Paytm | Q2 FY 2027 Earnings Call |

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Moderator: A very warm welcome, everyone. Thank you for joining our earnings call for the quarter ended September 30, 2026. As always, we are going to do this earnings call with management video switched on. We welcome attendees to ask the question with their videos on or off, as they prefer. To ask a question, you can raise your hand through your Zoom dashboard. To ensure a seamless flow, participants will be promoted as panelists in advance. Today, from Paytm's management, we have with us Mr. Vijay Shekhar Sharma, Founder and CEO, Mr. Madhur Deora, President and Group CFO, and Mr. Anuj Mittal, Senior Vice President, Investor Relations. In today's call, some statements made may be forward-looking in nature. Actual events may differ materially from those anticipated in such forward-looking statements. This earnings call is scheduled for 45 minutes. A replay of the call and transcript will be made available on the company's IR website subsequently. I would now like to invite our Founder and CEO, Mr. Vijay Shekhar Sharma, to share his opening remarks. Over to

you, Vijay.

Vijay Shekhar Sharma: Yeah. Hi. Thank you. Thank you. Good afternoon, everyone for joining us. I think this was an interesting quarter. We've clearly come out of this question of whether Paytm can make profit or not. And it's very clear the business model is now compounding from where we were, let's say last year or year before. It is fundamentally to acquire customers from payment and cross-selling financial services. Obviously, the biggest financial service India needs is credit. So helping small merchants which are our primary business drivers is our primary revenue model.

I actually created a business presentation of what we believe is our business. So I'll start this time, after a long time, by giving you a business presentation on how we think and how we work. And this was intended because we were growing some of the international businesses. So I started to make and think about how we believe that Paytm should be looked at. Obviously, small businesses are our forte, and small businesses are our game. So this is our purpose, and we build a financial system for the world's small businesses. Start from India, take them to the rest of the world. And we champion the shop on the street, the family business, the growing SME, everyone. And we solve the small business problem beyond payments.

And as you know, we go beyond the payment device on the counter because we believe that this is the starting of the journey. We acquire using payment. Credit is what earns our money. Insurance and wealth deepen, and AI binds. And the question of what would you do with AI probably hits inside this message, where every payment starts, every relationship starts with payment. We go and acquire small, medium, large businesses. And payment flow underwrites credit. This is the critical thing that you will see in our business that we start from small payments to the large and depending on different states, we unlock the next state. And then we protect the owner, family, team, and shop. This is the expansion of our insurance bucket. And then idle cash earns.
This is how we help them. Obviously, loan or mutual fund distribution comes here.

This is something that we believe that we are building as our AI stack for small merchants. If you read it, it is something that all small businesses need to get, capabilities which large companies already have. And they don't have somebody to operate it, so the AI operates on their behalf. So we have started making some of these things, and some of the revenue starts showing up. We believe this is a future upside beyond financial services for our business. It'll take time, but I want to be sure that this is something that we capture in our business model long term. And this is really important for us that all of our functions, whether it is workflow or financial services, as you know, is AI-first, including the very fact that we code, generate, and so on. So whether it is onboarding or customer…

[Audio interruption]

Vijay Shekhar Sharma: Yeah, okay. I hope you can hear me better now. All right, thank you. AI-first, the brain works. Well, the point is that all of our business runs, I can't say one line item or another, and it is every line item works with AI first. And the best part is that even our sales team works. So who's the correct merchant to acquire, where the high yield is, or who is important to retain? This is decided by a machine, not just individuals. This is important. Paytm changed the cost of serving a small business into a profit. And that is what we probably have been out there proving that small businesses, serving them, can be profitable. And then, as you know it. And here it is. It starts from payment, credit, underwrite, and money flows into partners; pricing is visible; AI-first. And then we want to take it to the rest of the world. And that's it. With this, we will start inviting our friends on the questions. Yeah.

Moderator: Thanks, Vijay. We will start a Q&A now. The first question is from Sachin Salgaonkar from Bank of America, followed by Manish Adukia from Goldman Sachs. Sachin, please go ahead with your question.

Sachin Salgaonkar: Thanks, Anandita. Congrats, management, on another good set of numbers. I have three questions. First question, I wanted to follow up on the MDR implementation on UPI. You guys did mention in the shareholder letter 2.5 bps improvement on payment processing margin, let's say, over a period of two to three quarters. So two sub-questions out there.

Number one, how do you think this will flow through to EBITDA? And number two, from an opportunity point of view, are you guys looking to incrementally scale, let's say, at the consumer side or the merchant side? Because now, perhaps, the incremental LTV by CAC is getting better. And in the past, I remember Madhur sounded a bit more cautious on competition picking up. So any incremental comments would be helpful from a competition point of view also.

Vijay Shekhar Sharma: Second part, you said before the competition picks up, what was the question?

Sachin Salgaonkar: Sorry, let me repeat it. First, Vijay, you know, 2.5 bps of payment processing margin, how do we think this will flow through to EBITDA margin? Do we see a full flow through EBITDA margin, or do we see some incremental investments because you will be now targeting more consumers or merchants? And general thoughts on competition, especially in this space with monetization picking up.

Vijay Shekhar Sharma: Yeah. So Sachin, the answer is that this is a bottom-line accretive number, and it is an upside. And the plan for consumer acquisition does not change and deter because of this. We remain committed to acquiring a larger number of consumers. Consumer market share is ours to win. And I remain committed.And I'm surprised that we unlocked some shocking, surprising things that were restricting our growth. And they were not just internal. They were external, if you will. And I'm very happy to say this, that we are going to go all in on market share. And we call it a primary KPI for my team. So it is. And it is not dependent on MDR or not. Because in our business model, MDR is not factored in absolutely completely. We just tried, in fact, looking at the most conservative method. And then we found out 2.5 bps is something that we can make.

Remember, there is more revenue in this business because there is a platform fee. Typically, consumer apps are putting it in the market. And there is an acquiring side platform fee that exists. When large merchants, which are very large negotiating powers, put a very low margin, then companies put platform fees, even on the acquiring side. So I'm going to say that the bps that we've quoted does not factor in any potential additional revenue of any platform side fees that could have been added. So this is the logical today's best-case scenario number that we know of. And in my opinion, this is bottom-line accretive. Because this is not the basis of our consumer acquisition. We will still stay as aggressive as the current number is, where we will acquire more consumers. And yes, the consumer acquisition is a very positive number for us. I rather want to tell you this, that the number of features, the capabilities, the way we are acquiring customers, is something which we are very happy about and very positive about it.

Sachin Salgaonkar: Got it. Just a quick follow-up. When I do a quick math on FY28 at 2.5 bps, it does translate into incrementally close to 900 crores in terms of incremental EBITDA. Is the math ballpark correct?

Madhur Deora: Yeah, so on our GMV, which is 28 lakh crores, at a current scale, 2.5 bps would give you something slightly more than 700 crores. So if you're looking at FY28 numbers, that sounds ballpark, right. We obviously do expect to grow GMV faster than the market, both on the consumer and merchant side. So hopefully there's some upside there as well.

Sachin Salgaonkar: Got it very clear. The second question is on what you mentioned, as you're looking to offer an AI platform to enterprise merchants. Basis Vijay's opening remark, I guess the focus is more towards smaller merchants. So should we consider the equivalent of a Tally in an AI world? And it would be great to get some colour. Are you thinking about this as a subscription model? What's your target base? And what kind of monetization would we expect?

