

One 97 Communications

BSE SENSEX 75,449 S&P CNX 22,908

CMP: INR763 TP: INR870 (+14%) Neutral



Bloomberg	PAYTM IN
Equity Shares (m)	638
M.Cap.(INRb)/(USDdb)	486.6 / 5.6
52-Week Range (INR)	1063 / 310
1, 6, 12 Rel. Per (%)	3/26/83
12M Avg Val (INR M)	5610
Free float (%)	100.0

Financials & Valuations (INR b)

Y/E March	FY24	FY25E	FY26E
Revenue from Op	99.8	71.5	91.6
Contribution Profit	55.4	38.6	51.4
Adjusted EBITDA	5.6	(5.8)	5.6
EBITDA	(9.1)	(15.2)	(0.8)
PAT	(14.1)	(2.0)	1.8
EPS (INR)	(22.2)	(3.2)	2.7
EPS Gr. (%)	(20.8)	NM	NM

Ratios

Contribution Margin %	55.5	54.0	56.1
Adjusted EBITDA Margin (%)	(9.1)	(21.3)	(0.9)
EBITDA Margin (%)	5.6	(8.1)	6.1
RoE (%)	(10.7)	(1.5)	1.3
RoA (%)	(8.0)	(1.1)	0.8

Valuations

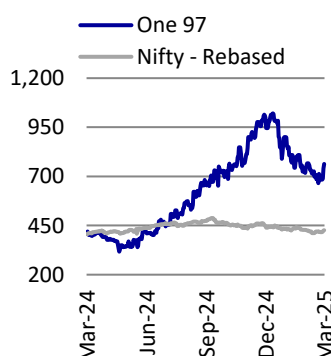
P/E(X)	NA	NA	283.0
P/BV (X)	3.6	3.7	3.8
P/Sales (X)	4.9	6.9	5.5

Shareholding pattern (%)

As On	Dec-24	Sep-24	Dec-23
Promoter	0.0	0.0	0.0
DII	11.9	8.5	6.1
FII	56.2	55.5	63.7
Others	31.9	36.0	30.2

FII Includes depository receipts

Stock Performance (1-year)



Merchant business gaining traction; EBITDA to achieve breakeven by FY27E

Contribution margin to remain steady at 57% by FY27E

- Paytm has successfully navigated through the regulatory challenges while retaining most of its merchant base. The company's merchant base grew 9% YoY to 43m in 3QFY25, while the number of merchants with devices rose 10% YoY to 11.7m.
- With 85% of GMV coming from merchants, Paytm maintains a robust market share in merchant business, though its UPI market share has moderated. We estimate a 24% CAGR in GMV over FY25-27E.
- Leveraging its merchant network, Paytm is scaling up loan distribution through the first loss default guarantee (FLDG), with 18 lending partners on its platform. The financial services business is expected to contribute 27% of total revenue by FY28E (~20% in FY24), thus driving a 25% CAGR in total revenue.
- The reduction in capex and depreciation expenses, along with strong cost-control, should help Paytm deliver positive adj. EBITDA by 4QFY25E and positive overall EBITDA by FY27E. We, thus, estimate Paytm to regain its strong hold on profitability in FY27E, with estimated PAT of INR12.1b.
- As per recent media reports the potential introduction of MDR on UPI will be a significant boost PayTM's revenue and will incentivize the company to push for market share gains in the consumer payments.
- We remain watchful on the challenging macro-environment, traction in the financial distribution business and near-term UPI market share. Maintain Neutral rating with a revised TP of INR870 (based on 17.7xSep'26E EBITDA).

Merchant base retained; focusing on gaining market share

Paytm has navigated through the regulatory restrictions while retaining most of its merchant base, which grew 9% YoY to 43m merchants as of 3QFY25. The company has also increased the share of devices by 10% YoY to 11.7m. Moreover, Paytm has seen improvements in payments business revenue, which grew 13% in the last two quarters from the lows of 1QFY25. We expect a 26% CAGR in payment revenue over FY25-27E. With growing merchant market share, the company expects growth in subscription revenue and has an opportunity to grow stronger in the merchant loan product, which offers higher take rates.

GMV tracking well led by merchant business; estimate 24% CAGR in GMV from FY25-27E

Paytm has strengthened its focus on growing the more profitable merchant business, which forms ~85% of total GMV. The company has demonstrated healthy resilience in total GMV on the platform, which has recovered to the 3QFY24 levels (up 15% after adjusting discontinued businesses). We estimate a steady 24% CAGR in GMV over FY25-27E. The company expects the consumer business to gain traction as it looks to grow its customer base as it has secured NPCI approval for on-boarding new customers on UPI. In 3QFY25, Paytm's average MTUs declined 30% YoY/1% QoQ to 70m, which inched up to 72m in Dec'24 from 69m in Oct'24.

