

One 97 Communications

Estimate change 

TP change 

Rating change 

| | |
|-----------------------|-----------|
| Bloomberg | PAYTM IN |
| Equity Shares (m) | 649 |
| M.Cap.(INRb)/(USDb) | 498.7 / 6 |
| 52-Week Range (INR) | 998 / 503 |
| 1, 6, 12 Rel. Per (%) | 26/-16/23 |
| 12M Avg Val (INR M) | 3950 |

Financials & Valuations (INR b)

| Y/E March | FY23 | FY24E | FY25E |
|-----------------|--------|--------|-------|
| Revenue from Op | 79.9 | 108.6 | 141.0 |
| Contribution | | | |
| Profit | 39.0 | 60.7 | 77.9 |
| Adjusted EBITDA | (1.8) | 9.5 | 15.3 |
| EBITDA | (16.3) | (5.7) | 3.6 |
| PAT | (17.8) | (8.5) | (0.3) |
| EPS (INR) | (28.0) | (13.2) | (0.5) |
| EPS Gr. (%) | (24.1) | (52.7) | NM |

Ratios

| | | | |
|-------------------|--------|-------|-------|
| Contribution | | | |
| Margin % | 48.8 | 55.9 | 55.3 |
| Adjusted | | | |
| EBITDA Margin % | (2.2) | 8.8 | 10.9 |
| EBITDA Margin (%) | (20.4) | (5.3) | 2.5 |
| RoE (%) | (13.1) | (6.6) | (0.3) |
| RoA (%) | (9.9) | (4.8) | (0.2) |

Valuations

| | | | |
|-------------|--------|--------|-----|
| P/E(X) | (28.0) | (59.3) | NM |
| P/BV (X) | 3.8 | 3.9 | 4.0 |
| P/Sales (X) | 6.2 | 4.6 | 3.6 |

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

CMP: INR785

TP: INR975 (+24%)

Buy

Steady performance amid high uncertainty

Adj. EBITDA beat estimates; business metrics tracking well despite curtailment in postpaid disbursements

- Paytm reported a net loss of INR2.2b (vs. est. of INR2.6b loss) in 3QFY24. Total revenue grew 38% YoY/13% QoQ to INR28.5b (broadly in line), driven by healthy growth in GMV and an increase in merchant subscription revenues, partly offset by some moderation in disbursements.
- Net payment margin grew 63% YoY/6% QoQ to INR7.5b, which, along with healthy financial services and commerce revenue, resulted in contribution margin of ~53% (vs. est. of 55%).
- We increase our adj. EBITDA earnings estimate by 19%/2% for FY24/FY25, and we expect Paytm to turn profitable in FY26 and expect it to report EBITDA of INR3.6b by FY25. **We retain our BUY rating on the stock.**

GMV beat estimates; Healthy traction in high-ticket PL, ML segments

- Paytm reported a loss of INR2.2b in 3QFY24 vs. a loss of INR2.9b in 2QFY24 (vs. est. of INR2.6b loss). 3QFY24 GMV grew 47% YoY/13% QoQ to INR5.1t (6% beat). Loan disbursements moderated as Paytm curtailed disbursements in small-ticket BNPL (17% QoQ decline). The other two lending products Merchant and Personal Loans posted healthy growth of 9% and 14% QoQ respectively.
- Total revenue growth was healthy at 38% YoY/13% QoQ to INR28.5b (broadly in line), led by an increase in GMV and growth in subscription revenues.
- Revenue from payment and financial services grew 43% YoY/10% QoQ to INR22.9b (broadly in line), with 36% YoY/6% QoQ growth in Financial services revenue and healthy growth in payments to merchants at 69% YoY/17% QoQ. Mix of Financial services in total revenues has seen some moderation amid slower disbursements to 21% vs 23% in 2Q24.
- Revenue from commerce and cloud services grew at a healthy pace of 22% YoY (up 21% QoQ) to INR5.1b. The majority of the cloud business is now advertising services and co-branded credit cards, while marketing cloud business continues to decline. The number of active cards increased by 0.14m to ~1.01m.
- Payment processing margin moderated but remained in the 7-9bp range because of the festive season and the rise in usage of non-UPI instruments like EMIs and cards. Thus, net payment margin grew 63% YoY/6% QoQ to INR7.5b, aided by healthy subscription revenue as the number of subscription devices increased to 10.6m from 9.2m in 2Q.
- Direct expenses stood at 47% of total revenues (43% in 2QFY24), mainly driven by an increase in payment processing charges and opex. Contribution profit stood at INR15.2b, with contribution margin of 53% (est. 55%).
- Adjusted EBITDA stood at INR2.2b vs. INR1.5b in 2QFY24. Adjusted EBITDA margin improved to 7.7% from 6.1% in 2QFY24.

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Highlights from the management commentary

- Disbursements under Paytm postpaid moderated on expected lines and the next quarter will have the full impact.
- Paytm has more than 20m whitelist users and the company aims to expand the list of potential customers as well as platform partners. 3Q saw disbursements of INR4.9b in the high-ticket PL segment, with INR2b in Dec'23 itself.
- The Postpaid business has higher opex, and thus the moderation in the disbursement run rate will have a limited impact on EBITDA.

Valuation and view

Paytm reported a steady quarter amid high uncertainty, with sustained momentum in GMV. However, disbursements saw some moderation. Strong traction in subscription devices further supported healthy revenue growth and helped the company build a robust pipeline for its merchant loan business. Contribution margin moderated slightly on seasonally high payment processing charges, but the management expects to sustain it in mid-50s. Adjusted EBITDA came in better than our estimates. We estimate a 25% CAGR in disbursements over coming years, led by continued traction in PL & ML segments. The company is already seeing healthy demand in high-ticket segments. We estimate Paytm to achieve EBITDA breakeven in 2HFY25 and start reporting profits in FY26. **We value Paytm based on 20x FY28E EBITDA and discount the same to FY26E at a discount rate of ~15%. We thus value the stock at INR975, which implies 4.2x FY26E P/Sales.**