Vijay Shekhar Sharma: So I believe, Sachin, subscription plus transaction fee, one of the two or both will be applicable. So marketing is a very simple method. And we have started acquiring customers where we have put the platform fee. We are working with Meta and Google, actually rather Meta, where we are charging a monthly platform fee. And then we get some percentage of spend also. So all these models are showing up. You can factor in based on a certain percentage of our customers who are glass-door merchants. This is how we look at it. We'll be able to acquire, or we will be able to sell, some other AI service. So yes, it is for small businesses. For large businesses, we have something more brewing up. Hopefully we will announce it after some time. But right now we are focused on creating agents for small businesses.

Sachin Salgaonkar: Got it. And logically, monetization should start picking up in six to nine months from now?

Vijay Shekhar Sharma: Oh yeah, one year, which is three months already passed. So nine months plus three equals one year. Yeah.

Sachin Salgaonkar: Got it. And last question, I just wanted to understand how we should think about the mix between DLG and non-DLG and how that could change over a period of time. And also would love to understand how the consumer loan is scaling versus the merchant loan right now, now that consumer loans have started to pick up.

Vijay Shekhar Sharma: Yeah, I'll talk about consumer loan, merchant loan, first of all. One of the things, Sachin, we learned that we don't have, or rather, the consumer app business does not have any right to win in the consumer loan distribution business if you are putting additional risk-reward-based bonus, which we have in the merchant side. So we switched our business model completely towards distribution without requiring any upside off or any DLG to be given in consumer business. And I think that has shown us the result. We've been able to distribute a large amount of credit to the small or large consumer demands. We, in that category, can serve any size of ticket, and you can see the revenue. I mean, surprisingly, I can only tell you, it has pleasantly surprised me also. The team has done phenomenally, phenomenally well, and we are going to go double all in and so on and so forth. So there is an opportunity.

To the DLG mix, I'll ask Madhur to also chip in, but the simple answer is we don't look at the mix. We look at the more availability of capital, more availability of lenders and we want to have more number of people. And I always say this: if there is a new lender coming in, or if there is a lender there who wants to give us more capital because they want to take DLG, please take it. It is revenue-accretive and profitability-accretive because they open up more number of merchants, and the dollar value or the rupee value that they disburse. So it is overall in our business model, the one single downside is that it is a charge in the immediate month, but it is because we want to remain a credit distribution platform, never have anything which is future forward discounting of any revenue. So, as board guided, we have taken straight charge in the same quarter.

So you will see that our revenues in that quarter will also have a cost because of the DLG reason, but it is overall as a business, it is rather a better business that there is no future forward discounting to be added in the revenue. Incidentally, it is a pure technology business, and we are happy to extend this, which gives us more revenue in the long term. Madhur, your point.

Madhur Deora: Yeah, I think Vijay covered it. We don't say no to a lender just because they want DLG. We don't route more to a lender who has less DLG or no DLG. The idea is to find the right lender for the borrower and to do as much business as possible. Like we have mentioned consistently, even when DLG was going down or going up, we have consistently mentioned that we are largely indifferent to this. If a lender has a preference, we let them have the DLG, and it does back-end some of our profitability.

So that is worth pointing out when there's changes in DLG mix; it's worth pointing out to analysts just so that they get the kind of the models right, that some additional amount of our profitability is getting back-ended, right? And the final point I would just make is that we've been doing this for about two and a half years. So we do have some method to this, and we do know how to manage the DLGs quite well. And it has never really given us any negative surprises. So we're quite comfortable with running a large book within which a large percentage might be DLG-based.

Sachin Salgaonkar: Thanks. And one last quick one. We are already at October end of October. There is a market cap of NPCI. Anything you're hearing from NPCI guys, key officials, if this would be implemented in December?

Vijay Shekhar Sharma: We don't have the answer; NPCI might have the answer. We are the receivers. We don't decide.

Sachin Salgaonkar: Great, thanks a lot, guys.

Vijay Shekhar Sharma: Thank you.

Moderator: We will take the next question from Manish, followed by Vijit Jain from Citi. Manish, you can go ahead.

Manish Adukia: Thanks, Anandita. Hi Vijay, Madhur, good to chat with you. First, a couple of follow-ups from the earlier discussion you were having to Sachin's questions. When you mentioned you want to go all in on market share, one, is that comment specific to consumer market share or is that broad based?

Vijay Shekhar Sharma: Consumer market share and merchant market share both are there, Manish. The idea is that whenever we are talking market share and market share cap, we are talking about consumers. So whenever I'm quoting specifically, it is for consumer. In merchant, we are all in and it will be awkward for us to lose some share.

Manish Adukia: And when you say you want to go all in on market share, what will drive that?

Vijay Shekhar Sharma: We need to acquire customers in different ways and segments where there is some or other thing, whether it is marketing spends, whether it is collaborative partnerships, whether it is a product feature, whether there is something new in sight. So my thing is that I don't want to do it based on only marketing spends if you will, or cashback burn. I want to do it on product and features. I mean, we partnered with Perplexity at one point in time, if you remember. I was thinking that there will be large usage, but yeah, there is a lot on the table. We don't look at our consumer market share as people coming only for UPI payments.

Manish Adukia: Very clear. My second question is before the MDR implementation was pushed from 15th October to post-Diwali, can you give us a peek into the kind of conversations you were having with your merchants? I'm just trying to understand the operational implementation of UPI MDR. Whenever it happens, let's say post-Diwali, when you go to, let's say, a merchant and the cap is at 40 basis points, by default, does

everybody get switched on at 40 basis points? Or is there like, a bilateral negotiation you need to have with each merchant to say that, hey, you will pay 40, you will pay 30? Like, I'm just trying to think that from an operational implementation perspective, how heavy is it? Or can it happen at the flip of a switch on day one?

Vijay Shekhar Sharma: Flip of a switch on day one.

Manish Adukia: Okay, so you don't necessarily need to go and speak to your merchant and tell them that, hey, it's happening. You can just do it, and then negotiation can happen later.

Vijay Shekhar Sharma: There's no negotiation. We work with small businesses. Big business owners have big tantrums; we don't. Our business is very straightforward. Small merchant, small job, switch it on, done. And if you are like, let's say, a large merchant, you would like to negotiate that, oh my God, I would like to pay a lesser price. Then somebody else will enter with that price. I mean, even then, you will negotiate only when somebody else enters. So a small merchant is easier and a better, superior business always. And it is complex to do it.

Manish Adukia: Right, so based on that statement, can I say that the majority of your GMV transactions, et cetera, should be closer to that 40 bps cap rather than a much lower number than that?

Vijay Shekhar Sharma: Yes, but it will come only when you have transactions of more than 2000 rupees.

Manish Adukia: Understand, got it. And last question on just the growth momentum in the business. This quarter, of course, you had very strong growth across businesses - financial services, marketing, payments - and your commentary suggests that financial services near term looks good. Marketing has recovered, payments, festivity, et cetera. So I'm just trying to think that across the various businesses that you have, are there any businesses where, in the near term, there's any growth headwind at all? And in the past, Madhur, and I know this is like, maybe more than a year back, you had guided for revenue growth in the 20s to sustain the medium term. Given what you've seen in the business in the last couple of quarters, and I'm talking ex of MDR, has that expectation of revenue growth momentum reset upwards? If you can, maybe talk about that.

Madhur Deora: Yeah, so yes, we have now seen two consistent quarters of 28% growth. And while we stick by the reported numbers, if you exclude PIDF from the previous year's same quarters, this number is in the 30s. So we are seeing, thanks for pointing out, a strong tailwind. And we have said last quarter that across the board - consumer and merchant, payments and financial services, if you think about it that way. And we are seeing very healthy tailwinds in lending business. Personal loans, as we come out of the credit cycle, which was our expectation four or five quarters ago when we were in the middle of the credit cycle, like Vijay pointed out, it was a personal loan distribution business. The merchant loan business continues to do very well, including some TAM expansion opportunities that we have talked about, both on the slightly smaller ticket size, as well as the larger ticket size, around the whole business that we have been doing for the last seven years.

