



RESEARCH REPORT

ONE 97 COMMUNICATIONS LTD



PREPARED BY:

PRATEEK ACHARYA
EQUITY RESEARCH ANALYST

About

Incorporated in 2000, One 97 Communications Ltd is India's leading digital ecosystem for consumers as well as merchants. As of March 31, 2021, the company has a 333 million+ client base and 21 million+ registered merchants to whom it offers payment services, financial services, and commerce and cloud services.

Key Business

Payments & Financial Services

Commerce & Cloud Services

Synopsis of Financials

- Quarter performance in line with expectations and operating metrics.
- Resilience and capability of Paytm's product and services highlighted.
- Commitment to run a fully compliant business and return to profitable quarters soon.
- Targeting at least one profitable quarter in the current financial year.
- Focus on payments and cross-selling financial services as core business.
- Marketing services for helping merchants expand and sell more to consumers seen as a great opportunity.
- Operating break-even target without extraordinary one-time items.
- Focus on UPI incentives and aiming for EBITDA break-even before ESOP cost.
- Plans to resume new user acquisitions for UPI after completing technology and consumer migration.
- Merchant loan growth expected to be disciplined due to lender partners' prudent policies.

Stock data (as 26th Aug 2024)

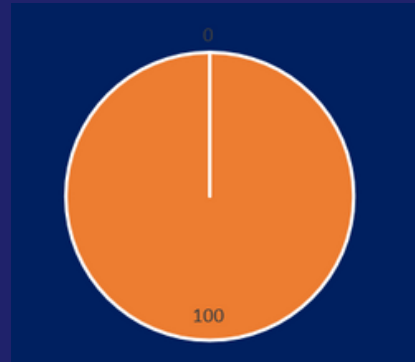
Nifty Price	: 25,019.50
52 week High (in Rs.)	: 998
52 week Low (in Rs.)	: 310
Market Cap. (in Crore)	: 35,504 Cr.
NSE Code	: PAYTM

Stock data



-NIFTY50
-PAYTM

Shareholding Pattern (March 2024)



-PUBLIC GROUP
-PROMOTER GROUP

Financial Summary

Particulars	March 2022	March 2023	March 2024
Sales	4,974	7,990	9,978
Sales Growth %	77.57%	60.63%	24.87%
Expenses	7,358	9,634	10,921
Operating Profit	-2,384	-1,644	-943
OPM %	-48%	-21%	-9%
Net Profit	-2,396	-1,776	-1,422
EPS in Rs	-36.90	-28.02	-22.30

Quarterly Results



Particular	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Sales	1,914	2,062	2,334	2,342	2,519	2,850	2,267
Expenses	2,461	2,393	2,466	2,652	2,750	3,014	2,734
Operating Profit	-547	-331	-131	-311	-231	-163	-467
OPM %	-29%	-16%	-6%	-13%	-9%	-6%	-21%
Other Income	100	83	130	123	139	149	132
Interest	5	5	7	7	7	5	5
Depreciation	104	124	160	159	180	201	196
Profit before tax	-557	-377	-168	-354	-279	-221	-536
Tax %	3%	4%	-0%	1%	5%	0%	3%
Net Profit	-572	-392	-168	-358	-292	-222	-550

Source: Screener

Key Ratios

Particulars	FY 2024	FY 2023	FY 2022	Y-o-Y Δ
Debtors Turnover Ratio	6.91	7.99	8.17	(14)%
Current Ratio	3.46	3.12	3.22	11%
Debt-Equity Ratio	0.01	0.02	0.02	(23)%
Operating Profit Margin (%)	(16.5)%	(26.5)%	(52.0)%	38%
Net Profit Margin (%)	(14.3)%	(22.2)%	(48.2)%	36%
Return on Equity Ratio (%)	(10.8)%	(13.1)%	(23.2)%	(17)%

* Interest coverage ratio has not been computed as earnings available for the interest payments are negative for the current and previous financial years

* Inventory turnover ratio is not applicable for our business

Source: Annual Report

Yearly Results

Particulars	March 2022	March 2023	March 2024
Equity Capital	65	63	64
Reserves	14,087	12,952	13,263
Borrowings	222	223	177
Other Liabilities	3,618	4,727	3,636
Total Liabilities	17,991	17,966	17,139
Fixed Assets	914	1,209	1,247
CWIP	12	11	14
Investments	1,230	2,697	4,628
Other Assets	15,836	14,048	11,250
Total Assets	17,991	17,966	17,139

Synopsis Quater Results

Con-Call Jul 24: Key Highlights

Revenue Growth Strategy:

- Focus on increasing merchant and consumer base for cross-selling financial services.
- Resilient customer base seen as key for monetization.
- Emphasis on more customers on the platform and increased cross-sell per customer.
- Expansion plans in credit, insurance, wealth, and marketing services to drive growth.
- More merchants and consumers targeted for higher customer engagement and revenue generation.

Employee and Indirect Expenses:

- Optimized FASTag sales team.
- Planning to increase merchant sales team.
- Expect continuous growth in team size.
- Anticipating increase in employees to handle 8-10 lakh merchants.
- Increase of Rs 75-80 crores in indirect expenses due to infrastructure expenses during transition.
- Tightened provisioning for aged receivables, specifically for device merchants.
- One-off nature of increased provisioning due to tightening provisions.

Growth Avenues:

- Focusing on credit, insurance, and wealth as key growth areas.
- Credit card on UPI and credit on UPI are key products.
- Expecting 5% of GMV from credit card on UPI in the next one to two years.

Insurance Business:

- Currently focusing more on merchant side of insurance.
- Planning to expand into consumer side with a focus on health insurance.
- Credit, insurance, and wealth identified as key growth areas.

