

Paytm | Quarter and Nine-months Ended December 31, 2021 Results | Earnings Call

Date: February 05, 2022 | **Time:** 3 PM Indian Standard Time

Disclaimer:

By reading this earnings call transcript you agree to be bound as follows:

This earnings call with the management of One 97 Communications Limited (“Company”) is for information purposes only without regards to specific objectives, financial situations or needs of any particular person and is not and nothing in it shall be construed as an invitation, offer, solicitation, recommendation or advertisement in respect of the purchase or sale of any securities of the Company or any affiliates in any jurisdiction or as an inducement to enter into investment activity and no part of it shall form the basis of or be relied upon in connection with any contract or commitment or investment decision whatsoever. This earnings call does not take into account, nor does it provide any tax, legal or investment advice or opinion regarding the specific investment objectives or financial situation of any person. The information to be presented and discussed on this earnings call is confidential and proprietary to the Company and/or its affiliates and no part of it or its subject matter be used, recorded, reproduced, copied, distributed, shared, or disseminated, directly or indirectly, to any other person or published in whole or in part for any purpose, in any manner whatsoever.

Statements or comments made on this earnings call may include certain statements that are, or may be deemed to be, “forward-looking statements” and relate to the Company and its financial position, business strategy, events and courses of action. Forward-looking statements and financial projections are based on the opinions and estimates of management at the date the statements are made and are subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those anticipated in the forward-looking statements and financial projections.

We, or any of our affiliates, shareholders, directors, employees, or advisors, as such, make no representations or warranties, express or implied, as to, and do not accept any responsibility or liability with respect to, the fairness, accuracy, completeness or correctness of any information or opinions contained herein and accept no liability whatsoever for any loss, howsoever, arising from any use or reliance on the information presented and discussed in this earnings call. The information contained herein is subject to change without any obligation to notify any person of such revisions or change and past performance is not indicative of future results.

It is clarified that this earnings call, and the information discussed and presented herein, is not intended to be an offer for subscription or sale of any securities or inviting offers or invitations to offer or solicitation to offer from the public (including any section thereof) or any class of investors. No rights or obligations of any nature are created or shall be deemed to be created by the information presented and discussed on this earnings call.

This document has not been and will not be reviewed or approved by a regulatory authority in India or by any stock exchange in India. No rights or obligations of any nature are created or shall be deemed to be created by the contents of this document.

Moderator: Thank you for joining and a warm welcome to Paytm's earnings call to discuss its financial results for the quarter and nine months ended December 31, 2021. From Paytm's management team, we are today joined by Mr. Vijay Shekhar Sharma, Founder and CEO, Mr. Madhur Deora, President and Group CFO and Mr. Bhavesh Gupta, CEO, Lending. Before we begin a few announcements for all attendees. This earnings call is meant for the existing shareholders of Paytm, for potential investors and research analysts to discuss the company's financial results. This call is not for media personnel. If any media representatives are attending this call, we request you to kindly drop off the call at this point. The information to be presented and discussed on this earnings call should not be recorded, reproduced, copied or distributed in any manner whatsoever, by any of the attendees. Statements or comments made on this earnings call may include forward looking statements. Actual events or results may differ materially from those anticipated in such forward looking statements. Finally, this earnings call is scheduled for 90 minutes. It will have a presentation by the management, followed by Q&A. Kindly utilize the raise hand feature on your Zoom dashboard if you seek to ask a question. We will unmute your line and take questions in the respective sequence of raised hands within the scheduled time. Please ensure your name is visible as first name, last name, followed by your organization name in brackets for us to be able to identify you before we take your question. The presentation, a replay of this earnings call and a transcript will be made available on the company website subsequently. With this, I would like to request Mr. Vijay Shekhar Sharma to kindly initiate this earnings call.

Vijay Shekhar Sharma (Founder and CEO): Thank you, and welcome everyone. Thank you and good afternoon everyone. It is my pleasure to invite you to our quarterly earnings presentation. The good news in our business is that our platform leverage has started showing results in our revenue and EBITDA growth. This quarter, we are very happy to announce record growth, year-on-year on our revenues and our contribution profits which are incrementally growing from the revenue because of platform leverage kicking in on our platform. We are announcing EBITDA as before ESOP and post-ESOP both. EBITDA losses before ESOP costs are now much better than previous quarters and years. It has effectively improved to 27% of revenue in Q3 from 63% revenue in Q3 FY 21. We are very happy because we've started to see our platform leverage contributing towards improvement of EBITDA. We as management have full attention on both EBITDA as a percentage and EBITDA as a value in crore rupees and we're very hopeful seeing the kind of opportunity in front of us that it will continue to get better over the quarters. With this, I invite my colleague Madhur to present and then Bhavesh, and I and Madhur will take your questions together. Over to you Madhur.

Madhur Deora (President and Group CFO): Thank you Vijay. Good afternoon, good morning, good evening everyone, and thank you to all of you for joining our earnings presentation. This is for the quarter ending December 2021. I apologize, this is our standard disclaimer. As many of you know, our mission is to bring half a billion Indians to the mainstream economy through technology led financial services. Let's get to our results. So we have done a very detailed earnings release. So what I'll attempt to do is go through this presentation in 10 or 15 minutes with help from Bhavesh so that we can have maximum time available for questions. So in the quarter ended in December 2021 our revenue from operations was Rs. 1,456 crores or just under \$200 million. This is up 89% year-on-year, so this has been the strongest year-on-year revenue growth quarter that we have seen in a long, long time. This has been driven by increase in processing merchant payments through MDR bearing instruments, disbursements of loans on our platform and recovery of commerce business. While we have called out these things, I should point out that almost every business on Paytm is firing on all cylinders, and all businesses are contributing towards this revenue growth. Our contribution profit is Rs. 454 crores. It's up 560% year-on-year. Most importantly, our contribution margin has improved to 31.2% of revenue in the quarter ending December 2021 and the same number used to be 8.9% in the previous year period. So there's a huge step change,

as you have seen in the previous two quarters, there is a huge step change in this quarter as well. Our EBITDA before ESOP costs was Rs. (393 crores). It has improved by 19%. One year ago, this number used to be Rs. (488 crores). Last quarter this number was Rs. (426 crores). As Vijay mentioned, this was 63% of revenues a year ago. Last quarter we reported 39% of revenues and now it's gone down to 27% of revenues. So our operating leverage is really kicking in so when we're seeing huge revenue growth we're also seeing reduction in EBITDA losses.

Our total value of loans disbursed through the platform was Rs. 2,181 crores. We have disclosed this in early January. This is up 366% year-on-year, and the number of loans is 4.4 million per quarter, and this is up 401% year-on-year. What I will tell you already, as you may have seen in the earnings release is that we have decided to give further disclosure on our loans disbursed through Paytm and we will break this up into postpaid, personal loan and merchant loan and Bhavesh will walk you through it, and this would be a continuing disclosure going forward. Our merchant payments grew to Rs 2.5 lakh crores. This is GMV. This is only merchant payment. Just to remind everyone we don't include P2P payments in this. This has been up 123% year-on-year, and one of the key drivers is processing of MDR bearing instruments.

So let's double click on revenue. 89% year-on-year growth, as I mentioned. Our payments and financial services revenue grew by 98% year-on-year. We have called out three key drivers to this, driven by growth and GMV of MDR bearing instruments. As you know MDR bearing instruments such as wallets and cards constitute the vast majority of this revenue on the payments and financial services side and that grew by 77% year-on-year. We also saw a 366% increase in the total value of loans disbursed, as I mentioned earlier. And very importantly, we also saw an increase in device subscriptions, new large partnerships in our payment gateway business and incentives from the partner banks for payments business. Our commerce and Cloud revenue grew 64% year-on-year. There's a continuing trend of rapid ramp up of our advertising revenue and we saw very strong recovery in our commerce business post Covid.

Double clicking on our Payments and Financial Services business. Payment services to consumers grew to Rs 406 crores a quarter. This was up 60% year-on-year. Just to remind everyone, these are payments that happened on the Paytm app by consumers, using any instrument, either it could be Paytm payment instruments or third party instruments such as cards and so on. We also saw an expansion of some key use cases and as a result, we saw 60% growth, year-on-year. Payment Services to merchants grew almost 120% year-on-year to Rs 586 crores. This is now a \$300 million run rate. In the last quarter, we had mentioned in our earnings presentation that we have hit a \$200 million run rate so it's only taken us a quarter to increase it by roughly 50%. And this has really been driven by GMV growth of MDR bearing instruments and new large partnerships as I mentioned in our payment gateway business. We have a very large ride sharing company, a very large e-commerce company, and the largest insurance company in India, all of whom have become key strategic partners in this quarter. And we're also seeing a huge growth in device subscription as we would have seen in our metrics that we disclosed in early January. Our financial services and others grew by 201%, and this was due to 366% growth in the value of loans disbursed.

Our monthly transacting users grew 37%, average MTUs were up 17 million over the last 12 months and 6 million in the last quarter alone. So not only are we seeing a great year-on-year trend, we actually believe that this number of MTUs added is actually accelerating and has been driven by both increase in new users' acquisition, as well as better retention of previously transacting users. We should also add that as you've noticed our GMV is growing much faster than this, which means that we're showing greater retention and higher engagement of our consumers.

This is our total GMV number, 123% up year-on-year. GMV from MDR bearing instruments as I mentioned grew 77% year-on-year and this is basically across the board. We did see a 25% increase quarter on quarter, that is continuing the strong momentum that we had, but I should also point out, that was partly helped by the festival season.

Device subscriptions - we have added 1.4 million new devices in the last 12 months. What's noteworthy here is that this growth is accelerating. So in the last quarter alone we added 700,000. So basically the quarterly run rate that we are running at is roughly 2X of the annual run rate which in itself is impressive, 1.4 million devices in the last 12 months and 0.7 million in the last quarter. As we mentioned last quarter, this is being helped by new bank partnerships. We also now have brand integrations in EMI and obviously in the last quarter, there were some festive season sales as well. We're proud to announce that we've also launched a Made in India Soundbox which is with a partner and we're very proud that we are developing a lot of this manufacturing sourcing from India.

That brings us to the lending, and maybe I'll hand over to Bhavesh to take you through a few slides on lending.

Bhavesh Gupta (CEO, Lending): Thank you Madhur. Good day everyone. So on the credit side, we saw continued momentum moving from Q2 to Q3. We moved our business to Rs 2,181 crores, almost 400% growth in number of loans and 366% growth in value of loans. The bottom part here is that we're now seeing that the adoption of all our three products that we are focused on which is Paytm postpaid, Paytm personal loans and merchant credit is now reached to a level wherein we are seeing more democratic growth and we hope that we can continue the scale of this business. We continue to add more partners. We recently announced a partnership with a large AAA NBFC Fullerton which has further added to our capital base and also the pace of expansion to reach to newer markets, especially Tier II & Tier III.

