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Paytm IPO saga: A review

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ABSTRACT

One 97 communications (Paytm) is India's leading digital ecosystem for consumers and merchants. It is the largest payments platform in India, with a GMV of 4 lakh crores in FY21.The initial public offering (IPO) of Paytm was the biggest IPO ever launched in Indian stock market. This paper is an attempt to analyse the IPO of Paytm. The paper is a systematic review of Paytm's IPO in Indian stock Market.The study can help an investor in evaluating the investment that they might be planning inthe given company.

INTRODUCTION

In November 2021, One 97 Communications Limited, popularly known by its brand name Paytm, will have an initial public offering (IPO) for Rs18,300 crore. The present investors who used the IPO to make money were offering a sizeable portion of the issue, or Rs 10,000 crore, for sale. Prior to the IPO, the company reduced the offers' presumable value from Rs. 10 to Rs. 1. As a result, the cost of the IPO at Rs 2,150 per share was equivalent to Rs 21,500 per portion of the anticipated value of Rs 10 per share. The IPO's magnitude and evaluation for a startup with a track record of failures were both ground-breaking.

Despite the heavy loss that Paytm (One 97 Communications) suffered, SEBI allowed the company to proceed with an IPO, a decision that was certainly not clear-cut leading to huge losses for thousands of Paytm shareholders, which in turn Clearly a major financial scam. From the point of view of this special investigation team "Sprout", she requested a thorough investigation of the case.

Paytm is a loss-making company. As a result, stock market experts raised a red flag against Paytm's IPO despite shareholder confidence in Paytm's IPO. In fact, SEBI should have refused to clarify Paytm's IPO. However, SEBI officers cooperated with Paytm honcho Vijay Shekhar Sharma. This is such a big financial scam, the case must be thoroughly investigated, requires SIT Sprouts.

WHAT'S THE MATTER?

A week after the nation's largest IPO, the digital payments company Paytm saw a 28% drop on a dismal stock market debut on Thursday (IPO). Last week, 1.89 times were registered for the Paytm IPO. Shares had an issue price of 2,150 and opened at 1,950 on the NSE. Even as it reaches its intraday low of $1,560, the stock is still losing money. The Paytm stock price on the BSE opened at 1,955 yen.

Warren Buffett's Berkshire Hathaway, Japan's SoftBank, and Chinese investor Jack Ma's Ant Group, which together own around 33% of the company, support Paytm. "How the situation is currently developing is unfortunate because profit-less organisations are luring retail investors with the promise of success in the optional market, which is a risky move because you can't value these firms on the traditional parameters (for example, incomes, edges and benefits).

Paytm-proprietor One97 Communications, a computerized firm, made a disheartening financial exchange debut, not at all like other tech-situated organizations, for example, PB fintech, Zomato and Nykaa.

Paytm, the largest IPO in India with a value of Rs 18,300 crore, was listed on the exchanges at a discount of 9% to its offering price, and the offer made touch with the lower circuit on its market debut day. It closed at a price of Rs 1,560, or 27.40% less than the proposed price. The fresh issue from the whole issue was worth Rs. 8,300 crores, and the proposal that could be bought was worth Rs. 10,000 crores.

The reasons for the awful show, according to experts, are the extraordinarily high value and the lack of a clear directive from the administration regarding when the organisation would begin turning a profit.

LACK OF GUIDANCE

According to A.K. Prabhakar, research head, IDBI Capital "Paytm is definitely not a mainstream development story. One needs to hang tight for quite a while for them to create gain as large individuals are entering the field. Likewise, it is extravagantly valued".

Research report by Macquarie Capital released on Paytm's listing day"Paytm's plan of action needs concentration and heading." Paytm has been a money consuming machine, veering off a few business lines with zero ability to see on accomplishing benefit. Since its founding, Paytm has attracted value capital totaling Rs 190 billion, of which 70% (Rs 132 billion) has been used to finance losses. For every dollar contributed or spent on showcasing, the company earns incredibly little money. This is especially perilous for a low-edge buyer dealing with a market where competition in every area is only getting worse.

PRICING ISSUE

Axis Securitiessenior analyst, Siji Philip says, “Globally, benefit making organizations are exchanging at middle nine-times of future income, though One97 Communication, a misfortune making organization, is esteemed at 49.7-times its FY21 incomes.”

Paytm's value, at about 26 times FY23 assessed cost to deals, is expensive, especially when profit is subtle for a long period, claims a report by Macquarie. According to the survey, the majority of global fintech players swap between 0.3 and 0.5 times their cost-to-deals.

