Paytm plunge wipes out ₹38,000 crore

Disappointing debut casts shadow over an otherwise red-hot IPO market

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Paytm's high-profile stock market debut got a chilly greeting from investors, who baulked at the payments company's valuation and lack of profits.

The stock's dive sliced ₹38,000 crore of Paytm's IPO valuation, leaving investors facing heavy losses, at least on paper. At the top end of the IPO price band, Paytm was valued at ₹1.39 trillion.

On the BSE, the stock debuted at ₹1,950, a 9% discount to the issue price of ₹2,150. However, it soon turned into a free fall, with the stock plunging 27% in intraday trading as investors turned cautious. The stock closed at ₹1,564.15, the lowest point of the day, resulting in the worst listing-day performance of IPOs of ₹1,000 crore or more.

The disappointing debut of One 97 Communications Ltd, the company that runs the Paytm payments service, casts a shadow over the otherwise red-hot IPO market. The selloff in Paytm's shares shows that investors are becoming more discerning about valuations and the stocks they choose to invest in.

The company's performance could knock off a couple of multiples from the valuations of technology

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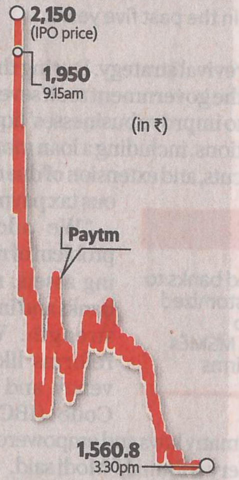
DEEP DIVE

A look at companies that launched initial public offerings with an issue size above ₹1,000 crore and saw big losses on listing day.

Company (listing date)	% loss on listing day
One97 Communications (18 Nov 2021)	27.2
Coffee Day Enterprises (2 Nov 2015)	17.6
Reliance Power (11 Feb 2008)	17.2
ICICI Securities (4 Apr 2018)	14.4
Cairn India (9 Jan 2006)	14.1
UTI Asset Management (12 Oct 2020)	14.0
Kalyan Jewellers India (26 Mar 2021)	13.4
Bharti Infratel (28 Dec 2012)	13.1
Indiabulls Power (30 Oct 2009)	12.8
ICICI Prudential LIC (21 May 2016)	10.9



Source: primedatabase.com, Bloomberg, NSE

SARVESH KUMAR SHARMA/MINT

It's only Day One: Sharma

Tarush Bhalla & Nikhil Patwardhan
BENGALURU/MUMBAI

INTERVIEW

Paytm failed to live up to lofty investor expectations as its shares plunged on market debut after successfully completing what was the largest initial public offering in India so far.

The weak listing has fuelled investor concerns about Paytm's business models marked by intense competition and its ability to turn profitable.

In an interview after the listing,

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Paytm plunges 27% on debut

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IPOs in the near term, said an investment banker, who wasn't part of the Paytm IPO. The person declined to be identified.

Tech peers have, however, made strong debuts recently despite valuation concerns. For instance, Zomato surged 65% on debut, while Policybazaar rose 17%. Nykaa debuted at a 79% premium over the issue price.

Paytm's stock market debut wiped off more than double the money Paytm raised through its initial public offering worth ₹18,300-crore, the biggest ever in India.

Some analysts had flagged concerns over Paytm's listing day performance after its much-hyped IPO was subscribed just 1.89 times last week.

Macquarie analysts said Paytm's business model lacks focus and direction, terming it as a company that has "too many fingers in too many pies".

"Paytm's valuation at 26 times FY23 price-to-sales is expensive, especially when profitability remains elusive. Most fintech players globally trade around 0.3 times-0.5 times (price-to-sales growth) and we have assumed the upper end of this band. We are unwilling to give it a premium here as we are unsure about the path to profitability," they said in a report released on Thursday morning.

Paytm's market value at the end of the first day of trading stayed above the ₹1 trillion mark. AFP

The key risks include a change in regulations and receipt of a banking licence, the analysts said, adding that it faces competition from large rivals such as Amazon, Flipkart and Google. The competition is quite evident in the buy-now-pay-later space and distribution of various financial products, they said.

Paytm is India's largest digital ecosystem for consumers and merchants, with a gross merchandise value (GMV) of ₹4 trillion in FY21. GMV measures the total value of merchandise sold over a period.

Paytm's market value at the end of the first day of trading stayed above the ₹1 trillion mark, making it worth more than stocks such as Hindalco, Coal India, Bharat Petroleum Corp. Ltd, Britannia, IndusInd, Dr Reddys, Tata Consumer Products, Cipla, and Hero MotoCorp.

According to Motilal Oswal Financial Services, the key opportunity for Paytm is to monetize its large consumer base of 333 million and merchant base of 21 million through cross-selling of financial services. Currently, payments and financial services contribute 75% to the total core revenue. However, Motilal Oswal Financial Services expects the share of the non-payments businesses to scale up rapidly.