Quarterly performance

| | (INR b) | | | | | | | | | | | |
|---------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|--------------|--------------|---------------|-------------|
| | FY23 | | | | FY24E | | | | FY23 | FY24E | FY24E V/s our | |
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4QE | | | 3QE | Est |
| Payment Services to Consumers | 5.2 | 5.5 | 5.1 | 5.2 | 5.5 | 5.8 | 6.0 | 7.5 | 21.1 | 24.8 | 6.1 | -0.0 |
| Payment Services to Merchants | 5.6 | 6.2 | 6.4 | 9.2 | 8.4 | 9.2 | 10.8 | 10.7 | 27.4 | 39.1 | 9.8 | 0.1 |
| Financial Services and Others | 2.7 | 3.5 | 4.5 | 4.8 | 5.2 | 5.7 | 6.1 | 6.4 | 15.4 | 23.4 | 6.1 | 0.0 |
| Payment and Financial Services | 13.5 | 15.2 | 16.0 | 19.2 | 19.2 | 20.7 | 22.9 | 26.5 | 63.8 | 89.3 | 22.0 | 0.0 |
| % Change (Y-o-Y) | 95.4 | 80.6 | 43.2 | 58.6 | 42.4 | 36.1 | 43.0 | 38.5 | 65.5 | 39.9 | 37.5 | 0.1 |
| Commerce and Cloud Services | 3.3 | 3.8 | 4.2 | 3.9 | 4.1 | 4.2 | 5.1 | 4.6 | 15.2 | 18.1 | 4.9 | 0.0 |
| % Change (Y-o-Y) | 64.8 | 54.6 | 23.8 | 22.7 | 22.0 | 12.5 | 22.4 | 17.9 | 37.6 | 18.9 | 17.5 | 0.3 |
| Revenue from Operations | 16.8 | 19.1 | 20.6 | 23.4 | 23.4 | 25.2 | 28.5 | 31.5 | 79.9 | 108.6 | 27.3 | 0.0 |
| % Change (Y-o-Y) | 88.7 | 76.2 | 41.7 | 51.5 | 39.3 | 31.6 | 38.2 | 35.0 | 60.6 | 36.0 | 32.1 | 0.2 |
| Direct Expenses | 9.5 | 10.7 | 10.2 | 10.5 | 10.4 | 10.9 | 13.3 | 13.3 | 40.9 | 47.9 | 12.4 | 0.1 |
| Contribution Profit | 7.3 | 8.4 | 10.5 | 12.8 | 13.0 | 14.3 | 15.2 | 18.2 | 39.0 | 60.7 | 14.9 | 0.0 |
| % Change (Y-o-Y) | 197.4 | 223.4 | 131.0 | 138.1 | 79.3 | 69.2 | 45.1 | 41.9 | 160.4 | 55.7 | 41.9 | 0.1 |
| Indirect Expenses | 10.0 | 10.1 | 10.2 | 10.5 | 12.2 | 12.7 | 13.0 | 13.3 | 40.8 | 51.2 | 12.8 | 0.0 |
| Adjusted EBITDA | -2.7 | -1.7 | 0.3 | 2.3 | 0.8 | 1.5 | 2.2 | 5.0 | -1.8 | 9.5 | 2.0 | 0.1 |
| EBITDA | -6.3 | -5.4 | -3.3 | -1.3 | -2.9 | -2.3 | -1.6 | 1.1 | -16.3 | -5.7 | -1.8 | -0.1 |
| PAT | -6.4 | -5.7 | -3.9 | -1.7 | -3.6 | -2.9 | -2.2 | 0.1 | -17.8 | -8.5 | -2.6 | -0.2 |
| % Change (Y-o-Y) | 68.5 | 20.4 | -49.6 | -77.9 | -44.5 | -48.9 | -43.9 | -108.2 | -25.9 | -52.1 | -32.9 | 0.3 |
| Operating Parameters | | | | | | | | | | | | |
| GMV (INRt) | 3.0 | 3.2 | 3.5 | 3.6 | 4.1 | 4.5 | 5.1 | 4.9 | 13.2 | 18.5 | 4.8 | 0.1 |
| Disbursements (INR b) | 55.5 | 73.1 | 99.6 | 125.5 | 148.5 | 162.1 | 155.4 | 142.6 | 353.8 | 608.5 | 126.4 | 0.2 |
| GMV Growth (%) | 101.5 | 62.6 | 38.4 | 39.8 | 36.8 | 41.5 | 47.4 | 34.2 | 55.2 | 40.0 | 39.2 | |
| Disbursements Growth (%) | 778.8 | 481.8 | 356.6 | 253.3 | 167.3 | 121.7 | 56.0 | 13.6 | 364.2 | 72.0 | 27.0 | |
| Asset Quality | | | | | | | | | | | | |
| Contribution Margin | 43.3 | 44.0 | 50.8 | 55.0 | 55.7 | 56.6 | 53.3 | 57.8 | 48.8 | 55.9 | 54.6 | -121 |
| Adjusted EBITDA Margin (%) | -16.3 | -8.7 | 1.5 | 10.0 | 3.6 | 6.1 | 7.7 | 15.7 | -2.2 | 8.8 | 7.5 | 20 |
| EBITDA Margin (%) | -37.7 | -28.1 | -16.0 | -5.5 | -12.5 | -9.2 | -5.5 | 3.5 | -20.4 | -5.3 | -6.7 | 117 |

