

One 97 Communications Limited (PayTM)

Recommendation: SUBSCRIBE

November 07, 2021

Details of the Issue

Price Band	₹ 2080 - ₹ 2150
Issue Size	₹ 18,300 Cr
Opening Date	Nov 8, 2021
Closing Date	Nov 10, 2021
Face Value	₹1
Bid Lot	6
Listing on	BSE, NSE

Objects of the Issue

Growing and strengthening Paytm ecosystem
Investing in new business initiatives

Lead Managers

Axis Capital Limited
Citigroup Global Markets India Private Limited
Goldman Sachs (India) Securities Private Limited
HDFC Bank Limited
ICICI Securities Limited
J.P. Morgan India Private Limited
Morgan Stanley India Company Pvt Ltd

Registrar

Link Intime India Private Ltd

Investment Details

No. of shares at cut-off	90
Max. Amount to be paid	₹ 1,93,500

Offer Details

Fresh Issue	₹ 8,300 cr
OFS	₹ 10,000 cr

Company Background

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. Starting with bill payments and mobile top-ups as the first use cases, and Paytm Wallet as the first Paytm Payment Instrument, they have 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.

They have created a payments-led super-app, through which they offer their consumers innovative and intuitive digital products and services. They offer their consumers a wide selection of payment options on the Paytm app, which includes:

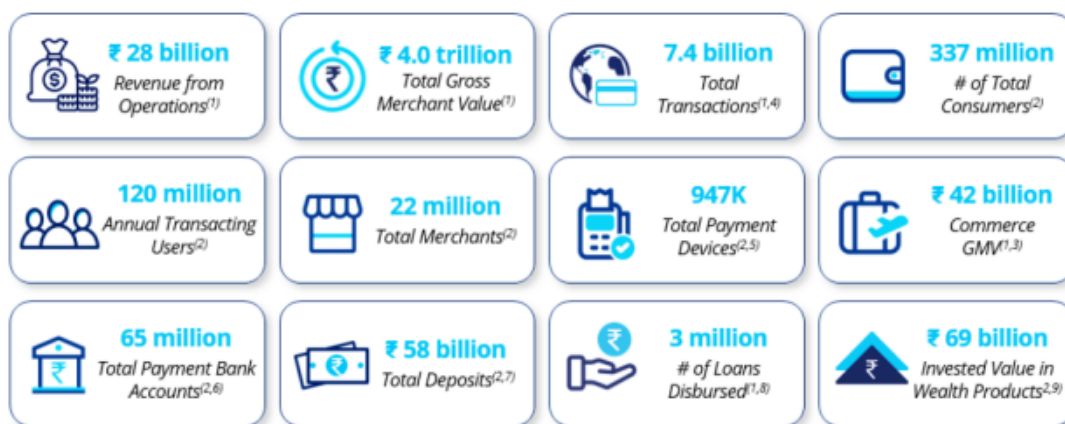
- Paytm Payment Instruments, which allow them to use digital wallets, sub-wallets, bank accounts, buy-now-pay-later and wealth management accounts; and
- Major third-party instruments, such as Debit and Credit Cards and Net Banking

Paytm is the only payments company in India that, together with their affiliates, owns each layer of the payment stack. It offer services such as Paytm Wallet, Paytm QR, Paytm Soundbox, Gold investments and Fixed Deposit, Paytm Postpaid, Merchant Cash Advance and FASTag.

On their app, they enable their 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.

The company is a professionally managed company and does not have an identifiable promoter.

Source: RHP, GEPL Capital Research



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Strengths & Strategies

The deep insights of Indian consumers and merchants

Paytm has developed unparalleled insights into the way Indian consumers spend and save, and the way merchants operate their businesses. Each transaction on their ecosystem provides insights that help them improve personalization for their consumers and merchants which in turn improves consumer and merchant experience and the quality of their engagement on the ecosystem.

The product and technology DNA

Their technology stack is built ground up and integrated across all aspects of their ecosystem which allows them to ensure that they are able to launch products and services quickly, build various features, offer integrated and synergistic products, ensure system stability, handle large scale and provide highest success rates. This significantly improves the experience of their consumers and merchants on their ecosystem. Paytm is the only payments company in India that, together with their affiliates, owns each layer of the payment stack. Paytm offer services such as Paytm Wallet, Paytm QR, Paytm Soundbox, Gold investments and Fixed Deposit, Paytm Postpaid, Merchant Cash Advance and FASTag.

The network effect creates sustainable advantages for Company

Paytm benefits from self-reinforcing network effects, which leads to low acquisition costs, higher monetization and lifetime value of consumers and merchants, and better economics across their offerings.

Deepen merchants' partnerships and drive adoption of technology among the merchant base

Paytm plans to continue to expand their merchant network, which is integral to their ecosystem, across cities and towns in India while also deepening their partnerships with existing merchants. They will continue to expand their payment services' offerings for merchants and innovate to offer wider selection of commerce and cloud service

Paytm will continue to grow their consumer and merchant base, adhering to their mission which is to bring half a billion Indians into the mainstream economy. There is continued scope for expansion given the under-penetration of the various products and services Paytm offers. They endeavour to continue to increase the engagement and retention of their consumers and merchants on their ecosystem by offering them better products.

Valuation & Recommendation

Leveraging the large scale, reach, and deep and high frequency engagement by consumers and merchants on their payments platform, they have been able to add new payments offerings, as well as expand into commerce and cloud services and financial services. Each of their offerings increases the scope of their ecosystem for consumers and merchants, enhancing the value of their ecosystem.

We recommend a subscribe rating to the issue for the purpose of listing gains but advise caution as at the upper end of the price band, Paytm is valued at 49.7x its FY21 revenues. Increased competition from new entrants could continue to keep profitability in control.

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Financial Snapshot

Particulars	Q1FY22	Q1FY21	FY21	FY20	FY19
Equity Share Capital	60.5	60.4	60.5	60.4	57.5
Reserves	6205.3	7770.1	6474.3	8044.8	5667.4
Net worth as stated	6265.8	7830.5	6534.8	8105.2	5724.9
Revenue from Operations	890.8	551.2	2802.4	3280.8	3232
EBITDA as stated	-370.9	-331.6	-1767.3	-2634.4	-4366.1
Adj. EBITDA as stated	-331.9	-321.1	-1654.8	-2468.3	-4211.5
PBT	-378.8	-288.5	-1698.3	-2958.2	-4232.1
PAT	-381.9	-284.4	-1701	-2942.4	-4230.9
NAV	104	130	108	135	100
GMV (₹ Cr)	1,46,900	69,700	4,03,300	3,03,200	2,29,200

(in Rs cr except per share data)

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NOTES

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