in B2B Payments in India



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RedSeer is a research and consulting firm founded in 2009. We are headquartered out of Bengaluru and have presence in Delhi, Mumbai, Dubai, and Singapore additionally. Though we are focused on the consumer internet space in India, Southeast Asia, and the Middle East, we have fairly deep experience in overall retail as well. Our primary business activities include providing research inputs (on market, consumers, other stakeholders) to corporations and funds, conducting due diligence for potential investments, publishing thought leadership pieces, and helping corporate clients solve strategic problems.

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The market information in this Report is arrived at by employing an integrated research methodology which includes secondary and primary research. Our primary research work includes surveys and in-depth interviews of consumers, merchants and other relevant ecosystem participants, and consultations with market participants and experts. In addition to the primary research, quantitative market information is also derived based on data from trusted portals and industry publications. Therefore, the information is subject to limitations of, among others, secondary statistics and primary research, and accordingly the findings do not purport to be exhaustive. RedSeer's estimates and assumptions are based on varying levels of quantitative and qualitative analyses from various sources, including industry journals, company reports and information in the public domain. RedSeer's research has been conducted with a broad perspective on the industry and will not necessarily reflect the performance of individual companies in the industry. RedSeer shall not be liable for any loss suffered by any person on account of reliance on the information contained in this Report.

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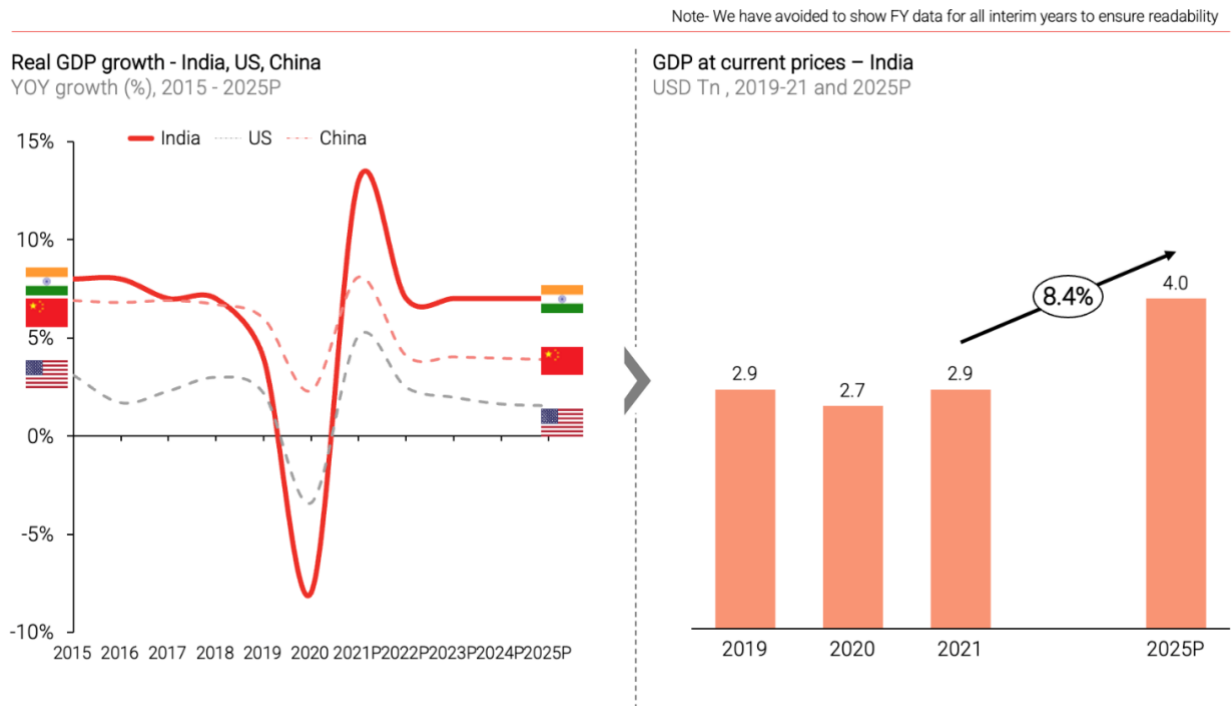
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INDIA MACROECONOMIC VIEW

India is growing faster than other big economies like US and China



Source(s): Secondary Research (IMF), RedSeer Estimates

Note- In all analysis with global benchmarks, the timeline will be CY and not FY

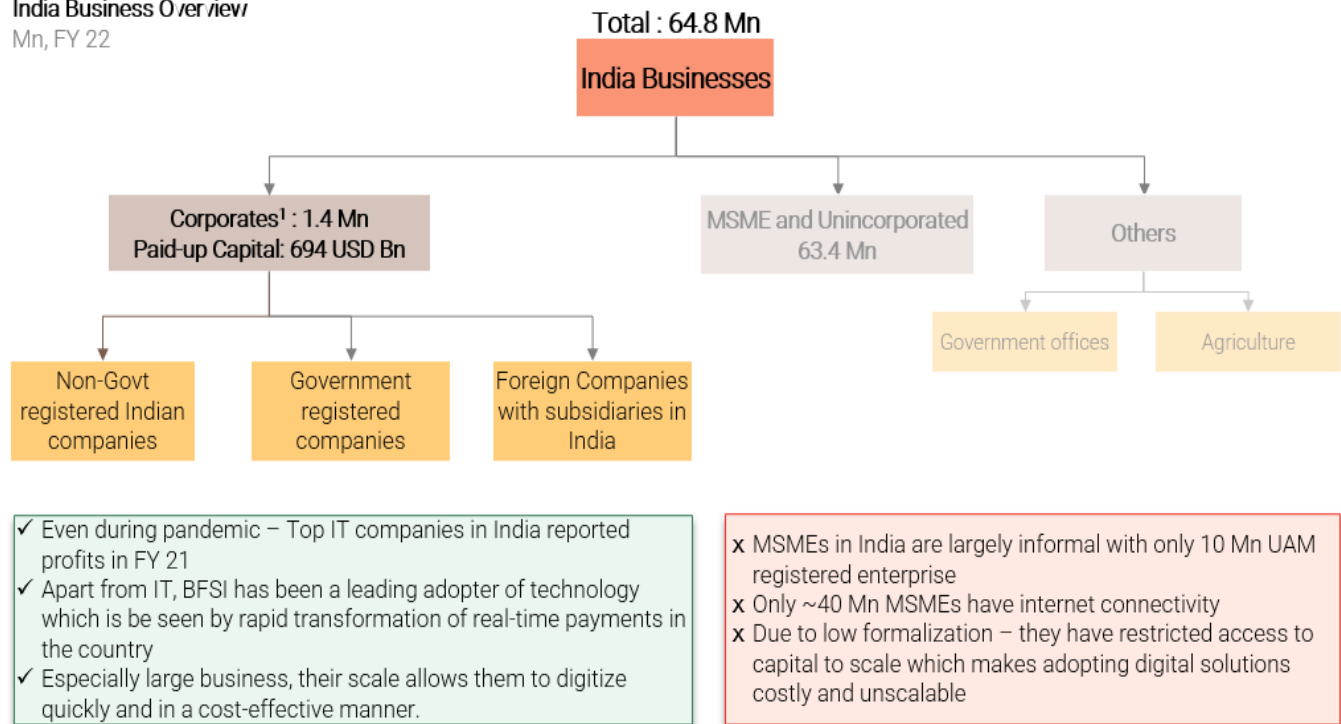
With a GDP of approximately USD 2.9 trillion in 2021, India is one of the largest economies in the world. Post COVID-19, India is on a strong recovery track and the country's GDP growth rate is projected at a CAGR 8.7% from 2020 to 2025, highest among the larger economies leading to India becoming a USD 4.1 trillion economy by 2025. According to Centre for Economics and Business Research ("CEBR"), India is expected to become the third largest economy in the world by 2030.

This indicates an encouraging economic recovery and consequently it is expected that there will be an uptick in tax (GST and corporate) collections.

GROWING DIGITIZATION IN INDIA

In India's diverse business landscape, major digital technology adopters are corporates

India Business Overview
Mn, FY 22



Source(s): Government data- MCA, MOSPI, MSME Annual Report 2022, RedSeer Analysis, Corporate data and Paid-up Capital data as on 28th Feb 2022

Note: 1. Corporates are defined as businesses which come under Companies Act (Pvt. Ltd. Or public Listed) 2. Unincorporated businesses are typically proprietorships or partnerships and do not need to submit their financials to Registrar of companies (RoC)

India has a vibrant business landscape - ranging from multinational companies, private companies to small retailers (kiranas) and one-person companies. As of 28th February 2022, there were 1.4 million corporates with a total paid-up capital of ~USD 694 billion out of 64.8 million businesses. Due to their huge market size, corporates are well equipped to invest in and implement enterprise-wide cloud-based SaaS solutions as they have the advantage of having capital to invest, scale and can hire talent with requisite technical expertise in the software domain.

With Covid-19 pandemic making social distancing and work from home mainstream, enterprises were faced with a disruption in work processes, increased focus on employee health and safety. IT spending in India remained resiliently backed by corporate spending on work from home software, increasing data privacy software and service continuity.

Micro, small and medium enterprises ("MSMEs") are considered as the bulwark of India's economy and have emerged as a dynamic sector over the past five decades. They have contributed 30.27% to India's GDP in Fiscal 2019 and their GVA contribution to India's economy has increased at 12% CAGR between Fiscal 2015-19 as per MSME Annual Report

2021. Due to the government push for formalization, there was an additional 10 million MSME getting their UAM registration in June 2020. However, SMEs are still catching up as low levels of formalization arrest their scaling operations. With digital payment becoming ubiquitous, SMEs are also gearing up to employ automation solutions as they are more efficient and cost effective. They currently have the advantage of digitizing their systems by using an operating expenditure model, where systems are charged on a use-basis and incremental upgrades are easier to implement. This is financially advantageous for us as opposed to huge capital investments in legacy ERP systems. Fintech players can get various tools on boarded over their unified platform through APIs.

Corporates are front-runners in adopting digital payment solutions, while MSMEs still largely rely on cash and cheque

Business adoption of B2B Payment modes (By Value)
2021

Low adoption Medium adoption Fully adopted

	Corporates (Large Businesses)	Small and Mid-Sized Businesses	Micro Businesses and Retailers
Commercial Cards	Commercial cards are used by specific departments for procurement, agent payments	Absence of payment acceptance infrastructure, lack of decent credit score leads to low adoption	Absence of payment acceptance infrastructure, lack of decent credit score leads to low adoption
NEFT	Payments are made easily and is integrated with ERP/Corporate Banking solutions	Increasingly adopting digital mode of payment, NEFT offers flexibility of small to large ticket sizes	NEFT has no floor value, used for small ticket wholesale payments (to suppliers)
RTGS	Large ticket size payments are made easily and is integrated with ERP/Corporate Banking solutions	May not have reached the scale to make large ticket transactions frequently	RTGS has a floor value of 2 Lakh INR and transaction fees charges making it less preferred
Cash and Cheque	They are formal and have adopted digital payment modes for better accounting and transparency	Their vendors may lack payment acceptance infrastructure and hence still rely on cash and cheque	Largely still informal, making cash the preferred mode of payment

Source(s): RedSeer Analysis.

There are various payment modes employed by businesses to make vendor, utility payments. Cash and cheque and traditional paper-based modes of payments, whereas digital payment modes are real-time gross settlement ("RTGS"), national electronic funds transfers ("NEFT") and commercial credit cards. Corporates are early digital adopters and have adopted all modes of digital payments, they are also consequently front-runners for adopting innovative technology. They mostly use RTGS, NEFT through their enterprise solutions or corporate banking solutions while specific departments are authorized to make big-ticket procurement purchases through commercial credit cards.

India is one of the world's fastest growing digital economies with enterprises in India rapidly adopting technology and growing with increased access to software and digitally enabled financial services.

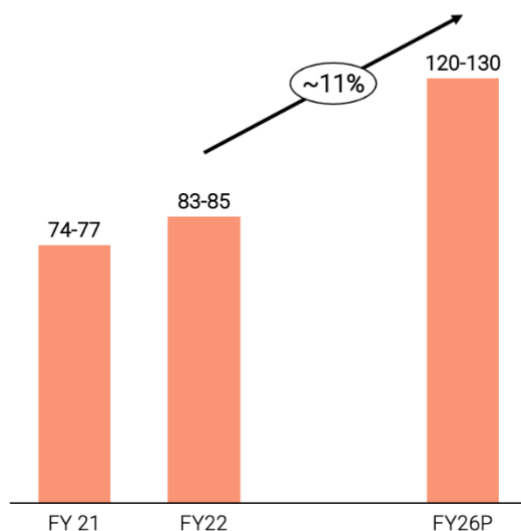
However, commercial credit cards as a payment mode is yet to achieve its full potential, in spite of an inherent advantage of a credit limit, due to lack of payment acceptance infrastructure, adoption of commercial credit cards by vendors, transaction fees and lagging risk management frameworks.

Most MSMEs still prefer traditional modes of cash and cheque and maintain accounting teams or legacy systems to reconcile and manage payment flows. They are time-consuming and error-prone, yet are widely used as the shift from legacy to digital is slowly arriving.

Traditionally firms use multiple portals which suit different payment modes. While most banking solutions offer RTGS and NEFT facilities, some B2B recurring payments like GST payments have their own portals, payment frequency and do not support all payment modes such as commercial credit cards.

Strong digital payment adoption is reflected in India's overall IT spends, expected to reach USD 120-130 billion by Fiscal 2026

Overall IT Spend in India
USD Bn, FY21-FY26P



Key Highlights



Overall IT spends were affected due to Covid-19, but companies adapted WFH and digital solutions to keep businesses running as usual and helped employees adjust to a new normal



Increasing pace of innovation, reduction in data costs and ease of deployment of most IT solutions is enabling more enterprises to adopt digital solutions for their businesses



Digital payments adoption is largely due to SaaS solutions and low-cost operational expenses (charged on usage basis). Low capital expenditure is one of the driver for this adoption.

Source(s): RedSeer Estimates.

India has adopted digital processes at an unprecedented rate. This can be seen as India matches up with global digital benchmarks. In 2020, India featured in the top three countries by smartphone usage with 500-550 million smartphone users. As of 2021, the number of smartphone users in India has grown to 525-575 million. As per RedSeer estimates, India is expected to have approximately 1 billion internet users by financial year 2026. Even in the business landscape, out of 90 million MSMEs and merchants including trade and manufacturing MSME, shopkeepers and kirana, approximately 60% have internet connectivity and are digitally enabled.

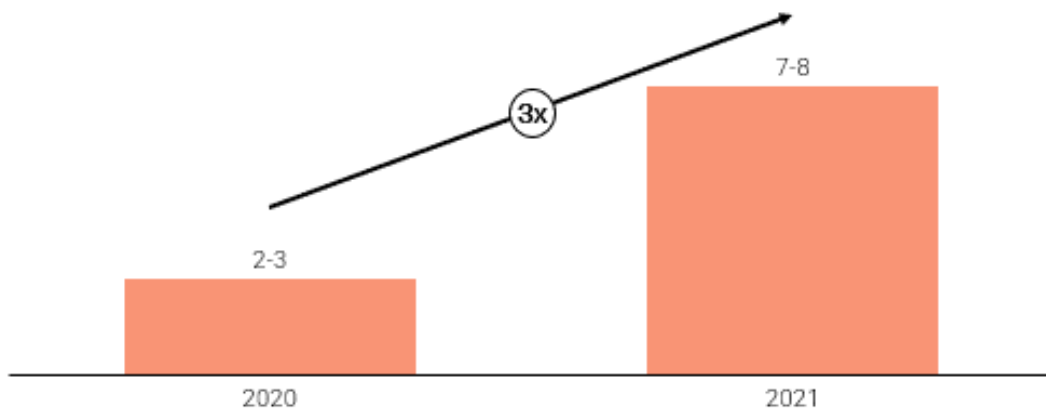
The move towards digital transformation in corporations can be seen from the robust IT spending in India. Overall spending on IT is set to accelerate in the coming years to reach USD120-130 billion by financial year 2026 as per RedSeer estimates.

According to RedSeer, there was a slowdown in spending in 2020 due to the pandemic and associated lockdowns. Going forward, it is expected that in addition to the IT sector, the pharma, education, retail, and financial services sectors will increase their investment in building technological capabilities. The major themes in which these players are significantly investing are artificial intelligence, machine learning, cloud, video conferencing platforms, etc.

Companies are trying to digitize and automate their processes and create a digital ecosystem which is expected to help them in cost reduction, faster and efficient processes, faster rollout of products and services, etc. Fintech Platforms are providing end-to-end payment solutions to integrate with the underlying ERP systems of the customers and provide intuitive user interface. According to RedSeer, it is expected that these platforms will gain prominence and become the front-end shifting the ERP and legacy systems to the back end.

