

Paytm | Update on Loan Distribution Business |

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Moderator: Thank you for joining, and welcome to Paytm's call for Update on Loan distribution business. 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. This 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, request you to kindly drop off at this point. The information to be presented and discussed here should not be recorded, reproduced, or distributed in any manner. Some statements made today may be forward-looking in nature. Actual events may differ materially from those anticipated in such forward-looking

statements. Finally, this call is scheduled for [45] minutes. It will have a presentation by the management, followed by Q&A. During Q&A: If you seek to ask a question, kindly utilize the raise hand feature on your Zoom dashboard. We will unmute your line and take questions in the respective sequence, and within the scheduled time. For us to be able to identify you. Please ensure your name is visible as your first name, last name, followed by your company name. Today's presentation, a replay of this 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 call.

Vijay Shekhar Sharma: Thank you, Rishi. Hi, good afternoon, everyone. I am so happy to talk to you all about our loan distribution business, our flagship financial services, and our key business area that we have been talking about since the last few quarters. In fact, you've seen the national and global macro environment and various guidelines from regulators. So, me and Bhavesh and Madhur, when we were discussing, we took a call that, how about giving a formal update to each one of you. So, this is unsequenced, not a very regular thing that we do, but we assume that it'll be great to talk to you directly. So, here it is. I have Bhavesh sitting next to me, whom I give the line to, and then we will have an interesting Q&A in due course.

Bhavesh Gupta: Thank you, Vijay. Good afternoon, everybody. So, let me start by jumping into the presentation. I'm sure there'll be a lot of questions around what we intend to talk about. I think there are multiple levels of information we wanted to share in the wake of what's been happening generally, not just in the recent one month, but over the last maybe about four quarters. Around the developing macro situation per se and the overall understanding that we carry through our payment's insight on how a credit distribution should be modulated and scaled up. So, in that direction, I'm happy to inform you that we have now decided to expand a loan distribution business for high ticket loans. Now, this is basically coming on the back of two things.

One piece is that both the merchant loans and personal loan business has now been in existence for more than three years. We've seen a reasonable amount of maturity of the customer base because we've given away maybe around close to a million personal loans and about half a million merchant loans and growing, which have nicely repaid etc. etc. And there is a good stickiness to the portfolio of users who come on our app seeking different kinds of credit and we were finding that there is a reasonable large demand both from loans which have matured without any delinquency which are available for renewal and for new loans itself where the customers and merchants were seeking a higher amount at a lower interest rate because the creditworthiness is far superior and they would obviously like to see a best product being offered to them and which we were not offering currently. As you know, we were largely offering up to two lakhs sometime in some quarter three lakhs of personal loans and merchant loans also in a similar range. So, now we have decided after looking at the demand and we started to do some pilots in Q3 with one or two of our lending partners and we saw that there is a decent demand wherein we can offer high ticket loan distribution opportunity to our lending partners and hence also expand the revenue pool. So, this is the first thing that we want to inform you about. That yes, we are further expanding the loan distribution business and we will now be doing loan distribution for high ticket loans where we will not be having any collection led upside but we'll have a distribution and servicing led upside and we'll talk more about it as we start to build this business.

The second thing I wanted to draw your attention to is the table on the right. This is basically to answer the questions which have been coming to us in our one-on-one meetings with various people and generally what we've been hearing about all the noise around less than Rs.50,000 loans. I wish to remind everybody here that our less than Rs.50k portfolio is a very small portfolio or negligible portfolio historically and as it can be seen from here that in personal loans, earlier it used to be close

to seven to nine percent. It has now dropped to between three to five percent. Actually, to be right, it's about four percent and this portfolio is a very, very negligible part of the portfolio that we've been doing in personal loans in our system. Postpaid loan is a portfolio which is predominantly less than Rs.50,000 loan. So, on the back of the macro developments and the regulatory guidance which is there, we've decided that we would like to, in a calibrated manner keep scaling down the 50k loan portfolio, especially postpaid loan down and focus our energies on building personal loan and high-ticket personal loan, merchant loans and high-ticket merchant loans. While we'll continue to do postpaid and it may not be the same growth level that we were doing earlier. It will be significantly lower than what we were doing earlier but it will be a product that will continue and our lending partners namely Aditya Birla Finance and Sumitomo Erstweil Fullerton who've been big supporter of this product continue to disburse, continue to manage this portfolio along with us and we've had discussions with them. They're looking at all the regulatory guidance and some bit of noise around it while our portfolio had no problems and issues. we'll talk more about that in slide two. It is better that we scale this down and index ourselves in offering something which is more meaningful in the current environment and as and when the environment becomes better, we can always scale it back. So, it doesn't mean that this product will be discontinued as it being conjectured in the market. It will be continued. It will be available but will be available to a cohort of users where we believe we can upsell much-much better and overall portfolio quality will be significantly better even in the current context of the macro which is currently expected to be same for a couple of quarters.

