

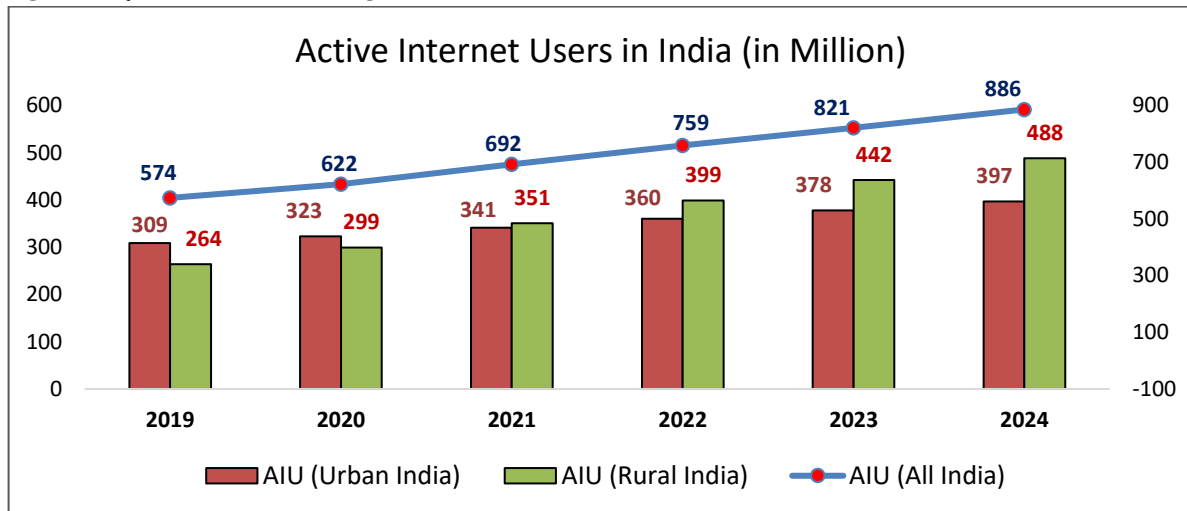
June 19, 2025

## India's Digital Leap - The Foundation for E-commerce Growth and opportunities for banks

India is on the cusp of a profound digital transformation, poised to exceed 900 million internet users by the end of calendar year 2025. This explosive growth is increasingly driven by Rural India, which now accounts for a larger share of internet users than urban areas, witnessing twice the growth rate in user adoption. Moreover, as the gender gap in internet access continues to narrow and users spend an average of 90 minutes daily online (with urban users slightly ahead), this burgeoning digital population forms the bedrock for India's thriving e-commerce and quick commerce sectors.

E commerce tie ups offer banks a potential credit opportunity of an incremental Rs 5-7 lakh crore which would take overall banking sector credit growth to 12-13% y/y from the current 9% levels. The potential geographies which are emerging e-commerce hubs are given in Annexure.

**Chart 1: Active internet Users in India**



Source: Internet and Mobile Association of India

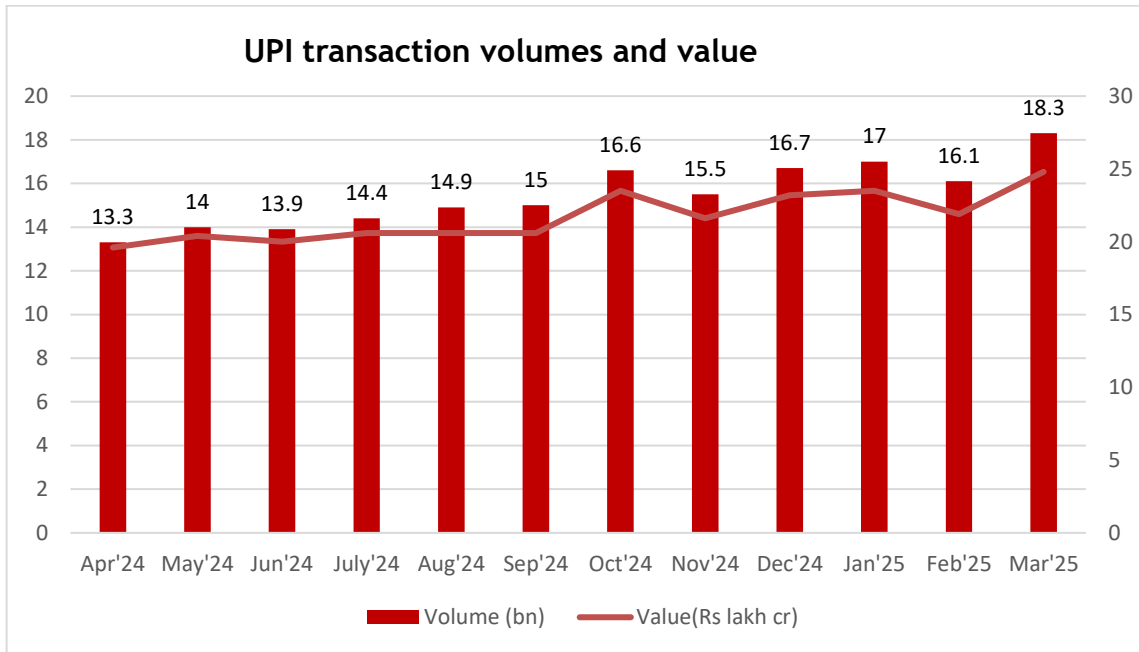
**Table 1: Internet users**

	2019	2020	2021	2022	2023	2024
Internet Users out of Total Population	41%	43%	48%	52%	55%	58%

