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PAYTM IS STUCK

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The unicorn succeeded in its wallet business because its mission was to replace cash. The current organization is rudderless.

Vijay Shekhar Sharma, Paytm's founder, and CEO carries his company's pitch deck with him at all times. Depending on whether you are an admirer or a critic, and whether Sharma takes an interest in you, he's quick to pull out the deck on his phone and put on the charm offensive.

Paytm is rocking, he says, almost always. Gold, mutual funds, bus bookings, flights—Paytm is killing the competition. Sharma laces his frothy body language with easy to remember punchlines like "you won't believe our numbers" and throws in reference terms like "we are No. 1" and "we were the pioneers of QR code".

For old-time Paytm watchers, this is a stark departure from the days when Sharma's sell used to be just one number: The millions of Paytm wallet users.

Like a pied piper, jet-setting through cities, speaking at industry conferences, Sharma would dazzle audiences with the sheer number of Indians using Paytm. In August 2015, he said Paytm has 100 million wallet users, the first for any digital product in India. He also said that cash usage is one of the country's foundational problems, and Paytm would solve it by getting half a billion users on the App. Just over one-third of India’s population.

On the back of demonetization in November 2016, when most of India’s currency was withdrawn overnight and slowly replaced over months by new notes and denominations, Paytm hit 200 million users in February 2017. It was also the year Sharma made it to the TIME 100, the magazine’s annual list of the 100 most influential people in the world. At the time, an elated Sharma said, “500 million by 2020.”

We are 45 days shy of 2020, and for all practical purposes, digital wallets in India are dead.

And so are Paytm’s ambitions of replacing cash, a mission that in the post-demonetization years has been craftily assumed by National Payments Corporation of India, or NPCI, and its payments infrastructure, the Unified Payments Interface, or UPI.

The current Paytm’s potential is a pale shadow of its former self. And to stay relevant, the company is entering new businesses (and failing spectacularly in some) at a pace that shows both a lack of clarity and urgency. Paytm is stuck between a glorious past that was built on the back of digital payments and a future that doesn’t look anything like Jack Ma’s Alibaba, one of Paytm’s largest investors and Sharma’s inspiration.

‘YOU ARE NOT BUILDING THE TECH’

The most significant clarity that has emerged in the business of payments in the last decade is that the buck stops with NPCI. The growth of digital payments in India, both online and offline, is the mandate for the body, which operates as a non-profit owned by a consortium of banks and backed by the Reserve Bank of India. The technology belongs to them, and individual companies build on top of the UPI so that their users can transact.

In September 2019, the total number of transactions on UPI was 955.02 million, compared to 918.35 million in the previous month. A whole host of apps contributed to it, including Google Pay, PhonePe, Paytm, Amazon Pay and government-owned BHIM. This list does not include Facebook-owned WhatsApp, which has been waiting for regulatory clearances to launch a UPI-based payments service for a long time now.

It is amply clear that digital payments in India is growing, unlike China, where the market is dominated by just two players, Ant Financial’s Alipay and Tencent’s WeChat Pay. Speaking to Bloomberg, NPCI’s CEO Dilip Asbe has said pretty much the same: “India will remain a multiple-player model where the consumer has a choice to continue to use his bank account, and for the last mile can use any app he sees fit. We give equal opportunity to both small and large players.” It is not surprising then that questions are being asked–if the NPCI owns the tech, and the UPI is the flourishing payments platform, then what is the value that payments companies are adding?

“You are not building the tech,” says a venture capital investor who has looked at the space closely for opportunities. He requested not to be named. “So where is the value that you are creating?” It is a checklist you can run through quickly. High regulatory involvement and uncertainty, check. The tech doesn’t belong to you, check. Customer loyalty is suspect and almost entirely motivated by cashbacks, check. An overcrowded market, from local banks to multinationals, all jostling for space, check.

From towering over the payments landscape in 2016 and 2017 to today, just two years later, it will be fair to say that Paytm has landed hard.

And it is made worse by the fact that the company is already valued at more than $10 billion. Sharma last said it was valued at $15 billion. If Paytm isn't the first choice of app for millions of Indians to transact, then whatever is the number before billion, it looks good only on paper.

A large part of this valuation thesis, driven by both Alibaba and SoftBank, and later sold to Warren Buffett's Berkshire Hathaway, was that Paytm would be the dominant payments option in the life of Indians. Both individuals and businessmen. Both online and offline. And that once they got used to paying using Paytm, the company would sell them other services, anything from a toothbrush to a business loan to insurance.

