Twitter Thread by Anurag Singh



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#PayTmIPO – Long Thread:

There is a new game in town. The rules are “well laid out” by VCs – Report just 3 yr financials, blame flat sales since 2019 on covid, pick consultants to project fancy story, price IPO at 45 times sales, create scarcity of “limited offer” of 12% shares”

12% stake sale ~matches the “principal investment” by VCs. Oh, by the way, get some tranches of funding just before IPO that values your company closer to issue price. It’s like you buying your own house again for 2x price. May not work for you but somehow seems to work for VCs.

Now rope in mutual funds with 75% of this scarce offering (SIP money will go somewhere after all) & leave retail scrambling for 2.5% stake of a brand that is now a “household name”. Get brokerage firms & YouTube advisors to keep pumping story with same broken records from DRHP.

Vola ! You have launched a successful IPO. With principle off the table, you still have 88% ownership to be gradually transferred overtime to domestic mutual funds, riding on retail (other peoples) money.
They say “a fool & his money will always be parted”.

Everyone rewards excellence & those are rare. Internet is about winner takes all, where one or 2 players dominate the entire industry.
But who rewards mediocrity? Well, enter #PaytmIPO. If Infosys & TCS were a bet on excellence, Paytm is a bet on mediocrity. We’ll see how.

Before we get to business model, see the valuation ladder where owners keep valuing their own property & higher rates. But there is a catch here – Paytm seems to have got the last funding in 2019 at $ 16 Bn valuation. On that, the current pricing at $ 20 Bn seems fair, isn’t it?

PAYTM FUNDING PAYTM INVESTORS

DATE	INVESTORS	AMOUNT	ROUND
-	K2 Global	N/A	- Not yet verified
Jan 2014	N/A	N/A	Series A
Jan 2015	Alibaba, Ant Group	$575m	Growth Equity VC
Mar 2015	N/A	€65m	Buyout
Apr 2015	Ant Group	$135m	Growth Equity VC
Sep 2015	Alibaba, Ant Group	$680m	Growth Equity VC
Aug 2016	MediaTek	$60m Valuation: $4.8b	Late VC
Aug 2016	Alibaba, SAIF Partners, Ant Group	$240m Valuation: $4.8b	Late VC
May 2017	SoftBank	$1.4b Valuation: $8.0b	Late VC
Jun 2018	Paytm	$9m	Early VC Not yet verified
Jul 2019*	eBay	N/A	Growth Equity VC
Nov 2019*	Ant Group, SoftBank, Discovery Capital	$1.0b Valuation: $16.0b	Series G

Hmm….it's easy to draw this conclusion unless you notice that this funding came in Nov 2019. Why is this critical? The world didn't know about Covid.
Something tells me that the IPO was planned for 2020. But then Covid stuck in March 2020. No IPO happens in a bear market. Oops!

So here we are. #PaytmIPO asking Rs 18,300 Cr ($ 2.5 Bn) valuing the company at 1.5 lac Cr ($ 20 Bn). That puts Paytm in the league of top 25 cos, well almost.
If Paytm doubles from here, it will be bigger than Axis bank & close to Kotak bank."Super app" bigger than these banks?

Company Name	Last Price	% Chg	52 wk High	52 wk Low	Market Cap (Rs. cr)
Reliance	2,483.85	-0.68	2,750.00	1,830.00	1,628,078.37
TCS	3,492.55	0.25	3,990.00	2,600.00	1,291,912.19
HDFC Bank	1,581.85	-1.55	1,724.30	1,176.55	876,251.45
Infosys	1,702.60	0.28	1,848.25	1,051.00	716,030.33
HUL	2,411.10	-0.26	2,859.10	2,043.80	566,509.95
ICICI Bank	785.75	-1.87	859.70	388.10	545,151.61
HDFC	2,897.70	-0.07	2,947.40	1,907.70	523,964.96
SBI	527.65	1.14	542.20	186.00	470,907.13
Bajaj Finance	7,510.30	0.75	8,020.20	3,417.55	453,317.46
Kotak Mahindra	2,036.30	-1.97	2,252.45	1,519.05	403,816.15
Bharti Airtel	699.00	-1.95	738.79	422.77	390,747.93
Wipro	652.35	-0.08	739.80	332.70	357,544.09
HCL Tech	1,176.55	0.44	1,377.00	800.60	319,276.27
Avenue Supermar	4,720.20	2.71	5,899.90	2,083.00	305,762.61
Asian Paints	3,162.95	1.84	3,504.05	2,070.50	303,389.46
Bajaj Finserv	17,509.65	-0.15	19,319.95	5,514.85	278,644.09
ITC	222.50	-1.37	265.30	163.40	274,155.65
Larsen	1,888.65	3.99	1,912.85	920.50	265,324.97
Maruti Suzuki	7,735.70	-0.72	8,400.00	6,301.20	233,680.07
Axis Bank	750.70	-0.69	866.60	481.80	230,234.55
UltraTechCement	7,891.20	2.35	8,070.60	4,447.40	227,790.96
Titan Company	2,417.65	-1.45	2,678.10	1,154.00	214,635.62
Adani Trans	1,831.70	4.34	1,990.00	280.20	201,452.21
ONGC	151.95	-0.56	172.80	64.15	191,157.34
Sun Pharma	788.00	-3.27	850.00	452.60	189,067.60