Source: Internet and Mobile Association of India

According to data from the Internet and Mobile Association of India (IAMAI), the landscape of online financial activities in India reveals a compelling trend. While 54% of internet users engage in Net Commerce, closely followed by 46% participating in Digital Payments, the most striking aspect is the increasing adoption in non-metro regions. Rural India stands out as a critical growth engine, contributing 40% of the incidence for both Net Commerce and Digital Payments. This indicates that the internet's reach is fostering significant economic activity beyond major urban centers, with 480 million users engaging in Net Commerce and 405 million in Digital Payments across the country. This widespread adoption, particularly in rural and smaller towns, underscores the democratizing effect of digital technologies and signals vast opportunities for financial institutions to support and deepen this digital integration.

**Chart 2: UPI transaction scenario**



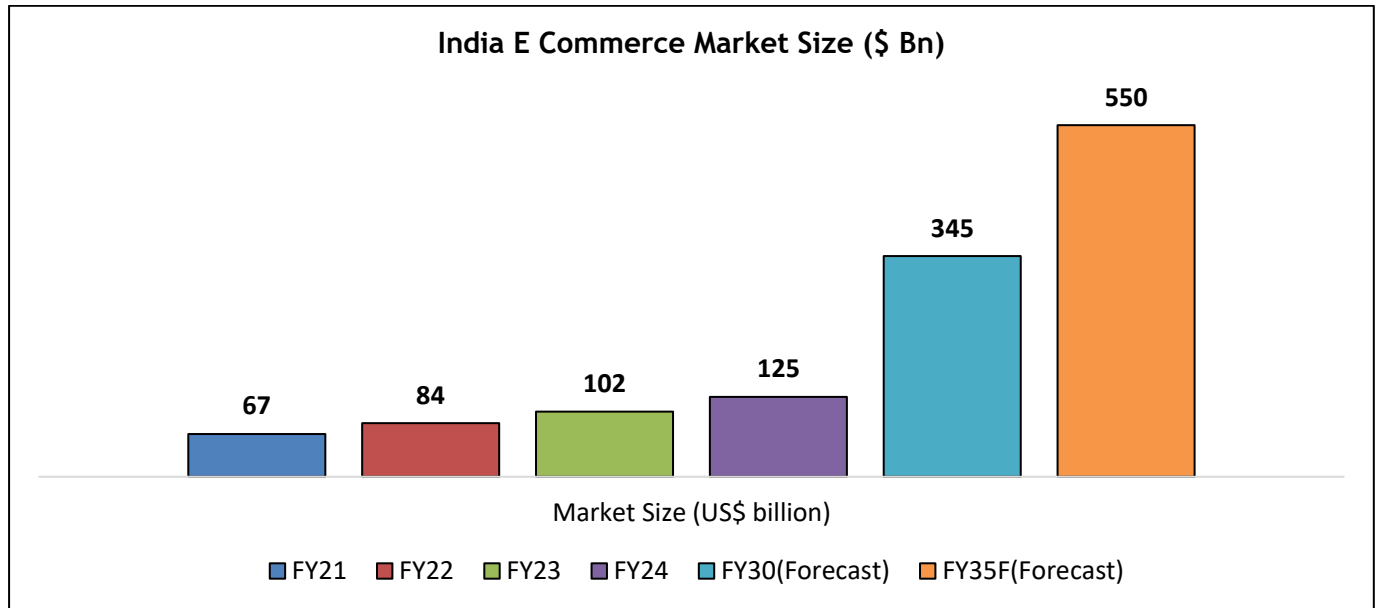
*Source: NPCI*

The phenomenal surge in UPI transactions is undeniably serving as a pillar for the explosive growth of Indian e-commerce. With transaction volumes crossing 18 billion and a staggering value of Rs 24.8 Lakh Crore by Mar '25, UPI has become the most preferred and ubiquitous digital payment method, significantly lowering entry barriers to online shopping. Its simplicity, instantaneity, and wide acceptance have not only fostered greater consumer trust in digital transactions but also empowered a vast new segment of users, particularly from Tier 2, 3, and rural areas, to participate actively in the online marketplace, thereby directly fueling the expansion and increased transaction velocity within India's dynamic e-commerce and quick commerce sectors.

### **The E-commerce Revolution: Reshaping India's Retail Landscape**

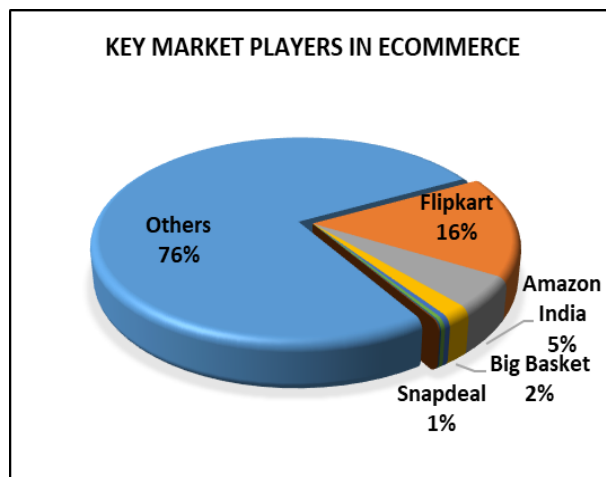
Leveraging India's robust digital infrastructure, the e-commerce industry is on a remarkable growth trajectory, valued at US\$ 125 billion in FY24 and projected to surge to US\$ 345 billion by FY30, maintaining a CAGR of 15%. This is further expected to reach US\$ 550 billion by FY35, fueled by increasing digital adoption and evolving consumer behavior, with a significant portion of demand - over 60% - anticipated from rural areas and Tier 2-4 towns. The sector demonstrated robust resilience, recording a 20% jump in order volumes in FY25, driven notably by a surge from Tier-1 cities as post-pandemic work-from-office arrangements normalized. With an estimated 900+ million internet subscribers by 2025, and over 1.18 billion smartphone users by FY26, the foundation for sustained e-commerce growth is solid. This digital ecosystem is further underscored by the US\$ 7.2 billion advertising revenue generated by tech and e-commerce giants in FY24 (latest data), signifying a healthy and expanding digital economy poised to reach US\$ 1 trillion by FY30.

