

We upgrade Paytm to BUY from Add with revised DCF-based TP of Rs1,050 (earlier Rs750), implying FY27E EV/Op Rev at 4.5x and P/BV at 4.2x. Recent NPCI approval (Oct-24) released a major regulatory overhang, which should help it rebuild the MTU base in the next 12-18M and thus cross-sell retail financial products like loans (for eg: HL), insurance, and wealth products, thereby improving revenue per user. This, coupled with continued strong traction in merchant device subscription revenue, rising share of UPI on CC with MDR, accelerating merchant loan business with a better take rate, continued cost optimization, and rising non-operational income (including treasury income on proceeds from recent stake sale in the entertainment business/PayPay Corp) should put Paytm on the early path to profitability by FY26E, with acceleration thereafter. Paytm's Cash/MCap stands at 21% vs 5% for Zomato, which we believe, provides strong margin of safety and can be used to accelerate business organically/inorganically or even reward shareholders via dividend/buy-back. Additionally, further easing of regulatory stance via potential approval for payment aggregator license could be a positive catalyst.

One 97 Communications: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	79,903	99,778	72,995	96,429	119,615
EBITDA	(12,218)	(3,599)	(7,783)	8,779	16,769
Adj. PAT	(17,765)	(14,224)	(1,511)	2,425	10,266
Adj. EPS (Rs)	(27.8)	(21.8)	(2.5)	3.6	15.8
EBITDA margin (%)	(14.5)	(3.4)	(9.8)	8.5	13.3
EBITDA growth (%)	40.4	70.5	(116.2)	212.8	91.0
Adj. EPS growth (%)	23.2	21.7	88.4	241.3	342.4
RoE (%)	(13.1)	(10.8)	(1.1)	1.7	6.9
RoA (%)	(9.8)	(7.9)	(0.9)	1.1	4.4
EV/Op rev (x)	5.3	4.2	5.5	4.0	3.1
EV/EBITDA (x)	(34.5)	(116.4)	(51.2)	44.3	22.3
P/B (x)	4.0	3.9	3.7	3.6	3.4
P/E (x)	(29.4)	(37.6)	(323.4)	228.9	51.7

Source: Company, Emkay Research; Note: PAT and EPS excludes other comprehensive income

Strong merchant franchisee to drive payments and lending revenue

Paytm has well protected its merchant base (42mn as of Sep-24), while expected payment aggregator license from the RBI should allow onboarding of new online merchants, thereby accelerating GMV growth (32% over FY25-28E). Device merchants' share has increased to 27% from ~4% in the last three years, leading to strong subscription revenue (contributing ~40%/19% as of Sep-24 to payment/overall revenues) and is set to accelerate further. Separately, Paytm is clocking strong merchant loan growth with a higher take rate, largely offsetting the impact of rundown in PL business and thus supporting financial services revenue.

Customer franchisee to reaccelerate, creating a strong funnel for cross-selling

Following the recent NPCI approval in Oct-24, Paytm has begun clawing back its lost MTU and expects to reach its earlier high MTU base of ~100mn over the next 12-18M at a relatively lower incremental acquisition cost. We believe that re-building the MTU base will not only improve merchant acceptance, but will also help cross-sell retail financial products such as loans (for eg: HL, GL), insurance, and wealth products, thereby improving revenue per user, a matrix that Paytm intends to track closely going forward.

Improving operational revenue, treasury income, and cost optimization to help Paytm turn net PAT positive by FY26E

We expect Paytm's operational revenue to improve on the strong traction in merchant device subscription revenue, rising share of UPI on CC with MDR, accelerating merchant loan business with a better take rate, continued cost optimization and rising non-operational income (including treasury income) on proceeds from the recent stake sale in entertainment business/PayPay Corp. These, should drive Paytm into the net profit zone by FY26E (without one-off gains) vs earlier FY27E.

