

We initiate coverage on One97 Communications (OCL-Paytm) with REDUCE and a ~13% downside. Following the recent regulatory salvo, the stock has corrected ~55% (~80% from its post-IPO peak in Nov-21), echoing the expected business/revenue dislocation in the Payments/Financial Services verticals; this was aggravated by high KMP attrition. We believe Paytm's path to profitability will be arduous, mainly due to i) higher operational burn in Payments, given absence of the high-MDR Wallet and rising share of low MDR UPI business; ii) its jeopardized monetization strategy, with sharp slowdown in Financial Services revenue amid rising asset quality and partner attrition/business scale-down risks. Paytm is likely to see significant business disruption in FY25E; recuperation would commence thereafter, subject to no business/regulatory hurdles ahead. It would turn EBITDA-positive not before FY28E and net profit-positive only by FY29E, in our view. Based on DCF, our TP stands at Rs300/sh, implying FY26E P/operating revenue of 1.8x, P/BV of 2.5x.

**One 97 Communications: Financial Snapshot (Consolidated)**

Y/E Mar (Rs mn)	FY23	FY24E	FY25E	FY26E	FY27E
Revenue	79,903	99,987	89,889	104,953	123,704
EBITDA	(12,218)	(6,463)	(16,572)	(7,999)	(1,413)
Adj. PAT	(17,765)	(15,832)	(25,376)	(16,754)	(10,263)
Adj. EPS (Rs)	(27.7)	(23.3)	(39.9)	(26.4)	(16.1)
EBITDA margin (%)	(14.5)	(6.1)	(17.7)	(7.3)	(1.1)
EBITDA growth (%)	(40.4)	(47.1)	156.4	(51.7)	(82.3)
Adj. EPS growth (%)	(27.5)	(15.7)	71.1	(34.0)	(38.7)
RoE (%)	(13.1)	(13.0)	(25.0)	(20.8)	(15.3)
RoA (%)	(9.8)	(8.6)	(14.0)	(9.5)	(5.8)
P/E (x)	(12.4)	(14.7)	(8.6)	(13.0)	(21.2)
EV/EBITDA (x)	(7.4)	(9.5)	(6.6)	(12.4)	(35.9)
P/B (x)	1.7	1.9	2.4	3.0	3.5
EV/Revenue (x)	1.5	1.2	1.5	1.4	1.3

Source: Company, Emkay Research

**Payments business – Operational burn to aggravate in absence of Wallet business and higher share of UPI**

We believe RBI's recent suspension of the Paytm Payment Bank's high MDR wallet business will not only erode Paytm's Wallet GMV and hurt Payments margin, but impact customer engagement too, as it is a hook product for many customers. This will call for higher cash burn for retaining/engaging customers on the App. Further, UPI spends would come under pressure (down 9% MoM in Apr-24) leading to a moderated payment business GMV CAGR of 21% over FY24-28E vs 45% over FY22-24E. This, coupled with rising share of UPI transactions in overall Payments GMV, should hit margins as well, as P2P (peer-to-peer) transactions are free, whereas only select P2M (peer-to-merchant) transactions attract a low MDR. Factoring in the revenue slowdown, margin pressure and the operational burn, we believe Paytm's Payments business would see losses for a prolonged period, unless MDR for UPI is made broad-based across P2M categories by the GoI/Regulator.

**Loan distribution business to witness sharp slowdown on rising asset quality and regulatory noise, and on partner attrition risk**

Paytm has the early mover advantage and has successfully monetized its huge Payments customer/Merchant base via the loan distribution business. It registered Rs466bn GMV in 9MFY24, helping it turn EBITDA-positive (ex-ESOPs). However, we believe that recent regulatory actions (higher risk weights), rising asset quality noise in low-ticket unsecured loans, and increasing risk of further partner attrition/scale-down (after AB Capital) could derail the business momentum in the near-to-medium term. This could even compel the company to pivot from its LSP (lending service provider) position toward on-balance sheet lending, subject to securing the NBFC license. We expect loan disbursement to dip in FY25E and gradually improve thereafter, reporting 10% CAGR over FY24-28E, subject to no further disruption.

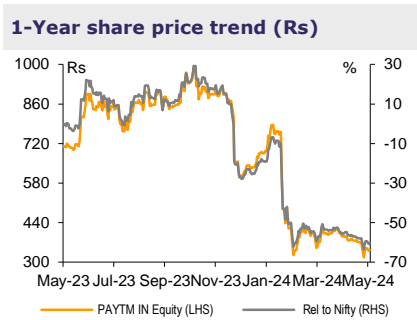
**Business recuperation to be protracted; initiate coverage on Paytm with REDUCE**

We believe Paytm is still in the disruption phase amid ongoing customer, KMP & lending-partner attrition. Business normalization and growth re-acceleration is likely to be a long drawn out process. Thus, we expect Paytm to turn EBITDA-positive only in FY28E and net profit-positive not before FY29E. This thus derails Company's plans of turning PAT-positive in the near future. Also, regulatory risks remain high, with its payment aggregator license in abeyance. Based on DCF methodology, we arrive at a TP of Rs300/share, implying FY26E P/Op Rev of 1.8x and P/BV of 2.5x. We initiate coverage on Paytm (OCL) with a REDUCE recommendation and ~13% downside. Our bull-case fair value (FV) is Rs470/share and bear-case FV is Rs140/share.

Target Price – 12M	Mar-25
Change in TP (%)	NA
Current Reco.	REDUCE
Previous Reco.	NR
Upside/(Downside) (%)	(12.6)
CMP (15-May-24) (Rs)	343.3

Stock Data	Ticker
52-week High (Rs)	998
52-week Low (Rs)	310
Shares outstanding (mn)	635.8
Market-cap (Rs bn)	218
Market-cap (USD mn)	2,614
Net-debt, FY24E (Rs mn)	-110,622
ADTV-3M (mn shares)	5
ADTV-3M (Rs mn)	1,926.0
ADTV-3M (USD mn)	23.1
Free float (%)	48.0
Nifty-50	22,201
INR/USD	83.5
<b>Shareholding, Mar-24</b>	
Promoters (%)	-
FPIs/MFs (%)	60.4/6.9

Price Performance				
(%)	1M	3M	12M	
Absolute	(11.9)	5.6	(51.9)	
Rel. to Nifty	(11.6)	4.2	(60.1)	



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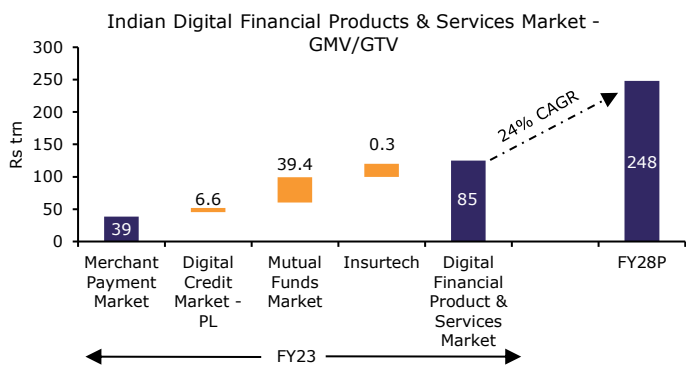
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# India Fintech growth story – Exciting, but adapting to regulatory tuning a must

The Indian payment industry has grown at an exhilarating pace over the past few years (57% CAGR during FY20-23) with the advent of UPI and other products like PPI, Cards, etc too exhibiting strong growth. This would not have been possible without the active participation of Fintechs, which corner more than 90% market share in UPI spends. However, most Fintechs/Paytechs (except a few Lendtechs, Wealthtechs) are still reeling under losses (Exhibit 5) as UPI remains largely MDR-free, whereas monetization of the payment customer base via the lending++ business has been relatively slow, with very few success stories so far like Paytm’s.

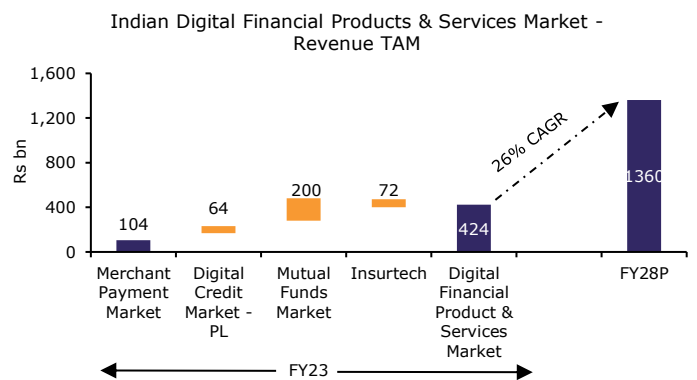
Redseer expects the Indian Digital financial product & services market to register 24% CAGR over FY23-28E, at USD248bn, with fintechs at the forefront of this growth story. However, fintechs need to adapt to the evolving regulatory landscape, strengthen their governance standards, engage in win-win partnerships with regulated entities (banks/NBFCs), and seek NBFC/Bank licenses, to survive and thrive in the long run. Else, they could face severe business disruption, as seen in the case of Paytm, Zestmoney, Slice Card, and so on.

**Exhibit 1: The India paytech, lendtech, wealthtech, and insurtech industry growth story remains exciting...**



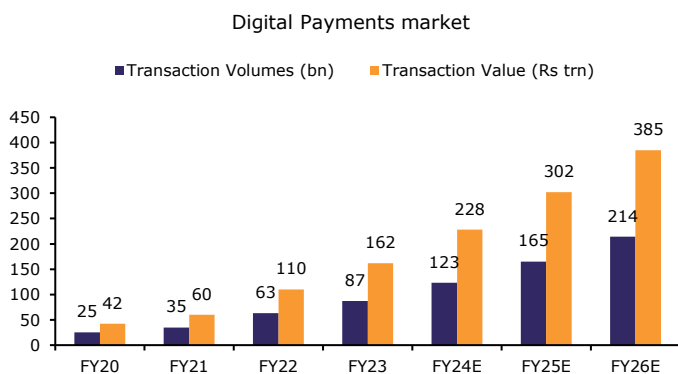
Source: Redseer, Emkay Research

**Exhibit 2: ...offering a strong revenue pool**



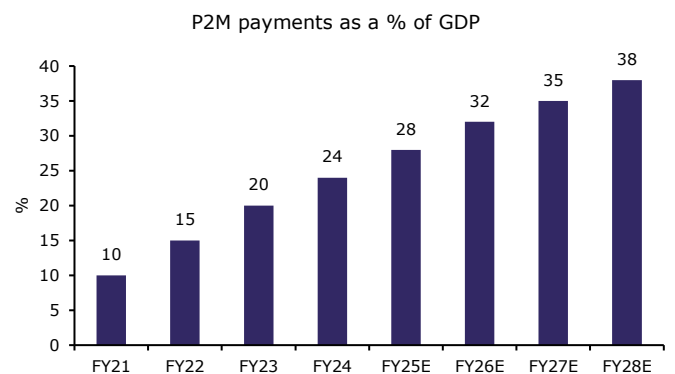
Source: Redseer, Emkay Research

**Exhibit 3: The Indian digital payment industry set for faster growth over FY24-26E**



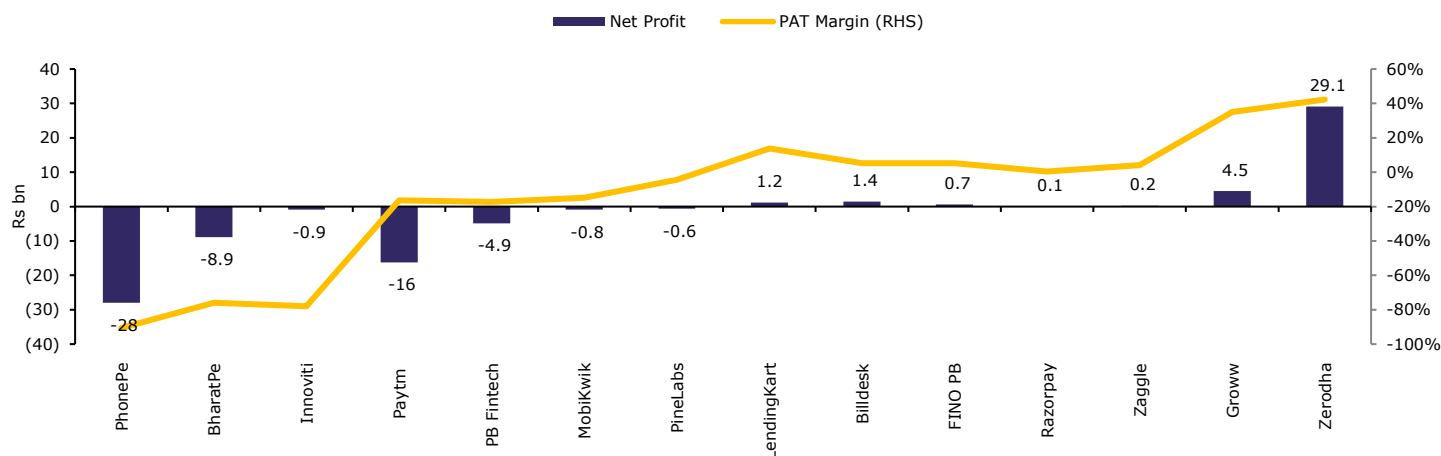
Source: RBI, PwC, Emkay Research; Note: Includes UPI, cards, NETC and PPIs, including merchants and retail payments

**Exhibit 4: Share of digital payments in GDP set to rise, offering a strong growth opportunity for Paytech players, including Paytm**



Source: RBI, NPCI, National Statistics Office, Emkay Research

Exhibit 5: Most Paytechs still reeling under losses, forced to venture into the lending++ model



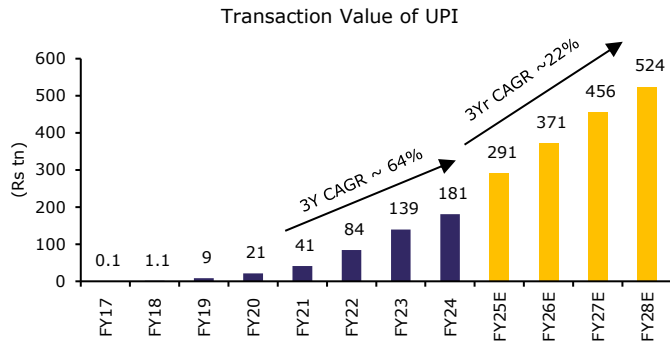
Source: Company, Emkay Research; Note: Above data is for FY23

### UPI – Torch-bearer of digital payment ecosystem, but unprofitable without MDR on all P2M transactions

UPI has emerged as the torch-bearer of the Indian digital payment ecosystem, growing 71% over FY20-24, and has now even entered international markets. UPI accounts for ~78% of the retail digital payments and is set to contribute ~90% by FY27E, as per the RBI; this would have not been possible without the active participation by fintechs. However, P2P transactions contributing 74% of the UPI spends in value terms carry no MDR, whereas P2M transactions contributing 26% of UPI transactions in value terms with transaction value lower than Rs2,000 (accounting for ~32% of the P2M UPI spends/8% of overall spends) remain MDR-free. However, since Apr-2023, NPCI has allowed MDR at 0.5-1.1%/flat fee of Rs5-15 on select P2M transactions above Rs2,000 with large/online merchants, while UPI on the Rupay Credit Card attracts higher MDR, of 2%. Thus, the overall gross revenue pool from UPI spends remains far lower, while operational cost including infra, employee and marketing related makes the UPI business a near loss-making proposition on standalone basis for PSPs (including fintechs), despite factoring in the cash incentive from the government.

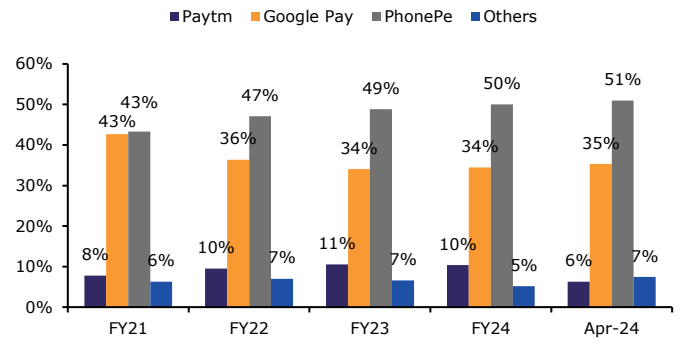
There has been industry-wide demand to introduce some MDR on all P2M–UPI transactions to at least cover the ecosystem’s operational cost and promote innovation/reach. However, the GoI/NPIC/RBI is not too keen on introducing MDR on all P2M transactions, for fear of stalling UPI growth/adoption; in fact, it is now moving to break the dominance of players like Google Pay and PhonePe which could have benefited Paytm if not for its own disruption. That said, hypothetically, if low MDR is introduced on all P2M/P2P2M transactions irrespective of the transaction size without changing the MDR on currently-specified P2M transactions), then this move can add nearly Rs207-506bn to the UPI industry-fee pool (Exhibit 11), and even reduce the burn from the payment business for players like Google Pay, PhonePe and Paytm.

**Exhibit 6: UPI to remain torchbearer of digital payments, but stay unprofitable on standalone basis**



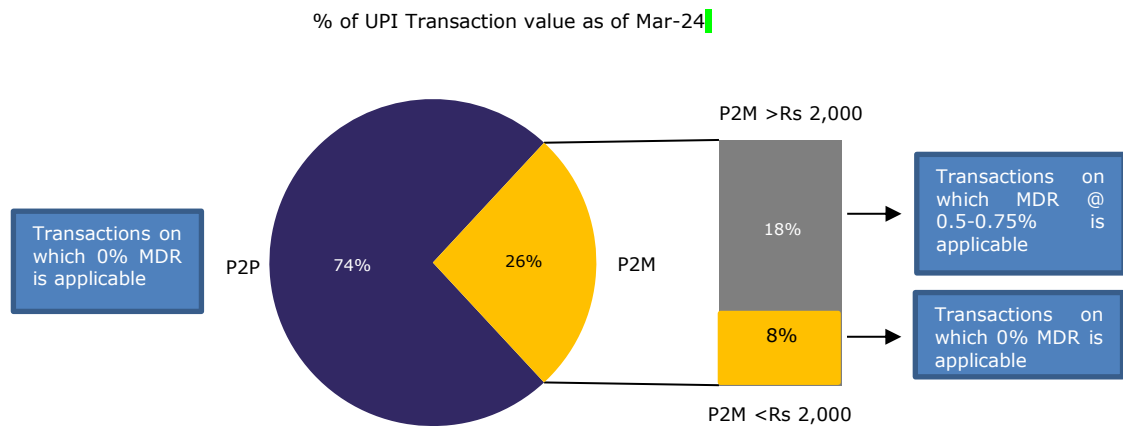
Source: RBI, NPCI, PwC

**Exhibit 7: UPI market share by transaction value – Paytm’s market share has fallen in FY24 and Apr-24**



Source: NPCI, Emkay Research

**Exhibit 8: P2P transactions contribute 74% of the UPI transactions in value terms, with no MDR; the MDR on P2M transactions @0.5-0.75% is applicable on transactions above-Rs2,000 contributing 18%, that too only on large & online merchants**



Source: NPCI, Emkay Research

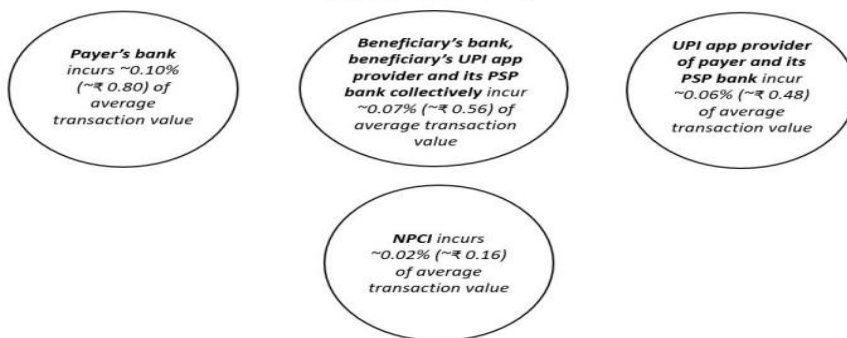
**Exhibit 9: Interchange fees are applicable on select UPI transactions**

Type of transaction (P2M)	Interchange Fees
Bank-to-Bank UPI Transactions	0.00%
UPI on PPI <Rs2,000	0.00%
UPI on PPI >Rs2,000 for large, online merchants	0.5-1.10%
- Convenience Store	1.10%
- Fuel	0.50%
- Telco, Utilities, Rentals	0.70%
- Agri/Education	0.7% or flat Rs10/15, whichever is lower
- Railways	1% or flat Rs5, whichever is lower
- Govt, Insurance, Cash on POS	1% or flat Rs10, whichever is lower
- MF	1% or flat Rs15, whichever is lower
UPI on RuPay Credit Card	2.00%
Wallet loading via UPI (for PSP)	0.15%

Source: NPCI, Media, Emkay Research; Note: P2P transactions are free; PPIs include Wallet, Smart Cards, Vouchers, Meal Cards, and so on

**Exhibit 10: The App provider (e.g. Paytm) incurs 6bps cost, which is largely incentivized by the government**

This box depicts ~ cost incurred by different stakeholders in a UPI-P2M transaction with average transaction value ~ ₹ 800/-



Collectively, the stakeholders incur ~ ₹ 2/- for processing a UPI-P2M transaction with average transaction value ~ ₹ 800/-.

Note: Costs mentioned above reflect approximate figures. They do not reflect cost incurred in giving incentives to users for increasing the use of digital payments.

