

# FINTECH

Financial Technology

## Paytm: Leading the FinTech Wave

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# Paytm: Leading the FinTech Wave

- Paytm is India's leading payments and FinTech enterprise – it offers payments, financial services, commerce, and cloud services to its large consumer/merchant base of ~333m/~21m. Paytm is the largest payments platform, with GMV of ~INR4t reported in FY21 (~33% CAGR over FY19–21).
- The company was launched in CY09 as a 'mobile-first' digital payments platform to enable cashless payments to consumers. It started off as a digital wallet based platform initially, with a focus on mobile top-ups and utility payments.
- With the advent of technology, Paytm has created a payments-led 'super app' and evolved into a comprehensive payments ecosystem, covering payments, credit, insurance, merchants, wealth management, e-commerce services, and so on.
- The payments ecosystem covers payments (wallet/UPI), FASTag, bill payments, money transfers, and mobile top-ups. Consumers can make payments through Paytm and other payment instruments on the Paytm app. It further offers online and offline merchant acquisitions through QR, smart PoS, and payment gateway services.
- The payments bank license allows Paytm to collect deposits from customers. Although, it cannot lend on its own balance sheet and thus co-originate loans in partnership with other financial institutions (banks and NBFCs). Paytm also offers a 'Buy Now Pay Later' facility to its consumers for a maximum period of 60 days. It further offers co-branded credit cards to its customers.
- Paytm Money has seen strong growth and is a large distributor of mutual funds. Paytm is also in the process of obtaining approvals for the acquisition of a general insurance company.

# Paytm: Key statistics

Key stats	FY19	FY20	FY21
<b>Payments:</b>			
No. of consumers on-boarded (Paytm wallets) (m)	260	300	333
No. of merchants on-boarded (m)	11.2	16.3	21.1
Total transactions (b)			7.4
Annual transacting users (m)			114
Total payment devices (POS, SoundBox) (k)			800
Total GMV (INR b)	2,292	3,032	4,033
Commerce GMV (INR b)		142	42
<b>Credit</b>			
Total no. of loans disbursed (k)	5	75	2,635
<b>Payment Bank</b>			
Total payments bank accounts - CASA accounts (m)			64
Total deposits (INR b)			52
Fixed deposits (INR b)			17.5
<b>Wealth</b>			
AUM - includes MF, stock broking, and gold AUM (INR b)			52
<b>Insurance</b>			
Unique insurance customers (m)			11.3
Insurance and attachment policies sold			31.5

Source: Company RHP

# Paytm: Revenue and EBITDA

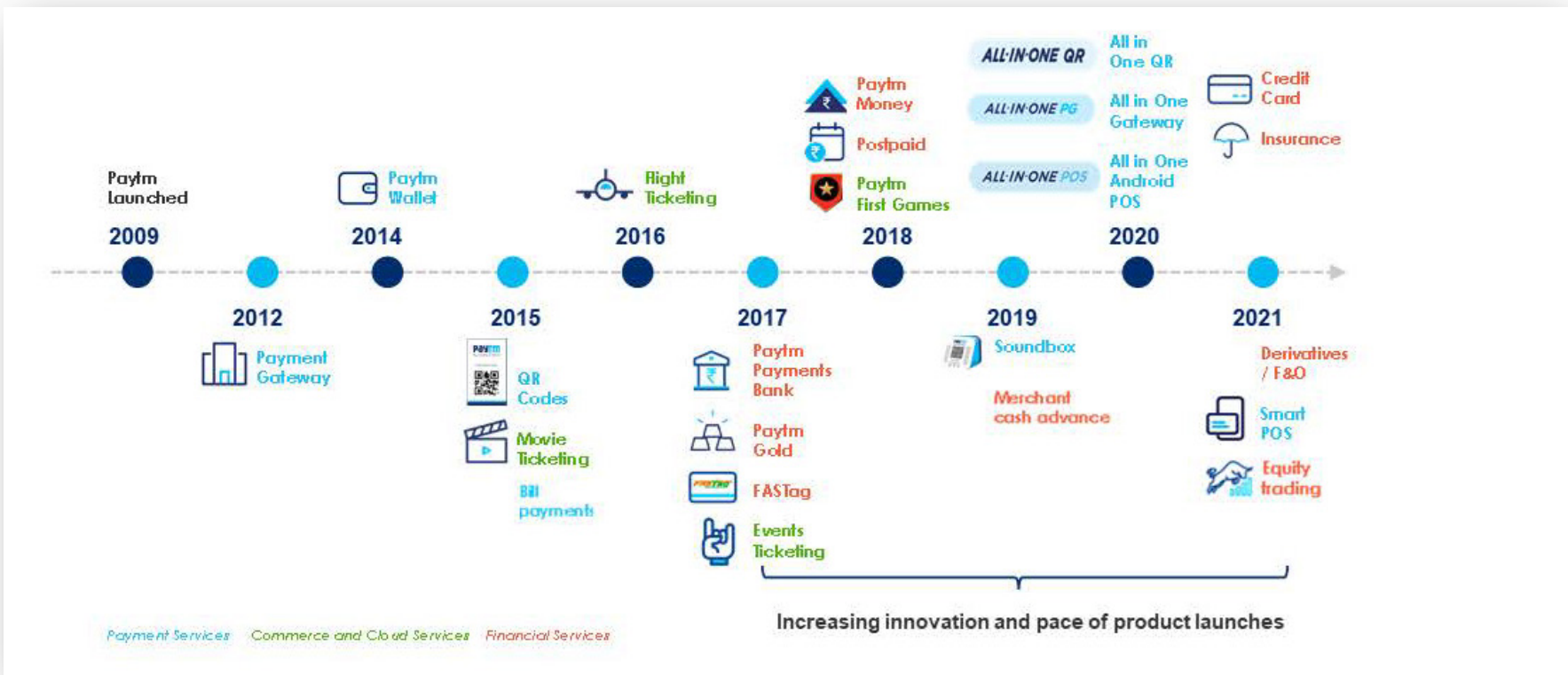
Key stats (INR m)	FY19	FY20	FY21
<b>Revenue from operations</b>	<b>32,320</b>	<b>32,808</b>	<b>28,024</b>
-Payment & financial services	16,955	19,068	21,092
-Commerce & cloud services	15,365	11,188	6,932
-Other operating revenue	0	2,552	0
Contribution profit	(19,980)	(2,378)	3,625
Contribution profit margin (%)	(61.8%)	(7.2)%	12.9%
Adjusted EBITDA	(42,115)	(24,683)	(16, 548)
Adjusted EBITDA margin (%)	(130.3)%	(75.2)%	(59.0)%

*Source: Company RHP*

# Paytm: Key investment arguments

- Paytm started off as a digital wallet based platform initially, with a focus on mobile top-ups and utility payments. With the advent of technology, it has developed a payment-led 'super app' and evolved into a comprehensive payments ecosystem, covering payments, credit, insurance, merchants, wealth management, e-commerce services, and so forth.
- The increasing pace of digitalization continues to present significant opportunity to grow the user base for online transactions for bill payments, shopping, entertainment, and other financial needs. India's active Internet users are expected to increase to ~900m in FY26 from 400–450m in FY21.
- The key opportunity for Paytm is to monetize its large installed customer/merchant base (~333m/~21m) for broader financial service offerings, such as credit, wealth, and insurance. We expect the contribution of these financial services in the total revenue to increase rapidly as the cross-sell rate improves. Currently, payments and financial services contribute ~75% to the total core revenue of the company. However, we expect the share of the non-payments businesses to scale up rapidly.
- Paytm Postpaid is expected to provide a revolving credit line through the 'Buy Now Pay Later' facility for its existing customer base to aid spending on its ecosystem app.
- Its strong merchant base and robust market share in P2M transactions enable it to better monetize payment transactions v/s other UPI competitors.
- As per an RBI internal study, payments banks may be allowed to apply for small finance bank (SFB) licensing, which would enable Paytm to lend on its own balance sheet.

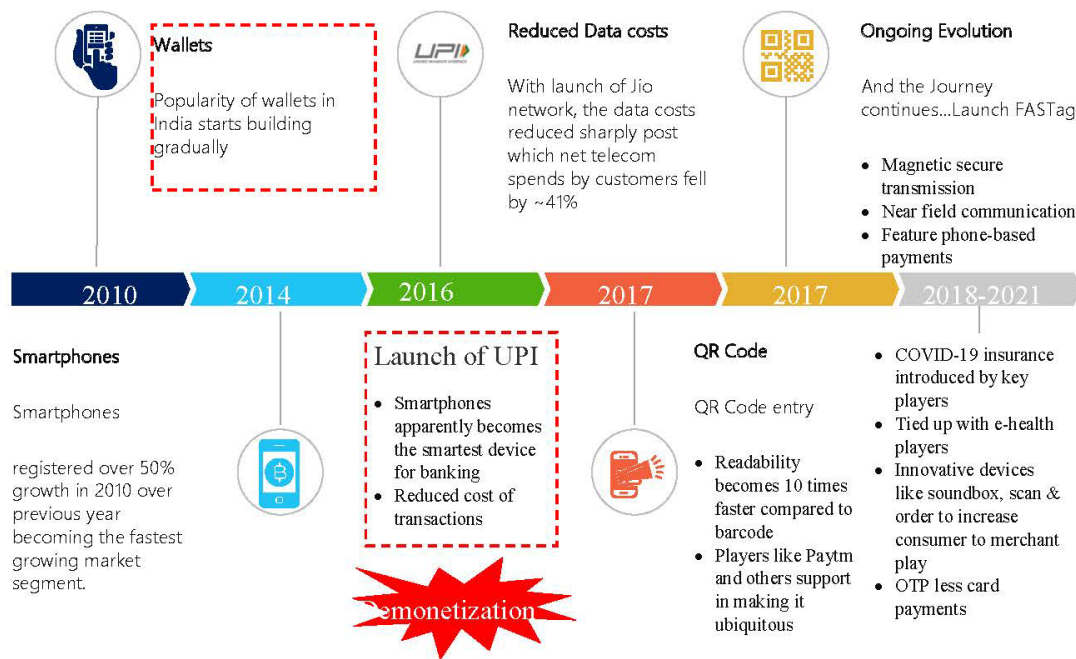
# Paytm: Timeline of business products launched by Paytm



