

An Analysis on the Annual Reports of an Indian Unicorn Startup: Paytm”

Sushma Prasad R^a, Rajeshwari G M^b

^aResearch, Scholar, Vidyavardhaka Research Foundation, Mysuru, Karnataka

^bAssociate Professor and HoD, Post-Graduation Department of Commerce Vidyavardhaka First Grade College Mysuru, Karnataka.

Abstract

Digital Transformation has become an efficient tool for businesses in current scenario. India being one of the largest and fastest growing economy for digital markets, this has radically changed most of the sectors in Indian economy. It also has a fast-growing digital consumer which in turn made India as digitally advanced country. Paytm is an Indian unicorn which is specialized in digital payment system, financial services and e-commerce. It is also one of the highest valued fintech companies in the world. In this background it is important to know about the profit and loss of the company as it recently issued the IPO, to ascertain the performance for the company. The study has gained importance to know the financial performance of Paytm by comparing the financial statements pertaining to three consecutive financial years, that is, 2018-19, 2019-20, 2020-21. The analysis is basically on the important elements namely (a) Total Revenue (b) Total expenses (c) Profit/loss for the year.

KEYWORDS: Digital payments, fintech companies, financial performance, Paytm, digital transformation

Introduction

Digital Platforms play a vital role in the digital economy which contributes toward the development of the national growth. These platforms will enable the users to transact and connect within the digital ecosystem. The digital transformation will embark in building a rewarding platform to the organizations which benefit it with faster innovation, improved reliability and reduction in the cost. In the era of technological advancement, there is a drastic shift from traditional way of providing financial services to the improvised feature of providing facilities through virtual form through various digital platforms. This enhances the wider approach to the users and simultaneously increase the economic activity of the country. Digital strategy is also one of the booming business models that we are experiencing in current scenario. Digital financing includes various products, applications and processes which renders various financial related services to the users. The major advantage with regard to digital finance is the financial inclusion.

Paytm is specialized in digital payment system and is a multinational financial technology company. The parent company of the Paytm is One97 Communications. It was founded in August 2010 by Vijay Shekhar Sharma. Prepaid and DTH recharge are the initial services of Paytm. Gradually postpaid services, water bills, electricity bills, landline bills, gas bills etc. were additions to it. Also, Uber later added it as its payment option. The value-added services include Paytm Wallet, railway booking, Paytm Payment Bank. UPI and card payments were allowed directly to the bank with 0% charges. Paytm also possess

“Paytm for business” app which is now called as “Business with Paytm” app. Now, Paytm have partnered with Citibank for launching credit cards and has two wealth management plans that is, Paytm gold savings plan and Gold Gifting.

Review of Literature

- 1) **Mayilsamy&Vishmita (2021)** conducted a comparative study on Users' satisfaction towards Google Pay and Paytm with special reference to Coimbatore City. The objectives of the study consist of identification of customer preference, problems faced by the users and their satisfaction level in the usage of Google Pay and Paytm. The study was based on primary and secondary data where convenient sampling technique was used. The study reveals that the users were satisfied with the transaction speed, safety and security, software, convenience and grievance services. The conclusion comprises of the importance of electronic payment system as it has become one of the prerequisites in today's era which is the success key when e-commerce payment system fulfils the factors such as consumer preferences, reliability, ease of use, cost, authorization, authentication, security, accessibility and ease of use. The tools used for this study is Percentage analysis, Ranking analysis and Likert scale analysis with the sample size of 150 respondents.
- 2) **Mallesha&Godugu (2021)** examined the trends in Digital Payments System in India. The study was with special reference to Google Pay, PhonePe and Paytm. The purpose of the study was to determine the present trend towards the adoption of digital payments in India, its reason for adoption and problem faced by the people in India. To accomplish the objectives, the analysis is made on the industrial profile of three mentioned payment platforms with regard to its revenue generation for which the comparison is made. But the analysis is just limited to the criteria of the revenue generation where the other objectives such as reason for adoption and problem faced by the users cannot be depicted using the industrial profile on its respective revenue generation. The conclusion of the study comprises of the aspects which shows the boom in the digital payments as there is greater number of cards and wallets usage by the people.
- 3) **Kumar et.al., (2019)** analysed the trends in digital payment on digital financial services in India. It speaks about the trends in digital transformation and road ahead to increased digital transactions. The growth is persistent in the digital era and the deepening of digital financial services has increased the volume of digital transactions in India. The digital money ecosystem consists the body like regulators, service providers, technology manufacturers and the customer for whom the financial services are designed. As the entire channel serves the urban and literate population, the banks have deepened the financial access and improved the financial literacy with increased usage of current financial infrastructure such as ATMs and POS. Even though India faces financial exclusion challenge, there is always an opportunity to build sound field of technology and digital infrastructure to meet the financial access goal in India.
- 4) **Pai (2018)** conducted a study on customer perception towards digital wallets which is convenient money transfer platform. The objective of the study evaluates the consumer perception towards e-payment system and digital wallets. The information from the respondents is collected through questionnaire and also through secondary sources such as newspapers, magazines, websites. The finding revealed that the customer satisfaction changes with the change in the technology

