



UPI 2.0: The MDR Question

Digital Newsletter

August 2026

o3capital | *Your Partners, Your Advisors*

Hello Readers,

Welcome to the latest edition of o3 Capital's Digital Newsletter.

Over the past decade, UPI has transformed the way India pays, evolving from a digital payments innovation into one of the world's largest real-time payments ecosystems.

Built on interoperability, ubiquity and a zero-MDR framework, UPI has become deeply embedded across everyday commerce and now serves as critical infrastructure underpinning India's digital economy.

As UPI enters its next decade, however, the discussion is increasingly shifting from adoption to sustainable economics. Operating the ecosystem entails significant costs across banks, PSPs, TPAPs, merchant acquirers and payment infrastructure providers, while existing government incentives cover only a fraction of these costs.

In this edition, we examine the case for a calibrated, merchant-funded MDR framework - its potential revenue pool, implications across the ecosystem, and how selective monetization of high-value merchant transactions could help make UPI more self-sustaining while preserving free payments for the vast majority of transactions

Hope you enjoy reading the Newsletter.

Table of Contents



MDR on UPI: Industry Overview



Key Funding Rounds & Public Market Universe



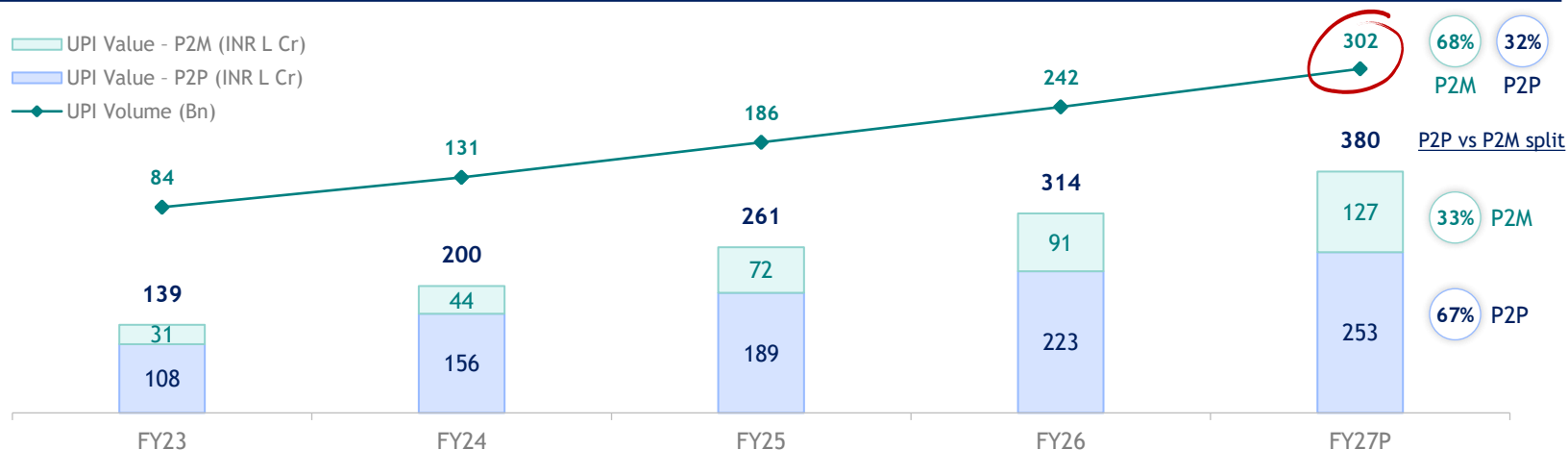
o3 Capital Overview

Glossary

Term	Full form
CLOU	Credit Line on UPI
MDR	Merchant Discount Rate
NPCI	National Payments Corporation of India
P2M	Peer-to-Merchant
P2P	Peer-to-Peer
PA / PG	Payment Aggregator / Payment Gateway
PSP	Payment Service Provider
TPAP	Third-Party Application Provider
TPV	Total Payments Value
TSP	Technology Service Provider
UPI	Unified Payments Interface

UPI: An indispensable backbone of India's digital payments ecosystem

UPI has scaled to ~56 Cr users, cementing its position as India's default digital payments rail¹



Key Metrics

FY20

FY26

UPI's share of digital payment vol.

