

Paytm | Quarter Ended June 30, 2023 Results | Earnings Call

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Moderator: Thank you for joining. And welcome to Paytm's earnings call to discuss our financial results for the quarter which ended on June 30, 2023. From Paytm's management, we have with us today Mr. Vijay Shekhar Sharma, Founder and CEO; Mr. Madhur Deora, President and Group CFO; Mr. Bhavesh Gupta, President and COO; and Mr. Anuj Mittal, Senior Vice President, Investor Relations.

A few standard announcements before we begin. The call is for existing shareholders of Paytm, potential investors and research analysts. This call is not meant for the media. If any media representatives are on this call, we request you to kindly drop off at this point. The information to be presented and discussed here should not be recorded or reproduced or distributed in any manner. Some statements made today may be forward-looking in their nature. However, actual events may differ materially from those anticipated in such forward-looking statements.

This earnings call is scheduled for 60 minutes. It will have a presentation by the management followed by Q&A. (Operator Instructions) 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 the earnings call.

Vijay Shekhar Sharma: Thank you. Thank you so much, everyone, for joining our quarterly call. I'm very happy to see that our business is exactly going in the direction that we have envisaged and it is really incredible to see the amount of technology potential opportunity that is coming up in our business, and I am more than hopeful - I am more hopeful than ever before that there is incredible amount of impact and business that we could do in next few years.

With this, I have numbers to share here. In fact, as you may have seen, we have given a very narrated detail there in our business, where you can see there really is different, different kinds of details that we have put up there, and this is our presentation which is going to summarize. We'll tilt it towards more Q&A instead of just a business presentation because we have given a very detailed narration.

The numbers that you're seeing here that we have year-on-year growth of 39% of revenue which is driven by, as you can very well see, our payment and financial services business are definitely growing year-on-year in an incredible way. Commerce business, which is obviously dependent on many other seasonality and limitations, have grown but not in the same range. Our profit contribution margin has started to grow even further. So last time when we were looking at 51% as our contribution margin, we saw this growth going towards 56%. And the single thing that is behind it is the higher margin payment business and higher margin business for our credit and financial services business. And these are improvements that we're seeing in our margin. So, if you see that we have growth, we have increased contribution profit and then also increased the margin there. So, it is a very healthy sign. We see there is a lot of opportunity here.

Obviously, as you all know that it has created an opportunity for us, where EBITDA before ESOP has improved by INR 359 crores before a year. And it is important to note that we have compared here INR 52 crores, with a number that previous quarter, because there was a one-off UPI incentive that had come. So, to give you a more quarter-on-quarter correct normalized view we have excluded the UPI incentive on this number.

So, overall, what it means is that we are on path, we are on our committed guideline of becoming free cash flow positive by the year-end, meaning we could start generating free cash. In fact, some of you may have seen the numbers. So, we have added some cash in our reserves already. We are very sure that based on the market conditions and positive movement in payment revenues and credit opportunity, we should surely be able to deliver it before year-end. In fact, we are believing that it could go to the next level of (Technical Difficulty). So, thank you so much. I would give it to Madhur to continue forward.

Madhur Deora: Thank you and welcome everyone. We'll go to the next page, please. So, this is our payments business. Payments business has continued to scale up very nicely with improved profitability, as Vijay mentioned earlier. Our monthly transacting users, which is the number of customers who transact on Paytm app, has gone up 23% year-on-year and continues to see an upward trend. Our merchant subscription business, as we have mentioned before, which is a key focus area, has more than doubled year-on-year. In the last quarter, we added 11 lakh merchant subscriptions. So, this is a product and offering that continues to find larger and larger addressable market opportunities. All of this has contributed to our net payment margin improving 69% year-on-year to INR 648 crores. Just to remind everyone, our net payment margin is money that we make on payment processing, which is the revenue minus what we pay to the issuer banks plus the subscription revenue.

So going back to payment processing margin, we had given a range in December 2022 that this is currently in the 7 to 9 basis points including UPI Incentives. Currently even without UPI incentives, which we did not record any of in this quarter, it is at the high end of our 7 to 9 basis points guidance. So, we have seen encouraging trends here. That is, because of the increasing GMV of non-UPI instruments, such as EMI, which is a big focus area for us, both online and offline, as well as the increasing share of our payment processing for card transactions. We are also experiencing lower interchange costs for Wallets. As some of you know, there was an interoperability circular that came out from NPCI, which is effective since April 1st.

So as a result, our interchange cost for Wallet has gone down and Interchange cost for Paytm Postpaid also continues to go down due to better portfolio quality, which is a theme that we had touched upon in the last quarter's earnings. Our subscription revenue is a direct result of the growth in merchant subscriptions (Devices), which as I mentioned earlier, has gone from 39 lakhs, sorry, 38 lakhs a year ago to 79 lakhs in this last quarter.

We'll go to the next page, please. Now a little bit about our loan distribution business. Our value of loans distributed through Paytm platform last quarter was just under INR 15,000 crores, which is a number that we had published in our monthly operating metrics. So, this is a number that you already have. And this has seen significant growth across all three products. So Paytm Postpaid is up 138%, personal loan is up 202% and merchant loan is up 232%. So, we are seeing traction across all three of our products. As we have mentioned before, starting, I think, May '22 is when we explicitly called this out that our focus is on improving credit quality. One of the things that we're quite proud of is that the penetration levels are still very low, which means two things. One is that there is a huge addressable opportunity ahead of us and also that we are very selective when we work with our lending partners on who gets a loan on Paytm platform. Another indication of this is that the portfolio performance for our partners has continued to improve. Specifically in Paytm Postpaid last quarter, we lowered the range for expected credit loss with our partners, and this quarter again, we are lowering the ECL rates in the range that we have given. Earlier it was 75 to 100 basis points, now it is 65 to 85 basis points. So, we are seeing consistent improvement in credit quality because of a number of business initiatives that we have taken.

We'll go to the next page, please. Our commerce and cloud business. The co-branded credit cards and advertising have driven growth in commerce and cloud business. It is up 22% year-on-year, which is lower than our overall business, but it is still a healthy 22%. In our commerce business, we - just to remind everyone, we sell travel, movies and events tickets and deals and gift vouchers to customers. This GMV was INR 2,500 crores. It was up about 10% year-on-year. On a revenue basis, this was up about 12% year-

on-year. The reason for the subdued growth was a decline in the movie industry. So last June, the movie industry was seeing some healthy content. This June quarter has been lower than the previous June quarter. Also, there has been a decline in Play Store vouchers, which are sold - that entire industry, and we also sell Play Store vouchers, so that entire industry has seen a degrowth.

