



Mobile Money Mavericks: An In-Depth Financial Analysis of Paytm

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ABSTRACT:

As people are moving towards advanced technology so the usage of digital payments increased which reduced carrying physical cash resulting in a green initiative. It also has options for booking tickets which makes people easily book tickets and also generates revenue through advertisements of shows for which they sell tickets.

This research paper presents a comprehensive financial analysis of Paytm, a leading digital payments and financial services company in India. The study examines the company's financial performance for the financial years 2021 and 2022, with a focus on its efficiency, profitability, and sustainability.

The study also analyzes the company's financial statements, including the income statement, balance sheet, and cash flow statement, to understand the trends and patterns in its financial performance. In addition, the study investigates the impact of various internal and external factors, such as competition, regulatory environment, and technological advancements, on Paytm's financial performance.

The findings of this study are expected to provide valuable insights for investors, analysts, and policymakers in assessing Paytm's financial health and making informed decisions about the company.

Keywords: Digital Payments, Physical Cash, Tickets, Advertisements, Revenue, Paytm

INTRODUCTION:

Paytm is a popular digital wallet and e-commerce platform based in India. It was launched in 2010 by One97 Communications, and since then, it has grown to become one of the largest mobile payment and financial services companies in India.

Overall, Paytm has revolutionized the way Indians transact and has played a significant role in driving the growth of digital payments in the country. Paytm's financial performance in recent years has been strong, and it has consistently reported revenue growth.

The present study is taking into consideration only one objective is to know Paytm's Growth in India as a Digital Payment Platform. The study is based on secondary data, which is collected through various books, business magazines, journals, newspapers, research studies, the internet, websites, etc., which is about the growth of Paytm from its origin.

REVIEW OF LITERATURE:

Thirupathi Manickam and Vinayagamoorthi G (2022) highlight that the majority of the respondents are using the mobile wallet for multiple reasons like Recharge, Making Transactions, and making easy payments,

etc...but very few of them use the mobile wallet for online shopping purposes. The awareness level of online shopping options available with PayTm is very less.

U. Amaleshwari and R. Jeevitha (2022) A great percentage of the respondents manage their funds by using fintech applications for planning, budgeting, tax planning, and investment. Very few respondents use neo-investments such as cryptos and non-fungible tokens (NFTs).

Dr. D. S. Borkar and Avinash Galande (2022) highlight that Payment banks like Paytm and Airtel have gained popularity in India within a few years. They have been successful in providing banking services to lower-income groups and small businesses. Paytm has enabled smaller businesses to use UPI and QR codes for smoother payment operations. Payment banks play a vital role in the digitalization of India and the move towards a cashless economy.

ABA Banking Journal (2018) highlights that Fintech should not be seen as competition by the existing players in the financial services sector. Rather, banks should implement fintech as part of their strategic vision. The cited literature underlines the fact that Paytm offered a diverse range of products. The banking sector thrives on the High Volume-Low Margin business model and Paytm's entry into the banking sector in 2015 has been crucial in its success.

Samudre and Gramopadhye (2018) found that the frequent users of Paytm are below the age of 35 years. People use Paytm mainly to recharge mobile numbers and mostly their transactions are between Rs. 101 to Rs. 1000.

Nair (2018) collected data from 201 respondents and employed factor analysis to analyze the data. The author discovered that sustainability and transaction-oriented are the main motives to use mobile payments.

FE Bureau (2017) states that according to the RBI, Demonetization has increased the growth of Paytm & Mobikwik which is known as the Digital payment companies.

Prof Trilok Nath Shukla (June 2016) presented his findings on the present and future of mobile wallets. The paper covered the types of mobile wallets available, how they work, and their respective advantages and disadvantages. Prof Shukla's analysis also included the perspectives of consumers and retailers regarding mobile wallets. He concluded that mobile wallets have the potential to be a useful tool for engaging customers, especially for marketers and digital businesses. Regardless of the current market status of mobile wallets, Prof Shukla recommends that marketers should seize the emerging opportunities in this area.