E: MOFSL Estimates

Quarterly snapshot

| | FY23 | | | | FY24 | | | Change (%) | |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|-------------|------------|
| Profit and Loss (INR m) | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | YoY | QoQ |
| Payment Services to Consumers | 5,190 | 5,490 | 5,130 | 5,240 | 5,540 | 5,790 | 5,980 | 17 | 3 |
| Payment Services to Merchants | 5,570 | 6,240 | 6,400 | 9,180 | 8,420 | 9,210 | 10,810 | 69 | 17 |
| Financial Services and Others | 2,710 | 3,490 | 4,460 | 4,750 | 5,220 | 5,710 | 6,070 | 36 | 6 |
| Payment and Financial Services | 13,470 | 15,220 | 15,990 | 19,170 | 19,180 | 20,710 | 22,860 | 43 | 10 |
| Commerce | 1,390 | 1,250 | 1,850 | 1,680 | 1,560 | 1,630 | 2,470 | 34 | 52 |
| Cloud | 1,930 | 2,520 | 2,350 | 2,250 | 2,490 | 2,610 | 2,670 | 14 | 2 |
| Commerce and Cloud Services | 3,320 | 3,770 | 4,200 | 3,930 | 4,050 | 4,240 | 5,140 | 22 | 21 |
| Other Operating Revenue | 20 | 150 | 440 | 250 | 190 | 240 | 510 | 16 | 113 |
| Revenue from Operations | 16,810 | 19,140 | 20,630 | 23,350 | 23,420 | 25,190 | 28,510 | 38 | 13 |
| Payment processing charges | 6,938 | 7,460 | 7,380 | 7,803 | 7,670 | 8,170 | 9,820 | 33 | 20 |
| Promotional cashback & incentives | 1,431 | 1,910 | 910 | 780 | 850 | 730 | 1,060 | 16 | 45 |
| Direct Expenses | 9,539 | 10,710 | 10,150 | 10,513 | 10,380 | 10,930 | 13,300 | 31 | 22 |
| Contribution Profit | 7,271 | 8,430 | 10,480 | 12,837 | 13,040 | 14,260 | 15,210 | 45 | 7 |
| Indirect Expenses | 10,012 | 10,100 | 10,170 | 10,494 | 12,200 | 12,720 | 13,010 | 28 | 2 |
| Adjusted EBITDA | -2,741 | -1,670 | 310 | 2,343 | 840 | 1,540 | 2,200 | 610 | 43 |
| ESOP Expense | 3,590 | 3,710 | 3,620 | 3,630 | 3,770 | 3,850 | 3,780 | 4 | -2 |
| EBITDA | -6,331 | -5,380 | -3,310 | -1,287 | -2,930 | -2,310 | -1,580 | -52 | -32 |
| Finance Costs | 55 | 50 | 50 | 70 | 70 | 70 | 50 | 0 | -29 |
| Depreciation and Amortization | 972 | 1,040 | 1,240 | 1,600 | 1,590 | 1,800 | 2,010 | 62 | 12 |
| Other Income | 1,020 | 996 | 780 | 1,300 | 1,230 | 1,440 | 1,490 | 91 | 3 |
| PBT | -6,398 | -5,564 | -3,770 | -1,677 | -3,540 | -2,730 | -2,190 | -42 | -20 |
| Tax | 48 | 150 | 150 | 7 | 40 | 130 | 10 | -93 | -92 |
| PAT | -6,446 | -5,714 | -3,920 | -1,684 | -3,580 | -2,920 | -2,200 | -44 | -25 |
| Balance Sheet (INR m) | | | | | | | | | |
| Net Cash Balance | 94,110 | 91,820 | 89,560 | 82,740 | 83,670 | 87,530 | 89,000 | -1 | 2 |
| Key Metrics (INR b) | | | | | | | | | |
| GMV (INRt) | 3.0 | 3.2 | 3.5 | 3.6 | 4.1 | 4.5 | 5.1 | 47 | 13 |
| Disbursements (INR b) | 55.5 | 73.1 | 99.6 | 125.5 | 148.5 | 162.1 | 155.4 | 56 | -4 |
| No of loans disbursed (In mn) | 8.5 | 9.2 | 10.5 | 12.4 | 12.7 | 13.2 | 11.4 | 9 | -13 |
| Net Payment Margins (INRm) | 3,842 | 4,420 | 4,590 | 6,867 | 6,480 | 7,070 | 7,480 | 63 | 6 |
| MTU (average over the period) (mn) | 74.8 | 79.7 | 84.9 | 90.0 | 92.0 | 95.0 | 100.0 | 18 | 5 |
| Registered Merchants (mn) | 28.3 | 29.5 | 31.4 | 33.5 | 35.6 | 37.5 | 39.3 | 25 | 5 |
| Payment Devices (mn) | 3.8 | 4.8 | 5.8 | 6.8 | 7.9 | 9.2 | 10.6 | 83 | 15 |
| Ratios | FY23 | | | | FY24 | | | Change (bp) | |
| Asset Quality Ratios (%) | 1Q | 2Q | YoY | YoY | 1Q | 2Q | 3Q | YoY | QPQ |
| Take rates - Financial Services (%) | 4.9 | 4.8 | 4.5 | 3.8 | 3.5 | 3.5 | 3.9 | -57 | 39 |
| Payment processing charges % of GMV | 0.23 | 0.23 | 0.21 | 0.22 | 0.19 | 0.18 | 0.19 | -2 | 1 |
| Net Payment Margin as % of GMV | 12.98 | 13.90 | 13.27 | 18.97 | 16.00 | 15.71 | 14.67 | 140 | -104 |
| Net Payment Margin | 35.7 | 37.7 | 39.8 | 47.6 | 46.4 | 47.1 | 44.6 | 474 | -258 |
| Direct Expense % of Revenues | 56.7 | 56.0 | 49.2 | 45.0 | 44.3 | 43.4 | 46.7 | -255 | 326 |
| Contribution Margin | 43.3 | 44.0 | 50.8 | 55.0 | 55.7 | 56.6 | 53.3 | 255 | -326 |
| Indirect Expense % of Revenues | 59.6 | 52.8 | 49.3 | 44.9 | 52.1 | 50.5 | 45.6 | -366 | -486 |
| Adjusted EBITDA Margin (%) | -16.3 | -8.7 | 1.5 | 10.0 | 3.6 | 6.1 | 7.7 | 621 | 160 |
| EBITDA Margin (%) | -37.7 | -28.1 | -16.0 | -5.5 | -12.5 | -9.2 | -5.5 | 1,050 | 363 |
| PAT Margin (%) | -38.3 | -29.9 | -19.0 | -7.2 | -15.3 | -11.6 | -7.7 | 1,128 | 388 |



Highlights from the management commentary

Balance sheet, P&L and others

- Revenue was up 38% YoY, partly due to the festive season. Contribution profit grew 45% YoY, while contribution margin stood at 53%. Contribution margin is expected to remain mid-50 over the near term. EBITDA is further expected to improve in 4Q. PAT improved by INR1.7b YoY to INR2.2b. The company remains focused on reporting a profit in the near future.
- Employee costs (ex of ESOP) stood at INR8.1b. Sales employee costs jumped 50% YoY. Further, the company does not expect the employee count to go up significantly. With AI delivering significant efficiency by automating a large spectrum of workflows, it expects significant operating leverage from employee costs going forward.
- The company is focusing on achieving operating efficiency through AI and as a result, employees-related costs have declined, especially related to on-ground sales teams.