You'll say, well #Paytm has potential…..right ? Well, the revenue is all of Rs ~3200 Cr & has stayed stagnant since FY19. Also almost entire loss reduction (Rs 1500 Cr loss in FY'21) comes from reducing promotional expenses. (Remember 2020 planned listing)

Restated Consolidated Statement of Profit and Loss
(Amounts in ₹ million, unless otherwise stated)

	For the year ended March 31, 2021	For the year ended March 31, 2020	For the year ended March 31, 2019
Income			
Revenue from operations			
Payment and financial services	21,092	19,068	16,955
Commerce and cloud services	6,932	11,188	15,365
Other operating revenue	-	2,552	-
Other income	3,844	2,599	3,477
Total income#	**31,868**	**35,407**	**35,797**
#excluding total income from discontinued operation for the year ended March 31, 2021: ₹ Nil (March 31, 2020: ₹ Nil; March 31, 2019 : ₹ 15)			
Expenses			
Payment processing charges	19,168	22,659	22,574
Marketing and promotional expenses	5,325	13,971	34,083
Employee benefits expense	11,849	11,193	8,562
Software, cloud and data centre expenses	3,498	3,603	3,096
Depreciation and amortization expense	1,785	1,745	1,116
Finance costs	348	485	342
Other expenses	5,857	7,726	7,666
Total expenses#	**47,830**	**61,382**	**77,439**
#excluding expenses of discontinued operation for the year ended March 31, 2021: ₹ Nil (March 31, 2020: ₹ Nil; March 31, 2019: ₹ 68)			
Restated loss before share of profit/ (loss) of associates / joint ventures, exceptional items and tax	**(15,962)**	**(25,975)**	**(41,642)**
Share of restated profit / (loss) of associates / joint ventures	(740)	(560)	146
Restated loss before exceptional items and tax from continuing operations	**(16,702)**	**(26,535)**	**(41,496)**
Exceptional items	(281)	(3,047)	(825)
Restated loss before tax from continuing operations	**(16,983)**	**(29,582)**	**(42,321)**

But we need to dig more on revenue sources. #Paytm is largely in 2 clusters – Financial services & eCommerce. Revenues from payments (& fin svcs) grew, albeit at 33% for last 2 yrs whereas “eCommerce & cloud” biz is falling substantially, indicating that this segment is declining

Our Key Financial and Operational Performance Indicators

The following table provides a snapshot of our key financial and operational performance indicators.

		As of and for the FY ended March 31,		
Particulars	**Metric**	**2019**	**2020**	**2021**
GMV	₹ billion	2,292	3,032	4,033
GMV growth	%	95.9%	32.3%	33.0%
Number of loans disbursed	*In thousands*	5	75	2,635
Revenue from operations	₹ million	32,320	32,808	28,024
- Payment and financial services	₹ million	16,955	19,068	21,092
- Commerce and cloud services	₹ million	15,365	11,188	6,932
- Other operating revenue	₹ million	-	2,552	-

What was “eCommerce & cloud” biz? Remember Paytm Mall eCommerce biz which was to take on Flipkart & Amazon? Then there is ticketing biz, again trying to compete with the biggies already established in ticketing. We see new segments tried & folded without significant leadership

Commerce and Cloud Services

For our travel, entertainment and ticketing, and other commerce businesses, we generate revenues by charging merchants a transaction fee, and/or consumers a convenience fee, which is typically linked to a percentage of transaction value. Some of our marketing and promotional expenses, such as a portion of cashbacks, are netted off from our total revenue in certain cases. For software and cloud services, we charge our merchants a subscription fee, and in some instances a fee linked to the volume of activity on our platforms. For our advertising business, we run performance and brand marketing campaigns for merchants, and charge them depending on the scale and type of campaign.