The third piece is merchant loan. As we all know, merchant loan is a business which is not necessarily covered under the new regulatory guidance of risk weight etc. It's a loan for MSMEs. It's a business loan. We have been very, very focused on growing this business. This business continues unaffected in any kind either commercially or otherwise on the risk side. We are committed to build this business furthermore and we shall continue to build this business even more in the wake of the fact that this is a business that everybody is seeking to grow more. Overall, on take rate, yes because of mixed change that we will have is that postpaid loans as a contribution to overall loan which used to be around 50 percentage would come down. If you were to disburse, let's take the last quarter an average of Rs.5,500 crores. We were doing postpaid loan of 50% and the remaining two 25% each. As the contribution of postpaid loans will go down to overall disbursement. There will be a mathematical change to take rate. Otherwise, there is no impact to take rate on a negative side even with the risk weight increase. Let's go to the next slide please.

Yes, so this is more data. I just wanted to call out. See the risk calibration. I just want to remind everyone that we've been talking about the risk calibration because we have a lot of insights on payments data. We could very clearly see that less than Rs.50k and otherwise in general, the shorter tenure, personal loans, etc. started to show some signs which we started to calibrate right from quarter three of FY 2023. So, it is basically one year back we started to calibrate which has resulted in good stats. I want to draw your attention to the table on the right. So, Q3 FY 2023 if you can see, we were publishing our portfolio metric for all the three businesses, postpaid loan, personal loans, and merchant loan. And Q2 of this year also we published and we will obviously publish in Q3 when we announce the results in January. As you can see that postpaid loan, which is less than Rs.50,000 loan in particular from 1.1 to 1.3% expected credit loss on a 30-day product, it has actually dropped down to 0.65 to 0.85% and it is expected to continue to see this drop even in Q3. So, the question is always asked then why would you slow down? As I said, we respect what is happening overall because we have a very small portion of what happens in the overall macro industry. We want to respect the overall industry and overall macro what is happening and hence in consultation over the last couple of months with the lending partners, we felt it is better that we slow down because there could be something that we don't know which is happening in the industry while our portfolio is not showing.

Anyways, it's a very small part of our profitability as you know, postpaid loans are not the highest profit product, merchant loans, personal loans are the very, very high profitable product. So, it does not necessarily change materially any revenue or EBITDA impact to our business. So, rather than managing the disbursal, we've always committed ourselves to manage portfolios. So, hence we have decided to slow it down. Personal loans and merchant loans continue to perform as good as what we had been mentioning in the past and in fact, merchant loans are trending towards performing even better than this expected credit loss rate of 4.75 to 5.25%. There is definitely much better portfolio performance we are seeing on the merchant side than we are seeing on the consumer side. So, we will definitely try to do a lot more there.

So, in a summary, our focus now on the recalibration of business is very clearly on high ticket, slowing down on less than Rs. 50k. More importantly, we will further index ourselves on making sure how we can mature our cross-selling engine far better because almost 60% plus of our all-new loan disbursals every month go to existing loan customers, with various lender, who perform very, very well as a repayment. So, we will try to grow that even more from 60% to maybe 70% or beyond. We've been continuously sharpening our cohort-based strategy, especially in consumer loans on which cohorts have started to show any lead indicator amber behavior because we have a lot of insights on these users not just on credit but also on the payment behavior and what is happening at particular geo hash. We will continue to do so. We will, as I said, we will reduce less than Rs.50k but more importantly, we will rationalize locations where we are offering these products based on the payment trends and what broader industry portfolio performance of the lenders. So, we are now seeing what overall portfolio is behaving etc. etc. in the marketplace and what the payments data is saying which is leading us to make sure that we focus on areas where economic growth is better and payment growth is better because we believe those are lead indicators to credit growth. We will continue to do that. Lenders have a very good understanding of risk of what is happening on the customer leverage and number of loans because they get access to the Bureau report. So, they are giving us a lot of insights at their end and what they would like to underwrite and how they will underwrite. So, that is a calibration that we have further strengthened and we continue to scrape the bottom. That's a point that we've been doing every month to look at which is the bottom best cohort in our design strategy and we just keep scrapping.

So, all in all, our focus will always be on portfolio and we will make sure that the portfolio origination happens through Paytm. We are doing collections or we are not doing collections is irrelevant but portfolio quality is fantastic and we will continue to walk that path in the near future and obviously in the long term. Let's go to the next slide please.