Postpaid is our flagship product. It continues to show us a great momentum. We now up more than 400% year-on-year on the number of postpaid credit that we are dispersing. This is actually coming on the back of a great adoption of the product. We now have more than 3 million users who have signed up on Paytm postpaid. Amongst these users, we continue to see that new to credit adoption is very high. This is giving the platform leverage that Vijay spoke about, that we are seeing that a lot of young population who otherwise would find it difficult to start a credit journey with banks and non-banks, finds Paytm postpaid as a great entry product and our lenders love this approach of ours because they can get early access to a new age customer which further the grows the portfolio and takes more products from us. The big change that we made in the last quarter is that we went ahead and significantly expanded our merchant acceptance space and I'm very happy to announce that we now have more than 3.5 million merchants online and offline, put together, who accept Paytm postpaid. This arguably is a very significant development for the product acceptance because in India as you understand getting the credit instrument accepted over a QR is generally not a very simple thing and Paytm has been able to demonstrate through Paytm postpaid that now customers can actually purchase both lifestyle and consumption credit using Paytm postpaid in nook and corners, where these merchants have spread all over the tier I, tier II & tier III towns.

This is important information we're disclosing for the first time. We do realize that the Paytm postpaid as a product comes with a lower ticket size and we maintained a stance that our focus is to get more and more customers who can get access to credit. They can start their credit journey with Paytm and then over a period of time to grow into taking larger products from us. A personal loan is that one example wherein we're seeing a massive growth happen in a very short period of time. We started this business

exactly about 12-14 months ago. We now have hit Rs. 516 crores in Quarter 3 and we're seeing great momentum moving into the end of the quarter, which is December and continuing forward. The interesting element here is that more than 50% of the loans, which have been disbursed as personal loans, are to existing postpaid users. So this is again a reinforcement of our belief which we continue to maintain that Paytm Postpaid not only gives great access to a very large majority of people and access to credit, but also on a business sense gives a very nice gateway to a higher value, higher take rate, and a large very profitable business for both our partners and Paytm which is our personal loan business. Our ticket sizes have grown here. They continue to grow every month. Now it's operating between Rs 80,000-90,000 and we are generally seeing the tenures range between 12 to 18 months, with an average of 12 to 14 months.

The third is our big bet which is the merchant loan. Merchant loans obviously have been impacted because of Covid. There has been a bit of a challenge in the industry of lockdowns etc., but Quarter 3, the first quarter, which I can say wherein all the three months were available to our partners to underwrite risk on this business and you saw a fairly decent growth happen to us between Q2 and Q3. Again December ended on a very high note for us. Interestingly, this is one of the businesses that we've been doing consistently over the last two years. What you've seen here is that (a) the appetite over a period of time increases from our partners to give high ticket credit to our merchants and (b) we are also seeing that the repeat loan from the same merchant as a percentage of new loans that we're disbursing is increasing. So now what we find here is that ticket size has now jumped closer to Rs 120,000 – Rs 140,000 and we're also seeing that more than 25% of our new loans being disbursed are being disbursed to existing merchant who have taken a loan previously from us and this penetration was much lesser, maybe like a quarter ago and we do believe that this will continue to rise as the book starts to mature with our lending partners. The new to credit continues to be an area that we feel very happy and proud of because this is augmented in terms of underwriting with our partners through data that Paytm is able to present and help our lending partners with models, especially the payment data which is a both-sided ecosystem, of consumer and merchant, and this 25% of new to credit borrowers on a higher scale also continues to hold and we do believe that this is going to be a great USP as we continue to expand our merchant credit business.

Now this is important information. We do understand that there is an expectation that if you build a credit business, how your portfolio performs is an obligation. I do want to remind everybody here once again that our services model does not entail Paytm taking any kind of credit risk or giving any kind of FLDG to our lending partners. We are technology providers. We are loan distributors, loan service agents and obviously collection agents, so we fully align ourselves to the laid down guidelines as per digital lending guidelines which are currently in force by the regulator. But what we felt here is just to give a view as to how various lenders who are taking the portfolio that originated through Paytm and get a sense of how it is performing. So these are indicative numbers through the lens of collections that we do, on behalf of our lending partners and the performance that we foresee. These may not be 100% representative of the numbers which may be represented in the balance sheet of our lending partners because we don't have access to that, but these are indicative numbers and we wanted to call them out.

So interestingly, on a Paytm postpaid because we've been helping our partners to build collect models, looking at Paytm data independently and collectively working with them to see to it that we can help them in any manner on collections. We see that consistently now the bounce rate is operating between 11 to 13%. In personal loan this number is a shade lower. In merchant loans, there is no bounce rate concept because it's a daily EMI product, because we collect these daily EMIs through settlement so hence this number is not tracked. So the bounce rates have remained largely in the same range over the last quarter. We haven't seen any deterioration. In fact, we have seen some level of bounce rates coming down in the month of December, but that's broadly been in a range bound, so we feel very comfortable and so do our

partners. Because we own our own collections platform Creditmate which is 100% subsidiary of Paytm, this was incubated by us because we did feel the need that as we scale a very, very large business the need to do digital collections and significant leveraging the Paytm app to reach out to customers more intelligently and reducing both the cost of collecting and also improving the collection efficiency, will become an obligation which will help us actually scale the lending business. And I'm happy to inform you that because of those efforts we do see that in postpaid our Bucket 1 resolution, which is people who bounce and pay within the first 30 days, is operating within 82% to 85%. PL is almost touching 90% and Merchant Credit is operating at about 85% range bound manner. These are great numbers, as we understand from our partners. They feel happy about these numbers considering these are all digitally underwritten loans, considering these are unsecured in nature and also considering that our meaningful proportion of this credit is new to credit and hence the confidence that we have, which was given to us from our lending partners is that they feel happy about these numbers for us to scale this business.

The third indicator that we've seen especially in our postpaid business, personal loan and now significantly in our merchant loan business is what's happening to the recoveries because we have the obligation as a collection outsourcing partner to do recoveries also for our partners. We are seeing between 25% to 33% in these three products, whatever is becoming gross credit loss in the partners' book beyond 90 days we're able to collect one third of that and bring it back to the lending partners, which basically means that the collection efficiency post 90+ is also performing very nicely, and which is giving again the confidence to the partners to continue to grow the business.

The last line is what we understand from our partners, that they kind of look at this business on a quarterly basis, how are they positioning this business. Our belief has always been that we want to be running a model of "Low and Grow". "Low and Grow" basically means that you start with a low ticket size, be it on any credit. We do not believe that giving very high limits to people is a great model to scale. It's better to start low and as the people perform, both in our portfolio and on the loan, work with our partners to see to it, based on the risk appetite, how we can grow the limits and hence the ticket size is going to be a lag indicator of our business, not a lead indicator and that's what we've been practicing in our business for the last couple of quarters. The ECL as a percentage that they are looking at are listed below, 1 to 1.3%, around 5% of merchant credit and personal credit and we do believe the current trends actually may result in lower ECL for our partners, but this is the number that what they have taken with the portfolio and so the portfolio's performing better than these numbers for them.

So all in all this is our first attempt just to give a sense of the portfolio performance but I'll again repeat that this is not the exact number what our lending partners will be providing for etc. This is a representation of the numbers that we see as a collection outsourcing partner with them.

Madhur Deora: Thank you Bhavesh. So after lending I did want to talk about Commerce and Cloud services, just to complete the picture. As I mentioned our Commerce and Cloud business grew 64% year-on-year and our Cloud revenues grew about 69%. This is because we have strong growth from advertising, we have strong growth on our PAI Cloud business, which is scaling up, as well as our credit cards, which is counted in our Cloud business. Our Commerce business is seeing continued recovery in ticketing revenues and we're also seeing increase in spend during festive season, so that is giving us a huge boost on our Commerce business. Most of this trend line is just a post Covid recovery.

Let's talk about contribution profit; we already talked quite a lot about revenues. Our payment processing charges have dropped from 0.46% one year ago to 0.31%. That is an improvement of 15 basis points. This is because of improved transaction routing, improvement in our transaction rates with our partners, and

also an increase in UPI share in our instrument mix. To normalize for that which you can see is that our revenues have grown 89% year-on-year, and our payment processing charges have grown 51% year-on-year. On a quarter-on-quarter basis similar trend, 34% revenue from operations growth and 17% increase in payment processing charges. So we are becoming quite very efficient at a contribution margin level.

Let's talk about promotion and cash back; that only grew 6% year-on-year. It grew about 40% quarter-on-quarter, partly because of the festive season in Q3. As a percentage of revenue, it has gone down from 14.2% a year ago, to 8.0% in this quarter. So we are able to grow our customer engagement, what we showed you earlier, 17 million increase in MTU, obviously massive growth in GMV and we're able to do all of that at a lower cost in terms of percentage of revenue. And, as a result, our contribution margin which was Rs. 68.7 crores a year ago and Rs. 260.7 crores a quarter ago, is now Rs 453.7 crores. It is a 31.2% contribution margin which we're quite proud of.

And finally contribution margin to EBITDA; our EBITDA before ESOP costs improved by 19%, our marketing costs as a percent of revenue went from 13% a year ago to about 11% in this quarter. So again 89% revenue growth, 64% increase in marketing costs. A portion of our marketing costs is seasonal because as many of you would be aware Paytm does sponsor quite a lot of cricket matches, both international matches that happen in India, as well as some sponsorship in IPL. So some of our marketing spend is seasonal to when the actual cricket matches are. And there were just more cricket matches last quarter, which is why you saw an increase. The increased sponsorship spend last quarter was Rs 20 crores compared to the quarter before. So you can get a sense of how much of this is seasonality, and how much of that is sort of normal trends.

Our overall indirect expenses, maybe, if I could just jump to that, went from 72% of revenues to 58% of revenues. So again we grew 89% in revenue and our year-on-year total indirect cost increase is 52%. One of the places where we have increased cost is our employee costs as well as subcontract employees would sit over here and that is because we're doing a massive expansion of our merchant network, including device penetration. We do expect these costs growth rates to moderate over time. As a result of this, the EBITDA (before ESOP cost) as I mentioned earlier has gone from Rs 488 crores of losses to Rs 393 crores of losses - an improvement of roughly 19% on a year-on-year basis and an improvement of about 8% on a quarter-on-quarter basis.

Just a few key trends to leave you with; our growth of payments revenue and profitability due to the growth of GMV from MDR bearing instruments, including Paytm instruments such as wallet, postpaid etc. and our rapid scale up in payment services to merchants - so that's a key trend in our payments business. We are seeing monetization scale up visibly across the platform, whether it's our payments business or commerce business or on our financial services business. Clearly there's recovery of high margin commerce business post Covid and growth of Cloud revenues primarily due to advertising. And we have talked about an increase of financial services revenue driven by the huge ramp up in lending. Our operating and financial performance; strong momentum in revenue growth which we think will continue. 89% growth year-on-year with a step jump in contribution margin achieved and its continuing. We've seen that for the last three quarters in a row. And it's a clear trend towards year-on-year improvements, even though on a quarter-on-quarter basis we may have some volatility and some swings, but we are seeing a clear trend towards continued year-on-year improvement which the management team is committed to delivering. Indirect expenses as a percent of revenue is going down, which is a clear indication of our operating leverage, which will continue to drive down EBITDA losses. With that, we will end the presentation part of the meeting. This presentation will be available online for people to look at. I'll hand it back to the moderator.

