

One 97 Communications

BSE SENSEX
69,654

S&P CNX
20,938

CMP: INR813

TP: INR1,025 (+26%)

Buy



Stock Info

	Bloomberg	PAYTM IN
Equity Shares (m)		649
M.Cap.(INRb)/(USDb)		516 / 6.2
52-Week Range (INR)		998 / 472
1, 6, 12 Rel. Per (%)		-16/2/46
12M Avg Val (INR M)		3637

Financials Snapshot (INR b)

Y/E	FY23	FY24E	FY25E
Revenue from Op	79.9	104.0	137.9
Contribution Profit	39.0	57.9	75.8
Adjusted EBITDA	(1.8)	9.4	16.3
EBITDA	(16.3)	(6.1)	4.7
PAT	(17.8)	(9.4)	(0.0)
EPS (INR)	(28.0)	(14.7)	(0.0)
EPS Gr. (%)	(24.1)	(47.6)	NM

Ratios

Contribution Margin (%)	48.8	55.7	55.0
EBITDA Margin (%) *	(2.2)	9.1	11.8
EBITDA Margin (%)	(20.4)	(5.8)	3.4
RoE (%)	(13.1)	(7.3)	(0.0)
RoA (%)	(9.9)	(5.3)	(0.0)

Valuations

P/E(X)	(29.0)	(55.4)	NM
P/BV (X)	4.0	4.0	4.1
P/Sales (X)	6.5	5.0	3.9

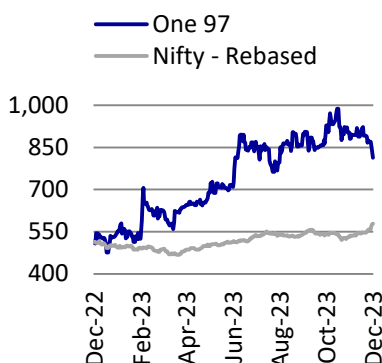
*Adjusted

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	0.0	0.0	0.0
DII	4.1	3.6	1.3
FII	60.9	72.1	77.3
Others	35.0	24.3	21.4

FII Includes depository receipts

Stock's performance (one-year)



Macro headwinds compelling growth moderation

Asset quality metrics steady; cutting disbursement, EBITDA estimates
Paytm hosted an analyst concall to discuss the evolving macro environment in respect to its loan distribution business and the steps it has been taking to improve its underwriting process and maintain asset quality. Following are the key takeaways:

Re-orienting strategy toward higher ticket size loans

Paytm plans to focus on higher ticket size personal and merchant loans (INR0.3m to INR0.7m), as demand in these loan segment remains strong while risk remains well under control. For higher ticket size loans, it will continue to receive distribution commission but will not get any collection commission. The company de-focus on postpaid (BNPL) and personal loans below INR50k to avoid any asset quality issues, given rising concerns in these segments. Additionally, Paytm has moved away from some specific cohorts of customers in postpaid and will continue to carefully monitor risks and asset quality metrics in this segment. It further aims to widen the scope to other users once macro indicators improve.

BNPL business to moderate sharply; cutting disbursements by 15-18%

Paytm's strategy to move away from small ticket size BNPL loans will affect the total loan originations via the platform as the segment forms over 50% of total disbursements. The company indicated the monthly postpaid loan sourcing run rate to moderate by 50% from INR30b to ~INR15b. As a result, the total disbursement run rate is expected to decline to around INR45b per month from of about INR60b per month. Paytm adds average 0.35m-0.4m customers every quarter, which is now expected to come down by 50%. Paytm believes that its sourcing funnel will be largely unaffected, as credit-worthy customers will be able to use the postpaid services. Take rates are expected to be marginally affected as BNPL as a product has lower take rates; however, a pick-up in higher ticket size personal loans should offset the overall impact. While the longevity of these measures and the outlook in low-ticket unsecured loans remains under watch, we trim our FY24/FY25 disbursement estimates by 15%-18%, reflecting the current developments.

