

One 97 Communications

BSE SENSEX

64,719

S&P CNX

19,189

CMP: INR868

TP: INR1,050 (+21%)

Buy

Motilal Oswal values your support in the Asiamoney Brokers Poll 2023 for India Research, Sales, Corporate Access and Trading team. We [request your ballot](#).



Stock Info

Bloomberg	PAYTM IN
Equity Shares (m)	649
M.Cap.(INRb)/(USD\$)	550.5 / 6.7
52-Week Range (INR)	915 / 440
1, 6, 12 Rel. Per (%)	21/58/7
12M Avg Val (INR M)	3265

Financials Snapshot (INR b)

Y/E Mar	FY23	FY24E	FY25E
Revenue	79.9	113.0	149.7
Cont. Profit	39.0	62.3	84.2
Adj. EBITDA	(1.8)	10.6	19.5
EBITDA	(16.3)	(4.0)	8.8
PAT	(17.8)	(7.6)	2.6
EPS (INR)	(28.0)	(11.8)	3.9
EPS Gr. (%)	(24.1)	(57.9)	NM

Ratios (%)

Cont. Margin	48.8	55.1	56.2
EBITDA Margin *	(2.2)	9.4	13.0
EBITDA Margin	(20.4)	(3.5)	5.9
ROE (%)	(13.1)	(5.8)	2.0
ROA (%)	(9.9)	(4.3)	1.5

Valuations

P/E(X)	(30.9)	(73.4)	NM
P/BV (X)	4.2	4.3	4.3
P/Sales (X)	6.9	4.9	3.8

* Adj.

Shareholding pattern (%)

As On	Mar-23	Dec-22	Mar-22
Promoter	0.0	0.0	0.0
DII	63.5	68.0	1.1
FII	11.6	6.7	4.4
Others	25.0	25.3	94.5

FII Includes depository receipts

Raising GMV & Disbursement projections by 4-21%

On track to achieve EBITDA breakeven in 2HFY25; reiterate Buy

- Paytm's stock has delivered healthy returns of 34%, since we initiated coverage in Apr'23. The lending business has demonstrated robust traction in loan disbursements with the total number of loans disbursed surging 4.6x YoY in FY23 (4.4x in FY22).
- Business momentum remains robust with gross merchandise value (GMV) growing 35% YoY to INR2.65t during Apr-May'23 (55% YoY growth in FY23).
- The company maintains quarterly merchant addition run-rate of 1m+ with the total number of devices deployed surging to 7.5m in May'23 (118% YoY growth). The sustained growth in the deployment of devices will enable robust transaction volumes and drive healthy growth in merchant and consumer loans.
- We note that from an annualized 1QFY23 run-rate of INR222b value of loans, the company has reached an annualized run-rate of ~INR600b in Apr-May'23, and the same is tracking higher than our estimates. Merchant loans also improved in May'23 after a drag in Apr'23, due to technology system upgrade at one of the leading partners.
- We believe that after reporting adjusted EBITDA breakeven in 3QFY23, almost a year ahead of its guidance, Paytm is on track to report EBITDA breakeven in 2HFY25. We raise our FY25E GMV and Disbursement estimates by 5% and 21%, respectively, and estimate the mix of Financial revenue to increase to 32% by FY25 from 19% in FY23.
- We estimate adjusted EBITDA, EBITDA, and Contribution margin of 13%, 5.9%, and ~56% by FY25. We thus revise our TP to INR1,050, based on a FY28E EV/EBITDA multiple of 16x (implied 4.7x FY25E P/Sales). We reiterate our BUY rating on the stock.

Payment business posting healthy growth; 1m devices added quarterly

Paytm has reported a healthy 55% CAGR in its GMV over FY19-23. GMV remained strong in FY24 as well and grew to INR2.65t (+35% YoY) in the two-month ended May'23. With the increasing use cases, growing merchant and consumer base, and rising penetration, we expect GMV to report a healthy 32% CAGR over FY23-25. Paytm also posted a steady growth in MTUs to ~92m for Apr'23-May'23, while the number of subscription payment devices rose to 7.5m during the same period. As the penetration among merchants remains low, we expect the traction to sustain with a quarterly addition of ~1.0m devices. We forecast the payment revenue to thus clock a healthy 26% CAGR over FY23-25.

