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9B19M001

Airtel Payments Bank Limited: furthering financial inclusion[[1]](#endnote-1)

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In early 2018, Meeta Ray, the social development officer of a leading non-governmental organization (NGO) located in the Ajmer district of the Indian state of Rajasthan, was going through the annual report of the Reserve Bank of India (RBI) for fiscal year 2016–17. The report indicated that the state of financial literacy and of financial inclusion in India was abysmal.

Financial inclusion was the share of individuals in a country or a region that used financial services. For inclusion to take place, availability, access, and frequency of use were preconditions. To address the issue, the Indian government had taken several initiatives including the introduction of the “no-frills” account in 2005, the Swabhimaan campaign[[2]](#endnote-2) in 2011, and Pradhan Mantri Jan Dhan Yojana in 2014. However, the state of financial inclusion, in terms of the number of bank accounts opened in villages, had shown little improvement (i.e., only a 2 per cent increase from 2016 to 2017).[[3]](#endnote-3) Also, 45 per cent of the accounts opened under the Pradhan Mantri Jan Dhan Yojana initiative were already inactive.[[4]](#endnote-4)

Because achieving financial inclusion through financial literacy was challenging, help from emerging financial institutions seemed worthwhile. Among these institutions were the newly introduced “payments banks,” which were selected companies offering basic banking services. Ray was aware that such banks had been promoted by the government as being different from traditional banks. They were designed to serve unbanked or underserved areas of India by offering mobile payments, transfers, and remittance services with no credit risk.

Rubina Khan, the treasurer of the NGO, suggested to Ray that an alliance with one of the pioneering payments banks, Airtel Payments Bank Limited (Airtel Payments), might be possible. Airtel Payments had initiated operations in Rajasthan in November 2016, and its approach to the far-reaching goal of financial inclusion seemed like a good fit for the NGO’s 2018 working plan. Ray was aware that Airtel Payments’ aim was to bring digital banking services to the doorstep of every citizen of the country, beginning with a basic services portfolio. Airtel Payments initially offered a 7.25 per cent interest rate on savings account deposits.[[5]](#endnote-5) With 250,000 banking points, the payments bank completed its launch across India in 29 states, supported by a pool of merchants and retailers.[[6]](#endnote-6)

Ray’s team made extensive enquires and discovered that Airtel Payments had more deposits than any other payments bank, and its deposits had grown by 26 per cent within a year, according to RBI data.[[7]](#endnote-7) However, the report’s accuracy was questioned after the Unique Identification Authority of India alleged that Airtel Payments had dishonestly opened savings accounts for customers without their consent. Airtel Payments was expected to run its operations based on trust, so this practice was widely condemned and raised doubts about Airtel Payments’ credibility, both ethically and economically.

Several questions had to be addressed before exploring the opportunity of initiating an alliance with Airtel Payments for financial inclusion: Could Airtel Payments play a significant role in financial inclusion and help solve India’s persistent age-old issue of last-mile connectivity? Was it viable to offer higher interest rates than competitors? Did the environmental factors favour Airtel Payments? Was the payments bank industry competitive? What would be the impact from Airtel Payments’ unethical practice of opening bank accounts without informed consent?

**Deliberation of the Issues**

Financial inclusion involved not only access to financial services, but also the use of finance. Ray argued in a team meeting that traditional banks found it uneconomical to fulfill their role as financial intermediaries in rural areas. She supported the RBI’s position and the recommendation of the Nachiket Mor Committee that telecom companies, retailers, mobile wallet providers, and large business correspondents could act as key enablers in this segment.[[8]](#endnote-8) With a wide distribution network, technical and financial stability, customer loyalty, a better knowledge of local economies, and a higher wallet share, these entities could operate on volume and with low incremental costs.

Ray asked Khan to compile and present a report on the payments bank industry, its relevance to financial inclusion, and the position of Airtel Payments within the sector. After two weeks, Khan presented her detailed report, reproduced below, to the team.

**Preface**

Financial inclusion and the penetration of financial services in rural areas were recognized as an essential responsibility of the Indian government.[[9]](#endnote-9) Of particular concern were migrant labourers, low-income or very-low-income households, and other unorganized sectors. Payments banks were used for direct benefit transfer arrangements that covered subsidies, scholarships, insurance, and other payments that were directly credited to the accounts of beneficiaries. Because of synergistic gains, mobile phones offered payments banks customers a low-cost platform for using basic banking services (see Exhibit 1 for a comparison of modes of payment to show how payments banks differed from the alternatives).

