

## One 97 Communications Limited (Paytm)

Incorporated in 2000, One 97 Communications Ltd is India's leading digital ecosystem for consumers as well as merchants. In 2009, the company launched the first digital mobile payment platform, "Paytm App" to offer cashless payment services to customers and now, it became India's largest payment platform and the most valuable payments brand. It offers 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. Its software and cloud services allows large, medium and small merchants to improve their business operations and access important financial tools such as banking, wealth and credit facilities.

**Positives:** (a) India's leading digital payment service platform. (b) Strong brand identity with a brand value of USD6.3 billion. (c) Huge customer base with 333 million total customers, 114 million annual transacting users, and 21 million registered merchants. (d) Paytm Super-app to access a wide range of digital payment services over mobile phones. (e) Will be one of the biggest beneficiaries of 5x growth in mobile payments to USD 3,065bn between FY2021-FY2026.

**Investment concerns:** (a) Increase in payment processing charges to financial institutions and card networks. (b) Failure by Paytm Payments Bank to support services. (c) Unable to grow relationships, increase transaction volume, and attract new merchants to ecosystem. (d) History of net losses and negative cash flows in prior years.

**Outlook & Valuation:** At the upper end of the price band, Paytm is valued at 49.7x its FY21 revenues. While valuations may appear to be expensive, Paytm has become synonymous with digital payments through mobile and is the market leader in the mobile payment space. Paytm is well positioned to benefit from the exponential 5x growth in mobile payments between FY2021 – FY2026 and hence believe that the valuations are justified. We recommend investors to SUBSCRIBE to the issue.

### Key Finances

Y/E March (₹ cr)	FY2019	FY2020	FY2021
<b>Net Sales</b>	3,232	3,281	2,802
% chg	-	1.5	-14.6
<b>Net Profit</b>	-4,231	-2,942	-1,701
% chg	-	-30.5	-42.2
EBITDA (%)	-135.1	-80.3	-63.1
<b>EPS (Rs)</b>	(73.6)	(48.7)	(28.1)
P/E (x)	(29.2)	(44.1)	(76.5)
P/BV (x)	21.6	16.0	19.9
ROE (%)	(73.9)	(36.3)	(26.0)
ROCE (%)	(66.4)	(31.8)	(25.8)
EV/EBITDA	(28.4)	(49.2)	(73.6)
EV/Sales	38.4	39.5	46.4

Source: Company, Angel Research

## SUBSCRIBE

Issue Open: Nov 08, 2021  
 Issue Close: Nov 10, 2021

### Issue Details

Face Value: ₹1

Present Eq. Paid up Capital: ₹60.9 cr

Offer for Sale: ₹10,000 cr

Fresh issue: ₹8,300 cr

Post Eq. Paid up Capital: ₹64.8cr

Issue size (amount): ₹18,300 cr

Price Band: ₹2080-2150

Lot Size: 6 shares and in multiple thereafter

Post-issue mkt. cap: \* ₹1,34,841 cr - \*\* ₹1,39,379 cr

Public (Founder, Investor & other Sh) Pre-Issue: 71.3%

Public (Founder, Investor & other Sh) Post-Issue: 59.9%

\*Calculated on lower price band

\*\* Calculated on upper price band

### Book Building

QIBs	75% of issue
Non-Institutional	15% of issue
Retail	10% of issue

### Post Issue Shareholding Pattern

Public (Founder, Investor & other Sh)	59.9%
Public (Other)	40.1%

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## 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. The company launched Paytm in 2009, as a “mobile-first” digital payments platform to enable cashless payments. 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.

## Issue details

The issue comprises of offer for sale of upto ₹10,000 crore and Fresh issue of ₹8,300Cr in the price band of ₹2080-2150.

### Pre and post IPO shareholding pattern

No of shares	(Pre-issue)	%	(Post-issue)	%
Public (Founder, Investor & other Sh)	434,511,102	71.3	387,999,474	59.9
Public (Other)	175,157,906	28.7	260,274,185	40.1
<b>Total</b>	<b>609,669,008</b>	<b>100.0</b>	<b>648,273,659</b>	<b>100.0</b>

Source: Company, Angel Research & RHP.

## Objectives of the Offer

- 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 - ₹ 4,300 Crores.
- Investing in new business initiatives, acquisitions and strategic partnerships - ₹ 2,000 Crores.
- General corporate purpose.