PROBLEM STATEMENT:

The COVID-19 pandemic has had a significant impact on the global economy, and the financial industry has not been spared from its effects. As one of the leading digital payment service providers in India, Paytm has been at the forefront of the digital payment revolution. However, the pandemic has disrupted the business operations of Paytm and the overall digital payment industry.

This research paper aims to analyze the financial performance of Paytm after the COVID-19 pandemic, with a focus on understanding the impact of the pandemic on its business operations and financial metrics.

Hypothesis

The Covid-19 pandemic had a negative impact on numerous companies, causing them to suffer losses. However, after the pandemic, people became more familiar with technology, leading to an increase in the user count of technology-related companies.

OBJECTIVE:

- To study the income statement, balance sheet, and cash flow statement of the company
- To analyze the financial position of the company.

METHODOLOGY:

- The type of research presented in this paper is descriptive, as it provides insights into the effective use of Paytm by people and the revenue generation strategies employed by the company.
- The researcher collected secondary data such as income statement, balance sheet, and cash flow statement, while primary data was gathered on the frequency of usage and public interest in payment applications.
- This research paper utilized both the random sampling technique and the non-probability sampling technique, the latter involving the use of previous years' data.
- Through the financial statement of the company, Paytm's expenses breakdown, and revenue breakdown was analyzed for the financial year 2021 and 2022.

TOOLS USED FOR ANALYSIS

Different ratio analysis and tools like

- Solvency ratios
- Profitability ratios
- Graphical Representation Analysis
- Comparative Statement Analysis
- Cash Flow Statement Analysis

ANALYSIS & INTERPRETATION:

Income Statement Analysis

Particulars	12 Mar-21	12 Mar-22	%Change
Net Sales	28,002	49,704	77.5%
Other Income	3,844	2,901	-24.5%
Total Revenues	31,846	52,605	65.2%
Gross profit	-17,924	-23,401	30.55%
Depreciation	1785	2,473	38.5%
Interest	378	419	10.8%
Profit before tax	-16243	-23,392	44.01%
Tax	27	113	318.5%
Profit after tax	-16270	-23505	44.46%
Gross profit margin	-64	-47.1	
Net profit margin	-58.1	-47.3	

Source: Accord Fintech, Equitymaster

- Operational income increased 77.5% year over year (YoY) during the course of the year.
- During the fiscal year, the company's operating profit decreased by 30.55% YoY. Operational profit margins increased and then decreased, reaching 47.1% in FY22 compared to 64.0% in FY21.
- Depreciation charges and borrowing expenses saw corresponding YoY increases of 38.5% and 10.8%.
- Other income fell by 24.5% year over year.

Balance Sheet Analysis

Particulars	12 Mar-21	12 Mar-22	%Change
Net Worth	61,082	131,494	115.3%
Current Liabilities	21,552	33,325	54.6%
Total Liabilities	91,478	179,846	96.6%
Current Assets	73,998	107,450	45.2%
Fixed Assets	17,480	72,396	314.2%
Total Assets	91,478	179,846	96.6%

Source: Accord Fintech, Equitymaster

- The company's current liabilities increased by 54.6% in FY22 from Rs 22 billion to Rs 33 billion, totaling Rs 33 billion.
- In FY22, current assets increased by 45% to reach Rs 107 billion, while fixed assets increased by 314% to reach Rs 72 billion.
- Overall, the assets and liabilities for FY22 were Rs 180 billion as opposed to Rs 91 billion in FY21, representing a 97% increase.

