

## Case Study

# **Paytm: Revolutionizing India's Digital Economy**

## **Paytm- Company Background**

One 97 Communications, more commonly known as Paytm, stands as India's foremost digital ecosystem, serving both consumers and merchants. It holds the distinction of being India's largest payment platform, with a Gross Merchandise Value (GMV) of ₹4.033 lakh crore in FY21. Paytm has solidified its position as India's most valuable payment brand, with a brand value of US\$6.3 billion. With a focus on providing a seamless transaction experience across various methods, Paytm offers user-friendly digital products and services, along with inclusive access to financial services. Its robust two-sided ecosystem facilitates commerce and provides access to financial services, with the goal of improving consumer lives and fostering business growth among merchants through technological innovation. Revenue from payment and financial services has consistently been significant, contributing substantial portions to its overall revenue over the years.

Since its establishment in 2009, Paytm has transformed into a "mobile-first" digital payments platform, empowering Indians to make cashless transactions conveniently from their mobile devices. Starting from humble beginnings with bill payments and mobile top-ups, Paytm has emerged as India's leading payments platform, driven by its extensive consumer base, merchant network, transaction volume, and revenue.

In the past five years, Paytm has diversified its product offerings to enhance user engagement and revenue generation. This includes providing devices and additional services to merchants, introducing various payment instruments like Paytm FASTag and Paytm Postpaid, and launching financial services such as wealth management, lending, and insurance in collaboration with financial institutions. The pace of product launches has accelerated in recent years as Paytm expanded its distribution channels.

At the core of its offerings lies the Paytm Super App, which serves as a comprehensive platform offering a wide array of payments, commerce, and financial services. Users can seamlessly manage various aspects of their daily lives through the app, conducting online recharges, bill payments, money transfers, and in-store transactions. Furthermore, the app provides an extensive range of financial services, including consumer wallets, buy-now-pay-later options, insurance, personal loans, and investment accounts, all in partnership with leading financial institutions.

## **Paytm - Mission and Vision**

**Mission:** The company mission on its website is "We will bring Half-a-Billion Indians to the Mainstream Economy."

**Vision:** The company's vision is to become India's leading payments App.



**Paytm**

### Key Business KPIs - Quarter ended March 2023

Avg Monthly Transacting Users <small>(avg for three months ended Mar'23)</small>	Merchant Subscriptions <small>(cumulative payment devices as of Mar'23)</small>	Total Merchant Payments Volume (GMV) <small>(for three months ended Mar'23)</small>	Total Value of loans disbursed through Paytm <small>(for three months ended Mar'23)</small>	Total Number of loans disbursed through Paytm <small>(for three months ended Mar'23)</small>
<b>90 Mn</b>	<b>6.8 Mn</b>	<b>₹3.62 Lakh Cr</b>	<b>₹12,554 Cr</b>	<b>11.9 Mn</b>
▲ 27% YoY	▲ 1 Mn <small>New subscriptions since Dec'22</small>	▲ 40% YoY	▲ 253% YoY	▲ 82% YoY

Offerings on the Paytm App	Services Offered by	Revenue Model
<b>Payment Services</b>		
Recharge and Bill Payments	• OCL, through supply from own merchant network and PPBL (through BBPS)	<ul style="list-style-type: none"> <li>• <b>Merchant:</b> Payments processing fee and rentals for devices deployed</li> <li>• <b>Consumer:</b> Convenience fees in certain select cases</li> </ul>
Send money (Money Transfer)	• PPBL (associate)	
Pay (In-Store Payments)	• OCL • Payment instruments from third parties (cards), associates (e.g. PPBL) and partners	
<b>Commerce and Cloud</b>		
Travel ticketing	• OCL, through supply from own merchant network	<ul style="list-style-type: none"> <li>• <b>Consumer:</b> Convenience fees in certain select cases</li> <li>• <b>Merchant:</b> Payments processing fee, marketing fee and advertising fee (including for Mini-apps) and other fees</li> </ul>
Entertainment ticketing	• OCL, through supply from own merchant network and Wasteland Entertainment Private Limited (Paytm Insider), a wholly owned subsidiary of OCL	
Mini-apps Store	• Developer partners (on-boarded by OCL) • Includes Paytm E-commerce Private Limited ("PEPL" or "Paytm Mall")'s mini app for online shopping (OCL has no equity stake in PEPL)	
Games	• Paytm First Games Private Limited (subsidiary) • Not consolidated in OCL	<ul style="list-style-type: none"> <li>• <b>Consumer:</b> Platform fee</li> <li>• <b>Merchant:</b> Hosting commission</li> </ul>
Paytm First Subscription	• OCL, in collaboration with partners	<ul style="list-style-type: none"> <li>• <b>Consumer:</b> Recurring subscription</li> <li>• <b>Merchant:</b> Distribution fee (select)</li> </ul>
<b>Financial Services</b>		
Digital Banking (including Paytm Wallet, FASTag)	• PPBL (associate), pursuant to a business cooperation agreement with OCL • Fixed deposit is offered by PPBL in collaboration with a partner bank	<ul style="list-style-type: none"> <li>• Payment gateway charges and convenience fee</li> </ul>
Lending	• OCL in collaboration with financial partners	• <b>Banks / NBFCs:</b> Sourcing and collection fee
Wealth Management	• Paytm Money Limited (wholly owned subsidiary) • Digital gold offered by OCL in collaboration with a partner	• <b>Consumer:</b> Brokerage and fees
Insurance	• Attachment products: by OCL in collaboration with partners • Market place: by	• <b>Insurance Companies:</b> Brokerage