Financial revenue to grow exponentially; mix to improve to 32% by FY25

The profitability of Paytm's core payment business is further enhanced by its financial services division, which benefits from inherently higher contribution margin. The mix of financial services revenue has increased to 19% in FY23 from only 4% in FY19. With faster growth in GMV, merchant acquisition and cross-sell rate, we estimate Paytm's financial revenue to record 75% CAGR over FY23-25 with the mix reaching ~32% by FY25.

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

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Disbursements to surpass INR1t in FY25E; estimate 80% CAGR over FY23-25

Paytm's lending business has demonstrated a robust traction in loan disbursements with the total number of loans disbursed surging 4.6x YoY in FY23 (4.4x in FY22). We note that the total number of unique borrowers (who have taken a loan through Paytm) increased 1.4m QoQ to 9.5m in 4QFY23. Financial penetration for Paytm remains lower at 0.9-5.9% of MTU, and thus, there remains significant headroom for growth, given the large customer and merchant bases. We note that from an annualized 1QFY23 run-rate of INR222b value of loans, the company has reached an annualized run-rate of ~INR600b in Apr-May'23. Merchant loans also improved in May'23 after a drag in Apr'23, due to technology system upgrade at one of the leading partners. Paytm is looking to add more lending partners in FY24, which will help absorb the flow that it is capable of originating via its platform. We forecast disbursements to register a CAGR of 80% over FY23-25, thus reaching INR1.1t in FY25E.

Operating leverage to aid profitability; contribution margin to expand to 56%

Paytm has seen moderation in payment processing charges, marketing activities, and promotional expenses over the recent years. Hence, direct expenses have moderated to ~51% of revenue in FY23 from 162% in FY19. Similarly, indirect expenses have moderated to ~51% of revenue from 69% in FY19. While Paytm will continue to invest in growth and merchant base expansion, the improvement in operating leverage will nevertheless aid profitability. The company has reported a healthy expansion in contribution margin to 48.8% in FY23 from 30.1% in FY22, driven by a rising mix of financial revenue. Based on the consistent growth in merchants utilizing subscription devices and a robust disbursement run-rate, we estimate that the contribution profit of the company is expected to achieve a CAGR of 47% over FY23-25, with margins improving to 56% by FY25.

RBI has recently allowed FLDG; approvals for PPBL & PPSL to further endorse faith in operations

In March'23, Paytm was granted an extension by the RBI for its payment aggregator license application. As a result, Paytm can continue offering all payment services to its existing customers. However, during this period, it cannot onboard new online merchants. Furthermore, the company is currently awaiting regulatory approvals to onboard new customers for Paytm Payments Bank. The company is already implementing the recommendations provided by the IT auditor, as suggested by the RBI. Additionally, Paytm has appointed Mr. Surinder Chawla as MD & CEO, post RBI's approval. We believe that with the recent Digital Lending Guidelines wherein RBI approved FLDG up to 5% has acknowledged the role of Fintechs in the financial ecosystem. Any pending approvals to Paytm which is the largest listed Fintech will further endorse faith in its business operations and augment growth opportunities.

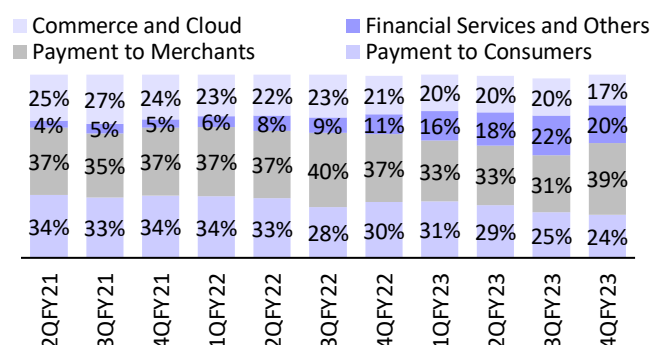
Valuation & View: Reiterate BUY with revised TP of INR1,050