And on payments, we see GMV growth, market share growth, as well as better pricing. And all of this excluding MDR, of course. So far, so far really well. I think a lot of sharper execution is also possible because of AI, because we do have a large cost structure on sales, on collection, on service, and so on. All of these things just become better RoI due to AI. And some of that shows up in better costs; some of those in faster revenue. So some of this does show up in faster revenue. So if we collect better, it shows up in higher revenue in our business model, as you understand it. And that's just to give an example.

I think there are some very small, much smaller parts of the businesses where there are a few headwinds. So, for example, our equity trading business is doing quite well; equity broking, rather, is doing quite well on MTF.

But overall market volumes haven't been that great. So that hasn't quite scaled up as much as we would like to. Travel has been a little bit sort of on and off. So there are headwinds in the travel industry as well. And there's been a little bit of headwind overall in wealth, including the gold business. So these are much, much smaller businesses of ours, but because you asked, and I just want to be complete. But in 85-90% of our revenue, we are seeing significant tailwinds rather than any meaningful headwinds.

Manish Adukia: Thank you for answering my questions. All the best.

Moderator: Thanks, Manish. We will take the next question from Vijit, followed by Pranav Kshatriya from Emkay.

Vijit Jain: Yeah, hi, thanks. Hi, Vijay. Congratulations. Good set of numbers, I think. My first question, just a follow-up on the MDR thing to what Manish asked earlier. In general, do you think the industry readiness is there for MDR to be switched on immediately post-Diwali in terms of, I know there were discussions around some outstanding points of clarification that were needed from NPCI, and there are various players in the payment ecosystem who are all supposed to be ready to kind of do the MDR you guys collect, but it needs to flow through properly into the system. So, in terms of that operational readiness, are we there yet for it to get switched on post-Diwali, any specific date? That's part one of my question. And then I'll follow up with the rest.

Vijay Shekhar Sharma: We're ready. The industry is ready.

Vijit Jain: The industry as well? Sorry, Vijay, I know you guys are.

Vijay Shekhar Sharma: Industry plays a bigger role. We are one of the participants. We are ready. We can do it. We do it. We already make MDR base revenue, credit card on UPI, UPI credit line, which is postpaid; issuing, acquiring - everything is working. It works.

Vijit Jain: Okay, got it. Perfect. My second question is-

Vijay Shekhar Sharma: By the way, for industry also, I'll say it works. It's just one of the payment instruments called a bank account. So I'm sure, Vijit, if you go deeper, MDR on UPI is a slang word for MDR for bank payments on QR, which other payment methods already have MDR, as you know, on credit cards or credit lines, and so on. So the system for everybody is working, actually.

Vijit Jain: Got it. So it just needs a decision on the date in that sense then.

Madhur Deora: That's right.

Vijit Jain: Got it. Perfect. My second question is on the devices business. Good to see another good quarter: 700,000-odd devices rolled out in the quarter. Now I'm just wondering, you know, now that MDR is there, in terms of where you roll out devices, what kind of merchants you target? Is there any kind of change in who you'd want to target? Would you look at merchants who do more than 2000 rupees plus transactions specifically? and B, I know that there is this provision for improving penetration of devices in smaller tier towns, right? That's carved out in the UPI program from NPCI. And I know you guys have that capability and infrastructure already set in place. So is that where you would focus more of your device rollout plans on?

So I just wanted to get a broader flavour on how you're looking at that part. And a related question to it is your H1 capex on device rollout- is that what I should use as a, you know, kind of a benchmark on what capex would look like now?

Madhur Deora: So, Vijit, as we have said, the MDR on UPI is an upside to our business model. It is not fundamental to our business model. So I just refer back to that and explain what I mean, which is in the small merchant space, the primary business model remains the same, which is we acquire through payments and we offer financial services. At our current penetration rates and so on, the financial services revenue is significantly larger than either the fund or the MDR opportunity, et cetera, right?

So the short answer is fundamentally the whole business does not change. In the very small merchant business, we'll actively not get distracted by the fact that there is some, perhaps, additional MDR opportunity because the bigger monetization and the payback period comes from financial services. End of the day, the AI models that we use for what we call ARMS, Acquisition, Retention, Monetization and Service, they throw up the insights as to, hey, put some more sales effort in this pincode, put some more service effort in that pincode, and they will factor in the small merchant fund, the MDR opportunity, just like today they factored in the RuPay credit card on UPI opportunity. So they will do that as an input, but I don't think fundamentally the model will throw up surprising new facts.

On capex, yes, we have said it was about 400 crores on a kind of inward devices count basis, and we expect that to be the same. That number is a little bit higher than before, but we are focusing a huge amount on engagement and retention of high-quality and high-potential merchants because the payback periods are working so well that we just want to make sure that we have enough funnel of high-quality, highly engaged merchants going into financial services.

Vijit Jain: Perfect, thank you so much, Madhur. My last question, on the net payment margins, right? Now, this is a quarter where there is no UPI, so it's just business ex-UPI net payment margins, and it's nine basis points. Just general sense there, because top-down, if I look at the industry data, credit card spends have been kind of soft, right? Both QoQ, YoY, nothing particularly interesting has happened, at least in the industry. And I know you guys have other drivers, credit card on UPI, Paytm Postpaid, and device subscription fees as well. So in general, in the 8.5 to 9 bps move that happened in this quarter, what would you attribute that to?

Madhur Deora: I think part of it is a little bit higher. We have a certain threshold, certain type of merchants; what type of pricing do we want to make? So I think there's just a little bit of additional discipline around that number, which we have imposed. So that's one. And the second is we have other factors as well, where we are gaining good share, and we have had momentum for a while, things like EMI, DCC, etcetera, and the enterprise side. So it's a combination of a few different things.

Vijit Jain: Got it, perfect. Thank you so much. And best of luck for the next quarter.

Madhur Deora: Thank you as well.

Moderator: Thanks, Vijit. We will take the next question from Pranav. Followed by Suraj Das from Sundaram MF. Pranav, you may go ahead.

Pranav Kshatriya: Yeah. Thank you, Vijay and Madhur, for this opportunity. My first question is regarding Postpaid. Your commentary suggests that Postpaid is scaling well. And I do think that once there is MDR on UPI, possibly there should be enough reason for people to actually start accepting postpaid even more. So how should we see this scaling up? I mean, there was a scale of roughly 9,000 crore rupees in a quarter, kind of a disbursement. You think we can reach there in, let's say, a year or two? And in terms of the customer also, it was a fairly broad-based, almost 10 million kind of a customer base which was there for this product. So are we closer to those numbers, getting closer to those numbers? And any change in the behavior of those customers,

what are you seeing? Because this was also a funnel for the personal loan. So how this is spanning out, some colour on that will be useful.

Vijay Shekhar Sharma: Number one, I do believe that it is even more apt, like you've suggested for the acquiring side and issuing side, which is the consumer side, than when we had launched it earlier, because the customers have learned about it. And it is more of a multiple-player game now. So I'd say that when the market has learned the product, in the first avatar, we were teaching the product. This avatar, we already know the customer is using. So we do believe that it has potential upside. In one or two years, I don't know whether it will be a dash amount of quarters or a dash dash amount of quarters, but it has a target expectation of those numbers. There is no secret about it. Why would we not want to reach those numbers?

And at the same point of time, always, Madhur, I have quoted, I have quoted, we have quoted that it is accelerating better than before. So it took time last time. It will take less time, this time. We want to be very sure of the quality of customers, quality of credit book, and so on. And incidentally, it is an EBITDA positive business by itself. So it is a contribution margin positive business for us. And we remain committed to a large customer base and a large merchant base. And when the customers and merchants end up using it, large disbursements will show up.