Chart 3: India e-commerce market



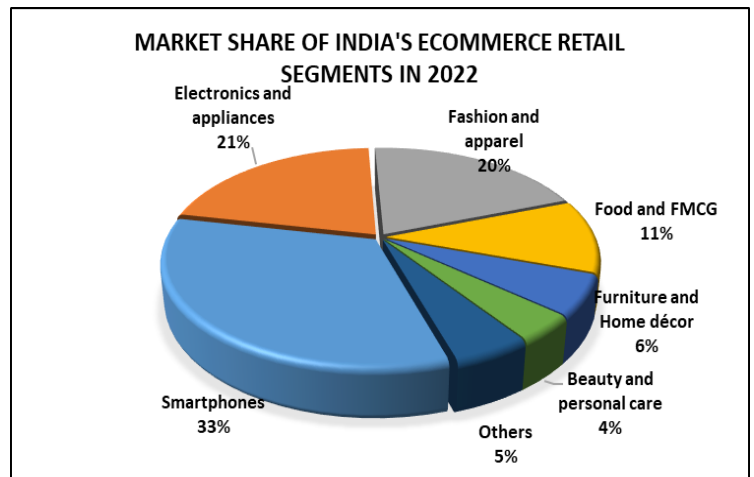
Source: IBEF

Chart 4 :Key market players



Source: Brickwork Ratings

Chart 5:E-commerce retail market share



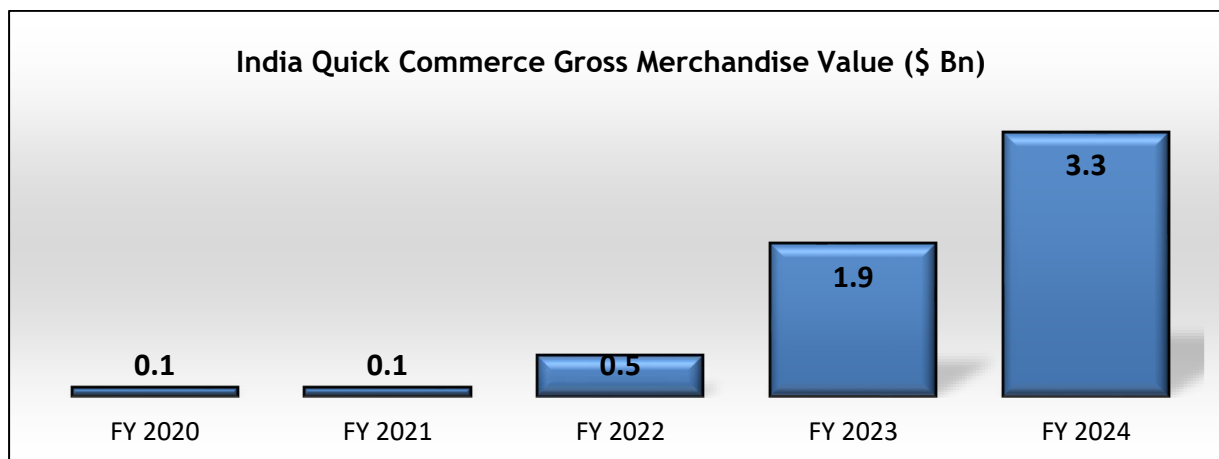
Source: Brickwork Ratings

### Quick Commerce: New frontier:

Quick commerce in India is experiencing a significant surge, with its Gross Merchandise Value (GMV) reaching **\$1.9 billion in FY 2023** and exceeded **\$3.3 billion in 2024**. This sector is driven by a projected Compound Annual Growth Rate (CAGR) of **23.07% from 2020 to 2024**, fueled by increasing customer expectations for rapid delivery across a wider variety of products, including clothing, cosmetics, and electronics, beyond just groceries.

Key players such as BlinkIt (around 45% market share), Instamart (around 27%), and Zepto (around 21%) dominate the landscape, striving to optimize logistics through technology and automation to meet demands for seamless, quick fulfillment. While facing challenges like intense competition and environmental considerations, the industry continues to integrate with traditional businesses and is expected to reach 60.6 million users by 2029.

**Chart 6: Quick commerce merchandise value**



Source: Brickwork Ratings

While e-commerce shipments are projected to grow at a strong 23-24% CAGR from FY24 to FY30, quick commerce is identified as the fastest-growing segment, having expanded at a lightning pace of 70-75% last year—approximately five times the e-commerce growth. Quick commerce is forecast to sustain an impressive 40-45% GMV CAGR over the next three years, driven by ultra-fast delivery models and expanding dark store networks. This indicates that while e-commerce continues its steady expansion fueled by category diversification and deeper penetration, quick commerce is poised for more aggressive, transformative growth within India's retail landscape.