Airtel Payments became the first payments bank to take advantage of the opportunity of low penetration of financial services in rural India.[[10]](#endnote-10) Launched with the appealing Hindi tag line, *Bank Hai Par Alag Hai* (“It is a bank, but it is different”), Airtel Payments aimed to bring digital banking services to millions of underbanked Indian masses, thereby drawing them into the mainstream economy. It offered 7.25 per cent interest on its savings bank account, which was significantly higher than the rate offered by any other nationalized or private bank in India or by any of the other payments banks.

**Overview of Payments Bank Industry**

The payments bank, a differentiated bank idea, was developed to serve a somewhat different purpose than traditional banks. In India, 11 companies were approved in principle to operate as payments banks: Airtel M-Commerce Service Limited, Vodafone m-Pesa Limited, Aditya Birla Nuvo Limited, Fino PayTech Limited, India Department of Posts, National Securities Depository Limited, Reliance Industries Limited, Shri Dilip Shantilal Shanghvi, Paytm, Tech Mahindra Limited, and Cholamandalam Distribution Services Limited.[[11]](#endnote-11) The list included five telecom companies, one mobile wallet company, an information technology company, anon-banking financial company, two companies with good delivery channels, and a government entity with a wide distribution network across rural areas. This combination of entities was selected by the RBI, India’s banking regulator, to reduce the exposure of each company to the same level of business risk. Each payments bank offered basic services, including savings accounts and debit cards (see Exhibit 2). The deposits were secured by the Deposit Insurance and Credit Guarantee Corporation.[[12]](#endnote-12)

Models for furthering financial inclusion had been successfully introduced in other countries. For example, in Kenya, Vodafone had launched the mobile payment service M-Pesa in 2007. Just five years after the launch, 83 per cent of Kenya’s adult population was made up of mobile money users. They transferred US$8 billion per year, approximately equal to 24 per cent of the country’s gross domestic product.[[13]](#endnote-13) This success demonstrated that mobile penetration and infrastructure could be leveraged to offer sophisticated and predesigned financial products. In Tanzania, Vodacom had introduced a product called M-Shwari, which invited customers to make short-term deposits with future credit options.[[14]](#endnote-14) In Somaliland, Telesom ZAAD was launched in 2009 to create an ecosystem of services and merchants in which digital payments were accepted and all customer transactions were digital. This system also successfully convinced users to keep money in their e-wallets.[[15]](#endnote-15) Although these models were successful in their respective countries, the concept of the payments bank had no direct parallel elsewhere.

**Ample Opportunity**

In 2017, mobile phones were used by 320.57 million people to access the Internet. This number was expected to reach 462.26 million by 2021.[[16]](#endnote-16) According to the World Bank, India would have the world’s highest amount of remittances sent back home from overseas in 2017, as it did in 2016. In 2017, that amount was $65 billion, followed closely by China at $61 billion. The Philippines was third-highest at the much lower amount of $33 billion. Remittances to low-income and middle-income countries were expected to rise by 3.5 per cent in 2018.[[17]](#endnote-17) In 2016, remittance inflows to India were $62.7 billion and accounted for 2.9 per cent of India’s gross domestic product for that year.[[18]](#endnote-18) More than 40 per cent of the remittances were directed toward rural areas. India’s domestic remittances averaged $900 billion to $1 trillion and were growing.[[19]](#endnote-19)

The data suggested that ample untapped opportunity existed in the banking industry to reach the goal of financial inclusion. This led regulators to develop the idea of specialized banks called payments banks and to encourage large business groups to apply as participants. The RBI selected several companies that were experts in diverse sectors to execute different service models, without exposing them to the same business risks.