Source: RBI

**Exhibit 11: Sensitivity Analysis on introducing MDR on P2M transactions**

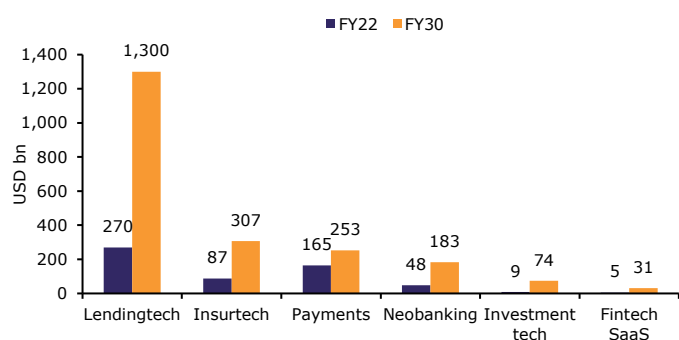
UPI transactions in FY24	Current Regime	Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5
<b>Description</b>	No MDR on P2M transactions of <Rs2k and small merchant transactions	25bps interchange fees on UPI of >Rs2k to small merchants	50bps interchange fees on UPI of >Rs2k to small merchants	50bps interchange fees on all UPI of <Rs2k and on UPI of >Rs 2k to small merchants	75bps interchange fees on all UPI of <Rs2k and on UPI of >Rs 2k to small merchants	100bps interchange fees on all UPI of <Rs2k and on UPI of >Rs2k to small merchants
<b>UPI Spends (Rs trn)</b>	<b>200</b>	<b>200</b>	<b>200</b>	<b>200</b>	<b>200</b>	<b>200</b>
- P2M (Rs trn)	51	51	51	51	51	51
% of overall UPI spends	25%	25%	25%	25%	25%	25%
- Transactions of <Rs2,000 (Rs trn)	16	16	16	16	16	16
% of P2M transactions	32%	32%	32%	32%	32%	32%
Interchange fee	0%	0%	0%	0.50%	0.75%	1.00%
- Transactions of >Rs2,000 (Rs trn)	34	34	34	34	34	34
Small merchants* (Rs trn)	10	10	10	10	10	10
Interchange fee	0%	0.25%	0.50%	0.50%	0.75%	1.00%
Large and online merchants (Rs trn)	24	24	24	24	24	24
Blended interchange fee	0.75%	0.75%	0.75%	0.75%	0.75%	1.00%
<b>UPI Fee pool (Rs trn)</b>	<b>0.18</b>	<b>0.21</b>	<b>0.23</b>	<b>0.31</b>	<b>0.38</b>	<b>0.51</b>
<b>Current cost for payment ecosystem (Rs trn)</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>	<b>0.50</b>
UPI App provider (0.06%)	0.12	0.12	0.12	0.12	0.12	0.12
Other ecosystem players (0.19%)	0.38	0.38	0.38	0.38	0.38	0.38
<b>Net Fees (Rs trn)</b>	<b>(0.32)</b>	<b>(0.29)</b>	<b>(0.27)</b>	<b>(0.19)</b>	<b>(0.12)</b>	<b>0.01</b>

Source: Emkay Research; \* Transaction per merchant <Rs50k; assumed as 30% of overall transactions >Rs2,000

### Paytechs focus on Lending++ model to speed up monetization of payment business – Paytm leads pack

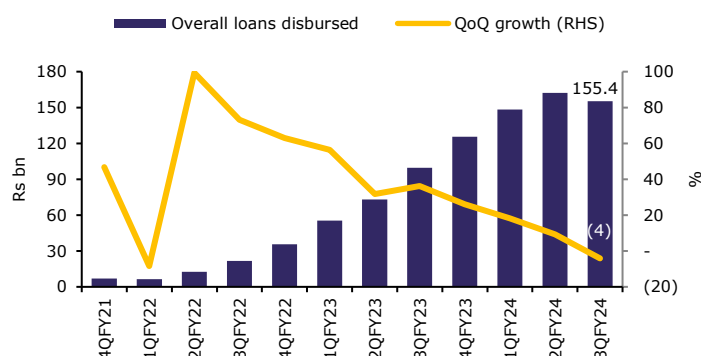
Most paytech companies have built scale over the years, leading to massive customer acquisition at the cost of burning cash and, thus, profitability. But now, these players are focusing on monetizing the customer base to turn profitable. Hence, most players have cut cash burns (to make the payments business self-sustainable in the long run) as well as ventured into the Lending++ business (including loan sourcing/distribution, broking, MF/insurance distribution, etc) for driving profitability. For instance, large paytech companies, including BharatPe, Paytm, PayU and MobiKwik have already turned EBITDA (ex-ESOPs)-positive on the back of their lending business (distribution). However, the lending business (mainly unsecured loans) too is fraught with its own set of risks, more so in an environment where credit risk is on the rise. This hence even calls for regulatory intervention and business closure by a few fintechs (e.g. Zestmoney, SliceCard, Unicard, etc). However, Paytm’s loan distribution business stood out, reporting quarterly disbursements high enough for even established NBFCs to envy, but Company has been recently hit by a regulatory salvo and asset-quality concerns, casting a shadow on the business. However, insurtech and wealthtech businesses have been booming which demonstrates good potential for paytechs like Paytm, PhonePe, etc.

**Exhibit 12: Huge opportunity (TAM) beyond payments for fintechs – A USD2.1trn market by FY30**



Source: Inc42, Emkay Research

**Exhibit 13: Paytm’s lending disbursement growth over the past 12 quarters**



Source: Company, Emkay Research

**Exhibit 14: Product matrix for Paytechs/Fintechs—Paytm and Mobikwik—have made a mark in the Digi-lending (distribution) space**

Company	Payments				Digi-lending							CASA Sourcing	Neo-collectio ns	Card Sourcing	Digi-broking	Insuretech (Consumer)
	POS/QR/ PG	Wallet/P PI	Soundbo x	CMS	PL/P2P	BNPL	ML/BL	Mortgages	VF	Gold						
Paytm	✓	✓	✓	x	✓	✓	✓	x	x	x	✓	✓	✓	✓	✓	
PhonePe	✓	✓	✓	x	x	x	x	x	x	x	x	x	x	x	✓	
RazorPay	✓	x	✓	x	x	x	✓	x	x	x	x	x	x	x	x	
Pinelabs	✓	x	✓	x	x	x	✓	x	x	x	x	x	x	x	x	
BharatPe	✓	x	✓	x	✓	x	✓	x	x	x	✓	x	x	x	x	
Innoviti	✓	x	x	x	x	x	x	x	x	x	x	x	x	x	x	
Mswipe	✓	x	✓	x	x	x	x	x	x	x	x	x	x	x	x	
Zaggle	x	✓	x	x	x	x	x	x	x	x	x	x	x	x	x	
Fino Payments	x	x	x	✓	x	x	x	x	x	x	✓	x	x	x	x	
Mobikwik	✓	✓	✓	x	✓	✓	✓	x	x	x	x	x	x	x	x	

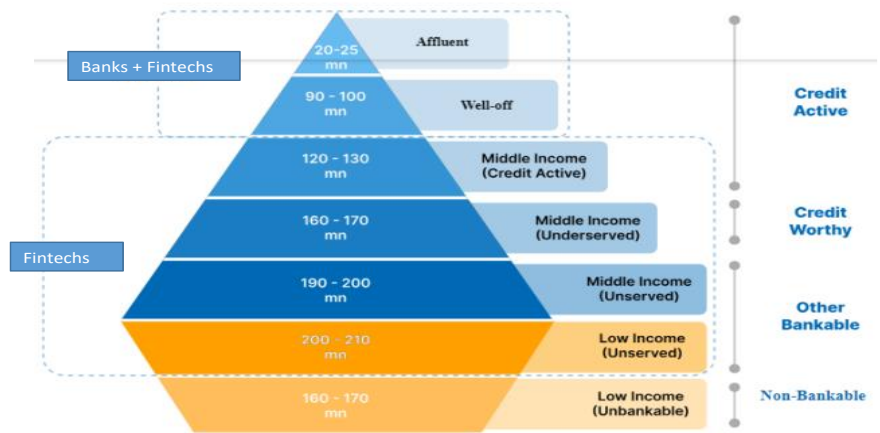
Source: Emkay Research



### Lending business – Strong monetization opportunity, but with its own set of challenges

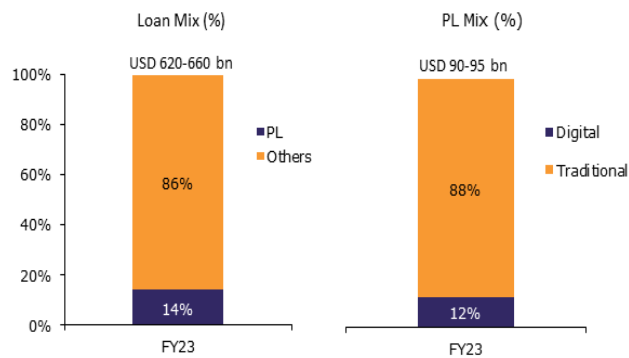
The digital lending business in India is still in its nascent stage compared with the traditional lending business, but is gaining considerable traction given the push from fintechs as well as traditional lenders (Banks/NBFCs), directly or indirectly via sourcing partnerships with fintechs. The RBI’s digital lending guidelines have largely removed the ambiguity and paved the road for structured growth. The total value of digitally disbursed loans grew 41% YoY in FY23 to USD11.6bn and contributes nearly 2% of the overall retail lending. This is expected to grow to 4% by FY28, per Redseer. Though initially fintechs resorted to unsecured lending via BNPL/PL, we believe they will gradually increase focus on Merchant loans, MSMEs, and other secured lending products including gold loan, VF, mortgages, and so on. Currently, most fintechs are working as LSPs (Loan Service Providers), engaging in sourcing/collection or co-lending, but would gradually proceed towards on-balance sheet lending by either securing an NBFC license or a digital banking/SFB license, once the RBI draws comfort and opens up the gates.

**Exhibit 15: Fintechs, given their low-cost digital distribution and collection model, can tap the larger spectrum of credit worth and active customers, on their balance sheet (BS) or off BS**



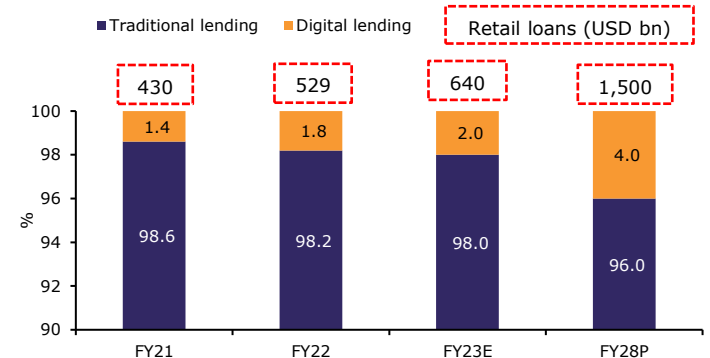
Source: Redseer

**Exhibit 16: Within PL, the share of Digital lending is still low...**



Source: Redseer, Emkay Research

**Exhibit 17: ...but is expected to inch up gradually**



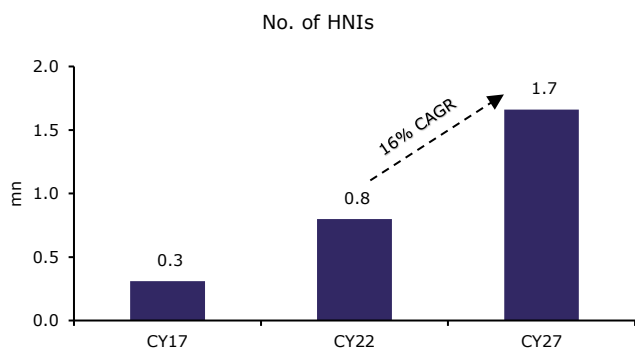
Source: CRIF, Equifax, Redseer, Emkay Research



### Fintechs to rule the booming Wealthtech, Insuretech space – Strong tech stack and customer reach...

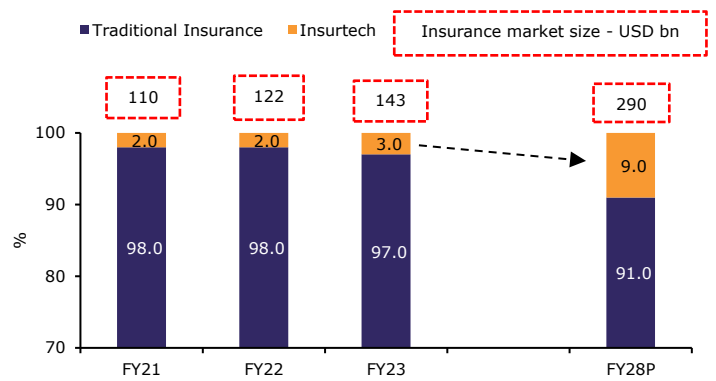
Over the last five years, the Indian Insurtech sector has achieved an impressive 44% CAGR, surpassing growth rates of both, China (21%) and the USA (30%). Within Insurance, apart from life insurance, other insurance verticals including health insurance are witnessing strong growth, more so post-Covid. Fintechs, armed with strong technology and customer engagement, have launched sachet-sized insurance products to digital-savvy customers. Similarly, the wealth management business including equity investments has also seen explosive growth, led by robust growth in upper middle-class, HNI and UHNI customers, thus benefiting from the booming Indian economy and capital markets. Among fintechs, Paytm, PhonePe, Zerodha, Groww, and PB Fintech, have already taken strides to expand into the Insuretech and Wealthtech businesses on the back of their large customer base and low cost tech-driven distribution model. This has pushed some traditional players (Angelone, Nuvama) as well to adapt, with few making a mark in their respective business line, whereas a few are struggling to compete with fintechs.

**Exhibit 18: Huge opportunity in Wealth Management, as the HNI pool in India grows at a faster pace...**



Source: The Wealth Report 2022 – Knight Frank

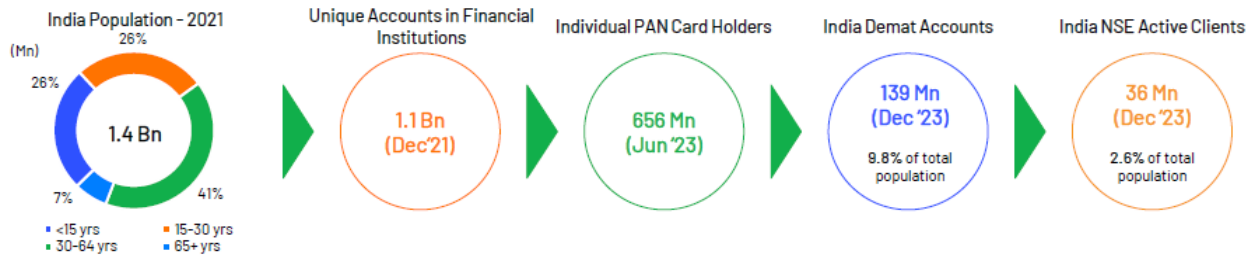
**Exhibit 19: ...as does the Insurtech business**



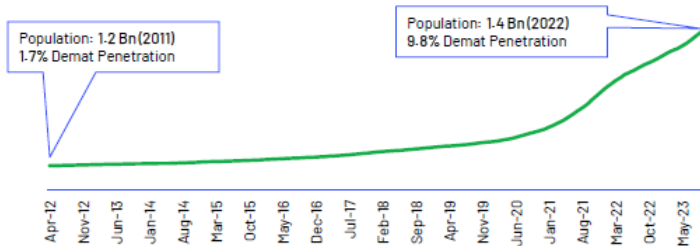
Source: Redseer

**Exhibit 20: TAM for the broking industry remains strong**

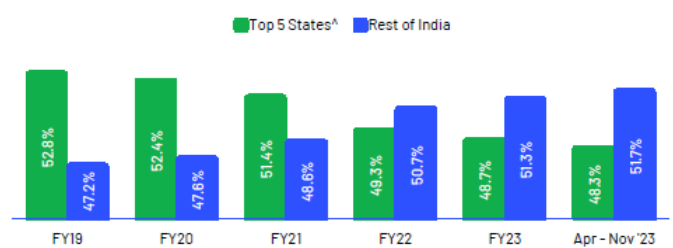
#### India: Target Addressable Market



#### Steady Growth In Demat Accounts In India



#### Rising Share Investors On NSE From Beyond Top 5 States



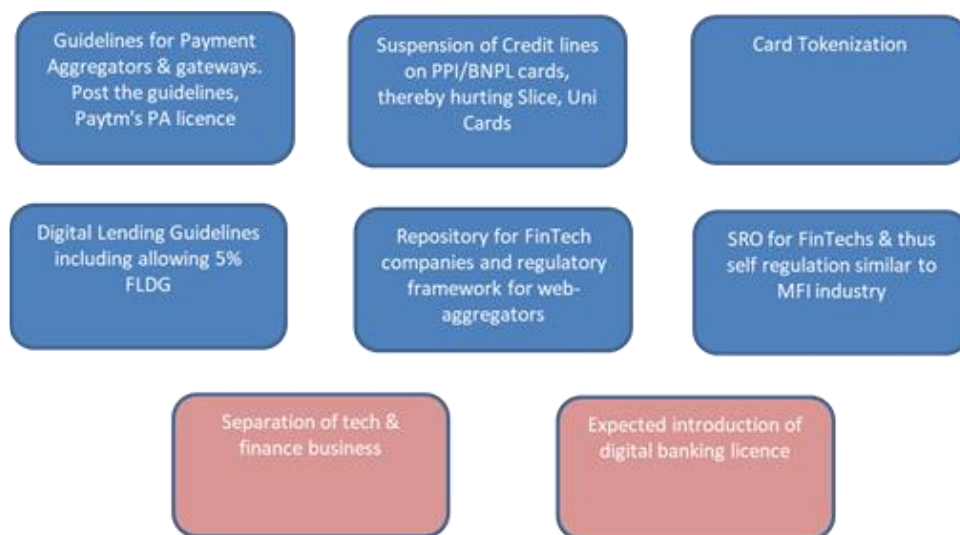
India market continues to remain hugely under-penetrated

Source: Angelone, Census, World Bank, CDSL, NSDL, Income Tax Department, Crisil, NSE

**...but need to adapt to regulatory interventions, to survive & thrive**

Amid increasing inter-dependence of regulated entities and fintechs, with some emerging dominant players thus posing systemic risk, RBI’s interventions to curb any regulatory non-compliance, business mal-practices and mis-governance too are on the rise. Of recent, the RBI has imposed financial penalties as well as business suspension on multiple regulated entities, including Paytm Payment Bank, IIFL, JM Financial, and Slice Card; in a few cases, the Regulator has also handed over the reins of defunct banks like PMC Co-op Bank to BharatPe and North East SFB to Slice. We believe such interventions should continue in the future as well, and ensure orderly growth of the financial ecosystem including the payments/lending space. Apart from the RBI, we believe other regulators like SEBI and IRDA too are expected to up the ante, and hence Fintechs will need to adapt to regulatory interventions, to survive & thrive.

**Exhibit 21: The recent and expected regulatory interventions by the RBI in the fintech space**



Source: Emkay Research

**Exhibit 22: Paytm’s tryst with the Regulator, and the Salvage Act**

**RBI’s regulatory actions on Paytm**

- June 2018:** RBI bans Paytm Payment Bank to onboard new wallet, deposit customers, but lifts the ban in Jan 2019.
- June 2022:** RBI directs Paytm Payment Bank to stop onboarding new customers and initiate a comprehensive IT system audit by an external agency, citing material supervisory concerns. Thus, Paytm (OCL) stops offering new wallets to customers.
- Nov 2023:** RBI rejects Payment Aggregator license of Paytm Payment Services, a subsidiary of Paytm (OCL), in the absence of which parent Paytm cannot onboard new online merchants. The RBI had also directed OCL to seek necessary approval for past downward investment from the company into PPSL, to comply with FDI norms.
- Oct 2023:** RBI imposes financial penalty (Rs54mn) on Paytm Payments Bank for KYC non-compliance.
- Jan 2024:** RBI directs Paytm Payments Bank to stop onboarding new customers with immediate effect, dis-allows deposit or credit transactions or top-ups in wallets, FASTags, NCMC Cards, etc, and terminates nodal A/c.
- Mar-2024:** The Financial Intelligence Unit imposes penalty of Rs54.9mn on Paytm Payments Bank for violating money laundering norms.

**Paytm’s saving act till now**

- ~ Paytm has shifted its merchant nodal account to Axis Bank, replacing Paytm Payments Bank.
- ~ NPCI approves Paytm to act as a TPAP on RBI’s recommendation and, thus, Paytm can continue to facilitate UPI payments even if PPBL ceases to exist. Paytm ties up with Axis Bank, HDFC Bank, SBI and Yes Bank to offer UPI settlements under a multi-bank model. RBI also allows the ‘@Paytm’ handle to be redirected to Yes Bank.
- ~ After the RBI’s notification on 31-Jan-2024, OCL paused its lending-platform operations for a few weeks, as its partners were uncertain. Only two of eight non-bank partners have resumed business since then.
- ~ Founder Vijay Shekhar Sharma buys 10.3% stake from Antfin (Netherlands) Holding BV via 100% owned overseas entity Resilient Asset Management BV.
- ~ Vijay Shekhar Sharma steps down as Non-Executive Chairman and Board Member of Paytm Payments Bank; Surinder Chawla, MD & CEO, also resigns in April 2024. Recently, Bhavesh Gupta, COO and President, mainly handling Financial Services business too has stepped down.

Source: Emkay Research

## Company Section:

### Path to profitability – Prolonged and arduous, as payments, lending businesses hits regulatory bump

Paytm (One97 Communications; OCL) has emerged as a full-stack payment cum financial services company with multiple revenue streams, but has recently hit the regulatory speed-bump, which we believe could delay, if not derail, its path to sustained profitability. Paytm as well as Paytm Payment Bank has been under the regulatory glare since long, but the group missed to adapt to the evolving regulatory asks, ultimately leading to suspension of the Payment bank business. This has caused the bank to largely close its profitable wallet business and other products like FASTag, etc. Notably, Paytm's payment aggregator license is also pending, thus restricting it from onboarding new online merchants and limiting as a consequence GMV growth. Paytm's Post-paid and PL distribution business too has been hit by the recent regulatory actions, along with partner concerns (as some are re-considering their partnerships), which we believe will take time to recover and possibly also force Paytm to pivot toward a different business model.

Factoring in the aforementioned business disruption, we expect Paytm's Payment GMV CAGR to moderate to 21% over FY24-28E, from 43% CAGR, respectively, over FY22-24. This will be mainly driven by UPI and should thus hurt payment margins, as bulk of UPI transactions are MDR-free. Further, higher customer reacquisition/retention/engagement cost in the near term could delay the Payment business turning EBITDA positive (ex-ESOP) on standalone basis only beyond FY30E. Financial Services revenue growth too would slow down (8% CAGR over FY24-28E) due to a calibrated growth approach in the Post-paid/PL business; the sourcing-collection business would gradually shift towards only sourcing, given that partner/regulatory trepidations could push back revenue/operational EBITDA from the financial services business by 3 years, to reach its FY24E levels. On an overall basis, we expect Paytm to again incur EBITDA (ex-ESOP) losses during FY25-26E, though it should turn overall EBITDA-positive in FY28E and net profit-positive only by FY29E, assuming no further business disruption.

