Paytm | Quarter Ended December 31, 2022 Results | Earnings Call
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Moderator: Thank you for joining and a welcome to Paytm's earnings call for the quarter ended December 31st, 2022. From Paytm's management we're joined by Mr. Vijay Shekhar Sharma, Founder and CEO, Mr. Madhur Deora, President and Group CFO, Mr. Bhavesh Gupta, Head of Payments and CEO Lending and Mr. Anuj Mittal, Vice President, Investor Relations. A few standard announcements before we begin. This call is meant for existing shareholders of Paytm, for potential investors and for research analysts to discuss the financial results of the company. This call is not for media personnel. If any media representatives are attending this call, I request you to kindly drop off the call at this point. The information to be presented and discussed here should not be recorded, reproduced or distributed in any manner. Statements made on this earnings call may include forward looking statements. Actual events may differ materially from those anticipated in such forward-looking statements. Finally this earnings call is scheduled for 75 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 wish to ask a question. We will unmute your line and take your questions in the respective sequence. Please ensure your name is visible as first name, last name, followed by your company name for us to be able to identify you. The presentation, a replay of this earnings call and a transcript will be made available on the company website. With this I would like to request Mr. Vijay Shekhar Sharma to kindly initiate the call.

Vijay Shekhar Sharma: Thank you. Thank you so much everyone. Thank you so much for joining. I hope you're keeping healthy and happy. It's an incredible quarter for us. We finally achieved one of the important milestones. I used to call it my own salary by my own efforts. This happened last when we started Paytm and that was the time when we were generating free cash flow and we used that money to start the new business of Paytm and probably eight-nine years later we have come back again to that business milestone that we have started, the focus on monetization in last couple of years and that has allowed us to make continuous investments in growth while improving profitability. This quarter was a key benchmark for us to generate the profit and I'm very happy to say that you saw the team has done incredible, incredible work in growing payments business or credit business which is the focus area that we've done. I personally looked at along with my teammates and leaders that are on this call the attention and the investment or dollar allocation as we call it to the key areas and pruned many, many, many line items over the period in last two years.

The best part I can tell you is that I believe that this trend of generating sustained profit will continue. Our profitability is expected to grow even further. We expect to grow, to become a free cash flow generating machine. I don't call it a free cash flow generating company. I wish to call it a free cash flow generating machine. So let's see what comes up forward and the best part is that our focus on merchant payments instead of focusing on consumer led UPI payment has created a scalable UPI revenue model in subscription. I feel highly positive and inspired by the adoption of our device business, especially Soundbox which has led to significant scale in UPI acquiring and various subscriptions led revenues that you've seen our month-on-month numbers. In fact, if you notice that our payment revenues are also one of those line items where we sort of do the processing. We kept cleaning up different, different type of merchants, different, different type of line items and I am very happy to tell you that we have completed our clean up in the last quarter and we're focusing on only quality revenues that are profitable and have growth which is predictable and recognizable. So we probably would have purged literally hundreds of various different kinds of merchants if they were not profitable or if they were not useful for us or generating some pain in the system.

Our lending model focusing on low and grow if you've noticed we started with small ticket size has now demonstrated that it is a large scalable opportunity especially because our portfolio qualities are demonstrated over multiple payment cycles and our lenders and partners' conviction and our alignment and specific focus of the regulatory landscape and guideline gives me confidence that we are addressing a pretty large profit pool in our credit disbursement business. I understand that it is a business which is in infancy so percentage of growths are very, very higher but absolute value are also you can see are very, very clearly growing nicely So Bhavesh will talk about them in due course. Lending upsell which is now in my opinion a scalable opportunity and it doesn't have any regulatory arbitrage and I am especially calling out this line because many credit businesses in the country or Fintechs have been built around some or other regulatory arbitrage. While what we have built is a mature business where the partners have a comfort of credit quality, the regulator has the comfort of the guideline and we have grown organically not acquiring or by making a desperate push of any kind of product in the market.

In fact our belief is that with the increase in the digital payment ecosystem in the country there will be market risk or different kind of frauds that would come in the system but I'm very confident with the quality of work Paytm is doing the right operation risk and compliance is a USP of our company and the attention that we are driving on the risk and fraud in the market will become a continued benchmark in the country. If you notice we have grown our average monthly transacting users 32% year-on-year and subscription devices or subscription led revenue. Important thing I wanted again to remind you is that our focus is various subscription line items with our merchants so that is why not only devices we have started to include a few more subscription line items in the business. That is why we are converting this line item to subscription paying merchant instead of just device subscription. It is definitely led by that (device subscription). And as you've seen we crossed an incredible milestone of 10 million quarterly loan disbursement in the quarter and little less than Rs. 10,000 crores of disbursement. I am very happy to see these things driven by technology insights and the brand that we have created over a period. I invite Madhur to share the rest of the business presentation and Bhavesh to talk about it. We look to take lots of questions from you. Thank you.

Madhur Deora: Thank you Vijay. It's a pleasure to welcome you on our earnings call. So this is our revenue progression. As we have mentioned we have grown 42% year-on-year. As we pointed out in the earnings release this quarter we did not record any UPI incentive. This is because the UPI incentive circulars came in January. Last year they came in December. So while our payments revenue grew 21% on a reported basis on a like-for-like basis d including UPI incentive this number would have been 34%. I'll talk a little bit more about that later on in the presentation.

There were a couple of small impacts on our payments revenue which we have called out in the earnings release. One is that since Diwali was earlier this year some of the e-commerce sales happened in Q2 rather than in Q3, so there was some impact on that and as Vijay mentioned we finished all the work that we wanted to on focusing on profitable GMV. So there's a little bit of impact from that as well.

