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"THE FINANCIAL STORY OF PAYTM: AN ANALYSIS OF IT'S STATEMENTS"

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ABSTRACT:

The objective of this paper is to examine the importance of Financial reporting practices through the Paytm. Accounting practices includes record keeping, budgeting practices, and payroll accounting. The research methodology used is Exploratory research. The study uses Secondary data from the company's Annual reports in 2020 and in 2021.

The study concluded that a structured financial accounting report is a mandatory document to study the condition of an organization. The factors used to confirm this Return on Capital employed, financial reporting quality and financial earnings quality.

INTRODUCTION:

Financial accounting is the representation of the financial data to different stakeholders of who use the accounting data. This helps them to make important investment decisions, in order to get credit and necessary financial decisions. The financial reporting disclosures of corporations is specified by the recognized regulatory agencies. This is the medium used by the company to communicate with the stakeholders. The financial statements include mandatory disclosures, which are the statutory requirements to be disclosed by the organization and voluntary disclosures like CSR activities, environmental activities which are provided by the interests of the organization. Abolaji and Adeolu has mentioned that the management generally reveals information to their discretion considering the projected impact on cost and advantages to the organization.

Financial data provided by the company is the official and detailed statements that will include the financial activities. It provides data in an organized, systematic and understandable to the lay man. Financial data that is provided by the organization is a valuable resource for any market recipient as it helps in the reduction of the gap in information between the management and various stakeholders both internal and external to the organization. As a result of globalization, the financial statements has become the source of knowledge on the organizational strategy. The increase in demand for information has paved way for need to increase in transparency of organization.

As per Gadave, the quality of the financial reporting is determined by every component, whether it is information on the company's transaction, Selection and application of the various accounting principles and the judgement made due to the information. As it reduces anomalies in the information it has become an important source for the stakeholders.

KEYWORDS:

- Balance Sheet
- Ratio Analysis

- Capital on Return
- Staff Productivity
- Profit Margins

OBJECTIVES OF STUDY:

This research paper's objective is to evaluate Raymond's financial performance from 2017 until 2022.

The main goal of this study is to: •

- Study Paytm's Income Statement and Balance Sheet Statement
- Examine Paytm's success during 2017 to 2022 using the metrics, Profitability Ratio, Leverage ratio and Efficiency ratio.
- To suggest Paytm the right approach to be successful in the future endeavors

LITERATURE REVIEW:

Introduction to Financial Statement Analysis: The process of examining a company's financial statements to gain insight into its financial health, profitability, and overall performance is known as financial statement analysis. Companies prepare financial statements on a regular basis, which include the balance sheet, income statement, and cash flow statement.

Different Analytical Techniques: There are several analytical techniques used, including:

- **Ratio Analysis:** Calculating and analysing financial ratios in order to assess a company's financial health and performance. Calculating liquidity ratios, profitability ratios, activity ratios, and solvency ratios are all part of ratio analysis.
- **Trend Analysis:** Examining a company's financial statements over time to identify trends and patterns is what this entails. Investors and analysts can use trend analysis to determine the company's growth prospects and whether it is on track to meet its financial targets.
- **Comparative Analysis:** Comparing a company's financial performance to that of its competitors or industry averages is what this entails. This can assist investors and analysts in evaluating the company's competitive position and identifying areas for improvement.
- **Common Size Analysis:** Calculating financial statement items as a percentage of a common base, such as total assets or sales, is involved. This can assist investors and analysts in identifying trends and patterns in financial statements and comparing a company's performance to industry averages.
- **Cash Flow Analysis:** This entails examining a company's cash flows in order to determine its liquidity and ability to meet its financial obligations. Calculating and analysing cash flow from operations, investing activities, and financing activities are all part of cash flow analysis.

Factors Affecting Financial Statement Analysis: There are several analytical techniques used, including:

- **Accounting policies and practices:** Accounting policies and practices can have an impact on the capability of financial statements between companies or even within the same company over time.
- **Changes in economic conditions:** Changes in the overall economy, such as recessions or inflation, can have an impact on a company's financial performance and make it more difficult to accurately assess its financial health.
- **Industry trends and dynamics:** Trends and dynamics in an industry, such as changes in consumer preferences or technological advancements, can have an impact on a company's performance.
- **Management decisions and actions:** The management team's decisions and actions can have an impact on a company's financial performance and the interpretation of its financial statements.
- **Seasonality and cyclic trends:** Some businesses may experience seasonal or cyclical trends that affect their financial performance and make accurate financial statement analysis more difficult.
- **Currency fluctuations:** Companies that operate in multiple countries may be impacted by fluctuations in foreign exchange rates, which can impact financial performance and make comparing financial statements over time more difficult.
- **Mergers and Acquisitions:** Mergers and acquisitions can have an impact on a company's financial statements, making it more difficult to assess its financial health accurately.

