International Journal for Multidisciplinary Research (IJFMR)
E-ISSN: 2582-2160 ● Website: www.ijfmr.com ● Email: editor@ijfmr.com

Paytm IPO: Unravelling the Behemoth's Downfall

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Abstract:
Madhur Deora, the Group Chief Financial Officer at Paytm's parent company, One 97 Communications, made a striking statement, "A higher valuation could have been achieved but we decided to price it at a level where everyone makes money." Paytm had embarked on an ambitious journey to raise over ₹18,000 crores ($2.2 billion) through its initial public offering (IPO) filed in July 2021. This IPO marked a significant moment in the stock market, drawing global investors' attention. Notably, it stands as the largest IPO in the history of India, surpassing Coal India's previous record of ₹15,000 crores.

Keywords: Paytm IPO, failure, reasons

Initially issued at Rs 2,150, the stock took a dip when it was listed at Rs 1,950 and reached a high of Rs 1,955, only to experience a relentless decline thereafter. The stock's closing value at Rs 944.50 reflects a staggering drop of more than half its initial price. Mr. Deora's assertion of setting a price for everyone to profit from now seems ironic.
Paytm's IPO, despite being the largest in India, failed to garner the same enthusiasm as other unicorn startups, which are valued at over a billion dollars. This raises critical questions about what went wrong with Paytm. Was the stock grossly overvalued during the initial offering? How did so many investors become convinced that Paytm was a guaranteed success? What justified such a high valuation for a company that continues to report losses?

Fintech Revolution in India:
The tech sector's growth has blurred the lines between industries, effectively transforming every company into a tech-centric one. In this context, the financial sector is one of the most rapidly evolving, characterized by automation and government support, particularly in countries like India. The Indian government's promotion of digital payments, especially after demonetization, has provided a significant boost to online payment companies, unified payment methods (UPI), and similar platforms. India's position as the world's second-most populous country, following China, which has already experienced its fintech revolution, further solidifies India as the next investment hotspot.
Projections indicate a significant rise in digital payments by up to 5% over the next five years, with digital commerce expected to grow by approximately 3.3%. These factors collectively position India as an attractive destination for investors, whether domestic or foreign.

Paytm's Growth Catalysts:

Paytm's business received a substantial boost, thanks to the digital revolution brought about by Jio and the government's push for digital payments post-demonetization. The company's slogan, "Paytm karo," became a household phrase during this period. With the government's support and evolving consumer preferences, Paytm's growth seemed unstoppable. However, the IPO's aftermath has cast doubt on the sustainability of this remarkable growth story.

Paytm, a prominent fintech startup in India, had its inception in August 2010, courtesy of Vijay Shekhar Sharma. This innovative company initially set out to revolutionize mobile payments, e-wallet services, and business solutions. Over the years, Paytm underwent significant transformations, evolving into a marketplace and adopting a virtual banking model, making it a pioneer in the cashback business model.

The journey began as a platform for prepaid mobile and DTH recharges and subsequently expanded to include services like data card, postpaid mobile, and landline bill payments in 2013. By January 2014, Paytm introduced the Paytm wallet, which quickly gained popularity. It soon found its place as a payment option for major entities like the Indian Railways and Uber.

In 2015, Paytm diversified its offerings by including services such as educational fee payments, metro card recharges, and utility bill payments covering electricity, gas, and water. It also ventured into payment gateway services for the Indian Railways.

The year 2016 marked further expansion as Paytm introduced ticket bookings for movies, events, and amusement parks, along with flight ticket reservations and the introduction of Paytm QR codes. Later that year, rail bookings and gift vouchers were also added to the array of services. This period witnessed remarkable growth, with Paytm's registered user base soaring from 11.8 million in August 2014 to an impressive 104 million by August 2015. Additionally, Paytm's travel business achieved substantial success, with an annualized Gross Merchandise Value (GMV) run rate exceeding $500 million and two million tickets booked each month.

In 2017, Paytm achieved a significant milestone by becoming India's first payment application to surpass 100 million app downloads. During this year, the company introduced Paytm Gold, allowing users to buy even tiny amounts of pure gold online. It was also the year when Paytm launched the Paytm Payments Bank and 'Inbox,' a messaging platform that facilitates in-chat payments and offers various other features.