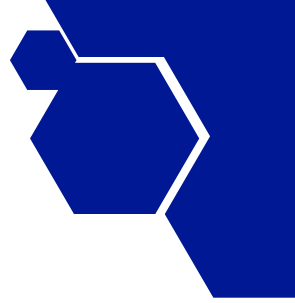
Market Share and Growth Projections:

- Expecting to increase market share in credit card on UPI and credit on UPI.
- Targeting high double-digit to close to 20% EBITDA margin in medium term.
- Aim to achieve sustainable growth rate in the next two to three years.

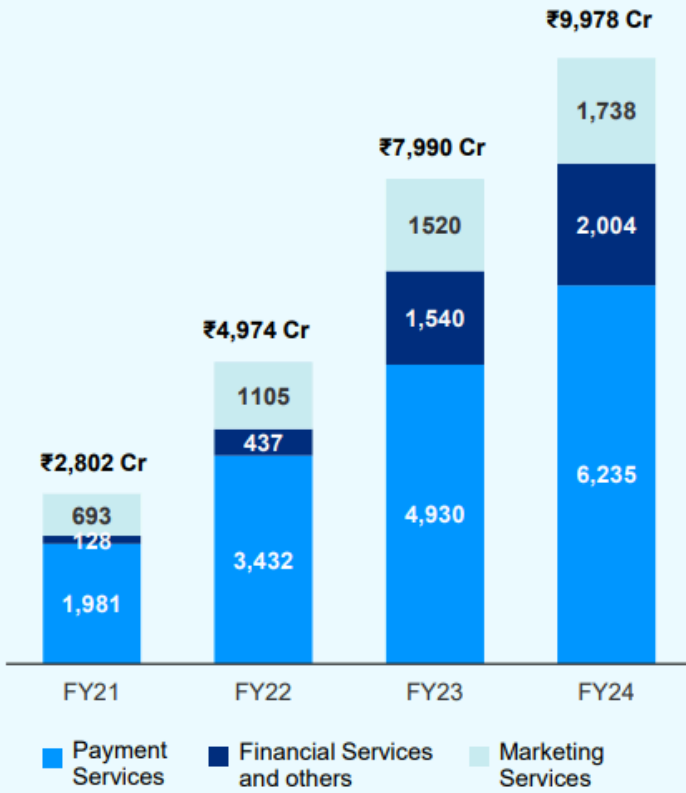
Future Outlook:

- Mutual fund and insurance distribution identified as potential growth areas.
- Anticipating significant growth in mutual fund distribution.
- Optimistic about the third leg of business being payment, credit, and mutual fund/insurance distribution.
- Management optimistic about future growth potential.
- Strategic focus on core businesses and enhancing customer engagement for revenue growth.
- Plans to leverage existing customer base and expand product offerings for sustained profitability.

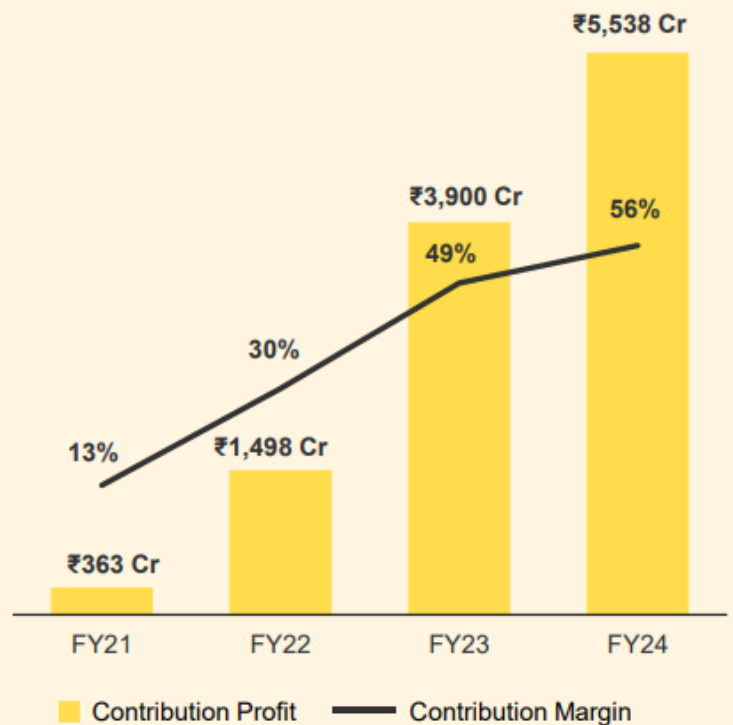
Revenue Highlights



Operating Revenue



Contribution Profit and Contribution Margin



Final Outlook

PAYTM : SELL | LTP: 558.65

Paytm's revenue from operations was ₹1,502 crore, a 36% decrease from the same quarter in 2023, when it was ₹2,342 crore. The company's net loss also increased from ₹358 crore in Q1 2023 to ₹840 crore in Q1 2024.

If you will go through the 5 year chart then you will observe that paytm is not good for investment as it has been consistently declining and the RBI crackdown caused Paytm shares to plummet. A sharp decline in Paytm parent One97 Communications Ltd shares saw the company shed 36 percent from January 31 to February 2, 2024. In November 2023, Berkshire Hathaway sold its residual 2.46 percent stake in Paytm (it had sold some stake during the company's IPO in 2021) for ₹1,371 crore to Ghisallo Master Fund and Copthall Mauritius Investment.

RBI on January 31, 2024, asked Paytm Payments Bank Limited (PPBL) to stop offering banking services effective March 15, 2024, on the back of concerns of non-compliance with regulatory guidelines.

sales is growing but in a very decreasing rate which is stating that future revenue will not be impressive.

I will give **sell** recommendation for this stock