

One 97 Communications

BSE SENSEX
72,641

S&P CNX
22,012

paytm

Bloomberg	PAYTM IN
Equity Shares (m)	649
M.Cap.(INRb)/(USD\$)	261.1 / 3.1
52-Week Range (INR)	998 / 318
1, 6, 12 Rel. Per (%)	4/-63/-58
12M Avg Val (INR M)	3872
Free float (%)	100.0

Financials & Valuations (INR b)

Y/E	FY23	FY24E	FY25E
Revenue from Op	79.9	101.0	107.7
Contribution Profit	39.0	56.8	54.8
Adjusted EBITDA	(1.8)	6.1	0.6
EBITDA	(16.3)	(9.2)	(11.1)
PAT	(17.8)	(11.4)	(14.1)
EPS (INR)	(28.0)	(17.7)	(21.6)
EPS Gr. (%)	(24.1)	(36.8)	NM

Ratios

Contribution Margin (%)	48.8	56.2	50.9
Adjusted EBITDA Margin (%)	(2.2)	6.0	0.6
EBITDA Margin (%)	(20.4)	(9.1)	(10.3)
RoE (%)	(13.1)	(8.8)	(11.3)
RoA (%)	(9.9)	(6.4)	(7.9)

Valuations

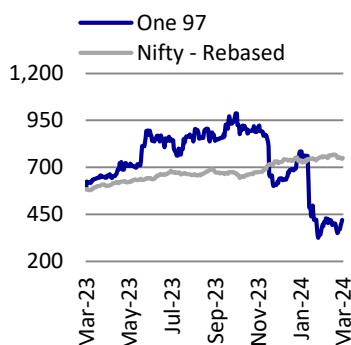
P/E(X)	(14.7)	(23.2)	NM
P/BV (X)	2.0	2.0	2.2
P/Sales (X)	3.3	2.6	2.5

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	0.0	0.0	0.0
DII	6.1	4.1	1.9
FII	63.7	60.9	72.8
Others	30.2	24.3	25.3

FII Includes depository receipts

Stock Performance (1-year)



CMP: INR411

TP: INR 530 (29%)

Neutral

Navigating through the storm

Cutting Revenue, EBITDA estimates; Remain watchful of recovery from 2HFY25E

- Paytm has been under regulatory scrutiny for some time, with its subsidiary PPBL receiving multiple regulatory warnings. This has led to the RBI imposing severe business restrictions on PPBL.
- The restrictions have put the company at risk of losing customers and merchants, disrupting its growth trajectory. Despite this, the business volumes in February show a moderate impact. We anticipate a further decline in UPI transaction volume/value data in Mar'24 as well.
- We review our numbers and estimate payment processing margin to decline as the mix of high-yielding wallet business declines sharply, while the impact on financial business (loan origination volumes) further suppress revenue growth and profitability.
- Paytm has recently received NPCI approval to function as a Third-party app provider, which will enable it to work like its peers, Google Pay and PhonePe. Paytm has tied up with Axis Bank, HDFC Bank, SBI, and Yes Bank to ensure smooth business migration.
- We remain watchful on the ongoing business transition and Paytm's ability to recover lost business and resume growth trajectory over FY25-26E. We thus estimate FY25E revenue to decline by 24%, while contribution profit declines 30%. We estimate contribution margin to sustain at 51% over FY25E (vs. 56% in FY24). **We revise our TP to INR530 based on 15x FY28E EV/EBITDA discounted to FY26. Our valuation corresponds to 2.8x P/Sales for FY26E. We will revisit our rating post 4Q results and in the interim maintain our Neutral stance on the stock.**

Remain watchful of leakage in customer, merchant base

- Following the recent RBI restrictions, Paytm has witnessed a significant decline in its Gross Merchandise Value (GMV) in February, and this trend is likely to persist into March. While some of this decline can be attributed to the absence of new user additions, there is also a looming risk of losing customers and merchants to competitors. This competition is further impacting overall business activity on the platform.
- Currently, PPBL boasts 1.8 million merchants and the company's ~40k field employees are proactively assisting these merchants in switching their settlement accounts to alternative banks smoothly. Additionally, push notifications are being sent out to remind merchants about this transition to ensure minimum business loss.
- Although Paytm is anticipated to retain the majority of its merchant base, following approvals from the NPCI, it is expected that around 15-20% of merchants (15% of whom have settlement accounts with PPBL) may churn.
- On the customer side, the company has 60-70k customers with e-NACH mandates with PPBL, potentially resulting in a moderate impact on the consumer front. Consequently, marketing expenditures are expected to rise as the company endeavors to regain lost users.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and