Sometime in 2020, Paytm decided to be a financial super app v/s competing on eCommerce. It earns brokerage fee from banks/NBFC/Insurers for loans, cards, insurance, etc. In a captured space, it is just new entrant. As quoted “financial svcs revenue is small % of our revenue”

Revenue

Payment and Financial Services

We currently derive a majority of our revenue from our payment services. For our payment services, we primarily generate revenues from (i) the transaction fee that we charge our merchants based on a percentage of GMV, (ii) consumer convenience fees that we charge our consumers for certain types of transactions, and, (iii) recurring subscription fees from merchants for certain products and services, such as Paytm Soundbox and POS. The fee percentage that we charge varies by the type of payment instrument used by consumers and the category of merchant. For example, we generally earn larger transaction fees on transactions completed through credit cards and certain Paytm Payment Instruments, than we do on other instruments.

For our financial services, we generate revenue depending on the type of services offered by us and through our financial institution partners on our platforms (i.e. lending, insurance, and wealth management) and within each business, the type of product. Our revenues vary depending on the product, nature of partnership and the level of our involvement in distribution, product-creation and collections. For our lending business that we provide through our financial institution partners, we earn (i) a sourcing fee from our financial institution partners, which is typically earned at the time of disbursal of the loan based on a percentage of the loan amount, and (ii) a collection fee from financial institution partners based on a percentage of the loan amount, for the collection services that we perform and is linked to the amount collected. For distribution of credit cards, we charge our financial institution partners an upfront distribution fee per card issued and a percentage of the total annual spend for the card. We also earn incentives from the card networks for driving adoption of cards. For insurance products, we earn a commission from our insurance partners based on a percentage of total premiums for insurance products sold through our platforms. For our equity broking services, we earn consumer fees, such as upfront account opening fee, transaction fee depending on transaction type and volumes, and an annual subscription fee. In addition, in Paytm Money, we earn float income on funds that our customers keep in their brokerage accounts. Many of our financial services businesses, such as Postpaid 2.0, stock broking and personal loans were launched more recently, in 2020. As a result, revenue from our financial services currently constitute a small percentage of our total revenue.

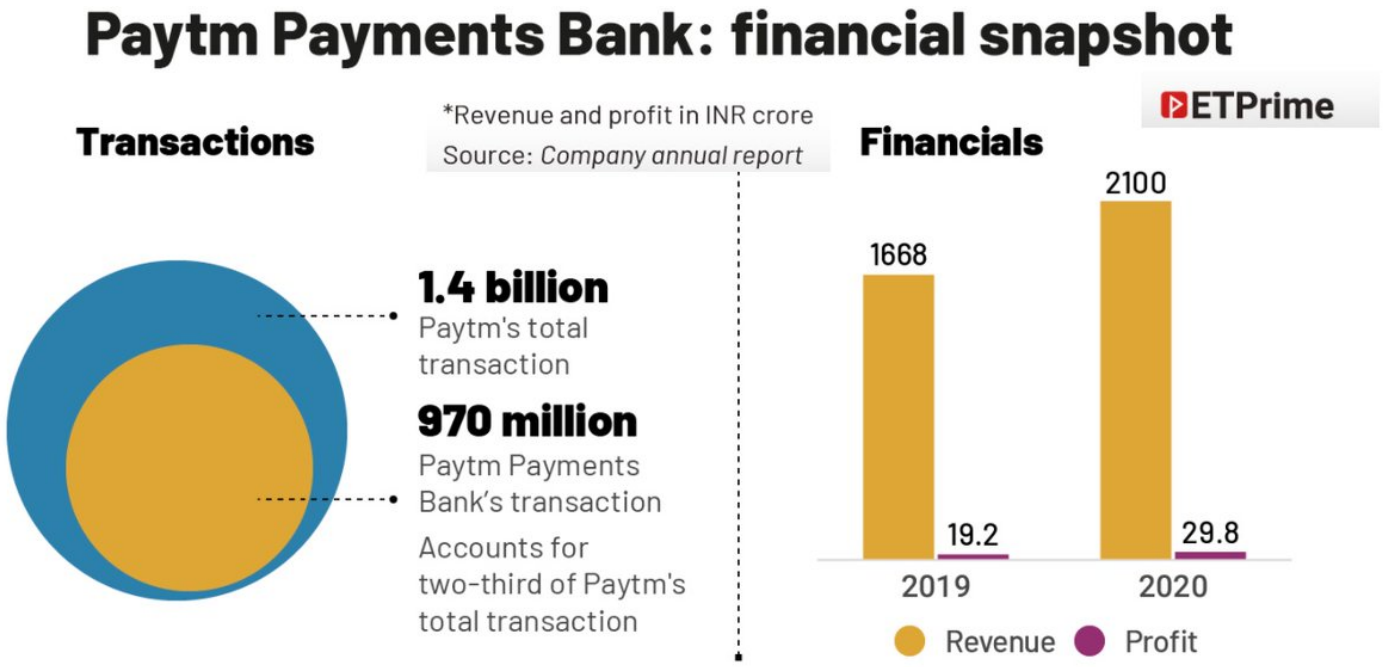
Do you want to pay for yet another shot at diversification in spaces that are crowded, given failed experiments ? How much can an app cross-sell?

