

Digital ecosystem offering inclusive access to financial services

About the Company: One 97 communications (Paytm) is India's leading digital ecosystem for consumers and merchants. It is the largest payments platform in India, with a GMV of ~₹ 4 lakh crore in FY21

- It offers consumers & merchants, technology-led, easy-to-use digital product and services as well as easy and inclusive access to financial service
- As of June 30, 2021, it offers payment services, commerce & cloud services, and financial services to 33.7 crore consumers & over 2.2 crore merchants

Key triggers/Highlights:

- Paytm's network effect creates sustainable advantages through cost-effective acquisition of consumers & merchants; reinforce the platform by building higher engagement & stickiness with consumers and merchants; build high-monetisation products at low cost of acquisition
- Paytm brand is India's most valuable payments brand, with value of US\$6.3 billion and remains the easiest way to transact across multiple methods.
- Paytm focuses on consumers and merchants who have limited access to financial services products, have a massive scale, are significantly underpenetrated, and have huge growth potential
- A key strategic focus is to scale up its consumer & merchant lending businesses, including Paytm Postpaid and wealth management offerings
- Paytm plans to continue to expand the merchant network across cities and towns in India while deepening partnerships with existing merchants

What should investors do? One 97 Communication (Paytm) is play on digitisation of various financial services including payments, investments & financial solutions. At upper end of price band, the company is valued at ~9.5x post issue BV and at 24% of annualised GMV.

- We assign **UNRATED** rating to the IPO.

Key risk & concerns

- Extremely competitive markets with continuously evolving technology
- Failure to attract merchants & volumes can adversely affect business
- Dependency on payment services for majority of revenue

Key Financial Summary

₹ crore	FY19	FY20	FY21	Q1FY22*	2 year CAGR (FY19-21)
Total Income	3579.7	3540.7	3186.8	948.0	-5.6
Net Profit	-4230.9	-2942.4	-1701.0	-381.9	NA
EPS	-75.0	-49.0	-28.0	-23.7	
BVPS	100.0	135.0	108.0	226.0	
P/BVPS	21.5	15.9	19.9	9.5	
ROE	-73.0	-35.1	-26.0	-10.5	

Source: RHP, ICICI Direct Research * Figures for Q1FY22 (except total income and Net profit) are based on post issue annualised nos.



Particulars

Issue Details

Issue Opens	8th November, 2021
Issue Closes	10th November, 2021
Issue Size (₹ crore)	18300
Fresh Issue (₹crore)	8300
Offer for Sale (₹crore)	10000
Price Band (₹)	2080-2150
No. of shares on offer (in crore) @ upper price band	8.5
QIB (%)	75
Non-Inst Bidders (%)	15
Retail (%)	10
Min Lot size (No. of shares)	6

Shareholding Pattern (%)

	Pre-Issue	Post-Issue
Promoter Group	0.0	0.0
Public & Others	100.0	100.0

Objects of issue

Objects of the issue

Growing and strengthening our 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