On a QoQ basis, I just want to call out that Q3 and Q4 are strong quarters for our events business. So, there is that seasonality in our business. Q1 and Q2 are much more subdued because of the lack of holidays, festive season, as well as weather. So, our take rates have basically come down to what we have guided earlier, which is 5% to 6%, whereas in Q3 and Q4 we see a little bit of a higher take rate.

On our cloud business, like I mentioned earlier, co-branded credit cards, they are continuing to scale very well. As you know, about a couple of quarters ago, we started to give numbers for activated cards, that number has now reached 7.5 lakhs and our partnerships are doing very well. You may have noticed that we have launched a credit card with SBI, SBI RuPay credit card. Paytm SBI RuPay credit card, which was launched about a month and a half ago, and we also saw growth in our advertising business.

We'll go to the next page, please. And finally, some of the growth drivers in our business. Clearly, mobile payments in India have still got very low penetration, particularly on the merchant side. We think that we are extraordinarily well placed in that business because the technology that we give to our merchants is very well accepted and the adoption is growing very fast, particularly Sound Box and Card machines. We're making a number of other innovations in the payment ecosystem. UPI Lite, we were the first to launch the RuPay credit card on UPI, which we just mentioned. Multi-bank and Brands EMI aggregation. As I mentioned earlier, we are seeing an uptick in that and that is contributing to higher net take rates as well. And Paytm UPI SDK for our online merchants.

On the loan distribution side, we think that there is a huge opportunity for growth, while we will continue to focus on ensuring superior credit quality for our partners. Further, there is good regulatory clarity on digital lending guidelines now in India. So that is also supporting the scale-up of the loan distribution business. Last quarter we had mentioned that our target for this year is three to four new lending partners. On June 30, we did announce the first of those new partners, which is Shriram Capital. And I hope many of you have noticed that. Paytm Money has launched a new bond trading platform. We think that there is huge under-penetration in India for retail investing in bonds. So that's a business, which while it is very early and very small right now, is a directional bet for us that we think that this is something that will play out over the next several years. So, we are proud to be one of the early players in that.

With that, I'll hand it back to the moderator for Q&A. As Vijay mentioned, we have put a detailed earnings release and we have intentionally kept the presentation relatively short to allow as much time for Q&A as possible.

Moderator: Thank you Mr. Deora. With that we'll start the Q&A session of the earnings call. As a reminder if you seek to ask a question kindly utilize the raise hand feature on your zoom dashboard and we'll seek the questions in the sequence of the raise hands and within the permitted time. With that the first question of the session will be from Mr. Sachin Salgaonkar from Bank of America.

Sachin Salgaonkar: Hi, thank you for the opportunity. I have three questions. First question is regarding your ticket size on loan and clearly Madhur, we could see you guys lowering ECL range but while we're seeing that we're also seeing ticket size across every segment which is Paytm Postpaid, personal loans, merchant loans is actually increasing and perhaps in a meaningful manner. So, I just wanted to understand how we should look at this?

Bhavesh Gupta: Hi, Sachin. So, the reason for ticket size increase is that the renewal business is now maturing. We've been at this business -- merchant loan postpaid for three years and Personal Loan for more than two and a half years. Both in personal and merchant loan, more than 50% of our business is coming from existing users and in postpaid about 65% of business from existing users. So lenders have a much larger comfort in giving a higher ticket size to people when they are disbursing the second loan or a renewal of the existing loan to the users. The new user ticket size continues to be the similar amount that was happening, let's say, a year or 12 months back, but because the blended business has moved up, that's the reason ticket size has moved up.

Sachin Salgaonkar: So, Bhavesh, directionally it might inch up a bit more also going ahead?

Bhavesh Gupta: Yes. So, it may, but that's not a metric that we personally track. It is basis the comfort the lender derives and what is their underwriting policy, but broadly, our focus is that we should be, as the book matures, on every product there could be a stability point both in merchant and personal loans in particular that the existing customer renewal, as a share of total business, could inch up to maybe 60%. So, yeah, you could expect marginal increase but Postpaid is a natural increase over a period. It will not see a dramatic increase, because it continues to be a consumption-led product, not a life-led product.

Sachin Salgaonkar: Got it. Second question, the new FLDG norms are out there. I just wanted to understand, any change of thought in terms of how you guys are looking at current business, and does that change incrementally something for you, i.e., in terms of getting a bit more partners as well?

Bhavesh Gupta: Yeah. So, I think this is a very welcome move from the regulator. It just reinforces that the overall regulatory environment is very positive and pro of building a digital lending infrastructure and credit business in this country. We welcome this move with a lot of positivity. Having said that, our belief here is that risk management is a job of a regulated entity. They understand risk and the heterogeneity of models that they have built over a period of time much, much better than Paytm would ever be. So, our current model is not of taking risk but helping the lenders to manage collections. We are committed to their model; we'll scale that business. Will it add and help in any new partners, because we've never given FLDG, we don't have any inertia in getting new partners. Like you saw Shriram Capital or Shriram Finance addition, you would see many, many more large institutions getting added to our overall portfolio of partners that we work with, without we offering any kind of FLDG. So the short answer is this that our model that we continue to pursue will continue as it is. We are not exploring any FLDG models with our partners.

Sachin Salgaonkar: Okay and is Shriram already onboarded, should we see contribution from next quarter onwards?

Bhavesh Gupta: No, they're not, they're on-boarded but they're into technology integration. So our aim is currently that we're looking at some time in quarter three that they should go live.

Sachin Salgaonkar: Got it. The last question I have is on the software cloud data centre expenses, clearly, we did see them declining and I presume this is because you guys are moved to a new platform. So just wanted to understand going ahead directionally this should continue to further come down as well, right?

Madhur Deora: Well, I think, as a percentage metric of GMV transaction revenue et cetera, it should continue to come down. But you're right that we did see the benefit last quarter of effectively exiting our old platform, which I think I mentioned in the previous quarter's call that we were effectively running two cloud platforms in parallel. So, exiting the old platform did give us a one-time benefit. You shouldn't expect it to sort of continue to decline in absolute term, because as also the business scale grows, there are more transactions, more data, and so on, more compute required, more storage required and so on, but as a percentage of revenue and so on you should expect for this to go down over time.

Sachin Salgaonkar: Okay thanks guys.

Madhur Deora: Thank you Sachin.

Moderator: Thanks Sachin. The next question will be from Mr. Nitin Agarwal from Motilal Oswal.

Nitin Agarwal: Yeah, hi. Thanks for the opportunity. A couple of questions; first is - how many tie-ups are we looking to add now over FY 24-25 to sustain this disbursement goal that we are reporting and what is the outstanding loan book size with all the partners as of Q1?