Payments business

- Net payment margin stood at INR7.5b and payment processing margin stood at 7-9bp.
- Merchant subscription reached to 10.6m.
- Payment processing margins do not include subscription revenue. The company had previously guided to a moderation in processing margin, but so far margins have been better than expected.
- The company might have lost INR5 per device in the recent quarter in order to acquire customers. But it expects the rent per device per month to stay at INR100 per month.
- Soundbox is seeing healthy competition. The company is focusing on product differentiation like faster settlements vs. competition. Success and accuracy are key differentiators for Paytm.
- The company is also tracking the device de-activation to understand and improve on the feedback. At present there are currently 19 alternatives available in the market to Paytm's soundbox.

Lending Business

- Disbursements under Paytm postpaid moderated on expected lines and 4Q will have full impact.
- Portfolio quality in the lending business remained stable and healthy.
- Merchant loans and Personal Loans continue to show healthy growth trends.
- Paytm has more than 20m whitelist users and the company aims to expand the list of potential customers as well as platform partners. 3Q saw disbursements of INR4.9b in the high-ticket PL segment, with INR2b in disbursements in Dec'23.
- These 20m whitelist customers are highly credit-worthy customers and are credit tested by the system. The approval rates are higher — 40% for high-ticket-size customers vs. 15-20% for low-ticket-size customers.
- ECL for the postpaid business should be in the range of 0.65% to 0.85% in 3Q.
- High-ticket loans have a low rejection rate vs. low-ticket loans. The company expects the high-ticket business to perform better than the low-ticket business. The company expects this business to grow materially over the coming years.
- The company is going to abide by the regulatory environment and will not make any changes in the product to calibrate the environment.

- Early momentum is seen in product fit of insurance, in embedded as well as merchant insurance products.
- Equity broking is seeing a gradual scale-up of F&O and equity trading customers.
- The company has been seeing some issues with the spending patterns of its postpaid customers, and hence has stopped offering services to them.
- The use cases in Paytm postpaid are coming down and will continue to come down in 4Q and 1QFY25, post which the business is expected to stabilize, though according to Paytm it is too early to predict as of now. The business impact from Paytm postpaid on P&L and the overall lending business is very marginal.
- Postpaid business has higher opex and thus the moderation in disbursement run rate will have a limited impact on EBITDA.
- There is no change in delinquencies in postpaid (remain range bound). The company reduced disbursements in Paytm postpaid as lending partners were not comfortable in a ticket size less than INR50k.
- The bounce rates have come down, and should stay low going forward.
- Merchant loan eligibility is better for merchants with devices vs. merchants with paper QR codes. It means that Paytm has more than 10m sandbox devices.
- The company can move the customer from one lender to another. But every business decision is made in consultation with the lending partners.
- Postpaid disbursements have come down, but will be compensated by the higher ticket size ML and PL loans. The expenses are also higher on postpaid loans, which should moderate in future.
- The company has two lending partners in the pipeline. Paytm might keep the run rate at two partners per quarter. It does not have any issues in terms of on-boarding new lending partners.

Commerce and cloud

- Revenue in marketing services stood at INR5.1b, up 22% YoY.
- In this business, merchants sell discount deals, gift vouchers and other digital goods like tickets to Paytm users. GMV of the items sold on Paytm app was up 48% YoY at INR33.9b.
- The company here offers brand marketing, advertising and loyalty services to brands and businesses.
- About 1.01m Paytm consumers acquired credit cards of partner banks as of Dec'23 (25% YoY growth).
- The company expects RuPay card issuance to significantly go up. The number of merchants who are ready to accept the MDR are increasing continuously. The company remains optimistic in this business.
- For 3QFY24, commerce GMV grew 48% YoY to INR33.9b, while revenue grew 22% YoY to INR5.1b. Take rate remained in the 5-6% range.

Key focus area:

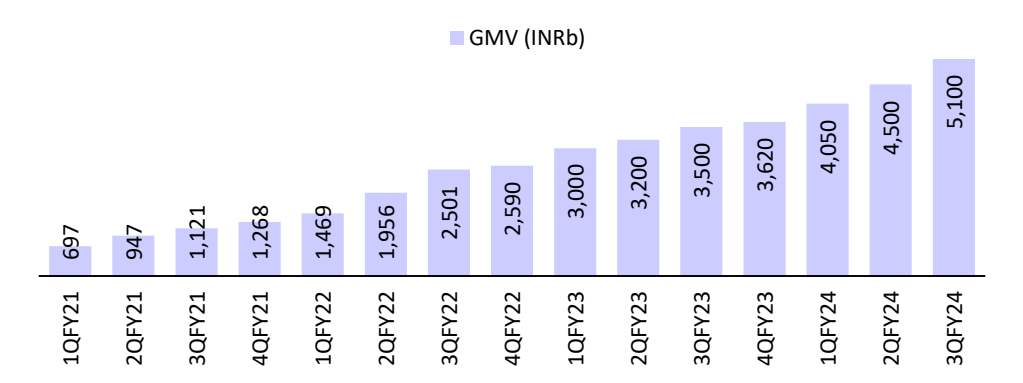
- Leveraging the power of CoPilot AI to create a high-quality product at an accelerated pace.
- Driving operating leverage by AI-led efficiencies across businesses, operations and risk functions.