### E Commerce Business Model:

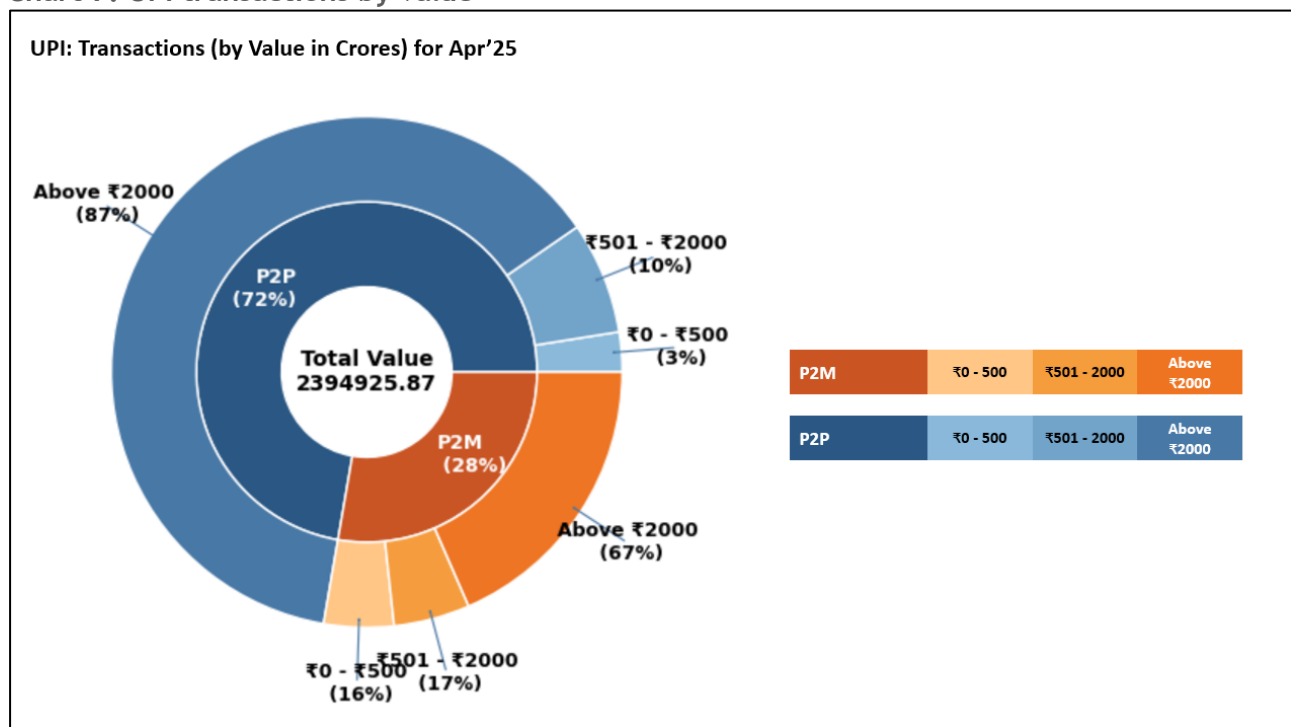
**Table 2: Financial Ecosystem and payment landscape:**

Credit card and Debit card Usage in Ecommerce March 2025		
Bank	Credit Card Payments in Ecommerce (%) Share	Debit Card Payment in E commerce (%) Share
HDFC BANK LTD	29.90%	27.12%
ICICI BANK LTD	20.07%	16.54%
STATE BANK OF INDIA	15.71%	15.71%
AXIS BANK LTD	10.37%	8.84%
BANK OF BARODA	1.36%	1.76%
UNION BANK OF INDIA	0.24%	2.63%
CANARA BANK	0.23%	3.09%
PUNJAB NATIONAL BANK	0.14%	2.12%
INDIAN BANK	0.11%	0.95%
BANK OF INDIA	0.02%	0.67%
INDIAN OVERSEAS BANK	0.01%	0.51%
BANK OF MAHARASHTRA	0.01%	0.42%
CENTRAL BANK OF INDIA	0.00%	0.50%
PUNJAB AND SIND BANK	0.00%	0.16%
UCO BANK	0.00%	0.51%

Source: RBI

The Indian e-commerce landscape is undergoing a dynamic transformation, prominently shaped by evolving digital payment preferences. As of March 2025, traditional credit and debit card usage in e-commerce continues to be dominated by key players, with HDFC Bank, ICICI Bank, and State Bank of India collectively holding substantial market shares, underscoring the established presence of these financial institutions in facilitating online purchases. However, the rapid expansion of Unified Payments Interface (UPI) is revolutionizing digital transactions. This is particularly notable in higher-value transactions, with majority of Person-to-Person (P2P) and Person-to-Merchant (P2M) payments exceeding ₹2000, signaling strong consumer preference towards convenient and immediate payment solutions. This dual-pronged growth, encompassing both established card payments and the increasing adoption of UPI presents both opportunities and challenges.