We believe that constant improvement in contribution margin and operating leverage will continue to drive Paytm's operating profitability. We believe that after reporting adjusted EBITDA breakeven, almost a year ahead of its guidance, Paytm is on track to report EBITDA breakeven in 2HFY25. We raise our FY25E GMV and Disbursement estimates by 5% and 21%, respectively, and estimate the mix of Financial revenue to increase to 32% by FY25E from 19% in FY23. We thus estimate

revenue/contribution profit to register a CAGR of 31%/36% over FY23-28, while Adjusted EBITDA/EBITDA margin improves to 13%/5.9%, respectively, by FY25. We revise our TP to INR1,050 based on 16x FY28E EV/EBITDA and discount the same to FY25E, with a discount rate of ~15%. Our fair value corresponds to 4.7x FY25E P/Sales. We thus reiterate our BUY rating on the stock. Ability to maintain strong portfolio quality amid rapid disbursement growth, supply overhang from some of the large shareholders, and evolving regulatory environment adversely affecting Fintechs remain the key risks to our call.

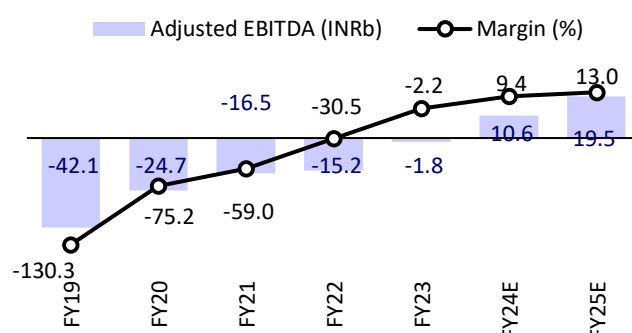
Story in charts

Exhibit 1: Payment and Financial services revenue forms 83% of the total revenue



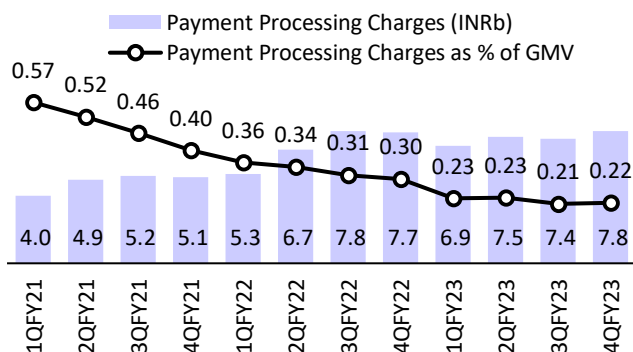
Source: MOFSL, Company

Exhibit 2: Adjusted EBITDA to increase to INR19.5b in FY25; to achieve EBITDA breakeven by FY25



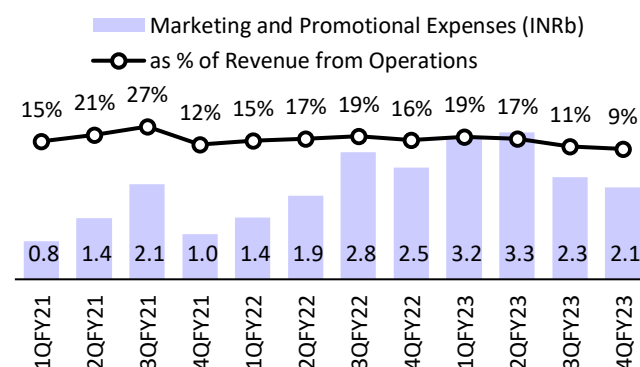
Source: MOFSL, Company

Exhibit 3: Payment processing charges forms 0.22% of GMV



Source: MOFSL, Company

Exhibit 4: Marketing expenses moderated to 9% of revenues



Source: MOFSL, Company

Exhibit 5: Contribution margin improved to 55% in 4QFY23 (52% ex of UPI incentive) vs 51% in 3QFY23