Source: Company RHP

# Evolution of mobile payments landscape in India

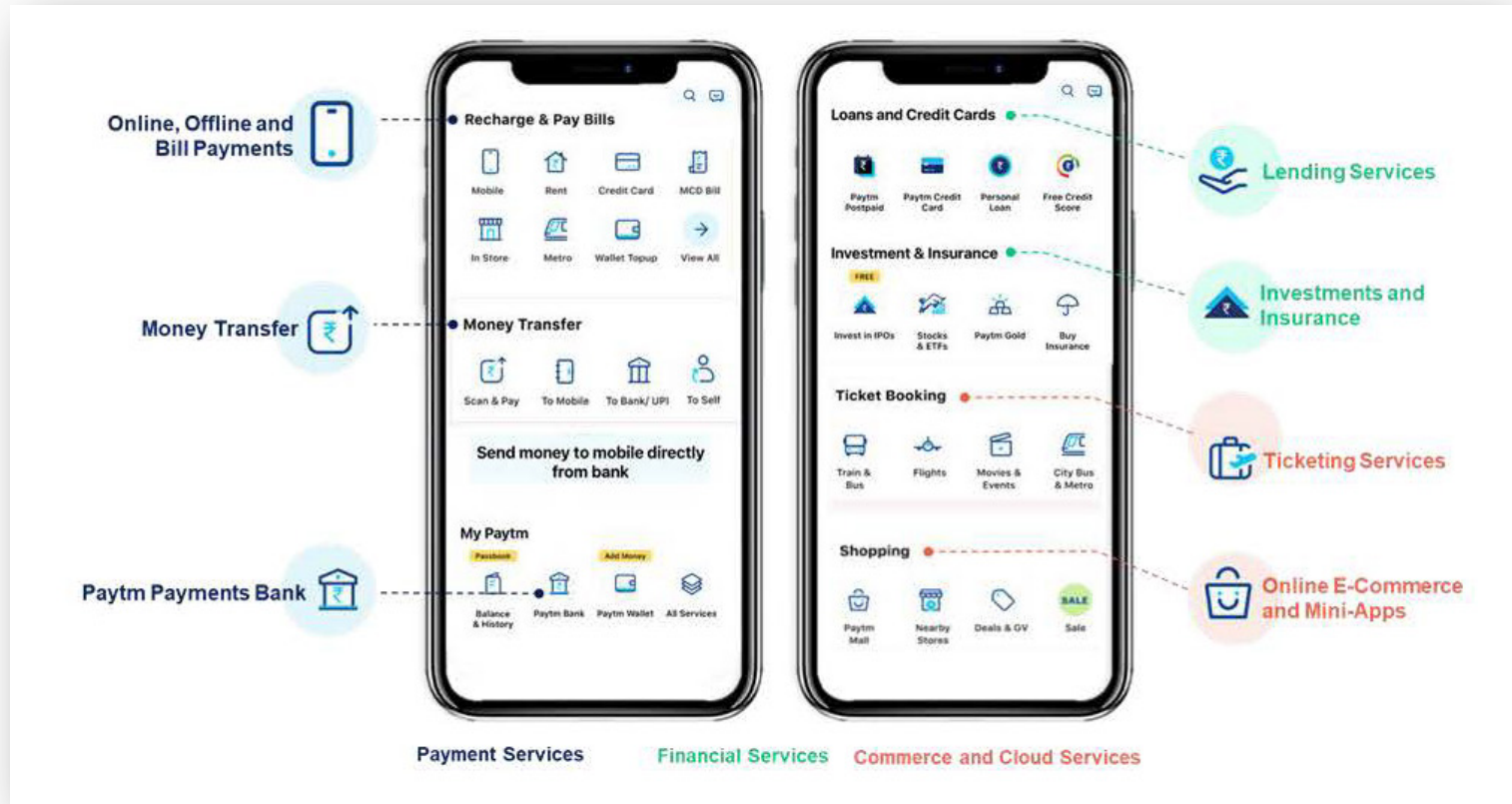
- ❖ Mobile payments increased ~16x to 26b transactions in FY21 from 1.6b transactions in FY17.
- ❖ They are expected to reach ~USD 3.1t in value by FY26.



Source: Company RHP



# Paytm: Super app franchise summarized



Source: Company RHP

# Business overview – full-suite digital ecosystem

## Payment services

- Paytm provides a full suite of payment services for both consumers and merchants.
- The payments ecosystem covers payments (wallet/UPI), FASTag, bill payments, money transfers, and mobile top-ups. Consumers can make payments through Paytm Payment Instruments on the Paytm app.
- It also offers online and offline merchant acquisitions (QR / smart PoS / payment gateway services) and charges a take-rate on the transaction processed.

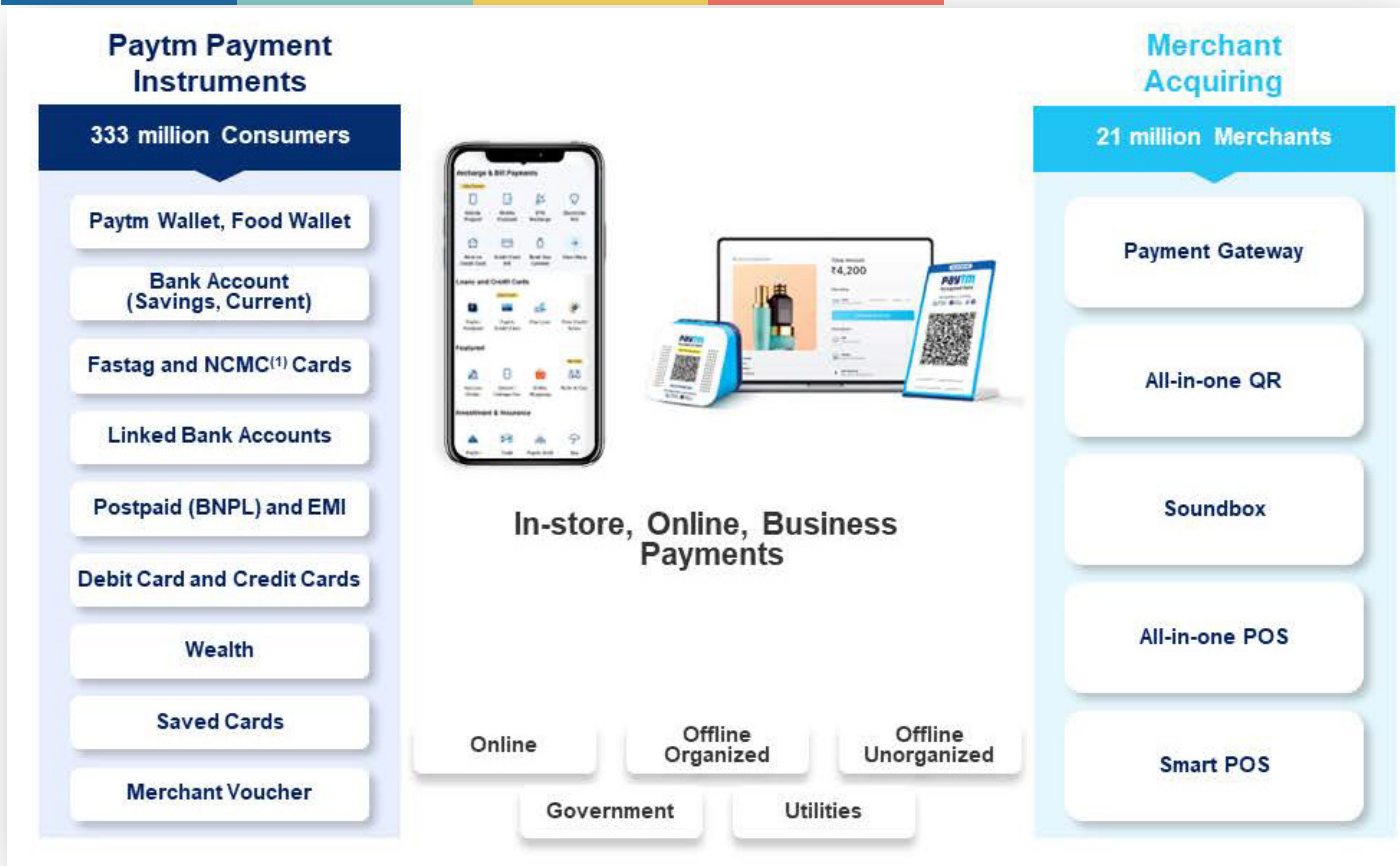
## Financial services

- It offers mobile banking, lending, insurance, and wealth management for consumers and merchants.
- It provides consumer credit – personal loans, Buy Now Pay Later (BNPL), and credit cards (partnership with SBI Cards).
- Insurance – It extends attachment products such as movie and travel ticket cancellation protection. It also provides insurance products, such as auto, life, and health.
- It offers wealth management services through the Paytm app and the Paytm Money app.
- Furthermore, it launched a discount broking business in 2020. There is a significant growth opportunity in both segments.

## Commerce & cloud services

- It offers consumers the option to avail lifestyle commerce services such as ticketing, travel, entertainment, gaming, food delivery, and more.
- It also provides software and cloud services to enterprises, telecom companies, and digital and FinTech platforms to track and enhance customer engagement, build payment systems, etc.
- In FY20, it processed total commerce GMV of INR142.2b, and in aggregate, it generated over INR11b in revenues. However, it was impacted by COVID-19 in FY21.