**Exhibit 23: We expect Paytm's path to profitability to be laborious and extended, following the recent regulatory/business disruption**

Financial Summary	FY22	FY23	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E
<b>GMV/Disbursements (Rs bn)</b>	<b>8,592</b>	<b>13,570</b>	<b>17,951</b>	<b>19,452</b>	<b>23,983</b>	<b>30,801</b>	<b>38,261</b>	<b>46,241</b>	<b>56,007</b>	<b>66,522</b>
Payment Services	8,437	13,130	17,279	18,908	23,312	29,958	37,198	44,875	54,319	64,498
Marketing Services	79	86	116	140	170	210	253	304	361	428
Financial Services	76	354	556	404	501	632	810	1,062	1,326	1,595
<b>Revenues from Operations (Rs mn)</b>	<b>49,742</b>	<b>79,903</b>	<b>99,987</b>	<b>89,889</b>	<b>1,04,953</b>	<b>1,23,704</b>	<b>1,41,306</b>	<b>1,64,095</b>	<b>1,89,096</b>	<b>2,16,233</b>
Payment Services	37,889	49,300	60,352	52,923	62,200	74,016	85,048	96,901	1,10,884	1,25,929
Marketing Services	11,048	15,199	18,478	20,382	22,806	25,293	27,462	31,035	34,874	39,253
Financial Services	805	15,404	21,157	16,584	19,947	24,395	28,796	36,159	43,338	51,052
<b>Operational EBITDA (ex ESOP)* - Rs mn</b>	<b>(15,303)</b>	<b>(1,757)</b>	<b>3,062</b>	<b>(9,617)</b>	<b>(4,159)</b>	<b>1,546</b>	<b>7,411</b>	<b>16,663</b>	<b>24,761</b>	<b>33,390</b>
Payment Services	(20,311)	(17,818)	(18,936)	(26,133)	(23,718)	(21,259)	(18,565)	(16,573)	(14,857)	(13,191)
Marketing Services	8,747	11,113	13,299	14,773	16,490	17,971	19,206	21,750	24,425	27,620
Financial Services	(3,739)	4,948	8,698	1,743	3,069	4,835	6,770	11,486	15,193	18,961
<b>Overall EBITDA after ESOP</b>	<b>(20,501)</b>	<b>(12,218)</b>	<b>(6,463)</b>	<b>(16,572)</b>	<b>(7,999)</b>	<b>(1,413)</b>	<b>5,310</b>	<b>15,156</b>	<b>23,511</b>	<b>32,365</b>
EBITDA margin (%)	(39)	(15)	(6)	(18)	(7)	(1)	4	9	12	15
<b>Net Profit</b>	<b>(23,964)</b>	<b>(17,765)</b>	<b>(15,832)</b>	<b>(25,376)</b>	<b>(16,754)</b>	<b>(10,263)</b>	<b>(4,251)</b>	<b>3,747</b>	<b>10,418</b>	<b>17,376</b>
RoA (%)	(17.3)	(9.8)	(8.6)	(14.0)	(9.5)	(5.8)	(2.3)	2.0	5.0	7.5
RoGMV (%)	-0.28	-0.13	-0.09	-0.13	-0.07	-0.03	-0.01	0.01	0.02	0.03

Source: Emkay Research;

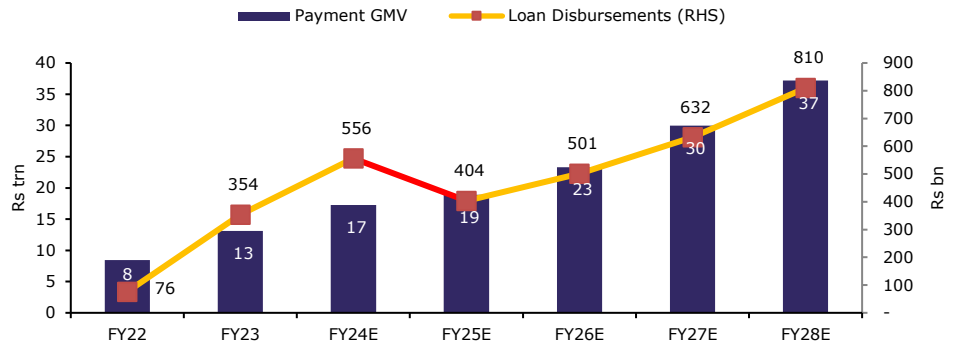
\*After adjusting common expenses, but excluding other non-operational income

Key assumptions: We have allocated common expenses in the ratio of 80% for payments business, 15% for financial services and 5% for merchants & services business

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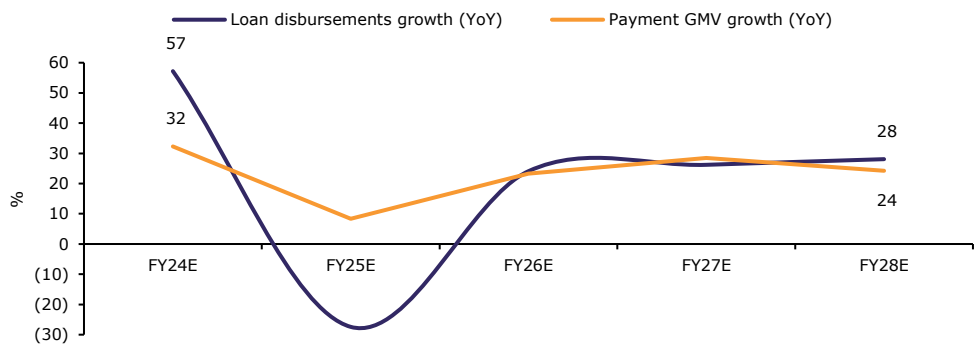
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**Exhibit 24: We expect Payment GMV growth to moderate, mainly due to suspension of wallet business and decline in UPI transactions, while the spill-over effect of lower payment GMV along with partner scale-down will cause a decline in loan disbursements**



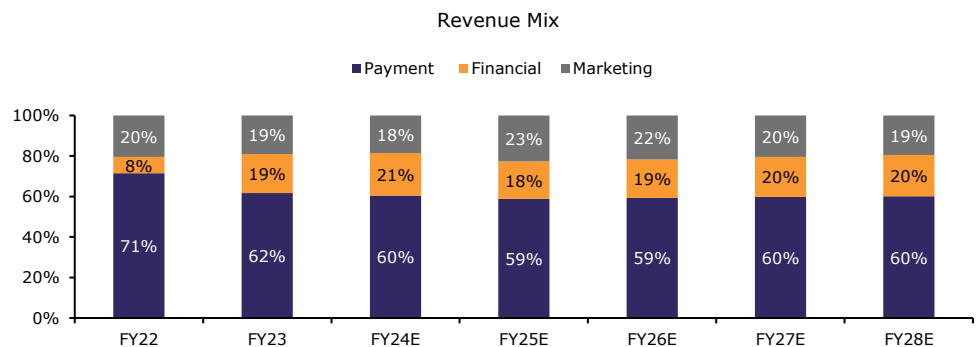
Source: Emkay Research

**Exhibit 25: Payments, Financial Services GMV growth to slow down in the near term**



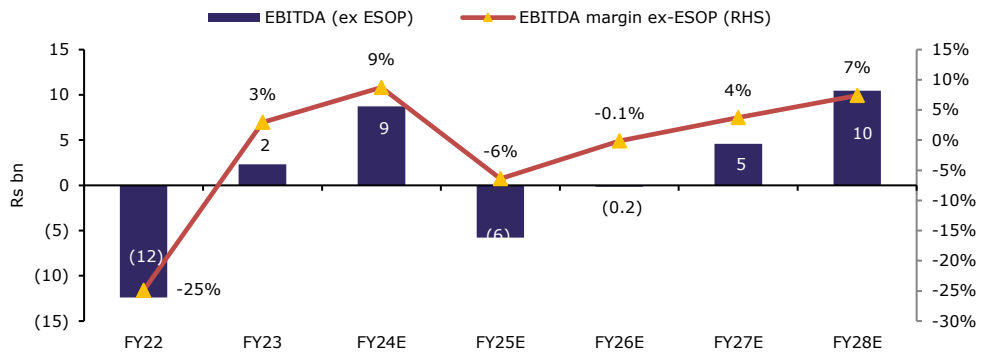
Source: Emkay Research

**Exhibit 26: Segment-wise revenue break-up – Financial Services gained scale over FY22-24E, but the recent regulatory salvo and asset quality concerns could hurt the Post-paid and PL businesses**



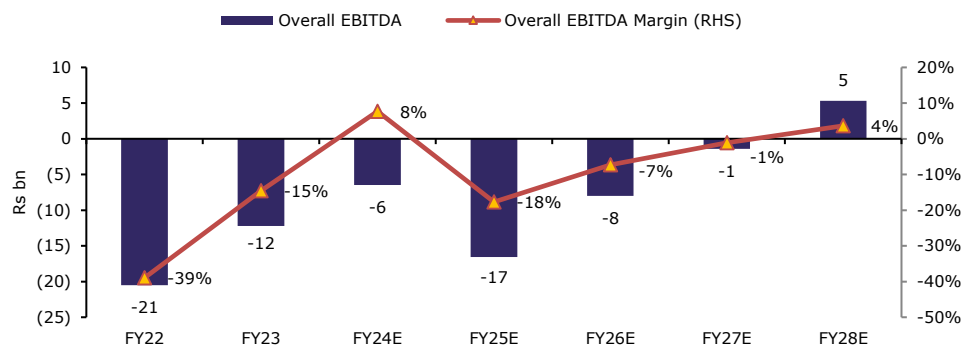
Source: Emkay Research

**Exhibit 27: Paytm to turn EBITDA (ex-ESOP)-positive by FY27E...**



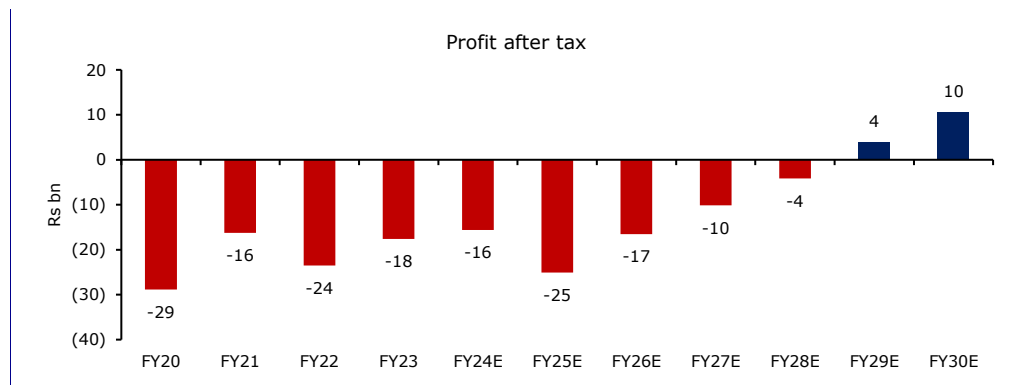
Source: Emkay Research; Note: EBITDA (ex-ESOP) is after including other income and thus shall not match with exhibit 23

**Exhibit 28: ...whereas Company will deliver overall positive EBITDA only by FY28E**



Source: Emkay Research

**Exhibit 29: Paytm to turn net profit positive only by FY29E, subject to no business disruption ahead**

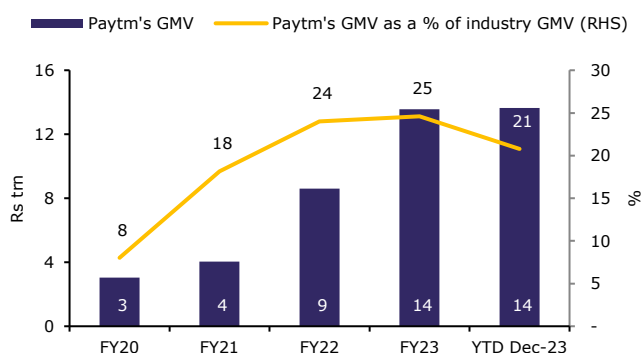


Source: Emkay Research

## Paytm’s Payment business sans high MDR wallet; higher share of UPI derail hopes of self-sustainability

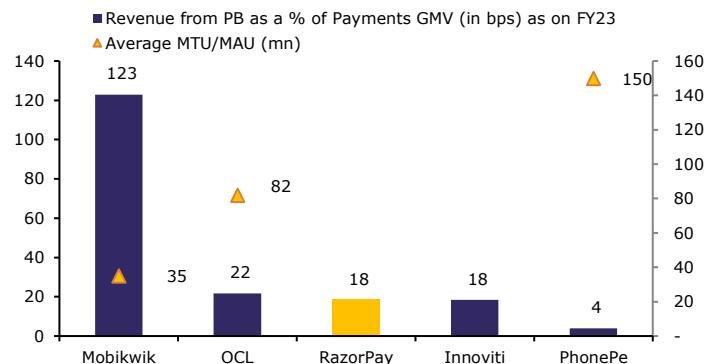
Paytm has emerged as one of the prominent players in the payment ecosystem with both, a large >95mn MTU customer base and a >37mn merchant base, on the back of its superior App experience encompassing strong wallet business (powered by subsidiary Paytm Payments Bank), UPI (25% market share, up from 8% in 2021), and commerce business (ticketing, mobile recharge, etc). Paytm’s ‘first of a kind’ sandbox/mini-POS (9.9 mn – covering 26% merchants) and android-based large POS (0.9mn – covering 2.3% of the merchant base) have led to strong merchant engagement and hence transaction flows. Paytm is expected to report GMV CAGR of 56% over FY20-24E, thereby capturing nearly 26% market share in the P2M business. However, RBI’s recent suspension of Paytm Payment Bank’s business will largely erode the higher MDR wallet GMV and as a consequence the revenue growth, with wallet being a hook product that could hurt customer acquisition/retention; this hence calls for additional marketing spends and will thus prolong the Paytm’s payment business self-sustenance. We expect Paytm’s Payment GMV/revenue to moderate to 21%/9% CAGR over FY24-28E from 43%/26%, respectively, over FY22-24E; this will be mainly driven by UPI and so hurt payment margins, as bulk of the UPI transactions are MDR-free. Factoring in the revenue slowdown and the operational burn, we believe Paytm’s payment business will remain in loss for a protracted period, unless MDR on UPI is broad-based by the GoI/Regulator.

**Exhibit 30: Paytm reported a sharp jump in the retail digital payment market share post-Covid; share has shrunk a bit in the recent past**



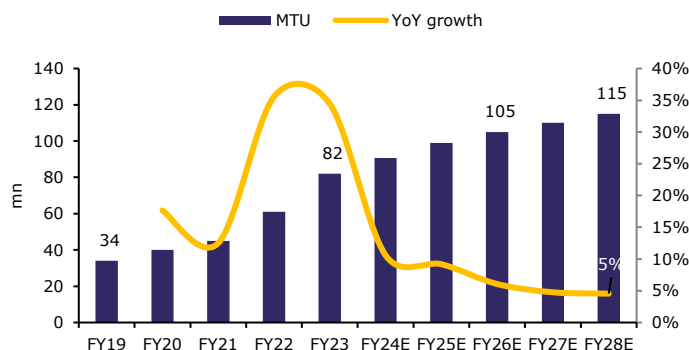
Source: RBI, NPCI, Emkay Research

**Exhibit 31: Paytm’s revenue from PB\* compared with peers**



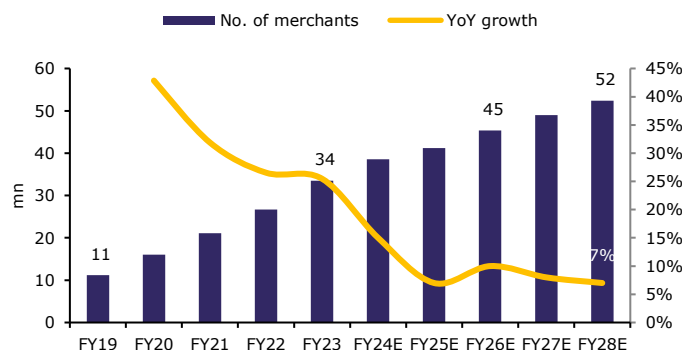
Source: Emkay Research; Note: \*PB= Payments business ; Paytm data as on FY24E

**Exhibit 32: Paytm’s MTU growth to moderate in the near term, mainly due to the recent disruption...**



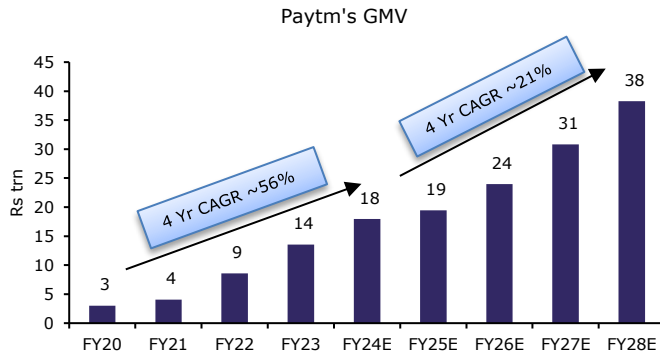
Source: Company, Emkay Research

**Exhibit 33: ...similar to merchant growth**



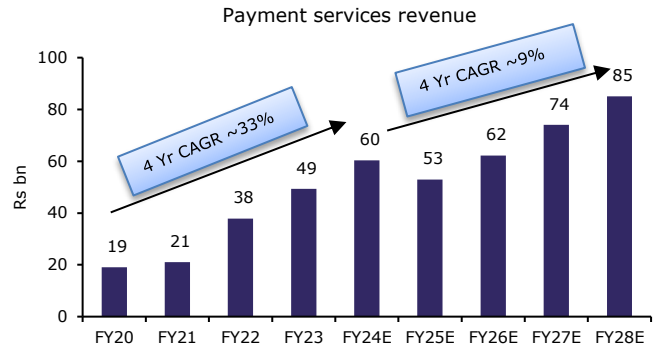
Source: Company, Emkay Research

**Exhibit 34: Paytm's payment GMV is projected to grow at a relatively moderate pace over FY24E-28E...**



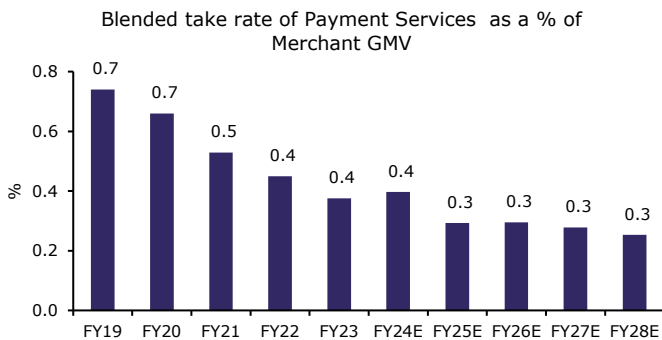
Source: Company, Emkay Research

**Exhibit 35: ...while its payment business revenue is expected to grow at a far lower pace due to rising share of low MDR UPI**



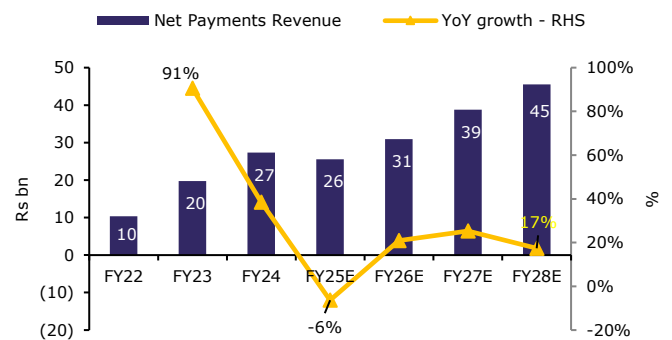
Source: Company, Emkay Research

**Exhibit 36: Blended take rates to moderate due to increasing share of UPI**



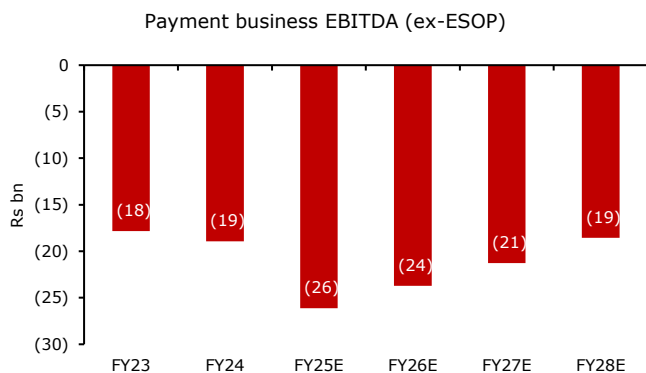
Source: Company, Emkay Research

**Exhibit 37: Net payments revenue and payments margin in FY22-FY28E**



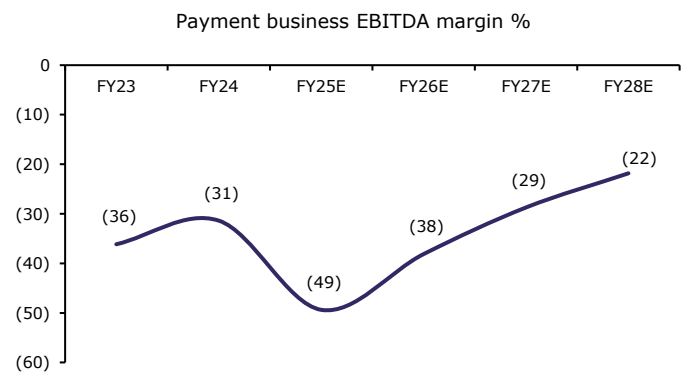
Source: Company, Emkay Research

**Exhibit 38: Payment business EBITDA (loss) before ESOP to widen in FY25E, before the trajectory resuming the improvement trend**



Source: Emkay Research

**Exhibit 39: Payments business EBITDA (ex-ESOP) loss margin also set to widen in FY25E, before retracking the improving trend**