Relationship with existing lending partners intact; aims to bolster growth with three new relationships by 1QFY25

Paytm has denied recent speculations that the company is losing out on lending partners. It currently has seven NBFC partners for loan distribution, while it is in process of integrating one large bank and two large NBFCs by 4QFY24 and 1QFY25. The company indicated that the recent increase in risk weight by the RBI is not likely to impact its growth, as it has adequate number of partners to support growth. Paytm expects robust growth in merchant loans and healthy growth in personal loans, aided by higher ticket size lending. Postpaid will be calibrated toward lower growth.

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

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

Valuation and View

- Paytm mentioned that the scale-down in postpaid business is primarily prudential in nature and is to preempt any asset quality issues in coming quarters. Asset quality metrics remain steady and the pick-up in high-ticket personal loans and merchant loans, along with the increase in the number of lending partners, should support steady growth in the medium term. While the longevity of these measures and the outlook in low-ticket unsecured loans remains under watch, we trim our FY24/FY25 disbursement estimates by 15%-18%, resulting in an 11-16% cut in our adjusted EBITDA over FY24E/FY25E. We value Paytm at 20x FY28E EV/EBITDA and discount the same to FY25E at a discount rate of ~14%. We thus value the stock at INR1,025, which implies 4.5x Sep'25E P/Sales. We maintain our BUY rating on the stock.

Other highlights from the call

- The share of below-INR50k personal loans is negligible in its overall portfolio. Personal loans only form 4%, down from 7-9% previously.
- Aditya Birla and Fullerton are the lending partners and will continue in the future, unlike the noise in the market.
- Merchant loans are extended to MSMEs as a business loan, there will be no impact on the take rate.
- The bounce rate in postpaid loans (>50k) has declined, but Paytm plans to slow down in this segment as the industry has been seeing some stress signs.
- Personal and merchant loans have been performing better in terms of quality.
- It is focusing more on high ticket size loans rather than the less-than-INR50k ticket size.
- The company has increased its focus on cross-selling to existing loan customers, who have demonstrated good repayments behavior – now account for more than 60% of new disbursements.
- Paytm will rationalize locations based on payment trends and broader industry portfolio performance with lenders.
- It will add two large NBFCs and one bank in the next quarter. For credit cards, the company will add one more bank.
- None of the existing partners have stopped the partnership. Paytm has strong relationships with all seven partners, and there is no capital constraint in the system.
- Given the strong portfolio performance and widespread acceptance of loan distribution, Paytm is adding new forms of loan offerings with a focus on driving a healthy portfolio for lending partners.
- Paytm plans to reduce disbursements in postpaid by 40-50%, and wants to be ultra conservative on the >50k loans.
- Postpaid is a 30-day loan and the customer has to repay in seven days from the bill generation date, which will be considered delinquent if not repaid. Paytm will consider expanding the user base only if the macro situation improves.
- Aditya Birla Finance offers postpaid loans (doing in similar manner as were doing earlier), personal loans (unaffected) and merchant loans (unaffected). All of the three segments are unaffected for Paytm.
- Of the three new lending partners, one is specially for merchant loans and other two are for personal loans.

- Postpaid is the lowest take-rate business, the revenue impact will be very marginal. There will be lending revenue impact for one quarter, but other businesses continue to do well for Paytm.
- In >50k BNPL, the bureau report shows some caution. High-quality customers will still get this service, but only some cohorts of customers are now excluded from accessing BNPL loans.
- Paytm will monitor macro indicators (like decline in interest rates, softening in customer leverage) to enter into BNPL for some cohorts of customers.
- The ticket size of new personal loans (will have a take rate lower than 4% of the existing) will be higher than postpaid but lower than the existing loans.
- BNPL is a part of payment processing margin, and it will not affect net margin as it is negligible.
- Postpaid decision was mainly around the noise in the industry. Paytm's book suggests that the payment data is still good for its customers.
- Four lenders have already agreed for the higher-ticket PL business; upper limit of yields in this loans is 18%, and the current yield is at 16.5%.
- The impact of MDR, which will be lost through postpaid slowdown, will be minimal, as convenience fee is 2.25% and gets booked in financial services and 1% is charged into the payments business.
- The personal loan segment can grow 15-20% YoY; if the environment is good, then it can grow at a much faster rate.