Payments & Financial Services:

- Focusing on monetizable incremental user acquisition, leveraging UPI credit, Autopay, etc.
- Multi-device led strategy to further strengthen merchant acquisition leadership
- Expanding high-ticket loans and addition of new lending partners

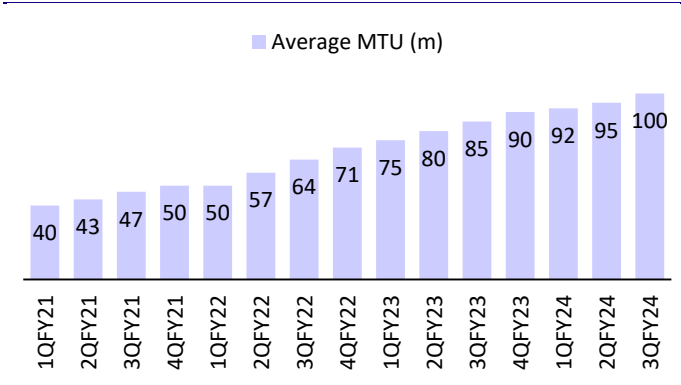
- Scaling up embedded insurance and merchant insurance offerings
 - Cross-selling equity trading to Paytm consumer base
- Marketing Services:**
- Offering deals, gift vouchers, loyalty and enabling commerce services to merchants
 - Advertising on Paytm App for various brands, businesses and credit card issuers