Limitations of Financial Statements Analysis: Financial Statements Analysis has certain limitations that must be taken into account when evaluating a company's financial health and performance. Some of them are:

- **Limited scope:** Financial statements may not include all of a company's relevant financial information, such as non-financial factors that can affect its performance.
- **External factors:** External factors, such as changes in economic conditions or industry trends, can have an impact on financial statement analysis and may not be reflected in the financial statements.
- **Incomplete or inaccurate information:** Financial statements may not contain all relevant financial information, or they may contain errors or inaccuracies that affect the analysis.
- **Manipulation:** Companies or management can manipulate financial statements to present a more favourable picture of the company's financial health and performance.
- **Reliance on historical data:** Financial statements are based on historical data and may not accurately reflect a company's current or future financial health and performance.
- **Subjectivity:** Financial statement analysis requires interpretation and judgement, and different analysts may interpret the same data in a variety of ways.

PROBLEM STATEMENT:

What is PayTM current performance, and how can the business retain its competitiveness and achieve continuous growth in the face of escalating competition, unpredictable economic conditions, and improvement strategies in the next few years?

RESEAARCH METHODLOGY:

Research type - The research type to be used is descriptive in nature

Data Collection - The research is solely based on the secondary resources. The list of resources:

- Standalone research papers that were published by the company
- Associated Journals and publications that have done the initial study
- Financial reporting websites - Economic times, Business today, Equity Master, etc.

Time period- The research is conducted through Annual report analysis for the FY 21-22, by Income Statement, Balance sheet and Cash flow statements analysis. To study the company's liquidity and solvency value, profitability and efficiency a deeper analysis for 5 consecutive years from FY 17-18 to FY 21-22 was done using Ratio analysis.

Data Analysis Tools- Ratio analysis has been performed for the study to get the findings by using Microsoft Excel

RESEARCH ANALYSIS:

Ratio Analysis for Paytm from FY17-18 TO FY21-22

1. **Profitability ratio**

   (i) Net Profit Ratio: This ratio represents the net profit after tax and the sales of the company. We also call it as Net Profit Margin.

Year	NPR (in%)
2017-2018	-52.5
2018-2019	-130.5
2019-2020	-88
2020-2021	-58.1
2021-2022	-47.3

(ii) Operating Profit Ratio: It is the ratio that shows the percentage of Profit Company produces from its operations before deduction of taxes and interest charge.

Year	OPM(in %)
2017-2018	-57.3
2018-2019	-137.7
2019-2020	-89.4
2020-2021	-64.0
2021-2022	-47.3

2. **Efficiency Ratio:** It is used to determine the efficiency of organization to generate revenue from its assets. It is calculated to know how efficient a company's operations are. The greater the rate of turnover indicates the more efficient a company is performing. Different types of activity ratios are- Asset turnover ratio, Debtors turnover ratio, Inventory turnover ratio, etc.
(i) Asset Turnover Ratio: It is the ratio between a company's revenue and the value of its assets. It shows the efficiency of the company to produce revenue from its assets. A higher asset turnover ratio is better.

Year	Asset Turnover Ratio
2017-2018	0.48
2018-2019	0.35
2019-2020	0.32
2020-2021	0.27
2021-2022	0.30

(ii) Debtors Turnover Ratio: It is also known as account receivable turnover ratio. It shows how quickly a company collects its debt from its debtors. It shows the ratio between credit sale and average debtors of the company.

Year	Debtors Turnover Ratio
2017-2018	10
2018-2019	8.16
2019-2020	10.9
2020-2021	7.6
2021-2022	6.5

3. **Leverage Ratio:** It is also known as debt ratio or solvency ratio. It shows the amount of debt a company has been or will be using to finance its business operations. It is associated with long term borrowings of the firm and its ability to meet the fixed interest, repayment and cost of it. For example leverage ratio are- Debt-Equity ratio, proprietary ratio, etc.
(i) Debt-Equity ratio: It is used to evaluate a company financial leverage. It expresses the relationship between the total borrowings of the company and shareholders' equity.

