One 97 Communications BUY

Internet | Q4FY24 Result Update

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Result Update

Lower than Expected Disruption; Recovery from Q2FY25 Onwards

- **Paytm reported revenue decline of 20.5% QoQ (DE: -29%) with MTU/ARPU decline of 4/17% QoQ, primarily due to business disruption (PPBL impact) and BNPL calibration. Consumer Payments & Loan Distribution declined 16%/50% QoQ, while Merchant Payments Biz grew 3% QoQ.**
- **Adj EBITDA stood at Rs. 1.03Bn (est: Rs0.5bn) aided by UPI incentive and lower Opex. For Q1, the company expects revenue of ~Rs. 15-16Bn (implies ~20% cut) and Adj. EBITDA loss between Rs. 5-6Bn, with sharp recovery Q2 onwards.**
- **Paytm's renewed focus on business growth & cost efficiency signals the right direction to revival. We have cut our FY25/FY26E revenue estimates by 8%/7% and expect profitability goals to further defer. However, we believe CMP does not factor a potential sharper recovery Q2 onwards and thus we maintain 'Buy' rating with DCF based TP of Rs. 650 (implies 2.4x on FY26E EV/Sales).**

Weak Guidance for Q1; April/May Data Sees Green Shoots

Revenue guidance of Rs. 15-16Bn and Adj. EBITDA loss of Rs. 5-6Bn is weak, considering Paytm's transition to partner banks is now complete and Q4 decline in GMV/Rev/MTU of 8%/20.5%/4% has likely witnessed bulk of brunt from pause of business activity. GMV has climbed to 85%/94% of Jan-24 levels in May, suggesting recovery and potential to surprise positively.

Distribution-Only Model Adopted; Other Fin. Services to be Scaled Up

BNPL loans were discontinued since Jan-24, and Personal loans saw recalibration from month of March towards 'Distribution-only' model, forgoing of collection incentives. On the other hand, Merchant loan in April is now at par with Jan'24 run rate. It is also strengthening its insurance offerings (Shop, Health), equity broking and MF distribution business to drive segment growth.

Devices Business to Recover Fully by Q3FY2025

Soundbox saw an attrition of ~1mn due to disruption in Q4, with no new additions since Feb. Paytm expects net additions to improve hereon and reach past trend (~1mn/quarter) by Q3FY25. Device subscription too, is expected to climb back to Rs.100/month by Q4FY25 (from Rs.80 in Q1). Addition to sales force (37K) for merchant outreach and Device version launch will aid recovery.

Q4FY24 Result (Rs Mn)

Particulars	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)
Revenue	22,671	23,345	(2.9)	28,505	(20.5)
Total Expense	24,906	24,636	1.1	30,100	(17.3)
EBITDA	(2,235)	(1,291)	LTL	(1,595)	LTL
Depreciation	1,956	1,598	22.4	2,009	(2.6)
EBIT	(4,191)	(2,889)	LTL	(3,604)	LTL
Other Income	1,317	1,301	1.2	1,486	(11.4)
Interest	52	71	(26.8)	54	(3.7)
EBT	(5,197)	(1,659)	LTL	(2,172)	LTL
Tax	141	(7)	N.M	7	N.M
RPAT	(5,338)	(1,652)	LTL	(2,179)	LTL
APAT	(3,225)	(1,684)	LTL	(2,198)	LTL
			(bps)		(bps)
Gross Margin (%)	51.3	58.2	(687)	58.4	(707)
EBITDA Margin (%)	(9.9)	(5.5)	LTL	(5.6)	LTL
NPM (%)	(23.5)	(7.1)	LTL	(7.6)	LTL
Tax Rate (%)	(2.7)	0.4	(314)	(0.3)	(239)
EBIT Margin (%)	(18.5)	(12.4)	LTL	(12.6)	LTL

CMP	Rs 369
Target / Upside	Rs 650 / 76%
NIFTY	22,598

Scrip Details

Equity / FV	Rs 641mn / Rs 1
Market Cap	Rs 235bn
	USD 2.8bn
52-week High/Low	Rs 998/ 310
Avg. Volume (no)	36,34,440
Bloom Code	PAYTM IN

Price Performance	1M	3M	12M
Absolute (%)	(2)	(5)	(48)
Rel to NIFTY (%)	(4)	(7)	(71)

Shareholding Pattern

	Sep'23	Dec'23	Mar'24
Promoters	0.0	0.0	0.0
MF/Banks/FIs	4.1	6.1	6.9
FIIs	60.9	63.7	60.4
Public / Others	35.0	30.2	32.7

Valuation (x)

	FY24A	FY25E	FY26E
P/E	(19.8)	(21.3)	63.8
EV/EBITDA	(21.2)	(24.1)	21.3
ROE (%)	(10.5)	(8.2)	2.6
RoACE (%)	(8.6)	(8.0)	2.8

Estimates (Rs bn)

	FY24A	FY25E	FY26E
Revenue	99.8	93.8	133.0
EBITDA	(9.1)	(7.8)	8.6
PAT	(11.8)	(11.1)	3.7
EPS (Rs.)	(18.6)	(17.3)	5.8

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Exhibit 1: Quarterly performance versus estimates

Particulars (Rs mn)		Estimates		% Variation		Comment
	Actual	Dolat	Consensus	Dolat	Consensus	
INR Revenue	28,505	27,869	23,435	2.3	21.6	Lower than expected business impact led Revenue beat
EBIT	(3,604)	(3,797)	(2,687)	(5.1)	34.2	Higher than expected UPI incentive and lower Opex led OPM beat
EBIT, margin	(12.6)	(13.6)	(11.5)	98 bps	(118 bps)	
PAT	(2,198)	(2,553)	(4,560)	(13.9)	(51.8)	PAT miss from Rs. 2.2Bn impairment

Source: Company, DART

Change in Estimates

For FY25E/FY26E: Accounting for weak Q1FY25 outlook and overall delayed recovery across key businesses, we lower Revenue estimates by 8%/6%. Adjusted EBITDA margin is lowered to factor investments that will drive growth. Also lowered margin estimates by 200bps/90bps. Overall, earnings revised by 20.4%/-12.7%.

Exhibit 2: Change in Estimates

Particulars (Rs. Mn)	FY23	FY24A			FY25E			FY26E		
	Actual	Old	New	Change	Old	New	Change	Old	New	Change
INR Revenue	79,903	1,00,182	99,778	(0.4)	1,02,012	93,825	(8.0)	1,42,394	1,33,026	(6.6)
YoY growth (%)	61.0	25.4	24.9		1.8	(6.0)		39.6	41.8	220 bps
Contribution	38,996	54,765	55,375	1.1	58,364	55,817	(4.4)	83,638	78,442	(6.2)
Contri. margin (%)	48.8	54.7	55.5	83 bps	57.2	59.5	228 bps	58.7	59.0	23 bps
Adj EBIDTA (Rs mn)	(1,758)	3,651	5,586	53.0	5,141	2,850	(44.6)	16,325	14,054	(13.9)
Adj EBIDTA Mgn(%)	(2.2)	3.6	5.6	195 bps	5.0	3.0	(200 bps)	11.5	10.6	(90 bps)
PAT	(17,759)	(14,276)	(14,169)	0.7	(9,317)	(11,113)	(19.3)	4,345	3,734	(14.0)
EPS (Rs)	(27.4)	(22.4)	(22.4)	(0.0)	(14.36)	(17.29)	(20.4)	6.68	5.83	(12.7)

Source: DART

Exhibit 3: Key Assumptions in Our Estimates

Particulars (Rs mn)	FY22	FY23	FY24A	FY25E	FY26E
GMV Growth (%)	111.2	55.2	38.8	(1.7)	35.7
Take Rate (%)	0.58	0.60	0.54	0.52	0.54
Payment & Fin Serv. Growth (%)	82.9	65.5	27.4	(7.6)	46.5
Comm. & Cloud Growth (%)	59.4	37.6	14.3	6.3	22.6
INR Revenue Growth (%)	77.1	61.0	24.9	(6.0)	41.8
Contribution Margin (%)	12.9	47.1	55.5	59.5	59.0
EBIT Margin (%)	(69.4)	(26.5)	(16.5)	(17.2)	(1.3)
PAT Margin (%)	(60.5)	(22.2)	(14.2)	(11.8)	2.8
EPS Growth (%)	LTL	LTL	LTL	LTL	LTP