**Caveats on Payments Bank**

The licensing policy of the RBI was stringent. The scope of business was limited, but the cost of compliance for payments banks was comparable to traditional banks. It was an attractive business proposition to own a bank but finding success with this business model posed a challenge. Therefore, three entities, Tech Mahindra, Cholamandalam Finance, and Dilip Shanghvi-IDFC Bank-Telenor JV withdrew from the plan.[[20]](#endnote-20)

Profitability, for some payments banks, was delayed because of aggressive posturing by some new competitors. When these banks eventually became profitable, their revenue was only 1–2 per cent of a scheduled commercial bank’s total revenue.[[21]](#endnote-21) Payments banks lacked some fundamental advantages enjoyed by traditional banks, where multiple accounts could be opened by high-net-worth individuals, who preferred the services offered by traditional banks. Additionally, the current system did not provide any incentives to the payments banks for their cashless transactions.

**About AIRTEL PAYMENTS**

Airtel Payments was the first entity to obtain a full licence to launch a payments bank, RBI granting the licence on April 11, 2016.[[22]](#endnote-22) The bank was a joint venture between Bharti Airtel, with an 81.9 per cent share in the business, and Kotak Mahindra Bank, which acquired the remaining 19.9 per cent of the business.[[23]](#endnote-23) Airtel Payments began operations on November 23, 2016.[[24]](#endnote-24) The mobile commerce unit of Bharti Airtel and its wholly owned subsidiary formed Airtel Payments (originally known as Airtel M-Commerce Services Limited). The involvement of the Kotak Mahindra Bank simplified the implementation of cash-in and cash-out services, such as branches, automated teller machines, and business correspondents. Airtel Payments planned to make use of Bharti Airtel’s national distribution network, which comprised 1.5 million retail outlets and a mobile network that extended to 5,126 census[[25]](#endnote-25) and 464,361 non-census towns and villages in India. Its service covered approximately 87 per cent of India’s population. The primary distribution channel consisted of telecom recharging shops.[[26]](#endnote-26)

The focus of Airtel Payments was to provide savings accounts and digitizing banking services toward a smooth transition to a cashless economy. It did not aim to provide loans, overdrafts, or credit, or insurance, mutual funds, or pension products. Airtel Payments’ product portfolio included Airtel Money as a mobile wallet and payments banking service.

The benefits offered by Airtel Payments included a 7.25 per cent interest rate on deposits—the highest rate available—and an electronic know-your-client (e-KYC) account opened using either an *aadhaar*[[27]](#endnote-27)or a permanent account number.[[28]](#endnote-28) There were no limits on withdrawals. Complementary personal accident coverage up to ₹100,000[[29]](#endnote-29) was provided to savings account holders through an alliance with Bharti AXA General Insurance Co. Ltd.[[30]](#endnote-30) Cash deposit and withdrawal facilities were also made available. Although current Bharti Airtel clients were provided banking services, customers who were not current clients could also access Airtel Payments services. They could use a telephone to access the bank’s Unstructured Supplementary Service Data and interactive voice response system in 12 languages.[[31]](#endnote-31)

**Airtel Payments Initiatives**

**Paperless Banking**

Airtel Payments was fully set up for digital and paperless banking. Like traditional banks, Airtel Payments electronically linked funds to the entire banking channel, which allowed it to provide various digital services including Immediate Payment Service, National Electronic Funds Transfer, and real-time gross settlement. Airtel Payments bolstered its digital platform with the integration of a unified payments interface (UPI), which eliminated the need to enter sensitive information each time a customer initiated a transaction. Customers could connect their Airtel Payments accounts to the Bharat Interface for Money application (app). To promote the use of digital transactions, Airtel Payments offered incentives in the form of surprise gifts to customers, including free talk time on their mobile devices.

**Digital Payment Ecosystem**

Airtel Payments focused on developing an ecosystem of traders and merchants that included over 5 million restaurants, *kirana[[32]](#endnote-32)* and grocery stores, pharmacies and medical stores, and others. The participating merchants were expected to accept payments submitted by Airtel Payments customers through their mobile phones. Airtel Payments also promoted a free mobile app for digital annexation of these merchants. Its partners included Spencer’s, Khadim’s, Manyavar, Bazaar Kolkata, Aarambagh Foodmart, Bhojohori Manna, and Balaram Mullick & Radharaman Mullick. An online debit card program developed in partnership with MasterCard also proved to be a success.[[33]](#endnote-33)