Our financial services revenue grew 257% along with growth in disbursement and now it’s standing at Rs. 446 crores of revenue. Vast majority of this is from our loan distribution and collection business and our financial services revenue now accounts for 22% of our revenue up from 9% a year ago. So this has clearly been a key contributor to our growth and scale. Our commerce and cloud business grew 24% year-on-year to Rs. 420 crores. This quarter the key drivers were credit cards, and commerce. One thing we did call out is that we had high volume in our events business which also increased our take rate and we'll talk a little bit more about those later on. So overall 42% growth just over Rs. 2000 crores of revenue. We do want to call out like we did last quarter as well as in our December meeting that we did receive some incentives from PIDF and NABARD which we counted as other operating revenue but they really relate to payments.

This is our progression on contribution margin and EBITDA. Our contribution margin a year ago used to be 31% and we have improved that to 51% so there has been a 20 point increase or a huge jump in our contribution margin or our unit economics and our indirect expenses as a percentage of revenue has gone from 58% to 49%. As you would have noticed in the last three quarters this number has been flat at about Rs. 1000 crores a quarter and on a year-on-year basis this has only been up 20%. As a result as a percent of revenue this has declined quite meaningfully and the combination of these two has allowed us to become EBITDA break even or EBITDA profitable. A year ago we were negative 27% of revenue. Now we're positive 2% of revenue. I should call out that this is sustainable and this has been done without sort of cutting down on investments that we believe generates value for us. So this is sustainable going forward. We did achieve operating EBITDA profitability three quarters ahead of the guidance which we had given in April of 2022 so we’re quite proud of the discipline that we have built into the business and this is driven by strong revenue growth across businesses, disciplined cost management and our strong business model which has a ton of operating leverage.

Just double clicking on the payments business, our payments revenue on a headline basis like I mentioned earlier was 21% year-on-year. Just expanding on the UPI incentive including UPI incentive this number would have been 34% year-on-year. The way this works is that last year we received the first three quarters of UPI incentive in Q3 which is the December quarter and that number was Rs. 68 crores. Our estimate is that for the same three quarters this year our UPI incentive would be Rs. 130 crores. So just to be clear this number is only for the first three quarters of this year. Whatever we get for the fourth quarter would be over and above this. So if we just include these Rs. 130 crores to compare on a like for like basis this Rs. 992 crores last year included UPI incentive for the first three quarters and then we’re including management estimate for the first three quarters of this year to the reported number. Then we get to about 34% revenue growth in payments. So payments continues to grow revenues quite meaningfully, like I said 34% year-on-year despite the fact that we have mentioned earlier that we have cleaned up revenue which was not very profitable for us. Despite doing that, we have been able to grow at 34% year-on-year. And just to be clear we have not recorded any UPI incentive this quarter because final circulars from MEITY came in January.

We talked in the December meeting about our payment business and how we track that. So our payment business generated Rs. 459 crores of net payment margins. Net payment margin just to be clear is our payments revenue minus our payment processing costs. And that has two main components; one is payment processing margins, so all the money that we make on processing payments and the second component is the revenue that we make from subscriptions. On payment processing margin we have given the guidance that we are currently at 7-9 basis points of GMV so we continue to be within that range in the December quarter. This number is including the proforma impact of UPI incentive for one quarter and despite inclusion of interchange costs which I will talk about in a second and we had given the guidance and we stick with that which is that since UPI is growing faster than other instruments and UPI is slightly lower margin we expect long term payment processing margin to stabilize at 5-7 basis points. Coming to the subscription for a second, subscription we make a little over Rs. 100 per month per device. The number of devices has grown to 5.8 million devices now, up 3.8 million so roughly one million a quarter is what we have been able to grow this time. Massive growth in this business and the massive opportunity ahead of us and it gives us many, many benefits in terms of merchant monetization, merchant stickiness and merchant upsell and like we mentioned in December and I briefly mentioned earlier we also get some incentive from partner banks RBI, NABARD. Some of them can be lumpy in nature from a quarter-on-quarter basis but there's steady revenue that we get every year.

On the right hand side we have just given a little bit of clarity on net payment margin so the like for like basis this number went from Rs. 443 crores last quarter to Rs. 537 crores this quarter. One of the things that we have done is for our Paytm Postpaid product we now incur interchange costs. Previously we used to incur a promotion incentive which used to be in our cashback so you will notice that our cashback has gone down dramatically and we have a lot of disclosure on this in our earnings release, but at a high level our cashback has gone down quite dramatically from about Rs. 190 crores to about Rs. 90 crores whereas we have taken Rs. 78 crores of interchange costs related to Paytm Postpaid in our net payment margin. So on a like for like basis our net margin would have gone up much more. We're reporting Rs. 459 crores of net payment margins this quarter this is the basis on which we will report going forward including the interchange costs for postpaid. And including the interchange costs of postpaid like we have said we would be within the 7-9 basis points currently. I will turn over to Bhavesh to talk to us about lending.

Bhavesh Gupta: Thank you Madhur. Hi, good evening everyone. So lending again had a wonderful quarter. This is on the back of all the three businesses now coming to some level of maturity, Postpaid as a business you can see that now two big things have happened. One piece is that Paytm Postpaid continues to be the largest funding source or a lending product which is accepted at 17 million merchants, 1.7 crore merchants in the country. We're seeing a very good adoption by merchants who want Paytm Postpaid to be available on their shops either on an EDC device, payment gateway or a QR code. We continue to see very healthy growth. Obviously Y-o-Y this number looks 300 percent plus but Q-o-Q basis also we are clearly seeing this business grow very comfortably at about 25-30% which is a shade over the guidance that we have been providing in the last quarter that we feel very comfortable growing our lending business quarter-on-quarter between 20-25% but now we're seeing that growth actually higher than that now at about 30%.