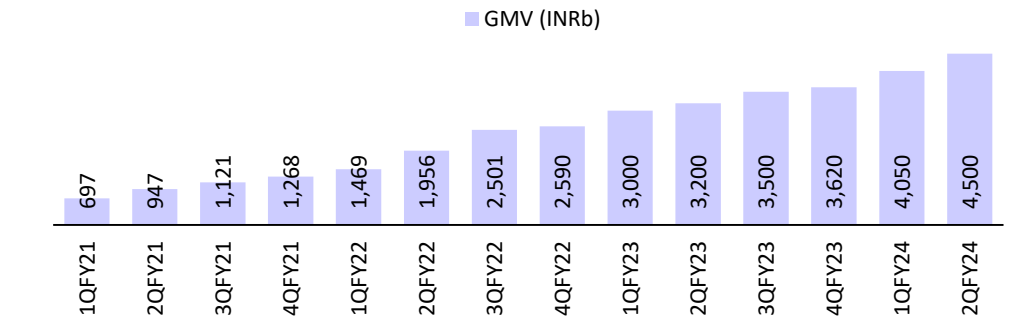
Exhibit 1: We are conservatively cutting our FY24/FY25 disbursement estimates by 15%-18%, resulting in an 11-16% cut in our adjusted EBITDA over FY24E/FY25E

INR b	Old Estimates		New Estimates		Change (%/bps)	
	FY24	FY25	FY24	FY25	FY24	FY25
Payment and Financial Services	90.0	124.5	85.2	115.0	-5.4	-7.7
Commerce and Cloud Services	17.7	21.5	17.7	21.5	0.0	0.0
Revenue from Operations	108.8	147.4	104.0	137.9	-4.4	-6.5
Direct Expenses	47.2	63.6	46.1	62.0	-2.4	-2.4
Contribution Profit	61.6	83.8	57.9	75.8	-6.0	-9.6
Indirect Expenses	51.1	64.4	48.5	59.6	-5.0	-7.5
Adjusted EBITDA	10.6	19.5	9.4	16.3	-10.7	-16.5
EBITDA	-4.9	7.9	-6.1	4.7	22.9	-40.8
PBT	-7.4	3.3	-8.5	0.1	15.3	-96.1
Tax	0.7	0.3	0.8	0.0	15.1	-100.9
PAT	-8.2	2.9	-9.4	0.0	15.1	-100.9
GMV (INRt)	18.2	24.1	17.7	23.4	-2.9	-2.9
Disbursements	708	1,061	601	872	-15.0	-17.8
Contribution Margin (%)	56.6	56.9	55.7	55.0	-93	-188
Adjusted EBITDA Margin (%)	9.7	13.2	9.1	11.8	-64	-141
EBITDA Margin (%)	-4.5	5.3	-5.8	3.4	-130	-196
PAT Margin (%)	-7.5	2.0	-9.1	0.0	-154	-201

