

# One 97 Communications | BUY

## Strong quarter led by efficiencies

Paytm reported strong 3QFY24 results with adj. EBITDA of INR 2,200mn (+43% QoQ). EBITDA margin moved up +160bps QoQ to 7.7%. Payment services vertical continued its stellar run with net payments yield largely stable at 15bps on the back of a) increase in GMV of non-UPI instruments like EMI and cards b) slight increase in payment processing margins on non-UPI instruments and c) online sales during festive season. Financial services revenue grew +6% QoQ, +36% YoY on the back of steady run-up in disbursements from instant personal loans (+14% QoQ) and high ticket merchant loans (+9% QoQ), sequential improvement in take rates and higher revenue from Insurance business. As the company announced reduction in its BNPL business recently, it has already whitelisted 20mn users to tap opportunities in high ticket loans while mgmt. guides to add 3-4 new lending partners by Q1FY25 (from 2 lending partners currently) which should aid in continued growth in disbursals going forward. Commerce business revenue were up +22% YoY, +21% QoQ on the back of strong commerce GMV growth of +48% YoY and take rates above the guided range of 5-6%. Cloud business revenue growth was tad lower (+2% QoQ, +14% YoY) on account of slight decline in margins. Elevated total direct expenses on account of higher promotional cashback offers led to decline in contribution margins to 53.3% (vs 56.6% QoQ). GMV grew +46% YoY, MTUs grew +18% YoY and value of loans disbursed stood at INR 155.4bn (+56% YoY). Management continues to be confident of expanding the Adj. EBITDA margin further. We expect 29% revenue CAGR over FY23-26E with contribution margins sustaining at 50%+ incrementally. We maintain our positive stance on the stock and now see a) reduced cash-burn given its benefits from strong ecosystem and b) pick up in high ticket merchant and personal loans distribution with improved performance metrics. We maintain our BUY rating with target price of INR 1,120 (valuing it at FY30e EV/EBITDA discounted back to FY26).

- Payment margin remains stable:** Paytm's payment services revenue grew +13.5% QoQ/+45% YoY with net payments yields largely stable at 15bps (-1bp QoQ) as the increase in gross payment yields was set-off against slight rise in payment processing charges. Further, management indicated that payment yields were supported by a) increase in GMV of non-UPI instruments like EMI and cards b) slight increase in payment processing margins on non-UPI instruments and c) online sales during festive season. Merchant subscriptions grew 15% QoQ to 10.6mn and the company deployed 1.4 mn devices (revenue of INR 100-500 per month per device) during the quarter. As the payments yields are expected to decline with rising share of lower yielding UPI (payment processing margins to stabilize at 5-7bps vs 7-9bps now), mgmt. remains optimistic on the growth opportunity for the payments business in India with a potential of 100mn merchants, >500mn payment customers and opportunity to cross sell financial services and commerce business offerings.
- Financial services business shifting to higher ticket segment:** Disbursals were down -31% QoQ in 3QFY24 on account of run-down in BNPL book while the revenues were up +36% YoY/+6% QoQ on the back of steady run-up in higher ticket loan disbursements from instant personal loans (+14% QoQ) and high ticket loans (+9% QoQ), sequential improvement in take rates and higher revenue from Insurance business. As the company

Financial Summary					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
GMV (INR bn)	8,600	13,280	18,012	23,762	31,192
YoY growth (%)	113%	54%	36%	32%	31%
Monthly transacting users - MTU (mn) - EOP	70.9	90.0	109.4	129.8	153.1
YoY growth (%)	41%	27%	22%	19%	18%
Revenue (INR mn)	49,742	79,903	107,963	143,316	184,333
Operating expenses (INR mn)	73,144	96,218	115,867	138,998	167,813
EBITDA (INR mn)	(23,402)	(16,315)	(7,904)	4,318	16,521

Source: Company data, JM Financial. Note: Valuations as of 19/Jan/2024



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### Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1120
Upside/(Downside)	+43.2%
Previous Price Target	1120
Change	0.0%

### Key Data – PAYTM IN

Current Market Price	INR782
Market cap (bn)	INR498.3/US\$6.0
Free Float	44%
Shares in issue (mn)	694.5
Diluted share (mn)	
3-mon avg daily val (mn)	INR4,615.3/US\$55.6
52-week range	998/503
Sensex/Nifty	71,683/21,622
INR/US\$	83.1