Competition From UPI Apps

Paytm will continue to struggle to expand its business because of the Unified Payment Interface (UPI), a platform for continuous real-time retail payments developed by the government-backed National Payments Corporation of India (NPCI).

According to report by Macquarie, UPI was sent off in December 2019 for both the purchasers and traders. "UPI shows 65% of Paytm's GMV (gross merchandise value), which may increase to 85 % by FY26E. Thus, Paytm's take-rates ought to keep on declining”.

Receding Liquidity

One possibility is that the capital business sectors will run out of liquidity. Nifty lost 840 points in the most recent month, and most of the time, Foreign Institutional Investors were sellers. FIIs are playing it safe, expecting the central bank to raise rates soon. In fact, even the Indian security markets are indicating a rate increase. Overnight Index Swap (OIS) exchange rates are 35 to 40 basis points higher than the 3.4% Reverse Repo rate. In this way, security markets are expecting rate climbs in India as well. By and large, financing cost climbs are considered as awful sign for light value markets.

The enormous size of Paytm's company provided an additional explanation for the lackluster reaction to its IPO. The company raised Rs 18,300 crore, and the market is not interested in such a large posting. In fact, over the past 90 days, asset streams in value shared reserve plans have also decreased. As a result, market veterans greatly anticipated a lukewarm response for such a large-scale

IPO with FIIs on cautious position and DIIs' liquidity tap gradually and consistently declining.

According to data from Value Research, 49 IPOs have raised Rs 1,01,053 crore thus far this calendar year, of which Rs 62,077 crore were offered for sale (OFS). The OFS portion of Paytm's IPO alone is Rs 10,000 crore, or 16.66 percent of the total OFS portion of all known businesses.

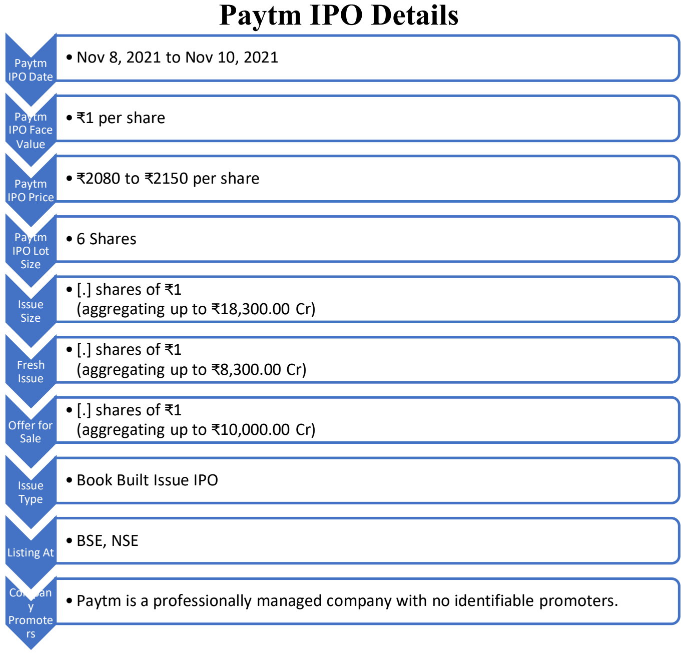
One 97 Communications Ltd., founded in 2000, is India's leading advanced marketplace for vendors and customers. The company will provide payment, monetary, business, and cloud services to more than 21 million enrolled dealers and a customer base of more than 333 million as of March 31, 2021.

According to the Kantar BrandZ India 2020 Report, the company launched the first computerized portable payment platform, "Paytm App," in 2009 to provide customers with credit-only payment services. Today, it is India's largest payment platform and the most significant payments brand, with a total brand value of US$6.3 billion. In any case, businesses can use the stage for advertising, online payment arrangements, selling products to customers, and commitment agreements.

Competitive strengths

- The leading computerized payment service stage in India.
- A brand with a strong personality and a value of US$6.3 billion.
- A sizable clientele that includes 333 million actual customers, 114 million annual executing customers, and 21 million enrolled vendors.
- Use the Paytm Super app to access numerous mobile digital payment services.

Paytm IPO Details



Source- chittorgarh.com

Paytm IPO Lot Size

The **Paytm IPO lot size is 6 shares**. An individual retail investor can participate for up to 15 lots (90 shares or ₹193,500).