Moderator: Thank you Mr. Deora. A reminder that this call is not for media personnel and if any media representatives are on, they are requested to kindly drop off at this point. We will now proceed to Q&A. Please utilize the raise hand feature on your Zoom dashboard if you seek to ask a question. We will unmute your line and take questions in the respective sequence of raised hands. However, please ensure your name is visible as your first name, last name, followed by your company name in brackets for us to be able to identify you.

The first question is from Mr. Suresh Ganapathy from Macquarie.

Suresh Ganapathy: Hello. Just a couple of questions. Can you clarify on what this ESOP cost is, because it's almost 90% of your employee expenses this quarter? So when were these ESOPs given, why has it been so high, and is this just a one-off quarter thing or it can continue for a couple of quarters, some guidance on this would be great, that's my first question.

Madhur Deora: Suresh you want to ask all your questions and then we'll just go through, one by one, is that okay--

Suresh Ganapathy: Yeah sure fine. So that's the first question, the second thing is, thanks for the extra disclosure. The merchant loans, you have disclosed, the total number that you have done this quarter is 35,000, now, if I were to just look in the context of 24 odd million merchants, that you have got, it looks like a pretty small number, of course I understand you're coming through a tough phase of Covid, but how scalable it is because as a proportion of the overall loans that you do with this is still very, very small, not in value terms I am talking in volume terms. So how scalable you think these merchant loans could be because, as I said, the total sample that you're working with this 24 million right so it's a large customer base, merchant based rather, that's the second question. And finally, the third question is on GMV. You have disclosed GMV from MDR bearing instruments, having grown 77% y-o-y, can you disclose GMV from non MDR bearing instruments, how much they have grown y-o-y for the quarter?

Madhur Deora: Maybe I will take the first and the third question, and Bhavesh can take the second question, if that's okay. So on the ESOP charge as we have disclosed in the prospectus in the October to December quarter, but before the IPO we did an ESOP grant of about 26 million. Our normal ESOP grant schedule is about 4-6 million grants a year. That may go up a little bit as we scale up our business. So it is a one-time increase in the pace of our grant, but the ESOP charge is a quarterly charge for the next four or five years. And obviously this varies depending on whether employees stay with us for the entire five-year period or not, and so on. But Suresh is included in the fully diluted share count that investors use for us, which is roughly 695 million, that includes not just the ESOPs which have been granted, but also the overall ESOP pool that has been created, which currently has about 15 million ungranted ESOPs. So they take the entire 695 million for that. Obviously it goes without saying that this ESOP charge is a non cash item. I will go to your third question.

Suresh Ganapathy: Just to clarify, sorry Madhur here, so you're saying it's a quarterly charge, which means that the current run rate of Rs 380 crores will continue per quarter for the next 4-5 years because you're saying it's 4-5 years. Correct me if I'm wrong or --

Madhur Deora: Sure, the number may vary a little bit but the number in this ballpark as a non cash ESOP charge should continue for several quarters.

Suresh Ganapathy: Okay, then my corresponding question is if that is the case, the losses are also going to be very high right Madhur, I mean you may run that Rs 700-Rs 600 crore of losses because the ESOP charge alone is Rs 380 crores your losses are going to be also very high right Madhur?

Madhur Deora: We think the operating number for cash losses that investors should look at is EBITDA before ESOP cost, which is trending downwards.

Suresh Ganapathy: Okay.

Madhur Deora: So I'll go to the third question and then I'll hand it over to Bhavesh for the second question, if that's okay. Our non UPI GMV, which is what we call MDR bearing instruments, just to be clear, did grow 77%. Our overall GMV grew 123%. Suresh, the reason why we give that disclosure is so that investors are able to figure out that out of the total revenue growth, how much of that is volume driven, right, so 77% is volume driven. We don't give UPI versus non UPI split because that is not how we quite drive our business. We want to get every piece of GMV that's out there which is contribution margin positive and then within that we try to drive non UPI GMV especially Paytm payment instrument GMV as fast as we possibly can. So it is obviously true from those numbers that UPI GMV is growing faster, but one of the things that we do focus on is that non-UPI GMV should also grow at a very substantial rate and we have seen an acceleration of that from close to 50% type numbers at the time we went public to now a 77% number. So I know I'm not quite sharing the exact number that you want, but that is a choice that we have made because of how we drive our business. We don't think of UPI GMV as bad GMV. We think of it as a fantastic piece of GMV to get customers in and to get merchants in. We also disclosed the growth in non UPI GMV because that has a direct correlation to revenue.

Vijay Shekhar Sharma: I would add to that Madhur. Suresh what we've seen is that the Government of India is actually filling up for the gap of no MDR on merchant payments on UPI. So this quarter the Government ultimately handed off the money, so it's significant. Obviously it comes to Paytm bank and we are a payment processor so we eventually get that money also as a percentage of that. The idea here is that UPI eventually is MDR bearing which we have not accounted for in this case, because it is calculated post facto based on last quarter performances and so on. We actually got, so that I can give you the number, our government has given 40 basis points issue and acquiring split only for merchant payments. So it is actually a revenue earning on UPI if you're doing a merchant payment, and that is what we champion versus P2P which is otherwise another UPI use case.

Suresh Ganapathy: Vijay when I have you here, I have one more question, has there been an official confirmation from the IRDA rejecting Paytm's acquisition of Raheja QBE insurance company?

Madhur Deora: Maybe I can answer that question. There is no official or unofficial rejection of our application for acquisition of Raheja QBE. That was a press article, which was not properly sourced and they actually corrected it the next day. We are in ongoing discussions with regulators about closing of that transaction, and there has been no official, unofficial, verbal, informal or any indication from them that they are seeking to reject that acquisition. It was in fact Business Standard who ran that article. They printed a corrigendum the next day, and you know how these things are Suresh. The article itself is quite big. The corrigendum is quite small so maybe it missed people's attention but there's no official, unofficial or otherwise indication that they're seeking to reject our application.

Suresh Ganapathy: Thank you.

Bhavesh Gupta: Suresh on your question on merchant credit so just to put in context, what we've seen is two things happen. One piece is that the historical four quarters have not been the representative quarters in terms of lenders' own appetite towards risk assessment on virtual credit. So to scale up has been slower than what we would have liked or what our lenders would have liked. Hopefully, as we see the next four quarters of let's say non-Covid quarters and more stability, etc., etc. the way to look at this opportunity here is that the number of devices that we have, which is about 2 million at this point in time, we currently see more than 30 to 35% of devices led merchants getting qualified for credit. So the number that I would index or I would like to index how you should look at the growth of merchant credit is that as the devices business keeps growing, those merchants are more likely to get eligible for credit and also take credit of a material value. And we are now seeing that that number stands at about 30% or 34% and hence that is the eligible base and of which as the market opens up and merchants feel they need to take more working capital this number will keep growing at a very rapid pace.

Suresh Ganapathy: Great, thanks everyone for answering all my questions.

Moderator: The next question is from Mr. Rahul Jain, from Dolat Capital.

Rahul Jain: Hi thanks for the opportunity. Firstly, congratulations on strong numbers. My first question is related to this MDR bearing GMV, if you could give that data on a q-to-q basis? Second thing is that we have mentioned some large partnerships, I think it's with OLA, LIC and an e-commerce company. Can you share more in terms of what's happening in that space, what more to explore in that area. Also, can you say that the growth in merchant revenues are significantly boosted from increased usage of BNPL because that converts many potential UPI transactions into MDR based transactions.

Madhur Deora: So maybe Bhavesh you want to take the third one first.

Bhavesh Gupta: Yes. So it's a combination, Rahul, of both things. Yes, partly true that we are seeing that the merchant revenues are growing because of acceptance of BNPL which is Paytm postpaid. Also the acceptance of Paytm wallet is growing and that also to our larger merchants, enterprise and online merchants is MDR bearing and we're also seeing the device subscription because that business is growing rapidly and will continue to grow further, and that is also adding to the overall revenue. So it's a combination of all three - not just one engine is firing, I think multiple engines are aiding this entire growth of merchant revenues.

Vijay Shekhar Sharma: Rahul the interesting thing is that if you notice every merchant definitely wants to also have Buy Now Pay Later. For example, like Paytm postpaid, there are other aggregated EMIs also. Thanks to the device business that we do, we are able to earn even on Buy Now Pay Later of other providers, if you will. In other words, what we're seeing here is that merchants are ready to pay for either a subscription and then zero fee on UPI, these are Soundbox merchants, if you want to look at them or pay for subscription and take MDR bearing instruments, including debit card, credit card, postpaid wallet and other bank or NBFC EMI. This is where the business will make money. So Rahul, I want to give you my understanding of how I see this business based in other Asian countries and in the US, that when we acquire payments for merchants, merchants have an obligation of success of payment, intent of payment completed and the cost of payment. Surprisingly, the cost in the whole business model when you look at large merchants, where there is a revenue pool of large kind, is more linked to success of payment. So if we can give them more number of payment options they take us, meaning we get more volume, this is why you quoted the names and we have them and large e-commerce is literally I don't know number 1 or number 2 large e-Commerce company of India how to read them because there is no public rating on

them and these companies incidentally are seeking more success of payment. Now UPI has an advantage, it is zero cost, but it is a product mess, because of the five-party system being there, and because of system failures. Merchants do not want to get stuck on one payment option. While this is a great payment option, we champion it, we love it, it generates data on our platform for merchants which in turn generates credit business, as you know, so to Suresh's question also, I want to extend here Rahul that UPI business is not a bad business. It does not earn a few basis points, even though the Government is reimbursing some basis points now, it also generates all payment data. So overall payment data is how valuable it is for all kinds of merchants - large merchants, and small merchants. Incidentally Rahul, once merchants start to give us subscription plus all these payment instruments acceptance, we start to see merchant revenue growing dramatically and a by-product of that is like we talked about credit, like we talked about other financial services like treasury services in future and so on, that we are building, will come up. So merchant relationships of a deeper kind are very, very important for us. And like you very well put that this is growing on the back of large online spends and large merchant signups on our devices. One more thing Rahul I would extend, our offline devices business is phenomenally winning over our competition which is more or less incumbents in device business in EDC POS devices. Whether you look at large banks, we now have partnerships with them. Whether you look at our direct sales team, we are able to bring new age new software and hardware combinations which sort of solves many problems that the previous incumbents have not been able to solve at that scale. Also, if you notice our business is omni-channel meaning for a merchant if he's accepting payment on the Internet or offline it's a great case. To give you an example, once again here let's say Flipkart is a case here. You have cash on delivery for an order. Now when the person is going on the door to deliver there is a payment that can be made against the order so it's an omni-channel moment. Similarly, Shopper Stop, again the devices are there, the customers are scanning QR online. So Rahul the good part of the business is that merchants can be bucketed in entry level of merchants like a street hawker who does not have bandwidth or attention and intention to pay for MDR - UPI is a great generator of that person to digital place - for us that person becomes a customer for potential credit. For customers who are in the middle, they start to give us subscriptions and accept payments in different, different modes and including EMI, including postpaid, including wallet, including cards. The higher end customers - deep integration, enterprise process, online to online, online to offline, offline to online integration makes a great relationship. We fundamentally believe that we will become over the period from a payment processor to a certain business software processor also in the future. So that today's journey is important, and that is why our employee costs are also increasing. We do believe that we are the only company in India poised to capture this. The online companies don't do offline, offline companies don't do online and no company does both of them together at a scale that we do with the ability and capability that we do. And even if they do or somebody will attempt to do it, they will not be on the issuer side like our Paytm payment instruments out there. So the two-sided ecosystem and the reach in online, offline and ability to have consumers is actually an incredible combination of dominating the payment processing for offline and online merchants in India. Yes, you're right there are these KPIs which you quoted, a wallet or postpaid or EMI or cards, these all account for MDR bearing revenues for us.