Cutting payment revenues by 27%; processing margin to moderate

We estimate FY25E payment revenues to decline by 27%, attributed to the decline in GMV, impact on wallet transactions, and loss in merchant and customer base. We thus project a 28% cut in payment processing margin to a range of ~7bp, primarily due to reduced business volumes and an adverse mix as the share of high-yielding wallet business sharply declines. We expect GMV growth to recover gradually, estimating ~20% CAGR over FY25-27E vs. ~45% CAGR witnessed during FY22-24E.

Financial business to see sharp drop too; estimate gradual volume recovery

Amid regulatory interventions, the financial business experienced moderation in select lending segments. Initially, the company had moderated growth in the Personal loan segment. However, with regulatory concerns surrounding small-ticket loans, Paytm opted to further reduce origination of postpaid loans (17% QoQ decline in 3QFY24). Postpaid loans sanctioned through PPBL have been suspended due to RBI's concerns. Additionally, Merchant Loans are currently on hold as the company awaits additional data on the QR transition before resuming loan sanctioning. However, PL loans have fared relatively well with the company anticipating to reach normalcy over the next few quarters. The company is also considering entering the secured business loan segment to sustain growth in its financial business over the medium term. We thus cut our disbursements by 10%/40% for FY24E/FY25E.

Commerce & Cloud appears relatively insulated from ongoing upheaval

Commerce and Cloud business segment of Paytm will likely witness minimal impact from the ongoing upheaval post recent RBI restrictions. Within this segment, merchants offer discounts, deals, gift vouchers, and other digital goods such as tickets. The company provides brand marketing, advertising, and loyalty services to brands and businesses. Therefore, all customer activity within this segment is independent of the PPBL business segments. We anticipate that Commerce and Cloud revenues will correlate proportionately with GMV and will thus see moderate impact. We estimate Commerce and Cloud business revenues to register a CAGR of ~20% over FY25-27E.

Estimate EBITDA losses to continue over FY25E

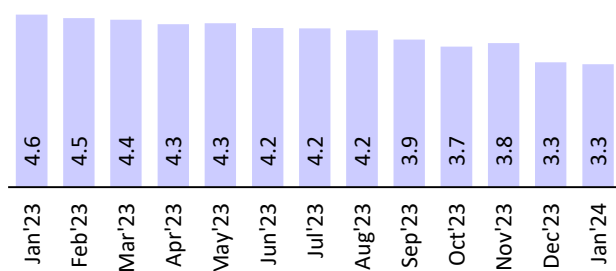
Amid looming regulatory challenges, we anticipate revenue losses for Paytm attributed to churn in both merchant and customer bases. We anticipate the company losing approximately 15-20% of its combined merchant and customer base to competitors. We thus cut our FY25E revenue estimate by 24% and estimate EBITDA losses to sustain at elevated levels of INR11.1b. Additionally, we are factoring in higher expenses as the company endeavors to stabilize its merchant and customer base. We estimate Paytm to achieve EBITDA breakeven in FY26E however remain watchful on the progress in business migration and recovery in Payments and financial business over coming quarters.

Valuation and view

- The recent regulatory restrictions have significantly impacted Paytm's business environment and growth outlook. Despite the company's extensive reach, its ability to mitigate the business impact will largely depend on the execution capabilities over the coming quarters.
- We anticipate Paytm to experience a decline in market share within the overall payments market. We thus review our numbers and estimate payment processing margin to decline as the mix of high-yielding wallet business drops sharply, while the impact on financial business (loan origination volumes) further suppress revenue growth and profitability.
- In terms of loan origination, we anticipate a weaker performance and cut our disbursements by 10%/40% for FY24E/FY25E, due to reputational damage and increased caution among lending partners. However, volumes are likely to recover from FY26E with an estimated growth cagr of ~25%.
- We remain watchful on the ongoing business transition and Paytm's ability to recover lost business and resume growth trajectory over FY25-26E. We thus estimate FY25E revenue to decline by 24%, while contribution profit declines 30%. We estimate contribution margin to sustain at 51% over FY25E (vs. 56% in FY24). **We revise our TP to INR530 based on 15x FY28E EV/EBITDA discounted to FY26E. Our valuation corresponds to 2.8x P/Sales for FY26E. We will revisit our rating post 4Q results and in the interim maintain our Neutral stance on the stock.**

