One97 Communications Limited ("Paytm") launched in 2009. It is India’s leading digital ecosystem for consumers and merchants. It offers payment, commerce, cloud, and financial services through its payment app. The high penetration in internet and smartphone users has supported the company to grow at a faster pace due to attractive user interface by Paytm app. In addition, the app users can avail Banking as well as Non-Banking financial services on the mobile application. The company has market share of approximately 40% in the overall payments transaction volume, and 65%–70% market share of wallet payments transaction in India as of FY 2021.

The company exhibits substantial growth in user base and GMV since its inception within the Fin-tech sector. Moreover, the business is scalable due to high convenience of digital banking. However, the issue is available at P/B of 49.74x for FY21 which is expensive. However, we recommend Subscribe for long term to the issue.

About the Company:
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.

Promoters
One97 Communications Limited ("Paytm") is a professionally managed company and does not have an identifiable promoter in terms of SEBI ICDR Regulations and the Companies Act, 2013.

Objective of the Offer
The objects of the Issue are:
- Growing and strengthening the 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, acquisitions and strategic partnerships.
- Sale of equity shares by the promoter group.
- General corporate purposes.

### Issue details

| **Price Band (Rs in per share)** | 2,080-2,150 |
| **Fresh Issue (in Rs. crore)** | 8,300 |
| **Issue size (Rs in Crore)** | 18,300 |
| **Offer for Sale (Rs in Crore)** | 10,000 |
| **Issue open date** | 08-11-2021 |
| **Issue close date** | 10-11-2021 |
| **Tentative date of Allotment** | 15-11-2021 |
| **Tentative date of Listing** | 18-11-2021 |
| **Total number of shares (lakhs)** | 879.81-851.16 |
| **No. of shares for QIBs (75%) (lakhs)** | 659.86 - 638.37 |
| **No. of shares for NII (15%) (lakhs)** | 131.97 - 127.67 |
| **No. of shares for retail investors (10%) (lakhs)** | 87.98 - 85.12 |
| **Minimum order quantity** | 06 |
| **Face value (in Rs)** | 1.00 |
| **Amount for retail investors (1 lot)** | 12480-12900 |
| **Maximum number of shares for Retail investors at lower Band** | 90 (15 Lots) |
| **Maximum number of shares for Retail investors at upper band** | 90 (15 Lots) |
| **Maximum amount for retail investors at lower Band- upper band (in Rs)** | 1,87,200-1,93,500 |
| **Exchanges to be listed on** | BSE, NSE |
Digitization changing the way people transact in India

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. In 2004, Real-Time Gross Settlement (RTGS) was launched. RTGS is mainly used for higher value transfers that require immediate clearance. In 2005, National Electronic Funds Transfer (NEFT) was introduced enabling transfer of fund between any two NEFT-enabled bank accounts on one to one basis and in 2010 Immediate Payment Service (IMPS) was launched.

In 2008, National Payments Corporation of India (NPCI) was set up as an umbrella organization for retail payment system. It is an initiative of RBI and Indian Banks Association (IBA) to create a robust payment and settlement infrastructure in India. In last 10 years, it has introduced various digital platforms and mode of payments such as:

- Unified Payments Interface (UPI): single mobile application for accessing different bank accounts, facilitates easy transactions using a simple authentication method
- RuPay: supports the issuance of debit, credit and prepaid cards by banks
- Aadhaar Enabled Payment System (AePS): Bank led model which allows online interoperable financial inclusion transaction at PoS through the business correspondent of any bank using the Aadhaar authentication
- NPCI has also developed the National Electronic Toll Collection (NETC) program to provide for a digital payment option at toll plazas across the country through a FASTag. All National highway toll plazas are mandated to have a FASTag lane.

Evolution of mobile payment landscape in India
This will be driven by growth in:

- Mobile payments, which includes mobile wallet and UPI. As unique mobile payment users increase from 252 million in FY 2021 to 650-700 million in FY 2026, mobile payments expected to increase by 5x crossing 100 billion payments in volume.
- Increasing digital payment adoption by merchants through POS machine, QR codes and payment gateway
- Digital payments being accepted by non-traditional merchants – e.g. vendors, each delivery person having a QR code etc.
- Increasing penetration of digital banking products.

**Mobile Payments**

There are various ways in which payment can be done using mobile, some of them are:

**Mobile wallets**: It allows carrying cash in digital format. Customers can link credit card or debit card information to mobile wallet applications or transfer money online to mobile wallets and use that for their purchases. Mobile wallets provide consumers with greater convenience, better security and control over expenses.

**Unified Payments Interface (UPI)**: Rolled out in August, 2016, it provides a simple, easy to use digital interface. Powers multiple bank accounts into a single mobile application (of any participating bank), merging several banking features, seamless fund routing and merchant payments into one hood. It has single click 2 factor authentication that is aligned with the Regulatory guidelines, yet provides for a very strong feature of seamless single click payment.