Madhur Deora: Rahul, I just wanted to take the opportunity, just double click on the payment gateway business and make one more point because of the combination of all the payments that we do on the Paytm app and all the very large merchant partnerships we have, our payment gateway business is one of the largest payment gateway business in the country, if not the largest. So the same technology that we built for ourselves, is also critical because Paytm app is the largest transaction app in the country. The same technology that we built, we have extended to all our partners right which can handle massive scale, whether you are, IRCTC or LIC or Flipkart or whoever that might be. And what that means, in addition to all the points that Vijay mentioned about Paytm payment instruments and providing them all these

services, what it also means is at the core of it are transaction success rate and the costs, right. And because of our scale and our focus on technology we're able to drive both of those significantly lower than our competition. You had a question, before we move on, on non UPI growth q-o-q. The overall GMV grew just under 25%. Non UPI grew about 20% so that is very significant as well.

Rahul Jain: Sorry I missed the number.

Madhur Deora: So non UPI which is MDR bearing grew about 20%.

Rahul Jain: Q-o-q.

Madhur Deora: Q-o-q, correct. Y-o-y was 77%.

Rahul Jain: Okay, and the other number was?

Madhur Deora: I didn't give the UPI number, I said, the total GMV grew 25%, and non-UPI grew 20%.

Rahul Jain: Thanks for the detailed colour Vijay. You were raising this point that the government started reimbursing some bit on the P2M side on the UPI transaction. If you could share how it happens, how it affects our revenue, how it is accounted for?

Madhur Deora: So that revenue comes to banks who are effectively acquiring banks. Paytm Payments Bank is one of the largest acquiring banks so they make a significant amount of revenue as a result of this. Obviously we don't know what these numbers will be for next year and the years after, but for the last year that made a significant amount of revenue, some of which they have shared with Paytm because Paytm is the distribution and technology provider.

Rahul Jain: So these 40 basis points - what is the base for these earnings, what kind of GMV?

Madhur Deora: So it gets very complex in terms of math because there are different rates, we can obviously share the circular, it's a public circular. So for different types of merchants, they have different rates so it could be 15 basis points or 10 basis points, depending on the type of merchant and then there's some amount of that revenue, which is supposed to be shared with the PSP and the issuing bank and the rest of the money Paytm payment bank can keep or share with the distribution partners. But it's a rather complex math that goes in there, so we can share the circulars and if you have any follow up question we could take that.

Rahul Jain: Sure, sure. Thank you. Just one last question, if I can squeeze in. Regarding the partnerships, we've been expanding the number of partners and I guess the current number stands at 8 banks and NBFCs. So how do we decide how a particular loan case needs to go to a certain bank or NBFC? Is it based on their pre-laid criteria or some other matrix, if you could share?

Bhavesh Gupta: So Rahul yeah partly your assessment is correct. So we do work with every partner and depending upon their risk appetite and their customer offer what they believe they would like to give to our merchants or consumers, that customer is whitelisted for that partner. I just want to reiterate; we are not a marketplace. So this is one on one to one mapping, so if the merchant is whitelisted with one partner that merchant will get a loan from that partner and if that partner declines that loan to that merchant that merchant will have to reapply after a minimum period of 90 days when he or she could get eligible again with the same partner or different partner.

Rahul Jain: Got it, got it. I'll get back in the queue. Thank you for the colour.

Bhavesh Gupta: Thank you.

Moderator: The next question is from Adarsh Parasrampuria from CLSA.

Adarsh Parasrampuria: Hi Madhur and team. So the question is on the expense side processing fees, right down to 31 basis points - so that creates a positive jump from the payment revenues. I believe now the wallet top ups are free because it's through UPI but what's the driver and where could this go over a period of time, given the kind of mix, we would have?

Madhur Deora: We're not quite giving forward looking guidance on this. You can see the quarterly trends. One of the things that we are seeing -- so first of all it's very complex math because it depends on the use case and it depends on the instrument and it depends on whether the payment is happening on the Paytm app or on the third party app right. So there are, once you work through, there are literally thousands of combinations that exist, including in some cases merchant specific rates that we get from banks, so that just adds to the number of combinations. But the key drivers of this Adarsh like you pointed out, is lower cost of funding money to wallet, which has always been a profitable product for us and also getting better rates from banks and an enormous amount of focus on making sure that we are being very efficient in our routing so that, for example, if you're doing a bill payment on the Paytm app using a certain credit card, then our technology is upgraded to the level basis that credit card, basis that been number obviously decides which is the high success, yet cheapest bank to route that transaction through and we just constantly pay attention to that and upgrade those systems, which is helping us to keep our routing very, very efficient, balancing success rate and cost. So it's all of those improvements that we constantly make which makes the payments business more and more profitable over time. If you look at our public data and look at the trend line of payments business what you will see is that our payments business is meaningfully profitable right now, and the trend line is that it is becoming more profitable quarter-on-quarter, year-on-year. And I think a lot of people and I'm thankful for you to bring up this question, a lot of people sort of miss that. A lot of people think that the payments business either doesn't make money or it used to make money, but the trend line is downwards, and neither of those statements is correct.

Adarsh Parasrampuria: Yeah that's fair, I just wanted understand that what happens is a lot of times, some of these numbers, right, there was a cost associated to top up something and that's gone, so are we through with the easy base coming down - so once we are at that base then optimizing it is more difficult, are we at that point?

Madhur Deora: Not quite, there is a significant amount of credit card led charging that also happens and debit card and net banking, that also happens on Paytm wallet, for example, but there are also opportunities on third party, such as our devices business, which has a meaningful amount of credit card and debit cards, our third party payment gateway business where there's significant amount of credit card, debit cards, net banking, Paytm wallet, Paytm postpaid and then obviously UPI as well. So there's a significant amount of credit and debit card volume that goes through Paytm, either for adding money to Paytm wallet or being directly used for a payment that we process and there are opportunities to keep improving that.

Adarsh Parasrampuria: Got it and I'll go to the cost part of it, the ESOP - what are the number of ESOPs on which this charge is being taken? You did mention that the number can continue to run for 5 years but just want to understand on what number of ESOPs these charges are being taken?

Madhur Deora: So the increase in the ESOP charge is because of a number of 26 million. So that 26 million is in our earnings release, right below the EBITDA section. So the number of new grants in the last quarter was roughly 26 million, so we used to have a smaller number roughly 50 or 60 crores the quarter before so if you see the jump that is on the basis of 26 million ESOPs.

Adarsh Parasrampurua: And, when you say a charge continues for five years that's based on what you've issued today, or what you will keep issuing for the next four or five years?

Madhur Deora: This is based on all the ESOPs that have been granted as of date.

Adarsh Parasrampurua: Okay, so which means and I am just trying to understand this, if the company keeps issuing more ESOPs that ESOP number keeps building up, is that or the accounting is very fast forward?

Madhur Deora: The accounting actually for this is very complicated. I have spent hours and hours just making sure I understand every aspect of it because the grant is based on the share price or the fair market value as when we're a private company it was fair market value, and now the share price and they are based on that in the quarter, in which the grant was issued. So the share price goes up, then the ESOP charge doesn't increase. If the share price goes down then the ESOP charge doesn't decrease, it is literally locked in, in the quarter in which it was issued. And then there are changes possible so for example, if somebody has been with us for three years and then they leave then some of that forward looking gets reversed, but the old ones don't get reversed, and so on, right so it's rather complicated. If we were to issue another 10 million ESOP this quarter, which obviously we're not doing, but if we were to issue 10 million more ESOPs and none of the existing ESOP holders was to leave, then the ESOP charge would go up. I should point out that this once again I should have mentioned this earlier, but I should mention that number one this is non cash and number two every report that I've looked at the share count that has been used for Paytm is 695 million for the diluted shares, maybe it's not every report but almost every report that I've seen and that 695 million includes not just all granted ESOPs but also ungranted ESOPs that are sitting in the pool. So we created a new pool of 37 million just before our IPO or around July - August of last year. So that 37 million pool is in the fully diluted share count, and the reason why we took that 37 million very large ESOP pool, the reason why we created that before the IPO is, we thought it was fair for our pre IPO shareholders to take the dilution for that, rather than our post IPO shareholders.

Adarsh Parasrampurua: Got it so the simple way I look at it is the charge you are taking in the P&L today of 380 crores run rate is a charge for 26 million shares plus 37 million shares or when you start issuing those 37 million the charge in P&L will go up not the cash charge?

Madhur Deora: It is the charge for 26 million shares plus all the shares, all the ESOPs that were issued before them.

Adarsh Parasrampurua: Got it so when you start issuing out of the 37 million which you have probably included in the diluted shares, your charge will go up beyond the 380 crore?

Madhur Deora: Assuming nothing else changes, assuming none of the existing ESOP holders leave, for example.

Adarsh Parasrampurua: Got it, so my conclusion here is that ESOPs are a large part of a startup culture and it's a large cost to have in the P&L and the cost is likely to get added right so am I missing something Madhur? You may not issue something substantial in the next 2, 3, 4 quarters, but you will do something

meaningful a year or two years later right, so the cost is likely to be higher than where we are sitting today?

Madhur Deora: Yeah, so I think the way most investors look at this is we have roughly 15 odd million ungranted ESOP and our pace of issuing ESOPs is 4 to 5 million on a growth basis, obviously in a net basis that number tends to be lower because of some employees do leave before their full vesting period. What is the fully diluted share count of the company, right now, which is 695 million and do we expect any further dilution in the near future, and the answer to that is no. We do not expect on account of creation of a new ESOP pool, any dilution to the shareholders in the near future.