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

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FLDG to boost loan disbursements; expect 29% CAGR in FY25-27

Paytm has started offering FLDG loans to lending partners, which will help to speed up loan disbursements, thereby boosting financial services business growth. FLDG mitigates lender risk by covering initial losses and enabling faster approvals, thus boosting disbursement efficiency. We estimate a 29% CAGR in overall loan disbursements over FY25-27E. The FLDG structure also provides a better take rate, which will enable faster revenue growth of financial services business. The FLDG approach enhances business opportunities, allowing Paytm to efficiently leverage its vast merchant and customer base.

Financial services to contribute 27% of total revenue by FY28E

Paytm is well poised to leverage its strong positioning in merchant business, thus driving healthy revenue growth in financial services. We estimate that the financial business, encompassing loan distribution and other services, will contribute ~27% of Paytm's total revenue by FY28E vs. 20% in FY24. This shift is underpinned by the company's growing merchant base, which serves as a strong moat despite setbacks in products like wallet and BNPL. The financial services arm currently earns 15-20% of revenue from non-lending activities such as equity broking and sales of financial products, which are also witnessing healthy traction. Paytm has partnered with 18 lenders on the platform, with the current count expected to be more than what it was prior to the RBI's restrictions. This will drive healthy growth in financial business as market sentiment improves and personal loan business starts gaining traction.

Contribution margin to improve to ~58% by FY28E

- Paytm's contribution margins are expected to rise to ~58% by FY28E (including UPI incentive), supported by efficient cost management and an improving mix of financial services business. We estimate a 25% CAGR in revenue over FY25-28E, while direct costs are expected to increase at a slower pace of 21% CAGR during the same period.
- A key driver of this growth is financial services revenue, which is anticipated to clock a robust 33% CAGR over FY25-28E, driven by strong loan disbursement momentum (~29% CAGR). With an estimated 23% CAGR in GMV from FY25-28E and payment processing charges under control, net payment margin (including subscription fees) is expected to be sustained at 12bp of GMV by FY28E.

Estimate PAT to break-even in FY26E and accelerate thereafter

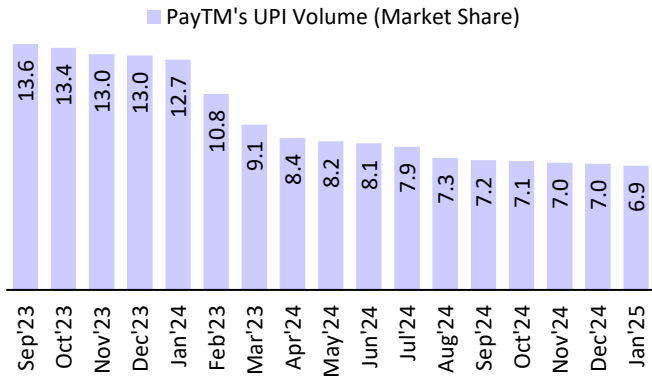
Paytm is actively pursuing cost optimization strategies to improve underlying profitability while exerting strong control on capex, which has helped the company reduce the breakeven period on devices to 12-13 months. Depreciation expenses are likely to decline sharply, with refurbishing acting as a pivot; however, ESOP costs are expected to remain elevated. We anticipate Paytm to deliver positive adj. EBITDA by 4QFY25E and achieve overall EBITDA breakeven by FY27E, assuming no further disruptions. We, thus, estimate Paytm to regain its strong hold on profitability by FY27E, with estimated PAT of INR12.1b.

Valuation and view: Maintain Neutral with TP of INR870

Paytm's strategic focus on financial services business and cost optimization should boost profitability, with the financial business contributing 27% of revenue by FY28E. Leveraging its merchant network, the company remains focused on scaling up its loan distribution, supported by strong lender partnerships. Cost reductions and an estimated revenue CAGR of 26% from FY25-27E (INR114b by FY27E) will enable Paytm to achieve EBITDA breakeven in FY27E. We expect the company to gain traction in new customer on-boarding and grow its MTU base, which will enable healthy cross-selling, while growth in the merchant business will remain the key profitability driver in the near term. The company's exploration of global markets, albeit with limited capital commitment, and its strong cash position (INR128.5b in 3QFY25) further provide comfort. As per recent media reports the potential introduction of MDR on UPI will be a significant boost PayTM's revenue and will incentivize the company to push for market share gains in the consumer payments. Additionally, the company may shift its focus towards expanding its market share in the consumer segment. The recent SEBI approval for Paytm Money to venture into investment insights and research services presents an opportunity to diversify into wealth management, potentially unlocking a new stream of fee-based income. **We remain watchful on the challenging macro-environment, traction in the financial distribution business and near-term UPI market share. Maintain Neutral rating with a revised TP of INR870 (based on 17.7xSep'26E EBITDA).**