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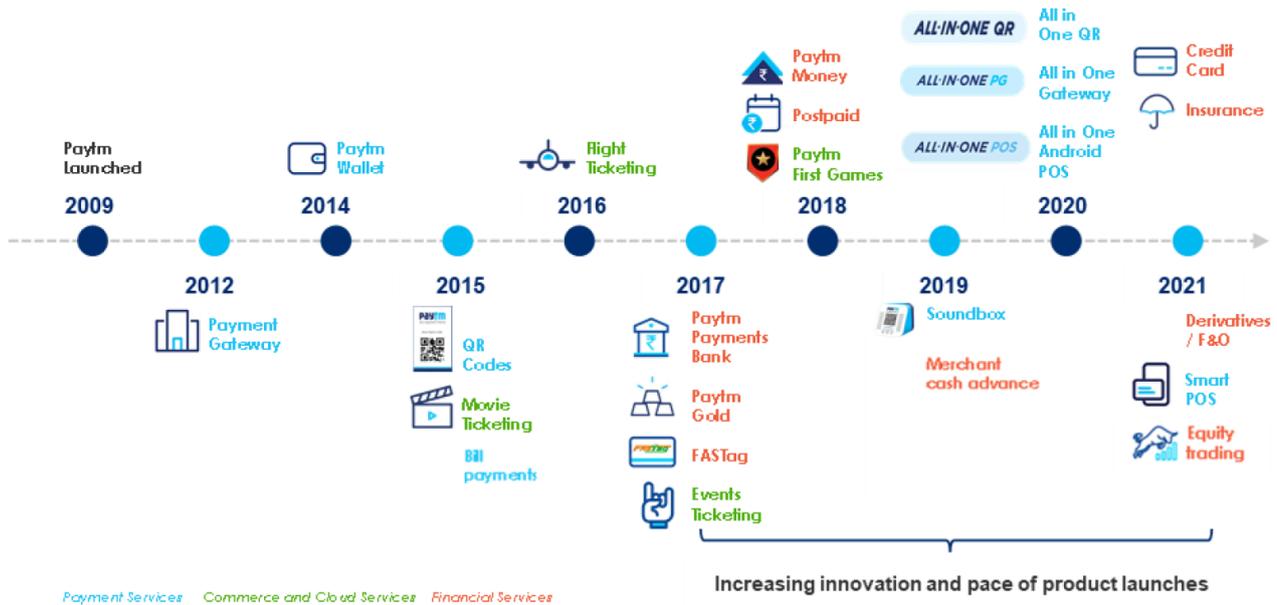
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Company Background

One 97 Communications (Paytm) is India’s leading digital ecosystem for consumers and merchants. It is the largest payments platform in India, with a GMV of ₹ 4.033 lakh crore in FY21. 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. Paytm offers its consumers and merchants, technology-led, easy-to-use digital products and services as well as easy and inclusive access to financial services. It offers payment services, commerce & cloud services, and financial services to 33.7 crore consumers and over 2.2 crore merchants registered with Paytm, as of June 30, 2021. The two-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. In FY19, FY20 and FY21, and in Q1FY21 and Q2FY22, revenue from payment and financial services accounted for ₹1695.5 crore, ₹ 1906.8 crore, ₹ 2109.2 crore, ₹ 429.8 crore and ₹ 689.4 crore, respectively, i.e., 52.5%, 58.1%, 75.3%, 78% and 77.4%, respectively, of its revenue from operations.

Launched 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 case, and Paytm Wallet as the first Paytm Payment Instrument, Paytm 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. Over the past five years, Paytm has launched additional products which have helped increase user stickiness and increased monetisation, by offering devices and other services to merchants, launching additional Paytm Payment Instruments, such as Paytm FASTag and Paytm Postpaid, and launching financial services offerings such as wealth, lending and insurance for consumers and merchants, in partnership with financial institutions. In the last three years, its product launches have accelerated as Paytm expanded its distribution.