Exhibit 1: Paytm's market share as remitter stands at ~3-4%

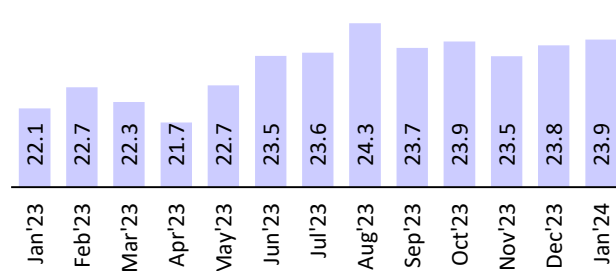
■ Paytm Market Share - Remitter (%)



Source: MOFSL, Company

Exhibit 2: Beneficiary market share stands at ~24%

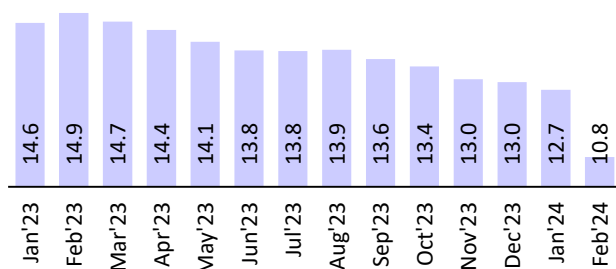
■ Paytm Market Share - Beneficiary (%)



Source: MOFSL, Company

Exhibit 3: Paytm's UPI volume market share falls to 10.8% in Feb'24

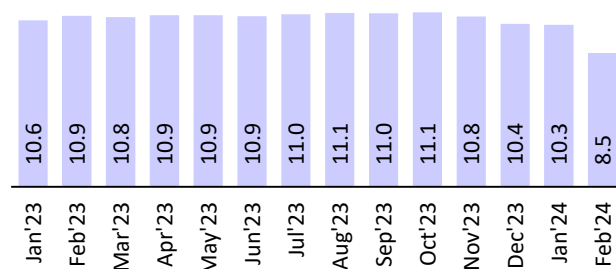
■ UPI Volume (Market Share)



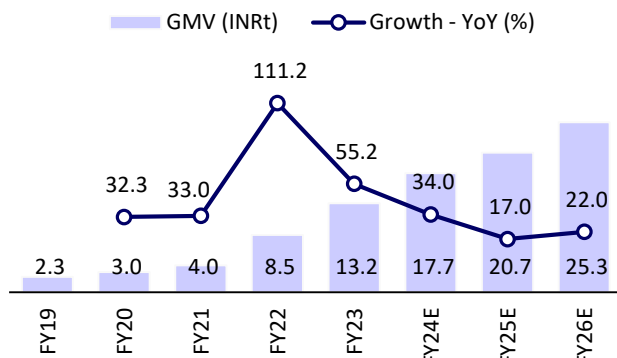
Source: MOFSL, Company

Exhibit 4: In value terms, UPI market share falls to 8.5%

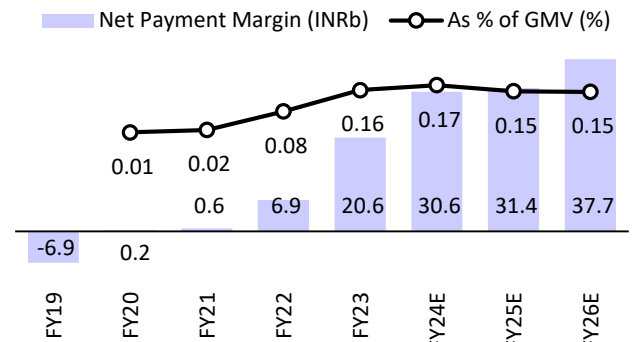
■ UPI Value (Market Share)