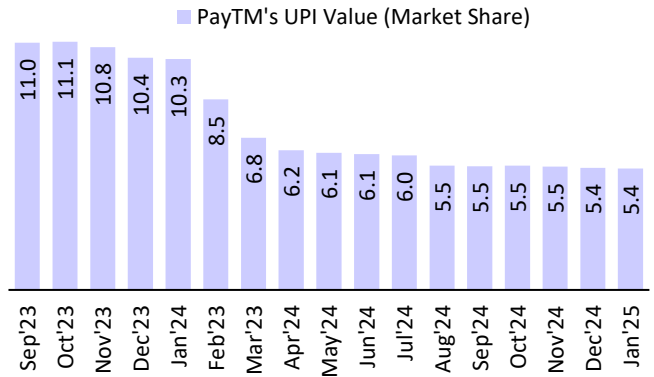
Story in charts

Exhibit 1: Paytm: UPI volume mkt share fell to 6.9% in Jan'25



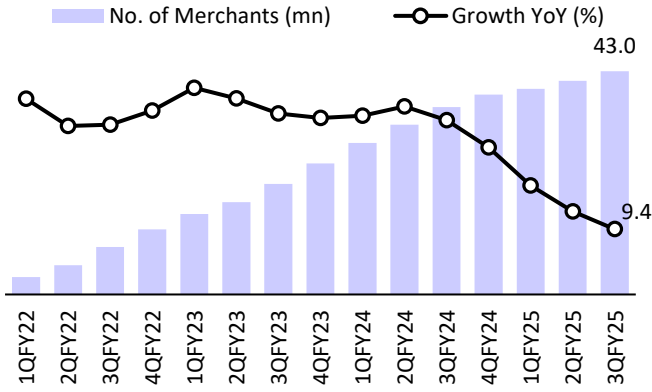
Source: MOFSL, Company

Exhibit 2: In value terms, UPI market share stood at 5.4%



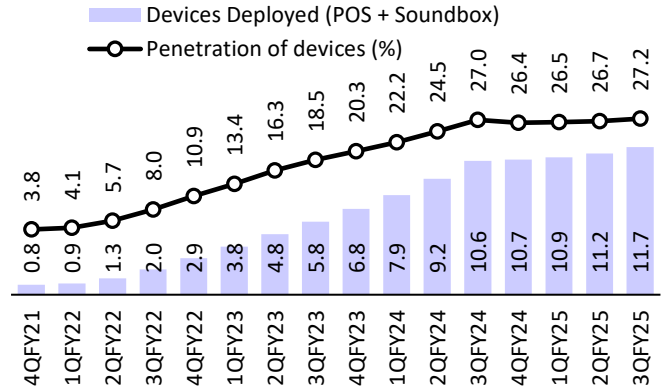
Source: MOFSL, Company

Exhibit 3: Paytm's merchant base stood at 43m



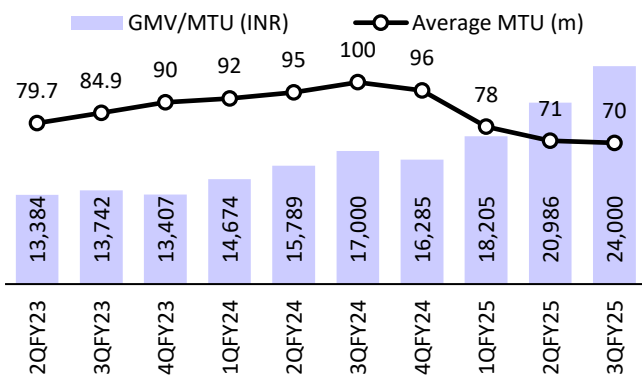
Source: MOFSL, Company

Exhibit 4: Devices deployed grew 10% YoY to 11.7m



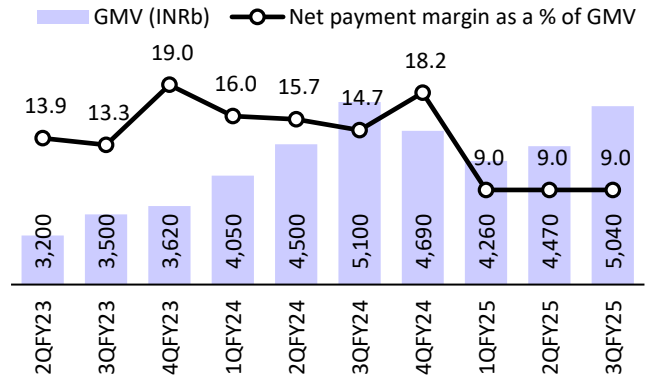
Source: MOFSL, Company

Exhibit 5: Average MTU declined to 70m in 3QFY25...