### Price Performance

%	1M	6M	12M
Absolute	24.2	-8.2	45.4
Relative*	23.8	-14.0	23.5

\* To the BSE Sensex

JM Financial Research is also available on: Bloomberg - JMFR <GO>, Thomson Publisher & Reuters, S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

announced reduction in its BNPL business recently, it has already whitelisted 20mn users to tap opportunities in high ticket loans while mgmt. guides to add 3-4 new lending partners by Q1FY25 (currently working with only 2 lending partners). Paytm continues to be confident of the growth runway in the financial services space given the low penetration in existing base (BNPL at 3.7% of MTUs, PL at 1.1% of MTUs and Merchant Loans at 6.1% of devices merchants). Collection incentives (0.5%-1.5% of revenues after portfolio closure) should start to become meaningful revenue contributor incrementally. While we remain concerned on the downside risks to the take-rates (sourcing revenues ~3.9% of loan value) in financial services business, higher volumes should set-off the potential loss in revenue.

- **Commerce and cloud business show healthy growth:** Commerce business revenue was up (+22% YoY, +21% QoQ) on the back of strong commerce GMV growth of +48% YoY. Take rates were above the guided range of 5-6% due to higher contribution of the events business which has higher take rate as well as high direct costs. Cloud business revenue growth was a tad lower (+2% QoQ, +14% YoY) on account of slight compression in margins. Company continues to scale up credit card marketing with 1.01mn activated credit cards during the quarter (vs 0.45mn YoY).
- **Valuations and view:** We believe Paytm has continued demonstrated ability to sustainably reduce its payment processing charges. In terms of loan distribution business, reduction in postpaid products would lead to a slight slowdown, however this degrowth will likely be offset by strong growth from focus on higher ticket loans going forward. We maintain our positive stance on the stock based on: a) visibility to sustain higher take rates on payments business for larger time frame and b) continued momentum in loan distribution business along with better performance metrics. We maintain our BUY rating on the stock with target price of INR 1,120 (valuing it at FY30e EV/EBITDA discounted back to FY26).