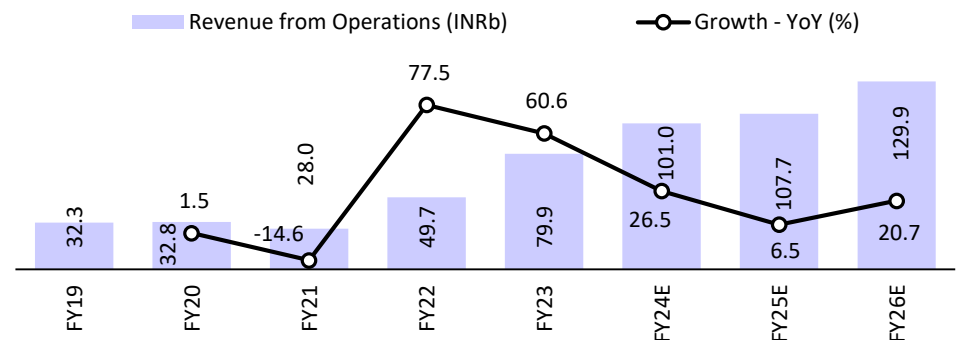
Source: MOFSL, Company

Exhibit 5: GMV growth projected to decline to 17% in FY25E

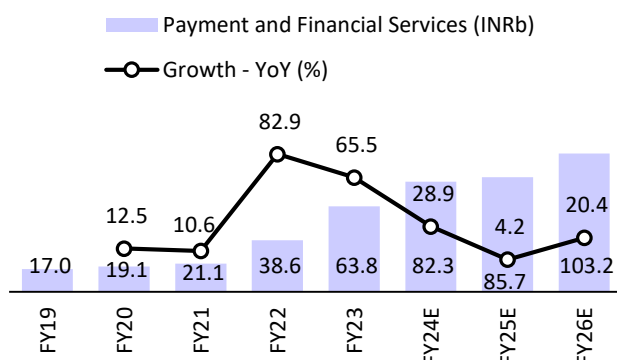
Source: MOFSL, Company

Exhibit 6: Resulting in a decline in Net payment margin

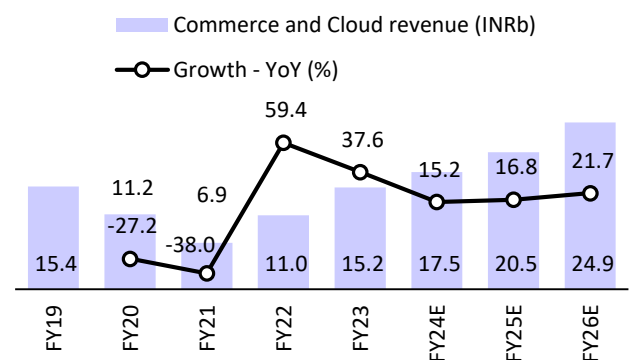
Source: MOFSL, Company

Exhibit 7: Estimate revenue to show a tepid growth at 6.5% in FY25E

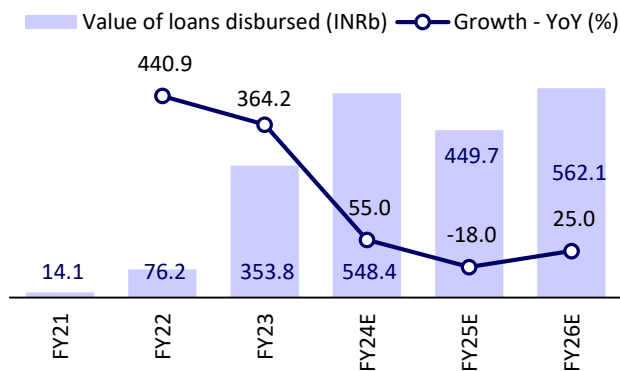
Source: Company, MOFSL

Exhibit 8: Payment and Financial Services to see slower growth at 4.2% in FY25E

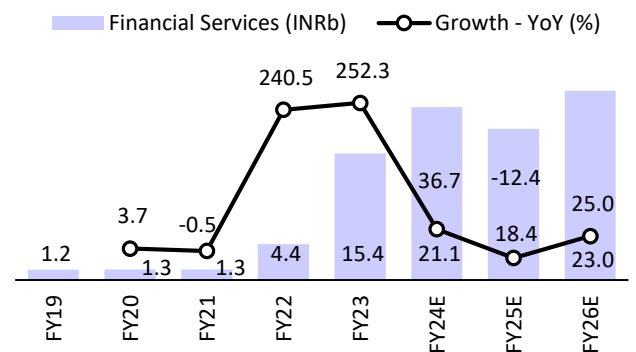
Source: MOFSL, Company