Bhavesh Gupta: Hi, Nitin. So, Nitin, I think last quarter also, we had mentioned that this year we are looking to add about three to four more partners. One has already been announced and the remaining couple of partners, we intend to announce over the next couple of quarters, that will help us to manage the -- both the aspirations of the new partners who come in and the existing partners. And more importantly, it will provide the much-needed expansion of what those new partners bring to us. So this is something that we believe will happen. We could make some amendments as we go in the next couple of quarters in terms of adding more than what we are saying, but this is a minimum we will add. With regards to your second question, if you could repeat that please once again for me.

Nitin Agarwal: So the outstanding loan book size?

Bhavesh Gupta: You see, the loan book, we actually don't track, because our commercials are based on disbursements and not on the loan book, but broadly what we understand, basis the average maturity of tenure and the composition, if you are disbursing, let's say, INR 100, about one-third could be the AUM as a combination with all the partners, but this is more of an estimate. That's a range that you could take.

Nitin Agarwal: Okay. And of these three, four partners that you're looking to add, are you looking at banks also to come?

Bhavesh Gupta: Yes, you will see some announcements in banks also.

Nitin Agarwal: Okay. And the other question is like on the pending regulatory approvals. Any thoughts - what progress are we looking over there for both the payment aggregator and the payment bank. And while we have mentioned that it is not affecting our business growth and overall aspirations, but as and when you get these approvals, how will things change in terms of the growth trajectory thereafter?

Bhavesh Gupta: I think both are different approvals which are pending. So let me talk about the Payment Aggregation business first. I think the last update that we'd given that there are approvals, which are pending with the government ministries et cetera. The process of engagement with them is already on. We'll file the application. That process is currently in the works. And whatever exchange of information has to happen is going on. And we remain hopeful that that process should end fairly shortly, and we should get the direction for further course of action in that area.

Having said that, we've been explicitly guided by the regulator that we can continue to operate the business we were operating of Online Payment Aggregation that we were doing, and as and when we were to get any kind of communication from the Government of India, we shall keep them informed. So, our business has not got affected, primarily because we've been in this business since a very long time, at least from 2017. It's been about six years of doing payment aggregation business and being the leader in that business right from the beginning, we have had many, many customers who've been added in our system, and our focus has been to further deepen our relationship and penetration. And as you can see from both net payment margin and growth of GMV that area of effort is really helping us. Yes, there is always an opportunity to add new clients. So, we will welcome as and when we get the approval to be able to add new clients. It will have a marginal impact on the growth of our business, not a material impact, especially in the online space because the online space, we believe, currently, most of the large clients already are there and the objective is to move towards increasing penetration versus adding newer clients.

On the bank side, that process is again on. As an associate of Paytm, the information we get from the bank is that the process of engagement with the regulator is on. Yes, it has taken a lot more time than we anticipated, but at this stage in time, we don't have necessary clarity as to when would the process be

over, but we understand from the Paytm Payment Bank management that that process is operating very, very comfortably and should get over soon, but we don't have any particular timeline to those yet.

Nitin Agarwal: Okay and lastly just to again come back on the loans side we have achieved an annualized disbursement run rate of close to INR 60,000 Cr and there has been a bit of concern on what we have seen after the regulator pointed out some discomfort on the growth and unsecured loans. So, have you seen any change in behaviour or underwriting with your partners and how sustainable can this value of loans be because we are already INR 60,000 Cr a year, how sustainably do you see this growing over the next two three years?

Bhavesh Gupta: I think the focus of ours, right from the beginning, has been to ensure that we are able to originate the best quality portfolio to our partners and that approach of ours hasn't changed over the last three years. Yes, we have been reading in the press about the discomfort, which is particularly called out for banks, et cetera by the regulator. Our partners, thus far, haven't come across stating anything of discomfort about the portfolio that we've originated with them. So, you will see even a personal loan product in quarter one. We have grown, while we ourselves believe that we should calibrate growth as we move forward, but we don't see the growth getting tapered off to a level wherein somebody shows discomfort. Our belief is that there is an opportunity for the business if calibrated to the macro conditions of both risk and reward ratio. Whatever growth is then hence as an outcome desired, we will pursue that.

You will see us being a lot more conservative in growing, because our objective, just like how we have demonstrated in Postpaid, we would love to demonstrate the same in merchant loan and personal loans also that we can continue to grow at a healthy pace and also have a portfolio perform better than what we did last year. With that plan in mind, our focus will remain to get a better portfolio and also a decent level of growth, but it will be calibrated looking at the macro.

Nitin Agarwal: Thanks Bhavesh. Thanks a lot and I wish you all the best.

Bhavesh Gupta: Thank you, Nitin.

Madhur Deora: Thank you.

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

Rahul Jain: Yeah, hi, thanks for the opportunity. As you mentioned in this presentation that there is an increase in GMV, from card and EMI, which has helped in better payment margin. Just wanted to understand that do you see any possibility that we have just yet touched the QR-based payments through the debit side of the economy, but the next wave could be QR-based payment on the credit side through EMI, card, BNPL or whatever, and incrementally regulator also keep on talking about the under-penetration on credit and all that. So, do you think that could actually change the dimension in a different way and the 7 to 9 bps that we keep talking about could stay at a higher level and overall revenue per GMV basis could also expand materially?

Vijay Shekhar Sharma: Rahul, thank you for this. And I'll ask Bhavesh to add post what I suggest here. Number one that you actually pointed out correctly that there is an incredible attention, there is an extra attention that is being put by regulators and every the payment provider - player, like banks or NBFCs to make credit on counter available at more and more number of times, and more and more possibilities there, whether it is led by credit cards. So, the credit card acceptance on UPI QR. And then you can see the growth in the credit card spends, you can see the growth on BNPL equivalent, whether it is a large ticket or a small ticket on the counter is the growth direction. While the debit side has plateaued is not what I would say. There is a large customer base still pending to come on board. But definitely, credit is adding the flare of extra revenue and it will add to the net bps margin continuously. We don't know how many people will actually have credit access, and then in turn pay on the counter using credit. But that is definitely going to be there. And Rahul, it is not just on debit, it's also on prepaid. So prepaid and credit

are the areas that could add extra margin to payments in India. That is what I'd say. Over to Bhavesh for his view.

Bhavesh Gupta: Yeah. No, I think I'll just supplement what Vijay said with one simple statement. As the affluence and the aspiration of larger masses of India is growing, affordability of those aspirations or driving affordability becomes a very important element as far as retail is concerned. And we are clearly seeing trends which are not necessarily available last year, be it online or offline. A lot many more brands, just not mobile phone brands but even lifestyle brands and travel brands et cetera are seeking affordability. So, it's a technology that Paytm is able to power on the ground, be it on online space or offline space and even QR space of being able to drive affordability. And that market has really helped margins improve. And as Vijay rightly said, we will see, irrespective of what is happening on the acquiring side of technology, be it QR or card machines or online gateway, affordability will become a very important driver for increase in payment margins and having the customer get the right deal with the merchants on a long period of time. So that shift, as India becomes more affluent and more aspirational, that shift is a three to five years shift. It will move a lot more with affordability and higher...