Source: Company, DART

Exhibit 4: Key Revenue Growth Matrix (YoY)

Particulars	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Payment Services to Consumers	55.3	26.4	11.8	6.7	5.5	16.6	(16.4)
Payment Services to Merchants	55.9	9.3	60.5	51.2	47.6	68.9	21.7
Financial Services and Others	293.5	256.2	182.1	92.6	63.6	36.1	(36.0)
Marketing Services	54.6	23.8	22.4	22.4	12.5	22.4	0.8

*Source: Company, *Company has clubbed Commerce and Cloud segments*

Exhibit 5: Quarterly and YTD Trend

Particulars (Rs mn)	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	YoY (%)	QoQ (%)	FY'23	FY'24	YoY (%)
INR Revenue	**23,345**	**23,416**	**25,186**	**28,505**	**22,671**	**(2.9)**	**(20.5)**	**79,903**	**99,778**	**24.9**
Operating Expense	24,636	14	27,496	30,100	24,906	1.1	(17.3)	96,218	1,08,845	13.1
Payment Proc Chrg	7,803	7,666	8,167	9,822	7,148	(8.4)	(27.2)	29,577	32,803	10.9
as % of sales	33.4	32.7	32.4	34.5	31.5	(190 bps)	(293 bps)	37.0	32.9	*(414 bps)*
Promotional cashback & inc	780	850	730	1,060	460	(41.0)	(56.6)	5,030	3,100	(38.4)
as % of sales	3.3	3.6	2.9	3.7	2.0	(131 bps)	(169 bps)	6.3	3.1	*(319 bps)*
Direct Expenses	1,930	1,860	2,030	2,420	2,190	13.5	(9.5)	6,300	8,500	34.9
as % of sales	8.3	7.9	8.1	8.5	9.7	139 bps	117 bps	7.9	8.5	*63 bps*
Contribution	**11,502**	**13,040**	**14,259**	**15,203**	**12,873**	**0.3**	**(15.3)**	**38,996**	**55,375**	**42.0**
Marketing Exp.	1,270	1,810	1,800	2,420	2,190	72.4	(9.5)	5,750	8,220	43.0
as % of sales	5.4	7.7	7.1	8.5	9.7	422 bps	117 bps	7.2	8.2	*104 bps*
Employee Exp.	9,769	11,061	11,915	11,872	11,044	13.1	(7.0)	37,783	45,892	21.5
as % of sales	41.8	47.2	47.3	41.6	48.7	687 bps	707 bps	47.3	46.0	*(129 bps)*
Cloud/data Exp	1,880	1,550	1,553	1,704	1,623	(13.7)	(4.8)	6,939	6,430	(7.3)
as % of sales	8.1	6.6	6.2	6.0	7.2	(89 bps)	118 bps	8.7	6.4	*(224 bps)*
Indirect Exp.	1,209	1,553	1,303	1,530	1,614	33.5	5.5	4,855	6,000	23.6
as % of sales	5.2	6.6	5.2	5.4	7.1	194 bps	175 bps	6.1	6.0	*(6 bps)*
EBITDA	**(1,291)**	**(2,927)**	**(2,310)**	**(1,595)**	**(2,235)**	**LTL**	**LTL**	**(16,315)**	**(9,067)**	**LTL**
Depreciation	1,598	1,591	1,801	2,009	1,956	22.4	(2.6)	4,853	7,357	51.6
EBIT	**(2,889)**	**(4,518)**	**(4,111)**	**(3,604)**	**(4,191)**	**LTL**	**LTL**	**(21,168)**	**(16,424)**	**LTL**
Net Other Income	1,230	1,159	1,369	1,432	1,265	2.8	(11.7)	3,864	5,225	35.2
Share of assoc/ JV	(23)	(181)	9	(38)	(167)	LTL	LTP	(125)	(377)	LTL
Exceptional items	0	0	(57)	0	(2,271)	NA	NA	0	(2,328)	NA
PBT	(1,682)	(3,540)	(2,790)	(2,210)	(5,364)	LTL	LTL	(17,429)	(13,904)	LTL
Total Tax	(7)	44	127	7	141	(2,114.3)	1,914.3	336	319	(5.1)
PAT before MI	(1,675)	(3,584)	(2,917)	(2,217)	(5,505)	LTL	LTL	(17,765)	(14,223)	LTL
MI	9	(14)	(12)	(19)	(9)	LTL	LTL	14	(54)	LTL
PAT after MI	**(1,684)**	**(3,570)**	**(2,905)**	**(2,198)**	**(5,496)**	**LTL**	**LTL**	**(17,779)**	**(14,169)**	**LTL**
Reported EPS	**(2.5)**	**(5.5)**	**(4.3)**	**(3.3)**	**(8.1)**	**LTL**	**LTL**	**(28)**	**(21)**	**LTL**
Margins (%)										
Contribution	49.3	55.7	56.6	53.3	56.8	181 bps	345 bps	48.8	55.5	669 bps
EBIDTA	(5.5)	(12.5)	(9.2)	(5.6)	(9.9)	LTL	LTL	(20.4)	(9.1)	LTL
EBIT	(12.4)	(19.3)	(16.3)	(12.6)	(18.5)	LTL	LTL	(26.5)	(16.5)	LTL
PBT	(7.2)	(15.1)	(11.1)	(7.8)	(23.7)	LTL	LTL	(21.8)	(13.9)	LTL
PAT	(7.2)	(15.2)	(11.5)	(7.7)	(24.2)	LTL	LTL	(22.3)	(14.2)	LTL
Effective Tax rate	0.4	(1.2)	(4.6)	(0.3)	(2.6)	LTL	LTL	(1.9)	(2.3)	LTL

Source: Company

What to expect Next Quarter

In line with company's weak near term guidance (Revenue of Rs. 15-16Bn), we expect Revenue decline of 28% for Q1FY25E. At operating level, we expect Paytm to invest in marketing, and sales force enhancement to revive growth, and thus expect OPM loss to increase from 18.5% to 53.3%. We expect OPM to bottom out and recover post Q1.

Exhibit 6: What to expect next Quarter

Particulars (Rs Mn)	Q1FY25E	Q4FY24	Q1FY24	QoQ (%)	YoY (%)
INR Revenue	16,347	22,671	23,416	(27.9)	(30.2)
EBIT	(8,716)	(4,191)	(4,518)	108.0	92.9
PAT	(7,726)	(5,496)	(3,570)	LTL	LTL
EPS (Rs)	(12.1)	(8.1)	(5.3)	LTL	LTL
EBIT Margin (%)	(53.3)	(18.5)	(19.3)	(3484 bps)	(3403 bps)