Our personal loans Y-o-Y is looking much sharper because we started this business a shade before December 21 quarter so this number obviously is closer to 500% in terms of personal loan but two interesting things have started to happen in PL. The customers who are taking PL from us, 40% of disbursement happened to existing Postpaid customers. This is giving much better portfolio quality comfort to our lending partners and also is giving a good experience to our consumers who through largely with couple of clicks are able to consume this product very conveniently through the Paytm app. We have also started to see almost 15-20% of the customers who have taken PL over the last 12-18 months and now finished their loan coming back to take another loan and hence that portfolio is also becoming very material and the quality of that portfolio is better. New to PL portfolio continues to be operating between 30-40% of their disbursement amount in the quarter which is a very healthy mix which will make the PL business not only scale very, very well for us but also will make sure that our profitability for us and credit quality and profitability for our lending partners continues to be better than the plan.

Merchant loan is something that we feel very excited about now. Obviously last year through the year was impacted by COVID and we saw maybe about two quarters back that once COVID was completely out of the market, merchants were coming back to normalcy in accepting more payments and hence merchant lending. We are now seeing the acceleration amongst the three businesses highest in the merchant lending product and we continue to believe that merchant lending product back on the devices growth will continue to scale much healthier and we do see it as an opportunity that as our devices penetration keeps increasing, our loan penetration of devices merchants will also keep increasing. It is hardly about 5% and the total devices in the market have now crossed 5 million. So we do feel very positive that all the three businesses, be it Postpaid, Personal loans, Merchant loans should continue to demonstrate very healthy quality of business and profitable products for both lending partners and ourselves in due course of the next many quarters to come.

If you see on the left side there is the Financial Services revenue which now is contributing 22% of the overall revenue for Paytm. This has really grown very, very incrementally over the last year and this is largely backed by the performance that you've seen in the lending business which is contributing a disproportionate portion of this Rs. 446 crores of revenues. The interesting part here is that we continue to see that the number of new borrowers who are coming in quarter-on-quarter is a very comfortable half a million-ish number every month. We are not aggressively chasing this number as a metric. While the overall top of the funnel as you can understand we’re sitting with 80 million plus monthly transacting users and of the 80 million monthly transacting users today life to date in the last two years only eight million unique borrowers have accessed credit through Paytm platform through our various lending partners. So just 10% of our entire monthly transacting users thus far have taken any form of credit through the Paytm platform. And another half a million every month are taking incremental credit as new customers on the Paytm platform. This just gives us a very good segue because we've spoken in the past that a very large portion of our MTU, close to 40-45% of our MTU is white-listed on various loan products with our partners. And hence we feel very confident that while we continue to grow new business through new consumers and the fact that almost 40-50% of our existing loan business is coming from existing customers or merchant business, the cumulative effect will continue to give us a 20-30% growth rate Quarter-on-Quarter for the foreseeable future. In terms of our portfolio I think the portfolio is holding up very, very nicely. We continue to see that for all the metrics that we have demonstrated over the last three or four quarters, there has been zero, any kind of deviation in the terms of portfolio deterioration of any kind. In fact, the portfolios are performing better than the expected credit losses that our partners have assumed. These numbers for different businesses are lower between 50 basis points to 75 basis points between Postpaid to Personal loan and I do believe that going into the next year with higher interest rates also in mind, we do not see any kind of lead indicators to suggest this portfolio quality is going to be of any different number than what we have put out in this piece. The last point on the lending side, important to understand is that our focus on continuously looking at the regulatory landscape and working with our partners to make sure that Paytm is always upholding every regulatory processes that is being laid down both in terms of the directions coming in from the Reserve Bank of India or any other regulator and the risk appetite of lenders is making our business more solid than ever before and we are committed to make sure that we keep building this business on the four legs of risk, compliance, operational efficiency, and profitability, and continue to scale this business in a manner that you've seen thus far. Madhur back to you.

Madhur Deora: Thanks Bhavesh. So this is about our commerce and cloud segment, which did Rs. 420 crores of revenues this quarter. The main drivers of this were our credit cards and commerce business, which saw quite a decent jump. On the co-branded credit cards like we have discussed before, which is a part of our commerce and cloud business that continues to scale particularly well. We have started to give additional disclosure on our credit card business. As of December, 2022, we now have 4.5 lakh activated cards and we activated 1.5 lakh credit cards this quarter. Overall for this cloud segment, our revenue grew by 15% to Rs. 235 crores. On a Q-on-Q basis there was some impact because our PAI cloud business had a particularly strong last quarter, so there was a little bit of impact from that, but on a Year-on-Year basis this business is performing fine. On enabling commerce, our GMV was Rs. 2,300 crores. Our revenue was Rs. 185 crores resulting in the take rate of 8%. We did have high volume in our events business and we have clarified in the earnings release and we are happy to take in Q&A that there are certain events in which we provide full stack services so we have high take rates, but also high direct cost. On a steady state basis our take rates should be roughly 6% but in Q3 and Q4, we do see a little bit of a jump in the events business, including the full stack events.

And finally, we just wanted to call out a number of growth drivers in our business. One is that, obviously, as all of you experience every day while India digital payments has grown quite a lot, it is still in very early days. Growth in UPI, cards, EMI led payments all of this is yet to reach the masses. So we think that just from a user standpoint and from a usage standpoint, there's massive growth. We are going to be launching UPI Life soon, which allows instant multiple, small value UPI payments, which we think will lead to an increase in adoption of digital payments. We'll also be launching credit card on UPI, which enables users to link their Rupay and other credit cards to UPI.

On the merchant side, which is like, Vijay pointed out really where a lot of revenue can be made. We think there's a potential of 10 crore merchants and more than 50 crore payment customers in the near term so really a very large opportunity to go after.

We are on the lending side, working on integrating with large NBFCs and banks to leverage the full potential of small digital credit on the Paytm platform, just in the way we have been able to scale it to Rs. 10,000 crores a quarter. We think that there's a long way to go. We have put a bunch of disclosure in our earnings release about how we are working with RBI regarding both Paytm Payments Bank and Paytm Payment Services Limited. And one of the things that we're quite proud of is that we have been able to do all of this and increase our focus on building scale, but with a huge amount of focus on operational risk and compliance. We think that as we go forward, like Vijay mentioned earlier, this is going to be quite important and quite a differentiator, both in terms of customer experience and in terms of what regulators expect from us. And I think that's all we had. I'll hand it back to the moderator and we can move to Q&A.