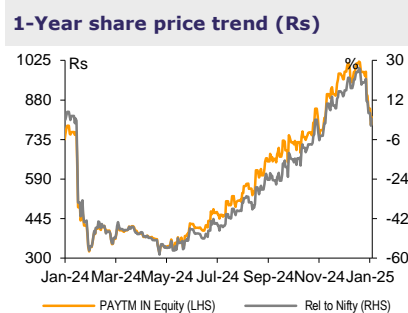
Upgrade to BUY with a revised TP of Rs1,050

We upgrade our earnings estimates over FY26-31E by 20-40% factoring in better revenue trajectory/cost optimization measures and DCF-based TP to Rs1,050 (earlier Rs750), implying FY27E EV/Op Rev at 4.5x and P/BV at 4.2x. We upgrade our rating to BUY from Add and believe that recent correction in the stock offers an attractive entry point given the reasonable valuations (FY27E EV/Op Revenue at 3.1x, P/B at 3.4x). After the recent stake sale in PayPay Corp, the company's Cash/MCap stands at 21% vs 5% for Zomato, thereby providing strong margin of safety, which we believe, can be used to accelerate business organically/inorganically or even reward shareholders via dividend/stock buy-back. Further easing of regulatory stance via potential approval for payment aggregator license could be another near term positive catalyst.

Target Price – 12M	Dec-26
Change in TP (%)	40.0
Current Reco.	BUY
Previous Reco.	ADD
Upside/(Downside) (%)	28.4
CMP (14-Jan-25) (Rs)	817.9

Stock Data	Ticker
52-week High (Rs)	1,063
52-week Low (Rs)	310
Shares outstanding (mn)	637.4
Market-cap (Rs bn)	521
Market-cap (USD mn)	6,017
Net-debt, FY25E (Rs mn)	NA
ADTV-3M (mn shares)	10
ADTV-3M (Rs mn)	8,766.3
ADTV-3M (USD mn)	101.2
Free float (%)	0.5
Nifty-50	23,176
INR/USD	86.6
Shareholding, Dec-24	
Promoters (%)	-
FPIs/MFs (%)	56.2/11.9

Price Performance			
(%)	1M	3M	12M
Absolute	(16.9)	14.0	18.1
Rel. to Nifty	(11.2)	23.6	11.6



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Story in Charts

Exhibit 1: Valuation of Paytm under Discounted Cash Flow method

Particulars (Rs mn)	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E	FY31E
Operating Revenue	72,995	96,429	119,615	144,856	171,545	197,613	225,534
Revenue growth	-26.8%	32.1%	24.0%	21.1%	18.4%	15.2%	14.1%
EBITDA	5,667	8,779	16,769	24,436	35,191	44,396	57,359
Less: Depreciation	7,082	6,315	6,403	6,698	6,729	6,520	6,524
EBIT/ Operating Income	(1,415)	2,464	10,366	17,737	28,462	37,876	50,834
Free Cash Flows	4,775	1,747	6,413	13,690	26,354	34,970	47,437
PV of Free Cash Flows	12.5%	1,721	5,701	10,817	18,509	21,832	26,324
FCFF yield	0.9%	0.3%	1.2%	2.6%	5.1%	6.7%	9.1%

Source: Emkay Research

Note 1: Our DCF model has an explicit forecast till FY31E, high-level forecasting for the next 5 years (FY32-36E), and terminal value thereafter

Note 2: Tax during FY25-31E is nil on account of utilization of brought forward tax losses

Exhibit 2: We arrive at an enterprise value of Rs534bn, implying EV/Op revenue of 5.5x and 4.5x in FY26E and FY27E, respectively...