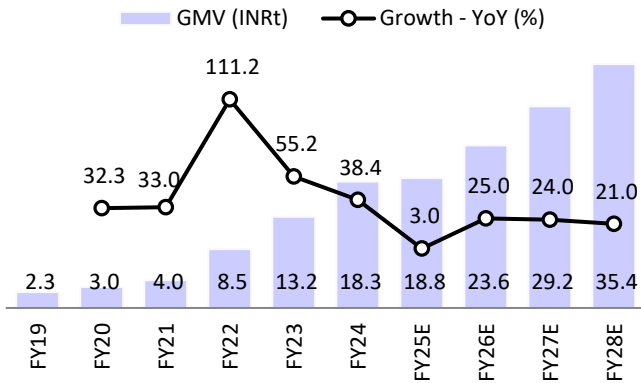
Source: MOFSL, Company

Exhibit 6: ...GMV increased to ~INR5t in 3QFY25



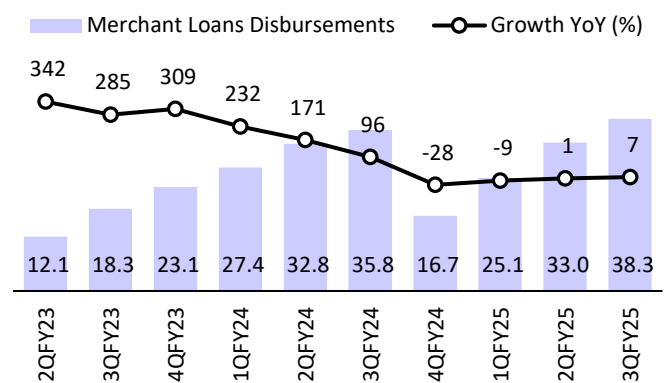
Source: MOFSL, Company

Exhibit 7: Estimate GMV to clock 24% CAGR over FY25-27E



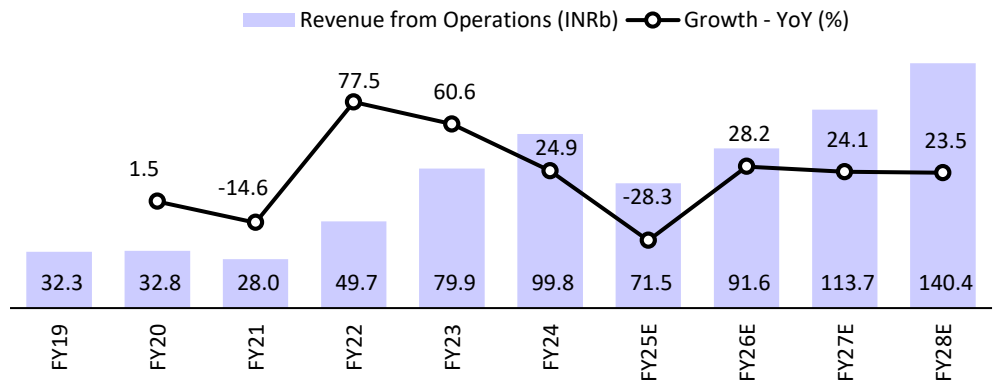
Source: MOFSL, Company

Exhibit 8: Merchant loans saw healthy QoQ growth



Source: MOFSL, Company

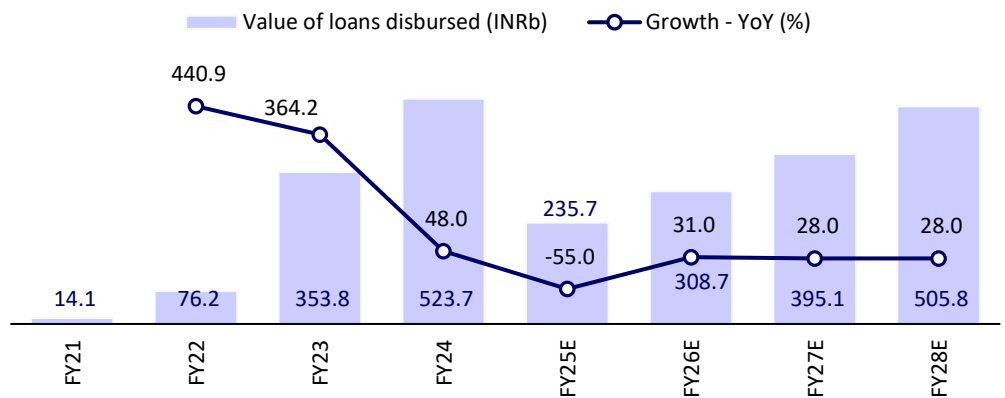
Exhibit 9: Estimate ~25% revenue CAGR over FY25-28E



