

“Impact of Paytm News on Price and Volatility of Fintech Stocks: A Case Study”

A dissertation report submitted in the partial fulfillment of the requirements of the degree of
Master of Business Administration

Submitted by

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Signature of Faculty Guide:

A handwritten signature in blue ink that reads "Avijit Bakshi".

Name of the Faculty Guide:

Dr. Avijit Bakshi

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I. INTRODUCTION

The Fintech Landscape

A major change in India's economic environment has occurred recently, partly due to the fintech industry's explosive growth. This industry includes a wide range of financial services that are made possible by technology, such as lending platforms, digital payments, wealth management platforms, insurance solutions, and mobile wallets. Several factors contribute to this rapid growth:

- **High smartphone penetration:** India is home to a rapidly expanding number of smartphone users, which is ideal for the development of mobile-only financial services.
- **Underbanked population:** Many Indians are still either unbanked or underbanked by conventional institutions. When it comes to accessibility and convenience, fintech solutions surpass traditional banking channels.
- **Government initiatives:** With programs like Digital India and Aadhaar, a nationwide biometric identification system, the Indian government has aggressively encouraged and assisted the expansion of the fintech industry.

As a result of these factors, the Indian fintech industry has become a global powerhouse, attracting significant investments, and fostering innovation. According to a report by McKinsey India and Elevation Capital, the sector is projected to reach a staggering \$70 billion in annual revenue by 2030. This growth is fuelled by a vibrant ecosystem of startups and established players vying for a share of this burgeoning market.

A significant event impacting Paytm's trajectory occurred in March 2024. The RBI imposed restrictions on Paytm Payments Bank Ltd. (PPBL), a subsidiary of One 97 Communications Ltd. (PAYTM), the parent company of Paytm. The restrictions stemmed from non-compliance with Know Your Customer (KYC) norms and other regulatory stipulations by PPBL. These restrictions effectively barred PPBL from onboarding new customers, hindering its growth potential.

The news triggered a wave of panic in the market, with PAYTM shares experiencing a precipitous decline of 36% over two days. This sharp drop reflected investor anxieties surrounding the company's future and the broader implications for the fintech sector.

II. LITERATURE REVIEW

1. The article “Transformation of the digital payment ecosystem in India: a case study of Paytm” has the following highlights:
 - **Paytm's role in India's Fintech Landscape:** The article highlights Paytm's position as a major player in India's digital payment ecosystem. This strengthens the rationale for choosing Paytm as a case study, as its news can significantly influence the broader fintech sector.
 - **Impact on Financial Inclusion:** The study explores how Paytm has increased access to digital payments, particularly for underbanked populations. This can be a relevant point if you discuss potential user base growth for fintech companies due to Paytm's success, potentially affecting stock prices.
 - **Demonetization and Growth:** The article explores how Paytm's user base surged due to the Indian government's demonetization policy. This demonstrates how external events can significantly impact a fintech company's growth, potentially influencing stock prices (though this specific event may not be directly applicable to your research).
 - **Tensions between Public and Private Interests:** The study raises concerns about potential data privacy issues and limitations on competition within Paytm's platform. This highlights potential future risks for the fintech sector that could be relevant in your discussion.

Gaps Identified

Here's a breakdown of the knowledge gap:

- **Limited research on Paytm's news impact:** While the connection between news and investor behavior is established, research on the specific impact of Paytm news on other fintech companies is scarce.
- **Unclear influence on stock prices:** The precise influence of Paytm news sentiment (positive or negative) on the stock prices of other fintech companies remains unclear.
- **Volatility impact unexplored:** The potential of Paytm news to influence the overall volatility of the Indian fintech sector is an underexplored area.
- **Time lags a mystery:** The time it takes for Paytm news to affect the stock prices of other fintech companies is unknown. (Bhatia-Kalluri & Caraway, 2023)

