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Company update,
earnings and TP
revision

Financials

Target price: Rs1,285

Earnings revision

(%)	FY23E	FY24E
Revenue	↓ 3.3	↓ 4.9
Adj. EBITDA	↓ 2.3	↓ 10.2

Target price revision

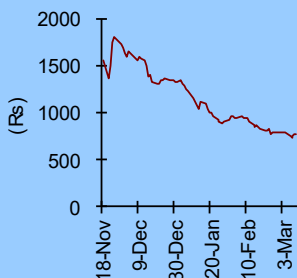
Rs1,285 from Rs1,352

Shareholding pattern

	Sep '21	Dec '21
Promoters	0.0	0.0
Institutional investors	11.2	10.4
MFs and others	0.8	1.1
FI/Banks	0.0	0.0
FIIIs	10.4	9.3
Others	88.8	89.6

Source: NSE

Price chart



One 97 Communications (Paytm)

BUY
Maintain

RBI directs PPBL to temporarily stop onboarding new customers

Rs775

RBI has directed Paytm Payments Bank (PPBL), an associate of One 97 Communications (OCL or Paytm), to temporarily halt onboarding of new customers, via a letter dated 11th Mar'22. The embargo will have an adverse impact on signing up users for new PPBL wallets or savings / current accounts, until further notice. Also, observing certain material supervisory concerns at PPBL, RBI's directive will also remain an overhang till concerns are appropriately addressed. PPBL is taking immediate steps, including appointment of a reputed external auditor, to conduct a comprehensive audit of its IT systems and remains committed to working with the regulator to address their concerns. However, in this context, we recall recent instances of embargo on a leading bank, which stayed in place for 8-15 months.

We were estimating Paytm's consumer base to grow by 10% in FY23E and monthly transacting users to increase at >25% run-rate. Company will have to increase its efforts to enhance engagement with the existing user base to offset the adverse impact of embargo on new users. Now, expecting moderation in onboarding of new users and the adverse impact on incremental payment revenue (as wallets are key monetisable payment instrument), we revise our target price to Rs1,285 (earlier Rs1,352). Also, it may defer PPBL's plan to apply for conversion into small finance bank (though eligible to apply from May'22). Maintain 'BUY'.

- RBI observes certain material supervisory concerns; bank to appoint external auditor to conduct comprehensive system audit:** The RBI letter states that it has observed certain material supervisory concerns at PPBL. Bank is taking immediate steps to comply with RBI directives, including appointment of a reputed external auditor to conduct a comprehensive audit of its IT systems. PPBL remains committed to working with the regulator to address their concerns as quickly as possible, but believes the process will be time consuming.
- Embargo pertains to signing up new users of PPBL wallets, savings or current accounts:** Given the embargo, new users cannot sign up for new PPBL wallets or savings / current accounts, until further notice. New users can however sign up on the Paytm app, and transact by: a) creating UPI handles and linking them to their bank accounts, or b) by using third-party payment instruments for transactions on the Paytm app. Existing customers of PPBL can continue to use all banking and payment services without interruption. Existing users of Paytm UPI, Paytm Wallet, Paytm FASTag, and bank accounts can continue to use these instruments, including debit cards and net banking, for payments. Also, the RBI directive does not impact the services Paytm provides in partnership with other financial services institutions.
- Recent instances of embargo on a leading bank suggest lifting of restrictions may take time:** Reference recent instances of embargo on a leading bank, it took 8 months to partially lift the restrictions and almost 15 months to wholly lift the same.