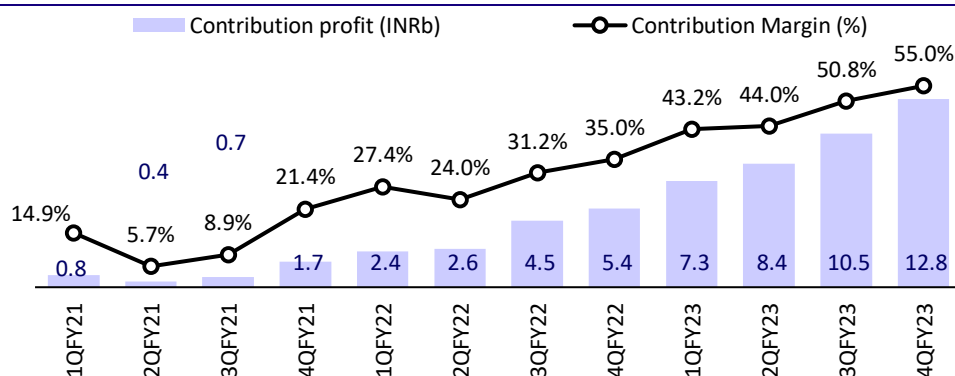
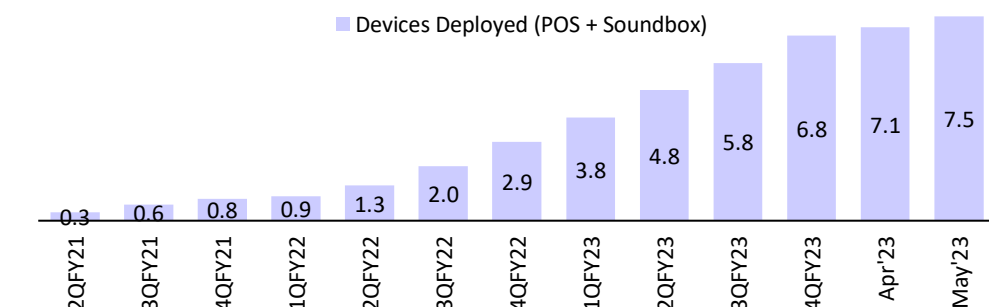
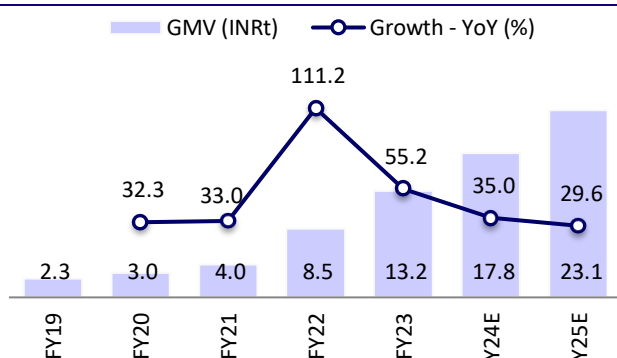