Cash Flow Statement Analysis

Particulars	12 Mar-21	12 Mar-22	%Change
Cash Flow from Operating Activities	-20,825	-12,363	40.66%
Cash Flow from Investing Activities	19,298	-54,886	384.41%
Cash Flow from Financing Activities	-2,221	80,535	3726.6%
Net Cash Flow	-3,708	13,335	459.62%

Source: Accord Fintech, Equitymaster

- During FY22, PAYTM's cash flow from operating activities (CFO) totaled Rs -12 billion on a year-over-year basis.
- On a year-over-year basis, cash flow from investment activities (CFI) during FY22 totaled Rs -55 billion.
- For FY22, cash flow from financial activities (CFF) totaled Rs 81 billion, an increase of 3,726% year over year.
- From net cash flows of Rs -4 billion in FY21 to net cash flows of Rs 13 billion in FY22, the company's overall net cash flows increased.

Ratio Analysis

1) Solvency ratios

Particulars	12 Mar-21	12 Mar-22
Current Liabilities	21,552	33,325
Current Assets	73,998	107,450
Current Ratio	3.4:1	3.2:1
Interest Coverage Ratio	-42:1	-54.8:1
Return on Equity	-26.6%	-17.9%
Return on Capital Employed	-26%	-17.5%
Return on Assets	-17.4%	12.8%

Source: Accord Fintech, Equitymaster

Current ratio:

A current ratio of 3.2:1 still indicates that the company has sufficient current assets to cover its current liabilities, but a decrease from the previous year's ratio of 3.4:1 may suggest that the company's liquidity position has weakened.

Interest Coverage ratio:

The declining interest coverage ratio indicates that the company is facing financial distress or risk of defaulting on its debt obligations. It is important for investors and stakeholders to closely monitor the company's financial health, as a sustained negative interest coverage ratio can lead to credit downgrades and even bankruptcy.

2) Profitability ratios**Return on Equity ratio:**

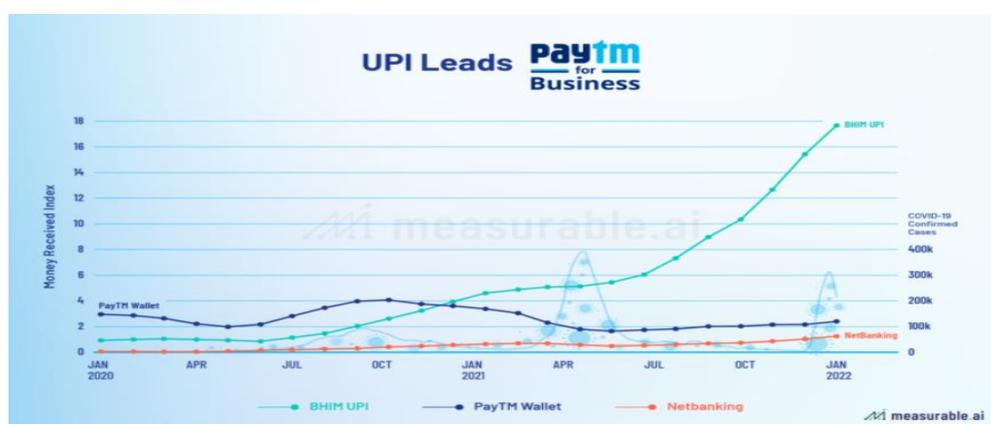
Based on the given information, it appears that the company has shown improvement in its ability to generate profits from the shareholders' capital. The increase in the return on equity (ROE) from -26.6% in FY21 to -17.9% in FY22 suggests that the company has been able to generate more profits from each unit of shareholder's equity investment in the company.

Return on Capital Employed ratio:

It appears that the company has shown improvement in its ability to generate profits from the total capital employed in the business. The increase in return on capital employed (ROCE) from -26.0% in FY21 to -17.5% in FY22 suggests that the company has been able to generate more profits from each unit of total capital employed.