Moderator: Thanks Madhur. We'll 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. With that, we'll move to the first question of the session, which will be from Mr. Manish Adukia from Goldman Sachs.

Manish Adukia: Yeah thanks Keshav. Hi, good evening. Thank you for taking my questions. So firstly congratulations on reaching the milestone of operational profitability in the quarter, my first question actually relates to that. So in the shareholder letter you mentioned that the next milestone you're looking for is free cash flow profitability. Now with the UPI reimbursement coming through in the next quarter and your continued traction in the lending business, is it safe to say that you should get to positive free cash flow starting the March quarter itself and related to that where do we see margins go from here? Are double digit EBITDA margins possible by the end of fiscal 2024? That's my first question. I'll wait for the second question.

Vijay Shekhar Sharma: Thank you Manish and I just want to tell you that the Q4 UPI incentive will be one off and we will explicitly call it out. So leaving that apart, we will not be free cash flow generative. Understand what I'm trying to tell you here is that one off number because it is coming in Q4, remember the number Rs. 130 crore that we are quoting is for three quarters, fourth quarter number will be topped up on top of it, but still that four quarter number whenever it comes, we will call it extraordinary one time line item. And because I'm calling it one time line item, so I'm not calling it free cash flow generative. While technically with that effect, adding that, yes, it could be free cash flow generative for that quarter, but again, next quarter because it won't be there so then we don't know what to say. We would rather like to say free cash flow generative on the quarter when we are consistently sure of this. For example, EBITDA profitability that we have done based on operations, we will continue to increase the EBITDA profitability. Could it go two digits, in what timeline, I don't know, but yes it could go two digits for sure. And like I said this is a sustained EBITDA growth that we are seeking from here.

Madhur Deora: Yeah, I sure would agree with that and I think it's just for us it's important that the timing of UPI payments will vary depending on when the government releases the circular. So the way we see it is a bit of a normalized number. So while it is correct that we expect a chunky number to hit our reported numbers in Q4 we would not consider that as a normalized result, if that results in free cash flow break even we would not consider that as normalized free cash flow break even or a milestone in that journey. And on the second part of your question, I don't want to get to specific quarters or specific guidance but we did want to call out that and nearly everything that we are doing is very sustainable. We as you know have been investing in growth alongside moving to profitability. So we don't see a challenge with some of these trends continuing where we can continue to improve our revenue and our contribution profit dollars and having that result in increased profitability.

Manish Adukia: Sure thank you so much for that. My second question is on regulation and thank you again for providing the detailed update in the press release, would you be able to give us any sense on the timelines? I mean the Paytm Payment Bank, it's now obviously lasted longer than your initial expectations. You've had some back and forth with the RBI based on the press release, can you give us a sense of how long it might take, like a quarter, a couple of quarters longer? Any colour would be helpful?

Vijay Shekhar Sharma: RBI decisions are their decisions. We don't have control over them. Based on what we've been interacting with them, the day is not very far.

Manish Adukia: Right. And can I ask a follow up, I mean, have you had to make any kind of meaningful operational changes to resolve this ban that could have any kind of business impact?

Vijay Shekhar Sharma: That's a very good question. Answer is no. RBI actually called out that we went through all kinds of different, different technology systems or let's say commercial systems, et cetera, et cetera. But in the end there was no incremental dramatic change that we had to do or anything that has an impact on OCL level.

Manish Adukia: Sure. Thank you so much. That's all I have and I'll jump back in the queue.

Vijay Shekhar Sharma: Thank you Manish.

Moderator: Thanks Manish. The next question will be from Mr. Sachin Salgoankar of Bank of America.

Sachin Salgoankar: Hi thank you for the opportunity and congrats for a great set of numbers. I have three questions. First question is when we look at Payment Services to Consumers it is down on a Q-o-Q basis and I do understand your comments, but just wanted to understand the outlook going ahead, how should we look at, will there be incremental growth or we do see a bit of a softness in the near term?

Vijay Shekhar Sharma: We see growth. We are removing the bad blood.

Sachin Salgoankar: Okay, great. Second question is Vijay on the comment, what you made about, the clean up with merchants so what kind of an impact, and there was obviously a statement at the end by Madhur saying that, the opportunity is huge in terms of 100 million merchants. So possible to help us with a bit of a lay of the land in terms of merchants, what kind of merchant clean up are you seeing and what kind of focus of merchants is what you guys are having going ahead?

Vijay Shekhar Sharma: So Sachin in the market there were merchants where, let's say the rates that were provided were special case scenario rates, for example like you go to an issuer bank and then you generalize the commercial based on that. But over the period, those rates were changed, but the customers rates did not change. So they were not net revenue profit generating for us, net profit generating for us. So we were extremely critical of accounts that were not profit generating for us. We were clear in the market that none of our competition, who is a private player, can even afford to take these kinds of costs. So we were clear about it that take it or leave it, and we left many of those merchants. It was led by cleanup of quality revenue that contributes towards bottom line and growth.

Madhur Deora: Sachin if I may add just the filter that we use is that the merchant should be profitable with the only exception where we see immediate upsell opportunities, right? So for example, a paper QR merchant historically was not profitable. Now with UPI incentive, they are profitable as well actually but we also see upsell opportunities there, which is devices and merchant lending and so on, right? But for example, certain online merchants you would not see, for example, lending upside so those businesses need to be profitable for us because we build technology, we help them with routing, we help them aggregate different types of payment instruments and therefore we should be able to make margin on it. And that discipline has percolated to every single business team and as a result we have been able to improve our net payment margin. There has been a marginal impact on revenue but on a year on year basis we're still growing very significantly. So I think we quite like the trade off where our revenue is up 34%, like for like, and our net payment margin is up 120% like for like. I think that brings a lot of great discipline to the business. That's the right way of building a business.