Exhibit 6: Devices deployed rose to 7.5m as of May'23

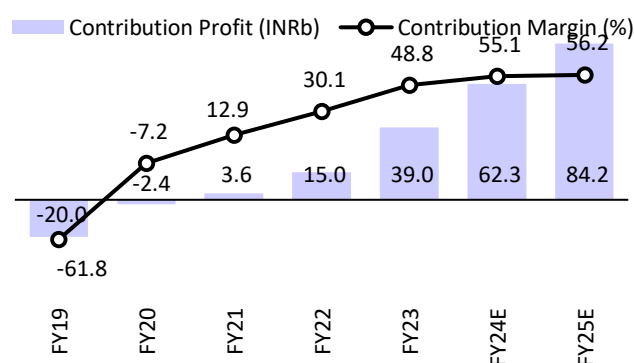
PAYTM has added ~0.4m devices in May'23



Source: MOSL, Company

Exhibit 7: GMV to register a healthy CAGR of ~32% over FY23-25

Source: MOFSL, Company

Exhibit 8: Contribution margin to expand to 56% by FY25

Source: MOFSL, Company

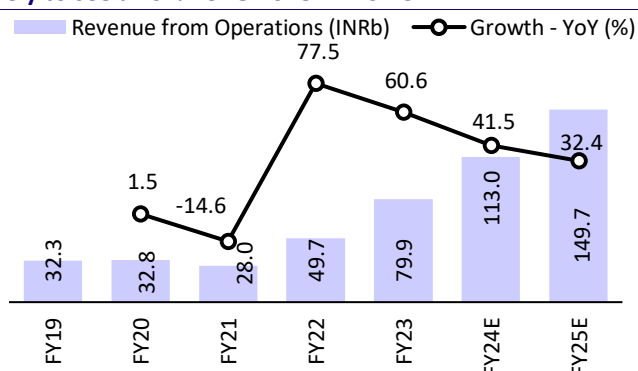
Exhibit 9: Key changes to our estimates

INR b	Old Estimates		New Estimates		Change (%/bps)	
	FY24	FY25	FY24	FY25	FY24	FY25
Payment and Financial Services	88.3	112.7	93.2	125.2	5.5	11.1
Commerce and Cloud Services	18.8	22.8	18.8	23.2	0.0	1.8
Revenue from Operations	108.1	136.8	113.0	149.7	4.6	9.5
Direct Expenses	47.8	59.0	50.8	65.5	6.2	11.1
Contribution Profit	60.3	77.8	62.3	84.2	3.3	8.2
Indirect Expenses	50.7	61.8	51.6	64.7	1.9	4.6
Adjusted EBITDA	9.6	16.0	10.6	19.5	10.4	22.3
EBITDA	-5.0	5.2	-4.0	8.8	-20.1	67.7
PBT	-6.6	2.4	-7.0	2.9	5.4	21.3
Tax	0.4	0.2	0.4	0.2	5.3	22.9
PAT	-7.2	2.1	-7.6	2.6	5.3	22.9
GMV (INRt)	17.2	22.0	17.8	23.1	3.8	5.1
Disbursements	655	949	743	1,152	13.5	21.3
Contribution Margin (%)	55.8	56.9	55.1	56.2	-68	-65
Adjusted EBITDA Margin (%)	8.9	11.7	9.4	13.0	49	136
EBITDA Margin (%)	-4.6	3.8	-3.5	5.9	108	204
PAT Margin (%)	-6.6	1.5	-6.7	1.7	-5	19

Valuation and View

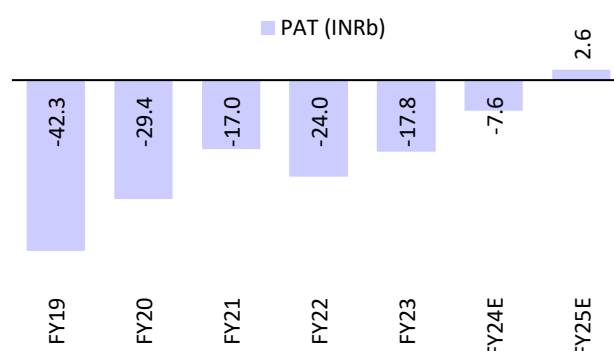
- Paytm has reported a healthy 55% CAGR in its GMV over FY19-23. GMV remained strong in FY24 as well and grew to INR2.65t (+35% YoY) in the two month ended May'23. With increasing use cases, growing merchant & consumer base and rising penetration, we expect GMV to report a healthy 32% CAGR over FY23-25. Paytm also posted a steady growth in MTUs to ~92m for Apr'23-May'23, while the number of subscription payment devices rose to 7.5m during the same period. As the penetration among merchants remains low, we expect the traction to sustain with a quarterly addition of ~1.0m devices. We forecast the payment revenue to thus clock a healthy 26% CAGR over FY23-25.
- Paytm's financial business further augments the profitability of core payment business due to inherently higher contribution margin. The mix of financial services revenue has increased to 19% in FY23 from only 4% in FY19. With faster growth in GMV, merchant acquisition and cross-sell rate, we estimate Paytm's financial revenue to record 75% CAGR over FY23-25 with the mix reaching ~32% by FY25.
- Paytm's lending business has demonstrated a robust traction in loan disbursements with the total number of loans disbursed surging 4.6x YoY in FY23 (4.4x in FY22). We note that the total number of unique borrowers (who have taken a loan through Paytm) increased 1.4m QoQ to 9.5m in 4QFY23. Financial penetration for Paytm remains lower at 0.9-5.9% of MTU, and thus, there remains significant headroom for growth, given the large customer and merchant bases. We note that from an annualized 1QFY23 run-rate of INR222b value of loans, the company has reached an annualized run-rate of ~INR600b in Apr-May'23. Merchant loans also improved in May'23 after a drag in Apr'23 due to technology system upgrade at one of the leading partners. Paytm is looking to add more lending partners in FY24, which will help absorb the flow that it is capable of originating via its platform. We forecast disbursements to register a CAGR of 80% over FY23-25, thus reaching INR1.1t in FY25.