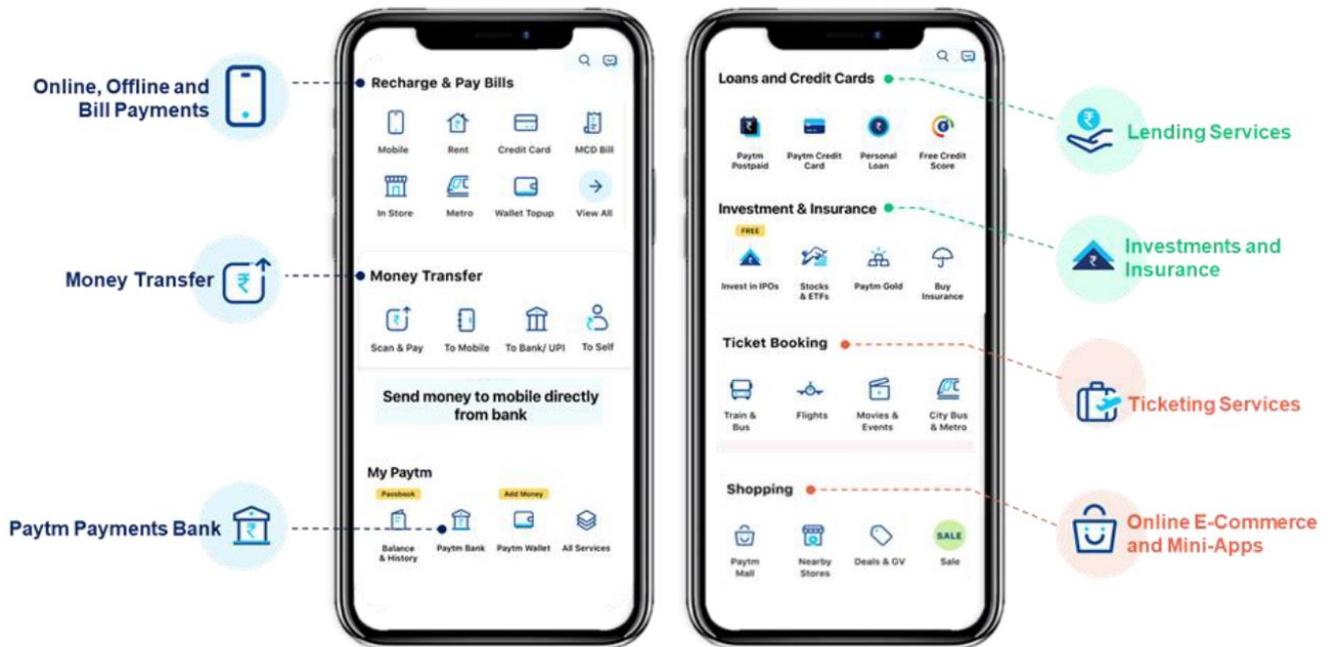
Exhibit 1: PayTM’s strong product fleet across various segments



Source: RHP, ICICI Direct Research

Paytm Super App is an integral part of its offerings. Paytm has the widest selection of payments, commerce and financial services on its app. Through the app, consumers can manage multiple aspects of their daily life. It enables the consumer to make payments through the Paytm App using major third-parties' instruments and Paytm Payment Instruments. Consumers can make online recharges, bill payments, money transfers and pay in-store merchants using the Paytm super app. Further, it offers a broad range of financial services, including in partnership with financial institutions, such as consumer wallets, Paytm postpaid (buy-now-pay-later), auto and health insurance, personal loans, brokerage accounts and equity trading accounts.