Market Cap	Rs502bn/US\$6.6bn
Bloomberg	PAYTM IN
Shares Outstanding (mn)	648.5
52-week Range (Rs)	2150/738
Free Float (%)	100.0
FII (%)	9.3
Daily Volume (US\$/'000)	NA
Absolute Return 3m (%)	(50.6)
Absolute Return 12m (%)	NA
Sensex Return 3m (%)	(5.3)
Sensex Return 12m (%)	9.4

Year to Mar (Rs mn)	FY21	FY22E	FY24E	FY26E
Revenue from operations	28,024	52,168	92,723	149,286
Contribution Profit	3,625	15,702	37,598	69,356
- Contribution margin (%)	12.9%	30.1%	40.5%	46.5%
EBITDA	-17,673	-25,045	-24,910	-2,746
- EBITDA margin (%)	-63.1%	-48.0%	-26.9%	-1.8%
PAT	-17,010	-25,505	-25,723	-5,288
Diluted EPS (Rs)	-28.1	-36.6	-36.9	-7.6
GMV (Rs bn)	4,033	8,925	16,745	29,699
Price / Sales (x)	17.9	11.1	6.2	3.9
Price / Book (x)	7.7	4.4	5.4	5.3

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Financials

Table 1: Income statement

(Rs mn)	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E	FY26E
P&L								
Payment and financial services	16,955	19,068	21,092	40,115	54,694	70,131	92,021	1,13,178
Payment Service revenue	15,711	17,778	19,808	35,668	46,589	56,942	72,767	87,022
- Payment services to consumers	10,851	10,120	9,692	15,312	17,671	20,174	24,326	27,351
- Payment services to merchants	4,860	7,658	10,116	20,356	28,918	36,768	48,441	59,671
Financial Service revenue	1,244	1,290	1,284	4,447	8,105	13,189	19,255	26,155
Commerce and cloud services	15,365	11,188	6,932	12,053	16,970	22,592	29,234	36,109
-Commerce revenue	11,915	7,109	2,452	4,437	6,401	7,990	9,781	11,489
-Cloud revenue	3,450	4,079	4,480	7,616	10,569	14,602	19,453	24,620
Other operating revenue	-	2,552	-	-	-	-	-	-
Revenue from operations	32,320	32,808	28,024	52,168	71,664	92,723	1,21,256	1,49,286
Payment processing charges	22,574	22,659	19,168	28,556	36,324	43,623	54,562	64,441
Promotional cashbacks and incentives	27,937	9,592	2,357	4,318	5,600	6,918	8,562	9,918
Connectivity and content fees	1,071	1,561	1,819	2,274	2,547	2,852	3,137	3,451
Content, ticketing and FASTag expenses	680	1,221	681	851	996	1,145	1,283	1,411
Logistic, deployment and collection cost	38	153	374	468	524	586	645	710
Contribution Profit	-19,980	-2,378	3,625	15,702	25,674	37,598	53,066	69,356
Other Marketing & promotional expenses	6,146	4,379	2,968	5,495	7,127	8,805	10,897	12,622
Employee benefits expense excluding ESOP	7,016	9,532	10,724	16,279	22,224	26,586	31,100	35,921
Software, cloud and data centre expenses	3,096	3,603	3,498	4,967	5,563	6,231	6,854	7,539
Other expense	5,877	4,791	2,983	4,256	4,724	5,261	5,764	6,341
Adjusted EBITDA	-42,115	-24,683	-16,548	-15,296	-13,964	-9,285	-1,549	6,933
ESOP Expense	1,546	1,661	1,125	9,749	17,799	15,625	11,977	9,680
EBITDA	-43,661	-26,344	-17,673	-25,045	-31,764	-24,910	-13,526	-2,746
Depreciation and amortisation expense	1,116	1,745	1,785	2,231	2,611	3,002	3,362	3,699
Finance costs	342	485	348	480	539	571	646	747
Other income	3,477	2,599	3,844	2,977	4,403	3,395	2,691	2,477
PBT	-41,642	-25,975	-15,962	-24,778	-30,511	-25,089	-14,843	-4,716
Share of profit / (loss) of associates / joint ventures/Others	93	-560	-740	-703	-668	-634	-603	-573
Exceptional items	-825	-3,047	-281	-24	-	-	-	-
Tax Expense	-65	-158	27	-	-	-	-	-
PAT	-42,309	-29,424	-17,010	-25,505	-31,179	-25,723	-15,446	-5,288