Madhur Deora: Yeah, and I would just point out that there are certain elements of this network which have grown even sort of even further ahead from the first time around, which is the number of merchants who accepted in month six, month nine, month twelve, as you would imagine. And that is kind of going back to your point a little bit: if they were accepting RuPay on UPI now, then they shouldn't have a problem paying with this, and with MDR that should also. The spend per active customer started at a very solid number.

So it didn't sort of start low and started going up. The customers who were using it already loved it. Also our learnings from the collection work that we had done previously, that is directly being used now. So we didn't have to, like, get better and better at collections. We actually started with a very high base of learning and technology and so on. So all of those things are helping us as you would imagine. Yeah.

Pranav Kshatriya: Excellent. My next question is actually a follow-up to Vijit's question. So if I assume like 60 Rupees kind of a rent per device, then the payment processing margin is like five basis points. And whereas you state that it is above four basis points. So there seems to be a fairly strong growth. I'm asking more about the sustainability of it. I mean, and some colour on what is driving it, because it can be either bill payment, payment gateway, credit card, RuPay credit card penetration. So, some colour on that.

Vijay Shekhar Sharma: Pranav, I'll take it to another dimension where I read a few reports, and they talked about that there is a GMV, which is nearly only 1% up QoQ. Right. We have gone to now looking at strictly high-quality merchants. Strictly high quality stands for, you give up on large online merchants who are negotiating dollars for 90 cents. They are discounting something which is lesser than the source price. Many companies want to IPO or raise more money in private markets. They do it because it is good for them. But for us, it is okay not to. And this is specifically an online category, if you notice. And especially if you know, this was a festive season where they were negotiating especially hard because they wanted to put money somewhere else to use. So we were like, we don't participate in it, number one.

Number two, there has been a bad customer in a commercial sense for us that had to conclude the transaction. It was a large insurance company. We probably concluded the contract so that GMV did not show up, but that's just a bottom line contribution, positive business. So, these elements, basically, Pranav, we are very clear that it is a free cash flow-generating business now.

It's no more about you snap a customer or over to, because ultimately every customer is our customer. It is rather about choosing the good quality of revenue and bottom-line-driving revenue. And there we have become aggressive in acquiring more customers and more types of payment options for payments and cross-selling instead of trying to just say that, okay, this is really cheap and I'm ready to discount it below the price that I'm sourcing.

So what you saw is very nuanced, and I acknowledge that it is very well looked through. And the reason is that we are looking at good quality GMV over any GMV that is available in the market. Quality stands for bottom-line contribution.

Pranav Kshatriya: Excellent. My next question is regarding the investment you talked about in Paytm Cloud Technologies Limited. There is a 500-odd crore rupees enabling resolution to invest over the next 12 months. Can you throw some light on where that investment will go into? And does that have anything to do with the capex increase that you talked about?

Madhur Deora: I acknowledge that the name Paytm Cloud Technologies may kind of give the wrong idea. So there's a small potential need in one of our 100% owned subsidiaries in the near term. So when we went to the board, we took an enabling resolution that we can put up to 500 crores in the subsidiary. The same 500 crores, up to that number, can be put in one of our international subsidiaries as well. And to the extent that we, and this is allowed over 12 months in multiple tranches, right? So it is not one specific need.

It could be a combination of three or four things that might add up to a few hundred crores, up to 500 crores. To the extent that it is being infused in the Singapore subsidiary of PCTL, Paytm Cloud Technologies Limited, that is likely to be used for some seed investments in international markets, but we don't expect at the moment that, and we don't have any concrete plans for that to be actually 500 crores. It could be up to that number, could be lower, but there's an enabling resolution that we have taken. Of course, as and when we infuse funds and/or make any investments, including seed investments, most of those will be disclosable right away anyway.

Pranav Kshatriya: Thank you so much for answering all the questions. Wish you all the very best. Thank you.

Vijay Shekhar Sharma: Thank you.

Moderator: I would request the speakers to please restrict their questions to two. We will take the next question from Suraj, followed by Pranav Gundlapalle from Bernstein. Thank you.

Suraj Das: Yeah, hi. Actually, I have four questions, not two, but anyway, I think I'll ask one.

Vijay Shekhar Sharma: You were in the queue, so you can say, we have brought four.

Suraj Das: First of all, I think, great set of numbers, congratulations on that. My first question is on this P2M GMV. I think it is flat. It seems to be flat on a QoQ basis, and I think that is happening for the first time since COVID. So maybe, I mean, what is your thought on it? Why is it flat QOQ this quarter? What do you think about this? So yeah.

Madhur Deora: Can I just quickly answer this? So Q2 versus Q1 is usually a little bit subdued, but it depends on the timing of the festive season. So if you get some of the festive pre-sales coming in Q2, then Q2 versus Q1 can be higher. This time, obviously, we have a late Diwali, so the festive season is almost entirely in Q3. So

that's one kind of general factor. Specifically, what I think Vijay sort of mentioned, and I connect back to this point, we have a certain threshold for how much margin we want to make from a certain type of customer.

So, for example, if it's a large enterprise customer, we'll have a certain threshold of how much we want to make. We have been very meticulous about being disciplined around this number. There have been two or three customers that have been affected because of that, and we are perfectly happy to let them go to competition. Within that, there was one quite large customer where we had a long-term contract that has expired. We're discussing whether we would do it on a different pricing. If we're not, we're happy to let that customer go.

Suraj Das: Okay. No, because this seasonality would exist also in earlier years, the last four or five years.

Madhur Deora: Depending on the, yes, it does, but depending on the festive.

Vijay Shekhar Sharma: It depends on which month Diwali is in because the holiday season falls then. Plus, I think the reason that Madhur is giving is that, if you look at this, this was a materially large, negative contribution margin customer. Our contract finished, and we will not do it if a negative contribution is taken.

Madhur Deora: And Suraj, the evidence of that is in the point that Vijit was mentioning, that eight and a half has gone to nine, which is the net payment margin number. So that was a drag on profitability, even though it was meaningful on GMV. That going away did have an effect. If that customer was there, you would have seen growth.

Suraj Das: So when you say it is meaningful in terms of GMV, would it be, share would be probably in double digits or maybe high single digit?

Madhur Deora: Not a double-digit percentage, but significant, yeah.

Suraj Das: Sure. The second question is more on this investment. Can you throw some light that, what Paytm Cloud do? Is this also the entity through which you do this refurbishment of devices and capex? And because I see its PAT has jumped almost 7x on a YoY basis, while the number is very minimal, 84 crores, but why this jump? I mean, does it have anything to do with maybe supplying more devices to Singapore, Indonesia, or any other country where you're probably planning to do this merchant business?

Madhur Deora: So the operations of PCTL are there, but not very significant. PCTL is an entity through which we make investments in some foreign ventures. So, for example, we had announced the setting up of a business in the UAE. We have announced the subsidiary in Luxembourg. So a lot of that is done through PCTL. So I would think of it as largely, it is an operating company, but largely use of proceeds in that company would largely be funding other overseas ventures, including funding needs of existing overseas ventures.

So that's the plan, but we don't have a firm number on it, which is why we have taken an enabling up to Rs 500 crores, and we have taken it for up to twelve months so that we don't have to keep kind of going back to the board for the same type of approval. Of course, each investment, if any, will be approved by the respective boards and will be disclosed if it's material.

Suraj Das: So Madhur, I think if I'm not wrong, you also used to have one Singapore, I mean, One 97 Communications Singapore entity, which was your umbrella entity for international business earlier. Now, I think you are doing this international business through this PCTL. What is the difference? I mean, because I think you got that PayPay cash in that entity, right?