Exhibit 2: PayTM's Super App for all in one solution



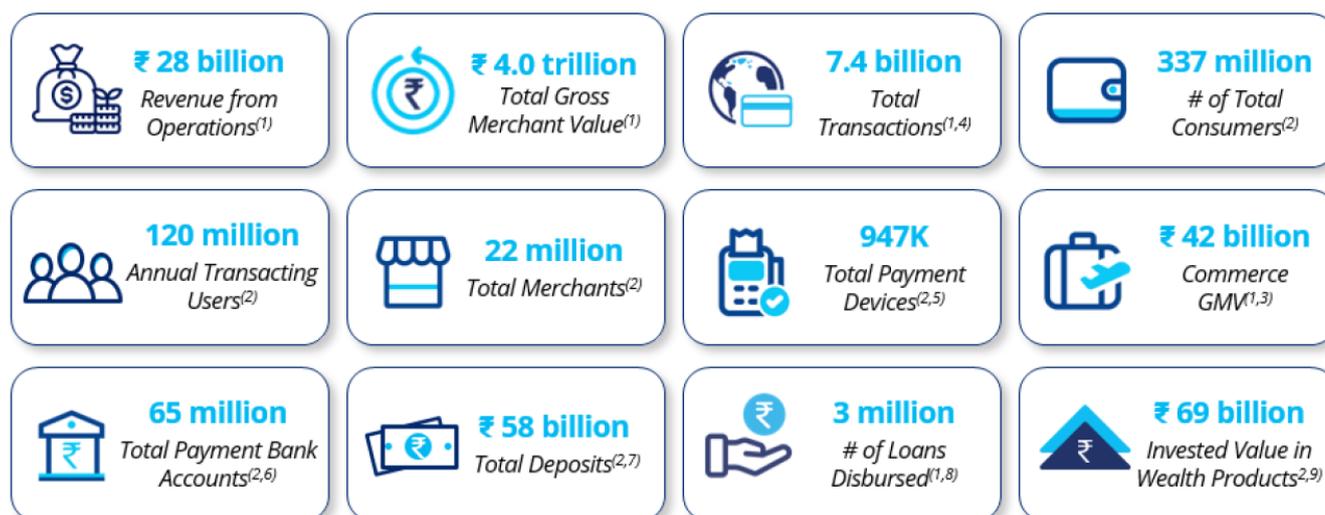
Source: RHP, ICICI Direct Research

Exhibit 3: Overview of services on Paytm app

Offerings on the Paytm App	Services Offered by	Revenue Model
Payment Services		
Recharge and Bill Payments	<ul style="list-style-type: none"> OCL, through supply from own merchant network and PPBL (through BBPS) 	<ul style="list-style-type: none"> Merchant: Payments processing fee and rentals for devices deployed Consumer: Convenience fees in certain select cases
Send money (Money Transfer)	<ul style="list-style-type: none"> PPBL (associate) OCL 	
Pay (In-Store Payments)	<ul style="list-style-type: none"> Payment instruments from third parties (cards), associates (e.g. PPBL) and partners 	
Commerce and Cloud		
Travel ticketing	<ul style="list-style-type: none"> OCL, through supply from own merchant network OCL, through supply from own merchant network and Wasteland Entertainment Private Limited (Paytm Insider), a wholly owned subsidiary of OCL 	<ul style="list-style-type: none"> Consumer: Convenience fees in certain select cases Merchant: Payments processing fee, marketing fee and advertising fee (including for Mini-apps) and other fees
Entertainment ticketing	<ul style="list-style-type: none"> Developer partners (on-boarded by OCL) 	
Mini-apps Store	<ul style="list-style-type: none"> Includes Paytm E-commerce Private Limited ("PEPL" or "Paytm Mall")'s mini app for online shopping (OCL has no equity stake in PEPL) 	<ul style="list-style-type: none"> Consumer: Platform fee Merchant: Hosting commission Consumer: Recurring subscription Merchant: Distribution fee (select)
Games	<ul style="list-style-type: none"> Paytm First Games Private Limited (subsidiary) Not consolidated in OCL 	
Paytm First Subscription	<ul style="list-style-type: none"> OCL, in collaboration with partners 	
Financial Services		
Digital Banking (including Paytm Wallet, FASTag)	<ul style="list-style-type: none"> PPBL (associate), pursuant to a business cooperation agreement with OCL Fixed deposit is offered by PPBL in collaboration with a partner bank 	<ul style="list-style-type: none"> Payment gateway charges and convenience fee Banks / NBFCs: Sourcing and collection fee
Lending	<ul style="list-style-type: none"> OCL in collaboration with financial partners 	
Wealth Management	<ul style="list-style-type: none"> Paytm Money Limited (wholly owned subsidiary) Digital gold offered by OCL in collaboration with a partner 	<ul style="list-style-type: none"> Consumer: Brokerage and fees
Insurance	<ul style="list-style-type: none"> Attachment products: by OCL in collaboration with partners Market place: by 	<ul style="list-style-type: none"> Insurance Companies: Brokerage

Source: RHP, ICICI Direct Research (OCL- One 97 Communications Limited)