While industry is worried with too many stocks trading accounts, Paytm has barely started.What leadership execution do we value here?

We started providing stock broking services in 2020. While the total number of users availing stock broking services has increased and continues to grow, it is currently at less than 1% of our monthly active customer base. We have over 1.3 million consumers in direct mutual fund investments, and have achieved over ₹52 billion in AUM in direct mutual funds, digital gold, and stock broking investments, as on March 31, 2021. We also had 208,000 equity trading accounts as of March 31, 2021.

We are also a registered insurance broker and provide auto, health and life insurance products to our consumers and merchants. We are able to leverage the commerce transactions completed on our apps to provide attached insurance products to our consumers. As of March 31, 2021, we, together with Paytm Insurance Broking Private Limited,had 11.3 million unique insurance customers and had sold 31.5 million cumulative attachment products and insurance policies.

Brings us to the much talked about payments bank. Banks make money largely by lending, but these banks can't lend. So how strong is this entity? Co says ~6 crore accounts. With "deposits" of Rs 3200 Cr that works to Rs 500 per account! Is this where money will be made?



Paytm payment bank makes Rs 2100 Cr topline. 70% transactions in payment bank come from not the bank customers but via Paytm itself.

Look at related party tranx disclosed in DRHP: Paytm pays Rs ~900 Cr revenue to its payment bank, which is owned 51% by promotor VSS. Hmm…okay!

Summary of Related Party Transactions

(₹ in million)

Particulars	March 31, 2021	March 31, 2020	March 31, 2019
Rendering of services to related parties			
Paytm Payments Bank Limited	8,634	8,752	9,277
Paytm First Games Private Limited	204	88	14
Infinity Transoft Solution Private Limited	4	15	-
Eatgood Technologies Private Limited	*	5	-
Socomo Technologies Private Limited	-	-	*
	8,842	**8,860**	**9,291**
Reimbursement of expenses incurred on behalf of related parties			
Paytm Payments Bank Limited	617	945	1,466

