

Research Team

Issue Details

Issue Details	
Issue Size (Value in ₹ Million, Upper Band)	183,000
Fresh Issue (No. of Shares in Million)	38.60
Offer for Sale (No. of Shares in Million)	46.51
Bid/Issue opens on	08-Nov-21
Bid/Issue closes on	10-Nov-21
Face Value	₹1
Price Band	₹2080- ₹2150
Minimum Lot	6

Objects of the Issue

Fresh Issue: ₹ 83,000 Million

Growing and strengthening 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, acquisition and strategic partnerships and general purposes.

Offer for Sale: ₹ 100,000 Million

The company will not receive any proceeds from the Offer for Sale.

Book Running Lead Managers
Morgan Stanley India Company Pvt Ltd
Goldman Sachs (India) Securities Pvt Ltd
Axis Capital Ltd & Others
Registrar to the Offer
Link Intime India Pvt Ltd

Capital Structure (₹ Million)	Aggregate Value
Authorized share capital	1041.07
Subscribed paid up capital (Pre-Offer)	609.67
Paid up capital (Post - Offer)	648.27

Share Holding Pattern %	Pre Issue	Post Issue
Promoters & Promoter group	0	0
Public	100	100
Total	100	100

Financials

Particulars (₹ In Million)	3M-FY22	3M-FY21	FY21	FY20	FY19
Revenue from Operations	8,908	5,512	28,024	32,808	32,328
Other Income	572	982	3,844	2,599	3,477
Total Income	9,480	6,494	31,868	35,407	35,797
Expenses	12,617	8,828	45,697	59,152	75,981
Finance Cost	409	403	1,785	1,745	1,116
Depreciation	97	102	348	485	342
Total Expenses	13,123	9,333	47,830	61,382	77,439
Share of JV	(121)	34	(740)	(560)	146
Exceptional Item	(24)	(80)	(281)	(3,047)	(825)
Profit/(loss) before Tax	(3,788)	(2,885)	(16,983)	(29,582)	(42,321)
Tax	31	(41)	27	(158)	(65)
Profit/(loss) after Tax	(3,819)	(2,844)	(17,010)	(29,424)	(42,256)

Company Description

The company is India's leading digital ecosystem for consumers and merchants as we 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 according to RedSeer. The company offered 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. The company's two-sided (consumer and merchant) ecosystem enables commerce, and provides access to financial services through its financial institution partners, by leveraging technology to improve the lives of our consumers and help its 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, the company 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. The company has also been able to leverage its core payments platform 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 the company offers its 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. On the app, the company enables its 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 helps its merchants grow their business by giving them solutions that allow them to accept payments, acquire and retain consumers, improve their business operations and access financial services. Merchants can use in-store and online payment solutions to accept payments through Paytm Payment Instruments as well as major third-party payment methods. To help them acquire and retain customers, and create demand, it offers them services like selling tickets to customers, advertising, mini-app listings, channel and loyalty solutions. In addition to helping its merchant ecosystem facilitate more commerce, it also provides software and cloud services that allow large, medium and small merchants to improve their business operations and access important financial tools such as banking, wealth and credit facilities.

Valuation

At the upper end of the IPO price band, One 97 Communications Ltd. is offered at P/B of 9.5x with a market capitalization of ₹1,393,788 Million.

The company benefits from both customer side and merchant side by providing payment and other services through Paytm app, the company further aims to expand its reach and benefit from scale which is challenging for other players. The company reported contribution profit of ₹363 crores and EBITDA loss of ₹1,655 crores in FY21. Given that the company's ecosystem allows it to address large market opportunities, scale and reach, product, technology and leadership - We give this IPO a "Subscribe (Long-Term)" rating.