27%

85%

Txn per day (Cr)

3

66

Banks live on UPI

148

703²

- ✓ **Default payment rail;** Accounts for ~85% of digital payment volumes; ~66 Cr txns/day
- ✓ **Deeply embedded in commerce;** P2M transactions to reach 68% by volume and 33%+ by value by FY27P
- ✓ **Expanding addressable pool with newer use cases;** CLOU, RuPay CC on UPI, 123pay, UPI Lite and UPI Circle
- ✓ **Rising global acceptance** with UPI linkages across 10+ countries

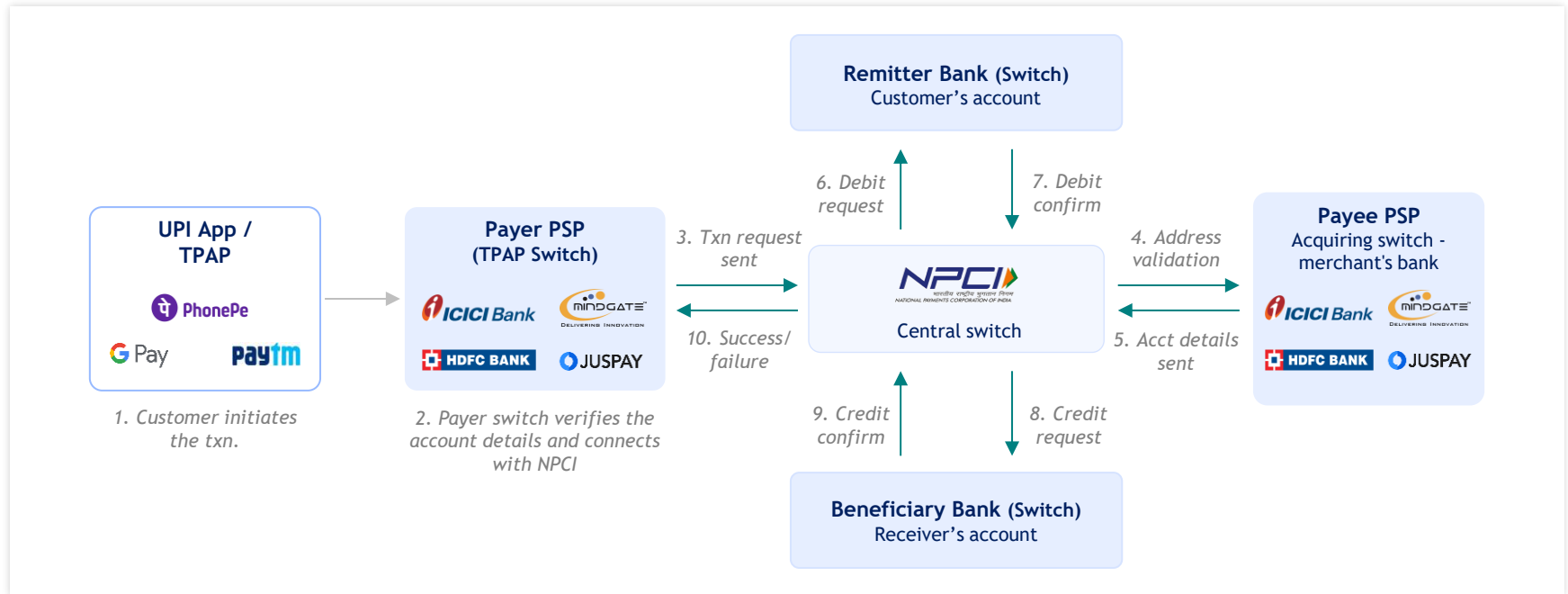
At this scale, the debate shifts from adoption to economics - who funds the infrastructure that keeps UPI running?

Source: NPCI, PIB, PwC Indian payments handbook 2025-30, o3 estimates

Note 1: FY27P estimated based on average monthly growth rates in FY26 for both volume and value. Note 2: Includes all types of banks - SCBs, SFBs, PSUs, Co-operative Banks

While UPI delivers a seamless transaction experience, every transaction carries a real cost - with monetization still missing

End-to-end UPI flow (P2M) - From merchant checkout to settlement, multiple participants work together in real time to ensure a seamless flow



Real costs are incurred across the transaction lifecycle and borne by ecosystem participants (0.23% - 0.25% per P2M txn.)