Source: MOFSL, Company

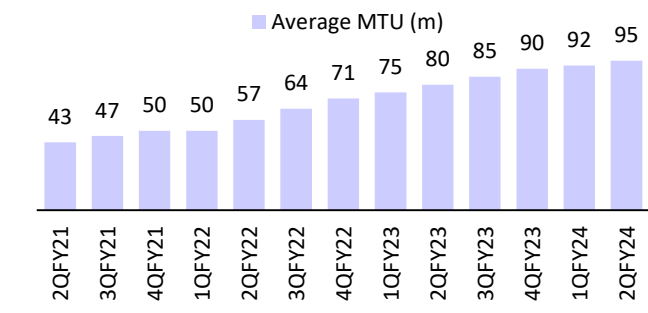
Story in charts

Exhibit 2: Total GMV grew 42% YoY to INR4.5t in 2QFY24



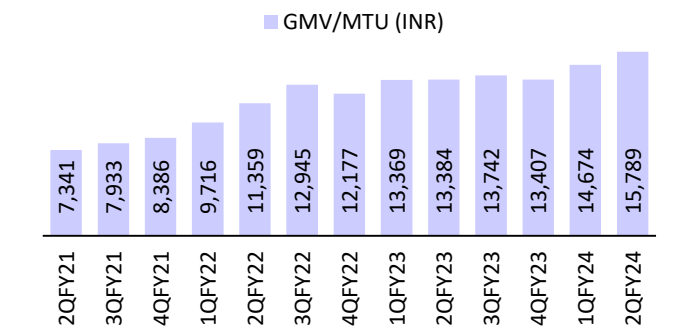
Source: MOFSL, Company

Exhibit 3: Average MTU increased to 95m in 2QFY24



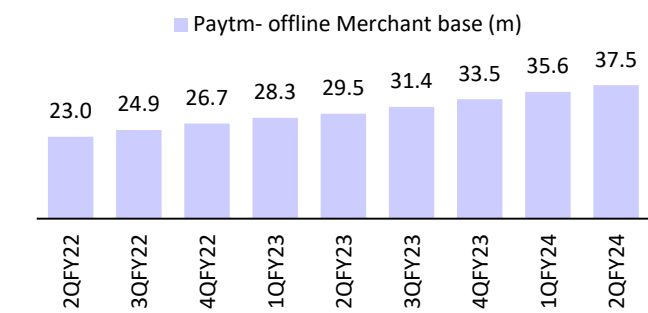
Source: MOFSL, Company

Exhibit 4: Monthly GMV/MTU stood at INR15.8k in 2QFY24



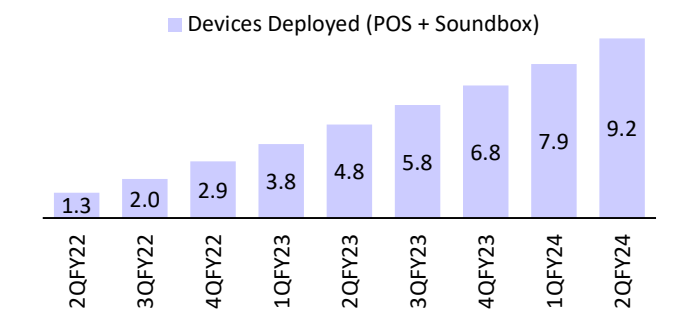
Source: MOFSL, Company

Exhibit 5: Merchant base grew to 37.5m in 2QFY24



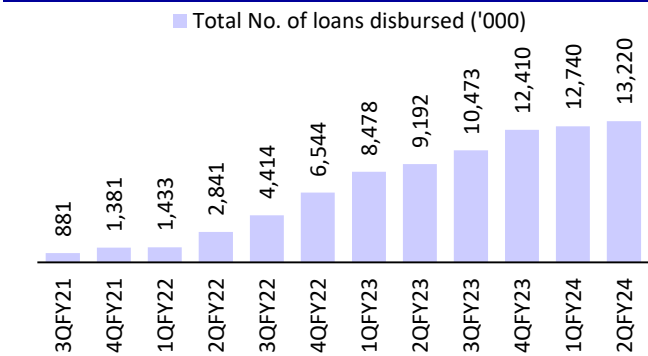
Source: MOFSL, Company

Exhibit 6: Devices deployed increased to 9.2m in 2QFY24



