One 97 Communications BUY

Internet | Q2FY24 Result Update

Result Update

Merchant Biz. Drives Growth and Payment Margin; Losses Tapered

- **Paytm reported Revenue growth 7.6% QoQ (in-line with est.), led MTU/ARPU growth of 3.3/4.2% sequentially.**
- **Merchant Biz. & Fin. Services grew equitably at 9.4% QoQ, where Merchant biz. saw strong device addition (+1.3mn devices QoQ), while Fin. Services saw strong traction in Merchant Loans (Value of Loan up 19% QoQ covering up for conscious pause taken in Personal Loan distribution).**
- **Adj EBITDA improved to Rs. 1,536mn (LQ: Rs. 840mn), with Revenue growth, contribution margin (+93bps), and mild increase in indirect costs (+4% QoQ).**
- **Continued strength in merchant business, calibrated lending growth and and improving Contribution margins reiterates our positive stance. Maintain Buy with TP of Rs. 1,400, (implies 4.3x on FY26E EV/Sales).**

Merchant Biz Reflects Scale-up, Innovation and Acceptance

Paytm added 1.3mn devices, totaling to 9.2mn in Q2, reflecting continued merchant acceptance. Paytm also introduced 3 new devices – Paytm Card Soundbox (card tap and pay), Pocket Soundbox (portability), and Music Soundbox (feature) to serve diverse needs of merchants and thereby creating and growing TAM. Aspiration to add 1.5mn devices each quarter and sales employee addition (35K, up 57% YoY) shows merchant business can continue to grow at an accelerated pace.

Lending Biz. Sees Personal Loan Calibration and Partner Addition

Personal loans saw a moderate decline in Value/No. of loans of 3%/20% QoQ, primarily to reduce risk exposure to shorter tenure loans. However, management remains bullish on BNPL and Merchant loans, which saw reduction in bounce rates of 25bps and ECL% reduction of 25bps, while continuing to project double digit growth in all categories.

Continued Cost Control Measures Help Improve Adj. EBITDA

Paytm's Contribution profit rose to Rs. 14.2bn, up 9% QoQ, with margin of 56.6%, up 93bps QoQ. Indirect costs grew at modest pace of 4% QoQ, thus driving up Adj EBIDTA/PAT up by ~Rs0.7bn each in Q2. We believe such measures will help Paytm achieve +ve PAT by H2 of FY25E.

Q2FY24 Result (Rs Mn)

Particulars	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)
Revenue	25,186	19,140	31.6	23,416	7.6
Total Expense	27,496	24,518	12.1	26,343	4.4
EBITDA	(2,310)	(5,378)	LTL	(2,927)	LTL
Depreciation	1,801	1,043	72.7	1,591	13.2
EBIT	(4,111)	(6,421)	LTL	(4,518)	LTL
Other Income	1,439	996	44.5	1,226	17.4
Interest	70	53	32.1	67	4.5
EBT	(2,799)	(5,478)	LTL	(3,359)	LTL
Tax	127	145	(12.4)	44	188.6
RPAT	(2,905)	(5,711)	LTL	(3,570)	LTL
APAT	(2,848)	(5,711)	LTL	(3,570)	LTL
			(bps)		(bps)
Gross Margin (%)	52.7	50.7	202	52.8	(7)
EBITDA Margin (%)	(9.2)	(28.1)	LTL	(12.5)	LTL
NPM (%)	(11.5)	(29.8)	LTL	(15.2)	LTL
Tax Rate (%)	(4.5)	(2.6)	N.M	(1.3)	N.M
EBIT Margin (%)	(16.3)	(33.5)	LTL	(19.3)	LTL

CMP	Rs 988
Target / Upside	Rs 1,400 / 42%
NIFTY	19,543

Scrip Details

Equity / FV	Rs 640mn / Rs 1
Market Cap	Rs 632bn
	USD 7.7bn
52-week High/Low	Rs 998/ 438
Avg. Volume (no)	3,421,340
Bloom Code	PAYTM IN

Price Performance	1M	3M	12M
Absolute (%)	17	17	57
Rel to NIFTY (%)	18	18	46

Shareholding Pattern

	Mar'23	Jun'23	Sep'23
Promoters	0.0	0.0	0.0
MF/Banks/FIs	3.2	3.2	3.2
FIIs	71.8	71.8	71.8
Public / Others	25.0	25.0	25.0

Valuation (x)

	FY24E	FY25E	FY26E
P/E	(80.2)	180.0	36.0
EV/EBITDA	(120.2)	61.6	21.5
ROE (%)	(5.9)	2.5	11.0
RoACE (%)	(5.6)	2.5	11.0

Estimates (Rs bn)

	FY24E	FY25E	FY26E
Revenue	108.3	145.7	187.4
EBITDA	(5.0)	9.7	26.9
PAT	(7.9)	3.5	17.9
EPS (Rs.)	(12.3)	5.5	27.4

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Exhibit 1: Quarterly performance versus estimates

Particulars (Rs mn)		Estimates		% Variation		Comment
	Actual	Dolat	Consensus	Dolat	Consensus	
INR Revenue	25,186	25,311	25,644	(0.5)	(1.8)	Rev .was broadly in-line with estm.
EBIT	(4,111)	(3,861)	(3,968)	6.5	3.6	Higher ESOP cost led EBIT Miss; Adj. EBITDA beat on better C.M
EBIT, margin	(16.3)	(15.3)	(15.5)	(107 bps)	(85 bps)	
PAT	(2,905)	(3,030)	(2,852)	(4.1)	NA	PAT beat from Higher OI & J.V profit

Source: Company, DART

Change in Estimates

Accounting Q2 performance , we re-align our growth estimates to reflect slight moderation in lending business as company focuses on quality of book, especially in personal loan category while scale up is expected to continue in merchant and consumer business, and hence lower Revenue estimates by 3%/3.9% for FY24/FY25E. For FY24E, lower Adj. EBITDA margin estimate slightly by 4bps and up Adj EBIDTA margin estimate by 4bps for FY25E. On earnings, keep FY24E and FY25e estimates broadly unchanged. Introduce FY26E estimates with Revenue growth of 28.6%, Adjusted EBITDA margin of 17.3%, and EPS of Rs. 27.45 (large earnings upswing from 1st profitable year base to strong growth in profitability)

Exhibit 2: Change in Estimates

Particulars (Rs. Mn)	FY23	FY24E			FY25E			FY26E
	Actual	Old	New	Change	Old	New	Change	Introduced
INR Revenue	79,903	1,11,624	1,08,287	(3.0)	1,51,565	1,45,684	(3.9)	1,87,411
YoY growth (%)	61.0	39.7	35.5		35.8	34.5		28.6
Contribution	38,996	63,543	63,570	0.0	91,212	91,906	0.8	1,25,189
Contri. margin (%)	48.8	56.9	58.7	178 bps	60.2	63.1	291 bps	66.8
Adj EBIDTA (Rs mn)	(1,758)	10,200	9,852	(3.4)	21,549	20,774	(3.6)	32,331
Adj EBIDTA Mgn(%)	(2.2)	9.1	9.1	(4 bps)	14.2	14.3	4 bps	17.3
PAT	(17,759)	(7,936)	(7,934)	0.0	3,543	3,549	0.2	17,948
EPS (Rs)	(27.4)	(12.4)	(12.4)	(0.2)	5.6	5.6	0.2	27.5