Source: Company, MOFSL

Revenue from operations to clock 25% CAGR over FY25-27E

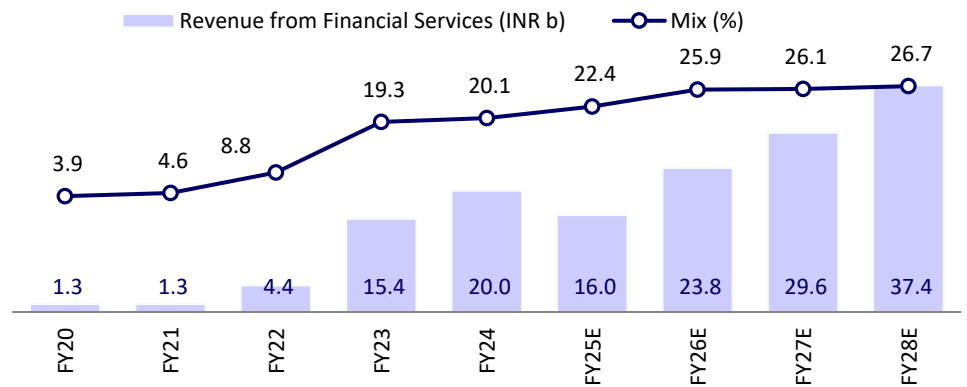
Exhibit 10: Estimate value of loans disbursed to grow at 29% CAGR over FY25-28E



Source: Company, MOFSL

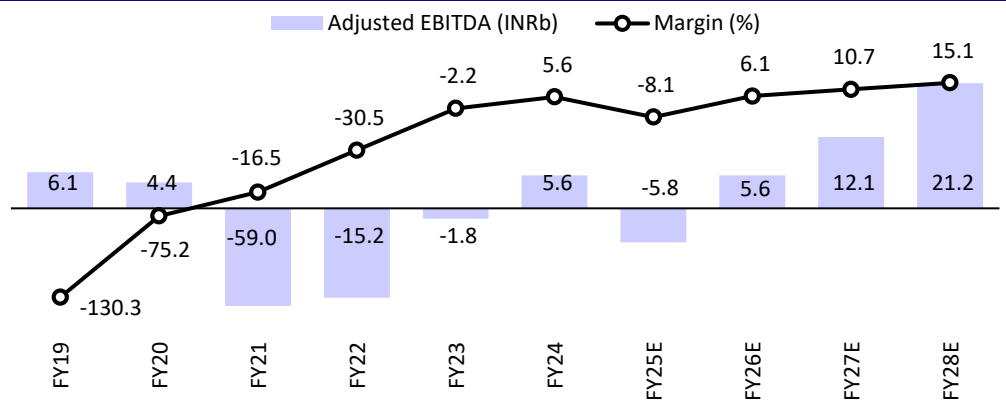
Loans disbursements are expected to see ~29% CAGR over FY25-28E