Rahul Jain: Hello?

Vijay Shekhar Sharma: Yeah, Rahul that is what the answer is. You can continue the question if you have?

Rahul Jain: Yeah, sure. Just one more question. So, looking at this annual spend on your marketing expense, Q1 was 1.8. There was some saving that we were expecting from non-renewal of some sports sponsorship contracts. So how should one look at for the year and for the future on this marketing expense side?

Vijay Shekhar Sharma: Yeah, there is no doubt about it. There was IPL et cetera, as you noticed, if you would have seen those things. So those are the kind of expenses that we had. But at the same point of time, instead of being more dollar -- rupee value reduction, we look at it as a percentage of revenue direction because there is a tremendous amount of opportunity of acquiring consumers. We will be diligent and bothered about good quality customers. So, Rahul, if you notice, QoQ, our user growth has not been dramatically larger than previously, and it is not because incremental users have not come. Actually, incremental users have been growing, we've been pruning and adding features which are related to safety, security on our platform. So, we will continue to focus on consumer as a business also Rahul, and that is why I would say, even though you would have seen a trend basis it is more, but I think as a percentage of revenue, we would keep it at a particular level.

Rahul Jain: Sure. Understand. Just, sorry, if I could squeeze in one more question which is related to this headcount addition that we see, which I guess is largely for the onboarding of new merchants. Can you just explain why we need such a large pool? Is it because of new markets, new micro market and new geographies that we keep going because if I see this - there is an absolute addition of a million on a run rate basis, then ideally the same set of people with some servicing requirement, but it should not grow very linearly because the people who would have already deployed may not be as busy with the existing base. So, is there some non-linearity in that?

Vijay Shekhar Sharma: Yeah, yeah, totally agree. And in fact, the interesting thing here is that we are expanding to new geographies. That is why there is a cycle of person getting onboarded, getting trained and getting fully, let's say, productive in number of deployments, but we also see requirement of adding even more number of people, because mobile payment and opportunity of merchant accepting payment is dramatically growing to next level of geography level where we have reached today. I mean, I also want to share that we used to, at one point of time, like many times we have added in these analyst calls, discuss what the TAM for number of devices was or subscriptions you can sell. And we continue to see that number actually growing once we reach that milestone where we see what new kind of customer would come. So newer devices, newer markets, and newer merchant needs served by devices is the way forward for us. And in these, training those number of people and deploying those number of people is something

that we continue to do, and we will keep adding. Like I told you in consumer and merchant, both sides, there is an extraordinary opportunity for the next two years.

Madhur Deora: I'll just maybe add a small point to that which is, I think we had mentioned this last quarter, but over the last couple of quarters, we have really focused on enhancing the service as well. So, there is a service team, which does a fantastic job of making sure that the merchants are getting really high-quality experience. So that has been an aspect of some of the growth, but the predominant aspect is, as Vijay mentioned, which is we see opportunities to go deeper in the country and we are seeing an increase now in the net adds and it's not very noticeable yet. We're doing about 10 lakhs a quarter. Last quarter we did about 11 lakhs. So, we are seeing that opportunity to grow a little bit faster.

Rahul Jain: I appreciate the colour thank you so much.

Madhur Deora: Thank you Rahul.

Moderator: Thanks Rahul, the next question is from Mr. Rahul Bhangadia from Lucky Investments.

Rahul Bhangadia: Yeah, thank you for taking my question, sir. And congratulations on a continuously improving set of numbers. Two things here. The revenue from financial services and others as a percentage to the loans disbursed seems to be trending downwards, and it has now reached about 3.5%. Could you help us with how we should kind of look at the take rates here or the commission here?

Bhavesh Gupta: Yeah, Hi Rahul. So the last quarter we had mentioned that because of better portfolio economics on Postpaid, the interchange that we pay, which used to get added to the revenue of the lender and some part of it used to come back to us as gross income, because we have reduced interchange by almost 50 basis points last quarter, you optically saw the take rate go down in quarter four. This quarter, the idea that we have been able to understand more strategically with our lending partners is that with the repo rates kind of plateauing, we did not want to pass on the increase of repo which happened in the last quarter or maybe a quarter or two to the consumers, because we wanted to make sure that, a, we are able to maintain better portfolio quality and just ensure that our portfolio mix is more high quality than may be of users who were on the edge and they were comfortable given the last year macro, but may not be comfortable given this year macro.

So, we've taken broadly a 0.1% upfront hit in our take rate on credit predominantly, which we believe that we will recover, similar or more, through the collection incentives, as the portfolio performs much better, because the portfolio mix is better. On a trendline basis, we don't see this number go down. I think this number is the stable number that we can very comfortably see, because the repo is not changing. Hopefully, it is not changing, unless it changes for a long period of time, when we'll have to reverse the statement, but at this point in time we believe if repo remains where it is and our portfolio mix is now, I would say, largely optimum, the take rate should remain what it is today or maybe starting to inch forward in quarter three and quarter four. So, a clear assumption should be that you could take between 3.5 to 3.75 on stable base cases.

Rahul Bhangadia: 3.5 to 3.75 obviously also includes the incentives that you would be getting on collecting what you would have disbursed let's say six months back or one year back, right?

Bhavesh Gupta: Yeah, it includes incentives that we collected almost 15 months back because merchant loans and personal loans are where the large part of incentives.

Rahul Bhangadia: Okay, and the other question was on this round off thing. Revenue from the subscription of merchant devices. Would there still be of the order of 100 bucks a month or you have given a broad range in the presentation what would be the average number that we can go by?

Madhur Deora: So, net of GST it is slightly more than 100 rupees a month.

Rahul Bhangadia: But that's about it because you've given a 100 to 500 range in the presentation so...

Madhur Deora: So, the Soundbox is slightly more than 100, so you can take 100 slightly conservatively. We have the card machines which depending on the model can be 300 to 500 rupees but that is a much smaller percentage of the base. The Soundbox is the much larger percentage of the base.

Rahul Bhangadia: Oh so 100 is a good number to go by, net of GST?

Madhur Deora: Conservatively 100, is a good number to go by for the overall base.

Rahul Bhangadia: Thank you very much, thank you for answering the question.

Madhur Deora: Thank you, Rahul.

Moderator: Thank you, Rahul. The next question will be from Mr Piran Engineer from CLSA.