So, the third information I wanted to give you is that we are expanding a lender base. This was a question that given all the noise that we are clearly seeing on unsecured credit, are we getting enough and more newer lending partners that we had promised that we'll get? I'm happy to inform you that we will add at least two more large NBFCs and one bank. All the three of them are in various forms of UAT, CUG environments. They are not in the agreement stage. So, over the next two quarters, we believe we'll be able to get them on board both for personal loans and merchant loans and even for credit cards, we will be adding one more bank into our kitty. So, from a new lender arrangement, we continue to believe that the opportunity of Paytm platform is well appreciated by the larger ecosystem and hence our credibility to be able to offer high quality credit to various lending partners continues to be very robust, which is leading to more and more partners looking forward to partnering with us. And we are very grateful that this opportunity is coming our way and we'll continue to strengthen our existing partners also. In the same breath, I want to mention that none of the existing partners have either stopped any line of business or said that they don't want to

do any business. We continue to thrive with every lending partner. Obviously, we calibrate with each partner how much they would like to do. And because we're adding more partners, there is diversification. Our lending partners are also adding more fintech, so there is diversification. So, the share of each lending partner may vary, but we continue to have a very strong relationship with all our seven existing NBFC partners and our existing bank partners for credit card issuance. None of the partners has moved away or has optically gone ahead and shut a business, et cetera. There is a reduction that they may have called out, which is a part of portfolio balancing at our end and their end, which will continue. But there is no capital constraint of any kind that we are able to see in the system. There is obviously the focus, as we said, on merchant loans around the PL and the high-ticket size. And in that regard, you will see a lot more activity on the Paytm App and otherwise, and we'll be more happy to inform you about the developments in this area in the next quarter, we will talk about more. Let's keep moving.

So, in summary, the high ticket is something that we are expanding our portfolio to, which was something that we would have done, let's say, in next year, AOP planning, et cetera, but we are preponing yet given the macro and the overall regulatory guidance that this is the right way to go forward. We will reduce the less than Rs.50K to a level that is comfortable to us, comfortable to our partners. We don't know a number, but yeah, there will be a reduction that will happen, and we will see as to how much reduction is enough and how much high-ticket growth that we would like to build on the system. And we will continue to add more and more lending partners. The three of them in the pipeline will fructify over the next two quarters, as I said, maybe earlier to that also, but that's the outer limit that we want to give. And there are more and more partners that we have in the system, and we will continue to work with them to make sure that we are able to give them higher quality credit to the risk capital they have. So, this is all that I had to say. I'll pause here and we all will be open to answer any questions. I'm sure there'll be many questions. We'll be happy to answer those questions for you. Thank you.

Moderator: Thank you, Bhavesh. Our first question comes from the line of Manish Adukia of Goldman Sachs. Manish, your line is open. You can now ask the question.

Manish Adukia, Goldman Sachs: Yes, hi. Good afternoon. Thank you so much for organizing this call and for taking my questions. So, I'll actually start off with the first question, Bhavesh, which you partially addressed in your opening remarks as well. So, on postpaid, maybe if you can just provide a little bit more color. So, you're saying that you're scaling it down, but you're not shutting the product completely. So, how should we think about the forward, like scaling down to what extent? Will you not sign up? New users going forward or even existing users may see some impact. And if you can just confirm there was a press report a couple of hours ago, any merit to that at all whatsoever, or it's just speculative. So, that's the first question, please.

Bhavesh Gupta: Somebody who can't see me, but I can only have a small smile. I don't think that there is, I'm a postpaid user. We've got 10 million people who are postpaid users. There is bottom scraping that we do every month as we do. We've accelerated bottom scraping in consultation with our partners. So, there could be a cohort of users who otherwise may have continued in a nicer environment. Today may not be able to see that their overdraft limits of postpaid loan being renewed and hence may be conjecturing that the postpaid product has been shut down. That is completely not true. Postpaid loan product continues to be there. We have calibrated it to make sure that the users who can use it, merchants who can use it, have got calibrated. But the numbers will remain decently large. I can't give you a range of a number, but if today we were doing Rs.3000 crores, it may come down to about 40-50% lower than this, but it will oscillate in that range. And we will see after a quarter how the environment changes if you want to grow more, if you want to cut

more. But at this point in time, we believe the number could be in that range of an outcome. But eventually we will know the number only a couple of months down the line exactly because it's not math, there are users and there are merchants. So, when you actually handle users and merchants by not giving them enhancements or giving lesser enhancements or being tighter on controls of who gets a renewal or who doesn't get a renewal, the outcome of that can only be estimated. So, I'm giving you a broad estimate. So, the product continues, the lending partners who are supporting the product, Aditya Birla of Finance and Fullerton, who's now Sumitomo as a new name from 13 November continues and we will add another partner in this area in the near future. So, that continues.

