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ET tech

PAYTM THROUGH THE NOSE

What led to the debacle for the mother of all IPOs, and how the company was left playing catch-up with its valuation

Paytm founder Vijay Shekhar Sharma is synonymous with setting big goals. "Go big, or go home", a sales slogan believed to have originated in the 1990s America, is emblematic of what Sharma and Paytm stand for. It's part of Indian startup folklore that this slogan, plastered on a billboard outside the digital payment major's office in Noida, is the credo by which Sharma, who hails from Aligarh in Uttar Pradesh, has built Paytm.

So why did Sharma's mega ambitions which involved orchestrating India's largest ever initial public offering (IPO) —pegged at ₹18,300 crore — turn into a disastrous? The listing of One 97 Communications, which runs Paytm, turned into a nightmare in the first two days of trade as its market cap shaved off nearly 40% from its issue price of ₹2,150, as retail investors cried foul. Paytm's market cap was at little over $13 billion at the close of the first day of trade, far less than its last private market valuation of $16 billion two years ago.

While it made a recovery in stock prices for a couple of weeks, the stock continued to see a bumpy ride on the bourses this week too and is well below its issue price after it settled at ₹1,649.80 on the BSE on December 3.

ET spoke to current and former company employees, investment bankers, analysts, investors and senior payments industry executives to piece together this account of what led to the debacle of the mother of all IPOs.

HOW DID PAYTM GET HERE?

Was this outcome anticipated as Paytm tried to catch up with its valuation amid rising competition, regulatory roadblocks, management churn and doubts over its ability to execute and become a financial services powerhouse?

While doubts were cast on the IPO, not many expected the rout on November 18.

But even before the public scrutiny of its

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valuation began, Paytm has had a topsy-turvy ride in the private markets. In the 2019 fundraise, led by US asset manager T Rowe Price, there was much talk about a valuation mismatch from investors it held discussions with. Interestingly, SoftBank cut a smaller cheque of around $200 million while Ant Group and Alibaba committed to invest $400 million together. According to Tracxn, which tracks startup funding, One97 Communications received around $700 million of the $1 billion that it had announced back then. A source confirmed the company wasn't able to receive about $200 million from Ant Group following the changes in government policy on Chinese investments last year.

The financing was initially supposed to be $2 billion in size, as Paytm was looking to raise up to $1 billion in debt for its lending business.

Paytm is the only one to not raise a pre-IPO round among the top-tier startups that have gone public or have filed draft papers for an IPO. A pre-IPO round is typically seen as a valuation benchmark for the firm before it fixes its issue price. "Paytm's pre-IPO round conversations were either at a flat $16 billion valuation or marginally higher, but it was also receiving increased attention from large foreign institutional investors for the anchor round. So, the company opted to increase offer size and get investments at a $20 billion valuation than anything less," a person aware of the company's thinking said.

Overpricing, steep valuation and unclear path to profitability were not the only reasons for the dismal show, many people ET spoke to said. It was also bad timing, failure to create a buzz and sell a story to domestic institutional investors like mutual funds and high net worth individuals. "During the roadshow a month or two before the launch of the IPO, the company was getting a valuation of $14-15 billion and, as a result, Paytm cancelled the pre-IPO placement and merged it with the public offering itself. However, promoters and some of the large selling shareholders insisted on a valuation of $20 billion while pricing the IPO, leaving nothing on the table for investors," said a banker involved in the deal. "Paytm had nearly 13% plus free float while the rest is locked in for one year. So the pricing would have been such that even if 13% of the investors came to sell post-listing, the share price could have sustained," the person added.

Though the IPO was fully subscribed with foreign portfolio investors like BlackRock and Canada's CPPIB chipping in, there was poor appetite from domestic institutional investors and high net worth individuals (HNIs). Nearly 80% of the bidding came from foreign institutional investors, while 16% came from local retail investors. HNIs bid for just 2.5 million shares, 2.77% of the total demand, while corporate, domestic institutional bidding was just half a percent.

Aditya Birla Mutual Fund was among the three major mutual funds with a relatively larger exposure to the anchor round in the Paytm IPO. It invested around ₹555 crore while HDFC Mutual Fund and Mirae Asset Mutual Fund put in smaller amounts.

"Based on investor feedback the company could have tweaked the issue size and price to create more demand and higher levels of subscription," said Ravi Sardana, former investment banker at ICICI Securities.