Exhibit 4: Paytm's business snapshot



Source: RHP, ICICI Direct Research

Exhibit 5: Revenue breakup by service

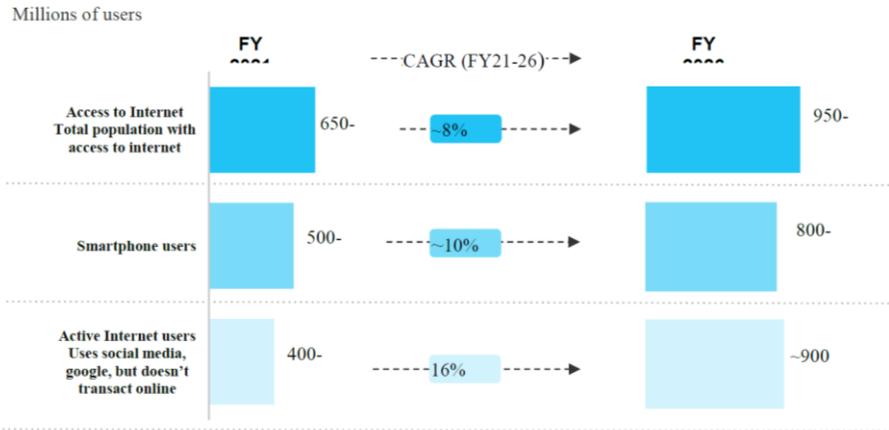
Particulars (₹ crore)	FY19	FY20	FY21	Q1FY21
Payments and Financial Services				
Payments Services to Consumers	1085.1	1012	969.2	300.5
Payments Services to Merchants	486	765.8	1011.6	334
Others (including Financial Services)	124.4	129	128.4	54.9
Total Payments and Financial Services (A)	1695.5	1906.8	2109.2	689.4
Commerce and Cloud				
Commerce	1191.5	710.9	245.2	51.7
Cloud	345	407.9	448	149.7
Total Commerce and Cloud (B)	1536.5	1118.8	693.2	201.4
Other Operating revenue (C)		255.2		
Total Revenue (A + B + C)	3232	3280.8	2802.4	890.8

Source: RHP, ICICI Direct Research

Industry Overview

Technology is playing an important role by increasing reach and accessibility for merchants and consumers. Over the last decade, India added 50 crore+ new smartphone users. With higher affordability, reducing smartphone costs (average smartphone cost being less than US\$150) and availability of greater variety of value smartphones, the number of smartphone users are expected to reach ~80-85 crore in FY26, representing more than 55% of total population and 80% of internet users. In FY21, 65-70 crore, Indians had access to the internet and the number is expected to increase to over 95-100 crore by FY26 representing more than 70% of the total population. This is primarily driven by increasing smartphone penetration, reducing data cost, new technology innovations and government’s push towards digitisation.

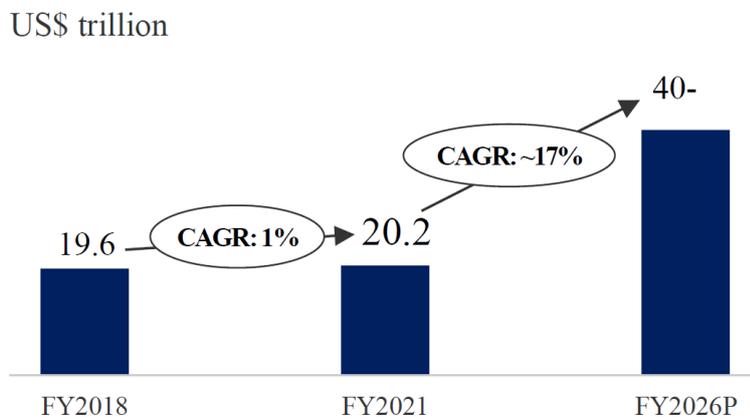
Exhibit 6: India to have ~100 crore internet users by FY26



Source: RHP, ICICI Direct Research

Digital payments have been growing steadily over time but India continues to be a cash driven economy. In FY21, digital payments market size by value were at ~US\$20 trillion with 43 billion transactions during the year. Consumers are rapidly switching to digital payments as it provides simple, safe and convenient way to transfer money across accounts. Similarly, for merchants, acceptance of payments in digital form has increased significantly. Moreover, merchants have taken up digitisation beyond merely accepting digital payments, digitisation is helping them in other aspects of their business like credit, invoicing, maintaining ledger/account, book keeping etc. helping their business to grow further.