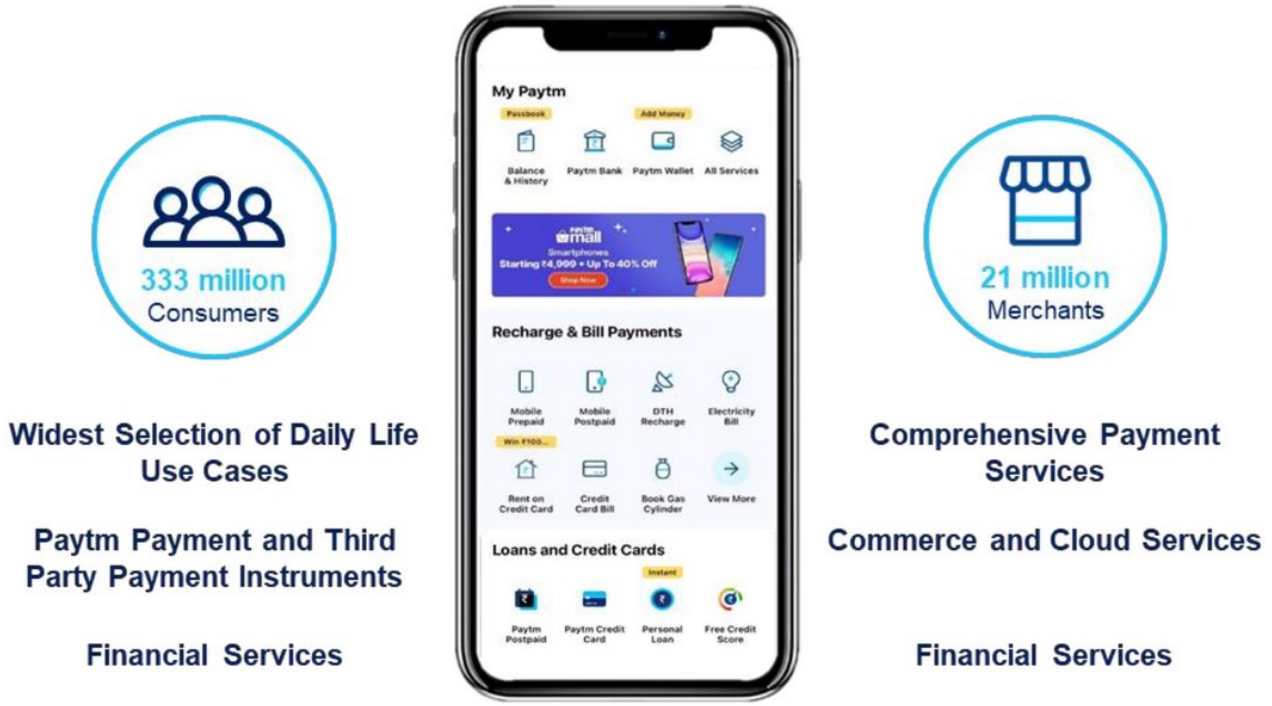
Our Relationship with Paytm Payments Bank

could only be provided in this manner by a banking institution, in collaboration with financial partners. We provide payment gateway, distribution and marketing services to Paytm Payments Bank.

Our shareholding in Paytm Payments Bank is governed by a shareholder agreement. All new business arrangements, or changes to existing business arrangements, between our Company and Paytm Payments Bank are done at arm's length basis, and are subject to approval by our audit committee, our board and our shareholders. Our Founder, who owns 51% in Paytm Payments Bank, is not on our audit committee, and recuses himself for voting on these matters at our board and our shareholder meeting. Further, our Company has a call option on the shares of Paytm Payments Bank held by our Founder, subject to various legal considerations, as described in "***History and Certain Corporate Matters***" on page 205.

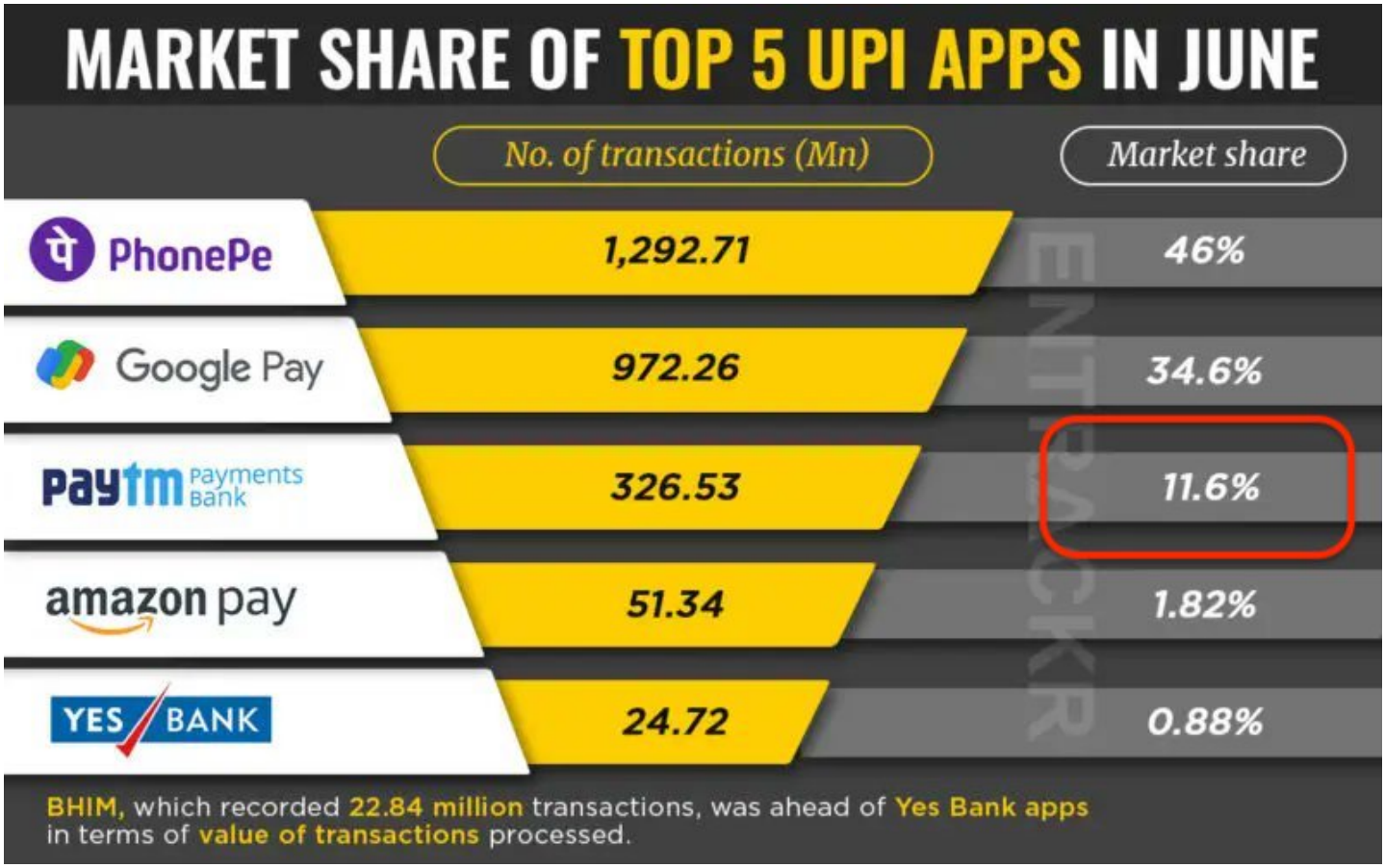
You see why such maze of cross ownership & 38% direct Chinese stake doesn't inspire confidence for banking biz.
No wonder the small bank & insurance licenses are lying with RBI & IRDA for over a year. Post IPO, "Ant fin" stake will fall <25% but is that good to inspire trust?