Madhur Deora: Yeah. We can take it to some of the nuances offline, Suraj, if you don't mind, but basically One 97 Singapore has been doing international business or some of our sort of old business, which is the marketing cloud business, where we service telecom companies and enterprises around the world. So basically, the One 97 business, as it was called, whereas PCTL is doing largely the merchant payment and merchant lending partnerships, what we have described in previous press releases as partner-operated and Paytm-operated, merchant payments and upsell to lending type of businesses.

Suraj Das: Sure. And last two questions very quickly, on this AI platform that you started offering to merchants, once you start monetizing this whole business, in which line item of the P&L will the monetization part reflect?

Vijay Shekhar Sharma: Cloud and marketing, marketing cloud, marketing services.

Madhur Deora: Marketing services. So of the three revenue lines, it will come in marketing services, of course the nature of that will evolve over time, but the vast majority, if not all of this, will be in marketing services.

Suraj Das: And the last one is in DLG. So while I think we have had enough discussion on DLG, I understand it is P&L neutral, but just from a business point of view, why do these lenders flip-flop? So, for example, I think you are saying from next quarter onwards, one of your large lenders would be doing DLG again. I think three, four quarters back, they started doing DLG, then they stopped, then they are coming back again. So just from, let us say, a business decision point of view, I mean, why do lenders choose DLG or not? I understand it is probably best for you, but because it's also a recurring thing, right? DLG works like a current account or maybe I don't know, something like margin trading funding from an operational point of view. So when somebody does flip-flop every quarter, it looks like there is some decision factor. Can you throw some light on what the decision factor is?

Madhur Deora: Yeah, so this lender used to do DLGs back in FY25. At the beginning of FY26, we had a discussion where they said, hey, it's not really that important for us to take DLGs. So we requested them not to. So they said, hey, for two, three, four quarters, we won't. They were nice enough to not take DLGs for six quarters while scaling up business with us and being one of our longest-standing and deepest relationships. So we're very appreciative of the fact for six quarters. What was meant to be maybe a temporary pause ended up being six quarters, right? So it's not a huge surprise to us that at some point they would want DLGs again. Like I said, we're largely indifferent, so we don't like to challenge them on all the details of it.

But our sense is it may also have to do with certain RBI guidelines with respect to, they can offset that against credit losses and so on. So then it is more useful to them in the current construct than it may have been in previous constructs, right? But like Vijay said, this is not a top thing that we negotiate with lenders, right?

In fact, I tell the team, this is not a top five factor for me. Do more business, do it with the right partners, do it obviously at the right credit quality, make sure we are investing in collections, make sure we are building a funnel for more and more lending down the road. Don't be focused on six months; focus on two years, three years, five years; build great technology. Those are the things that we focus on when we are thinking about which partner will scale up over time. DLG is way lower on our list.

Suraj Das: Sure.

Madhur Deora: Of course, because we have conservative accounting around this, it all kind of comes up front. So in these conversations, it's something that we have to highlight. And this time we have taken the sort of opportunity to flag it not at the end of the quarter, but at the beginning of the quarter, right? Of course, for the

quarter that we are discussing right now, there's no impact of that, but we have taken the opportunity to just kind of flag it ahead of time so that there are no surprises at the end of the quarter. So in these conversations, it's quite relevant. In lender conversations, we don't pay as much priority to it.

Suraj Das: Sure, sure. No, that's good to hear. Thank you so much for answering all my questions.

Moderator: Thanks, Suraj. We will take the next question from Pranav followed by Jayant Kharote from Axis Capital. We will also accommodate more participants, so we'll be extending this call for another 30 minutes. And I would request the speakers to please limit their questions to two. Thank you. Pranav, you may go ahead.

Pranav Gundlapalle: Hey, thanks for taking the question. Two questions. One is on the sales team additions. You've had a punchy addition to the sales strength, but your device additions are largely flattish on a year-on-year basis. So are these sales additions in a different area or is it largely towards the same soundbox additions? That's question one. The second question is on the lending business. Do you have a sweet spot in terms of GMV of the merchants where you would like to lend, either based on EMI to GMV, EDI to GMV, or any other such ratios? And if you have such a range, how many of the merchants, device merchants, do actually fall in that range? Because you have 16 million device merchants, but how many would fall into a lendable category? So those would be my two questions.

Vijay Shekhar Sharma: Awesome. The first question of sales executives is in the same category. Pranav, they take time to get mature. We sort of train them, and we first give them retention jobs, revisits in the markets, if you will, and then we give them deployment jobs. So it's in sequencing. So, I mean, we've been able to recruit because we've been waiting to recruit for long enough time, and quick commerce has been taking up a large number of people of these kinds. So that's why. You will see, hopefully, that we are adding more Soundbox merchants. And it is also that we are rejuvenating the relationship like you asked for.

One thing that we are more bothered about ageing than GMV on our platform, because a lot of the time the shopkeeper may be taking cash, may be taking another way of payment, but the fact that he's retained on our platform gives him more probability to get a loan from our lender partners than the dollar value, which is large. Even if you look at the average ticket size of two lakh rupees, we're talking about even a thousand rupees a day, which means 500 rupees, which is our threshold that the person should be able to pay every day. So 500 into 365, that is the kind of numbers the ticket sizes are.

So the threshold is not based on GMV, but rather based on aging and GMV. Some element will definitely be there; if you're earning, let's say, 100 rupees a day, we're not going to give you credit there. But by the way, we could give you postpaid there. So you remember that. So not the term loan, merchant cash advance.

How many merchants are creditworthy? That's a very interesting one. If you notice, we have not dramatically added the count of merchants, because I've told my team, it's a business model of, like I showed you in the beginning, payment and credit. And that means that we need more merchants who are creditworthy than the merchants that are just signed up. Again, the quality of merchant equals bottom line, equals to financial services, which is a bigger bottom line than the MDR or subscription revenue. And then that means a retained merchant is better valued than so on. So while we may have acquired a lot, we just remove the merchant whom we don't see active or transacting.

So while you're seeing the net active, the gross actives are bigger. And that is why this number looks like it is less. But at the same point in time, all said and done, the net active that you are seeing, net active monthly, which is what we report every quarter, will definitely grow. I mean, I personally see on a base of 16 million, we believe that upwards of 10 million are definitely good-quality merchants.

Pranav Gundlapalle: Okay, so at least two-thirds you think would be merchants you'd be happy to lend to?

Vijay Shekhar Sharma: It is all based on the relationship and aging. And I do believe that I want even more than two-thirds to go on, than to acquire new customers. That was the pitch to my sales team.

Pranav Gundlapalle: Okay, so would it be fair to say at least two-thirds have a thousand rupees per day or more in terms of earnings?

Vijay Shekhar Sharma: I don't think that is a number that I will often tell, but I do track literally the same number that you're quoting, lendable merchant, if you will, and two-thirds.

Pranav Gundlapalle: Okay, two-thirds, that's good to hear. Last one minor question if I can squeeze in. On your indirect sales cost growth, there's a big spike in the software and cloud expenses. Is that a one-off, or is this a new normal for your expense line?

Madhur Deora: So we have...Sorry, go ahead. Okay, we have commented on it. As part of some of the migration of the merchant payments business that we did to our subsidiary, there's a little bit of platform redo that we wanted to do in terms of consolidating certain platforms, which does have some costs while you're doing that project. So that was largely in this quarter. There's a little bit of that in the next quarter. So there is that sort of one-time exercise.