Digital readiness has translated into a fertile fintech sector – with fintech funding growing approximately thrice from 2020 to 2021

Fintech funding in India
USD Bn, 2020-2021



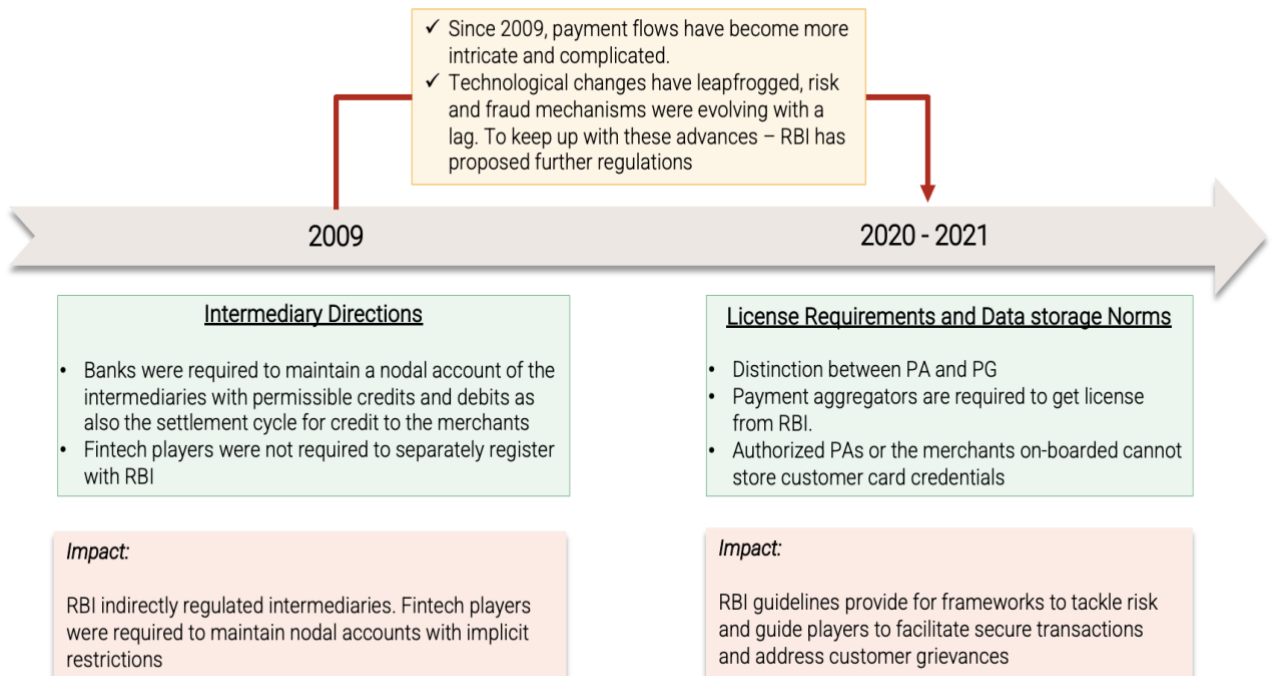
Source(s): RedSeer Analysis

Despite the outbreak of COVID-19 pandemic, India witnessed strong funding and investments in the fintech sector of USD7-8 billion in 2021, as compared to USD2-3 billion in 2020. The funding also includes funds raised from initial public offerings.

The increase in funding and interest in funding is a result of the governmental and regulatory push to boost digital transactions, following a strong adoption of online payments during the lockdown.

RBI's regulations are keeping pace with technological advancements which help improve customer confidence and increase accountability

RBI measures to regulate payment intermediaries (payment gateway and aggregators)



Source(s): RedSeer Analysis, RBI

For the conducive growth of fintech innovations in digital payments, RBI actively updates guidelines and regulations to create a robust ecosystem. In 2009, RBI provided interim guidelines for the payment aggregators and gateways where only a nodal bank account was required to be maintained by them to safeguard customer interests and did not require RBI registration

The Payment and Settlement Systems Act 2007, which regulates and supervises payment systems in India and designates the apex institution (RBI) as the authority for that purpose and all associated areas, was amended in 2020. The amendment imposes a penalty on unauthorized payment system operators and intends to be stricter with payment system operators. Furthermore, it has laid down separate procedures for the imposition of penalty and compounding of offenses. This will ensure transparency and accountability among the payment systems and to prevent unauthorized operations

However, today, a decade later digital payment systems and payments have undergone massive transformation. They have become more intricate and complex. To understand scope for update and possible changes to regulatory framework RBI has come up with guidelines for payment aggregators (PA) and payment gateways (PG).

In 2020, Payment aggregators were required to get a license from RBI. Furthermore, the businesses need to satisfy a basic set of IT requirements like data security measures to

maintain latest encryption standards, risk assessment and place remedial measures, submit cyber security audit reports, etc. In 2021, RBI passed guidelines that prohibited payment aggregators from storing customer card credentials. This will help prevent data theft and misuse.

Payment gateways are entities which provide technology infrastructure to route and facilitate online payment transactions and do not handle funds. Payment aggregators are entities which facilitate merchants and businesses to receive payments, pool and transfer them on to the merchants after a certain time.

With digital payments fast becoming ubiquitous, these measures buoy customer confidence and help players adopt appropriate frameworks for managing risk.

Government is also encouraging digital B2B payments and fintech solutions in an otherwise cash and cheque-dominated landscape

Government Measures to encourage B2B digital payments



B2B as separate category within UPI

- ✓ In Sep 2020, UPI Steering Committee endorsed UPI B2B transactions as a separate category within UPI ecosystem.

Impact:

This will enable businesses to do contactless and seamless payments



Factoring Regulation Bill, 2021

- ✓ The Factoring Regulation (Amendment) Bill, 2021 will improve the credit facilities for MSMEs by allowing them to access funds from ~10,000 NBFCs as compared to the current 7 approved NBFCs.

Impact:

Increased competition in the factoring business will help MSME in getting better access to immediate cash and free-up working capital.



B2B exempt from RuPay and UPI

- ✓ In May 2020, government has exempted (B2B) firms from mandatory use of e-payments facilities such as RuPay and UPI.

Impact:

Exempting B2B transactions from mandatory use will reduce administrative inconvenience and additional costs



GeM Portal and procurement

- ✓ GeM portal have helped digitize and transform how Government departments undertake procurement, has handled over 19 USD Bn worth of transactions

Impact:

Digitizing procurement and one stop solution for businesses to have direct access to all government departments

Source(s): RedSeer Analysis








Along with RBI, the government of India has also taken initiatives to boost the growth of B2B fintech players. In May 2020, the government exempted businesses from mandatory use of e-payments facilities such as RuPay and UPI. Previously, businesses failing to comply were required to pay ₹ 5,000 per day as penalty. To promote adoption of B2B payment, in September 2020, the UPI steering committee endorsed UPI B2B transactions as a separate category within the UPI ecosystem, which enables instant B2B transfer of money from one bank account to another via mobile phones. Government e-marketplace (GeM) is a one stop portal that helps facilitate procurement required by various government departments and helps government departments get products at best value and facilitates demand aggregation along with several other tools like e-bidding and reverse auction.

In July 2021, the parliament passed the factoring amendment bill, which aims to widen the scope of institutions that can participate in factoring. Prior to the factoring amendment bill, only non-banking financial company to conduct factoring business if more than half of their assets were to deployed and income earned from the factoring business. According to RedSeer, the factoring amendment bill removes the threshold for entities to conduct factoring business, and is expected to increase the supply of funds available to SMEs and bring down cost of funds, such that MSME will get easier access to credit and smoother working capital.

Business payments encompass a variety of transactions amongst different stakeholders, with B2B and Tax Payments being the focus

Payment Landscape originating from businesses

Focus of the study

	Payment Type	Receiver		Instrument Modes
1.	B2B	Online Vendors/ Suppliers ¹		Corporate Banking, Commercial Cards, B2B fintech solutions
2.	B2B	Offline Vendors/ Suppliers ¹		Majorly Cash and cheque payments
3.	Tax Payments	Government (Payments like taxes)		Payment modes like RTGS, fintech players, GSP
4.	B2B (Cross Border Payments)	Overseas Vendors/ Suppliers		SWIFT Gpi, Card Networks and Banks
5.	B2C (Cross Border Payments)	Overseas Consumer		SWIFT Gpi, Card Networks and Banks
6.	B2C	Employee Payouts (like salary, pension)		Majorly NACH
7.	B2C	Consumers		Cards, RTGS, NEFT, IMPS etc.

Source(s): RedSeer Analysis.

Note: 1. Includes Utility Payments

There is a variety of transactions involved in businesses. These transactions are:

Business-to-customer (“**B2C**”) payments

This includes payments made to individuals, periodic payments such as salary and pension payments, and B2C cross-border payments are largely done via SWIFT, global payment innovation, card networks and banks.

Tax payments

This includes payments made to the government in the form of direct taxes like corporate tax, and indirect taxes like GST.

For payments of direct taxes and indirect taxes, companies usually navigate across different portals, manage various accounts, and then reconcile with their own books to keep one source

of truth and accountability. It is a cumbersome exercise in large enterprises who rely on ERP systems and more so in SMEs where most accounting is a manual process.

Business-to-business (“B2B”) payments

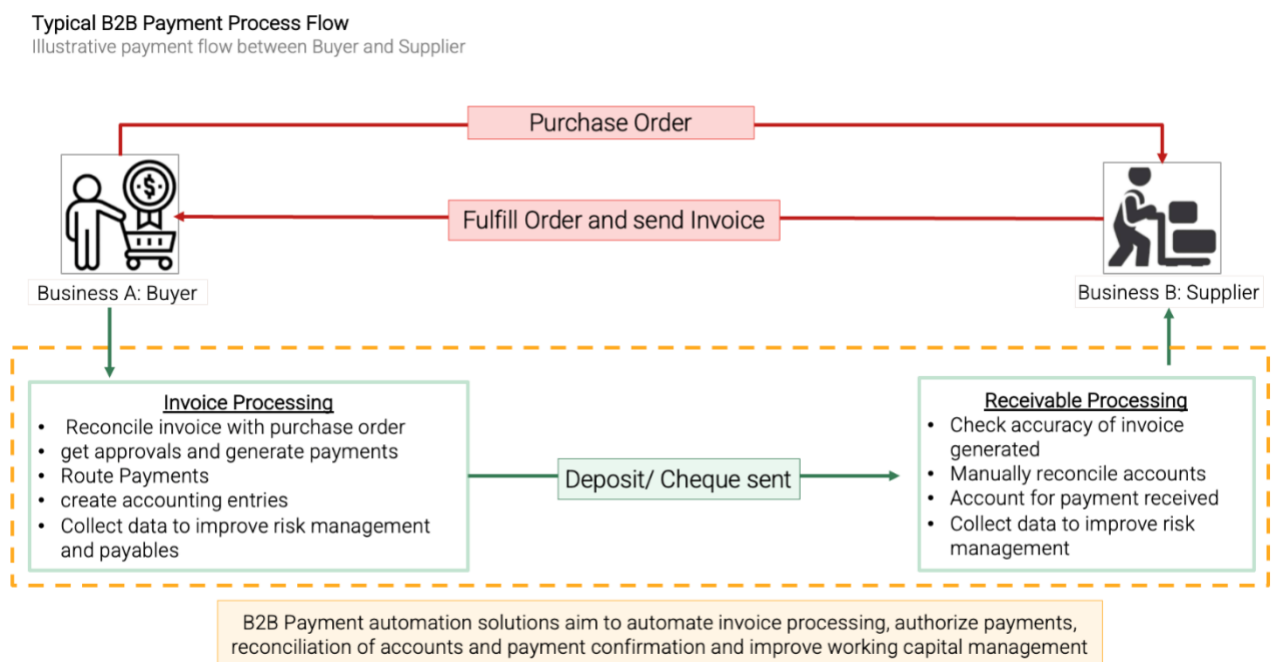
B2B payments are made in return of goods and services a business provides another business. The payments can be made digitally via RTGS or NEFT, commercial credit cards, or using the traditional modes of payment like cash and cheque.

Large enterprises usually employ ERP systems to manage accounting, invoice generation etc. New age fintech players usually build upon these legacy solutions to create a one-stop view for all AR/AP entries, tax and utility payments.

This also includes cross-border payments which are done to overseas vendors and suppliers via Swift global payment innovation, card networks and banks.

For this study only B2B (Business-to-Business payments, including vendor payments and utility bill payments) and tax payments (direct tax and GST) payments have been considered.

Business payment process is complex as it is settled over a period, requiring account reconciliations at both ends



Source(s): RedSeer Analysis.

Traditional B2B payment process involves buyers and suppliers. The various steps of B2B payment flow are:

- The buyer sends a purchase order to a supplier to buy goods or service which the supplier fulfills and sends an invoice.








- The accounting team of the buyer then reconciles the invoice with the purchasing order. They seek approvals and initiate payments. In this regard, various accounting entries are made, and data points are collected to manage the risk and account payables.
- Once the supplier receives the deposit sent by the buyer, its accounting team performs a series of checks to ensure that the amount reconciles and settles the operating accounts.

However, the traditional system of B2B payments have the disadvantages of lot of paperwork due to non-standardized invoices and tedious data entry, which are manual and prone to errors. Gathering approvals from several departments for invoice payments, post accounting is cumbersome and time-consuming

B2B payment automation helps businesses by getting rid of a lot of the paperwork by digitalizing purchase orders and invoices. This leads to faster verification, shorter turnaround time and less effort in generation of orders and invoices and approval of payment. Data entry processes get automated, and platforms perform analytics to facilitate supplier management, automating process workflows, account reconciliation and verification.

However, In India, B2B payments are a bigger market and solution stickiness is higher as enterprises have higher switching costs

B2B and B2C Payment Landscape Comparison
Illustrative

	B2B Payment	B2C Payment
Market Size (In FY22) 	7.6-8 USD Tn ¹ in FY 22 is expected to grow to 10-11 USD Tn by FY26 at 8% CAGR	1.5 USD Tn ² in FY 22 is expected to grow to ~3 USD Tn by FY26 at 19% CAGR
Average price of goods and order quantity 	Larger as bulk orders are made by businesses	Smaller ticket sizes as compared to enterprises
Terms of purchase 	Payments are made post the delivery of goods and services and as per days payable terms mentioned in the purchase order	Payments are made at the point of sale
Time of settlement 	Settled over a time period as it requires account reconciliation at both ends	Lesser and generally received the same day
Stickiness 	Higher stickiness due to greater cost of switching between payment platforms	Less stickiness due to availability of multiple modes and players and zero cost of switching
Decision making process 	Takes longer time as it involves approval from various business departments	Faster as it involves only the customer
Key digital payment modes 	Commercial cards, NEFT, RTGS	UPI, Credit card, Mobile Wallet, NEFT

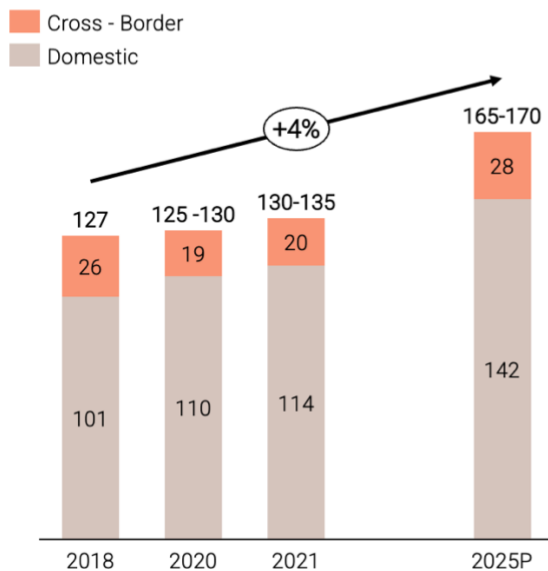
Source(s): RedSeer Analysis, NPCI

Note(s): 1. B2B includes Cash and cheque, RTGS, NEFT and Commercial cards for both domestic and cross-border payments; 2. B2C here includes UPI and NACH taken from NPCI platform

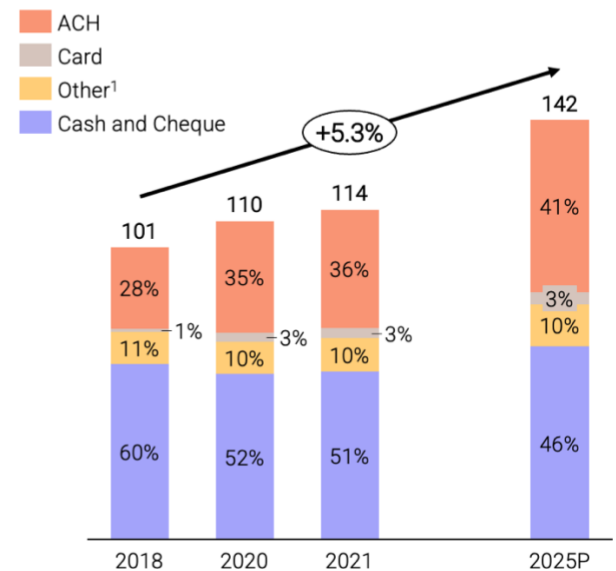
While B2C payments are simpler and intuitive in nature, B2B payments are a much larger market, usually a multiple of the country's GDP. A retail customer has many modes of payment at their disposal. The cost of switching from one payment mode to another is minimal, almost zero. Enterprises on the other hand have greater stickiness as adoption of a payment solution or ERP requires adoption from various departments and change in processes to shift to digital vendor payments.