# Paytm: Key products & services offered to consumers and merchants



# Paytm: Overview of financial ecosystem

CATEGORY	KEY PRODUCTS OFFERED	DETAILS
<b>Payments</b>	<ul style="list-style-type: none"> <li>❖ Mobile Wallet</li> <li>❖ Consumer UPI</li> <li>❖ Bill payment</li> <li>❖ Merchant Solutions-QR codes, PoS solutions and payment gateways/ In-store payments</li> </ul>	<ul style="list-style-type: none"> <li>❖ Mobile payments to merchants and friends over Paytm proprietary Network/UPI.</li> <li>❖ Pay utility bills, recharge mobile etc</li> <li>❖ Digital payment acceptance for merchants</li> </ul>
<b>Banking (Paytm payment Bank)</b>	<ul style="list-style-type: none"> <li>❖ Saving &amp; Current A/C</li> <li>❖ Time Deposits</li> <li>❖ Debit Card</li> <li>❖ Buy Now Pay Later (Paytm Postpaid)</li> </ul>	<ul style="list-style-type: none"> <li>❖ Bank accounts for merchants, individuals and business</li> <li>❖ Fixed deposits and recurring deposits</li> <li>❖ Offers a debit card with attractive rewards program</li> <li>❖ Revolving credit facility in collaboration with other financial partners.</li> </ul>
<b>Credit</b>	<ul style="list-style-type: none"> <li>❖ Credit cards</li> <li>❖ Personal loans</li> <li>❖ Merchant Financing</li> </ul>	<ul style="list-style-type: none"> <li>❖ Co-branded credit cards in partnership with leading banks</li> <li>❖ Co-originated personal loans</li> <li>❖ Merchant partners can avail credit facilities offered by financial partners under 'merchant cash advances'</li> </ul>
<b>Insurance</b>	<ul style="list-style-type: none"> <li>❖ Insurance Distribution aggregator</li> </ul>	<ul style="list-style-type: none"> <li>❖ Distribution platform for Auto, life, General and health insurance</li> </ul>
<b>Wealth Advisory (paytm Money)</b>	<ul style="list-style-type: none"> <li>❖ Mutual Funds</li> <li>❖ Equity Trading</li> <li>❖ Gold</li> </ul>	<ul style="list-style-type: none"> <li>❖ Paytm Money offers zero commission direct mutual funds to the consumers</li> <li>❖ Invest in cash equities, futures and options.</li> <li>❖ Allows consumers to purchase 24-karat pure gold</li> </ul>
<b>E-Commerce/Others</b>	<ul style="list-style-type: none"> <li>❖ E-commerce (Paytm Mall)</li> <li>❖ Gaming</li> <li>❖ Travel Ticketing</li> <li>❖ Entertainment</li> </ul>	<ul style="list-style-type: none"> <li>❖ Paytm mall offers electronics, apparel, groceries, grooming, footwear</li> <li>❖ Mobile gaming platform</li> <li>❖ Consumers can book flight, inter-city bus and train tickets on the app</li> <li>❖ Purchase tickets for movies, sports, music, comedy, theatre and events</li> </ul>

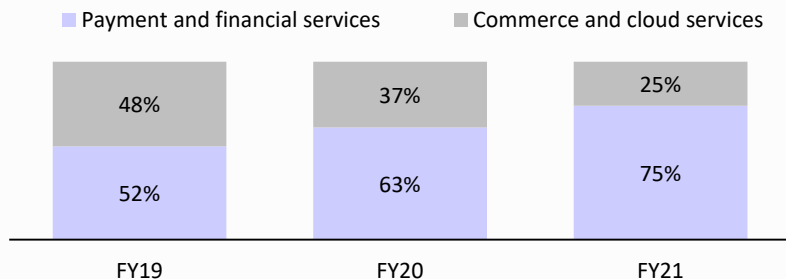
# Paytm – Revenue model

	PAYMENT SERVICES	FINANCIAL SERVICES	COMMERCE SERVICES	CLOUD SERVICES
Revenue model	❖ Transaction charge: Merchant fee based on % of GMV	❖ Generating revenue depending on the types of services offered, such as lending, insurance, and wealth management	❖ Charging merchants a transaction fee on travel ticketing, entertainment ticketing, and advertising and other commerce activities	❖ Charging merchants a subscription fee, and in some instances, a fee linked with the volume of activity on the platform
	❖ Consumer convenience fees	❖ <b>Lending:</b> A) sourcing fee from financial institution partners, which is typically earned at the time of disbursal of the loan; (B) collection fee from lending partners	❖ Charging consumers a convenience fee	❖ Brand marketing campaigns for merchants and charging certain fee
	❖ Subscription fees: Charging merchants for certain products and services, such as Paytm SoundBox and POS	❖ <b>Distribution of credit card:</b> Upfront distribution fee per card issued and % of total annual spend for the card		
		❖ <b>Insurance products:</b> Commission fee on total premium of insurance products		
		❖ Equity broking fees		
Revenue driver	❖ GMV processed on the platform; take-rate defined as ratio of revenue to GMV ❖ Attracting new consumers and increasing retention and engagement of existing consumers ❖ Ability to retain and acquire new merchants on the core platform ❖ Adoption of financial services offerings, such as loans disbursed, number of credit cards sold, and insurance products			
Cost driver	❖ Major expenses include (i) payment processing charges, (ii) marketing and promotional expenses, (iii) employee benefit expenses, (iv) software, cloud, and data center expenses			

# Payments and financial services contribute ~75% to total revenues; strong opportunity to monetize large customer base

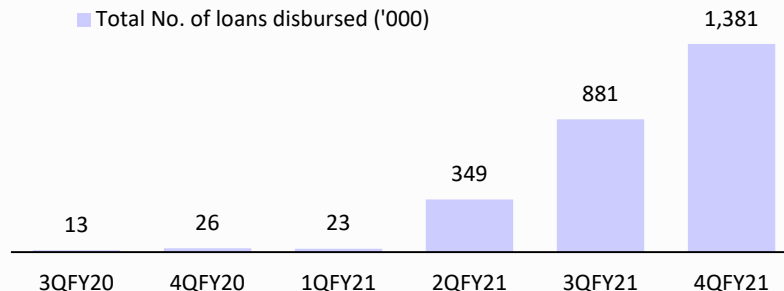
- ❖ Payments and financial services contribute ~75% to the company's total revenues.
- ❖ **The key opportunity for Paytm is to monetize its large consumer base of ~333m and merchant base of ~21m through the cross-selling of financial services such as credit, wealth, and insurance.**
- ❖ Paytm has already started making strong progress in building a revolving credit product, i.e., Paytm Postpaid, to provide the “Buy Now Pay later” facility for the existing customer base to spend on its ecosystem app. It has disbursed nearly ~3m loans thus far.
- ❖ Paytm Money is the largest distribution platform for mutual funds. It has wealth management AUM of ~INR52b.
- ❖ Paytm has an insurance distribution platform to sell insurance products to its user base. It is also in the process of obtaining approvals for the acquisition of a general insurance company.

Payments & financial services contribute ~75% to total revenues



Source: Company RHP

Total number of loans disbursed by Paytm



Source: Company RHP

# Payment services – Paytm leads market in P2M space

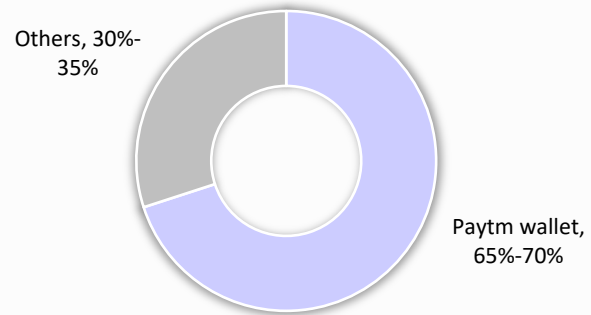
- ❖ Paytm started off as a bill payments and mobile recharge platform in 2010. Over the years, it has created a payments-led 'super app' and evolved into a comprehensive payments ecosystem, covering payments, credit, insurance, merchants, wealth management, e-commerce services, and so forth. It offers customers a mobile wallet and a UPI platform.
- ❖ It has built a strong and large customer base (wallet) of 333m, ~21m in-store merchants, and ~87k online merchants. It offers the full suite of merchant acquisition solutions, such as QR codes, PoS solutions, and a payment gateway.
- ❖ It is the largest platform in India, with GMV of INR4,033b reported in FY21. **Total GMV came in at a ~33% CAGR over FY19–21.**

**P2M volume transactions (FY21)**



Source: Company RHP

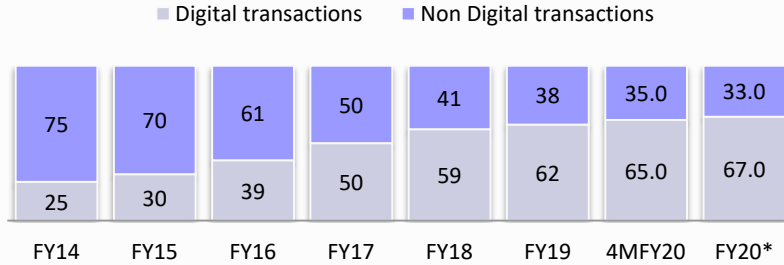
**P2M wallet transactions FY21**



Source: Company RHP

# Digital landscape gaining traction; lower penetration presents opportunity

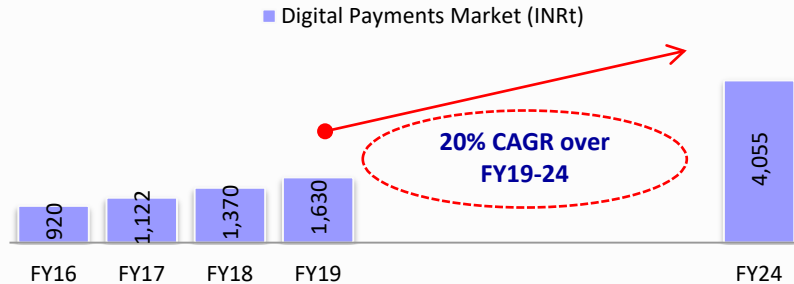
**Rising share of digital transactions, led by E-Commerce and Digital Payments (%)**



\* Based on MOSLe

Source: MOFSL, SBICARD RHP, RBI, CRISIL

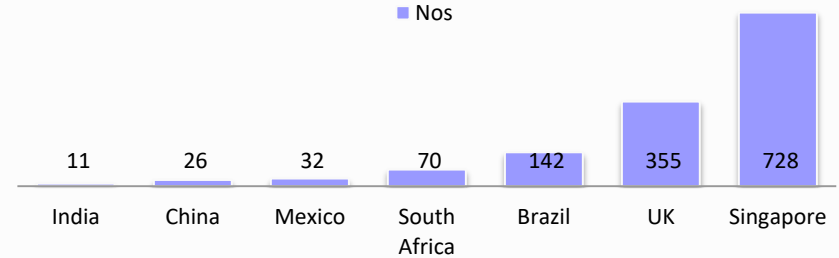
**Digital Payments saw a 21% CAGR over FY16–19**



\*Includes NEFT, RTGS, IMPS etc.