Exhibit 1: Total GMV grew 47% YoY to INR5.1t in 3QFY24



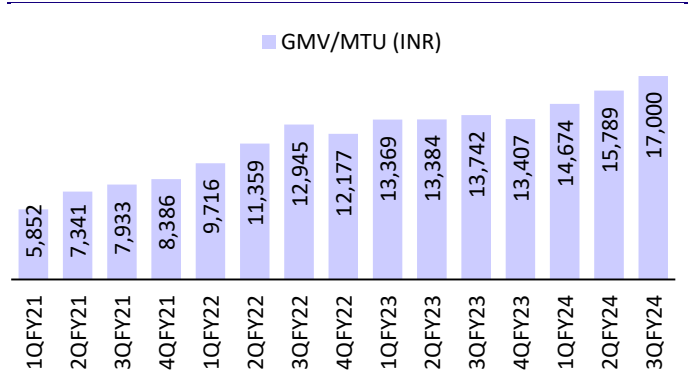
Source: MOFSL, Company

Exhibit 2: Average MTU increased to 100m in 3QFY24



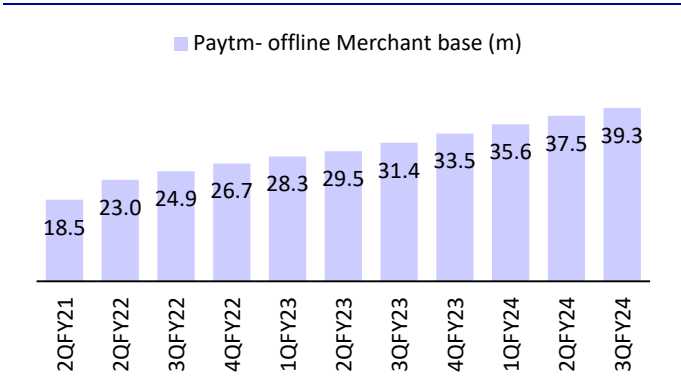
Source: MOFSL, Company

Exhibit 3: Monthly GMV/MTU stood at INR17k in 3QFY24



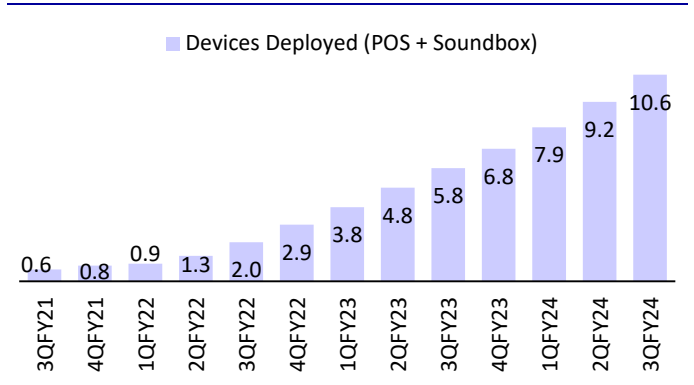
Source: MOFSL, Company

Exhibit 4: Merchant base grew to 39.3m in 3QFY24



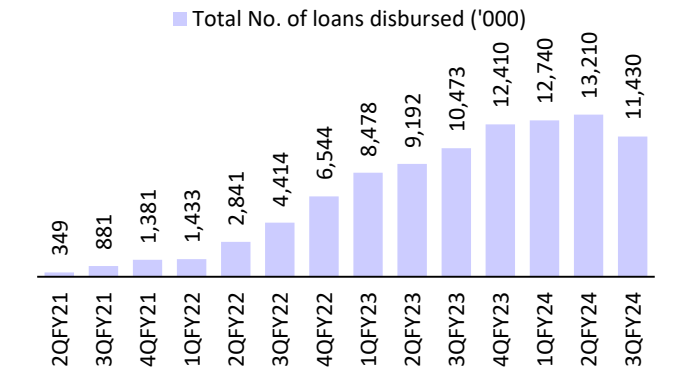
Source: MOFSL, Company

Exhibit 5: Devices deployed increased to 10.6m in 3QFY24



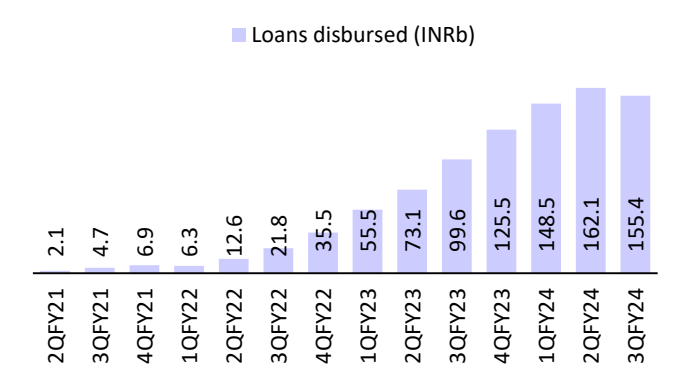
Source: MOFSL, Company

Exhibit 6: No of loans disbursed moderated to 11.4m



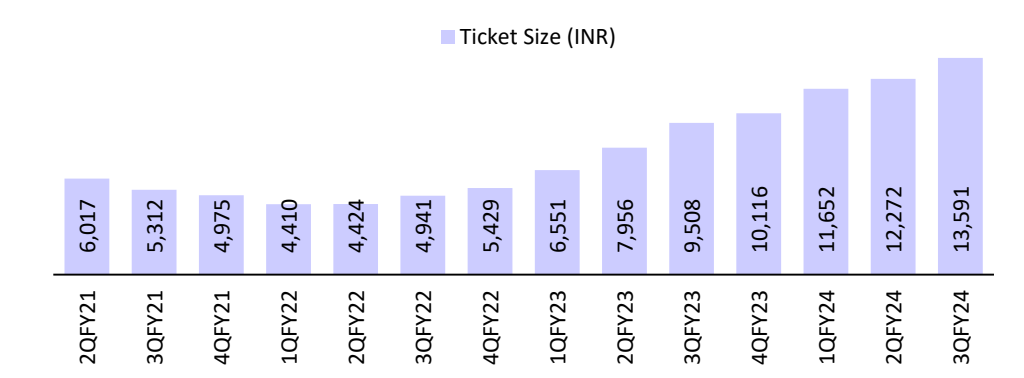
Source: MOFSL, Company

Exhibit 7: Value of loans moderates slightly to INR155.4b



Source: MOFSL, Company

Exhibit 8: Ticket size rose to INR13.6k in 3QFY24 vs. INR12.3k in 2QFY24



Source: MOFSL, Company

Valuation and view

- The overall payment industry is expected to double to USD16t by 2026, and the mix of digital payments is expected to increase to 65%. Thus, digital payments are expected to grow ~3x to USD10t by 2026 from USD3t in 2021. Mobile payments are expected to grow even faster at ~5x to USD3t by 2026. Moreover, an increase in QR deployment will boost merchant payments, which are likely to grow ~6x to USD2.7t by 2026. Paytm will be a big beneficiary of this, as it has built up a strong position in the digital payments and lending businesses. While there may be some near-term headwinds in the lending business as Paytm moves away from some customers in the postpaid loans as a part of its risk calibration approach.
- **Reiterate BUY with a TP of INR975:** Paytm reported a steady quarter amid high uncertainty, with sustained momentum in GMV. However, disbursements saw some moderation. Strong traction in subscription devices further supported healthy revenue growth and helped the company build a robust pipeline for merchant loan business. Contribution margin moderated slightly on seasonally high payment processing charges, but the management expects to sustain it in mid-50s. Adjusted EBITDA came in better than our estimates. We estimate a 25% CAGR in disbursements over coming years, led by continued traction in PL & ML segments, while the company is already seeing healthy demand in high-ticket segments. We estimate Paytm to achieve EBITDA breakeven in 2HFY25 and start reporting profits in FY26. **We value Paytm based on 20x FY28E EBITDA**

and discount the same to FY26E at a discount rate of ~15%. We thus value the stock at INR975, which implies 4.2x FY26E P/Sales.

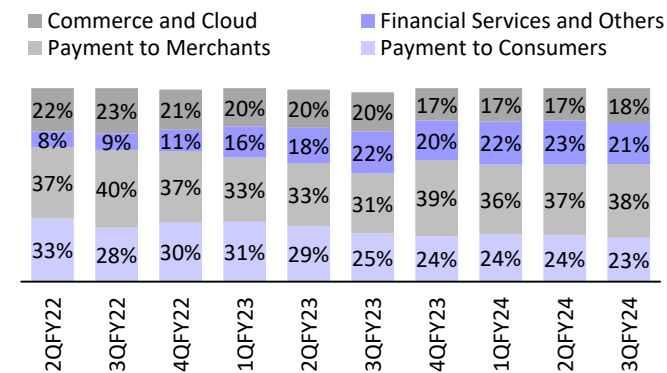
Exhibit 9: We raise our projections and estimate Paytm to achieve PAT breakeven in 2HFY25

| INR b | Old Estimates | | New Estimates | | Change (%/bps) | |
|--------------------------------|---------------|--------------|---------------|--------------|----------------|-------------|
| | FY24 | FY25 | FY24 | FY25 | FY24 | FY25 |
| Payment and Financial Services | 86.4 | 114.7 | 89.3 | 117.4 | 3.3 | 2.4 |
| Commerce and Cloud Services | 17.9 | 21.8 | 18.1 | 22.0 | 0.7 | 0.7 |
| Revenue from Operations | 105.5 | 137.9 | 108.6 | 141.0 | 3.0 | 2.2 |
| Direct Expenses | 46.6 | 59.6 | 47.9 | 63.1 | 2.8 | 5.8 |
| Contribution Profit | 58.8 | 78.3 | 60.7 | 77.9 | 3.2 | -0.5 |
| Indirect Expenses | 50.8 | 63.3 | 51.2 | 62.6 | 0.7 | -1.0 |
| Adjusted EBITDA | 8.0 | 15.1 | 9.5 | 15.3 | 19.2 | 1.6 |
| EBITDA | -7.5 | 3.5 | -5.7 | 3.6 | NA | 2.6 |
| PAT | -10.4 | -1.5 | -8.5 | -0.3 | NA | NA |
| GMV (INRt) | 18.0 | 23.9 | 18.5 | 24.6 | 2.9 | 2.9 |
| Disbursements | 601 | 734 | 609 | 755 | 1.2 | 2.8 |
| Contribution Margin (%) | 55.8 | 56.8 | 55.9 | 55.3 | 9 | -152 |
| Adjusted EBITDA Margin (%) | 7.6 | 10.9 | 8.8 | 10.9 | 119 | -7 |
| EBITDA Margin (%) | -7.1 | 2.5 | -5.3 | 2.5 | 185 | 1 |
| PAT Margin (%) | -9.9 | -1.1 | -7.8 | -0.2 | 208 | 86 |

Note: Our estimates are factoring in UPI incentive which comes in fourth quarter. Source: MOFSL, Company

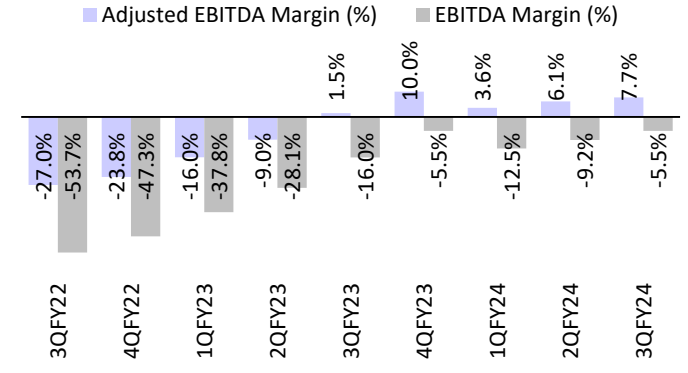
Story in charts

Exhibit 10: Payment and Financial services form 82%, within which Financial services and others form ~21%



