

# Initial Public Offering of One97 Communication - Boon or Curse for Retail Investors in India: A Case Study

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## ABSTRACT

This study was an attempt to understand the IPO of One97 Communication (Paytm) in India, and simultaneously explore reasons behind “what happens when a big fame company PayTM which was constantly under loss comes with India’s largest IPO. Their performance was not improving after various funding. Primarily, the study found the problem arises in the context of this era of digitalisation and online transactions. A wholly Indian company which had a monopoly in this sector a few years back is now suffering to get stable. The result of the study observed Over-diversification as the biggest cause of companies’ downfall, as in order to work in every sector; it couldn’t focus on any one of them properly. Secondly, observed investors’ perspective towards IPO One97 Communication (Paytm) on the basis of secondary information and market price indexing and indication. The result indicated lower return and market growth are continuously falling down in the context of return and share market percentage. A huge amount of Paytm’s fund had a Chinese relation which could create issues for the company in long run in case of policy changes.

**Keywords:** *One97 Communication (Paytm), IPO (initial public offerings), Retail Investors Scenario, Digitalisation, Online transactions, Over-diversification.*

## INTRODUCTION

### THE COMPANY

#### Overview of Parent Company “One97 Communication”

Vijay Shekhar Sharma laid the foundation of One 97 communications in 2000, headquartered at Noida (U.P.). It was started with a plan of providing e-commerce and fintech services. According to the data it is one of the unicorns in India with a value of \$16 billion. Major funds of the company come from venture capitalists like SoftBank of Japan, Chinese Jack Ma Alibaba group, SAIF partners, Berkshire Hathaway, T Rowe price etc. It has several subsidiaries like Paytm mall, paytm payments bank, paytm money, paytm first games, paytm smart retails and paytm insider. In 2010, the company decided to launch its first ever IPO but some reasons caused its postponement and finally the day of launch came on July 16, 2021. It got itself registered at national stock exchange of India and Bombay stock exchange in November, 2021.

#### Funding and Shareholding

Paytm was founded in August, 2010 by its founder Mr. Vijay Shekhar Sharma in Noida, Delhi. Initial investment made by him US\$ 2 million. And in October, 2011 Sapphire Ventures (A Venture Capital Company) funded \$ 10 million in One97 Communication [1]. Other details of shareholders and their funding (see exhibit 1).

#### Exhibit 1

##### Funding and Shareholding

Shareholders	Shareholding
Vijay Shekhar Sharma	14.67%
Ant Group	29.71%
SoftBank Vision Fund	19.63%
SAIF Partners	18.56%
AGH	7.18%
Berkshire Hathaway	2.76%
Sharma Holding company	5%
Total	97.510%

And after some decades paytm received investment from Ranald companies such as Tata, Mountain capital in August, 2016[9].

## **E- Wallet OF One97 Communication (PAYTM) In India**

Paytm is a company that has turned up a new leaf for payment and brought a whole new concept of E-wallet in India. It seemed to be a bigger bite to chew for a new company to change Indians who were always habitual of paying directly through cash for every expense, but not for Vijay Shekhar sharma an ambitious young software engineer from a middle class family he proved it all wrong. In 2000 a company One 97 communication was incorporated and gave birth to paytm in 2010 created as a prepaid mobile recharge website and named as Paytm with an initial capital of \$2 million. Paytm leading digital financial services performer, this company has achieved over 1.4 billion monthly transactions in 2018[5].

Over the span of 3 years the company further added features of post-paid, landline & DTH recharge. It all started from scratch in Jan, 2014 company came up with a brilliant concept of E-wallet which brought a vast transformation in payment behaviour of Indians. Customer base got a Hike to 11.8 million when paytm facilitated online payments to Indian railways and Uber.

At the step of making online travel ticket booking possible it had set a benchmark of selling 2 million tickets per month. At the same time when it became a partner of Mumbai Indians and acquired rights of national and international matches it brought a change for the company by raising its customers to 104 million.

2016 a year of decisions that has affected almost every element of the economy has brought a positive hope for paytm. It was the year of demonetization, whole country was in a dilemma for sources to pay for day to day requirements, the E paytm wallet enabled them to pay directly through bank accounts and being an icing on cake Reliance launched Jio mobile network which gave everyone excess to easy and cheap internet connection which complemented upsurge of paytm as customers were increasing constantly.

In 2017 customer base of paytm again elevated to 10 crores and above with the introduction of paytm gold which allowed its users to purchase gold just for Rs.1 at respective rates.