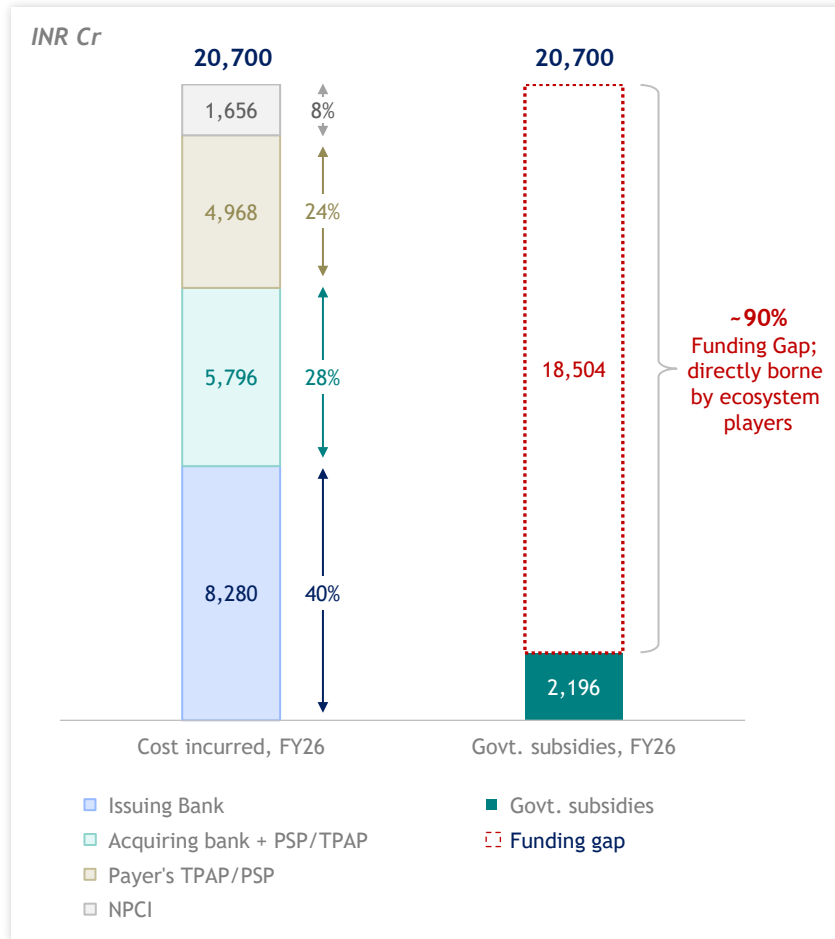
Technology & infrastructure costs	Transaction processing & settlement costs	Merchant acquisition & servicing costs	Fraud, risk & cybersecurity costs	Customer servicing & compliance costs
App development, APIs, servers/cloud, 24x7 uptime	Routing, switching, processing, reconciliation, settlement	Merchant onboarding/KYC, QR deployment, support	Fraud checks, cybersecurity, & data protection	Customer support, compliance, audits and reporting

Zero-MDR model has enabled mass adoption, but the absence of a transaction-linked revenue pool leaves ecosystem participants dependent on incentives and cross-subsidization

Source: Industry articles and blogs

Subsidies helped build UPI's initial scale, but remain insufficient; sustainable economics are needed for its next decade

The gap is real: Govt. incentives cover only ~11% of ecosystem costs¹



Making a self-sustaining funding model increasingly necessary

1 Govt. incentives remain partial, targeted and insufficient

- Current framework covers only small-merchant P2M transactions up to INR 2,000, and offsets only a fraction (~11%) of the cost, leaving a persistent funding gap



2 The ecosystem needs continued investment and innovation

- Scale requires continued spending on capacity, cybersecurity, resilience, fraud prevention and merchant infrastructure to sustain UPI's reliability and growth