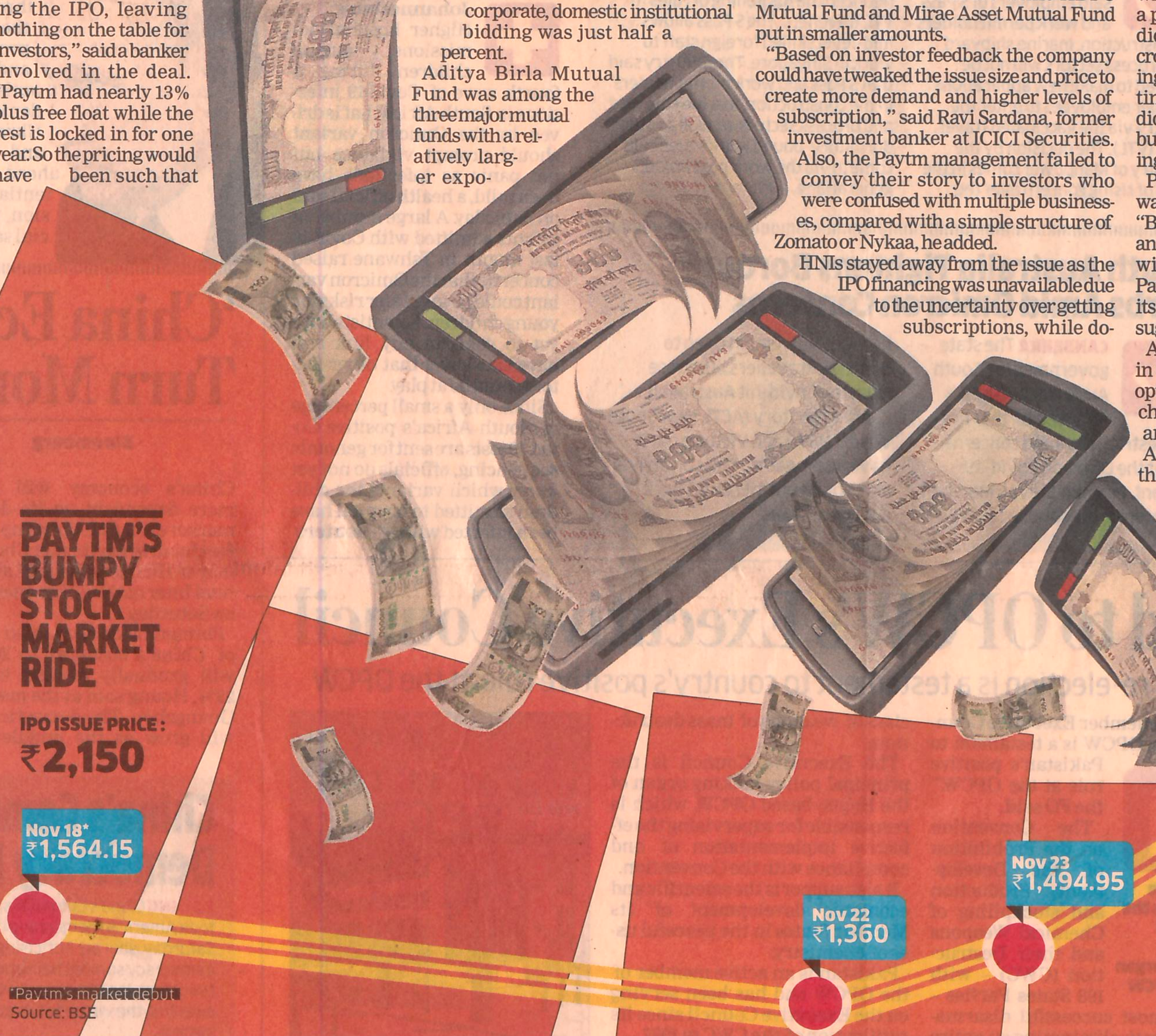
Also, the Paytm management failed to convey their story to investors who were confused with multiple businesses, compared with a simple structure of Zomato or Nykaa, he added.

HNIs stayed away from the issue as the IPO financing was unavailable due to the uncertainty over getting subscriptions, while do-

PAYTM'S RISING VALUATION

Year	Valuation	Lead Investor
2015	$2.3 bn	Alibaba & Ant Group
2016	$4.8 bn	MediaTek
2017	$7 bn	SoftBank
2018	$10 bn	Berkshire Hathaway
2019	$16 bn	T Rowe Price

Source: ET Research



*Paytm's market debut
Source: BSE

MARKET CAP TRAJECTORY

Last private valuation	Company	Market Cap on Debut	Current Market Cap
$5.4 bn	Zomato	$13.3 bn	$15.2bn
$1.2 bn	Nykaa	$14 bn	$14.6 bn
$ 2.4 bn	Policybazaar	$7.2 bn	$7.3 bn
$16 bn	Paytm	$13 bn	$14.2 bn

The regulatory changes blocking Chinese investment in India made it further difficult for Paytm to raise a large funding round at an increased valuation

mestic mutual funds held back fearing backlash from retail investors, said experts.