Particulars	(Rs mn)
Free cash flows for terminal year	69,780
Discount rate	12.5%
Long term growth	6%
Value at the end of explicit period	1,073,531
Present Value factor	0.3
Terminal Value	330,590
Sum of explicit period cash flows (FY26-36E)	203,872
Add: Terminal Value	330,590
Enterprise Value	534,462
EV/FY26E Operating revenue (x)	5.5
EV/FY27E Operating revenue (x)	4.5

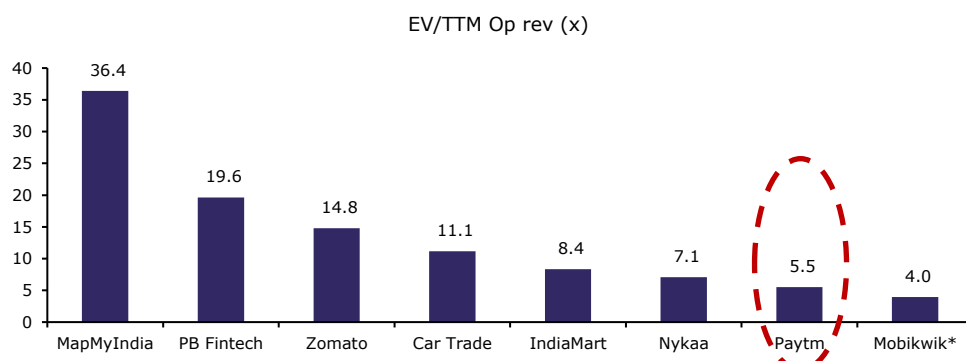
Source: Emkay Research

Exhibit 3: ...and equity value of Rs656bn, translating into a value of Rs1,050/share

Particulars	(Rs mn)
Payment GMV FY24-FY31E CAGR	22%
Loan disbursement FY24-FY31E CAGR	16%
Enterprise Value	534,462
Add: Cash & Cash Equivalents (net of debt)	120,725
Less: Non-controlling interests	282
Add: Investments	1,274
Equity Value	656,178
No. of o/s shares	637
Fair Value per share (rounded)	1,050
Implied P/B multiple (x) - FY26E	4.5
Implied P/B multiple (x) - FY27E	4.2

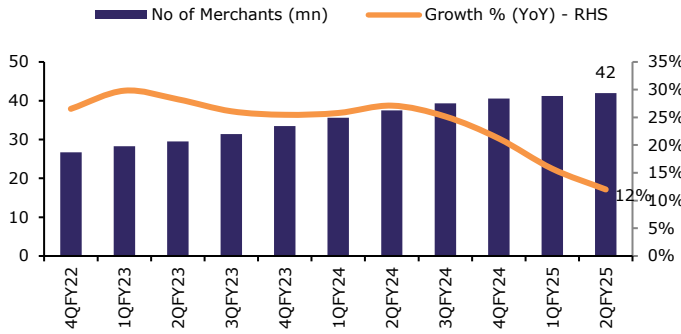
Source: Emkay Research; Note: Cash and cash equivalents include proceeds received from sale of entertainment business and PayPay Corp, and its interest thereon

Exhibit 4: Paytm trades at relatively reasonable valuation compared to other tech peers



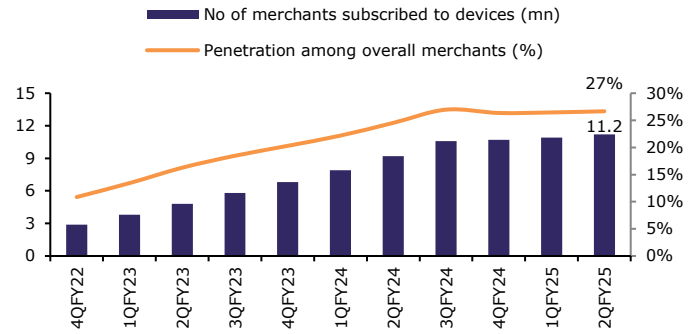
Source: Bloomberg, Emkay Research; *Computed based on FY24 nos. due to paucity of data

Exhibit 5: Paytm has well protected its merchant franchise despite the regulatory overhang