Source: DART

Exhibit 3: Key Assumptions in Our Estimates

Particulars (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
GMV Growth (%)	111.2	55.2	42.5	38.9	34.9
Take Rate (%)	0.58	0.60	0.58	0.56	0.53
Payment & Fin Serv. Growth (%)	82.9	65.5	40.7	34.8	30.3
Comm. & Cloud Growth (%)	59.4	37.6	21.6	33.3	20.6
INR Revenue Growth (%)	77.1	61.0	35.5	34.5	28.6
Contribution Margin (%)	12.9	47.1	58.7	63.1	66.8
EBIT Margin (%)	(69.4)	(26.5)	(11.8)	(1.1)	6.7
PAT Margin (%)	(60.5)	(22.2)	(7.3)	2.4	9.6
EPS Growth (%)	L2L	L2L	L2L	L2P	393.5

Source: Company, DART

Exhibit 4: Key Revenue Growth Matrix (YoY)

Particulars	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Payment Services to Consumers	72.7	55.3	26.4	11.8	6.7	5.5
Payment Services to Merchants	66.8	55.9	9.3	60.5	51.2	47.6
Financial Services and Others	393.6	293.5	256.2	182.1	92.6	63.6
Commerce	168.9	49.2	37.2	62.6	12.2	30.4
Cloud	28.9	57.5	14.9	3.7	29.0	3.6

Source: Company

Exhibit 5: Quarterly and YTD Trend

Particulars (Rs mn)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY (%)	QoQ (%)	H1FY23	H1FY24	YoY (%)
INR Revenue	**19,140**	**20,622**	**23,345**	**23,416**	**25,186**	**31.6**	**7.6**	**35,936**	**48,602**	**35.2**
Operating Expense	24,518	23,929	24,636	14	27,496	12.1	4.4	47,653	53,839	13.0
Payment Proc Chrg	7,458	7,378	7,803	7,666	8,167	9.5	6.5	14,396	15,833	10.0
as % of sales	39.0	35.8	33.4	32.7	32.4	(654 bps)	(31 bps)	40.1	32.6	*(748 bps)*
Promotional cashback & inc	1,910	910	780	850	730	(61.8)	(14.1)	3,340	1,580	(52.7)
as % of sales	10.0	4.4	3.3	3.6	2.9	(708 bps)	(73 bps)	9.3	3.3	*(604 bps)*
Direct Expenses	1,340	1,860	1,930	1,860	2,030	51.5	9.1	2,510	3,890	55.0
as % of sales	7.0	9.0	8.3	7.9	8.1	106 bps	12 bps	7.0	8.0	*102 bps*
Contribution	8,432	10,474	11,502	13,040	**14,259**	**69.1**	**9.3**	**15,690**	**27,299**	**74.0**
Marketing Exp.	1,370	1,360	1,270	1,810	1,800	31.4	(0.6)	3,120	3,610	15.7
as % of sales	7.2	6.6	5.4	7.7	7.1	(1 bps)	(58 bps)	8.7	7.4	*(125 bps)*
Employee Exp.	9,441	9,456	9,769	11,061	11,915	26.2	7.7	18,558	22,976	23.8
as % of sales	49.3	45.9	41.8	47.2	47.3	(202 bps)	7 bps	51.6	47.3	*(437 bps)*
Cloud/data Exp	1,728	1,709	1,880	1,550	1,553	(10.1)	0.2	3,350	3,103	(7.4)
as % of sales	9.0	8.3	8.1	6.6	6.2	(286 bps)	(45 bps)	9.3	6.4	*(294 bps)*
Indirect Exp.	1,276	1,263	1,209	1,553	1,303	2.1	(16.1)	2,383	2,856	19.8
as % of sales	6.7	6.1	5.2	6.6	5.2	(149 bps)	(146 bps)	6.6	5.9	*(75 bps)*
EBITDA	**(5,378)**	**(3,307)**	**(1,291)**	**(2,927)**	**(2,310)**	**LTL**	**LTL**	**(11,717)**	**(5,237)**	**LTL**
Depreciation	1,043	1,240	1,598	1,591	1,801	72.7	13.2	2,015	3,392	68.3
EBIT	**(6,421)**	**(4,547)**	**(2,889)**	**(4,518)**	**(4,111)**	**LTL**	**LTL**	**(13,732)**	**(8,629)**	**LTL**
Net Other Income	943	726	1,230	1,159	1,369	45.2	18.1	1,908	2,528	32.5
Share of assoc/ JV	(92)	50	(23)	(181)	9	LTL	LTP	(152)	(172)	LTL
Exceptional items	0	0	0	0	(57)	NA	NA	0	(57)	NA
PBT	(5,570)	(3,771)	(1,682)	(3,540)	(2,790)	LTL	LTL	(11,976)	(6,330)	LTL
Total Tax	145	150	(7)	44	127	(12.4)	188.6	193	171	(11.4)
PAT before MI	(5,715)	(3,921)	(1,675)	(3,584)	(2,917)	LTL	LTL	(12,169)	(6,501)	LTL
MI	(4)	(1)	9	(14)	(12)	LTL	LTL	6	(26)	LTL
PAT after MI	**(5,711)**	**(3,920)**	**(1,684)**	**(3,570)**	**(2,905)**	**LTL**	**LTL**	**(12,175)**	**(6,475)**	**LTL**
Reported EPS	**(9.0)**	**(6.0)**	**(2.5)**	**(5.5)**	**(4.3)**	**LTL**	**LTL**	**(19)**	**(10)**	**LTL**
Margins (%)										
Contribution	44.1	50.8	49.3	55.7	56.6	1256 bps	93 bps	43.7	56.2	1251 bps
EBIDTA	(28.1)	(16.0)	(5.5)	(12.5)	(9.2)	LTL	LTL	(32.6)	(10.8)	LTL
EBIT	(33.5)	(22.0)	(12.4)	(19.3)	(16.3)	LTL	LTL	(38.2)	(17.8)	LTL
PBT	(29.1)	(18.3)	(7.2)	(15.1)	(11.1)	LTL	LTL	(33.3)	(13.0)	LTL
PAT	(29.8)	(19.0)	(7.2)	(15.2)	(11.5)	LTL	LTL	(33.9)	(13.3)	LTL
Effective Tax rate	(2.6)	(4.0)	0.4	(1.2)	(4.6)	LTL	LTL	(1.6)	(2.7)	LTL

Source: Company

What to expect Next Quarter

We expect a strong revenue growth in Q3, led by festive season, and expect 10.6% QoQ growth. We expect EBIT Margin loss to lower by 495bps QoQ led by continued improvement in contribution margin, and direct and indirect costs balanced between capturing festive season growth and improving profitability.

