

One 97 Communications Ltd

Technology | India

IPO | 06 November 2021

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Healthy Outlook with Strong Base and Brand Equity

About the Company

One97 Communications Ltd (Paytm), incorporated in Dec'00, is India's leading digital ecosystem for consumers and merchants. Paytm offers 'Payment Services', 'Commerce and Cloud Services', and 'Financial Services' to 333mn consumers and ~22mn merchants registered with it, as of June 30, 2021. Its two-sided (consumer and merchant) ecosystem enables commerce and provides access to financial services, by leveraging technology to improve the lives of its consumers and helps its merchants to grow their businesses. The company launched Paytm in 2009 as a "mobile-first" digital payments platform to enable cashless payments for Indians within the country, 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, it 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. "Paytm" is India's most valuable payments brand, with a brand value of US\$6.3bn, and Paytm remains the easiest way to transact across multiple methods. It has created a payments-led super-app, through which it offers its consumers innovative and intuitive digital products and services. Paytm is the only payments company in India that, together with its affiliates, owns each layer of the payment stack. It offers services such as Paytm Wallet, Paytm QR, Paytm Soundbox, Gold Investments and Fixed Deposit, Paytm Postpaid, Merchant Cash Advance and FASTag.

Financials in Brief

Paytm's financial performance has not been encouraging over the years, with the company continuing to record an EBITDA loss and net loss. However, it has been witnessing an improvement in financial performance, with a continued fall in operating losses and net loss, mainly led by the contraction in marketing & promotional expenses. Notably, marketing & promotional expenses decreased from Rs34.1bn in FY19 to Rs5.32bn in FY21, which resulted in its net loss to reduce from Rs42bn in FY19 to Rs17bn in FY21. As a positive surprise, its OCF and FCF turned positive in 1QFY22, with OCF and FCF standing at Rs3.3bn and Rs2.9bn, respectively.

Our View: SUBSCRIBE

The IPO is valued at 43.7x FY21 price-to-sales and 36.7x FY22 annualized price-to-sales, which is at a discount of ~12% to the recently-listed unicorn, Zomato. While there is no listed peer available for Paytm in the domestic market, we believe high valuations for unicorns like Paytm that has created significant scale and brand equity, are likely to sustain. Further, a strong 33% CAGR in GMV over FY19-FY21, despite the pandemic, vindicates Paytm's leadership and brand value. This along with 17% estimated CAGR in digital payments in value to US\$40tn during FY21-FY26E indicates a sustainable growth in the long run. **Hence, we recommend SUBSCRIBE for the long-term perspective.**

IPO Details

Pice Band	Rs2,080-2,150
Face Value (Rs)	1
Issue Open/Closing Date	8th / 10th Nov'21
Fresh Issues (mn)	38.6
OFS (mn)	46.5
Total Issue (mn)	85.1
Minimum Bid Qty. (Nos)	6
Issue Size (Rs bn)	183.0
QIB / HNI / Retail	75% / 15% / 10%
Implied Market Cap (Rs bn)	1,394

Object of the Issue

- ▶ To grow and strengthen Paytm ecosystem
- ▶ To invest in new business initiatives, acquisitions and strategic partnerships
- ▶ General corporate purposes

Key Risk

- ▶ High dependence on financial institutions
- ▶ Loss making history

Shareholding (%)	Pre-Issue	Post-Issue
Promoters	0	0
Public	100.0	100.0

Key Financials

(Rs bn)	FY19	FY20	FY21
GMV (Rs tn)	2.3	3.0	4.0
Income	35.8	35.4	31.9
Adj. EBITDA	(42.1)	(24.7)	(16.6)
PAT	(42.3)	(29.4)	(17.0)
PAT Margin (%)	(118.2)	(83.1)	(53.4)
EPS (Rs)	(75.0)	(49.0)	(28.0)
P/E (x)	(32.9)	(47.4)	(81.9)
EV/EBITDA (x)	(32.6)	(55.0)	(82.7)
P/B (x)	24.3	17.2	21.3
Net Worth	57.3	81.1	65.4
Mcap to sales (%)	38.9	39.4	43.7
RoE (%)	(73.9)	(36.3)	(26.0)
OCF	(44.8)	(23.8)	(20.8)
OCF Yield (%)	(3.2)	(1.7)	(1.5)
FCF	(46.5)	(25.7)	(22.8)
Gross Debt	7.0	2.1	5.4
Net Debt/Equity (x)	(0.40)	(0.43)	(0.38)
Gross Block	3.83	5.54	7.00
Asset Turnover (x)	9.4	6.4	4.6
WCC (Days)	(29)	(12)	(16)

Source: RHP

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