Piran Engineer: Yeah, hi, thanks for taking my question and congrats on the quarter. So, a couple of questions here, one is just a follow-up on one of the previous participant's question, like really what happens to all the employees after three to five years because you, I think, almost tripled your employee count in the last three years or so since the IPO, or maybe two, two and a half years. And once you achieve your penetration of Soundboxes in the next two years, the rate at which you're going will reach 1.5 crores Soundboxes in another two years. So what really happens to all these employees?

Vijay Shekhar Sharma: So, Piran, we -- first of all, thank you for noticing that we have never stopped investing in our future growth and opportunity, and it is an important thing as continued business we see. And we don't see it as an expenditure that is, let's say, this is one-off. We believe that there is a great opportunity to build a large technology distribution and obviously payment is one part of the technology. Then extending it to commerce in the next part of technology that we are working upon. And then later we could find out some other service and technology that we could give them. So, we look at it as a distribution channel and moat for India's small micro entrepreneurs and companies and we believe that we will have different, different use cases at different, different stages of time. So as a direction while we are continuously adding, we will optimize it at a particular point of time when we see that there is not that depth of penetration coming in, or new person productivity is not that much, but right now there is all the reason to add even further.

And secondly, like you said, what we will do is, in mature markets, let's say, in a large metro market, we have started to sell deals business, if you've started to notice that which is enabling more commerce. So, there will always be hopefully something else, and if we don't find something which is palatable and can be used for revenue generation, we would happily optimize the number of people, but right now, for the next two, three years, we see it continuously growing.

Madhur Deora: Vijay, if I could just add one point so you should see for example the device subscriptions as the revenue stream and the technology which this distribution team is supporting today we think the base case is that there will be new products and new technologies and new revenue streams that could be distributed to these merchants so that's sort of the base case and that's what we are sort of planning towards. I couldn't tell you what will be the killer product three or five years from now, I could give you a few ideas but I couldn't tell you what the killer product will be but that's where sort of our innovation comes in.

Piran Engineer: Okay and just getting back to Vijay's point, can you give an example of like you said in metro cities you've started engaging in different ways to improve commerce so can you just give an example of what that would be?

Vijay Shekhar Sharma: A gift voucher is a simple example. We are selling gift vouchers of different, different enabling it for more number of people.

Piran Engineer: So, this will be even for your mom and pop, like Kirana stores?

Vijay Shekhar Sharma: They may do a deal; more than gift vouchers so there will always be something.

Madhur Deora: So, if you go to deals, there is a section on Paytm app for deals and cash-back. Within that if you go to - there is an icon for deals, and then you can see restaurant deals, you can see retail deals. So restaurants will run deals with gift vouchers, retail stores will run gift vouchers. So that's something that is available on the Paytm app and that has scaled up tremendously on the supply side recently.

Piran Engineer: And that's because of your feet on the street or is it more of a B2B part, like I think you would tie up with Dominoes and say okay, why don't you offer..

Vijay Shekhar Sharma: No, Piran, you should see there, there are standalone restaurants there, individual single restaurants. Then national restaurants are obviously there. We look at them as enterprise, and enterprise coverage is like you can see is driven by a particular size of the team, but this is definitely an individual store kind of thing.

Piran Engineer: Got it, got it. Secondly, in terms of online merchants that we do payment aggregation for, just wanted to understand, is it that you get growth because let's say your online merchant is growing let's say Flipkart is growing what a 30-40% year-on-year and you also get that growth. Is there something we can do ourselves to gain market share among all the payment aggregators they have and if so, what is it? Is it more pricing led, or do we offer more products? How does that space really work is what I want to understand?

Vijay Shekhar Sharma: Yeah, there are two line items, two key drivers of getting more share of wallet of current customers. Number one is, like you very well said, give more number of payment options. And number two is to give better success rates. The pricing is now not a big factor. Incidentally, surprisingly, pricing is actually not a factor, because losing a customer for them is costlier than getting a few bps saved on the pricing. So contingent to the pricing value as a pricing, it is more led by better success rate, more payment instruments.

Piran Engineer: Got it and just lastly pertinent question for now any thoughts on Jio? I know it's a pretty broad-ended question. How they could disrupt the merchant lending part of it with their Jio Mart business is what I'm really alluding to?

Vijay Shekhar Sharma: I think there is a large market out there to be served by many, many more number of large players, and we believe that this country's opportunity is so underserved that we believe that in India many more big institutions - from distribution to book ownership, every kind of space has opportunity for many, many large players. So we believe that there will be opportunities for everyone to coexist and expand that opportunity. And I think everybody would address it from their standpoint. So there will always be an opportunity for everybody to win. And there is no - surprisingly, the best part I can tell you in this business is there is no winner take all and there is no winning of someone means less for some others. There are a lot, lot, lot more people, many more number of people needed in the industry to serve the small customers of this country.

Piran Engineer: Got it, got it. That's all from my end. Thank you and all the best.

Madhur Deora: Thank you Piran.

Vijay Shekhar Sharma: Thank you Piran.

Moderator: Thanks Piran. Next in queue, is Mr. Sameer Bhise from JM Financial.

Sameer Bhise: Yeah hi, thanks for the opportunity and congrats on a good set of numbers. One is on the indirect cost line still growing 40%, some thoughts there would be helpful. Should I go ahead or we take that first?

Madhur Deora: Sorry I'm not - feel free to finish all your questions

Sameer Bhise: Yeah secondly, on the number of merchant loans during the quarter that stays flat QoQ, is it purely seasonality?

Madhur Deora: Did you want to finish...

Vijay Shekhar Sharma: You could complete the question and Bhavesh is here.

Sameer Bhise: Yeah and finally on Vijay's comments with respect to one, are employees kind of sales staff on the field, spread geographically? Can you indicate what kind of number of towns or cities would they be spread across and finally on potential use-cases say three to five years down the line or revenue streams down the line; any examples would be useful if you can highlight that. That's all from my side.

Bhavesh Gupta: Let me take the non-indirect cost question and Madhur can step in, post that. See, from a purely merchant lending QoQ piece that you mentioned, I don't - again, I want to repeat, we're not chasing a metric which is the number of merchants taking credit or value. Our metric is always that we are able to service the demand out there with the best interest of the portfolio for lending partners. Having said that, as the book is maturing, we're getting a lot more business which is very high credit quality of existing merchants taking more versus the newer merchants coming on the play. Quarter one generally is that period of time when merchants - newer merchants are less interested with credit because they really plan the business. And Q2 and Q3 onwards we see a much higher demand, and we will see the merchant - the newer merchants take more loans and hence, total number of merchants taking loans will increase, but our focus is always to make sure that we are able to retain our existing merchants and merchant loans and obviously ensure we are giving them more, both from a portfolio construct and retention and quality of book.