Source: RHP, ICICI Direct Research (OCL - One 97 Communications Limited)

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## Paytm - Products and Services

**Paytm Mall Launch (February 2017):** Paytm introduced Paytm Mall in February 2017 as part of a calculated effort to break into the e-commerce space. Alibaba provided an initial \$200 million capital infusion to Paytm Mall, which was then able to maintain steady backing from Ant Financial and Alibaba in order to strengthen the Paytm wallet.

**Contactless In-Store Ordering Innovation (April 2020):** Paytm introduced the concept of 'contactless in-store ordering' to promote minimal physical contact in the wake of the COVID-19 pandemic. This initiative aimed to redefine the retail experience and enhance safety measures.

**Mini App Store Introduction (October 5, 2020):** In an attempt to counter the Google Play Store's hegemony in the digital space, Paytm launched a micro app store to assist Indian app developers and entrepreneurs.

**Card Sound Box Design Launch (July, 2023):** Paytm unveiled the Card Sound box, a revolutionary device empowering merchants to seamlessly accept mobile and card payments across various networks, including Visa, Mastercard, American Express, and RuPay. The device simplifies transactions with a convenient 'tap and pay' feature, showcasing Paytm's commitment to innovative payment solutions.

## Paytm - Business Model

Pioneering India's QR and mobile payments revolution, Paytm's business model centers on advancing financial inclusion through a broad spectrum of payments and financial services. The key components of this model can be summarized as follows:

- **Comprehensive Payments Ecosystem:** The core of Paytm's business model is to attract merchants and customers by offering a wide range of payment options. With UPI acting as a low-cost acquisition channel, the platform cross-sells high-margin banking and merchant services by utilizing insights.
- **Empowering Customers:** In addition to Paytm Payment Instruments, Paytm offers a variety of third-party payment choices, such as cards and online banking, to empower its users. They make it easier to pay for things online, promoting convenience with the Paytm app and allowing QR code-based in-store and third-party app transactions.
- **Subscription-Led Ecosystem for Merchants:** Paytm provides its partners with technology tools so they may take payments using a variety of methods. Reconciliations are made easier by subscription-based devices, and beginning merchants can accept payments using a free mobile QR code, mostly using Paytm Payment Instruments or UPI.
- **Merchant Growth through Platform Engagement:** When customers use the platform's payment options, it encourages merchants to sign up as well, which feeds back into itself and results in a high volume of repeat business. Significant consumer stickiness and retention are fueled by this combination.

## Paytm - Revenue Model

Paytm generates revenue through a diversified set of streams, some of the prominent one are listed below:

- **Profitable UPI Use:** Paytm makes money through the widely-used Unified Payments Interface (UPI).
- **Monetization avenues:** Paytm makes money on its platform through selling of loans and payment devices, as well as from subscription revenue, payment processing fees, and marketing services it offers to other companies via its Commerce and Cloud business.
- **Co-Branded Credit Cards:** Co-branded credit card partnerships with banks such as SBI and HDFC generate income from upfront distribution and lifetime usage fees.
- **Diverse Revenue Streams:** Paytm's strong business strategy guarantees profits from non-UPI and UPI transactions, resulting in a steady and stable flow of income.

## Paytm - ESOPs

As of **August 15, 2021**, 166 former and current workers of Paytm who exercised their options under the ESOP Scheme 2008 and ESOP Scheme 2009 have received approximately 10,11,582 equity shares valued at **Rs 189 crore**. This action is a component of Paytm's continuous dedication to appreciating and

thanking its employees. Employee incentives were further enhanced by the company's **May 2022** grant of stock options valued estimates at **Rs 222 crore** under the ESOP plan.