Exhibit 10: Revenue from operations to remain buoyant; likely to see a ~37% CAGR over FY23-25



Source: MOFSL, Company

Exhibit 11: We estimate Paytm to achieve profitability by 2HFY25; estimate a PAT of INR2.6b in FY25



Source: MOFSL, Company

- We believe that constant improvement in contribution margin and operating leverage will continue to drive Paytm's operating profitability. We believe that after reporting adjusted EBITDA breakeven almost a year ahead of its guidance, Paytm is on track to report EBITDA breakeven in 2HFY25E.

We raise our FY25E GMV and Disbursement estimates by 5% and 21%, respectively, and estimate the mix of Financial revenue to increase to 32% by FY25 from 19% in FY23. We thus estimate revenue/contribution profit to register a CAGR of 31%/36% over FY23-28, while Adjusted EBITDA/EBITDA margin improves to 13%/5.9%, respectively, by FY25E. We **revise our TP to INR1,050 based on 16x FY28E EV/EBITDA** and discount the same to FY25E, with a discount rate of ~15%. Our fair value corresponds to 4.7x FY25E P/Sales. **We thus reiterate our BUY rating on the stock.**

Exhibit 12: We estimate 31% revenue CAGR over FY23-28E and EBITDA of INR60.4b (~19% margin) by FY28E

INR b	FY23	FY24E	FY25E	FY26E	FY27E	FY28E	CAGR over FY23-28E
Payment and Financial Services	63.8	93.2	125.2	166.3	213.6	267.5	33%
Commerce and Cloud Services	15.2	18.8	23.2	28.4	34.3	41.2	22%
Revenue from Operations	79.9	113.0	149.7	196.3	249.9	311.1	31%
Direct Expenses	40.9	50.8	65.5	83.2	103.2	126.6	25%
Indirect Expenses	40.8	51.6	64.7	80.3	99.4	123.2	25%
Contribution Profit	39.0	62.3	84.2	113.1	146.7	184.5	36%
Contribution Margin (%)	48.8	55.1	56.2	57.6	58.7	59.3	
EBITDA	-16.3	-4.0	8.8	27.9	45.2	60.4	90%*
EBITDA Margin (%)	-20.4	-3.5	5.9	14.2	18.1	19.4	
PAT	-17.8	-7.6	2.6	16.8	27.3	34.1	137%*

*CAGR over FY25-28

Source: MOFSL, Company

Exhibit 13: We value the stock at INR1,050 based on 16x FY28E EV/EBITDA

Valuation	INR b
EBITDA – FY28E	60.4
12 month forward multiple	16
EV Value – FY28	960.4
Discount Rate (%)	15.0%
Period to Discount (Years)	3.0
Discounted EV - FY25E	627.3
Cash - FY25E	79.1
Market Value	706.4
Diluted no of equity shares (m)	673.0
Target Price	1,050
CMP	842
Upside (%)	25%
P/Sales - FY25E	4.7