and the awareness among respondents is high. The factors such as security, necessity, time and services influence the preferences among the respondents. The accomplishment of the objectives was attained by the researcher, as customer awareness, perception and willingness to use digital wallets were explored in the study. The study concludes that the consumers are embracing the digital wallets with open arms as the consumer rely upon the digital lifestyle. The study comprises of 120 respondents which includes 90 users and 30 non-users of digital wallets through non-random sampling technique.

Research Gap

From the literature review it shows that most of the studies focuses on users' perception of the digital platform and identification of satisfaction level among the users, however there are very few studies on the analysis of the financial statements of the Paytm particularly after the issue of IPO.

Research Questions

- 1) What is the profit/loss position of the company in the three consecutive years 2018-19, 2019-20,2020-21?
- 2) What are the reasons for decline in the performance of the company?
- 3) What are the revenue generation aspects of the company in consecutive years 2018-19, 2019-20,2020-21?

Statement of problem

The performance of the company can be ascertained using the financial reports which serves as the basis. Profit/Loss is the vital component of the company which helps in identifying factors which helps in generation of profits. There is a need to analyse the annual reports of the company to know the actuals of the company's operational income and the respective expenses to know the stability.

Objectives

The study has been carried out to fulfill the following objectives:

- 1) To study the conceptual background of digital transformation and Paytm platform.
- 2) To compare the profit/loss of the business in three consecutive years.
- 3) To extract the reasons of the performance of the company based on the annual reports.
- 4) To analyze the revenue generation of the company in three consecutive years.

Scope of the research

The current research paper is an attempt to analyze the financial performance of the Paytm company pertaining to three consecutive years namely, 2018-19, 2019-20 and 2020-21. The data of the profit/loss have been taken from the parent company One97 communications belonging to its three respective consecutive annual reports. The study has been carried out based on three variables namely,

(a) Total revenue (b) Total expenses (c) Profit/loss for the year.

Research Methodology

The study has gained its importance through the secondary data which have been extracted from the annual reports of the parent company of Paytm, i.e., One97 communications for three consecutive years, namely 2018-19, 2019-20,2020-21.

The study also includes the information collected from research articles, thesis and websites

Analysis of the Data and Discussion

The analysis of the data is based on three aspects in the financial statement, namely, (a) Total Revenue (b) Total expenses (c) profit/loss for the year.