3 MDR creates a scalable, transaction-linked revenue pool

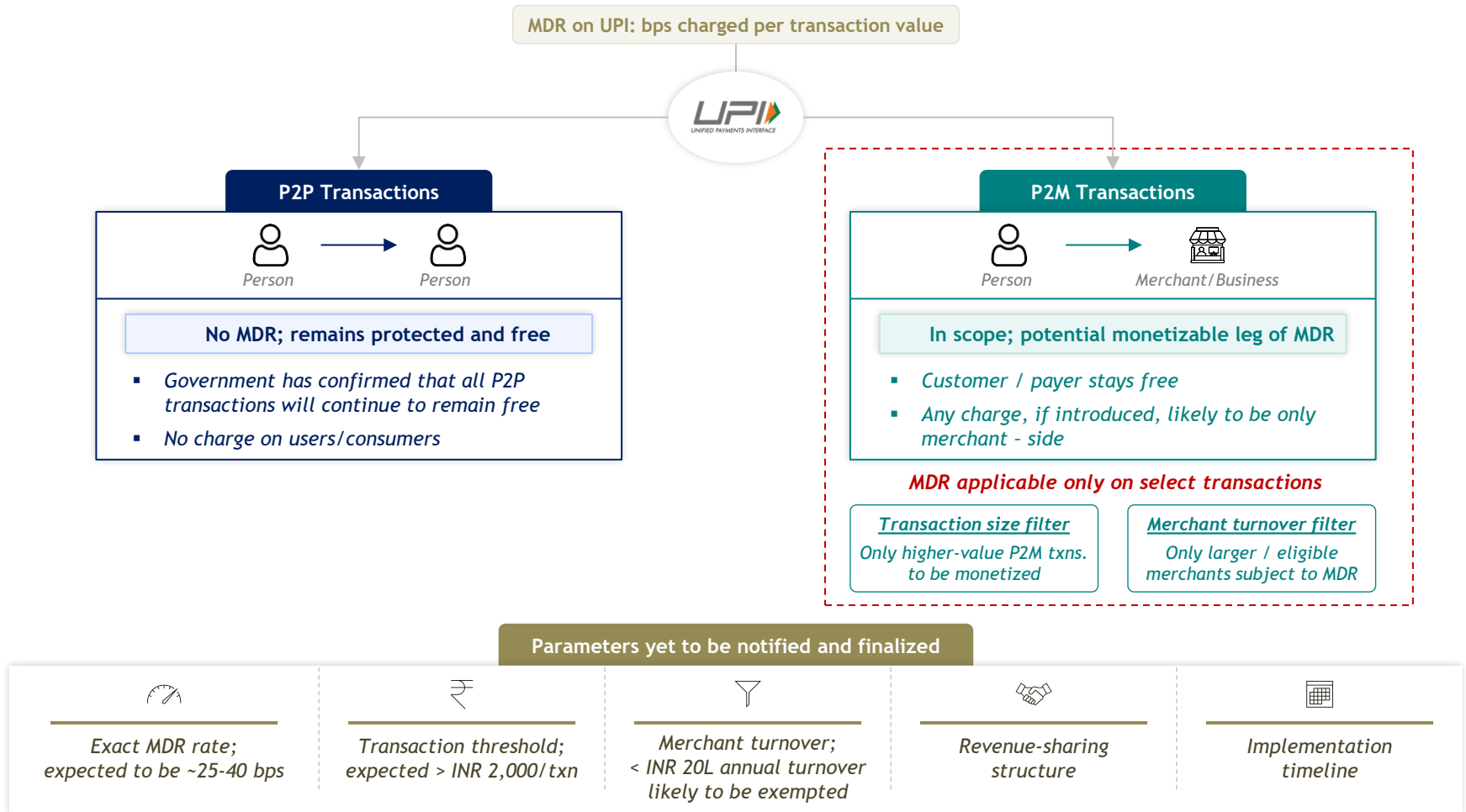
- A calibrated MDR can align ecosystem revenues with transaction activity, reducing dependence on subsidies

~90% of the costs borne by ecosystem participants remain unfunded today, creating a significant gap that must be bridged through monetizing UPI

Note 1: Total costs borne by ecosystem participants are based on industry estimates; Cost split is based on RBI estimates & o3 analysis

The policy response has arrived: Government has formalized a legal pathway for selective UPI MDR

