

Company Overview

One97 Communications Limited owns the brand Paytm which was launched in 2009 as a “mobile first” digital payments platform to enable cashless payments for Indians. They aim to bring half a billion Indians to the mainstream economy through Technology– led financial services. Their 2 sided (customer and merchant) ecosystem enables commerce and provides access to financial services, by leveraging technology to improve the lives of their consumers and this helps their merchants grow their businesses . Paytm offers ‘Payment Services’, ‘Commerce and Cloud Services’, and ‘Financial Services’ to 337 mn consumers and to over 20 mn merchants registered with them, as of June 30, 2021. They have created a payments-led super-app, through which they offer their consumer a wide selection of payment options on the Paytm app. Paytm is available across the country with “Paytm karo” (i.e. “use Paytm”) evolving into a verb for millions of Indian consumers, shopkeepers, merchants and small businesses. Paytm is India’s largest payment company with 1.3 Mn payment devices and a massive INR 4 lakh crore Gross Merchandise Value (GMV) for FY21. From the financial services perspective, as on September 30, 2021 they have 65 mn total Payment Bank A/Cs (including savings and current accounts) , disbursed 6.5 mn loans and have collected total deposits of INR 58.31 bn.

Objects of the issue

The IPO proceeds shall be used towards the following purposes;

- ⇒ Growing and strengthening the Paytm ecosystem, including through acquisition and retention of consumers and merchants and providing them with greater access to technology and financial services
- ⇒ Investing in new business initiatives, acquisitions and strategic partnerships and
- ⇒ General corporate purposes.

Investment Rationale

A full stack payments capability attracting a huge market share

Paytm is the only financial service company in India that owns and offers each layer of the entire payment stack . The various products that it offers are Paytm Wallet (Digital Wallet) , Paytm QR (Payment Acceptance) , Paytm Sound box(IoT enabled POS Device) , Gold Investments , Fixed Deposit , Paytm Postpaid , Merchant Cash Advance and FASTag (Road Toll Payment Instrument) etc . This enables Paytm to leverage this synergy to continue growing value of their ecosystem for their consumers and merchants. This network effect thus benefits the company and has allowed it to capture 40% of the Market share of Payments Industry by Transactions Volume in FY 21.

Increase in revenue despite reduction in marketing and production costs

Paytm has established scale and has seen a growth of 2x in their GMV from INR 946.92Bn in Sept-20 to INR 1956.23Bn in Sept-21. They have also proved that they can increase their consumer engagement and grow their customer base with lower marketing and promotion costs. Only 19% of their revenue goes towards marketing and promotion expenses which is a direct result of the trust they have built and their brand value of INR 472.5 Bn. The company has reduced their marketing and promoting expense by 52% from FY20 and has yet tapped the increase in GMV. The contribution profit and margin is 13% in FY 21 which has also seen an increase of INR 23.61Bn from FY19 (loss INR 19.98Bn), making it INR 3.63Bn profit in FY21.

Valuation and Outlook

Paytm’s mission is financial inclusion, serving the unserved and underserved by using technology led distribution. They are now coming up with the largest IPO in India’s history. The company has been a loss making company and in the recent years has started seeing a decline in losses. The adjusted EBITDA margin has been (-59%) in FY21, which is concerning. Hence we value the issue based on Price/Sales. At the upper price band, the issue is priced at P/S of 49.71x on the basis of FY21 financials. The company’s valuations have already discounted in the positives namely pace of digitization in India, regulatory initiatives promoting it, brand value of Paytm and its high market influence. This makes the issue fully priced and hence we give an “**AVOID**” rating to this IPO.

Issue Details	
Offer Period	8 th Nov- 10 th Nov 2021
Price Band	INR. 2080 to INR. 2150
Bid Lot	6
Listing	BSE&NSE
Issue Size (no. of shares in mn)	85.11
Issue Size (INR. in bn)	183
Face Value	INR. 1

Issue Structure	
QIB	75%
NIB	15%
Retail	10%

BRLM	Axis Capital, Morgan Stanley, Goldman Sachs, ICICI Securities, J P Morgan, Citigroup , HDFC Bank
Registrar	Link Intime India Pvt. Ltd.