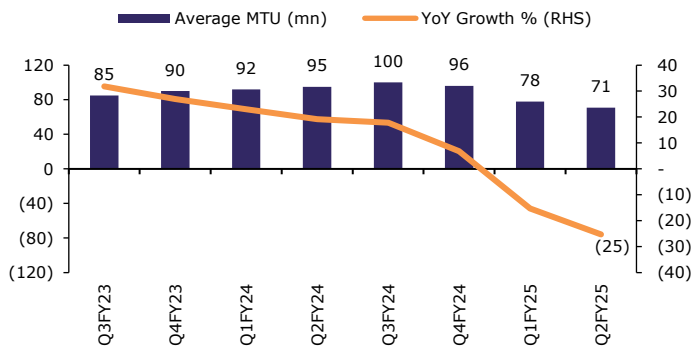
Source: Company, Emkay Research

Exhibit 6: Merchant’s device subscription has grown manifold over the years and is expected to gather more pace going forward



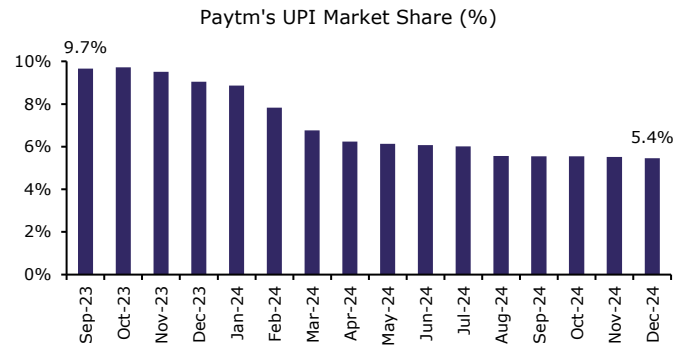
Source: Company, Emkay Research

Exhibit 7: Average MTU should see meaningful positive delta from 4Q onwards



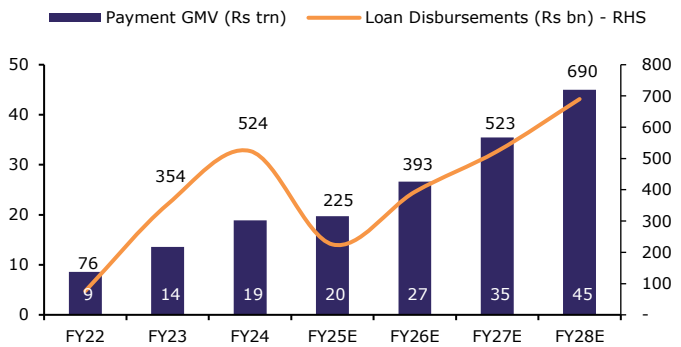
Source: Company, Emkay Research

Exhibit 8: Paytm’s UPI market share has largely stabilized and should accelerate as the MTU base improves



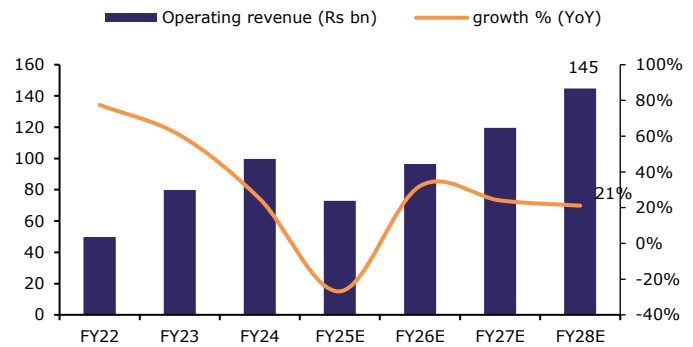
Source: NPCI, Emkay Research

Exhibit 9: Payment GMV is expected at CAGR of 32%, while loan disbursement should grow at 45% over FY25-28E...