That hypothesis has fallen flat. Sure, you can argue that Paytm does sell a toothbrush and a financial product today, so what's the difference? There is one which will become more apparent as you read further.

Another venture capital investor, who has looked at Paytm's journey very closely, says that the company increasingly reminds him of Yahoo. He requested not to be named because he doesn't want to upset Sharma.

'YOU REMEMBER YAHOO?'

"You remember Yahoo?" says the investor. "The initial years of the company were crazy. There was nothing that Yahoo couldn't do. Everybody was flocking to the Internet and joining the company. And then Google just beat the shit out of them in search.” The investor says he sees a similar sequence of events playing out with Paytm. “Their whole dominance on payments is now suddenly gone,” he adds. “Whoever has gained, it doesn’t matter, Google or Walmart or is it eventually going to be WhatsApp, just like Yahoo, Paytm has a recognizable brand and its set of users but it doesn’t know what it has to become.”

This bit from Fast Company should put it in perspective:

By the time Yahoo realized its mistake–and acquired Overture, the company that invented paid search advertising, for $1.6 billion in 2003–Google was already steaming ahead. Instead of fine-tuning Overture to compete with Google’s more sophisticated system, Yahoo decided to build its own advertising platform mostly from scratch, says Flake, who came to Yahoo as part of the Overture acquisition. Code-named Project Panama, the new platform took nearly three years to complete. By then, the search wars were over; Google had won.

But more than that, Yahoo never really decided what it wanted to be when it grew up. Was it a technology company? A search advertising platform? A burgeoning social network?

Its second CEO, Terry Semel, tried to turn Yahoo into a new media giant. Its eighth and final CEO, Marissa Mayer, wanted to transform it into a mobile technology company. Neither was willing to shed Yahoo's legacy revenue-generating businesses, and both ultimately failed.

Trying to be everything to everyone was Yahoo's downfall, says Parker.

From The Glory that was Yahoo • Fast Company

In the last three years, Paytm has tried the following:

- It has entered the banking business with Paytm Payments Bank
- It has flirted dangerously with the e-commerce business with Paytm Mall
- It has entered the business of selling mutual funds and other financial products under Paytm Money
- It has entered the business of selling insurance
- It acquired two coupon or daily deals companies, Nearbuy and Little Internet
- It acquired events ticketing company called Wasteland Management Pvt. Ltd, which runs insider.com, and movie-ticket booking company TicketNew
- It started a gaming division called Gamepind Entertainment Pvt. Ltd, which it now operates as a joint venture with Alibaba-backed AGTech
- It entered the travel business selling bus, train and flight tickets

- It entered the cloud computing business, called Paytm AI Cloud for India

There is no intelligent thread that holds all of these pursuits together. Is Paytm a bank? Is it an online travel aggregator? Is it a wealth management company? Is it an e-commerce company? If it is all of the above, then what is it called?

'IF YOU ARE GOING FOR 90%, THEN WHY NOT 100%'

Not at all surprising that to enter these new businesses Paytm's spends have shot up. The key metric to track in Paytm's annual filings is its marketing spend. At a consolidated level, Paytm's marketing and business promotion expenses jumped from Rs 1,894 crore ($265 million) in March 2018 to Rs 2,832 crore ($396 million), a year-on-year rise of 33%. A lot of this is because of Paytm's e-commerce misadventure in Paytm Mall, where the company went berserk with discounts and cashback offers to acquire and retain users.

One particular Paytm Mall hubris story has assumed the status of legend. Where Amit Sinha, COO of Paytm Mall, is said to have told his team that if Amazon and Flipkart were offering great deals, Paytm must offer products for free; why just stop at discounts? We could not independently confirm this, but there's this fascinating bit from a 2017 interview:

> "If you are going for 90%, then why not 100%? It is certainly better messaging. We are going to offer 100% cash back on select products during the upcoming sale. The point is, there will always be a bunch of products which are going to be attention grabbers; products on which you can give back as much as 100%," said Paytm Mall COO Amit Sinha in an exclusive chat with ET Rise.

From This festive season, Paytm Mall is giving out products practically for free • The Economic Times

Sinha left Paytm earlier this year, after shifting from Paytm Mall to head Paytm's insurance vertical in January.

The business promotion metric is vital because that's the money Paytm is spending to wean users off of competitors in every new business it is entering. Almost all of them commodity businesses. From mutual funds to bus bookings to selling tickets to events, there is very little value that Paytm brings to the table. There is the other problem that these businesses are already crowded with entrenched players.