Paytm was now kicking the ball of success at its fullest and the second December of 2017 gave an excellent New-year gift to the enterprise. It had then reached 100 million downloads and became the first payment app in India to achieve such a milestone.

The confidence of staff and Vice president Mr. Deepak Abbot boosted to the sky when a Chinese company Alibaba and a Japanese soft bank funded it and the value of the company was now Rs. 1.17 lakh crore.

Different services and competitors of PayTM are:

1. **Payments:** Several payment facilities like E-wallet, money transfer, payment gateway, bill payments and recharge to its customers and for the same it is facing competition from PhonePe, mobikwik, Google-pay, Banking apps etc. out of which according to September's data PhonePe stood first on a transactional basis followed by google pay and payTM.
2. **Lending:** services of credit avails, mini loans, buy-now-pay-later are provided by it, competing with banks and NBFCs
3. **Travel:** Flight, bus, train ticketing and hotel bookings are facilitated, market competitors are Make my trip, yatra, Ease my trip.
4. **E-commerce:** several online shopping websites are available in Indian market still paytm had decided to serve it too.
5. **Gaming:** Mini mobile games with rewards are also part of the app. Companies like Dream 11, MPL, NODWIN etc. are giving it a challenge in the current scenario.
6. **E- banking:** Paytm launched e- banking services such as online banking, mutual funds, insurance services offered via. payment bank[7]. The company has set to add over 1,00,000 banking outlets to reach banking offers and services.

#### **About IPO (Initial Public Offering)**

IPO is a fund raising technique which enables a company to manage funds from small investors and normal people interested to invest. "When a private company decides to issue its shares to the public at a predetermined price for the very first time it is known as IPO (Initial Public Offering).

One97 Communication (Paytm) has filed a draft with the capital market in India[8]. Fund raised around Rs. 16,600 crore (\$ 2.2 billion) and became the biggest Indian Initial Public Offering.

It's mainly done for raising additional funds for company in order to meet following grounds:

- Paying debts.
- Expansion of company
- Money for working capital
- Grab public's spotlight

First Credit of keeping an inaugural stone of conducting IPO goes to Dutch where Dutch East India Company issued it to the general public. In India, the first company to launch its share to public was reliance industries limited in 1977, its issue size was ₹ 2.82 crore.

To hold an IPO a company needs to link up the requirements given by Securities and Exchange Commission (sec).

Investment banks are hired which are at the helm of creating prospectus for that particular company and setting a date and initial stochastic price which would optimistically attract the required investment from the public.

Huge advertisement programmes are held to attract investors from different corners. These days' online Demat accounts play a vital role in promoting the freshly introduced IPOs by directly displaying them on the screen of investors. As we say technology has made the world a shorter place, this is beneficial for both companies and investors as people come to know about offers directly and investors know initial value and prospect returns.

## **OBJECTIVES**

- To understand IPO One97 Communication (Paytm).
- To state the reaction of retail investors.

## **RESEARCH METHODOLOGY**

This is Desk Research. This research propounded for management students is able to impart knowledge of Paytm IPO and its investors. The research design has been done on the basis of personal reading, observation and newspaper and websites also.

Research Methodology basically using for how can design research and how collect the data every detail given below:

**Data Collection:** In this research, data has collected from secondary sources, descriptions are given below:

**Secondary Data:** In this research, secondary data has been collected through the IPO prospectus, IPO Books, reports, internet / websites, newspapers etc.

## **DATA ANALYSIS & FINDINGS**

If we talk about financials of Paytm the results have not happened for owners of the company as consolidated revenues of One 97 communications fell by 14% and became Rs. 2,802 crore for financial year 2021, however losses reduced to 1701 crore from 2,942 crore in financial year 2020. The second year Paytm had

flat revenue in FY2020 which was an eye opener so in 2021 before launching IPO it focused on cost cutting by reducing market rates, amount of cashback rewards, employee cost.

Even in a pandemic where most transactions were done digitally the revenues of payTM were reduced (see **exhibit 2 & 4**).