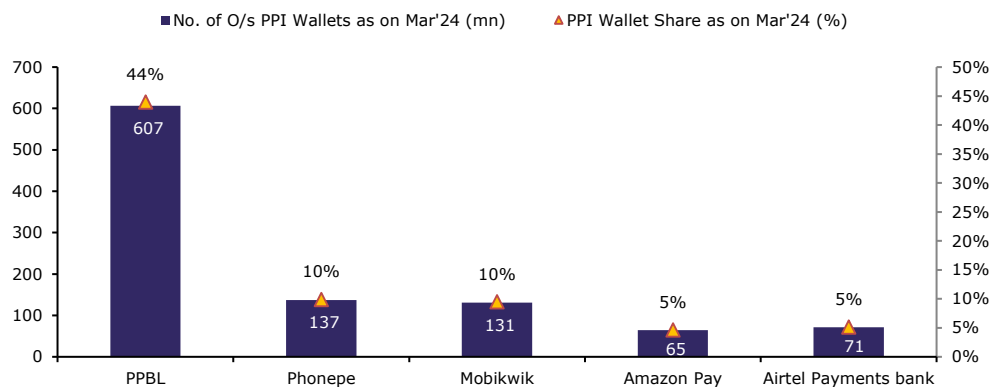
Source: Emkay Research



### RBI’s suspension to close-down Paytm’s Profitable ‘Wallet’ business

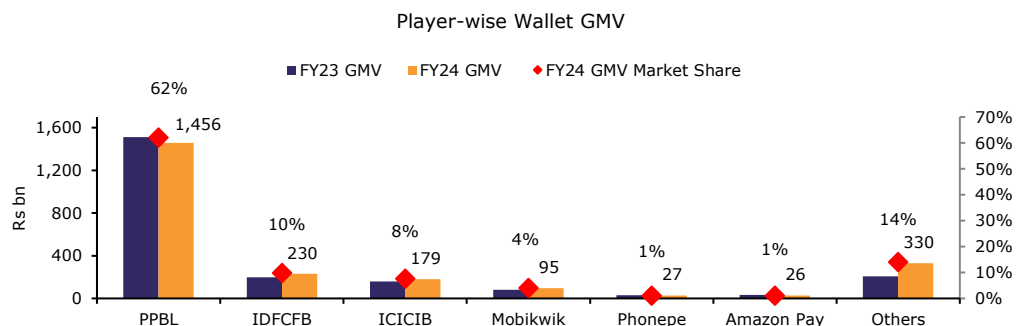
Paytm (OCL) has emerged as one of the prominent players in the PPI (wallet) business over the years, capturing 44% market share in terms of outstanding number of wallets and 62% (down from 68% in FY23) in terms of GMV as of Mar-24. It contributed nearly 11%/9% in FY23/9MFY24 of its GMV and ~31% of the FY23 revenue based on our assumptions. However, the RBI recently suspended operations of the Paytm Payment Bank’s (subsidiary of OCL and license holder of wallet) wallet, citing the long-standing KYC non-compliance and supervisory concerns, thereby completely disbanding the profitable wallet business. Our discussion with the company suggests that OCL is not contemplating applying for a wallet license in its own name (as held by it before surrendering it in favor of the Paytm Payment Bank in May 2017); neither is it exploring using the license from any other player at this point of time. We believe wallet has been a strong customer/merchant acquisition and engagement tool for Paytm which, if not revived, could impact the overall customer growth as well as revenue pool. Unlike UPI, which is still a non-profitable business on its own, the wallet business contributed meaningfully to profitability as well, given its higher MDR (1-2% dependent on merchant category), and thus could delay, if not derail, OCL’s path to profitability for the payment business. We believe that the EBITDA impact (mainly due to suspension of the wallet business) will be higher than Rs3-5bn, as initially expected by the management.

**Exhibit 40: The Paytm PB dominated the wallet business with nearly 43% market share before the full impact of the RBI suspension...**



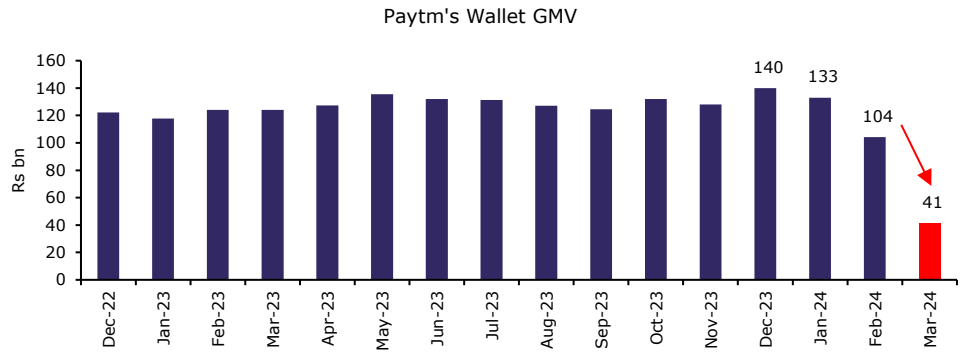
Source: Emkay Research; Note: PPBL = Paytm Payments Bank Ltd

**Exhibit 41: ...whereas market share in value terms (GMV) was even higher, at 62%...**



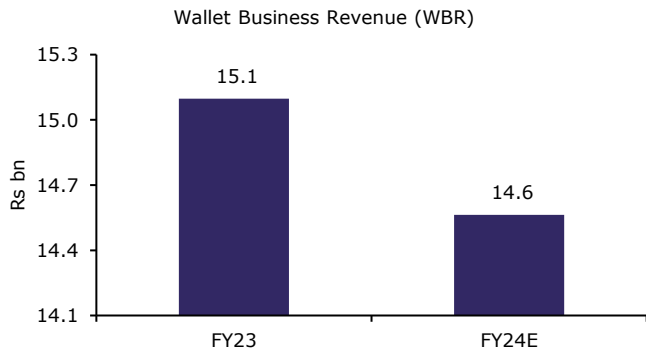
Source: RBI, Emkay Research

**Exhibit 42: ...but Paytm's wallet GMV has sharply declined in Mar-24 due to the RBI's salvo**



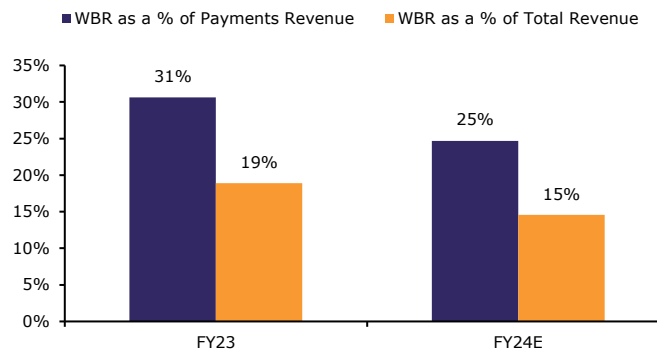
Source: RBI, Emkay Research

**Exhibit 43: Wallet business revenue based on our estimates will become zero in FY25E, unless Paytm secures own license or tie-up with a partner**



Source: Emkay Research; Gross revenue based on our assumptions

**Exhibit 44: Wallet business contribution as a % of revenue**

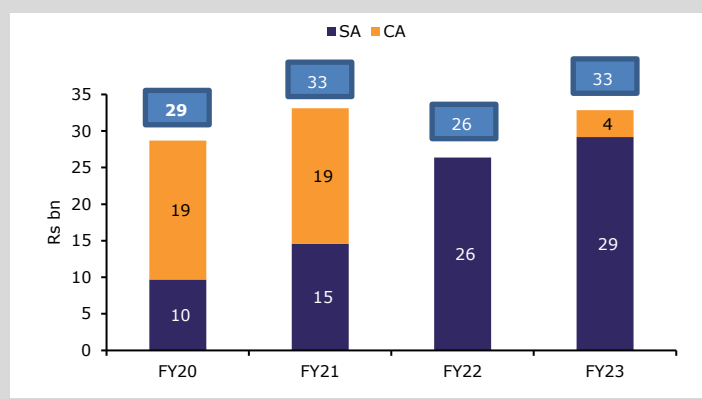


Source: Emkay Research; Gross revenue based on our assumptions

**Paytm Payment Bank – Nowhere to go after the regulatory suspension; dissociation with Paytm**

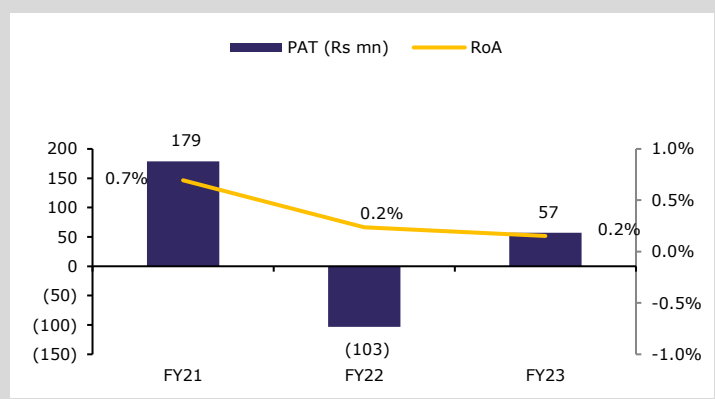
The RBI has largely suspended operations of Paytm Payment Bank Ltd (PPBL), an associate of Paytm – OCL (49% stake owned by OCL and balance by Vijay Shekhar Sharma), mainly due to regulatory non-compliance and supervisory lapses. PPBL’s overall revenue include mainly commission/fee along with payment processing charges from Paytm (OCL) for the wallet business, which will now be next to zero. PPBL also used to maintain nodal accounts for Paytm Payment Services Ltd (PPSL), a subsidiary of Paytm – OCL which used to provide payment gateway/aggregator service to Paytm. The RBI has now suspended PPBL’s wallet business, and has also asked it to close the nodal account of PPSL. Further, the Regulator has asked PPBL to stop onboarding new liability customers, while facilitating smooth withdrawal of deposits in the wake of the RBI action. Paytm – OCL has announced that it will cut all business relations with PPBL, and VSS has stepped down from the Board of the bank; the MD & CEO (Surinder Chawla) has also resigned. We believe the RBI’s suspension and Paytm’s disassociation will impact the survivability of the bank with a potential risk of surrendering or cancellation of the Payment bank license.

**Exhibit 45: Paytm Payment Bank gained SA traction, piggy-backing on Paytm’s (OCL) strong customer platform...**



Source: Company, Emkay Research

**Exhibit 46: ...which, coupled with better investment earnings, led to the bank turning profitable in FY23; but it should turn negative due to the recent business suspension by the RBI**



Source: Company, Emkay Research

**Payments gateway business on strong footing, but new merchant addition held in abeyance, lacking PA license**

Paytm (OCL) has developed a robust payment gateway business over the years, with prominent brands like Uber, IRCTC, Zomato, Swiggy, airtel, Jio, Flipkart, and so on. In online transactions, Paytm’s payment gateway is used by most large online merchants, where Paytm makes a small spread from the MDR as the payment gateway provider. Additionally, the payment-related margin for ticketing and bill payments comes from the online gateway. However, the RBI had mandated payment gateways in Mar-2020 to secure payment aggregator license for acquiring merchants and providing them with digital payment acceptance solutions. In this regard, OCL had applied for a payment aggregator license through its subsidiary Paytm Payment Services Ltd (PPSL), but was not granted the license by the RBI in Mar-23; it was asked to re-apply for the same in 120 days, pending which it was asked to stop onboarding new merchants (similar to the wallet business). At the same time, the RBI also directed OCL to seek necessary approval for past downward investment from the company into PPSL, to comply with FDI norms.

Similar issues were also raised in case of other applicants, including PayU. As far as Paytm is concerned, the license application is still held in abeyance and has thus restricted Paytm from onboarding new merchants, thereby ceding share to competition. Management remains hopeful of receiving the license from the Regulator and believes that the RBI is unlikely to stop it from operating its payment gateway for the existing merchants on its platform.

Exhibit 47: Some key large merchants on Paytm's platform



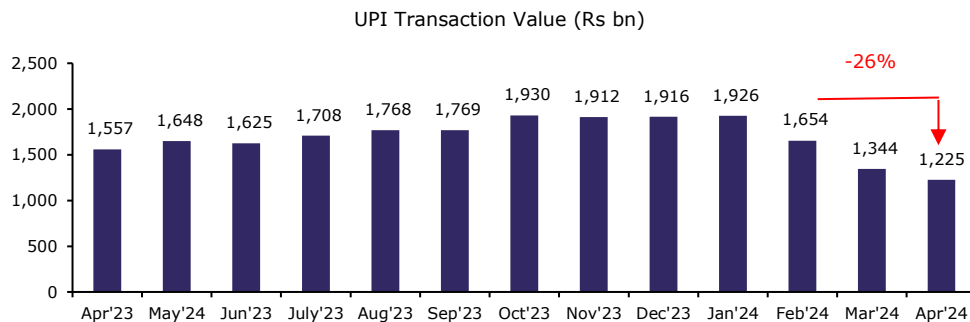
Source: Emkay Research

UPI market share trajectory to ease; rising share of UPI in Payments to hurt margins

Initially, Paytm was relatively slower in UPI adoption given no MDR on UPI (except GoI incentive) vs a far higher MDR on wallet which allowed players like PhonePe and GPay to grab a sizable market share (~80% in FY19). However, as Paytm realized the potential of UPI, being a low-cost strong customer acquisition engine (though not profitable on standalone basis) and the potential monetization opportunity, it went the whole hog to accelerate its market share, taking it up to 15%/11% in volume/value terms in FY23; it has started falling again recently due to the RBI clampdown that is hurting its customer base and has thus led to fall in share to 8%/6%, respectively in Apr-24. We believe that there will be some more market share loss in the near term; thus, Paytm will have to re-accelerate marketing efforts to stabilize the business or re-gain the market share trajectory in UPI which will lead to higher operational burn. Notably, UPI remains largely MDR free, except for select P2M transactions and government incentives. On the other hand, fintechs have demanded some MDR on UPI which we believe, if accepted by the Regulator/GoI, could make UPI a profitable business on standalone basis.

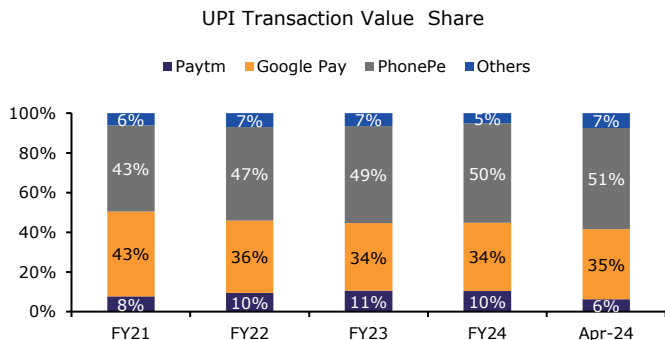
Though for now UPI remains a loss-making business on standalone basis, Paytm has been one of the few fintechs to effectively monetize its customer base via the lending business. However, the lending business may witness a slowdown in the near term due to a calibrated growth approach amid rising asset quality noise/regulatory concerns and possible business re-look by the partners, which should hurt the Paytm's payment business monetization story.

Exhibit 48: Paytm's UPI GMV has fallen post the regulatory glare



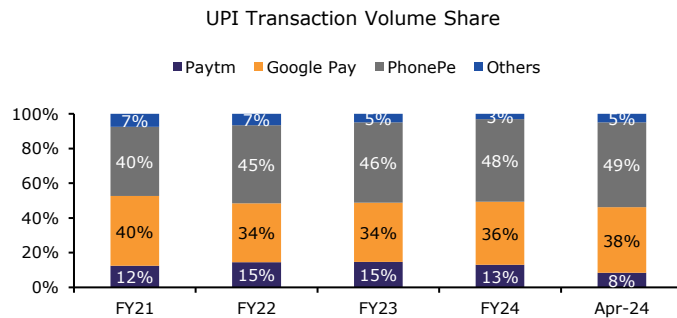
Source: RBI, NPCI, Emkay Research

Exhibit 49: Paytm has seen a dip in the transaction share...



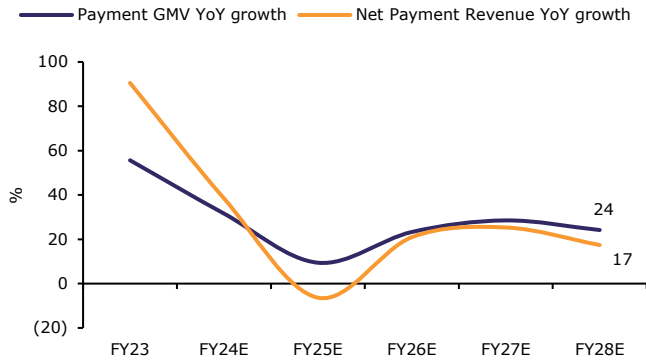
Source: NPCI, Emkay Research

Exhibit 50: ...as also in the value share (though lower than volume share)



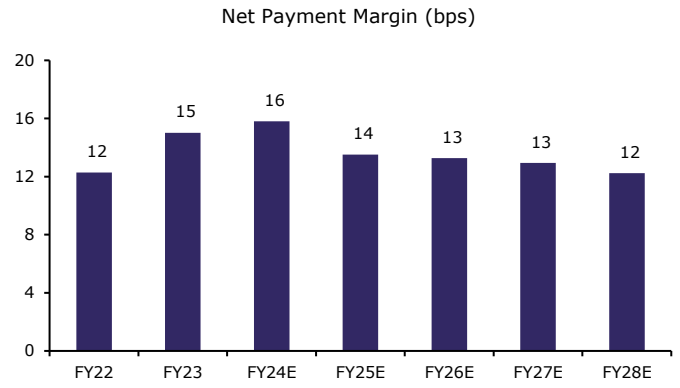
Source: NPCI, Emkay Research

**Exhibit 51: Rising share of UPI to hurt net payment revenue growth...**



Source: Emkay Research

**Exhibit 52: ...mainly due to lower take rates**

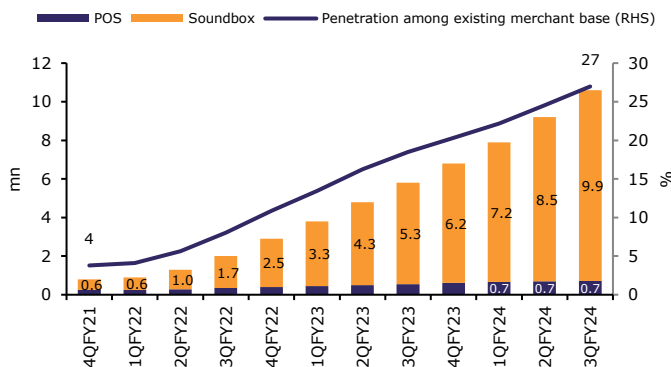


Source: Emkay Research

**Payment ‘Device’ revenue growth has been robust, but could see some moderation in the near term**

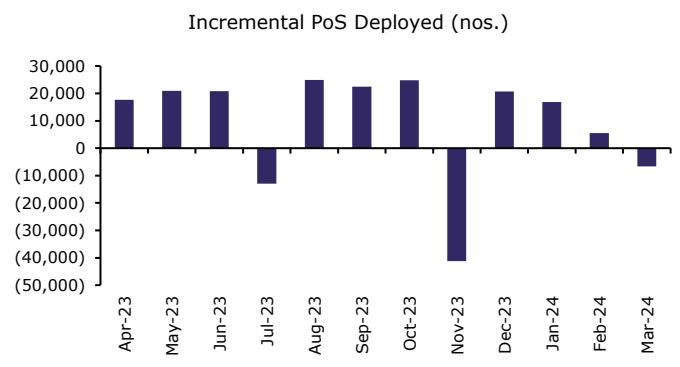
Paytm has made significant strides in the payment devices business, being an early mover on android-based POS, even attracting a large player like HDFCB; it has also made good progress in its innovative sound-box business. As of Dec-23, Paytm has nearly 10.6mn subscription paying merchants – POS (9.9mn, covering 27% of merchants) and android-based large POS (0.9mn, covering 2.3% of the merchant base), leaving enough scope for penetration. On a blended basis, Paytm earns nearly Rs100/pm subscription revenue from these merchants, which indicates that Paytm logged ~Rs8.3bn revenue over 9MFY24 or ~20bps of GMV, and is thus emerging as one of the significant payment business revenue contributors, in addition to a transaction business revenue & high-margin commerce business. We expect some moderation in the near term due to recent business disruption and increased competition. However, Paytm shall aggressively focus on reclaiming its position as device is an important anchor product with merchants. We expect device penetration to improve gradually to 42% vs 28% and contribute ~23% of payment revenue by FY28E.