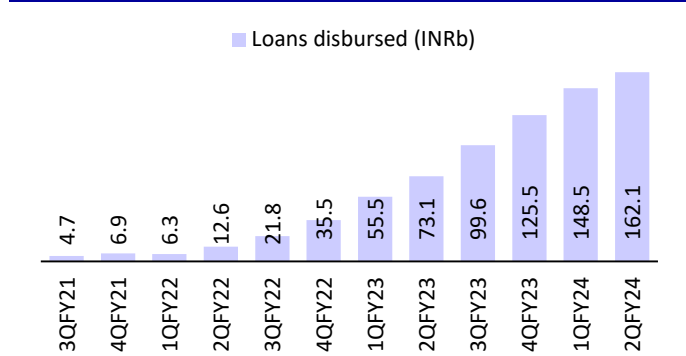
Source: MOFSL, Company

Exhibit 7: No of loans disbursed increased to 13.2m



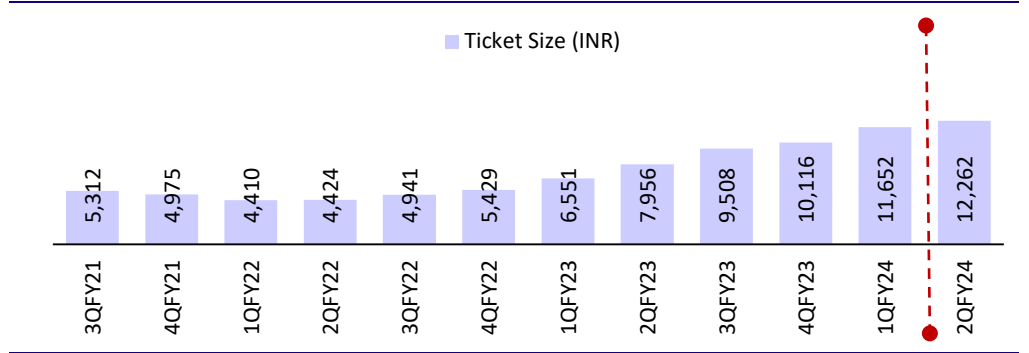
Source: MOFSL, Company

Exhibit 8: Value of loans surged 2.2x YoY to INR162.1b in 2Q



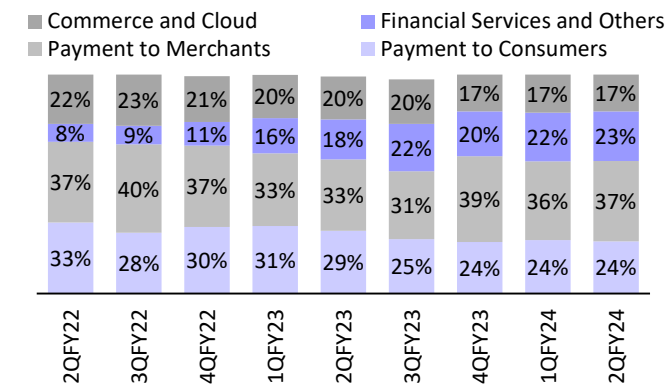
Source: MOFSL, Company

Exhibit 9: Ticket size rose to INR12.3k in 2QFY24 vs. INR11.7k in 1QFY24



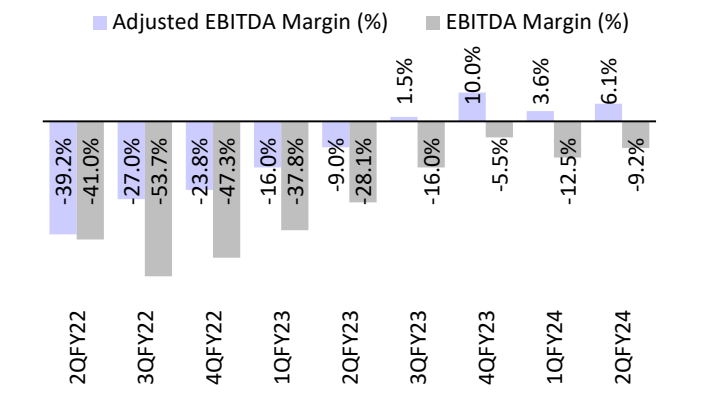
Source: MOFSL, Company

Exhibit 10: Payment and Financial services form 83%, within which Financial services and others form ~22%