Finally, let's examine the core of #Paytm on which the super app is built. The payments business that claims 330 Mn "users". However active user number drops to ~50 Mn that has been stagnant.
330 Mn "users" means 33 Cr people have tried Paytm at some point but haven't adopted it



Our ecosystem serves 333 million consumers and over 21 million merchants as of March 31, 2021. Our payments platform is at the core of our ecosystem. Making payments (bill payments, in-store or money transfer) is, in most cases, the first use case for a consumer on Paytm. Leveraging the large scale, reach, and deep and high frequency engagement by consumers and merchants on our payments platform, we have been able to add new payments offerings, as well as expand into commerce and cloud services and financial services. Each of our offerings increases the scope of our ecosystem for consumers and merchants, enhancing the value of our ecosystem.

Is Paytm a household name – yes, of course. When you have 33 Cr users in a country of ~25 Cr households, almost everyone knows you. But only 15% of those are real users. There is no more adoption now. You know what killed it? See graphic – Paytm has just 12% share on UPI tranx.



See the trend below (data by @Tijori1) which clearly indicates that digital payments market which was actually “disrupted” by Paytm is going the UPI way while elite segment is always grabbed by credit cards. A comeback in any of these categories by #Paytm looks very difficult.

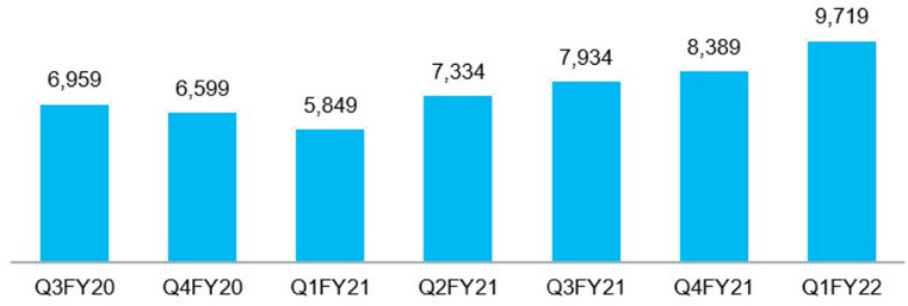
	Monthly Transaction Amt (Crs)				
Transaction Mode	**May '18**	**May'19**	**May'20**	**May'21**	**YoY Growth**
Debit Card	3,11,558	3,52,318	2,44,792	2,46,168	1%
Credit Card	47,631	61,675	32,412	55,033	70%
UPI	40,834	1,52,449	2,18,391	5,47,373	151%

TIJORI

You know what it does to #Paytm business? While DRHP displays some near term rise in spends, real issue is lost in the text below.