1) Based on total revenue

Table No.1

Total Revenue for three consecutive years 2018-19,2019-20,2020-21

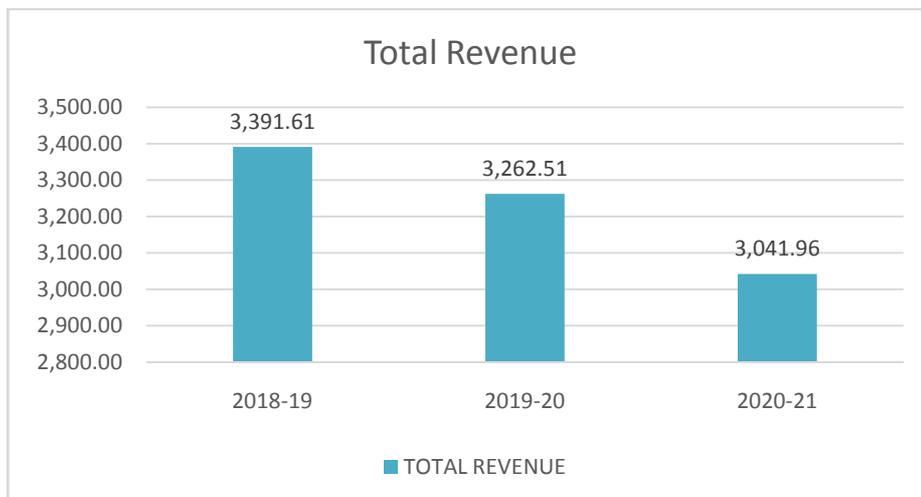
(Source:Secondary)

The above table depicts the total revenue generated in three consecutive years namely,

Variables	2018-19(INR in crores)	2019-20(INR in crores)	2020-21(INR in crores)
Revenue from Operations	3,049.87	3,115.10	2,667.08
Other Income	341.74	235.49	374.88
TOTAL REVENUE	3,391.61	3,350.59	3,041.96

2018-19, 2019-20 and 2020-21 respectively. The income is generated from operations and other sources as mentioned in the data. The aggregate of the revenues stood at INR 3,391.61*, INR 3,350.59* and INR 3,041.96* respectively for three consecutive years namely, 2018-19, 2019-20 and 2020-21.

(Note: * amounts in crores)



2) Based on total expenses

Table No.2

Total Expenses for three consecutive years 2018-19,2019-20,2020-21

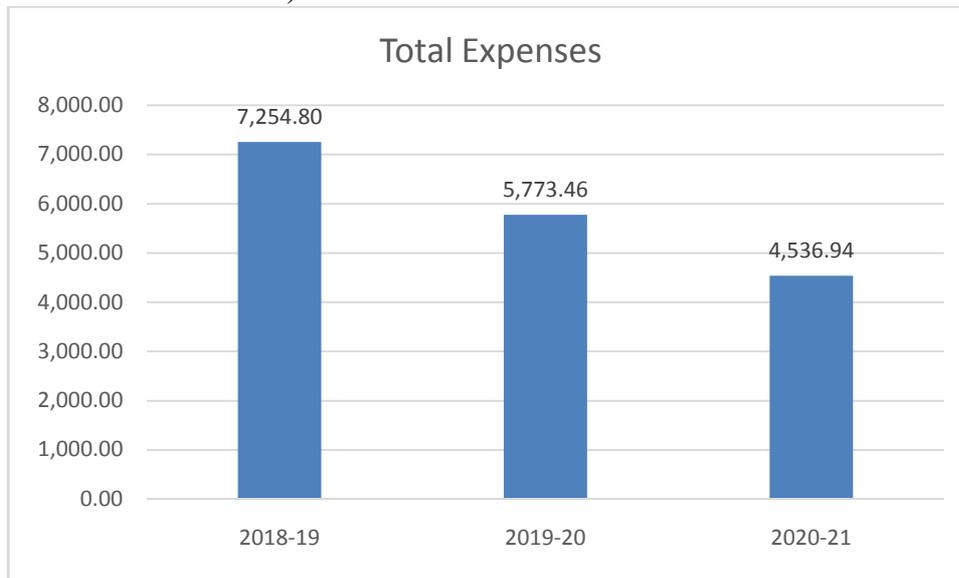
Variables	2018-19(INR in crores)	2019-20(INR in crores)	2020-21(INR in crores)
Payment processing charges	—	2,256.51	1,913.10
Marketing and promotional expenses	—	1,365.57	520.95
Employee Benefit Expense	627.78	825.12	833.9
Software, cloud and data centre expenses	—	332.11	320.73