I should also point out that we are spending more on AI, right? We are seeing a huge amount of gains and a huge amount of RoI, largely in indirect expenses and sales growth because of the spends that we are doing on AI. So given the nature of our platform, for example, if I am retaining merchants better, it will show up in revenue, right? If I'm doing better collections, it will show up in revenue. And there's also a tendency that, hey, if you have reduced the cost of doing something, your one instinct is to try to do a little bit more of that activity, right? So you may not necessarily see that as a cost reduction; you may see that in revenue growth.

So the combination of revenue growth, which is like I mentioned, like for like now in the 30s, and indirect expense overall being very much under control, despite the sales and service investments we are making, despite marketing costs and despite AI costs, we are seeing the goodness of that, right? So we monitor it very, very closely, but we are actually okay to spend more on AI costs as well. So there is some element of that once that, I think maybe by the end of next quarter, we'll be able to kind of start talking about a slightly more normalized number, both for the increase in AI costs, as well as putting this one-time project behind us.

Vijay Shekhar Sharma: I want to specifically tell you about a very interesting fact. I personally look at the cost and the output of AI at a different level than, let's say Madhur himself as a cost control will look at it. I look at the yield of what shipped. So not just what got created, what shipped, what earned revenue, and so on.

And I'm very happy to tell you that what we have made, obviously slowly, slowly, revenue doesn't show up immediately; products are loved and liked, you're not spending so much, you're growing; all those advantages are very visible. In this quarter, when I looked at the cost of cloud, the majority was because the online business was in an entity, the offline business was in an entity, we brought them into a single entity, and the platforms were to be merged, so there was duplication. And like Madhur said, a little bit of it will continue next quarter also, and then it will sort out. So the actual majority incremental cost was this migration.

Pranav Gundlapalle: Understood. So essentially, there is no need for indirect costs to grow at an accelerated pace for the existing business. So obviously, if you have ways of earning revenue through AI spends or cloud spends, then that's obviously great.

Vijay Shekhar Sharma: Very well put, very well put. It was very clearly because the majority of incremental costs on the cloud was attributable towards this migration of online, and now that brings us omni-channel payments, just in case.

Pranav Gundlapalle: Thank you. All the best. Thank you.

Vijay Shekhar Sharma: Thank you so much.

Moderator: We will take the next question from Jayant, followed by Prakhar Sharma from Jefferies.

Jayant Kharote: Hi, congrats Vijay and congrats Madhur for another great quarter. I'll kick off on MDR on UPI. These two and a half basis points, if you could give a broad split between consumer and merchant, and where it's coming from is clearly merchant you guys are going to enjoy the fruits. On the consumer side, there is a worry of this pool getting competed out, especially for the top, let's say, 2 to 5% spenders, who will do more than just rupees 2000 spends. Are we going to throw our hat in the ring and be willing to sacrifice a little bit of that margin or given what we've done this quarter, I think rightfully focusing more on the profitable GMV?

Madhur Deora: I would say, first of all, it's not implemented yet. And number one, so one can get into many, many different types of scenarios. I think what we have put forward is a number that we are confident of delivering. And like Vijay said in the response to an earlier question, that there are certain scenarios under which, hopefully, we'll do better than this; we obviously, when we're putting out a number, we don't put the high end of our number; we put, you know, we sort of haircut it for various scenarios. But specific questions about, hey, you know, whether we should be assuming that there's more chances of being competed away on the consumer side versus the merchant side, what intensity would there be? I think we'll only find out in quarter two, quarter three after implementation.

Vijay Shekhar Sharma: And the important thing Jayant is that, let's be very open and transparent about it that consumer businesses are ours to win. There have been, I would say, non-internal, not just led by us, issues that have made us have so little UPI market share on the consumer side, if you will. Our product and capabilities are continuously moving up.

And internally, we are far more, I would say, expecting, hopeful, and sure of our market share win than we were last year and last to last year. So it's not something that the result is out, and we are there. We rather want to tell you that we will change the result with our hard work and perseverance and pushing as much as possible, even on the consumer side. You said it already that the merchant side will get the win, but the consumer side is for sure ours to win.

Jayant Kharote: You want to highlight, Vijay, what is this external thing? Because the numbers are very strong that you've seen, or maybe I can take it off.

Madhur Deora: You can take it offline.

Vijay Shekhar Sharma: Yeah, my intention is to say that there are a lot of factors, because we are part of a network, that we have to align and work and get all the network pieces all together. And the more you dig, the

more you find optimizations possible. So I'm just going to say that erstwhile we were not so focused on the product and technology as we are now and the results are showing up.

Jayant Kharote: Okay, second is, in the MDR GMV that you have assessed, which is, let's call it the eligible GMV, is that growing slower or faster than the overall GMV? And what I'm trying to understand is, once we set a new take rate in the new world, does that take rate expand from there or stabilizes or maybe comes off?

Madhur Deora: I think the mix is not changing dramatically because obviously where Paytm has unique strengths is in the small merchant business, which is growing very, very fast. And for different reasons of enterprise business and the online business is also growing quite fast, right? Online, as you know, we were under embargo until August of last year. Starting at the beginning of this year, we are seeing good hunting opportunities. And in enterprise, we are improving because of EMI offerings, DCC offerings, greater distribution, et cetera. So we're gaining share across the board.

So I don't think there's a huge secular trend that I can point to that we are at X percent eligible GMV. And I expect that to go up by 10 points or go down by 10 points over the next couple of years. I also don't think that will be a major factor. The major factor would be just executing as well as we can for our merchants.

Jayant Kharote: What would have happened in the last 12 months?

Madhur Deora: To be honest, like I've literally not even bothered to check that data. I know what the data is as of this quarter. And I know that as we roll forward that data, the mix effect is not going to be a major factor.

Jayant Kharote: Understood. One last thing I could squeeze in on the DLG accounting. Well, Madhur, you've explained this multiple times, just because we want our models to be clean. Contribution margin shrinks, then recovers as we reach the tail end of the portfolio and the lumpy payments come out. All this while, EBITDA margin keeps expanding at a normal pace. Is that a correct understanding?

Madhur Deora: No, when contribution margin goes down, there is a drag on EBITDA as well, of course, in that quarter, right? So when you go from, let's say for a second, I'm giving 2% to a partner. If I'm going from 0% to 2%, that 2% shows up in direct expenses in that quarter. And there's a little bit of additional revenue in that quarter, but most of the additional revenue comes over the duration of that long. So that impact on contribution margin does slow down EBITDA as well. What we have said is there's a huge amount of tailwinds in the businesses overall, including in the merchant lending business, that we don't think that we're looking at EBITDA going down next quarter. We do think EBITDA will continue to go up next quarter despite this drag.

Jayant Kharote: EBITDA absolute going down or EBITDA margin going down?

Madhur Deora: I'm saying that the isolated effect of giving DLG is a drag on EBITDA, but on an overall basis, given the huge momentum we have as a company, quarter on quarter, we'll still expand absolute EBITDA.

Vijay Shekhar Sharma: Jayant, EBITDA margin is not going down. Madhur is saying that there will be a cost, but the margin won't be less because revenue will also come in the future. So the margin won't be less.

Jayant Kharote: Great, great, sorry. Thanks a lot. And I'm sorry, Madhur, last question, EBIT margin, depreciation going up, capex going up, what should we think about that?

Madhur Deora: I think depreciation YoY hasn't gone up very much, but like I said, we have done more capex in the first half than we did previously. So with the lag in FY28 and so on, there will be more depreciation, but it is

all being done for a specific purpose, which is higher engagement, higher retention, higher financial services revenue. And we are only doing this because we are seeing great payback of putting in that investment, whether it is in service costs, whether it is in capex on the eventual financial services and other monetization funnels.