Exhibit 11: Mix of financial revenue is thus likely to increase to 27% by FY28E



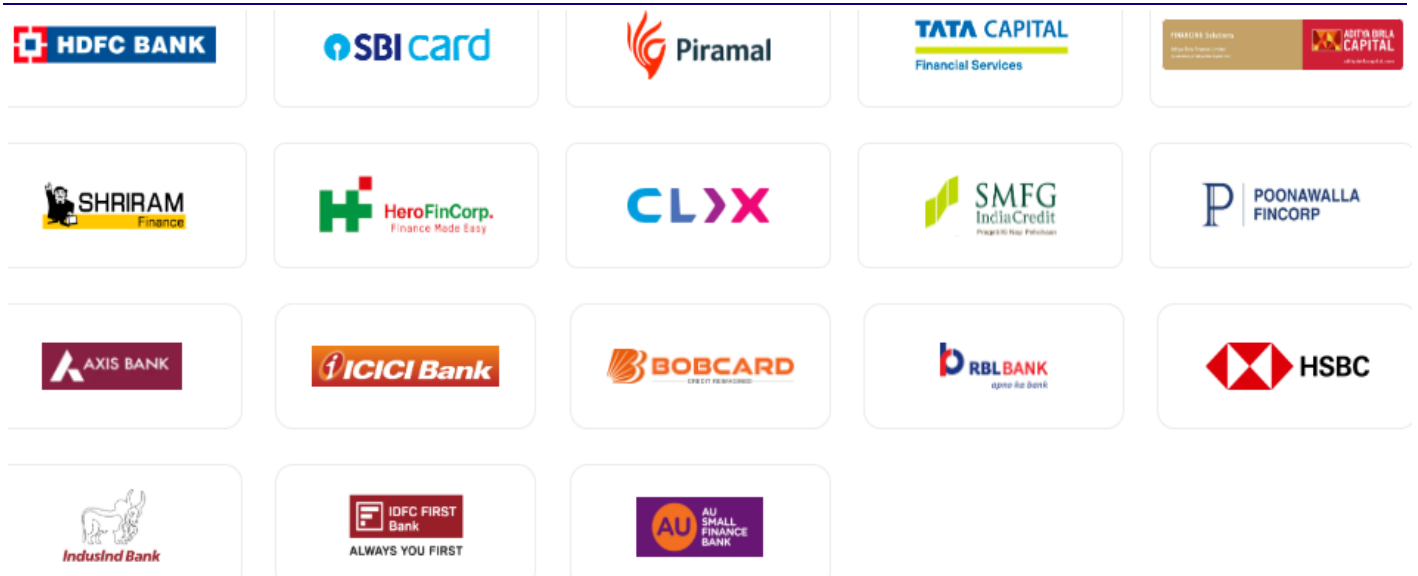
Source: Company, MOFSL

Exhibit 12: Adj EBITDA to turn positive in FY26E after achieving breakeven in 4QFY25



Source: Company, MOFSL

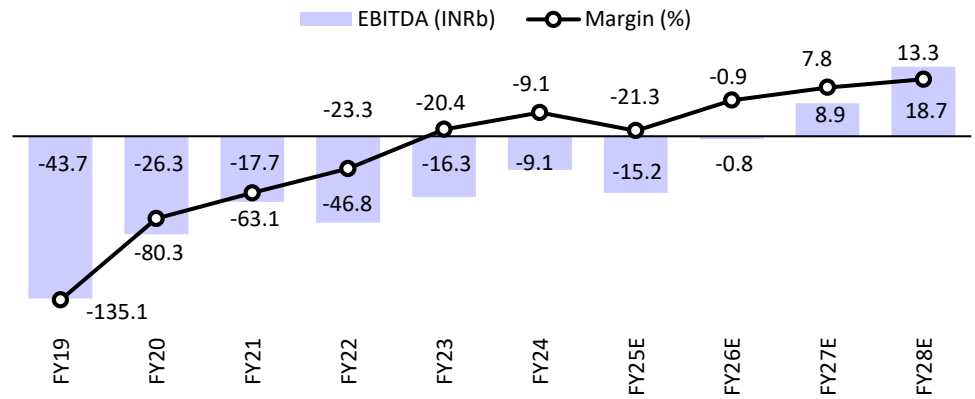
Exhibit 13: PayTM has 18 lender partners for its financial services business



Source: Company, MOFSL

Exhibit 14: Estimate company to report positive EBITDA in FY27E

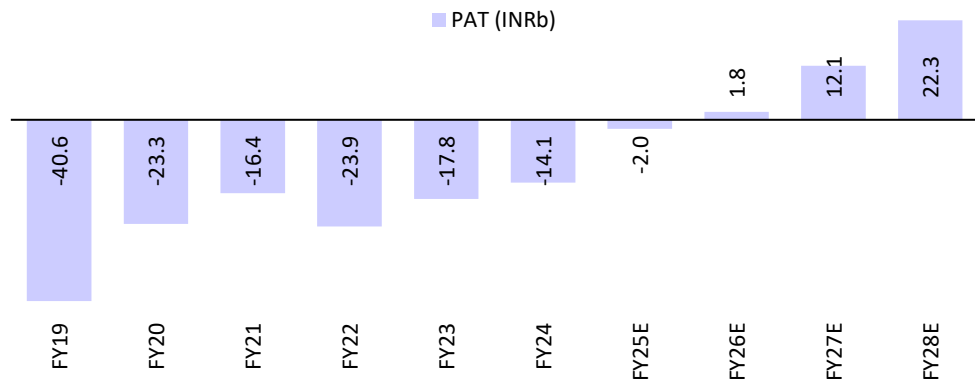
EBITDA to become positive from FY27E onward