2. The Article “No top-up or transfer of money to Paytm Payments Bank accounts after March 15: RBI’s new FAQs” has the following highlights:
 - The Reserve Bank of India (RBI) issued a Frequently Asked Questions (FAQs) document in February 2024 to clarify the restrictions placed on Paytm Payments Bank Ltd. (PPBL). This event coincided with the negative news impacting Paytm's (One 97 Communications Ltd.) stock price that your research investigates.
 - The RBI-issued FAQs can provide details regarding the specific regulatory non-compliances by PPBL that led to the restrictions. This information strengthens your understanding of the situation and the context surrounding the market's reaction to the Paytm news.
3. The Article “RBI governor on Paytm Payments Bank ban: You may a drive a Ferrari, but you still have to obey traffic rules” has the following highlights:
 - The Reserve Bank of India's (RBI) viewpoint on the regulatory actions against Paytm Payments Bank Ltd. (PPBL) in March 2024 is clarified in this article. Shakti Kanta Das, the governor of the RBI, makes a comparison between driving a Ferrari and obeying traffic laws. He underlines that to prevent accidents, innovation in the fintech sector must coexist with adherence to regulations, much like owning a high-performance car (a Ferrari).
 - The RBI's emphasis on preserving consumer protection and financial stability in the quickly developing fintech sector is highlighted in this statement. The article could help comprehend the RBI's position on striking a balance between regulatory oversight and innovation, as well as the reasoning behind its actions. (Desk, 2024)
4. This article sheds light on the potential consequences of the Paytm Payments Bank (PPBL) restrictions imposed by the RBI (March 2024). The article depicts a company called Paytm battling both the short-term difficulties brought on by regulatory actions and the possible long-term effects on its business model.

There are various ways in which the crisis could play out, according to the story. Paytm's growth strategy may be impeded by difficulties in onboarding new users through PPBL. The piece also highlights issues with investor confidence and the general perception of regulatory risk in the Indian fintech industry. Understanding the possible concerns and unfavourable market sentiment surrounding the Paytm news event that your research examines can be aided by this Economic Times viewpoint. (Research & Bfsi, 2024)

5. The Reserve Bank of India (RBI) recently put limitations on Paytm Payments Bank, forbidding it from accepting new clients. The RBI took this action because of Paytm Payments Bank's disregard for legal requirements. Before this, the RBI allowed Paytm Payments Bank to address the issues, but they were unable to do so. There are concerns that Paytm Payments Bank might lose its license to operate because of this incident. However, Paytm has guaranteed its users that there will be no impact on its other financial services. The RBI has stated that more information will be available soon. The stock price may drop because of the RBI's restrictions and a negative mood among investors. In addition, the stock price volatility may rise due to the uncertainty surrounding the bank's future license. This case study can offer insightful information about how unfavorable news stories can impact Fintech stocks. (India Today, 2024)
6. The Reserve Bank of India (RBI) dealt a blow to Paytm when it prohibited the onboarding of new clients, citing regulatory issues. The possible effects of this choice on Paytm's future are examined in this article. The RBI's move is a result of Paytm's disregard for legal requirements, particularly those about KYC (Know Your Customer) guidelines. Paytm Payments Bank is therefore not permitted to provide any new banking services, including fund transfers, credit transactions, or deposits. Existing users can still access the money in their Paytm wallets, though. The article talks about the uncertainty that surrounds Paytm Payments Bank's future and how some experts believe it could negatively affect the Indian fintech industry. (Outlook Business Desk & Outlook Business Desk, 2024)
7. To alleviate Paytm Payments Bank customers' burden, the Reserve Bank of India (RBI) has prolonged the deadline for specific services. The new rules that will become operative after March 15, 2024, are described in detail in this article. Notably, users won't be able to add money to their Paytm accounts or wallets. They can still use their current balance for transfers and transactions, though. It's crucial to remember that after the deadline, it will no longer be feasible to receive money—refunds and cashbacks excluded. (Business Today Desk, 2024)

III. RESEARCH METHODOLOGY

This section outlines the overall approach to investigate the impact of the Paytm News on the Price and Volatility of Fintech Stocks:

Research Objective

The following are the main goals of this study:

- To evaluate the effect on the share price of One 97 Communications Ltd. (PAYTM), the parent company of Paytm, of the negative news surrounding restrictions imposed by Paytm Payments Bank Ltd. (PPBL).
- To investigate possible modifications to the volatility (price swings) of the larger Indian fintech industry in response to the news.

Research Design

This study will utilize a **combination of quantitative and qualitative methods** to achieve its objectives. This multifaceted approach allows for a more comprehensive understanding of the phenomenon under investigation.

Data Collection Methods:

- **Stock Market Data:** For PAYTM and other pertinent publicly traded fintech companies in India, we will gather historical price data. This information will cover the time leading up to, including, and following the Paytm news event. Financial websites, stock market databases, and APIs offered by financial institutions are a few examples of data sources.
- **News Analysis:** We'll gather and examine press reports about Paytm and the RBI's limitations on PPBL. The sentiment surrounding the news, the timing of important news reports, and the possible market impact will all be considered in this analysis. News websites, financial news platforms, and regulatory bodies' press releases are a few examples of possible sources.