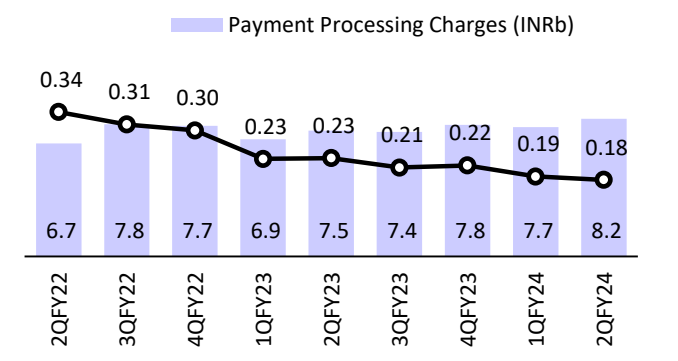
Source: MOFSL, Company

Exhibit 11: Adjusted EBITDA margins moderated to 3.6% in 1QFY24 vs. 10% in 4QFY23 (5% ex UPI incentive)



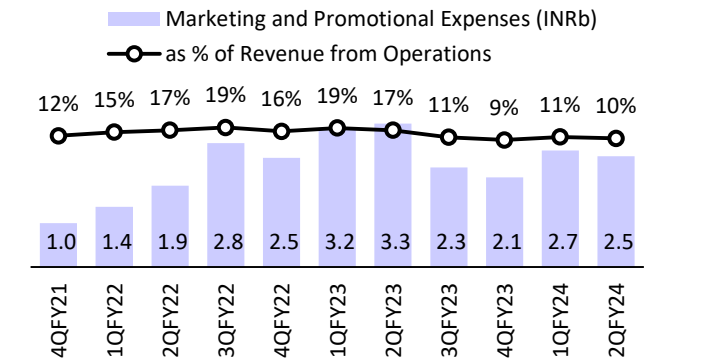
Source: MOFSL, Company

Exhibit 12: Payment processing charges form 0.18% of GMV



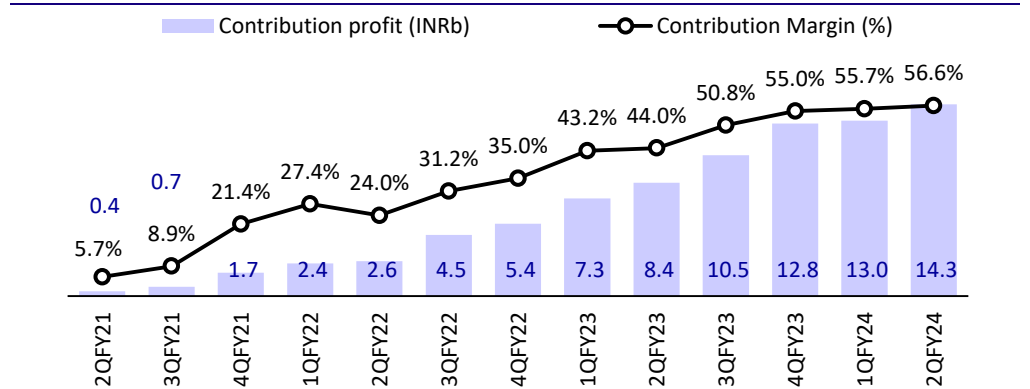
Source: MOFSL, Company

Exhibit 13: Marketing expense grew to 10% of revenues



Source: MOFSL, Company

Exhibit 14: Contribution margin improved to 56% in 2QFY24



Source: MOFSL, Company

Financials and valuations

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Payment Services to Consumers	10,120	9,692	15,286	21,050	23,029	30,399	39,518
Payment Services to Merchants	7,658	10,116	18,919	27,391	37,308	49,928	59,915
Financial Services and Others	1,290	1,284	4,372	15,404	22,855	32,267	43,953
Payment and Financial Services	19,068	21,092	38,577	63,845	85,194	1,14,997	1,46,269
Growth (%)	12.5	10.6	82.9	65.5	33.4	35.0	27.2
Commerce	7,109	2,452	3,736	6,153	7,630	9,232	11,355
Cloud	4,079	4,480	7,312	9,046	10,041	12,250	14,945
Commerce and Cloud Services	11,188	6,932	11,048	15,199	17,671	21,482	26,300
Growth (%)	-27.2	-38.0	59.4	37.6	16.3	21.6	22.4
Other Operating Revenue	2,552	-	117	859	1,117	1,374	1,676
Revenue from Operations	32,808	28,024	49,742	79,903	1,03,981	1,37,852	1,74,246
Growth (%)	1.5	-14.6	77.5	60.6	30.1	32.6	26.4
Payment processing charges	22,659	19,168	27,538	29,577	32,950	43,026	55,021
Promotional cashback & incentives	9,592	2,357	3,781	5,020	4,606	7,950	10,153
Other Expenses	2,935	2,874	3,442	6,300	8,505	11,057	14,152
Direct Expenses	35,186	24,399	34,761	40,897	46,060	62,033	79,327
Growth (%)	-32.7	-30.7	42.5	17.7	12.6	34.7	27.9
Contribution Profit	-2,378	3,625	14,981	39,006	57,921	75,820	94,919
Growth (%)	-88.1	-252.4	313.3	160.4	48.5	30.9	25.2
Marketing	4,379	2,968	4,773	5,744	6,239	8,133	9,932
Employee cost (Excl ESOPs)	9,532	10,724	16,226	23,225	30,193	37,439	46,424
Software, cloud and data center	3,603	3,498	4,999	6,939	6,523	7,566	8,928
Other indirect expenses	4,791	2,983	4,160	4,855	5,535	6,420	7,447