Exhibit 6: What to expect next Quarter

Particulars (Rs Mn)	Q3FY24E	Q2FY24	Q3FY23	QoQ (%)	YoY (%)
INR Revenue	27,845	25,186	20,622	10.6	35.0
EBIT	(3,166)	(4,111)	(4,547)	(23.0)	(30.4)
PAT	(1,815)	(2,905)	(3,920)	(37.5)	(53.7)
EPS (Rs)	(2.7)	(4.3)	(6.0)	(38.2)	(56.1)
EBIT Margin (%)	(11.4)	(16.3)	(22.0)	495 bps	1068 bps

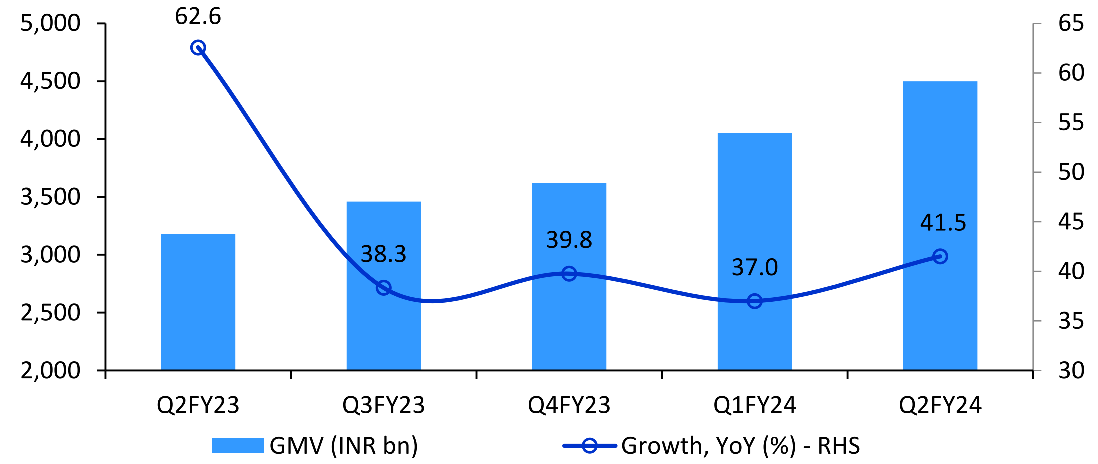
Source: Company, DART

Earning call KTAs

Increased Use Cases Drives GMV Growth

- **Paytm's GMV Grows Strongly Led by Increasing Use Cases:** GMV for the quarter stood at Rs.4.5Tn up 41% YoY and up 11% QoQ. Led by Prepaid instruments (Paytm's own wallet and UPI Lite), card payments and EMI payments (non-UPI instruments). Company's focus on profitable user pool was maintained. Revenue was up 32% on YoY basis led by MTU growth of 19% and ARPU growth of 11%.
- Paytm reported a Total Revenue of Rs. 25.2Bn, up 7.6% QoQ and 37% YoY. Management shared that YoY growth is less comparable as festive season got pushed towards Q3'FY24.

Exhibit 7: GMV Trend (INR Bn) and growth in % (YoY)



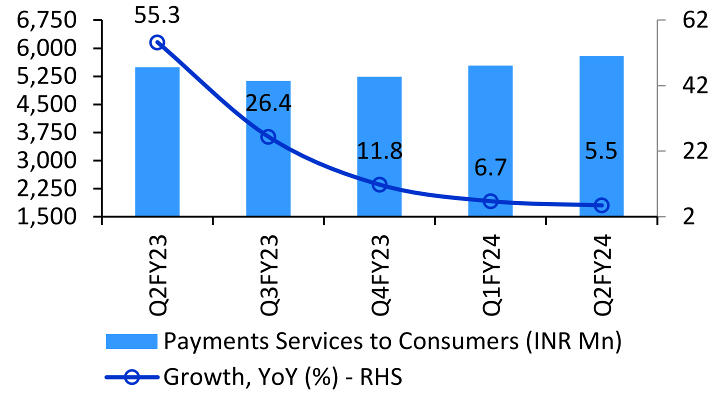
Source: Company, DART

Payment Services to Consumers Business (23% of Revenue)

- Revenues grew by 5.5% QoQ to Rs. 5.8Bn. Growth was led by higher GMV which rose by 11% QoQ to Rs.4.5Tn. Platform added 3mn users over Q1'FY24, taking MTUs to 95mn. Use of Paytm app for multiple payment uses cases and via various instruments such as UPI, Wallet, Postpaid, Cards, etc. drove app usage. Paytm continued to focus on high quality users and increasing engagement with them.
- **Rupay Credit Card**: Management stated that Rupay credit card on UPI rail is seeing good adoption by consumers and consumers are keen to link Rupay credit cards on their payment app. Management believes that over a longer period of time, payment avenue has a potential of becoming a decent revenue stream for UPI payments.

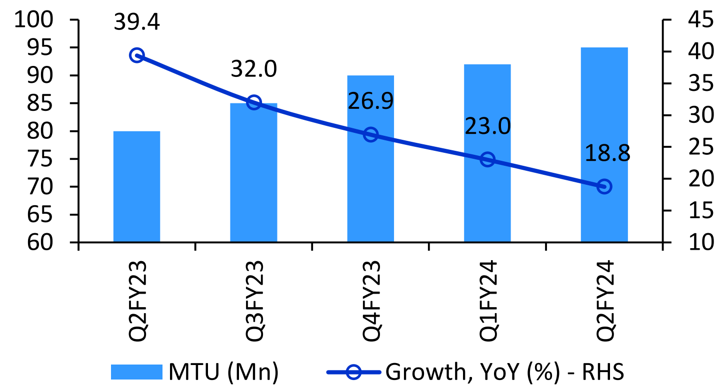
- **From Concall:** Paytm Money is an exciting opportunity, with 0.7mn active users using Paytm Money for trading. Management envisages usage of Paytm Money to encourage SIP and build portfolios over the medium term.

Exhibit 8: Payment Services to Consumers



Source: DART, Company

Exhibit 9: MTU (Mn) Trend

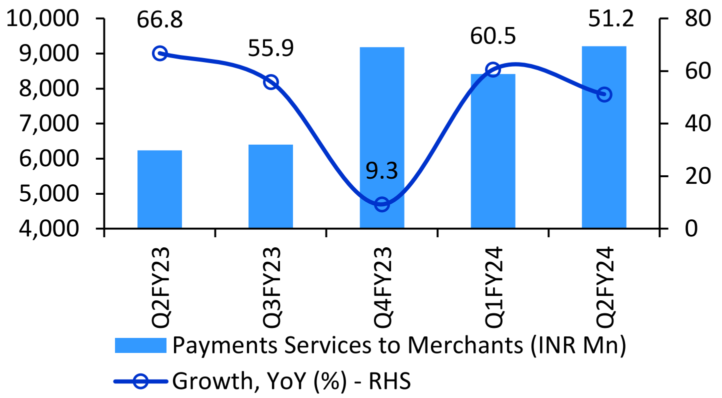


Source: DART, Company

Payment Services to Merchants Business (37% of Revenue)