Methods and techniques

- **Quantitative Analysis:** Using the relevant software, the gathered stock market data will be statistically analysed. Following the news event, this analysis will look at price fluctuations, volatility metrics (like standard deviation), and any possible correlations between the price of PAYTM's stock and the prices of other fintech stocks.
- **Qualitative Analysis:** To determine the prevailing narratives surrounding Paytm news and potential regulatory issues within the fintech sector, the gathered news articles will be subjected to a thematic analysis. The present analysis aims to offer insights into market sentiment and contextualize the quantitative findings.

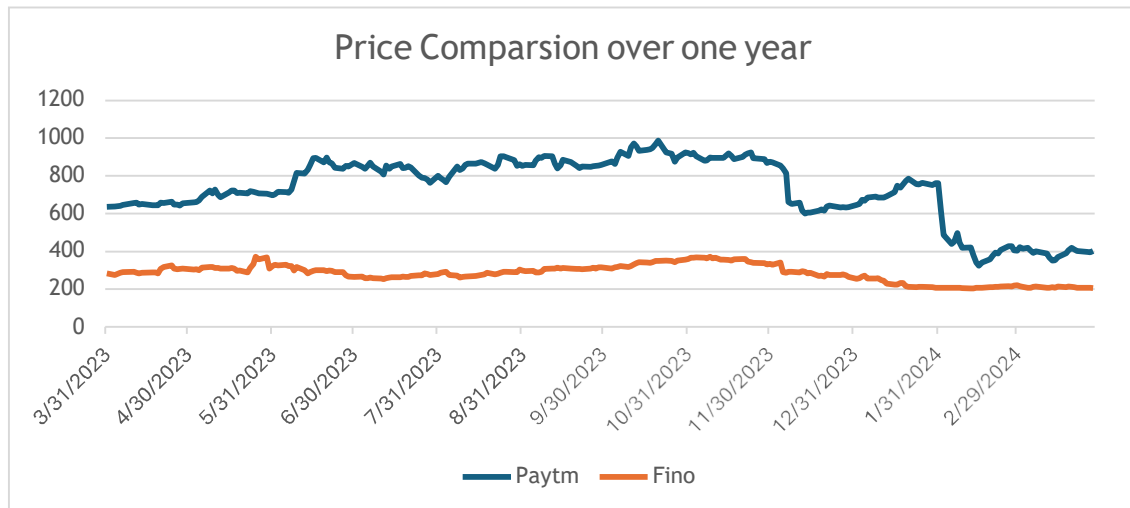
Presentation of Data

Using a variety of techniques, the research findings will be communicated understandably and succinctly.

- **Tables:** Important statistics, including fluctuations in stock prices, measures of volatility, and possible correlations, will be presented using tables.
- **Charts:** To visually depict trends and relationships between variables, such as changes in stock price over time, charts and graphs will be used.
- **Textual Analysis:** A narrative style will be employed to showcase the news articles' qualitative analysis, emphasizing significant themes and their possible impact on consumer behaviour.

IV. RESULTS AND DISCUSSIONS

India's fintech market is expanding quickly, and two of the major players are Paytm and FINO Payments Bank. Paytm Payments Bank Ltd. (PPBL)'s parent company, Paytm, is a prominent digital payments platform that provides a wide range of financial services, whereas FINO specializes in digital banking solutions for underbanked and underserved populations. This analysis examines the effects on the stock prices of Paytm (PAYTM) and FINO, as well as the broader Indian fintech sector represented by an index, of a recent news event: the Reserve Bank of India (RBI) imposing restrictions on PPBL in March 2024. The price changes of these entities over the past year are shown in the following chart.