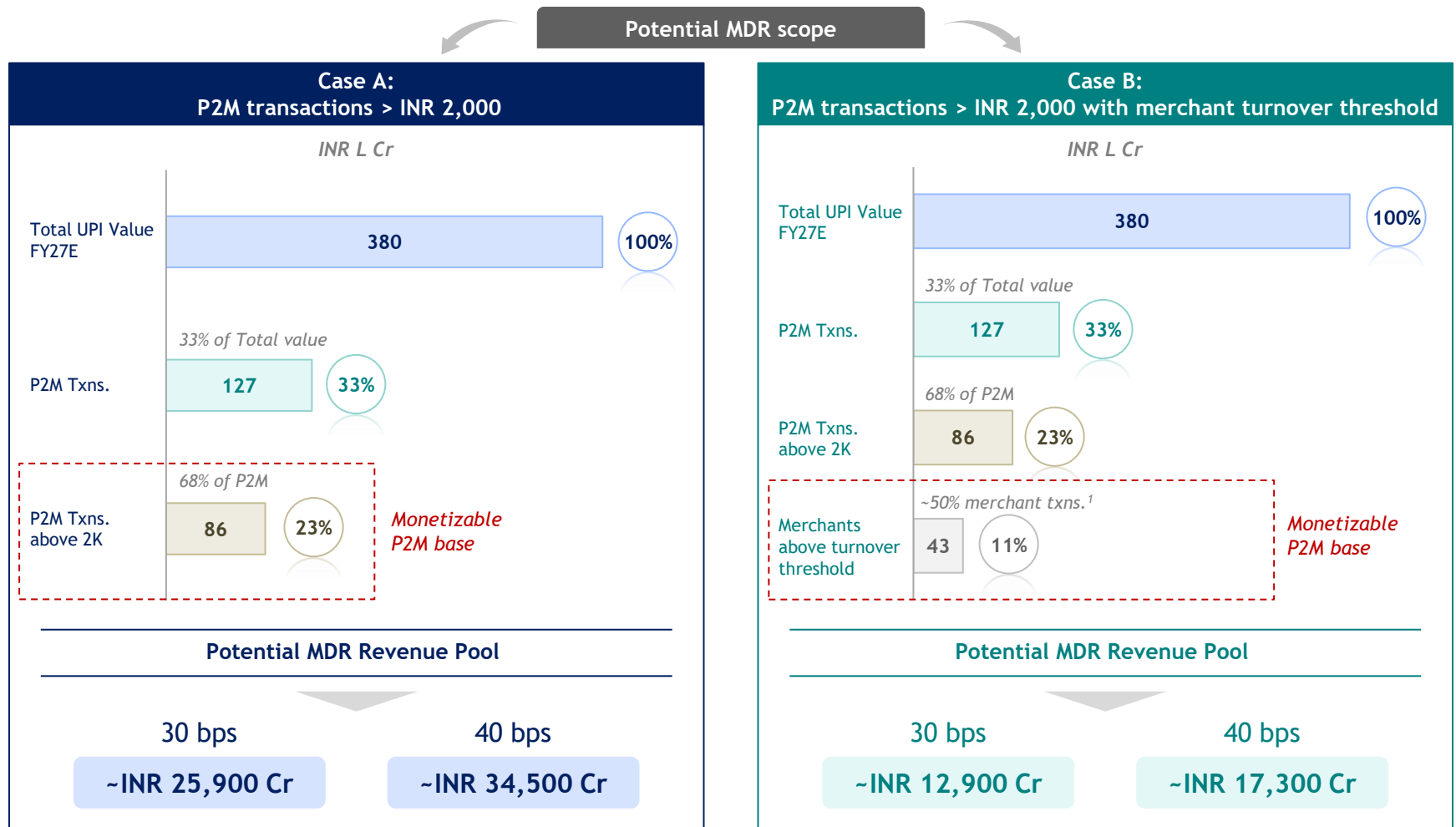
The 2026 PSS Act amendment enables a calibrated MDR framework with certain commercial parameters still to be notified



The door to UPI monetization has opened - but by design, any MDR is expected to be narrow, merchant-funded and protective of everyday consumer payments and small merchants

Source: News articles; *Business Standard*

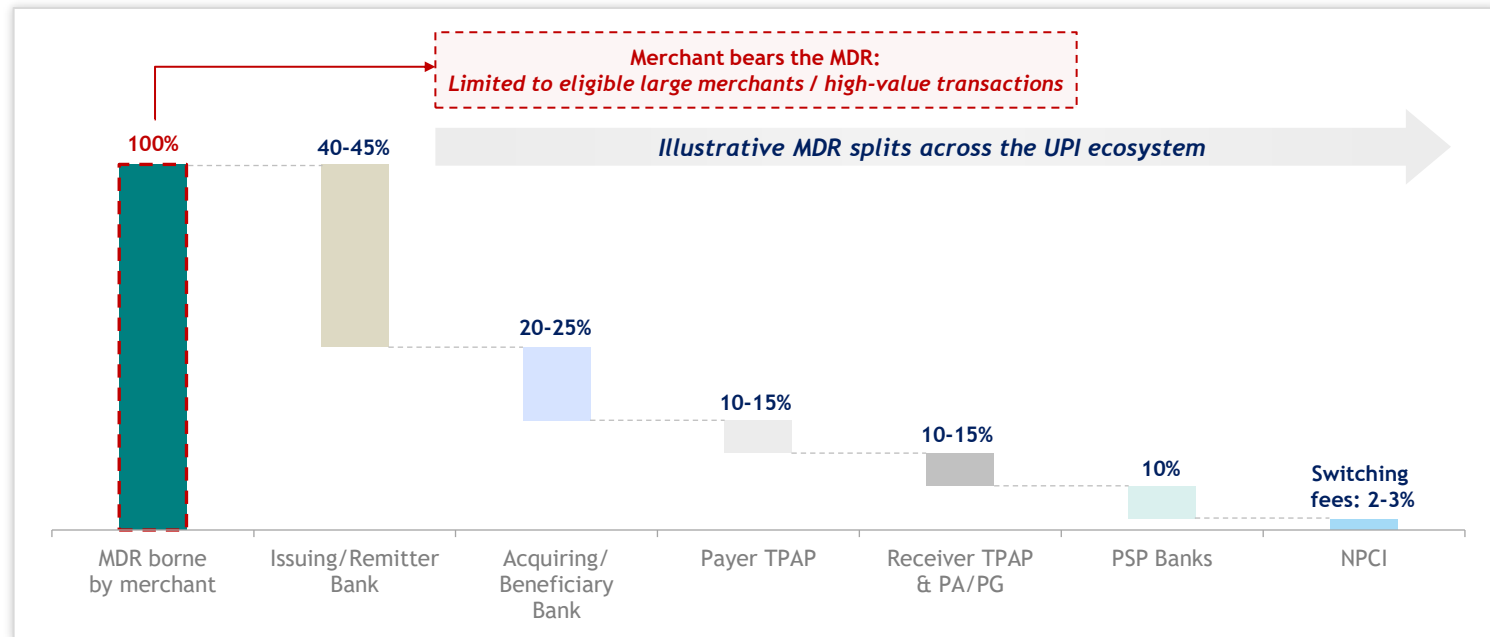
The MDR opportunity - path towards creating a self-sustaining UPI ecosystem