Jayant Kharote: Perfect, congrats once again on a great set of numbers. Thank you very much.

Madhur Deora: Thank you.

Moderator: Thank you, Jayant. We will take the next question from Prakhar, followed by Gaurav Rateria from Morgan Stanley. Prakhar, you may go ahead.

Prakhar Sharma: Sure. Thank you, Vijay. Thank you, Madhur. And a great set of numbers; good to see high-growth companies. Just quick questions. One thing which really impressed and surprised me, your monthly transacting users. On a quarterly basis, you used to add one to two million customers a quarter. This quarter, it's five million. Fabulous numbers to see, but when I tie it in the fact that you are far more focused on quality customers, of course, this is total users. One, how does this tie up? And is this a run rate that can sustain over at least for some quarters and then it normalizes?

Vijay Shekhar Sharma: I wish this sustains for sure for a few more quarters and more quarters, number one. And like I answered in a previous question and in the beginning of the call itself, that it is one of the most critical KPI that I personally carry, the number of new users and users and so on and so forth. So, by the way, we hit internally even 100 million sometimes, even the users on our platform. So I'm going to say that our target is to take one-third market share in this business. There is nothing less than that we must settle for.

Prakhar Sharma: And if I can just ask you, if there are two things that are working very well for Paytm, what are those? Because the run rate is going up…

Vijay Shekhar Sharma: Good product and technology. The industry has not seen good products and technology, straightforward. It is a good product and technology, cleaner, simpler, good product and technology. And like I said, a few minutes back, the more we are digging in, the more we are finding out, oh my god, why was this blocked? Oh my God, why was this blocked? And then we go back and solve for it, solve for it, solve for it.

Prakhar, let me say this. I'm very clear about it. Paytm has the top-of-mind recall. Paytm has a product. Paytm has a technology. Paytm has rather superior technology; I'm going to say that also very clearly now that I know what everybody else is doing. I think the amount of attention that we are able to do it is something that we believe many others have to monetize. We have understood what monetization is. So there is a lot of advertisement and a lot of cross-selling that is attempted. So other products have also started to become, I would say, a reason for our customers to move to us. So in a way, there are a lot of positives in both ways.

Prakhar Sharma: Good, got it. Second question is, sorry, going back to the MDR on UPI, just wanted to know, there are a couple of lobbies of merchants who are also trying to negotiate for a lower MDR, which includes the petrol pump lobbies, and maybe there are others, et cetera. So when you have talked about the two and a half bps as additional revenue pool that you might get, have you factored those negotiations, or it is as is, where is sort of a calculation?

Madhur Deora: We have taken the framework from NPCI as is, because again, you end up going into many, many scenarios. I will point out that it was postponed maybe a few days, maybe a couple of days, before the

implementation go live. So our understanding is, whatever those things are all sorted out, had they not postponed it, keeping in mind Diwali and the festive season coming up, then it would have gone live on October 15th in the format that they have put out there.

And there's no mention that they're revisiting the framework or anything like that. So again, given we are doing an earnings call and given this development has happened, we thought it was important. It is unusual for us to comment on something which is not implemented yet, but given it is a major factor and there's a lot of analysts who have asked about it, and investors have asked about it, we did want to put the estimate out there. My best guess is that the framework will not change right now, but I could be wrong, obviously I don't control it, but we are reacting to the framework as it exists and is, quote, final.

Prakhar Sharma: Got it. And the last part is that, on the lending side, you've had a great growth, but when you look at the customer base, if at all now or even later, can you give us some insight on how good the portfolio or these customers are and what are the, any of the risks that you are monitoring, it could be regulatory, in terms of pricing, et cetera, or even any of the cross-sell like insurance. There is this huge paper that is there; if that is a relevant outcome for you from an insurance attachment that goes with it. So any clarity on that, because it's been your fastest-growing revenue pool right now.

Vijay Shekhar Sharma: So Prakhar, the good news is that we did not have any insurance revenue. So all upside downside is not belonging to us, potentially there, we neither tagged nor we were topping up some margin by cross-selling, tagging along insurance or something. So nothing of insurance. Quality of customers, I think the core answer is that our disbursements are growing per lender count and the volume is growing. And in my opinion, lenders grow once they are happy with the kind of customers they are getting. I mean, book responsibility belongs to them, and our responsibility is of disbursement and collection. So we ourselves continue to keep an eye on collecting good. I think in a bigger macro sentence, I can say that our collections level of detail tells us that there is a huge opportunity and festivities are showing up. And we believe that the kind of, I mean, it's an AI language recipe; by the way, it's not a chef language.

The recipe that we have built of financial services distribution, credit distribution, is something that is unique enough, and I'm pushing it as much into AI so that it is not even humanly dependent internally and so on. So we'll see a lot more. I don't think there is something that we are looking at and we are not talking about it. We rather are always discounting in advance, if you know, in the past. So right now there is not much that I don't see anything. Madhur, anything that you want to add?

Madhur Deora: Just to clarify. So Prakhar, on a merchant loan, we do give ECL data. It is largely unchanged in terms of the range that we get. Personal loans, of course, is a distribution business only. I do think I just wanted to add that we take huge responsibility for being cautious on this business, right? So while on the one hand, we keep trying to improve the funnel and the lendable base, like Vijay mentioned earlier, that is what we count on for the growth of the business, right?

We don't count on, hey, we are going to be reckless and loosen the policies and those sorts of things. And there's a reason why we want to be very cautious and very responsible about this because now we have over a dozen lending partners. Many of them have been with us for three, four, five years now.

And we also think that we can create something which is a huge agent for financial inclusion if this continues to scale up linearly and at a fast pace for the next five, seven, ten years. We think this is a product that can create a huge impact to small merchants in India, where financial inclusion, employment, investments, so many great things can happen. And like Vijay showed at the beginning of the meeting in the presentation, a model which is also, we feel like we are pioneers of, right?

And we could take to other countries as well because this is a problem which obviously we're going to prioritize solving in India first, but there's also a problem which is unsolved in many other parts of the world, right? So, but the starting point of that, you have to be cautious and responsible because it is a credit business. You have to recognize it for what it is, and you cannot afford to have six good quarters and then two bad quarters, right? That kind of sets you back; not two quarters, it sets you back many more quarters. So you have to kind of recognize it for what it is and be as cautious as you can be.

Vijay Shekhar Sharma: And Prakhar, like Madhur said it, we do not want it to look like there is a future time bomb sitting in our revenue. I mean, one thing is very clear, that's why conservative accounting, not letting revenue come in, which could be a discounted obligation in the future. The best thing I can tell you is we want to be a distributor technology company. We don't want to be the book owner company. We've announced it to the public a number of times. I like the financial services business, but not so much that we end up taking the weight of the book on our shoulders. And we will remain a technology platform and platform business that compounds by consumer and more usage and customers include merchants and consumers both. So it's a technology distribution business. And I'm very happy to say that the SKU that we distribute, if you were to look at it in a slang way, credit is very highly in demand, and it requires logistics equivalent of, if you will, collections. And so, voila.

Prakhar Sharma: Absolutely, absolutely. Perfect. Thank you so much and best wishes to all of you. Thank you.

Moderator: We will take the next question from Gaurav, followed by the last question of the day from Rahul Jain from Dolat Capital. Gaurav, you may go ahead.

Gaurav Rateria: Hi, thank you. Hi, congrats Vijay, congrats Madhur. A couple of questions. First, the MTU acceleration that we have seen, is this led by better gross adds or improving churn? It appears that your CAC has fallen substantially. How sustainable is this?

