April 2023

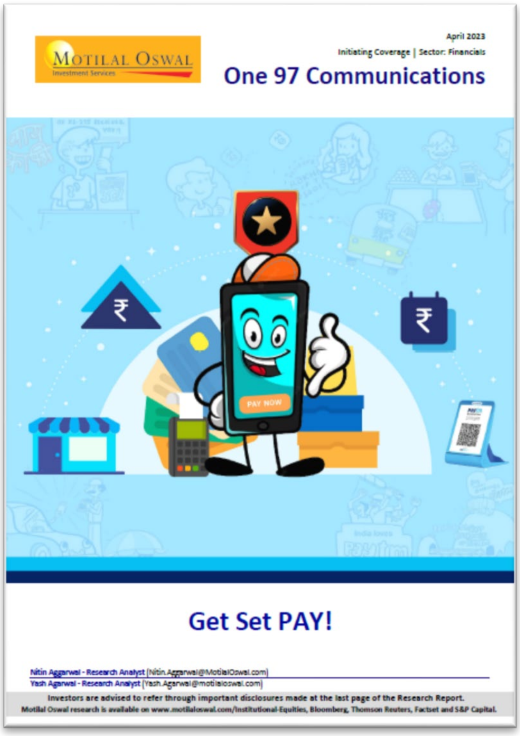
Initiating Coverage | Sector: Financials

One 97 Communications

Get Set PAY!

Nitin Aggarwal - Research Analyst (Nitin.Aggarwal@MotilalOswal.com)

Yash Agarwal - Research Analyst (Yash.Agarwal@motilaloswal.com)



Get Set PAY

Two-pronged strategy to drive profitability | EBITDA to break-even in FY25E

One 97 Communications Ltd (Paytm) is India's leading payments app and FinTech enterprise offering payments, financial services, commerce, and cloud services to its large consumer/merchant base of ~350m/ ~31.4m, respectively as on 3QFY23. It is the among largest payments platform, with GMV of ~INR13.2t in FY23 (INR8.5t in FY22).

One 97 Communications

BSE Sensex	S&P CNX
59,568	17,619

CMP: INR644 | **TP: INR865 (+34%)** | **Buy**

Stock Info

Bloomberg	PAYTM IN
Equity Shares (m)	634
M.Cap.(INRb)/(USDb)	408.4 / 5
52-Week Range (INR)	844 / 440
1, 6, 12 Rel. Per (%)	8/-2/-5
12M Avg Val (INR M)	3070
Free float (%)	100.0

Financial Snapshot (INR b)

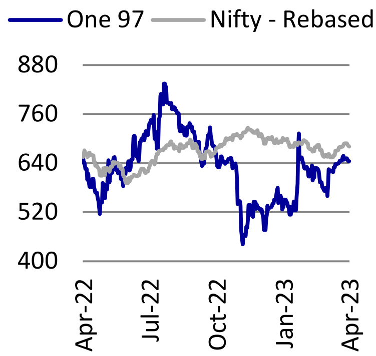
Y/E March	FY23E	FY24E	FY25E
Revenue	78.5	104.4	132.2
Cont. Profit	37.5	57.2	75.1
Adj. EBITDA	(2.4)	8.1	15.1
EBITDA	(17.2)	(6.8)	4.2
PAT	(18.8)	(9.1)	1.2
EPS (INR)	(28.6)	(13.7)	1.9
EPS Gr. (%)	NM	NM	NM
Ratios (%)			
Cont. Margin	47.7	54.8	56.8
Adj. EBITDA Margin	(3.0)	7.7	11.5
EBITDA Margin	(21.9)	(6.5)	3.2
RoE	(13.5)	(6.7)	0.9
RoA	(10.2)	(4.8)	0.6
Valuations			
P/E(X)	NM	NM	NM
P/BV (X)	3.1	3.2	3.2
P/Sales (X)	5.4	4.1	3.3

Shareholding pattern (%)

As On	Dec-22	Sep-22	Dec-21
Promoter	0.0	0.0	0.0
DII	68.0	72.8	1.1
FII	6.7	5.8	9.4
Others	25.3	21.4	89.6

FII Includes depository receipts

Stock Performance (1-year)



Get Set PAY!

Two-pronged strategy to drive profitability | EBITDA to break-even in FY25E

- **Scale matters: One 97 Communications Ltd (Paytm) is India's leading payments app and FinTech enterprise offering payments, financial services, commerce, and cloud services to its large consumer/merchant base of ~350m/ ~31.4m, respectively as on 3QFY23. It is among the largest payments platform, with GMV of ~INR13.2t in FY23 (INR8.5t in FY22).**
- **Huge cross-sell opportunity: The company has grown its Monthly Transacting Users (MTUs) to 90m as of FY23 that provides a ready customer base to cross-sell financial products to consumers; while, robust growth in subscription devices has helped improve throughput and supported growth in merchant loans.**
- **Disbursements to surge: During FY23, Paytm reported a 4.6x jump in the value of loans disbursed to reach an annualized run-rate of INR500b. We estimate disbursements to report a steady 64% CAGR over FY23-25, thus driving the mix of financial revenue upwards to 31%.**
- **Contribution margin to expand: Paytm has achieved a breakeven in adjusted EBITDA during 3QFY23, well ahead of its guidance. We estimate contribution margin to improve to 56.8% by FY25 from 30% in FY22, fueled by improvement in operating leverage and rise in financial business mix.**
- **Initiate with a BUY: We estimate Paytm to achieve an overall EBITDA break-even by FY25. We value the stock at INR865 based on 18x FY28E EV/EBITDA and discounting the same to FY25E at ~15%, which implies 4.5x FY25E P/Sales. We initiate coverage on the stock with a BUY rating.**

Digital payments – the new face of commerce

Total payments industry is forecasted to double to USD16t by 2026, within which the mix of digital payments is likely to increase to 65%. Thus, digital payments are expected to surge ~3x to USD10t by 2026 from USD3t in 2021. Mobile payments are projected to grow even faster at ~5x to USD3t by 2026. Further, an increase in QR deployment will drive merchant payment, which is likely to jump ~6x to USD2.7t by 2026. Paytm will thus be a big beneficiary from this surge as it has a strong positioning in both digital payments and lending businesses.

Payment business posting healthy growth; estimate 21% revenue CAGR

Paytm has reported a healthy traction in growing its GMV at 55% CAGR over FY19-23. While the growth was slightly softer due to Covid-19, the same picked-up strongly post-Covid. GMV clocked 81% CAGR over FY21-23. With increasing use cases, we expect GMV to report a healthy 27% CAGR over FY23-25. Paytm also posted steady growth in MTUs to ~90m as of FY23 while the number of subscription payment devices rose to 6.8m. 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 21% CAGR over FY23-25.

Financial revenue to grow exponentially; mix to improve to 31% by FY25E

Paytm's financial business further augments the profitability of core payment business due to its inherently higher contribution margin. In financial business, Paytm primarily offers three types of loans, viz.: a) Paytm Postpaid – offers short-term credit of up to INR60k with a period of up to 30 days; b) Personal Loans – offers loans with an average tenure of ~15 months and average ticket size of INR0.12m; and c) Merchant Loans – offers loans with an average tenure of ~12 months and average ticket size of INR0.15m. Paytm does not undertake any underwriting risk and co-originates loans with other financial partners on which it earns a sourcing and collection fee. The mix of financial services revenue has increased to 19% in 9MFY23 from only 4% in FY19. With faster growth in GMV, merchant acquisition and cross-sell rate, we estimate Paytm's financial revenue to record 58% CAGR over FY23-25.

Disbursements surging 4.6x YoY; estimate 64% CAGR over FY23-25

Paytm's lending business has demonstrated a robust traction in loan disbursals 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) rose 1.4m QoQ to 8.1m in 3QFY23. We further note that penetration for Paytm remains lower at 0.8-5.2% of MTU and thus there remains a significant headroom for growth given the large customer and merchant bases. We thus forecast disbursements to register 64% CAGR over FY23-25.

Operating leverage to aid profitability; Contribution margin to expand to 57%

Paytm has seen moderation in payment processing charges, marketing activities and promotional expenses over recent years. Hence, direct expenses have moderated to ~54% of revenue in 9MFY23 from 162% in FY19. Similarly, indirect expenses have moderated to ~54% 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 46.3% in 9MFY23 from 30.1% in FY22 driven by rising mix of financial revenue. With consistent growth in merchants having subscription device and robust disbursement run-rate, we estimate contribution profit to post 42% CAGR over FY23-25 with margins improving to 56.8% by FY25.

ESOP cost to remain elevated until FY25E

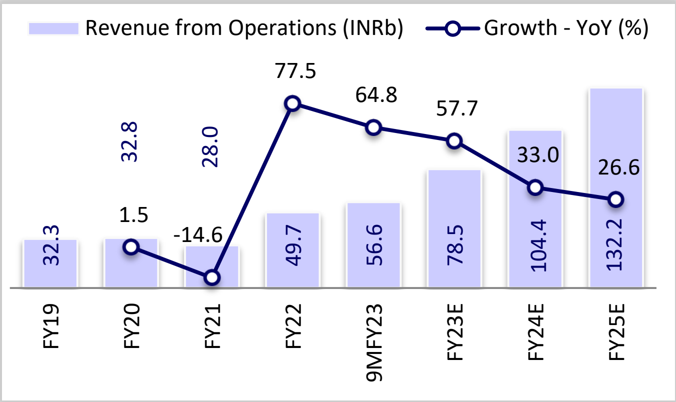
Paytm has been witnessing higher ESOP charges as the cost is front-ended based on the vesting period. Current vesting schedule stands at Year 1 (10%), Year 2 (20%), Year 3 (20%), Year 4 (25%), and Year 5 (25%). As a result, the charges are spread across five years with ~38% in Year 1, 28% in Year 2, 18% in Year 3, 11% in Year 4 and 5% in Year 5. Thus, ESOP cost is projected to remain elevated until FY25 and is likely to moderate from FY26 onwards.

Estimate EBITDA break-even by FY25; Initiate coverage with a BUY rating

Paytm has achieved a breakeven in adjusted EBITDA during 3QFY23, well ahead of its guidance. We believe that a constant improvement in contribution margin and operating leverage will continue to drive its operating profitability. We thus estimate Paytm to achieve EBITDA break-even by FY25 with an EBITDA margin of 3.2%. We further estimate its revenue/contribution profit to grow at 26%/32% CAGR over FY23-28. **We thus value Paytm based on 18x FY28E EV/EBITDA and discount the same to FY25E taking a discount rate of ~15% thus valuing the stock at INR865, which implies 4.5x FY25E P/Sales. We initiate coverage on the stock with a BUY rating. Key risks:** Inability to secure the RBI approval for onboarding new customers in Payment Bank and securing license for Payment Aggregator that is critical for long- term growth.

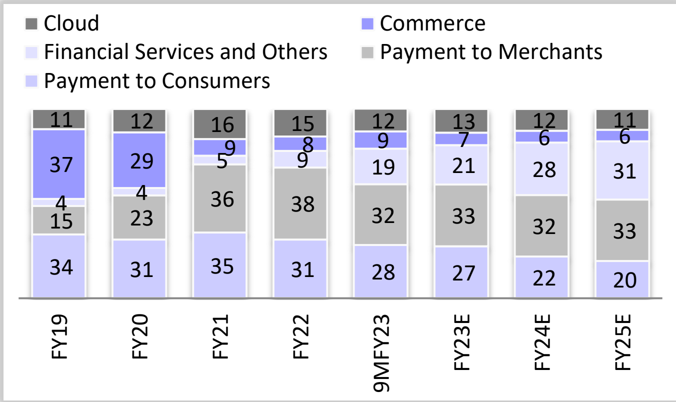
Story in charts

Revenue from operations to remain buoyant; likely to report ~30% CAGR over FY23-25E



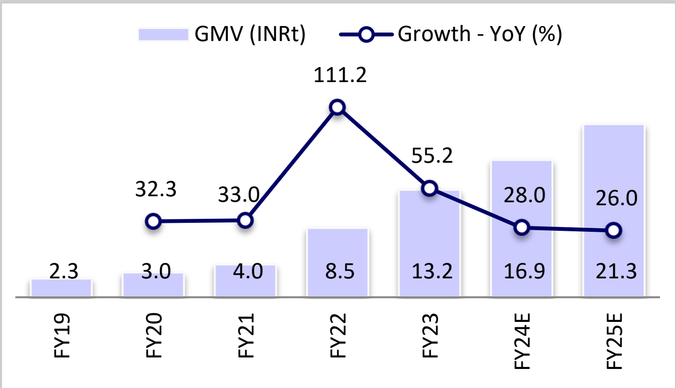
Source: MOFSL, RBI, Company

Mix of financial services to improve to 31% by FY25E from 9%/19% in FY22/9MFY23, respectively



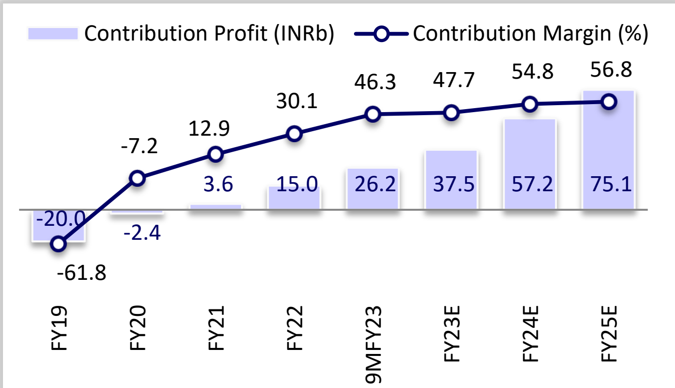
Source: MOFSL, RBI, Company

GMV growth to remain healthy at ~27% over FY23-25E



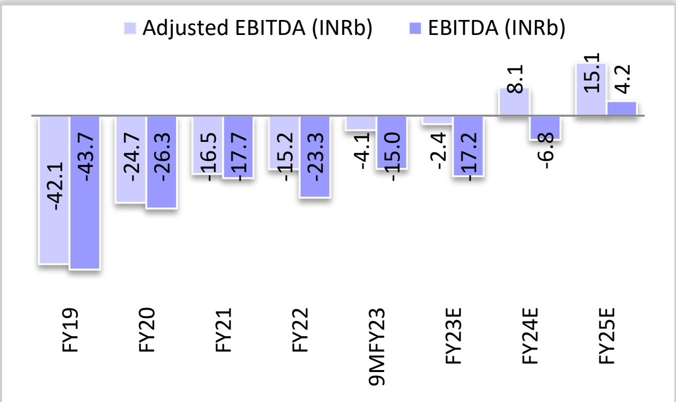
Source: MOFSL, Company

Contribution profit to clock ~42% CAGR over FY23-25E; contribution margin to expand to 56.8% by FY25E



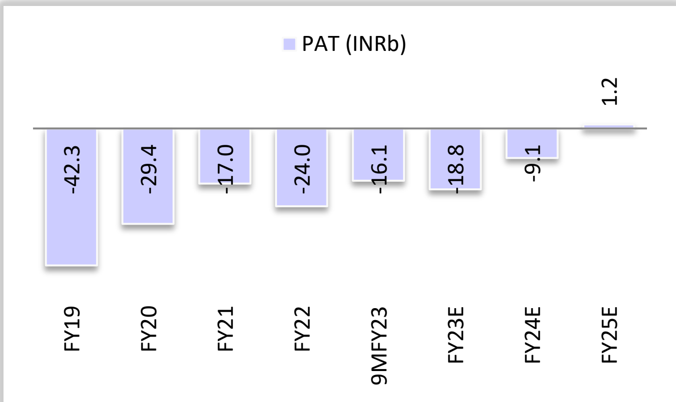
Source: MOFSL, Company

Adjusted EBITDA to increase to INR15.1b in FY25E; to achieve EBITDA breakeven by FY25E



Source: MOFSL, Company

We estimate Paytm to achieve profitability by FY25 with a PAT of INR1.2b



Source: MOFSL, Company

Paytm: Big ideas start small

Paytm is India's leading payments app and FinTech enterprise offering payments, financial services, commerce, and cloud services to **its large consumer/merchant base of ~350m/~31.4m, respectively as on 3QFY23. It is among the largest payments platform, with GMV of ~INR13.2t in FY23.**

The company was launched in CY09 as a 'mobile-first' digital payments platform to enable cashless payments to consumers. It started off as a digital wallet-based platform initially, with a focus on mobile top-ups and utility payments. With the advent of technology, **Paytm has created a payments-led 'super app' and evolved into a comprehensive payments ecosystem covering payments, credit, insurance, merchants, wealth management, e-commerce services et al.**

The Payment ecosystem covers payments (wallet/UPI), FASTag, bill payments, money transfers, and mobile top-ups. Consumers can make payments through Paytm and other payment instruments integrated with the Paytm app. It further offers both online and offline merchant acquisitions through QR, smart PoS, and payment gateway.

The payments bank license allows Paytm to collect deposits from customers. It, however, cannot lend on its own balance sheet and thus co-originates loans in partnership with other financial institutions (such as banks and NBFCs). Paytm offers a 'Buy Now Pay Later' facility to its consumers for a maximum period of 60 days. It further offers personal loans, merchant loans and co-branded credit cards to its customers.

Paytm Money has seen strong growth and is a large distributor of mutual funds. It is also in the process of obtaining approval to acquire a general insurance company.