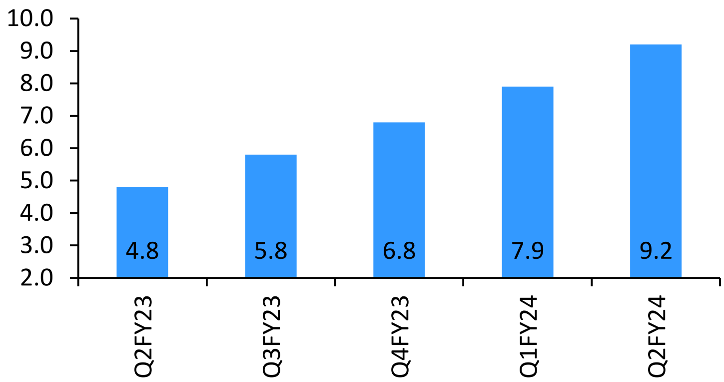
- Payment to merchant biz stood at Rs.9.2Bn, which declined on a reported basis at 9.4%.
- Growth was primarily led by merchant subscriptions, and growth in no. of device subscriptions (added ~1.3mn devices QoQ to 9.2mn – ARPU for device subscription continues at Rs100/month).
- **As per Concall**:
  - Management shared that it now aspired to add 1.5mn devices per quarter, thereby re-iterating strong growth run-way in in merchant business.
  - Optimism was supported by significant hiring in Q2'FY24, with sales employees now at 35.3K, up 57% YoY and 17% QoQ. Management shared that ~15-20% of this sales force is involved in merchant servicing, merchandizing and improve merchant branding.
- Paytm introduced 3 new devices during Q2'FY24:
  - **Card Soundbox**: Allows merchants to accept both mobile and card payments across all Visa, Mastercard, American Express and RuPay networks through its Soundbox with 'tap and pay' that will help merchants scale their business. Paytm Card Soundbox has a built-in 'tap and pay' functionality through which merchants can accept card payments up to ₹5,000. It is a portable, 'fits-in-a-pocket', device designed for merchants on the go like auto drivers, electricians, delivery agents & more.
  - **Paytm Pocket Soundbox**: Paytm Pocket Sound box, is a portable device for merchants on the move with instant audio payment alerts. It provides 5-day battery life and a torch and will be helpful to cab and auto drivers, electricians, delivery agents, parking fee collectors, and cart vendors.
  - **Paytm Music Soundbox**: Paytm Music Soundbox doubles up as a speaker that issues payment notifications through a 4W speaker with 10-day battery life and can also be connected to the phone to play music through Bluetooth.
- **From Concall**: Presently, company believes that device business is far from plateauing, and for some of the new devices, there is a new market creation. On competitors launching devices, management stated that most competitors have not been able to make a dent due to Paytm's hardware and software edge (that ensures less downtime, greater device control and technology involved). Competitor products have also witnessed a high churn rate from device malfunction and/or poor servicing.
- **Overall Payment Revenue stood** in at Rs. 15Bn, up 7.4% QoQ, and 28% YoY.

Exhibit 10: Payment Services to Merchants



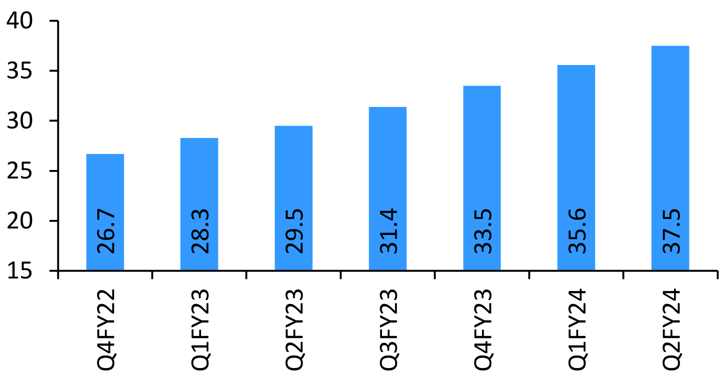
Source: DART, Company

Exhibit 11: Sound-box/POS Devices subscribers (Mn) Trend



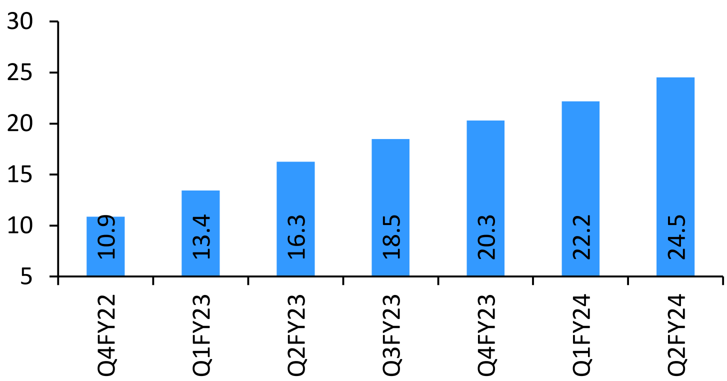
Source: DART, Company

Exhibit 12: Merchants (Mn) on Paytm online/offline



Source: DART, Company

Exhibit 13: Devices Penetration in % (Devices/Merchants)

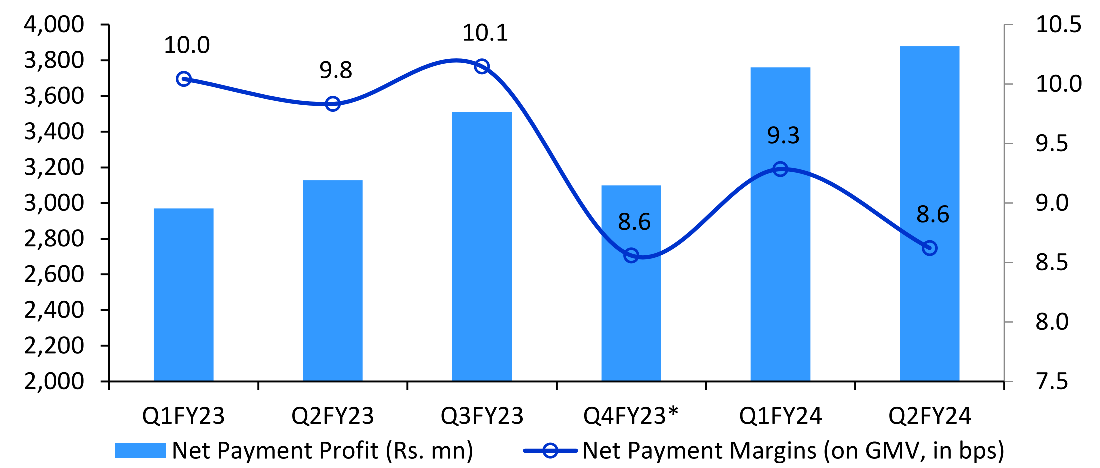


Source: DART, Company

Payment Profit stood at Rs. 7,070mn, up 9.1% QoQ. Increase in GMV of non-UPI instruments like EMI and cards and improvements in payment processing margin on these non-UPI instruments led Payment margin up tick.

Net Payment spread continued to trend at 8.6bps (of GMV). This is the second consecutive quarter of spread trending in the higher range of 7-9bps as guided earlier by management. Management had also guided earlier that, over medium to long term, payment processing margin to settle at 5-7bps (of GMV)as share of UPI transactions increases. For the near term, given current business trajectory, Net Payment spread is expected to maintain 7-9bps range.

Exhibit 14: Net Payment Margins Continued to Trend-Upwards for Q2FY24



Source: Company (*) Calculation of Q4FY23 margins excludes UPI incentive of Rs, 1,820mn.

Other Financial Services Business (23% of Revenue)

Other Financial Services Business reported growth of 9.4% QoQ and 63.6% YoY. Borrower base saw addition of 1.6mn, totaling to 11.8mn unique borrowers (LQ: 10.2mn). Total number of loans stood at 13.2mn, up 3% QoQ.

During the quarter the company originated loan book worth Rs.162.1Bn marking sequential growth in value of loans disbursed of 9%. Paytm Postpaid (BNPL) grew 12% QoQ, and Merchant Loans grew 19% QoQ in value terms. Instant Personal Loans declined by 3% QoQ, as management chose to focus on reducing exposure to lower tenure loan (~6months), due to increased riskiness.

From Concall: Management shared saw increased risk in instant personal loans since past 3 quarters due to a) Observed delinquency in this bracket, b) Increased use of leverage by borrowers, c) riskier behavior in certain metro cities, leading to lower collection efficiency.

Paytm announced go-live with Tata Capital as a lending partner, thereby increasing partnerships to 9 NBFCs and Banks. On-boarding of Shriram Finance is expected to go live from 1st Nov onwards.

