

9 November 2021

One 97 Communications – SUBSCRIBE

Investment Thesis

One 97 Communications Ltd. (One 97 Communications) is coming out with an initial public offering (IPO) on November 8, 2021. The issue comprises of fresh issue worth Rs.83bn and offer for sale worth Rs.100bn by the selling shareholders. Objective of the issue is to growing and strengthening Paytm ecosystem along with Investing in new business initiatives, acquisitions and strategic partnerships.

One 97 Communications has launched Paytm App in 2009 as a 1st digital mobile payments platform to enable cashless payments for Indians, giving them the power to make payments from their mobile phones. Starting with bill payments and mobile top-ups as the first in India and Paytm Wallet as the first Paytm Payment Instrument, it has built the largest payments platform in India based on the number of consumers, number of merchants, number of transactions and revenue as of March 31, 2021. Over the years, Paytm has launched additional products which have helped increase user stickiness and increased monetisation by offering devices and other services to merchants, launching additional 'Paytm Payment Instruments' such as Paytm FASTag and Paytm Postpaid. It also launched financial services offerings such as wealth, lending and insurance in partnership with financial institutions.

One 97 Communications has over 333mn client base and over 22mn registered merchants to whom it offers payment services, financial services, and cloud services. It has largest payments platform in India with a Gross Merchant Volumes (GMV) of Rs.4,033bn in FY21. It also has an overall mobile payments transaction volume market share of ~ 40% and wallet payments transaction market share of 65-70% in India as of FY21. It has developed its Paytm brand, distribution, insights, technology skills and scope of ecosystem, which led it to an advantage to grow its business through cost-effective acquisition of consumers and merchants, building higher engagement and stickiness with consumers and merchants and build high monetization products at low cost of acquisition.

Financials

- During past 5 years, revenue of One 97 Communications grew at CAGR of 26.8% while PAT de-grew at CAGR of 2.0% in same period.

Consol. (Rs.Mn.)	FY19	FY20	FY21	FY22E	FY23E
Revenue	32,320	32,808	28,024	32,228	37,062
EBITDA	-43,835	-26,297	-17,643	-20,289	-23,333
% growth	-149.7	-40.0	-32.9	15.0	15.0
PAT	-41,680	-28,422	-16,961	-19,505	-22,431
EPS (Rs.) #	-64.3	-43.8	-26.2	-30.1	-34.6
P/E (x) *#	-33.4	-49.0	-82.2	-71.5	-62.1
RoE (%) #	-75.8%	-36.7%	-27.7%	-29.0%	-30.4%

* At highest price band# Post listing

IPO Details

Issue Open Date	08 November, 2021
Issue Close Date	10 November, 2021
Price Band (Rs.)	2,080.00 to 2,150.00
Issue Size (Rs. Mn)*	1,83,000.00
Issue Size (Shares)	8,51,16,279
Market Lot	6 Equity Share
Listing Exchanges	BSE and NSE
Face Value (Rs.)	1.0/-

* At highest price band

Key Details

Fresh Issue*	3,86,04,651 Equity Shares
Offer for Sales*	4,65,11,628 Equity Shares
Issue Type	100% Book Built Issue
Book Running Lead Manager	Morgan Stanley India, Goldman Sachs (India), Axis Capital, ICICI Securities, J.P. Morgan India, Citigroup Global Markets India and HDFC Bank
Issue Structure	QIB: 75% Retail: 10% Non – Institutional: 15%
Credit of Shares to Demat Account	17 November, 2021
Issue Listing Date	18 November, 2021

* At highest price band

Key Business Highlights

- One 97 Communications, incorporated in 2000, is a leading digital ecosystem for consumers as well as merchants. In 2009, it launched Paytm App, which is a 1st digital mobile payment platform to offer cashless payment services to customers. App enabled customers to do cashless transactions, pay bills, online money transfer, access digital banking services, tickets booking, insurance, investments, etc.
- One 97 Communications has over 22mn merchants with over Rs.4,000bn merchant volume, over 333mn customer base with 120mn annual transaction and 1.3mn payment services as on FY21.
- In financial services, One 97 Communications has 65mn total payment accounts, 6.5 millions loans disbursed in last one year and having deposits of Rs.58.3bn as on FY21.