Sachin Salgoankar: Got it. Thanks Madhur and last question obviously, is in the back of the adjusted EBITDA break even and obviously you guys are seeing the sustainability of this so on the back of it I guess the bar goes higher, right? So, should we see some kind of an incremental new guidance coming from you guys in terms of either a net income or a reported EBITDA breakeven or to that matter, even you know when could we see free cash flow breakeven? I'm asking of free cash flow because I presume there's a bit of a device Capex, which is going to increase going ahead. So any thoughts, any comments would be helpful?

Vijay Shekhar Sharma: Thanks Sachin. We are not giving any incremental guidance on free cash flow, but we are definitely making sure that we have sustained and growing profitability. I also want to remind you that we would have lots of investments coming up and in growth and market opportunity. You've seen it that we've never, ever compromised. Important thing is disciplined growth in profitability, disciplined contribution in growth and marketing. So it's an important thing that they are saying that our profitability will continue to grow consistently along with the investments that we are looking at. As far as the timeline for free cash flow generation is concerned we are not setting it up and we believe that the money requirement for Capex is not very, very large. It is very much generatable within the current operating business that we have like we had discussed in December month.

Sachin Salgoankar: Perfect. Thanks Vijay and all the best for future.

Vijay Shekhar Sharma: Thank you.

Moderator: Thanks Sachin. The next question will be from Mr. Saurabh Kumar of JP Morgan.

Saurabh Kumar: Hi guys, congratulations on this EBITDA break even. I just had two questions. First is on this cash flow again, so could you reconcile this Rs. 9,200 crore cash balance to Rs. 9,000 crore in December? How much was the CapEx and how much went into buyback and so I just want to, where does this Rs. 200 crores go?

Madhur Deora: So in the last quarter we had just under Rs. 200 crores of CapEx Saurabh. We do earn interest income as well. So we do earn about Rs. 100 crores of interest income every quarter. We have actually given disclosure on how much buyback we had done until December. The number was Rs. 68 crores. I should add at this point that as of Friday we had completed Rs. 796 crores of buyback in total which was about 90% of the maximum buyback amount that our board has approved so the vast majority of that would have come in Q4.

Saurabh Kumar: Okay. Okay, so Rs. 200 crores of CapEx and Rs. 100 crores interest income, okay I understand. The second is essentially on the loan syndication. Have you still seeing the incentive income yet flow from banks Bhavesh or that will happen later?

Bhavesh Gupta: Yeah, no, so we don't do syndication Saurabh as you know. We do distribution. So yeah, we do see a decent amount of collections revenue, which come in, but as we had explained last year or last time also, that the collection revenue comes for a book that we originated, let's say one year back, right because personal loans, merchant loans, average tenures are between 14-15 months so the incentive is coming for the business that we generated 14-15 months back. Now 14-15 months back, obviously business was one third, one fourth depending on the business you look at of the size so the collection incentive in terms of rupee value in today's term looks small, but yes, in percentage terms of that yearbook, the number is fairly material. So yes, we are getting a very healthy collection incentive, but rupee value, the number is small because it is on last year's business.

Saurabh Kumar: And would you be able to quantify that like…

Bhavesh Gupta: Yeah, we have said in this presentation also our collection incentive is ranging between 0.5 to 1.5% depending upon the business that you're looking at. Obviously for postpaid it is between 0.5-0.75%.

Saurabh Kumar: Okay. And just this last question, is on the sustainability of this indirect cost so you've not grown indirect for three quarters and your marketing expense to revenue has kind of fallen to 6% so how should we think about this indirect cost going ahead? Any colour you can provide will be really great.

Madhur Deora: As we said before, I think we have, prior to two quarters ago we had done a significant ramp up of indirect expenses in three main areas. One was technology. The second is sales and the third is marketing. So we had done that even as we were increasing contribution margin and revenues. You're right to notice that over the last three quarters we have kept indirect expenses flat in absolute terms, and in percentage terms it has gone down by nine points. I think given how well our monetization engines are working, if there are areas where, whether it's on sales employees or in marketing, where we would make where we could make slightly incremental expenses, we would do that. So it's not like we are sort of internally managing this number to, hey, we have to cap it to Rs. 1000 crores or something or anything of that sort. So where we do see investment opportunities, we do that. You would've seen that within this Rs. 1000 crore number, people's cost has gone up largely driven by sales employees and in some cases, technology folks. So we do make those choices. So as monetization is kicking in, we might increase this number over the next few quarters but not at the expense of increasing profitability and free cash flow. And frankly, given how well monetization is working, we don't have to make those sorts of tough choices, if you will.

Saurabh Kumar: Okay got it. Thank you.

Madhur Deora: We do also, I should also add that, like all companies in February, sorry, in April of every year, we also have appraisals so that also has an impact on employee expenses, but that's one quarter only.

Saurabh Kumar: Okay and just one follow up so of the employee costs, Rs. 300 crores is the discretionary, that cost of building a platform, a growth, your growth cost, the remaining Rs. 700 crores is basically just the maintenance cost of this whole business, right? That's the way one should think about it?

Vijay Shekhar Sharma: No, no, no we've given making costs and expansion costs. Field sales executives are one cost. Second cost is people who make it so the appraisal happens of the people who make it.

Saurabh Kumar: Okay. Okay got it. Thanks Vijay.

Moderator: Thanks Saurabh. The next in queue would be Rahul Jain from Dolat Capital.

Rahul Jain: Yes. Hi thanks for the opportunity. I just have a couple of questions. Firstly if I look at our promotional cash back, even on an adjusted basis for the Rs. 78 crores that you mentioned, it's kind of large, Rs. 30 to 40 crores on Q-o-Q basis and it's not significantly higher even on Y-o-Y basis, but we've been adding our number of MTU quite well even on a Q-o-Q and Y-o-Y basis. So I understand a very large component here could have come from lending and devices use cases, but. where we are and how we are adding more and more MTUs with cutting down on both promotions and marketing side?