In Q4'FY23, company stated its aim to onboard 3-4 partners in FY 2024. During in Q1 FY'24, Paytm had added Shriram Finance as a lending partner for digital credit for merchant loans and consumer loans.

The BNPL business (12.8mn users), grew up 12% QoQ, with value of loans at Rs. 90Bn. Implied avg. ticket size stood at Rs. 7.0K, up 7.7% QoQ. In Paytm Postpaid, Bounce rates reduced to 9.5% to 10.75% (from 9.75% to 11.25%), while ECL metric remained steady. (Refer Exhibit 15):

Exhibit 15: Performance of PostPaid

PostPaid (BNPL Performance)	Q2FY24	Q1FY24	Q4FY23	Q1FY23
Average Ticket Size (Rs.)	7,039	6,536	5,908	4,076
Value of Loans (Rs. mn)	90,100	80,390	67,940	33,830
Penetration of MTUs	4.5%	4.5%	4.3%	4%
Bounce Rates	**9.5% to 10.75%**	9.75% to 11.25%	10.5% to 12%	11.0% to 13.0%
Bucket 1 Resolution %	82% to 84%	82% to 84%	82% to 84%	81% to 83%
Recovery Rate Post 90+	30% to 35%	30% to 35%	30% to 35%	25% to 27%
Expected credit loss (ECL%)	0.65% to 0.85%	0.65% to 0.85%	0.75% to 1%	1.1% to 1.3%

Source: Company, DART

Personal loans (users 0.24mn) saw a decline of 3% QoQ growth, with value of loans at Rs.39.3Bn.Post Paid cross-selling saw 35% of loans disbursed to existing Paytm users (40% in Q1FY24). Avg. ticket size grew by 21% QoQ to Rs. 164K (from Rs.135K) with average tenure of ~13 months. Paytm reduced exposure to short tenure (6 months) loans. Bounce rates for personal loans reduced to 10.25% to 11.25% (from 10.75% to 11.75% in Q1).

Exhibit 16: Performance of Personal Loans – Bounce Rates Improve on a YoY Basis

Personal Loans	Q2FY24	Q1FY24	Q4FY23	Q1FY23
Average Ticket Size (Rs.)	1,63,625	1,35,400	1,27,667	1,01,818
Value of Loans (Rs. mn)	39,270	40,620	34,470	13,440
Penetration of MTUs	1.1%	1.1%	0.9%	<0.5%
Bounce Rates	**10.25% to 11.25%**	10.75% to 11.75%	10.75% to 11.75%	11.5% to 12.5%
Bucket 1 Resolution %	88% to 92%	88% to 92%	88% to 92%	89% to 92%
Recovery Rate Post 90+	27% to 29%	27% to 29%	27% to 29%	27% to 29%
Expected credit loss (ECL %)	4.5% to 5%	4.5% to 5%	4.5% to 5%	4.5% to 5.0%

Source: Company, DART

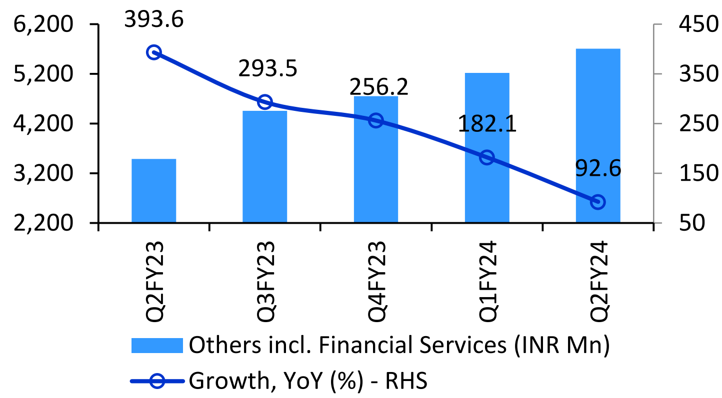
Merchant loans (users 0.18mn) grew 19% QoQ, with value of loans at Rs.32.7Bn. Average ticket size lowered to of Rs.181K (from Rs.196K in Q1), and average tenure of 13months (steady). Repeat loans continued to be healthy, now at 50% (45%) of total value disbursed last quarter being to merchants who have taken a loan earlier. More than 85% (unchanged) of value of loans disbursed was to merchants with Paytm payments device subscription. Penetration improved to 6.4% of merchants who owned a device (from 6.2% in Q1). ECL reduced to 4.75% to 5.25% in Q2 FY24 (5% to 5.5% in Q1).

Exhibit 17: Performance of Merchant Loans

Merchant Loans	Q2FY24	Q1FY24	Q4FY23	Q1FY23
Average Ticket Size (Rs.)	1,81,944	1,96,000	1,65,214	1,37,833
Value of Loans (Rs. mn)	32,750	27,440	23,130	8,270
Penetration (Device Merchants)	**6.4%**	6.2%	5.9%	4%
Bounce Rates	N.A*	N.A*	NA*	NA*
Bucket 1 Resolution %	78% to 83%	78% to 83%	80% to 85%	84% to 87%
Recovery Rate Post 90+	30% to 35%	30% to 35%	30% to 35%	31% to 33%
Expected credit loss (ECL %)	**4.75% to 5.25%**	5.0% to 5.5%	5.0% to 5.5%	5.0% to 5.5%

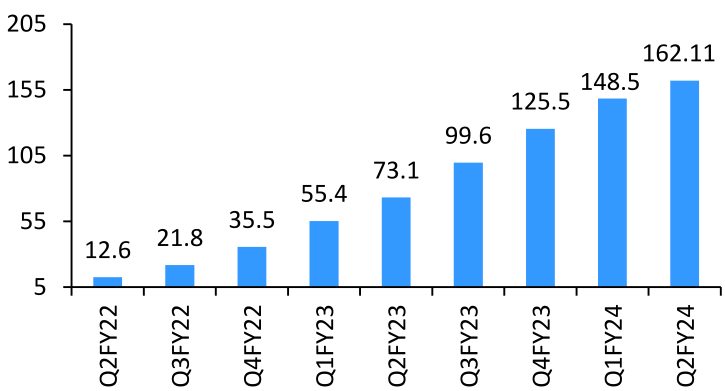
*Source: Company, DART ; *Note: For Merchant Loans, Bounce rates are not applicable it is a daily installment (Daily EMI) product.*

Exhibit 18: Financial Services rev (lending distribution)



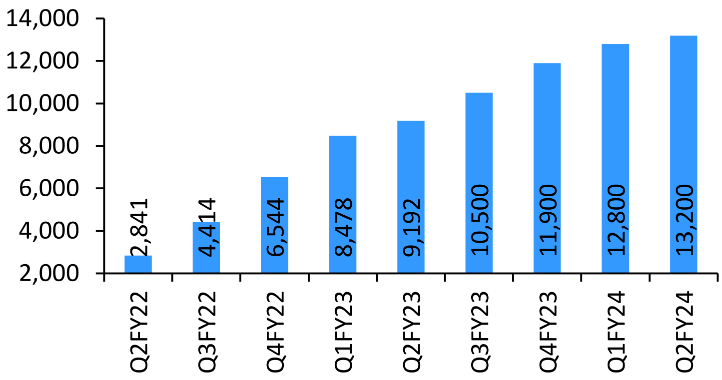
Source: DART, Company

Exhibit 19: Loan Disbursed by value (INR Bn)