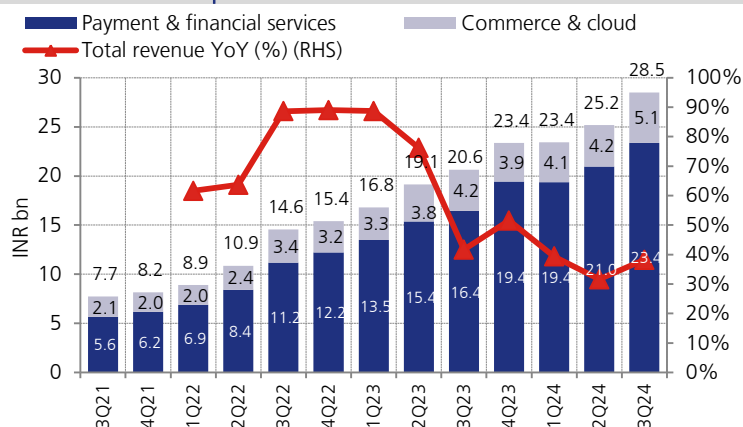
## OCL – 3QFY24 Trends

### Exhibit 1. 3QFY24 Key Quarterly Highlights

INR mn	3QFY23	2QFY24	3QFY24	YoY (%)	QoQ (%)
Payment Services	11,970	15,240	17,300	45%	14%
Financial Services (incl others)	4,460	5,710	6,070	36%	6%
Cloud and Commerce	4,200	4,240	5,140	22%	21%
<b>Revenue from Operations (A)</b>	<b>20,630</b>	<b>25,190</b>	<b>28,510</b>	<b>38%</b>	<b>13%</b>
Payment Processing Charges	7,380	8,170	9,820	33%	20%
Promotional Cashback and Incentive	910	730	1,060	16%	45%
Other Expenses	1,860	2,030	2,420	30%	19%
<b>Total Direct Expenses (B)</b>	<b>10,150</b>	<b>10,930</b>	<b>13,300</b>	<b>31%</b>	<b>22%</b>
<b>Contribution Profit ( C)</b>	<b>10,480</b>	<b>14,260</b>	<b>15,210</b>	<b>45%</b>	<b>7%</b>
Total Indirect Expenses (D)	10,170	12,720	13,010	28%	2%
<b>EBITDA ( E)</b>	<b>310</b>	<b>1,540</b>	<b>2,200</b>	<b>610%</b>	<b>43%</b>
Other income and expenses	-4,130	-4,280	-4,350	5%	2%
<b>Profit before share of associates, exceptional items and tax</b>	<b>-3,820</b>	<b>-2,740</b>	<b>-2,150</b>	<b>NA</b>	<b>NA</b>
Share of profit/loss of associates/JV	50	10	-40	NA	NA
Exceptional items	-	-60	-	NA	NA
Tax expense	150	130	10	-93%	-92%
<b>Reported PAT</b>	<b>-3,920</b>	<b>-2,920</b>	<b>-2,200</b>	<b>NA</b>	<b>NA</b>
Contribution Margin %	50.8%	56.6%	53.3%	2.5%	-3.3%
EBITDA Margin %	1.5%	6.1%	7.7%	6.2%	1.6%
<b>GMV (INR bn)</b>	<b>3,500</b>	<b>4,500</b>	<b>5,100</b>	<b>46%</b>	<b>13%</b>
Merchant Transactions (mn)	6,284	9,120	9,990	59%	10%
MTU (avg) (mn)	85	95	100	18%	5%
Loans ('000)	10,473	13,200	11,500	10%	-13%
Value of Loans disbursed (INR bn)	99.6	162.1	155.4	56%	-4%

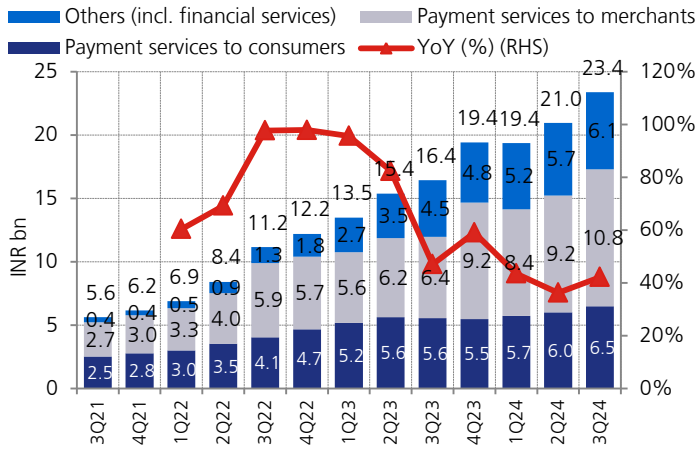
Source: Company, JM Financial

### Exhibit 2. OCL: Revenue from operations trend



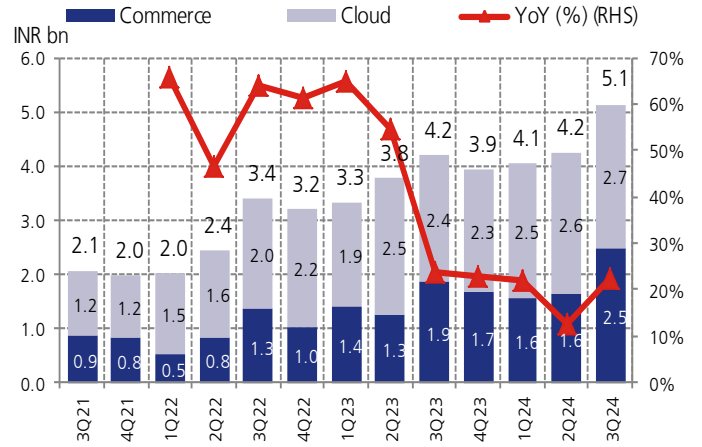
Source: Company, JM Financial; Figures in INR mn

**Exhibit 3. OCL: Payment and financial services revenue trend**



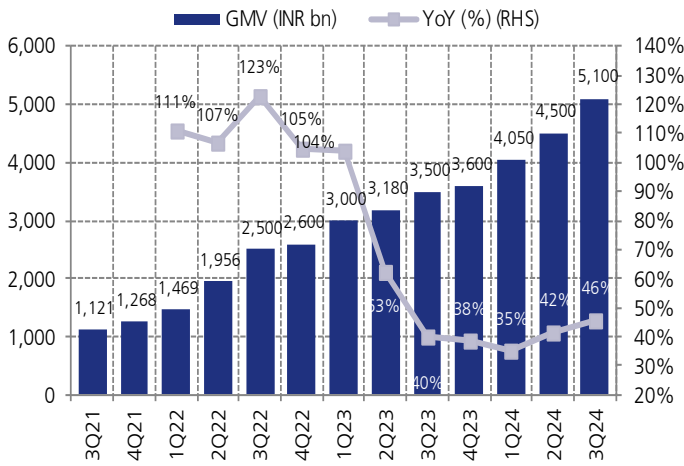
Source: Company, JM Financial; Figures in INR mn