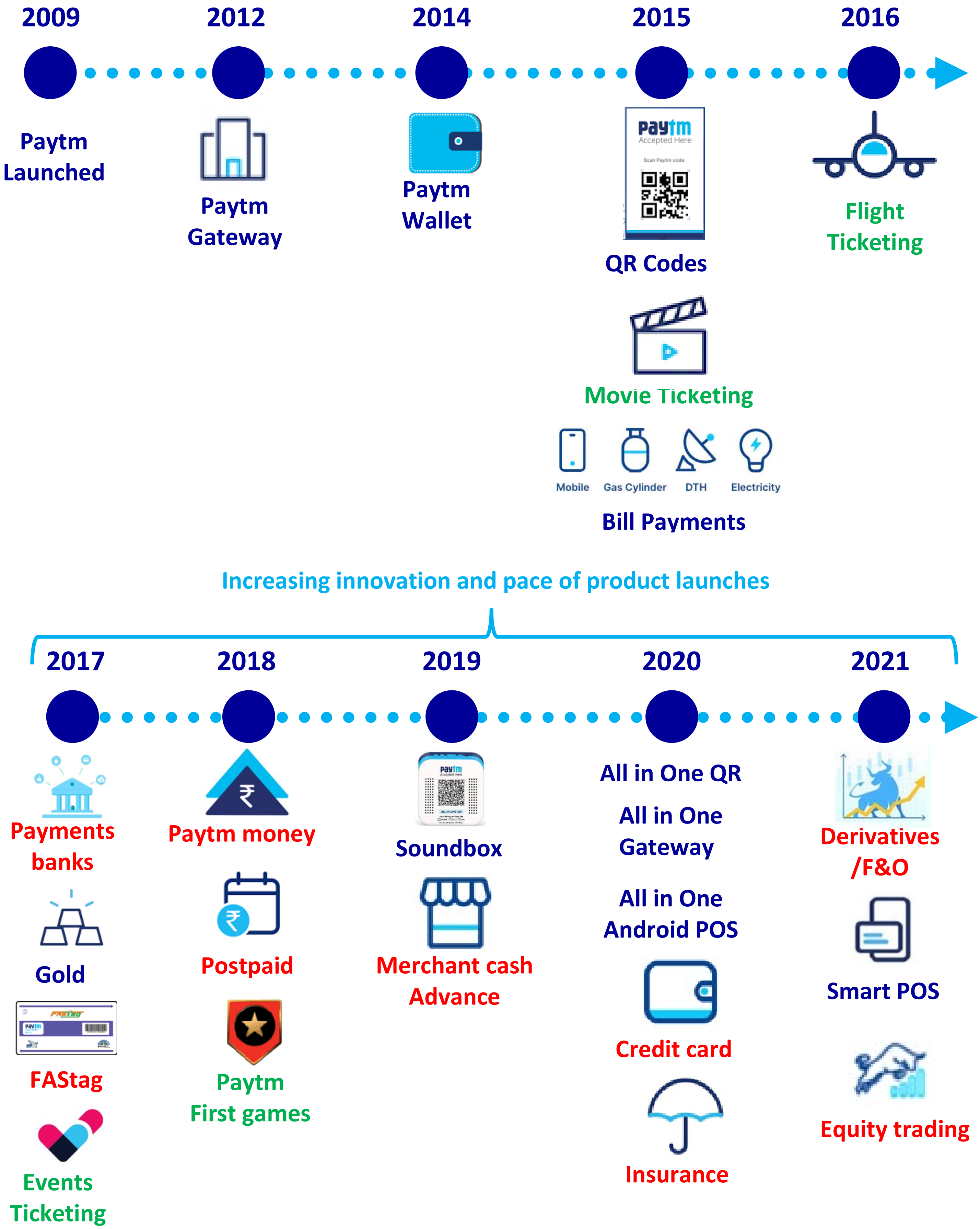
Exhibit 1: Key statistics

Key stats	FY19	FY20	FY21	FY22	FY23
Payments					
No. of consumers (Paytm wallets) (m)	260	300	333	NA	NA
No. of merchants on-boarded (m)	11.2	16.3	21.1	26.7	31.4*
Total transactions (b)	NA	NA	7.4	15.4	20.6*
Monthly transacting users (m)	34.4	39.7	45.1	60.8	82.4
Payment devices (POS, Sound Box) (m)	NA	NA	0.8	2.9	6.8
Total GMV (INR b)	2,292	3,032	4,033	8,516	13,217
Credit					
Total no. of loans disbursed (k)	5	75	2,635	15,232	40,043
Total value of loans disbursed (m)	NA	NA	14,090	76,210	353,790

*As on FY23YTD

Source: MOFSL, Company

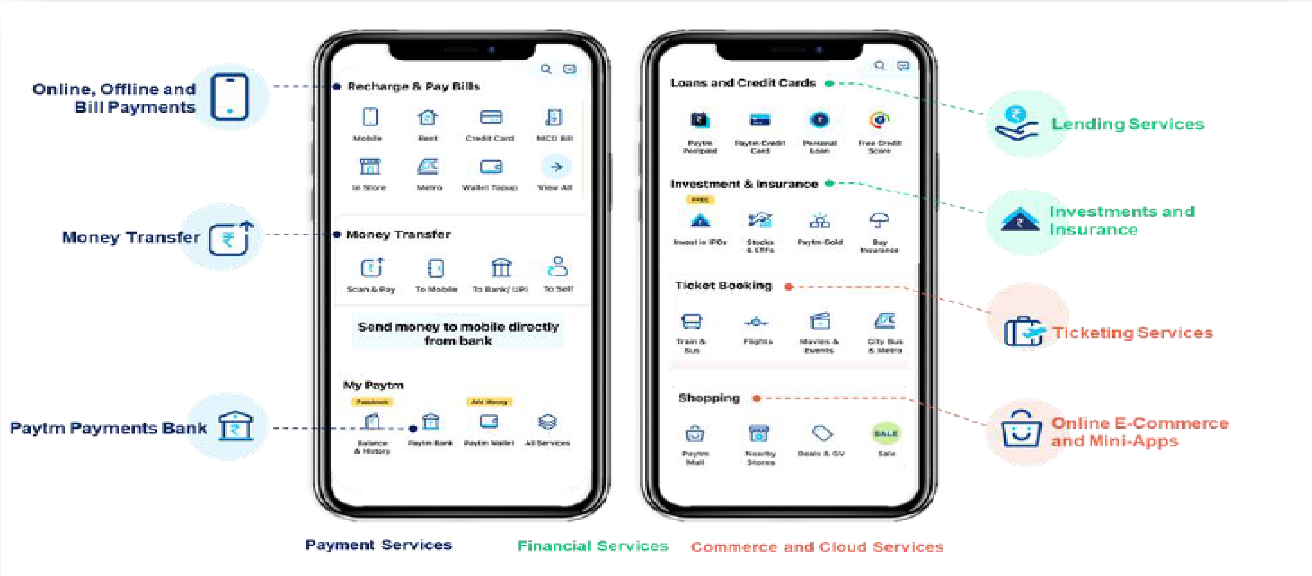
Timeline of business products launched by Paytm



Payment Service | Commerce and Cloud services | Financial Services

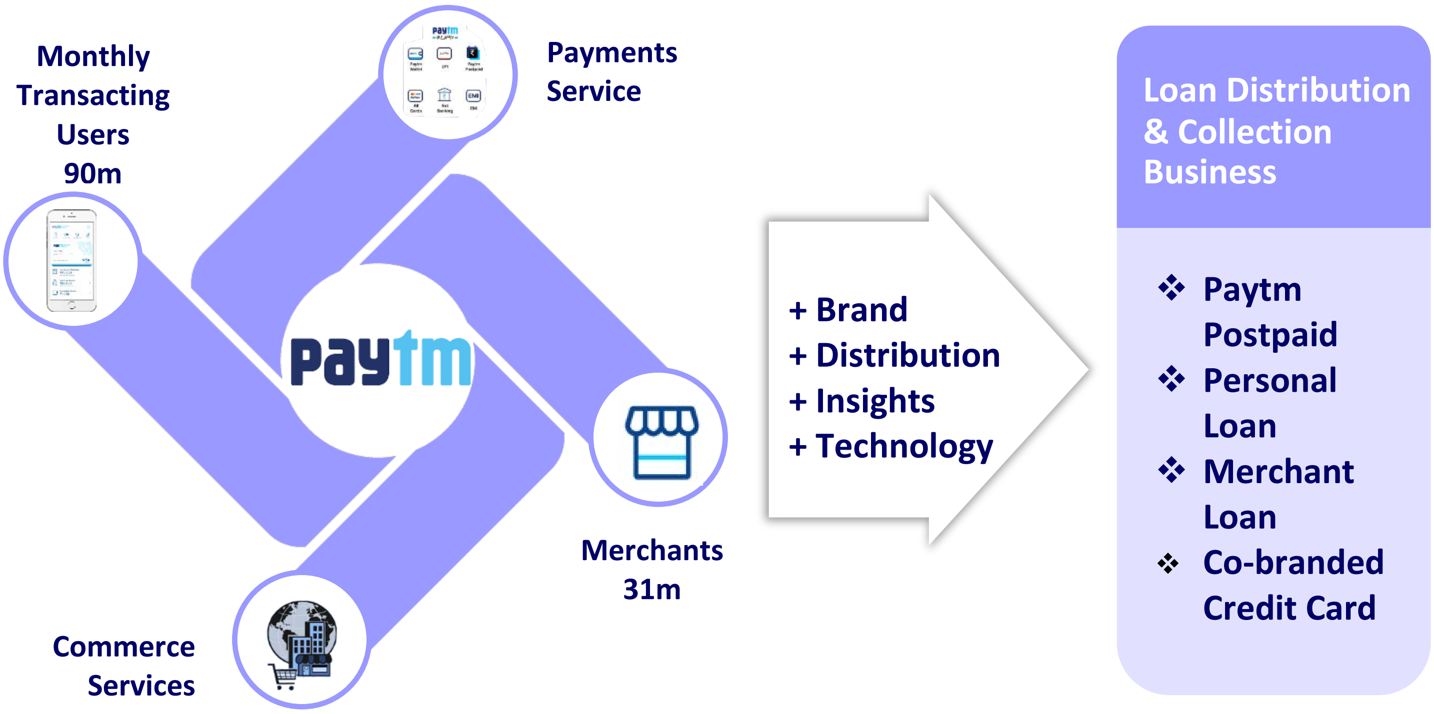
Paytm is India's payment Super App offering consumers and merchants the most comprehensive payment-related services. A pioneer of mobile QR payment revolution in India, Paytm's mission is to bring half a billion Indians into the mainstream economy through technology-led financial services. Paytm enables commerce for small merchants and distributes various financial service offerings to its consumers and merchants in partnership with several financial institutions.

Exhibit 2: Offers a wide gamut of payment and financial products on its platform



Source: MOFSL, Company

Strong customer acquisition strategy to drive financial distribution business



Profitability indicators moving in the right direction

Adjusted EBITDA achieved break-even in 3QFY23 – well ahead of guidance

Business overview – full-suite digital ecosystem

Payment services

- Paytm provides a full suite of payment services for both consumers and merchants.
- The payments ecosystem covers payments (wallet/UPI), FASTag, bill payments, money transfers, and mobile top-ups. Consumers can make payments through Paytm Payment Instruments on the Paytm app.
- It also offers online and offline merchant acquisitions (QR / smart PoS / payment gateway services) and charges a take-rate on the transaction processed.

Financial services

- It offers mobile banking, lending, insurance, and wealth management for consumers and merchants.
- It provides consumer credit – personal loans, Buy Now Pay Later (BNPL), and credit cards (partnership with SBI Cards).
- Insurance – It extends attachment products such as movie and travel ticket cancellation protection. It also provides insurance products, such as auto, life, and health.
- It offers wealth management services through the Paytm app and the Paytm Money app.
- Furthermore, it launched a discount broking business in 2020. There is a significant growth opportunity in both segments.

Commerce & cloud services

- It offers consumers the option to avail lifestyle commerce services such as ticketing, travel, entertainment, gaming, food delivery, and more.
- It also provides software and cloud services to enterprises, telecom companies, and digital and FinTech platforms to track and enhance customer engagement, build payment systems, etc.

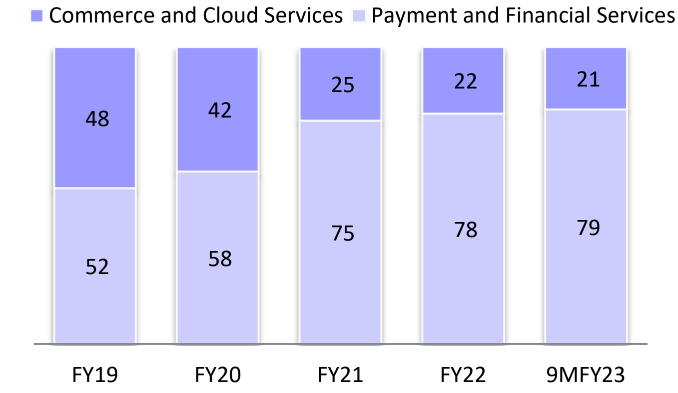
Revenue from operations grew 78%/65% over FY22/9MFY23, respectively

Exhibit 3: Reporting a strong improvement in core operating metrics

Key Statistics (INR m)	FY19	FY20	FY21	FY22	FY23YTD	3QFY23
Revenue from operations	**32,320**	**32,808**	**28,024**	**49,742**	**56,566**	**20,630**
-Payment & financial services	16,955	19,068	21,092	38,577	44,680	15,990
-Commerce & cloud services	15,365	11,188	6,932	11,048	11,290	4,200
-Other operating revenue	0	2,552	0	117	610	440
Contribution profit	**(19,980)**	**(2,378)**	**3,625**	**14,981**	**26,167**	**10,480**
Contribution profit margin (%)	(61.8%)	(7.2)%	12.9%	30.1%	46.3%	50.8%
Adjusted EBITDA	**(42,115)**	**(24,683)**	**(16,548)**	**(15,177)**	**(4,115)**	**310**
Adjusted EBITDA margin (%)	(130.3)%	(75.2)%	(59.0)%	(30.5%)	(7.3%)	1.5%
PAT	**(42,256)**	**(29,424)**	**(17,010)**	**(23,964)**	**(16,094)**	**(3,920)**

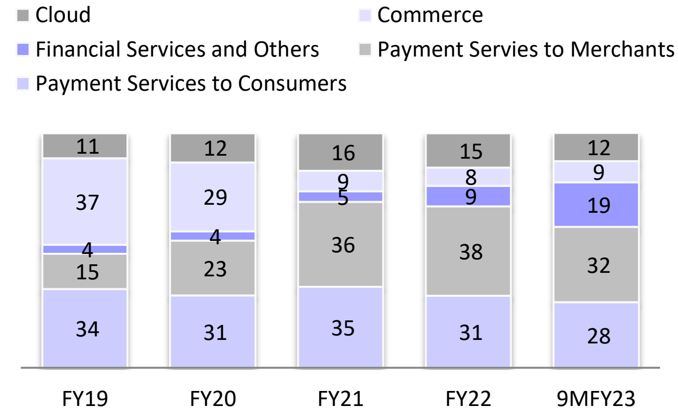
Source: MOFSL, Company

Exhibit 4: Payment and Financial Services formed 79% of total revenue…



Source: MOFSL, Company

Exhibit 5: …with the mix of Financial Services improving to 19% in 9MFY23 from only 4% in FY19



Source: MOFSL, Company

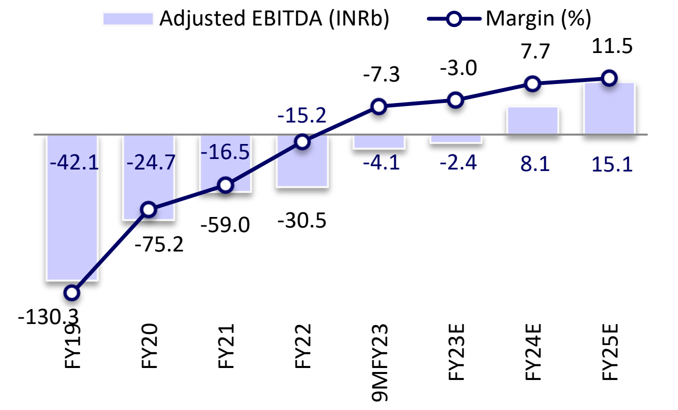
Contribution margin expanded sharply to 46.3% in 9MFY23 (at 50.8% in 3QFY23)

Exhibit 6: Contribution profit improved to INR26.2b in 9MFY23 (+173% YoY)

INR m	FY19	FY20	FY21	FY22	FY23YTD
Revenue from operations	**32,320**	**32,808**	**28,024**	**49,742**	**56,566**
Less:					
(-) Payment processing charges	22,574	22,659	19,168	27,538	21,778
(-) Promotional cash-backs/incentives	27,937	9,592	2,357	3,781	4,251
(-) Other expenses	1,789	2,935	2,874	3,442	4,370
Contribution profit	**-19,980**	**-2,378**	**3,625**	**14,981**	**26,167**
Contribution margin (%)	**-61.8**	**-7.2**	**12.9**	**30.1**	**46.3**

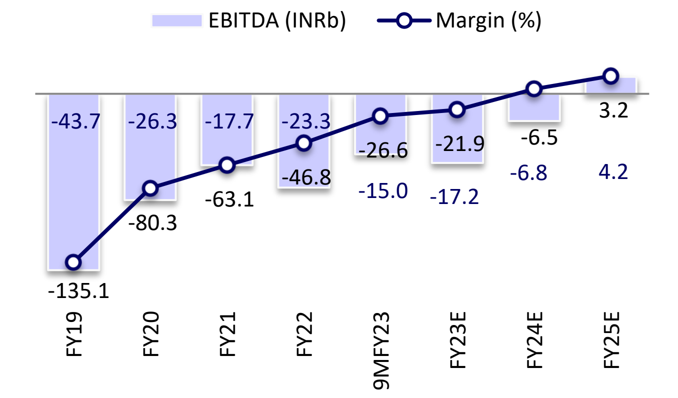
Source: MOFSL, Company

Exhibit 7: Witnessing a healthy improvement in adjusted EBITDA; margin to improve to 11.5% by FY25E



Source: MOFSL, Company

Exhibit 8: Reporting a gradual improvement in EBITDA; to achieve break-even by FY25E with ~3% EBITDA margin



Source: MOFSL, RBI, Company

Exhibit 9: Key products and services offered to consumers and merchants

Category	Key products offered	Details
Payment	❖ Mobile Wallet	❖ Mobile payments to merchants and friends over Paytm's proprietary Network/UPI
	❖ Consumer UPI	
	❖ Bill Payment	❖ Pay utility bills, recharge mobile, etc.
	❖ Merchant Solutions – QR Codes, POS and Payment Gateways	❖ Digital payment acceptance for merchants
Banking (Paytm Payment Bank)	❖ Savings and Current A/C	❖ Bank accounts for merchants and individuals
	❖ Time Deposits	❖ Fixed deposits and recurring deposits
	❖ Debit Card	❖ Offers a debit card with attractive rewards
Credit	❖ BNPL (Paytm Postpaid)	❖ Revolving credit in association with partners
	❖ Credit Cards	❖ Co-branded cards in partnership with banks
	❖ Personal Loans	❖ Co-originated personal loans
	❖ Merchant Financing	❖ Merchant partners can avail credit facilities offered by financial partners
Insurance	❖ Insurance Distribution Aggregator	❖ Distribution platform for Auto, Life, General and Health Insurance
Wealth Advisory (Paytm Money)	❖ Mutual Funds	❖ Offers zero commission direct MFs to consumers
	❖ Equity Trading	❖ Offers investments in cash equities, futures and options.
	❖ Gold	❖ Allows consumers to purchase 24-k pure gold
E-Commerce/Others	❖ E-commerce (Paytm Mall)	❖ Offers electronics, apparel, groceries, grooming, footwear, etc.
	❖ Gaming	❖ Offers a mobile gaming platform
	❖ Travel Ticketing	❖ Consumers can book flight, inter-city bus and train ticket on the app
	❖ Entertainment	❖ Consumers can purchase tickets for movies, sports, music, comedy, theatre and events

Source: MOFSL, Company

Paytm Payments Bank – huge cross-sell opportunity ahead

- Paytm payment instruments allow consumers to use wallets, sub-wallets, bank accounts, and BNPL at a wide range of merchant outlets across the country.
- About 155m UPI handles have been created by the Paytm Payments Bank, which are used to send and receive payments.
- The Payments Bank had over ~64m savings accounts, with total deposits being ~INR52b as of FY21. It offers customers with IMPS, NEFT, and RTGS facilities for making payments.
- While the payments bank license allows Paytm to collect deposits from customers, it cannot offer loans, according to the licensing requirement.
- Paytm Postpaid provides consumers with the flexibility to use BNPL across its merchant base.
- There is a huge scope to monetize the customer wallet base of Paytm in the financial services ecosystem and improve the cross-sell rate.