Vijay Shekhar Sharma: Rahul, these MTU additions as you very well have seen, are not driven by cashback. Instead, they are driven by good marketing that is led by referral marketing, and great product initiatives where customers who have downloaded the app we are converting them in a better way than previous in first transactions so we internally have a first transaction hawkey view of the customer and then retainance technologies. So it is productive technology driven by referral as a product initiative, not by the marketing initiative. That said, like I've always said it, we will not shy away from investing in consumer growth at a time when we see that we have outlier profit opportunities coming up. So right now it is product technology.

Rahul Jain: Right. So does that mean our annual transacting user is still a very high number from where this retention optimization has been done and if you could share that number?

Vijay Shekhar Sharma: Rahul we are very, very interested. I want to tell you that we've looked at UPI because this was the war of UPI effectively between different companies. Somebody chose consumer P2P, somebody chose P2M, the merchant payment, we chose merchant business. So if you notice, our merchant business revenue in the industry of payments is particularly higher than every other peer all because we put attention there. In fact, our acquiring side market share, which NPCI does not yet declare, once they start declaring, you will see how well we are capitalized there over other UPI players, also standalone UPI players or other remit aggregators. So the idea is that we have deliberately built it led by product and technology on the consumer side and acquiring side is what our revenue and business opportunity would be. So we do the consumer side also.

Madhur Deora: Rahul just to clarify, we have not slashed cashback or anything of that sort. Our contribution margin continues to improve. So we do have room if we wanted to, to increase cash back, but there just hasn't been - like Vijay said it's very product led. Our learning is that customers long-term stay with you for a product or the product is improving, they just stay with you. So we are roughly doing about three basis points so just under three basis points of GMV as cashback. A chunk of that is referral which is really targeted towards new users and the rest of it is just related to just transactions that users do where we have recently good take rates, and we might be giving a little bit of that back to users. So that's how we manage our business but we have not sort of slashed cash back or anything of that sort.

Rahul Jain: Right, right. And just one more if I can, basically we have been highlighting this new net payment margin and we have given a band, while we see the way we have progressed, we have improved on this metric very, very significantly and the kind of net margin that we are making right now, probably we might not have made in the historical basis anytime in the past. So what makes you think that this will get optimized to this level and rather go down eventually just because of the mix because I think the number of use cases and the kind of the value or GMV individual transaction can bring it has such a wide variety of possibilities. It would be never be possible for anybody to capture this number precisely so why we want to share this number and think this can pull up?

Madhur Deora: I think when you adjust for UPI mix, which we have clarified and you mentioned in your question the mix effect we think that this is a reasonably good indication of how much money are we able to make on each transaction, right and you're right that certain transactions may make us lower money. That could depend on the type of merchant, type of customer. It could depend on the type of instrument so this gives us a reasonably good sense of if a customer comes on our app versus if we are on the merchant app or in the merchant shop and what is the value that we are adding for the technology that we bring or for the consumer access that we bring to our merchants, or the convenience that we bring to the consumers. So we think that's a reasonably good proxy for that and while UPI mix and we have mentioned that UPI we expect to be three or four basis points so that increasing would bring this number down slightly. We think this is a reasonably good number to focus on and I think the part of the reason to bring that out was to clarify that payments actually does make money on an aggregate basis on GMV because I think there was some misunderstanding, at least among some folks that, oh, payments, everything has to be at zero and we just wanted to clarify that that is not the case and that is certainly not the trend that we see. And in fact, over the last few quarters, we have seen this number go up rather than down, right and we see continued momentum in this number.

Rahul Jain: Great. That's all from my side thanks.

Moderator: Thanks Rahul. The next question will be Mr. Sameer Bhise from JM Financial.

Sameer Bhise: Yeah. Hi thanks and congrats on the good numbers. So on the gross margin thing do we expect that this is the new normal?

Madhur Deora: Sorry, on which number?

Sameer Bhise: On the gross profit margin?

Madhur Deora: I'm sorry, what are you referring to exactly as gross profit margin? Are you referring to net payment margins Sameer?

Sameer Bhise: So basically the contribution profit which is currently tracking 50% plus.

Madhur Deora: Yeah so there are no one-offs in this number and we are ahead of our internal plans and the plans that we have sort of shared on the basis of which we had shared breakeven guidance, but there are no one-offs in this number. So we should assume that we would be at roughly these levels with potential upside from growth of lending faster than payments and those sorts of things, but there are no one offs in this number. So yes, this is a rebased margin number going forward. And I should add that from quarter-on-quarter we may have fluctuations but on the long term best basis we see this as steady and growing.

Sameer Bhise: Yeah and secondly on the number of employees I believe the material increase has come from addition of sales force on the employee cost side. We probably are at rough, I mean, how much more to go in terms of on ground sales force additions?

Madhur Deora: Bhavesh you want to take that?

Bhavesh Gupta: So Sameer, the opportunity is fairly decently large for us. As Madhur said in the beginning of the conversation, we added about three quarters back a lot of people. Today, when we see the opportunity in the future, we do believe that we will add not as much as we added three quarters back, but we'll keep adding a few more, but what would be the exact number we haven't done the AOP planning, but yes there is going to be addition, but it's not going to be a be a materially large addition. It'll be an addition, which will be positive in terms of getting us more devices per incremental sales force than what we've done in the past.

Sameer Bhise: Yeah because we are already probably tracking roughly 30,000 kind of sales, I mean on ground sales team, which is sizeable.

Bhavesh Gupta: Yeah so it's not actually that large a number, but yeah, it's closer to that number. But the important part here is that when we look at the opportunity, as Vijay mentioned, of 10 crores merchants as an opportunity and we're sitting with three crores merchants today we have a very, very long way to go. We are currently placed in about 400 to 450 cities and towns, and our belief is that over the next two to three years, we would like ourselves to be in maybe a thousand towns. So this penetration will be a bit more people led. But yeah, we'll calibrate it as we see the growth, but it'll not be on the back of doing loss making growth, but be on the back of making profitable growth.