Depreciation and Amortization Expense	75.81	143.18	156.78
Finance Cost	16.5	45.56	33.68
Other Expenses	6,534.71	805.41	757.8
Total Expenses	7,254.80	5,773.46	4,536.94

(Source:Secondary)

The above data represents the various expenses met by the company in three consecutive years. The expenses are for various aspects such as payment processing charges, marketing and promotional expenses, employee benefit expenses, software, cloud and data center expenses, depreciation and amortization expense, finance cost and other expenses which provides overall cost of expenses for the company. The expenses incurred in the three consecutive years, namely, 2018-19,2019-20, 2020-21 are INR 7,254.80*, INR 5,772.46* & INR 4,536.94*.

(Note: * amounts in crores)



3) Based on profit/loss of the company

Table No.3

Total profit/loss for three consecutive years 2018-19,2019-20,2020-21

Particulars	Standalone		
	2018-19	2019-20	2020-21
Revenue from Operations	3,049.87	3,115.10	2,667.08
Other Income	341.74	147.41	374.88
TOTAL REVENUE	3,391.61	3,262.51	3,041.96
Less: TOTAL EXPENSES	7,254.80	5,773.46	4,536.94
Profit/Loss before share of result of associates and taxation from continuing operations	(3,863.19)	(2,510.95)	(1,494.98)
Share of result of associates/joint venture entities	—	—	—
Profit/Loss before exceptional items and tax from continuing operations	(3,863.19)	(2,510.95)	(1,494.98)
Exceptional items	(91.02)	(322.18)	(65)
Profit/Loss before Tax from Continuing Operations	(3,954.21)	(2,833.13)	(1,559.98)
Tax Expense	0.12	0.05	0.22
Profit/Loss from Continuing Operations	(3,954.33)	(2,833.18)	(1,560.20)
Profit/Loss for the period from discontinued operations	(5.31)	—	—

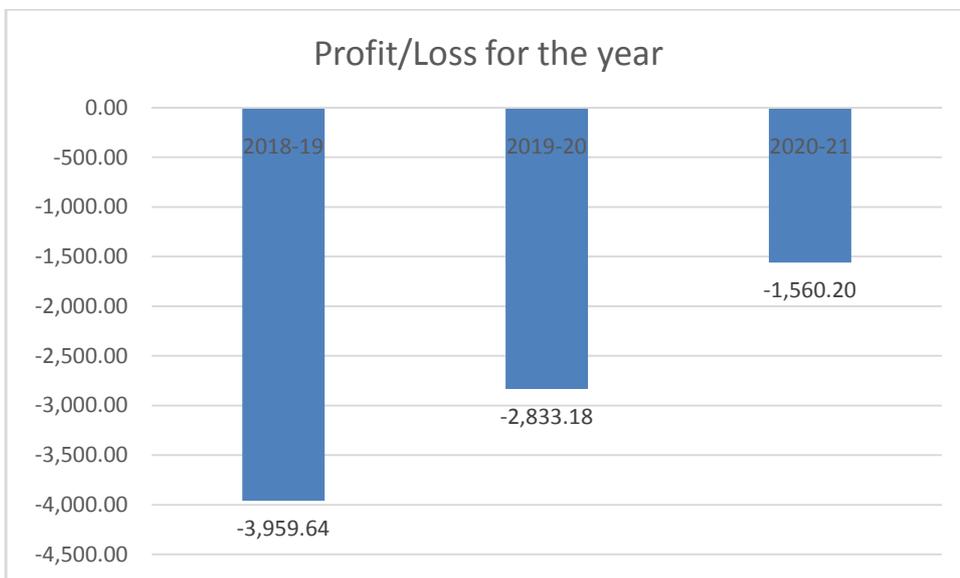
Profit/Loss for the year	(3,959.64)	(2,833.18)	(1,560.20)
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(Source:Secondary)

The financial status of the company is exhibited through the profit/loss position of the company. The above data represents and overall profit/loss state of the company for three consecutive years. In addition to the revenue and expense aspect, the profit/loss is also determined considering various other factors such as, share of result of associates and taxation from continuing operations, result of associates / joint venture entities, before exceptional items and tax from continuing operations, before tax from continuing operations, tax expense, from continuing operations, and lastly, period from discontinued operations.