### Exhibit 2

**\*Following is the table showing Revenues and Losses of past three years of Paytm: (Figures in INR Crore)**

Particulars	FY2019	FY2020	FY2021
Net sales	3232.0	3280.8	2802.4
Gr. Rate		2%	15%
Operating profit	-4366.1	-2634.4	-1767.3
Profit after tax	-4225.6	-2942.4	-1701

\*the table is taken from offer letter of PayTM under financial summary head

The story seemed to be the most successful journey ever but no story is complete without tragedy. In today's scenario paytm's QR code can be seen hanging on every third store no matter if it's a vegetable vendor or branded showroom, but something came up as a storm in front of smooth sailing company. Paytm was too late to make policies regarding BHIM UPI launched by the Indian government on 30/12/2016. Until then other payment apps like phone pay and google pay took over to compete, judged frequency of growing customer interest in UPI and seized first mover advantage from paytm. Coping up from this hare-turtle race caused a setback for the company.

After all this trauma One 97 communications (paytm) had launched its IPO on 8<sup>th</sup> November, 2021, details of the same are mentioned (see **exhibit 3**).

### Exhibit 3

**\*IPO details of One97 Communication (Paytm)**

<b>Date of Offer:</b>	November, 8-10, 2021
<b>Offer Size:</b>	1,83,000 million
<b>Price band: (INR)</b>	2,080-2,150 per share

\*Details mentioned above are taken from offer letter of PayTM

Study found IPO Paytm's income (revenues) and loss for financial year 2021[4].

Details are as below (see **exhibit 4**).

**Exhibit 4**  
**Current Revenue and Loss**

FY	Revenue	Loss
2021	14%	Rs. 2802 crore
2020	NIL	Rs. 2942 crore

**Market Indicator for Retail Investors Preference**

Goodwill of companies like Paytm who had monopoly of online transactions in Indian markets at some point of time was touching sky but a moment of sigh not only for company but also for people who took interest to invest in company arrived when companies share price went down the moment stocks opened. In 2018, the paytm was gaming platform to have registered over 30 million users [6] but financial performance of the company can be considered as biggest reason behind this as paytm is not lacking customers still revenues are decreasing and even if revenues increase, expenditures to go up with a bigger amount then before due to which people were not ready to invest in such a company but those who did, regretted.

Though this affected the company but major loss was of people who had invested, however the company has assured growth and development in future but trust of a common investor is reduced. Several stock market experts had written warning articles like “never invest in the IPO of paytm until stocks gets stable”. Paytm IPO investors around the world but in the last couple of IPO's retail investors struggled for return via investing in Paytm shares [10]. They have affected some factors such as profitability, live index of the company, valuation matrix [11], financial statements or annual report, market indicators etc.. Study observed investors preference down and disappointed from november till 18th, 2021 because the paytm IPO has dumped with share more than 27% on first day compared to issue price [12]. At present, the current market indicator shows that paytm is a highly risky coin and bet investors.

Investment behavior of retail investors depends on market indicators and current stock performance of the company. See **exhibit 5 & 6** to present current share price and stock performance of One97 Communication (Paytm).

**Exhibit 5****One97 Communication: Share Price, Stock Analysis and Recos**

<b>Market Indicator and Performance on Particular Period of Time</b>	<b>High</b>	<b>Low</b>	<b>Return</b>
1 Day	1385.00	1346.85	1388.45 (Open)
1 Week	1399.35	1304.00	Decrease 3.28%
1 Month	1798.75	1304.00	Decrease 9.45%

**Exhibit 6****Some trends shown in IPO of company since issue date till December, 2021**

Date	Price(INR)	Date	Price (INR)	Date	Price(INR)
Nov. 18,2021	1560.80	Dec. 03,2021	1648.35	Dec. 17,2021	1321.00
Nov. 22,2021	1359.60	Dec. 06,2021	1604.45	Dec. 20,2021	1304.00
Nov. 23,2021	1494.70	Dec. 07,2021	1577.50	Dec. 21,2021	1311.45
Nov. 24,2021	1752.45	Dec. 08,2021	1553.40		
Nov. 25,2021	1798.75	Dec. 09,2021	1593.95		
Nov. 26,2021	1782.60	Dec. 10,2021	1567.55		
Nov. 29,2021	1736.45	Dec. 13,2021	1555.05		
Nov. 30,2021	1699.60	Dec. 14,2021	1496.05		
Dec. 01,2021	1636.70	Dec. 15,2021	1379.95		
Dec. 02,2021	1600.85	Dec. 16,2021	1399.35		

\*the data in the table is taken from stock details in economic times

**Trapping the untrapped:**

Study observed that, following performance issues related to One97

Communication (Paytm):

**Over diversification:** It turned up to be biggest point on which PayTM has to stop and think upon, as there are several sectors in which paytm entered the battle of consumer targeting where several pre-existing giants were already performing successfully and had an amazing market share, and even it does not seems to improve state company in long run.