Exhibit 9: Commerce and Cloud business trajectory to be relatively unaffected

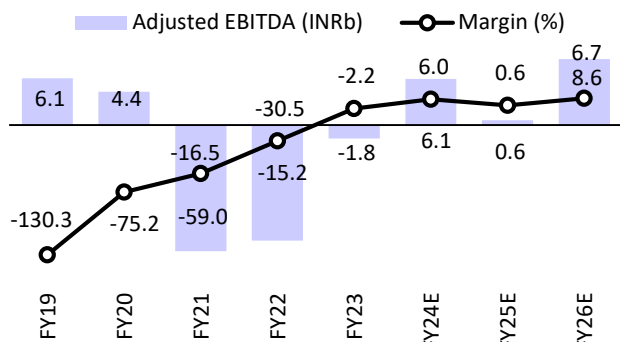
Source: MOFSL, Company

Exhibit 10: Estimate value of loans disbursed to decline by 18% in FY25E...

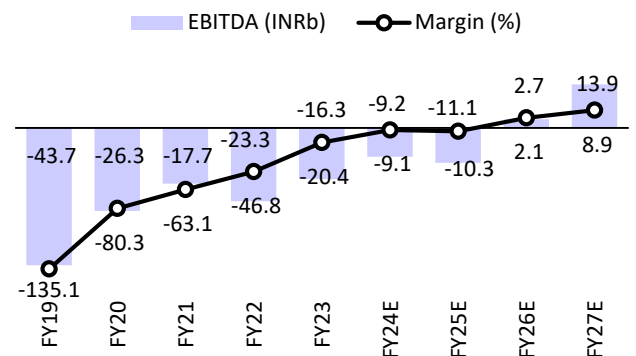
Source: MOFSL, Company

Exhibit 11: ...as a result financial services revenue growth is expected to decline by 12% in FY25E

Source: MOFSL, Company

Exhibit 12: Adj EBITDA to witness a sharp decline in FY25E, while bouncing back from FY26E onwards

Source: MOFSL, Company

Exhibit 13: EBITDA losses to widen to INR11.1b in FY25E, estimate company to achieve EBITDA breakeven in FY26E