Particulars	Pre Issue Post Issue	
	%	%
Promoter	0%	0%
Public-Founder	9.8%	8.9%
Public-Investor Selling Shareholder	60.2%	49.8%
Public-other selling shareholders	1.3%	1.16%
Public	28.7%	40.15%
Total	100%	100%

(Assuming issue subscribed at higher band)

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Income Statement (In mn)

Particulars	FY19	FY20	FY21	Q1FY22
Revenue				
Payments and financial services	16,955	19,068	21,092	6,894
Commerce and cloud services	15,365	11,188	6,932	2,014
Other operating revenue	-	2,552	-	-
Total Revenue from Operations	32,320	32,808	28,024	8,908
Expenses				
Payment processing charges	22,574	22,659	19,168	5,265
Marketing and promotional expenses	34,083	13,971	5,325	1,377
Employee benefit expenses	8,562	11,193	11,849	3,507
Software, cloud, data center expenses	3,096	3,603	3,498	1,058
Other Expenses	7,666	7,726	5,857	1,410
Total Operating Expenses	75,981	59,152	45,697	12,617
EBITDA	(43,661)	(26,344)	(17,673)	(3,709)
Depreciation and Amortization Expense	1,116	1,745	1,785	409
Other Income	3,477	2,599	3,844	572
EBIT	(41,300)	(25,490)	(15,614)	(3,546)
Finance Costs	342	485	348	97
Share of restated profit/(loss) of associates/joint ventures	146	(560)	(740)	(121)
Exceptional items	(825)	(3,047)	(281)	(24)
PBT	(42,321)	(29,582)	(16,983)	(3,788)
Current Tax	6	16	34	43
Deferred Tax Charge	(71)	(174)	(7)	(12)
Total Tax	(65)	(158)	27	31
PAT	(42,256)	(29,424)	(17,010)	(3,819)
Diluted EPS	(74.0)	(49.0)	(28.0)	(6.0)

Source: RHP, BP Equities Research

Cash Flow Statement (In mn)

Particulars	FY19	FY20	FY21	Q1FY22
Cash Flow from operating activities	(44,759)	(23,766)	(20,825)	3,307
Cash flow from investing activities	19,110	(19,963)	19,298	(1,459)
Cash flow from financing activities	21,105	51,599	(2,221)	4,153
Net increase/(decrease) in cash and cash equivalents	(4,544)	7,870	(3,748)	6,001
Cash and cash equivalents at the beginning of the period	897	(3,701)	4,162	454
Effect of exchange differences on cash and cash equivalents	-54	-7	40	46
Cash and cash equivalents at the end of the period	3,801	4,162	454	6,501

Source: RHP, BP Equities Research



Balance Sheet (In mn)

Particulars	FY19	FY20	FY21	Q1FY22
Liabilities				
Share Capital	575	604	605	605
Other Equity	56,674	80,448	64,743	62,053
Non controlling interest	862	(140)	(186)	(203)
Net worth	58,111	80,912	65,162	62,455
Lease Liabilities	2,038	1,822	427	618
Deferred Tax Liabilities	185	11	6	5
Contract Liabilities	-	3,423	4,119	3,876
Provisions	115	203	247	267
Total Non Current Liabilities	2,338	5,459	4,799	4,766
Borrowings	6,962	2,087	5,449	4,760
Lease Liabilities	323	372	244	287
Trade Payables	7,360	6,116	6,052	5,697
Other Financial Liabilities	7,048	2,333	5,153	12,296
Contract Liabilities	3,529	3,181	1,581	1,724
Other Current Liabilities	1,592	2013	2,643	2,110
Provisions	405	558	430	495
Total Current Liabilities	27,219	16,660	21,552	27,369
Total Liabilities	87,668	1,03,031	91,513	94,590
Assets				
Property, Plant & Equipment	1,999	2,616	2,992	2,907
Capital Work in Progress	513	131	208	189
Goodwill	2,930	467	467	443
Other Intangible Assets	734	178	171	176
Right of Use Asset	2,748	2,674	1,283	1,577
Intangible assts under development	43	16	28	12
Investments in joint venture	460	762	-	-
Investment in Associates	2,002	2,468	2,317	2,329
Financial Assets	3,496	23,551	4,212	6,695
Current Tax Assets	4,648	4,937	3,016	3,149
Deferred Tax Assets	30	32	35	47
Other non current assets	1,356	842	2,786	2,909
Total Non Current Assets	20,959	38,674	17,515	20,433
Investments	24,979	31,894	1,472	6,230
Trade Receivables	4,544	4932	4,713	5,349
Cash and Cash Equivalents	3,255	4,232	5,468	6,504
Bank Balances	1,358	1,170	23,296	18,476
Loans	2,764	242	1,611	727
Other Financial Assets	15,672	8,745	23,386	25,274
Other Current Assets	14,137	13,142	14,052	11,597
Total Current Assets	66,709	64,357	73,998	74,157
Net Current Assets	39,490	47,697	52,446	46,788
Total Assets	87,668	1,03,031	91,513	94,590

Source: RHP, BP Equities Research

Key Risks

- ⇒ Company has a history of net losses and the company may not be able to achieve profitability.
- ⇒ In the event that the company's payment processing charges payable to financial institutions and card networks increase significantly, and the company is not able to pass on these higher processing charges to their merchants or consumers, the company may not be profitable.
- ⇒ One 97 offer some of their services in partnership with their Group Company, Paytm Payments Bank. Any failure by Paytm Payments Bank to support these services could adversely impact these services and could impact the overall business, financial condition and results of operations.

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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