Globally, B2B payments amount to approximately USD 130-135 trillion (1.5 times of world GDP) and are expected to increase at 6% CAGR over the next 5 years

Global B2B payments
%, USD Tn, 2018-2025P



Global - Mode of Domestic B2B payments
%, USD Tn, 2018-2025P



Source(s): RedSeer Estimates, World Bank.

Note: ACH: Automated Clearing House, Global benchmarks are in CY and not FY 1. Other includes payment gateway, wire transfers etc.

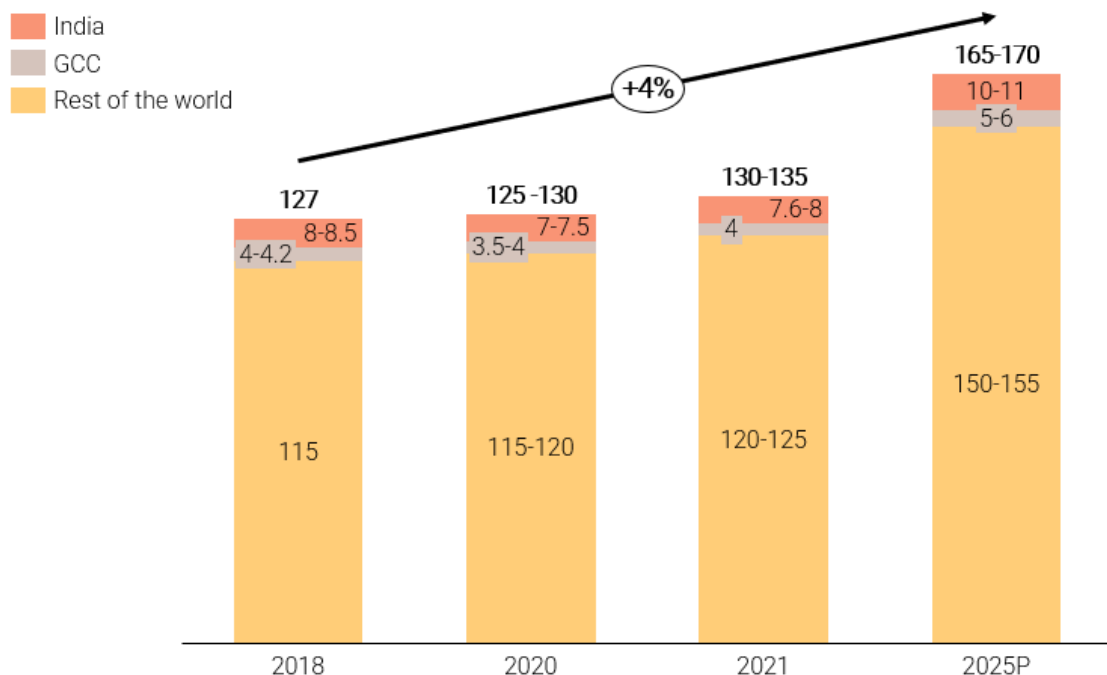
As per RedSeer estimates, global B2B payments are expected to grow from USD130-135 trillion in 2021 to USD165-170 trillion in 2025. Cross border transactions are expected to account for approximately 16% of total B2B transactions (by value) in 2025. Even now as economies are evolving digitally, approximately 51% of payments rely on cash and cheque, while card occupies only 3% as per RedSeer estimates. As companies digitize their payments, it is expected that cash and cheque component will decrease to 46% of the domestic B2B payments and the digital payment modes (ACH, cards, etc.) share will increase.

According to RedSeer, the total global TPV for B2B payments, excluding cross-border, grew from about USD101 trillion in 2018 to USD114 trillion in 2021 and is expected to grow to approximately USD142 trillion in 2025, which would represent a CAGR of 5.7% from 2020.

As per RedSeer estimates, it is expected that cards will be increasingly adopted as payment infrastructure increases and businesses adopt commercial credit cards for B2B payments rather than employee driven travel and entertainment expenses.

B2B payment market in India and GCC countries amount to approximately USD 12 trillion in 2021 and is expected to become approximately USD17 trillion market by 2025

Global B2B payments
USD Trn, 2018-2025P



Source(s) : RedSeer Estimates, World Bank.

Note: GCC consists of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates

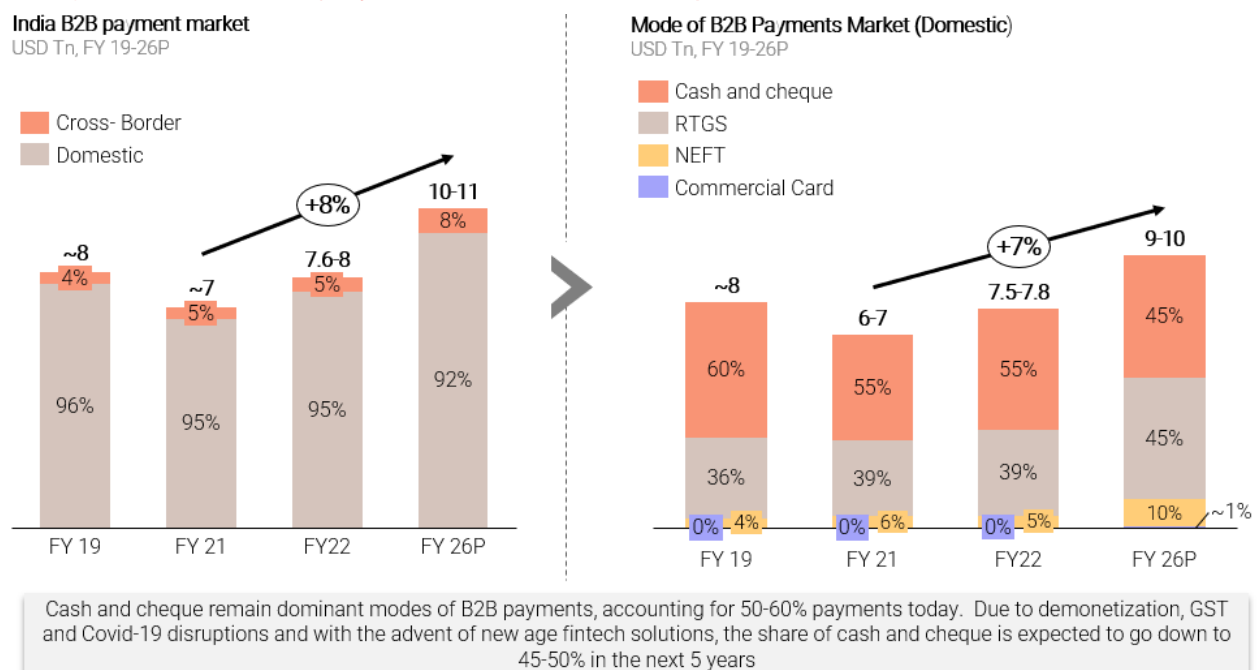
In 2021, India and GCC countries constitute 9% of the global B2B payments market and provides a huge market opportunity for B2B payment players. According to RedSeer, it is expected that the B2B payments market across these two geographies will grow to around USD17 trillion by 2025. Demonetization, government push for digitization and technological adoption are the key drivers for India's B2B payments growth. Similarly, GCC countries are also trying to boost their B2B payments system by establishing a Gulf payments company to facilitate cross-border payments. RedSeer estimates that launch of regulatory sandbox to promote fintech, artificial intelligence /machine-learning adoption will further boost the digital B2B payments across the GCC countries. A testament to GCC's commitment is witnessed by each country having its regulatory sandbox framework to foster innovation, test for consumer safety and regulate delivery applications

- Bahrain – The Central Bank of Bahrain has set out a framework for regulatory sandbox which provides a virtual space for firms to test innovative technological financial services solutions up to 9 months with an extension of 3 months.

- Kuwait – The Central Bank of Kuwait encourages companies and individuals providing innovative fintech solutions to participate in the regulatory sandbox framework to test methodology, which includes four stages to be completed within a year.
- Oman – The Central Bank of Oman has launched regulatory sandbox framework which is expected to grant certain regulatory exemptions that have fintech applications to test on volunteer customers.
- Qatar – The Qatar Fintech Hub has been established to explore and test ideas into practical solutions. It includes three programs – Incubator, Accelerator and Hackathons
- Saudi Arabia – The Saudi Arabian Monetary Authority (SAMA) has established a regulatory sandbox framework to welcome local and international fintech business that aim to deliver new financial services; the regulatory sandbox is also in line with Saudi Arabia's Vision 2030 to reinforce economic growth and investment.
- United Arab Emirates: The Abu Dhabi Global Market developed its regulatory sandbox – ADGM RegLab to develop innovative fintech products with a relaxed regulatory and cost-effective environment.

According to RedSeer, global commercial payments volume was estimated at approximately USD 130-135 trillion in 2021. RedSeer estimates that India has approximately USD 8 trillion of the global commercial payments volume, CEMEA, approximately USD 10 trillion and Asia-Pacific estimated at approximately USD 58 trillion.

In India, B2B payments account for approximately USD 8 trillion (around 2.4 times of India's GDP) – which is still majorly reliant on cash and cheque



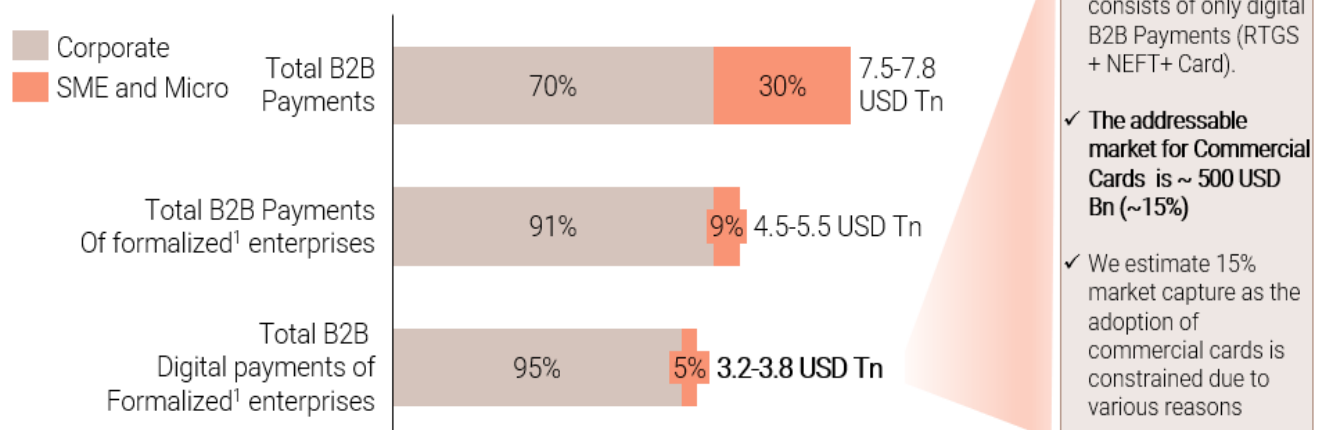
Source(s): RedSeer Estimates, RBI

India's B2B payments market is poised to grow from USD 7.6-8.0 trillion in Fiscal 2022 to USD 10-11 trillion in Fiscal 2026 as per RedSeer Estimates. In Fiscal 2022, cross-border payments contributed to 5% of the total B2B payments. In line with the global trends, India's B2B transactions involve most cash and cheque contributing to 55% of domestic B2B payments in Fiscal 2022. According to RedSeer, it is expected that domestic B2B payments in India will increase from USD 7.5-7.8 trillion in Fiscal 2022 to USD 9-10 trillion in Fiscal 2026 with commercial credit cards increasing their share to 0.6% in Fiscal 2026.

According to RedSeer, the total TPV for B2B online payments (including cross border) in India was ₹ [560] trillion (approximately USD 8 trillion) for Fiscal 2019, ₹ [490] trillion (approximately USD 7 trillion) for Fiscal 2021, and is expected to grow to ₹ [735] trillion (approximately USD 10-11 trillion) by Fiscal 2026, representing a CAGR of 8% between Fiscals 2021 and 2026.¹

While Commercial credit cards only occupy approximately 0.26% of the B2B payment market, they have a huge addressable market size of approximately USD 500 billion as of Fiscal 2022

Commercial Cards Addressable Market funnel
FY 22, In USD Tn



Why enterprises find it difficult to adopt commercial cards..

- × Payment Infrastructure and solutions to accept cards are few and still evolving
- × Banks and corporates use corporate cards sparingly – value added services on commercial card payment are less
- × MDR and Interchange rates are higher as compared to NEFT and RTGS
- × Credit limit, annual fees, transaction type limitations
- × Risk of default leading to interest charges, late fee etc.

Source(s): RedSeer Analysis, RBI, MCA, MSME Annual Report, Corporate data as of 28th Feb 2022. 1. Formalized is defined as MSME registered under UAM

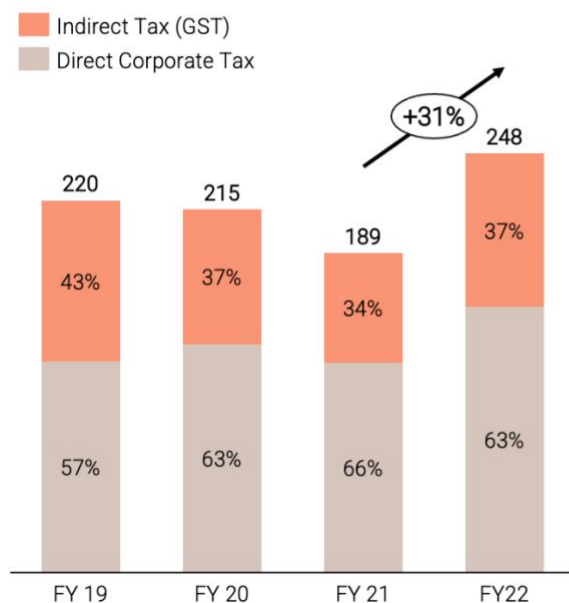
The entire business landscape of India comprises 64.8 million enterprises (including MSMEs). Most of the corporates are formalized, yet formalization levels remain low among MSMEs. Our addressable enterprises are formal enterprises. There are 1.4 million corporates and over

¹ 1 USD = 70 INR

8.4 million enterprises with Udyam registration as of April 2022. Formalized MSMEs and corporates are the target customers for commercial credit card offerings. These enterprises are increasingly shifting to digital modes of payments accelerated by disruptive events like demonetization, the implementation of the GST system and Covid-19. As per RedSeer Estimates, corporates and formalized SMEs form about USD3.2-3.8trillion in digital B2B payment value, with corporates forming the majority of B2B payment value. According to RedSeer estimates, it is expected that 15% of these transactions i.e., around USD 0.5 trillion) can be the total addressable market for commercial credit cards. At present, commercial credit card adoption is significantly low in India.






Tax payments made by corporates in India give rise to approximately USD 248 billion of payments opportunity and are increasingly digitalized, accelerated by a government push

B2G Tax Payments- India
USD Bn, FY19-22



B2G Tax Payments pain points and Govt Initiatives

B2G Payments – Pain Points

-  x Filling out multiple physical forms.
-  x Non-acceptance of digital signatures
-  x Pre-GST, businesses had to comply with multiple state and center taxation - most requiring challan
-  x Govt. bodies/departments non-acceptance of digital payments
-  x Multiple portals to make payments

Govt Initiatives to encourage digital tax payments

- ✓ After the implementation of GST in 2017, GSTN provided for an online portal for easy filing of tax returns on a month, quarterly and annual basis
- ✓ Government has also recently mandated e-invoicing in India from 1 January 2021 for Indian businesses via Invoice Reporting Portal (IRP)
- ✓ According 2018 GEAR ranking, India's made significant progress in government e-payment adoption to move up by 8 spots (28th position) and ranks better than China and Russia.

Source(s): IndiaBudget, gst.gov.in.