Vijay Shekhar Sharma: Gaurav, idea is that, I mean, we've been using these words, but I'm going to repeat the same words that are written. When you start to look at whom do you want to acquire, you spend less money on spreading it to a wider customer base. So per customer who's a valuable customer, it shows up as a lower CAC. We have large enough budgets. We want to expand and expand the customer base for sure. We will spend more money on customer acquisition, but like I always say, the valuable customers, not like spray and pray, get the large number of customers and hope that there is a UPI GTV, which is converting someday in revenue. So that being the case.

How has the CAC improved? Just by focusing on whom to acquire or not acquire. As much precision as we can bring, and who allows it? AI models allow this to happen. Our models are made by us. Our models are not third-party. This is a very important sentence. We are not renting intelligence from outside. We make our own models. We make our own system and capabilities. And that is why we've been able to give these nuanced outputs. And the elusive dream of AI, that it will behave N equal to one, it'll behave and deliver impactful outcomes on cost of operating and revenue upside. That's what we stand for.

Gaurav Rateria: All right. My second question is on the investments that are going into the AI part. Of course, right now, it's kind of a drag on the P&L. When it starts generating revenue, it will be accretive from an earnings point of view. So how big is that drag right now? What would be the operating leverage that we can think about it?

Madhur Deora: I wouldn't say it's a drag.

Vijay Shekhar Sharma: It's zero drag. There is migration of the cloud from other payment systems to the new payment system. I mean, every dollar that we spend on AI has more dollars made than ever. I mean, absolutely no drag. I mean, it is not that we are, either it has accounted for saving more costs than it has spent, or it has earned more revenue than it has spent. So absolutely no drag. We are not bullshitting on random KPI call. How many tokens do you spend? We don't even talk about that. We are rather one of the most efficient users.

Madhur was invited by Cursor to become part of the global CFO council they made only because they said you are the world's fourth most optimum coding model user in the world. I mean, so I'm sorry to say this. Absolutely no drag. Absolutely no confusion. Cloud cost increase is due to our migration of two machines becoming one consolidated machine and all are switched on for some time and they optimize.

Madhur Deora: Sorry, let me just clarify that cloud expenses have gone up. There are two main reasons for this. One reason is this consolidation that Vijay mentioned, which had nothing to do with AI. We had our online business payment stack in a subsidiary. Then the offline business moved to that subsidiary at the end of last year. So we were running two different stacks, right?

Because there was one payment stack for online, one for offline. So beginning of this quarter, beginning of last quarter rather, we started a project to consolidate those, which gives us like higher TPS and better efficiency. That project requires certain one-time cloud costs, right? Because of the way the data queries work and so on. Most of that was done this quarter. Some of this will be done next quarter. So I'm not saying that next quarter suddenly the cost will go down. So that was the major component. The second component, yes, we are spending more on AI.

But in our case, it is not, hey, you'll spend on some AI projects now, and you'll get the benefits six to twelve months from now. And maybe it is the case for other companies; I cannot comment on that. I think if it is different, I would say it is probably because we already work in very data-rich environments, right? So if AI changes the decision, for example, that say put more sales efforts here, do more service efforts here, or visit this merchant versus another merchant, that is how we are running our business anyway. Now AI is giving better inputs, for example, right? So if AI is helping us deploy something faster, it is hey, instead of deploying it in three or four weeks, we're deploying it in two or three days, right?

And you're getting that uplift as a result. So because we are very data-rich, very data-led in our decisions, and it is end-to-end technology anyway, the impact of a lot of these AI things that we do starts to show up almost immediately. Now, of course, there are greater long-term benefits because models are getting better. They are getting smarter about looking at our context and so on. So yes, but more than 1x for sure; multiple x benefits, we think we get right away in that quarter. And then over time, hopefully we get better and better.

Gaurav Rateria: All right. Last question Madhur, how to look at the sustainable operating leverage in the business, like every incremental dollar that you make in CM, how much of that will flow into the EBITDA? And similarly, how much of that EBITDA will flow into the free cash flow on a sustainable basis?

Madhur Deora: So we don't try to manage it quarter on quarter, but at least target is that, when I take a step back, the way I look at it is, our indirect expenses, including higher expenses in marketing and sales and service and cloud expenses, et cetera, should over a three to four quarter period, grow at less than half of revenue growth, right? Revenue growth slash CM growth. Let's take CM growth to be a little bit more precise. And so that does two things. One is the structural operating leverage. Second is if you can accelerate revenue growth, then you get accelerated operating leverage.

Gaurav Rateria: And a similar thing on the free cash flow.

Madhur Deora: Free cash flow also, where there is this component of capex, which we'll give more guidance on next quarter. But yeah, broadly free cash flow will work in EBITDA terms, right?

Gaurav Rateria: Got it, thank you.

Madhur Deora: And just to be clear, we do EBITDA; we don't do adjusted EBITDA, so there is no ESOP add-back; our EBITDA is after ESOP costs.

Moderator: Thanks.

Madhur Deora: Thank you, Gaurav, good to see you again. You wanna take Rahul? I think we lost. Hey Rahul, go ahead.

Rahul Jain: Hi.

Vijay Shekhar Sharma: Yeah, hi.

Rahul Jain: So just one last question from my side. I just wanted to understand how the maturity of some of your lending partners have evolved over the period of time, because they've now been using a platform like ours. And we're clearly seeing that they are scaling the capital that they are deploying. But in terms of getting respect for the data that we are trying to provide, because one thing is using it as a digital channel, and one thing is respecting the data that we have. So is it being seen in terms of the approval rate or their collaboration on our data, or is it still more restricted to their own ways of underwriting? That is what I wanted to understand.

Madhur Deora: I think, scaling up is a measure, Rahul, of the fact that they have more confidence in our insights. I think there are other aspects of it, though, which is also they have more confidence over time in our collection capability. Because remember, we help them with distribution and collection. So, collection capability. So as they scale up, they spend a lot more time with our collections team as well to understand how we monitor collections, how do we do early warning signals. So it is not just about somebody went delinquent, now how do we collect the loan?

Actually, we have the ability to look at early warning signals and make sure, this sales and service team expansion, part of it is in this area, that do early intervention to make sure that the merchant actually does not drop below a certain GMV, because we see daily GMV, of course, right? So they have more confidence in collection, and then they also come on board some of the journey that we would have had with other lending partners, which is to say how to think about repeat business, how to think about top-up business, how to think about newer segments, newer pin codes, et cetera. So that is a constant dialogue.

So there is a lot of collaboration and dialogue between lending partners and us. Of course, they start with something that they understand already quite well, but over time, many of them, I wouldn't say all of them exactly at the same pace, but many of them are curious to say, hey, what are the factors for scale-up of this, right? And part of that is also, obviously- sorry, I forgot to mention technology as well. So they will work with us to say, hey, what are the bottlenecks in this? Is there like a KYC failure that we need to address? Is there something else that we need to address? So they'll work with us on many of those things as well.

Rahul Jain: Sure, sure. And on the marketing business, have we mentioned what is the driver in this particular quarter and how soon we see a meaningful number on the AI revenue, let's say any milestone number 500 crore or 5% on our revenue, any benchmark, how soon we could expect that?

Vijay Shekhar Sharma: I think we probably will take at least two, three quarters more, because it's a brewing thing. It's a small revenue per merchant. And in the large revenue buckets that are swinging the revenue, it will for some time show as a small contribution, but then it can grow. So maybe, I mean, by the same quarter next year, we should look at what it has done.

Rahul Jain: Sure, sure. That's it from us. Thank you so much.

Vijay Shekhar Sharma: Thank you, Rahul.

Moderator: Thanks, Rahul. With that, we have come to an end of this call. Thank you so much for joining, everyone. Have a good day.

Vijay Shekhar Sharma: Thank you so much, everyone. Happy Diwali.