Valuation

- One 97 Communications is expected to grow the consumer and merchant base, adhering to the mission which is to bring half a billion Indians into the mainstream economy. There is continued scope for expansion given the under-penetration of the various products and services which Paytm offers. One 97 Communications endeavour to continue to increase the engagement and retention of the consumers and merchants on the ecosystem by offering them better products. It will continue to focus on bringing together various pieces of the ecosystem to build innovative products for the consumers. A key strategic focus for One 97 Communications is to scale up the consumer and merchant lending businesses, including Paytm Postpaid, in collaboration with the financial partners as well as the wealth management offerings. It plan to continue leverage the partnership with Paytm Payments Bank to expand the suite of banking solutions for consumers and merchants.
- India has hundreds of millions of young and aspiring consumers who are underserved in payments and financial services products. Millions of small businesses in India will benefit from having increased access to affordable software, technology in managing or growing its business. Such consumers and small businesses can be served through technology-led, digital-first commerce platform. One 97 Communications has a large addressable market in India through its various product offerings. Market segments that One 97 Communications serves has large growth potential going ahead, due to significant under-penetration across region and the ability of technology to grow the market.
- With 1st digital mobile payments platform to enable cashless payments, launched additional products to increase user stickiness and increased monetization, gained 40% overall mobile payments transaction volume market share, focus on bringing together various pieces of the ecosystem to build innovative products and India has hundreds of millions of young and aspiring consumers, we are recommending **SUBSCRIBE** to the IPO of One 97 Communications Ltd.

Risk & Concern

- One 97 Communications compete in markets characterize by vigorous competition, changing technology, changing consumer needs and frequent introductions of new products and services, any delay in service ramp-up may have negative impact in future growth.
- Any failure to attract merchants and grow relationships can adversely affect One 97 Communications' business going ahead.
- One 97 Communications derives a majority of its revenue from transaction fees that it collect from merchants for payment services, any failure to broaden the scope of payments services may impact its business growth.

Graphs & Charts

Figure 1: Net Sales Trend

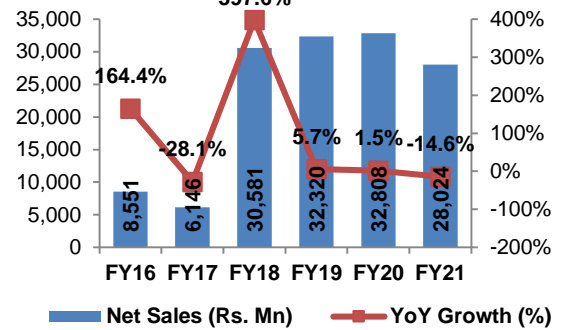


Figure 2: EBITDA & EBITDA Margin Trend

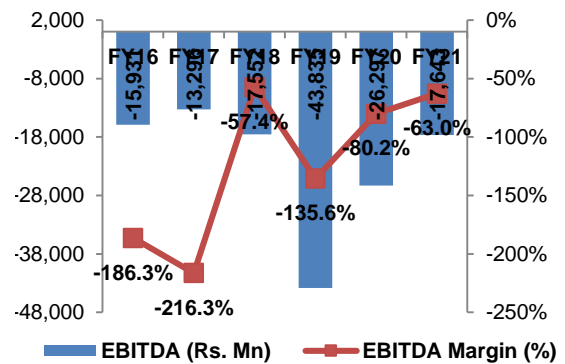


Figure 3: PAT Trend

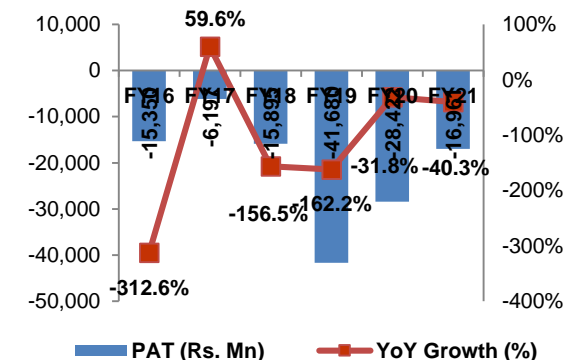
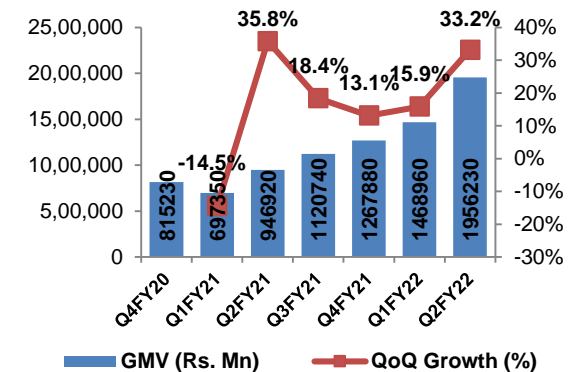


Figure 4: GMV Quarterly Trend



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