Year	Debt- Equity Ratio
2017-2018	0.03
2018-2019	0.12
2019-2020	0.02
2020-2021	0.08
2021-2022	0.00

FINDING:

The findings are as follows:

Paytm Income Statement Analysis for FY 21-22

- There has been an increase in the Operating income during the year. It rose to 77.5% on a year-on-year (YoY) basis.
- The Operating profit margins had a growth and down to 47.1% in FY21-22 vs that to 64.0% in FY20-21.
- There has been an increase in the depreciation charges by 38.5% and increase in the finance costs by 10.8% YoY.
- There was a decline in other sources of income by 24.5% YoY.
- There has been an increase in the net profit margins during the year and it grew from 58.1% to 47.3% from FY20-21 to FY21-22.

Paytm Balance Sheet Analysis for FY 22

- The company's current liabilities have increased by 54.6% from FY20-21 to FY21-22
- Current assets rose by 45% which is at Rs 107 billion and the fixed assets increase by 314% which is at Rs 72 billion in FY21-22.
- Through the study of the total assets and liabilities for FY21-22, we observe that there is a growth of 97%

PAYTM RATIO ANALYSIS:

- The Net Profit Margins has been negative from FY17-18 to FY21-22. The profit margin grew from FY18 to FY22. It grew from 58.1% to 47.3% from FY20-21 to FY21-22. There has been a drop in FY 19, but there has been an increase year after year. As per the table, it can be said that the company has negative operating margin which indicates the company inability to control cost. It shows that both the company's cost is more than its revenue. It occurs due to allotment of more funds to the employee benefit account and finance cost also increases which led to decrease in operating ratio.
- The Operating Profit Margin witnessed a growth and down at 47.1% in FY21-22 as against 64% in FY20-21. This was due to the improved operating leverage. There has been a reduction in the indirect costs. Their profit margin is affected by the Loans & Subscription sales. As per the above table, it can be said that as of now both the company is in loss, and is not able to provide sufficient return to its shareholders.
- The asset turnover ratio is down from 0.48 in FY17 to 0.3 in FY22, implying that the company has not been utilizing its assets properly during the period.

- The debtor's turnover ratio is down from 10 in FY17 to 6.5 in FY22, that means the company is recovering from debts at a stable rate.
- The debt-to-equity ratio is down from 0.03 in FY20-21 to 0.00 in FY21-22. The ratio has fell to zero, implying that the company has reduced the usage of long-term debts, as it shall be a burden to the company.

RECOMONDATIONS:

- Paytm can become profitable by working on the Cash Cow implies high margin businesses which will improve the Operating margin
- The reduction in the indirect expenses can improve the Profit Margin
- The company needs to stop utilizing the long-term debts and increase the equity as this helps to reduction in debts usage
- The utilization of the current assets will be necessary. It is recommended to close all the low hanging business where the profit margin is getting affected.
- Though the company is working on the assets but the liabilities are equally increasing. It is necessary to work on the liability.

Business plan recommendation:

- **Debt restructuring:** This process allows businesses to renegotiate their existing debts. Debt restructuring allows businesses to improve or restore liquidity so that they can continue to operate. This is typically accomplished by lowering loan interest rates, extending the date on which the company's liabilities are due, or both. This step improves the company's chances of collecting debts, resulting in a lower debt-to-equity ratio. Defined Credit Policies: Design and document clear credit policies and encourage adherence to the same to reduce instances of delays in collection. A frequent revisit and modification of the policies will help adjust to the new environment.
- **Reduce the Cost of Goods:** A company's operating profit can be increased by lowering the cost of the goods and services it sells. This can be accomplished through effective cost management and price negotiations with suppliers. A less expensive product packaging design can also be considered to save money per item. Product packaging is an expense that is frequently overlooked.
- **Improve Inventory Management:** Improving inventory management can be accomplished by reducing inventory on hand and increasing turnover. As a result, storage costs, obsolescence, and shrinkage will be reduced. To avoid tying up too much capital in inventory, an effective inventory management system can help track stock levels and enable just-in-time ordering. Daily inventory inspections and asking employees to record the number of items returned or broken can assist in keeping track of stock levels. It can assist a business in making better sales, purchasing, and marketing decisions. This enables the company to sell more products while decreasing the need for markdowns.
- **Boost Staff Productivity:** The average company loses more than 20% of its productive capacity due to organizational drag — the structures and processes that consume valuable time and prevent employees from getting things done. Companies must evaluate their processes on a regular basis to ensure they are not slowing down or reducing productivity. They must develop procedures that are easily replicated and implemented by employees when business operators are not present.
- **Increase Average Order Value:** Increasing the average order value is one way to boost operating profit. Customers can benefit from cross-selling and upselling complementary products. Another method is to bundle products together at a discounted price. This encourages customers to purchase more products from the company, increasing revenue and operating profit.