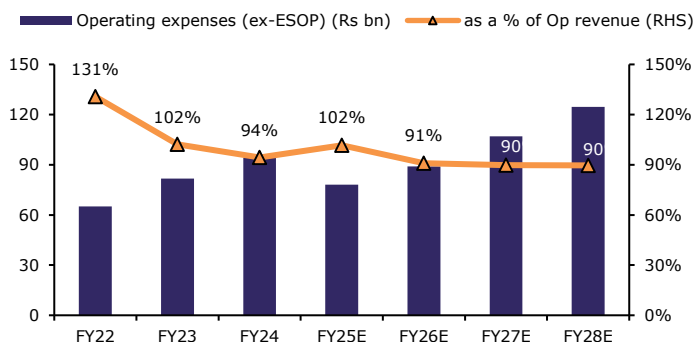
Source: Emkay Research

Exhibit 10: ...reflecting in better revenue growth post-FY25E



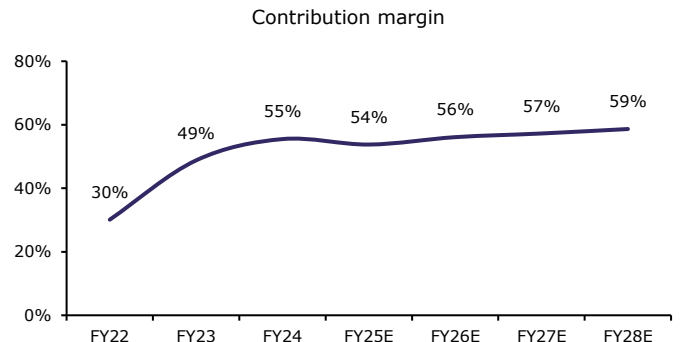
Source: Emkay Research

Exhibit 11: Company’s continued cost rationalization measures to reduce opex (ex-ESOP)



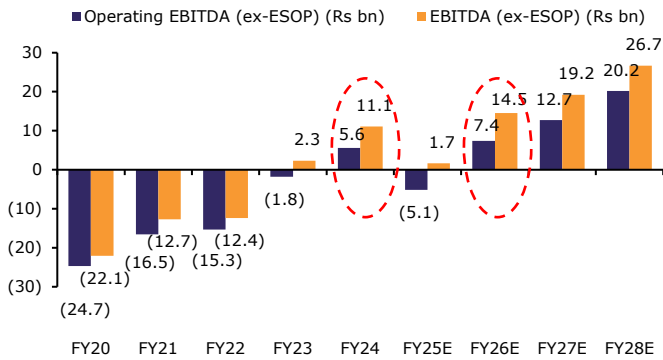
Source: Company, Emkay Research

Exhibit 12: ...which coupled with the better revenue trajectory shall lead to improvement in contribution margins



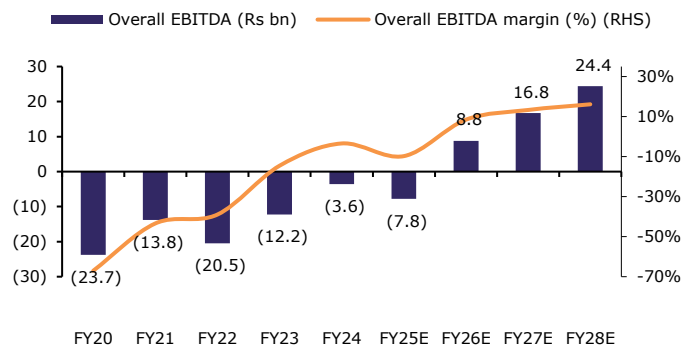
Source: Company, Emkay Research

Exhibit 13: We believe that cost optimization should help Paytm turn EBITDA (ex-ESOP) positive in 4QFY25E (ex-UPI incentive), followed by revenue acceleration in FY26E...