To your question on location, yeah, we currently have close to 500 locations, depending upon what product you're dealing with. Our idea here is that if you were to come back last year in the same quarter, we would have been closer to 400. So we kind of added about 100 locations over the last 12 months. Our thinking here is that QR is the first destination product, paper QR. And then Soundbox follows and then card machines. So we are obviously delivering QR in much higher number of locations because we also do DIY QR et cetera and Sound Box will follow. So that will be the demand that we foresee over the next two to three years really on the devices side to keep growing and hence, our sales force will keep growing. Madhur, if you want to add..

Madhur Deora: Yeah, on the other indirect expenses there's sort of no one, straight explanation to it. There's a number of - this is the other within the indirect. So it captures a number of our smaller expenses and unfortunately that number is a little bit lumpy. I do expect this number to come down over the next couple of quarters.

Sameer Bhise: Okay and finally on the use-case opportunities over say three four years?

Madhur Deora: Yeah, so I don't think we want to get too far ahead and get into sort of speculative zone but I think the best example that you can think of is that seven or eight years ago when we first launched QR code in India, QR code was the technology, and now four years ago, we started to make devices the technology, and like Vijay mentioned we are now seeing an additional opportunity in deals and gift vouchers solutions. We've also mentioned in the presentation that we sell loyalty software to our merchants. So those are the things that we're working on. They are not as big in terms of number of merchants or number of subscriptions as QR code is or as devices is but there will always be - we are big believers that merchants when they have more technology and especially if we are able to connect them to our customers, because we have a huge customer base as well on our app, will benefit in many ways. They will benefit on the payment side for sure but they'll also benefit on basically being able to grow their business which is what we call Commerce and Cloud. So we will discover new and new things, just like we've discovered deals and gift vouchers, is something that we will hopefully scale going forward.

Sameer Bhise: Fair enough and if I can just squeeze in one more question. Could you give some quantification of what has been the gain on the interoperability circular norms with respect to payment margin?

Bhavesh Gupta: Yeah. So Sameer, this is -- the circular came in only in April. There are a bit of head protocols, which the network wants both acquirers and issuers to achieve. So that -- all the market participants, including Paytm Payments Bank will issue as wallet, is currently in the dev state and certifications. So I guess, actual benefit can start to accrue at the end of quarter three and quarter four. It's too early to say, but there will be benefits, but actual benefits can be seen only in quarter three, quarter four.

Sameer Bhise: Okay so still more upside likely?

Vijay Shekhar Sharma: I won't use the word upside because I think the way I would say this piece is it just increases the acceptability of Paytm Payment Bank wallet and hence gives more reasons for users who use Paytm Payment Bank wallet and that wallet product has been growing in spite of growth in UPI the wallet product has been growing. It will have further reasons for users to use wallet because its interoperability will now be across QR codes and payment gateways. So I think more than revenue and the net payment margin impact to it I guess that there will be much more benefit of further penetration in use case enhancement for wallet which will long term result in some benefits also.

Sameer Bhise: Fair enough. This is useful thank you and all the best.

Vijay Shekhar Sharma: Thank you Sameer.

Moderator: Thank you Sameer. We have Manish Shukla from Axis Capital with the next question.

Manish Shukla: Good morning and thank you for the opportunity. First question is, as you look to add more lending partners do you see you trying to do more types of products or just these three products you think are good enough?

Bhavesh Gupta: Yes. So, Manish, I think it's a good question. Our focus is that there is a fair amount of penetration which is still left, if I were to use the word, on the Paytm platform, in other words, industry to further do what we can do in these lines of products. And our current focus is to work with our partners to leverage their understanding of risk in various geographies and their technology capability to build scale. So we're not looking at adding new products but there could be some variants, if I may use the word, of customizing a personal loan or a postpaid, or a merchant loan, but if you -- if your question is will we start doing, let's say, mortgages or loan against property, the answer is no. So there will be variants of these products, because we still feel we're in the early growth stage of building scale in this business.

Manish Shukla: Sure. And as it pertains to lending, in the past you've mentioned that two by two constraints, that is not more than two-year tenure, not more than two lakh ticket size, you see that limit, those restrictions getting - let's say, increasing those limits going forward?

Bhavesh Gupta: Yes. So we're not increasing limits. I think there is a life cycle of a credit customer. What we have seen is that that is a sweet spot where we're able to get the best return for risk versus reward. Both win-win for lenders and for ourselves. The higher you go, there is the rate negotiation, but the risk is much lower. So, the margin reduces relatively. So our focus has been where we can make the best risk-reward ratio. Currently it's two by two. If we do believe in future, there is an opportunity to have a balanced risk-reward ratio for, let's say, as an example, I'm making -- I'm not giving you a guidance, but I'm making a simple statement, three by three, yeah, we will look into it with our partners. But at this point in time, our focus is to build the majority of book under two by two.

Manish Shukla: Okay. Sticking to loans, looking at the ECL data, just curious, the ECL on PL and merchant loan is almost similar, whereas merchant loan is a daily debit product and PL is a purely unsecured product. So why should the ECL in the two should be the same?

Bhavesh Gupta: Yeah, so I am not sure -- this is a risk. This is a portfolio performance question, I'm not sure if it has anything to do with the tenure. But, see, PL as a product is largely hinged on users who are looking at as a cash in the bank, where the merchant is actually leveraging that payment inflow that he is

getting on a Paytm QR or a Sound Box. It just happens to be that both ECLs are largely pivoting to a similar number, but the return on both products are very different. The personal loan business is operating at 16%, 18%, 20% IRR, whereas the merchant loan products are operating, maybe a couple of percentage points higher. So the return on a merchant loan product, both for the lender and us is higher, while with the same ECL. And PL marginally is lower than the merchant loan. It is just a coincidence that both of them are trending similarly, it's not by design.

Manish Shukla: Okay. And really the last question, the new Paytm SBI RuPay card, are the revenue metrics for these materially different from the other cards that you originate?

Bhavesh Gupta: No. With SBI, the commercials are similar. It's -- the product has a much better acceptance. So if you were to say that there are 100 people looking for a credit card of Paytm SBI, and now would that 100 increase to 200? Yeah, it could increase to 150, because this product offers the customer the choice to link it on a UPI handle on Paytm app and be able to use it across QR codes of Paytm and other QR codes. So acceptance is the moat of this product and not the commercial. So we will be in a position to give -- expand the market together with SBI of more users wanting to move into a RuPay credit card and link them on Paytm app and use it across QRs. So hence, in terms of the value of total gain that we will get at a cumulative level will be much more positive, but the per unit economics is largely similar.