Source: MOFSL, Company

Financials and valuations

Income Statement							(INR m)
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Payment Services to Consumers	10,851	10,120	9,692	15,286	21,050	25,164	31,456
Payment Services to Merchants	4,860	7,658	10,116	18,919	27,390	35,976	45,889
Financial Services and Others	1,244	1,290	1,284	4,372	15,400	32,011	47,832
Payment and Financial Services	16,955	19,068	21,092	38,577	63,840	93,152	1,25,177
Growth (%)	NM	12.5	10.6	82.9	65.5	45.9	34.4
Commerce	11,915	7,109	2,452	3,736	6,150	7,688	9,533
Cloud	3,450	4,079	4,480	7,312	9,050	11,132	13,692
Commerce and Cloud Services	15,365	11,188	6,932	11,048	15,200	18,819	23,224
Growth (%)	NM	-27.2	-38.0	59.4	37.6	23.8	23.4
Other Operating Revenue	-	2,552	-	117	860	1,075	1,322
Revenue from Operations	32,320	32,808	28,024	49,742	79,900	1,13,046	1,49,724
Growth (%)	NM	1.5	-14.6	77.5	60.6	41.5	32.4
Payment processing charges	22,574	22,659	19,168	27,538	29,580	35,694	45,334
Promotional cash back & incentives	27,937	9,592	2,357	3,781	5,020	6,246	7,864
Other Expenses	1,789	2,935	2,874	3,442	6,300	8,820	12,348
Direct Expenses	52,300	35,186	24,399	34,761	40,900	50,760	65,546
Growth (%)	NM	-32.7	-30.7	42.5	17.7	24.1	29.1
Contribution Profit	-19,980	-2,378	3,625	14,981	39,000	62,285	84,178
Growth (%)	NM	-88.1	-252.4	313.3	160.3	59.7	35.1
Marketing	6,146	4,379	2,968	4,773	5,740	7,122	9,283
Employee cost (Ex ESOPs)	7,016	9,532	10,724	16,226	23,230	30,199	38,051
Software, cloud and data center	3,096	3,603	3,498	4,999	6,940	8,606	10,585
Other indirect expenses	5,877	4,791	2,983	4,160	4,850	5,723	6,753
Indirect Expenses	22,135	22,305	20,173	30,158	40,760	51,649	64,672
Growth (%)	NM	0.8	-9.6	49.5	35.2	26.7	25.2
Adjusted EBITDA	-42,115	-24,683	-16,548	-15,177	-1,760	10,636	19,506
Growth (%)	NM	-41.4	-33.0	-8.3	-88.4	-704.3	83.4
ESOP Expense	1,546	1,661	1,125	8,093	14,560	14,610	10,710
EBITDA	-43,661	-26,344	-17,673	-23,270	-16,320	-3,974	8,796
Growth (%)	NM	-39.7	-32.9	31.7	-29.9	-75.6	-321.3
Finance Costs	342	485	348	394	230	265	304
Depreciation and Amortization Expenses	1,116	1,745	1,785	2,473	4,850	8,003	12,004
Other Income	3,477	2,599	3,844	2,901	4,100	5,248	6,455
PBT	-41,642	-25,975	-15,962	-23,368	-17,300	-6,993	2,943
Share of (profit)/loss of associates/JV	-146	560	740	459	130	146	166
Exceptional items	825	3,047	281	24	0	0	0
Tax	-65	-158	27	113	336	428	222
PAT	-42,256	-29,424	-17,010	-23,964	-17,766	-7,567	2,555
Growth (%)	NM	-30.4	-42.2	40.9	-25.9	-57.4	-133.8
Balance Sheet							
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Share Capital	575	604	605	649	634	642	652
Reserves & Surplus	56,812	80,448	64,743	140,867	129,522	1,28,765	1,30,043
Non-Controlling Interest	862	-140	-186	-221	-227	-250	-275
Net Worth	58,249	80,912	65,162	141,295	129,929	1,29,158	1,30,420
Non-Current Liabilities	705	6,017	5,229	6,119	6,435	2,485	2,610
Current Liabilities	26,867	16,102	21,122	32,502	43,294	40,778	39,242
Total Liabilities	85,820	103,031	91,513	179,916	179,658	1,72,421	1,72,272
Fixed Assets	7,064	6,082	5,149	9,259	12,202	12,812	13,453
Investments in JV/Associates	2,002	2,468	2,317	2,233	2,518	-	-
Investments	1,511	3,038	341	10,062	13,247	17,342	19,076
Other Non-Current Assets	8,552	26,358	8,533	48,394	8,655	10,000	11,240
Non-Current Assets	19,129	37,947	16,340	69,948	36,622	40,153	43,768
Investments	24,979	31,895	1,472	-	11,206	11,206	11,206
Cash and Bank Balances	4,612	5,401	28,764	52,020	70,395	52,796	42,237
Other Current Assets	37,100	27,788	44,937	57,948	61,435	68,265	75,061
Current Assets	66,691	65,084	75,173	109,968	143,036	1,32,267	1,28,504
Total Assets	85,820	103,031	91,513	179,916	179,658	1,72,421	1,72,272