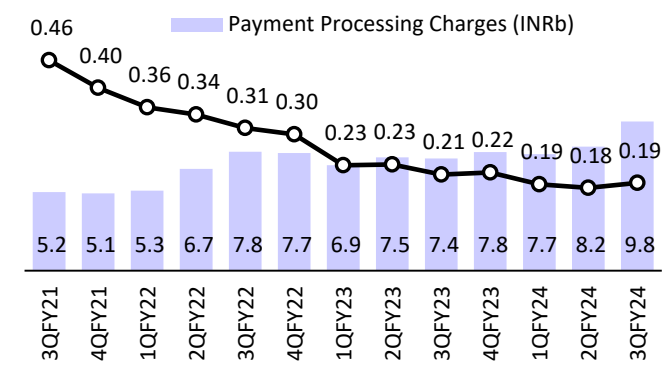
Source: MOFSL, Company

Exhibit 11: Adjusted EBITDA margins improved to 7.7% in 2QFY24 vs. 6.1% in 2QFY23



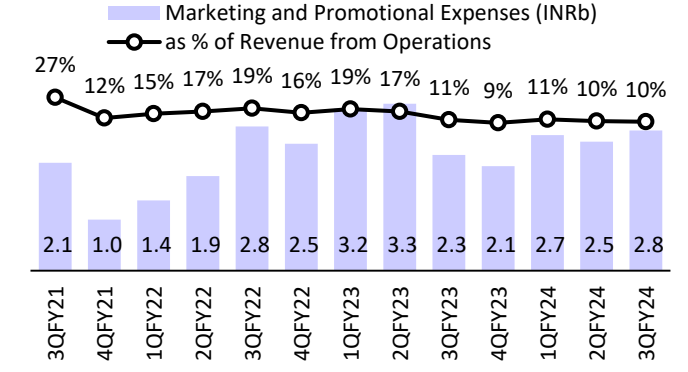
Source: MOFSL, Company

Exhibit 12: Payment processing charges form 0.19% of GMV



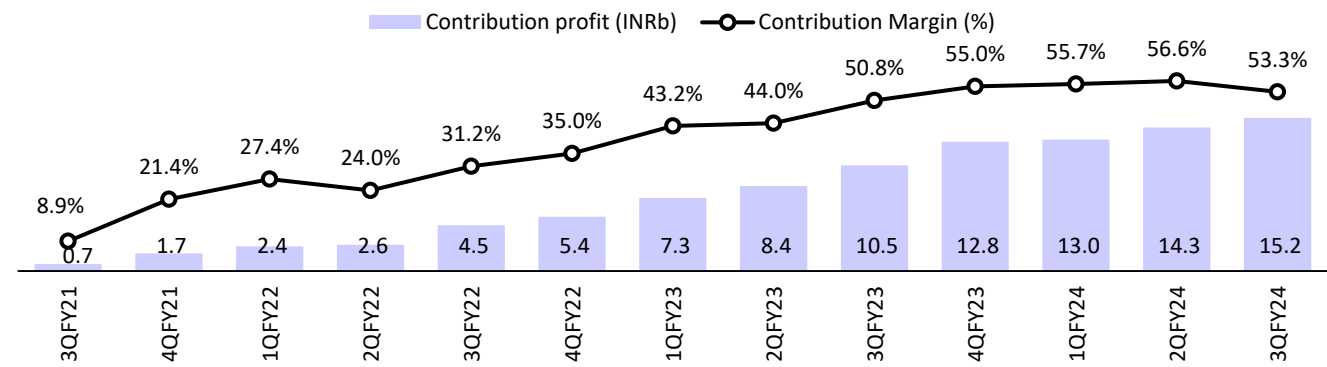
Source: MOFSL, Company

Exhibit 13: Marketing expense stood at 10% of revenues



Source: MOFSL, Company

Exhibit 14: Contribution margin moderates in 3Q to 53% in 3QFY24 vs. 57% in 2QFY24