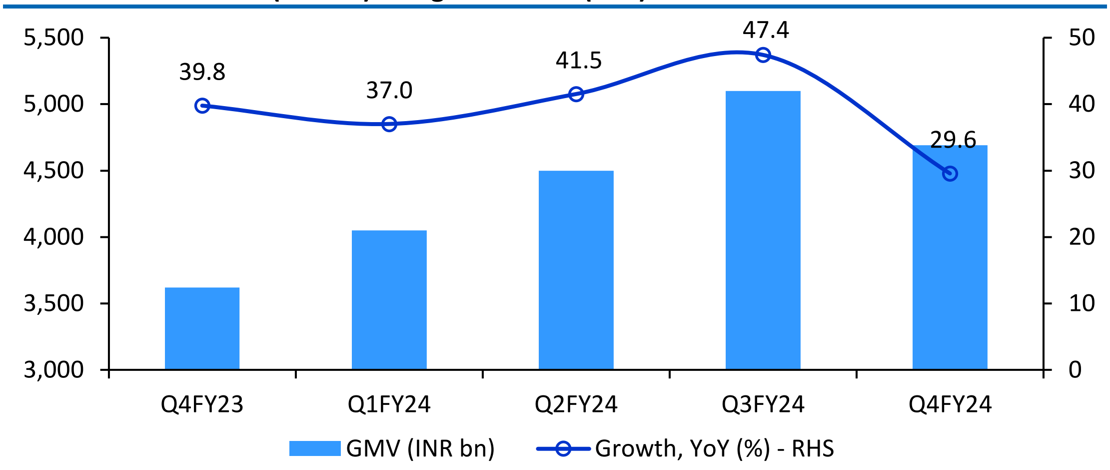
Source: Company, DART

Earning call KTAs

PPBL Disruption Moderates GMV Growth

- **GMV Growth Slows:** Post RBI embargo on Paytm Payments Bank (PPBL) in Jan-24 end, Paytm's platform witnessed disruption in activity (MTU, Merchant base, payments GMV) during February and March.
- GMV for the quarter stood at Rs. 4.7Tn, up 29.6% YoY but down 8% QoQ. Also contributing to growth moderation was coming off higher festive season base of Q3. Due to RBI action, Paytm focused on existing user retention and engagement activity over user acquisition & monetization during Q4.
- On broad metric basis, MTUs grew by 6.7%, but ARPU declined by 9% on YoY basis. Sequentially, MTU/ARPU declined by 4%/17.2%.
- Paytm reported a Total Revenue of Rs. 22.7Bn, down 20.5% QoQ and 2.9% YoY.

Exhibit 7: GMV Trend (INR Bn) and growth in % (YoY)

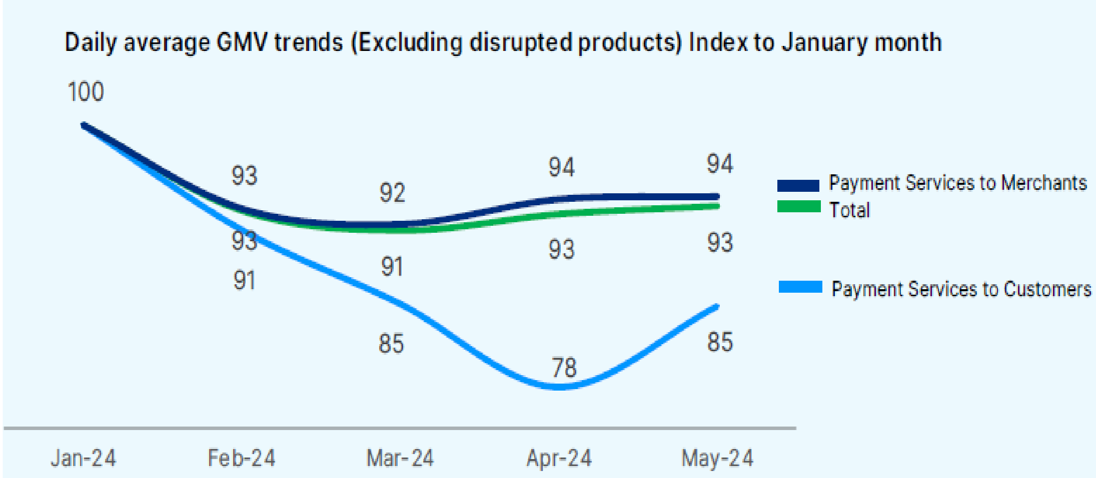


Source: Company, DART

Pick-up Seen in GMV for April & May:

- Paytm shared that Daily average GMV for the month of April 2024 saw decline of 19% over January 2024, with majority decline on account of disruption in wallet (money added to wallet and usage of wallet at merchants), and reduction in other payment business due to prudent measures. Wallet contributed to 12% of GMV in January.
- Excluding these disrupted products, Paytm witnessed positive growth trend in Payment GMV since the month of April. (Exhibit below)

Exhibit 8: GMV Trend for April & May (Till 19th May, 2024), benchmarked to Jan-24 Base

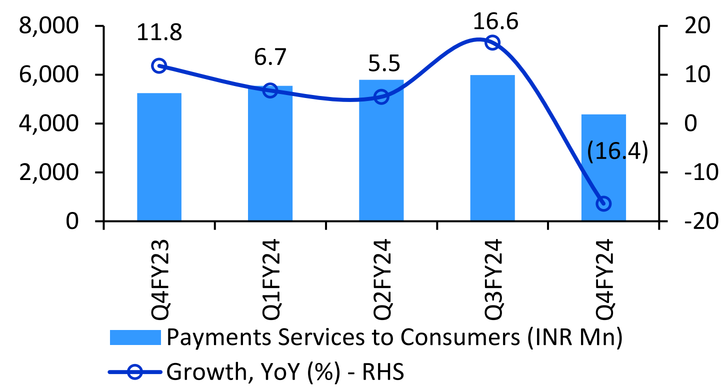


Source: DART, Company

Payment Services to Consumers Business (19% of Revenue)

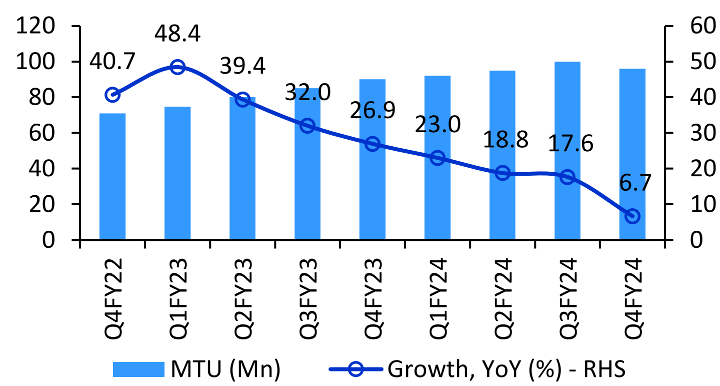
- Paytm successfully transitioned its core payment business from PPBL to other partner banks during Q4'FY24.
- Segment revenues declined by 27% QoQ to Rs. 4.38Bn, attributed to weak GMV, which declined 8% QoQ. The impact on revenues is way higher as the larger take rate use bases such as Wallet loading from Credit Card. MDR on wallet based GMV etc. have been discontinued.
- Platform saw MTU attrition of 4mn users taking MTU to 96mn. Post RBI embargo on PPBL, Paytm paused new user signups for TPAP (Third-Party Application Providers) and saw voluntary user attrition, and products such as Paytm Wallet and FASTag saw declining activity in transaction volumes and value.
- However, from May MTD (Month till 19th May 2024), Paytm shared that MTU witnessed stabilization on a month-on-month basis at ~80mn run rate.
- Paytm also stated that it has now restarted user campaigns and marketing, which have resulted in improvements in both retention and reactivation.
- Going forward, company plans to drive further marketing campaigns to improve MTUs. It is also in discussions with NPCI for confirmation to sign up new UPI consumers for its TPAP (Third Party Application Provider) App. It is awaiting further directives from NPCI for its TPAP application.