Adarsh Parasrampur: Got it, this is useful and thanks for your replies.

Madhur Deora: Of course, thank you.

Moderator: Thank you, the next question is from Mr. Saurabh Kumar from JP Morgan.

Saurabh Kumar: Thanks for the opportunity. So I had a few questions. So first on this device business Bhavesh, so can you just walk us through the economics? I mean you get a certain rent on these devices, and there's some share of MDR but net of your customer acquisition costs, what will be like the revenue or the margin on this business?

Bhavesh Gupta: So Saurabh we look at this business a little bit differently. So we have two devices business, one is the EDC business, all the point of sales, and other is Soundbox. So let me talk about the Soundbox. Soundbox is a business, the way we see this business is that there is a capex that we incur in acquiring a Soundbox, and then we get some upfront revenue for installation and then we get some rentals which generally last over two years. Now, this rental plus the upfront revenue is more than enough to make up for the cost of acquiring the device by us and also the CAC that we incur on this business. And in a broad sense if the merchant has been paying rental - which they do, and we do find more than 80% of merchants paying rent on time - the device business per se itself it's profitable. MDR, merchant credit and any of the Paytm issued instruments, interchange etc. becomes additive to that.

On the EDC business the economics are a bit different because the device costs are much higher, breakeven of this is a bit longer than 12 months, but again it gets aided by the fact that it has a higher GMV and hence the net MDR that we earn on the EDC business if the GMV continues to be more EMI aggregation led and instrument led, which is what our intention is, the breakeven will happen a shade couple of months more than Soundbox business. In conclusion the way to look at this piece here is that the devices business gives us the stack and also gives the cost of the device over the next 12 to 14-month period and everything else that we do with that merchant, namely getting interchange on Paytm issued instruments, getting net MDR on cards and debit cards, EMI aggregation, merchant credit, it is all the cream and profit on top of it.

Saurabh Kumar: So, will it be fair to say that currently since it is growing very quickly, the contribution of this piece which eventually will be very profitable is currently low on the payment piece, I mean that's what drives a lot going ahead?

Bhavesh Gupta: So your hypothesis is right that if you look at the overall payments revenue, devices revenue as a share of overall revenue will be lower, but the contribution that this devices business will keep making will continue to rise for one reason that the rentals are monthly. So the more devices we are adding we're also creating an annuity book of rentals which is not necessarily the case in a regular

payment MDR business. You consume it one month and next month you have to earn it again. So this will become accumulative so maybe if you look at 12 months forward you will see that this will become a material part of the revenue that we're generating on the payments business.

Saurabh Kumar: And so then that rental will whatever be 80-90% margin on this?

Bhavesh Gupta: So technically it is 100% margin. But perhaps the way to see it is there is a CAC and then there is a rental business so yes - you could say that it has more than 50% net margin available on the device itself.

Saurabh Kumar: Okay that's clear. The second thing Madhur is - does the payment revenue currently capture that government subsidy for this quarter?

Madhur Deora: It is a share that we get from our partners. We don't consolidate Paytm Payments Bank so whatever Paytm Payments Bank gets we don't consolidate that, but we do get a share from our partners so that is included.

Saurabh Kumar: It wouldn't have been there last year, right?

Madhur Deora: There was another incentive scheme about a year and a half ago which continued for a short while, I can't quite remember if it also went into FY21. I don't think there was any such thing in the comparable quarter last year.

Saurabh Kumar: And the third one is on this QR interoperability, once it comes could you just give me your outlook on how this changes because suddenly your wallet business acceptance grows up. Would you expect the wallet business to start moving up or what will be your outlook on this QR interoperability or will it increase your competition?

Madhur Deora: Maybe Bhavesh, or Vijay, would you want to take that?

Bhavesh Gupta: Yes, I can take it. So Saurabh the interoperability thing is going to come in effective 31st March 2022, which is maybe a month, month and a half away. So this will further expand the acceptance of wallets. The interoperability business as you understand is that on the QRs available, which are UPI QRs, the wallets will also be using the NPCI rails and hence a Paytm wallet if scanned on a UPI QR issued by somebody else it will still be accepted at that QR itself. So to answer your first question, will it aid the growth of Paytm wallet, the answer is yes because the acceptance will become significantly larger than what it is today. To the second point, it may become more remunerative also to Paytm wallet, while we don't know exactly how the commercials will work out since they are currently in discussion. There is an element of interchange which the issuer of wallet will get from acquirers. And we, being materially the largest player of issuance of wallet both in numbers and value, will hopefully gain from whatever interchange the network decides to pose on the acquirers. But that is something which is still out in the open. Hopefully, we should get some clarity about it before the interoperability goes live from 31st March 2022. So it is positive for us.

Saurabh Kumar: Okay, so basically if I use a wallet to pay on a UPI QR irrespective of the MDR on UPI you will be entitled for an interchange?

Bhavesh Gupta: Yes, whatever the UPI network agrees to decide, the acquirer will have to pay that interchange to us.

Saurabh Kumar: Okay. Thanks and last question Madhur - the contribution margin, would you now expect this to be reset more permanently to this 30% mark or do we expect that to go back to the earlier mid 20s range?

Madhur Deora: The trend line is upwards. Like we said in the last quarter when the contribution margin had gone from 25.5% to 24%, what we had said last quarter is the exact same thing that I'm saying now, which is that there might be some quarterly trends because we want to make the right long-term decision for the business each quarter. So there might be some trends, where last quarter, I know some folks were concerned that our contribution margin went down by 1.5% but the long term trend is very positive because of all the reasons that we have talked about and the very high margin monetization business is becoming a larger and larger percentage of our revenue. So, as a result the long-term trends are very positive, but we should expect that on a quarter-on-quarter basis there might be some abrupt trend lines. Like this quarter, we have grown our contribution margin by over 7%, obviously next quarter it may not grow as much as 7%, it may grow less or may be flat or may be slightly lower, but the trend line over longer periods of time is certainly positive.

Saurabh Kumar: And last question this quarter the ticketing business has not fully come back to pre-Covid levels or is my understanding wrong?

Madhur Deora: No it hasn't. I would say that in terms of order of recovery trains have recovered fully or even slightly better than fully, flights and buses not quite, in fact bus not at all, but flights not fully and entertainment certainly not. There were some green shoots in entertainment during the quarter, especially in regional content, but it has not come back fully. Not all theaters are open, you're not getting the same kind of big content and so on, so it hasn't come back fully, no.

Saurabh Kumar: Thanks.

Madhur Deora: Thank you Saurabh.

Moderator: Thank you, the next question is from Mr. Arunabh Saxena from Ishana.

Madhur Deora: I don't think the line is on. May have stepped away, why don't we come back to him.

Moderator: Sure. The next question we'll take from Mr. Kunal Shah from ICICI.

Kunal Shah: Hi. Thanks for all the additional disclosures which are there, that's helpful. So firstly in terms of the take rate, now with the increasing adoption of postpaid, personal loans and the merchant loans - in fact this quarter when we look at it take rates are almost 5.7% just calculating the financial services revenue by the loans disbursed and when we look at the last quarter, it was 7 odd percent and this is despite maybe the growth in the personal loans and merchant loans being relatively higher than postpaid. So how should we look at it? In fact, we thought that there too, there should be good enough take rates. Are we seeing some pressure on the take rates because of the competition?

Madhur Deora: Just to be clear Kunal your question was on take rates is with respect to lending business or respect to the payments business?

Kunal Shah: Lending.

Madhur Deora: Maybe Bhavesh can take that.

Bhavesh Gupta: Kunal the way we have always maintained and called out in our lending business is that take rates should be operating in postpaid around 3 to 3.2% and in merchant and personal loans between 4.5 to 5%. Now there are certain quarters of aberration and I've used the word aberration at two levels. If there is much better collection efficiency on the portfolio than what was provisioned for the lender we tend to get some better incentives and there is always a point in time wherein certain quarters may perform better on the portfolio versus any other quarter. So there could be delta of 100 basis points here and there because of that nature. (B) What we also see is that as we expand the upselling of the next loan and upselling of a personal loan on a postpaid book, the idea is to give better competitive offers to the customer for better adoption. So our belief is that the 7% number that you are calculating, while that calculation be somewhat not correct, but still let's take that as an example - will have to be seen from a take rate that we've always said we will maintain, which is 3% to 3.2% in postpaid and around 5 for merchant and personal loans, and I think that number should hold up very, very nicely for us over a longer period of time.

Madhur Deora: I should just add, Kunal that there's a significant portion of deferred revenue as well, so as you scale up the business, as it has over the last few quarters, then obviously you're not getting that up front. When I say deferred revenue what I meant was you take the revenue later in the life cycle of a loan so there's a component of that. And also financial services and others in the last two quarters, and within that lending has been somewhere between 60 and 70% of the revenue. There are other revenue lines as well, which move sort of independent trend lines. To your next question?

Kunal Shah: Yes, so the next question was with respect to the penetration of the device within the overall merchants, so when we look at the gap which is there between say 2 million and the existing merchant base, where do we see that happening? No doubt that has been an addition but if we look at in terms of the monthly transacting users and if you look at what is the kind of adaptability we can expect in terms of the devices amongst the merchants - so what number would you put over there?

Madhur Deora: I don't think we're at a point where we want to give a steady state what percent of our merchants would have devices. What we are seeing is an incredible product market fit and that was clear to us a year ago, but that product market fit has got dramatically enhanced and that is reflected in the acceleration that we're seeing. Now we are sensible about where we're going to put Soundboxes or devices because obviously you want to collect the monthly rent and the monthly subscription, so we are incredibly focused on that, but Soundbox, for example, we have very, very large enterprises using them and we also have auto rickshaw drivers using them. And they're very few products in India, where a single product has that range of product market fit. And that really I think comes down to the simplicity and the solution of that product. So it's hard to say right now, whether it be 30% or 40% or 50% of our merchants who would eventually take some sort of a device from us, or maybe with a lower percentage, but we are definitely seeing acceleration and we're very confident about the type of product market fit that we're seeing.

Kunal Shah: And in terms of the marketing costs which have gone up sequentially so it's a festive period - we have seen the increasing the overall GMV as well as adoption, but now how should we see the overall marketing cost? In fact, we are seeing banks also incurring a huge cost with respect to the credit card, and in fact this space is getting very competitive and in terms of the incentives, cash backs, everything will have to be shared. So how do we look at this particular line item?

Madhur Deora: So just to be clear, we don't spend any marketing spends in terms of cash backs and so on, on our lending business beyond certain cash backs that you might get for wallet, maybe you get the

same thing for postpaid, funded by the use case - but we don't give you cash back for taking a personal loan or merchant loan or anything of that sort. The fact that banks want to promote their products is net, net positive in our business because we have a huge amount of consumer and merchant engagement. So, if credit card companies or other partners want to grow their business we become quite a good distribution platform for them, whether it is in payments or whether it is in lending, whether it's in credit card and so on. To answer your question more directly, we do expect marketing cost as a percent of revenue over time to come down. Like I mentioned, there was a small impact of the festive season but also an impact of an additional 20 crores of sponsorship fees in this quarter which is seasonal. We call that out specifically because we do understand that analysts want to model our business quarterly as well. So when they see a jump or a decrease, we should explain what the drivers were.