Source: Company, MOFSL

Exhibit 15: Estimate company to turn profitable by FY27E

Estimate company to report healthy PAT of INR12.1b in FY27E



Source: Company, MOFSL

Financials and valuations

Income Statement							(INRb)
Y/E March	FY22	FY23	FY24	FY25E	FY26E	FY27E	FY28E
Payment Services to Consumers	15.3	21.1	21.7	6.4	8.5	10.5	12.7
Payment Services to Merchants	18.9	27.4	39.6	35.7	44.0	55.5	69.0
Financial Services and Others	4.4	15.4	20.0	16.0	23.8	29.6	37.4
Payment and Financial Services	38.6	63.8	81.3	58.2	76.2	95.6	119.1
Growth (%)	82.9	65.5	27.4	-28.4	31.0	25.4	24.6
Commerce	3.7	6.2	7.0	0.0	0.0	0.0	0.0
Cloud	7.3	9.0	10.3	0.0	0.0	0.0	0.0
Commerce and Cloud Services	11.0	15.2	17.4	12.0	13.8	16.1	18.9
Growth (%)	59.4	37.6	14.4	-31.0	15.0	17.0	17.0
Other Operating Revenue	0.1	0.9	1.1	1.3	1.6	2.0	2.4
Revenue from Operations	49.7	79.9	99.8	71.5	91.6	113.7	140.4
Growth (%)	77.5	60.6	24.9	-28.3	28.2	24.1	23.5
Payment processing charges	27.5	29.6	32.8	21.7	26.9	33.6	40.7
Promotional cashback & incentives	3.8	5.0	3.1	1.5	2.6	3.2	3.9
Other Expenses	3.4	6.3	8.5	9.7	10.8	12.0	13.6
Direct Expenses	34.8	40.9	44.4	32.9	40.2	48.9	58.2
Growth (%)	42.5	17.7	8.6	-26.0	22.3	21.5	19.0
Contribution Profit	15.0	39.0	55.4	38.6	51.4	64.9	82.3
Growth (%)	313.3	160.4	42.0	-30.3	33.2	26.1	26.8
Marketing	4.8	5.7	6.1	5.3	6.0	7.6	9.5
Employee cost (Excl ESOPs)	16.2	23.2	31.2	25.0	24.5	27.9	32.1
Software, cloud and data center	5.0	6.9	6.4	6.6	7.0	7.7	8.5
Other indirect expenses	4.2	4.9	6.0	7.6	8.4	9.5	10.9
Indirect Expenses	30.2	40.8	49.8	44.4	45.9	52.7	61.0
Growth (%)	49.5	35.2	22.1	-10.8	3.3	15.0	15.8
Adjusted EBITDA	-15.2	-1.8	5.6	-5.8	5.6	12.1	21.2
Growth (%)	-8.3	-88.4	-418.2	-203.4	-196.5	117.3	75.0
ESOP Expense	8.1	14.6	14.7	9.5	6.4	3.2	2.5
EBITDA	-23.3	-16.3	-9.1	-15.2	-0.8	8.9	18.7
Growth (%)	31.7	-29.9	-44.4	67.9	-94.8	-1,222.8	109.9
Finance Costs	0.4	0.2	0.2	0.2	0.3	0.3	0.4
Depreciation and Amortization Expenses	2.5	4.9	7.4	6.8	5.8	6.5	7.4
Other Income	2.9	4.1	5.5	7.0	8.8	10.9	13.7
PBT	-23	-17	-11	-15	2	13	25
Share of (profit)/loss of associates/JV	0.5	0.1	0.4	0.2	0.2	0.3	0.3
Exceptional items	0.0	0.0	2.2	13.5	0.0	0.0	0.0
Tax	0.1	0.3	0.3	0.0	-0.1	0.6	1.9
PAT	-23.9	-17.8	-14.1	-2.0	1.8	12.1	22.3
Growth (%)	45.4	-25.7	-20.6	-85.5	-186.9	579.6	84.4