**Financial Inclusion**

Airtel Payments set forth on its goal of financial inclusion by organizing a pilot survey in towns and villages across urban and rural Rajasthan. It then targeted the deep rural market of unbanked or underserved people in southern states like Andhra Pradesh, Telangana, and Karnataka. Over 100,000 savings accounts were opened in Rajasthan within two weeks. The rollout covered 15,000–20,000 retail outlets in the southern states. With the success of the pilot project, Airtel Payments expanded its operations across all 29 states. It reached out to 100 villages in Tamil Nadu. It opened over 100,000 savings accounts in Uttar Pradesh, 60 per cent of which were opened in rural areas.[[34]](#endnote-34) It also opened 150,000 savings accounts in West Bengal, 70 per cent of which were opened in rural areas.[[35]](#endnote-35)

This achievement offered numerous benefits to villagers. People in every village—even people who had no previous contact with formal banking—had access to Airtel Payments. With basic features on a smartphone, they could complete banking transactions from the convenience of their home. They earned a healthy interest rate on savings and deposits, and they could conveniently receive money transfers from family members and friends. Merchants and shops in villages accepted digital payments from Airtel Payments customers via mobile phones.

**Could an interest rate of 7.25 per cent Be sustainable?**

In contrast to conventional banks, payments banks had to survive primarily on fee-based income. For operational and liquidity management, payments banks held a maximum of 25 per cent of revenue in current and term deposits with commercial banks. They were also required to invest 75 per cent of their deposits in government bonds with a maturity of up to one year, of which the return was lower (6.30 to 7.25 per cent) than the aggressive 7.25 per cent interest rate they paid to attract customers.[[36]](#endnote-36) Therefore, their net interest revenue could be negative, which raised questions about the sustainability of payments banks offering customers such a high rate.

However, payments banks had a much higher capital adequacy ratio than traditional banks (15 per cent compared to 9 per cent), which worked to the payments banks’ advantage.[[37]](#endnote-37) Because customer deposits were not tied up in risky assets, the extra capital acted as a cushion to absorb losses in the initial phase of ramping up the distribution network and building the business. The payments banks used Bharti Airtel’s technology to provide low-cost services. However, to ensure long-term sustainability of its operations, Airtel Payments shifted its focus to other revenue streams, initially on transaction charges such as withdrawal and transfer fees (see Exhibit 3), which lowered the net interest the customer received on deposits. The only other source of revenue available to payment banks was the fee-based income from remittances, merchant payments, and distribution of insurance and mutual funds. However, the low interest rate was not a reliable way to retain customers who placed a higher value on quality services.

**Targeting other Revenue Sources**

Airtel Payments entered a strategic partnership with Hindustan Petroleum Corporation Limited, where 14,000 Hindustan Petroleum fuel stations acted as banking points. This partnership added depth and reach to Airtel Payments’ retail-based network, which also leveraged over 300,000 Bharti Airtel retail outlets as banking points. A comparable partnership, between Airtel Payments competitor Paytm Payments Bank and IndusInd Bank, offered customers fixed deposits with a 6.85 per cent interest rate on balances exceeding ₹100,000.[[38]](#endnote-38)

Offering financial advisory services was the first step to cross-selling. Airtel Payments found that it could cross-sell related products such as insurance, mutual fund products, and third-party loans through its banking points. The bank also offered foreign exchange cards to its customers at a fee that was lower than the fee charged by traditional banks.[[39]](#endnote-39)

Merchant discount charges ranging from 0.75 to 2.50 per cent on debit and credit cards were considered too high for small traders and merchants to afford. By eliminating these charges, Airtel Payments built a wide merchant base that was willing to accept payments through any digital mode, including contactless payments from customers.[[40]](#endnote-40) Airtel Payments integrated with the Ola app to provide basic payment solutions.[[41]](#endnote-41) It also partnered with small and medium-size enterprises through their salary portals to promote saving habits among employees.[[42]](#endnote-42)

It was important that these partnerships offered scaled benefits because they earned thin margins, which was evident from a perusal of the company’s financial statements (see Exhibits 4–6).