Source: Company data, I-Sec research

Table 2: Balance sheet

(Rs mn)	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E	FY26E
Share Capital	575	604	605	648	654	661	668	674
Reserves & Surplus	56,674	80,448	64,743	1,30,599	1,17,287	1,07,245	1,03,812	1,08,219
Minority Interest	862	-140	-186	-237	-299	-351	-382	-392
Networth	58,111	80,912	65,162	1,31,010	1,17,642	1,07,555	1,04,098	1,08,501
Non-current liabilities	2,338	5,459	4,799	5,173	5,597	5,955	6,345	6,770
Current liabilities	27,219	16,660	21,552	32,606	31,660	31,170	32,272	35,117
Total equity & liabilities	87,668	1,03,031	91,513	1,68,788	1,54,898	1,44,680	1,42,715	1,50,389
PP&E incl. right to use of assets and WIP	5,260	5,421	4,483	6,019	7,843	9,632	11,292	12,261
Goodwill	2,930	467	467	443	443	443	443	443
Investment in JV/Associate	2,462	3,230	2,317	2,350	2,350	2,350	2,350	2,350
Investments	1,051	2,276	341	512	537	564	592	622
Non-current Deposits	30	13,517	2,506	9,846	7,659	5,809	4,840	4,944
Other non-current assets	9,226	13,763	7,401	10,108	11,281	12,613	13,951	15,076
Total Non-current assets	20,959	38,674	17,515	29,278	30,113	31,411	33,469	35,696
Investments	24,979	31,894	1,472	4,923	3,830	2,905	2,420	2,472
Cash & cash equivalents	3,255	4,232	5,468	14,769	11,489	8,714	7,261	7,417
Bank balances other than cash and cash equivalents	1,358	1,170	23,296	68,923	53,614	40,666	33,883	34,610
Other current assets	37,117	27,061	43,762	50,895	55,852	60,984	65,682	70,193
Total current assets	66,709	64,357	73,998	1,39,510	1,24,785	1,13,269	1,09,246	1,14,692
Total Assets	87,668	1,03,031	91,513	1,68,788	1,54,898	1,44,680	1,42,715	1,50,389

Source: Company data, I-Sec research

Table 3: Cash flow statement

(Rs mn)	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E	FY26E
Total comprehensive income net of tax	-44,209	-29,847	-15,112	-25,449	-31,111	-25,667	-15,410	-5,273
Other operating cash flows	-550	6,081	-5,713	12,929	12,698	12,183	8,823	10,598
Cash flow from operations	-44,759	-23,766	-20,825	-12,520	-18,414	-13,483	-6,587	5,325
Investing cash flow	19,110	-19,963	19,298	-3,605	-4,479	-4,847	-5,096	-4,750
Fresh equity issuance (net of expenses)	21,869	50,400	107	81,556	-	-	-	-
Other financing cash flows	-764	1,199	-2,328	288	1,023	-167	1,993	464
Cash flow from financing activities	21,105	51,599	-2,221	81,844	1,023	-167	1,993	464
Net change in cash flows	-4,544	7,870	-3,748	65,719	-21,869	-18,498	-9,690	1,040