**Exhibit 53: Devices deployed and penetration in the existing merchant base over the quarters**



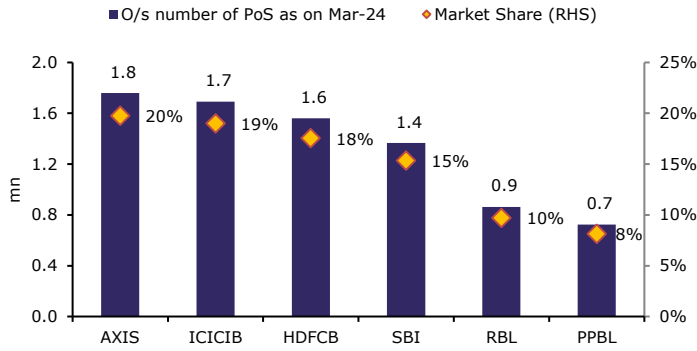
Source: Company, Emkay Research

**Exhibit 54: Incremental POS deployed has seen some moderation in Mar-24**



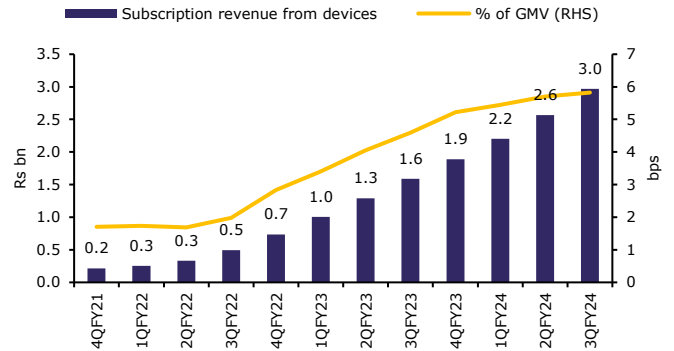
Source: RBI, Emkay Research

**Exhibit 55: Player-wise o/s POS devices and market share**



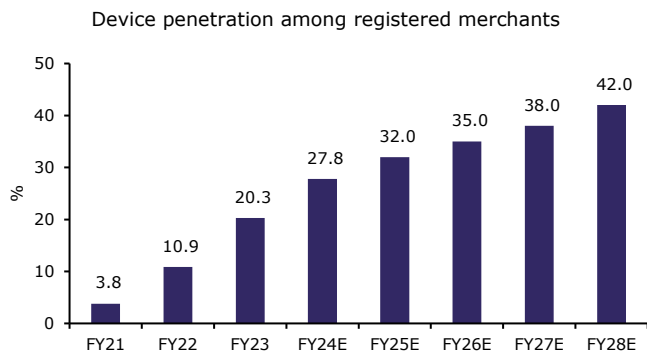
Source: RBI, Emkay Research

**Exhibit 56: Subscription revenue over the quarters**



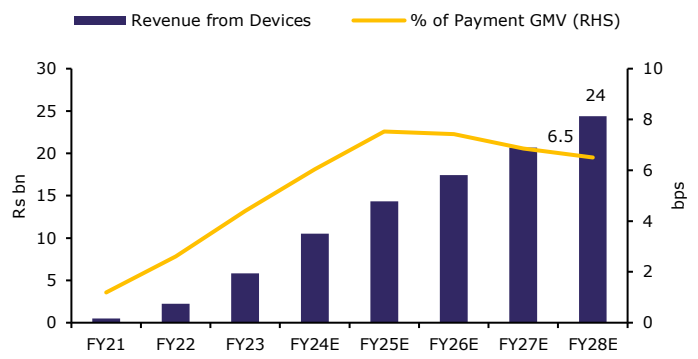
Source: Emkay Research; based on our assumptions

**Exhibit 57: Device penetration to improve at a faster pace...**



Source: Emkay Research

**Exhibit 58: ...leading to healthy revenue traction, but should moderate a bit due to recent business disruption**

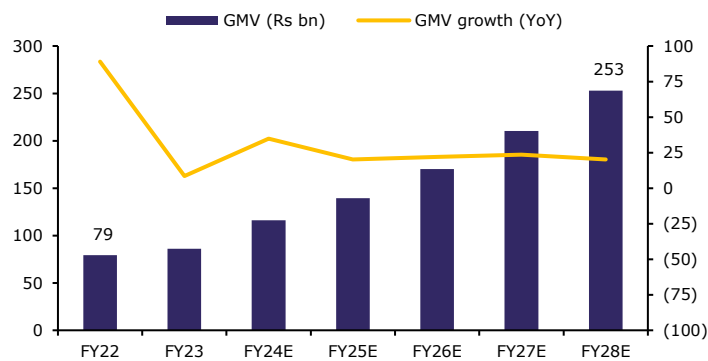


Source: Emkay Research

### High-margin Marketing Services (erstwhile cloud & commerce business) matures – Set for growth at a moderate pace

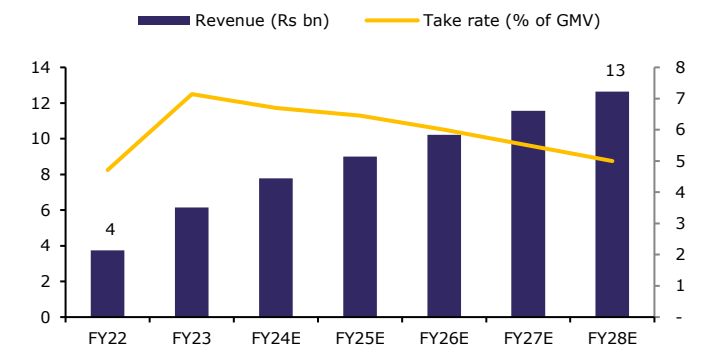
Paytm offers marketing services (earlier commerce & cloud) to merchants by leveraging consumer app traffic, which primarily includes ticketing (travel, movie, events, etc), advertising, Credit card marketing, deals/gift vouchers, and cloud & software services. As per Management, Company’s GMV for ticketing, deals and vouchers (commerce business) has been reporting strong growth, whereas take rates for the Commerce business have been typically higher at 5-6% and thus meaningfully contributing to revenue growth. On the other hand, the cloud business, including advertising, has reported some stagnation of recent and is likely to remain under pressure in the near term. Credit card sourcing, which is part of the cloud business, has done well so far, with active card base at 1mn; but we believe that the company’s partners (SBI Cards, HDFCB) are likely to go slow amid regulatory concerns on sourcing cards.

**Exhibit 59: Commerce (now marketing services) GMV growth to pace down...**



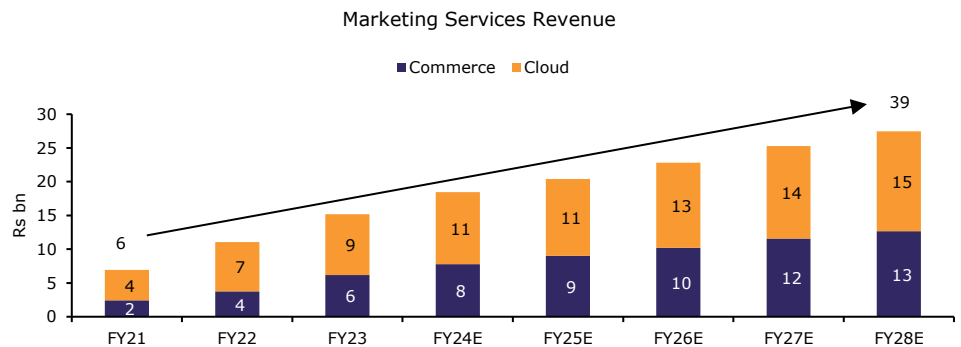
Source: Company, Emkay Research

**Exhibit 60: ...which, coupled with some moderation in the take rate from its peak, should control the pace of revenue growth**



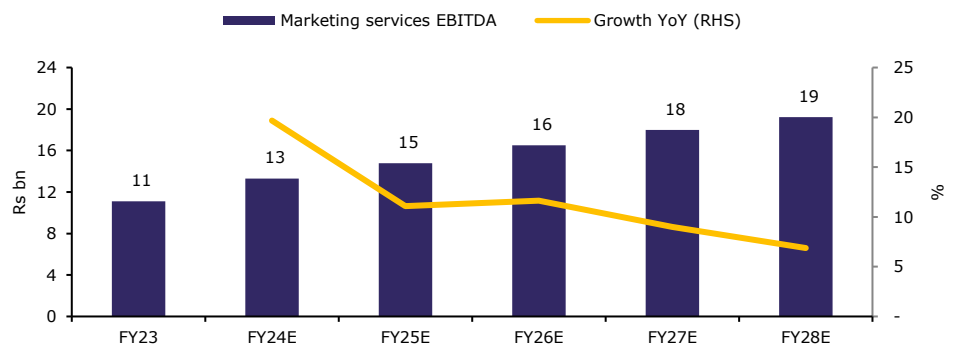
Source: Company, Emkay Research

**Exhibit 61: Marketing Services (Commerce and cloud business) revenue set to grow at a healthy clip after some toning down in the near term**



Source: Company, Emkay Research

**Exhibit 62: Marketing Services (Commerce and cloud business) EBITDA before ESOP**



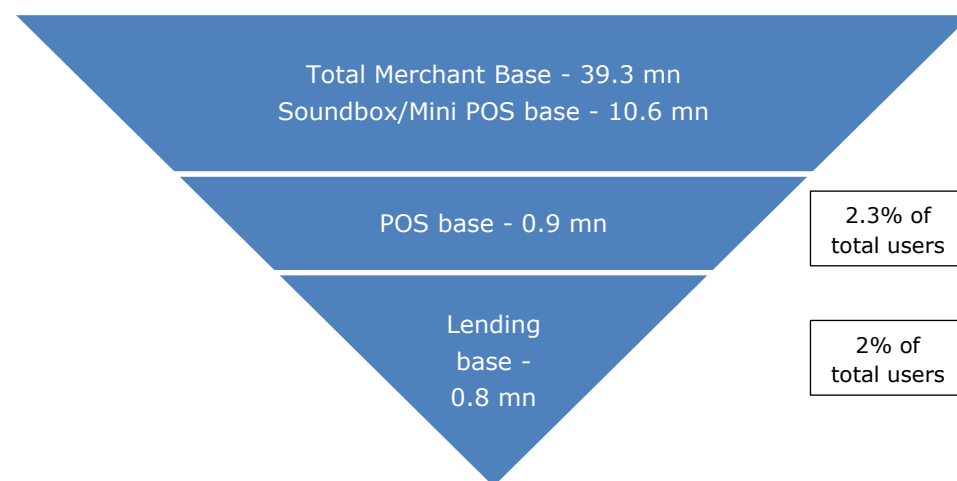
Source: Emkay Research; based on our opex assumptions, as mentioned in Exhibit 23



## Financial Services business – A key profitability driver to hit speed bump in near term

Paytm has emerged as one of the leading player in payment business monetization via its financial services business that encompasses Post-Paid loans (contributing 53% of the disbursement), followed by PL (contributing 27%) and Merchant Loans (contributing 21% of loans). Currently, Paytm acts as a loan service provider (LSP) cum collection agent for most loans originated for lending partners (including AB Finance, Hero Fincorp, Piramal Cap, Poonawalla Fincorp, Shriram Fin, SMFG India, Tata Cap, and Clix Cap), thus earning a gross take rate of 3.4% (sourcing fee at 2.5-3.5% + Collection fee at 0.5-1.5%). But Company now plans to act as only an LSP with select partners; this should lead to some moderation in the net take rate. Separately, Paytm has largely stopped low-value Post-paid and Personal loans (ATS below Rs50k contributing nearly 70% of the disbursement), given rising noise around the asset quality issue and partner-side concerns post RBI action on the Paytm Payments Bank. However, the merchant lending business with its relatively far better take rate (5% vs 4% for PL, and 2% for Post-paid) has been growing at a healthy pace and is set to emerge as a key business/revenue driver for the company, riding on Paytm’s strong and well entrenched merchant network (~36mn). That said, we expect the financial services business including loan distribution to report 10% disbursement CAGR/8% revenue CAGR over FY24-28E, factoring in the sharp business dislocation in FY25-26E and the start of recuperation thereafter. In the long run, we believe Paytm will need to consider securing an NBFC license and transforming from a pure LSP to an on-balance lender and, thus, reduce its dependence on partners.

Exhibit 63: Paytm’s Payment – Lending business funnel suggests strong opportunity in long run



Source: Company, Emkay Research

Exhibit 64: Snapshot of Paytm’s loan distribution business

Loans	PL	ML	Postpaid
ATS (Rs mn)	0.18	0.20	0.01
Average Tenure	15 months	12 months	Up to 30 days
Penetration	1.1% of MTUs	6.1% of device merchants	3.7% of MTU
Bounce rates	10-11%	NA	9.5-10.75%
Bucket 1 Resolution	88-92%	78-83%	82-84%
Recovery rate post 90+	27-29%	30-35%	30-35%
ECL	4.5-5%	4.75-5.25%	0.65-0.85%

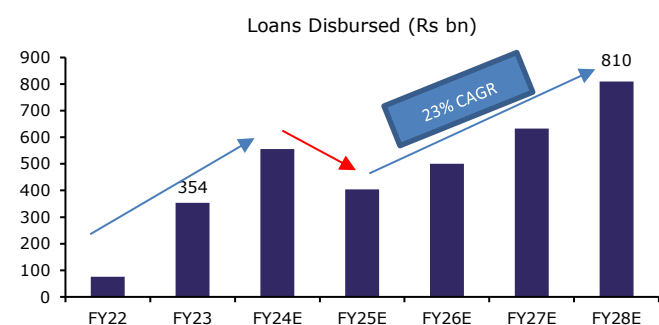
Source: Company, Emkay Research

**Exhibit 65: Financial Services (lending business) disbursement trend moderating due to calibration approach in Post-paid and PL**

Disbursement (Rs bn)	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
<b>Post-Paid</b>	<b>4.2</b>	<b>4.5</b>	<b>7.4</b>	<b>11.9</b>	<b>21.8</b>	<b>33.8</b>	<b>40.5</b>	<b>52.0</b>	<b>67.9</b>	<b>80.4</b>	<b>90.1</b>	<b>75.0</b>
Growth YoY					425%	657%	449%	337%	211%	138%	122%	44%
Share	61%	71%	59%	55%	61%	61%	55%	52%	54%	54%	56%	48%
<b>Personal</b>	<b>0.7</b>	<b>1.1</b>	<b>2.5</b>	<b>5.2</b>	<b>8.1</b>	<b>13.4</b>	<b>20.6</b>	<b>29.3</b>	<b>34.5</b>	<b>40.6</b>	<b>39.3</b>	<b>44.6</b>
Growth YoY					1084%	1111%	735%	468%	328%	202%	91%	52%
Share	10%	18%	20%	24%	23%	24%	28%	29%	27%	27%	24%	29%
<b>Merchant</b>	<b>2.0</b>	<b>0.7</b>	<b>2.7</b>	<b>4.7</b>	<b>5.7</b>	<b>8.3</b>	<b>12.1</b>	<b>18.3</b>	<b>23.1</b>	<b>27.4</b>	<b>32.8</b>	<b>35.8</b>
Growth YoY					178%	1033%	342%	285%	309%	232%	171%	96%
Share	30%	12%	22%	22%	16%	15%	17%	18%	18%	18%	20%	23%
<b>Total</b>	<b>6.9</b>	<b>6.3</b>	<b>12.6</b>	<b>21.8</b>	<b>35.5</b>	<b>55.5</b>	<b>73.1</b>	<b>99.6</b>	<b>125.5</b>	<b>148.5</b>	<b>162.1</b>	<b>155.4</b>
Growth YoY	NA	NA	NA	NA	417%	780%	482%	357%	253%	167%	122%	56%

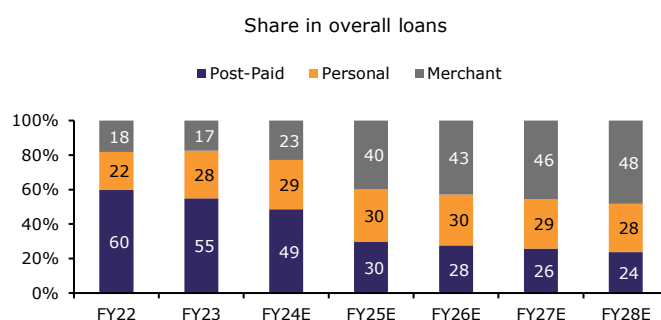
Source: Company, Emkay Research

**Exhibit 66: Financial (lending) business disbursements to drop in FY25E, due to growth calibration in Post-paid and PL...**



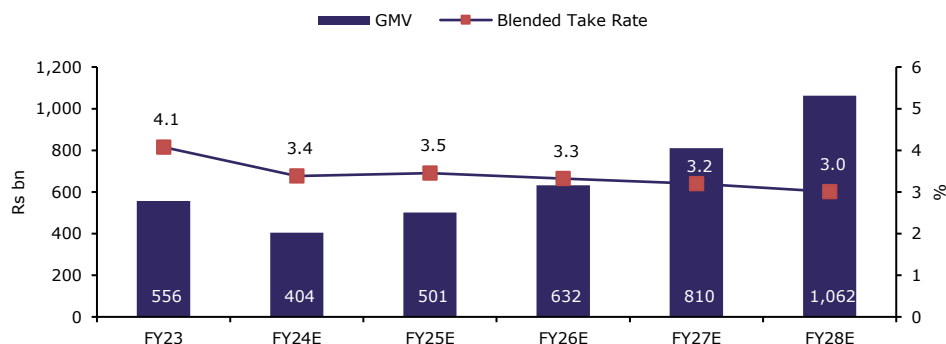
Source: Emkay Research

**Exhibit 67: ...leading to steady increase in the share of Merchant loans**



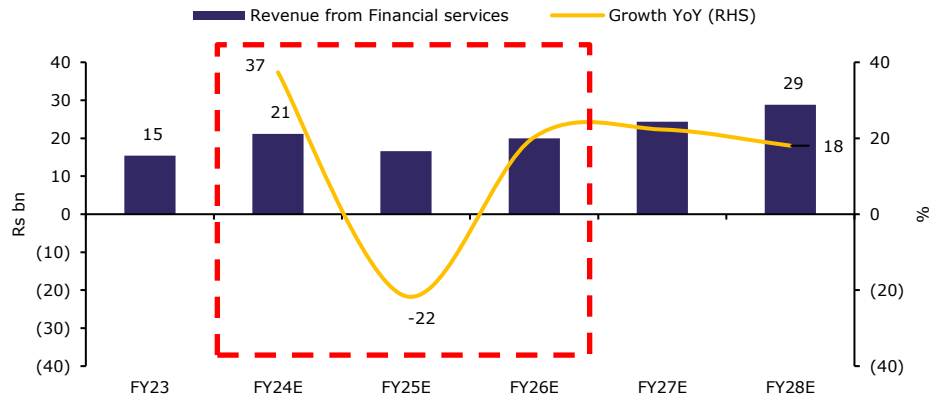
Source: Emkay Research

**Exhibit 68: Take rate for the financial services business to ease as Paytm moves from sourcing + collection model, partly offset by the increase in share of the higher take-rate ML business**



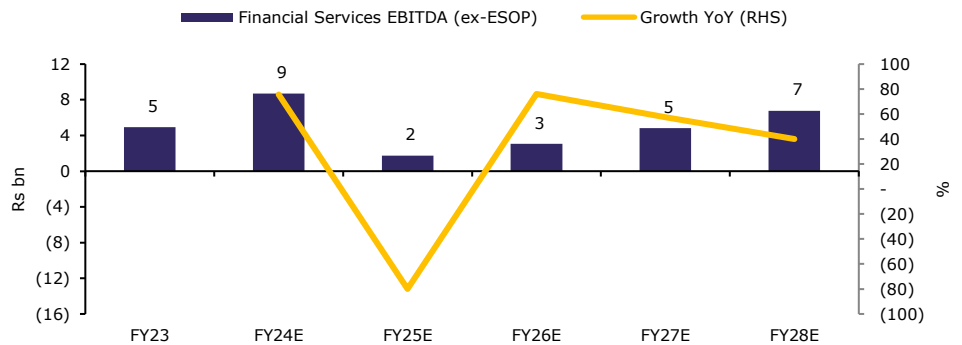
Source: Emkay Research

**Exhibit 69: Financial Services revenue to moderate in the near term due to calibration in the Post-Paid and PL business**



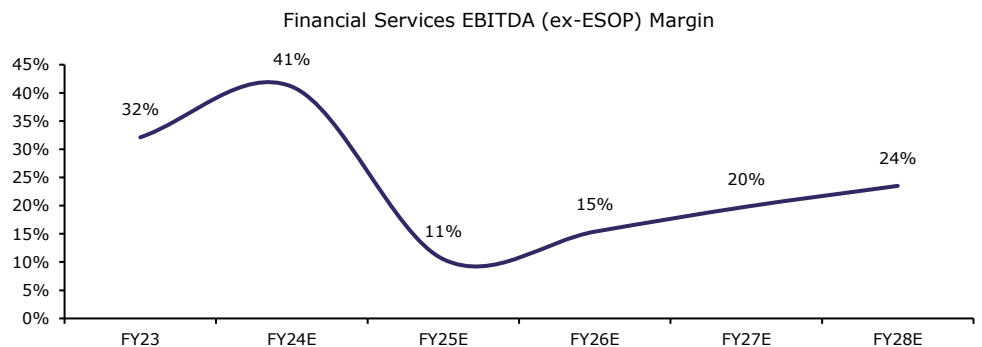
Source: Emkay Research

**Exhibit 70: Financial Services EBITDA (ex-ESOP)/YoY growth**



Source: Emkay Research

**Exhibit 71: Financial Services EBITDA margin to moderate a tad in the near term, considering Paytm’s strategic product restructuring, before it rises again**



Source: Emkay Research

### Postpaid Loans – Near-term slowdown imminent, with Paytm plans of de-focusing due to asset quality, regulatory, partner concerns

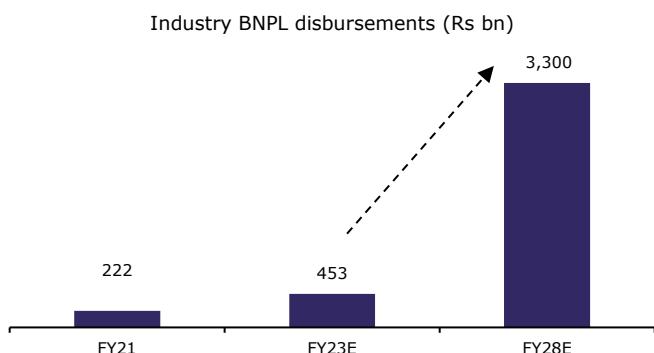
Post-paid or BNPL (Buy Now, Pay Later) has emerged as one of the prominent digi-lending products world-wide, amid rising consumerism and credit appetite over the past few years – a trend that is seen in India as well. That said, BNPL is typically a high return-high risk product and has led to closure of a few firms globally, as also in India (Zestmoney). However, Paytm and a few players like Mobikwik have adopted the LSP route, whereby they source the loans on the lenders balance sheet (Banks/NBFCs) for a fee (sourcing + collection) and FLDG limited to 5% as per the new RBI guidelines. However, rising asset quality concerns in unsecured loans with partners as well as the Regulator have forced Paytm to nearly stop the low post-paid loans that otherwise contribute nearly 70% of the disbursements in this segment. Among its partners, Aditya Birla Capital with AUM of Rs99bn has already announced stopping sourcing loans from Paytm; we believe the company’s plan to re-accelerate growth at existing partners or onboarding new partners too will be a challenge, after the recent RBI salvo. We believe Paytm’s post-paid loan disbursement would meaningfully slow down and are unlikely to recover even by FY28E.