**Chart 7: UPI transactions by value**



Source: NPCI

### Opportunities for the Banks:

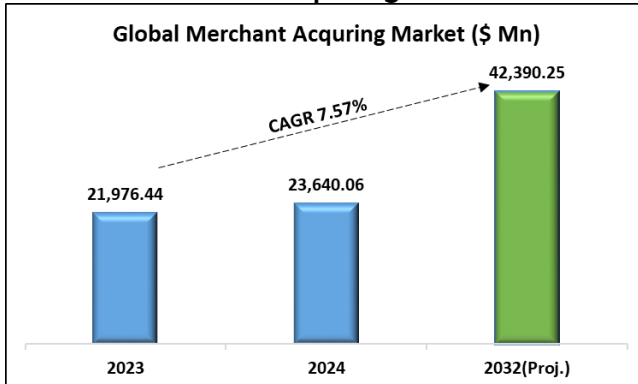
**Table 3: Estimated potential for credit expansion by tying up with e-commerce firms**

Credit segment	Estimated potential (lakh cr)	Remarks
BNPL & consumer credit	1.5-2.00	Growing 2%% annually
MSME loans via e-commerce	0.5-0.75	Formalisation of credit to MSMEs
Co-branded cards & EMI loans	0.60-0.80	5-7 million cards issued
Digital lending (platform based)	2.50-3.50	Much of it is e commerce driven

## 1. Merchant Acquiring & Payment Solutions

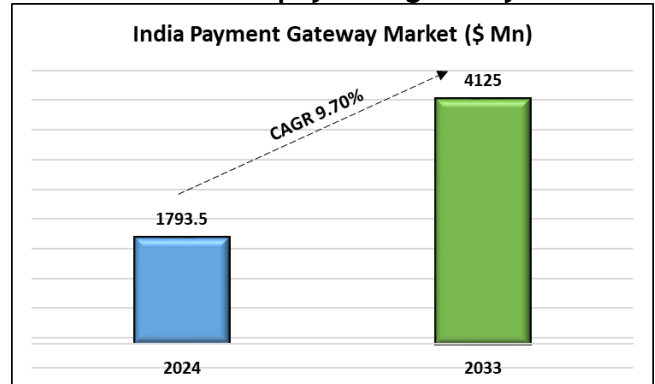
In the context of e-commerce, the evolution of merchant acquisition and payment solutions is critical, driven by a growing preference for digital transactions.

**Chart 8: merchant acquiring market**



Source: Global Growth Insights

**Chart 9: India payment gateway market**



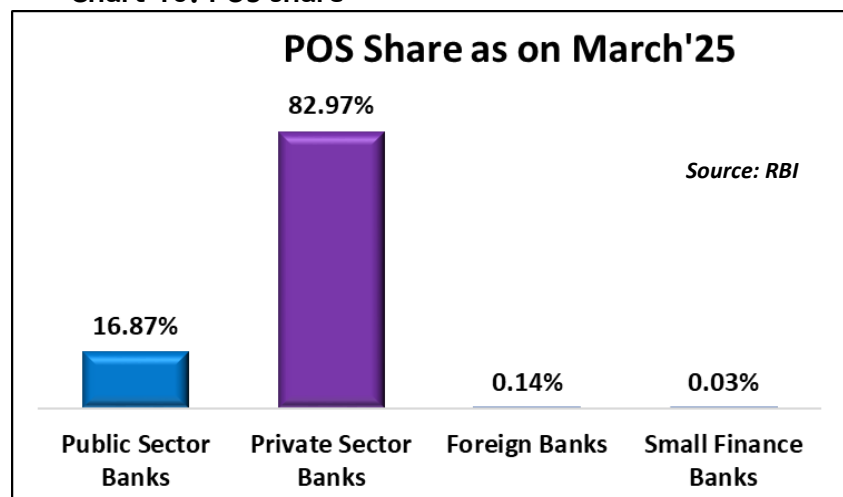
Source: IMARC Group

The global merchant acquiring market was valued at USD 21.98 bn in 2023 and is projected to reach USD 42.4 bn by 2032, a CAGR of 7.6%, primarily fueled by the surge in e-commerce and the shift towards a cashless society. Payment gateways play a pivotal role in this ecosystem, with the India payment gateways market reaching \$1.8 bn in 2024 and expected to grow to US\$ 4.1bn by 2033 at a CAGR of 9.70%. Companies like Razorpay hold a significant share in the Indian payment gateway market, exceeding 20% while PayU is also a major player with a strong focus on India.

This environment presents substantial opportunities for banks. By being at the forefront of merchant acquiring and payment solutions, banks can capitalize on the lucrative interchange fees and transaction processing revenues from both traditional card payments and the rapidly expanding UPI ecosystem, accounting for over 80% of overall retail digital payments in India. According to a report by PwC India, UPI is expected to contribute to 91% of overall retail digital payments in India by 2028-29. The increasing adoption of QR codes and soundboxes, along with the rising volume of high-value Person-to-Merchant (P2M) UPI transactions, further underscores the potential for banks in this segment, helping to strengthen revenue streams.

**Chart 10: POS share**

Though private banks constitute 82.97% share of the overall POS market as of March 2025, a huge opportunity exists for Public Sector Banks to significantly expand their presence, particularly in areas like integrated POS solutions for quick commerce dark stores and warehouses. robust infrastructure and extensive reach will help



Source: RBI

Public Sector Banks to leverage the expanding e-commerce trend and high-value UPI

transactions. Technology adoption and strong merchant partnerships will facilitate Public Sector Banks to augment market share in this segment.