**Exhibit 4. OCL: Commerce and cloud services revenue trend**



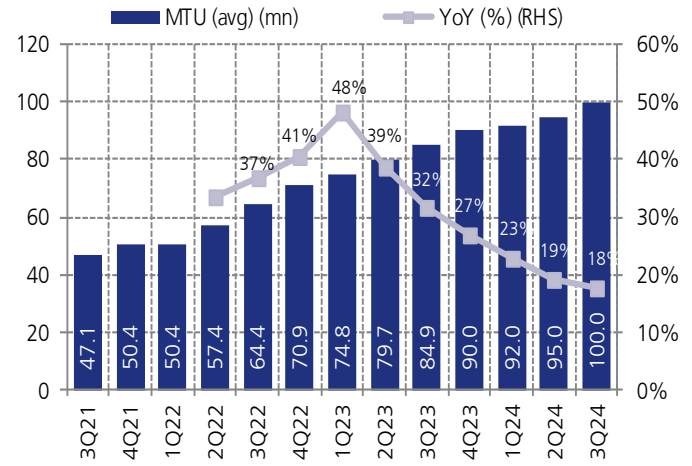
Source: Company, JM Financial; Figures in INR mn

**Exhibit 5. OCL: Trend in GMV**



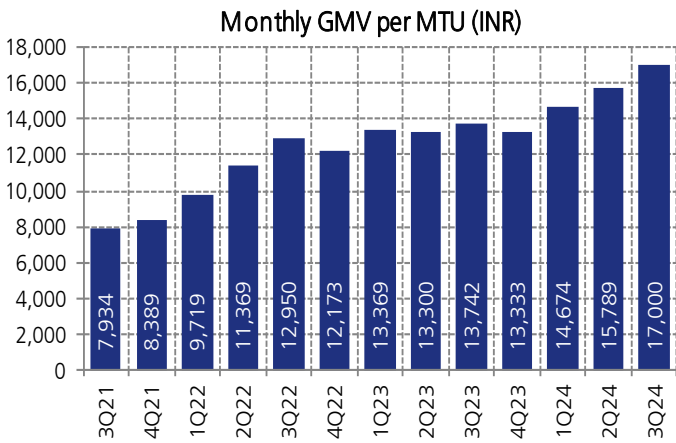
Source: Company, JM Financial

**Exhibit 6. OCL: Trend in MTU**



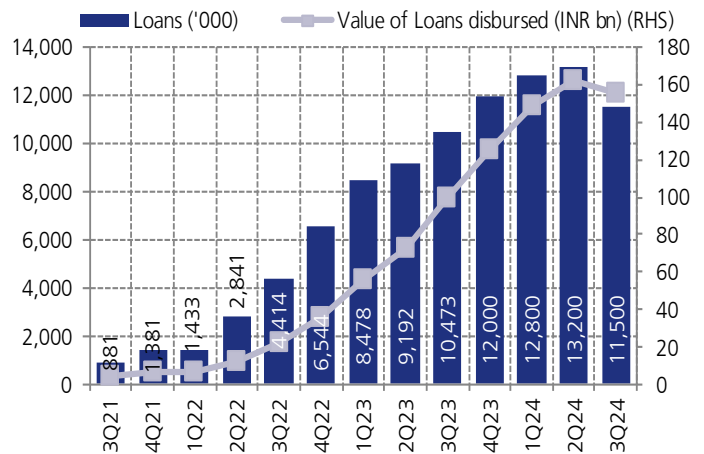
Source: Company, JM Financial

**Exhibit 7. OCL: Trend in monthly GMV per MTU**



Source: Company, JM Financial

**Exhibit 8. OCL: Trend in volume and value of loans disbursed**



Source: Company, JM Financial

## Financial Tables (Consol)

Profit & Loss		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
<b>Revenue</b>	<b>49,742</b>	<b>79,903</b>	<b>107,963</b>	<b>143,316</b>	<b>184,333</b>	
-Payment Services	34,205	49,300	63,655	82,202	104,096	
-Merchant Services	11,048	15,199	18,660	22,961	28,535	
-Financial Services	4,489	15,404	25,648	38,153	51,703	
Direct costs	34,761	40,921	49,019	63,092	80,855	
<b>Contribution</b>	<b>14,981</b>	<b>38,982</b>	<b>58,944</b>	<b>80,224</b>	<b>103,478</b>	
Indirect cost	38,383	55,297	66,848	75,906	86,958	
<b>EBITDA</b>	<b>(23,402)</b>	<b>(16,315)</b>	<b>(7,904)</b>	<b>4,318</b>	<b>16,521</b>	
Depreciation and amortization expense	2,473	4,853	7,661	4,974	5,252	
<b>EBIT</b>	<b>-25,875</b>	<b>-21,168</b>	<b>-15,565</b>	<b>-656</b>	<b>11,269</b>	
Finance costs	394	233	2	1	1	
Other income	2,901	4,097	4,507	2,224	1,076	
<b>Profit before share of associates/JV, exceptional items and tax</b>	<b>-23,368</b>	<b>-17,304</b>	<b>-11,060</b>	<b>1,567</b>	<b>12,343</b>	
Share of profit / (loss) of associates / JV	-459	-125	-300	-200	100	
<b>Restated loss before exceptional items and tax</b>	<b>-23,827</b>	<b>-17,429</b>	<b>-11,360</b>	<b>1,367</b>	<b>12,443</b>	
Exceptional items	-24	-	-	-	-	
<b>Restated loss before tax</b>	<b>-23,851</b>	<b>-17,429</b>	<b>-11,360</b>	<b>1,367</b>	<b>12,443</b>	
Total Tax expense	113	336	-	-	-	
Restated Loss for the year from discontinued operation	-	-	-	-	-	
<b>Restated Profit/(Loss) for the year</b>	<b>-23,964</b>	<b>-17,765</b>	<b>-11,360</b>	<b>1,367</b>	<b>12,443</b>	
Less: Non-controlling interests	-35	-6	-	-	-	
<b>PAT</b>	<b>-23,929</b>	<b>-17,759</b>	<b>-11,360</b>	<b>1,367</b>	<b>12,443</b>	

Source: Company, JM Financial