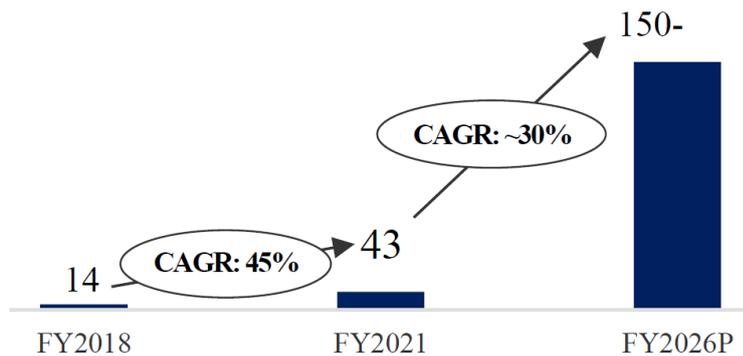
Exhibit 7: Total digital payments by value



Source: RHP, ICICI Direct Research

Exhibit 8: Total digital payments by volume

Billion

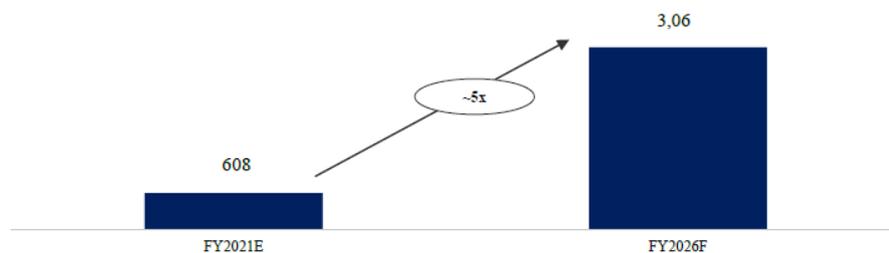


Source: RHP, ICICI Direct Research

Mobile payments are a mode of payment using mobile phones. This typically includes mobile wallets and UPI. Money transfer between consumers and merchants using wallets or UPI, is becoming highly ubiquitous in India, and has led to a surge in mobile payments over the last few years. Mobile payments increased ~16x from 160 crore in FY17 to 2600 crore in FY21. Mobile payments expected to reach ~US\$3.1 trillion by value by FY26.

Exhibit 9: Mobile payments by value

US\$ Bn



Source: RHP, ICICI Direct Research

Rapid growth of commerce services

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 FY26, becoming mainstream consumption channels for India’s tech savvy consumers. Overall, across the India internet sectors, most sectors will be reaching high maturity by FY26 in GMV terms, accounting for a significant share of the overall consumption in that category; thus truly making India a digital economy. Further, unique online transacting users, are expected to grow from 25-30 crore in FY21 to 70-75 crore by FY26. This will further fuel growth of digital products and solutions across sectors.

Exhibit 10: Estimated market opportunity

Particulars (\$ billions)	FY21	FY26	CAGR
Online Gaming	2.8	12-13	34%-36%
Travel Ticketing	36.0	60.0	9%
Film Ticketing	2.6	2.5	5%
E-tail	41.0	140-160	28%-31%
E-grocery	3.7	22-27	43%-49%
Online Food Delivery	2.7-3.0	13-14	36%
India Advertising	9.3	20-25	20%

Source: RHP, ICICI Direct Research

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.

Exhibit 11: Estimated financial services market in FY26

Particulars (\$ billions)	FY21	FY26
Total Retail Loan Outstanding	550	1000
Overall BNPL (Disbursals)	15-20	90-100
MSME Lending	375	600
Gross Written Premiums	121	228
Direct Equity Investments (Outstanding) - Retail Investors	224	709
Equity Investments / Year - Retail Investors	990	2242
Mutual Fund AUM Outstanding (For Individuals)	224	504
Mutual Fund Net Inflow (For Individuals)	65	75
Yearly Gold Investment	25	41

Source: RHP, ICICI Direct Research

Investment Rationale

Paytm - trusted brand, scale and reach

Paytm 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. 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. Its payment platform, with a wide selection of daily life use cases and payment instruments, provides it with large scale and reach. Paytm had 33.7 crore registered consumers and over 2.18 crore registered merchants as of June 30, 2021. Its scale and reach help them distribute new products and services across all of its businesses faster and in a cost efficient manner.