Public Sector Banks can also strategically leverage the Government e-Marketplace (GeM) portal. GeM's Gross Merchandise Value crossed ₹4.52 lakh crore with more than 61 lakh orders recorded in the current financial year (PIB, March 2025). Notably, 37.9% of this order value is attributed to Micro and Small Enterprises (MSEs), underscoring GeM's critical role in empowering local businesses. By integrating payment solutions and offering crucial working capital and supply chain finance tailored for these MSMEs and other sellers, Public Sector Banks can tap into this vast and growing segment.

**Table 4: GeM statistics**

GeM Statistics as on 23.05.2025		
164,505 Primary Buyers	231,851 Secondary Buyers	10,910 Product Categories
336 Service Categories	7,236,650 Order Volume in Last FY	543,003 Order Value in Last FY (Cr.)
626,386 Order Volume in Current FY	46,972 Order Value in Current FY (Cr.)	36.87 Orders Value (MSE %)

*Source: GeM Portal, Gol*

## 2. Working Capital & Supply Chain Finance:

Banks are uniquely positioned to unlock immense opportunities in working capital and supply chain finance (SCF) for the thriving e-commerce sector. The Indian SCF market is poised to surge from USD 24 bn in 2024 to USD 100 bn in a span of three years, strongly supported by digitalization of SCF platforms. Furthermore, the seamless integration of SCF platforms with others like Goods and Services Tax Network (GSTN) and trade Receivables and Discounting System (TReDS) can augment credit access. The Account Aggregator framework will also enable banks to leverage rich transactional data for swift and impactful credit disbursement.

**Table 5: Working Capital Finance in E-commerce:**

Name of the Bank	E-Commerce Platform	Facility	Features
ICICI Bank	Flipkart	Instant Overdraft facility to Sellers registered on Flipkart	<ul style="list-style-type: none"> <li>Sanctions OD immediately on the strength of end-end digital process.</li> <li>Customer of any Bank get overdraft of up to Rs. 25 lakhs.</li> </ul>



### 3. Consumer Lending and Digital banking:

#### (i) Buy Now, Pay Later:

As the e-commerce landscape continues to expand, BNPL plays a pivotal role in driving online consumption and reshaping consumer behavior. The Indian Buy Now, Pay Later (BNPL) market is projected for robust expansion, with its Gross Merchandise Value (GMV) expected to surge to US\$25.4 billion by 2028, reflecting a significant CAGR of 12% in almost 6 years.

Though private banks currently dominate overall POS, PSBs can experiment with BNPL's "easy access" model, which doesn't rely on extensive credit history, to onboard a vast segment of new-to-credit or underserved customers, particularly those in Tier 2/3 cities and rural areas where PSBs have a strong presence. The seamless and quick assessment process of BNPL aligns perfectly with tech-savvy young Indian cohort providing PSBs an opportunity to tap this demographic. By leveraging their existing infrastructure, PSBs can drive significant digital transaction volumes through innovative offerings like co-branded cards and bridge the credit gap for millions of Indians while enhancing market share in the rapidly growing digital lending space.

**Table 6: Credit cards & BNPL**

<b>Differences between Credit Cards and BNPL</b>		
	Credit Card	BNPL
Interest-Free Credit Period	Up to 50 days	Up to 15-30 days
Credit Limit	High	Low
EMI Loan Interest Rates	0-20% APR	0-32% APR
Rewards/Cashbacks	~1% Cashback	Limited
Merchant Network	Offline + Online	Online
International Acceptance	Yes	No
Balance Transfer	Yes	No
Source: HDFC Securities -Fintech Playbook BNPL 2022		

**Table 7: Buy now pay Later (BNPL) schemes in India:**

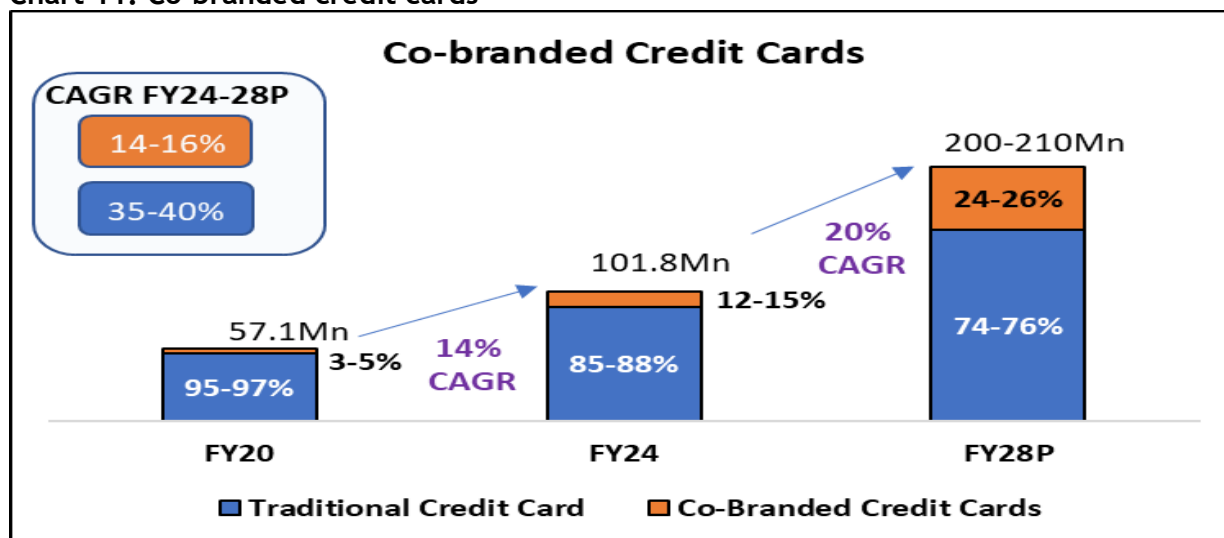
S.No	Name of the Bank	BNPL Facility	Features
1.	ICICI Bank	Pay Later	Repayment period of 45 days, Pay Later account can range between Rs 7,500 to 2,00,000, based on eligibility. discontinued w.e.f 8th May 2025.
2.	HDFCBank	Flexi Pay	No Extra Cost for 15 days. Credit line from Rs. 1,000 up to Rs. 20,000 instantly. Tenure starting from 15 days up to 90 days at nominal charges per month.
3.	Axis Bank	Free charge Later Pay	Instant Credit upto. 10000/-per months Credit Period is upto 30 days
4.	SBI	Flexipay	To convert large purchases (over ₹500) into monthly instalments, Flexipay within 30 days of making the purchase.
		Xpress Credit	Flexible Loan Amount up to 24 times your net monthly income
5.	Karur Vysya	(KVB) BNPL	Maximum loan amount of Rs 1 Lakh, 30 days - 24 months repayment