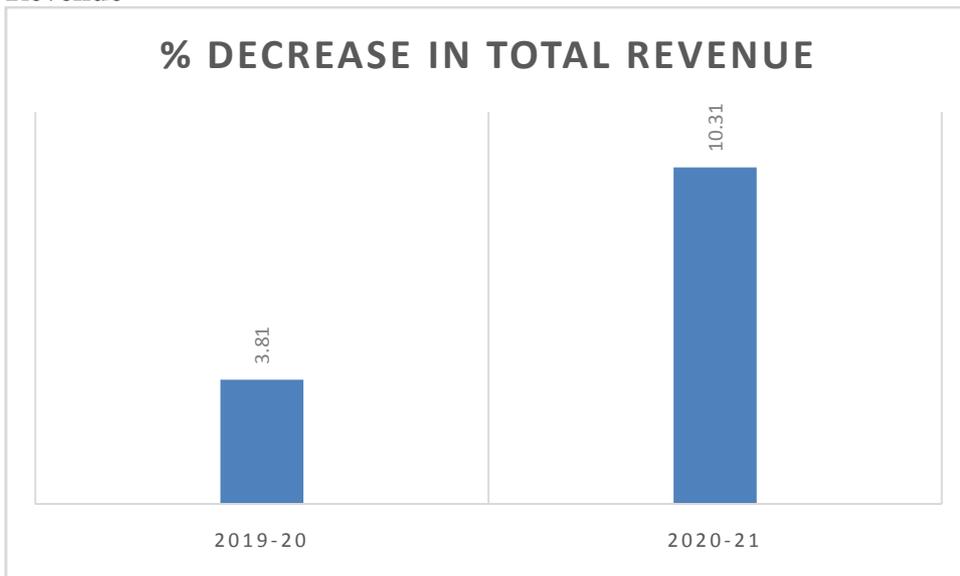
The data revealed that the company faced losses in all the three consecutive years, namely 2018-19,2019-20,2020-21 amount being INR 3,959.64*, INR 2,833.18* and INR 1,560.20* respectively.

(Note: * amounts in crores)



Analysis

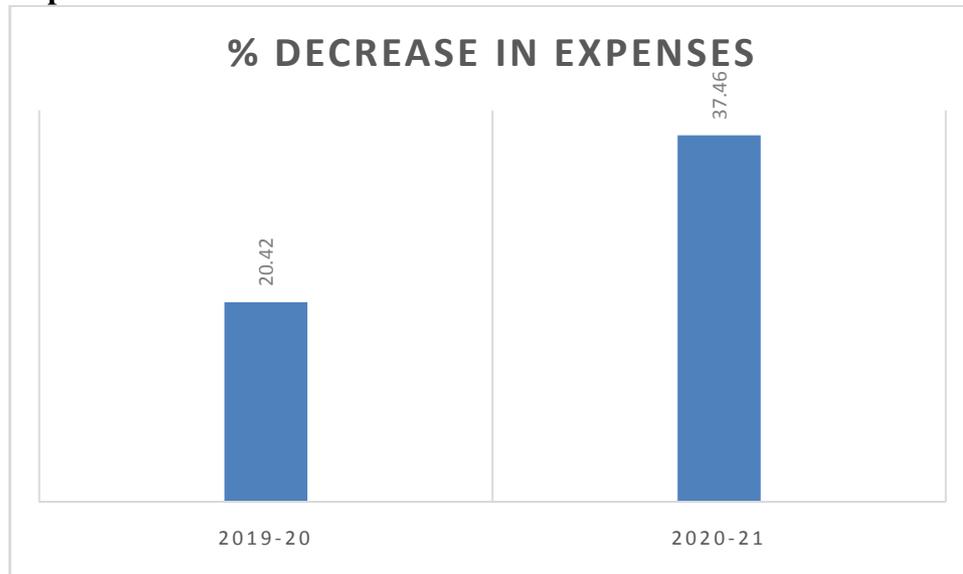
Revenue



The revenue based on three consecutive years, namely 2018-19,2019-20, 2020-21 is in decreasing trend. For the analysis, 2018-19 is taken as base for the comparison