**Enrollment without informed consent**

In its effort to penetrate deeper into the payments market, Airtel Payments used an unfair means of customer acquisition. The *aadhaar*e-KYC verification process was required for any customers seeking a new Bharti Airtel subscriber identity module (SIM) card for their smartphones. This same process was employed by Airtel Payments to open customer savings accounts. However, Airtel Payments allegedly used the *aadhaar*-based SIM verification process to open accounts for its mobile subscribers without their consent, and it allegedly failed to inform these customers that a bank account had been opened in their name. This action was unlawful because it violated the *Aadhaar Act* of 2016.[[43]](#endnote-43) It was also considered unethical and immoral. As a result, Airtel Payments was given a temporary suspension of its e-KYC licence and fined ₹25 million (approximately US$3.93 million) by the Unique Identification Authority of India.[[44]](#endnote-44)

**inviting discussion**

After Khan presented her report, the team had a number of questions. Primarily, they questioned Airtel Payments’ viability in the new payments bank industry, its role in advancing financial inclusivity, and the suitability of Airtel Payments as a partner with the NGO.

**Exhibit 1: Comparison of Modes of Payment**

|  |  |  |  |
| --- | --- | --- | --- |
| **Feature** | **Payments Banks** | **Traditional Banks** | **Mobile Wallets** |
| Making Deposits | Yes,  except fixed deposits | Yes | Yes |
| Interest on Deposits | Yes | Yes | No |
| Withdrawal and Transfer | Both | Both | Only transfer |
| Availing Loans | No | Yes | No |
| Opening of Account | Yes | Yes | No |
| Debit and Credit Cards | Debit cards only | Both cards | No |
| Buying Investment Products | Yes | Yes | No |
| Deposit Limit | ₹100,000 | No limit | Not available |
| Automatic Bill Payments | Yes | Yes | Yes |
| Foreign Exchange Services | Yes | Yes | No |
| Service with Feature Phone | Yes | No | No |
| Revenue Generation | Transaction fees and BC services, advisory services | Interest and fee-based services | Transaction fees |
| Free Offers | Cashbacks, discounts, no charge | None | Cashbacks, coupons, discounts |
| Availability of Banking Points | Yes | Yes | No |

Note: ₹ = INR = Indian rupee; ₹1 = US$0.02 on January 1, 2018; BC = business correspondent.

Source: Created by the case authors with information from Shuddhahnik Maity, “Digital Wallet vs. Normal Bank vs. Payments Bank—Clearing the Confusion,” Gadgets to Use, May 22, 2017, accessed December 15, 2017, https://gadgetstouse.com/full-reviews/comparison/wallet-normal-bank-payments-bank/58082.

**exhibit 2: Services Provided by India’s Payments Banks**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Service** | **Airtel Payments** | **Paytm** | **Fino** | **India Post** |
| Interest Rate | * 7.25% | * 4% | * 4% | * 4.5% (up to ₹25,000) * 5% (on ₹25,000 to ₹50,000) * 5.5% (on ₹50,000 to ₹100,000) |
| Banks Associated with ATM Transactions | * Kotak Mahindra Bank | * Induslnd Bank | * ICICI Bank | * Punjab National Bank |
| Type of Product Offered | * Savings account | * Savings account | * Savings account (Pratham and Sanchay) * Salary account * (Saral) * Current account (Pragati) | * Savings account (Safal, Sugam, and Saral) |
| Cash Withdrawal Charges at ATMs | * ₹5–₹25 (for withdrawals up to ₹4, 000) * 0.65% (for withdrawals above₹4,000) | * First three withdrawals free for metropolitan areas * First five free for non-metropolitan areas * ₹20 per withdrawal for all others | * ₹5 per ₹1,000 (deposit or withdrawal) | * Free (for Philippine National Bank ATMs, IndiaPost ATMs, and some other ATMs) * First three withdrawals free for metropolitan areas * First five free for non-metropolitan areas * ₹20 for all others |
| Debit Cards | * No debit cards currently used | * RuPay debit card with ₹120issuance charge,₹100annual fee, and₹100 on delivery charges | * Classic and platinum ranges of RuPay debit card with ₹99 and ₹199 issuance fee and an equal amount in annual fees | * RuPay debit card free of charge, but card maintenance fee of ₹100 from second year in Safal savings account only |
| Insurance Coverage on Debit Cards | * Up to ₹100,000 personal accident coverage by Bharti AXA General Insurance Co. Ltd. | * Up to ₹200,000 on death or disability | * Classic debit card: up to ₹100,000 * Platinum debit card: up to ₹200,000 on death or disability | * None |
| Minimum Balance | * ₹100 for first cash deposit | * Nil | * ₹1,000 for Pratham savings account * Nil for other savings accounts * ₹2,500 in rural areas for Pragati current accounts * ₹5,000 in urban areas for Pragati current accounts | * ₹100 for first deposit for Safal savings account * Nil for Sugam and Saral savings account |