Strengths:

- **The company's ecosystem allows it to address large market opportunities**
The company has a wide addressable market in India across payment services, commerce and cloud services and financial services. According to RedSeer, the market segments that it serves have a massive scale and growth, are significantly underpenetrated, and have potential of technology to grow the industry. The ecosystem allows it to address these multiple large market opportunities at scale and gives it multiple growth vectors.
- **Trusted brand, scale and reach**
The company believes its brand stands for Trust, Convenience and Transparency. 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. An indication of trust in its brand is that Paytm has the highest top of mind recall and unaided awareness among merchants compared to other digital payment platforms, which represents the strength of its brand, 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 company's insights of Indian consumers and merchants**
The company has developed unparalleled insights into the way Indian consumers spend and save, and the way merchants operate their businesses. Each transaction on its ecosystem provides insights that help it improve personalization for its consumers and merchants and create products and services addressing their needs. This personalization in turn improves consumer and merchant experience and the quality of their engagement on its ecosystem. For example, being in the middle of payments flows between consumers and merchants, gives it a large amount of transactional insights of its consumers and merchants which helps it design and show customized Paytm Postpaid and Merchant Cash advance products, in partnership with financial institution partners.
- **The company's product and technology DNA**
The company has an average engineering and technology team of 2,550 members and 2,471 members in FY 2021 and in the three months ended June 30, 2021. Its technology stack is built ground up and integrated across all aspects of its ecosystem. Building technology ourselves and innovating at each layer of the technology stack, allows it to ensure that it is 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 our consumers and merchants on its ecosystem.
- **The company's network effect creates sustainable advantages for it**
The company benefits from self-reinforcing network effects. This network effect leads to low acquisition costs, higher monetization and lifetime value of consumers and merchants, and better economics across its offerings.
- **The company's leadership and its culture**
The company's mission and focus on solving big problems, and the expanse of its ecosystem makes it an attractive place for best-in-class leaders who bring a combination of domain expertise and a hunger to redefine the way Indians access payments, commerce, cloud and financial services products. This, combined with its culture of empowerment, helps it to grow multiple large businesses at the same time.

Key Strategies:

- **Grow consumer and merchant base**
The company will continue to grow its consumer and merchant base, adhering to its mission which is to bring half a billion Indians into the mainstream economy. The company expects this to include tens of millions of small Indian businesses and merchants. While it already has a large number of consumers and merchants on its ecosystem, the company believes that there is continued scope for expansion given the under-penetration of the various products and services it offers. The company's endeavour to continue to increase the engagement and retention of its consumers and merchants on its ecosystem by offering them better products.
- **Expand and enhance Paytm App's offerings for its consumers**
It is the company's endeavour to continue to add new use cases and new payment instruments that add value to its consumers and increase its monetization. The company will continue to focus on bringing together various pieces of its ecosystem to build innovative products for its consumers, which could take the form of increasing seamlessness between (i) consumers and merchants, (ii) various use cases and, (iii) various payment instruments.
- **Deepen merchants' partnerships and drive adoption of technology among its merchant base**
The merchants are integral to Paytm's ecosystem. The company plans to continue to expand its merchant network across cities and towns in India while also deepening its partnerships with existing merchants. The company will continue to expand its payment services' offerings for merchants and innovate to offer wider selection of commerce and cloud services. The company also intend to continue making access to technology easy and affordable for its merchants by identifying merchant problems that can be solved using technology.
- **Rapidly scale up financial services and expand access of financial services through deep tech-led solutions**
The company is focused on rapidly scaling up its financial services business. The company will focus on consumers and merchants who have limited access to financial services products, and continue to work in close collaboration with its financial institution partners to create products and services addressing their requirements while leveraging its technology and insights. A key strategic focus for it is to scale up its consumer and merchant lending businesses, including Paytm Postpaid (buy-now-pay-later), in collaboration with its financial partners, as well as its wealth management offerings. The company plans to continue to leverage its partnership with Paytm Payments Bank to expand the suite of banking solutions for consumers and merchants.

➤ **Expand into international markets**

The company continues to innovate and provide better products and services to its consumers and merchants in India, it believes there is a large opportunity for it to leverage its technology infrastructure and expand to international markets. In 2017, the company piloted its bill payment services in Canada and in 2018, partnered with Softbank Corp. and Yahoo Japan Corporation to launch PayPay, a leading digital payments and financial services company in Japan. The company continues to explore international opportunities, especially in the developed markets, where it can either launch its merchant services, or collaborate with partners to launch consumer facing platforms.

