Paytm's D-Street debut goes from bad to worse

The stock's plunge has wiped out ₹38,000 crore from its IPO valuation

Nasrin Sultana
nasrin.s@livemint.com

MUMBAI: 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 lakh crore.

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 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 its 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.

The key risks for the company 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.