"The issue size was too big, not many were clear with their business model or their path to profitability going ahead," said Aditya Kondawar, COO, JST Investments. "In all of their segments, they aren't the business leaders, and, additionally, they face stiff competition in all their businesses."

Some industry experts said it was unfair to expect returns from every IPO as the equities are risky, and public offerings even more so, given the information asymmetry, less disclosures and no price discovery compared with the secondary market. "It is unrealistic to expect every IPO to offer listing gains. If that were the case, IPO as an asset class would become the best 'fixed income' product!" said Pranav Haldia, MD & CEO, Prime Database Group. "There is a clear need to move away from this mindset."

"The startup ecosystem is changing in India, and many people think that India has the potential to produce big tech companies like the US and China did in the past. Most of the promoters want to cash out on this euphoria with unrealistic valuations, but in reality, only a few companies will survive and create wealth for the investors while others will be wealth destroyers," said Santosh Meena, head of research, Swastika Investmart

CHASING BIG NUMBERS

"Paytm was clear it had to launch the 'biggest' IPO and that was non-negotiable," said a person aware of the discussions. Paytm had said its IPO will be ₹16,600 crore in size, split equally between primary and secondary share sale with an option to raise around ₹2,000 crore in a pre-IPO round. While the pre-IPO round didn't come through, it added about ₹1,700 crore of additional secondary share sale, taking the total to ₹18,300 crore. "The big was getting bigger," said a company insider. They didn't want to do just another $1 billion IPO but make the offering India's largest, eclipsing Coal India which was at ₹15,000 crore.

Paytm's plan to time the IPO with Diwali was seen as being aggressive by stakeholders. "But it was true to Paytm's style of making an announcement—largest IPO, huge valuation with a Diwali dhamaka," said this person. Paytm was in talks with multiple bankers for its IPO by now and a top Wall Street bank had suggested seeking a valuation of $20 billion.

At a press conference announcing its IPO in October, Sharma had said it had an option to increase the pricing but it chose to stick with $19.5-20 billion and that it was fair and rational. After the free fall of Paytm shares, the management said pricing is decided by investors who value a company at a certain level.

Sources aware of the matter said Paytm got a sense of its pricing being 'expensive' before announcing the IPO officially but chose to go ahead with it. "They (Paytm) were told the valuation is about 30% higher than market expectations but the previous success of Zomato and Nykaa at relatively lower pricing led Paytm to believe its offering would sail through," this person added.

THE ZOMATO-NYKAA EFFECT

The second wave of Covid-19 had hit the country hard but Zomato was moving ahead with its IPO plan—the first big consumer internet to do so in India. After the food-delivery platform's listing in July, which made a bumper opening on Dalal Street, the ball was set rolling at Paytm's headquarters.

As per initial plans made by Sharma and Paytm group CFO and president, Madhur

Paytm is a leader in mobile wallet, but its ambition to be a financial services group like Ant remains a work in progress

Deora, the company was seeking a valuation in the range of $25-30 billion, multiple people aware of their thinking told *ET*. "Paytm was being ascribed a valuation of $8-10 billion in a private funding round... it needed capital since the last fundraise happened in late 2019 before the pandemic," one of the people said. Multiple former senior employees of the company corroborated this.

The regulatory changes blocking Chinese investment in India made it further difficult for the company to raise a large funding round at an increased valuation. "There was no one to come forward and lead a round in Paytm and at a higher price. Paytm was clear it wouldn't do a down-round at a lower valuation," a source mentioned above said.

"Paytm was getting demand in the private market but that was at a 50% cut in valuation due to slowing growth and intensifying competition. It was cutting down on expenses but its cash burn was still high. Therefore, it made sense to catch the IPO wave and go public at its last valuation or slightly higher," a person quoted earlier said.

Paytm has been a clear leader in mobile wallet, the market for which is dwindling, but its ambition to be a financial services group like Ant remains a work in progress. "It always wanted to go public as a financial services group and not just a payments firm. It started building verticals over the last three years but hasn't been able to execute those plans yet. Amit Nayyar, who joined to head its plan to build the vertical, quit just before the IPO," a person aware of the company's plans said.

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