Industry Snapshot:

Emergence of Digital Payments

Technology is playing an important role by increasing reach and accessibility for merchants and consumers. The revolution of mobile and cloud technology, combined with growing incomes and higher consumption rates in India, is at a digital tipping point.

Indian payment system has evolved significantly since 1980. For a long time cheque clearing systems dominated the payment landscape in India. The cheque clearing system underwent significant transition from Magnetic Ink Character Recognition (MICR) in 1980's to the cheque truncation system first introduced in 2008.

Digital payments have been growing steadily over time, however India continues to be cash driven economy. In FY 2021, digital payments market size by value stood at approximately US\$ 20 trillion with 43 billion transactions during the year.

Mobile payments revolutionizing consumer to merchant payments segment which is expected to grow by ~7.6x in value by FY 2026

In India, there are approximately 65 million merchants of which 45 million have access to internet. Merchants including medium and small enterprises are rapidly adopting new age payment technology in order to offer hassle free shopping experience to their customers. Digital payment mode at merchants typically include QR code, Point of Sale (POS) machines and payment gateway.

Payment via QR code is a contactless payment method where payment is performed by scanning a QR code from a mobile app. QR codes came as a revolutionary way to onboard merchants with the positives of lower acquisition cost and scalability. Currently, over 97 million QR codes are issued. In October 2020, RBI mandated proprietary QR players to implement QR code interoperability by March 2022 to facilitate seamless payments for customers.

Point of Sale terminal is a hardware used for processing payments at retail locations. India's POS device base has been steadily expanding with 13% CAGR over FY 2017-2021. One of the biggest levers for strong POS deployment in FY 2017-2021 period was demonetization in Nov 2016, which led to the adoption of alternate payment modes such as cards and drove rapid POS adoption across merchants.

Tech adoption across internet sectors has been accelerating in the last few years even before COVID-19, with major sectors like eGrocery, foodtech and eHealth seeing strong supply side action, ecosystem building and offering multiple digital services under one roof. Some of these sectors will exceed US\$ 10 Billion in GMV terms by FY 2026, becoming mainstream consumption channels for India's tech savvy consumers.

Travel, Entertainment - Ticketing

Over time, online ticket booking has witnessed steep growth due to convenience, offers and user-friendly. However, travel has been one of the worst hit sectors due to the pandemic. With countries globally shutting down international boundaries for prolonged periods of time, even states restricting movement of people the travel ticketing industry saw a dip of ~55% from FY 2020 to FY 2021 as people only travelled due to emergencies.

Gaming

In India, there are around 300+ million online gamers. The market is mostly dominated by casual gamers with 250 million users who play games as a leisure activity. This is followed by Fantasy sports with around 100 million users. In this type of games, users virtually form a team of real sports players and perform based on the statistical performance of those players in actual games.

Advertising

Advertising industry in India has largely evolved over the years and today, it's more targeted, niche and has a number of channels to reach the right audience. Advertising market in India stood at US\$ 9.3 billion in CY20 and is expected to more than double by CY25.

Financial services

Financial services system plays a crucial role in the economic development of a country. It allows efficient flow of savings and investments, managing credit requirement of businesses. Financial services have the ability to give support for growth of a new business and access to capital. India is significantly under penetrated across various financial services products which provides huge opportunity for players to grow across various sub segments such as lending, insurance, wealth management etc.

Key Risk:

- The company has a history of net losses and may not be able to achieve profitability.
- In the event that the payment processing charges payable to financial institutions and card networks increase significantly, and company is not able to pass on these higher processing charges to its merchants or consumers, the company may not be profitable.
- The company offers some of its services in partnership with its Group Company, Paytm Payments Bank. Any failure by Paytm Payments Bank to support these services could adversely impact these services and could impact its overall business, financial condition and results of operations.
- The company's funding requirements and the proposed deployment of Net Proceeds has not been appraised by any bank or financial institution or any other independent agency and its management will have broad discretion over the use of the Net Proceeds. Further, the management will have the discretion to reevaluate the funding requirement for a particular object, subject to compliance with applicable law.
- If the company is unable to attract merchants to its ecosystem, grow its relationships with its existing merchants, and increase transaction volumes on its platforms, its business, results of operations, financial condition, cash flows and prospects could be materially and adversely affected.

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