Paytm Money – a big player in online mutual fund distribution

- Paytm provides wealth management services to consumers through its subsidiary Paytm Money.
- Its key products include mutual funds, equity trading, and Paytm gold purchases.

- Nearly 74m investors have used the digital gold service since its launch in Apr'17. Further, it has 1.3m mutual fund customers and 208k equity trading accounts.
- Paytm Money has become a big player in online mutual fund distribution with the highest share in new SIPs registered in India.

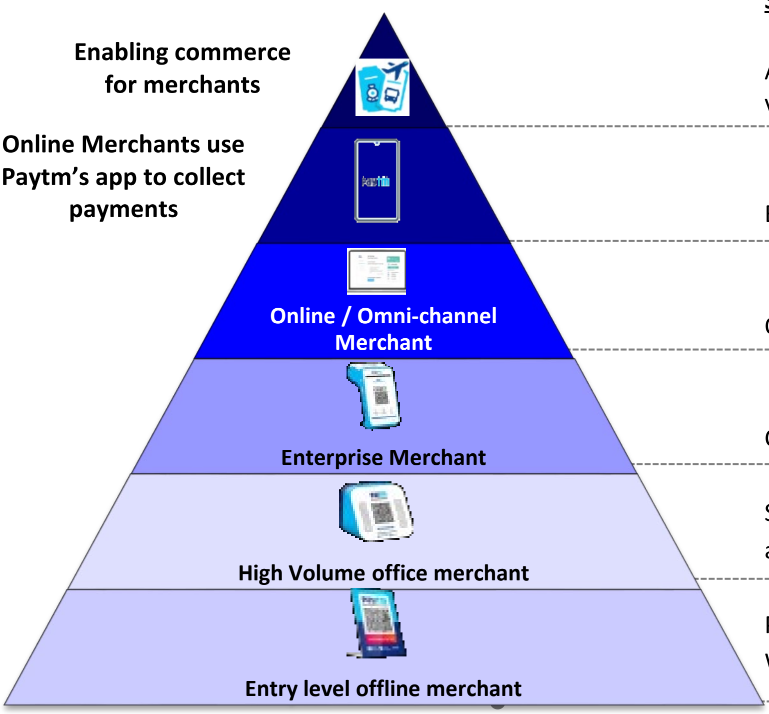
Paytm Insurance – unique customer base with striking sell rate

- Paytm distributes insurance products across the Auto, Life, and Health categories. It offers these products through its subsidiary, Paytm Insurance Broking Private Ltd.
- It also provides attachment products such as movie and travel ticket cancellation protection.
- The Insurance business has a unique insurance customer base of 11.3m and has sold 31.5m cumulative attachment products and insurance policies.
- The insurance subsidiary is integrated with 47 insurance companies in India.

Paytm revenue model: Financial services becoming the key growth driver

	PAYMENT SERVICE	FINANCIAL SERVICES	COMMERCE SERVICES	CLOUD SERVICES
REVENUE MODEL	❖ Transaction fee based on GMV charged from merchants; Govt. sub vents UPI MDR ❖ Convenience fee charged from customers ❖ Subscription fees from merchants for device usage such as Sound Box and POS	❖ **Lending:** A) Sourcing fee from the partners earned at disbursal; (B) Collection fee from partners based on performance of loans ❖ **Credit cards:** Distribution fee based on cards issued and % of total spends ❖ **Insurance:** Commission based on total premium	❖ Transaction fee based on GMV charged from merchants and other advertising fees ❖ Convenience fee charged from customers	❖ Subscription fee, and, a fee linked with the volumes of activity ❖ Brand marketing campaigns fees ❖ Take rate for events and other cloud services
REVENUE DRIVERS	❖ GMV processed on the platform; take-rate defined as the ratio of revenue to GMV ❖ Attracting new consumers, increasing retention, and engaging existing consumers ❖ Ability to retain and acquire new merchants on the core platform ❖ Financial services offerings such as credit, credit cards, and other financial products			
COST DRIVERS	❖ Major expenses include (i) Payment processing charges, (ii) Marketing and promotional expenses, (iii) employee benefit expenses, and (iv) software, cloud, and data center expenses			

Paytm offers a wide gamut of payment and financial products on its platform



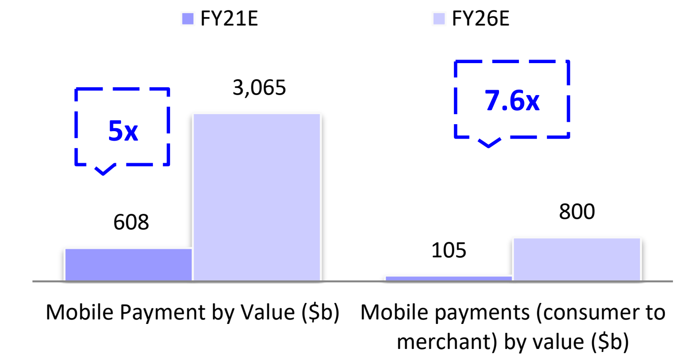
SERVICES MERCHANTS USE	REVENUE MODEL
Advertising, Selling gifts vouchers and tickets	Advertising, revenues and commission
Bill Payments	Merchants pays MDR and select customers pay platform fee
Online payment services	MDR and subscription
Card machine	MDR and subscription
Soundbox for Paytm Wallet and UPI	Subscription and Government sub vents UPI MDR
Paytm QR for Paytm Wallet and UPI	Government sub vents UPI MDR

Digital payments offer a huge market opportunity

Rising mix of UPI and Digital share to aid business growth

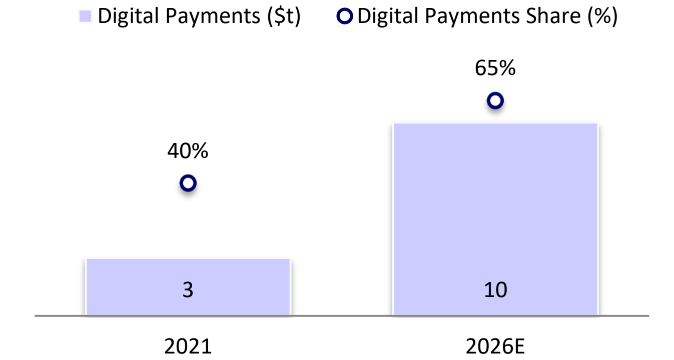
- Digital payments are thriving, having gained robust traction over the past few years, led by increasing digital infrastructure, push toward a cashless economy, and rising e-commerce. Digital payments have increased manifold, with the share of payments through digital modes rising to 40% in 2021.
- According to a BCG report, the total payments industry is expected to double to USD16t by 2026, within which, the mix of digital payments expected to increase to 65%. **Thus, digital payments are expected to grow ~3x to USD10t by 2026 from USD3t in 2021. Further, as per RedSeer, mobile payments are expected to grow 5x to USD3t by FY26.**
- The report also expects the merchant payments to double to USD4t by 2026, with the mix of digital payments increasing to 65% from 20% in 2021. We also note that 75% of the merchants are currently using the QR codes, and this is expected to increase to 90% over the similar period. We believe that an increase in QR deployment will drive the **merchant payment, which is expected to grow ~6x to USD2.7t by 2026, with offline merchant payments constituting 75% v/s 50% in 2021.**

Exhibit 10: Mobile payments market size opportunity – to grow 5x by FY26



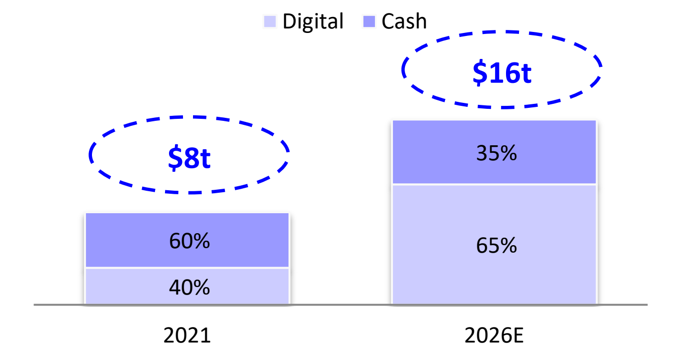
Source: MOFSL, Company RHP, RedSeer

Exhibit 11: Digital payments expected to increase ~3x to $10t by FY26 with a market share of 65%, up from 40%



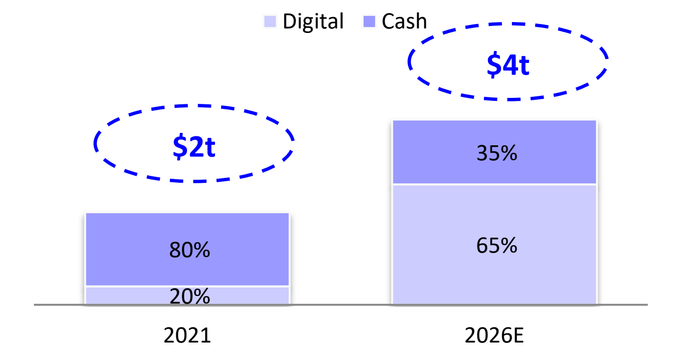
Source: MOFSL, BCG

Exhibit 12: Total payments is expected to double to $16t by FY26 with digital share increasing to 65%, up from 40%



Source: MOFSL, BCG

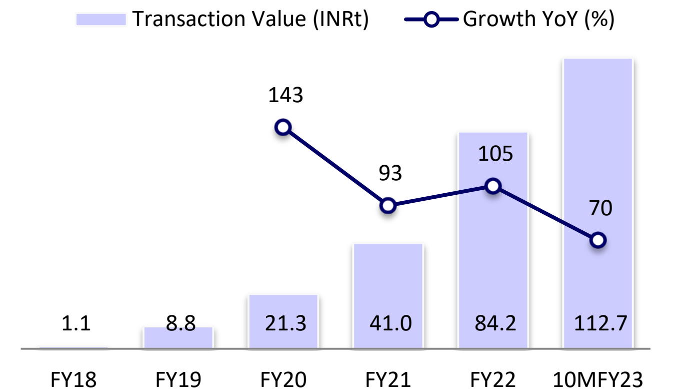
Exhibit 13: Total merchants payments is expected to double to $4t by FY26 with digital share at 65%, up from 20%



Source: MOFSL, Company

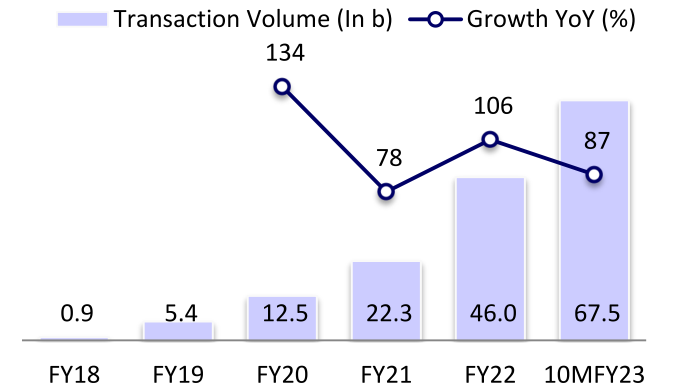
- Within the digital payments, UPI transaction volumes have spiked, registering a CAGR of ~105% over FY19-22 (up 87% YoY in 10MFY23), while the value of transactions clocked a CAGR of 113% over the similar period. Total payments through UPI stood at INR84.2t in FY22 (up 70% YoY in 10MFY23 to INR112.7t). Further, within UPI, the mix of P2M transactions is increasing, which augurs well for incremental profitability. The mix of P2M value of transactions increased to 23% in Jan'23 from 15% in Apr'20 and 18% in Apr'22.
- We note that the top three players (PhonePe, Google Pay, and Paytm) constitute 95% of market share in UPI volumes with Paytm's share stable at ~15%. Similarly, the top three players constitute 94% of market share in UPI values. However, within this, Paytm's share has improved to 11% from 8% in Apr'21.
- Further, **within the UPI, Paytm has a higher market share in UPI beneficiary transactions, which points toward a strong merchant adoption. The market share in UPI beneficiary has improved to ~22-23% in Jan'23 vs 15% in May'21.**

Exhibit 14: UPI transactions growing at a robust pace; value of transactions witnessed a CAGR of 113% over FY19-22



Source: MOFSL, Company, RBI

Exhibit 15: Similarly, number of transactions recorded a strong 105% CAGR over FY19-22



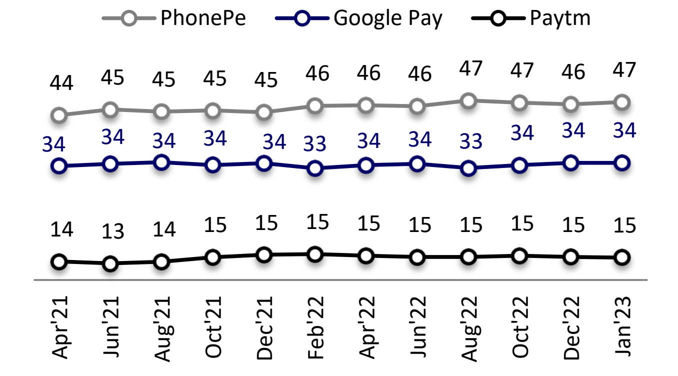
Source: MOFSL, Company, RBI

Exhibit 16: Within UPI, the mix of P2M is increasing, which augurs well for incremental profitability; the same increased to 23% in Jan'23 from 15% in Apr'20 and 18% in Apr'22

	Total		P2P		P2M		P2P Share		P2M Share	
Month	Volume (m)	Value (INR b)	Volume (m)	Value (INR b)	Volume (m)	Value (INR b)	Volume (%)	Value (%)	Volume (%)	Value (%)
Apr-20	1,000	1,511	550	1,280	449	231	55	85	45	15
Jun-20	1,337	2,618	819	2,281	518	338	61	87	39	13
Aug-20	1,619	2,983	993	2,564	626	419	61	86	39	14
Oct-20	2,072	3,861	1,227	3,307	844	554	59	86	41	14
Dec-20	2,234	4,162	1,284	3,480	950	682	57	84	43	16
Feb-21	2,293	4,251	1,282	3,548	1,011	702	56	83	44	17
Apr-21	2,641	4,937	1,449	4,118	1,193	818	55	83	45	17
Jun-21	2,808	5,474	1,550	4,478	1,257	996	55	82	45	18
Aug-21	3,556	6,391	1,946	5,162	1,610	1,229	55	81	45	19
Oct-21	4,219	7,714	2,507	6,214	1,712	1,500	59	81	41	19
Dec-21	4,566	8,268	2,812	6,691	1,754	1,577	62	81	38	19
Feb-22	4,527	8,268	2,632	6,638	1,896	1,630	58	80	42	20
Apr-22	5,583	9,833	3,320	8,059	2,263	1,774	59	82	41	18
Jun-22	5,863	10,144	3,303	8,004	2,560	2,140	56	79	44	21
Aug-22	6,580	10,728	3,289	8,334	3,290	2,394	50	78	50	22
Oct-22	7,305	12,116	3,437	9,289	3,869	2,827	47	77	53	23
Jan-23	8,037	12,987	3,626	9,978	4,411	3,009	45	77	55	23

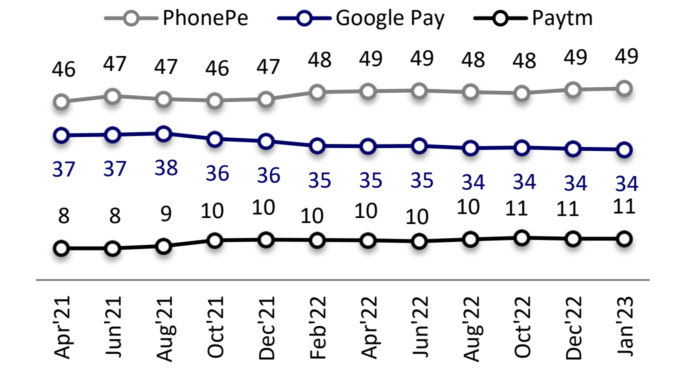
Source: MOFSL, Company

Exhibit 17: Top 3 players constitute 95% of market share in UPI volumes; Paytm's share stable at ~15%



Source: MOFSL, Company, RBI

Exhibit 18: Top 3 players constitute 94% of market share in UPI values; Paytm's share improved to 11% from 8% Apr'21



Source: MOFSL, Company, RBI

Exhibit 19: UPI Market share across major players - Volume

Mkt. Share volume (%)	Apr 21	Jul 21	Oct 21	Jan 22	Apr 22	Jul 22	Oct 22	Jan 23
PhonePe	44.0	45.1	45.0	45.5	46.0	46.8	46.6	46.7
Google Pay	33.5	33.8	33.7	33.6	33.7	33.3	33.7	34.2
Paytm	**13.8**	**13.7**	**14.7**	**15.1**	**15.0**	**14.6**	**15.0**	**14.6**
Amazon	1.8	1.9	1.6	1.6	1.3	1.1	0.8	0.7
AXSB	3.0	2.2	1.6	1.0	1.1	0.8	0.8	0.7
ICICIBC	0.5	0.6	0.7	0.7	0.7	0.6	0.6	0.6
Cred	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.4
Yes Bank	0.8	0.8	0.7	0.6	0.6	1.0	0.8	0.4
BHIM	0.8	0.7	0.6	0.5	0.5	0.4	0.3	0.3
Fampay	-	-	-	-	-	-	0.1	0.2
HDFCB	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2
KMB	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.1
IDFCFB	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1
Whatsapp	0.0	0.0	0.1	0.0	0.0	0.1	0.1	0.1
Airtel	0.5	0.2	0.3	0.3	0.1	0.1	0.1	0.1