Exhibit 9: Payment Services to Consumers



Source: DART, Company

Exhibit 10: MTU (Mn) Trend

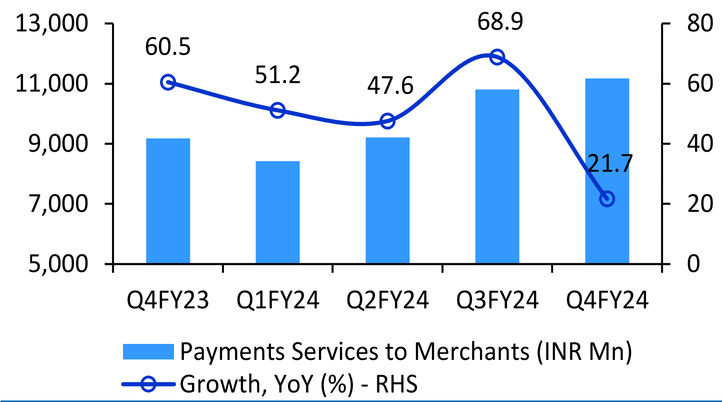


Source: DART, Company

Payment Services to Merchants Business (49% of Revenue)

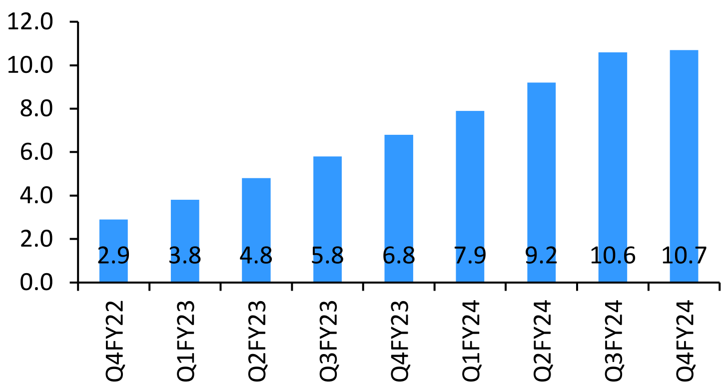
- Payment Services to Merchant segment reported Revenue of Rs.11.2Bn, which grew by 3.3% QoQ. However, adjusted for UPI inventive the segment witnessed decline of 23% in revenues QoQ (impacted by business impact as well as adverse seasonality).
- Paytm added 100K device subscriptions, taking device count to 10.7mn. Subscription revenue Q4 was impacted due to 1) Lower new merchant deployment translated into lower revenue from incentive for deployment and set-up fees, and 2) Lower active merchants during the quarter.
- Management expects merchant additions to fully recover by Q3 FY2025 (~1mn per quarter based on past trends).
- On an average, Revenue per device used to be Rs. 100, but it has now lowered to Rs.90. Management expects per device Revenue to bottom out at ~Rs. 80 in Q1FY25 and expects it to increase towards Rs. 100 by Q4FY25. Realisation get impacted as the revenues are difficult to collect/earn from inactive device units.
- Earlier in the month of April, Paytm launched two more "Made in India" soundboxes which are customized to merchant needs, with louder speakers and longer battery life.
- **Overall Payment Revenue stood** in at Rs. 15.5n, down 7.4% QoQ, but up 7.8% YoY.

Exhibit 11: Payment Services to Merchants



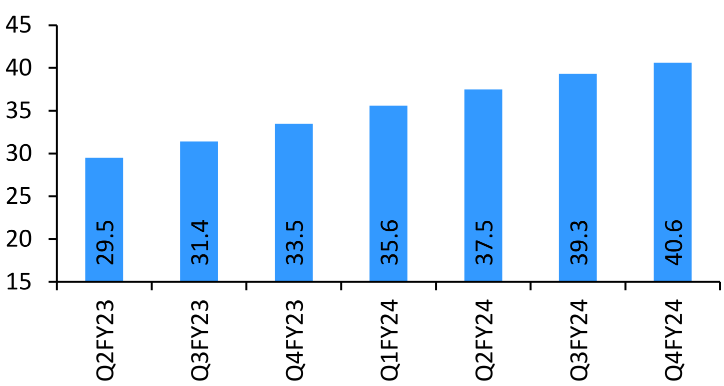
Source: DART, Company

Exhibit 12: Sound-box/POS Devices subscribers (Mn) Trend



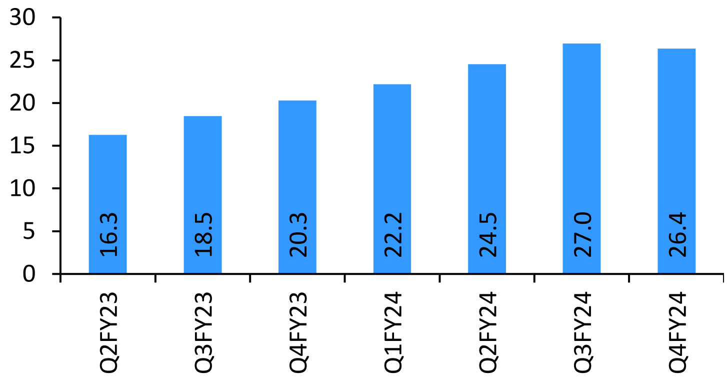
Source: DART, Company

Exhibit 13: Merchants (Mn) on Paytm online/offline



Source: DART, Company

Exhibit 14: Devices Penetration in % (Devices/Merchants)

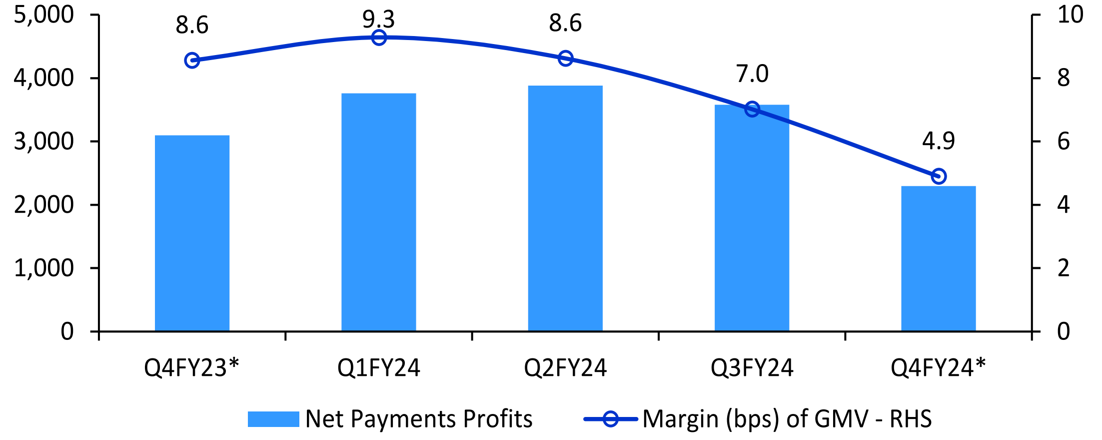


Source: DART, Company

Payment Profit stood at Rs. 2,297mn, down 35% QoQ excluding UPI incentive of Rs. 2,880mn. Lower Payment profit was due to forgone wallet revenue (Take rates are ~25-30bps) and higher UPI (non MDR) share, along with lower device subscription revenues.

Net Payment margin stood at 4.9bps of GMV, lower vs. Q3 spread of 7bps. Due to higher UPI share and forgone higher margin products (Wallet), Paytm now expects Net Payment margin to range between 5-6bps (including UPI incentive) with quarterly payment processing margin of more than 3 to 3.5 bps, as UPI incentive is received only during Q4 quarter.

Exhibit 15: Net Payment Margins to revive Q2/Q3 onwards



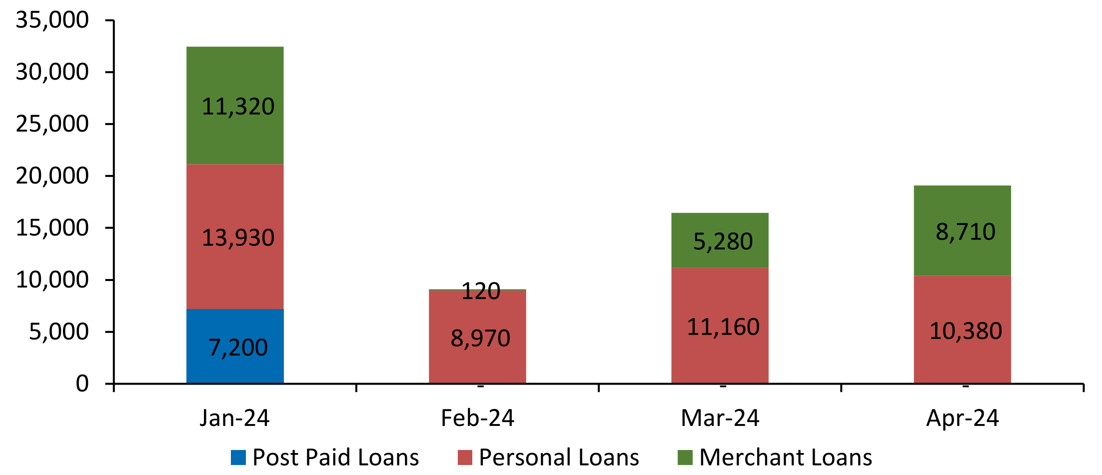
Source: Company (*) Calculation of Q4FY23 margins excludes UPI incentive of Rs, 1,820mn. Calculation of Q4'FY24 margins excludes UPI incentive of Rs. 2,880mn.