Cash Flow		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
<b>Cash flow from operating activities:</b>						
Restated loss before tax from						
- Continuing operations	(23,851)	(17,429)	(11,360)	1,367	12,443	
<b>Operating loss before working capital changes</b>	<b>(14,365)</b>	<b>(571)</b>	<b>6,046</b>	<b>14,618</b>	<b>21,621</b>	
<b>Cash used in operations</b>	<b>(10,884)</b>	<b>5,918</b>	<b>1,166</b>	<b>13,574</b>	<b>18,644</b>	
Income taxes (net of refunds)	1,479	1,762	-	-	-	
<b>Net cash (outflow) from operating activities (A)</b>	<b>(12,363)</b>	<b>4,156</b>	<b>1,166</b>	<b>13,574</b>	<b>18,644</b>	
Net cash inflow / (outflow) from investing activities (B)	(54,886)	26,255	(11,301)	(10,165)	(11,600)	
Net cash inflow / (outflow) from financing activities (C)	80,535	(11,123)	(6)	(4)	(4)	
<b>Net increase/(decrease) in cash and cash equivalents (A+B+C)</b>	<b>13,286</b>	<b>19,288</b>	<b>(10,141)</b>	<b>3,405</b>	<b>7,041</b>	
Cash and cash equivalent at the beginning of the year	454	13,789	33,100	22,959	26,364	
Effect of exchange differences	49	23				
<b>Cash and cash equivalent at the end of the year</b>	<b>13,789</b>	<b>33,100</b>	<b>22,959</b>	<b>26,364</b>	<b>33,405</b>	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Share Capital	649	634	634	634	634	
Reserve & Surplus	140,867	129,522	118,161	119,529	131,972	
<b>Networth</b>	<b>141,516</b>	<b>130,156</b>	<b>118,795</b>	<b>120,162</b>	<b>132,606</b>	
Non-controlling interests	(221)	(227)	(227)	(227)	(227)	
<b>Total Equity</b>	<b>141,295</b>	<b>129,929</b>	<b>118,568</b>	<b>119,935</b>	<b>132,379</b>	
Borrowings	1	20	16	13	10	
Current liabilities	33,324	44,849	55,746	69,543	86,764	
Non-current liabilities	5,296	4,860	5,140	6,638	8,204	
<b>Sources of Fund</b>	<b>179,916</b>	<b>179,658</b>	<b>179,470</b>	<b>196,129</b>	<b>227,357</b>	
PPE, Tangible Assets, Intangible assets	9,259	12,202	16,291	20,677	25,038	
Investment in JV, associates	2,233	2,518	5,017	7,517	10,017	
Other non-current assets	60,974	25,047	24,903	24,979	25,081	
Cash and cash equivalent	52,020	70,395	46,003	38,908	40,948	
Other current assets	55,430	69,496	87,257	104,049	126,272	
<b>Application of Fund</b>	<b>179,916</b>	<b>179,658</b>	<b>179,470</b>	<b>196,129</b>	<b>227,357</b>	