Since UPI dominance increased, Paytm is forced to reduce “take rate” it charges merchants (0.64%). Paytm revenues are falling despite rising spends!

Monthly GMV/MTU(1) (₹)



Notes:
1. Quarterly MTU calculated as average of monthly MTU

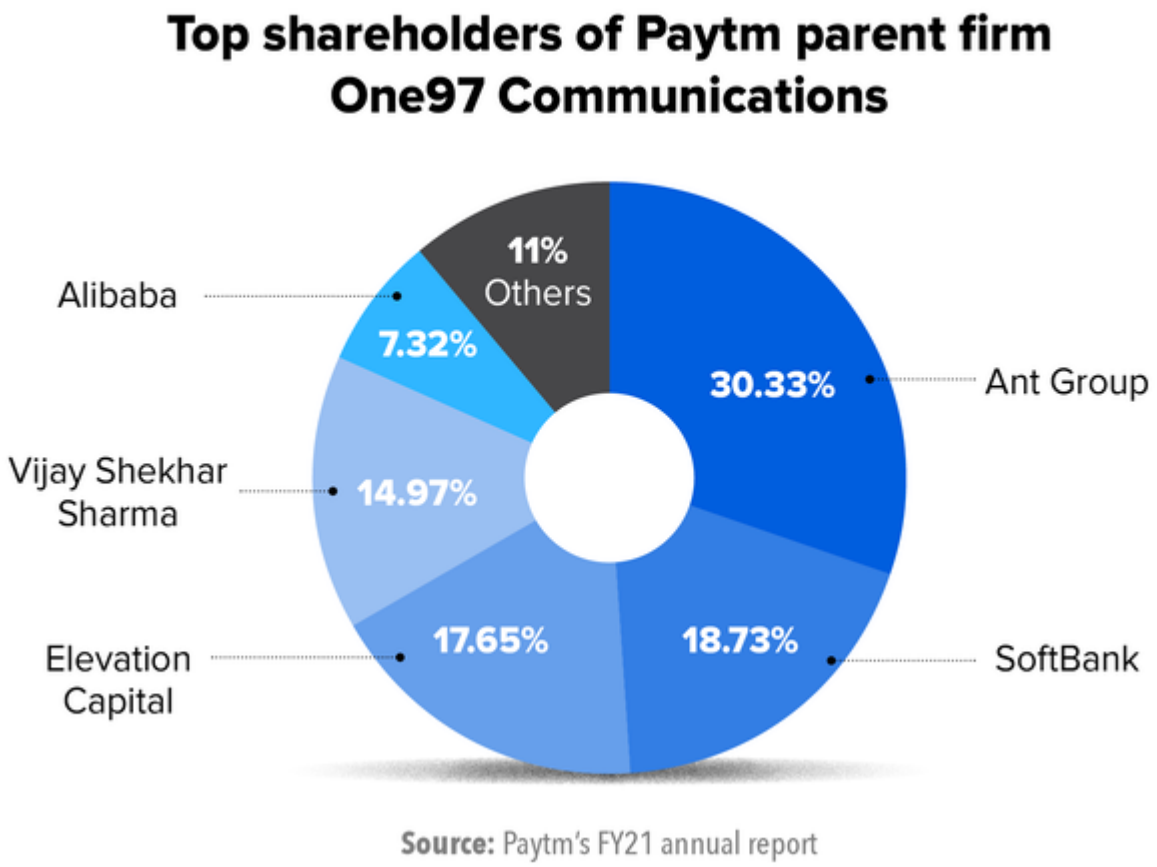
The take rate that we make on our GMV depends on the mix of payment instruments used to process payments on our platform. Some payment instruments, such as credit cards and certain Paytm Payment Instruments like Paytm Wallet, Paytm Postpaid and Paytm FASTag, have a higher transaction fee compared to others while certain payment instruments such as UPI have zero take-rate. Over the last three years, our take rate has declined due to our efforts to reduce take rate for our merchants, and an increase in the share of UPI transaction in our total instrument mix. However, starting in the third quarter of FY 2021, there has been an increase in take rates for certain instruments, as well as steady growth of higher take rate instruments such as credit cards, and Paytm Postpaid. Our take rate for the fourth quarter of FY 2021 was 0.64%.