Source: MOFSL, Company

Exhibit 14: Chronology of regulatory orders at Paytm

Year	Regulations	Description	Site
2019	PIL against Paytm postpaid wallet	<p>1. PIL claims that PPBL's postpaid service was operating contrary to the existing law and guidelines regulating such entities.</p> <p>2. The plea has sought directions to RBI "to take appropriate punitive actions against the Paytm Payments Bank Limited". The petition has also claimed that any new product launched by the payments bank needs prior approval from the RBI, but in this case, the central bank was not informed by Paytm about its 'postpaid' service.</p> <p>3. The plea has also sought an investigation "against the directors, management and officers of the Paytm Payments Bank Ltd for alleged malpractice and violation of provision of Article 21 of the Indian Constitution, Banking Regulations Act, Payments and Settlements Act and other relevant banking acts". It has further sought directions to transfer all the profits earned from the Paytm 'postpaid' service to the Prime Minister's Relief Fund for the welfare of the nation.</p>	https://www.livemint.com/industry/banking/pil-against-paytm-post-paid-wallet-rbi-company-oppose-it-1567608600373.html
Mar, 2022	Regulatory approval for new customer onboarding to boost investor confidence	<p>1. The RBI in Mar'22 barred Paytm Payments Bank from onboarding new customers, citing "material supervisory concerns" observed at the bank. The regulator also directed the bank to appoint an information technology (IT) audit firm to conduct a comprehensive audit of its IT system.</p> <p>2. In Nov'22, the management received the IT auditors' report and subsequently the RBI's observations on that report. These revolved largely around the strengthening of IT outsourcing processes and operational risk management.</p> <p>3. The management then submitted a response to the RBI, mentioning the remedial steps that would be taken. Post this, the RBI suggested to implement these measures in a time-bound manner.</p> <p>4. The bank is in the process of complying with these instructions and believes that the ban on new customer sourcing should be lifted in the near term. The ban has not materially impacted the overall business.</p> <p>5. It has also received the RBI's approval to appoint veteran banker Mr. Surinder Chawla as its new Managing Director and CEO.</p>	https://rbidocs.rbi.org.in/rdoc/PressRelease/PDFs/PR18504603E66DE7F84EB5A02479326FE5152B.PDF
Nov, 2022	Paytm Payments Services Limited: Awaiting payment months. It further asked the company to stop onboarding new online merchants from RBI and the approval to source online merchants	<p>1. The RBI did not approve Paytm's payment aggregator application in the first go and instead asked the company in Nov'22 to resubmit its application after four months. It further asked the company to stop onboarding new online merchants.</p> <p>2. These directions have not materially impacted the business and revenue, as the ban was applicable to onboarding of only new online merchants. The company continues to onboard new offline merchants and offers all payment services.</p> <p>3. Further, as per the RBI, the company has filed an application with the government for past downward investment from One97 Communications Limited into PPSL to comply with FDI guidelines.</p>	https://www.livemint.com/companies/news/rbi-rejects-paytm-s-plea-for-payment-aggregator-license-11669438408274.html
Oct, 2023	RBI imposes INR 5.4cr penalty on Paytm payments bank	<p>RBI imposes INR 5.39 Cr Penalty On Paytm Payments Bank For Violating KYC Norms.</p> <p>The fine was imposed on the payments bank for violating norms related to cybersecurity and stringent monitoring of risk profiles of onboarded entities. The deficiencies in regulatory compliances came to the fore after a special scrutiny of the Paytm Payments Bank was undertaken by the RBI to check adherence to KYC/AML rules.</p>	https://www.livemint.com/companies/news/rbi-slaps-rs-5-4-crore-fine-on-paytm-payments-bank-over-non-compliance-of-guidelines-related-to-kyc-cybersecurity-11697110148025.html
Jan, 2024	Stop onboarding of new customers with immediate effect	<p>1. No further deposits or credit transactions or top ups shall be allowed in any customer accounts, prepaid instruments, wallets, FASTags, NCMC cards, etc. after February 29, 2024, other than any interest, cashbacks, or refunds which may be credited anytime.</p> <p>2. Withdrawal or utilisation of balances by its customers from their accounts including savings bank accounts, current accounts, prepaid instruments, FASTags, National Common Mobility Cards, etc. are to be permitted without any restrictions, up to their available balance.</p> <p>3. No other banking services, other than those referred in (ii) above, like fund transfers (irrespective of name and nature of services like AEPS, IMPS, etc.), BBPOU and UPI facility should be provided by the bank after February 29, 2024.</p> <p>4. The Nodal Accounts of One97 Communications Ltd and Paytm Payments Services Ltd. are to be terminated at the earliest, in any case not later than February 29, 2024.</p> <p>5. Settlement of all pipeline transactions and nodal accounts (in respect of all transactions initiated on or before February 29, 2024) shall be completed by March 15, 2024 and no further transactions shall be permitted thereafter.</p>	https://rbidocs.rbi.org.in/rdoc/PressRelease/PDFs/PR1774PPBLBEDADC47266E41F7A65307C63180E2B1.PDF

PPBL Board has undergone significant changes

- According to RBI guidelines, a payments bank board must have more independent directors than executive directors. With Mr. Vijay Shekhar Sharma's resignation and the departure of the other two OCL nominees, the Paytm Payments Bank board now has only one executive director. We believe that this alone does not resolve the issue for Paytm, and further compliance with regulatory guidelines may be necessary.