## (ii) Co-Branded Cards:

India's rapid digitalization and increased consumer spending have fueled a surge in co-branded credit cards, projected to capture over 25% of credit card market share by volume by FY28, growing at a CAGR of 35-40% during FY24-28. While traditional credit cards will see modest growth, this indicates a clear consumer shift towards personalized rewards and benefits offered by co-branded cards. By partnering with popular e-commerce and quick commerce players, PSBs can leverage these tailored value propositions to attract new customer segments, foster deeper brand loyalty, and significantly increase their digital transaction volumes.

Chart 11: Co-branded credit cards



Source: RedSeer

Table 8: Bank -to-Business Co-Branded Credit Card

Bank	Partner	Name of the Co-Branded Credit Card	Features of Card
Kotak Mahindra Bank	Myntra	Myntra Kotak Credit Card	An instant discount of 7.5 percent on Myntra
Axis Bank	Flip cart	Flipkart Axis Bank Credit Card	<ul style="list-style-type: none"> <li>5% Unlimited cashback for spends on Flipkart and Clear trip.</li> <li>4% Unlimited cashback for spends on preferred merchants (Swiggy, Uber, PVR, CultFit)</li> <li>1% Unlimited cashback for spends on all other merchants.</li> </ul>
ICICI Bank	Amazon	Amazon Pay ICICI Bank Credit Card	<ul style="list-style-type: none"> <li>5% Cashback for Amazon Spends for Prime Member.</li> <li>3% Cashback for Amazon Spends for Non-Prime members</li> <li>2% Cashback in Amazon Pay for 100+ partner merchants.</li> </ul>

### Bank -to-Bank Co-Branded Credit Card:

Cards designed to leverage the strengths of each bank and the goal is to attract customers by offering a card that combines the features and reward of both banks,

**Table 9: Bank to bank co-branded credit cards**

Bank	Partner	Features of Card
Bank of Maharashtra	SBI Card	Reward points, cash back offers, fuel surcharge waivers, EMI facilities, Exclusive merchant discounts

#### (iii) Personal loans for high value online purchases:

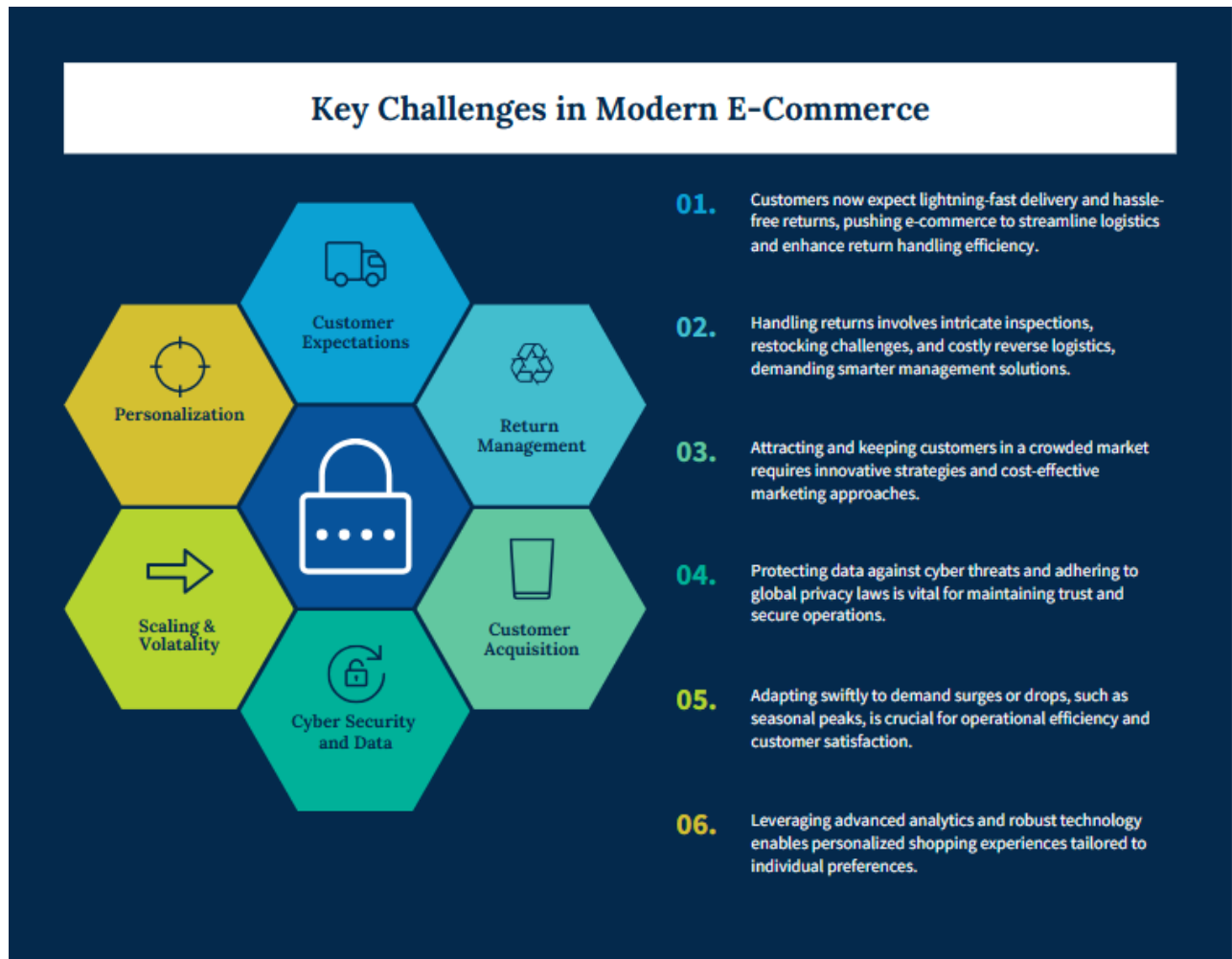
For Public Sector Banks (PSBs), offering attractive personal loans for high-value online purchases represents a significant opportunity. According to a survey by Home Credit India, loan growth for smartphones and household appliances surged from 1% in 2020 to 37% in 2024, highlighting a clear appetite for such credit.