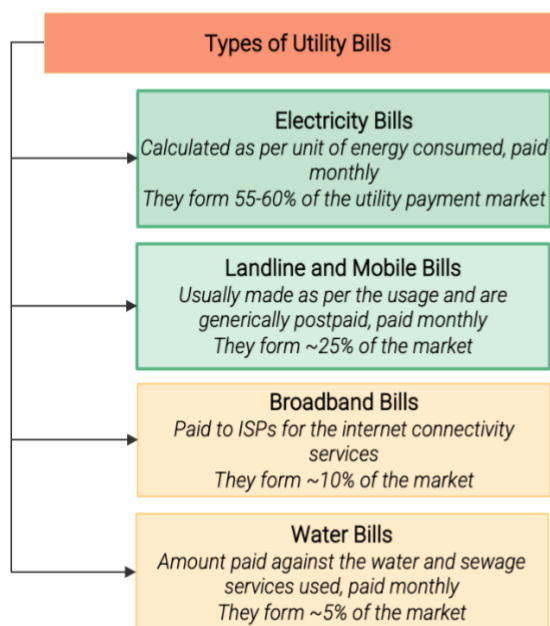
Another payment type which is rapidly digitizing is tax payments. As per India Budget and GST.GOV.IN, GST and Direct corporate tax collection in Fiscal 22 was approximately USD 248 billion. In March 2022, GST collection stood at approximately USD 15 billion as compared to approximately USD 13 billion collections in March 2021.

With the advent of GST and government bodies accepting digital payments, the tax payment segment presents a significant opportunity for B2B payment providers to integrate with the respective portal and enable digital payments. This is expected to assist organizations in automating a variety of manual operations as well as initiating payment transactions.

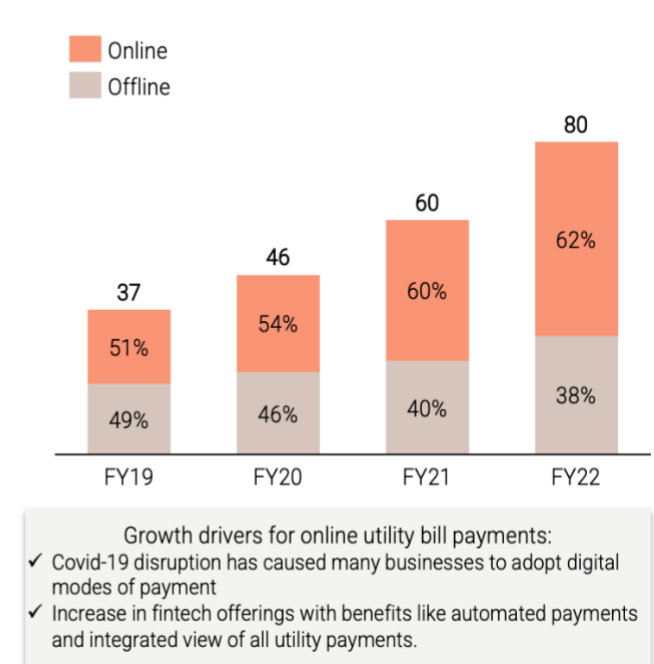
PayMate was one of the first B2B payments players to offer GST payments using commercial credit cards as a payment instrument on its platform.

B2B utility payments are an approximately USD 80 billion market in Fiscal 2022

Types of Utility Bills
Illustrative



Overall B2B Utility Bill Payments
USD Bn, FY19-22



Source(s): RedSeer Estimates

The utility bills majorly are of 4 types - landline and mobile bills, electricity bills, water bills and broadband bills.

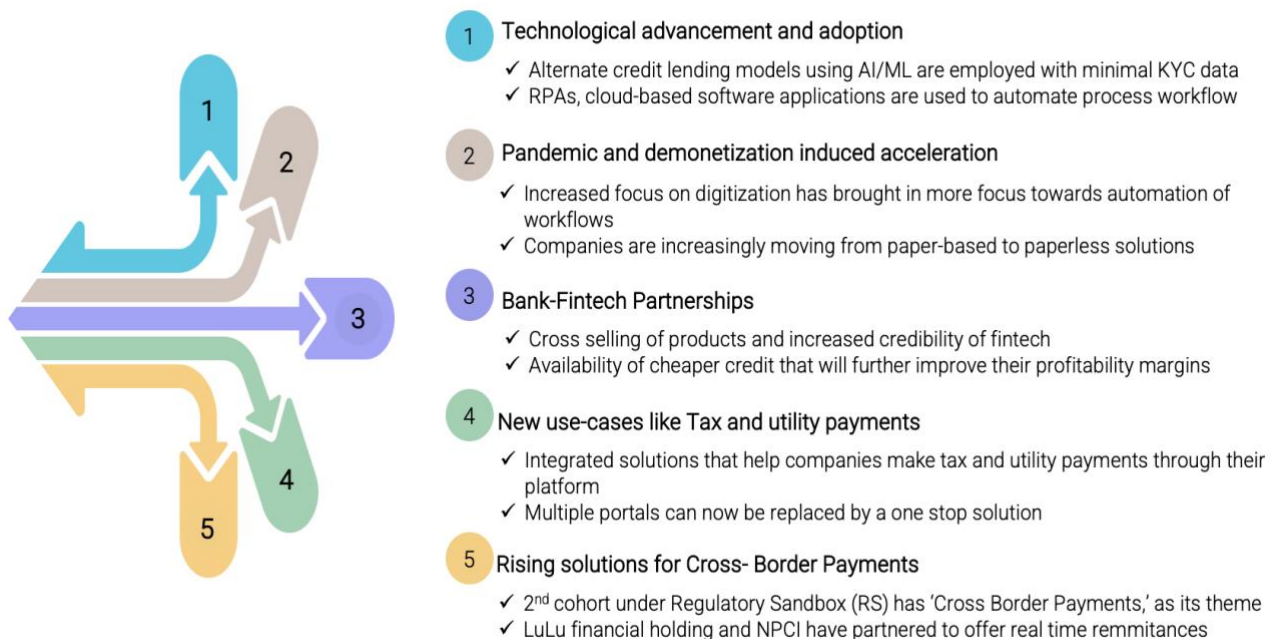
Electricity and landline bills form 80-85% of the market. Traditionally these utility bills were generally paid in cash or cheque at their respective offices or over the counter. To encourage digital adoption, in Nov 2014, RBI mandated Bharat Bill Payment System (BBPS), which was launched to offer integrated and interoperable payment services to customers. This indicates that the B2B utility bill payments provide a great opportunity for B2B payment providers in India.

By providing utility bill payment services, businesses can make payments via their commercial credit card or other digital modes. The commercial credit card payments would enable them to increase their account payable days and utilize that capital.

As per RedSeer estimates, the overall B2B utility payments market is USD 80 billion in Fiscal 2022. In Fiscal 2022, 62% of B2B utility payments were online.

In India, various factors are enabling the acceleration of digital B2B payments - *both domestic and cross-border*

B2B Payment Growth Drivers



Source(s): RedSeer Analysis

According to RedSeer, it is expected that digital B2B payments are going to grow at a rapid pace due to various factors. Currently, digital solutions are rising for account receivables and account payables, commercial credit cards, process workflow automation and so on. Robotic process automation (RPAs) and cloud-based software applications are the enablers of these automation processes. These would enable the payments processes to get much faster and more automated which reduces the risks of any manual errors and cost reduction. Furthermore, with the use of AI/ML alternate credit models are being created that would enable players to score the enterprises even when only short-term transaction details are available. These technological adoptions are expected to facilitate the growth of B2B payments.

Apart from technological advancement, demonetization and COVID-19 have induced growth in the use of digital modes of payment. Businesses have become more focused on improving workflows and technologies to process B2B payments and become digital.

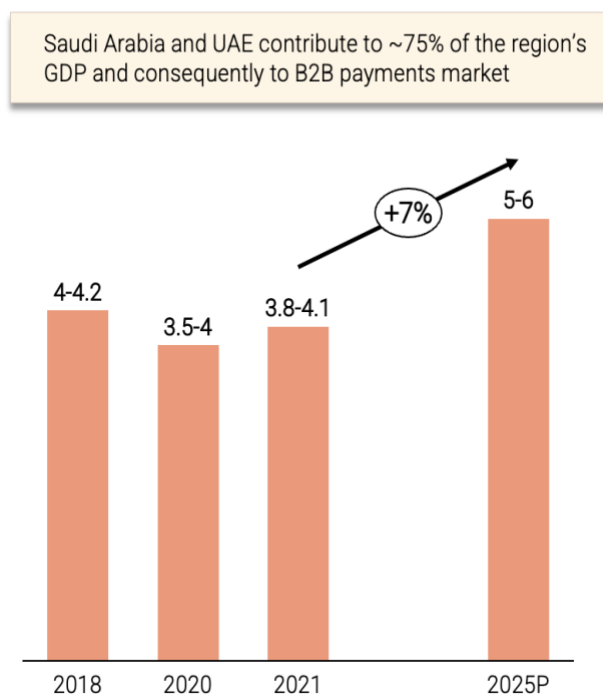
The government has launched several digital initiatives along with a flagship program – Digital India. The range of initiatives encompasses weather-monitoring systems women's safety apps, DigiLocker and many more.

According to RedSeer, B2B payment providers are looking into new avenues to expand their service line. Tax and utility payments provide a huge scope for these players to scale their businesses. The merits of these offerings are that enterprises would be able to use a single platform for making various types of payments and save their time and costs.

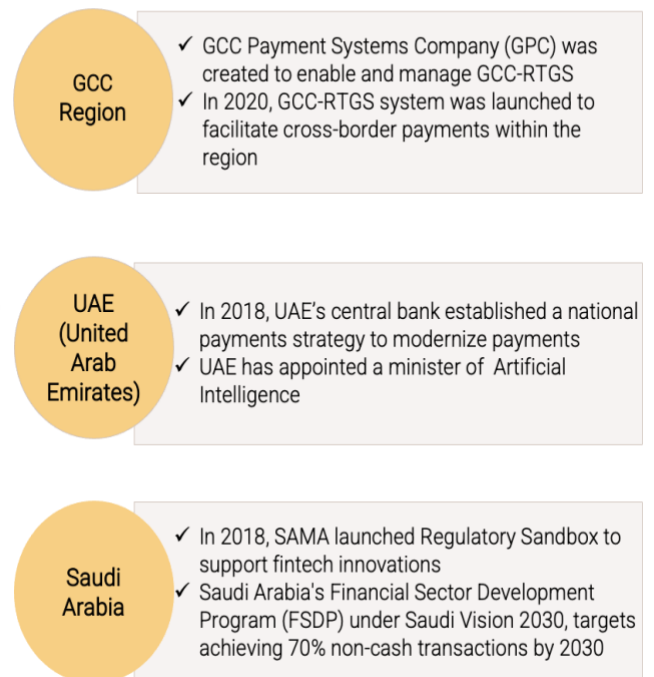
Cross-border payments refer to payments between payees and recipients who are both located in different countries. The cross-border payments theme has been launched under the second cohort of the Regulatory Sandbox by the RBI, which refers to live testing of new products or services in a controlled/test regulatory environment for which regulators may permit certain relaxations for the limited purpose of the testing. Furthermore, new partnerships are coming up to boost cross-border transactions. For example, LuLu Financial Holding and NPCI partnered to offer real-time remittances.

In CEMEA, the GCC region is an attractive approximately USD 4 trillion B2B Payment market, with regulators enabling the rise of digital payments and fintech

GCC region – B2B Payments (TPV)
USD Tn, 2018-2025P



GCC Developments enabling growth of digital payments



Source(s): RedSeer Estimates. GCC consists of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates

Among the GCC countries, Saudi Arabia and UAE are the two largest economies with around 75% contribution to the region's GDP. This FinxAR index, also known as the Index of Modern Financial Technologies, was launched by the Arab Monetary Fund to identify the efforts of Arab countries in enabling and promoting fintech adoption. The policies and legislation of these countries are key pillars of the index. The UAE leads the FinxAR index in the Arab

countries with a score of 75%, followed by Saudi Arabia and Bahrain with scores of 65% and 64%, respectively.

According to RedSeer, the Gulf Cooperation Council region is an attractive B2B payment market with market size of approximately USD 4 trillion in 2020. It is expected to reach USD 5-6 trillion by 2025.

LARGE OPPORTUNITY TO DIGITIZE B2B PAYMENTS

B2B Fintech players are expanding to increase engagement and drive monetization just like C2B players, who are becoming consumer super-apps today

B2B payment players are moving towards becoming full-stack service providers. This trajectory of product expansion is similar to retail payment fintech players, some of whom today offer a gamut of services – from payments to WealthTech for a retail consumer

B2B payments										
	Core Offering				Adjacent Offering					
Product Offerings	AR/AP	Payment through Commercial cards	Automation solutions	Invoice Discounting	Utility Payments	Tax Payment	Working Capital	Auto-NACH	Cross-border payments	Virtual Card
Current (2020)										
Future (2025)										

Retail (C2B) Payments							
	Core Offering	Adjacent Product Offering					
Product Offerings	UPI & Wallet	Payment Gateway	Ecommerce	Insurtech	Retail lending	Merchant lending	Wealthtech
Past (2016)							
Current (2020)							

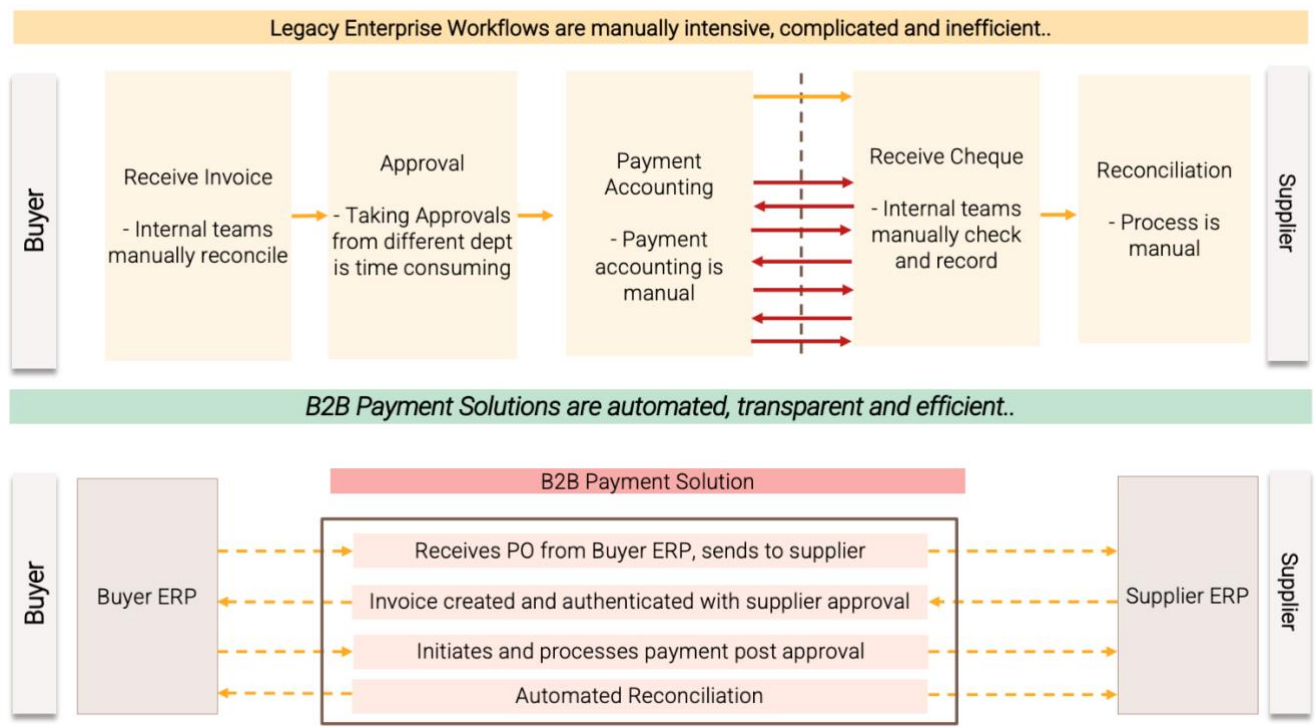
Source(s): RedSeer Analysis, RBI

Initially, the retail payment players offered UPI and wallet, e-commerce, and payment gateway facilities for their customers. However, with time their product portfolio expanded as they saw increasing traction for various adjacent offerings. This evolution in product offerings came as customers sought more convenience to use a single platform for various solutions than using multiple platforms.

Similarly, B2B fintech players would follow a similar trend as retail payment (B2C) companies. Currently, most B2B fintech players are in their initial stage with product offerings like AR/AP, enterprise automation solutions, invoice discounting and payments through commercial credit cards to facilitate digital B2B and tax payments. However, with technological advancement and rapidly growing businesses - businesses too will seek payment convenience to be able to make multiple payments across use-cases through a single interface. Gradually, these players will evolve to become full-stack service providers and will offer end-to-end payment solutions along with value-added offerings like working capital Auto-NACH cross-border payments and

invoice discounting to drive customer engagement and experience and open avenues for monetization.