Other Financial Services Business (13% of Revenue)

Other Financial Services Business declined 50% QoQ and 36% YoY. Total number of loans stood at 1.6mn, down 86% QoQ.

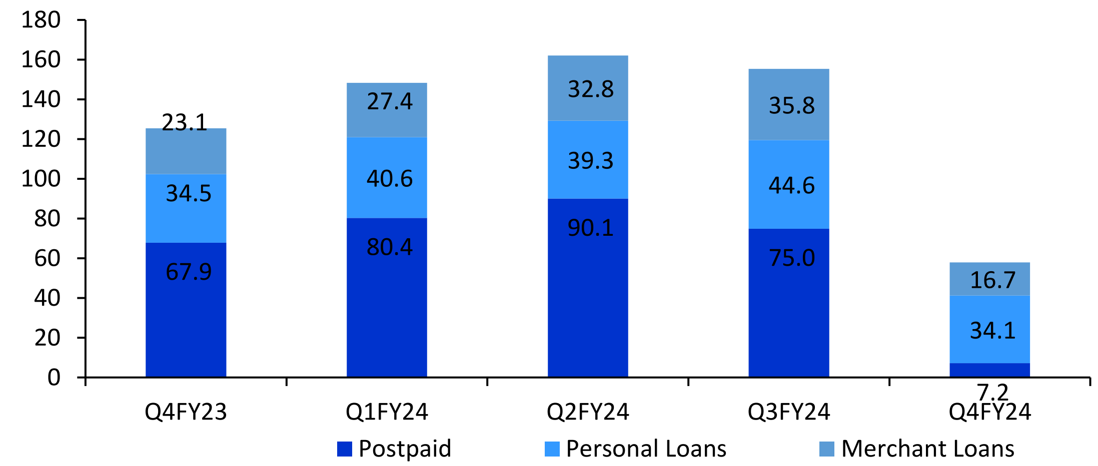
During the quarter the company originated loan book worth Rs.5Bn, down 63% QoQ. Decline in total no. of loans and value of loan was primarily due to calibration in Paytm Postpaid (BNPL), which declined 90% QoQ (Loan Value) and pause of personal loan distribution February onwards till end of March-2024.

Exhibit 16: Monthly Loan Disbursal - Segment wise (Rs.mn)



Source: DART, Company

Exhibit 17: Weak Quarterly Trend of Loan Distribution Business



Source: , DART, Company

Consumer Loans (Personal Loans and BNPL)

Value of Post Paid loans declined significantly and stood at Rs. 7.2Bn for Q4 (Q3: Rs. 74.9Bn), with business pausing completely Feb-2024 onwards, till date. This is line with their announcement in Dec-2023, where Paytm stated that it was witnessing asset quality deterioration for small ticket size loans across the industry, and therefore decided to pause this business till the credit cycle plays out. As per exhibit shared (below) by Paytm, it disbursed Postpaid (BNPL) loans only during month of Jan-2024.

Value of Personal loans declined by 23.5% QoQ and stood at Rs. 34Bn, as company focused purely on 'distribution only' loans. Average ticket size for personal loans dipped to Rs. 140K (Rs. 178K in Q3). Penetration for Personal loans was at 1.1% of MTU (unchanged).

Paytm shared that due to deterioration in the asset quality, the company is targeting prime and super prime category customers and offering them a better user experience and competitive interest rates. However, management also cautioned that this segment of borrowers is more price sensitive, which will likely result in lower take rates (as a % of disbursal value) for Paytm.

Merchant Loans

For Q4'FY24, Paytm disbursed Merchant loans worth Rs. 16.7Bn, down 53% QoQ. These loans (users 0.8mn) saw average ticket size rising to Rs. 205K (from Rs.198K in Q3), and average tenure of 13months (steady). Repeat loans continued to be healthy, now at 50% (unchanged) of total value disbursed last quarter is for merchants who have taken a loan earlier. Penetration lowered to 5.5% of merchants who owned a device (from 6.1% in Q3). ECL performance remained unchanged. (Exhibit below)

Based on exhibit above, Paytm had almost entirely stopped Merchant loan disbursement for Feb and large part of March, and disbursal revived only in April-2024.

From Concall:

- Merchant loans business is seeing strong recovery, and numbers are nearing to Jan-2024 levels.
- Overall, Paytm is working to better identify asset quality deterioration, and will scale up loan distribution business gradually.
- All lending partners (8 NBFCs) continue to remain with Paytm, though some are more active than others.

Exhibit 18: Performance of Merchant Loans – Q4'FY24 Unchanged over Q3

Merchant Loans	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Average Ticket Size (Rs.)	1,65,214	1,96,000	1,81,944	1,98,833	2,05,000
Value of Loans (Rs. mn)	23,130	27,440	32,750	35,790	16,710
Penetration (Device Merchants)	5.9%	6.2%	6.4%	6.1%	5.5%
Bounce Rates	NA*	N.A*	N.A*	N.A*	N.A*
Bucket 1 Resolution %	80% to 85%	78% to 83%	78% to 83%	78% to 83%	78% to 83%
Recovery Rate Post 90+	30% to 35%	30% to 35%	30% to 35%	30% to 35%	30% to 35%
Expected credit loss (ECL %)	5.0% to 5.5%	5.0% to 5.5%	4.75% to 5.25%	4.75% to 5.25%	4.75% to 5.25%

*Source: Company, DART ; *Note: For Merchant Loans, Bounce rates are not applicable it is a daily installment (Daily EMI) product.*

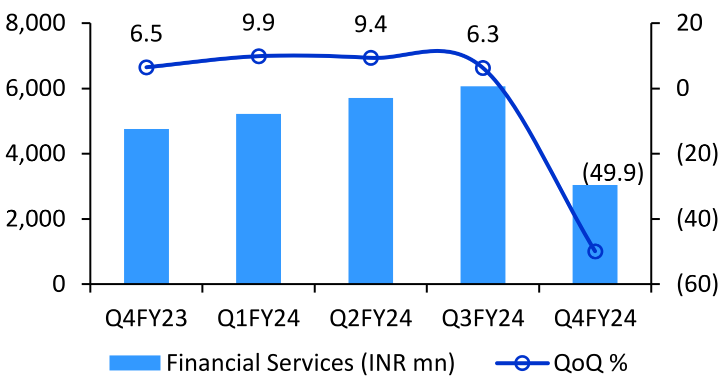
Focus Areas to Strengthen Business Segment:

- Enhancing its governance structure within company and its group entities by appointing subject matter experts and advisors.
- Focus on monetisation by cross-selling financial services, in line with regulatory guidelines.
- Expand offerings through Insurance and Equity broking & distribution.
- Achieve significant cost efficiencies through AI led capabilities, a leaner organization structure and the pruning of non-core businesses.

Initiatives Undertaken for Insurance and Equity Broking/MF business:

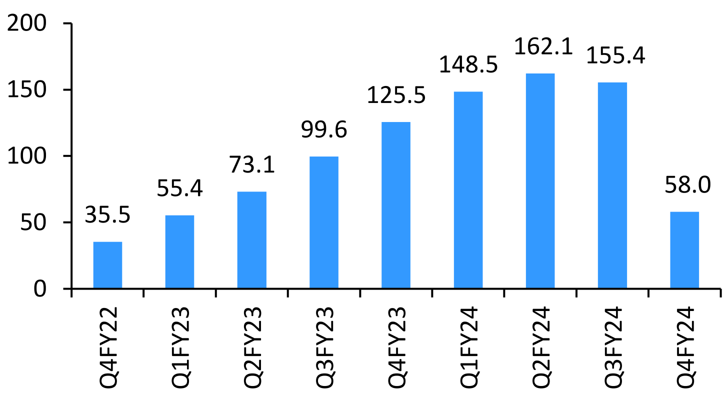
- Paytm shared that is sees a strong product market fit for its insurance business, where it can leverage merchant insights to co-create shop insurance.
- There is a significant opportunity on the customer side by offering embedded insurance and DIY products.
- Paytm recently launched a unique Health Insurance product combining Healthcare, OPD & cashless hospitalization on a monthly subscription, focusing on innovation, distribution and claims experience.
- Paytm's Equity broking and Mutual Fund distribution business continues to scale well.
- Focus is on retention of trading customers by offering a high quality trading platform. Company is also looking to expand distribution of mutual funds by leveraging SIPs, and other wealth management products through Paytm Services Pvt Ltd (PSPL).