Paytm ecosystem allows to address large market opportunities

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

Deepening merchants' partnership & drive technology adoption

Paytm's merchants are integral to Paytm's ecosystem. It plans to continue to expand the merchant network across cities and towns in India while also deepening the partnerships with existing merchants. Paytm will continue to expand the payment services' offerings for merchants and innovate to offer wider selection of commerce & cloud services. Paytm also intends to continue making access to technology easy and affordable for merchants by identifying merchant problems that can be solved using technology.

Expansion of financial services through deep tech-led solutions

Paytm is focused on rapidly scaling up its financial services business. It focuses 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 the 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. It plans to continue to leverage the partnership with Paytm Payments Bank to expand the suite of banking solutions for consumers and merchants.

Paytm's network effect creates sustainable advantages

Paytm believes that its brand, distribution, insights, technology skills, and the scope of its ecosystem give it an advantage to grow the business through, (i) cost-effective acquisition of consumers and merchants; (ii) reinforce the platform by building higher engagement and stickiness with consumers and merchants; and (iii) build high-monetisation products at low cost of acquisition.

For consumers, certain payment categories like money transfer, in-store payments and bill payments are highly relevant high frequency use cases that are efficient and pre-dominant means of consumer acquisition for them. Products such as Paytm Wallet, Paytm Postpaid, savings account and FASTag help build consumer engagement and stickiness and helps them to retain consumers. Products such as personal loans, credit cards, which its financial institution partners offer on the app, and insurance allow them to monetise users, at little or no incremental cost of acquisition, and at attractive economics.

For merchants, certain payments offerings, such as QR (for in-store) and Payment Gateway (for online) are its primary means to on-board new merchants. Products such as Soundbox and POS devices and Paytm Business Payments, increases their engagement and retention on its ecosystem with attractive monetisation characteristics in many cases. Products such as merchant lending, which its financial institution partners offer on the app, advertising and cloud, offered through the ecosystem, allow them to monetise the merchants, at little or no incremental cost of acquisition, and at attractive economics.

Key risks and concerns

Extremely competitive markets

Paytm compete in markets characterised by vigorous competition, changing technology, changing merchant and consumer needs, evolving industry standards, and frequent introductions of new products and services. Further, within their industry, there are low barriers to entry and the cost of switching between offerings is low. Customers may have a propensity to shift to the lowest-cost provider and could use more than one platform. Increased competition could result in, among other things, a reduction of the revenue they generate from the use of their platforms, the number of participants on their platform, the frequency of use of their platforms.

Failure to attract merchants & grow relationships can adversely affect business

Paytm's growth to date has been partially driven by the growth of their merchants' businesses and the resulting growth in GMV. Paytm derives its revenue primarily from the fees earned from merchants for the payments, commerce and cloud, and financial services they provide through their platforms. Should the rate of growth of their merchants' business slow or decline, this could have an adverse effect on volumes processed and therefore an adverse effect on Paytm's financial condition, cash flows and results of operations.

Failure to strengthen network effects could impact business

Paytm's ecosystem has multiple, unique self-reinforcing flywheels, which drive continuous growth of consumers and merchants on their ecosystem. Paytm's consumers and merchants, interact with each other on their ecosystem to create very strong network effects which drives their growth further.

Dependency on payment services for majority of revenue

Paytm derives a majority of its revenue from transaction fees that they collect from merchants for their payment services. In FY19, FY20, FY21, and in Q1FY22, revenue from payment and financial services accounted for 52.5%, 58.1%, 75.3%, 78.0% and 77.4% of its revenue from 46 operations, respectively. Failure to broaden the scope of payments services that are attractive may inhibit the growth of business, as well as increase the vulnerability of core payments business to competitors.

Experienced negative cash flows in prior years

Paytm had negative cash flows from operating activities for FY19, FY20 and FY21, primarily due to operating losses and on account of additional working capital requirement. Any negative cash flows in the future could adversely affect the results of operations and financial condition.