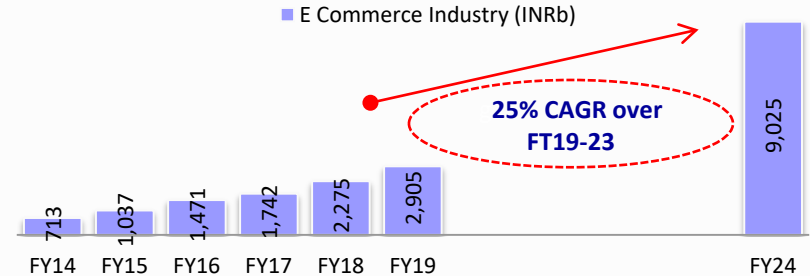
Source: MOFSL, SBICARD RHP, RBI, CRISIL

**Non-cash payment transactions per capita per annum remain the lowest, presenting huge potential**



Source: MOFSL, SBICARD RHP, NITI Aayog

**E-Com industry saw a 32% CAGR over FY14–19**



Source: MOFSL, SBICARD RHP, CRISIL



# Digital payments landscape – UPI gaining traction

## Digital Payments transaction value

Transaction Value (INRb)	FY17	FY18	FY19	FY20	FY21
UPI	69	1,098	8,770	21,317	41,037
Debit Cards	3,283	4,566	5,941	6,994	6,570
Credit Cards	3,284	4,590	6,031	7,322	6,299
PPI	NA	1,416	2,133	2,156	1,977
<b>Total</b>	<b>6,636</b>	<b>11,670</b>	<b>22,875</b>	<b>37,788</b>	<b>55,883</b>

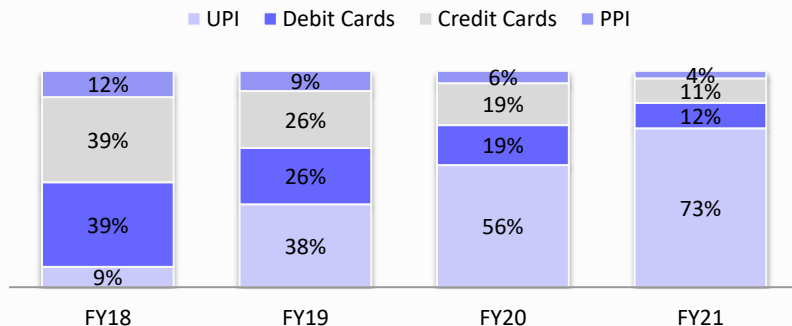
Cards spends are based on POS spends

## Digital Payments transaction volume

Transaction Vol. (INR m)	FY17	FY18	FY19	FY20	FY21
UPI	18	915	5,353	12,519	22,331
Debit Cards	2,388	3,316	4,418	5,074	4,046
Credit Cards	1,087	1,405	1,762	2,188	1,767
PPI	NA	3,459	4,607	5,332	4,942
<b>Total</b>	<b>3,493</b>	<b>9,095</b>	<b>16,140</b>	<b>25,112</b>	<b>33,085</b>

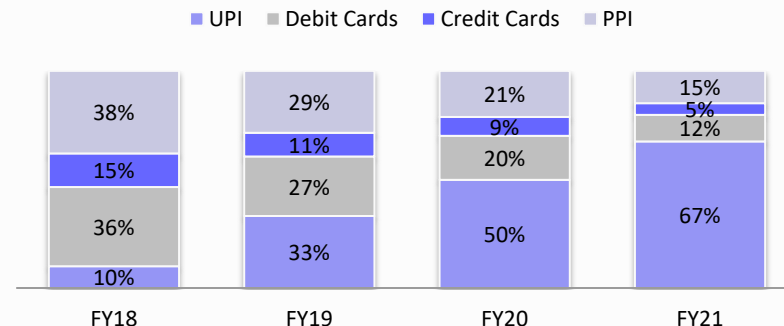
Cards transactions are based on POS transactions

## Digital Payments market share (value-wise, %)



Source: Company RHP

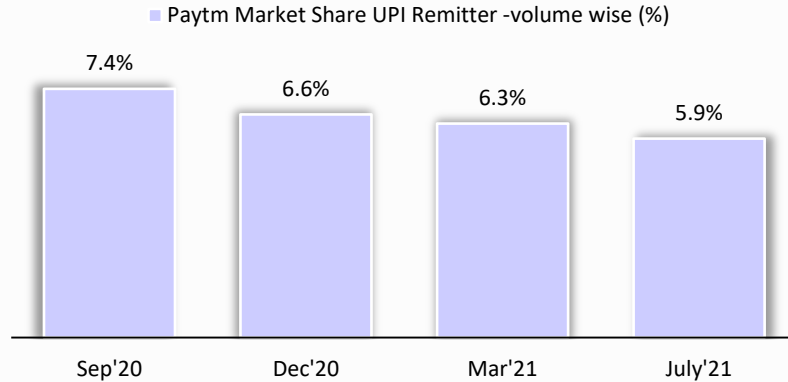
## Digital Payments market share (volume-wise, %)



Source: Company RHP

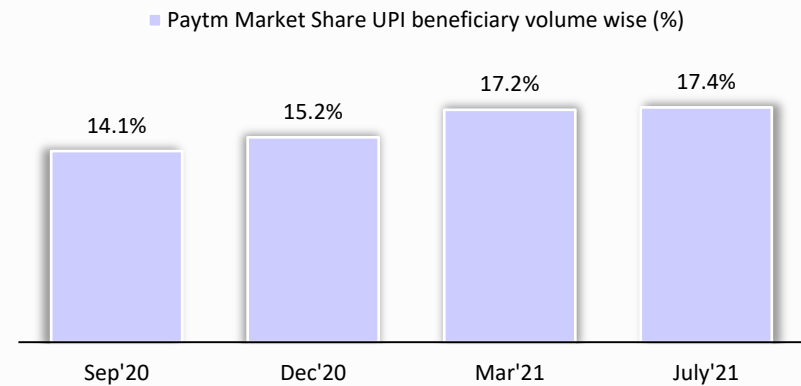
# Paytm UPI market share trends

## ~6% market share in UPI remitter transactions



Source: Company RHP

## ~17% market share in UPI beneficiary transactions

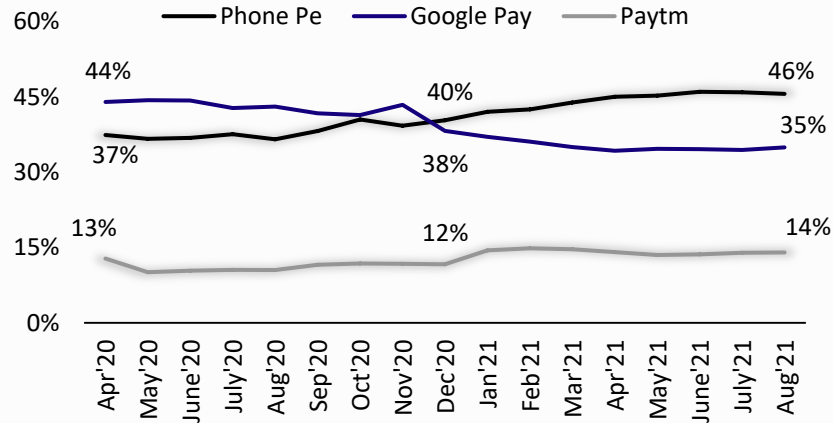


Source: Company RHP

- ❖ Within UPI, Paytm has the highest market share in UPI beneficiary transactions, indicating strong merchant adoption.
- ❖ The market share in UPI beneficiary improved to ~17% as of July'21 from 14% in Sep'20.

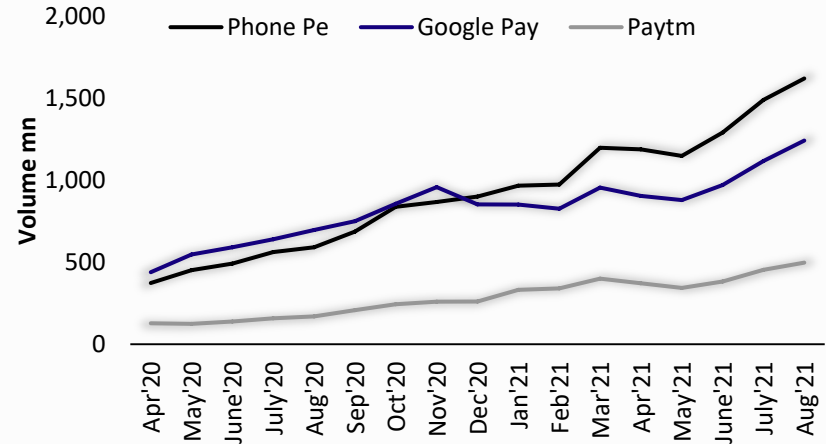
# Paytm UPI Market share trends...cont'd

~14% market share in UPI transactions



Source: Company RHP

UPI monthly volumes of key large peers



Source: Company RHP

# UPI market share trends across players both in volume and value terms...

## UPI market share trends in volume terms (%)

Market Share in volume terms (%)	June'20	Dec'20	June'21	Aug'21
PhonePe	36.9	40.4	45.2	44.7
Google Pay	44.3	38.2	34.0	34.3
Paytm	10.4	11.7	13.4	13.7
AXSB	0.2	4.1	2.2	2.4
Amazon Pay	4.5	1.8	1.8	1.7
BHIM	1.3	1.1	0.8	0.7
Yes Bank	0.5	0.9	0.9	0.7
ICICIBC	0.6	0.6	0.5	0.5
Airtel Payments	0.2	0.2	0.2	0.3
Cred	0.1	0.2	0.2	0.2
KMB	0.1	0.1	0.1	0.1
SBIN	0.3	0.2	0.1	0.1
HDFCB	0.1	0.1	0.1	0.1
MobiKwik	0.1	0.1	0.1	0.1
Others	0.4	0.5	0.5	0.4

## UPI market share trends in value terms (%)

Market Share in value terms (%)	June'20	Dec'20	June'21	Aug'21
PhonePe	40.8	43.8	47.5	46.6
Google Pay	45.7	42.3	37.5	37.8
Paytm	6.9	7.5	8.1	8.7
AXSB	0.1	0.2	0.2	0.1
Amazon Pay	1.0	0.8	0.9	0.8
BHIM	2.5	1.9	1.3	1.2
Yes Bank	0.3	0.5	0.9	0.9
ICICIBC	0.6	0.7	0.9	0.9
Airtel Payments	0.2	0.1	0.5	0.5
Cred	0.3	0.9	1.1	1.4
KMB	0.1	0.1	0.1	0.1
SBIN	0.8	0.5	0.4	0.3
HDFCB	0.1	0.1	0.1	0.1
MobiKwik	0.1	0.1	0.1	0.1
Others	0.5	0.5	0.5	0.5