Digital B2B payment solutions are transforming manually intensive, complicated payment flows in enterprises



Source(s): RedSeer Analysis

For a long time, businesses have relied on paper-based payments such as cash and cheque. Even front-runners of digital payments adopters, large corporations employed legacy enterprise systems which seldom offered end-to-end automation. Traditional B2B enterprise payment system offerings (legacy systems) are either wholly manual, or some part of the payment process is automated. They require businesses to buy and maintain IT infrastructure and systems leading to operational inefficiency and increasing costs to maintain. For this report, RedSeer has elaborated on cheque payments, but enterprises also use net banking, RTGS, and NEFT as payment modes.

B2B payments made by paper-based instruments (cheques) involve the following steps:

1. After the buyer receives the invoice and approvals have been taken from various departments the payment process begins

2. As a cheque is a paper-based instrument, in most businesses the accounting is manual. The team needs to deposit cheques in the bank and await 3-4 working days of settlement
3. The accounting team then cheque deposit and make manual entries of receipt and reconcile accounts





The advent of cloud-based solutions, particularly SaaS solutions has brought a significant change in how enterprises view and use IT infrastructure. Cloud-based B2B payment systems are more cost-effective, easier to maintain and seamlessly integrate with underlying ERP and automate process flows end-to-end. Moreover, SaaS solutions have the agility to be scalable and suit the needs of a fast-changing business and technological environment. SaaS solutions are disrupting the payment ecosystem and workflows among enterprises from manually intensive payment to complete automation which also provides dashboarding and insights into capital management.

Owing to the benefits of interoperability and affordability of cloud solutions globally and in India, according to RedSeer, there is a shift from paper to paperless mode of payments not just in the vendor-distributor network but also for other payments such as employee benefits, tax payments and utility payments.

Automation solutions have brought about disruption and are changing cumbersome, time and labour-intensive reconciliation, auditing and accounting processes to seamless workflows that are real-time and error-free.

Integrated, transparent and accurate digital B2B payment solutions benefit the entire business ecosystem

Benefits of using digital B2B payment solutions

 Buyer	 Bank	 Supplier	 Government
<ul style="list-style-type: none">✓ Cost optimization – Advanced payment solutions help businesses reduce their cost as it provides a comprehensive solution for all their needs✓ Risk Management – Businesses can reduce their risk of defaulting in payments and frauds and control the payment process✓ Process automation, dashboard and analytics – Businesses can have better control of managing their vendors using analytics in terms of payments and invoices	<ul style="list-style-type: none">✓ Increased customer reach – Banks can reach an untapped market by providing better-priced products✓ Limited vendor approvals and proper monitoring – Banks would get access to payment details to better underwrite✓ Approval workflows – As the entire process of approval and validation gets digitized, banks can approve products at a faster rate	<ul style="list-style-type: none">✓ Faster Payment to free working capital – Suppliers will receive faster payments that will enable them to use that to expand their businesses✓ Better credit visibility – Faster payments will reduce the credit amount and give them better visibility of their expenses and profit margins✓ Fraud management – Using payment solutions suppliers would understand the risk involved while dealing with a buyer and help them take better decisions	<ul style="list-style-type: none">✓ Accurate and Transparent taxation – Using digital payment solutions businesses will be able to keep a track of their direct and indirect tax payments✓ Prevention of tax evasion – Businesses will not be able to evade taxes using malpractices due to digital payments and invoicing infrastructure✓ Improved tracking of B2B transaction – Will enable Government to keep a tab of their transactions and flag mishaps

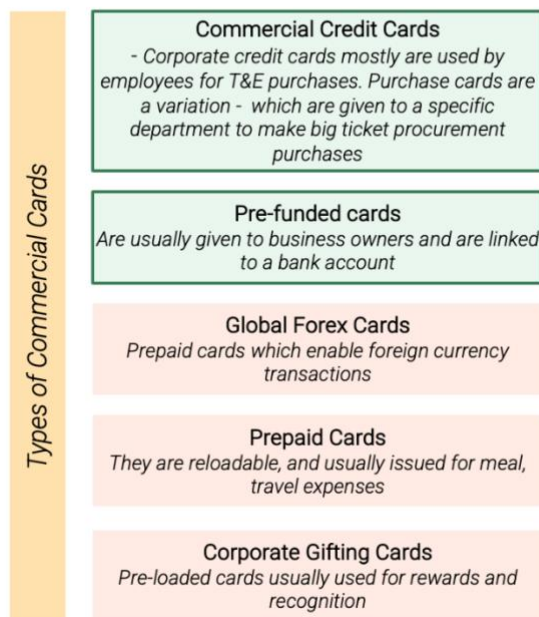
Source(s): RedSeer Analysis

Digital B2B payment solutions benefit all stakeholders involved in the ecosystem, including the buyers, banks, suppliers and the government.

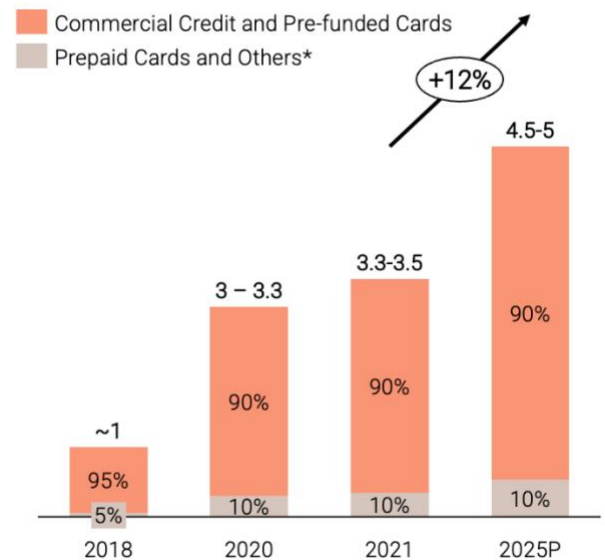
Buyers can automate manual tasks such as generating invoices, account reconciliation, approval workflows across departments and initiating payments. Automating payment flows also enables platforms to capture payments made through various departments for different use-cases. Platforms provide analytics leveraging technologies such as big data, artificial intelligence, and machine learning to provide actionable insights. Digital B2B payment platforms also help schedule and manage timely payments, which leads to a reduction in their payment defaults.

Globally, Commercial cards are growing quickly – with commercial credit cards forming the majority of the market

Types of Commercial Cards
Illustrative



Global Commercial Card Market – Total Payment Value
In USD Tn, 2018-2025P



Source(s): RedSeer Estimates

Note: *Prepaid Cards and Others include gifting cards and forex cards

One of the versatile modes of digital B2B payments is commercial cards. Commercial cards can be classified into various categories:

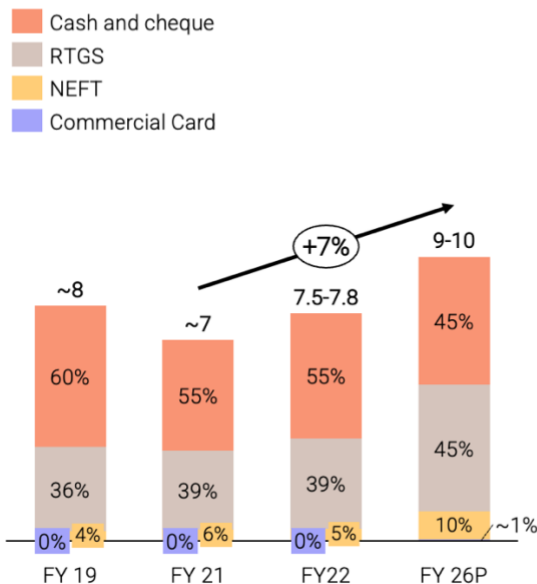
- Commercial credit cards - Generally used for travel and entertainment purchases by the employees. Another variant of commercial credit cards is purchase cards. Purchase cards are usually given to a specific department to make big-ticket procurement purchases.
- Pre-funded cards - These cards are generally given to business owners and are linked to a bank account. The transaction value is deducted from the account balances rather than added to the enterprise's debt.

- Global forex cards - A forex card is a safe and easy way to transact in foreign currency while travelling.
- Prepaid cards - These commercial credit cards allow businesses to load money onto the cards. These purchases mostly pertain to travel and entertainment purposes.
- Corporate gift cards - They are pre-loaded cards powered by switching networks to accept payment across a wide range of merchants. Typically, businesses use them for reward and recognition programs.

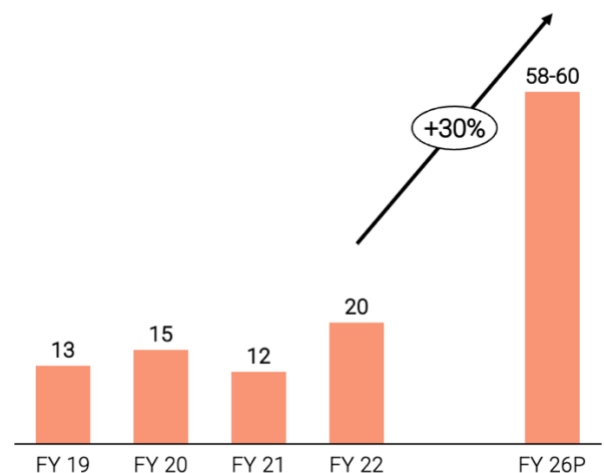
As per RedSeer estimates, the global commercial card market is dominated by commercial credit cards and is slated to reach around USD 5 trillion by 2025.

Commercial credit card forms around 0.26% of the total B2B Payments market in India

Mode of B2B Payments Market (Domestic)
USD Tn, FY 19-26P



Commercial Card Market - Includes all types of commercial cards
In USD Bn, FY19-2026P

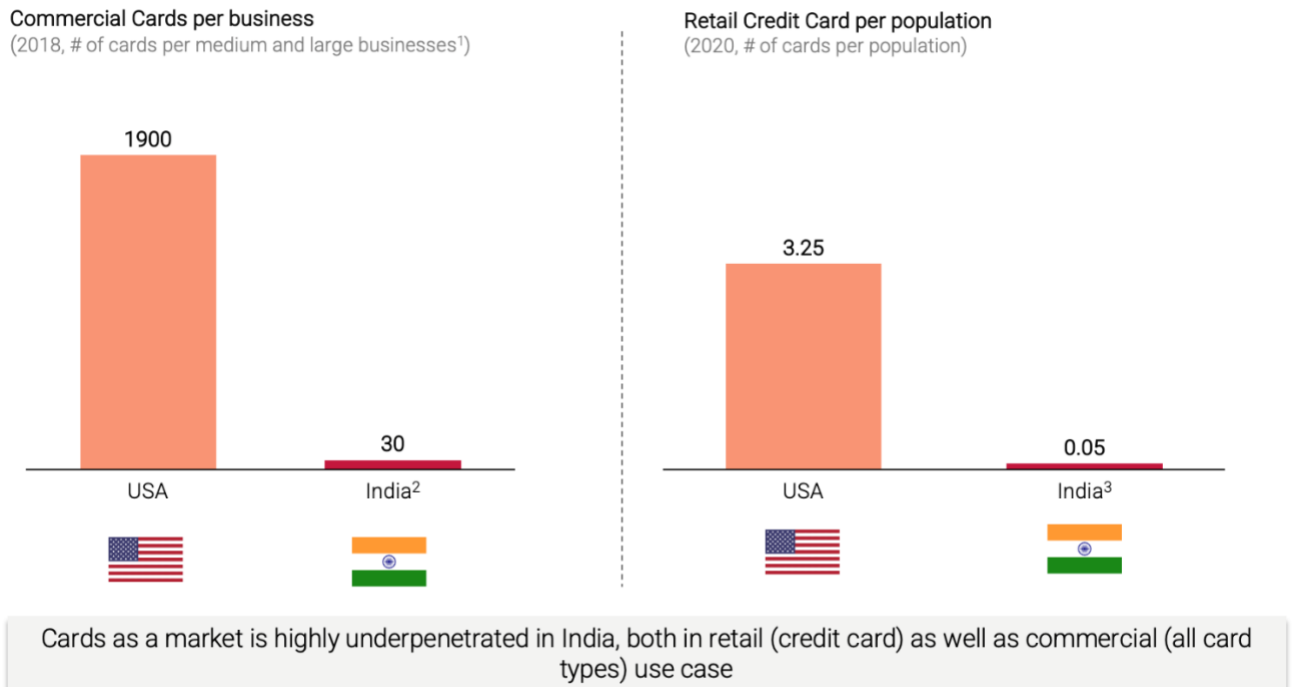


Source(s): RedSeer Estimates, RBI.

The commercial credit card market in India is still evolving. At present, the typical use cases are for travel and entertainment purposes. Purchase cards are widely used across large corporations for procurement purchases. However, due to a lack of conducive growth in payment acceptance infrastructure in the business landscape, commercial credit cards are not widely used as a payment mode for digital transactions. Commercial credit card usage is largely coupled with the availability of a vendor accepting card payments. However, the landscape is changing with innovative B2B digital payment platforms in facilitating the issuance of cards and solutions that help businesses use commercial credit cards to transact with non-card accepting vendors.

The commercial credit card market was USD20 billion in Fiscal 2022 and is expected to grow at a CAGR of 30% to become a USD58-60 billion market in Fiscal 2026, as per RedSeer estimates. In Fiscal 2022, the commercial credit cards constituted around 0.26% of the total domestic B2B payments market in India, which according to RedSeer is expected to grow to capture 0.6% market share by Fiscal 2026.

India has a lot of headroom to grow as it is an underpenetrated commercial credit card market and retail credit card market



Source(s): RedSeer Analysis, BIS, US Census

Note: 1. Businesses are defined as medium (more than 100-499 for the USA, 20-100 employees for India, and large greater than 500 for the USA, greater than 100 for India) 2. For India, it's 2019 3. For India its FY22

While the cards segment is growing at 20% CAGR due to the increasing popularity of cards, there are only 0.05 cards per capita in India as compared to the USA which has approximately 3 cards per person.

For the commercial credit card enterprise adoption analysis, only medium and large enterprises have been considered as they are the major adopters of commercial credit cards. Even in the commercial credit card segment for medium and large businesses, India has only 30 cards/business as opposed to 1900 for the USA, as of 2018. This under-penetration can be attributed to the lack of payment acceptance infrastructure and payment solutions to streamline B2B solutions.

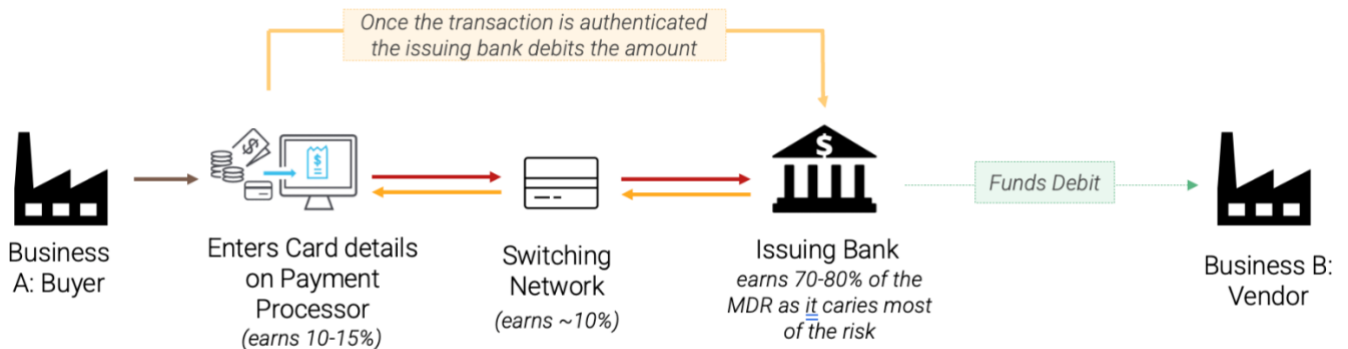
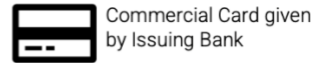
Similarly, in the CEMEA region, the perception is that commercial credit card use is only for travel, entertainment, and fuel-related expenses or simply as an emergency payment tool. Outside of these three expense categories, the region sees cards capturing less than a fifth of total expenses.

According to a Visa study in Saudi Arabia, tax, government payments, insurance, utilities, and stock/inventory account for 40% of total monthly expenses of Saudi companies but cards capture no more than 10% of total expenditure in any of these categories

Another barrier to commercial credit cards is acceptance. According to a Visa study, four in five companies in the UAE report that less than half of their suppliers accept cards.