**EXHIBIT 2: CONTINUED**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Service** | **Airtel Payments** | **Paytm** | **Fino** | **India Post** |
| Online Fund Transfer | * 0.5% of the amount | * Free and unlimited for IMPS and NEFT transfers | * Free for Fino to Fino * ₹5 to ₹15 for Fino to other IMPS transfers * ₹2.50 to ₹25 for NEFT transfers | * ₹2.50 to ₹5.00 for NEFT and IMPS transfers at a bank branch |
| Doorstep Banking | * Not available | * Not available | * Not available | * Up to ₹10,000 for cash withdrawals and deposits * ₹15 to ₹35 per visit |

Note: Paytm = Paytm Payments Bank; Fino = Fino PayTech Limited; India Post = India Department of Posts; ATM = automated teller machine; IMPS = Immediate Payment Service; NEFT = National Electronic Funds Transfer; ₹ = INR = Indian rupee; ₹1 = US$0.02 on January 1, 2018.

Source: Created by the case authors with information from “India’s First Payments Bank,” Airtel, accessed September 20, 2018, www.airtel.in/bank; “Products,” Paytm Payments Bank, accessed September 20, 2018, www.paytmbank.com/products; “Home Page,” Fino Payments Bank, accessed September 20, 2018, www.finobank.com; “Home Page,” India Post Payments Bank, accessed September 20, 2018, www.ippbonline.com.

**EXHIBIT 3: Charges imposed by Airtel Payments on withdrawal and fund transfer**

|  |  |
| --- | --- |
| **Service** | **Fee** |
| *Cash Withdrawals:* |  |
| ₹10 to ₹4,000 | ₹5 to ₹25 per withdrawal |
| Above ₹4,000 | 0.65% of withdrawal amount |
| *Fund Transfers:* |  |
| Within Airtel Payments Digitally | Free |
| From Airtel Payments to Another Bank Digitally | 0.5% of the transferred amount |
| Within Airtel Payments Using Bank Point | 0.5% of the transferred amount |
| From Airtel Payments to Another Bank Using Bank Point | 1.0% of the transferred amount |
| Account Closure | ₹50 |
| Account Opening | Free, with minimum first deposit of ₹100 |
| Cash Deposit | Free |

Note: ₹ = INR = Indian rupee; ₹1 = US$0.02 on January 1, 2018.

Source: Created by the case authors with information from “India’s First Payments Bank,” Airtel, accessed December 15, 2017, www.airtel.in/bank.

**EXHIBIT4: Airtel Payments balance sheet, (in ₹ thousand)**

|  |  |  |
| --- | --- | --- |
| **Capital and Liabilities** | **March 31, 2016** | **March 31, 2017** |
| Capital | 4,943,820 | 9,943,820 |
| Reserves and Surplus | (2,574,736) | (5,017,990) |
| Deposits | — | 683,361 |
| Other Liabilities and Provisions | 1,755,145 | 3,201,491 |
| **Total** | **4,124,229** | **8,810,682** |
| **Assets** |  |  |
| Cash and Balances with the Reserve Bank of India | — | 190,810 |
| Balances with Banks and Money at Call and Short Notice | 3,702,455 | 6,150,281 |
| Investments | — | 1,926,267 |
| Fixed Assets | 62,208 | 31,522 |
| Other Assets | 359,566 | 511,802 |
| **Total** | **4,124,229** | **8,810,682** |

Note: ₹ = INR = Indian rupee; ₹1 = US$0.02 on January 1, 2018.

Source: Created by the case authors with information from “India’s First Payments Bank,” Airtel, accessed December 15, 2017,www.airtel.in/bank.