Exhibit 12: Consolidated cash flows for Paytm

Particulars (₹ crore)	FY19	FY20	FY21	Q1FY22
Net cash inflow/(outflow) from operating activities	-4475.9	-2376.6	-2082.5	330.7
Net cash inflow/(outflow) from investing activities	1911.0	-1996.3	1929.8	-145.9
Net cash inflow/(outflow) from financing activities	2110.5	5159.9	-222.1	415.3

Source: RHP, ICICI Direct Research

Financial Summary

Exhibit 13: Profit & Loss Statement				
	(₹ crore)			
Particulars (in ₹ crore)	FY19	FY20	FY21	Q1FY22
Income				
Revenue From Operations	3,232.0	3,280.8	2,802.4	890.8
Other income	347.7	259.9	384.4	57.2
Total income	3,579.7	3,540.7	3,186.8	948.0
Expenses				
Payment processing charges	2,257.4	2,265.9	1,916.8	526.5
Marketing and promotional expenses	3,408.3	1,397.1	532.5	137.7
Employee benefits expense	856.2	1,119.3	1,184.9	350.7
Software, cloud and data centre expenses	309.6	360.3	349.8	105.8
Other expenses	766.6	772.6	585.7	141.0
Total expenses	7,598.1	5,915.2	4,569.7	1,261.7
EBITDA	-4,018.4	-2,374.5	-1,382.9	-313.7
Finance Cost	34.2	48.5	34.8	9.7
Depreciation and amortisation expense	111.6	174.5	178.5	40.9
PBT	-4,164.2	-2,597.5	-1,596.2	-364.3
Share of restated profit / (loss) of associates / joint ventures	14.6	-56.0	-74.0	-12.1
Exceptional items	-87.8	-304.7	-28.1	-2.4
Tax	-6.5	-15.8	2.7	3.1
PAT	-4,230.9	-2,942.4	-1,701.0	-381.9

Source: RHP, ICICI Direct Research

Exhibit 14: Balance Sheet				
	(₹ crore)			
Particulars (in ₹ crore)	FY19	FY20	FY21	Q1FY22
Cash, Cash equivalents and Bank	461.3	540.2	2,876.4	2,498.0
Investments	2,849.2	3,740.0	413.0	888.4
Loans	276.4	24.2	161.1	144.2
Trade Receivables	454.4	493.2	471.3	534.9
Fixed assets, CWIP and intangible	896.7	608.2	514.9	530.4
Other current assets	2,980.9	2,188.7	3,743.8	3,687.1
Other non-current assets	847.9	2,708.6	970.8	1,176.0
Total	8,766.8	10,303.1	9,151.3	9,459.0
Share Capital	57.5	60.4	60.5	60.5
Other equity	5,753.6	8,030.8	6,455.7	6,185.0
Total Equity	5,811.1	8,091.2	6,516.2	6,245.5
Borrowings	696.2	208.7	544.9	476.0
Lease Liabilities	236.1	219.4	67.1	90.5
Trade Payables	736.0	611.6	605.2	569.7
Contract Liabilities	352.9	660.4	570.0	560.0
Other liabilities	934.5	511.8	847.9	1,517.3
Total	8,766.8	10,303.1	9,151.3	9,459.0

Source: RHP, ICICI Direct Research

Exhibit 15: Key Ratios				
Particulars (in ₹ crore)	FY19	FY20	FY21	Q1FY22
Net Worth	5,724.9	8,105.2	6,534.8	6,265.8
GMV	2,29,200.0	3,03,200.0	4,03,300.0	1,46,900.0
GMV growth (%)	95.9	32.3	33.0	110.6
Return Ratios				
Return on net worth (%)	-73.0	-35.1	-26.0	-6.1
RoA%	-48.3	-28.6	-18.6	-4.0
NAV (₹)	100.0	135.0	108.0	226.0
Adjusted EBITDA	-4,211.5	-2,468.3	-1,654.8	-331.9

Source: RHP, ICICI Direct Research

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