Instead of focusing only on online recharge and scan & pay system it decided to play a role as an online shopping site under the name of 'PayTM mall' I year



2016, where Amazon, FlipKart & Myntra were already competing. For the same it had raised capital of Rs. 120 crore from SAIF partners and Rs. 150 crore from Intel Capitals. In the beginning revenues of Paytm mall were a bit considerable as a start-up but revenues were constantly down showing in 2018-19 the revenue was Rs. 968 crore which reduced to Rs. 768 crore, FY2019-20 again it had suffered losses in 2021 but stated pandemic as major reason.

**Low margin sector already:** Along with this the main area of operation of One 97 communications which is mobile payment, is generally a low margin industry that means during 2007-2010 wireless users increased but average revenue per user doesn't increase to that extent.

**Constant losses even during high revenues:** Then in year 2018 it again tried chasing rainbows by launching PayTM first games in partnership with AGTech, a Chinese gaming company and re-launched it as sole gaming platform in 2019, fortunate thanks to Covid lockdown that people were stuck home and were searching time killing platforms which made paytm first games only part on One 97 communications to have increasing revenues in year 2020 (19.4 crore) which was 55% increase as revenue in FY2019 was 12.5 crore, though the expenditures too increased as expected and again resulted to loss more than previous year. In the year 2019 the company incurred a loss of INR 29.87 crore which increased by 224% in FY 2020 and became INR 97 crore.

**Frequent employee turnover:** Performance of the company was never appealing; it seemed so obvious that it was only running on funds and investments with no retained earnings. This lead to major Employee turnover and that too at managerial level in year 2021 July; paytm's president Mr. Amit Nayyar decided to quit the job along with some other colleagues and executives., This change in higher level management built another obstacle on further moving path as financial condition of company is deteriorating and frequent turnover of managers can make conditions worse.

**Legal allegations:** During 2018 goodwill of the company was again attacked when vice president Sonia Dhavan and her husband were arrested under the allegation of stealing personal data of Vijay Shekhar sharma to blackmail and extract money.

**Constant competitors:** Busy in crying over the spilled milk of payTM entering in every sector something else struck enterprise. The main reason i.e. digital payment where paytm was first to touch the milestone its harsh competitors PhonePe and Google pay moved ahead with profits and increasing market share.

Not drawing a long bow but this was a clear illustration showing profits were far to achieve company is even struggling to meet expenses and operational cost. Currently diversified competitors of PayTM like Amazon, Google etc. are becoming knot in throat of PayTM as they have ample amount of fund from different sectors they had invested even if one of them is not doing well income generated from rest could be used until policies are made regarding recovery for example Amazon shopping app could fund Amazon Prime for operations, but almost all sectors of paytm are suffering badly and lacking funds due to losses year by year.

**Sudden fall in IPO:** In order to get stable and in search of revenue generating options one 97 communications brought its IPO but the performance wasn't enough to satisfy investors which resulted in heavy downfall of stocks the day it was launched. Stocks opened with INR 1955 per share in BSE when markets opened which was 9.07% lower than offer price, a few moments later the fall was of 15% and an hour later it got stable at fall of 20-25%. Several economists warned investors to hold off on investing until the rates stabilised as recovery seemed impossible.

**Chinese relations:** As seen from above condition we can have a broad idea that paytm is basically running on funds of investors with least or no retained earnings and a large amount of share in paytm's capital is from Chinese company 'Alibaba', it is a well-known facts that political relation between India and china are in hot water most of times. If in future India would put any sort of restriction on Chinese companies or if 'Jack Ma' withdraws funding from paytm then it would become a topic to ponder about.

### Questions for Case Study

Que.1: What measures Paytm should have taken to convert the curse into boon?

Que.2: During Covid pandemic everything was happening digitally but still the revenue of paytm didn't increase, why?

Que.3: Elaborate sentimental situation of retail investors towards investing in Paytm IPO.

### RESULT & CONCLUSION

Study concluded that even after a lot of diversification and entering in every sector PayTM wasn't able to find its feet, it is not performing in the payment sector either in e-commerce and insurance. It has gathered a lot of features in a single head so in future it should try to boost the strength of one particular sector

and earn gains from it, then it needs to gradually fund diversified areas from retained earnings.

Companies need to also focus on the internal working atmosphere as major employee turnover at managerial level could be seen in the above case due to which achievement of stable decision making regarding companies growth policies is not possible. Having trusted and experienced employees who pursue the capability of blowing new energy in the company is most important.

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