**EXHIBIT 5: Airtel Payments Profit and Loss ACCOUNT (in ₹ thousand, except per share data)**

|  |  |  |
| --- | --- | --- |
| **Income** | **For the year ended March 31, 2016** | **For the year ended March 31, 2017** |
| Interest Earned | 144,722 | 263,893 |
| Other Income | 766,253 | 686,197 |
| Total | 910,975 | 950,090 |
| **Expenditure** |  |  |
| Interest Expended | — | 6,506 |
| Operating Expenses | 1,268,812 | 3,382,766 |
| Provisions and Contingencies | (11,907) | 4,072 |
| Total | 1,256,905 | 3,393,344 |
| **Profit/Loss** |  |  |
| Net Profit/(Loss) for the Year | (345,930) | (2,443,254) |
| Profit/(Loss) Brought Forward | (2,228,806) | (2,574,736) |
| Total | (2,574,736) | (5,017,990) |
| **Appropriations** |  |  |
| Transfer to Statutory Reserves | — | — |
| Transfer to Other Reserves | — | — |
| Transfer to Proposed Dividend | — | — |
| Balance Carried over to Balance Sheet | (2,574,736) | (5,017,990) |
| Total | (2,574,736) | (5,017,990) |
| Earnings Per Share (Face Value of ₹10/share) | (1.02) | (4.33) |

Note: ₹ = INR = Indian rupee; ₹1 = US$0.02 on January 1, 2018.

Source: Created by the case authors with information from “India’s First Payments Bank,” Airtel, accessed December 15, 2017, www.airtel.in/bank.

**EXHIBIT 6: Airtel Payments Cash Flow Statement (in ₹ thousand)**

|  |  |  |
| --- | --- | --- |
| **Cash Flow from Operating Activities** | **For the year ended March 31, 2016** | **For the year ended March 31, 2017** |
| **Profit/(Loss) Before Tax** | **(345,930)** | **(2,443,254)** |
| **Adjustments for:** |  |  |
| Depreciation and Amortization Expense | 178,606 | 49,390 |
| Provision for Depreciation on Investments | — | 720 |
| Other Provisions | (11,907) | 3,352 |
| (Profit)/Loss on Sale of Fixed Assets (Net) | 6 | (12) |
| Share Issue Expenses | 2,501 | 2,497 |
| **Operating Cash Flow Before Changes in Assets and Liabilities** | **(176,724)** | **(2,387,307)** |
| **Adjustments for Changes in Assets and Liabilities** |  |  |
| Increase/(Decrease) in Deposits | — | 683,361 |
| Increase/(Decrease) in Liabilities | 368,300 | 1,441,667 |
| (Increase)/Decrease in Investments (Other than Securities Held to Maturity) | 1,112,416 | (1,926,987) |
| (Increase)/Decrease in Other Assets | 12,159 | (168,821) |
| **Cash Generated from Operations** | **1,316,181** | **(2,358,087)** |
| Net Taxes Paid (Tax Deducted at Source) | (41,996) | 16,585 |
| **(A) Net Cash Flow From/(Used in) Operating Activities** | **1,274,185** | **(2,341,502)** |
| **Cash Flow from Investing Activities** |  |  |
| Purchase of Fixed Assets | (40,377) | (17,620) |
| Purchase of Undertaking under Slump Sale | (120,837) | — |
| Proceeds from Sale of Fixed Assets | 14 | 255 |
| **(B) Net Cash Flow from/(Used in) Investing Activities** | **(161,200)** | **(17,365)** |
| **Cash Flow from Financing Activities** |  |  |
| Proceeds from Issuance of Equity Share Capital | 2,043,820 | 5,000,000 |
| Share Issue Expenses Paid | (2,501) | (2,497) |
| **(C) Net Cash Flow/(Used in) Financing Activities** | **2,041,319** | **4,997,503** |
| **Net Increase/(Decrease) in Cash and Cash Equivalents (A) + (B) + (C)** | 3,154,304 | 2,638,636 |
| Add: Balance as at the Beginning of the Year | 548,151 | 3,702,455 |
| **Balance as at the End of the Year** | **3,702,455** | **6,341,091** |

Note: ₹ = INR = Indian rupee; US1 = ₹63.8 on January 1, 2018

Source: Created by the authors with information from “India’s First Payments Bank,” Airtel, accessed December 15, 2017, www.airtel.in/bank.

ENDNOTES

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28. A Permanent Account Number was a 10-digit alphanumeric number issued in the form of a laminated card by the Income Tax Department in India to link all transactions by each individual with the department. The number was required for all income tax returns and all correspondence with an income tax authority. [↑](#endnote-ref-28)
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