Indirect Expenses	22,305	20,173	30,158	40,763	48,489	59,559	72,732
Growth (%)	0.8	-9.6	49.5	35.2	19.0	22.8	22.1
Adjusted EBITDA	-24,683	-16,548	-15,177	-1,757	9,432	16,261	22,187
Growth (%)	-41.4	-33.0	-8.3	-88.4	-636.8	72.4	36.4
ESOP Expense	1,661	1,125	8,093	14,558	15,508	11,608	5,808
EBITDA	-26,344	-17,673	-23,270	-16,315	-6,076	4,653	16,379
Growth (%)	-39.7	-32.9	31.7	-29.9	-62.8	-176.6	252.0
Finance Costs	485	348	394	233	287	344	413
Depreciation and Amortization Expenses	1,745	1,785	2,473	4,853	7,474	10,837	13,546
Other Income	2,599	3,844	2,901	4,097	5,326	6,658	8,322
PBT	-25,975	-15,962	-23,368	-17,304	-8,510	130	10,742
Share of (profit)/loss of associates/joint ventures	560	740	459	125	140	160	182
Exceptional items	3,047	281	24	0	0	0	0
Tax	-158	27	113	336	778	-2	634
PAT	-29,424	-17,010	-23,964	-17,765	-9,428	-27	9,927
Growth (%)	-30.4	-42.2	40.9	-25.9	-46.9	-99.7	-36,655.3

Balance Sheet

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Share Capital	604	605	649	634	642	654	666
Reserves & Surplus	80,448	64,743	1,40,867	1,29,522	1,28,579	1,28,566	1,33,529
Non-Controlling Interest	-140	-186	-221	-227	-250	-275	-302
Net Worth	80,912	65,162	1,41,295	1,29,929	1,28,971	1,28,945	1,33,893
Non-Current Liabilities	6,017	5,229	6,119	6,435	2,485	2,610	2,740
Current Liabilities	16,102	21,122	32,502	43,294	46,287	49,633	51,200
Total Liabilities	1,03,031	91,513	1,79,916	1,79,658	1,77,743	1,81,187	1,87,833
Fixed Assets	6,082	5,149	9,259	12,202	12,812	13,453	14,125
Investments in JV/Associates	2,468	2,317	2,233	2,518	-	-	-
Investments	3,038	341	10,062	13,247	17,342	19,076	20,983
Other Non-Current Assets	26,358	8,533	48,394	8,655	10,000	11,240	12,664
Non-Current Assets	37,947	16,340	69,948	36,622	40,153	43,768	47,773
Investments	31,895	1,472	-	11,206	11,206	11,206	11,206
Cash and Bank Balances	5,401	28,764	52,020	70,395	39,490	31,592	25,273
Other Current Assets	27,788	44,937	57,948	61,435	86,894	94,622	1,03,581
Current Assets	65,084	75,173	1,09,968	1,43,036	1,37,590	1,37,419	1,40,060
Total Assets	1,03,031	91,513	1,79,916	1,79,658	1,77,743	1,81,187	1,87,833