Financials and valuations

Key Operating Metrics

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
GMV (INR b)	2,292	3,032	4,033	8,516	13,220	17,847	23,130
Disbursements (INR b)	NA	NA	14	76	354	743	1,152
Net Payment Margins (INR m)	-6,863	-4,881	640	6,667	19,719	15,710	17,513
Revenue from Operations Mix (%)							
Payment Services to Consumers	34%	31%	35%	31%	27%	23%	22%
Payment Services to Merchants	15%	23%	36%	38%	34%	32%	31%
Financial Services and Others	4%	4%	5%	9%	19%	28%	32%
Payment and Financial Services	52%	58%	75%	78%	81%	83%	84%
Commerce	37%	29%	9%	8%	8%	7%	6%
Cloud	11%	12%	16%	15%	11%	10%	9%
Commerce and Cloud Services	48%	42%	25%	22%	19%	17%	16%

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Payment Services to Consumers % of GMV	0.47	0.33	0.24	0.18	0.16	0.14	0.14
Payment Services to Merchants % of GMV	0.21	0.25	0.25	0.22	0.21	0.20	0.20
Take rates - Financial Services (%)	NA	NA	9.1	5.7	4.4	4.3	4.2
Payment processing charges % of GMV	0.98	0.75	0.48	0.32	0.22	0.20	0.20
Net Payment Margin (%)	-0.30	-0.16	0.02	0.08	0.15	0.09	0.08
Direct Expense % of Revenues	161.8	107.2	87.1	69.9	51.2	44.9	43.8
Contribution Margin	-61.8	-7.2	12.9	30.1	48.8	55.1	56.2
Indirect Expense % of Revenues	68.5	68.0	72.0	60.6	51.0	45.7	43.2
Adjusted EBITDA Margin (%)	-130.3	-75.2	-59.0	-30.5	-2.2	9.4	13.0
EBITDA Margin (%)	-135.1	-80.3	-63.1	-46.8	-20.4	-3.5	5.9
PAT Margin (%)	-130.7	-89.7	-60.7	-48.2	-22.2	-6.7	1.7

Valuation

RoE	-62.9	-42.3	-23.3	-23.2	-13.1	-5.8	2.0
RoA	-49.0	-31.2	-17.5	-17.7	-9.9	-4.3	1.5
Sales per share (INR)	56	54	46	77	126	176	230
Growth (%)	NM	-3.4	-14.7	65.5	64.4	39.7	30.4
Price-Sales (x)	12.3	12.7	14.9	9.0	5.5	4.8	3.7
Book Value per share (INR)	101	134	108	218	205	201	200
Growth (%)	NM	32.2	-19.6	102.1	-5.9	-1.8	-0.6
Price-BV (x)	6.8	5.1	6.4	3.2	3.4	4.2	4.2
EBITDA per share (INR)	-76	-44	-29	-36	-26	-6	13
Price-EBITDA (x)	-9.1	-15.8	-23.6	-19.2	-26.8	-136.0	62.4
EPS (INR)	-73.5	-48.7	-28.1	-36.9	-28.0	-11.8	3.9
Growth (%)	NM	-33.7	-42.3	31.3	-24.1	-57.9	-133.2
Price-Earnings (x)	-9.4	-14.2	-24.5	-18.7	-24.6	-71.4	214.9

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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