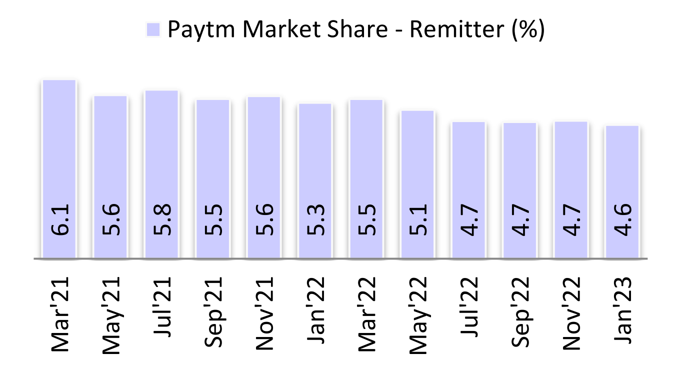
Source: MOFSL, Company, RBI

Exhibit 20: UPI Market share across major players - Value

Mkt. Share value (%)	Apr 21	Jul 21	Oct 21	Jan 22	Apr 22	Jul 22	Oct 22	Jan 23
PhonePe	46.0	47.1	46.3	47.7	48.7	48.6	48.2	49.4
Google Pay	37.3	37.7	36.4	35.1	34.5	34.0	34.2	33.7
Paytm	**8.1**	**8.4**	**10.2**	**10.0**	**10.2**	**10.3**	**10.8**	**10.6**
Amazon	0.8	0.9	0.8	0.8	0.7	0.6	0.5	0.4
AXSB	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1
ICICIBC	0.8	1.0	0.8	1.0	0.9	1.1	1.2	1.3
Cred	1.1	1.3	1.6	1.7	1.6	1.8	1.6	1.4
Yes Bank	1.0	0.8	1.0	0.7	1.0	1.4	1.3	0.9
BHIM	1.4	1.2	1.1	1.0	0.8	0.7	0.7	0.6
Fampay	-	-	-	-	-	-	0.0	0.0
HDFCB	0.0	0.1	0.1	0.2	0.2	0.2	0.2	0.3
KMB	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.2
IDFCFB	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.2
Whatsapp	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1
Airtel	2.2	0.4	0.6	0.6	0.0	0.1	0.1	0.1

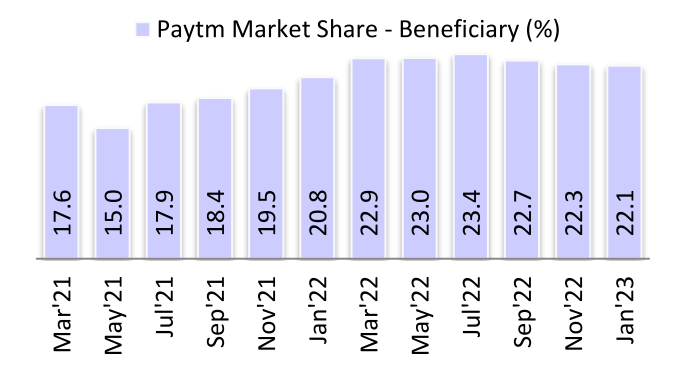
Source: MOFSL, Company, RBI

Exhibit 21: Paytm has a market share of ~4.6% in terms of UPI remitter volumes; witnessing gradual moderation…



Source: MOFSL, Company, RBI

Exhibit 22: …while it has a market share of ~22% in terms of UPI beneficiary volumes; the highest in the industry



Source: MOFSL, Company, RBI

- We note that among the major digital payment products, UPI has grown at the fastest pace, followed by credit cards. The share of UPI within the non-cash transactions has thus increased to 63% in FY22 from 16% in FY19. The same in expected to rise further to 73% by FY26. Further, the share of digital merchant payments within the UPI volume has increased to 45% in FY21 from 12% in FY18 and is expected to witness a further increase.

- We thus believe that a faster growth in UPI along with credit cards and an increasing share of digital merchant's payments within the UPI will keep the business momentum healthy for Paytm.

Exhibit 23: Digital Payments transaction value across major products

Transaction Value (INRb)	FY18	FY20	FY22	9MFY23
UPI	1,098	21,317	84,176	99,757
Debit Cards	4,566	6,994	7,277	5,616
Credit Cards	4,590	7,322	9,746	10,493
PPI	1,416	2,156	2,937	2,219
Total	**11,670**	**37,788**	**104,135**	**118,085**

*Cards spends are based on POS Source: MOFSL, Company, RBI

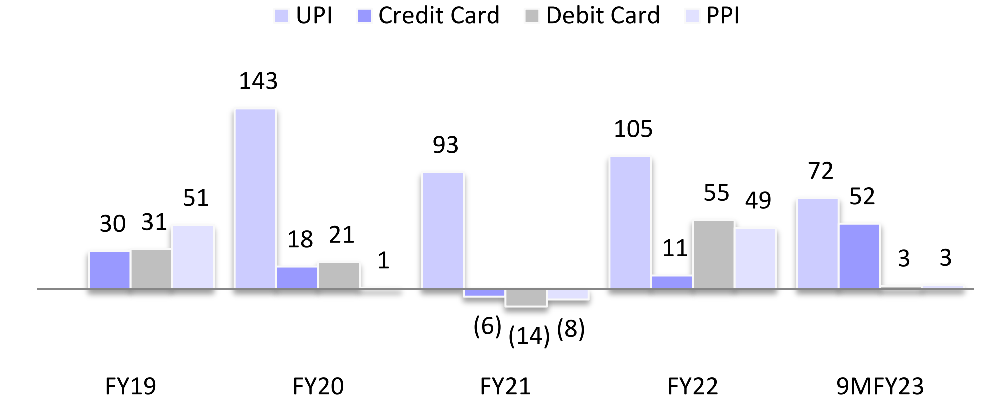
Exhibit 24: Digital Payments transaction volume across major products

Transaction Volume (In M)	FY18	FY20	FY22	9MFY23
UPI	915	12,519	45,968	59,494
Debit Cards	3,316	5,074	3,967	2,705
Credit Cards	1,405	2,188	2,241	2,161
PPI	3,459	5,332	6,566	5,636
Total	**9,095**	**25,112**	**58,741**	**69,996**

*Cards spends are based on POS Source: MOFSL, Company

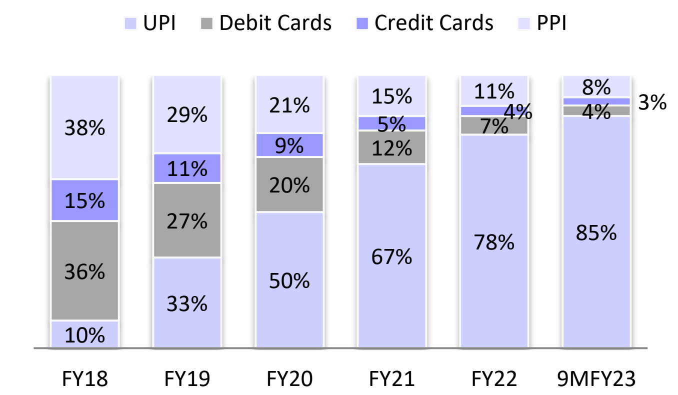
Faster growth in UPI along with credit cards will keep the business momentum healthy for Paytm

Exhibit 25: Among the digital products, UPI continues to grow at a faster pace, followed by credit cards



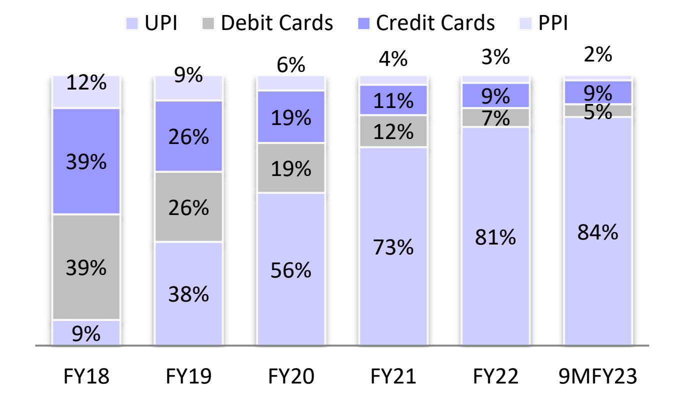
Source: MOFSL, Company

Exhibit 26: Digital Payments market share (volume-wise, %)



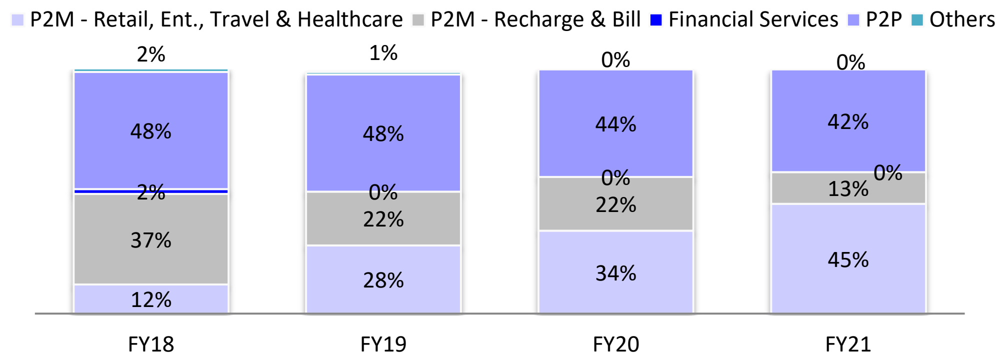
Source: MOFSL, Company, RBI

Exhibit 27: Digital Payments market share (value-wise, %)



Source: MOFSL, Company

Exhibit 28: UPI volume mix across categories: The mix of P2M payments rising



Source: MOFSL, Company

Increasing mix of digital merchant's payments augurs well for Paytm

Implementation of Interchange fees on UPI transactions via PPI could aid revenues; wallet loading charges to offset some impact

- Recently NPCI has announced that an interchange fees would be charged on merchant transactions paid via PPI on UPI from 1st Apr'23. It has been announced that an interchange fees of upto 1.1% of the transaction value would be charged for transactions of greater than INR2,000. This would be applicable for payments made to online merchants, large merchant and small offline merchants via PPI (Refer exhibit 35 for charges across categories).
- However, the charges would not be applicable for P2P and P2PM transactions between bank account and the PPI wallet.
- Further NPCI announced that wallet loading charges of 15bp would be paid by the PPI issuer to the remitter bank for loading transaction value of greater than INR2,000.
- NPCI has also announced a full interoperability of KYC wallets which will enable payments across UPI platform.
- While this would be beneficial for PPI issuers as it will aid the overall revenues, the total impact for Paytm would depend on its wallet usage on non-Paytm QR or online merchants. Further, some of the revenue is likely to get offset by the implementation of wallet loading charges.

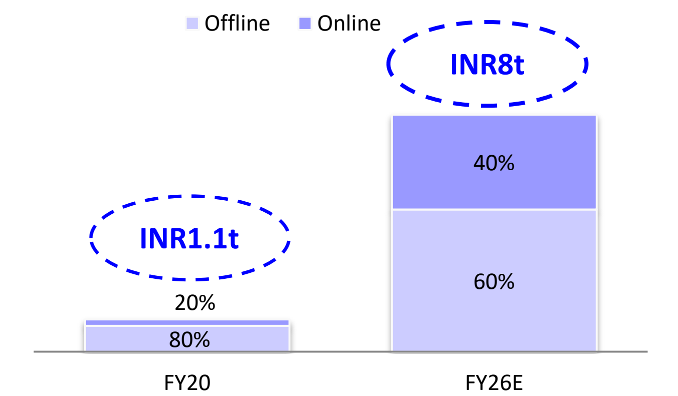
Exhibit 29: Snapshot of interchange fees across categories

Category	Interchange Fees
Fuel	0.50%
Telecom	0.70%
Utilities	0.70%
Post Office	0.70%
Rentals	0.70%
Super Market	0.90%
Agriculture	0.7% or INR10 whichever is lower
Education	0.7% or INR15 whichever is lower
Railways	1% or INR5 whichever is lower
Government Payment	1% or INR10 whichever is lower
Insurance	1% or INR10 whichever is lower
Cash withdrawal at POS	1% or INR10 whichever is lower
Mutual Fund	1% or INR15 whichever is lower
Convenience Store	1.10%

Source: MOFSL, NPCI

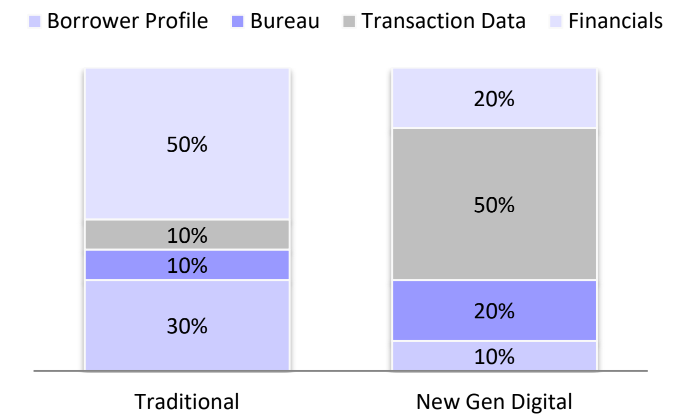
- Over the past few years, Buy Now Pay Later (BNPL) lending has been witnessing robust growth, especially in the Indian payments market. As per the BCG report, total disbursements under BNPL are expected to increase to ~INR8t by 2026 from INR1.1t in 2020. With newer entrants into the BNPL space and increasing consumer awareness, BNPL presents a huge business opportunity in India and the industry is expected to witness a CAGR of ~35-40% over the next four to five years.
- Further, it is noted that at present, the BNPL market is dominated by the offline channels (such as Pine Labs and Bajaj Finance), which constitute ~80% of the total BNPL market. However, as the digital payments markets expand, new online players such as Simpl, Zest Money, Paytm, Amazon Pay, and Lazy pay are expected to gain size. It is thus estimated that the mix of online channels is likely to increase to 40% by 2026 from 20% in FY20.
- We also note that the sources of garnering information for credit assessment are evolving gradually from traditional credit assessment to new gen digital assessment. Financials and borrower profile, which constitutes ~80% of credit assessment, has moderated to ~30%, while the use of transaction data has increased to ~50% from 10% earlier. This facilitates a granular analytics-based lending, which provides insights into purchases and cash flows, thereby driving the overall lending.

Exhibit 30: BNPL segment currently dominated by offline segment; likely to shift toward online segment



Source: MOFSL, Company RHP, RedSeer

Exhibit 31: Sources of credit insights evolving; increasing use of transaction data to facilitate analytics-based lending



Source: MOFSL, Company

Financial business to significantly boost profitability

Strong opportunity to monetize large customer base

A large customer base and use cases offer strong opportunities to drive revenue and cross sell financial products

- Payment services forms the core of Paytm's customer acquisition model, which also ensures retention of customers and merchants in a cost-efficient manner. This is then leveraged with a combination of brand, distribution, insights, and technology to offer lending and financial services.
- Consumers can use a wide set of instruments through the paytm app, both third-party instruments such as cards and net banking and Paytm Payment Instruments such as Wallet and Paytm Postpaid to make payments for Mobile Recharge, Utility Bills, Rent, Education, Wallet top-ups, and money transfers. Customers can also make online payments on third-party apps and in-store payments through QR codes and devices.
- Paytm, with the help of technology and analytics, uses the insights from the Payments and Commerce business to offer a wide bouquet of financial services to consumers and merchants. The technology platform provides capabilities across the loan lifecycle, including origination, assisting in augmenting risk models, loan management and collection to provide seamless credit access through its partners. The objective of Paytm is to improve partner's distribution, underwriting and collections, and it aims to drive financial inclusion in India.

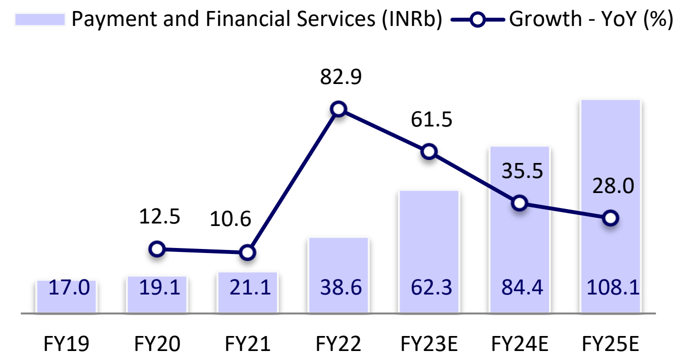
Exhibit 32: Types of payment instruments

Paytm Payment Instruments	Key description
Paytm Wallet	❖ It provides a secure digital wallet that allows consumers to make payments to merchants spread across the county
Paytm Postpaid	❖ It provides a revolving credit line through "Buy Now Pay Later"
Paytm UPI	❖ Over 155m UPI handles have been created, which are used to send and receive payments
Paytm FASTag	❖ Paytm FASTag does not require a separate prepaid account or login credentials, and is linked seamlessly to the Wallet
Fixed Deposits	❖ It provides fixed deposits facility with the Payments bank
Paytm Payments Bank Debit Card	❖ Every account holder is provided a free digital debit card for making in-store and online payments
Paytm Payments Bank Credit Card	❖ It offers co-branded credit cards in partnership with SCBs and digitizes the entire credit card experience on the Paytm app

Source: MOFSL, Company

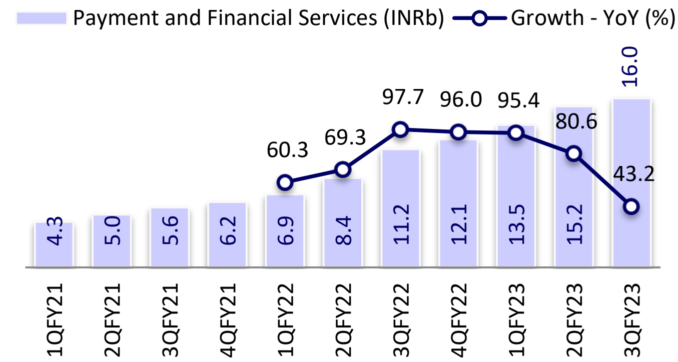
- **Revenue from payment and financial services has registered a CAGR of 32% over FY19-22 (up 69% in FY23YTD) with financial services revenue growing at a faster pace.** Revenue from payment and financial services is categorized into three categories: a) Payment services to consumers, b) Payment services to merchants, and c) Financial services and others.
- Payments and financial services constitute 79% of total revenues in FY23YTD, up from 52% in FY19. Further, the mix of financial services has increased to 19% from 4% in FY19. With faster growth in GMV, merchant's acquisition and financials revenue, we estimate a revenue CAGR of 32% over FY23-25 with the mix improving further to 83% by FY25. The mix of financial services is thus likely to increase to 31% by FY25.