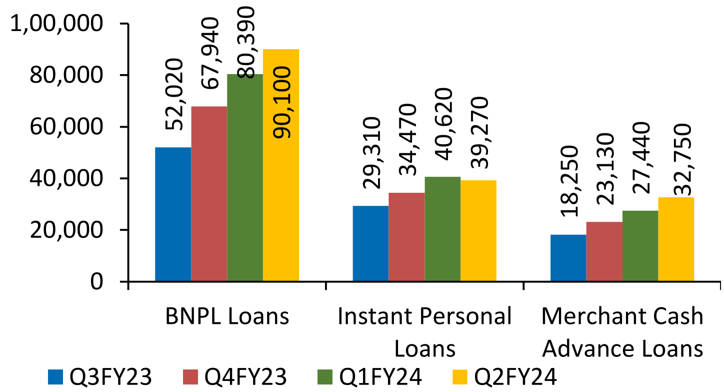
Source: DART, Company

Exhibit 20: # of Loans Distributed (in K)



Source: DART, Company

Exhibit 21: Segment wise Loans in '000s (number of loans)

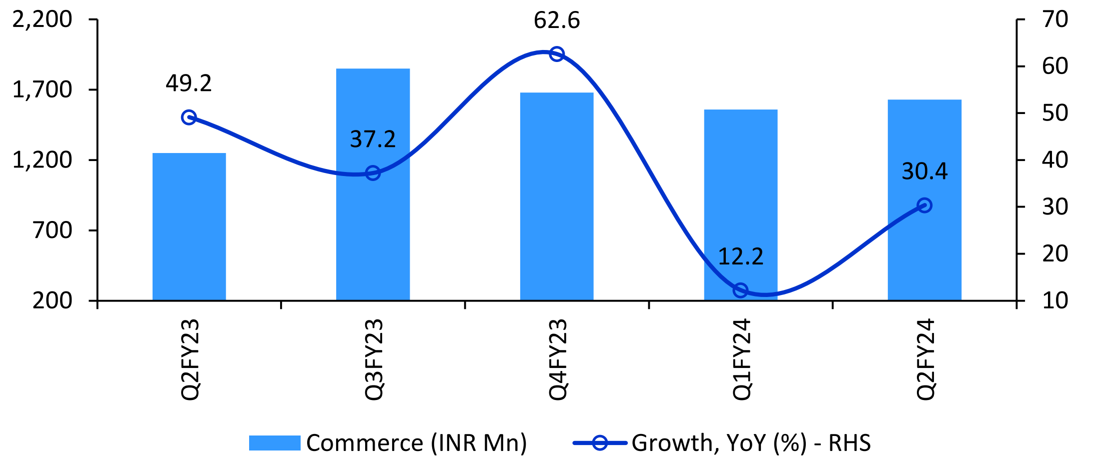


Source: DART, Company

Commerce Business (6% of Revenue)

Commerce Business grew 4.5% QoQ, and grew 30.4% YoY, led by ticketing sales and events. GMV stood at Rs.28.9Bn, up 14% QoQ, but take rates lowered to 5.6% (6.1% in Q1). The business should continue to see steady growth going forward given the large opportunity.

Exhibit 22: Commerce Business Revenue Trend



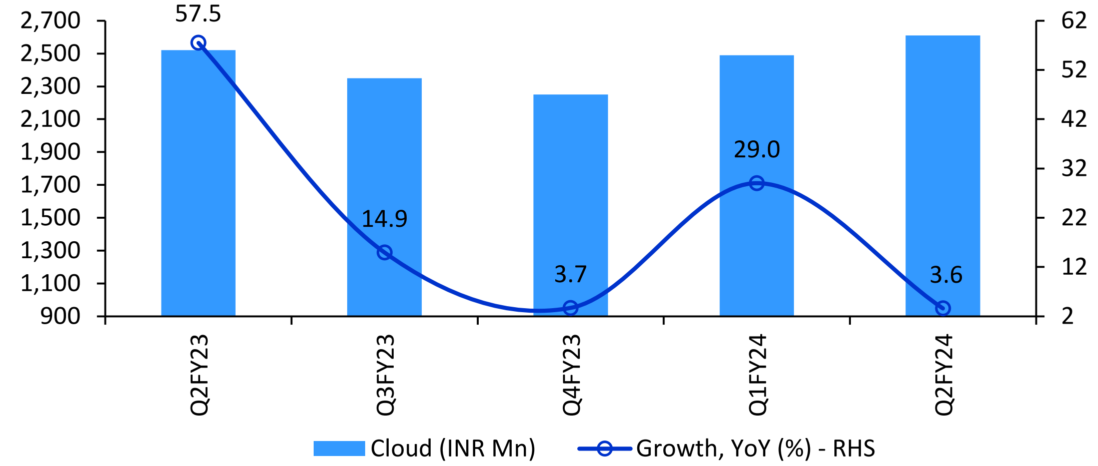
Source: Company

Cloud Business (10% of Revenue)

The Cloud Business grew 4.8% QoQ and was up 3.6% YoY. Growth was led by growth in credit card distribution and advertising business, whereas marketing cloud is a mature business. Co-branded credit cards helps Paytm in identifying cross-sell opportunities from its existing Postpaid user base.

As of June'23, Paytm activated 870K cards (Q1: 750K), issuing 120K cards during Q12 Company continues to see good opportunity from cross-selling within existing user base, which may have undertaken a loan on Paytm platform.

Exhibit 23: Cloud Business Revenue Trend

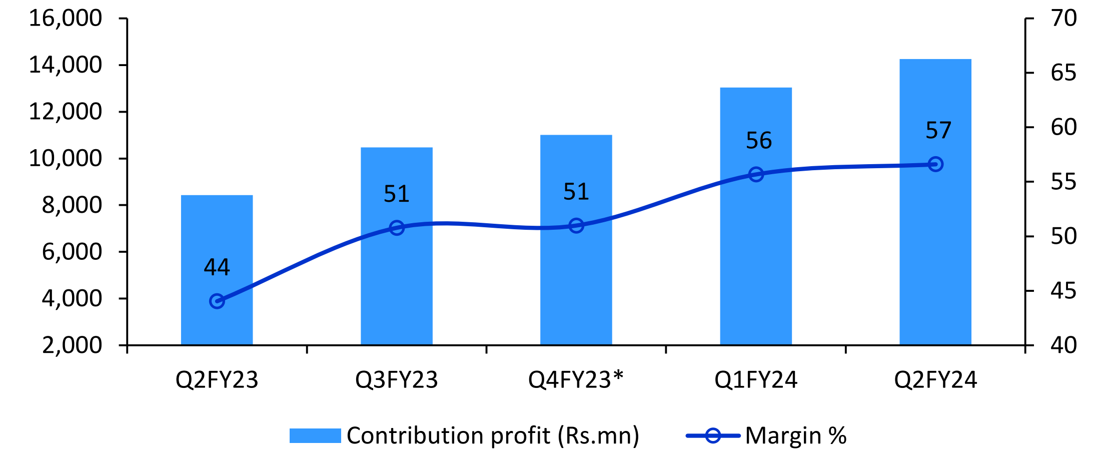


Source: Company

Contribution Margin improves on Processing charge optimisation

Contribution margin improves sharply: For Q2FY24, contribution profit rose to Rs.14.3Bn registering YoY growth of 69% and 9.3% growth QoQ. Contribution margin improved 93bps.