Only 4% of P2M transactions sit above INR 2,000 - yet they carry ~68% of P2M value - monetizing this narrow segment funds the entire ecosystem while preserving free UPI for the remaining ~96%

Source: NPCI, PIB, RBI reports, news articles. Note 1: o3 analysis and estimates

MDR economics flow across the payments stack, funding the institutions that operate and scale UPI



Impacts across the UPI ecosystem

Banks: Issuer/Acquirer/PSP ↑

Largest benefits accrue to banks, turning UPI from a cost center into a direct revenue stream



TPAPs ↑

Direct monetization opportunity of a large user base, reducing dependence on cross-sell of adjacent financial products and govt. funded incentives



PA/PG / Merchant acquirer ↓ ↑

Many PA/PGs today charge ~1-2% platform fees from small-mid merchants with no pass-throughs; MDR could introduce direct costs; MDR could positively impact enterprise merchant TPV



Switch platforms ↑

Indirect beneficiary; Better bank economics ease pricing pressure on TSPs, giving them higher bargaining power



Source: Industry estimates, news articles, o3 analysis

From scale to sustainability: the next chapter for UPI

1

UPI has reached a critical scale

- UPI has become India's default payments rail, accounting for ~85% of digital payment volumes, with 56 Cr+ users processing ~66 Cr transactions daily and transaction value growing rapidly at ~29% CAGR

2

Self-sustaining funding is required

- With mass adoption achieved, UPI's next phase cannot rely indefinitely on subsidies and cross-subsidization; transaction-linked revenues are needed to fund the rail sustainably

3

MDR can remain tiered and targeted

- Monetization can be limited to high-ticket, large merchant P2M transactions, keeping P2P, small merchants and low-ticket payments free

4

Meaningful revenue pool

- A small 4% share of high-value P2M transactions (> INR 2,000) can fund the entire rail, unlocking a sizeable revenue opportunity without disrupting the mass-market UPI ecosystem

5

Ecosystem-wide impact

- Merchant-funded MDR flows across banks, PSPs, TPAPs, PA/PGs and switch platforms, strengthening economics across the UPI ecosystem

6

Potential risks

- Could trigger merchant pushbacks, a potential shift back to cash and eventual pass-through of costs to end-consumers

Key Funding Rounds



Key funding rounds in Fintech in the last 12 months¹ (1/2)

Funding Date	Company Name	Sub-Segment	Round Name	Funding Amount (\$ Mn)	Lead investor(s)
Aug-2026	 Rezolv	Lending-tech	Series A	13	Norwest, Vertex Ventures, 3one4 Capital
Aug-2026	 Centricity <small>Together Forward</small>	Wealth-tech	Series A	24	SMBC Asia Rising Fund, Lightspeed, Stride Ventures, InnoVen Capital
Aug-2026	 inrisk	Insure-tech	Series A	27	Bessemer Venture Partners, Northpoint Capital
Jul-2026	 BUSINESS NEXT	Bank-tech	Series B	40	ServiceNow
Jul-2026	 QVERIQUUS	Wealth-tech	Series C	40	Norwest, Peak XV Partners
Jul-2026	 neo <small>Do Good.</small>	Wealth-tech	Series C	90	TVS Capital Funds, Peak XV Partners
Jun-2026	 CRED	Payment-tech	Series H	900	Meta
Jun-2026	 equal	Reg-tech	Series B	30	Prosus, Valiant Capital Management
May-2026	 scapia	Payment-tech	Series C	63	General Catalyst, Peak XV Partners, Z47
Apr-2026	 AARITYA TECHNOLOGIES	Wealth-tech	Series B	33	Accel, Elevation Capital
Apr-2026	 KreditBee	Lending-tech	Series E	280	Motilal Oswal, Hornbill Capital, Premji Invest, Advent International
Feb-2026	 Stable Money	Wealth-tech	Pre Series C	25	Peak XV Partners, Z47, RTP Global, Lightspeed Venture Partners, Fundamentum