Exhibit 33: Payment and financial services revenue CAGR stood at 32% over FY19-22; to register a CAGR of 32% over FY23-25



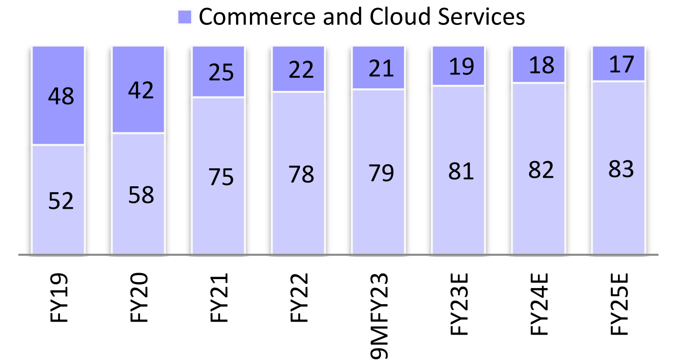
Source: MOFSL, Company

Exhibit 34: Payment and financial services revenue growing at a robust pace over the past few quarters, up 69% in FY23YTD



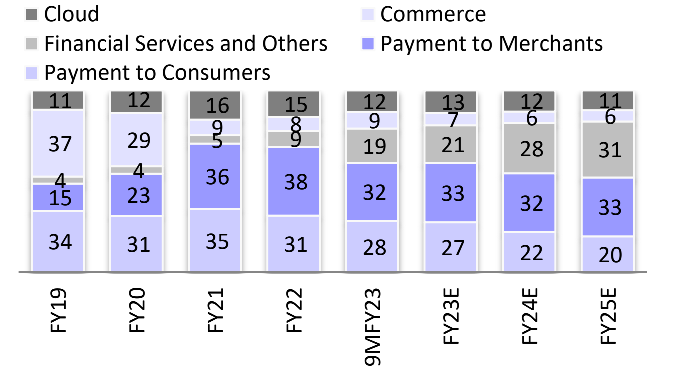
Source: MOFSL, Company

Exhibit 35: Payment and Financial services revenue forms 79% of total revenue as on 9MFY23…



Source: MOFSL, Company

Exhibit 36: …within which the mix of financial services has improved to 19% in 9MFY23 from 4% in FY19



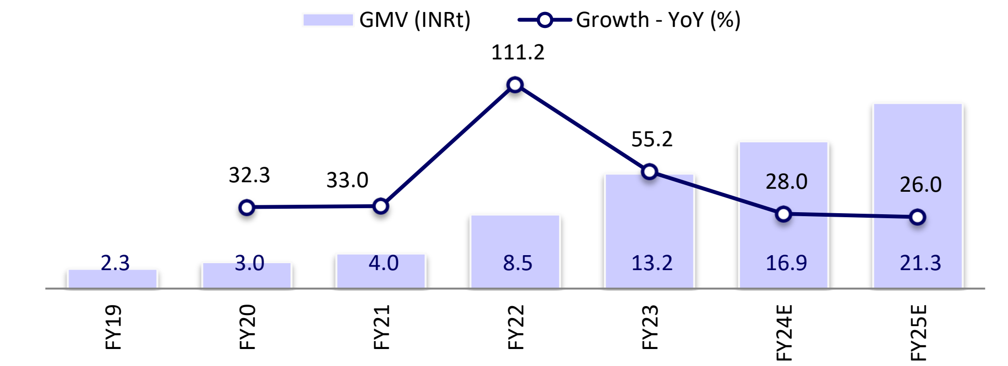
Source: MOFSL, Company

Payment services to Merchants and Consumers: Mainstay business segment

We estimate GMV to grow at a healthy pace, driven by superior customer acquisition and higher growth in average MTU

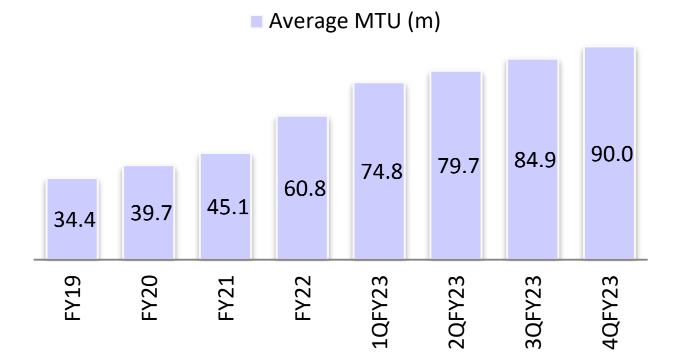
- Paytm has shown a healthy traction in GMV, registering a CAGR of 55% over FY19-22. While the growth was slightly softer due to Covid, the same has picked up strongly and grew 111% in FY22 (55% in FY23). With increasing use cases and strong customer base, we expect GMV to record a healthy pace of 27% CAGR over FY23-25.
- Further, increased adoption of payments use-cases on its platform, coupled with customer acquisition through UPI has resulted in MTU growing to ~90m as on FY23. On the merchant side, Paytm helps the partners grow their businesses by providing solutions that allow them to accept payments through a wide variety of instruments and by deploying devices that help with reconciliations.
- With continued focus on expanding monetization in the payments business, the total number of registered merchants has increased to 31.4m as on 9MFY23, while the number of merchants paying subscription for payment devices increased to 6.8m as on FY23. As the penetration among the merchants remains low, we expect the traction to sustain with an addition of ~0.9-1m devices on a quarterly basis.

Exhibit 37: GMV registered a CAGR of 55% over FY19-22 and this is expected to dip to 27% over FY23-25



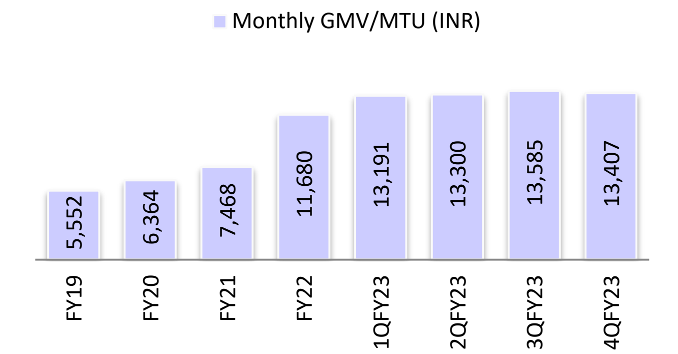
Source: MOFSL, Company

Exhibit 38: Average MTU increased to ~90m in FY23



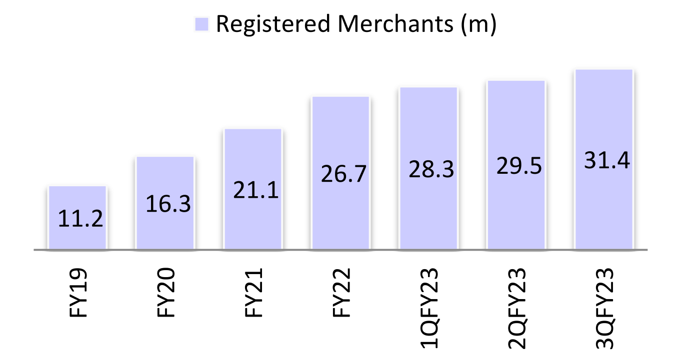
Source: MOFSL, Company

Exhibit 39: Monthly GMV/MTU increased to INR13.4k



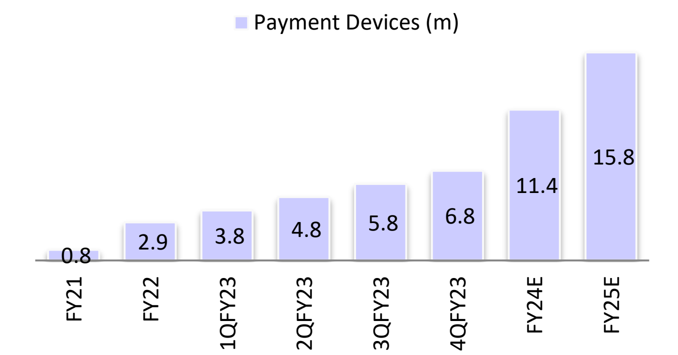
Source: MOFSL, Company

Exhibit 40: Merchant base increased to 31.4m in 3QFY23



Source: MOFSL, Company

Exhibit 41: Devices deployed stood at 6.8m as on FY23



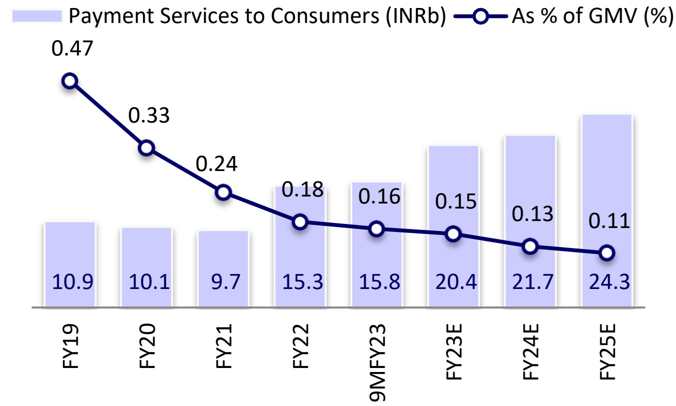
Source: MOFSL, Company

Healthy traction in merchants/devices addition to drive subscription revenue

- **Payment services to merchants** includes revenues from online and in-store payment acceptance services such as Payment Gateway, All-in-one, and Dynamic-QR codes, POS, and Soundbox. The revenues are primarily from (a) the transaction fee charged to merchants as a percentage of GMV, and (b) recurring subscription fees from merchants for products, such as Soundbox and POS.
- Similarly, **payment services to consumers** include revenues from the use cases, such as bill payments and top-ups on the Paytm platform. The revenues are primarily from (a) the transaction fee charged to merchants as a percentage of GMV, and (b) consumer convenience fees charged to consumers for certain types of transactions.

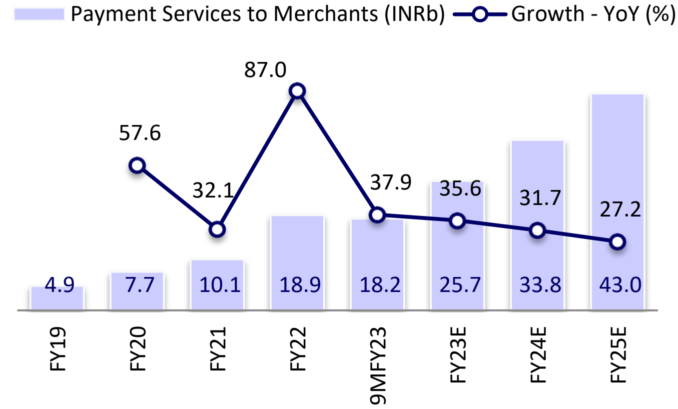
- Revenue from payment services to merchants clocked a CAGR of 57% over FY19-22 (38% in 9MFY23) to INR18.9b in FY22. This was driven by new large partnerships in payment gateway and an increase in the device merchant base. Earnings of more than INR100 per device were registered on a monthly basis. We expect the strong traction in deployment of devices to continue while registering a revenue CAGR of 29% over FY23-25.
- Revenue from payment services to consumers registered a modest 12% CAGR over FY19-22, primarily due to a rise in the mix of UPI transactions. Since UPI is growing at a faster pace, the revenue growth is expected to remain muted with revenue as a percentage of GMV moderating to 11-13bp over FY23-25 vs 15-18bp over FY22-23.

Exhibit 42: Revenue from payment services to consumers to grow at a slower pace; yield to moderate to 11-13bp of GMV



Source: MOFSL, Company

Exhibit 43: Revenue from payment services to merchants to grow at a healthy pace, driven by subscription revenue



Source: MOFSL, Company

Financials services and others: Growing at a blazing pace

- Financial services and others include revenues from the financial services partners and revenues from financial services offered to consumers, primarily lending. Paytm primarily offers three types of loans, namely
  - **a) Paytm Postpaid –** Offers short-term credit of up to INR60k for a period of up to 30 days. It is being offered at ~17m merchants with a bounce rate of ~11-13%. It constitutes the bulk of disbursements with ~52% of total disbursements in 3QFY23.
  - **b) Personal Loans -** Offers personal loans with an average tenure of ~15months and an average ticket size of INR0.12m. About 40% of disbursals are to existing postpaid customers with a bounce rate of ~11.5-12.5%. It constitutes ~29% of total disbursements in 3QFY23 v/s 5% in 3QFY21.
  - **c) Merchant Loans -** Offers merchant loans with an average tenure of ~12months and an average ticket size of INR0.15m. About 85% of disbursals are to merchants having Paytm devices with a repeat rate of ~45%. It constitutes ~18% of total disbursements in 3QFY23 v/s 44% in 3QFY21.

Exhibit 44: A quick snapshot on loan characteristics

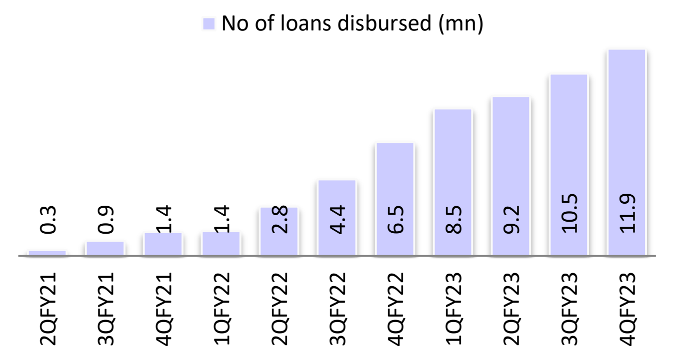
Loans	Personal	Merchant	Postpaid
ATS	0.12m	0.15m	Upto INR60k
Average tenure	15 months	12 months	Upto 30 days
Penetration	0.8% of MTU	5.2% of devices	4.0% of MTU
Bounce Rates	11.5% to 12.5%	NA	11% to 13%
Bucket 1 Resolution (%)	89% to 92%	84% to 87%	81% to 83%
Recovery Rate Post 90+	27% to 29%	31% to 33%	25% to 27%
ECL (%)	4.5% to 5.0%	5.0% to 5.5%	1.1% to 1.3%
Others	40% to existing Postpaid users	Device merchants forms 85% of disbursals; Repeat rate of 45%	Accepted at 17m merchants

Source: MOFSL, Company

Mix of personal loans increasing gradually, forms 29% of total disbursements; Post-paid forms 52%

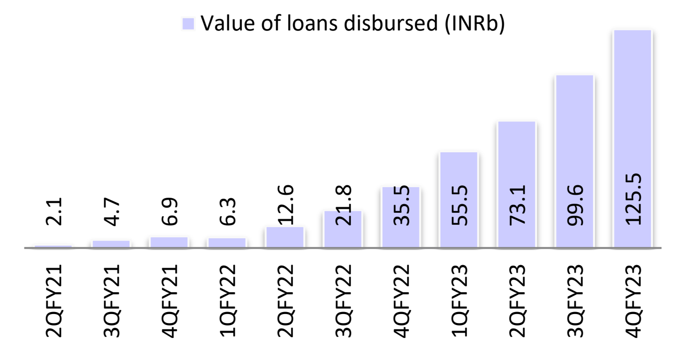
- Paytm does not undertake any underwriting risk on its balance sheet and co-originates loans with other financial partners (such as banks and NBFCs), on which, it earns a sourcing and collection fees. Paytm earns a fee of ~2.5-3.5% of disbursements for sourcing, and an additional 0.5-1.5% as collection fees post the completion of loans. The collection fee is earned based on the performance of loans and is typically earned after 12-14 months for personal and merchant loans and 3 months for Postpaid loans.
- Lending business has demonstrated a robust traction in loan disbursals with the total number of loan disbursed up 478% YoY in FY22 (2.6x in FY23). The total value of loans disbursed grew 441% YoY in FY22 (4.6x in FY23). We further note that the total number of unique borrowers who have taken a loan through Paytm has increased by 1.4m QoQ to 8.1m in 3QFY23. We note that penetration for Paytm remains lower at 0.8-5.2% of MTU, and thus, there remains significant market opportunity for growth, given the large customer and merchant base. We thus expect disbursements to witness a CAGR of 64% over FY23-25.