Moving into 2018, Paytm continued its innovations by enabling merchants to accept Paytm UPI and card payments directly into their bank accounts at zero transaction fees. The introduction of the 'Paytm for Business' app allowed merchants to effortlessly track payments and daily settlements, expanding Paytm's consumer base to over seven million by March 2018.

In May 2019, Paytm forged a strategic partnership with Citibank to unveil credit cards, further enhancing its range of financial services. The Paytm app has become an integral part of people's lives, offering cashless transactions at retail stores, mobile top-ups, online money transfers, bill payments, digital banking services, ticket purchases, online gaming, insurance acquisition, and investment options. Meanwhile, merchants have leveraged the platform for advertising, online payment solutions, product offerings, and customer loyalty programs. This multifaceted approach has solidified Paytm's position as a leading player in India's fintech landscape.

Financial Status of Paytm: An In-depth Analysis

Paytm, a pioneering startup in the fintech sector, has had a history of losses for an extended period. The company struggled to turn a profit, with losses amounting to approximately 4,000 crore during the fiscal year 2019. These losses gradually reduced to 3,000 crore in FY 2020 and later increased to 7,000 crore.

Despite the ongoing losses, Paytm has managed to maintain a staggering valuation of over 16 billion dollars and has successfully attracted significant investments from prominent Venture Capital firms and asset management companies. The question arises: Why is a loss-making company in such high demand? The answer lies in the unique dynamics of startups.

Startups like Paytm, while initially loss-making, prioritize customer acquisition and market share expansion over immediate profitability. The overarching strategy involves capturing a substantial share of the market and only then transitioning to monetization. This approach, often referred to as "growth hacking," is a common model for many successful startups. By doing so, they aim to establish a strong presence and expedite the process of building a robust, profitable business.

Under the leadership of Vijay Shekhar Sharma, Paytm has witnessed a significant rise in its expenses, particularly during the third quarter of the fiscal year 2022. The company's total expenditure surged by 44.8% compared to the previous quarter, reaching INR 2,317.4 Crore. In the second quarter of FY22, Paytm's expenses amounted to INR 1,599 Crore, while in the third quarter of FY21, it stood at INR 1,348 Crore.

One noteworthy expense component is employee benefits, encompassing wages, gratuity, and ESOP expenses. In the most recent quarter, Paytm allocated INR 831.3 Crore to this category. This represents a remarkable two-fold increase compared to the preceding quarter when the expenditure was INR 386.5 Crore. Furthermore, it is a 2.4-fold surge compared to INR 337 Crore incurred during the third quarter of FY21.

The financial report for the third quarter of FY22 reflects a loss of INR 778.5 Crore, signifying a substantial 64% increase from the INR 473.5 Crore loss recorded in the second quarter of FY22. This loss also exhibits a 47% growth from the INR 535.5 Crore loss incurred during the same quarter of the previous fiscal year.

Summary of financial Information (Restated Consolidated):

Particulars	**For the year/period ended (₹ in million)**				
	30-Jun-21	**30-Jun-20**	**31-Mar-21**	**31-Mar-20**	**31-Mar-19**
Total Assets	94,590	102,777	91,513	103,031	**87,668**
Total Revenue	9,480	6,494	31,868	35,407	**35,797**
Profit After Tax	**(3,819)**	**(2,844)**	**(17,010)**	**(29,424)**	**(42,309)**

Paytm's Initial Public Offering (IPO):

An Initial Public Offering (IPO) is the process through which a company offers its shares to the general public, including retail and institutional investors, for the first time. It represents a pivotal moment when a company opts to raise capital from the public, redirecting these funds toward business expansion and growth. This contrasts with raising additional funds through subsequent rounds of private funding. In Paytm's case, their IPO in November 2021 was a significant move, as it aimed to secure Rs 18,300 crore.

The IPO consisted of two main components: a fresh issue of shares, totaling over Rs 8,000 crore, and an offer for sale of shares worth Rs 10,000 crore from existing shareholders. Notably, Paytm adjusted the face value of its shares from Rs 10 each to Rs 1 each before the IPO. Consequently, the IPO price per share at Rs 2,150 was equivalent to Rs 21,500 based on the original face value of Rs 10 per share. This was a groundbreaking move for a startup with a history of losses. The IPO's valuation at the time stood at approximately Rs 1.5 lakh crores.