A conventional B2B commercial credit card payment via payment gateway provides payment solutions at a point, while account reconciliation remains to be conducted by businesses

Typical B2B Commercial Card Payment Process Flow
Illustrative process flow for Buyer-Vendor Payment



Shortcomings of conventional commercial cards used at Payment Gateway:

- x Provides payment solution only at a point – Not possible to make multiple vendor payments at the same time
- x Account reconciliation and approvals of these payments' entries require manual intervention
- x Limited to use cases where card acceptance infrastructure is available

Source(s): RedSeer Analysis

Note(s): Payment Processor will include, Payment Gateway, B2B Payment solution etc.

B2B card payments involve the following steps:

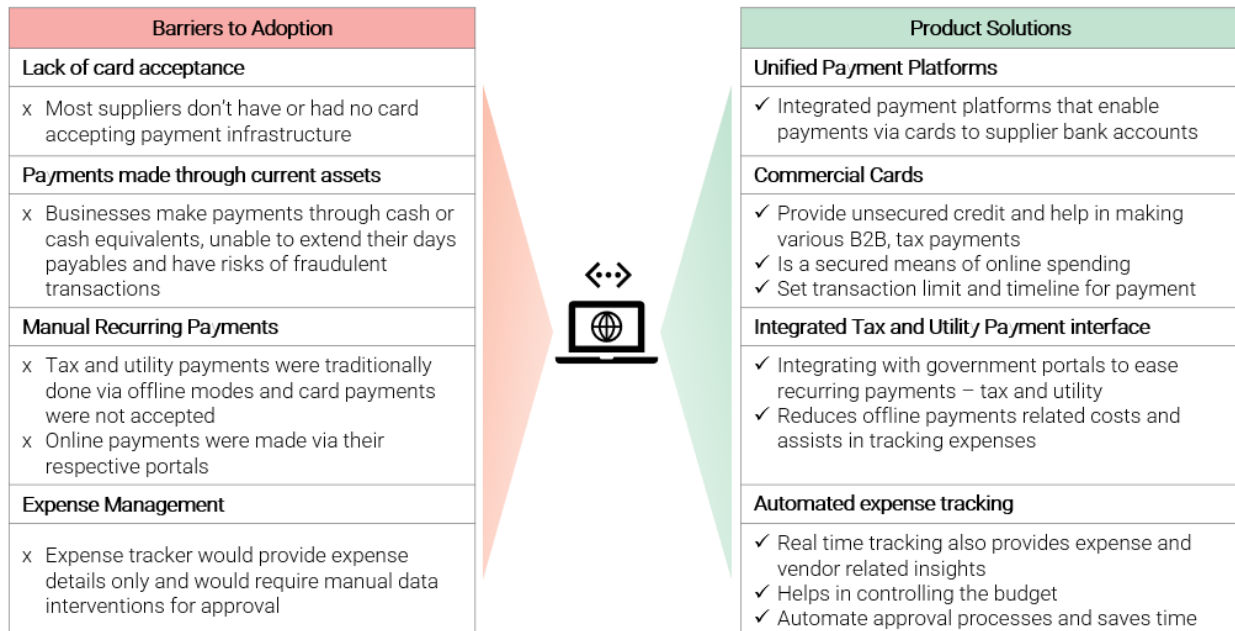
- When the buyer wants to make payments against the invoices raised by the supplier, it enters its card details over the payment processor.
- The payment processor submits these details to the appropriate card network and the issuing bank to enable the transaction
- Once the issuing bank authenticates the user, the payment processor initiates the payment by asking the buyer for his card pin or one-time password.
- Post-approval of the transaction, the issuing bank charges the buyer for the amount of the transactions.

In this entire process, the account reconciliation is done by the buyer and the supplier themselves, and the buyer can make the payments to a single vendor at a time via this process. This process makes it difficult to make multiple payments to different vendors, and reconciliation is done manually, making it prone to errors.

Using a commercial credit card without an automation platform to support payments would require the card to be used at the PoS machine at each vendor payment destination. For

enterprises, it is cumbersome to manage these standalone payment entries and reconcile them while the authorized department makes payments in a serial manner.

Fintech platforms are tackling barriers to adoption and developing tools to integrate commercial credit card transactions



Source(s): RedSeer Analysis

With the rise in digital solutions that offer a comprehensive product suite around commercial credit card offerings, the adoption of commercial credit cards will see accelerated growth in the coming times.

Traditionally there has been a lack of card acceptance infrastructure among the suppliers. Now, payment platforms are integrated with payment gateways that enable card payments to supplier's bank accounts. Digital payment solutions are increasingly integrated with government portals to enable seamless and one-portal interface transactions for businesses.

Commercial credit cards today are no longer restricted to T&E purchases, businesses are using commercial credit cards to make vendor, utility, even government-department or tax-related payments. The major use case has come up which are single-use cards that provide more security and reduce the risks of fraudulent transactions while keeping a track of multiple card payments and reconciling them with account payables. To enable recurring payments like government tax payments and utility bills, these digital solutions are integrated with government portals to enable payments via a single platform.

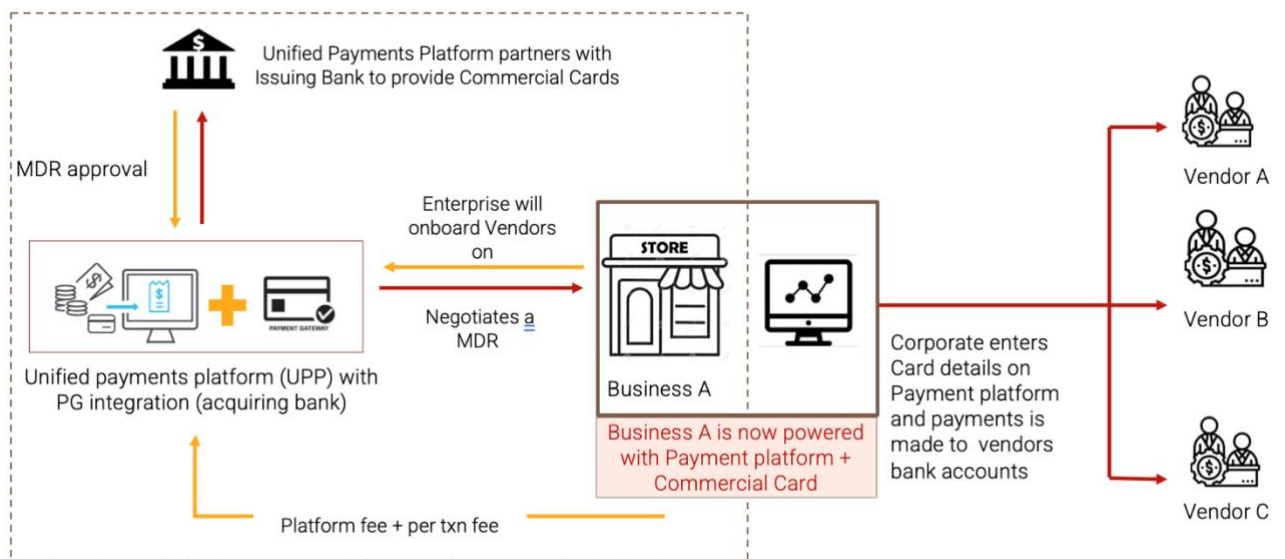
Traditionally, when it came to tax payments, debit cards, NEFT, cash and cheque were more commonly used whereas credit card payments were not an option. Even when businesses wanted to pay digitally, one had to log into various portals and make payments which were time-consuming, manually intensive and prone to errors.

With the use of analytics and ML algorithms, these solutions provide an extensive automated tracking of expenses. These include real-time insights, customized dashboards to track

various metrics, provide vendor-related insights and help in maintaining a healthy buyer-supplier relationship. Furthermore, it has automated the process workflows which were previously manually driven.

A unified payments platform offers a seamless B2B commercial credit card payments flow, enabling payments to vendors' bank accounts directly

Typical B2B Payment Economics through Unified Payment Platform
Illustrative



Source(s): RedSeer Analysis. MDR: Merchant Discount Rate

As B2B payments require significant real-time and high-quality inter-connectedness with customer systems, the involvement of technology-based payment platforms helps businesses to get rid of the time-consuming tasks in the account payable process and smoothen their journey. These cloud-based solutions would partner with issuing banks to provide commercial credit cards, which integrate with a payment gateway to process the transaction, onboard the vendors, help negotiate the merchant discount rate ("MDR") and make timely payments to multiple vendors in one go. These cloud-based solutions also help in uploading the digital invoices, assisting in the verification of invoices and purchase orders, initiating, and confirming the payments made between the two parties and reconciling the accounts of the buyer. A unified solutions platform helps businesses make all kinds of payments to vendors, utility providers and government using one portal.

A unified payments platform not only facilitates end-to-end payment flows but also helps manage working capital and overall process automation

Typical B2B Payments vis-a-vis Unified Payment Platform
Illustrative

	B2B Payment via Legacy ERP	B2B Payment with Commercial Cards	B2B Payment with Commercial cards + Unified payment platform
<i>Invoice Processing and Reconciliation</i>	Manually intensive process	Manually intensive process	✓ A unified payment platform automates approvals and invoice and PO matching, along with reconciliation of payments
<i>Multiple Vendor Payments</i>	Involves manual effort on the part of accounting teams	Multiple vendor payments are difficult as many don't accept cards	✓ A unified payment platform allows buyer to make payment directly to vendor bank account using card
<i>Payment Mode Supported</i>	RTGS and NEFT, Net banking	PoS, Net banking, ERP systems (if integrated)	✓ RTGS, NEFT, IMPS, Netbanking, Commercial Credit Cards and Debit Cards
<i>Making Government Payments (GST, Direct Tax)</i>	Tax payments need to be made and accounted for separately	GST payments on GSTN not allowed through credit cards	✓ A unified payment platform processes Credit Card transactions towards GST payments through its portal.
<i>Charges</i>	Transaction charges for NEFT and RTGS initiated through online modes (Net Banking, mobile banking, etc.) is Nil	1.8-2.5% of Transaction value	✓ Cards 1-2% per txns ✓ Netbanking 30 INR/txn
<i>Value Added functionality</i>	Depending on in-house solutions	Depends on issuing bank (mostly interest free credit period is the major benefit)	✓ Working Capital Optimization, Process and Payment Automation

Source(s): RedSeer Analysis

RedSeer has analyzed the payment process flows of B2B payments in the following scenarios:

- When enterprises make payments using typical legacy ERP systems, they need dedicated teams who manage legacy ERP systems that process, reconcile, and gather approvals for invoices raised. The ERP systems are not integrated directly with a payment system and hence they have to choose another portal for payments such as tax and utility.
- When enterprises choose to make payments using commercial credit cards, one of the major hurdles they face is that vendors or suppliers do not have the payment acceptance infrastructure to accept payments. Legacy ERP systems also may not have commercial credit card integrations. Moreover, legacy ERP systems and the GST portal do not allow payment to be made directly via a commercial credit card.
- When enterprises opt for technology service providers which support commercial credit cards, the technology service providers enable the enterprises the capability to accept commercial credit cards and provide other value-added services. The technology service platform integrates seamlessly with the enterprises' existing ERP system and provides a payment gateway system, which allows companies to use commercial credit cards to make multiple vendor payments directly into their bank accounts and to make utility and tax payments over a single portal. It provides a

platform for invoice discounting for the buyer and supplier ecosystem, which helps free up working capital and optimizes ROI for the merchant.

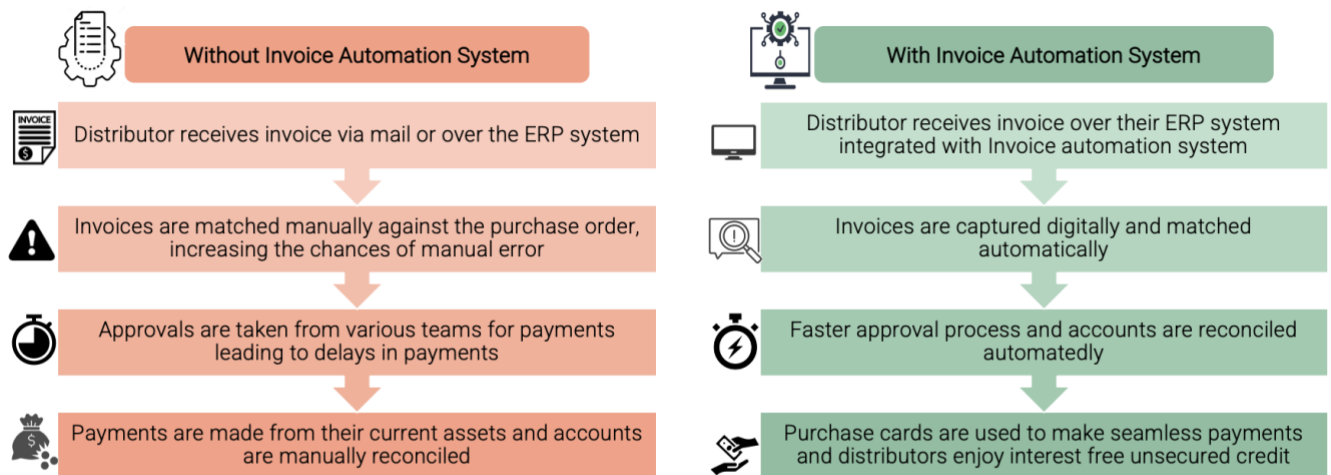
PayMate was one of the first full-stack supply chain payments automation platforms in India for enterprises and their supply chain. Full-stack is defined as a player who offers commercial credit cards as a payment instrument, GST, direct tax and utility payments, vendor payments (accounts payables), collections (accounts receivables), automated reconciliation, and invoice discounting (early payment discounting) and invoice financing.

PayMate also offers integration with ERPs through APIs and host-to-host based SFTP integrations.

ADJACENT DIGITAL-LED OPPORTUNITIES IN B2B PAYMENTS

An invoice automation system helps achieve considerable time and effort savings in the payments process

Comparison between payments process - with and without automation system



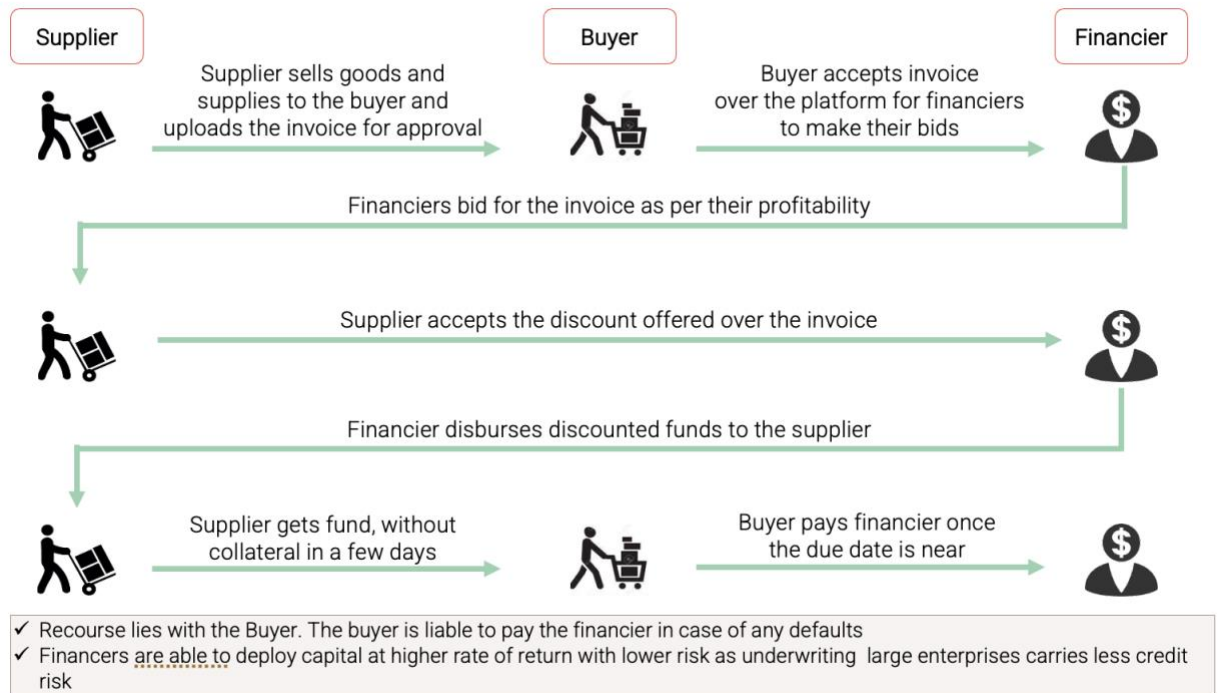
Invoice Automation System reduces manual effort and leads to increased time savings:

- ✓ Employee costs decrease as the manual effort in account verification and reconciliation reduces
- ✓ Costs arising due to manual error and process delays shrink leading to faster process approvals and payments
- ✓ Approval rate is faster and helps prevent delay in payment and reconciliation
- ✓ Processing time reduces leading to increased time savings and efficiency

With the help of an invoice automation system, businesses derive multiple benefits. As the system gets connected with the ERP, it automates the workflows, speeds up the approval process and reduces processing times. It also helps in (i) reducing costs arising due to manual error; and (ii) increasing the process efficiencies due to automation and account reconciliation. The major cost that gets reduced is employee costs, as there is a reduction in manual effort in areas of tedious account and invoice verification and reconciliation processes.