Application	Minimum	Maximum
Lots	1	15
Shares	6	90
Amount	₹ 12,900	₹ 1,93,500

Source- chittorgarh.com

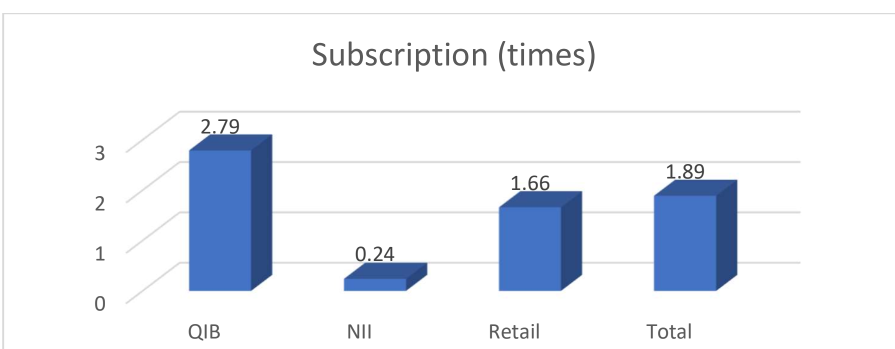
PAYTM IPO REVIEW

According to the explanations on pages 38/39 of RHP, this company's top line has remained virtually unchanged for the last three fiscal years and has been causing misfortune for such an extremely long time that it may remain in the red in the close to term as well. Despite the fact that this company is presumably a super player in the computerized biological system portion and has a lion's share, It has negative income and significant projected future losses. Due to expenses incurred for circumstances that have contributed to this company's positive NAV. The issue has a negative P/E and a market capitalization of Rs. 1.39 crore plus causes uproar. However, the frantic behavior of Unicorn and cutting-edge area organizations in recent years may indicate a shift in public opinion regarding venture boundaries. This issue is highly valued on all fronts, limiting all near-term benefits. Recently, numerous new contestants have entered this field, posing a threat. As a result, while some cash excess/risk seekers may consider a speculation with caution, others may disregard it.

Paytm IPO Subscription Status (Bidding Detail)

On November 10, 2021, at 5:00 p.m., 1.89 times, the Paytm IPO is purchased. In the retail class, the public issue was purchased 1.66 times, in the QIB class, 2.79 times, and in the NII class, 0.24 times.

Application Wise IPO Subscription (Retail): 1.02 times



Source-NSE India

Listing Day Trading Information

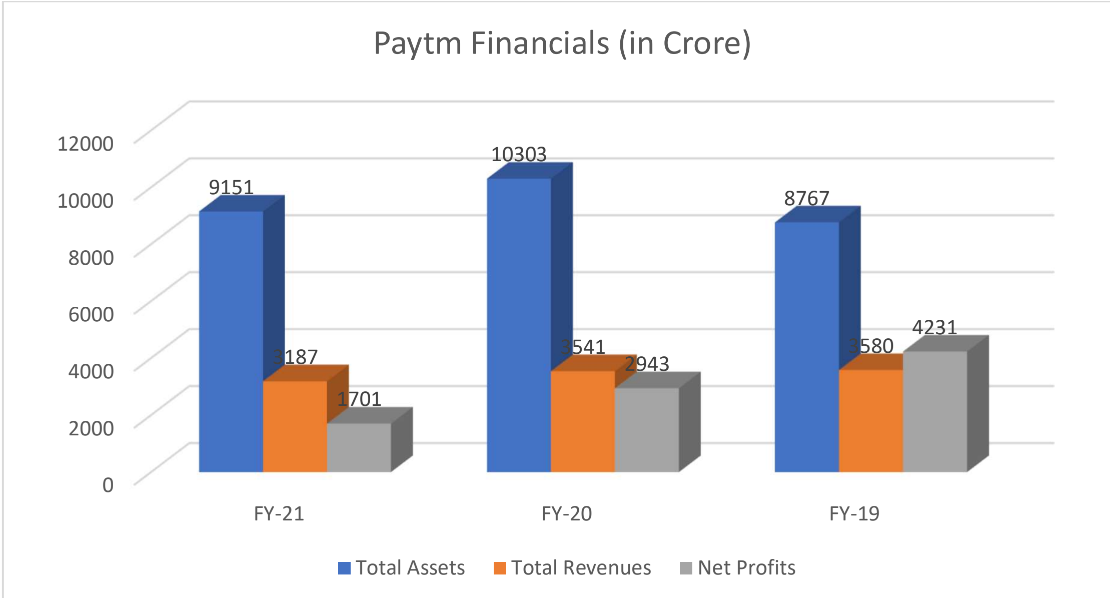
Source-BSE India

Source-NSE India

OBJECTIVES OF THE IPO:

- Out of the Rs.8300 crore that the company is aiming to raise through fresh issue, Rs.4300 crore is being used to strengthen and grow the Paytm ecosystem, client and tradingholding and acquiring of fresher technology and monetary services.
- Rs.2000 crore is to be used for business acquisitions, partnerships and new business initiatives.
- The rest of the money is to be used to general corporate purposes.

