

Free charge acquisition by Axis Bank – A Case Study

Dr. Pradeep Kumar Garg

Associate Professor - Faculty of Commerce and Business Administration, Multanmodal Modi College, Modinagar

ABSTRACT

The case study of Freecharge and its acquisition presents an approach towards the study about how the digital payment services reached a high ground in India and how it has revolutionized the way we participate in the economy. With a country like India whose people have always been concerned about security issues that come with technology, it wasn't easy for Freecharge to become a trustworthy name when it came to the matters of money. The journey of Freecharge began with online prepaid mobile recharges which came with discount coupons of various food outlets, movie tickets and other brands. The aim of this case study is exploring the journey of a digital payment startup in India. With the establishment of new companies how it evolved into what it is today by new innovations in its technology and policies. While the company has seen massive growth since it started, it also had its fair share of challenges with the cut throat competition with other companies and lack of funds with its parent company. However, Freecharge overcame all these challenges and now is a part of the Axis group where both the organizations are benefiting from each-other with their respective workforce, services and customers.

INTRODUCTION

India always saw its money in the form of paper currency, however thanks to the internet and the e-commerce services we have begun to see some changes in the way people pay their bills. Since the last few years, digital payments companies have seen massive growth in their ns and the numbers are only going to increase in time, as the country is headed towards becoming a cashless economy.

With easy access to smartphones, people now prefer the online mode of payment over cheques and demand drafts which require going to the banks, which comes with a lot of hassle. However, it wasn't easy for these companies to make way into people's mobiles, from a number of lucrative cashbacks to recharge coupons, the companies tried all the ways by which people can be lured through discounts.

With the positive policy framework of the government like UPIs and Aadhar linked payments, the companies like Paytm, GPay, Freecharge are only going to see a huge growth in the coming years.

ABOUT FREECHARGE

Freecharge, a subsidiary of Axis Bank, was founded by Kunal Shah and Sandeep Tandon in August 2010 with the tagline "*Lo Do Khatam Karo.*" The financial services company which is headquartered in Gurugram, India began functioning as a platform where users could recharge their prepaid mobile phones but later expanded its services and became a one stop destination for mobile bill payments, DTH and various kinds of utility bill payments like water, electricity, landline and gas bills. Two years after its inception, the company joined hands with popular brands like McDonald's, Puma and provided discount coupons each time a user paid his bills through the app. Soon after this, Kunal Shah labelled Freecharge as a "*marketing company that uses recharge as a medium.*"

The company raised its capital from Tandon Group and Sequoia Capitals through seed funding. Within no time, Freecharge became a tech giant of the country and expanded its offices in Bangalore and Gurugram. Freecharge was successful in receiving six rounds of funding from a number of venture capitalists from 2010 to 2017. During this

period, Freecharge also acquired Preburn, an app store which made it easier for application publishers to enhance their user base before they were sold, in August 2014.

In 2017, when the parent company of Freecharge itself was going through a pitfall, Axis Bank came to the rescue by acquiring it at a price of 60 million USD. This proved to be a win-win situation for both the companies. Freecharge was handed over to an organization which was doing far better than the struggling company of Snapdeal and Axis bank got hold of 52 million users of Freecharge.

CHALLENGES FACED

Cut throat competition from Paytm

Freecharge and Paytm were the biggest names in the online payment sector in India. with almost equal number of users in their basket. They were leading the market. However, with a few marketing tricks, Paytm surpassed Freecharge and became the biggest online payment platform with hundreds of millions of users across the country, leaving the latter one behind.

The direct cashback policy of Paytm gave a cut throat competition to Freecharge's policy of providing vouchers to the users on transactions which later led to a decline in the number of users of the latter company.

While Paytm expanded its user basis to the mainstream market, from a food outlet to a milk vendor, Freecharge limited itself to only a section of market which is quite low in number.

Freecharge and Paytm work on the same business model, providing exciting offers and discounts on transactions. With every quarter, the loss of the companies increased while Paytm survived this phase, the investors of Freecharge realized that Indian users switch platforms frequently for discounts and it is not the right path.

Loss in the business of the parent company

In 2017, Snapdeal was witnessing a humongous loss. The team members were also concerned about their job security because of the lack of clarity about the company. Although Freecharge did provide access of its users to Snapdeal, Snapdeal was still on a downward slope in terms of business and profitability.

While the 850 million USD deal of Snapdeal and Flipkart failed, Snapdeal was struggling for capital to survive. At the same time Freecharge had no money to function. The only way Snapdeal could come out of this was by selling Freecharge.

Snapdeal sold its subsidiary to Axis Bank at a price of 60 million USD, which is a big loss when compared to the price at which they bought Freecharge.

STRATEGY BEHIND ACQUISITION

The main motive behind the Freecharge acquisition by Axis Bank was to enter the fin-tech services. This meant that the customers would now deal with the digital payments which they could trust easily as it is also backed by a renowned bank. A number of reasons led Axis Bank to acquire Freecharge as their wholly owned subsidiary. The reasons behind the acquisition of Freecharge by Axis Bank are listed below:

- Because of the introduction of 4G and cheaper internet services, by 2017 more than half of the mobile phone users in India had smartphones in their hands. This ultimately led to an increase in online transactions in the country. The use of IMPS as a payment service was increased by 1.6 times, m-banking was used by 1.5 times more as compared to the year 2016. Similarly, m-wallets, debit cards and UPIs were used 3.1, 1.7 and 61.4 times respectively as new and efficient modes of payment. To keep up with the new modes of transaction, it was essential for the banks to dive into the world of digital payments. An effective way of doing this was by entering a deal with an existing well-known digital payment service.
- After the demonetization, government policies were high on promoting digital payments and the cash economy was running low in the market. With net banking, UPIs, e-wallets, and debit cards, it was time for banks to adapt themselves to these new modes of transactions. The data was a clear indicator that this was just the beginning and the number of online transactions is going to witness an upward trajectory. Freecharge came as a profitable deal where both the companies benefited from each other.

- The acquisition helped Axis Bank in more ways than one. With the help of Freecharge, Axis Bank got hold of the customers which are well-equipped with the digital world, mainly young people who are not afraid of the mobile first ideology. The customer base of the bank increased by more than double. Freecharge already had a customer base of 5.4 crore and GMV of INR 7200 crore which helped Axis Bank to expand its services to a relatively larger group of customers.
- By 2017, Freecharge was a well-established name as a digital payment brand. Axis Bank received a team of some of the best minds and a 100% API based technology stack. With an addition of around 150-200 number of employees, the execution capacity and the digital capability of the Axis group increased.
- The acquisition allowed Axis Bank the digital distribution of its financial services to serve its customers more efficiently. So instead of starting afresh, the bank took one smart step and started its digital journey and stood multiple ways ahead than other banks by joining hands with a well-established name in digital payments sector.

CONCLUSION

The merger of Axis Bank and Freecharge have made both the organizations stronger, with Freecharge being a part of a financially stable parent company and the Axis group getting a workforce which consists of individuals having a startup mindset. Freecharge has since then opened up new business models such as Paisa Plus, Dynamic QR, Digital Khata Payment links and On-Demand settlements for medium and small businesses besides its existing services. An early age Indian startup which began its functions in 2010 when the particular culture was not embraced by many people coming a long way since its inception is not only commendable but also an inspiration for the young entrepreneurs to try out new paths in the field of technology and business and make the country startup friendly.

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