Return on Assets ratio:

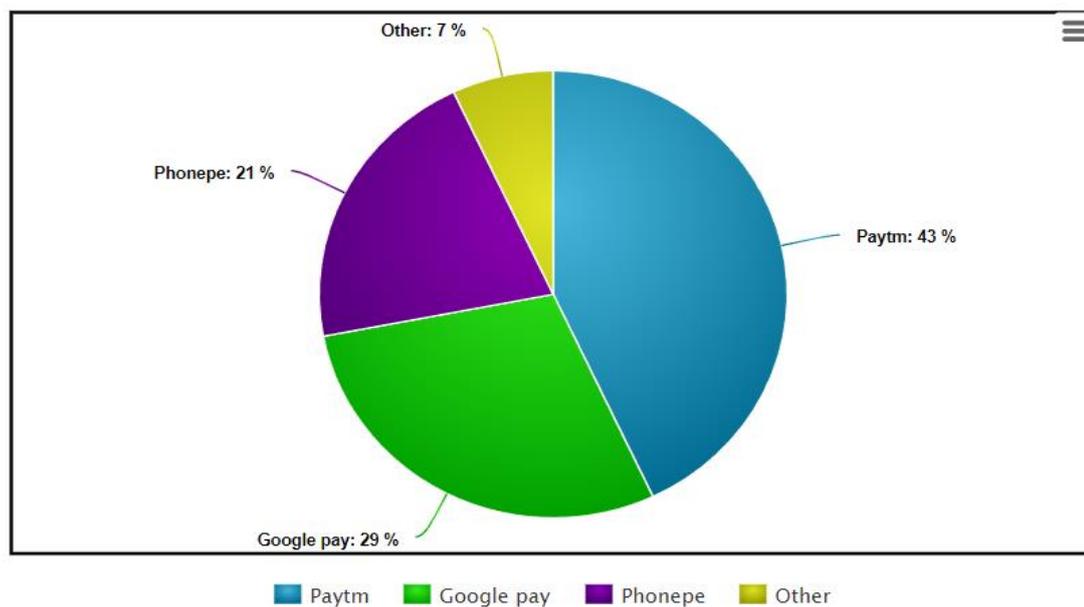
It appears that the company has shown improvement in how efficiently it uses its assets to generate earnings. The increase in return on assets (ROA) from -17.4% in FY21 to -12.8% in FY22 suggests that the company has been able to generate more earnings from each unit of assets it owns.

PAYTM USERS' GROWTH:

Source: Measurable.ai

From the graph, the researcher can observe that there is a sudden increase in users' growth after the pandemic i.e., in FY 21-22 the growth is more so they got fewer losses compared to during the pandemic FY20-21.

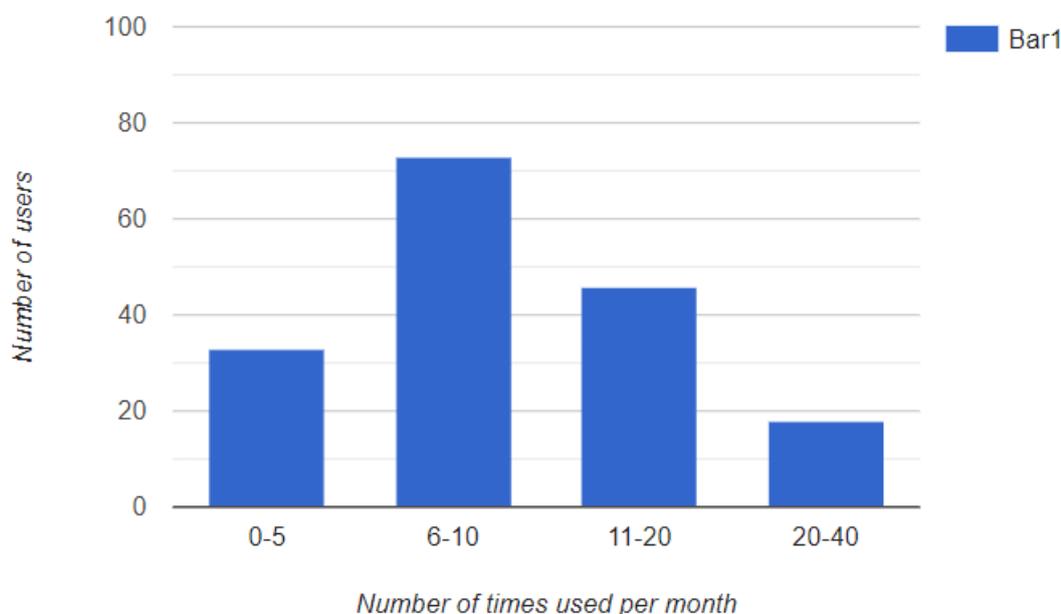
People's interest in different Mobile payment apps:



Source: Primary Data – Questionnaire

According to a survey conducted by a researcher among 174 individuals, 43% of the respondents showed greater interest in Paytm compared to other apps like Google Pay and PhonePe. The participants cited reasons such as increased usage of such apps post the Covid-19 pandemic and Paytm's superior user interface. These findings suggest that companies can generate substantial returns with effective finance management.

Frequency of users using Paytm:



Source: Primary Data – Questionnaire

A survey was conducted by the researcher among 174 individuals to determine the frequency of their usage of Paytm. The results showed that 73 individuals use Paytm 6-10 times per month, while only 18 individuals use it 20-40 times per month. These findings suggest that most people use Paytm for its basic features, while only a small minority utilize all of its features.

FINDINGS:

- The company's current liabilities increased by 54.6% in FY22 from Rs 22 billion to Rs 33 billion whereas current assets increased only by 45.2%.

- The company returns increased after the covid-19, even though returns are still negative like -17.9% for ROE, -17.55% for return on ROCE, and -12.8% for ROA, which is not generating earnings as much as required. It indicates that the company is not using assets, capital employed, and shareholder's capital effectively.
- From the researcher's point of view, the researcher finds there is a high risk for investors and stakeholders as they are not getting proper returns as they expected 15% of ROE against -17.9% of ROE.
- The researcher found that 43% of individuals are interested in using Paytm which is greater than any other company.
- Out of 174 individuals who use Paytm, only 18 utilize all of its features, whereas 73 use a limited number of features.
- A sustained negative interest coverage ratio can lead to credit downgrades and even bankruptcy.
- The company is not maintaining a good interest coverage ratio of -54.8:1 which is a red flag.
- The company has faced challenges in maintaining profitability during the pandemic.

RECOMMENDATIONS:

- It is recommended that the company takes steps to improve its interest coverage ratio, such as reducing its debt burden or increasing its EBIT.
- The company's current ratio can be improved by a combination of strategies that focus on increasing cash reserves, reducing current liabilities, improving collections, and exploring long-term financing options.
- The company's current ratio can be improved by a combination of strategies that focus on increasing profitability, reducing debt, optimizing capital structure, and expanding the shareholder base.
- The company can also improve its ROE by improving its operational efficiency. This can be achieved by streamlining processes, reducing waste, and improving productivity.
- The company may want to consider optimizing its capital structure to improve its ROCE. This can involve a combination of equity and debt financing to achieve an optimal mix of financing that maximizes returns on total capital employed.
- With a larger user base compared to other apps, Paytm can enhance its returns through efficient financial management.

LIMITATION OF STUDY:

- In this paper, the researcher used a limited number of tools such as ratio analysis, comparative statement analysis to analyze the financial position of a company and the preferences of the respondents.
- This study relates only the past financial statements are not forever and they are not the future.
- The researcher used a ratio analysis, which only helps us to find the dilemma and problems in the financial growth of Paytm.

WAY FORWARD:

Further research can be done using data collection tools like combination research, focus groups, observation, qualitative research, and quantitative methods.

CONCLUSION:

Paytm incurred significant losses before the COVID-19 pandemic. However, the pandemic had a notable impact on the company, resulting in a sudden surge in users and a decrease in losses compared to previous years. Despite this, Paytm must take necessary actions and implement recommended strategies to generate profits and reduce risk for its investors and shareholders. The industry holds vast potential for profitability, and with proper financial management and innovative approaches, Paytm can achieve long-term success.

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