Exhibit 45: Number of loans disbursed growing at a robust pace



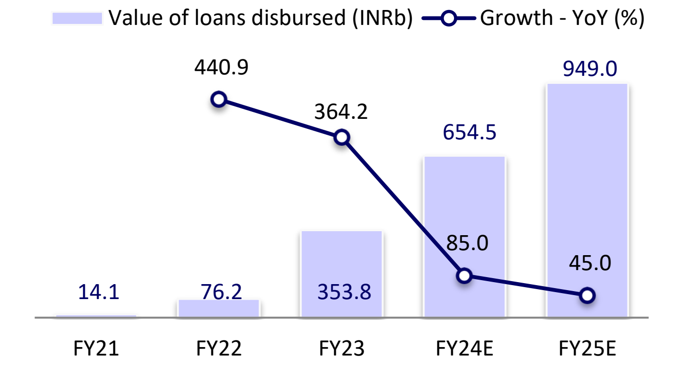
Source: MOFSL, Company

Exhibit 46: Value of loans disbursed up 4.6x in FY23, aided by healthy traction across segments



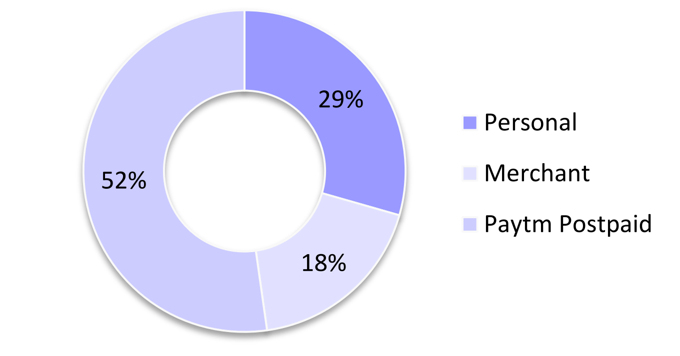
Source: MOFSL, Company

Exhibit 47: We expect disbursements to witness a CAGR of 64% over FY23-25, which will aid the total revenues



Source: MOFSL, Company

Exhibit 48: Disbursement mix: Personal loan share increased to 29% in 3QFY23 vs 5% in 3QFY21; Postpaid forms 52%



Source: MOFSL, Company

Exhibit 49: Disbursement mix across segments

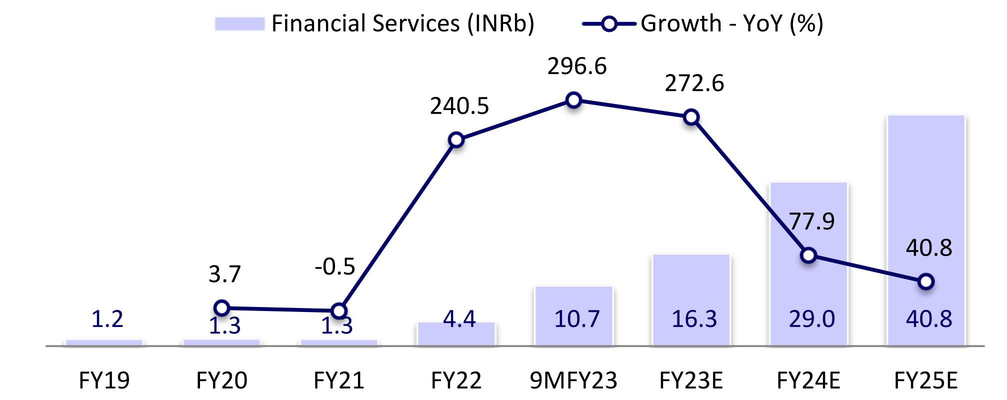
In m	2QFY21	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23
No of loans										
Personal	-	0.01	0.01	0.01	0.03	0.06	0.09	0.13	0.19	0.24
Merchant	0.02	0.03	0.02	0.01	0.02	0.04	0.04	0.06	0.08	0.12
Paytm Postpaid	0.33	0.85	1.36	1.41	2.79	4.32	6.41	8.29	8.92	10.11
Total	**0.35**	**0.88**	**1.38**	**1.43**	**2.84**	**4.41**	**6.54**	**8.48**	**9.19**	**10.47**
Value of loans										
Personal	20	250	680	1,110	2,460	5,160	8,050	13,440	20,550	29,310
Merchant	1,290	2,080	2,030	730	2,730	4,740	5,650	8,270	12,080	18,250
Paytm Postpaid	740	2,340	4,160	4,470	7,380	11,900	21,830	33,830	40,500	52,020
Total	**2,060**	**4,680**	**6,870**	**6,320**	**12,570**	**21,810**	**35,530**	**55,540**	**73,130**	**99,580**

Source: MOFSL, Company

Financial services to grow at a robust pace, thereby driving the profitability; mix to increase to 31% vs 19% in 9MFY23

- Backed by a robust growth in disbursements, revenue from financial services and others registered a CAGR of 52% over FY19-22 to INR4.4b, despite the adverse impact of Covid over FY19-21. However, the same grew at a robust 240% YoY in FY22 (up 297% YoY in 9MFY23). We expect the traction in disbursements to continue, and thus, estimate revenue CAGR of 58% CAGR over FY23-25, thereby driving the overall revenues and profitability.

Exhibit 50: Revenue from financial services to witness a CAGR of 58% over FY23-25, backed by 64% CAGR in disbursements; take rate to remain broadly similar



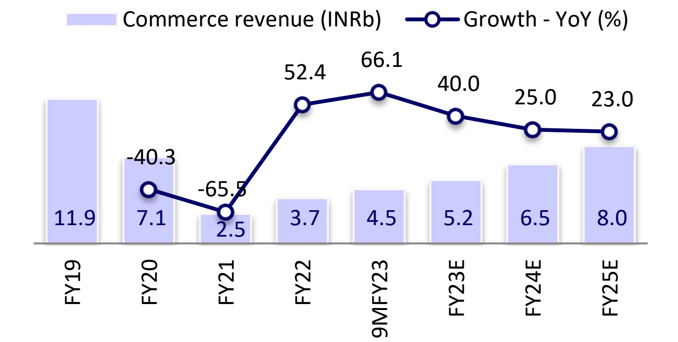
Source: MOFSL, Company

Commerce and Clouds services: Maintaining steady growth

Pick up in commerce activities along with healthy traction in credit cards distribution will keep the revenues healthy

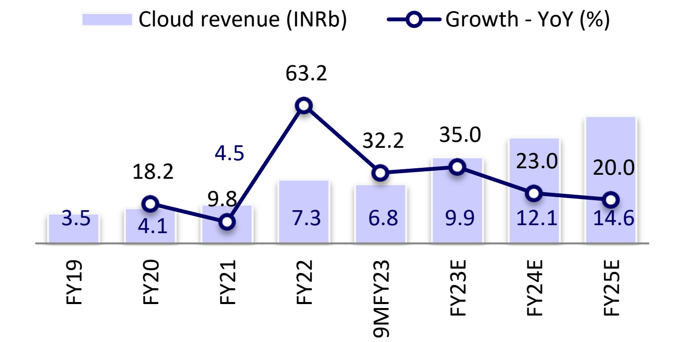
- Within the commerce business, the company charges a transaction fee from its merchant and/or a convenience fee from its customers. The fee is linked to a percentage of the transaction value such as ticket booking, travel, entertainment, and deals. It further provides a full stack of services for events business, which generates higher take rates. We note that over FY19-22, the revenues declined ~32% CAGR, adversely impacted by the Covid-19. However, the same has started to witness a pickup as the restrictions have eased, and thus, total revenues grew ~66% YoY in 9MFY23.
- Within the cloud business, the company generates revenue for providing the cloud and software solutions and advertisement, depending on the scale and type of campaign. Further, it generates revenues from the distribution of co-branded credit cards and has activated ~0.15m cards in 3QFY23 with a total activated cards base of ~0.45m. It earns a sourcing fee as well as a fee based on a percentage of spends. Over FY19-22, revenue CAGR stood at ~28%, led by advertising and PAI cloud services, while the growth remains healthy at 32% YoY in 9MFY23, further aided by the credit cards business.
- We expect commerce GMV to remain healthy, which coupled with sustained traction in the events business (take rate of ~6-8%) will keep the commerce revenue buoyant. Further, Paytm has a strong cross-sell opportunity for its credit cards distribution to its existing customers, which along with healthy advertisement and clouds business will drive the revenue growth. We thus expect Commerce and cloud revenues to witness a healthy 22% CAGR over FY23-25 v/s a decline of 10% over FY19-22.

Exhibit 51: Commerce revenue witnessed a pick up over the past few quarters; to register a CAGR of 24% over FY23-25



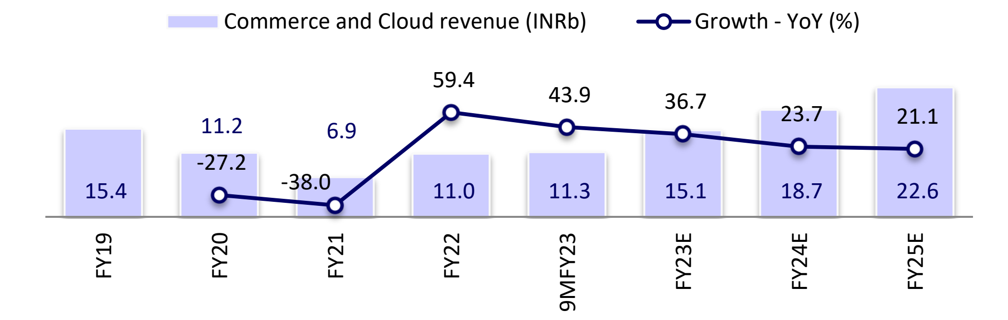
Source: MOFSL, Company

Exhibit 52: Cloud revenue remains healthy, driven by credit cards and advertisements; estimate 21% CAGR over FY23-25



Source: MOFSL, Company

Exhibit 53: Commerce and cloud revenue to witness a healthy pickup and register a 22% CAGR over FY23-25 v/s a 10% decline over FY19-22



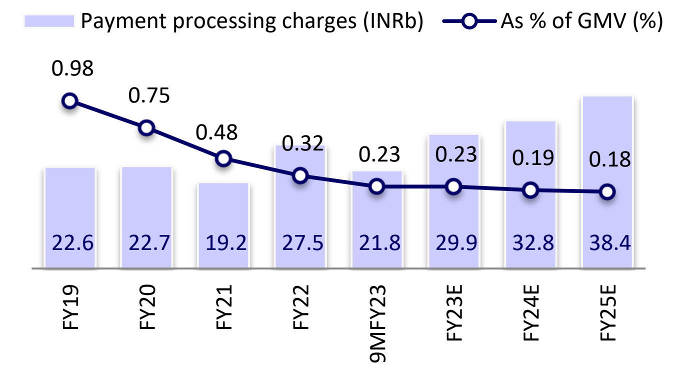
Source: MOFSL, Company

Gradual improvement in operating leverage to drive profitability

Direct expenses to moderate to 43% of revenue by FY25E from 87% in FY21

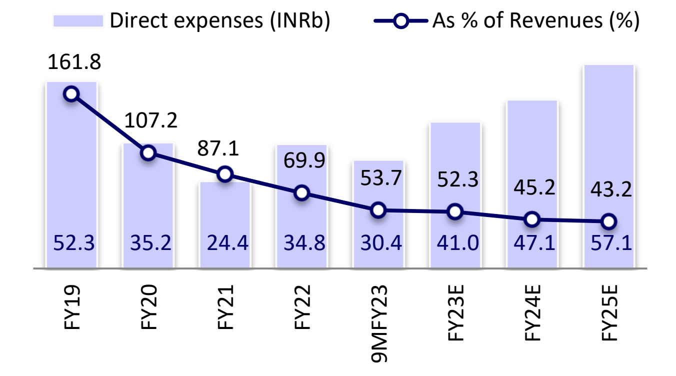
- Payment processing charges account for the bulk of opex and ~36% of the total expenses. Paytm has been focusing on bringing down these charges, which moderated to ~23bp of GMV in 9MFY23 from 98bp of GMV in FY19. The company remains focused on improving payment processing rates across banks, which will result in further reduction. We estimate these charges to moderate to ~18bp of GMV by FY25.
- Initially, Paytm was spending heavily on promotional and marketing activities to build the brand and acquire customers, which kept the opex elevated. However, with increasing acceptance by customers and improving operating leverage, Paytm has witnessed a sharp moderation in opex over the past few years. As a result, direct expenses moderated to ~54% of revenue in 9MFY23 v/s 162% in FY19, while indirect expenses moderated to ~54% of revenue v/s 69% in FY19.
- We believe that the company will continue to make investments for growth and monetization opportunities, such as marketing for user acquisition and expanding the sales team to increase the merchant base and subscription services. However, operating leverage will continue to improve gradually, thereby driving profitability.

Exhibit 54: Payment processing charges form 23bp of GMV; likely to moderate to ~18bp by FY25E



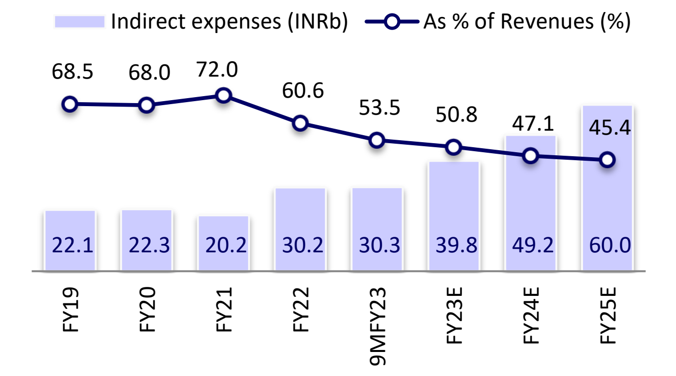
Source: MOFSL, Company

Exhibit 55: Direct expenses as % of revenue moderated to 54% in 9MFY23; to fall further to ~43% by FY25



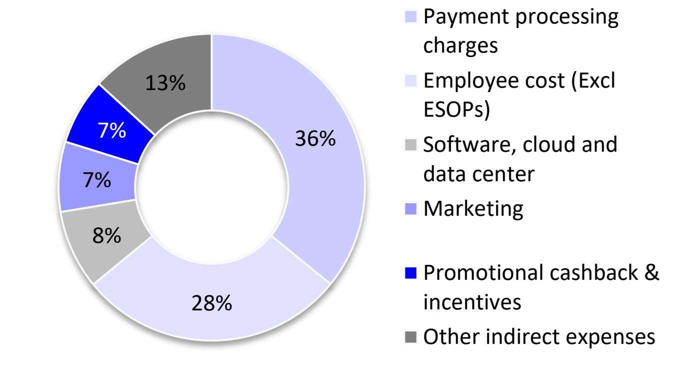
Source: MOFSL, Company

Exhibit 56: Indirect expenses as % of revenue moderated to 54% in 9MFY23; to drop further to ~45% by FY25



Source: MOFSL, Company

Exhibit 57: Opex mix (%): 64% of opex pertains to payment processing charges and employee costs (excluding ESOPs)



Source: MOFSL, RBI, Company

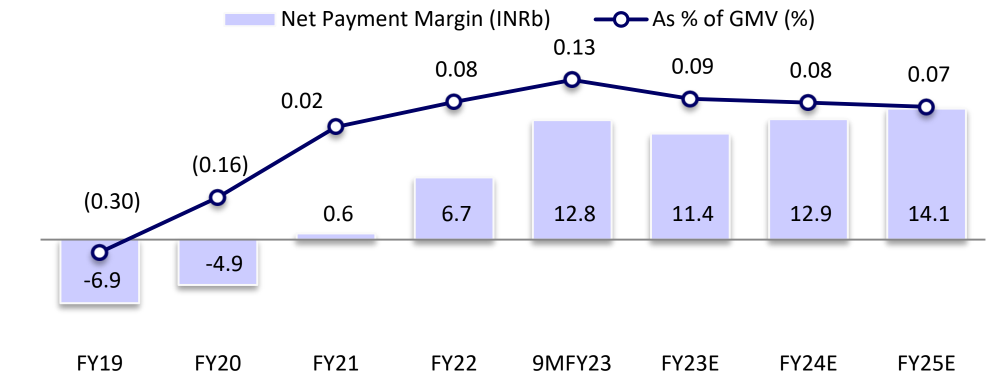
Growth in financials revenue to drive profitability

Contribution margin to improve to 57% by FY25

- Paytm determines profitability of its payments business by calculating the net payment margin, which is defined as total payment revenue minus payment processing charges. The net payment margin has two components:
  - **Payment processing margin:** This includes revenue from the payment business as % of GMV minus payment processing charges and the interchange cost for Paytm postpaid loans. It is currently earning payment processing margin of ~7-9bp of GMV. While GMV growth is likely to remain healthy, the mix of UPI is increasing (which is a low-margin product), and thus we expect margins to moderate to ~5-6bp over the medium term.
  - **Subscription revenue:** Paytm earns subscription revenue from merchants on the devices deployed. As of FY23, it has 6.8m devices and earns ~INR100 per device on a monthly basis. Further, Paytm also receives incentive on select installations from partner banks, the RBI and NABARD, among others, for digital inclusion.
- Overall, the net payment margin improved to ~INR6.7b in FY22 (INR12.8b in 9MFY23) v/s losses until FY20. It is likely to remain healthy, driven by higher subscription revenue as Paytm is adding ~1m devices on a quarterly basis.

Higher subscription revenue to offset moderation in payment processing margin due to faster growth in UPI GMV

Exhibit 58: Net payment margin likely to moderate to ~7bp due to faster growth in UPI

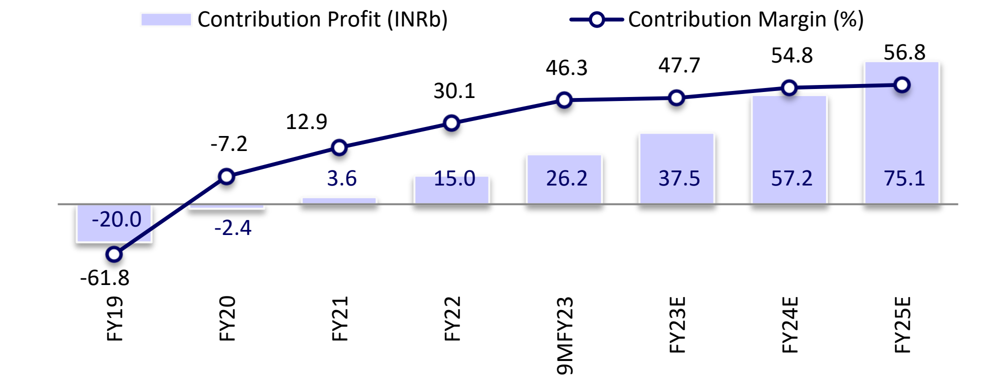


Source: MOFSL, Company

- The contribution profit determines core operating profitability of the underlying business. It is calculated as total revenue from operations minus direct expenses such as payment processing charges, promotional cash-backs and incentives, and others (connectivity and content fees, logistic, and collection costs for the businesses). Constant improvement in payment margin, increasing mix of high-margin financial services revenue and a moderation in direct expenses have resulted in a sharp improvement in contribution profit.
- As a result, Paytm reported a contribution profit of INR15b in FY22 v/s a loss of INR20b in FY19. The contribution margin improved to 30.1% in FY22 (46.3% in 9MFY23) v/s -61.8% in FY19. With consistent growth in payment volumes and faster growth in financial services revenue, we expect a 42% CAGR in the contribution profit over FY23-25 and margins at 56.8% by FY25.

