

One97 Communications Limited (PayTM)

SSIS IPO GRADE 2.75/5 (Below Average)

6th November, 2021

Rating Overview

One97 Communications Limited ("Paytm") was incorporated on December 22, 2000. The company is India's leading digital ecosystem for consumers and merchants. Paytm offers 'Payment Services', 'Commerce and Cloud Services', and 'Financial Services' to 33.3 crore consumers and over 2.18 crore merchants registered with them, as of June 30, 2021.

Their 2-sided (consumer and merchant) ecosystem enables commerce, and provides access to financial services, by leveraging technology to improve the lives of their consumers and help their merchants grow their businesses. The company launched Paytm in 2009, as a "mobile-first" digital payments platform to enable cashless payments for Indians, giving them the power to make payments from their mobile phones.

The "Paytm" brand is India's most valuable payments brand, with a brand value of US\$ 6.3 billion, and Paytm remains the easiest way to transact across multiple methods. They have created a payments-led super-app, through which they offer their consumers innovative and intuitive digital products and services.

Most things that PayTM does, every other large ecosystem player like Amazon, Flipkart, Google, etc, are doing. The competition is quite evident in the BNPL space and distribution of various financial products. Longer term, take rates in the distribution business will be driven southwards by competition and regulation.

PayTM's valuation, at ~26x FY23E Price to Sales (P/S), is expensive especially when profitability remains elusive for a long time. Most fintech players globally trade around 0.3x-0.5x PSg (price to sales growth ratio) and we have assumed the upper end of this band. We are unwilling to give it a premium here as we are unsure about the path to profitability. Key risks include change in regulations which allow monetisation of UPI and receipt of a banking license.

Our overall rating of One97 Communications is below average given its high valuation and ask price; The business scale is already set and growth prospects are low. Paytm has its fingers in a lot of pies and it is difficult for such companies to make money in their core business.

Note: The analyst has no plans of subscribing to the offer and does not hold any shares in the company prior to, or at the time of writing this review.

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Company Overview

One 97 Communications Ltd. (PayTM) is India's leading digital ecosystem for consumers and merchants as it has built the largest payments platform in India based on the number of consumers, number of merchants, number of transactions and revenue as of March 31, 2021, according to RedSeer. It offers payment services, commerce and cloud services, and financial services to 337 million registered consumers and over 21.8 million registered merchants, as of June 30, 2021. PayTM's two-sided (consumer and merchant) ecosystem enables commerce, and provides access to financial services through our financial institution partners, by leveraging technology to improve the lives of consumers and help merchants grow their businesses. In FY 2019, FY 2020 and FY 2021,

Our mission is to bring half a billion Indians into the mainstream economy. It launched Paytm in 2009, as a "mobile-first" digital payments platform to enable cashless payments for Indians, giving them the power to make payments from their mobile phones. Starting with bill payments and mobile top-ups as the first use cases, and Paytm Wallet as the first Paytm Payment Instrument, it has built the largest payments platform in India based on the number of consumers, number of merchants, number of transactions and revenue as of March 31, 2021, according to RedSeer. PayTM has also been able to leverage core payments platforms to build an ecosystem with innovative offerings in commerce and cloud, and financial services. Paytm is available across the country with "Paytm Karo" (i.e. "use Paytm") evolving into a verb for hundreds of millions of Indian consumers, shopkeepers, merchants and small businesses, according to RedSeer.

As per the Kantar Brandz India 2020 Report, the "Paytm" brand is India's most valuable payments brand, with a brand value of US\$ 6.3 billion, and Paytm remains the easiest way to transact across multiple methods. The Paytm app is a payments-led super-app, through which it offers consumers innovative and intuitive digital products and services. The company offers its consumers a wide selection of payment options on the Paytm app, which include (i) Paytm Payment Instruments, which allow them to use digital wallets, sub-wallets, bank accounts, buy-now-pay-later and wealth management accounts and (ii) major third-party instruments, such as debit and credit cards and net banking. The app, enabled consumers to transact at in-store merchants, pay their bills, make mobile top-ups, transfer money digitally, create and manage their Paytm Payment Instruments, check linked account balances, service city challans and municipal payments, buy travel and entertainment tickets, play games online, access digital banking services, borrow money, buy insurance, make investments and more.

Its ecosystem served 337 million registered consumers and 21.8 million registered merchants as of June 30, 2021. The company's payments platform is at the core of an ecosystem. Making payments (bill payments, in-store or money transfer) is, in most cases, the first use case for a consumer on Paytm. Leveraging the large scale, reach, and deep and high-frequency engagement by consumers and merchants on the payments platforms, it has been able to add new payments offerings, as well as expand into commerce and cloud services and financial services. Each of its offerings increases the scope of the ecosystem for consumers and merchants, enhancing the value of the ecosystem.

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The company offers products and services across "payment services", "commerce and cloud services" and "financial services". Its products and services are carefully developed to address large markets, and in areas where the consumers and merchants are underserved.