Exhibit 15: Paytm Payment's Bank Board



Source: Company, Media reports, MOFSL

Exhibit 16: Change in Estimates for FY24E and FY25E

INR b	Old Estimates		New Estimates		Change (%/bps)	
	FY24	FY25	FY24	FY25	FY24	FY25
Payment and Financial Services	89.3	117.4	82.3	85.7	-7.9	-27.0
Commerce and Cloud Services	18.1	22.0	17.5	20.5	-3.0	-6.8
Revenue from Operations	108.6	141.0	101.0	107.7	-7.0	-23.6
Direct Expenses	47.9	63.1	44.3	52.8	-7.7	-16.2
Contribution Profit	60.7	77.9	56.8	54.8	-6.5	-29.7
Indirect Expenses	51.2	62.6	50.7	54.2	-0.9	-13.4
Adjusted EBITDA	9.5	15.3	6.1	0.6	-36.3	-95.9
EBITDA	-5.7	3.6	-9.2	-11.1	NA	NA
PAT	-8.5	-0.3	-11.4	-14.1	NA	NA
GMV (INRt)	18.5	24.6	17.7	20.7	-4.3	-15.8
Disbursements	609	755	548	450	-9.9	-40.4
Contribution Margin (%)	55.9	55.3	56.2	50.9	32	-435
Adjusted EBITDA Margin (%)	8.8	10.9	6.0	0.6	-277	-1,028
EBITDA Margin (%)	-5.3	2.5	-9.1	-10.3	-383	-1,286
PAT Margin (%)	-7.8	-0.2	-11.3	-13.1	-343	-1,288

Source: MOFSL

Financials and valuations

Income Statement						(INRm)
Y/E March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Payment Services to Consumers	9,692	15,286	21,050	23,915	25,701	29,585
Payment Services to Merchants	10,116	18,919	27,391	35,305	39,370	47,942
Financial Services and Others	1,284	4,372	15,404	21,058	18,436	23,045
Payment and Financial Services	21,092	38,577	63,845	82,279	85,709	1,03,215
Growth (%)	10.6	82.9	65.5	28.9	4.2	20.4
Commerce	2,452	3,736	6,153	7,384	8,713	10,804
Cloud	4,480	7,312	9,046	10,132	11,753	14,103
Commerce and Cloud Services	6,932	11,048	15,199	17,515	20,465	24,907
Growth (%)	-38.0	59.4	37.6	15.2	16.8	21.7
Other Operating Revenue	-	117	859	1,254	1,480	1,805
Revenue from Operations	28,024	49,742	79,903	1,01,049	1,07,654	1,29,927
Growth (%)	-14.6	77.5	60.6	26.5	6.5	20.7
Payment processing charges	19,168	27,538	29,577	31,887	37,307	44,251
Promotional cashback & incentives	2,357	3,781	5,020	3,986	5,803	5,816
Other Expenses	2,874	3,442	6,300	8,379	9,720	11,178
Direct Expenses	24,399	34,761	40,897	44,251	52,830	61,244
Growth (%)	-30.7	42.5	17.7	8.2	19.4	15.9
Contribution Profit	3,625	14,981	39,006	56,797	54,824	68,683
Growth (%)	-252.4	313.3	160.4	45.6	-3.5	25.3
Marketing	2,968	4,773	5,744	6,770	6,459	6,626
Employee cost (Excl ESOPs)	10,724	16,226	23,225	31,632	34,163	38,263
Software, cloud and data center	3,498	4,999	6,939	6,592	7,383	8,343
Other indirect expenses	2,983	4,160	4,855	5,729	6,187	6,806
Indirect Expenses	20,173	30,158	40,763	50,724	54,193	60,038
Growth (%)	-9.6	49.5	35.2	24.4	6.8	10.8
Adjusted EBITDA	-16,548	-15,177	-1,757	6,074	631	8,645
Growth (%)	-33.0	-8.3	-88.4	-445.7	-89.6	1,269.8
ESOP Expense	1,125	8,093	14,558	15,258	11,758	5,958
EBITDA	-17,673	-23,270	-16,315	-9,184	-11,127	2,687
Growth (%)	-32.9	31.7	-29.9	-43.7	21.1	-124.2
Finance Costs	348	394	233	287	344	413
Depreciation and Amortization Expenses	1,785	2,473	4,853	7,425	9,281	11,138
Other Income	3,844	2,901	4,097	5,818	7,272	9,090
PBT	-15,962	-23,368	-17,304	-11,078	-13,480	227
Share of (profit)/loss of associates/JV	740	459	125	140	160	182
Exceptional items	281	24	0	0	0	0
Tax	27	113	336	151	477	-2
PAT	-17,010	-23,964	-17,765	-11,370	-14,117	47
Growth (%)	-42.2	40.9	-25.9	-36.0	24.2	-100.3
Balance Sheet						
Y/E March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Share Capital	605	649	634	642	654	666
Reserves & Surplus	64,743	1,40,867	1,29,522	1,28,385	1,21,327	1,21,350
Non-Controlling Interest	-186	-221	-227	-250	-275	-302
Net Worth	65,162	1,41,295	1,29,929	1,28,777	1,21,706	1,21,714
Non-Current Liabilities	5,229	6,119	6,435	2,485	2,610	2,740
Current Liabilities	21,122	32,502	43,294	46,481	56,872	63,379
Total Liabilities	91,513	1,79,916	1,79,658	1,77,743	1,81,187	1,87,833
Fixed Assets	5,149	9,259	12,202	12,812	13,453	14,125
Investments	341	10,062	13,247	17,342	19,076	20,983
Other Non-Current Assets	8,533	48,394	8,655	10,000	11,240	12,664
Non-Current Assets	16,340	69,948	36,622	40,153	43,768	47,773
Investments	1,472	-	11,206	11,206	11,206	11,206
Cash and Bank Balances	52,150	84,315	1,03,822	93,217	88,006	84,508
Other Current Assets	21,551	25,653	28,008	33,167	38,208	44,346
Current Assets	75,173	1,09,968	1,43,036	1,37,590	1,37,419	1,40,060
Total Assets	91,513	1,79,916	1,79,658	1,77,743	1,81,187	1,87,833