Source: Company, JM Financial

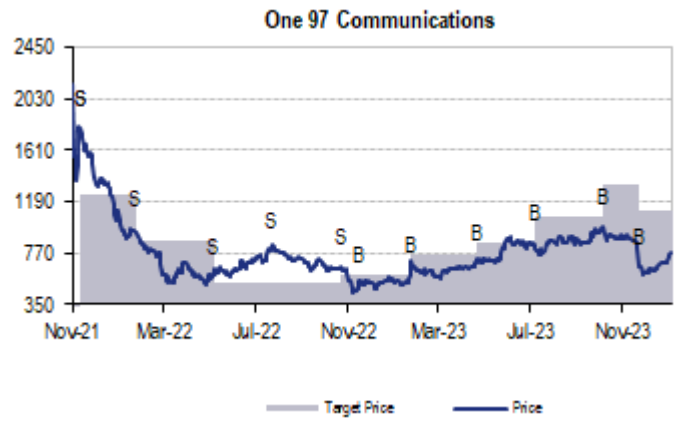
Ratios						
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
<b>Valuations</b>						
EPS (INR)	(36.9)	(28.0)	(17.9)	2.2	19.6	
BVPS (INR)	218	205	187	190	209	
P/E (x)	(22.0)	(29.0)	(45.3)	376.5	41.4	
P/BV (x)	3.7	4.0	4.3	4.3	3.9	
P/Revenue (x)	10.3	6.4	4.8	3.6	2.8	
P/GMV (%)	6.0	3.9	2.9	2.2	1.7	
<b>Dividend</b>						
DPS (INR)	-	-	-	-	-	
Yield (%)	-	-	-	-	-	
Payout (%)	-	-	-	-	-	
<b>Margin (%)</b>						
Contribution	30.1	48.8	54.6	56.0	56.1	
EBITDA	(47.0)	(20.4)	(7.3)	3.0	9.0	
EBIT	(52.0)	(26.5)	(14.4)	(0.5)	6.1	
PAT	(48.1)	(22.2)	(10.5)	1.0	6.8	
<b>As % of GMV (%)</b>						
Contribution	0.17	0.29	0.33	0.34	0.33	
EBITDA	-0.27	-0.12	-0.04	0.02	0.05	
EBIT	-0.30	-0.16	-0.09	-0.00	0.04	
PAT	-0.28	-0.13	-0.06	0.01	0.04	
<b>Return ratio (%)</b>						
RoAE	(23.1)	(13.1)	(9.1)	1.1	9.8	
<b>Growth (%)</b>						
Revenue	77.5	60.6	35.1	32.7	28.6	
GMV	113.2	54.4	35.6	31.9	31.3	
AAU	25.0	15.0	20.0	17.0	17.0	
GMV / MTU (INR) - Ticket size	57.9	14.0	12.0	10.0	11.0	
Networth	116.6	(8.0)	(8.7)	1.2	10.4	

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
26-Nov-21	Sell	1,240	
28-Nov-21	Sell	1,240	0.0
7-Feb-22	Sell	875	-29.4
22-May-22	Sell	525	-40.0
7-Aug-22	Sell	525	0.0
8-Nov-22	Sell	600	14.3
1-Dec-22	Buy	600	0.0
7-Feb-23	Buy	750	25.0
6-May-23	Buy	855	14.0
23-Jul-23	Buy	1,060	24.0
22-Oct-23	Buy	1,325	25.0
7-Dec-23	Buy	1,120	-15.5

Recommendation History



## APPENDIX I

## JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

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Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

\* REITs refers to Real Estate Investment Trusts.

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