Madhur Deora: And Sameer if I could just add one thing is the work that these sales employees do has a very good payback period especially when they're going and putting sound boxes and devices and so on. So the unit economics on that works really well. So it's just a question of do you do upfront investment like we have done or do you sort of stagger it over time, but we have such high conviction that we have done the upfront investment and it goes a little bit back to the question that Sachin was also asking is that we have sort of gone from 2 million devices to 5.8 million devices for that sort of growth you do end up front-ending the investments a little bit and that's what we have done.

Sameer Bhise: Yeah and the payment services to merchant piece is clocking like 9% Y-o-Y. I'm sure with the kind of devices that you've added in the last 9 to 12 months, this number starts ratcheting up, but how does one see this?

Bhavesh Gupta: Yeah I think Sameer Vijay tried to answer that question earlier in that part that two things have happened. One piece is that last year we were clocking in certain GMV and hence certain gross revenues of merchants, which are either not profitable or we were not very comfortable purely from a risk perspective. So we've done a lot of cleanup over the last two quarters. I think the cleanup started in quarter one and then we moved in quarter two and then we had some residual impact in quarter three.

Sameer Bhise: So there is some impact this time around as well?

Bhavesh Gupta: Yeah but future going forward, I think when you get into the next year, we do see that the cleanup that we had to do, we have done, and we will have some more win back coming back from those merchants who on commercial basis had been left off because we do know our product is arguably the best in the country so it'll come back to us. And more importantly is that our acquisition machinery, as you directly pointed out, is going to continue to churn a lot more GMV than what we've done in the past. So you will see growth coming into this factor and this will be more profitable growth than we've seen in the past.

Madhur Deora: And just to add to that there are two other factors when you're looking at a Y-o-Y comparison Sameer I apologize if I wasn't clear earlier, one is obviously UPI incentive so in December quarter last year, we had UPI incentive in this December quarter in the number that you are referring to for 9% Y-o-Y.

Sameer Bhise: Yeah it does indeed include incentive.

Madhur Deora: So that's one difference. The second is because Diwali was a bit later last year some of our online merchant sales had online merchants had sales in October and early November whereas this time most of our merchants had their big sales in September and a few smaller sales in October so sort of some of that revenue got moved to Q2 this year versus being in Q3 last year.

Sameer Bhise: Fair enough. This is great. Thank you and all the best.

Madhur Deora: Thank you, Sameer. Thanks for your questions.

Moderator: Thanks Sameer. The next in line would be Gaurav Kochar from Mirae Asset.

Gaurav Kochar: Yeah many congratulations to the team on achieving the operating profitability well ahead of guidance. Questions, firstly on the lending side so while you've disclosed the penetration level in merchant loans as a percentage of device merchants similar like to like on the consumer side, if you can call out what is the total let's say user base of BNPL product, which is your postpaid so if you can give the number of users who have subscribed to postpaid and maybe PL as a percentage of that PL disbursed in the last 12 months as a percentage of that how would that number be. And like you have mentioned repeat rate of 45% in case of merchant loans given that this product is also more than 12 months old now what is the repeat rate in case of PL and going ahead in terms of this sort of penetration PL as a percentage of your BNPL customer base where do you see it tracking? So that would be first on the lending side. I have another question. Maybe I'll ask it later.

Bhavesh Gupta: Sure Gaurav. So Gaurav we have said 8.1 million users have gone ahead and taken any form of credit. Out of 8.1 million broadly I would say closer to 7 million are people who've taken BNPL Credit and that number we do see adding about 400,000 new users every month. So that is that is there and hence the percentage of MTU still this is about less than 10% and in terms of lenders white list which is closer to about 40 million, there is a very, very long way to go. So there is obviously no holding us back in growing this business at 400,000 to 500,000 new users on BNPL every single month. In terms of the personal loan in terms of penetration, that number will be, I don't have an exact number, but I can give you a range bound, that number is fairly small against the 7 million users who have BNPL. The number of users who have been pre-approved for a personal loan by lenders will be close to about 2 million, of which I think about 300,000 to 400,000 users have taken. And every month we see about 30,000 to 40,000 users take PL from the BNPL pool. So again, that opportunity continues to be very, very large.

Gaurav Kochar: You have the MTU numbers, 4%, 0.8%, 5.2%

Bhavesh Gupta: The third piece of question is in terms of PL to existing PL I did mention earlier in my conversation that that is closer to about 15 to 20% today and as the book continues to keep maturing, this ratio will stabilize at about 40-45% of existing PL customers taking another PL over the next 12 to 18 months. I don't think that the BNPL customers taking PL that ratio is 40% of PL coming from existing BNPL customers, this ratio is going to change. So the stable use case will be about 40% of PL coming from BNPL, another maybe 40% coming from existing PL and the remaining coming from new to PL for the first time so there is a very decent runway ahead of us for many, many years to continue to penetrate into the current MTU and obviously our MTU is also growing fairly at a good click.

Gaurav Kochar: Great, great sure. So just to clarify the first form of credit that we give to the user is a postpaid or you directly give PL.

Bhavesh Gupta: So it depends upon the lender's risk appetite. There are different funnels. The user can opt for BNPL or personal loan or credit card or merchant loan, a different white list, but there is an upsell opportunity from BNPL to a PL. It's not to say that you can't take directly a PL. Obviously the risk policy of lenders are more tougher if you're coming absolutely new to personal loan whereas the risk policy for somebody who's upgrading from BNPL after repaying six months, is a bit more lenient because they have seen the risk play out for that user for the last six months.