A value-added offering of payment automation is Invoice discounting, which solves for working capital constraints

Invoice Discounting Process flow

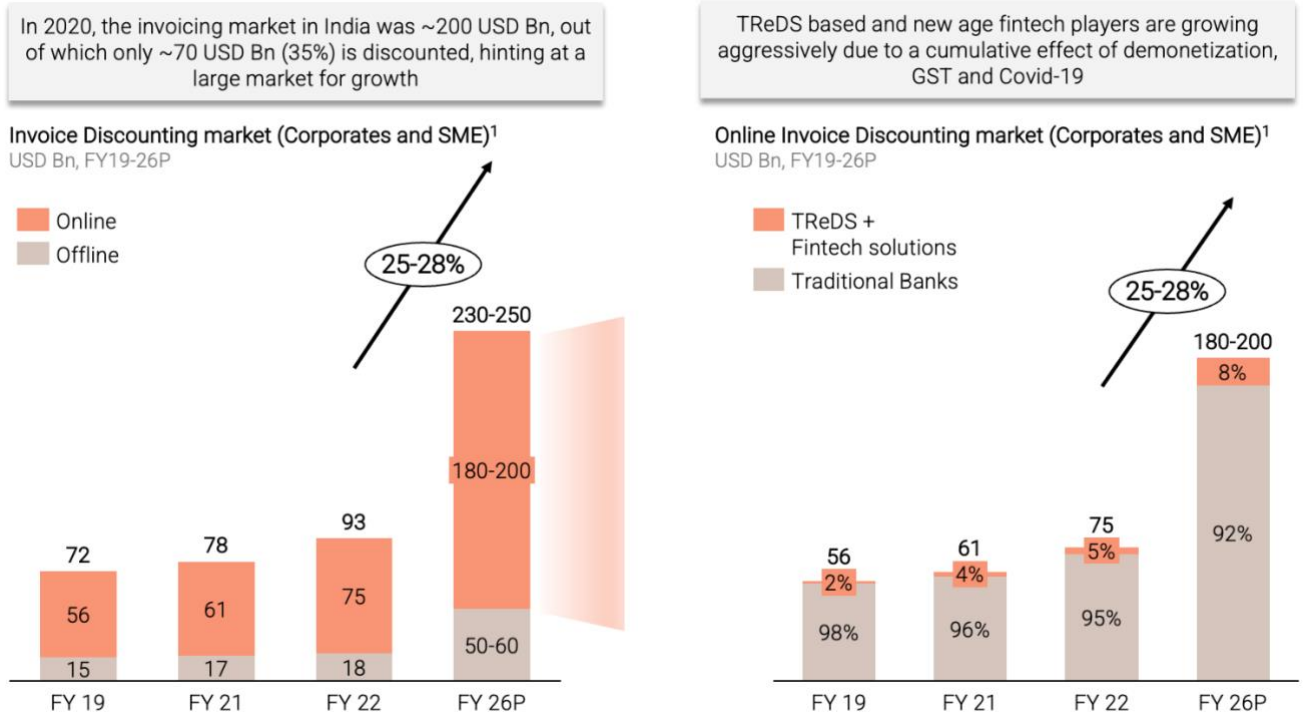


Source(s): RedSeer Analysis

One of the digital-led adjacent opportunities for B2B digital payments is invoice discounting. Invoice discounting allows firms to use their receivables to obtain financing for any short-term needs.

When the invoice is uploaded by the supplier and accepted by the buyer, financiers start bidding as per their profitability margins. Once the supplier accepts the discount offered by the financier, the discounted amount is disbursed to the supplier. On the due date of the invoice payment, the buyer would pay the amount to the financier. In this process, the buyer is liable to make the payment to the financier. This helps businesses optimize their credit needs and meet their working capital requirements easily and quickly.

In India, online invoice discounting is a fast-growing market, expected to reach USD 180-200 billion by Fiscal 26



Source(s): RedSeer Estimates, Company Reports.

Notes 1. For this analysis, we have only considered invoice discounting undertaken by corporates and top credit rated (up to BBB) SMEs

In India, invoice discounting is undertaken through offline and online modes. In the offline mode, the buyer would raise capital from the banks or NBFCs by submitting their approved invoices (approved for the buyer) to them. The financier would then disburse the discounted amount to the buyer. In this mode, the recourse lies with the buyer who will repay the banks. The entire invoice discounting market is currently USD 93 billion and is expected to grow to USD 230-250 billion market in Fiscal 2026, as per RedSeer estimates.

According to RedSeer estimates, the size of the online invoice discounting market is expected to be USD 75 billion in Fiscal 2022, growing at a rate of 25-28% CAGR and expected to reach USD 180-200 billion in Fiscal 26. The online channel includes TReDS, fintech solutions and traditional banks. At present, traditional banks are the major online players accounting for approximately 95% in Fiscal 2022.

RedSeer estimates an increasing shift to online Invoice discounting, as it reflects transactions in real-time, is faster and more transparent

Comparison between Traditional and Online discounting

	Traditional – Offline Discounting	Online Discounting
Invoice Verification	The buyer must issue approval / LC for vendor to get credit from financier. It's a time-consuming process	Real time approvals from buyer
Recourse/ Credit Risk	The repayment responsibility lies with the vendor who incurs higher cost of funding. SME also face lower credit rating due to lack of information with financiers	The repayment responsibility lies with buyer – lesser credit risk for financier and low cost of fund for vendor as buyer has better credit rating
Cost of funding	Vendor has restricted options	Multiple financiers for vendor to optimize cost of funding Technology platforms allow for bidders to change their bids, withdraw and re-bid seamlessly. The co-ordination and payment flows are inbuilt in the integration systems
Technological Capability	Financiers, buyer and supplier communication happens in silos	Real time approvals, increased transparency due to a end-to-end digital platform

Govt Initiatives have been instrumental in driving the shift from traditional to online:

- ✓ In 2014, RBI introduced TReDS to facilitate the discounting of invoices as well as bills of exchange – Invoicemart, M1xchange and RXIL were soon formed to undertake invoice discounting
- ✓ RXIL and GeM have partnered to help CPSE to finance MSME payments

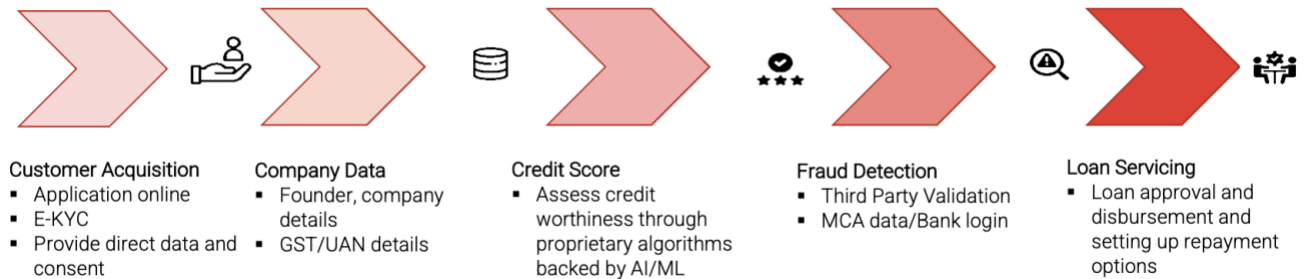
Source(s): RedSeer Analysis

The online and offline invoice discounting processes have stark differences. The traditional model requires the buyer to provide approval for the vendor on the invoices raised to get financing from the financiers and the recourse lies with the supplier. Furthermore, due to the unavailability of their credit history, their cost of funding is higher. Furthermore, they have limited financiers available as not everyone is willing to provide them with credit.

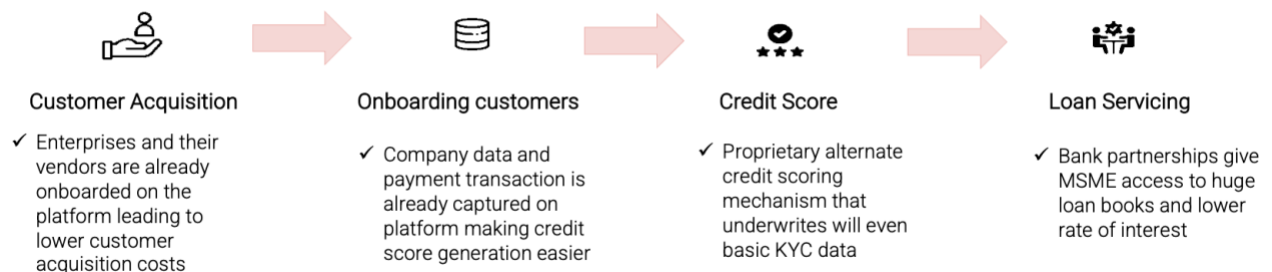
These challenges are addressed in online invoice discounting platforms where the approvals happen in real-time, recourse lies with the buyers and the cost of funding for vendors decreases due to a better and strong credit history of buyers. Thus, the real-time transactions, faster approvals and transparent processes place the online invoice discounting model on a growth trajectory in future. Government initiatives like the launching of TReDS platforms in 2014 for facilitating the financing of trade receivables of MSMEs from corporate and other buyers, including Government Departments and Public Sector Undertakings (“**PSUs**”) and GeM (“**Government e-Marketplace**”) RXIL partnering up to enable CPSEs, PSUs, and government departments to finance their payments to MSMEs will further support the growth of online invoice discounting platforms.

Payment automation platforms have an edge over typical digital lenders – existing customer base and payment transaction history

Typical digital MSME lender



PayMate MSME Digital Lending Model has inherent benefits

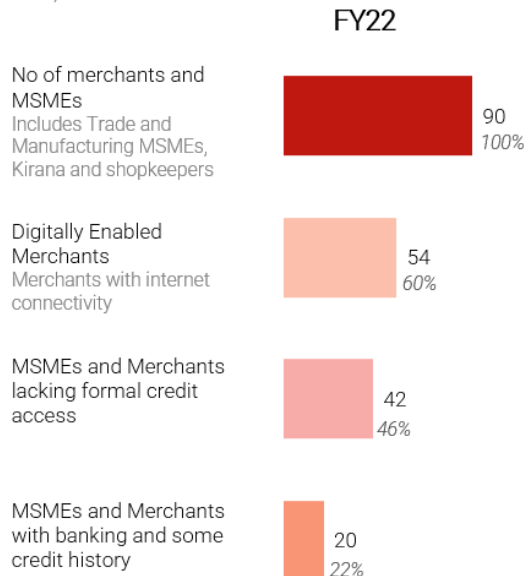


For an MSME to get loans from digital lenders, the journey of a customer across various offerings involves an online application to be made by them, furnishing data about the founding company, financials, and basic documentation at the time of registration. Alternative credit scoring systems, in addition to traditional bank statements and credit bureau ratings, are used by digital enterprises to underwrite loans. Loan servicing and tenure, as well as prepayment options, are all customizable.

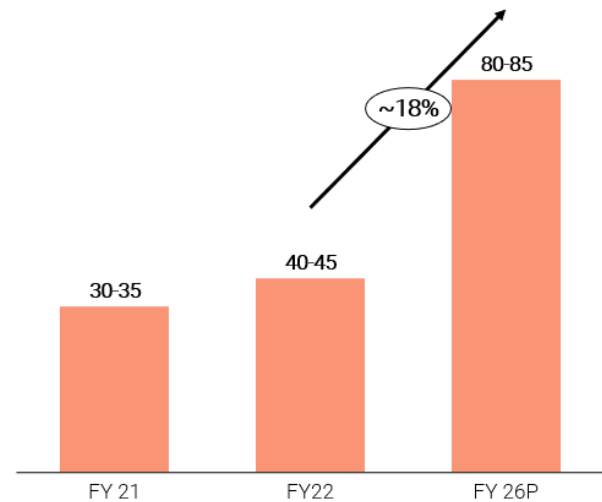
Due to the existing customer base and payments-based lending model, Payment automation technology providers have innate advantages. The customer acquisition costs are lower as the enterprises and their suppliers are already onboarded on the platform which helps them in keeping track of their transaction details. Through their alternated credit rating model that works on the transaction details and bank statements, they can build strong and swift credit rating mechanisms for these enterprises and service them with loan offerings.

Digital lending is ripe for growth as businesses are digitizing, translating to approximately 45 USD billion opportunity in Fiscal 22

India Digital Lending Merchant Funnel
FY22, In Mn



Addressable market for MSME and merchants digital lending
Disbursals, In USD Bn, FY21-FY22-FY26P



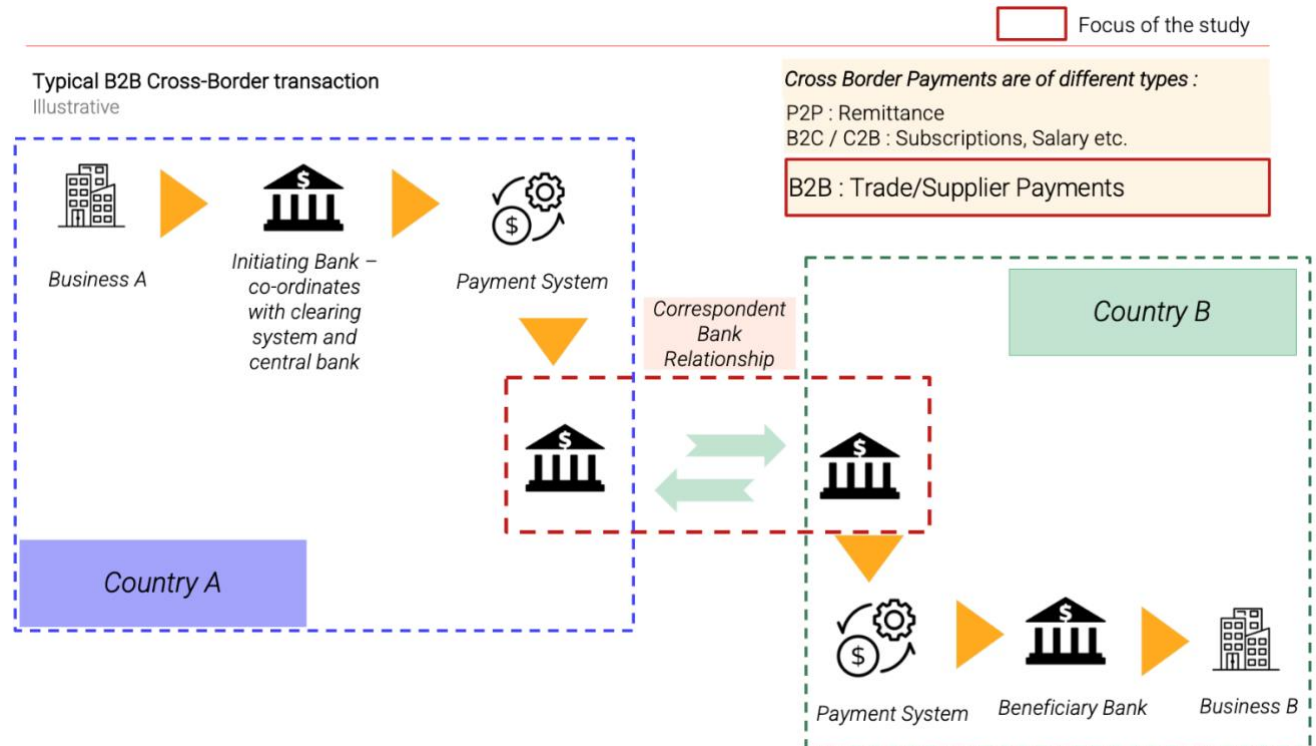
Source(s): RedSeer Estimates

While MSME and merchants form a universe of 90 million, formalization levels are low which makes access to formal credit tough. However, MSMEs and merchants are rapidly digitizing with 54 million digitally enabled merchants in Fiscal 2022. For the digital lenders, these merchants and MSMEs without formal credit access and with banking history are the target customers. The addressable market of MSMEs and merchants with banking and credit history is pegged to around 20 million as per RedSeer estimates.

The payment-backed lending market is USD 40-45 billion in Fiscal 2022 and is set to grow at 18% CAGR to reach USD 80-85 billion by Fiscal 2026. Payment-based lenders are at lower credit default risk as they are aware of payment patterns and the volume of transactions of the merchants and MSMEs. With the economy picking up, merchant lending is bound to pick up as the demand increases.

The digital lending market offers a variety of tenure options, as well as support for various merchants and low effective interest rates. Despite being unsecured, payment-based financing is backed by real cash flows, making underwriting easier in the absence of a traditional credit score or collateral.