Exhibit 19: Financial Services rev (lending distribution)



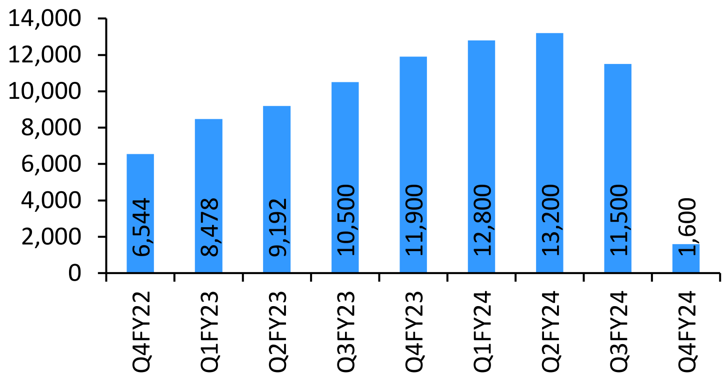
Source: DART, Company

Exhibit 20: Loan Disbursed by value (INR Bn)



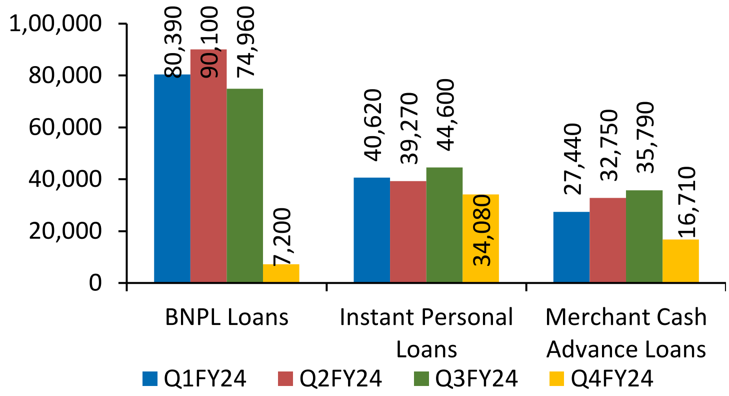
Source: DART, Company

Exhibit 21: # of Loans Distributed (in K)



Source: DART, Company

Exhibit 22: Segment wise Loans in '000s (number of loans)



Source: DART, Company

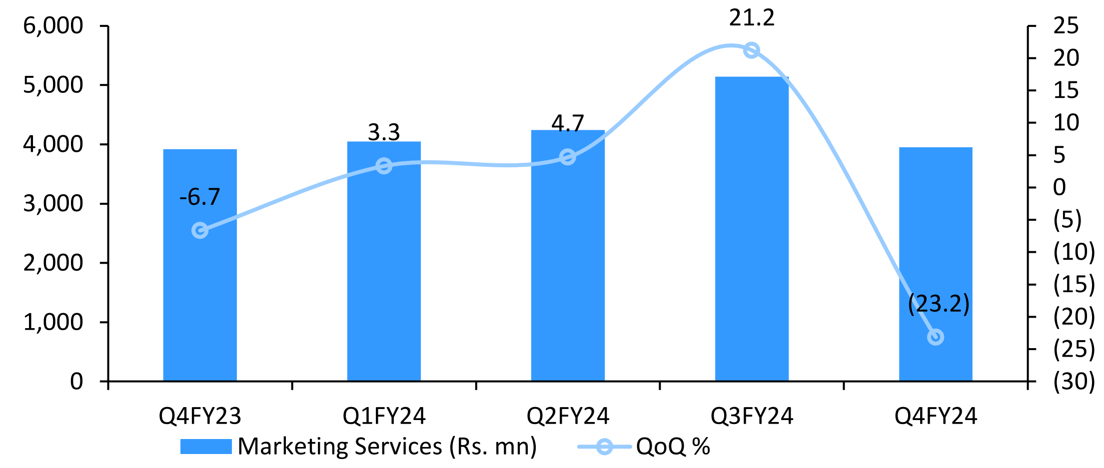
Marketing Services Business (18% of Revenue)

Paytm has now combined Commerce and Cloud services under Marketing Services. This segment reported Revenue of Rs. 3.95Bn, down 23% QoQ. Marketing Services includes ticketing (travel, movie, events etc.), advertising, credit card marketing and deals and gift vouchers.

GMV for ticketing, deals and gift vouchers etc. declined 17% QoQ (off festive season base) but rose 28% YoY to Rs. 28Bn. Take rate for Q4FY24 was above guided 5-6% (7% in Q3FY24) range due to continued higher contribution of the events business which has higher take rate as well as high direct costs.

Credit card marketing continued to scale with 1.18mn activated credit cards as of March 2024, (1.01mn in Q3FY24). Paytm shared that its partners are taking a cautious stance in the near term on account of increased delinquency in the industry. Cloud services' contribution to Revenue is now insignificant, management stated.

Exhibit 23: Marketing Services Business Revenue Trend



Source: Company

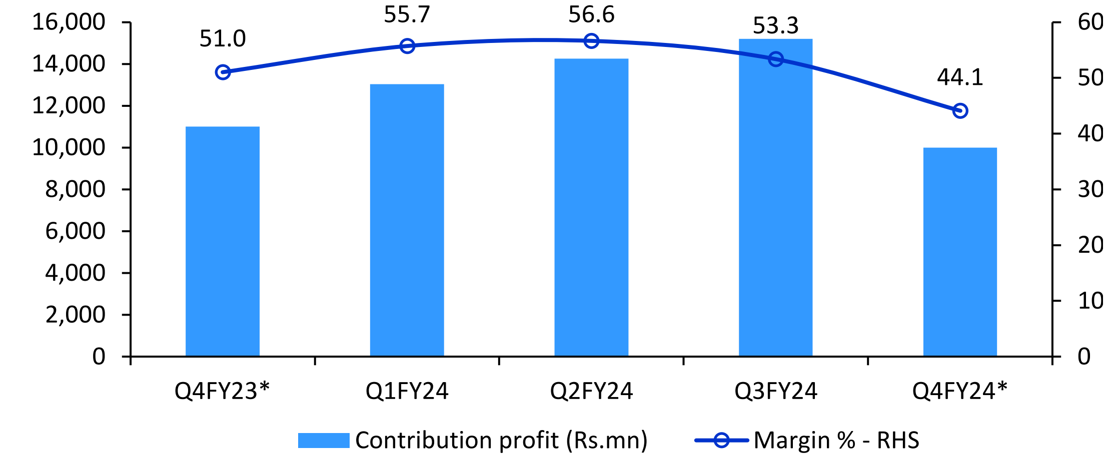
Business Disruption Lowers Contribution Margin

Contribution Margin Lowers: For Q4FY24, contribution profit (excluding UPI incentive) stood at Rs. 9.9Bn declining by 34% QoQ, and 9.2% YoY. Contribution margin was at 44.1%, down by 926bps after excluding UPI incentive of Rs. 2,880mn due to sharper decline in high margin business, such as financial services, and decline in payment processing margins.

From Concall:

- Management guided that it does not expect Contribution margin to go below 40% range. For FY2025E, excluding UPI incentive, guided for high 40s range and with UPI incentive, C.M would see a few more percentage point addition.

