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Amazon set to make its first Indian acquisition

Radhika P Nair, ET Bureau | Oct 28, 2014, 11:27AM IST

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BANGALORE: Amazon India is in advanced talks to buy a minority stake in gift card technology and retail firm QwikCilver Solutions, according to three people aware of the development. The deal, if successful, will mark the first investment in an Indian startup by the Seattle-based firm which is battling rivals Flipkart and Snapdeal for primacy in India's online retail industry.

"Amazon could pick up about 20% in QwikCilver," said one person directly aware of the talks who did not want to be identified. ET was not able to ascertain the value of the likely deal.

The Bangalore-based company has raised an undisclosed amount of funding from Accel Partners and Helion Venture Partners, who are the two main investors. It was founded in 2008 by Kumar Sudarsan, TP Pratap and Bhaskar Vasudevan, all three alumni of BITS-Pilani.



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QwikCilver, which provides backend technology for the gift card business of several retailers including Shoppers Stop, Lifestyle, Westside and Croma, has also been coveted by Flipkart, according to these sources, but talks have progressed further with Amazon.

QwikCilver, which retails electronic and physical gift cards on its online site GiftBig, also has on offer gift cards of Amazon and Flipkart. "Amazon has promised to let them run as a separate business where they can continue to service other clients, including Flipkart," said a source. A spokeswoman for Amazon said, "We do not comment on anything we may or may not do in the future", in response to email queries on the developments.

Flipkart and QwikCilver did not reply to email queries.

"The valuation will be about two to three times the projected net income plus a premium of about 20% as this is a strategic investment," said an investment banker. QwikCilver aims to reach Rs 1,000 crore in overall transactions this fiscal.

Arch rivals Flipkart and Amazon have accumulated huge investments to power their growth. Flipkart has raised over \$1.2 billion this year while Snapdeal has raised over \$230 million and is set to announce another round of funding by Japan's SoftBank on Tuesday. Amazon India too



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At stake is the leadership position of the fast-growing Indian online retail industry, which is estimated to reach \$6 billion in size next year, according to research firm Gartner.

Experts believe acquisitions and investments will give these companies a competitive advantage. "Large online retailers in India will have to look at investing in or acquiring companies that have a potential to scale and are in niches that they are not present in," said Raja Lahiri, a partner at financial advisory firm Grant Thornton India. ET had previously reported that Amazon has held preliminary discussions with online fashion portal Jabong to take on competition from the Flipkart-Myntra combine. QwikCilver, according to a person who has direct knowledge of the discussions, is expected to give Amazon an edge. "Gift cards are a very important vertical for Amazon globally. In India, there is a challenge in the form of the requirement of a RBI licence."

Neither Amazon nor Flipkart can obtain a licence to issue prepaid payment instruments to store cash that can be used for transactions on multiple platforms.

Others who have the licence in India include Paytm and Mobikwik. Paytm is one of the three companies in which Japan's SoftBank is expected to make an investment.

The Indian gift card industry is estimated to grow to Rs 9,000 crore by 2016, according to a white paper published by QwikCilver earlier this year. "Funding is only one part. What they plan to do with the category and how important gift cards will be for the company are points that QwikCilver is considering," said one of the persons who spoke to ET. This is where Amazon has an advantage over Flipkart as the latter does not have a separate gift card category, while QwikCilver's GiftBig is the only supplier of gift cards on Amazon.

"With the launch of digital gift cards, the segment has really taken off. Whichever online marketplace gets a stake in a leading gift card company will get a competitive advantage," said Arvind Singhal, chairman of retail advisory firm Technopak.

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