## Key Management Personnel

**Mr. Vijay Shekhar Sharma** is the Managing Director and Chief Executive Officer of the Company and the Chairman of Board. Mr. Sharma is the founder of the Company and oversees the Company's key strategic efforts including engineering, design and marketing.

**Mr. Munish Varma** is a Non-Executive Director of Company and a nominee of SVF on Board. He currently serves as a managing partner at SoftBank Investment Advisers. He was also associated with Deutsche Bank AG.

**Mr. Ravi Chandra Adusumalli** is a Non-Executive Director of the Company and a nominee of SAIF and Elevation Capital on Board. He holds a bachelor’s degree in economics and government from Cornell University. He is currently the managing partner of Elevation Capital

**Exhibit 1: Consolidated Profit & Loss Statement**

Y/E March (₹ cr)	FY2019	FY2020	FY2021	Q1FY2022
<b>Total operating income</b>	3,232.0	3,280.8	2,802.4	890.8
% chg	-	1.5	-14.6	61.6
<b>Total Expenditure</b>	7,598.1	5,915.2	4,569.7	1,261.7
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 expenses	309.6	360.3	349.8	105.8
Other expenses	766.6	772.6	585.7	141.0
<b>EBITDA</b>	-4,366.1	-2,634.4	-1,767.3	-370.9
% chg	-	-39.7	-32.9	11.9
(% of Net Sales)	-135.1	-80.3	-63.1	-41.6
Depreciation & Amortisation	111.6	174.5	178.5	40.9
<b>EBIT</b>	-4,477.7	-2,808.9	-1,945.8	-411.8
% chg	-	-37.3	-30.7	10.7
(% of Net Sales)	-138.5	-85.6	-69.4	-46.2
Finance costs	34.2	48.5	34.8	9.7
Other Income- Gen	347.7	259.9	384.4	57.2
Other income(from joint venture)	14.6	-56.0	-74.0	-12.1
(% of Sales)	0.5	-1.7	-2.6	-1.4
<b>Recurring PBT</b>	-4,149.6	-2,653.5	-1,670.2	-376.4
% chg	-	-36.1	-37.1	34.2
Exceptional item	-82.5	-304.7	-28.1	-2.4
Tax	-6.5	-15.8	2.7	3.1
Loss frm discontinuation	-5.3	-	-	-
<b>PAT (reported)</b>	-4,230.9	-2,942.4	-1,701.0	-381.9
% chg	-	-30.5	-42.2	34.3
(% of Net Sales)	-130.9	-89.7	-60.7	-42.9
<b>Basic &amp; Fully Diluted EPS (Rs)</b>	-73.6	-48.7	-28.1	

Source: Company, Angel Research

**Exhibit 2: Consolidated Balance Sheet**

Y/E March (₹ cr)	FY2019	FY2020	FY2021	Q1FY2022
<b>SOURCES OF FUNDS</b>				
Equity Share Capital	57.5	60.4	60.5	60.5
Other equity (Retained Earning)	5,667.4	8,044.8	6,474.3	6,205.3
<b>Shareholders' Funds</b>	<b>5,724.9</b>	<b>8,105.2</b>	<b>6,534.8</b>	<b>6,265.8</b>
<b>Non-Cont. Interest</b>	<b>86.2</b>	<b>-14.0</b>	<b>-18.6</b>	<b>-20.3</b>
<b>Total Loans</b>	<b>696.2</b>	<b>208.7</b>	<b>544.9</b>	<b>476.0</b>
Other liabilities	233.8	545.9	479.9	476.6
<b>Total Liabilities</b>	<b>6,741.1</b>	<b>8,845.8</b>	<b>7,541.0</b>	<b>7,198.1</b>
<b>APPLICATION OF FUNDS</b>				
Property, plant and equipment	199.9	261.6	299.2	290.7
Right-of-use-assets	274.8	267.4	128.3	157.7
Capital work-in-progress	51.3	13.1	20.8	18.9
Goodwill	293.0	46.7	46.7	44.3
Other intangible assets	73.4	17.8	17.1	17.6
Intangible assets under development	4.3	1.6	2.8	1.2
Investment in joint ventures	46.0	76.2	-	-
Investment in associates	200.2	246.8	231.7	232.9
Current Assets	6,670.9	6,435.7	7,399.8	7,415.7
Investments	2,497.9	3,189.4	147.2	623.0
Trade receivables	454.4	493.2	471.3	534.9
Cash and cash equivalents	325.5	423.2	546.8	650.4
Bank balances other than CCE	135.8	117.0	2,329.6	1,847.6
Loans	276.4	24.2	161.1	72.7
Other financial assets	1,567.2	874.5	2,338.6	2,527.4
Other current assets	1,413.7	1,314.2	1,405.2	1,159.7
Current Liability	2,025.7	1,457.3	1,610.3	2,260.9
<b>Net Current Assets</b>	<b>4,645.2</b>	<b>4,978.4</b>	<b>5,789.5</b>	<b>5,154.8</b>
Other Non-Current Asset	953.0	2,936.2	1,004.9	1,280.0
<b>Total Assets</b>	<b>6,741.1</b>	<b>8,845.8</b>	<b>7,541.0</b>	<b>7,198.1</b>