Source: Tracxn, News Articles, PrivateCircle

Note 1: Deals in the last 1 year, Funding amount > \$10 Mn

Key funding rounds in Fintech in the last 12 months¹ (2/2)

Funding Date	Company Name	Sub-Segment	Round Name	Funding Amount (\$ Mn)	Lead investor(s)
Feb-2026	 IDfy	Reg-tech	Series F	53	Neo Asset Management, Blume Ventures, Elev8
Jan-2026	 JUSPAY	Payment-tech	Series D	50	WestBridge Capital
Dec-2025	 fibe	Lending-tech	Series F	35	IFC
Nov-2025	 StockGro	Wealth-tech	Series B	13	BITKRAFT Ventures
Nov-2025	 wint	Wealth-tech	Series B	28	Eight Roads Ventures, 3one4 Capital, Arkam Ventures, Vertex Ventures
Nov-2025	 finnable	Lending-tech	Series C	57	Z47, TVS Capital Funds
Oct-2025	 QAPITA	Wealth-tech	Series B	27	Citi, Charles Schwab, MassMutual Ventures
Oct-2025	 DEZERV	Wealth-tech	Series C	40	Premji Invest, Accel, Elevation Capital, Z47
Oct-2025	 dhan	Wealth-tech	Series B	120	Hornbill Capital, MUFG, BEENEXT
Sep-2025	 InCred Money	Wealth-tech	Series B	30	Mankind Group Family Office
Aug-2025	 TBX	Bank-tech	Series B	25	Bessemer Venture Partners, Fundamentum, Arkam Ventures, 8i Ventures, GMO Venture Partners
Aug-2025	 WEAVERS	Lending-tech	Series D	170	Lightspeed Venture Partners, Premji Invest, Gaja Capital

Source: Tracxn, News Articles, PrivateCircle

Note 1: Deals in the last 1 year, Funding amount > \$10 Mn

Digital Public Market Universe



India Digital Public Market Universe (1/2)

Particulars	Current price (INR)	Issue price (INR)	Price performance since listing	Market Cap (INR Mn)	Enterprise Value (INR Mn)	Revenue FY23-26 CAGR (%)	NTM Financials		NTM Multiples	
							Sales (INR Mn)	EBITDA (%)	EV/Sales	EV/EBITDA
 zomato	328	76	332%	30,15,597	29,95,307	97%	10,83,109	4%	2.8x	73.5x
 Groww	197	102	93%	12,35,961	NA	50%	67,916	64%	NM	NM
 lenskart	661	401	65%	11,49,398	11,45,348	32%	1,24,871	22%	9.2x	41.8x
 paytm	1,632	2,151	(24%)	10,45,030	9,00,860	2%	1,12,508	12%	8.0x	65.9x
 NYKAA	334	187 *	78%	9,56,539	9,65,440	25%	1,36,460	9%	7.1x	74.6x
 meesho	206	108	91%	9,50,778	9,22,955	30%	1,87,603	(2%)	4.9x	NM
 infoedge	1,350	16 *	8,345%	8,74,511	8,55,773	12%	35,339	44%	24.2x	55.7x
 policybazaar	1,795	979	83%	8,30,630	8,08,772	38%	95,754	13%	8.4x	62.9x
 SWIGGY	283	390	(28%)	7,36,210	6,50,200	41%	3,23,040	(5%)	2.0x	NM
 ATHER	1,462	323	353%	5,76,749	5,58,501	27%	65,386	(1%)	8.5x	NM

Source: CapIQ as of 21st August 2026

Note *: Adjusted issue price for stock splits, bonuses, etc.

India Digital Public Market Universe (2/2)

Particulars	Current price (INR)	Issue price (INR)	Price performance since listing	Market Cap (INR Mn)	Enterprise Value (INR Mn)	Revenue FY23-26 CAGR (%)	NTM Financials		NTM Multiples	
							Sales (INR Mn)	EBITDA (%)	EV/Sales	EV/EBITDA
 IRCTC	484	64 *	657%	3,87,360	3,59,492	14%	58,635	32%	6.1x	19.3x
	121	113	7%	3,49,030	3,26,495	74%	52,412	17%	6.2x	37.3x
 DELHIVERY	451	490	(8%)	3,37,599	3,32,400	13%	1,31,564	8%	2.5x	31.7x
 AngelOne	288	31 *	841%	2,62,959	NA	17%	50,761	41%	NM	NM
 Urban Company	159	103	54%	2,44,590	2,28,764	35%	23,393	(16%)	9.8x	NM
 digit	263	272	(3%)	2,43,051	2,44,359	19%	1,05,639	NM	2.3x	NM
 tbo.com <small>TRAVEL SIMPLIFIED</small>	1,697	922	84%	1,81,159	1,73,332	36%	40,124	16%	4.3x	26.7x
 pine labs	157	195 *	(20%)	1,81,052	1,03,199	19%	33,909	22%	3.0x	13.8x
 OLA ELECTRIC	38	76	(50%)	1,74,630	1,95,170	(5%)	21,644	(27%)	9.0x	NM
 KFintech <small>EXPERIENCES. TRANSFORMED.</small>	980	366	168%	1,69,163	1,64,148	22%	16,523	39%	9.9x	25.4x