Source: MOFSL, Company

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 | 24,801 | 32,000 | 41,600 |
| Payment Services to Merchants | 10,116 | 18,919 | 27,391 | 39,125 | 52,863 | 63,614 |
| Financial Services and Others | 1,284 | 4,372 | 15,404 | 23,367 | 30,183 | 38,671 |
| Payment and Financial Services | 21,092 | 38,577 | 63,845 | 89,295 | 1,17,448 | 1,46,768 |
| Growth (%) | 10.6 | 82.9 | 65.5 | 39.9 | 31.5 | 25.0 |
| Commerce | 2,452 | 3,736 | 6,153 | 7,753 | 9,381 | 11,538 |
| Cloud | 4,480 | 7,312 | 9,046 | 10,312 | 12,581 | 15,349 |
| Commerce and Cloud Services | 6,932 | 11,048 | 15,199 | 18,065 | 21,962 | 26,887 |
| Growth (%) | -38.0 | 59.4 | 37.6 | 18.9 | 21.6 | 22.4 |
| Other Operating Revenue | - | 117 | 859 | 1,289 | 1,585 | 1,934 |
| Revenue from Operations | 28,024 | 49,742 | 79,903 | 1,08,648 | 1,40,995 | 1,75,589 |
| Growth (%) | -14.6 | 77.5 | 60.6 | 36.0 | 29.8 | 24.5 |
| Payment processing charges | 19,168 | 27,538 | 29,577 | 35,350 | 45,047 | 54,401 |
| Promotional cashback & incentives | 2,357 | 3,781 | 5,020 | 4,072 | 7,385 | 10,688 |
| Other Expenses | 2,874 | 3,442 | 6,300 | 8,505 | 10,631 | 13,289 |
| Direct Expenses | 24,399 | 34,761 | 40,897 | 47,927 | 63,063 | 78,378 |
| Growth (%) | -30.7 | 42.5 | 17.7 | 17.2 | 31.6 | 24.3 |
| Contribution Profit | 3,625 | 14,981 | 39,006 | 60,721 | 77,933 | 97,212 |
| Growth (%) | -252.4 | 313.3 | 160.4 | 55.7 | 28.3 | 24.7 |
| Marketing | 2,968 | 4,773 | 5,744 | 6,736 | 8,319 | 10,184 |
| Employee cost (Excl ESOPs) | 10,724 | 16,226 | 23,225 | 31,818 | 39,773 | 48,523 |
| Software, cloud and data center | 3,498 | 4,999 | 6,939 | 6,800 | 7,820 | 8,993 |
| Other indirect expenses | 2,983 | 4,160 | 4,855 | 5,826 | 6,700 | 7,772 |
| Indirect Expenses | 20,173 | 30,158 | 40,763 | 51,181 | 62,612 | 75,472 |
| Growth (%) | -9.6 | 49.5 | 35.2 | 25.6 | 22.3 | 20.5 |
| Adjusted EBITDA | -16,548 | -15,177 | -1,757 | 9,541 | 15,321 | 21,739 |
| Growth (%) | -33.0 | -8.3 | -88.4 | -643.0 | 60.6 | 41.9 |
| ESOP Expense | 1,125 | 8,093 | 14,558 | 15,258 | 11,758 | 5,958 |
| EBITDA | -17,673 | -23,270 | -16,315 | -5,717 | 3,563 | 15,781 |
| Growth (%) | -32.9 | 31.7 | -29.9 | -65.0 | -162.3 | 342.9 |
| Finance Costs | 348 | 394 | 233 | 287 | 344 | 413 |
| Depreciation and Amortization Expenses | 1,785 | 2,473 | 4,853 | 7,474 | 10,463 | 13,079 |
| Other Income | 3,844 | 2,901 | 4,097 | 5,818 | 7,272 | 9,090 |
| PBT | -15,962 | -23,368 | -17,304 | -7,660 | 28 | 11,380 |
| 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 | 702 | 204 | 896 |
| PAT | -17,010 | -23,964 | -17,765 | -8,502 | -335 | 10,302 |
| Growth (%) | -42.2 | 40.9 | -25.9 | -52.1 | -96.1 | -3,175.9 |
| 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 | 1,28,672 | 1,28,504 | 1,33,656 |
| Non-Controlling Interest | -186 | -221 | -227 | -250 | -275 | -302 |
| Net Worth | 65,162 | 1,41,295 | 1,29,929 | 1,29,064 | 1,28,884 | 1,34,019 |
| Non-Current Liabilities | 5,229 | 6,119 | 6,435 | 2,485 | 2,610 | 2,740 |
| Current Liabilities | 21,122 | 32,502 | 43,294 | 46,194 | 49,694 | 51,074 |
| 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 | 18,508 | 24,616 | 32,000 |
| Disbursements (INR b) | 14 | 76 | 354 | 609 | 755 | 943 |
| Net Payment Margins (INRm) | 640 | 6,667 | 18,864 | 19,948 | 25,403 | 31,697 |
| Revenue from Operations Mix (%) | | | | | | |
| Payment Services to Consumers | 35% | 31% | 27% | 24% | 24% | 25% |
| Payment Services to Merchants | 36% | 38% | 34% | 36% | 37% | 36% |
| Financial Services and Others | 5% | 9% | 19% | 22% | 21% | 22% |
| Payment and Financial Services | 75% | 78% | 81% | 82% | 83% | 83% |
| Commerce | 9% | 8% | 8% | 7% | 7% | 7% |
| Cloud | 16% | 15% | 11% | 9% | 9% | 9% |
| Commerce and Cloud Services | 25% | 22% | 19% | 17% | 16% | 15% |

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 | 0.13 | 0.13 | 0.13 |
| Payment Services to Merchants % of GMV | 0.25 | 0.22 | 0.21 | 0.21 | 0.21 | 0.20 |
| Take rates - Financial Services (%) | 9.1 | 5.7 | 4.4 | 3.8 | 4.0 | 4.1 |
| Payment processing charges % of GMV | 0.48 | 0.32 | 0.22 | 0.19 | 0.18 | 0.17 |
| Net Payment Margin (%) | 0.02 | 0.08 | 0.14 | 0.11 | 0.10 | 0.10 |
| Direct Expense % of Revenues | 87.1 | 69.9 | 51.2 | 44.1 | 44.7 | 44.6 |
| Contribution Margin | 12.9 | 30.1 | 48.8 | 55.9 | 55.3 | 55.4 |
| Indirect Expense % of Revenues | 72.0 | 60.6 | 51.0 | 47.1 | 44.4 | 43.0 |
| Adjusted EBITDA Margin (%) | -59.0 | -30.5 | -2.2 | 8.8 | 10.9 | 12.4 |
| EBITDA Margin (%) | -63.1 | -46.8 | -20.4 | -5.3 | 2.5 | 9.0 |
| PAT Margin (%) | -60.7 | -48.2 | -22.2 | -7.8 | -0.2 | 5.9 |

Valuation

| | | | | | | |
|----------------------------|--------------|--------------|--------------|--------------|----------------|-------------|
| RoE | -23.3 | -23.2 | -13.1 | -6.6 | -0.3 | 7.8 |
| RoA | -17.5 | -17.7 | -9.9 | -4.8 | -0.2 | 5.6 |
| Sales per share (INR) | 46 | 77 | 126 | 169 | 216 | 264 |
| Growth (%) | -14.7 | 65.5 | 64.4 | 34.3 | 27.4 | 22.3 |
| Price-Sales (x) | 16.9 | 10.2 | 6.2 | 4.6 | 3.6 | 3.0 |
| Book Value per share (INR) | 108 | 218 | 205 | 201 | 197 | 201 |
| Growth (%) | -19.6 | 102.1 | -5.9 | -1.9 | -2.0 | 2.1 |
| Price-BV (x) | 7.3 | 3.6 | 3.8 | 3.9 | 4.0 | 3.9 |
| EBITDA per share (INR) | -29 | -36 | -26 | -9 | 5 | 24 |
| Price-EBITDA (x) | -26.9 | -21.9 | -30.5 | -88.1 | 144.1 | 33.1 |
| EPS (INR) | -28.1 | -36.9 | -28.0 | -13.2 | -0.5 | 15.5 |
| Growth (%) | -42.3 | 31.3 | -24.1 | -52.7 | -96.1 | -3,120.5 |
| Price-Earnings (x) | -27.9 | -21.3 | -28.0 | -59.3 | -1532.8 | 50.7 |

E: MOFSL Estimates

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NOTES

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|----------------------------------|--|
| Investment Rating | Expected return (over 12-month) |
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| 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 |

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