Gaurav Kochar: Got it sure. Thanks. Second question is on the credit card side, we've added about 1.5 lakh cards in this quarter. Just wanted to understand, was this a festive quarter, hence the run rate is high, or you believe incrementally we can add 50,000 cards every month, or 1.5 lakh for the quarter kind of run rate in the near future? And also if you can give some colour around what percentage of the total income on the cloud business would be coming from credit card business and going ahead, let's say taking a two year view, assuming a certain number of cards what would be the proportion of this in the cloud business?

Bhavesh Gupta (00:58:16): So let me take the cards question in some detail and then I'll hand it over back to Madhur. The cards business I don't think our business is linked to any kind of festivity because we don't have an offline distribution of the card business. It's purely playing on the digital journeys that customers are white listed by issuers and they consume it. So yes, the short answer is that the run rate of 50,000 is not issued cards. It is activated cards, we don't track issued cards. Our belief is that we only want our partners to look at where the cards are getting activated on which they can get spend, and we can make money. So 50,000 is a run rate that we've been doing for the last couple of months, and I believe that this run rate is only going to become better. And I had said in my conversation in the past that we aspire to look at about a million cards to be issued in the next 12 to 18 months, and we are sticking to the guidelines. Madhur?

Madhur Deora: Yeah Gaurav credit cards as a percentage of cloud revenue would be about 20 to 25% and we do expect that to grow, given that credit cards as a business is expected to grow faster given the very low penetration that we have.

Gaurav Kochar: Alright, thanks. Just last question, if I can squeeze in on the sales force, we've added about 5,000 on an average, there's been a 5,000 employee uptake in this quarter and I understand this would be largely towards the merchant business acquisition that has been so successfully doing. I just wanted to understand is … in terms of the device run rate we've been adding 300,000 every month or about a million every quarter going forward given that the headcount has increased, can we expect this run rate to improve going ahead?

Bhavesh Gupta: The answer is yes. We are already seeing metric for January become better over December and we do believe that this number is going to become better than what we reported in the past.

Gaurav Kochar: Alright. Alright that's it from side. Thanks and all the very best.

Moderator: Thanks Gaurav. We'll have time to take one more question and the last question of the session will be from Mr. Manish Shukla of Axis Capital.

Manish Shukla: Good evening, and thank you for the opportunity. So first on the sales force of about 29,000, how many would be off roll?

Bhavesh Gupta: So Manish we don't have off roll as a concept in sales force. So this team is on the rolls of either our subsidiary or directly mostly.

Manish Shukla: So the cost that you report it fully accounts for this entire 29,000 people?

Bhavesh Gupta: Yeah, there would be attrition in the front end, so they may not have spent a full time, so the guy may not be earning a full month salary, et cetera. As you can imagine, people who generally spend more than 30-45 days, they continue to remain in the system for a long period of time on which we spend the entire salary and incentive. But yes we will pay to these people even if they're staying for one month, one day.

Manish Shukla: Okay, sure. The next question is the interchange for postpaid that you reported that roughly works out about 1.5% of the postpaid loans for the quarter. You think that's broadly the right run rate to look at it going forward as an expenses.

Bhavesh Gupta: Yeah so this is a good question you asked. So this used to be when we started this business maybe two years back we had to incentivize merchants and users to either take or accept postpaid. This number used to be higher, close to 2.5-3%. We've seen over the last two years, this number has now fallen to 1.5%. And as per the new digital lending guidelines wherein this particular product has to be disbursed directly to the merchant through payment aggregators, hence, it'll become interchange. We do see that over a period of time with the scale that we've achieved hopefully this number should settle down more closer to where interchanges are for credit cards of low value credit cards, but at the point in time 1.5 is seemingly optimum that we and our lending partner look at, but our endeavour is to make sure this number can fall down from 1.5% to maybe closer to 1% of 1.2% over a longer period of time.

Manish Shukla: Okay thanks. Then If I were to look at payment processing charges, excluding interchange, that works out to roughly about 55% of gross payment revenues. Is there scope to optimize this further because obviously this has come down quite drastically over the last couple of years?

Madhur Deora: Manish that's not quite how we look at the business so I would discourage you from looking at that as a metric because by that metric you wouldn't do credit card business, for example, right? In credit card, you can charge a merchant, let's say 1.5, 1.7, 1.8%, but a large chunk of that becomes payment processing cost. You still make a chunky margin. You still might make 10, 15, 20 basis points on that GMV which is absolutely worthwhile for us to do, but we don't really sort of manage this number to say, okay, is it 55% or 60% or 50%? So I wouldn't quite look at like that. I would look at it in the way that we have explained it in December and earlier today, which is what is that as a percentage of GMV overall as in our net payment margin, which is revenue minus processing cost, what is that as a percentage of GMV and for that we have sort of said we are currently at 7-9 bps and over time because of mixed effect this may might go down slightly.

Manish Shukla: Okay thanks. The last question if I look at the growth in financial services revenue that is less than the growth in value of the loans disbursed. So if one were to calculate, take that as financial services revenue to loans disbursed that has been trending down. What is causing that?

Vijay Shekhar Sharma: Revenues of previous year's loans and disbursement revenue is of this year's loans so it's a combination of incentive of collection plus disbursement because incentive of collection of the previous year, which is 400% less so your number would look small next year.

Manish Shukla: Should one look at it as a six month lag or 12 month lag? What is the right length of credit?

Vijay Shekhar Sharma: The length of credit we are talking average length as you are reading in different, different loan line items are 12-14 months.

Manish Shukla: Alright, understood. Thank you for answering my questions.

Moderator: Thanks Manish. With that we come to an end of the Q&A session. A reminder that the presentation discussed today, a replay of this earnings call and the transcript will be made available on the company website. Thank you for joining.

Vijay Shekhar Sharma: Thank you. Thank you so much everybody for joining and it was great to have a detailed discussion. We are available any which way for any other specific questions that you have. Thank you. Have a good day. Bye.

Madhur Deora: Thank you very much. Thanks everyone.