Source: CapIQ as of 21st August 2026

Note *: Adjusted issue price for stock splits, bonuses, etc.

o3 in Fintech: Deep industry relationships and sector expertise

<p>Strong deal execution track record</p>	<p>Transaction Banking</p> <p>Ongoing Fundraise</p> <p>Fundraise for a transaction banking infra player</p>	<p>Transaction Banking</p> <p>tbTBX</p> <p>Treasury mgmt & Corp banking platform</p> <p>Acquired by TransBnk 2026</p>	<p>Payments - UPI Infra</p> <p>MINDGATE DELIVERING INNOVATION</p> <p>payU</p> <p>PayU acquired majority stake in Mindgate 2025</p>	<p>Payments-tech</p> <p>chillr</p> <p>truecaller</p> <p>Truecaller acquired Chillr 2018</p>	<p>Loyalty Management</p> <p>Ongoing Fundraise</p> <p>Fundraise for bank-tech providing loyalty management solutions to banks 2026</p>	<p>Lending-tech</p> <p>Ongoing Fundraise</p> <p>Fundraise for a lending-tech Player 2026</p>
<p>Deep relationships across the Fintech ecosystem</p>	<div><div> DELIVERING INNOVATION</div><div></div></div> <div><div></div><div></div></div> <div><div></div><div></div></div> <div><div></div><div></div></div> <div><div></div><div></div></div> <div><div></div><div></div></div> <div><div></div><div></div></div> <div><div></div><div></div></div> <div><div></div></div>					
<p>Sector expertise underpinned by a strong ecosystem presence & differentiated research</p>	<div><div></div><p>Flagship Fintech Event: 20+ companies; 80+ meetings facilitated</p></div> <div><div></div><p>Enterprise Fintech</p></div> <div><div></div><p>Reg-tech and AA in India</p></div> <div><div></div><p>PA-PG Landscape</p></div>					

● Color denotes o3 Capital's client

Disclaimer & Contact Details

Disclaimer

The information contained in this Document is selective and is subject to updates, expansions, revisions and amendments. It does not purport to contain all the information that the recipients may require. o3 Capital Global Advisory Private Limited ("o3 Capital") does not accept any obligation to provide recipients with access to any additional information or to correct any inaccuracies, which may become apparent. Neither o3 Capital, nor any affiliated bodies corporate, Directors, shareholders, managers, employees or agents of any of them, makes any representation or warranty, express or implied, as to the accuracy, reasonableness or completeness of the information contained in the Document.

All such parties and entities expressly disclaim any and all liability whether arising out of any information contained in, or errors in or omissions from, this Document or the recipients' use of this Document. Accordingly, recipients are advised to independently conduct their own evaluation and analysis of the information contained in the document and should also seek their own professional advice. Neither o3 Capital nor its Directors, employees, agents or representatives shall be liable for any damages whatsoever, whether direct or indirect, incidental, special or consequential, including lost revenue or lost profits that may arise from or in connection with the use of the information.

This Document is confidential and is meant for the use of only the persons to whom it is issued. This Document, or any part of it, may not be copied or distributed by the recipient to third parties (other than in confidence to the recipients' professional advisors). Recipients of this document shall not be deemed to be clients of o3 Capital and accordingly, o3 Capital shall not be liable to provide such recipients with the protection afforded to its own clients or any advice in relation to any transaction or arrangement referred to herein.

Srikanth Kannan

✉ srikanth.kannan@o3capital.com

📱 +91 98198 45853

Aashish Goel

✉ aashish.goel@o3capital.com

📱 +91 98112 09605

Khushi Jaiswal

✉ khushi.jaiswal@o3capital.com

📱 +91 73805 33336

Sanket Mehta

✉ sanket.mehta@o3capital.com

📱 +91 98690 72724

Jayant Kakrania

✉ jayant.kakrania@o3capital.com

📱 +91 88203 14184

Ahaan Krishnaprasad

✉ ahaan.krishnaprasad@o3capital.com

📱 +91 93536 89410

Contact Us



@o3capital



o3capital



www.o3capital.com