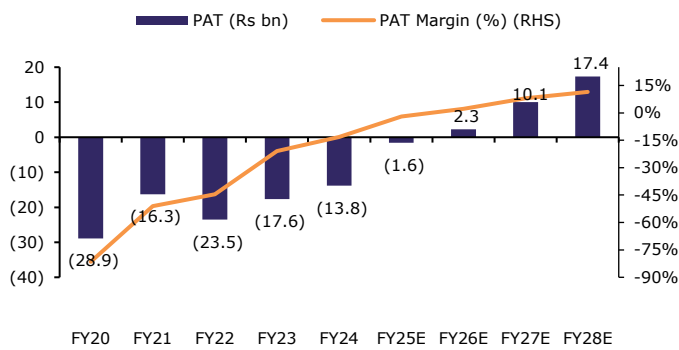
Source: Company, Emkay Research; Note: Operating EBITDA is computed excluding non-operating income

Exhibit 14: ...and also EBITDA turning positive in FY26E



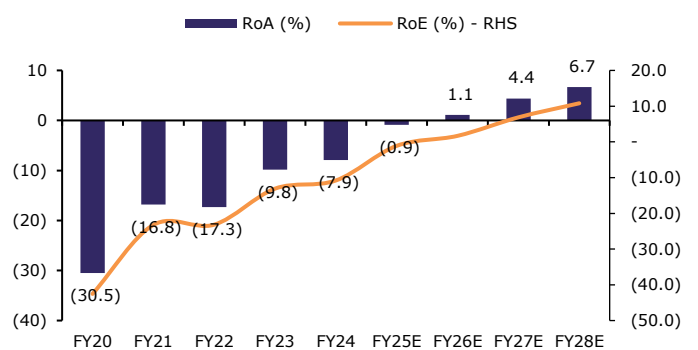
Source: Company, Emkay Research

Exhibit 15: Better revenue growth from payment/lending business complimented by higher non-operating income should help the company turn PAT positive by FY27E...



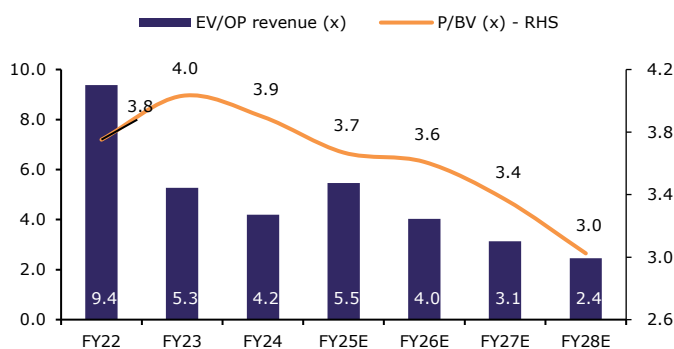
Source: Company, Emkay Research

Exhibit 16: ... and thus improve overall return ratios



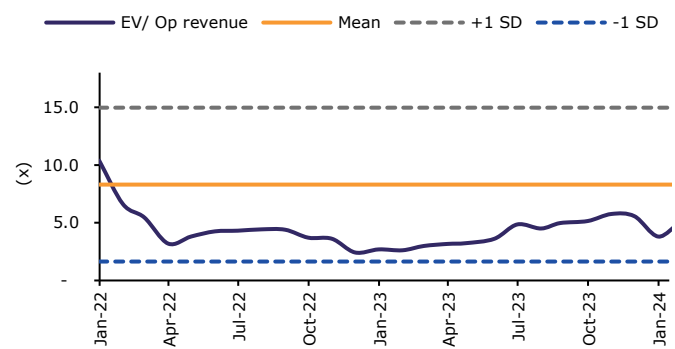
Source: Company, Emkay Research

Exhibit 17: Paytm has been trading at relatively cheaper valuation...