Paytm's Red Herring Prospectus (RHP), a legal document for all new listing companies, indicated that the company expected to continue incurring losses for some years before turning profitable. The IPO opened on November 8th, 2021, and the closing date for applications was November 10th. The face value of each share was one rupee, indicating that the listing would occur at a premium.Before the IPO, the startup had already raised Rs 8,000 crore in its anchor round. This substantial IPO raised Rs 18,300 crore, attracting investments from prominent sovereign wealth funds and financial institutions worldwide, including Canada's CPPIB, Singapore's GIC, Alkeon Capital, BlackRock, and the Abu Dhabi Investment Authority.

However, the Paytm IPO had mixed subscription levels. It was subscribed only 1.89 times on November 10, 2021. In the retail category, the subscription rate was 1.66, meaning that for every 100 shares available, investors bid for 166 shares. For non-institutional investors, mainly high-net-worth individuals (HNIs) who bid for shares worth more than Rs 2 lakh, the subscription rate was just 0.24, signifying that for every 100 shares offered, these investors bid for only 24 shares. In the Qualified Institutional Buyer (QIB) category, the subscription rate was 2.79. These numbers suggested a limited interest in the IPO or a substantial IPO size that absorbed the overall demand.

It's common for retail investors and HNIs to anticipate selling their allocated shares on the listing day to make a profit. If an IPO is significantly oversubscribed, investors who missed out on allocations often seek to buy shares, driving up the stock price. In Paytm's case, the retail portion was only oversubscribed, and HNIs showed minimal interest in the stock. Consequently, there were insufficient buyers for those looking to sell their IPO allocations on the listing day, resulting in a drop in the stock price.

Investors who participated in Paytm's IPO were allocated shares at Rs 2,150 per share. However, on the day of listing, the stock price fell and closed at Rs 1,564.2, reflecting a 27% decline from the allocation price. Subsequently, Paytm shares experienced a further 10.35% decline to Rs 1,402 compared to the previous close of Rs 1,564.15 on BSE.

As a result, the company's market capitalization, which initially exceeded Rs 1 lakh crore on the listing day, decreased to about Rs 93,490 crore on the first day of trading. This abrupt shift transformed what was perceived as a guaranteed IPO success into one fraught with imminent challenges. This raised concerns about the circumstances surrounding Paytm's IPO and how similar scenarios could be prevented in the future, leading many other prospective companies to delay their IPOs.

Paytm's story failed to capture investors' attention in the same way that Zomato, Nykaa, and PolicyBazaar did. Zomato's IPO was oversubscribed more than 38 times, indicating that for every share available, there were 38 bids. The retail portion of the IPO was oversubscribed 7.5 times. Nykaa saw nearly 82 times oversubscription, with the retail portion being oversubscribed by more than 12 times. PolicyBazaar was oversubscribed nearly 17 times, with the retail portion experiencing more than three times oversubscription. The strong demand extended to HNIs as well, as institutional investors like mutual funds and insurance companies displayed a willingness to acquire these stocks at any cost. This was evident in the oversubscription rates, with Zomato, Nykaa, and PolicyBazaar experiencing oversubscription in the institutional category at 52 times, 91 times, and 25 times, respectively.

Conclusion

Paytm's IPO in November 2021 was a highly anticipated event, aiming to secure significant capital. However, it faced mixed subscription levels, and the stock price experienced a substantial decline on the listing day, raising questions about the circumstances surrounding the IPO. Unlike some other recent IPOs in India, such as Zomato, Nykaa, and PolicyBazaar, which saw strong demand, Paytm's offering did not capture investors' attention in the same way. This incident highlights the importance of assessing market conditions, investor sentiment, and subscription levels before launching an IPO, as the dynamics can greatly impact the stock's performance on the listing day and beyond. It also emphasizes the need for startups to carefully consider their financial positions and investor interest before going public to avoid similar challenges and market downturns.

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2. Explore reputable news sources such as The New York Times, Bloomberg, Reuters, and Financial Times for articles and reports on the Paytm IPO.
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4. Review company filings and documents related to Paytm's IPO from regulatory authorities or the company's official website.
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