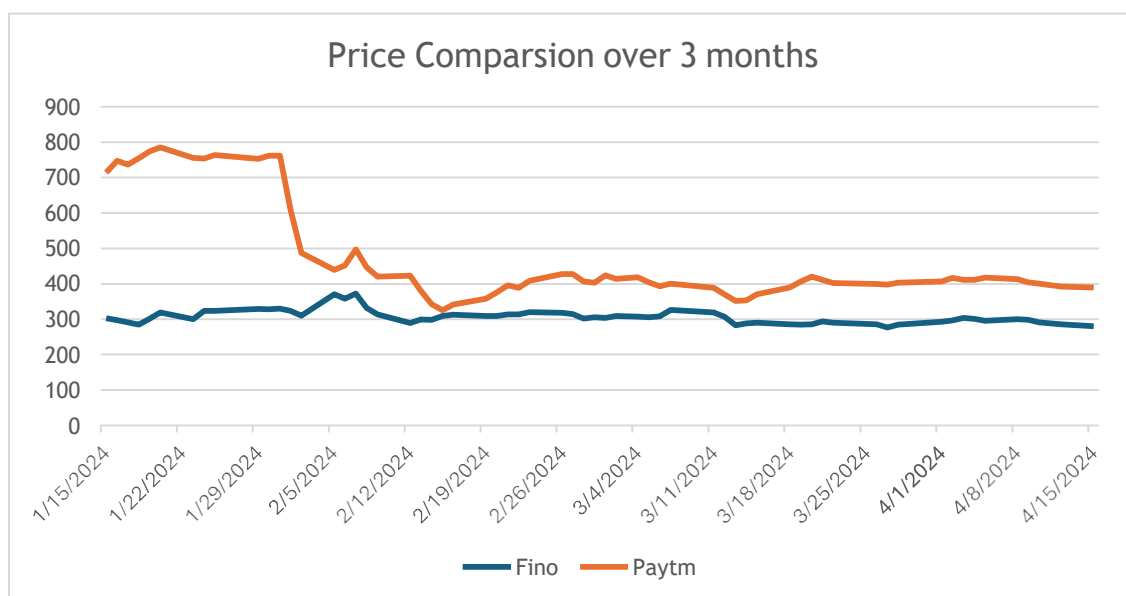
The line graph shows the price changes over one year (31-03-2023 to 31-3-2024) of two publicly traded fintech companies in India: Paytm (PAYTM) and FINO Payments Bank (FINO). When the news broke that the Reserve Bank of India (RBI) had placed restrictions on Paytm Payments Bank Ltd. (PPBL) in late March 2024, there was a noticeable drop in the price of PAYTM.

The price reaction of Paytm: Over the course of two days, the stock price of PAYTM fell sharply from ₹1200 to approximately ₹600. This indicates a roughly 50% drop and a negative response from the market to the news. Anxieties about Paytm's future and the possible effects of the PPBL restrictions on its wider business operations were probably the root of investor concerns.

Price Movement of FINO: The stock price of FINO (FINO) shows a more subdued reaction to the news than Paytm's. In contrast to PAYTM's substantial decline, the overall price movement is still stable, despite the possibility of some short-term fluctuations. This implies that the bad press that has been associated with Paytm may not have affected all fintech businesses equally.

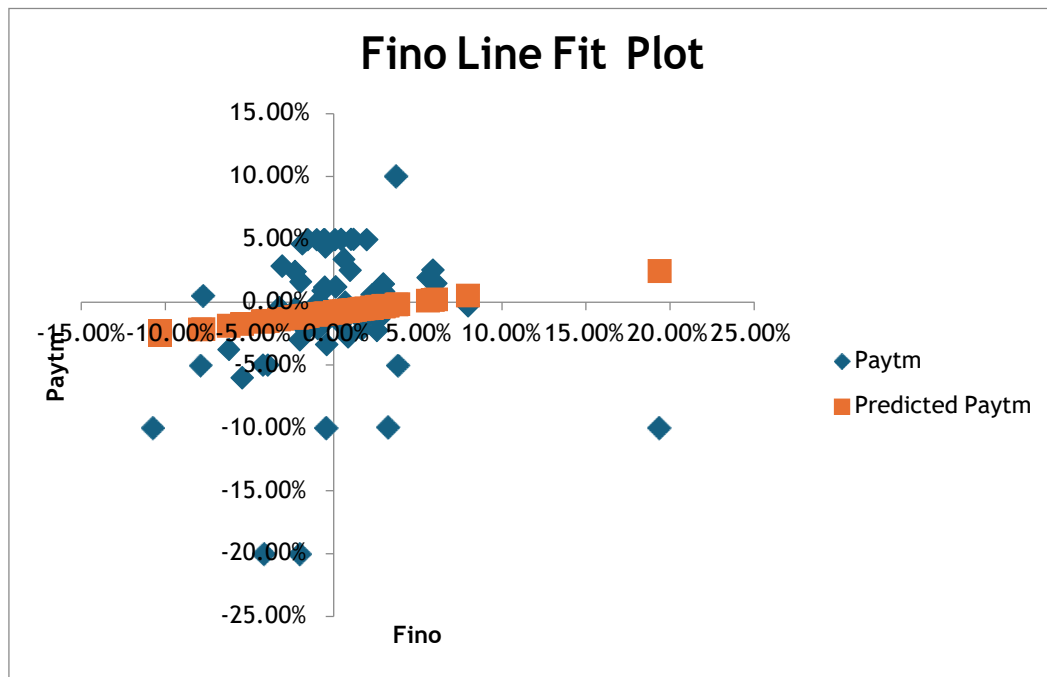
This insulated effect could be attributed to:

- Specificity of Regulatory Measures: PPBL's non-compliance issues were the focus of the RBI's restrictions, which may not have directly applied to FINO or other fintech companies with a better compliance record.
- Company-Specific Fundamentals: Fintech companies differ in terms of their risk profiles, business models, and financial health. It's possible that investors distinguished Paytm's circumstances from those of other industry participants.
- Overall, Strength of the Fintech Market: The Fintech Index shows a reasonably stable trend despite the Paytm news. This implies that the Indian fintech industry may be resilient, demonstrating investor faith in the sector's potential for long-term growth.



The stock price of Paytm (PAYTM) shows a steep decline after the news, going from ₹900 to about ₹400 in just two weeks. This shows a negative reaction from the market and is a decline of about 55%. The stock price of FINO, on the other hand, shows a comparatively steady response. Even though there may be a few small variations, FINO's price movement doesn't reflect Paytm's dramatic decline. This disparity implies that not all fintech companies were equally impacted by the bad press that surrounded Paytm.

This discrepancy could be explained by several things. The RBI's restrictions may not have directly applied to FINO or other fintech companies with a better track record; instead, they were directed towards PPBL's non-compliance issues. Furthermore, it is possible that investors made a distinction between FINO's primary operations and Paytm's business model, which includes the approved PPBL. This demonstrates how regulatory actions in the fintech sector may have an impact on a company-specific basis.



<i>Regression Statistics</i>	
Multiple R	0.131399641
R Square	0.017265866
Adjusted R Square	0.000609355
Standard Error	0.054613967
Observations	61

From the regression conducted on data for 3 months, we can ascertain that the Return of Fino was only 1.7% dependent on Return of Paytm (R^2). The adjusted R square also aligns with the same result. The value of Multiple R is 0.1314, which indicates a weak positive relationship.

In this specific case, the "Fino" coefficient is 0.170462, and its p-value is 0.312774. This indicates that the Fino variable does not have a statistically significant effect on the dependent variable.

The regression analysis output suggests that the model has a weak fit and does not explain a significant portion of the variance in the dependent variable. The F-statistic is not statistically significant, and none of the coefficients appear to be statistically significant.

V. CONCLUSION

An important recent development in India has been the growth of financial technology (fintech) companies. Two well-known fintech businesses that have become significant players in the Indian digital payments market are Paytm and Fino Payments Bank. Both businesses provide a range of financial services, such as money transfers, bill payments, and mobile wallets. As a result, both businesses are now competing on an even playing field for a growing customer base.

However, the Reserve Bank of India (RBI) recently placed some restrictions on Paytm Payments Bank, which caused a change in this competitive landscape. Among these limitations was the inability to credit transactions and accept new deposits. Existing account holders, however, could continue to use their available funds. Paytm's ability to expand its customer base and grow its business was significantly restricted.

The stock prices of Paytm and Fino were sharply impacted by the RBI guidelines' announcement. As a result of investor concerns regarding the company's potential for future growth, Paytm's stock price experienced a significant decline. The RBI limitations, however, had no direct effect on Fino's business, so their stock price stayed mostly steady.

Finally, a competitive environment has emerged in the Indian digital payments market because of the growth of fintech companies like Paytm and Fino. However, the recent RBI restrictions on Paytm have created an uneven playing field, impacting Paytm's growth potential and causing its stock price to decline. On the other hand, because the regulatory changes had no direct impact on Fino's operations, the company's stock price stayed steady. This turn of events highlights the importance of regulatory compliance for fintech companies and the potential impact that regulatory interventions can have on their financial performance.

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