Source: Company, Emkay Research

Exhibit 18: ...and is currently trading at 4.4x 1Y-forward EV/Operating revenue



Source: Company, Emkay Research

Exhibit 19: Revision in Estimates

Particulars (Rs mn)	FY25E			FY26E			FY27E			FY28E		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Operating income	73,307	72,995	(0.4)	94,135	96,429	2.4	115,217	119,615	3.8	133,857	144,856	8.2
Non-Operating income	6,808	6,808	-	7,099	7,099	-	6,481	6,481	-	6,523	6,523	-
Total Income	80,116	79,804	(0.4)	101,235	103,528	2.3	121,699	126,097	3.6	140,380	151,378	7.8
Total Opex	87,677	87,586	(0.1)	94,884	94,749	(0.1)	106,334	109,328	2.8	120,687	126,943	5.2
Operating EBITDA (ex-ESOP)	(4,919)	(5,141)	4.5	4,985	7,414	48.7	11,304	12,708	12.4	15,452	20,195	30.7
EBITDA (ex-ESOP)	1,889	1,667	(11.7)	12,084	14,513	20.1	17,785	19,189	7.9	21,975	26,717	21.6
Overall EBITDA	(7,561)	(7,783)	2.9	6,350	8,779	38.3	15,365	16,769	9.1	19,693	24,436	24.1
Non-recurring items*	13,450	13,450	-	-	-	-	-	-	-	-	-	-
Net income from continuing operations	(1,420)	(1,511)	6.4	(959)	2,425	NM	8,011	10,266	28.1	12,547	17,653	40.7
Other comprehensive income (OCI)**	10,118	10,118	-	-	-	-	-	-	-	-	-	-
Total comprehensive income	8,698	8,607	(1.0)	(959)	2,425	NM	8,011	10,266	28.1	12,547	17,653	40.7

Source: Emkay Research; Note: *Non-recurring items represent gain on sale of entertainment business; **OCI represents gain on sale of stake in PayPay Corp

Exhibit 20: Income Statement

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E	FY28E
Payment revenue (P2M + P2C)	49,300	62,351	44,777	58,556	72,649	86,928
Commerce, Cloud, Other fees	15,199	17,387	12,627	13,880	15,639	17,803
Payment + Marketing Revenue	64,499	79,738	57,404	72,436	88,287	104,731
Growth (%)	42.2	23.6	(28.0)	26.2	21.9	18.6
Financial Services & other op revenue	15,404	20,040	15,591	23,993	31,328	40,125
Total Operating Revenue	79,903	99,778	72,995	96,429	119,615	144,856
Operating expenses	(96,218)	(108,846)	(87,586)	(94,749)	(109,328)	(126,943)
- Payment gateway cost	(29,577)	(32,804)	(21,614)	(26,597)	(32,129)	(37,193)
- Marketing & promotional exp	(10,764)	(9,220)	(7,594)	(10,224)	(13,626)	(17,275)
Operating EBITDA	(16,315)	(9,068)	(14,591)	1,680	10,288	17,913
- Depreciation	(4,853)	(7,357)	(7,082)	(6,315)	(6,403)	(6,698)
Operating EBIT	(21,168)	(16,425)	(21,673)	(4,635)	3,884	11,215
- Non Operating Revenue	4,097	5,469	6,808	7,099	6,481	6,523
- Finance Cost	(233)	(243)	(180)	(189)	(198)	(208)
PBT	(17,304)	(11,199)	(15,045)	2,275	10,167	17,529
Non-recurring items	-	(2,328)	13,450	-	-	-
Pre-tax profit (after non-recurring items)	(17,304)	(13,527)	(1,595)	2,275	10,167	17,529
Tax (current + deferred)	(336)	(320)	(16)	-	(102)	(175)
Tax rate (%)	1.9	2.4	1.0	-	(1.0)	(1.0)
Net profit	(17,640)	(13,847)	(1,611)	2,275	10,066	17,353
Growth (%)	(25.0)	(21.5)	(88.4)	(241.3)	342.4	72.4
Share of JV/Associates	(125)	(377)	100	150	200	300
Net income from continuing operations	(17,765)	(14,224)	(1,511)	2,425	10,266	17,653
Other Comprehensive income (OCI)	2,082	1,897	10,118	-	-	-
Total Comprehensive income	(15,683)	(12,327)	8,607	2,425	10,266	17,653

Source: Emkay Research; Note: Gain on stake sale in PayPay Corp is classified under OCI in FY25E