**Mobile Payments by Value**

In mobile payments consumer to merchant segment, Paytm is market leader in India. Paytm’s market share across various mobile payment instruments:

**Consumer to Merchant**

- **By Transaction Volume (FY 2021)**

![Pie chart showing merchant transactions by Paytm and others]

**Consumer to Merchant Wallet Transactions**

- **By Transaction Volume (FY 2021)**

![Pie chart showing wallet transactions by Paytm and others]
Digital Payment Adoption by Merchant

In India, 45 million have access to internet of approximately 65 million merchants. 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.

**QR Code**

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. According to RedSeer estimates, in FY 2021 there are 30-35 million unique merchants which are using QR codes for digital payments in India and expected to increase to 55-60 million by FY 2026. Out of all the players driving QR adoption, Paytm has the highest QR code coverage amongst merchants. TPV of QR code is expected to increase from US$ 40 billion in FY 2021 to US$ 300-550 billion in FY 2026.

**POS Machines**

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. TPV of POS machines is expected to increase from US$ 94 billion in FY 2021 to US$ 275 billion in FY 2026.

**Payment Gateways and Payment Aggregators**

Payment Gateways and Payment Aggregators allow e-commerce businesses to process transactions on their website/app. They allow payment acceptance through credit/debit cards, net-banking, e-wallets and UPI. A payment aggregator facilitates only payments by connecting merchants with payment acquirers. Paytm is the largest payment gateway aggregator in India based on total transactions for the fiscal year ended March 31, 2021, with the widest ecosystem of payment instruments. TPV of payment aggregator is expected to increase from US$ 170 billion in FY 2021 to US$ 550 billion in FY 2026.

**Regulatory initiatives driving digitization of payments and financial services**

The GoI and regulators like the RBI, SEBI and IRDEAI have acted as enablers of “Digital India” through continual reforms and encouraging innovation in the marketplace. Additionally, RBI’s introduction of payments bank licensing regime, wallet licensing regime, AADHAR universal identity and creation of UPI has contributed to digitization of payments.
**Competitive Strengths:**

**The ecosystem allows to address large market opportunities**
Paytm has a wide addressable market in India across payment services, commerce and cloud services and financial services. The market segments that they serve have a massive scale and growth, are significantly underpenetrated, and have potential of technology to grow the industry. Their ecosystem allows them to address these multiple large market opportunities at scale and gives them multiple growth vectors.

**The trusted brand, scale and reach**
Paytm brand stands for Trust, Convenience and Transparency. Paytm is available across the country with “Paytm karō” evolving into a verb for hundreds of millions of Indian consumers, shopkeepers, merchants and small businesses. The “Paytm” brand is India’s most valuable payments brand, with a brand value of US$ 6.3 bn, and Paytm remains the easiest way to transact across multiple methods. They had 33.7 crore consumers and over 2.18 crore merchants as of June 30, 2021.

**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**
Paytm has an average engineering and technology team of 2,550 members and 2,471 members in FY 2021 and in the 3 months ended June 30, 02021. 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.

**Risk Factors:**

**Competitive Intensity**
The high attraction of users towards digital payment apps will provide opportunities to many domestic and international players to enter into the digital transactions sector offering digital transactions such as bill payments, buying insurance, credit cards payments, movie/ flights/ trains ticket bookings, etc. with discount/ cashback/ promotional offers to attract customers and gain market share. Banks offering digital payments app can leverage its customer base to gain market share.

**Regulatory Risk**
The Digital payment being one of the emerging sector is susceptible to government intervention in terms of permitting the transaction limits, fees/ commission charges, services offerings. An unexpected ceiling on charges of digital transaction payment method can impact revenue growth and profitability of the company adversely.

**Loosing companies offering services through app**
Paytm has many tie-ups with companies that offer various products/ services through its portal/ app. So, if such companies divert towards other payment apps having high customer/ user base and charging less commission/ brokerage. Then, this may adversely affect the revenue streams of the company.

**Loosing merchants**
Transactions made through Merchants are one of the key revenue streams for payment apps so if merchants are attracted by other payment apps in terms of better services, high-end technology devices can lead to reduction in merchants.
**Failure of Technology**

Technology plays a key role in carrying a digital transaction and has to be kept updated timely. Failure to do so can lead to an increase in transaction failure/rejection and may lose the users dependency on the app/website to perform a digital transaction. In addition, having loss or theft of user’s data can be a reason for customers to switch to more secured payment apps.

**OUR VIEWS**

One97 Communications Limited ("Paytm") launched in 2009. It is India’s leading digital ecosystem for consumers and merchants. It offers payment, commerce, cloud, and financial services through its payment app. The high penetration in internet and smartphone users has supported the company to grow at a faster pace due to an attractive user interface by Paytm app. In addition, the app users can avail banking as well as Non-Banking financial services on the mobile application. The company has a market share of approximately 40% in the overall payments transaction volume, and 65% – 70% market share of wallet payments transaction in India as of FY 2021.

The company exhibits substantial growth in user base and GMV since its inception within the Fin-tech sector. Moreover, the business is scalable due to high convenience of digital banking. However, the valuation appears to be expensive at P/B of 49.74x for FY21. Thus, we recommend **Subscribe for long term** to the issue.

**Sources:** Red Herring Prospectus
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