# UPI mix of P2P and P2M transactions

Month	Total		P2P		P2M		P2P Share		P2M Share	
	Volume (m)	Value (INR b)	Volume (m)	Value (INR b)	Volume (m)	Value (INR b)	Volume (%)	Value (%)	Volume (%)	Value (%)
Apr-20	1,000	1,511	550	1,280	449	231	55	85	45	15
May-20	1,235	2,184	738	1,897	496	287	60	87	40	13
Jun-20	1,337	2,618	819	2,281	518	338	61	87	39	13
Jul-20	1,497	2,905	919	2,511	578	394	61	86	39	14
Aug-20	1,619	2,983	993	2,564	626	419	61	86	39	14
Sep-20	1,800	3,290	1,092	2,824	708	466	61	86	39	14
Oct-20	2,072	3,861	1,227	3,307	844	554	59	86	41	14
Nov-20	2,210	3,910	1,325	3,300	886	610	60	84	40	16
Dec-20	2,234	4,162	1,284	3,480	950	682	57	84	43	16
Jan-21	2,303	4,312	1,294	3,605	1,009	706	56	84	44	16
Feb-21	2,293	4,251	1,282	3,548	1,011	702	56	83	44	17
Mar-21	2,732	5,049	1,516	4,218	1,216	831	55	84	45	16
Apr-21	2,641	4,937	1,449	4,118	1,193	818	55	83	45	17
May'21	2,540	4,906	1,397	4,039	1,143	868	55	82	45	18
Jun-21	2,808	5,474	1,550	4,478	1,257	996	55	82	45	18
Jul-21	3,248	6,063	1,782	4,937	1,466	1,126	55	81	45	19

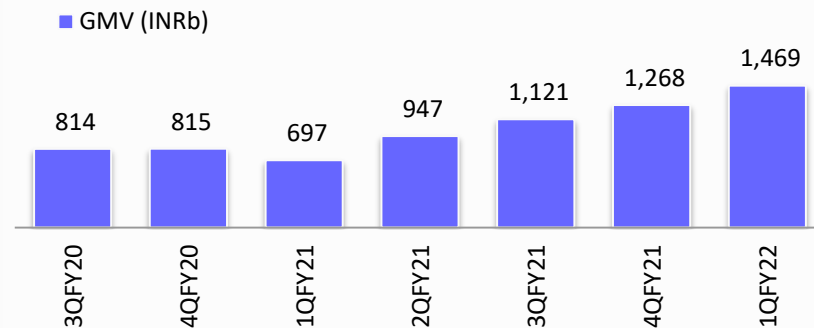
# FY21 GMV 6.8x of FY17 levels; GMV posts ~33% CAGR over FY19–21

## GMV by cohorts - GMV for FY21 6.8x of FY17 levels

	Transaction Year				
	FY17	FY18	FY19	FY20	FY21
FY17	1.0x	2.8x	4.9x	6.8x	6.8x
FY18		1.0x	2.9x	3.7x	3.5x
FY19			1.0x	1.8x	1.9x
FY20				1.0x	1.9x
FY21					1.0x

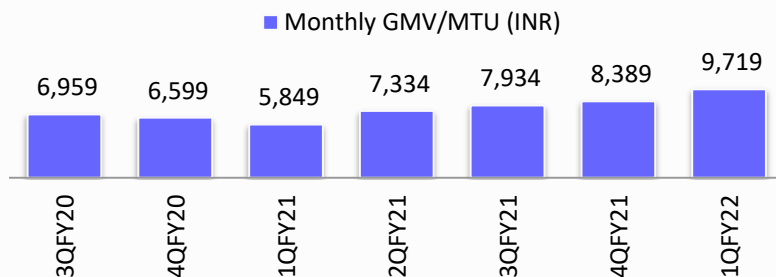
Source: MOFSL, Company RHP

## GMV growing consistently



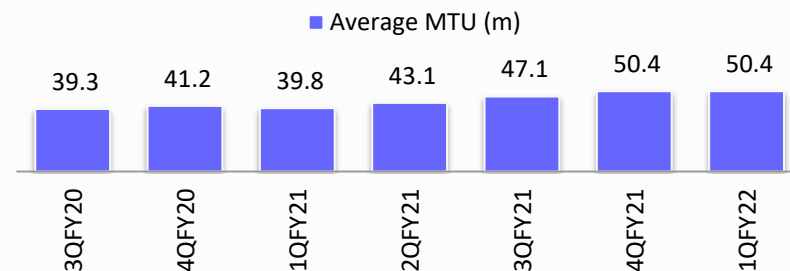
Source: MOFSL, Company RHP

## GMV per MTU (monthly transacting users) also improving



Source: MOFSL, Company RHP

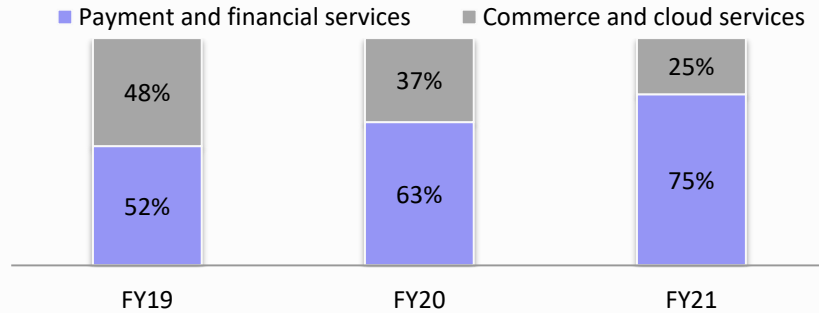
## Average MTU trends over the past several quarters



Source: MOFSL, Company RHP

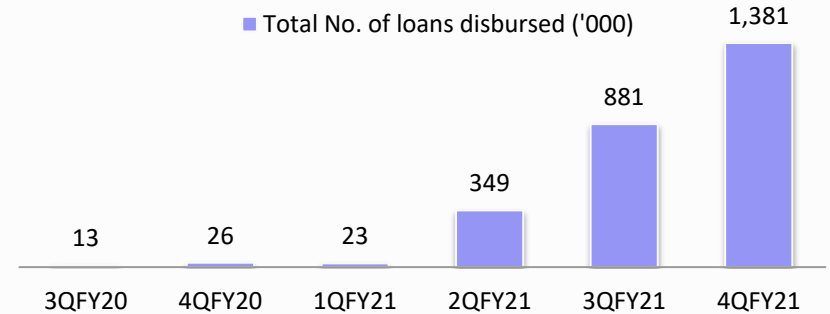
# Key financials: Payment & financial services contribute ~75% to total revenues

## Payment & financial services contribute ~75% to total revenues



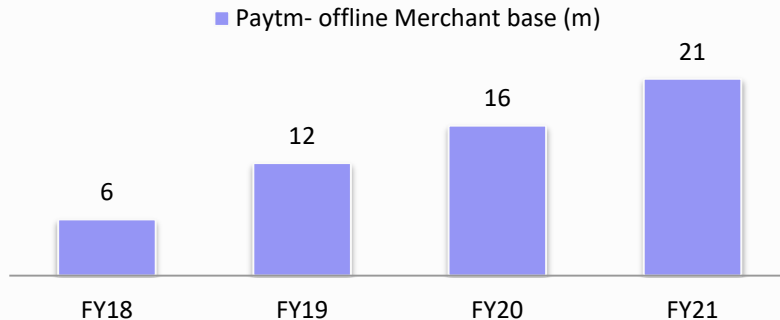
Source: MOFSL, Company RHP

## Total number of loans disbursed by Paytm



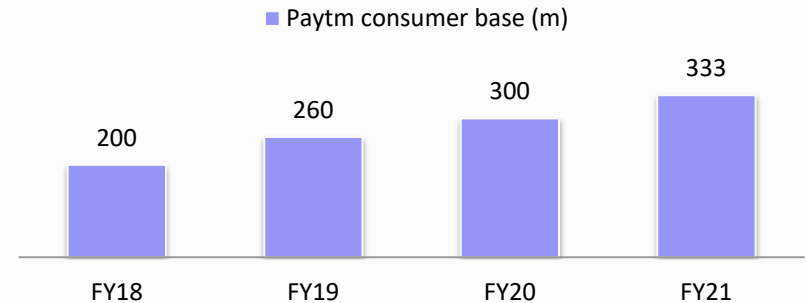
Source: MOFSL, Company RHP

## Paytm - offline merchant base



Source: MOFSL, Company

## Paytm - consumer user base



Source: MOFSL, Company

# Paytm Payments Bank offers wide range of financial services

- ❖ Paytm payment instruments allow consumers to use wallets, sub-wallets, bank accounts, and BNPL at a wide range of merchants across the country.
- ❖ While the payments bank license allows Paytm to collect deposits from customers, it cannot offer loans, as per the licensing requirement.
- ❖ Paytm Postpaid provides consumers the flexibility to use BNPL across its merchant base.
- ❖ Around 155m UPI handles have been created by the Paytm Payments Bank, which are used to send and receive payments.
- ❖ The Payments Bank has over ~64m savings accounts, with the total deposits at ~INR52b as of FY21. It offers customers the IMPS, NEFT, and RTGS facilities for making payments.
- ❖ There is huge scope to monetize the customer wallet base of Paytm in the financial services ecosystem and improve the cross-sell rate.