Financials and valuations

Key Operating Metrics

Y/E March	FY21	FY22	FY23	FY24E	FY25E	FY26E
GMV (INRb)	4,033	8,516	13,220	17,715	20,726	25,286
Disbursements (INR b)	14	76	354	548	450	562
Net Payment Margins (INRm)	640	6,667	18,864	19,554	18,191	19,367
Revenue from Operations Mix (%)						
Payment Services to Consumers	35%	31%	27%	25%	25%	24%
Payment Services to Merchants	36%	38%	34%	35%	37%	37%
Financial Services and Others	5%	9%	19%	21%	17%	18%
Payment and Financial Services						
Commerce	75%	78%	81%	81%	79%	79%
Cloud	9%	8%	8%	7%	8%	8%
Commerce and Cloud Services						
	25%	22%	19%	17%	19%	19%

E: MOSL Estimates

Ratios

Y/E March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Payment Services to Consumers % of GMV	0.24	0.18	0.16	0.14	0.12	0.12
Payment Services to Merchants % of GMV	0.25	0.22	0.21	0.20	0.19	0.19
Take rates - Financial Services (%)	9.1	5.7	4.4	3.8	4.1	4.1
Payment processing charges % of GMV	0.48	0.32	0.22	0.18	0.18	0.18
Net Payment Margin (%)	0.02	0.08	0.14	0.11	0.09	0.08
Direct Expense % of Revenues	87.1	69.9	51.2	43.8	49.1	47.1
Contribution Margin	12.9	30.1	48.8	56.2	50.9	52.9
Indirect Expense % of Revenues	72.0	60.6	51.0	50.2	50.3	46.2
Adjusted EBITDA Margin (%)	-59.0	-30.5	-2.2	6.0	0.6	6.7
EBITDA Margin (%)	-63.1	-46.8	-20.4	-9.1	-10.3	2.1
PAT Margin (%)	-60.7	-48.2	-22.2	-11.3	-13.1	0.0

Valuation

RoE	-23.3	-23.2	-13.1	-8.8	-11.3	0.0
RoA	-17.5	-17.7	-9.9	-6.4	-7.9	0.0
Sales per share (INR)	46	77	126	157	165	195
Growth (%)	-14.7	65.5	64.4	24.9	4.6	18.5
Price-Sales (x)	8.9	5.4	3.3	2.6	2.5	2.1
Book Value per share (INR)	108	218	205	201	186	183
Growth (%)	-19.6	102.1	-5.9	-2.1	-7.2	-1.8
Price-BV (x)	3.8	1.9	2.0	2.0	2.2	2.2
EBITDA per share (INR)	-29	-36	-26	-14	-17	4
Price-EBITDA (x)	-14.1	-11.5	-16.0	-28.7	-24.2	101.9
EPS (INR)	-28.1	-36.9	-28.0	-17.7	-21.6	0.1
Growth (%)	-42.3	31.3	-24.1	-36.8	21.9	-100.3
Price-Earnings (x)	-14.6	-11.1	-14.7	-23.2	-19.0	5813.7

E: MOFSL Estimates

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