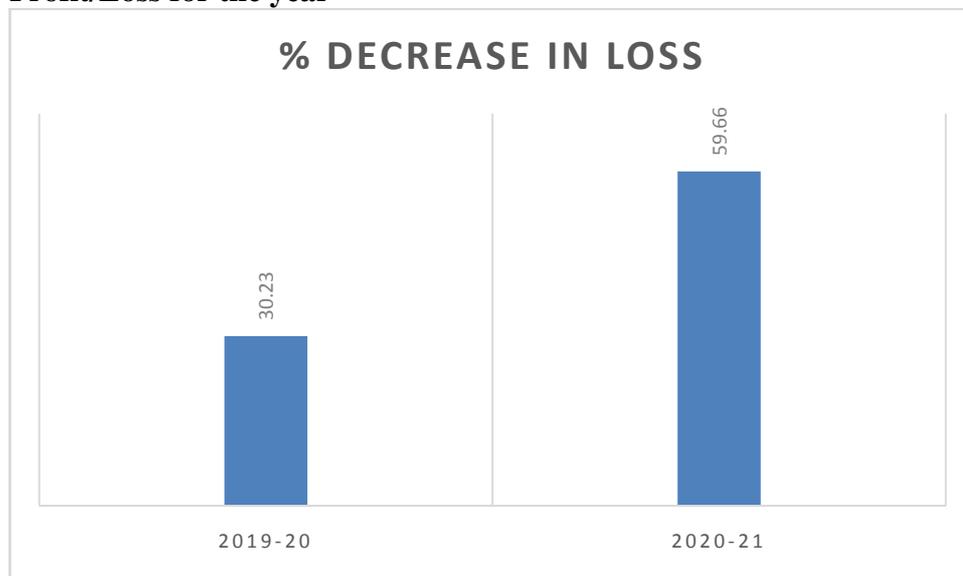
when depicts that 2019-20 and 2020-21 shows the decreased revenue generation for the company.

Expenses



Expenses for the three consecutive years 2018-19, 2020-21 and 2020-21 is showing the reduced trend. For the analysis, 2018-19 is taken as base year for comparison which shows that 2019-20 and 2020-21 expenses was reduced by the company.

Profit/Loss for the year



Profit/Loss is the index to show the overall growth of the company. As per the analysis, the percentage of loss have gradually declined by 30.23% in 2019-20 and 59.66% in 2020-21 when 2018-19 taken as base year. The company has significantly tried to bring down the cost, so the loss percentage gets declined.

Findings

- 1) The accounting system followed by the One97 Communications is conservative in nature as they charge 100% on marketing, system costs and cashbacks for which the company claims to have losses over a period.
- 2) The IPO issued by the company did not do well as the investors invest on those companies which are fundamentally strong and also the shares fell after the restrictions by RBI on Paytm Payment Bank.
- 3) The analysis shows that the percentage of loss has come down as the company brings down the operating cost.
- 4) In the respective consecutive years, the company cuts off spending on discounts and promotions which has helped to decrease loss by 30% but it affected on its revenue growth.
- 5) Specifically, during Covid-19 situation, the company incorporated the pandemic's impact on the financials in which the process showed the uncertainties associated with duration, nature and its impact on economy.

Suggestions

- 1) The government should take measures to improvise the digital payment system rather than imposing additional charges which burdens the users.
- 2) Paytm has to concentrate on digital payments rather than trying to stretch its wings to payment banking system.
- 3) The awareness has to be created among the users in the backward areas about the digital payment platforms. Initiatives have to be taken by the financial companies to educate the rural users to enhance its revenue and customer base.
- 4) Paytm should come up innovative digital smart methods of payments rather than payment through smartphones to broaden the digital transformation system.
- 5) Paytm should have balance over its revenue generation and expense incurred on cashbacks, promotions and operating cost.

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