Manish Shukla: Sure. Thanks Bhavesh. Those were my questions.

Bhavesh Gupta: Thanks Manish.

Moderator: Thank you Manish. Given the schedule time of the session we'll take three more questions. Any questions we cannot address in this session we request you to please write into ir@paytm.com and we'll be addressing those questions. The next question from the session will be from Mr Vijit Jain from Citi. Vijit, your line is unmuted.

Anuj Mittal: I think Vijit got dropped off, we can move.

Madhur Deora: We'll come back to him.

Moderator: Yeah the next question will be from Mr Rahil Shah. Rahil, your line is unmuted.

Rahil Shah: Hello, good afternoon sir. I just have one question. Directionally how do you see... When are you expecting PBT to break-even excluding ESOP cost?

Madhur Deora: So we're not giving a sort of forecast. I think...

Rahil Shah: Yeah, no, no. I am definitely not expecting that. Just from your perspective, so directionally from a business point of view how do you see it improving from here on? So just a tentative.

Madhur Deora: So again, that would be guidance which I don't think it's appropriate to give on a call like this, but I think if you're seeing our EBITDA trajectory, and we have -- if you look at our December presentation, we have mentioned what the growth drivers of our business are. We have also given indications for where we see some of the costs going forward. So for example, we have said that the cost of building the platform should be growing at about 15% to 20%, and so on. And we've also given indications of when ESOP costs start to reduce, which is around the second quarter of 2024 - or, sorry, second quarter of FY '25. So when all of those things sort of come together, then there should be a rapid translation of EBITDA to net income, and that's sort of broadly how those numbers look. Rahil, are you still there?

Rahil Shah: No, no that that was it for me. Thank you.

Moderator: Thank you Rahil. The next question will be from Mr Vijit Jain from Citi. Vijit you can unmute your line.

Vijit Jain: Hi, thank you for the opportunity. My connection was bad. If this question was already answered I'm sorry, but I just wanted to understand a couple of things on devices and on the net payment margins. On the devices side, are you having better success in terms of moving people to higher value devices or are you also having better success in kind of getting most of your device footprint to actually pay up a subscription fee? I'm just wondering if the revenue increase that you've seen on a Q-o-Q basis in payments is driven more by devices or is it more of a payment instrument type of phenomenon?

Madhur Deora: So if you look at the net payment margin and if I could just answer it that way I think we provided commentary that the payment processing margin has also improved significantly and the reasons for that is one is we are seeing a lot of increase in EMI and cards where we make substantial net payment margin. Obviously we're seeing an increase in UPI and wallet and all of those things as well, but more recently we have seen acceleration in EMI and cards so that is one factor. The second factor like we mentioned is on the cost side with the interchange costs for both wallet and postpaid for slightly different reasons but we have sort of described that in the earnings release. The growth of subscriptions is a factor in the revenue but it is not the predominant factor and maybe to answer your question and to perhaps clarify all the merchants who take devices from us pay us a subscription. So they are all on a subscription plan. We may in a very, very small percentage of cases run certain offers and so on but merchants who take devices actually pay us a subscription fee so you can pretty much assume that all of the 79 lakh merchants who are using our devices or have a subscription from us are on the subscription plan which generates revenue for us. Did that sort of answer your question Jigar?

Vijay Shekhar Sharma: Actually that was Vijit's question. Jigar, please go ahead.

Jigar Valia: Hi, thanks. Okay, first question is on this average take rate as our trend has kind of been trending down and this time it was kind of a bit of a sharing when repo rate high incrementally the present rate should be a steady rate or you should look it as the trend kind of continuing for bit well more before it stabilizes?

Bhavesh Gupta: So Jigar, I just had mentioned a similar question previously. I think this is more calibration to not passing on the increase of the last repo rate to the user and kind of absorbing between ourselves and the lending partner. So there's a small blip of about 0.1% hit in take rate but it will be more than compensated maybe in a long arc of 12 to 15 months on collection incentives. Your portfolio will be dropped because you are choosing much better customers at a marginally okay rate. Having said that, we believe this is the kind of the bottom of the take rate because there is no more for the repo rate increase which is expected to happen. If that is the reality then you can assume this is broadly the range at which we are operating. From this, hereon, in a couple of quarters, we will just start to see this move on.

Jigar Valia: Fair, fair, got it. The other question is on the MTU increase, this quarter has been less. I mean we've been increasing by five every quarter. This time it's been two. But of course the focus is more on the penetration of Soundboxes, and devices have been doing fairly better. So, incrementally, should this be the run rate going ahead that we would look at that instead of adding five maybe two or three could be the run rate going ahead and incrementally there should be more Soundboxes and accordingly probably one can factor slightly more on the depreciation or the cost as far as devices are concerned?

Bhavesh Gupta: I think the two answers are a bit different. Our strategy on users and strategy on merchants are different strategies and obviously not kind of competing with each other. So let me first answer the merchant part to you. The merchant part we remain very confident on both the infrastructure that we have created by adding more sales force and the product upgradation that we've been able to make. You could see in this quarter we were adding about a million devices a quarter now we're adding about 11 lakh 1.1 million. Our belief here is that maybe on a quarter to quarter basis this number will be 11 lakhs or marginally more so device trajectory will be decently on an upward gain and we remain confident for not just this year but even for the next couple of years that this penetration will keep increasing. On the user side we have had a very clear cut focus to continuously increase user experience both in terms of how our app is used by the users to make payments and also the security features. We've

been working on giving newer app versions to our users over the last maybe three to four months in an accelerated manner and we took a bit of a bit of a clear call in quarter one of this year just to begin with this that we would like all our users to be using our latest app version which has better UI, better features, better product experience and speed and better security etc, etc. That resulted in maybe a couple of million users who did not upgrade to the latest to the app version not being transacting on the app. Now this is a temporary issue. We don't see any negative trend on new user addition or retention of our existing user. This is more of a product upgrade that we would like all our users to use and hence in this quarter we've seen marginally a couple of million users getting fewer. I don't think this is a trend to multiply over the next few quarters. We believe we should continue to grow the way we're growing last year over the next couple of quarters.

Jigar Valia: Okay one more on the payment processing so clearly payment processing charges have gone down and payment income is up this and because of the mixed EMI and cards and non-API instruments so if you can share what is the mix overall for us right now and are you seeing it as a kind of a trend or it's again kind of a blip and it should again go back in favour of UPI immediately but is there something wherein you can see this increase in non-UPI and EMI cards picking up well actually is there anything?

Vijay Shekhar Sharma: Jigar there's no dip in UPI. It's that other instruments have grown up because we have deployed more devices so more devices mean that we can acquire more card payments and credit related payments but UPI has blipped is not the fact.