Exhibit 24: Contribution profits have grown 80% on YoY basis

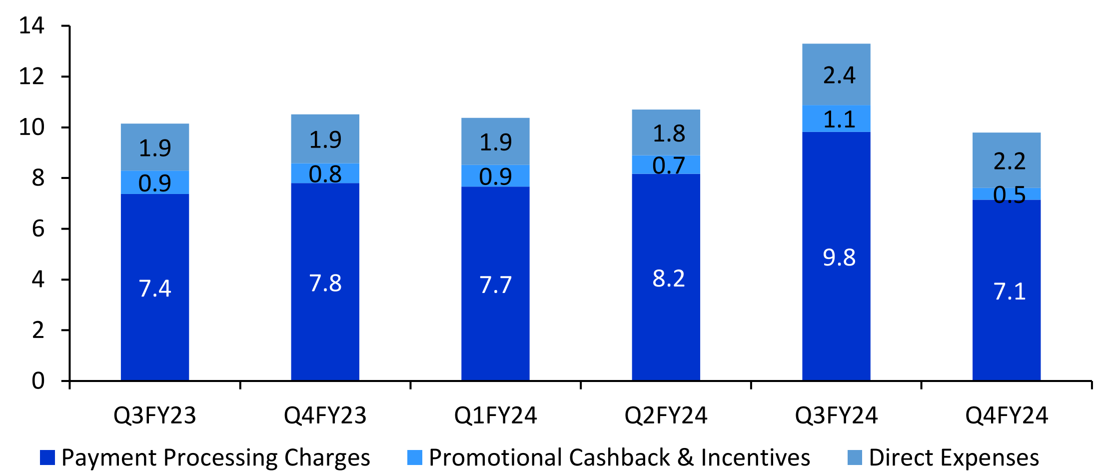


Source: Company, (*) Q4'FY23 CM excludes UPI Incentive

Contribution Margin Comprises of 3 Factors:

1) **Payment Processing Charges (Stood at Rs.7.15Bn, down 27.2% QoQ):** Payment Processing Charges, as a % of Payment Revenues, stood at 46% in Q4 (58.5% in Q3). Payment processing spread for the quarter stands at Rs.8.4Bn, vis-à-vis Rs. 6.9Bn in Q4'FY24. Payment margins lifted due to inclusion of UPI incentives for full year included in the quarter.
2) **Promotion and Cash Backs (Stood at Rs. 460mn, down 56.6% QoQ):** Decline was on account of lower focus on user growth and lower cash-back on wallet. With user growth coming back, Paytm expects promotional cashbacks & incentives to remain in 1-2 bps range of GMV.
3) **Other Direct Expenses (Stood at Rs. 2.19Bn, down 9.5% QoQ):** Decline was on account of lower collection costs and seasonal volume dip of events business.

Exhibit 25: Contributing Cost Trend (INR Bn)



Source: Company

Indirect Expenses Up 2.2% QoQ

Indirect Costs comprise of **Marketing expenses, Employee costs (ex. ESOP), Software cloud & Data center and other indirect costs. For** Q4'FY24, Indirect costs (ex. ESOP costs) stood at Rs. 1.18Bn, down 9% QoQ but up 13% YoY. Key decline was witnessed in: a) Marketing Cost (Rs. 830mn, down 51% QoQ), and b) Employee Cost (Excluding Sales, at Rs. 5.25Bn, down 3% QoQ). Sales employee cost, Software and Cloud Expenses, declined by 3.7% and 4.7% QoQ respectively.

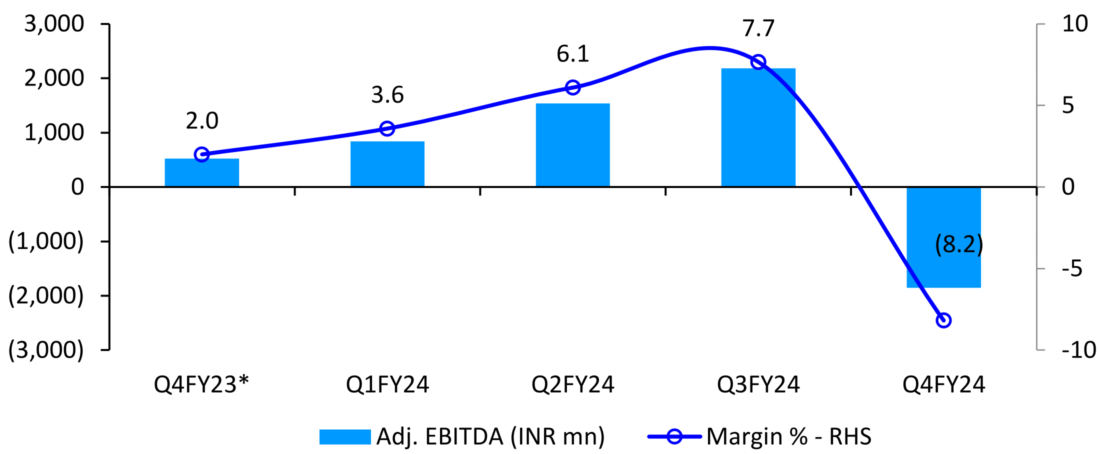
On employee cost: For FY25, management expects savings of Rs. 4-5bn, which will be led by efficiency and rationalizing measures, though headcount will see an uptick for Sales related functions, especially on-field sales. The rationalization would come from cutting spends on futuristic or not-so-priority areas.

Paytm also expects to increase its marketing investments in coming quarters to focus on reactivating and acquiring new customers. On indirect costs, company is likely to incur some costs in near future due to migration to TPAP (Third Party Application Provider).

Business Disruption Affects Adj. EBITDA; To Revive in Q2FY'25

Adj. EBITDA Declines: The EBITDA Margin (ex-ESOP) was affected by business disruption and reported a loss of Rs. 1.85Bn, excluding UPI incentive of Rs. 2,880mn. While business disruption severity would be felt the most in Q1, Paytm expects to invest in getting growth back on track and thus likely to see Adjusted EBITDA margin improvement from Q2FY25.

Exhibit 26: Business Disruption Affected Adjusted EBITDA Trajectory



Source: Company, Q4FY23 and Q4FY24 Adj. EBITDA excludes UPI incentive

PAT: Reported Losses stood at Rs. 5.5Bn, with loss higher than our expectation of Rs. 3.98Bn loss. This is primarily due to an exceptional impairment charge of Rs. 2.2Bn on investment in Paytm Payments Bank (PPBL). Share of Associate/J.V reported loss of Rs. 167mn (LQ loss of Rs. 38mn). Other Income stood at Rs. 1.3Bn (LQ: Rs.1.5Bn), and higher Tax outgo at Rs. 141mn (LQ: 7mn), further led to PAT estimate miss.

Cash Balance stood at Rs. 89Bn (LQ: Rs. 84Bn for Dec-23). Company expects to utilize cash for growth related investments.

Valuation

Variables for DCF: Paytm is poised for recovery after disruption caused by PPBL and Postpaid impact. Despite calibrating on BNPL loan and merchant addition dip, the company continues to possess a large number of use cases (serving both on need and want), huge customer base (MTUs of 80mn+) and robust tech platform.

We believe that the company has huge potential for multifold revenue growth over next decade and turn highly profitable starting FY26E. Thus DCF valuation as an ideal tool to value real long-term potential of this business.

The growth momentum is factored in two stage projections wherein 1) in the first stage we expect Revenue CAGR of 19% over FY24-FY30E and 2) in second stage we expect Revenue CAGR of 18% over FY30-FY40E. We expect the business to turn PAT profitable in FY26E and reach steady state EBIT Margin of ~11.6% over FY31-FY40E. We have factored in Cost of Capital of 11% and Terminal growth rate of 2% (beyond FY40e) in our DCF assumptions.

View: We maintain our 'BUY' rating on the stock with a TP of Rs. 650 (implies 2.4x on FY26E EV/Sales).