Balance Sheet

Y/E March	FY22	FY23	FY24	FY25E	FY26E	FY27E	FY28E
Share Capital	0.6	0.6	0.6	0.6	0.7	0.7	0.7
Reserves & Surplus	140.9	129.5	132.6	131.6	132.5	138.5	149.7
Non-Controlling Interest	-0.2	-0.2	-0.3	-0.3	-0.3	-0.4	-0.4
Net Worth	141.3	129.9	133.0	131.9	132.8	138.8	150.0
Non-Current Liabilities	6.1	6.4	5.9	0.5	0.6	0.6	0.6
Current Liabilities	32.5	43.3	32.5	70.5	99.5	109.4	116.7
Total Liabilities	179.9	179.7	171.4	203.0	232.9	248.9	267.3
Fixed Assets	9.3	12.2	12.6	13.1	13.7	14.4	15.1
Investments	10.1	13.2	22.6	25.2	27.8	30.5	33.6
Other Non-Current Assets	48.4	8.7	11.6	13.3	14.8	16.6	18.6
Non-Current Assets	69.9	36.6	47.2	51.6	56.3	61.5	67.3
Investments	-	11.2	23.3	23.3	23.3	23.3	23.3
Cash and Bank Balances	84.3	103.8	73.0	90.3	109.4	112.9	116.4
Other Current Assets	25.7	28.0	27.9	37.8	43.8	51.2	60.2
Current Assets	110.0	143.0	124.2	151.4	176.5	187.4	199.9
Total Assets	179.9	179.7	171.4	203.0	232.9	248.9	267.3

Financials and valuations

Key Operating Metrics

Y/E March	FY22	FY23	FY24	FY25E	FY26E	FY27E	FY28E
GMV (INRt)	8.5	13.2	18.3	18.8	23.6	29.2	35.4
Disbursements (INR b)	76.2	353.8	523.7	235.7	308.7	395.1	505.8
Net Payment Margins (INRm)	6.7	18.9	28.5	8.7	12.2	15.4	19.4
Revenue from Operations Mix (%)							
Payment Services to Consumers	31%	27%	23%	11%	11%	11%	11%
Payment Services to Merchants	38%	34%	40%	50%	48%	49%	49%
Financial Services and Others	9%	19%	20%	22%	26%	26%	27%
Payment and Financial Services	78%	81%	83%	83%	85%	86%	87%
Commerce	8%	8%	7%	0%	0%	0%	0%
Cloud	15%	11%	10%	0%	0%	0%	0%
Commerce and Cloud Services	22%	19%	17%	17%	15%	14%	13%

E: MOFSL Estimates

Ratios

Y/E March	FY22	FY23	FY24	FY25E	FY26E	FY27E	FY28E
Payment Services to Consumers % of GMV	0.18	0.16	0.12	0.03	0.04	0.04	0.04
Payment Services to Merchants % of GMV	0.22	0.21	0.22	0.19	0.19	0.19	0.20
Take rates - Financial Services (%)	0.01	0.004	0.004	0.007	0.008	0.008	0.007
Payment processing charges % of GMV	0.32	0.22	0.18	0.12	0.11	0.12	0.12
Net Payment Margin (%)	0.08	0.14	0.16	0.05	0.05	0.05	0.05
Direct Expense % of Revenues	69.9	51.2	44.5	46.0	43.9	43.0	41.4
Contribution Margin (%)	30.1	48.8	55.5	54.0	56.1	57.0	58.6
Indirect Expense % of Revenues	60.6	51.0	49.9	62.1	50.0	46.4	43.5
EBITDA Margin (%)	-46.8	-20.4	-9.1	-21.3	-0.9	7.8	13.3
Adjusted EBITDA Margin (%)	-30.5	-2.2	5.6	-8.1	6.1	10.7	15.1
PAT Margin (%)	-48.1	-22.2	-14.1	-2.9	1.9	10.6	15.9

Valuation

RoE	-23.2	-13.1	-10.7	-1.5	1.3	8.9	15.4
RoA	-17.6	-9.9	-8.0	-1.1	0.8	5.0	8.6
Sales per share (INR)	77	126	157	110	139	167	204
Growth (%)	65.5	64.4	24.5	-29.7	25.8	20.6	21.7
Price-Sales (x)	10.0	6.1	4.9	6.9	5.5	4.6	3.7
Book Value per share (INR)	218	205	209	204	201	204	218
Growth (%)	102.1	-5.9	2.0	-2.6	-1.2	1.6	6.4
Price-BV (x)	3.5	3.7	3.6	3.7	3.8	3.7	3.5
EBITDA per share (INR)	-36	-26	-14	-23	-1	13	27
Price-EBITDA (x)	NA	NA	NA	NA	NA	58.2	28.1
EPS (INR)	-36.9	-28.0	-22.2	-3.2	2.7	17.8	32.4
Growth (%)	35.5	-24.0	-20.8	-85.8	-185.4	560.6	81.8
Price-Earnings (x)	NA	NA	NA	NA	283.0	42.8	23.6

E: MOFSL Estimates

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

NOTES

Explanation of Investment Rating	
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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