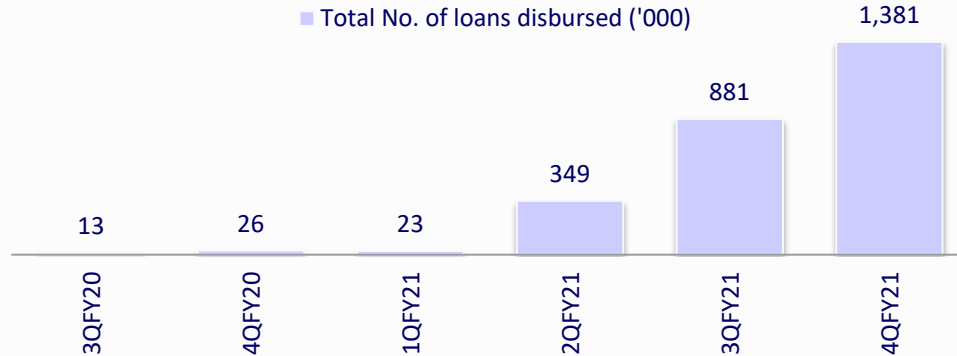
# Paytm payment instruments offer broad range of financial services

Paytm Payment Instruments	Key description
Paytm Wallet	❖ It provides a secure digital wallet that allows consumers to make payments to over ~87k online merchants and ~21m in-store merchants.
Paytm Postpaid	❖ It provides a revolving credit line through "Buy Now Pay Later".
Paytm UPI	❖ Over 155m Paytm UPI handles have been created by the Paytm Payments Bank, which are used to send and receive payments.
Paytm FASTag	❖ Paytm FASTag does not require a separate prepaid account or login credentials, and is linked seamlessly to the Paytm Wallet.
Fixed Deposits	❖ It has total outstanding fixed deposits of INR17.5b.
Paytm Payments Bank Debit Card	❖ Every account holder with a Paytm Payments Bank account is provided a free digital debit card for making in-store and online payments.
Paytm Payments Bank Credit Card	❖ It offers co-branded credit cards in partnership with SCBs and digitizes the entire credit card experience on the Paytm app.

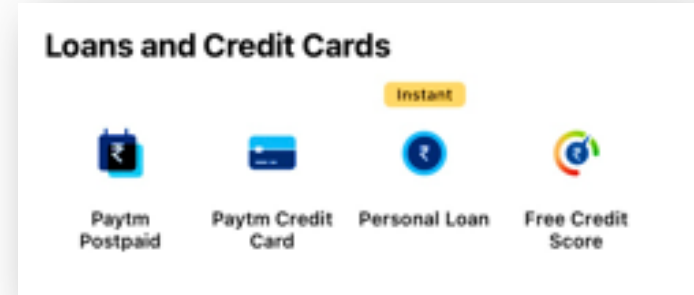
# Paytm credit – share to increase sharply in total revenues

- ❖ As Paytm holds a payments bank license, it is not allowed to offer credit on its own balance sheet. Thus, it co-originate loans with other financial partners (such as banks and NBFCs).
- ❖ It offers Buy Now Pay later with a credit facility of INR60k for a period of up to 30 days, unsecured personal loans ranging between INR10–20k, co-branded credit cards, and merchant lending. There is significant opportunity for Paytm to cross-sell loans to the existing merchant and consumer bases.
- ❖ Overall, we expect the share of the Lending business to increase sharply in its core revenues over the next couple of years.

## Total number of loans disbursed by Paytm



Source: Company RHP



# Other key financial services business verticals

## Paytm Money

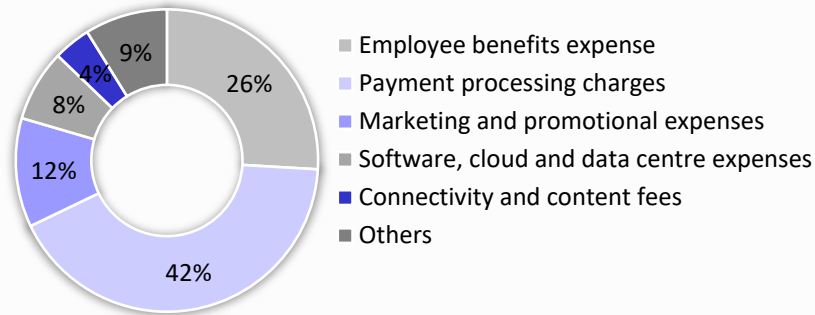
- ❖ Paytm provides wealth management services to consumers through its subsidiary Paytm Money.
- ❖ Key products includes mutual funds, equity trading, and Paytm Gold purchases.
- ❖ Nearly 74m investors have used the digital gold service since its launch in Apr'17. Also, it has 1.3m mutual fund customers and 208k equity trading accounts.
- ❖ It has become a big player in online mutual fund distribution, with the highest share in new SIPs registered in India.

## Paytm Insurance

- ❖ Paytm distributes insurance products across the auto, life, and health categories. It offers these products through subsidiary Paytm Insurance Broking Private Ltd.
- ❖ It also provides attachment products such as movie and travel ticket cancellation protection.
- ❖ The Insurance business has a unique insurance customer base of 11.3m and has sold 31.5m cumulative attachment products and insurance policies.
- ❖ The insurance subsidiary is integrated with 47 insurance companies in India.

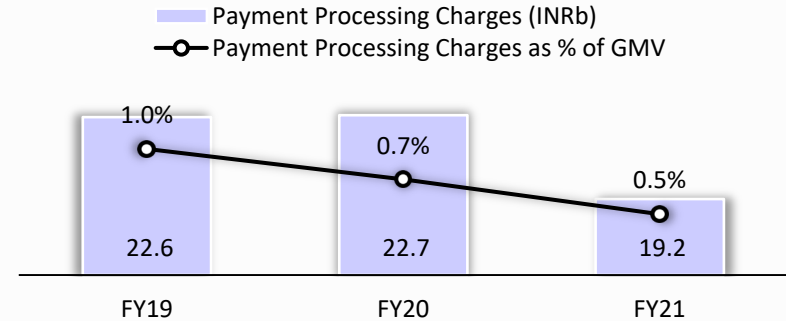
# Cost ratios declining, aiding improvement in contribution profits

**Major cost breakup: Payment processing charges form ~42% of total operating expenses**



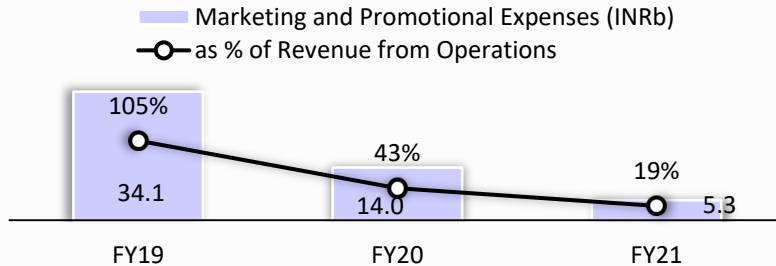
Source: MOFSL, Company RHP

**Payment processing charges decline to 0.5% v/s 1.0% in FY21**



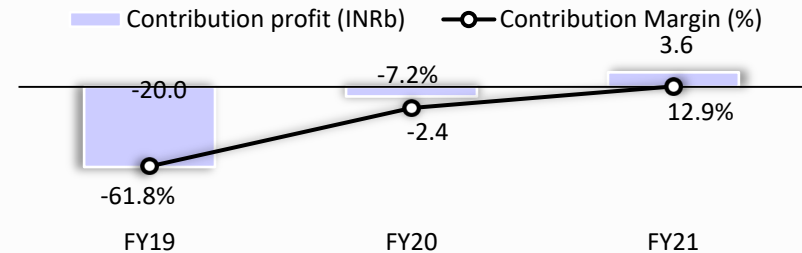
Source: MOFSL, Company RHP

**Marketing & promotional expenses declined primarily on account of drop in customer acquisition costs and retention costs**



Source: MOFSL, Company RHP

**Contribution profit trends improving**



Source: MOFSL, Company RHP

# Financials – contribution profit

- ❖ **Contribution profit** is calculated as revenue from operations less payment processing charges; promotional cashbacks and incentives; connectivity and content fees; contest, ticketing, and FASTag expenses; and logistic, deployment, and collection costs for the businesses. This may also be termed as core operating profits for the firm.
- ❖ **The contribution margin improved to 12.9% (v/s -7.2% in FY20).**

INR m	FY19	FY20	FY21
Revenue from operations	32,320	32,808	28,024
<b>Less:</b>			
(-) Payment Processing charges	22,574	22,659	19,168
(-) Promotional cashbacks and incentives	27,937	9,592	2,357
(-) Connectivity and content fees	1,071	1,561	1,819
(-) Contest, ticketing and FASTag expenses	680	1,221	681
(-) Logistic, deployment and collection cost	38	153	374
<b>Contribution profit</b>	<b>-19,980</b>	<b>-2,378</b>	<b>3,625</b>
<b>Contribution Margin (%)</b>	<b>-61.8%</b>	<b>-7.2%</b>	<b>12.9%</b>

Source: Company RHP, MOFSL

# Financials – consolidated P&L

INRb	FY19	FY20	FY21
Payment and financial services	16,955	19,068	21,092
YoY growth (%)		12%	11%
Commerce and cloud services	15,365	11,188	6,932
YoY growth (%)		-27%	-38%
Revenue from Core Operations	32,320	30,256	28,024
YoY growth (%)		-6%	-7%
Other Operating Revenues	0	2,552	0
-Recovery of marketing expense	0	2,552	0
YoY growth (%)		-	-100%
Total Revenue from Operations (A)	32,320	32,808	28,024
YoY growth (%)		2%	-15%
Other Income (B)	3,477	2,599	3,844
YoY growth (%)		-25%	48%
Miscellaneous Income	43	121	199
Total Income (A+B)	35,797	35,407	31,868
YoY growth (%)		-1%	-10%

Source: Company RHP, MOFSL

INRb	FY19	FY20	FY21
Total Operating Expenses	75,981	59,152	45,697
YoY growth (%)		-22%	-23%
EBITDA	-40,184	-23,745	-13,829
YoY growth (%)		-41%	-42%
Contribution Profit	-19,980	-2,378	3,625
YoY growth (%)		-88%	-252%
Depreciation & Amortisation Expense	1,116	1,745	1,785
Finance Cost	342	485	348
Profit before tax from continuing operations	-41,642	-25,975	-15,962
Profit after tax from continuing operations	-42,256	-29,424	-17,010
Profit after tax from discontinued operations	-53	-	-
Profit after tax	-42,309	-29,424	-17,010