Source: Company, Angel Research

**Exhibit 3: Consolidated Cash flows**

Y/E March (₹cr)	FY2019	FY2020	FY2021 Q1	FY2022
Operating profit before working capital changes	-4,160.1	-2,356.9	-1,579.4	-313.9
Net changes in working capital	-132.3	6.8	-690.2	661.7
Cash generated from operations	-4,292.4	-2,350.1	-2,269.6	347.8
Direct taxes paid (net of refunds)	-183.5	-26.5	187.1	-17.1
<b>Net cash flow operating activities</b>	<b>-4,475.9</b>	<b>-2,376.6</b>	<b>-2,082.5</b>	<b>330.7</b>
Purchase of property, plant and equipment,	-177.3	-190.7	-192.7	-40.1
Proceeds from property, plant and equipment	2.4	4.1	5.6	1.2
Others	2,085.9	-1,809.7	2,116.9	-107.0
<b>Cash Flow from Investing</b>	<b>1,911.0</b>	<b>-1,996.3</b>	<b>1,929.8</b>	<b>-145.9</b>
Proceeds from issue of shares	2,189.3	5,054.0	10.7	1.5
Share issue expenses	-2.4	-14.0	-	-
Share application (pending allotment)	-	*	0.2	0.2
Acquisition of non-controlling interests	-36.9	-8.0	-6.3	-
Repayment of borrowings	-3.1	-	-	-
Others	-36.4	127.9	-226.7	413.6
<b>Cash Flow from Financing</b>	<b>2,110.5</b>	<b>5,159.9</b>	<b>-222.1</b>	<b>415.3</b>
Inc./ (Dec.) in Cash	-454.4	787.0	-374.8	600.1
<b>Opening Cash balances</b>	<b>89.7</b>	<b>-370.1</b>	<b>416.2</b>	<b>45.4</b>
<b>Exchange effect</b>	<b>-5.4</b>	<b>-0.7</b>	<b>4.0</b>	<b>4.6</b>
<b>Closing Cash balances</b>	<b>-370.1</b>	<b>416.2</b>	<b>45.4</b>	<b>650.1</b>

Source: Company, Angel Research

**Key Ratios**

Y/E March	FY2019	FY2020	FY2021
<b>Valuation Ratio (x)</b>			
P/E (on FDEPS)	(29.2)	(44.1)	(76.5)
P/CEPS	(30.0)	(46.9)	(85.4)
P/BV	21.6	16.0	19.9
EV/Sales	38.4	39.5	46.4
EV/EBITDA	(28.4)	(49.2)	(73.6)
<b>Per Share Data (Rs)</b>			
EPS (Basic)	(73.6)	(48.7)	(28.1)
EPS (fully diluted)	(73.6)	(48.7)	(28.1)
Cash EPS	(71.6)	(45.8)	(25.2)
Book Value	99.6	134.2	108.0
<b>Returns (%)</b>			
ROE	(73.9)	(36.3)	(26.0)
ROCE	(66.4)	(31.8)	(25.8)
<b>Turnover ratios (x)</b>			
Receivables (days)	51.3	54.9	61.4
Inventory (days)	-	-	-
Payables (days)	83.1	68.0	78.8
Working capital cycle (days)	(31.8)	(13.2)	(17.4)

Source: Company, Angel Research

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1.Financial interest of research analyst or Angel or his Associate or his relative	No
2.Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3.Served as an officer, director or employee of the company covered under Research	No
4.Broking relationship with company covered under Research	No

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<b>Ratings (Based on expected returns over 12 months investment period):</b>	Buy (> 15%)	Accumulate (5% to 15%)	Neutral (-5 to 5%)
		Reduce (-5% to -15%)	Sell (< -15%)
		Hold (Fresh purchase not recommended)	