Furthermore, Paytm revealed the granting of 17,06,829 stock options through the 'One 97 Employees Stock Option Scheme 2019' to eligible employees. By providing perks to qualified workers, this program seeks to increase their involvement in the expansion of the business.

Based on the stock prices of One97 Communications of **July, 2023**, Fintrackr has estimated that the total value of the new ESOPs given by the company is around **Rs 145 crore**. Paytm's attempts to promote employee involvement and connect their interests with the company's long-term development are in line with this strategic allocation of equity shares.

## **Paytm – Challenges Faced**

- **Data breach incident in 2018:** Paytm Mall faced a significant data breach, compromising sensitive data of around 3.4 million customers.
- **Removal from Google Play Store:** In September 2020, the Paytm app got delisted from the Google Play Store due to alleged violations of rules related to unlicensed gambling apps.
- **Employee misconduct:** Reports surfaced in August 2022 of Paytm employees allegedly burning PhonePe QR codes in bulk, prompting a response from PhonePe and involving law enforcement.
- **Regulatory hurdles:** The Reserve Bank of India (RBI) directed Paytm Payments Bank to halt new client onboarding in 2022 due to regulatory concerns, highlighting ongoing regulatory challenges.
- **Cost optimization measures:** In 2023, Paytm implemented cost-cutting measures, including a workforce reduction program resulting in the layoff of at least 1,000 employees across various departments.
- **Persistent regulatory issues:** The RBI's continued actions against Paytm Payments Bank, such as prohibiting fresh deposits from March 15, 2024, emphasize the significance of adhering to regulatory standards in the fintech sector.

## **Paytm - IPO**

**Announcement of Initial Public Offering (IPO):** In July 2021, Paytm submitted its IPO application to the Securities and Exchange Board of India (SEBI), indicating its plans to become a publicly traded company. The IPO was anticipated to be one of India's largest, aiming to raise approximately \$2.2 billion.

**Valuation and Anticipation:** Paytm's IPO garnered significant interest from investors due to its prominent position in India's burgeoning digital payments market. Speculation surrounding the company's valuation ranged from \$25-30 billion, potentially making it one of India's most valuable startups.

**Challenges and Considerations:** Despite its market dominance, Paytm faced several challenges leading up to its IPO:

- **Regulatory Landscape:** The evolving regulatory environment for fintech firms in India posed potential implications for Paytm's operations and growth trajectory.
- **Competition:** Paytm encountered competition from both domestic and international players across its business segments, including digital payments, e-commerce, and banking.
- **Profitability:** Similar to many tech startups, Paytm had yet to achieve profitability, raising concerns about its long-term viability and ability to deliver returns to investors.
- **Market Volatility:** The IPO market experienced volatility influenced by various factors such as global economic conditions and the COVID-19 pandemic, potentially affecting investor sentiment and demand for Paytm's shares.
- **IPO Process and Listing:** After navigating regulatory approvals and assessing market conditions, Paytm proceeded with its IPO.

The IPO received overwhelming demand from investors, demonstrating robust interest in India's fintech growth narrative. Paytm's shares commenced trading on the National Stock Exchange of India (NSE) and the Bombay Stock Exchange (BSE) in November 2021, with the ticker symbol "PAYTM".

**Post-IPO Performance:** Paytm's stock witnessed fluctuations during its initial trading phase, reflecting uncertainties among investors and market dynamics. Nonetheless, the company remained committed to expanding its offerings, strengthening its technological infrastructure, and exploring new avenues for growth within India's rapidly evolving fintech landscape.

## Paytm –Value Propositions

Paytm's value proposition initially revolved around mobile recharging, which remains a core aspect of its business. However, the company has expanded its offerings over time, introducing services like the Paytm Wallet, e-commerce, Digital Gold, and more.

**For merchants,** Paytm provides value by offering a range of digital payment methods, including traditional options like debit/credit cards and innovative solutions like QR codes, email links, and text messages. Additionally, Paytm offers hardware for in-store purchases and integrates payment services into its Smart Retail platform, providing retailers with a comprehensive solution for managing payments, analytics, inventory, and customer engagement.

**For individuals,** Paytm empowers customers to go cashless without needing to open a bank account, addressing the challenges of cash payments in a country where they have historically been prevalent.