**Exhibit 72: Post-paid business growth had seen moderation in 3Q due to RBI’s action to increase the risk-weight**

Post-paid business	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
<b>Disbursements (Rs bn)</b>	<b>4.2</b>	<b>4.5</b>	<b>7.4</b>	<b>11.9</b>	<b>21.8</b>	<b>33.8</b>	<b>40.5</b>	<b>52.0</b>	<b>67.9</b>	<b>80.4</b>	<b>90.1</b>	<b>75.0</b>
Growth YoY					425%	657%	449%	337%	211%	138%	122%	44%
Growth QoQ		7%	65%	61%	83%	55%	20%	28%	31%	18%	12%	-17%
Signed up users (mn)	-	-	-	3.0	4.0	5.0	6.0	3.4	3.9	4.1	4.3	4.5
No of loans (mn)	1.4	1.4	2.8	4.3	6.4	8.3	8.9	10.1	11.5	12.3	12.8	11.0
<b>ATS (Rs)</b>	<b>3,070</b>	<b>3,163</b>	<b>2,645</b>	<b>2,755</b>	<b>3,403</b>	<b>4,083</b>	<b>4,538</b>	<b>5,148</b>	<b>5,908</b>	<b>6,536</b>	<b>7,039</b>	<b>6,815</b>

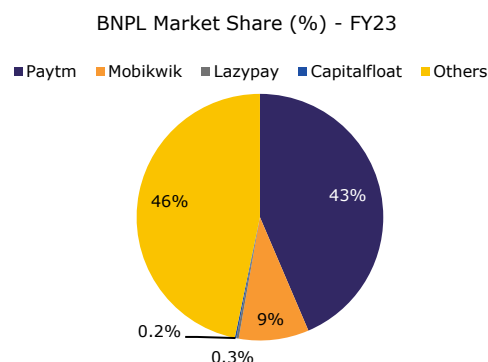
Source: Company, Emkay Research

**Exhibit 73: Huge opportunity in the BNPL business**



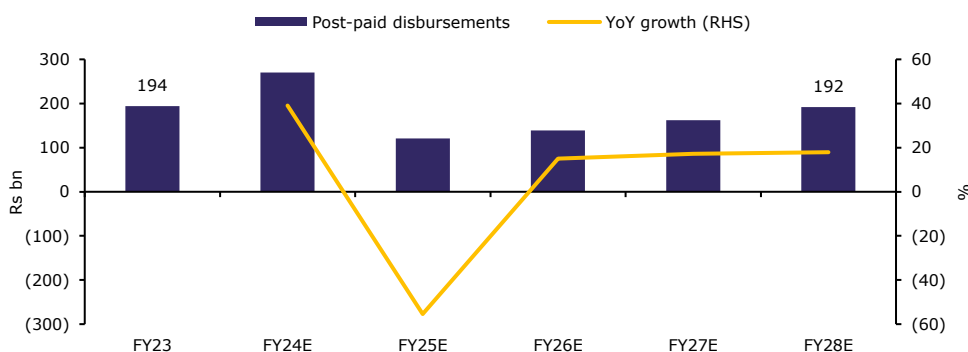
Source: Redseer, Emkay Research

**Exhibit 74: Paytm had a sizable market share**



Source: Emkay Research

**Exhibit 75: We expect Paytm’s post-paid loan disbursement to slow down significantly; unlikely to recover even by FY28E, given the underlying partner concerns and rising asset-quality noise**



Source: Company, Emkay Research

### Personal Loans – Paytm to focus on the higher ATS loan segment amid rising asset-quality noise in low ATS loans

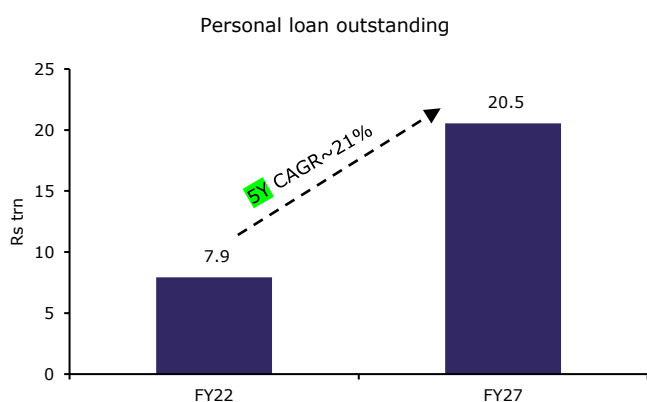
Paytm has ramped up its Personal Loan business over the past 2 years, with its share in overall disbursements at 29% of the overall disbursed loans in 3QFY24. The company pro-actively dropped disbursement during 2Q due to rising asset-quality concerns in low-ticket personal loans, before the RBI imposed higher risk weights on unsecured loans; but it resumed growth in 3Q, with focus on relatively high-ticket Personal loans (>50-75K). That said, the recent suspension by the RBI on Paytm Payment bank, thereby disrupting the business flow coupled with some pull-back by partners to recalibrate their own growth and risk management strategy, could lead to further moderation in this business.

**Exhibit 76: Quarterly snapshot of PL business**

PL business	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
Disbursements (Rs bn)	0.7	1.1	2.5	5.2	8.1	13.4	20.6	29.3	34.5	40.6	39.3	44.6
Growth YoY					1,084%	1,111%	735%	468%	328%	202%	91%	52%
Growth QoQ		63%	122%	110%	56%	67%	53%	43%	18%	18%	-3%	14%
No of loans (mn)	0.0	0.0	0.0	0.1	0.1	0.1	0.2	0.2	0.3	0.3	0.2	0.3
ATS (Rs '000)	76	85	85	86	88	103	108	122	128	135	164	178

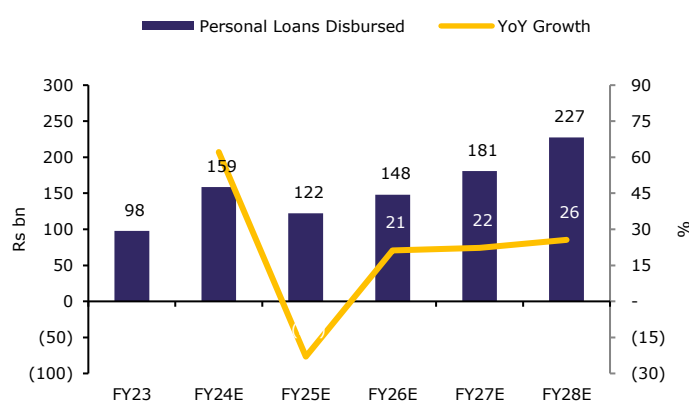
Source: Company, Emkay Research

**Exhibit 77: PL business opportunity remains strong**



Source: Redseer, Emkay Research

**Exhibit 78: Paytm’s disbursement trend over FY22-28E**



Source: Emkay Research

### Merchant lending – Strong network offers long growth runway, better merchant engagement

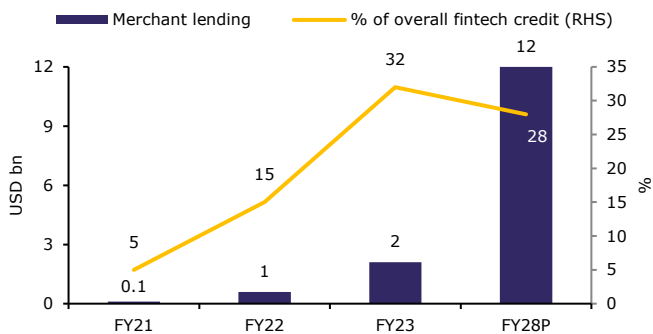
Paytm has one of the strong and highly engaged merchant networks (37mn+) among Paytech companies, be it large/small or online-offline, which it has captured to extend merchant/business loans (Exhibit 63). Merchant loans now contribute nearly 23% of total loans and are expected to note a faster growth pace, amid Company’s calibrated growth approach in the Post-paid and PL businesses. Notably, the take-rate for Merchant loans is relatively higher, at 5%, as is the ticket-size, and could interest even banks to tie-up with Paytm. Additionally, Paytm could consider opportunity in B2B trade credit which is still unexplored by most fintechs. We expect merchant lending business to register 32% CAGR over FY24-28E with its share increasing to 48% of overall loans by FY28E, as the PL and Post-paid loan growth shall be calibrated.

Exhibit 79: Snapshot of the ML/BL business till now

Merchant/Business Loans	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
Disbursements (Rs bn)	2.0	0.7	2.7	4.7	5.7	8.3	12.1	18.3	23.1	27.4	32.8	35.8
Growth YoY					178%	1,033%	342%	285%	309%	232%	171%	96%
Growth QoQ		-64%	274%	74%	19%	46%	46%	51%	27%	19%	19%	9%
No of loans (mn)	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.2	0.2
ATS (Rs `000)	119	122	119	135	149	140	148	148	170	196	182	199
Merchant penetration (mn)	0.0	0.0	0.0	0.8	0.6	0.7	0.9	1.2	1.1	1.1	1.4	1.6

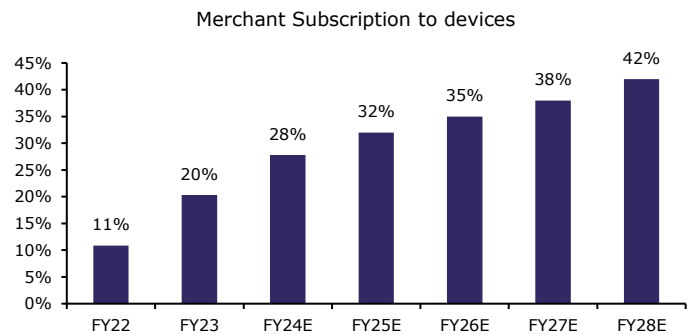
Source: Company, Emkay Research

Exhibit 80: Huge Merchant lending opportunity for fintechs



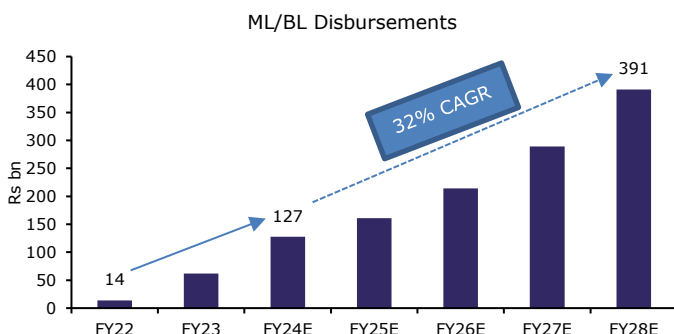
Source: Emkay Research

Exhibit 81: Merchant subscription rate to gradually pick up pace



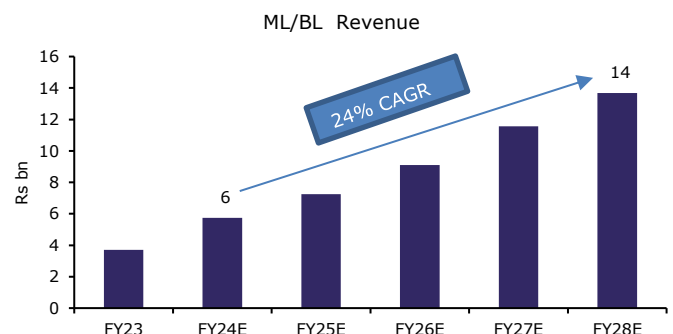
Source: Company, Emkay Research

Exhibit 82: ML/BL disbursements to track a strong trajectory of 32% CAGR in the next 5 years...



Source: Company, Emkay Research

Exhibit 83: ...which will lead to overall higher revenues in these segments, going ahead

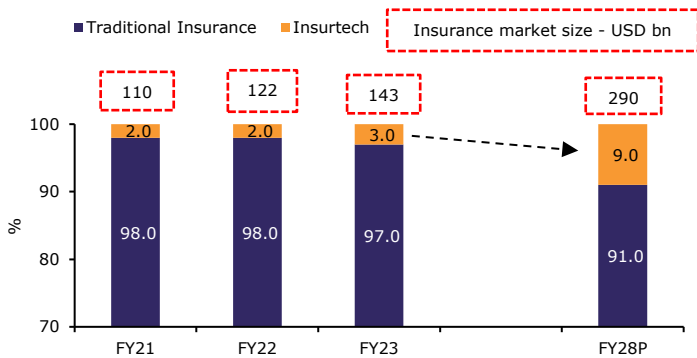


Source: Company, Emkay Research

### Broking, Insurance distribution – Yet to gain scale

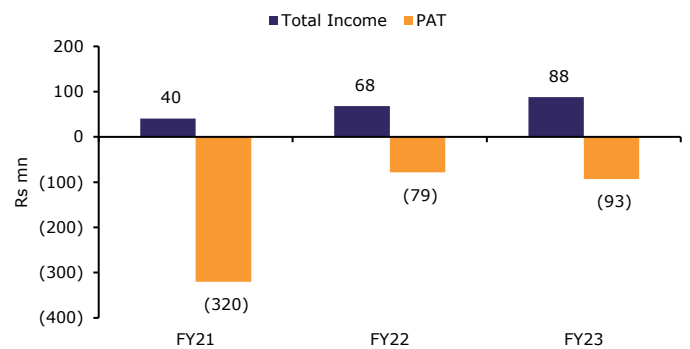
Paytm distributes insurance products across the Auto, Bike and Health segments, through 100% subsidiary Paytm Insurance Broking Private Ltd, and has a strong customer base. It also has a tie-up with more than 18 insurance companies in India and is witnessing early momentum in embedded as well as merchant insurance products, though it reported a loss in FY23. Notably, Founder Vijay Shekhar Sharma’s along with Paytm Group, attempted to acquire Raheja QBE General Insurance Company, but the MOU was terminated in 2022. The equity broking business under Paytm Money has shrugged off its past losses and turned profitable, with business traction seen across verticals, including equity and F&O. However, the business is yet to gain similar scale as some of the pure-play digital broking peers like Groww, Upstox, Zerodha, etc. Paytm recently witnessed an MD change, with Rakesh Singh replacing Varun Sridhar. Paytm is also engaged in distribution of MF, Pension and Gold products, which are gradually gaining traction. However, Paytm’s SA and Current a/c sourcing business could take a hit, as Company was compelled to cut its business tie-up with subsidiary Paytm Payments Bank; hence it needs to focus on new tie-ups.

**Exhibit 84: Huge opportunity for fintechs in the insurtech market, with rising adoption of digital insurance**



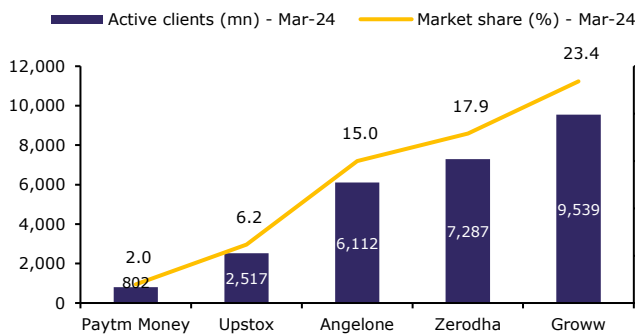
Source: Company, Emkay Research

**Exhibit 85: Paytm’s insurance distribution business has been reporting losses**



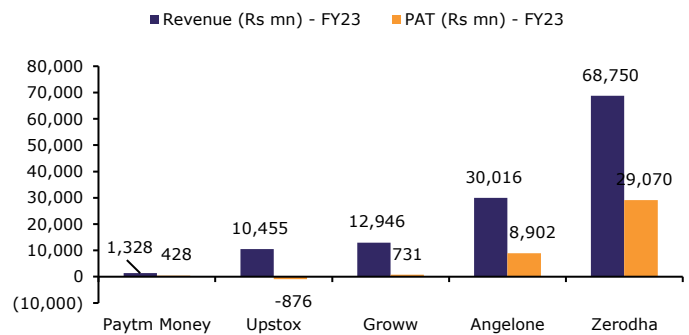
Source: Company, Emkay Research

**Exhibit 86: Paytm Money is yet to gain scale/market share...**



Source: Emkay Research

**Exhibit 87: ...as also the revenue/profitability traction**



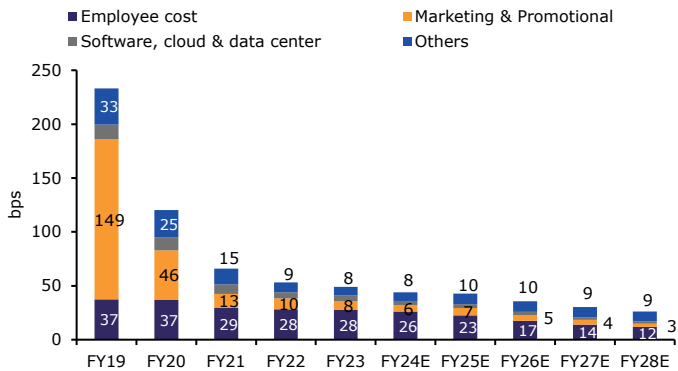
Source: Emkay Research



### Operational burn could inch up in the interim – To regain lost ground and so hurt EBITDA margins

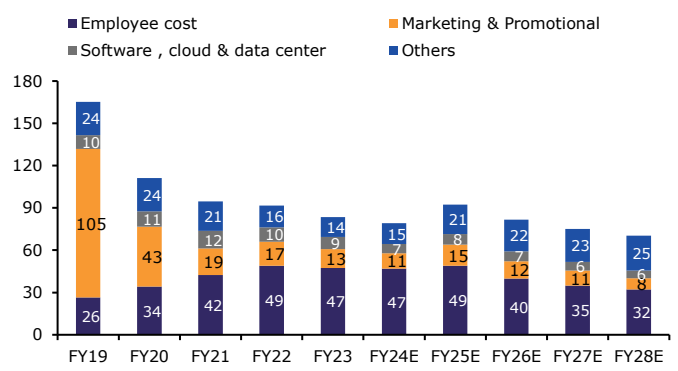
Paytm had been continuously pruning down its promotion/marketing cost (6bps of GMV in FY24E vs 13bps in FY21), thereby reducing the operational burn, akin to peers across the payment ecosystem. However, we believe that Paytm will have to incur additional direct and indirect marketing expenses for some time, to arrest customer attrition, re-accelerate new customer acquisition, and increase customer engagement on the platform. Factoring these in, we expect marketing and promotional expenses to remain largely flat or inch-up to 7bps of the GMV/15% of the operating revenue in FY25E, before it resumes its downward journey FY26E onwards, as the customer retention-related burn is largely behind now.