Kunal Shah: And one last question - in terms of regulations, so obviously a lot is being talked about in terms of the regulations and with respect to digital. So how are we assessing the risk and the opportunities within it and how are we preparing ourselves for the next 6 to 12 months, in fact what can come in and what changes would be required, so how are we assessing? No doubt there is no clarity, but obviously given our business model, we should be preparing for it?

Madhur Deora: Is the question on lending or more broadly --

Kunal Shah: More broad based - even payments we don't know what's going to come in with respect to the payments as well - interoperability you highlighted that there should be a benefit with a wallet interoperability, but otherwise both for the payment as well as lending business.

Madhur Deora: So I will hand over Bhavesh to talk about this including for the lending but I'm sorry I don't think that there's this perception that there is a huge amount of uncertainty and anything can happen sort of thing, and that is the current state in digital payments or financial services in India. The regulator's been reasonably consistent on the fact that what are the types of things that they care about, for example in lending, who do they want as a risk provider and who do they want as a distribution partner and what those arrangements should look like. Similarly, in payments what are the things that are regulated by the regulator, what are the things that are regulated by the networks and what are the things that players like us should be driving. So we do think that, as you go through this, in terms of the volume of things going on it might be a lot, but in terms of regulatory outcomes we don't think there are dramatic changes either on the upside or downside. Sort of philosophically speaking to some extent, I think the best thing to do is just comply with all the regulations, try as hard as possible to comply with all the regulations both in letter and spirit and generally speaking, over the long-term, you end up not just being fine but being the beneficiary, because people who are not in compliance end up getting certain regulatory shocks and if you're in compliance, whether it comes to KYC, whether it comes to data sharing, when it comes to lending guidelines, then you generally end up in a very good place because you don't have to make abrupt changes to your business but for lending maybe I'll hand over to Bhavesh to answer that question of yours.

Bhavesh Gupta: So actually I have very less incremental things to what Madhur has said, but Kunal we always have maintained that purely from a regulatory standpoint, we were both in letter and spirit aligned to the laid down guidelines as applicable yesterday, or is applicable today and we do welcome any changes in guidelines that will be applicable in the future because we've always maintained that we would like to be compliant with the guidelines and I don't see any kind of risk of the guidelines if you're hinting towards what's being proposed, from a credit perspective which can alter our business model in any manner. Absolutely not. Because what we are currently doing is completely aligned to what has been proposed and what is currently on the paper as far as the guidelines are concerned.

Kunal Shah: Thank you and all the best.

Bhavesh Gupta: Thank you.

Moderator: Thank you, the next question is from Mr. Sumeet Kariwala from Morgan Stanley.

Sumeet Kariwala: Hello, am I audible?

Moderator: Yes, Sumeet.

Sumeet Kariwala: Hi. So two questions, one is on the take rate, so I was trying to check the growth in non UPI GMV and growth in payment revenues etc. It implies that the take rate has gone up sequentially and on a y-o-y basis, so I just wanted to understand what's driving that? And apart from the drivers, can you just explain, is there any element of festive season driving a positive change in instrument mix, new tie ups and government incentives. So those are the three reasons I could think of, if you can give some color on what is driving that I'll ask the second question thereafter.

Madhur Deora: Sumeet I think a large chunk of it is, and I don't want to guide you towards that take rates will keep going up, but a chunk of it is secular which is to say that we have more and more devices in the market, on those devices credit cards and debit cards get used, obviously we make subscription revenue as well and so on. But when you really desegregate it, then yes there might be some small elements of festive season, for example, if credit cards are getting used at online e-Commerce partners of ours then that may have a little bit of a bump up. If people are suddenly ordering more consumer electronics, where they use credit cards versus using everyday items where they might be using UPI, those kinds of mix changes can happen. But some of these trends -- some of this change that we have seen and your observation is correct that if you strip out UPI the take rates have gone up a little bit and some of that is secular.

Sumeet Kariwala: Okay, so just to be clear that I have understood this correctly, there are no government incentives which you said were not there last year, there would be some bit of it this quarter. But there's no reason to believe that that would change dramatically over the next few quarters right if it's not repeating, that's a fair understanding right Madhur?

Madhur Deora: We don't expect dramatic changes in our take rates like we have said over the last few years, take rates for non UPI have been flat to positive. So we don't expect any sort of dramatic changes over time. Again quarter to quarter there might be a seasonality impact, festive impacts and so on clearly which drive business mix but we don't see dramatic impact.

Sumeet Kariwala: Got it, very clear Madhur and, second is on non-UPI GMV growth which again at 77% is very good, compared to 52% last quarter. I just wanted to get more colour around what's driving this and within that if you can explain how much of this is coming from new business initiatives, new use cases, new tie ups LIC etc. that you spoke about and honestly what I'm getting to is what is the steady state kind of a number like if I keep all these new initiatives aside the existing business is that growing at 30-40% or higher? Some colour around that - I don't know how to better articulate this question, but if you're getting me please?

Madhur Deora: What's the metric you're trying to tie this to?

Sumeet Kariwala: I'm trying to understand, for example some of these new initiatives like LIC, OLA tie up etc. are in the base next year, what is the business as usual kind of non UPI GMV growth run rate that you will see.

Madhur Deora: You shouldn't see the new tie-ups that we have done and so on as being any sort of abnormalities, if you will. We constantly add new partners, for existing partners we constantly get more payment instruments that we start processing for them. Over time our market share in many cases goes up because for the very large customers in most cases you're not the exclusive provider. So they look at your success rate versus other success rates and then your market share goes up and so on. The device deployments are accelerating. So that's a hard question to answer because we don't kind of sit back and say okay what is a uniquely new one-time thing that has happened in the business. It's a hard question to answer, which is that if it wasn't for 1,2,3 or 4 things what would have been the baseline growth and it's hard to sort of then say okay, which one of these 1,2,3,4 things do you want to take out from baseline versus include in baseline so honestly it's a hard question to answer. I think the best people can do is look at our year-on-year growth.

Vijay Shekhar Sharma: And that's why we have started showing our non-UPI MDR bearing GMV which is what earns revenue and that's the direction. Now online, offline, card not present, card present and the cuts by merchant's generic particular bank rate - the overall direction is what it is. If you start to zoom in, the fact that payment is called complex and outsourced to another entity, even by the biggest of the online companies, is because there are many crossings, many routings and the rates and margins are dependent on these routing mathematics. That for whom are you acquiring. I am sure Sumeet you understand that we are probably the largest acquirer for all networks in the country. VISA, Master, RuPay, UPI everyone so there is a network, there is a bank, there is a merchant - n number of variables and in a shorthand what you're seeking is not such straightforward mathematics.

Madhur Deora: I should just add Sumeet that unlike other platforms - I just want to bring a point that Vijay made earlier back into this context - that unlike other platforms that you see in India or globally, we have a very large presence online and a very large presence offline. So what we don't see in our trend lines is that, hey if there's an offline to online shift then will that impact our business positively or negatively or an online to offline shift and will that affect our business. So business mix could change especially during Covid period, offline in some cases was impacted more than online and so on. So business mix could change because of externalities or seasonality and so on, but what is unique about our platform is that we are in almost every place where digital payments happen, regardless of what the use case is and regardless of what the instrument is and that's really important to understand that the uniqueness of Paytm, even as you compare it to other payment companies around the world, or in India. So, we don't see such huge aberrations, if you will, to say that this quarter something happened because people did a little bit more online or did a bit more offline, it tends to kind of balance itself out, if you will.

Sumeet Kariwala: Okay, got that Madhur that's quite clear. Thank you.

Madhur Deora: Thank you, Sumeet.

Moderator: Next question is from Mr. Sudhanshu Srivastav.

Sudhanshu Srivastav: Am I audible?

Madhur Deora: Yes.

Sudhanshu Srivastav: So you have mentioned that your ability to distribute small value loans helps customers and merchants get access to credit, which they could often otherwise not have access to. Can you explain how this helps your financial institutional partners?

Bhavesh Gupta: Sudhanshu there are two elements here. The data suggests that in India credit bureaus have demonstrated that the number of customers who have got access to credit is over the total population, a limited number, it's not a very large number. So the financial institutions are all very keen to expand what they call in their language "new to bank" customers. Now to expand to new to bank, you need to be available in those areas and in that customer segment to be able to acquire them and what Paytm brings to the table here is a cost of acquisition, which is significantly lower if these banks were to go down themselves physically or digitally and an underwriting capability using certain insights Paytm is able to provide because we are a two sided ecosystem of payments and consumer and merchant side which allows them and helps them to underwrite. Lastly using our collections infrastructure machinery that we built to be able to collect them efficiently and at an opex which is much, much lower. So combination of all these three adds new to bank customers for lending partners which otherwise they will not go to them, because it will be unviable for them to really reach out to a customer and offer them Rs 5,000 BNPL credit or may be a Rs 100,000 merchant credit in a Tier II location out there in the country and there is where Paytm is able to add value and that's the reason that top tier banks and top tier NBFCs love partnering with Paytm.

Sudhanshu Srivastav: Right, thank you so much.

Bhavesh Gupta: Thank you Sudhanshu.

Moderator: Thank you, the next question is from Mr. Chandrasekhhar Sridhar, from Fidelity.

Chandrasekhhar Sridhar: Hi good afternoon. I had a few questions for Bhavesh. One is can you help us understand just the average throughput which you would normally have on the merchants and what's the throughput on the merchants, which have the devices, just some colour on the difference between the two. The second was, you said that 50% of the loans are to existing postpaid users, I was just curious to understand how are you sourcing the rest of your users and just related to this we've seen a recent past where an NBFC ceased doing this business even at lower ticket sizes of 30-35,000 because the through cycle credit costs didn't really justify doing this business, while you're thinking of doing this at 80,000-90,000 rupees of personal loans. So just your thoughts on this and then a question for Madhur, Madhur just on these ESOPs what's the grant price of the ESOPs, thank you.

Bhavesh Gupta: So let me take that one by one. Devices as I said are of two types, one is the Soundbox and other is an EDC device. So there is actually no comparison of an EDC merchant to a QR code merchant. EDC merchant throughput is significantly higher, maybe 10 to 15 times higher than a QR merchant. Now the Soundbox is typically given to a merchant who's had a paper QR or dynamic QR earlier. What we see is that our paper QR merchants upgrade to a Soundbox, and then generally their throughput is between five to seven times more, and hence they become lendable and very, very profitable to us. Your second question that you're asking now --

Chandrasekhhar Sridhar: Are there some numbers, some broad numbers on just the absolute size of the throughput on the monthly basis?