Jigar Valia: Understood, understood.

Madhur Deora: UPI continues to grow well on our platform but what we're seeing is that other instruments are also now growing at a higher rate than they were previously. Especially because of the success that we're having on card payments and EMI payments both online and offline.

Jigar Valia: Understood depreciation lastly should continue at a slightly higher rate given the traction is a little better?

Madhur Deora: So the depreciation, we do depreciate the devices quite conservatively. So for example the Soundbox is depreciated over two years even though the life of that device is longer. So we should see the depreciation last quarter is a bit of a base and as we expand the platform or we expand the merchant base rather than we should see that continuing to inch up.

Jigar Valia: Thank you. Thanks.

Vijay Shekhar Sharma: Thank you.

Moderator: Thank you Jigar. The next question we'll take is from Mr. Saurabh Kumar from JP Morgan.

Saurabh Kumar: Hi team, so just two questions. One is what's the contribution of the distribution business in the overall financial services pool and how's that been trending? And the second is on this unsecured lending so if there is additional price competition in the market because all the banks and NBFCs are going here, who absorbs the ROA hit? Will there be a chance that Paytm again kind of takes some part of that or do you think that you have the ability to pass this on to the lending partner? These are the two ones, thank you.

Bhavesh Gupta: Hi Saurabh. So let me take the second question first and then come to the first question. You see there is as I said previously also there is a balance of risk and reward. Our belief here is that a good business is built where both partners are making money, which is Paytm as an LSP and lending partner as a regular entity. The consumer has to love the product and hence sticking on to the narrative of 2x2 and sticking on to the narrative of giving a best product experience gets you the upside. Having said that, I want to be very clear in my assessment that if this is the end of repo increase, I don't think anybody has to suffer with regards to any compression of revenue that they are making. If for whatever reason we will see in the future repo was to go up again, then we'll have to calibrate to how much to be passed on,

how much to be retained, etc, etc, because this is the peak of the repo in my opinion. Beyond this, if you really pass on to users, higher interest costs, you may see deterioration of portfolio which is not the focus here. So we don't see any margin compression happening in the current state. If the repo was to start coming down, which maybe let's say in quarter three or quarter four, we will only see margin increase of portfolio mix and margin increase in our revenues coming out of that entire thing. In the first piece, if you could repeat the question it would be great because then I can contextualize the answer to that.

Saurabh Kumar: Okay, so Bhavesh just on the second piece, my question was irrespective of the repo, let's say from the bank started using PL rates because we have seen repo rates increase but PL has not gone up so my question was essentially due to competition, if it comes down, what happens? And the first one was what is the contribution of the non-lending, the distribution business, your other stock broking piece in the overall insurance distribution, in the overall financial services revenue and how's that been trending?

Madhur Deora: Bhavesh if you allow me, I'll take the first question quickly and then you can please explain the impact of repo rates and competition and so on. So Saurabh in our Financial services and Others revenue, roughly depending on the quarter, roughly 85% is related to the loan distribution and collection business. I should point out and we have sort of a large explainer on this in the earnings release that the MDR that we earn on postpaid does not go into the financial services and others in the payments business and all of the credit card, co-branded credit card business that we do with HDFC and SBI and others goes into the Cloud part. So you're looking at 85% of that financial services and other revenue being related to the loan distribution and the collection for those three products excluding the postpaid MDR.

Saurabh Kumar: And it'll be growing at these similar lines as financial services or slower or?

Madhur Deora: Currently, it is growing at roughly the same pace. Over the last couple of years, the share of loan distribution and collection has grown, which might be obvious from the fact that that business has scaled up from being really very small three years ago to being one of the largest revenue drivers for Paytm.

Bhavesh Gupta: And Saurabh to your point again, with competition increasing, we haven't actually seen, to be very honest, competition increase in the less than two years and two lakh ticket size business because a large part of the banks are actually focused on higher ticket and longer tenure. There, the competition is much, much higher competition and currently we're not in that space of offering higher tickets and longer tenure. So in this space it has more to do with what is the right risk reward. I again repeat that you could actually pass on and try to earn a much larger revenue share for yourself or to the partner, but maybe originate not the best credit quality in the system. So this is less of a competition issue, but more of a portfolio mix issue. And hence, we don't see that there is a challenge on the revenue that we earn with our partner's in this cohort. Yes, in a larger cohort, there could be some competition, some challenge.

Saurbh Kumar: Okay, thank you.

Moderator: Thank you, Saurabh and now for the last question of the session, we'll take it from Mr. Anand Bhavnani.

Anand Bhavnani: Thank you for the opportunity. Two questions, one is of the 3.5 to 3.75% that we get for loan distribution collection. How should we think of the split between the two activities? And the second question is on the same lines; for our collections, in a scenario whereby, let's say the lender judges collections to be deficient, are there any penalties which can exceed the 3.75% that we combine on loan distribution collections?

Bhavesh Gupta: So Anand we've always maintained that point of view that we don't offer any kind of guarantees. The lender is free to decide whom they want to underwrite, what is the loss that they want to assume in the commercialization of this model, and whatever is the upfront they intend to pay us and

what they want to pay us as a collection incentive. If let's say, for example, the lender has a 5% expectation of loss and the loss was to be 6%, that 1% belongs to them. If the loss was 4%, that 1% belongs to Paytm because we are spending the effort and the cost to be able to collect on that account. So we don't have any kind of liability, explicit or implicit, to be able to get anything in our system with the portfolio performing worse off than what they anticipated. So I am just mindful of repeating this piece and now that the FLDG etc. are coming into play, obviously there will be many more lenders who will take FLDG etc. from different partners and would like to deal with that model differently, but our model remains what we've been able to communicate here in our system.

Anand Bhavnani: And how should we think of the split between distribution and collection services?

Bhavesh Gupta: Yeah, so different products have different maths. Postpaid has a lesser distribution. I would say there is MDR, there is convenience fee etc but I'll give a simple answer as an aggregate you could see about 0.5% to about 0.75% of current disbursement coming as collection incentive and the rest coming as distribution.

Anand Bhavnani: Noted. Thank you and all the best for coming quarters.

Madhur Deora: Thank you. I think we are way over time, but I am conscious that there are probably more questions and we have run out of time. So please I request everyone who still has questions to feel free to write to ir@paytm.com and one of us will come back to you over the next few days and anyone speak to you over the next week. Back to the moderator?

Moderator: Thank you Mr. Deora. With that we come to an end of this earnings call. Thank you for joining us for your questions. And as Mr. Deora said, please do write to ir@paytm.com for your pending questions. Thank you.

Vijay Shekhar Sharma: Thank you everyone.

Bhavesh Gupta: Thank you very much. Bye.