**Exhibit 88: Operating expenses as a % of GMV**



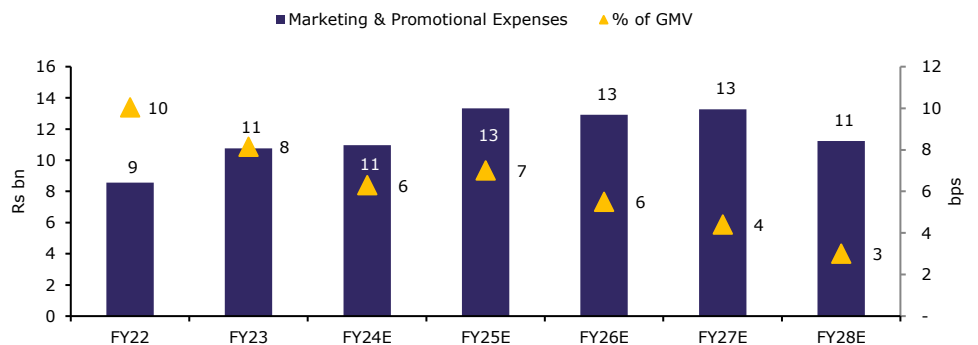
Source: Company, Emkay Research

**Exhibit 89: Operating expenses as a % of revenue**



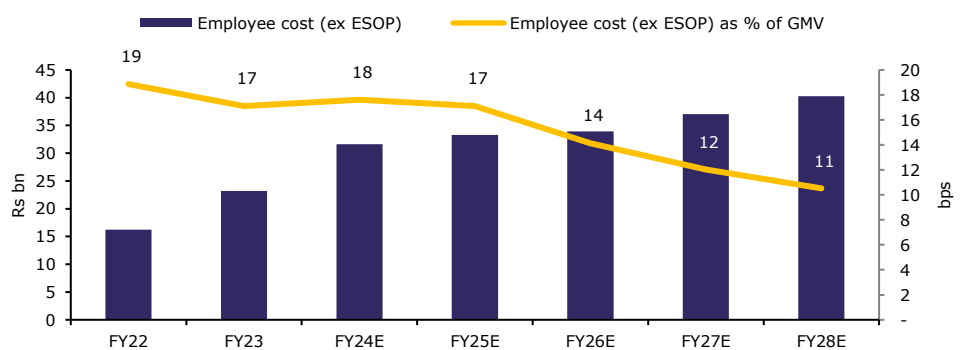
Source: Company, Emkay Research

**Exhibit 90: Marketing & Promotional expenses as a % of GMV will gradually mellow down...**



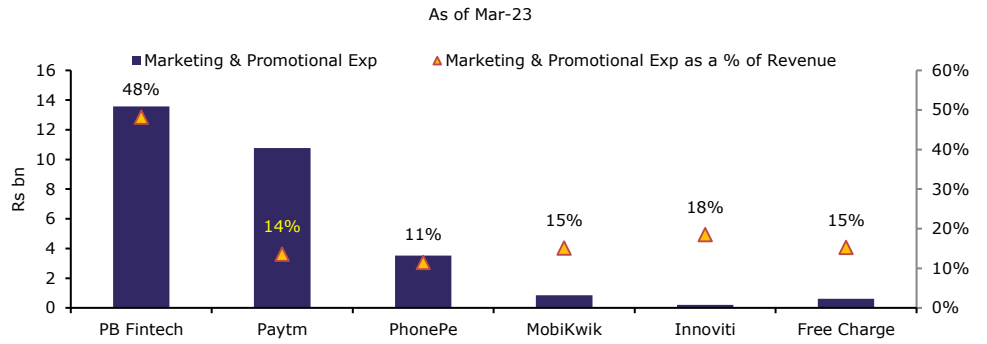
Source: Company, Emkay Research

**Exhibit 91: ...and so will the Employee cost (ex ESOP)**



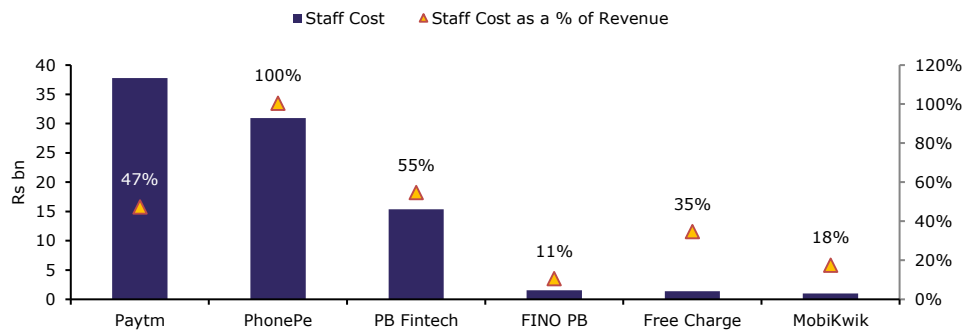
Source: Company, Emkay Research

**Exhibit 92: Paytm’s marketing expense as a % of Revenue is at the higher end of the spectrum, except PB fintech...**



Source: Company, Emkay Research

**Exhibit 93: ...the overall staff cost is also higher as of Mar-23**

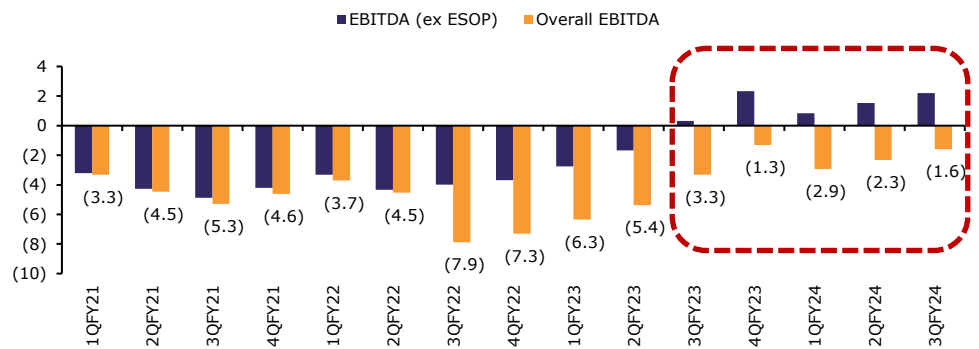


Source: Company, Emkay Research

# EBITDA to turn positive only in FY28E due to regulatory hit on Payments, Lending businesses

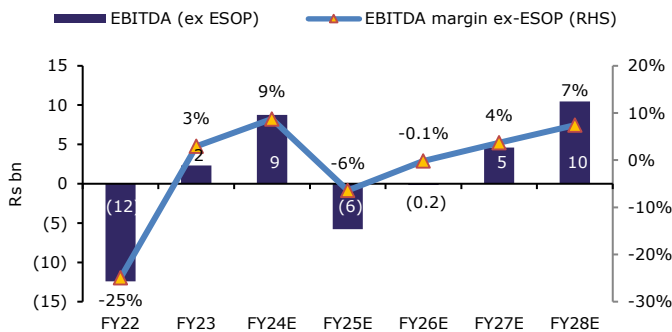
Paytm has been pressured with negative EBITDA (after ESOP), but it turned EBITDA (ex-ESOP)-positive, in Q3FY23 (Exhibit 94), mainly due to better net payment margins, reduced operational burn, and scale up in the financial services business. However, we believe the recent regulatory salvo and thus the impact on the payments/lending business as well as the higher operational burn (partly offset by improving traction in device fees) could delay the company turning EBITDA positive in FY28E and EBITDA ex-ESOP positive in FY27E, subject to no further business deterioration. Our revenue estimate for FY25/26E is lower vs consensus by 21%/25% factoring higher disruption in payment/lending business. We expect losses to be higher for FY25E by 222% vs consensus, while expect the losses to continue in FY26E as well due to assumed higher operating burn vs consensus turning PAT positive. We believe consensus estimates are not fully updated due to coverage suspension by few peers.

**Exhibit 94: EBITDA before ESOP turned positive in 3QFY23, but should witness pressure due to the recent RBI salvo hurting the payments/lending business**



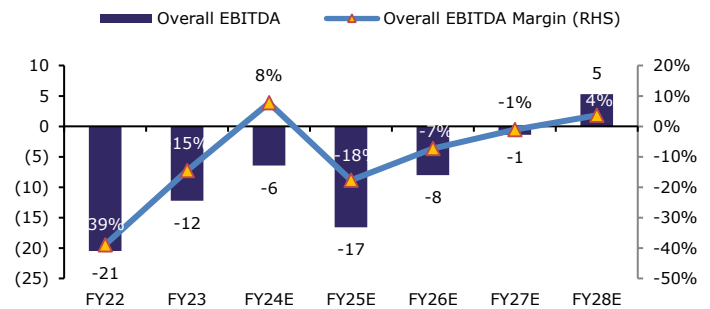
Source: Emkay Research

**Exhibit 95: EBITDA ex-ESOP to turn net positive only in FY27E...**



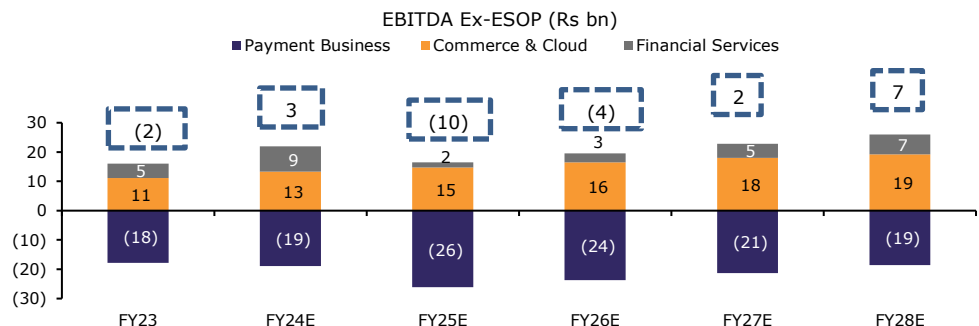
Source: Emkay Research

**Exhibit 96: ...while the overall EBITDA is expected to turn positive in FY28E**



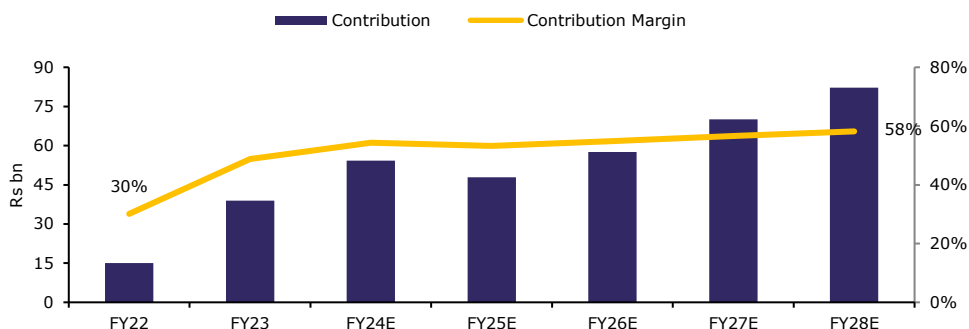
Source: Emkay Research

**Exhibit 97: EBITDA ex ESOP (Rs bn) – Breakup across business segments**



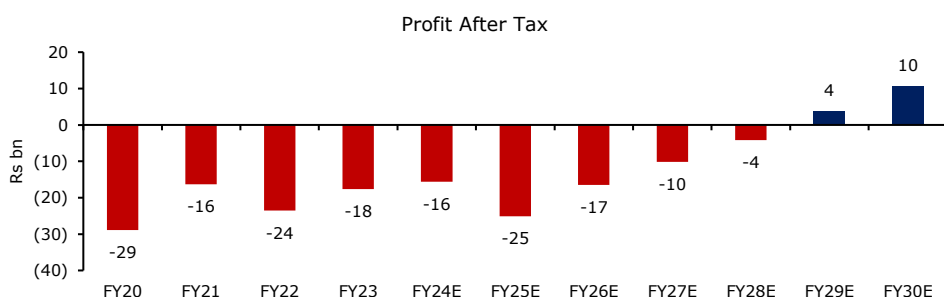
Source: Company, Emkay Research; Figures in dotted box represents overall EBITDA (ex-ESOP)

**Exhibit 98: Contribution margin to pick up pace, once the Commerce & Cloud and Financial Services businesses scale up**



Source: Emkay Research

**Exhibit 99: Paytm is expected to turn PAT positive only by FY29E**



Source: Company, Emkay Research

**Exhibit 100: Emkay vs Consensus Estimates**

Particulars	FY24E		FY25E		FY26E	
	Consensus	Emkay	Consensus	Emkay	Consensus	Emkay
Revenue (Rs bn)	104	100	114	90	140	105
EBITDA (Rs bn)	(10)	(6)	(6)	(17)	8	(8)
PAT (Rs bn)	(13)	(16)	(8)	(25)	6	(17)
RoA (%)	(7)	(9)	(7)	(14)	4	(10)
EPS	(20)	(23)	(15)	(40)	8	(26)
<b>P/BV (x)</b>	<b>1.7</b>	<b>1.9</b>	<b>1.7</b>	<b>2.4</b>	<b>1.5</b>	<b>3.0</b>
<b>EV/Revenue (x)</b>	<b>1.5</b>	<b>1.2</b>	<b>1.4</b>	<b>1.5</b>	<b>1.1</b>	<b>1.4</b>

Source: Company, Emkay Research; Note: Wide variance observed with consensus because of coverage drop by some peers

**Exhibit 101: DuPont analysis based on average assets**

DuPont based on avg assets (%)	FY22	FY23	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E
Payment Services Revenue	30.7	30.8	37.5	34.6	41.8	49.4	54.7	59.0	62.0	63.2
Market Services Revenue	5.4	5.0	5.9	6.4	7.3	7.9	8.3	8.3	8.1	7.7
Financial Services and other op income	0.6	8.6	11.6	9.3	11.5	14.1	16.1	19.0	20.9	21.9
<b>Operating Revenue</b>	<b>36.7</b>	<b>44.4</b>	<b>55.0</b>	<b>50.2</b>	<b>60.6</b>	<b>71.4</b>	<b>79.1</b>	<b>86.4</b>	<b>91.0</b>	<b>92.8</b>
Operating expenses	53.9	53.5	61.7	61.6	67.5	74.0	77.9	79.9	81.0	80.0
- Payment gateway exp	20.3	16.5	18.2	15.3	18.0	20.4	22.2	22.8	23.5	23.6
- Marketing and promotional exp	6.3	6.0	6.0	7.4	7.5	7.7	6.3	6.1	5.8	5.3
- Employee exp incl ESOPs	17.9	21.0	25.8	24.6	24.1	24.9	25.4	25.1	24.4	23.1
<b>EBITDA</b>	<b>(17.2)</b>	<b>(9.1)</b>	<b>(6.7)</b>	<b>(11.4)</b>	<b>(6.9)</b>	<b>(2.6)</b>	<b>1.3</b>	<b>6.5</b>	<b>10.0</b>	<b>12.8</b>
PBT	(17.2)	(9.6)	(7.9)	(13.9)	(9.5)	(5.9)	(2.3)	2.5	6.2	9.1
<b>RoA</b>	<b>(17.7)</b>	<b>(9.9)</b>	<b>(8.7)</b>	<b>(14.2)</b>	<b>(9.7)</b>	<b>(5.9)</b>	<b>(2.4)</b>	<b>2.0</b>	<b>5.0</b>	<b>7.5</b>
<b>RoE</b>	<b>(23.2)</b>	<b>(13.1)</b>	<b>(13.0)</b>	<b>(25.0)</b>	<b>(20.8)</b>	<b>(15.3)</b>	<b>(7.1)</b>	<b>6.3</b>	<b>15.6</b>	<b>21.6</b>

Source: Emkay Research

**Exhibit 102: DuPont based on Payment GMV + Loans disbursed**

DuPont based on GMV + Loans disbursed (%)	FY22	FY23	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E
Payment Services Revenue	0.48	0.41	0.38	0.32	0.30	0.28	0.26	0.24	0.23	0.22
Market Services Revenue	0.09	0.07	0.06	0.06	0.05	0.04	0.04	0.03	0.03	0.03
Financial Services and other op income	0.01	0.11	0.12	0.09	0.08	0.08	0.08	0.08	0.08	0.08
<b>Operating Revenue</b>	<b>0.58</b>	<b>0.59</b>	<b>0.56</b>	<b>0.46</b>	<b>0.44</b>	<b>0.40</b>	<b>0.37</b>	<b>0.35</b>	<b>0.34</b>	<b>0.33</b>
Operating expenses	0.85	0.71	0.62	0.57	0.49	0.42	0.36	0.33	0.30	0.28
- Payment gateway exp	0.32	0.22	0.18	0.14	0.13	0.11	0.10	0.09	0.09	0.08
- Marketing and promotional exp	0.10	0.08	0.06	0.07	0.05	0.04	0.03	0.02	0.02	0.02
- Employee exp incl ESOPs	0.28	0.28	0.26	0.23	0.17	0.14	0.12	0.10	0.09	0.08
<b>EBITDA</b>	<b>(0.27)</b>	<b>(0.12)</b>	<b>(0.07)</b>	<b>(0.10)</b>	<b>(0.05)</b>	<b>(0.01)</b>	<b>0.01</b>	<b>0.03</b>	<b>0.04</b>	<b>0.04</b>
PBT	(0.27)	(0.13)	(0.08)	(0.13)	(0.07)	(0.03)	(0.01)	0.01	0.02	0.03
<b>RoA</b>	<b>(0.28)</b>	<b>(0.13)</b>	<b>(0.09)</b>	<b>(0.13)</b>	<b>(0.07)</b>	<b>(0.03)</b>	<b>(0.01)</b>	<b>0.01</b>	<b>0.02</b>	<b>0.03</b>

Source: Emkay Research

## Recuperation to be a long drawn out process; initiate coverage on Paytm (OCL) with REDUCE

Following the recent regulatory salvo, Paytm (One 97 Communications - OCL) has corrected nearly 80% from its post-IPO peak, reflecting the expected business/revenue dislocation (Payments/Financial services), which is further aggravated by the frequent KMP (key management personnel) attrition. We believe Paytm's path to profitability could prolong, mainly due to higher operational burn in the payment business in the absence of the high-MDR wallet business/higher share of UPI and its jeopardized monetization strategy due to sharp slowdown in financial services revenues amid rising asset quality and partner attrition/business scale-down risks. In our view, Paytm is still in the disruption phase amid the ongoing attrition seen in customers, KMP and lending partners, while business normalization and re-accelerating growth will be a long drawn out process. Thus, we expect Paytm to turn EBITDA-positive only in FY28E and net profit-positive only by FY29E, thus derailing their plans to turn PAT positive in the near term. Additionally, regulatory risks are still high, given its PA license being held in abeyance; also, the risk of Ant Financial stake sale looms on the stock. Based on DCF valuation, we arrive at our target price of Rs300/share, implying FY26E price-to-operating revenue at 1.8x and P/BVPS of 2.5x. Thus, we initiate coverage on Paytm with a REDUCE recommendation.

### Exhibit 103: Valuation of Paytm under the Discounted Cash Flow method – Paytm shall generate positive cash flows only by FY29E

(Rs mn)							
Particulars	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E
<b>Operating Revenue</b>	<b>89,889</b>	<b>104,953</b>	<b>123,704</b>	<b>141,306</b>	<b>164,095</b>	<b>189,096</b>	<b>216,233</b>
Revenue growth	-10.1%	16.8%	17.9%	14.2%	16.1%	15.2%	14.4%
<b>EBITDA</b>	<b>(16,572)</b>	<b>(7,999)</b>	<b>(1,413)</b>	<b>5,310</b>	<b>15,156</b>	<b>23,511</b>	<b>32,365</b>
EBITDA Margin	-18.4%	-7.6%	-1.1%	3.8%	9.2%	12.4%	15.0%
Less: Depreciation	7,999	8,236	8,519	9,205	10,183	10,387	10,723
<b>EBIT</b>	<b>(24,571)</b>	<b>(16,234)</b>	<b>(9,932)</b>	<b>(3,895)</b>	<b>4,973</b>	<b>13,124</b>	<b>21,642</b>
EBIT Margin	-27.3%	-15.5%	-8.0%	-2.8%	3.0%	6.9%	10.0%
Less: Tax	25.2%	-	-	-	-	-	-
Tax as % of EBIT	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Operating Income (after Tax)</b>	<b>(24,571)</b>	<b>(16,234)</b>	<b>(9,932)</b>	<b>(3,895)</b>	<b>4,973</b>	<b>13,124</b>	<b>21,642</b>
Add: Depreciation & ESOPs	18,799	16,081	14,520	14,345	14,590	14,412	14,313
Less: Capital Expenditure	14,180	13,726	16,596	14,383	15,534	17,311	17,871
as % of revenues	15.8%	13.1%	13.4%	10.2%	9.5%	9.2%	8.3%
Less: Change in NWC	3,467	4,146	2,758	3,153	959	1,086	1,245
<b>Free Cash Flows</b>	<b>(23,419)</b>	<b>(18,025)</b>	<b>(14,765)</b>	<b>(7,085)</b>	<b>3,070</b>	<b>9,139</b>	<b>16,839</b>
Mid-year convention	0.5	0.5	1.5	2.5	3.5	4.5	5.5
Present Value factor	13%	1.0	0.9	0.8	0.7	0.6	0.5
<b>PV of Free Cash Flows</b>	<b>(23,419)</b>	<b>(16,990)</b>	<b>(12,366)</b>	<b>(5,272)</b>	<b>2,030</b>	<b>5,368</b>	<b>8,788</b>

Source: Emkay Research; Note: Tax during FY25-31E is nil on account of utilization of brought forward tax losses; Our DCF model has an explicit forecast until FY31, another 5 years of high-level forecasting and terminal value thereafter

### Exhibit 104: We arrive at Enterprise Value of Rs101.6bn...

Particulars	Rs mn
Free cash flows for terminal year	17,091
Discount rate (k)	~13%
Long term growth	5%
Value at the end of explicit period	226,368
Present Value factor	0.29
<b>Terminal Value</b>	<b>65,416</b>
Sum of explicit period cash flows (FY26-36E)	36,205
Add: Terminal Value	65,416
<b>Enterprise Value</b>	<b>101,621</b>
<b>EV / FY26E Operating revenue (x)</b>	<b>1.0</b>

Source: Emkay Research

### Exhibit 105: ...and equity value of Rs183.7bn, translating into a per-share value of Rs300

Particulars	Rs mn
Payment GMV FY24-FY31E CAGR	21%
Loan disbursement FY24-FY31E CAGR	16%
<b>Enterprise Value</b>	<b>101,621</b>
Less: Net debt	(52,967)
Less: Non-controlling interests	300
Add: Investments	29,402
<b>Equity Value</b>	<b>183,691</b>
No. of O/s shares	636
<b>Fair Value per share (rounded)</b>	<b>300</b>
<b>P / FY26E Operating revenue multiple (x)</b>	<b>1.8</b>
<b>Implied P/B multiple (x)</b>	<b>2.5</b>

Source: Emkay Research

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### Scenario analysis – Bull and Bear

Our DCF-based FV for Paytm in FY25E, based on the DCF model, stands at Rs300/share, wherein we expect business disruption in FY25 and FY26; thereafter, Company should see business acceleration and ultimately turn profitable in FY29E. For our Bull case/Bear case workings, we assume business growth (GMV for payments/market services and disbursements for the lending business) is higher/lower by 20%, respectively. Based on our DCF model, our Bull-case FV is Rs470/share and Bear-case FV Rs140/share.

**Exhibit 106: Bull Case Scenario – GMV/disbursements increased 20%; implies valuation of Rs470/share**

Particulars	Rs mn
Payment GMV FY24-FY31E CAGR	24%
Loan disbursement FY24-FY31E CAGR	19%
<b>Enterprise Value</b>	<b>209,159</b>
Less: Net debt	(58,344)
Less: Non-controlling interests	300
Add: Investments	29,402
<b>Equity Value</b>	<b>296,605</b>
No. of O/s shares	636
<b>Fair Value per share (rounded)</b>	<b>470</b>
<b>P/ FY26E Operating revenue multiple (x)</b>	<b>2.4</b>
<b>Implied P/B multiple (x)</b>	<b>3.5</b>

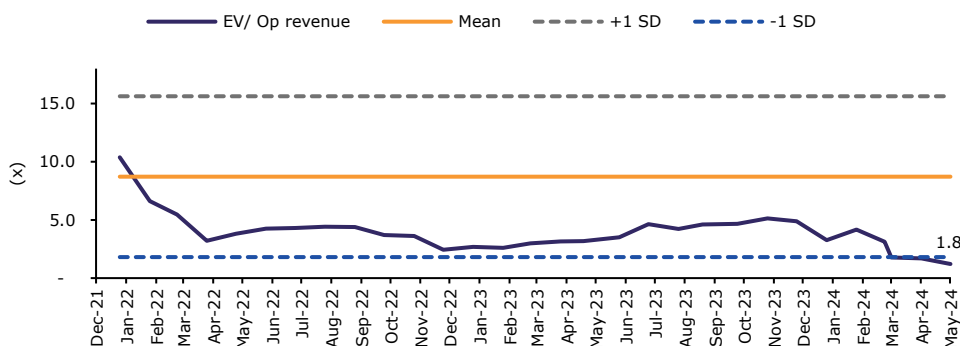
Source: Emkay Research

**Exhibit 107: Bear Case Scenario – GMV/disbursements reduced 20%; implies valuation of Rs140/share**

Particulars	Rs mn
Payment GMV FY24-FY31E CAGR	17%
Loan disbursement FY24-FY31E CAGR	13%
<b>Enterprise Value</b>	<b>7,166</b>
Less: Net debt	(51,168)
Less: Non-controlling interests	300
Add: Investments	29,402
<b>Equity Value</b>	<b>87,437</b>
No. of O/s shares	636
<b>Fair Value per share (rounded)</b>	<b>140</b>
<b>P/ FY26E Operating revenue multiple (x)</b>	<b>1.0</b>
<b>Implied P/B multiple (x)</b>	<b>1.3</b>

Source: Emkay Research

**Exhibit 108: Paytm currently trades at 1.8x one-year forward EV/Operating revenue**



Source: Bloomberg, Emkay Research

## Peer comparison – Business matrix and valuations

We have done peer analysis of Paytm's overall business matrix with some domestic peers operating in the payments/fintech space. In the absence of latest data for some peers, we have compared FY23 numbers. Paytm certainly stands out in terms of scale and product diversification, but believe that the recent RBI salvo is likely to derail the business momentum and possibly benefit some players, including Mobikwik (which has plans to list).