Want to value the company with all this context? Let's give it a shot. If #PayTmIPO is trying to be #PayPal of India (inspired, to say the least), the comparison is imminent. I've tried some high-level metrics below:

	PayPal	***Paytm***
Active users	377 Mn	50 Mn
User base	50% USA, 50% Global)	100% India
Revenue	$ 24 Bn	$ 0.45 Bn
Gross Margins	48%	40%
Net Margins	20%	Negative (Loss)
Merchants	30 Mn	20 Mn
Market Cap	$ 265 BN	$ 20 BN (asking)
P/E ratio	58	~ 300 plus (assuming 15% margins in future)

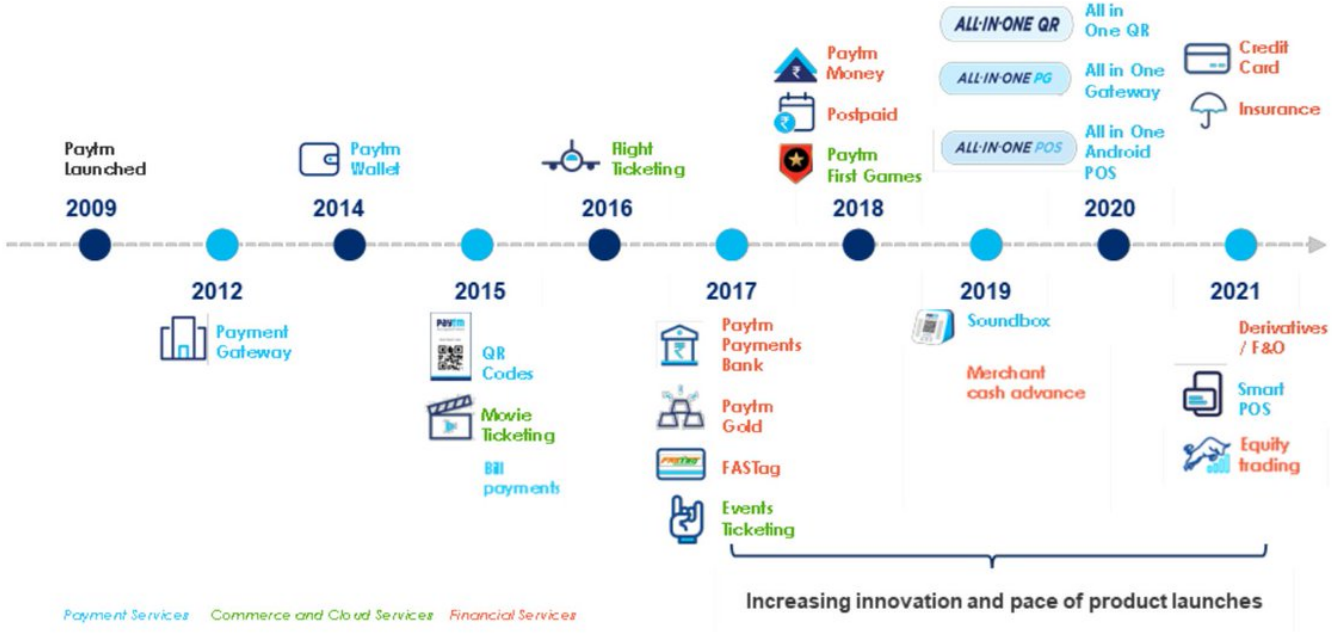
They say, when you buy something, look at "who is selling". TCS listed in 2004 at 24 P/E & yielded returns of 28% CAGR for next 15 yrs. The sellers for #PayTmIPO are Ant Financial (Alibaba) & Softbank (of We Work IPO fiasco), not best known for their financial integrity.

ET tech



Conclusion: Digital businesses are about 1 or 2 winners taking all mkt. I see Paytm losing fast to UPI, GPay, Amazon & WhatsApp pay (likely). I also see an effort to be a super app for other financial brokerage areas where it has no moat & there are leading incumbents already.

Paytm folded fast against Flipkart & Amazon in marketplace. We don't see those buried ventures in the timeline below. Its competence in financial svcs is limited & banking is not easy to disrupt, yet. Financial svcs are all about trust. Would you make a fixed deposit with Paytm?



Amazon & Flipkart inspire excellence,Paytm looks like mediocre also ran in a space dominated by giants. With dreams bigger than its financials, #PaytmIPO is asking valuation at ~65% of Axis bank, ~40% of Kotak & 20% of HDFC bank. If your mutual fund buys this IPO, stop that #SIP