<u>A Case Study – Digital leader's curbed prospectives</u>

Initial Public Offerings or IPOs, are a large part of the financial sector for the investors, economy, and an important way for companies to access funding and grow their businesses. Today we are attempting to understand and compile all the major points that were involved in the Paytm IPO's proceeding.

One 97 Communications ~ Paytm - which stands for *<u>Pay Through Mobile</u>*, was initiated in 2010 as a mobile recharge company. It was set up by Mr. Vijay Shekhar Sharma. This business swiftly grew its offerings to become India's largest digital payments firm. The growth of Paytm was boosted further by the Indian government's demonetisation drive in 2016, which required millions of Indians to switch to digital payment solutions. Considering the sturdy growth, the company planned to raise funds to grow further and they came up with their IPO in November 2021. The company planned to raise a total of Rs 18,300 crore through its IPO, Rs 8300 through a fresh issue (which goes to the company), and Rs 10,000 through an (OFS) Offer For Sale (which goes to the promoters), making it one of the largest IPOs in Indian history.

- IPO price band – Rs. 2080/- to Rs. 2150.
- IPO Date – 8th Nov 2021
- Listing Date- 18th Nov 2021
- Listing price – Rs. 1950/- (NSE), Rs. 1955/- (BSE)
- A brand with a strong presence and a value of US$6.3 billion.
- A sizable clientele that includes 333 million actual customers, 114 million annual executing customers, and 21 million enrolled vendors.

With these details, let us proceed with a systematic review of the collapse of the Paytm's IPO in Indian stock Market. Few of the major points that led to this scenario are listed below –

1. *<u>Modifying the presumable value</u>* - Prior to the IPO, the company reduced the offers' presumable value (Face Value) from Rs. 10 to Rs. 1. As a result, the cost of the IPO at Rs 2,150 per share was equivalent to Rs 21,500 per portion of the anticipated value of Rs 10 per share. This created a red flag for few investors.
2. *<u>Overvaluation</u>* - It is valued at over 16 billion dollars, though Paytm had been a loss-making startup for a long time now. It was not earning at all. The startup had losses of about 4000 crores in FY 2019. That went to 3000 in FY 2020 and then to 7000 crores in 2021.
3. *<u>Approval for IPO launch</u>* - Despite the heavy loss that Paytm (One 97 Communications) suffered, SEBI allowed the company to proceed with an IPO, a decision that led to huge losses for thousands of Paytm shareholders. SEBI faced criticism for not adequately scrutinizing Paytm's valuation and financials before the IPO.
4. *<u>Pricing Issue</u>* – Globally profit-making organizations are exchanging at middle 9 times of future income, whereas Paytm's price band was 49.7- times its FY21 income. This seems like a huge miscalculation considering the company was making more loss than profit.
5. *<u>Multifaceted business model –</u>* A wide array of business's along with Digital payment services include, Business loans, Insurance, Mobile recharge, ticket booking, credit cards so on so forth …. Managing and running all these verticals costed the company. For every dollar contributed or spent on showcasing, the company earns incredibly little money. This business model was not steady.
6. *<u>Social-media Hype-</u>* Despite the overvaluation and pricing factors, there was a huge social-media driven hype as big wigs like Warren Buffet were investing in Paytm led to retailers rushing to subscribe the IPO.
7. *<u>Leadership team exit Paytm –</u>* The days leading to IPO were dramatic at Paytm office as few Senior Executives and Senior management associates quit the company around the time the IPO was to be launched. This led to concerns for the few Fund managers and investors.

8. *Regulatory Concerns-* The red herring prospectus (RHP) of this company said that, it expects to incur losses for more years before it starts making profits. This resulted in the company facing scrutiny from regulators, which means there are questions about how it will look in the future.
9. *Competition from piers –* Paytm was a pioneer in the market when it began operations in 2010. But with time and Demonetisation drive, competition emerged, which overtook Paytm in business applications. Its competitors like PhonePe, Gpay, Mobikwik and most importantly BharatPe made life harder for Paytm. The service Paytm provided was getting outdated fast.
10. *IPO Launch timing and liquidity –* In November 2021, NIFTY and SENSEX were at an all-time high, and all the available liquidity had already been invested in the markets or IPOs. The indices were heading for a correction, and the FII's were playing safe.
11. *Sizing of the IPO –* Considered as one of the biggest IPO's, Paytm raised Rs 18,300 crore, and the market is not interested in such a large posting. Most of the Mutual funds and Hedge funds stayed away from investing in this IPO.

Conclusion:

Paytm IPO can be considered as one of the biggest IPO fails in Indian history. Paytm shares tanked 27% in the opening day session, erasing billions in market value.

This debacle has led to many modifications to our Primary market that includes -

- Increased scrutiny of IPOs by SEBI and other regulatory bodies.
- Delays in IPO launches
- Investors seek more guidance
- Increased emphasis on valuation and company financials.

References:

- Academic databases and search engines like Google
- Paytm IPO saga: A review
- Paytm IPO: Unravelling the Behemoth's Downfall and few more…

- Sanjna TG