Paytm Financials



Source-Paytm annual report

From the above table, misfortunes have plainly limited even as incomes endured a shot because of COVID in FY21. The new issue continues of Rs.8,300 crore will be fundamentally utilized for obtaining clients, reinforcing the payment framework, key organizations, inorganic acquisitions and for better quality innovation ventures.

The organization has negative EPS which implies that the organization is encountering just misfortunes and no benefits. Beginning level financial backers are selling their stakes in the organization which they got at a value scope of 50 paise to Rs.15.40 and this can act like an extraordinary gamble to the new financial backers. The ROE is negative. The 7 book running lead administrators of this IPO have taken care of 48 public issues and 25% of these issues are exchanging underneath the issue cost, so no assurance of the initial cost is by and large more than the cost paid for the offers by the financial backer.

Promoter Vijay Shekhar Sharma was one of the selling investors who received Rs10,000 crore. He reduced his miserable pre-IPO shareholding from 9.1% to 6%. New financial backers have experienced an incredible worth deficit of Rs10,073 crore with a 56 percent fall in share cost in only three months since its posting on November 18, 2021, while selling investors are having a wonderful time. Is it because of high prices?

Income Statement Rs. Million

Year ended 31st March	2019	2020	2021	Q1 of 2021	Q2 of 2022
Revenue from operations	32,320	32,808	28,024	8,908	10,864
Other income	3,477	2,599	3,844	572	481
Total revenue	**35,797**	**35,407**	**31,868**	**9,480**	**11,345**

Operating Cost

Payment processing charges	22,574	22,659	19,168	5,265	6,700
As % of total revenue	*63.1%*	*64.0%*	*60.1%*	*55.5%*	*59.1%*
Marketing and promotional expenses	34,083	13,971	5,325	1,377	1,857
As % of total revenue	*95.2%*	*39.5%*	*16.7%*	*14.5%*	*16.4%*
Employee benefit expenses	8,562	11,193	11,849	3,507	3,865
Software, cloud and data centre expenses	3,096	3,603	3,498	1,058	1,129
Other expenses	7,666	7,726	5,857	1,410	1,837
Total	**75,981**	**59,152**	**45,697**	**12,617**	15,388
EBITDA	**-40,184**	**-23,745**	**-13,829**	**-3,137**	**-4,043**
EBITDA margin	**-112.3%**	**-67.1%**	**-43.4%**	**-33.1%**	**-35.6%**
Finance cost	342	485	348	97	102
Depreciation	1116	1745	1785	409	504
Profit before tax	**-41,642**	**-25,975**	**-15,962**	**-3,643**	**-4,649**
Share of restated profit / (loss) of associates / joint ventures	146	-560	-740	-121	-66
Exceptional items	-825	-3047	-281	-24	-
Tax (current + deferred)	-65	-158	27	31	20
Profit after tax	**-42,256**	**-29,424**	**-17,010**	**-3,819**	**-4,735**

Segments	**FY-2019**	**FY-2020**	**FY-2021**	**Jun-21**
Payment & financial services	16,955	19,068	21,092	6,894
Commerce & cloud services	15,365	11,188	6,932	2,014
TOTAL	**32,320**	**30,256**	**28,024**	**8,908**

Source-Paytm annual report

Paytm's business portions incorporate payment administrations, monetary administrations, and trade and cloud administrations. Gross merchandise value (GMV) of Rs4.03 trillion in FY20-21, with a two-year compound annual growth rate (CAGR) of 33%, was generated by its massive customer/shipper base of around 333mn (million)/21mn, supported by huge payment stage transacted. This resulted in a CAGR of 11.5% over the course of two years for its income from payment and financial administrations. However, the revenue from trade and cloud administrations timed a negative CAGR of 32.8% over the course of two years. Fortunately, the company had the lowest negative earnings before interest, taxes, depreciation, and amortization (EBITDA) in FY20-21, supported by a 22.4 percent decrease in build normal working expenses over two years.

CONCLUSION

Market cap of the company, which remained above the Rs 1 lakh crore mark on the listing day, faced down to about Rs 93,490 crore on the first listed day. Huge marketing attracted retail investor to get trapped into the IPO. Euphoria of IPO gains shall fade now with Paytm disaster. Rather than focusing on valuation investor should focus on positive financial numbers of the company.

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