Cross-border payments which are conventionally undertaken through banks



Source(s): RedSeer Analysis

Cross-border payments can be done between various parties. The P2P transfer is called remittance where the individual sends money to another individual in a different nation. B2C/C2B payments involve businesses and individuals where the payments could be in the form of salary, subscription fees, refunds, etc. between the two parties.

The focus of the study is B2B cross-border payments which involve buyer-supplier relationships. In this, the buyer makes payments for the goods or services procured by the supplier.

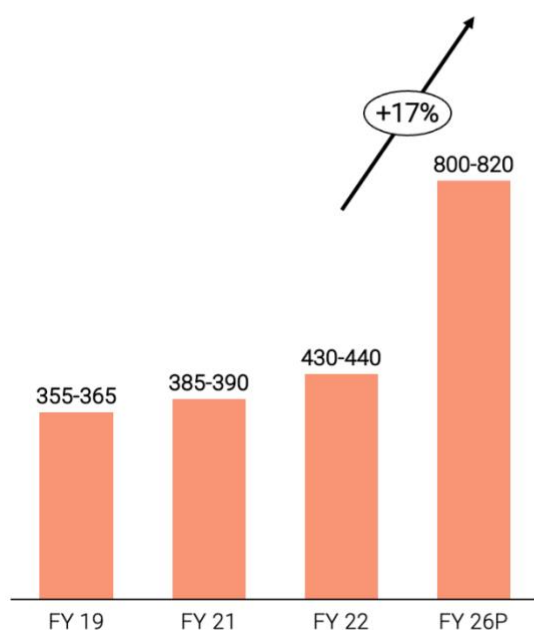
The cross-border B2B payments process is complex and involves the following steps:

- Business A making payments initiate the money transfer through a payment system and processing bank. The central bank will accept the forex transfer request for the amount to be transferred.
- Details of the recipient are fed into the payment system which is a payment gateway that acts as the switch between the various entities in the payment network, allowing funds to be securely passed between the customer, merchant, and the banks. The payment system initiates the transaction with the help of a bank that has a branch or a partner bank in the receiver's nation.
- The funds will then leave the buyer's bank and reach that bank's counterpart present in the merchant country, ready for remittance. Then the remittance is transferred to the merchant's bank for settlement via the payment system.



- The fee structure generally involves transfer fees and currency conversion fees. Transfer fees are the processing fees incurred for the transaction value. It generally consists of a fixed and variable fees component. Currency conversion fees are the rates charged by the banks to deposit the amount into the receiver's currency.

In India, Cross border B2B payments is approximately USD 430-440 billion market, with fintech having the advantage of lower transfer fees

Cross border B2B Payments
USD Bn, FY 19-26P



Cross Border Payment – Banks versus B2B Fintech Solutions

	 Traditional Banks	 B2B Fintech Solutions
Speed	Happen through a network of correspondent banks leading to increased time	Advanced technology facilitates quicker transfer
Cost of transfer	Involvement of multiple financial institutions lead to increased costs	Multiple costs are eradicated providing better exchange rates
Transparency	Lack of transparency about the payments	Provide details and insights of each stage of payment
Fraud and data security	Legacy systems are not competent to eliminate fraud and security risks	Have advanced security features to eliminate fraud and data security threats

Source(s): RedSeer Estimates

*Some players also charge fixed fee/transaction

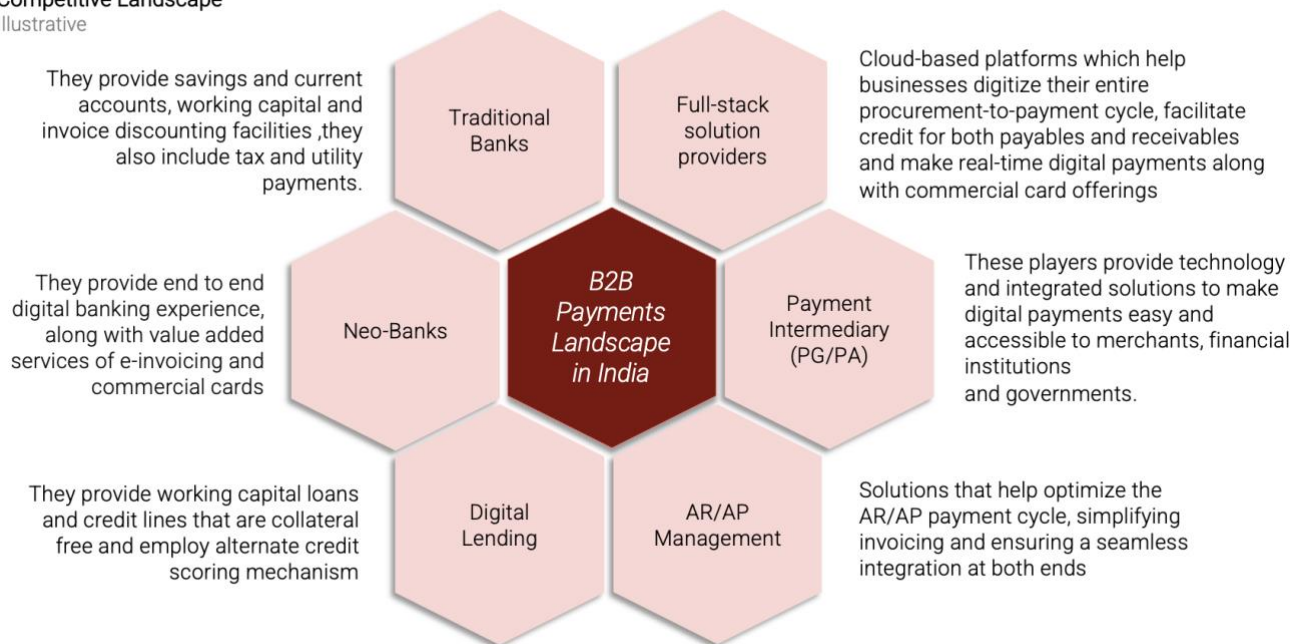
As per RedSeer estimates, the cross-border B2B payments market in India will increase from USD 430-440 billion in Fiscal 2022 to USD 800-820 billion in Fiscal 2026. Several drivers have boosted this growth. The connectivity between enterprises has improved significantly, and the supply chain is increasingly becoming global. As businesses transcend boundaries-cross-border transactions will gain traction. Fintech solutions can provide lower transfer fees as compared to banks and real-time transaction updates.

The global payments infrastructure has evolved and is developing at a greater pace for the smooth flow of funds with lesser hassles for the customers. Moreover, the availability of new cloud-based software tools is enabling businesses to go more digital and enable them to make faster decisions cost-effectively.

COMPETITIVE LANDSCAPE AND POSITIONING OF DIGITAL B2B PAYMENTS SPACE

B2B Payments are diverse, with players offering solutions for various business transaction needs

Competitive Landscape Illustrative



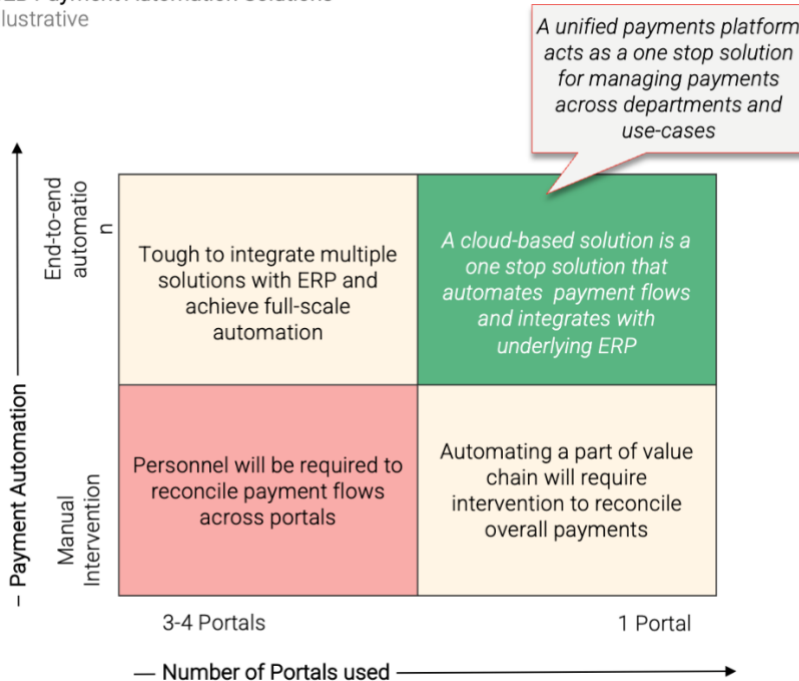
Source(s): RedSeer Analysis

Traditionally, B2B payment solutions were largely offered by banks. As our economy grows, business needs and technological advancements keep evolving. This is a huge market opportunity that has led to multiple players coming up and catering to a wide range of business transactions. These players include - traditional banks which are increasingly foraying into payment automation offering multiple products on their platforms. Neo-banks are branchless banks which provide digital banking solutions to enterprises. Full-stack solution providers are cloud solutions which help in digitizing the entire purchase and payment processes and enable enterprises to make real-time payments and get credit for their receivables and payables.

Payment intermediaries which facilitate digital payments via their technology and integrated solutions. Digital lending players have come up which provide working capital to the enterprise to meet their credit needs and enable their growth and expansion. AR/AP management solutions help in optimizing the payments and provide seamless integration and reconciliation of the transactions.

A unified payments platform, apart from automating payments, optimizes workflows across value-chain

B2B Payment Automation Solutions
Illustrative



Key Highlights

- ✓ A unified payment platform handles multiple payment use cases
- ✓ Businesses can make payments cutting across payment modes (NEFT/RTGS/ Commercial Cards)
- ✓ Payment platform are industry and bank agnostic
- ✓ They also provide analytics and insights on process optimization, cashflow projections
- ✓ Automated workflows (including 3-way document matching) and e-invoicing reduce man-hours required for processing

Source(s): RedSeer Analysis

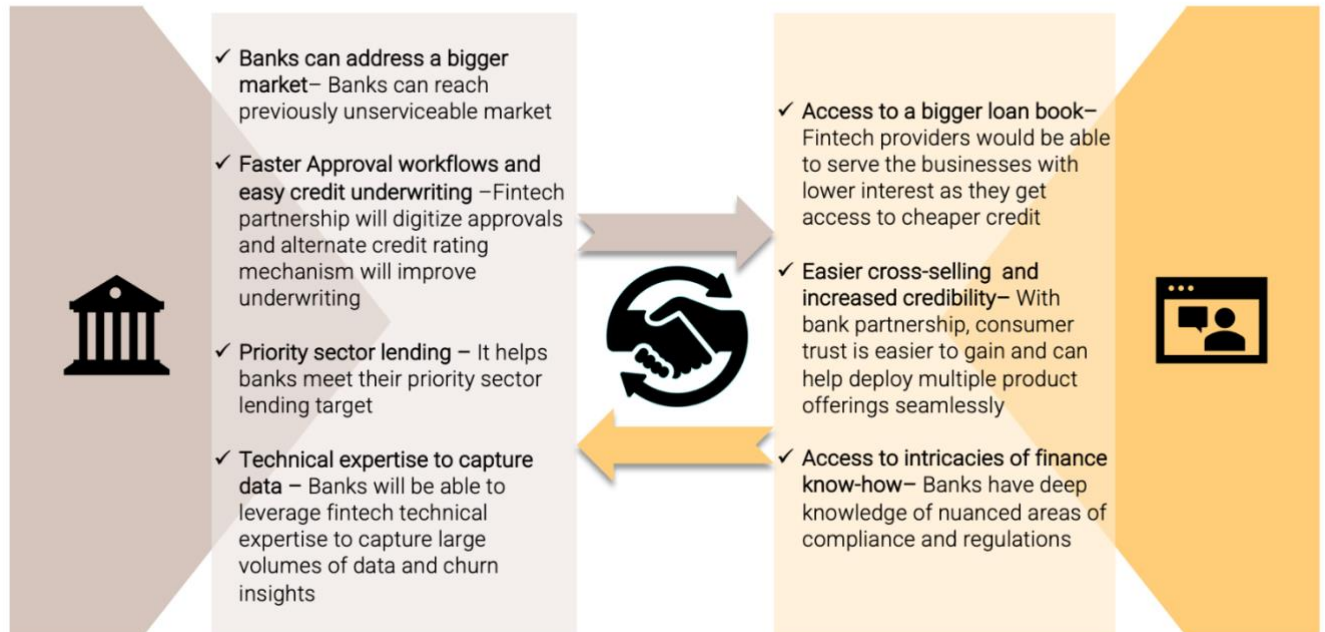
Businesses need to make multiple payments to different stakeholders ranging from individuals (employees), government bodies (taxes) and other businesses (vendor/utility). Each payment flow and transaction frequency have its own nuances and periodicity. To cater to all kinds of payments businesses use various digital solutions/portals to automate their payments and ease accounting efforts in reconciliation and tracking expenses.

Using multiple payment portals requires teams to manage their outputs, set them in industry format to consolidate and finally report or perform analytics to gain spend specific insights. As automation increases, it becomes tougher for portals to automatically synchronize to manage multiple document matching and authentication. While multiple portals have their advantages downtime of one may not necessarily affect others. Upgradation doesn't need to run serially or affect multiple departments.

In the case of a single portal deployed, it largely depends on the product functionalities of the portal, where it may automate only a part of the value chain. The sweet spot here lies with unified payment platforms which provide end-to-end automation with 3-way document matching, workflow optimization and value-added services built on top of them. Such portals are generally industry, and bank agnostic and can support most payment modes.

Fintech and banks can mutually benefit by partnering, leveraging each other's strengths, and accelerating digital B2B payments

Fintech-Bank partnership
Illustrative



Source(s): RedSeer Analysis

Fintech players demonstrate technical expertise to automate and optimize payment flow for businesses. While technical expertise is of paramount importance to employ automation - banks are equally important stakeholders in the B2B payment ecosystem.

Fintech-bank partnerships can pave the “right to win” in this market. Both fintech and banks have their own strengths which can be leveraged to achieve digitized business payments to all - individuals, government, and other businesses.

Banks benefit from fintech in form of access to a larger addressable market, meeting Priority Sector lending targets, faster approvals, and technical expertise which helps banks quickly move from legacy to new-age digital payment flows. In turn, fintech players are greatly benefitted from banks huge loan books which can be leveraged to attain faster growth, more businesses and scale rapidly. Banks also have strong customer relationships and stable clientele which can help arrest customer churn for fintech players.

AI partnership between fintech and banks will benefit the entire ecosystem of payments and product development

Commercial credit cards help businesses optimize their working capital, provide unsecured credit, and extend payables periods. Automation solutions help optimize workflows, they help reduce time and effort to process invoices, gather approvals and reduce errors which helps reduce delays and track payments in real-time.

The right to win in the B2B payment space in India requires a combination of payment automation solutions along with working capital optimization solutions like commercial credit

cards and invoice discounting as historically MSMEs have experienced insufficient access to credit.

In addition to partnering with banks, B2B payment platforms can consider partnering with NBFCs too and leverage technology for providing credit to businesses efficiently.

PayMate leads in total processing volumes using commercial credit cards across B2B payment players in India

PayMate was the largest B2B payments player and one of the fastest growing providers of on-line, card-based payment-processing services in India, in terms of TPV processed in the nine months ended December 31, 2021 (₹ 464,766.45 million processed between April to December 2021) through commercial credit cards.

As the economy bounced back along with the rise in digital adoption, for the nine months ending December 31, 2021; PayMate has achieved market leadership with a market share of 70-75% when compared to the TPV processed using commercial credit cards across leading B2B payments platforms in India.

PayMate has developed partnerships with banks and financial institutions like ICICI Bank Ltd, SBI Cards and Payment Services, and a leading private bank in India that account for 50% of all credit cards issued in India in Fiscal 2021.

PayMate is a leading B2B payments and services provider that digitizes, automates and streamlines B2B payments in supply chains. PayMate is a pioneer in the digital technology-based B2B payment services market.

PayMate offers enterprises a variety of avenues to automate and digitize B2B payments. PayMate provides support and integration for use-cases such as tax, utility and vendor payments. In addition, PayMate also helps businesses optimize working capital by providing an invoice-discounting marketplace. Given PayMate's wide suite offerings to enterprises such as payment automation and dashboard support, PayMate drives superior engagement with businesses compared to other peers.

PayMate was one of the first full-stack supply chain payments automation platforms in India for enterprises and their supply chain. Full-stack is defined as a player who offers commercial credit cards as a payment instrument, GST, direct tax and utility payments, vendor payments (accounts payables), collections (accounts receivables), automated reconciliation, and invoice discounting (early payment discounting) and invoice financing.

PayMate also offers integration with ERPs through APIs and host-to-host based SFTP integrations.

end of report