Let’s take the case of Paytm’s travel vertical. Are customers clamouring for another online travel aggregator in India? The answer should clearly be no. Travel aggregators have existed for a long time, and nobody is the wiser after the bloodbath that preceded the MakeMyTrip and Ibibo Group merger. It is only telling that after being in business for almost two decades, and surviving a slew of competitors, Nasdaq-listed MakeMyTrip has been in the red for a while now. In the financial year 2019, the company recorded a loss of $168 million. The year before, $220 million.

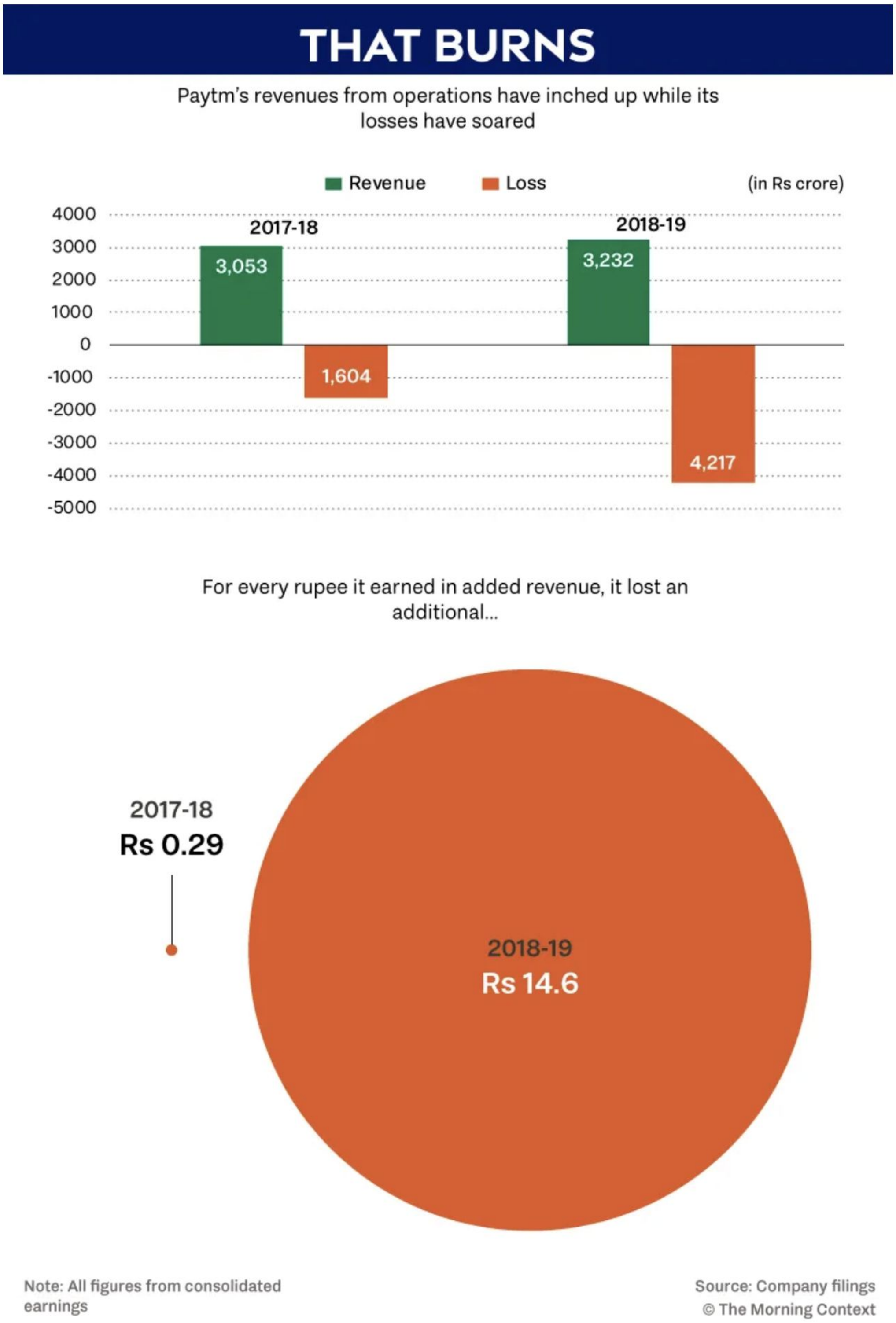
Surely, nothing can stop Paytm from digging for emeralds and rubies, where there’s only more earth.