Fundamental Overview

On the financial performance front, on a consolidated basis, for the last three fiscals, PayTM has posted total revenue/net profit (Loss) of Rs. 3579.70 cr. / Rs. - (4225.60) cr. (FY19), 3540.70 cr. / Rs. - (2942.40) cr. (FY20) and Rs. 3186.80 cr. / Rs. - (1701.00) cr. (FY21). For the first three months of FY22 ended on June 30, 2021, it has posted a loss of Rs. - (381.90) cr. on total revenue of Rs. 948 cr. Thus while the top line has shown declining trends, it is still in the red.

For the last three fiscals, on a consolidated basis, PayTM has posted an average negative EPS of Rs. - (43) and an average negative RoNW of - (36.90%). The issue is priced at a P/BV of 20.67 based on its NAV of Rs. 104 as of June 30, 2021.

Issue price P/E base cannot be ascertained due to losses for all these periods reported in the offer documents. The company has not declared any dividend for the last three fiscals until the filing of this RHP. It will adopt a prudent dividend policy post listing based on its financial performance and future prospects.

The Company has neither any formal dividend policy nor declared any dividends for Fiscals 2021, 2020 and 2019 and has not declared any dividend in the current Fiscal. It will adopt a prudent dividend policy going forward based on its financial performance and future prospects.

Summary of financial Information				
Particulars	For the year/period ended (Rs in Millions)			
	30-Jun-21	31-Mar-21	31-Mar-20	31-Mar-19
Total Assets	94,590	91,513	103,031	87,668
Total Revenue	9,480	31,868	35,407	35,797
Profit After Tax	- 3819	-17010	-29424	-42309

Issue Details

To part finance its plans for growing and strengthening its PayTM ecosystems including acquisition and retention of customers (Rs. 4300 cr.), investment in new business initiatives/acquisitions/strategic partnership (Rs. 2000 cr.) and general corporate purpose, PayTM is coming out with a maiden mega IPO for Rs. 18300 cr. (approx. 85116282 shares at the upper cap) in the history of Indian stock market history. It is having a combo offer of fresh equity issue worth Rs. 8300 cr. (approx. 38604654 shares at the upper cap) and an Offer for Sale of Rs. 10000 cr. (approx. 46511628 shares at the upper cap). The company has fixed the price band of Rs. 2080 - Rs. 2150 for its book building route IPO. The issue opens for subscription on November 08, 2021, and will close on November 10, 2021. Minimum application is to be made for 6 shares and in multiples thereon, thereafter. Post allotment shares will be listed on BSE and NSE. The company has allocated the issue - 75% for QIBs, 15% for HNIs and 10% for the Retail investors. The issue constitutes 13.13% of the post issue paid-up capital of the company.

Joint Book Running Lead Managers (BRLMs) to this issue are Morgan Stanley India Co. Pvt. Ltd., Goldman Sachs (India) Securities Pvt. Ltd., Axis Capital Ltd., ICICI Securities Ltd., J. P. Morgan India Pvt. Ltd., Citigroup Global Markets India Pvt. Ltd. and HDFC Bank Ltd. while Link Intime India Pvt. Ltd. is the registrar to the issue.

Having issued initial equity at par, the company raised further equity in the price range of Rs. 4.78 to Rs. 1876.80 between February 2006 and September 2021. The average cost of acquisition of shares by the promoters/selling stakeholders is Rs. 0.50, Rs. Rs. 3.00, Rs. 9.00, Rs. 15.40, Rs. 77.70, Rs. 133.20, Rs. 305.60, Rs. 441.80, Rs. 532.20, Rs. 546.90, Rs. 583.40, Rs. 749.00, Rs. 800.00, Rs. 1279.70, Rs. 1707.70, Rs. 1820.20 and Rs. 1833.30 per share (based on FV of Re. 1).

Post issue PayTM's current paid-up equity capital of Rs. 60.97 cr. will stand enhanced to Rs. 64.83 cr. Based on the upper cap of the IPO price, the company is looking for a market cap of Rs. 139378.84 cr.

Application Dates	Nov 8, 2021 – Nov 10, 2021
Issue Type	Book Built Issue IPO
Face Value	₹1 per equity share
IPO Price	₹2080 to ₹2150 per equity share
Market Lot	6 Shares
Listing At	BSE, NSE
Issue Size	[.] Eq Shares of ₹1 (Up to ₹18,300.00 Cr)

Issue Timeline

Basis of Allotment Date	Nov 15, 2021
Initiation of Refunds	Nov 16, 2021
Credit of Shares to Demat Account	Nov 17, 2021
IPO Listing Date	Nov 18, 2021

Investment Strategy

No doubt this company is a mega player in the digital ecosystem segment and has a lion share, but its top line has remained almost static for the last three fiscals and has been incurring losses for all these years and may remain in red in the near term too as per statements on page 38/39 of RHP. It has huge carried forward losses and negative earnings. Thanks to premiums collected for placements that have helped this company to post positive NAV. Issue pricing is with a negative P/E. Its market cap of Rs. 1.39+ lakh cr. raises eyebrows. However, considering madness seen for Unicorn and high tech sector companies in the recent past is perhaps indicating changed sentiment for investment parameters. On all fronts, this issue is exorbitantly priced discounting all near term positives. Of late many new entrants have entered this space and raised a threat. Hence cash surplus/risk seekers only may consider an investment with a long term perspective, others can ignore it.