PSBs can effectively capitalize on the increasing trend of high-value purchases by ensuring swift and convenient access to credit. By streamlining digital processes and leveraging AI-powered solutions, PSBs can achieve a substantial rise in loan originations with reduced turnaround times.

PSBs can significantly enhance their value proposition by investing in advanced technology and data analytics expertise besides implementing cutting-edge fraud detection and cybersecurity solutions.

PSBs have a unique opportunity to offer sophisticated data analytics services to merchants, helping them optimize pricing strategies, manage inventory more efficiently, and gain deeper insights into consumer behavior. Finally, enabling seamless API banking integrations is crucial for embedding financial services directly into third-party platforms, allowing PSBs to become integral to the digital ecosystems of various businesses.

## Challenges



### Key Takeaways:

1. Technology players like Google, Amazon, Uber and Apple are offering products and services similar to banks which has resulted in heightened customer expectations.
2. E-commerce practices in banks should priorities security and fraud prevention, while leveraging data analytics for personalized experiences and targeted offers.
3. Banks may offer personalized product recommendations and tailored financial solutions based on customer behavior and preferences like major e-commerce giants.
4. Customized mobile applications to offer seamless onboarding experience for niche segments as per the target customer cohorts.
5. Adoption of user-friendly and simple interfaces that are easy to navigate and use, similar to e-commerce platforms, such as one-click payments or pre-filled forms, that can improve conversion rates and customer satisfaction.

6. Opportunities for co-branding on cards (Credit, Debit or prepaid cards) with various retails partners/Financial Institutions under the stipulated guidelines of regulator.

*Amazon Pay ICICI Bank Credit Card, Flipkart Axis Bank Credit Card, Myntra Kotak Credit card & Bank of Maharashtra -SBI Card.*

7. Exploring the opportunity in the form of 'Buy Now Pay Later (BNPL)' with adequate risk management practices and subject to regulatory guidelines.

*Examples: ICICI Bank, HDFC Bank, Axis Bank, SBI, Karur Vysya Bank.*

8. Unlocking the opportunity in working capital finance and supply chain finance (SFC) with sellers associated with e-commerce giants like -Amazon, Flipkart etc.

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## Annexure

### Geographical Penetration of E-commerce in India

#### 1. state wise contribution (Top 50%)

States	% Share (2023)
Maharashtra	15%
Karnataka	9%
Uttar Pradesh	8%
Tamil Nadu	7%
Delhi	6%
Telangana	6%
<b>Total</b>	<b>51%</b>

Source: Story Board 18

#### 2. Top 10 Cities (In Descending Orders)

Rank	Cities
1	Bangalore
2	Mumbai
3	Delhi
4	Hyderabad
5	Chennai
6	Kolkata
7	Pune
8	Ahmedabad
9	Vishakhapatnam
10	Surat

Source: Kearney India Digital Commerce Index Report

#### 3. Emerging Tier 2 & Tier 3 Cities

Category	Cities
Tier -1	Pune, Hyderabad, Ahmedabad, Chandigarh, Coimbatore, Jaipur, Lucknow
Tier -2	Jabalpur, Bilaspur, Anand, Bhubaneswar, Surat, Nagpur, Indore, Vizag, Mysuru, Raipur, Vadodara, Patna, Ludhiana
Tier 3	Warrangal, Nanded, Gorakhpur, Belgavi, Durgapur, Jalgaon, Ujjain, Jhansi, Tirunelveli, Alapuzha

Source: Various reports

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