Financial Performance

Profit and Loss Account

(Rs Mn)	FY23A	FY24A	FY25E	FY26E
Revenue	**79,903**	**99,778**	**93,825**	**1,33,026**
Total Expense	**96,218**	**1,08,845**	**1,01,635**	**1,24,452**
COGS	29,577	32,803	27,235	40,072
Employees Cost	37,783	45,892	42,936	44,192
Other expenses	28,858	30,150	31,464	40,188
EBIDTA	**(16,315)**	**(9,067)**	**(7,810)**	**8,574**
Depreciation	4,853	7,357	8,284	10,300
EBIT	**(21,168)**	**(16,424)**	**(16,094)**	**(1,726)**
Interest	233	243	212	220
Other Income	4,097	5,468	5,435	5,564
Exc. / E.O. items	0	(2,328)	0	0
EBT	**(17,304)**	**(13,527)**	**(10,872)**	**3,619**
Tax	336	319	11	38
RPAT	(17,640)	(13,846)	(10,883)	3,581
Minority Interest	(6)	(54)	28	32
Profit/Loss share of associates	**(125)**	**(377)**	**(202)**	**185**
APAT	**(17,759)**	**(11,841)**	**(11,113)**	**3,734**

Balance Sheet

(Rs Mn)	FY23A	FY24A	FY25E	FY26E
Sources of Funds				
Equity Capital	634	636	641	646
Minority Interest	(227)	(282)	(310)	(305)
Reserves & Surplus	1,29,522	1,32,630	1,32,205	1,41,452
Net Worth	**1,30,156**	**1,33,266**	**1,32,846**	**1,42,098**
Total Debt	20	0	0	0
Net Deferred Tax Liability	(85)	(119)	(119)	(119)
Total Capital Employed	**1,29,864**	**1,32,865**	**1,32,417**	**1,41,674**
Applications of Funds				
Net Block	**12,130**	**12,509**	**11,104**	**10,204**
CWIP	72	100	100	100
Investments	61,728	55,635	56,135	56,635
Current Assets, Loans & Advances	**1,05,643**	**1,03,028**	**1,04,920**	**1,20,788**
Inventories	0	0	0	0
Receivables	12,528	16,507	15,496	21,138
Cash and Bank Balances	33,120	42,772	46,177	52,236
Loans and Advances	1,564	1,731	1,729	1,727
Other Current Assets	58,431	42,018	41,518	45,687
Less: Current Liabilities & Provisions	**49,709**	**38,407**	**39,842**	**46,054**
Payables	8,589	6,842	8,354	9,547
Other Current Liabilities	41,120	31,565	31,488	36,507
sub total				
Net Current Assets	55,934	64,621	65,078	74,734
Total Assets	**1,29,864**	**1,32,865**	**1,32,417**	**1,41,674**

E – Estimates

Important Ratios

Particulars	FY23A	FY24A	FY25E	FY26E
(A) Margins (%)				
Gross Profit Margin	52.7	54	54.2	66.8
EBIDTA Margin	-20.4	-9.1	-8.3	6.4
EBIT Margin	-26.5	-16.5	-17.2	-1.3
Tax rate	-1.9	-2.4	-0.1	1.1
Net Profit Margin	-22.1	-13.9	-11.6	2.7
(B) As Percentage of Net Sales (%)				
COGS	37	32.9	29	30.1
Employee	47.3	46	45.8	33.2
Other	36.1	30.2	33.5	30.2
(C) Measure of Financial Status				
Gross Debt / Equity	0	0	0	0
Interest Coverage	-90.8	-67.6	-75.9	-7.8
Inventory days	0	0	0	0
Debtors days	57	60	60	58
Average Cost of Debt	N.M	N.M	N.M	N.M
Payable days	39	25	32	26
Working Capital days	256	236	253	205
FA T/O	6.6	8	8.4	13
(D) Measures of Investment				
AEPS (Rs)	-27.4	-18.6	-17.3	5.8
CEPS (Rs)	-19.9	-7.1	-4.4	21.7
DPS (Rs)	0	0	0	0
Dividend Payout (%)	0	0	0	0
BVPS (Rs)	200.6	209.5	207.2	220
RoANW (%)	-13	-10.5	-8.2	2.6
RoACE (%)	-12.8	-8.6	-8	2.8
RoAIC (%)	-18.9	-17.6	-18.3	-2
(E) Valuation Ratios				
CMP (Rs)	369	369	369	369
P/E	N.M	N.M	N.M	63.8
Mcap (Rs Mn)	234,589	234,589	234,589	234,589
MCap/ Sales	2.9	2.4	2.5	1.8
EV	201,489	191,817	188,412	182,352
EV/Sales	2.5	1.9	2	1.4
EV/EBITDA	-12.3	-21.2	-24.1	21.3
P/BV	1.8	1.8	1.8	1.7
Dividend Yield (%)	0	0	0	0
(F) Growth Rate (%)				
Revenue	61	24.9	-6	41.8
EBITDA	LTL	LTL	LTL	LTP
EBIT	LTL	LTL	LTL	LTP
PBT	LTL	LTL	LTL	LTP
APAT	LTL	LTL	LTL	LTP
EPS	LTL	LTL	LTL	LTP

E – Estimates

Cash Flow

Particulars	FY23A	FY24A	FY25E	FY26E
Profit before tax	**(17,429)**	**(13,904)**	**(11,074)**	**3,804**
Depreciation & w.o.	4,853	7,357	8,284	10,300
Net Interest Exp	(2,990)	(4,375)	5,223	5,344
Direct taxes paid	(1,762)	(1,085)	(11)	(38)
Change in Working Capital	6,489	(149)	2,847	(3,606)
Non Cash	14,995	18,664	10,660	5,480
(A) CF from Operating Activities	**4,156**	**6,508**	**15,929**	**21,284**
Capex {(Inc.)/ Dec. in Fixed Assets n WIP}	(6,967)	(8,121)	(6,879)	(9,400)
Free Cash Flow	**(2,811)**	**(1,613)**	**9,050**	**11,884**
(Inc)./ Dec. in Investments	30,142	5,697	(400)	(490)
Other	3,080	5,604	(5,223)	(5,344)
(B) CF from Investing Activities	**26,255**	**3,180**	**(12,502)**	**(15,234)**
Issue of Equity/ Preference	8	16	5	5
Inc./(Dec.) in Debt	0	0	(28)	5
Interest exp net	0	0	0	0
Dividend Paid (Incl. Tax)	0	0	0	0
Other	(570)	(237)	0	0
(C) CF from Financing	**(11,123)**	**(221)**	**(23)**	**10**
Net Change in Cash	19,311	9,672	3,405	6,060
Opening Cash balances	**13,789**	**33,100**	**42,772**	**46,177**
Closing Cash balances	**33,100**	**42,772**	**46,177**	**52,236**

E – Estimates

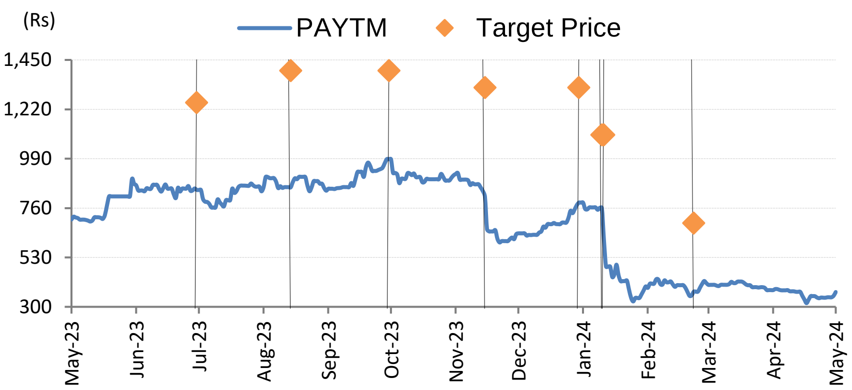
Notes

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	**> 20%**
Accumulate	**10 to 20%**
Reduce	**0 to 10%**
Sell	**< 0%**

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Jul-23	BUY	1,250	844
Sep-23	Buy	1,400	857
Oct-23	Buy	1,400	988
Dec-23	Buy	1,320	813
Jan-24	Buy	1,320	785
Jan-24	Buy	1,100	761
Feb-24	Buy	1,100	609
Mar-24	Buy	690	371

**Price as on recommendation date*

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