Exhibit 24: Contribution profits have grown 80% on a YoY basis



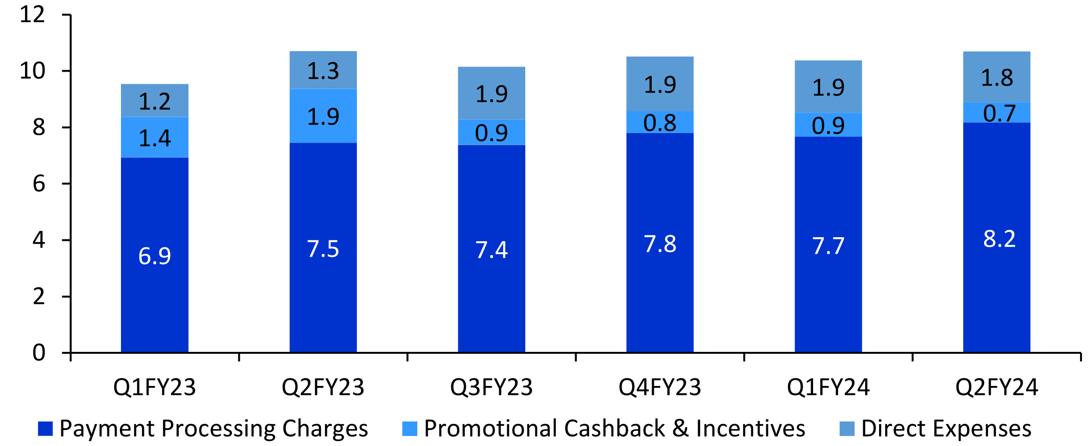
Source: Company, (*) Q4'FY23 CM excludes UPI Incentive

Contribution Margin Comprised of 2 Factors:

1) **Payment Processing Charges:** Stood at Rs.8.2Bn, up 6.5% QoQ. Payment Processing Charges, as a % of Payment Revenues, stood at 54.4% (54.9% in Q1). Payment processing spread for the quarter stands at Rs.6.8bn, vis-à-vis Rs. 6.3Bn in Q1'FY24.

2) **Promotion and Cash Backs**: Stood at Rs.730mn, down 14% QoQ. Management expects this expense to go up in Q3 to take advantage of festive season. Management had guided earlier that it will only undertake necessary promotion events if monetization is low.

Exhibit 25: Contributing Cost Trend (INR Bn)



Source: Company

Indirect Expenses Up 4.3% QoQ

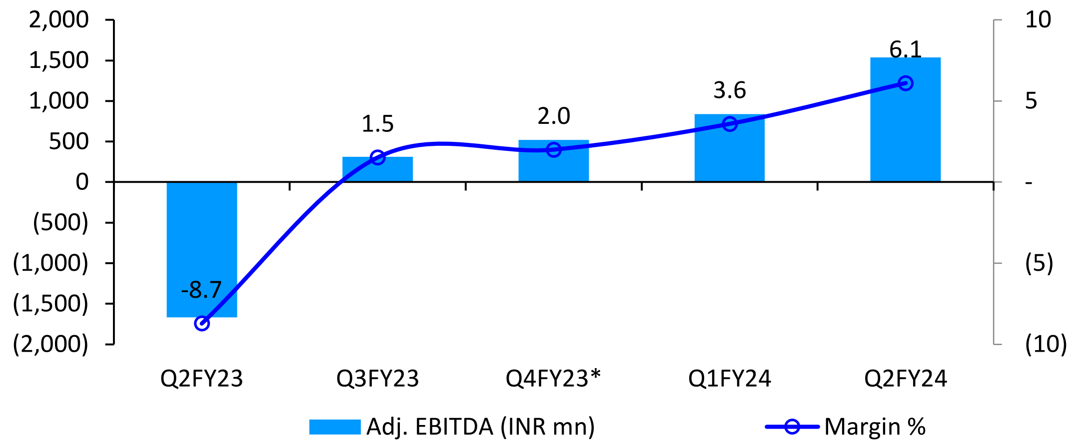
Indirect Costs comprise of Marketing expenses, employee costs (ex. ESOP), Software cloud and data center and other indirect costs. For Q2'FY24, Indirect costs (ex. ESOP costs) stood at Rs.1.27Bn, up 4.3% QoQ and 26% YoY. Indirect cost increase was primarily led by investment in sales employees (expanding the platform). Indirect Costs, as a % of Revenue stood at 51%, and management expects indirect costs to come down as a % of revenue, though it may see an increase on absolute terms. ESOP cost grew 2% QoQ to Rs3.8Bn.

From Concall: Management shared that ESOP cost is a function of new employee joining and appraisals, and is likely to start trending downwards going forward. Paytm will also share an updated ESOP outlook in Q3'FY24 presentation.

Adj. EBITDA Improves Further Due to Lower Indirect Costs

Adj. EBITDA performance improves: The EBITDA Margin (ex-ESOP) continued to impress, with Adj. EBIDTA at Rs.1,536mn in Q2FY24, as compared to Rs.840mn in Q1. EBITDA movement was led by improvement in contribution profit and moderate indirect costs.

Exhibit 26: Profitability objective on track, will see further acceleration in FY24E



Source: Company, Q4FY23 Adj. EBITDA excludes UPI incentive

PAT: Reported Losses stood at Rs.2.9Bn, lower than our estimate of Rs.3.0Bn loss for the quarter. Share of Associate/J.V stood now reported at profit of Rs. 7mn, vs. loss in Q1 of Rs. 181mn.

From Concall: Profit in J.V/Associates was related to Paytm payments bank (49% J.V) and Paytm First Games (55% subsidiary). There was also an exceptional loss related to a provision of Rs.57mn attributed to an airline merchant which is currently grounded.

Cash Balance stood at Rs. 87Bn for Sept-23 up from Rs.83bn in Q1. Increase in cash balance was attributed to positive EBITDA before ESOP, improvement in working capital, and interest income.

Valuation

Variables for DCF: Given large number of use cases (both on need and want), huge customer base (MTUs of 95mn+) and robust tech platform, we believe company can compound its revenues by 8x over next decade and would turn highly profitable starting FY25E and thus believe DCF valuation as an ideal tool to value real long term potential of the business.

The growth momentum is factored in two stage projections wherein over FY23-FY30E we expect revenue CAGR of 26.4% and in second stage revenue CAGR of 16.1% over FY30-FY40E. We expect it to turn PAT profitable in FY25E and reach steady state EBIT Margin of 16% over FY31-FY40E. We have factored in Cost of Capital of 11% and Terminal growth rate of 2% (beyond FY40e) in our DCF assumptions. View: We maintain our Buy rating on the stock with a TP of Rs. 1,400 (implies 4.3x on FY26E EV/Sales).