The argument that Paytm can entice its existing users by offering them one-off cashbacks continues to hold. The case that Paytm will do whatever it takes to monetize its users, millions who still use the app to make payments, is now coming into focus. Users are always looking for things on the cheap, but as we’ve seen often, discounting is not a replacement for strategy; the money starts running out eventually. This must be explained in the context of Paytm’s financial performance.

At a consolidated level, One 97 Communications Ltd, the parent entity, recorded a net loss of Rs 4,217 crore ($589 million) in the year ended 31 March 2019. In the previous financial year, the net loss was Rs 1,604 crore ($220 million). That’s more than a 2.5X jump in losses.

Put next to revenue, Paytm’s balance sheet resembles a company where the money is moving out faster than it is coming in. For fiscal 2019, Paytm’s revenue from operations was at Rs 3,232 crore ($452 million), up from Rs 3,053 crore ($427 million) in the previous year.

To earn less than Rs 200 crore ($28 million) more from one year to the next, Paytm incurred an additional Rs 2,613 crore ($365 million) in losses.



The only explanation for Paytm's massive losses and the marginal increase in revenue is that its payments business needs continued cashbacks to throw up revenue, and its new businesses aren't making any money. Paytm is stuck.

A very quick but important side note. While going through Paytm's financials, this writer noticed what is called in business parlance, a red flag. In the year 2017, Paytm took an unsecured loan of Rs 500 crore ($70 million) from ICICI Bank, and another Rs 1,145 crore ($160 million) in unsecured loans from a set of other banks. But it never brought it to the attention of the Ministry of Corporate Affairs for a good two years. The loans do not figure in any of Paytm's financial statements. At Rs 1,645 crore ($230 million), the loan amount is sizeable, and, strangely, the company's books do not reflect it.

But back to the business of being stuck. Like Paytm, like Alibaba.

'ALIBABA IS STUCK TOO'

It will be fair to say that Alibaba has soured on Paytm in particular and India in general. It was apparent when Alibaba did not participate in the latest fundraising round for Paytm Mall. In July this year, the company raised $160 million from eBay.

It was an unusual transaction because Paytm's existing investors, Alibaba, Ant Financial and SoftBank, did not participate in the round, and let eBay enter the cap table. $160 million is chump change for each of those investors. Part of the reason is also that Alibaba is going slow in India. Between Snapdeal and Paytm, its hypothesis of becoming a key player in India's e-commerce and payments businesses hasn't played out. So, for now, the company is taking a pause.

"Nobody thinks much of the e-commerce business now," said a senior Paytm official, who asked not to be named because he is not authorized to speak with the media. "It is not like Vijay [Shekhar

Sharma] doesn't get it. There is a strict instruction from the top for all business units to cut down on burn. The place is being cleaned up."

That means the departure of key people from Paytm. In the last six months alone, the following people have moved on:

- Deepak Abbot, senior vice-president (4-5 years at the company)
- Kiran Vasireddy, chief operating officer (10 years)
- Amit Sinha, COO, Paytm Mall and briefly business head, insurance (13 years)
- Nitin Misra, senior vice-president (4 years)
- Ankit Gera, head of growth (4.5 years)

A former Paytm official, who asked not to be named, said that people leaving the company is nothing new, Paytm is always restructuring. Of course, minus the one constant: Sharma. The venture capital investor mentioned first in the story said that strangely, the fate of both Alibaba and Sharma is intertwined.

"Alibaba is stuck too," he said. "The state the business is in, it is not like they have any other choice other than Vijay." With all businesses in the red, Sharma has his task out. He is clearly rebuilding again, staffing all of his businesses with professionals he believes can deliver. There's Madhur Deora, who has long been Sharma's confidante and has moved into the role of president. There's Pravin Jadhav at Paytm Money, Abhisekh Ranjan at Paytm travel, Ankit Nayyar in the lending business, among others.

But this is a reasonably different Paytm from what Sharma is used to running. He is used to hustling for growth and throwing bodies and money at problems.

For now, Sharma is making all the right noises about cutting Paytm's losses and flying creative accounting birds called "contribution margin positive”. Amongst the many lessons that we have learned from the WeWork debacle is that founders high on accounting jargon can ruin the world as much as Wall Street bankers.

Here’s the simple problem statement: One 97 Communications Pvt. Ltd, the company which owns Paytm, has been around for 20 years, and while it has made money for its early investors (read: SAIF Partners), it still has to turn in a profit. And now Paytm is stuck.