Source: Company data, I-Sec research

Table 4: Key ratios

Growth ratios	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E	FY26E
Total revenue from operations		1.5%	-14.6%	86.2%	37.4%	29.4%	30.8%	23.1%
Payment processing charges		0.4%	-15.4%	49.0%	27.2%	20.1%	25.1%	18.1%
Marketing and promotional expenses		-59.0%	-61.9%	84.3%	29.7%	23.5%	23.8%	15.8%
Employee benefits expense		30.7%	5.9%	119.7%	53.8%	5.5%	2.1%	5.9%
Software, cloud and data centre expenses		16.4%	-2.9%	42.0%	12.0%	12.0%	10.0%	10.0%
Other expense		0.8%	-24.2%	34.0%	12.0%	12.0%	10.0%	10.0%
EBITDA		-39.7%	-32.9%	41.7%	26.8%	-21.6%	-45.7%	-79.7%
Adjusted EBITDA		-41.4%	-33.0%	-7.6%	-8.7%	-33.5%	-83.3%	-547.6%
EBIT		-37.3%	-30.7%	40.2%	26.0%	-18.8%	-39.5%	-61.8%
PBT		-37.6%	-38.5%	55.2%	23.1%	-17.8%	-40.8%	-68.2%
PAT		-30.5%	-42.2%	49.9%	22.2%	-17.5%	-40.0%	-65.8%
Contribution Profit		-88.1%	-252.4%	333.2%	63.5%	46.4%	41.1%	30.7%
As a % of GMV								
GMV (Rsmn)	22,92,000	30,32,000	40,33,000	89,25,160	125,81,361	167,45,704	228,53,943	296,99,654
Payment and financial services	0.74%	0.63%	0.52%	0.45%	0.43%	0.42%	0.40%	0.38%
- Payment services to consumers	0.47%	0.33%	0.24%	0.17%	0.14%	0.12%	0.11%	0.09%
- Payment services to merchants	0.21%	0.25%	0.25%	0.23%	0.23%	0.22%	0.21%	0.20%
- Others including financial services revenue	0.05%	0.04%	0.03%	0.05%	0.06%	0.08%	0.08%	0.09%
Revenue from operations	1.41%	1.08%	0.69%	0.58%	0.57%	0.55%	0.53%	0.50%
Payment processing charges	0.98%	0.75%	0.48%	0.32%	0.29%	0.26%	0.24%	0.22%
Marketing and promotional expenses	1.49%	0.46%	0.13%	0.11%	0.10%	0.09%	0.09%	0.08%
Contribution	-0.87%	-0.08%	0.09%	0.18%	0.20%	0.22%	0.23%	0.23%
EBITDA	-1.90%	-0.87%	-0.44%	-0.28%	-0.25%	-0.15%	-0.06%	-0.01%
Adjusted EBITDA	-1.84%	-0.81%	-0.41%	-0.17%	-0.11%	-0.06%	-0.01%	0.02%
Margin								
Contribution margin	-61.8%	-7.2%	12.9%	30.1%	35.8%	40.5%	43.8%	46.5%
EBITDA margin	-135.1%	-80.3%	-63.1%	-48.0%	-44.3%	-26.9%	-11.2%	-1.8%
Adjusted EBITDA margin	-130.3%	-75.2%	-59.0%	-29.3%	-19.5%	-10.0%	-1.3%	4.6%
PAT margin	-130.9%	-89.7%	-60.7%	-48.9%	-43.5%	-27.7%	-12.7%	-3.5%
RoE	0.0%	-42.3%	-23.3%	-26.0%	-25.1%	-22.8%	-14.6%	-5.0%
Per share ratios								
EPS (Basic)	-73.0	-47.2	-28.1	-39.2	-47.5	-38.8	-23.1	-7.8
EPS (Diluted)	-73.0	-47.2	-28.1	-36.6	-44.7	-36.9	-22.2	-7.6
BVPS	100.0	134.7	108.4	188.8	169.7	155.3	150.3	156.7
EBITDA per share	-76.3	-43.8	-29.3	-36.0	-45.7	-35.8	-19.5	-4.0
Op. revenue per share	56.4	54.5	46.5	75.1	103.1	133.4	174.5	214.8
Valuation ratios								
Price / Sales								
EV / EBITDA	14.8	15.3	17.9	11.1	8.1	6.2	4.8	3.9
Price / Book	-10.9	-19.0	-28.4	-23.1	-18.2	-23.2	-42.8	-210.8
Price / Earnings	8.3	6.2	7.7	4.4	4.9	5.4	5.5	5.3

Source: Company data, I-Sec research.

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