Financial Performance

Profit and Loss Account

(Rs Mn)	FY23A	FY24E	FY25E	FY26E
Revenue	**79,903**	**108,287**	**145,684**	**187,411**
Total Expense	**96,218**	**113,308**	**136,030**	**160,560**
COGS	29,577	33,691	39,591	44,485
Employees Cost	37,783	48,362	58,520	69,183
Other expenses	28,858	31,255	37,919	46,892
EBIDTA	**(16,315)**	**(5,021)**	**9,654**	**26,851**
Depreciation	4,853	7,804	11,223	14,359
EBIT	**(21,168)**	**(12,825)**	**(1,569)**	**12,492**
Interest	233	232	156	167
Other Income	4,097	5,475	5,694	5,804
Exc. / E.O. items	0	(57)	0	0
EBT	**(17,304)**	**(7,638)**	**3,969**	**18,128**
Tax	336	158	575	367
RPAT	(17,759)	(7,934)	3,549	17,948
Minority Interest	(6)	(2)	50	32
Profit/Loss share of associates	**(125)**	**(139)**	**206**	**219**
APAT	**(17,759)**	**(7,877)**	**3,549**	**17,948**

Balance Sheet

(Rs Mn)	FY23A	FY24E	FY25E	FY26E
Sources of Funds				
Equity Capital	634	640	647	655
Minority Interest	(227)	(225)	(275)	(270)
Reserves & Surplus	129,522	136,459	151,179	174,639
Net Worth	**130,156**	**137,099**	**151,826**	**175,294**
Total Debt	20	20	20	20
Net Deferred Tax Liability	(85)	(85)	(85)	(85)
Total Capital Employed	**129,864**	**136,809**	**151,486**	**174,959**
Applications of Funds				
Net Block	**12,130**	**13,633**	**13,768**	**12,287**
CWIP	72	(28)	(28)	(28)
Investments	61,728	62,128	62,628	63,128
Current Assets, Loans & Advances	**105,643**	**113,687**	**136,451**	**170,287**
Inventories	0	0	0	0
Receivables	12,528	17,207	23,110	29,678
Cash and Bank Balances	33,120	28,570	37,035	54,990
Loans and Advances	1,564	1,562	1,560	1,558
Other Current Assets	58,431	66,348	74,746	84,061
Less: Current Liabilities & Provisions	**49,709**	**52,611**	**61,333**	**70,716**
Payables	8,589	10,244	12,299	14,516
Other Current Liabilities	41,120	42,367	49,034	56,200
sub total				
Net Current Assets	55,934	61,076	75,118	99,571
Total Assets	**129,864**	**136,809**	**151,486**	**174,959**

E – Estimates

Important Ratios

Particulars	FY23A	FY24E	FY25E	FY26E
(A) Margins (%)				
Gross Profit Margin	52.7	55.3	59.8	63.1
EBIDTA Margin	(20.4)	(4.6)	6.6	14.3
EBIT Margin	(26.5)	(11.8)	(1.1)	6.7
Tax rate	(1.9)	(2.1)	14.5	2.0
Net Profit Margin	(22.2)	(7.3)	2.4	9.6
(B) As Percentage of Net Sales (%)				
COGS	37.0	31.1	27.2	23.7
Employee	47.3	44.7	40.2	36.9
Other	36.1	28.9	26.0	25.0
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	(90.8)	(55.3)	(10.0)	74.6
Inventory days	0	0	0	0
Debtors days	57	58	58	58
Average Cost of Debt	N.M	N.M	N.M	N.M
Payable days	39	35	31	28
Working Capital days	256	206	188	194
FA T/O	6.6	7.9	10.6	15.3
(D) Measures of Investment				
AEPS (Rs)	(27.4)	(12.3)	5.5	27.4
CEPS (Rs)	(19.9)	(0.1)	22.8	49.3
DPS (Rs)	0.0	0.0	0.0	0.0
Dividend Payout (%)	0.0	0.0	0.0	0.0
BVPS (Rs)	200.6	214.2	234.7	267.6
RoANW (%)	(13.1)	(5.9)	2.5	11.0
RoACE (%)	(12.8)	(5.6)	2.5	11.0
RoAIC (%)	(18.9)	(12.5)	(1.4)	10.7
(E) Valuation Ratios				
CMP (Rs)	988	988	988	988
P/E	(36.1)	(80.2)	180.0	36.0
Mcap (Rs Mn)	632,096	632,096	632,096	632,096
MCap/ Sales	7.9	5.8	4.3	3.4
EV	598,996	603,546	595,081	577,126
EV/Sales	7.5	5.6	4.1	3.1
EV/EBITDA	(36.7)	(120.2)	61.6	21.5
P/BV	4.9	4.6	4.2	3.7
Dividend Yield (%)	0.0	0.0	0.0	0.0
(F) Growth Rate (%)				
Revenue	61.0	35.5	34.5	28.6
EBITDA	LTL	LTL	LTP	178.1
EBIT	LTL	LTL	LTL	LTP
PBT	LTL	LTL	LTP	356.8
APAT	LTL	LTL	LTP	405.7
EPS	LTL	LTL	LTP	399.5

E – Estimates

Cash Flow

Particulars	FY23A	FY24E	FY25E	FY26E
Profit before tax	**(17,429)**	**(7,777)**	**4,175**	**18,347**
Depreciation & w.o.	4,853	7,804	11,223	14,359
Net Interest Exp	(2,990)	5,244	5,537	5,636
Direct taxes paid	(1,762)	(158)	(575)	(367)
Change in Working Capital	6,489	(9,242)	(5,226)	(6,149)
Non Cash	14,995	14,873	11,120	5,480
(A) CF from Operating Activities	**4,156**	**10,742**	**26,253**	**37,306**
Capex {(Inc.)/ Dec. in Fixed Assets n WIP}	(6,967)	(9,207)	(11,357)	(12,878)
Free Cash Flow	**(2,811)**	**1,535**	**14,896**	**24,428**
(Inc)./ Dec. in Investments	30,142	(850)	(850)	(850)
Other	3,080	(5,244)	(5,537)	(5,636)
(B) CF from Investing Activities	**26,255**	**(15,301)**	**(17,744)**	**(19,364)**
Issue of Equity/ Preference	8	6	7	8
Inc./(Dec.) in Debt	0	2	(50)	5
Interest exp net	0	0	0	0
Dividend Paid (Incl. Tax)	0	0	0	0
Other	(570)	0	0	0
(C) CF from Financing	**(11,123)**	**8**	**(43)**	**13**
Net Change in Cash	19,311	(4,550)	8,466	17,955
Opening Cash balances	**13,789**	**33,100**	**28,550**	**37,015**
Closing Cash balances	**33,100**	**28,550**	**37,015**	**54,970**

E – Estimates

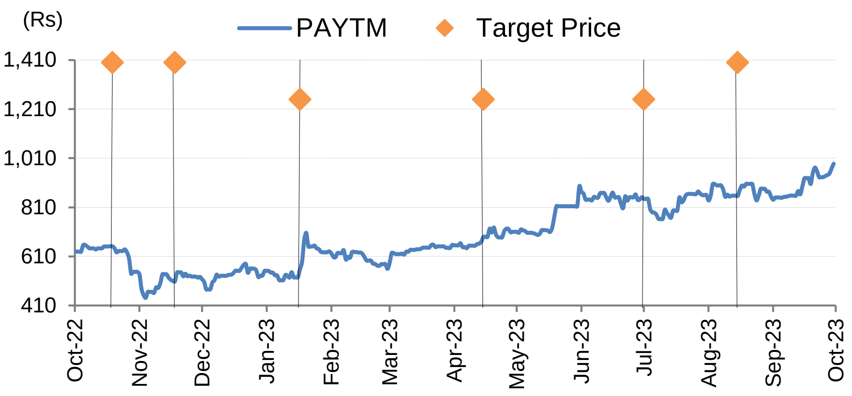
Notes

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	**> 20%**
Accumulate	**10 to 20%**
Reduce	**0 to 10%**
Sell	**< 0%**

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Nov-22	BUY	1,400	651
Dec-22	BUY	1,400	508
Feb-23	BUY	1,250	525
May-23	BUY	1,250	690
Jul-23	BUY	1,250	844
Sep-23	BUY	1,400	857

**Price as on recommendation date*

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I. Analyst(s) and Associate (S) holding in the Stock(s): (Nil)

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