## Paytm - Partnerships

- **October 22, 2018:** Paytm has collaborated with Softbank Group and Yahoo Japan to launch its e-wallet service in Japan called PayPay.
- **Paytm** was also announced as **the official partner of the Mumbai Indians.**
- **June 22, 2020:** Paytm partnered with Tata Starbucks on June 22, 2020, which is a pan-India partnership for a contactless dining solution.
- **February 26, 2021:** Paytm and Ola partnered with Indusland Bank and applied to the RBI for the NUE license.
- **April 19, 2021:** Paytm saw a partnership with the Life Insurance Corporation of India to help facilitate digital payments.
- **July 19, 2021:** Paytm partnered with Indusland Bank to enable payments from the fixed deposit accounts held by the users of the latter.
- **August 23, 2021:** Paytm partnered with HDFC Bank to provide solutions across payment gateways, POS machines, and other credit products.
- **September 27, 2021:** Paytm brings real-time international remittances into the Paytm mobile wallet by partnering with Ria Money Transfer.
- **December 3, 2021:** Paytm partnered with PMS Bazaar with a view to helping manage the portfolio of HNIs, who have a minimum investment of Rs 50 lakh.
- **November 15, 2023** Paytm has partnered with Amadeus, and for the next three years, it will include the travel technology company's platform into search, booking, and payment processes.

## Paytm - Competitors

Some of the top competitors for Paytm are:

- PayPal
- PhonePe
- Flipkart
- Razor pay
- MobiKwik

## Paytm – Paytm Payments Bank Failure

Reason: The RBI's decision to impose restrictions on Paytm Payments Bank (PPBL) was primarily due to persistent non-compliance and continued material supervisory concerns found during an audit. These non-compliances could include issues related to regulatory guidelines, governance structure, and adherence to banking regulations. Additionally, concerns about related party transactions, potential influence from the parent company, and compliance with KYC norms may have contributed to the regulatory action.

### **RBI Instructions to Paytm Payments Bank (PPBL):**

- PPBL barred from accepting further deposits, top-ups, or credit transactions from February 29.
- Prohibition extends to prepaid instruments like FASTags and NCMC cards.
- Existing customers can use their balances but no new services allowed.
- PPBL cannot conduct banking services like AEPS, IMPS, bill payments, or UPI.
- Directed to terminate nodal accounts of parent company and Paytm Payments Services by February 29.
- Required to settle all pipeline and nodal accounts transactions by March 29.

### **Transition Plans by Paytm:**

- Working with other banks instead of PPBL.
- Seeking third-party bank partnerships for merchant acquiring services.
- Transition to unfold in three stages: finding a partner bank, assessing commercial viability, and facilitating account-to-account migration.
- Concerns raised about potential impact on margins due to higher costs.

### **Concerns:**

- **Licensing concerns:** RBI guidelines prohibit lending activities, but PPBL provides credit-dispensing products from third parties.
- **Governance structure:** Paytm owns 49% of PPBL, raising questions about related party transactions and influence.
- **Regulatory actions:** RBI Governor mentioned "effective action" for non-compliance, indicating escalating regulatory pressure.
- **Compliance issues:** Penalties imposed for flouting KYC norms, concerns about money laundering allegations.

## **Why CEO of Paytm Resigned and Nirmala Sitharaman's Actions?**

Vijay Shekhar Sharma's departure from the board of Paytm Payments Bank, in conjunction with the appointment of independent directors, is described as a strategic maneuver to facilitate a smooth transition and bolster governance structures. This move aims to separate Paytm from its payments bank unit and establish it as an autonomous entity. Paytm has faced regulatory hurdles impacting its stock value, though recent partnerships and regulatory extensions have spurred a recovery. Finance Minister Nirmala Sitharaman recently engaged with fintech industry representatives to address concerns, but specific attention to Paytm Payments Bank was reportedly absent. The government plans to convene discussions with law enforcement agencies and fintech firms, aiming to foster better communication and address ownership structure concerns. Efforts to simplify KYC norms are also underway, potentially easing operational challenges in the fintech sector.

## **Paytm Takes Regulatory Action: Severs Ties with Payments Bank Unit Amid Compliance Pressures**



In response to regulatory pressure from India's banking regulator, Paytm has taken steps to sever ties with its payments bank unit, as mandated by the Reserve Bank of India (RBI). This includes terminating various inter-company agreements between Paytm, formally known as One 97 Communications, and its banking arm. While specifics of the agreements were not disclosed, both entities have agreed to simplify the shareholders' agreement to enhance governance independently of their shareholders. Despite the RBI's directive to wind down operations by March 15 due to compliance issues, Paytm remains open to future financial services endeavors. This strategic shift has positively impacted Paytm's stock performance, with shares rebounding over 4% following the announcement. Analysts view the termination of agreements as a signal of complete separation between Paytm and its payments bank, indicating progress in addressing regulatory concerns. Recent developments, such as securing a new banking partner and ensuring continuity of unified payments interface (UPI) transactions, have contributed to a recovery in Paytm's stock price, though it remains significantly below its pre-regulatory action levels.

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