Financials and valuations

Key Operating Metrics

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
GMV (INRb)	3,032	4,033	8,516	13,220	17,715	23,384	30,399
Disbursements (INR b)	NA	14	76	354	601	872	1,221
Net Payment Margins (INRm)	-4,881	640	6,667	18,864	19,239	23,886	26,750
Revenue from Operations Mix (%)							
Payment Services to Consumers	31%	35%	31%	27%	23%	23%	24%
Payment Services to Merchants	23%	36%	38%	34%	36%	36%	34%
Financial Services and Others	4%	5%	9%	19%	22%	23%	25%
Payment and Financial Services	58%	75%	78%	81%	81%	83%	83%
Commerce	29%	9%	8%	8%	7%	7%	7%
Cloud	12%	16%	15%	11%	10%	9%	9%
Commerce and Cloud Services	42%	25%	22%	19%	17%	16%	15%

E: MOSL Estimates

Ratios

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Payment Services to Consumers % of GMV	0.33	0.24	0.18	0.16	0.13	0.13	0.13
Payment Services to Merchants % of GMV	0.25	0.25	0.22	0.21	0.21	0.21	0.20
Take rates - Financial Services (%)	NA	9.1	5.7	4.4	3.8	3.7	3.6
Payment processing charges % of GMV	0.75	0.48	0.32	0.22	0.19	0.18	0.18
Net Payment Margin (%)	-0.16	0.02	0.08	0.14	0.11	0.10	0.09
Direct Expense % of Revenues	107.2	87.1	69.9	51.2	44.3	45.0	45.5
Contribution Margin	-7.2	12.9	30.1	48.8	55.7	55.0	54.5
Indirect Expense % of Revenues	68.0	72.0	60.6	51.0	46.6	43.2	41.7
Adjusted EBITDA Margin (%)	-75.2	-59.0	-30.5	-2.2	9.1	11.8	12.7
EBITDA Margin (%)	-80.3	-63.1	-46.8	-20.4	-5.8	3.4	9.4
PAT Margin (%)	-89.7	-60.7	-48.2	-22.2	-9.1	0.0	5.7

Valuation

RoE	-42.3	-23.3	-23.2	-13.1	-7.3	0.0	7.6
RoA	-31.2	-17.5	-17.7	-9.9	-5.3	0.0	5.4
Sales per share (INR)	54	46	77	126	162	211	262
Growth (%)	-3.4	-14.7	65.5	64.4	28.5	30.1	24.1
Price-Sales (x)	15.0	17.6	10.6	6.5	5.0	3.9	3.1
Book Value per share (INR)	134	108	218	205	201	197	201
Growth (%)	32.2	-19.6	102.1	-5.9	-2.0	-1.9	2.0
Price-BV (x)	6.1	7.5	3.7	4.0	4.0	4.1	4.0
EBITDA per share (INR)	-44	-29	-36	-26	-9	7	25
Price-EBITDA (x)	-18.6	-27.8	-22.7	-31.6	-85.9	114.3	33.1
EPS (INR)	-48.7	-28.1	-36.9	-28.0	-14.7	0.0	14.9
Growth (%)	-33.7	-42.3	31.3	-24.1	-47.6	-99.7	-35,996.7
Price-Earnings (x)	NA	NA	NA	NA	NA	NA	54.5

E: MOSL Estimates

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

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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