We estimate contribution margin to witness a constant improvement; to reach 56.8% by FY25

Exhibit 59: Estimate Contribution margin to improve steadily to 56.8% by FY25E



Source: MOFSL, Company

ESOP cost to remain elevated till FY25

- Paytm has been witnessing higher ESOP charges as the cost is front-ended, based on the vesting period. Current vesting schedule stands at Year 1 (10%), Year 2 (20%), Year 3 (20%), Year 4 (25%), and Year 5 (25%). As a result, the charge is spread across five years, with ~38% in Year 1, 28% in Year 2, 18% in Year 3, 11% in Year 4 and 5% in Year 5. Thus, the ESOP cost is expected to remain elevated till FY25 and is likely to moderate from FY26 onward.
- The total number of ESOPs outstanding as on 31st Mar'22 stood at ~29.9m (Refer Exhibit 73 for exercise price). Further, the company granted ~21m ESOPs to MD & CEO in FY21-22 and ~0.2m to Group CFO. Further, the MD & CEO has informed that his ESOPs will be vested only when the market cap has crossed the IPO level on a sustained basis.

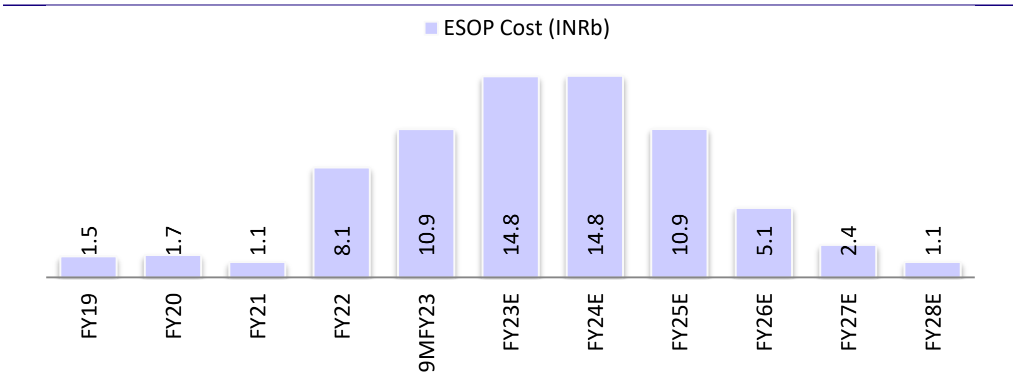
Gradual moderation in ESOP cost to drive improvement in EBITDA/profitability

Exhibit 60: Details of ESOP outstanding and exercise price

	No of options o/s	Exercise Price
Under ESOP 2008 Scheme	6,425	INR5
Under ESOP 2008 Scheme	579,025	INR9
Under ESOP 2019 Scheme	28,931,329	INR9
Under ESOP 2019 Scheme	385,838	INR1,900
Total Options outstanding	**29,902,617**	

Source: MOFSL, Company

Exhibit 61: ESOP cost to remain elevated till FY25; to moderate after FY25



Source: MOFSL, Company

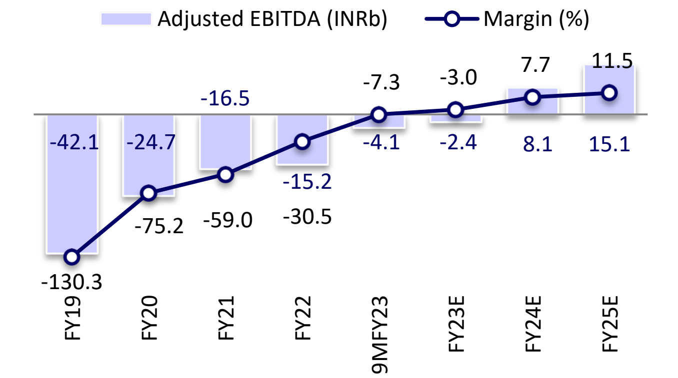
Rising contribution margin and operating leverage to drive EBITDA

EBITDA to break even by FY25E; adj. EBITDA margin to improve to 11.5%

We estimate Paytm to achieve EBITDA breakeven by FY25

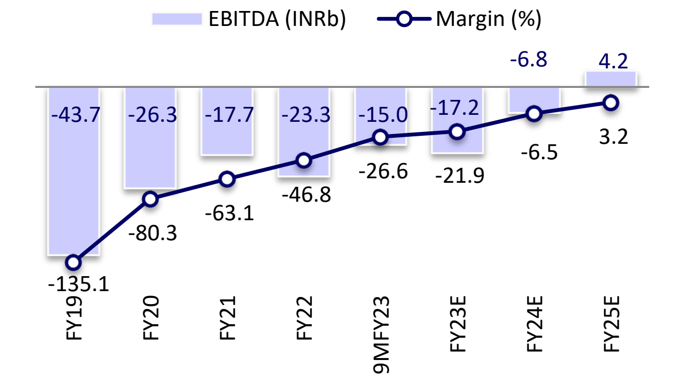
- Consistent improvements in contribution margin and operating leverage have resulted in a gradual improvement in operating profitability. As a result, Paytm's EBITDA margin improved to a loss of 26.6% in 9MFY23 (loss of 16% in 3QFY23) vs EBITDA losses of 135.1% in FY19. The elevated ESOP cost has further dented overall EBITDA. Thus, EBITDA adjusted for ESOP cost has improved to a loss of 7.3% in 9MFY23 vs adjusted EBITDA losses of 130.3% in FY19.
- We further note that Paytm has achieved breakeven in 3QFY23 in terms of adjusted EBITDA, well ahead of its guidance of achieving breakeven by Sep'23. Thus, Paytm reported adjusted EBITDA margin of 1.5% in Dec'22.
- We believe that consistent improvements in contribution margin and operating leverage will continue to drive operating profitability. Thus, we estimate adjusted EBITDA margin to improve to 11.5% by FY25 and expect Paytm to achieve overall EBITDA breakeven by FY25 and estimate EBITDA margin of 3.2% by FY25.

Exhibit 62: Paytm witnessing healthy improvement in adjusted EBITDA; margins to improve to 11.5% by FY25



Source: MOFSL, Company

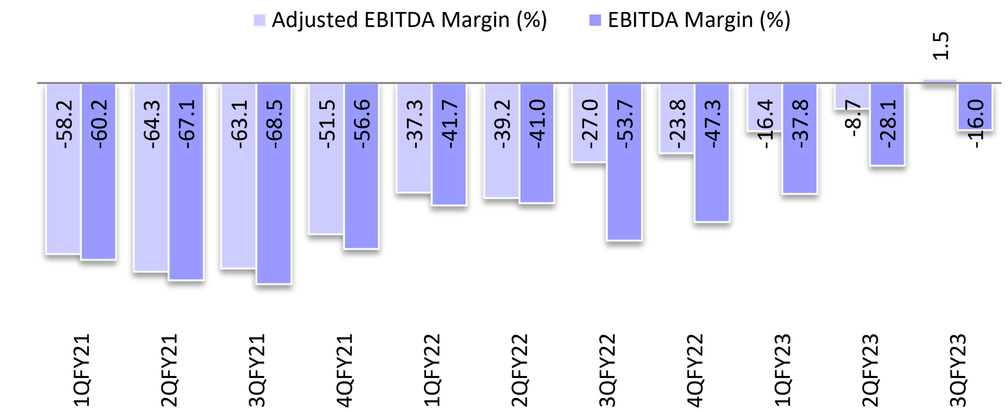
Exhibit 63: Paytm witnessing gradual improvement in EBITDA; to achieve breakeven by FY25 with margins of 3.2%



Source: MOFSL, RBI, Company

Exhibit 64: Paytm achieved breakeven in 3QFY23 in terms of adjusted EBITDA and reported adjusted EBITDA margin of 1.5%

Paytm achieved breakeven in 3QFY23 in terms of adjusted EBITDA; three quarters ahead of its guidance

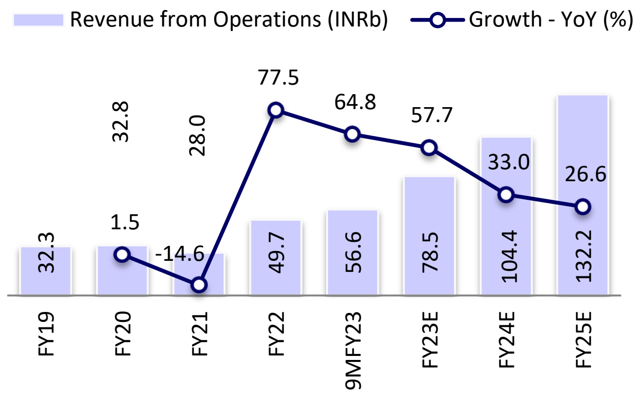


Source: MOFSL, Company

Valuation and view: Initiate with 'Buy'

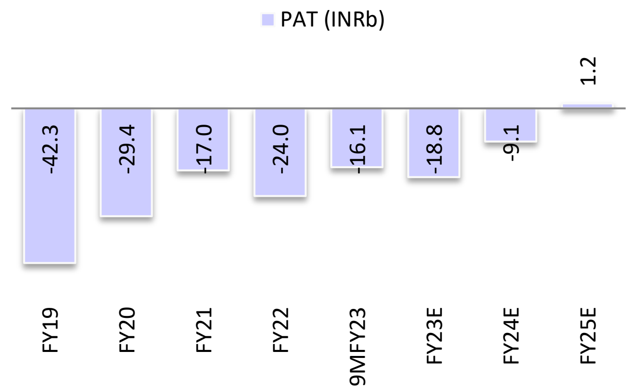
- Paytm is witnessing a steady rise in the consumer/merchant base (currently at ~350m/~31.4m), which has helped Paytm post a 55% CAGR in GMV over FY19-23. With increasing use cases, we expect a healthy 27% CAGR in GMV over FY23-25. The company reported steady growth in monthly transacting users to ~90m as on FY23, while the number of subscription payment devices increased to 6.8m. As the penetration among merchants remains low, we expect the traction to sustain with an addition of ~0.9-1m devices on a quarterly basis, thus driving a 21% CAGR in total payment revenue.
- The overall payment industry is expected to double to USD16t by 2026, and the mix of digital payments is expected to increase to 65%. Thus, digital payments are expected to grow ~3x to USD10t by 2026 v/s USD3t in 2021. Mobile payments are expected to grow even faster at ~5x to USD3t by 2026. Moreover, an increase in QR deployment will increase merchant payments, which are expected to grow ~6x to USD2.7t by 2026. Paytm will thus be a big beneficiary of this, as it has built up a strong position in the digital payments and lending businesses.
- In 4QFY23, the company reported 3.5x growth in the value of loans disbursed, with an annualized run-rate of INR500b. We estimate a steady 64% CAGR in disbursements over FY23-25, thus driving the mix of financial revenue to 31% from 9% in FY22. We estimate contribution margin to improve to 56.8% by FY25 v/s 30% in FY22, led by improvements in operating leverage and the rise in the financial business mix.
- Paytm has achieved breakeven in adjusted EBITDA in 3QFY23, well ahead of its guidance. We believe that consistent improvements in contribution margin and operating leverage will boost operating profitability. We thus estimate Paytm to achieve overall EBITDA breakeven by FY25 and estimate EBITDA margin of 3.2% by FY25 with a PAT of INR1.2b by FY25.

Exhibit 65: Revenue from operations to remain buoyant; likely to see ~30% CAGR over FY23-25



Source: MOFSL, Company

Exhibit 66: We estimate Paytm to achieve profitability by FY25; estimate a PAT of INR1.2b in FY25



Source: MOFSL, Company

- Overall, we estimate Paytm's revenue/contribution profit to record 26%/32% CAGR during FY23-28 and PAT to reach INR35b by FY28. Its EBITDA is likely to grow at a much faster pace and reach INR45b by FY28 with EBITDA margin expanding to ~18% by FY28. **We thus value Paytm at 18x EV/EBITDA as of FY28E. We then discount the FY28E valuation back to FY25E taking a discount rate of 15% and thus value the stock at INR865, which implies 4.5x FY25E P/sales. We initiate coverage with a Buy rating.**

Exhibit 67: We estimate 26% revenue CAGR during FY23-28 and EBITDA of INR45.1b (~18% margin) by FY28E

INRb	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	CAGR over FY23-28E
Payment and Financial Services	62.3	84.4	108.1	135.6	170.3	213.0	28%
Commerce and Cloud Services	15.1	18.7	22.6	27.1	32.2	38.2	20%
Revenue from Operations	**78.5**	**104.4**	**132.2**	**164.5**	**204.6**	**253.7**	**26%**
Direct Expenses	41.0	47.1	57.1	68.8	85.0	104.9	21%
Indirect Expenses	39.8	49.2	60.0	72.1	85.9	102.5	21%
Contribution Profit	**37.5**	**57.2**	**75.1**	**95.7**	**119.6**	**148.8**	**32%**
Contribution Margin (%)	**47.7**	**54.8**	**56.8**	**58.2**	**58.5**	**58.6**	
EBITDA	**-17.2**	**-6.8**	**4.2**	**18.4**	**31.3**	**45.1**	**121%***
EBITDA Margin (%)	**-21.9**	**-6.5**	**3.2**	**11.2**	**15.3**	**17.8**	
PAT	**-18.8**	**-9.1**	**1.2**	**13.3**	**23.6**	**35.0**	**204%***

*CAGR over FY25-28

Source: MOFSL, Company

Exhibit 68: We value the stock at INR865 based on 18x FY28E EBITDA

Valuation	INRb
EBITDA – FY28E	45.1
12 month forward multiple	18.0
EV Value – FY28	**807.0**
Discount Rate (%)	15.0
Period to Discount (Years)	3.0
Discounted EV - FY25E	**527.1**
Cash - FY25E	73.9
Market Value	**600.9**
Diluted no of equity shares (m)	695.0
Target Price	**865**
CMP	644
Upside (%)	**34%**
P/Sales - FY25E	4.5

Source: MOFSL, Company

Bull & Bear cases

Bull case

☑ In our bull case, we assume a 31% CAGR in GMV over FY23-28E to INR53t (v/s 24% CAGR in the base case). We assume a 55% CAGR in the value of loans disbursed over FY23-28E to INR3.3t (v/s 45% CAGR in the base case).

☑ However, we are not so sanguine on net payment margin, which we expect to gradually moderate to 5-6bp (broadly similar to our base case), as the mix of UPI continues to increase.

☑ The company's focus on growing the number of registered merchants and payment devices should support growth in transaction volumes and GMV. We estimate a 38% CAGR in payment devices over FY23-28.

☑ Total revenue from operations is likely to see a 33% CAGR over FY23-28E (v/s 26% CAGR in the base case), while the mix of Financial Services revenue to increase to 40% by FY28E from 21% in FY23E.

☑ Expense growth is likely to lag revenue growth as operating leverage in the business continues to improve. We estimate a 25%/27% CAGR in direct/indirect expenses over FY23-28, with indirect expenses as a percentage of total revenue falling from 51% to 40%.

☑ We project the company to report positive EBITDA after ESOP costs in FY25 and EBITDA is likely to see an 80%+ CAGR over FY25-28E.

☑ Under our bull case, we value Paytm at 20x FY28E EBITDA, which corresponds to 24x P/E, and discount the same to FY25E. Our bull case TP stands at INR1,450, which implies FY25E P/Sales ratio of 6.5x.

Bear case

☑ In our bear case, we assume a 19% CAGR in GMV over FY23-28E to INR30t (v/s 24% CAGR in the base case). We assume a 37% CAGR in the value of loans disbursed over FY23-28E to INR1.7t.

☑ We estimate a 27% CAGR in payment devices over FY23-28. Total revenue from operations is likely to see a 19% CAGR over FY23-28E, while the mix of Financial Services revenue is expected to increase to 39% by FY28.

☑ Expense growth will nevertheless continue to trail revenue growth and we estimate a 14%/14% CAGR in direct/indirect expenses over FY23-28. Indirect expenses as a percentage of total revenue will fall to 43% (40% in bull case).

☑ We project the company to report positive EBITDA after ESOP costs in FY26 at INR10.5b.

☑ Under our bear case, we value Paytm at 12x FY28E EBITDA, which corresponds to 18x P/E, and discount the same to FY25E. Our bear case TP stands at INR400, which implies FY25E P/Sales ratio of 2.3x.

Exhibit 69: Scenario analysis – Bull case

Bull case	FY23E	FY24E	FY25E
Revenue from Operations	79.0	112.8	151.5
Contribution Profit	37.6	60.1	88.0
Adjusted EBITDA	(2.3)	9.1	21.9
EBITDA	(17.1)	(5.8)	11.0
PAT	(18.7)	(8.0)	7.5
Contribution Margin (%)	47.6	53.3	58.1
Adjusted EBITDA Margin (%)	(2.9)	8.0	14.5
EBITDA Margin (%)	(21.6)	(5.1)	7.2
EPS (INR)	(28.4)	(12.1)	11.1
Target multiple – EBITDA	**20**		
Target price (INR)	**1,450**		
Upside (%)	**125%**		

Source: Company, MOFSL

Exhibit 70: Scenario analysis – Bear case

Bear case	FY23E	FY24E	FY25E
Revenue from Operations	75.6	99.2	121.8
Contribution Profit	35.7	51.4	65.9
Adjusted EBITDA	(3.9)	2.8	7.9
EBITDA	(18.7)	(12.0)	(3.0)
PAT	(20.3)	(14.6)	(5.4)
Contribution Margin (%)	47.3	51.8	54.1
Adjusted EBITDA Margin (%)	(5.2)	2.8	6.5
EBITDA Margin (%)	(24.7)	(12.1)	(2.5)
EPS (INR)	(31.0)	(22.1)	(8.0)
Target multiple - EBITDA	**12**		
Target price (INR)	**400**		
Downside (%)	**38%**		

Source: Company, MOFSL

SWOT analysis

Strength

- India's leading payments and FinTech enterprise
- Developed a payments-led 'super app' and evolved into a comprehensive payments ecosystem, covering payments, credit, insurance, merchants, wealth management, e-commerce services, and so forth
- Strong market share in payment-to-merchant transactions
- Huge consumer and merchant user base for cross-sell

Weaknesses

- Lower awareness among users
- Lack of local agents for distribution of products
- Cost of customer acquisition tends to be higher due to constant investment in brand and marketing expenses
- Increasing mix of UPI payment adversely affected net payment margins

Opportunities

- Increasing internet user base
- Huge opportunity to cross-sell products to existing consumer base
- Fast changing payments landscape toward Digital
- Under-penetration and rising digitization of financial services
- Exponential growth in online shopping

Threats

- Low entry barriers
- Competing with various FinTech firms, banks, e-commerce players, Internet providers, and so on
- Growing cyber threat remains a key concern
- Obsolete technology could lead to sharp market share loss
- Regulatory risk remains another major threat to business

Key issues to watch out for

Alibaba has exited entirely; Softbank may also pare stake/exit fully

- The stock price of Paytm has been quite volatile over the past few months amid stock sales from some of the key shareholders. We note that since Jan'23, Alibaba has sold ~6.3% stake in the company and has completely exited its holding from Paytm.
- We note that Ant Financial holds ~25.5%, Softbank holds ~13.2% and SAIF Partners holds 15.5%. ~9% is held by Vijay Shekhar and ~5% by trust.
- Stake sale by other potential large shareholders (Softbank) can remain an overhang on the stock's performance.
- Besides, Ant Financial may also need to sell a minor stake to bring down its holding to <25% to avoid getting classified as the promoter and triggering the open offer.