Bhavesh Gupta: We have not declared any numbers, but it's an index that you can say that typically, this will be five to seven times generally over the QR base - so we've not declared these number so I would

not be comfortable talking about a number here, but it's a material number Chandrashekhar if I can mention to you, it's a material number. On your second question, I think, was regarding BNPL, am I right?

Madhur Deora: BNPL to personal loan funnel.

Bhavesh Gupta: So the 50% of personal loans are taken by customers who have existing BNPL, and the remaining 50% of the customers are customers who are very thick on Paytm. So these are also Paytm customers, but they're not migrating from Paytm postpaid to PL. They are directly coming in and applying for a personal loan, because they are Paytm customers and they could be customers or merchants - either of the two in our system. The third question, I wouldn't like to comment on, I mean a particular NBFC what happened to them etc., but what we've seen and we've demonstrated through our disclosures - lending is a business which is a Low & Grow business model for us wherein we are not trying to accelerate this business while the risk is being taken by our partners and we are basically the collection outsourcing partners for them and helping them collect their portfolio. But our belief is that if you were to do a business at scale that Paytm is expecting to do it is better that we focus on building this business by giving smaller credit limits to our consumers and merchants and basis their behavior only upgrade them to a higher limit. And so far we've been in this business now for 18 months and we've seen in BNPL our average tenure is about 30 days. So we've seen 18 cycles of the repayment and we are seeing the best of partners continue to partner with us because they are seeing portfolio performance to that effect. Same on merchant and personal loans, we've seen one full cycle of personal repayment and two cycles on merchant credit and we haven't seen any issues around credit quality or otherwise. So I think the focus for us is to accelerate this business in a calibrated manner, allow consumers to see the benefits Paytm provides to them in terms of getting them access to credit and in a manner which is very transparent and convenient to them. And give our lenders the ability to underwrite risk, reach to such consumers and merchants that they could not have otherwise reached themselves, and build a healthy business for both ourselves and for the partners who are coming on board with us. So I think the model from that perspective is fairly scalable and that's what we so far demonstrated and hope to do so in the next couple of quarters also.

Madhur Deora: And on your question on the ESOP so there are three important aspects of it. The way the number of ESOPS that are given to an employee is calculated is divided by the current share price. So, for example prior to our IPO we were doing that at Rs. 1,800 and going forward we're doing it at the fair market value. So if somebody was to get let's say Rs. 18 lakhs of ESOPs as an appraisal or as a new hire then they would effectively get 1000 ESOPs. So that's the first step of it. The second step is what is the exercise price and the exercise price in our cases are fairly nominal, which is in line with what most startups in India do. And the third is the vesting period where we have a five year vesting period. A lot of startups have a four year vesting period, but we have believed in driving long-term retention for key business leaders and key contributors through this, so we have a five year vesting period which typically works in the 10%, 20%, 20%, 25%, and 25% schedule.

Chandrasekhar Sridhar: Okay, thank you.

Madhur Deora: Thank you. I know we are over the time, but we as a management team are certainly happy to extend the call all the way till 5 o'clock, if there are enough and more people who want to stick around and ask us questions.

Moderator: Next question is from Mr. Sameer Bhise from JM Financial.

Sameer Bhise: Hi gentlemen. I just wanted to understand some dynamics on Paytm Payments Bank revenue in what proportion or some contours - which was shared this quarter or maybe every quarter, especially because I think some government payouts came, as far as I know, towards the end of December. Can you provide some details there and if the amount is for the entire year, that is the year starting 1st April 21 to 31st March 22 is that right?

Madhur Deora: So you get it by quarter and the arrangement is that they share a minority percentage of what they get with Paytm and that's true with Paytm Payments Bank, it will also be true with other banks, if we were to –

Sameer Bhise: Yes, yes I am sure.

Madhur Deora: Yes, so it's a minority percentage of the money that the bank makes on UPI that is shared.

Sameer Bhise: But so the government payout which probably happened last quarter, was it a cumulative of the last three quarters?

Madhur Deora: I'll have to check into that and come back to you Sameer, and I could do that on a call or we could publish something but I'll just have to check into that and come back to you. Because some of the payout actually came in January. and in fact a large chunk, and most of the payout came in January, so I would just check into that and come back to you.

Sameer Bhise: And secondly, any comment on how ticket sizes would have moved across the three loan products, probably y-o-y?

Bhavesh Gupta: Sameer the BNPL ticket sizes normally remain flattish and may be have marginally gone down and why marginally gone down y-o-y because we're talking about a very low base, 12 months back and now we're doing, as you can see from our numbers, a much, much higher number. So we expanded the funnel which basically hence means that our lenders are happy to take more risk albeit a smaller amount, but it has not materially changed. The ticket size on merchant credit has grown significantly over the last year and I did mention when we were making the presentation that as the book is maturing and lenders are getting confidence - two things are happening. One that the same merchant who had taken a loan earlier is taking another loan as they're finishing the loan or finished their loan so ticket size there is significantly higher than the previous ticket size. And (b) part here is because the lenders have seen the behavior of the book through Covid 1, through Covid 2 and gained more confidence on what cohorts are performing better than the other cohorts etc., they are happy to allocate much higher limits on the same GMV, than what they were doing last year. So we've seen a significantly higher growth, more than 30-40% ticket size growth in merchant credit. Personal loan is largely flat - again very low base last year, so I don't think is the right comparison, but we do see the personal loan ticket sizes operate around the same level and maybe start to inch up maybe couple of quarters ahead as the book starts to mature and we start to gain more traction on giving more top ups and more renewals to the existing customers.

Sameer Bhise: Would you be okay sharing average tickets right now?

Madhur Deora: Actually Sameer, we have disclosed the number of loans and their value. So the average ticket size can easily be calculated.

Sameer Bhise: No I meant across these three lines.

Madhur Deora: For each of the three lines, we have disclosed both the number of loans, as well as the value of loans. We could perhaps talk offline and we could just point you to the disclosure. It's in the earnings release and it's also in this presentation.

Sameer Bhise: Thank you.

Madhur Deora: Thank you.

Moderator: Thank you, Sameer. The next question is from Mr. Vijit Jain from Citi

Vijit Jain: Thank you. I just have some housekeeping questions. Most of my questions have been answered. Can you give me the current credit cards outstanding, the Paytm granted credit card that is, and the number of unique device merchants that you have that's one and then I have another question after that?

Madhur Deora: Bhavesh do you want to take that?

Bhavesh Gupta: We have not disclosed the number of unique credit cards outstanding, so we will hopefully over a period of time, as we build our credit card business try to talk more about our credit card business. It's currently, I would suggest, after our HDFC tie-up has gone live in the month of November, we are in a limited pilot phase in that business - the business is showing us great traction but we'll talk more about the business, maybe a couple of quarters from now, as the business starts to become more material.

Vijit Jain: And Bhavesh how about unique device merchants, I know you have 2 million devices that you've disclosed, what is the unique merchant base there?

Bhavesh Gupta: See this number will have to be pulled out. I don't want to give you a number off the hat, but I can give you indicatively other than enterprise merchants, where a single merchant can have multiple devices, but on retail merchants, which is a significant portion of this 2 million, they will largely be one to one. But we can give you offline the exact number, but I don't have it off the cuff right away.

Madhur Deora: But overall on the 2 million base overall my guess would be the number is less than 2 right it's not like where people buying 50 or 100 at a time because this goes very, very deep in the country, to single store owners like I mentioned all the way down to auto rickshaw drivers and even the street vendors.

Bhavesh Gupta: Anyway there is Soundbox part of this 2 million. So that is always largely one to one, one merchant, one Soundbox and only the overlap will be in devices pure EDC and that is a very small number, relatively a small number to 2 million.

Vijit Jain: Sure thanks Bhavesh. My second question is the sales employee base - the average number disclosed is around 18,000. What did you exit December 2021 at, and where do you think this number is going to grow, I mean is there a -- medium term number, or a one-year type of number on how many sales employees you're going to add?

Bhavesh Gupta: We calibrate our distribution expansion on a quarterly basis. Our model of sales expansion is linked to our variable incentive model and hence if your question is more towards how much cost we will incur in this business cost is largely variable, 80-90% cost of adding sales force on the street

is variable and we do see an option to grow the sales force. But it will be a growth from this 18,000 base on a quarter to quarter basis. Do I have a number in mind? What will this be? The answer is no. But it will be a growth from where we stand, maybe not a very large growth because we made a very large investment in growing our sales force in the last couple of quarters. It will be a more secular growth from here on, but we'll definitely grow from here on.

Vijit Jain: Alright, thanks Bhavesh and just one final question from my side - and thank you so much - would you share the total payment gateway part of the P2M revenues.

Madhur Deora: We don't split online and offline GMV or revenues. We're working -- we're trying to figure out over the next few quarters if that's an additional disclosure that we should give. One of the key considerations is that a lot of our merchants are actually moving to omni-channel. It's not a huge part of our business, but there are online merchants who take offline and offline merchants who take online solutions. Both from a product standpoint, as well as an account management standpoint these things are merging, which is a key strength of Paytm as a business and we're just trying to figure out in the long-term, that is a split that will even be an operative split in the industry. So that's the thing that's just sort of slightly holding us back Vijit that overnight, this may become more fused rather than less -- may become less discrete rather than more discrete. Then we would have a challenge in explaining to you why X, Y, Z is an online merchant but taking an offline solution or vice versa.

Vijay Shekhar Sharma: And I think Vijit, actually the best way to look at the business is by gross GMV, MDR earning GMV, number of merchants, and that is exactly what we are saying - number of merchants, devices, as you're saying. Let's say Shoppers Stop took 100 devices of EDC, then technically one merchant bought 100 devices of EDC. Otherwise Soundbox is nearly one to one mapped anyways and that is how you want to see it. And the overall payment business is about total processing, revenue from processing and total subscriptions - that's it.

Vijit Jain: Got it. The reason why I was asking the question in part is also just to wrap my head around how much seasonality was there in the payment gross margin expansion q-o-q. So I mean the festive season sales will not be there in the next couple of quarters and I know that there was a sharp swing there and you guided it should be stable on a year-on-year basis and I am just trying to get a sense of how much of an impact we should expect within the next couple of quarters.

Madhur Deora: Vijit if you want to do that the best thing I would do is look at y-o-y because there was obviously festive season last year as well right, so the best thing you should do is look at y-o-y. The thing that has changed in that y-o-y comparison is that our device deployments are significantly higher. So while all the businesses are growing at a very fast pace, the amount of non UPI GMV that we do in the offline world has gone up dramatically because of our EDC deployments, so that's the change. It is not going to majorly change your numbers, but that's probably the best way to look at it on a y-o-y basis. And I think the y-o-y basis is also, I would say, relatively Covid normalized. I think this last quarter was probably no worse or no better from a Covid standpoint than the same quarter the previous year, at least when it comes to the payments business.

Vijit Jain: Alright, alright. Thanks Madhur, thanks Vijay, thanks Bhavesh, thanks --

Vijay Shekhar Sharma: Thank you Vijit for your questions, thank you.