Source: Company RHP, MOFSL

# Financials – consolidated balance sheet

Liabilities (INRm)	FY19	FY20	FY21
Share Capital	575	604	605
Reserves & Surplus	56,674	80,448	64,743
Non-controlling interest	862	-140	-186
<b>Networth</b>	<b>58,111</b>	<b>80,912</b>	<b>65,162</b>
Borrowings	6,956	2,081	5,449
<i>YoY growth (%)</i>		<i>-70%</i>	<i>162%</i>
Lease Liabilities	2,361	2,194	671
Contract Liabilities	3,529	6,604	5,700
<i>YoY growth (%)</i>		<i>87%</i>	<i>-14%</i>
Provisions	520	761	677
Trade payables	7,360	6,116	6,052
Other liabilities	8,831	4,363	7,802
<b>Total Liabilities</b>	<b>87,668</b>	<b>1,03,031</b>	<b>91,513</b>
<i>YoY growth (%)</i>		<i>18%</i>	<i>-11%</i>

Source: Company RHP

Assets (INRm)	FY19	FY20	FY21
Loans & Advances	4,162	2,257	3,822
<i>YoY growth (%)</i>		<i>-46%</i>	<i>69%</i>
Investment in JV/Associates	2,462	3,230	2,317
Other Investments	26,030	34,170	1,813
Current tax assets	4,648	4,937	3,016
Trade receivables	2,584	3,010	3,393
<i>YoY growth (%)</i>		<i>16%</i>	<i>13%</i>
Cash and cash equivalents (incl Bank balances)	4,613	5,402	28,764
Fixed Assets	8,967	6,082	5,149
Other Assets	34,202	43,943	43,239
<b>Total Assets</b>	<b>87,668</b>	<b>1,03,031</b>	<b>91,513</b>

Source: Company RHP

# Financials – DuPont analysis

Dupont Analysis basis (in bps) as % of GMV	FY19	FY20	FY21
Payment and financial services	74.0	62.9	52.3
Commerce and cloud services	67.0	36.9	17.2
<b>Revenue from Core Operations</b>	<b>141.0</b>	<b>99.8</b>	<b>69.5</b>
Other Operating Revenues	-	8.4	-
<b>Total Revenue from Operations</b>	<b>141.0</b>	<b>108.2</b>	<b>69.5</b>
Other Income	15.2	8.6	9.5
<b>Total Income</b>	<b>156.2</b>	<b>116.8</b>	<b>79.0</b>
Opex	331.5	195.1	113.3
<b>EBITDA</b>	<b>-175.3</b>	<b>-78.3</b>	<b>-34.3</b>
D&A	4.9	5.8	4.4
Finance Cost	1.5	1.6	0.9
<b>Profit before tax from continuing operations</b>	<b>-181.7</b>	<b>-85.7</b>	<b>-39.6</b>
Share of restated profit / (loss) of associates / joint ventures	0.6	-1.8	-1.8
Exceptional items	-3.6	-10.0	-0.7
Income Tax expense	-0.3	-0.5	0.1
<b>Profit after tax from continuing operations</b>	<b>-184.4</b>	<b>-97.0</b>	<b>-42.2</b>
Profit after tax from discontinued operations	-0.2	-	-
<b>Profit after tax</b>	<b>-184.6</b>	<b>-97.0</b>	<b>-42.2</b>



# SWOT Analysis- Paytm



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## STRENGTHS

- ❖ India's leading payments and FinTech enterprise
- ❖ Developed a payments-led 'super app' and evolved into a comprehensive payments ecosystem, covering payments, credit, insurance, merchants, wealth management, e-commerce services, and so forth
- ❖ Strong market share in payment-to-merchant transactions
- ❖ Huge consumer and merchant user base for cross-sell

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## WEAKNESSES

- ❖ Lower awareness among users
- ❖ Lack of local agents for distribution of products

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## OPPORTUNITIES

- ❖ Increasing Internet user base
- ❖ Huge opportunity to cross-sell products to the existing consumer base
- ❖ Fast changing payments landscape towards Digital
- ❖ Under-penetration and rising digitization of financial services
- ❖ Exponential growth in online shopping

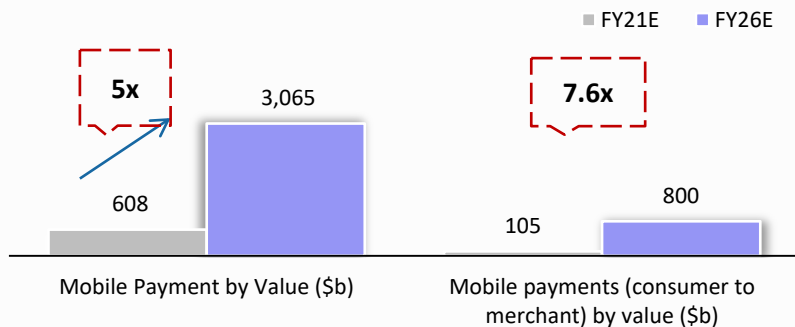
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## THREATS

- ❖ Low barriers to entry
- ❖ Competing with various FinTech firms, banks, e-commerce players, Internet providers, and so on
- ❖ Growing cyber threat remains a key threat
- ❖ Obsolete technology could lead to sharp market share loss
- ❖ Regulatory risk remains another major threat to the business

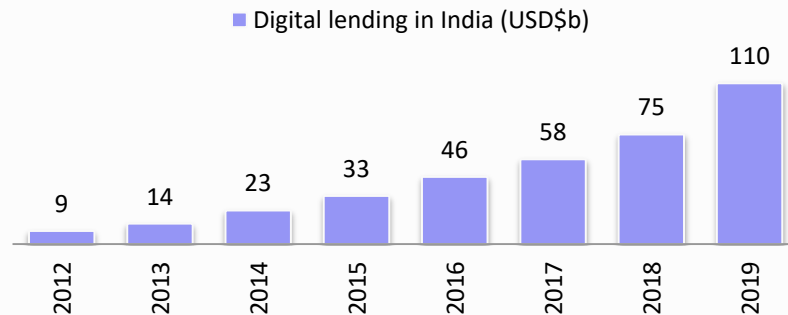
# Market opportunity size – mobile payments to grow 5x by FY26

## Mobile payments market size opportunity



Source: Company RHP; RedSeer

## Retail digital lending in India



Source: Company RHP; RedSeer

## Market opportunity size across e-commerce services

Estimated market opportunity (US\$ b)	FY2021	FY2026	CAGR
Online Gaming	2.8	12-13	34%-36%
Travel Ticketing <sup>1</sup>	36.0	60.0	~9%
Film Ticketing <sup>1,2</sup>	2.6	3.5	5%
E-tail	41.0	140-160	28%-31%
E-grocery	3.7	22-27	43%-49%
Online Food Delivery	2.7-3	13-14	36%
India Advertising <sup>3</sup>	9.3	20-25	20%

Source: Company RHP; RedSeer; Note: (1) Travel ticketing and film ticketing for the period FY 2020; (2) Includes ticketing from major organized and unorganized players; (3) India advertising data for the period CY2020 and CY2025

# Key risks

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- ❖ The COVID-19 pandemic could adversely affect the businesses of Paytm merchants and thus remains a key risk for Paytm as well.
- ❖ An increase in payment processing charges to financial institutions or card networks could materially impact profitability as payment processing charges form ~40% of the total operating expenses.
- ❖ Technology infrastructure is vital and therefore remains a key risk to these businesses.
- ❖ Various laws and regulations govern its business segments, such as Insurance, and remain a key risk.



# Global comps & valuation



# Global Peers: Payment Companies

PAYMENT COMPANIES	COUNTRY	DESCRIPTION	MCAP (USD B)
PagSeguro	Brazil	❖ Disruptive provider of financial technology solutions, focused on consumers, individual entrepreneurs, micro-merchants, and small- and medium-sized companies	18.6
PayPal	US	❖ Financial technology company operating an online payments platform in most countries that support online money transfers; it has a consumer base of 403m and has made total payments worth >USD1.1t in the last 12 months	324.7
Shift4 Payments	US	❖ Leading provider of integrated payment processing and technology solutions, delivering a complete omni-channel ecosystem that extends beyond payments to include a wide range of commerce-enabling services	6.8
Global Payments Inc	US	❖ Leading payments technology company	47.6
Ayden	Netherlands	❖ Founded in 2006; enables merchants to accept payments in a single system, enabling revenue growth online on mobile devices and at points of sale	96.7

# Global Peers: BNPL players and merchant service providers

FINANCIAL SERVICES	COUNTRY	DESCRIPTION	MCAP (USDB)
Afterpay Limited	Australia	❖ Best known for its "pay later" service that allows in-store and online customers to purchase a product immediately and pay for it later; an Australian financial technology company operating in Australia, the United Kingdom, Canada, the United States, and New Zealand	26.3
Affirm	US	❖ Buy Now Pay Later (BNPL) company in the US	31.6
Zip Pay	Australia	❖ Offers a digital credit option to customers; acquired US-based BNPL company "Quadpay" to grow its American footprint	2.6
SoFi	US	❖ Provides a suite of financial products, including student loan refinancing, mortgages, personal loans, credit cards, investing, and other banking services online	12.0
<b>Online merchant services e-commerce</b>			
Nuvei	US	❖ Montreal-based payments technology partner - Canada's largest private and non-bank payment processor	20.8
Square	US	❖ American financial services and digital payments company that was founded in 2009 and launched its first platform in 2010; it provides an e-commerce platform	117.6

# Global comps valuation key metrics

Global Peers	Mcap (USDb)	EV (\$b)	Revenue (\$m)		EBITDA (\$m)		PAT (\$m)		P/Sales (x)		EV/Sales (x)	
Payment Companies	Current	Current	CY21	CY22	CY21	CY22	CY21	CY22	CY21	CY22	CY21	CY22
PagSeguro	18.6	18.2	1,926	2,561	572	896	312	509	9.7	7.3	9.4	7.1
Paypal	324.7	322.0	25,760	31,656	7,577	9,387	5,599	6,943	12.6	10.3	12.5	10.2
Shift4 Payments	6.8	7.3	513	642	179	243	49	95	13.3	10.6	14.2	11.4
Global Payments Inc	47.6	56.7	7,735	8,603	3,648	4,123	2,419	2,818	6.2	5.5	7.3	6.6
Ayden	96.7	92.8	6,272	7,595	723	1,023	538	765	15.4	12.7	14.8	12.2
<b>Financial Services</b>												
Afterpay Limited	26.3	26.5	1,159	1,764	83	221	9	42	22.7	14.9	22.8	15.0
Affirm	31.6	30.8	1,204	1,713	-68	-21	-315	-226	26.2	18.4	25.6	18.0
Zip pay	2.6	3.6	489	688	-31	35	-52	3	5.3	3.8	7.4	5.2
SoFi	12.0	14.4	961	1,440	-421	-187	-391	-9	12.5	8.3	15.0	10.0
<b>Merchant Services</b>												
Nuvei	20.8	20.8	703	917	302	399	232	294	29.6	22.7	29.6	22.7
Square	117.6	117.3	19,012	22,142	1,074	1,375	1,009	1,222	6.2	5.3	6.2	5.3