Exhibit 21: Balance Sheet

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E	FY28E
Cash & Cash Equivalents	81,872	78,323	120,725	130,693	144,879	164,843
Current & Non-current investments	15,765	22,943	1,274	1,210	1,150	1,035
Loans	1,564	1,731	2,077	2,493	2,991	3,589
Fixed assets (Net block)	12,202	12,609	14,637	19,548	25,288	30,856
Other assets	68,255	55,785	59,609	63,727	68,165	76,631
Total assets	179,658	171,391	198,321	217,671	242,473	276,955
Trade Payables & other ST liabilities	41,115	29,335	33,578	38,442	42,739	47,533
Borrowings	20	-	-	-	-	-
Other liabilities and provisions	8,367	8,790	22,869	34,930	45,169	57,204
Share capital	634	636	637	637	637	637
Reserves & surplus	129,522	132,630	141,237	143,662	153,928	171,582
Shareholders' funds	130,156	133,266	141,874	144,299	154,565	172,218
Total equity & liabilities	179,658	171,391	198,321	217,671	242,473	276,955

Source: Emkay Research

Exhibit 22: Cash flow statement

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E	FY28E
PBT	(17,304)	(11,199)	(15,045)	2,275	10,167	17,529
Others (non-cash items)	(571)	7,742	22,995	13,723	20,168	29,582
Taxes Paid	1,762	1,085	16	-	102	175
Change in NWC	6,489	(149)	1,232	1,540	632	760
Operating Cash Flow	4,156	6,508	24,211	15,263	20,699	30,167
Investing Cash Flow	26,255	3,180	(7,879)	(8,285)	(13,104)	(20,722)
Financing Cash Flow	(11,123)	(220)	(179)	(189)	(198)	(208)
Net Change in Cash	19,288	9,468	16,153	6,789	7,397	9,236

Source: Emkay Research

Exhibit 23: Key Valuation ratios

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E	FY28E
EPS (Rs)	(27.8)	(21.8)	(2.5)	3.6	15.8	27.3
BVPS (Rs)	202.9	209.9	223.0	226.7	242.8	270.5
EBITDA per share (Rs)	(19.3)	(5.7)	(12.2)	13.8	26.3	38.4
Op Revenue per share (Rs)	126.0	156.9	114.7	151.5	187.9	227.5
PER (x)	(29.4)	(37.6)	(323.4)	228.9	51.7	30.0
P/B (x)	4.0	3.9	3.7	3.6	3.4	3.0
P/EBITDA (x)	(42.4)	(144.6)	(66.9)	59.3	31.1	21.3
P/Op Revenue (x)	6.5	5.2	7.1	5.4	4.4	3.6
EV/EBITDA (x)	(34.5)	(116.4)	(51.2)	44.3	22.3	14.5
EV/Op Revenue (x)	5.3	4.2	5.5	4.0	3.1	2.4
EV/Networth (x)	3.3	3.1	2.8	2.7	2.4	2.1

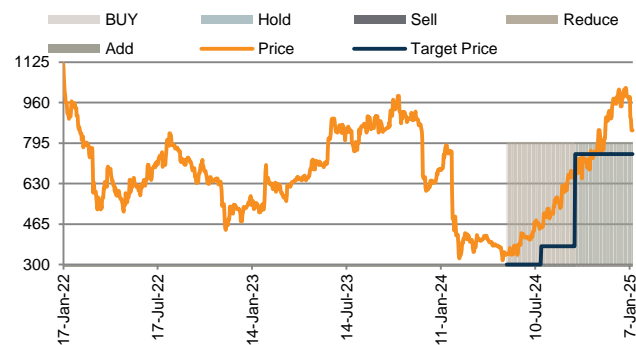
Source: Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
23-Oct-24	745	750	Add	Anand Dama
07-Oct-24	652	750	Add	Anand Dama
24-Sep-24	681	750	Add	Anand Dama
22-Aug-24	554	375	Reduce	Anand Dama
21-Jul-24	459	375	Reduce	Anand Dama
18-Jun-24	417	300	Reduce	Anand Dama
23-May-24	356	300	Reduce	Anand Dama
16-May-24	343	300	Reduce	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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