Moderator: Thanks Vijit and the next question we will take is from Mr. Arunabh Saxena.

Arunabh Saxena: Hey yeah can you hear me, hello.

Madhur Deora: Loud and clear.

Arunabh Saxena: Thank you so much for the granular disclosure. I'm very impressed by the growth in the payment gateway business. You have gotten these wins from such large entities. I just wanted to understand how it works for very large players because Vijay mentioned that the thing that these players look out for is that the transaction should not fail. So is it the case that Paytm is the sole payment gateway or do they have contracts with some other payment gateways as well to step in if Paytm is not able to transact the volume and if that is the case then how is the economics split? I mean, is it going majority to Paytm or is it sort of distributed between the 2-3 payment gateways that are sort of selected?

Vijay Shekhar Sharma: All merchants will always have redundancy in online and offline both rule number one. How much they give to us will be a part of processing of these various variables, including cost, instrument chosen, pricing and so on. The best part, I can tell you Arunabh, is that Paytm runs its own payment business from Paytm app, making it probably the most effective online payment provider for online merchants. And it's like Amazon was doing AWS for itself, and then it gave it outside. That's exactly the reason that you never hear about our online payment business because it is shadowed by our attention to the consumer app on Paytm app. While in reality the third party merchants love our business that is why we are winning a more number of independent large merchants giving us their processing. As far as the split is concerned, I don't have a clue of how much they would give or not from the 100, and we don't try pursuing it much beyond that, there should be high success. Because logically their system automatically also starts to route towards us if the success and pricing is better on our platform. Thanks to a large aggregation we are the nearly the best pricing in the market unless somebody gets specific pricing for a specific merchant number one and success rate wise, we definitely are one of those who are on the top list.

Arunabh Saxena: Got it.

Madhur Deora: Arunabh it's a little bit of a hard question to answer because it depends -- the small startup merchants may have you as an exclusive provider. There are larger merchants who may say I'll use you as my primary PG but I'll have, like Vijay said, a redundancy and then there are very sophisticated merchants who, from a technology standpoint, may have real time success rate based routing. What's important to just point out is that we are a payment aggregator, which means that we have tie ups with a very large number of banks so we actually optimize routing for them based on the success rate that we are seeing in real time of the different payment gateways for different types of instruments. So the service that they're seeking, we are already providing them because we're already trying to solve that problem, and on top of that, they may or may not have their own sort of algorithm working or not. And so the input that we're focused on is success rate and cost. So, if you just continue to drive those lower - sorry success rate higher and failure rate lower - if you're able to drive those two metrics in the right direction then really the merchant sophistication either based on the technology that they have or otherwise, just kicks in and takes care of market share.

Arunabh Saxena: Got it and do we have a sense of the -- can you just give a broad sense, I understand it is very sensitive to instrument mix and contract details, but some sense of the net take rate that you make on contracts for online payment gateways with these large players. And a follow up to that is, does the contract change materially when you go to smaller merchants? Are you able to charge them like a flat rate

and therefore, it is to your advantage if there's more UPI mix, or do you sort of change the rate, depending on the mix of payments that you see for smaller players?

Vijay Shekhar Sharma: Legally, nobody can charge for UPI. There are certain online payment gateways who charge and that's not correct because UPI is supposed to be free for merchants and only reimbursed by the government. The rates, like you were going into detail, do we charge flat versus instrument, it is depending on the merchant. For a lot of merchants who don't get a lot of large volume like a startup or something they are happy taking a shorthand of single pricing and for a very large merchant they go deeper into even credit card specific charging and debit card specific charging and so on.

Madhur Deora: But typically Arunabh there would at least be a charge for credit cards, a charge for debit card, a charge for wallet and a charge for UPI, which is always zero if you're taking it from Paytm. Like Vijay said, there are the other merchants who are charging either by calling it UPI or something else, a fee for UPI transactions as well, which is one of the things that we understand RBI is looking at, but yeah normally they would ask for at least -- we would propose to them at least a different rate basis, these three or four instruments. In terms of margin I'm afraid this is commercially sensitive information, so I would have to take a pass on sharing that if you don't mind.

Arunabh Saxena: Yeah no issues. And just one more question, although I understand that Paytm Payments Bank's financials are not consolidated, UPI P2M I understand is zero MDR but UPI, P2P payments, there is a charge associated with each transaction, which is split between the NPCI, the person who is receiving the money, the bank that is receiving money on the other side and the payment service provider right which is like the front facing app, UPI app. So, given that you guys are like the largest UPI beneficiary is it right to assume that UPI P2P payments are therefore monetizable, you do make money there.

Madhur Deora: That's actually a very insightful question.

Vijay Shekhar Sharma: I will tell you that P2M we discussed on this call at length about how government reimbursed --

Arunabh Saxena: Yes, you mentioned 40 basis points.

Vijay Shekhar Sharma: This is the directional statement and how it is split between originator, terminator, bank because UPI system has so many stakeholders that it becomes a fraction available for a particular role, as you know. The handle is of someone, the bank account is of someone, the QR code is of someone, origination could be of someone, so I am not going much deeper into that. As far as P2P is concerned origination, termination just like telecom has revenues origination or termination, termination party receives money yes there is some money but again these are very small Arunabh, these are like 50 paise or 25 paise per transaction those kind of numbers.

Madhur Deora: What I can tell you is - again there are three types P2P, P2PM and P2M what I can tell you is that Paytm Payments Bank excluding the reimbursements is broadly breakeven on UPI as an instrument because of the mix that they have. But like Vijay said, there are a number of combinations with respect to -- because Paytm Payments Bank can also be a source bank for certain transactions or if you're using a Paytm Payments Bank UPI, then the source bank could be different. Combined with what is a destination handle and what is the destination bank that you're using, so there are many, many, many combinations that come up and it's different for P2P and different for P2PM, and different for P2M. So there's a very complex matrix but it's broadly breakeven for Paytm Payments Bank. But you're right that breakeven is

not zero lines across the board, the breakeven is a net of certain revenues that they make and certain costs that they have. And each one of them depends on the type of transaction and the role that Paytm Payments Bank is playing for that transaction.

Arunabh Saxena: Got it okay thanks. I just want to say that I really appreciate the extra disclosure this quarter, and I think if you could give some information around the payment gateway business to help people appreciate the fact that a private player is valued at \$7.5 billion at a GMV which is roughly equal to yours right.

Vijay Shekhar Sharma: No, no, Arunabh - how can you call it equal to. It's a fraction of our GMV, even a subset of online I can definitely tell you that number.

Arunabh Saxena: Okay.

Vijay Shekhar Sharma: It's a fraction of our online only merchant GMV and further down, a fraction of revenue from that very line item of business on the same GMV.

Arunabh Saxena: Yeah okay, so I mean exactly - they are valued at \$7.5 billion dollars in the last funding round. So maybe you would want to disclose more. I'm just suggesting this because it's an incredible business, and I think people would love to see more detail there, so I think it's under-appreciated honestly.

Vijay Shekhar Sharma: I really appreciate your guideline and like you saw we are a very, very open and transparent company continuously learning what to explain more, describe more. Read our earnings release this time, you would see that we have tried to explain a lot more number of businesses and we will definitely consider this online and offline split. Arunabh one last thing - larger GMV, larger revenue from online, larger revenue earned per dollar of GMV processed - not just bigger by the size but bigger by the unit price also.

Madhur Deora: And Arunabh I just wanted to take this opportunity to share what our internal discussions are when we decide what to disclose and not disclose - first we take a lot of feedback, such as the feedback that you're sharing right now and the only things that we choose not to share are ones which are extremely commercially sensitive, which is not in the interest of our shareholders. The second is things which are very different from the way we manage our business because if we are not managing our business to say percentage share of UPI versus non UPI should be a certain way, or any other such metric then we don't want to disclose that too, because we think that be sort of misguiding the street in terms of what matters in our business and what doesn't matter in our business. And the third one is really metrics which would confuse investors because they are not stabilized. So, for example, we believe that the lending disclosure that we're putting out now is appropriate to the stage of the business and it would not have been appropriate to the stage of the business for us to put out that disclosure two or three quarters ago. So those are the only filters we use. Otherwise we do understand that the more transparent we are, the better understood we are, the more confidence investors would have on our performance.

Arunabh Saxena: Yeah, got it, thanks. Thanks a lot, team, thank you.

Madhur Deora: So we will take one last question and then wrap it up.

Moderator: Thank you and last question of the session, Rahul Jain is back in the queue.

Rahul Jain: Hello. Thanks for the opportunity again - most of it has been answered. Just one thing, there was this information in the release that credit card partnership is not recorded in revenue from financial services rather it's put up in the Cloud revenue, any reason why we do that?

Madhur Deora: The reason for that Rahul was that originally the service that we provide to credit card companies is to help them get more credit cards. So originally our auditors had a view that this is more akin to advertising revenue and not quite Paytm doing financial services. I mean it's not a hard view. There was a somewhat blurry line so we just kind of went ahead with the view that our auditors had. We will sit down with them over the next couple of quarters to figure out whether there's a different approach, which is possible, especially going forward if you're going to call out lending as a separate line item, then we do believe that credit cards should be included in that. So we'll work with auditors to do that.

Rahul Jain: Sure and just last one if I can, the device subscription growth I think it's been led by new bank partnership - some of it were mid quarter and we have added new names, so any way to look into it, that how one should see the progress, what should be the KPIs for us out here, is it numbers of partners or any other metric the way we need to see this?

Bhavesh Gupta: I think Rahul there are three ways to look at this business. For our devices business, the number of Soundboxes that we are deploying are not partner led, they are completely led by distribution that we have in our system, so our metric clearly it is that are we looking at expanding our sales and distribution penetration and how many Soundboxes are we deploying on a month to month basis and that number hopefully should be consistently growing from our perspective. On the pure EDC and POS business yeah there is some part of it, which is coming through partnership, especially on the enterprise side, and we continue to add more partners. But would that be a lead indicator to say how many more devices will we add, I don't think there's a direct correlation because there is more of a commercial part of the partnership wherein a bank would be very happy coming in and giving us a rate to acquire a typical kind of category merchant rate that they would love to have on board and hence they will say hey why don't you come and partner with us and issue point of sale devices for that category. But on an overall basis the only metric that I can say is to see on a lag basis how we are growing incrementally on a monthly basis, it will give you a sense, how the business is scaling up - both on Soundbox and devices.

Rahul Jain: Sure, thank you that's it from my side.

Moderator: Thank you and with that we come to an end of this earnings call. A reminder that the presentation, a replay of this earnings call and the transcript will be available on the company website. Thanks to everyone for joining.

Vijay Shekhar Sharma: Thank you everyone. I understand, we could not take a few questions. Our IR team is available for your questions to answer one on one and in detail. Thank you so much for attending our call. Thank you.

Madhur Deora: Thank you.

Bhavesh Gupta: Thank you.