LIMITATIONS:

1. The focus of study is purely based on financial models.
2. The data has been till FY 22, limiting our study to past data.

CONCLUSION:

It can be concluded that PayTM is suffering from losses, but their revenue has been increasing as there is increase in use of digital services in India. As of now company making loss because of regulations by RBI and other reasons but different initiatives are taken by the company for eg: offers, cash back, etc. to attract target market and increase traffic and are surviving because of increase in their funds. The IPO has affected the performance of the company. But a continued structural study of the performance can help in the growth of the company

ANNEXURES:

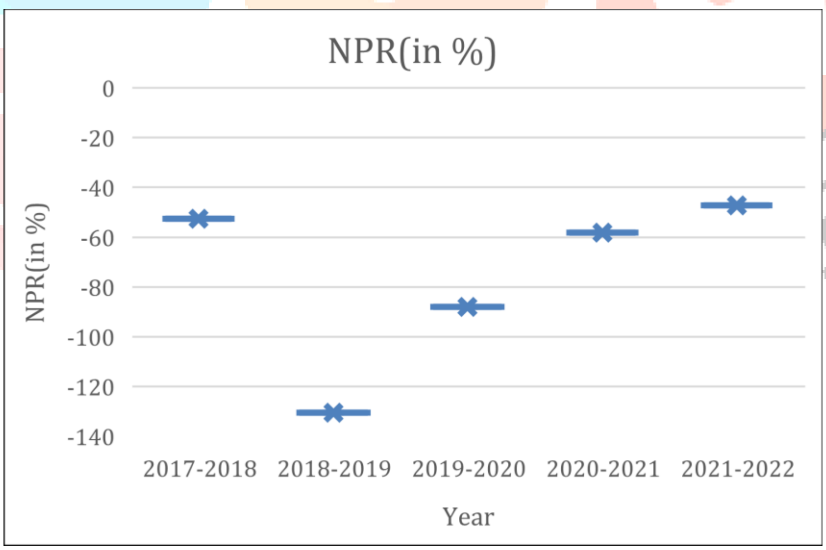
To obtain useful data about a company, financial ratios are constructed using numerical values collected from financial statements. Quantitative analysis is used to evaluate a company's liquidity, leverage, growth, margins, profitability, rates of return, valuation, and other factors using the data on its financial statements, which include the balance sheet, income statement, and cash flow statement.

Ratio analysis:

1) **PROFITAILITY RATIO:**

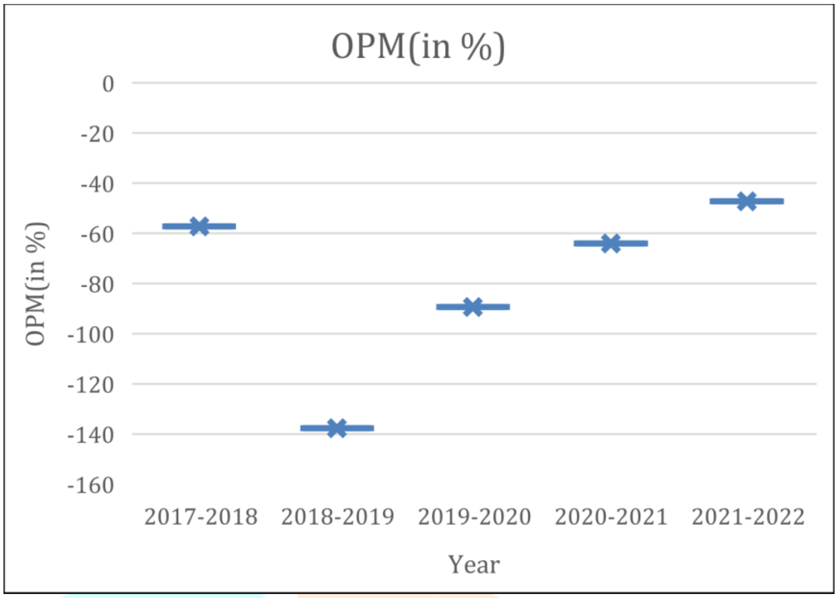
   i. **Net Profit Ratio:**

Net Profit Ratio = (Net Profit after Tax / Net Sale) * 100



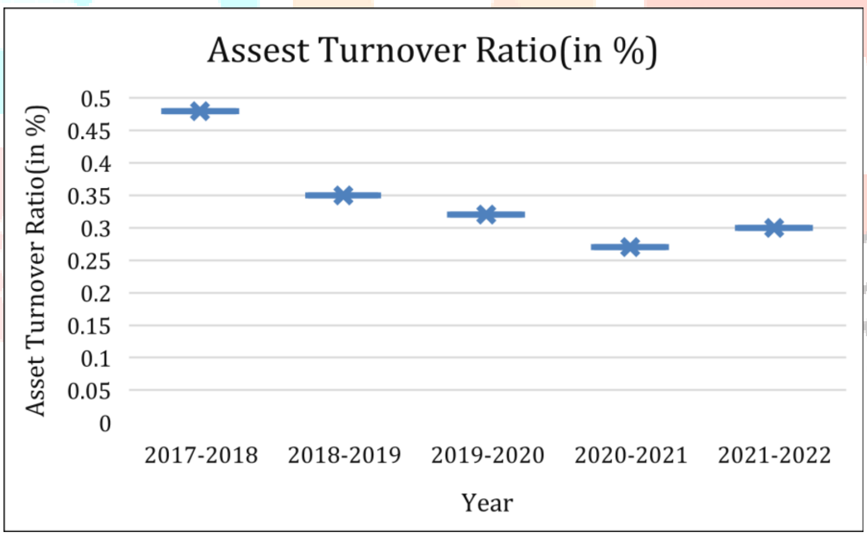
ii. Operating Profit Ratio

Operating Profit Margin= (Operating profit/ Total Revenue) x 10



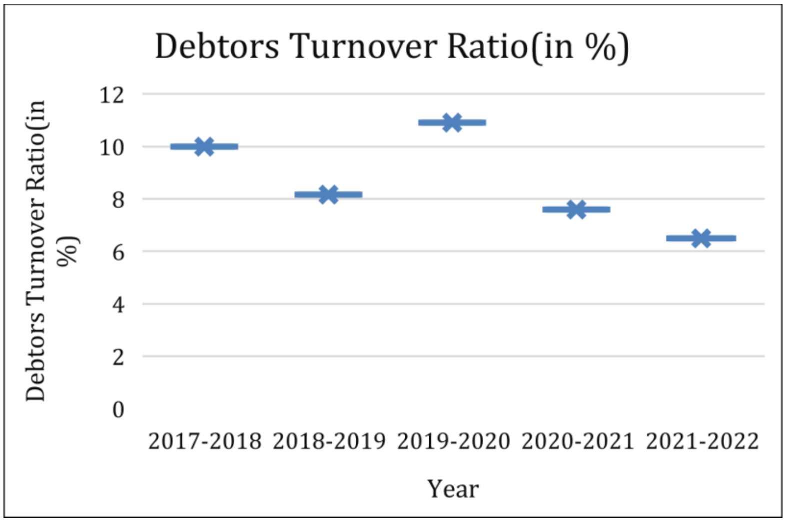
2) Efficiency Ratio

i.



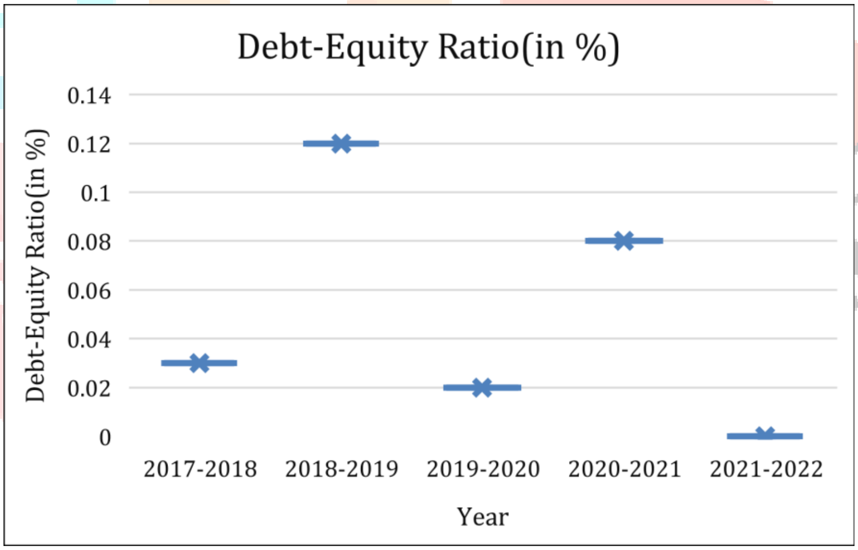
ii. Debtors Turnover Ratio

Debtor turnover ratio = Credit Sales / Average Debtor



3) Leverage Ratio

Debt-Equity ratio= Total debt/ shareholders' equity



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