Source: Bloomberg estimates ; Capital IQ; **Note: AfterPay, Affirm, Zip pay Year end as on June period**

# Global comps valuation key metrics

Global Peers	Revenue (\$m)			EBITDA (\$m)			PAT (\$m)			Revenue CAGR (%)	EBITDA CAGR (%)	PAT CAGR (%)
Payment Companies	CY18	CY19	CY20	CY18	CY19	CY20	CY18	CY19	CY20	CY18-20	CY18-20	CY18-20
PagSeguro	1,157	1,449	1,335	372	528	438	294	373	281	7%	8%	-2%
Paypal	15,451	17,772	21,454	3,059	3,858	4,815	2,049	2,539	2,563	18%	25%	12%
Shift4 Payments	561	731	767	7	10	-67	-55	-57	-18	17%	NA	NA
EVO Payments	565	486	439	100	219	166	36	72	31	-12%	29%	-7%
Global Payments Inc	3,366	4,912	7,424	1,329	2,002	3,002	489	650	865	48%	50%	33%
Ayden	1,955	3,142	4,306	213	359	455	155	277	309	48%	46%	41%
<b>Financial Services</b>												
Afterpay Limited	189	349	691	-1	21	-95	-27	-10	-112	91%	NA	NA
Affirm	264	510	870	-122	-98	112	-135	-126	-59	81%	NA	NA
Zip pay	59	105	301	-5	-29	-346	-8	-30	-416	125%	NA	NA
SoFi	269	443	566	-252	-240	-224	-252	-240	-224	45%	NA	NA
<b>Merchant Services</b>												
Nuvei	150	246	375	37	62	147	-31	-71	-76	58%	99%	NA
Square	3,298	4,714	9,498	40	157	-150	-38	31	-2	70%	NA	NA

Source: Bloomberg estimates ; Capital IQ; **Note: AfterPay, Affirm, Zip pay Year end as on June period**



# Paytm: Implied valuation multiple analysis

- ❖ Media articles suggest Paytm's fair valuation would range at USD20–25b.
- ❖ We did two scenario analyses at these proposed valuation (USD20–25b) to derive valuation multiples (P/Sales) in each of the business segments and compared with the global companies in the respective businesses.
- ❖ We estimate a revenue CAGR of ~45%-50% over FY21–24 – as we assume the revenue contribution from financial services to increase rapidly, with a higher focus on **monetizing its large installed customer/merchant base (~333m/~21m) for broader financial services offerings such as credit, wealth, and insurance.**
- ❖ Also, we think the E-Commerce Services segment would grow as economic activity picks up and the country moves towards normalization.
- ❖ At a USD20b valuation, the P/Sales multiple on a consolidated basis would trade at ~14x.
- ❖ Also, at a USD25b valuation, the P/Sales multiple on a consolidated basis would trade at 18x.

Scenario-1 Media News: Proposed valuation - USD20b

	Payment Services	Financial Services	Commerce and cloud services	Total
FY24-Revenue (INR b)	62.2	15.6	24.2	101.9
<b><i>P/Sales (x)-Global Comps trading multiple</i></b>	<b><i>10x-13x</i></b>	<b><i>15x-17x</i></b>	<b><i>20x</i></b>	<b><i>14.2x</i></b>
Equity Value (INR b)-Mean	715	249	484	1,448
Equity Value (USD b)-Mean	9.7	3.4	6.6	19.7

Scenario-2 Media News: Proposed valuation - USD25b

	Payment Services	Financial Services	Commerce and cloud services	Total
FY24-Revenue (INR b)	62.2	15.6	.2	101.9
<b><i>P/Sales (x)- higher multiples v/s Global comps</i></b>	<b><i>14x-16x</i></b>	<b><i>18x-20x</i></b>	<b><i>25x</i></b>	<b><i>18.0x</i></b>
Equity Value (INR b)-Mean	933	296	604	1,833
Equity Value (USD b)-Mean	12.7	4.0	8.2	24.9

# IPO details: Deal structure and other details

## About the offer

❖ The total offer stands at INR166b, with a fresh issue of INR83b as well as offer for sale of INR83b.

## Utilization of proceeds

Most of the investments are put towards the following:

- ❖ Acquiring and retaining consumers and merchants
- ❖ Product and engineering talent to build technology solutions
- ❖ Sales personnel who engage with the merchants
- ❖ Acquiring hardware, including devices

## List of key selling investors

Mr. Vijay Shekhar Sharma

Antfin (Netherlands) Holding B.V.

Alibaba.com Singapore Ecommerce Private Limited

Elevation Capital V Limited

Elevation Capital V FII Holdings Limited

SAIF III Mauritius Company Limited

SVF Panther (Cayman) Limited

BH International Holdings

## List of shareholders

Antfin (Netherlands) Holding B.V.

Soft Bank Group

SAIF III Mauritius Company Limited

Mr. Vijay Shekhar Sharma

Alibaba.Com Singapore E-Commerce Private Limited

SAIF Partners India IV Limited

VSS Holding Trust

BH International Holdings

## Pre-offer Equity Share (%)

29.6%

19.6%

12.1%

9.6%

7.2%

5.1%

5.0%

2.8%

Source: Company DRHP ; Note: BH International Holdings refers to Berkshire Hathway  
VSS Holding Trust is directly/ indirectly owned by Vijay Shekhar Sharma (MD&CEO)

Source: Company DRHP

# Management details

Name of the key management	Designation	Profile
Vijay Shekhar Sharma	MD & CEO	❖ Mr Sharma is the Founder and oversees the company's key strategic efforts, including engineering, design, and marketing. He was featured in the list of the 'Hundred Most Influential People in the World' by Time Magazine in 2017. He holds a bachelor's degree in electronics and communications from the Delhi College of Engineering.
Madhur Deora	President & Group CFO	❖ Mr Deora is President and Group CFO of the company. He has been associated with the company since 3 <sup>rd</sup> Oct'16. He holds a bachelor of science degree in economics from the Wharton School of the University of Pennsylvania.
Amit Khera	Company Secretary and Compliance Officer	❖ Mr Khera joined the company in Apr'21; prior to this, he was associated with Bharti Airtel Ltd and FieldFresh Foods Private Ltd.
Harinder Takhar	Chief Executive Officer, Paytm Labs	❖ Mr Takhar has been associated with Paytm Labs, Inc. since June 2013. He holds a bachelor's degree in engineering (computer) from the University of Delhi and a master's degree in business administration from INSEAD. He was previously associated with Paytm Mobile Solutions Private Limited, Research In Motion Limited, and Nokia Corporation.
Vikas Garg	Chief Financial Officer	❖ Mr Garg serves as CFO and has been associated with the company since May'14. He was also previously associated with the company during Aug'08 to Sep'12. He holds a bachelor's degree in commerce from Maharshi Dayanand University, Rohtak.

# Management details

Name of the key management	Designation	Profile
Renu Satti	Chief Operating Officer, Offline Payments	❖ Ms Satti has been associated with the company since Oct'06. She was previously associated with Manpower Services India Private Limited. She holds a bachelor's degree in commerce from the University of Delhi.
Bhavesh Gupta	Chief Executive Officer, Paytm Lending	❖ Mr Gupta has been associated with the company since 4 <sup>th</sup> Aug'20. He has previously worked with Clix Capital Services Private Limited and IDFC Bank Limited. He holds a master's degree in business administration from the Institute of Management Studies, Indore.
Praveen Sharma	Chief Operating Officer, online Payments	❖ Mr Sharma joined the company in 2019 and was previously associated with Google Asia Pacific Pte Ltd.
Manmeet Dhody	Chief Technology Officer, Payments	❖ Mr Dhody has been associated with the company since 1 <sup>st</sup> Apr'20. He holds a bachelor's degree in engineering (computer) from the University of Delhi and a master's degree in business administration from Punjab University.
Sudhanshu Gupta	Chief Operating Officer, Paytm First Games	❖ Mr Gupta has been associated with Paytm First Games Private Limited since 1 <sup>st</sup> June'18. He holds a bachelor's degree in science from the University of Delhi and a post-graduate diploma in business management from Management Development Institute, Gurugram.

# Subsidiaries details

Name of Entity	Details	Stake (%)	Share Capital (INR m)
MobiQuest Mobile Technologies Private Ltd	❖ A mobile enterprise platform company	65.7%	3.6
Nearbuy India Private Ltd	❖ An online marketplace operating in sectors such as Food & Beverage, Spa & Salon, Local Retail / Gift Cards; it helps connect the merchants to the customers	100%	9.0
One 97 Communications India Ltd	❖ Provides services using voice and messaging platforms and other ancillary business services	100%	831.5
Orbgen Technologies Private Ltd	❖ Business of system study, design, and development of system software, application software, manpower support services for Online Entertainment Ticketing business	100%	200.0
Paytm Entertainment Ltd	❖ Business of information technology, which provides technical application support services and solutions, along with the business of developing, enhancing, and operating an online platform	100%	789
Paytm First Games Private Ltd	❖ Principal business is developing, enhancing, and operating an online platform through a user interface, allowing users to participate in and play various game	55%	1,241
Paytm Insurance Broking Private Ltd	❖ Business of acting as a direct broker in accordance with the IRDAI	100%	750
Paytm Money Limited	❖ Provides cloud-based mobile first wealth management services	100%	2,589
Paytm Payments Services Ltd	❖ Provides payment aggregator services and payment gateway services	100%	500
Paytm Services Private Ltd	❖ Offers manpower hiring, placements, etc.	100%	30
Urja Money Private Ltd	❖ Business of providing financial, investment, and lending advisory services	67%	31
Wasteland Entertainment Private Ltd	❖ Principal business of providing ticketing services to event organizers through theatres and other events	100%	1

# Motilal Oswal Financial Services Limited

MEMBER OF BSE AND NSE

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Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

\*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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