### Exhibit 109: Key Performance Matrix

Particulars	Paytm	PhonePe	MobiKwik	BharatPe	Innoviti	FINO PB	PB Fintech	RazorPay
<b>System Level Data (based on FY23)</b>								
<b>Registered Users (mn)</b>	<b>300</b>	<b>500</b>	<b>140</b>	<b>NA</b>	<b>NA</b>	<b>7</b>	<b>75</b>	<b>5</b>
Merchants (mn)	34	37	4	13	NA	2	16	5
No of Employees	5,027	3,700	1,233	603	650	2,809	NA	2,534
App Downloads (no. of)	500M+	500M+	50M+	10M+	NA	5M+	10M+	1M+
POS (no. of)	610,707	NA	NA	NA	NA	NA	NA	NA
Wallets (mn)	562	192	13	NA	NA	6	NA	NA
QRs (mn)	29	NA	NA	NA	NA	0	NA	NA
<b>GMV - Payments (Rs bn)</b>	<b>27,293</b>	<b>71,541</b>	<b>207</b>	<b>1,680</b>	<b>600</b>	<b>3,580</b>	<b>NA</b>	<b>8,271</b>
Wallet GMV	1,510	179	95	-	-	-	-	-
UPI GMV	19,986	69,049	77	-	-	3	-	-
Payment Gateway & other GMV	5,797	2,313	50	229	-	3,577	-	-
<b>Total GMV (Rs bn)</b>	<b>28,406</b>	<b>71,541</b>	<b>207</b>	<b>1,909</b>	<b>600</b>	<b>3,580</b>	<b>NA</b>	<b>8,271</b>
<b>Financial Data (based on FY23)</b>								
<b>Revenue (Rs bn)</b>	<b>100</b>	<b>31</b>	<b>6</b>	<b>12</b>	<b>1</b>	<b>12</b>	<b>28</b>	<b>23</b>
Payments Revenue (Rs bn)	60	27	3	10	1	0.1	NA	23
<b>Payments Revenue Take Rate (bps)</b>	<b>22</b>	<b>4</b>	<b>122</b>	<b>59</b>	<b>19</b>	<b>0.2</b>	<b>NA</b>	<b>28</b>
Staff Cost (Rs bn)	47	31	1	3	1	2	15	6
- Cost per employee (Rs mn)	1	8	1	5	1	1	NA	3
- ESOP Cost (Rs bn)	15	21	0.1	1	0.1	-	3	1
Marketing & Promotional Exp (Rs bn)	11	4	0.8	3	0.2	0.1	14	1
<b>Share of GMV (bps)</b>	<b>4</b>	<b>0.5</b>	<b>41</b>	<b>17</b>	<b>3</b>	<b>0.3</b>	<b>NA</b>	<b>1</b>
EBITDA (Rs bn)	(6)	-22	-1	-8	-1	1	-4	1
<b>EBITDA Margin</b>	<b>-6%</b>	<b>-73%</b>	<b>-10%</b>	<b>-67%</b>	<b>-47%</b>	<b>11%</b>	<b>-14%</b>	<b>3%</b>
EBITDA ex-ESOP (Rs bn)	9	-2	-0.5	-6	-0.5	1	-1	1
<b>EBITDA Margin, ex- ESOP</b>	<b>9%</b>	<b>-6%</b>	<b>-8%</b>	<b>-55%</b>	<b>-42%</b>	<b>11%</b>	<b>-2%</b>	<b>6%</b>
Net Profit (Rs bn)	(16)	(28)	(1)	(9)	(1)	1	(5)	0.1
<b>PAT Margin</b>	<b>-16%</b>	<b>-91%</b>	<b>-15%</b>	<b>-76%</b>	<b>-78%</b>	<b>5%</b>	<b>-17%</b>	<b>0.5%</b>
Equity Capital	0.6	0.4	0.1	37	0.4	0.8	0.9	0.1
Reserves	113	75	1.3	(13)	0.8	4.6	53.9	7.1
<b>Networth (Rs bn)</b>	<b>114</b>	<b>75</b>	<b>1.4</b>	<b>23</b>	<b>1.1</b>	<b>5.4</b>	<b>54.8</b>	<b>7.2</b>
No of shares (mn)	634	43	57	1	6	832	451	71
EPS (Rs)	(25)	(643)	(15)	(16,904)	(149)	8	(11)	1
BVPS (Rs)	180	1,730	25	44,526	197	65	122	102

Source: Company, Emkay Research Note: Paytm data based on FY24E



**Exhibit 110: Peer comparison – Paytm trades at relatively cheaper valuations due to huge losses and regulatory issues**

Company	Segment	Country	Listed/ Unlisted	Market Cap /Last Deal Valuation (USD bn)	Key Ratios - CY23/FY23				
					EBITDA Margin (%)	PAT Margin (%)	P/BV (x)	EV/Sales (x)	EV/EBITDA(x)
<b>International Peers</b>									
Pay Pal	Payment Services	USA	Listed	70.5	20	14	3.5	2.1	10.2
Shopify	E-com Platform + PoS	USA	Listed	93.2	4	4	14.6	13.7	361.9
Adyen	E-com Platform + PoS	Dutch	Listed	35.3	40	37	23.7	15.4	38.7
Paysafe Ltd	Payments services	London	Listed	0.9	27	1	1.0	1.9	7.2
Affirm Holdings Inc	Fintech-BNPL	USA	Listed	9.6	-11	-19	3.8	3.6	-31.8
Global Payments Inc	Mobile Payments	USA	Listed	28.3	43	15	1.2	5.1	11.9
<b>Domestic Peers</b>									
PhonePe	Digi-payment + Finance Services	India	Unlisted	12.0	-73	-91	13.1	31.8	-43.8
Zaggle	Financial Solutions Provider	India	Listed	0.4	11	8	75.8	6.2	54.5
RazorPay	Digi-payments Solution	India	Unlisted	7.5	3	0	85.7	26.7	889.0
BharatPe	Fintech-Merchants	India	Unlisted	2.9	-67	-76	10.1	20.1	-30.2
Zomato	Restaurant Aggregator	India	Listed	20.7	2	2	8.6	17.6	953.6
PB Fintech	Digi-Insurance + Lending	India	Listed	6.9	3	0	10.1	24.2	757.3
Paytm	Payments and Lending++	India	Listed	2.6	-6	-16	1.9	1.2	-9.5

Source: Emkay Research;

Notes:1) Data for PhonePe, Zaggle, Razorpay and BharatPe based on FY23 (latest data unavailable)

2) Data for Zomato, PB Fintech is based on YTFY24 and Paytm is based on FY24E

**Key catalysts/risks:****Key risks:**

# Paytm has already adopted a calibrated growth approach in the Post-paid business as well as the PL business due to regulatory intervention, rising asset quality noise, and partner concerns; but similar action in the merchant lending business could also further hurt the revenue momentum in the financial services business as well as profitability.

# The Company is reportedly witnessing employee attrition across business segments and, thus, any more KMP attrition could further delay the business normalization process.

**Positive catalysts:**

# Paytm's Payment Aggregator license remains in abeyance, but if cleared, could help the company onboard new online merchants and thus boost the payments business.

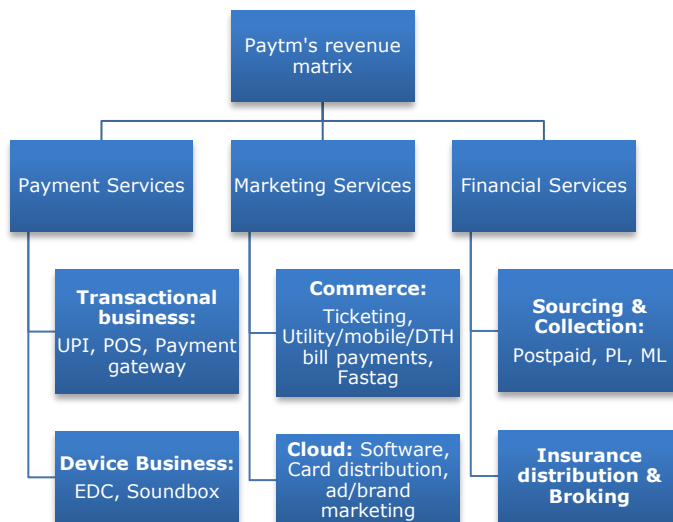
# The GoI/RBI has been reluctant to allow MDR on all P2M transactions, but if allowed, could improve UPI revenues and hence payment revenues.

# If Paytm is able to secure a separate Wallet license or a tie-up with any license holder, it could improve payment revenue as well as EBITDA margin, as the wallet business carries relatively higher MDR.

## Company profile – Well diversified business/revenue segments, but recent RBI salvo to disrupt business

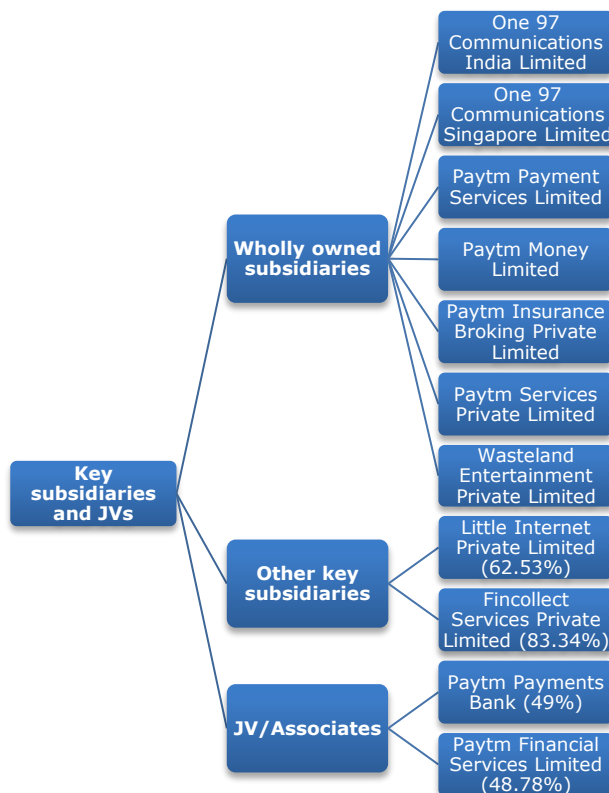
One97 Communications (Paytm) was founded in 2010 by Vijay Shekar Sharma as a prepaid mobile and DTH recharge platform. It then launched the Paytm wallet in 2014, while its App crossed 100mn downloads in 2017. Since then, Paytm has been adding multiple products & services and has emerged as one of the prominent Indian fintechs. The company’s key business segments include payments (online and offline), marketing services (erstwhile Commerce & Cloud), and financial services (loan distribution, Equity broking, Insurance broking). In Nov-2017, Founder Vijay Shekhar Sharma secured Paytm Payment Bank license with his stake currently at 51%; Remaining 49% is owned by Paytm (or OCL), which has recently come under the RBI lens, hence disrupting the group’s payment & lending business.

**Exhibit 111: Paytm’s Revenue Matrix**



Source: Company, Emkay Research

**Exhibit 112: Key subsidiaries**



Source: Company, Emkay Research

## Management/Board profile – Attrition in KMP, middle management a concern

Following the recent business disruption, Company has seen higher KMP as well employee attrition across business segments. A notable erosion recently has been Bhavesh Gupta, President & COO, who has been instrumental in building the company's lending business (moving to advisory role for now). Paytm Money MD & CEO Varun Sridhar too has stepped down and moved on, to head Paytm Services focusing on distribution of MF and wealth management products. Paytm Payments Bank Ltd (PPBL) MD & CEO Surinder Chawla too has resigned from his post; Vijay Shekhar Sharma has stepped from the Chairmanship of PPBL.

The company's board comprises of 7 members, including 4 independent directors, namely Neeraj Chopra, Ashit Ranjit Lilani, Pallavi Shardul Shroff, and Gopalamudram S Sundararajan. Ajay Shekhar Sharma (brother of VSS) works as Chief Business Officer – Marketing Cloud Business at Paytm.

### Exhibit 113: Brief Management Profile

Key Personal	Position	Profile
Vijay Shekhar Sharma	Chairman, MD & CEO	Mr. Sharma is the founder of the Company and oversees its key strategic efforts, including engineering, design, and marketing. He holds a Bachelor's degree in electronics and communications from the Delhi College of Engineering. Mr. Sharma has featured in '2017 Time 100', a list of 'hundred most influential people in the world' by the Time magazine.
Madhur Deora	ED, President & Group CFO	Mr Deora has been associated with the Company since Oct-16. He holds a Bachelor's degree of Science in Economics from the Wharton School of the University of Pennsylvania. He is responsible for devising the financial and operational strategy, investor relations and assisting to realize the vision of the organization. He was previously associated with Citi Investment Banking for 17 years.
Sanjeev Garg	SVP - Finance	Mr Garg is a Non-executive Director of Paytm Payments Services Ltd (PPSL). He is a Chartered Accountant and holds rich experience of over 16 years in the field of corporate finance, spanning the payments and the ecommerce businesses. His functional experience areas include corporate finance, financial control, fund raising, IPO, etc.
Manmeet Singh Dhody	CTO - Payments	Mr Dhody has been associated with the Company since Apr-20. He holds a Bachelor's degree in engineering (computer) from the University of Delhi and a Master's degree in business administration from Panjab University. He was previously associated with Amazon Development Centre and Microsoft India (R&D).

Source: Company, Emkay Research

Among the shareholders, Ant Fin (a Chinese e-commerce player) had made its first investment (40% stake) in the 2015, but has since seen its stake coming down to 9.9% mainly due to the IPO, followed by secondary market sale including to Founder Vijay Shekhar Sharma.

### Exhibit 114: Shareholding pattern – March 2024

Key Shareholders of OCL	% of holding
Ant Fin (Netherlands) Holding BV	9.9
SAIF Mauritius Co Ltd	10.8
SAIF Partners India	4.6
<b>Vijay Shekhar Sharma (VSS)</b>	<b>9.1</b>
<b>Resilient AMC (Owned by VSS)</b>	<b>10.3</b>
Mirae AMC	3.8
Softbank Group Corp	2.8
Vanguard Group Inc	2.2
Nippon MF	1.7
SVF India Holdings	1.4

Source: Bloomberg, Emkay Research

## One 97 Communications: Consolidated Financials and Valuations

## Exhibit 115: Income Statement

Year ended 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E	FY27E	FY28E
Payment (P2M + P2C)	41,629	55,453	68,138	61,925	72,413	85,590	97,698
Marketing Services	7,308	9,046	10,692	11,380	12,593	13,719	14,812
Payment + Marketing Revenue	48,937	64,499	78,830	73,305	85,006	99,309	1,12,510
growth (%)	74.6	31.8	22.2	(7.0)	16.0	16.8	13.3
Financial Services & other op revenue	805	15,404	21,157	16,584	19,947	24,395	28,796
<b>Operating Revenue</b>	<b>49,742</b>	<b>79,903</b>	<b>99,987</b>	<b>89,889</b>	<b>1,04,953</b>	<b>1,23,704</b>	<b>1,41,306</b>
Operating expenses	(73,144)	(96,218)	(1,12,125)	(1,10,307)	(1,16,958)	(1,28,159)	(1,39,035)
- Payment gateway cost	(27,538)	(29,577)	(33,046)	(27,353)	(31,276)	(35,263)	(39,550)
- Provisions	(494)	(867)	(346)	(326)	(348)	(373)	(400)
<b>Operating EBIDTA</b>	<b>(23,402)</b>	<b>(16,315)</b>	<b>(12,138)</b>	<b>(20,417)</b>	<b>(12,004)</b>	<b>(4,455)</b>	<b>2,271</b>
- Depreciation	(2,473)	(4,853)	(7,619)	(7,999)	(8,236)	(8,519)	(9,205)
<b>Operating EBIT</b>	<b>(25,875)</b>	<b>(21,168)</b>	<b>(19,758)</b>	<b>(28,416)</b>	<b>(20,240)</b>	<b>(12,974)</b>	<b>(6,934)</b>
- Non Operating Revenue	2,901	4,097	5,676	3,845	4,005	3,042	3,039
- Finance Cost	(394)	(233)	(245)	(257)	(270)	(283)	(297)
<b>PBT</b>	<b>(23,368)</b>	<b>(17,304)</b>	<b>(14,327)</b>	<b>(24,828)</b>	<b>(16,504)</b>	<b>(10,215)</b>	<b>(4,192)</b>
Non-recurring items (including taxes)	(24)	-	(1,025)	-	-	-	-
<b>Pre-tax profit (after non-recurring items)</b>	<b>(23,392)</b>	<b>(17,304)</b>	<b>(15,352)</b>	<b>(24,828)</b>	<b>(16,504)</b>	<b>(10,215)</b>	<b>(4,192)</b>
Tax (current + deferred)	(113)	(336)	(230)	(248)	-	102	42
Tax rate (%)	0.5	1.9	1.5	1.0	-	(1.0)	(1.0)
<b>Net profit</b>	<b>(23,505)</b>	<b>(17,640)</b>	<b>(15,582)</b>	<b>(25,076)</b>	<b>(16,504)</b>	<b>(10,113)</b>	<b>(4,151)</b>
growth (%)	44	(25)	(12)	61	(34)	(39)	(59)
Share of JV/Associates	(459)	(125)	(250)	(300)	(250)	(150)	(100)
<b>Net income</b>	<b>(23,964)</b>	<b>(17,765)</b>	<b>(15,832)</b>	<b>(25,376)</b>	<b>(16,754)</b>	<b>(10,263)</b>	<b>(4,251)</b>

Source: Emkay Research, Company

## Exhibit 116: Balance Sheet

Year ended 31 Mar (Rs m)	FY22	FY23	FY24E	FY25E	FY26E	FY27E	FY28E
Cash & Cash Equivalents	52,020	70,395	70,056	52,991	42,729	33,749	34,045
Current & Non-current investments	12,295	26,971	32,365	29,402	26,789	24,478	21,617
Loans	1,876	1,564	1,877	2,252	2,703	3,243	3,892
Fixed assets (Net block)	9,259	12,202	15,253	21,434	26,924	35,001	40,179
Other assets	1,04,466	68,526	64,205	68,427	72,960	77,831	83,069
<b>Total assets</b>	<b>1,79,916</b>	<b>1,79,658</b>	<b>1,83,756</b>	<b>1,74,506</b>	<b>1,72,105</b>	<b>1,74,302</b>	<b>1,82,801</b>
Trade Payables & other ST liabilities	30,760	41,115	48,415	55,405	63,417	70,412	78,204
Borrowings	1	20	22	24	0	0	0
Other liabilities and provisions	7,639	8,367	20,995	30,127	36,492	41,958	46,915
Share capital	649	634	635	636	636	636	636
Reserves & surplus	1,40,867	1,29,522	1,13,690	88,314	71,560	61,297	57,046
<b>Shareholders' funds</b>	<b>1,41,516</b>	<b>1,30,156</b>	<b>1,14,325</b>	<b>88,950</b>	<b>72,196</b>	<b>61,932</b>	<b>57,682</b>
<b>Total equity &amp; liabilities</b>	<b>1,79,916</b>	<b>1,79,658</b>	<b>1,83,756</b>	<b>1,74,506</b>	<b>1,72,105</b>	<b>1,74,302</b>	<b>1,82,801</b>

Source: Company, Emkay Research

**Exhibit 117: Cash flow statement**

Particulars	FY22	FY23	FY24E	FY25E	FY26E	FY27E	FY28E
PBT	(23,368)	(17,304)	(14,327)	(24,828)	(16,504)	(10,215)	(4,192)
Others (non-cash items)	(14,365)	(571)	3,852	(8,783)	(3,002)	2,728	8,921
Taxes Paid	1,479	1,762	230	248	-	(102)	(42)
Change in NWC	3,481	6,489	12,345	3,467	4,146	2,758	3,153
Operating Cash Flow	(12,363)	4,156	15,967	(5,564)	1,144	5,588	12,115
Investing Cash Flow	(54,886)	26,255	(17,928)	(7,303)	(7,590)	(9,529)	(8,828)
Financing Cash Flow	80,535	(11,123)	(242)	(284)	(294)	(283)	(297)
<b>Net Change in Cash</b>	<b>13,286</b>	<b>19,288</b>	<b>(2,202)</b>	<b>(13,151)</b>	<b>(6,740)</b>	<b>(4,225)</b>	<b>2,991</b>

Source: Emkay Research

**Exhibit 118: Key Performance Metrics**

Year ended 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E	FY27E	FY28E
Payment GMV (Rs bn)	8,596	13,570	17,951	19,452	23,983	30,801	38,261
Payment GMV growth (%)	113	58	32	8	23	28	24
Loans disbursement (Rs bn)	76	354	556	404	501	632	810
Disbursement growth (%)	NA	364	57	(27)	24	26	28
Operational Revenue growth (%)	77	61	25	(10)	17	18	14
EBITDA Margin (%)	(39)	(15)	(6)	(18)	(7)	(1)	4
Contribution Margin (%)	30	49	54	53	55	57	58
Net Profit Margin (%)	(46)	(21)	(15)	(27)	(15)	(8)	(3)

Source: Company, Emkay Research

**Exhibit 119: Key Valuation Ratios**

Year ended 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E	FY27E	FY28E
EPS (Rs)	(38)	(28)	(23)	(40)	(26)	(16)	(7)
BVPS (Rs)	218	203	180	140	114	97	91
EBITDA per share (Rs)	(36)	(26)	(19)	(32)	(19)	(7)	4
Op Revenue per share	77	126	158	141	165	195	222
PER (x)	(9.0)	(12.4)	(14.7)	(8.6)	(13.0)	(21.2)	(51.3)
Price/Book (x)	1.6	1.7	1.9	2.4	3.0	3.5	3.8
P/EBITDA (x)	(10)	(13)	(18)	(11)	(18)	(49)	96
P/Op Revenue	4.5	2.7	2.2	2.4	2.1	1.8	1.5
EV/EBITDA	(6.8)	(7.4)	(9.5)	(6.6)	(12.4)	(35.9)	71.5
EV/Op Revenue	3.2	1.5	1.2	1.5	1.4	1.3	1.1

Source: Company, Emkay Research

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