Exhibit 71: Shareholding pattern of Paytm as on 23rd Mar'23

Shareholding Pattern	%
Antfin (Netherlands) Holding B.V.	25.47
SVF India Holdings (Cayman) Limited	13.24
SAIF III Mauritius Company Limited	10.85
Vijay Shekhar Sharma	9.13
Axis Trustee Services Limited	4.89
SAIF Partners India IV Limited	4.60
BH International Holdings	2.47
Canada Pension Plan Investment Board	1.75
Mirae Asset Large Cap Fund	1.75
Franklin Resources Inc.	1.00

Source: MOFSL, Company

Paytm Payments Bank Limited: Regulatory approval for new customer on-boarding to boost investor confidence

- The RBI in Mar'22 barred Paytm Payments Bank from onboarding new customers, citing "material supervisory concerns" observed at the bank. The regulator also directed the bank to appoint an information technology (IT) audit firm to conduct a comprehensive audit of its IT system.
- In Nov'22, the management received the IT auditors' report and subsequently the RBI's observations on that report. These revolved largely around the strengthening of IT outsourcing processes and operational risk management.
- The management then submitted a response to the RBI, mentioning the remedial steps that would be taken. Post this, the RBI suggested to implement these measures in a time-bound manner.
- The bank is in the process of complying with these instructions and believes that the ban on new customer sourcing should be lifted in the near term. The ban has not materially impacted the overall business.
- It has also received the RBI's approval to appoint veteran banker Mr. Surinder Chawla as its new Managing Director and CEO.

Paytm Payments Services Limited: Awaiting payment aggregator license from RBI and the approval to source online merchants

- The RBI did not approve Paytm's payment aggregator application in the first go and instead asked the company in Nov'22 to resubmit its application after four months. It further asked the company to stop onboarding new online merchants.
- These directions have not materially impacted the business and revenue, as the ban was applicable to onboarding of only new online merchants. The company continues to onboard new offline merchants and offers all payment services.
- Further, as per the RBI, the company has filed an application with the government for past downward investment from One97 Communications Limited into PPSL to comply with FDI guidelines.

Key risks

- Many BNPL models have not been very successful across the world. While Paytm does not carry any balance sheet risk, it carries significant business and reputational risk as material deterioration in asset quality could result in lenders withdrawing their credit lines, thereby impacting disbursement growth.
- Technology infrastructure is vital and therefore remains a key risk to these businesses.
- Various laws and regulations govern its business segments, which is a key risk. Further, the RBI has banned Paytm Payments Bank from onboarding new customers and a prolonged ban could potentially impact user growth for Paytm.
- Paytm has tie-ups with financial institutions for providing financial services products. Any change in these relationships could impact disbursement growth.
- The increase in competition could impact the growth trajectory for Paytm. This could result in lower take rates, lower market share and higher selling & marketing expenses/cash burn.
- Slower-than-expected adoption of digital payments could hamper the growth trajectory and reduce the number of transacting users.
- Slower-than-expected sales in the commerce and cloud services could de-rail the overall growth momentum.
- Events like Covid-19 could hurt the businesses of Paytm merchants and impact GMV.
- An increase in payment processing charges to financial institutions or card networks could dent profitability as payment processing charges form ~36% of total operating expenses.

ESG, CSR & Diversity

Environmental and Sustainability initiatives

- The company uses only CNG cabs to provide the office pickup and drop facility to its employees.
- All waste generated on the company premises is disposed of through state government-authorized agencies, which have their own sorting/processing units.
- Paytm strictly follows its scrap policy for e-waste generated through business activities. It disposes of e-waste through the Central Pollution Control Board (CPCB) listed e-waste vendors.
- The company has installed LED lights, which have almost no heat/UV emission, in offices. All meeting rooms are equipped with lighting sensors.
- The company has contributed INR3.38mn to UNEP AQAF (Air Quality Action Forum) to identify the needs, gaps, and solutions to the problem of air quality in India and will ensure project implementation in a structured manner with a yearly action plan.

CSR initiatives

- The company has adopted Vigil Mechanism/Whistle Blower Mechanism Policy (“WB Policy”) with protective clauses for whistle blowers.
- The Prevention of Sexual Harassment (“POSH”) at Workplace Policy has been formed to prohibit, prevent or deter acts of sexual harassment at workplace and to provide the procedure for the redressal of complaints pertaining to sexual harassment. The company has also constituted an Internal Complaints Committee as per the requirements under the POSH Act. There were no pending POSH complaints during the year and no new complaints during FY21-22.
- As of 31st Mar’22, there were 1,283 women employees, making up 18% of the total workforce.

Governance

- There are total eight directors on the board, including four independent directors as of 31 Mar’22.
- Mr. Mark Schwartz is the chairman of the Audit Committee and an independent director on the board.

Experienced management team with strong track record

Paytm has an experienced management team with vast domain knowledge and expertise in fintechs and the financial sector. The business heads have relevant backgrounds and have prior experience in the sector.

- **Mr. Vijay Shekhar Sharma** is the Founder, Managing Director, CEO and Chairman of the company. He oversees the company's key strategic efforts, including engineering, design and marketing. He was featured in the list of the '100 Most Influential People in the World' by Time Magazine in 2017 and has received multiple industry honors. He holds a bachelor's degree in electronics and communications from the Delhi College of Engineering.

- **Mr. Madhur Deora** is the Executive Director, President and Group CFO of the company. He has been associated with the company since Oct'16. He holds a Bachelor of Science degree in economics from Wharton School of the University of Pennsylvania. He is responsible for devising the financial and operational strategy, investor relations, assisting with a commercial roadmap to realize the long term vision of the organization and driving overall governance. He was previously associated with Citi Investment Banking for 17 years.

- **Mr. Bhavesh Gupta** is CEO of Paytm's lending business. He is associated with the company since Aug'20. He has previously worked with Clix Capital Services Private Limited and IDFC Bank Limited. He holds a master's degree in business administration from the Institute of Management Studies, Indore.

Financials and valuations

Income Statement (INRm)

Y/E March	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Payment Services to Consumers	10,851	10,120	9,692	15,286	20,354	21,654	24,300
Payment Services to Merchants	4,860	7,658	10,116	18,919	25,654	33,797	42,995
Financial Services and Others	1,244	1,290	1,284	4,372	16,290	28,977	40,786
Payment and Financial Services	**16,955**	**19,068**	**21,092**	**38,577**	**62,298**	**84,428**	**108,081**
Growth (%)	NM	12.5	10.6	82.9	61.5	35.5	28.0
Commerce	11,915	7,109	2,452	3,736	5,230	6,538	8,042
Cloud	3,450	4,079	4,480	7,312	9,871	12,142	14,570
Commerce and Cloud Services	**15,365**	**11,188**	**6,932**	**11,048**	**15,102**	**18,680**	**22,612**
Growth (%)	NM	-27.2	-38.0	59.4	36.7	23.7	21.1
Other Operating Revenue	-	2,552	-	117	1,053	1,264	1,491
Revenue from Operations	**32,320**	**32,808**	**28,024**	**49,742**	**78,453**	**104,372**	**132,183**
Growth (%)	NM	1.5	-14.6	77.5	57.7	33.0	26.6
Payment processing charges	22,574	22,659	19,168	27,538	29,870	32,820	38,369
Promotional cash-back & incentives	27,937	9,592	2,357	3,781	4,758	5,075	5,755
Other Expenses	1,789	2,935	2,874	3,442	6,368	9,233	12,926
Direct Expenses	**52,300**	**35,186**	**24,399**	**34,761**	**40,996**	**47,128**	**57,051**
Growth (%)	NM	-32.7	-30.7	42.5	17.9	15.0	21.1
Contribution Profit	**-19,980**	**-2,378**	**3,625**	**14,981**	**37,457**	**57,243**	**75,133**
Growth (%)	NM	NM	NM	NM	150.0	52.8	31.3
Marketing	6,146	4,379	2,968	4,773	5,806	6,889	8,328
Employee cost (Exc. ESOPs)	7,016	9,532	10,724	16,226	22,392	28,214	34,703
Software, cloud and data center	3,096	3,603	3,498	4,999	6,649	8,178	9,895
Other indirect expenses	5,877	4,791	2,983	4,160	4,992	5,891	7,069
Indirect Expenses	**22,135**	**22,305**	**20,173**	**30,158**	**39,838**	**49,171**	**59,994**
Growth (%)	NM	0.8	-9.6	49.5	32.1	23.4	22.0
Adjusted EBITDA	**-42,115**	**-24,683**	**-16,548**	**-15,177**	**-2,381**	**8,072**	**15,138**
Growth (%)	NM	NM	NM	NM	NM	NM	87.5
ESOP Expense	1,546	1,661	1,125	8,093	14,793	14,843	10,943
EBITDA	**-43,661**	**-26,344**	**-17,673**	**-23,270**	**-17,174**	**-6,771**	**4,195**
Growth (%)	NM	NM	NM	NM	NM	NM	NM
Finance Costs	342	485	348	394	256	295	339
Depreciation and Amortization Expenses	1,116	1,745	1,785	2,473	4,328	5,929	8,004
Other Income	3,477	2,599	3,844	2,901	3,887	4,976	6,120
PBT	**-41,642**	**-25,975**	**-15,962**	**-23,368**	**-17,871**	**-8,018**	**1,973**
Share of (profit)/loss of associates/joint ventures	-146	560	740	459	482	540	615
Exceptional items	825	3,047	281	24	0	0	0
Tax	-65	-158	27	113	422	513	109
PAT	**-42,256**	**-29,424**	**-17,010**	**-23,964**	**-18,775**	**-9,072**	**1,249**
Growth (%)	NM	NM	NM	NM	NM	NM	NM

Balance Sheet

Y/E March	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Share Capital	575	604	605	649	656	664	674
Reserves & Surplus	56,812	80,448	64,743	140,867	136,173	135,266	135,891
Non-Controlling Interest	862	-140	-186	-221	-243	-267	-294
Net Worth	**58,249**	**80,912**	**65,162**	**141,295**	**136,586**	**135,663**	**136,270**
Non-Current Liabilities	705	6,017	5,229	6,119	3,482	3,656	3,838
Current Liabilities	26,867	16,102	21,122	32,502	46,398	52,031	59,448
Total Liabilities	**85,820**	**103,031**	**91,513**	**179,916**	**186,466**	**191,350**	**199,557**
Fixed Assets	7,064	6,082	5,149	9,259	9,722	10,208	10,718
Investments in JV/Associates	2,002	2,468	2,317	2,233	-	-	-
Investments	1,511	3,038	341	10,062	13,525	14,877	16,365
Other Non-Current Assets	8,552	26,358	8,533	48,394	51,730	55,195	58,673
Non-Current Assets	**19,129**	**37,947**	**16,340**	**69,948**	**74,976**	**80,280**	**85,756**
Investments	24,979	31,895	1,472	-	-	-	-
Cash and Bank Balances	4,612	5,401	28,764	52,020	31,176	23,382	18,706
Other Current Assets	37,100	27,788	44,937	57,948	80,313	87,688	95,095
Current Assets	**66,691**	**65,084**	**75,173**	**109,968**	**111,490**	**111,070**	**113,801**
Total Assets	**85,820**	**103,031**	**91,513**	**179,916**	**186,466**	**191,350**	**199,557**

Financials and valuations

Key Operating Metrics

Y/E March	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
GMV (INRb)	2,292	3,032	4,033	8,516	13,217	16,918	21,316
Disbursements (INR b)	NA	NA	14	76	354	654	949
Net Payment Margins (INRm)	-6,863	-4,881	640	6,667	11,362	12,937	14,068
Revenue from Operations Mix (%)							
Payment Services to Consumers	34%	31%	35%	31%	27%	22%	20%
Payment Services to Merchants	15%	23%	36%	38%	33%	32%	33%
Financial Services and Others	4%	4%	5%	9%	21%	28%	31%
Payment and Financial Services	**52%**	**58%**	**75%**	**78%**	**81%**	**82%**	**83%**
Commerce	37%	29%	9%	8%	7%	6%	6%
Cloud	11%	12%	16%	15%	13%	12%	11%
Commerce and Cloud Services	**48%**	**42%**	**25%**	**22%**	**19%**	**18%**	**17%**

E: MOSL Estimates

Ratios

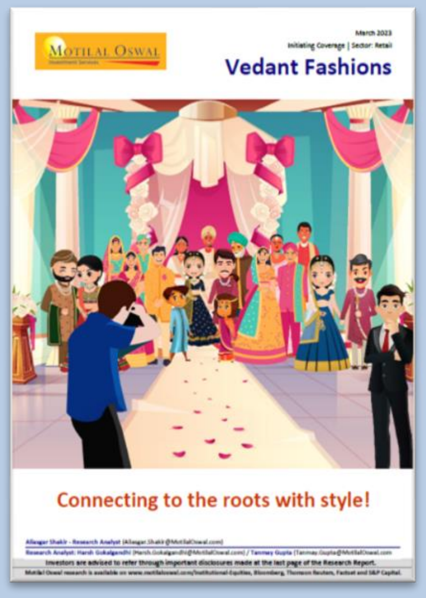
Y/E March	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Payment Services to Consumers % of GMV	0.47	0.33	0.24	0.18	0.15	0.13	0.11
Payment Services to Merchants % of GMV	0.21	0.25	0.25	0.22	0.19	0.20	0.20
Take rates - Financial Services (%)	NA	NA	9.1	5.7	4.6	4.4	4.3
Payment processing charges % of GMV	0.98	0.75	0.48	0.32	0.23	0.19	0.18
Net Payment Margin (%)	-0.30	-0.16	0.02	0.08	0.09	0.08	0.07
Direct Expense % of Revenues	161.8	107.2	87.1	69.9	52.3	45.2	43.2
Contribution Margin	-61.8	-7.2	12.9	30.1	47.7	54.8	56.8
Indirect Expense % of Revenues	68.5	68.0	72.0	60.6	50.8	47.1	45.4
Adjusted EBITDA Margin (%)	-130.3	-75.2	-59.0	-30.5	-3.0	7.7	11.5
EBITDA Margin (%)	-135.1	-80.3	-63.1	-46.8	-21.9	-6.5	3.2
PAT Margin (%)	-130.7	-89.7	-60.7	-48.2	-23.9	-8.7	0.9

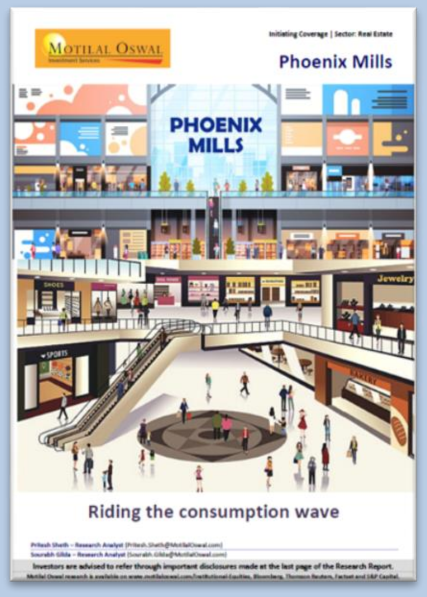
Valuation

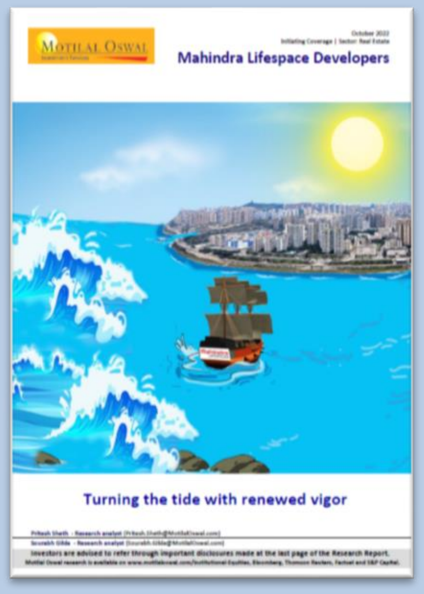
Y/E March	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
RoE	-62.9	-42.3	-23.3	-23.2	-13.5	-6.7	0.9
RoA	-49.0	-31.2	-17.5	-17.7	-10.2	-4.8	0.6
Sales per share (INR)	56	54	46	77	120	157	196
Growth (%)	NM	-3.4	-14.7	65.5	56.0	31.4	24.8
Price-Sales (x)	**11.5**	**11.9**	**13.9**	**8.4**	**5.4**	**4.1**	**3.3**
Book Value per share (INR)	101	134	108	218	208	204	202
Growth (%)	NM	32.2	-19.6	102.1	-4.4	-1.9	-1.0
Price-BV (x)	**6.4**	**4.8**	**6.0**	**3.0**	**3.1**	**3.2**	**3.2**
EBITDA per share (INR)	-76	-44	-29	-36	-26	-10	6
Price-EBITDA (x)	**-8.5**	**-14.8**	**-22.1**	**-18.0**	**-24.7**	**-63.3**	**NM**
EPS (INR)	-73.5	-48.7	-28.1	-36.9	-28.6	-13.7	1.9
Growth (%)	NM	NM	NM	NM	NM	NM	NM
Price-Earnings (x)	**-8.8**	**-13.3**	**-23.0**	**-17.5**	**-22.6**	**-47.3**	**NM**

REPORT GALLERY

RECENT INITIATING COVERAGE REPORTS







NOTES

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
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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Details of Compliance Officer: Neeraj Agarwal, Email Id: na@motilaloswal.com, Contact No.:022-40548085.
Grievance Redressal Cell:

Contact Person	Contact No.	Email ID
Ms. Hemangi Date	022 40548000 / 022 67490600	query@motilaloswal.com
Ms. Kumud Upadhyay	022 40548082	servicehead@motilaloswal.com
Mr. Ajay Menon	022 40548083	am@motilaloswal.com

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