Manish Adukia, Goldman Sachs: Thank you for that Bhavesh. And in terms of let's say this bottom scraping of users that you talked about, is it broad based across the existing two lenders or one lender is seeing more impact than the other?

Bhavesh Gupta: That's a great question. Thank you for asking. See, we don't have a different risk policy between the lending partners in any product. The commercials could be a bit different, but risk policies are never different because it's based on collectability and stability at our end and intent and ability lenders end. So, there is no risk arbitration we do. It is about which lender had onboarded which user earlier and hence they will have a larger share versus somebody else. But absolutely no. So, it will be proportionately largely coming down, but not somebody getting more and somebody getting less.

Manish Adukia, Goldman Sachs: Right. And you quantified that number. So, I just want to confirm it. You said, 40 to 50% impact on the value of disbursement on the post-paid product.

Bhavesh Gupta: Yeah. Value of disbursement is what we believe. We will like to slow down because that's where we figured out, lenders have figured out that yeah, there are multiple trade lines that they're carrying. They may have gone 5 DPD to 2 months back, but they never went 30 DPD. So, we're actually getting ultra conservative in this space because we just want to be very sure that while we are not seeing any lead or lag indicator data, as you can see from our delinquency trends, if the overall environment is talking so much about it, there could be something that we don't know. So, it's better to be conservative today and we can always open it up because lines will exist. It's just that people may not be able to renew or expand the lines, which was happening before growth. So, we can always take a call a couple of quarters or maybe let's say a quarter away from today if everything changes.

Manish Adukia, Goldman Sachs: Understand. The second set of questions on the personal loan business. So, of course you're starting to do this for the sub 50,000 ticket size product, but given what the RBI has asked and on the unsecured lending, the focus as a whole, what is the probability that this spills into the personal loan portfolio also in the next, let's say, 6-12 months?

Bhavesh Gupta: So, I'll answer this in two parts. There is a risk rate increase, which leads to calibration by each lender as to how much unsecured personal loan they would like to book incrementally. The good news is that we today have five lending partners who are booking personal loan. So, dependency on one lending partner is not very material. So, we have enough and more lending partners and amongst the three that we're adding further, at least two of them will be booking personal loans also, including a bank. So, there is enough and more appetite to book good quality credit. So, the quality of credit is good, but the lender does not have an appetite because of the risk rate and increase in the cost of capital for them and hence the depression of ROA and hence

they want some number to move here and there. Yeah, we will be able to move here and there, but Paytm doesn't get affected.

Manish Adukia, Goldman Sachs : Understood. Just last question from me before I just jump back in the queue. I'm sure there are other questions as well. At the end of last quarter in the earnings call, you had given certain guidance both for personal loan portfolio growth and the overall loan portfolio growth. Would you want to revise that now?

Bhavesh Gupta: The growth in merchant loan will continue to robust. Personal loan, because we will add a high ticket, you will see growth on personal loan also. What I will say is personal loans where we have distribution and collection incentives, that portfolio will be low growth or stable. They will not go to negative growth, but the high-ticket personal loan will add to the growth in the system because that's a new line of business that we have set up last quarter and postpaid will now get recalibrated lower. So, overall disbursement, if you were trending at let's say 5500 to 6000 crores a month, that number in merchant and personal loan will still show growth. Postpaid will show minus 50 percent, 40 percent, whatever it ends at.

Manish Adukia, Goldman Sachs : Right. And this minus 50 would start showing immediately just to confirm.

Bhavesh Gupta: It's a 30-day product. It may not start showing immediately. It will show some because we started to cut in the month of October, then we cut something in November and now we're cutting in December. So, October was some cut. November was some cut. Now December more cut. January could be maybe further expansion because we will find as to how the behavior of portfolio is. So, there will be calibration. So, Q3 may reflect much lower. Q4 will reflect much sharper, but only in postpaid loans.

Manish Adukia, Goldman Sachs: Thank you for taking my questions. All the best. I'll jump back in the queue.

Bhavesh Gupta: Thank you.

Vijit Jain, Citi: Hello. Hi.

Bhavesh Gupta: Hi Vijit.

Vijit Jain, Citi: Hi. I have two questions. One with as you slow down this postpaid, this 30-day loan product, do you worry about the consumers who still have outstanding on postpaid but are not being given a new postpaid loan for a new consumption activity in the next 30 days? How should one think about that part in the next 30 days for people who are existing users and are being bottom scraped? That's question one.

Bhavesh Gupta: Yeah. So, Vijit, I think it's again a very good question. We don't do anything dramatic because it is calibrated. And in that calibration, I just want to say because the 30-day product customers have to repay in the first seven days. And if they don't repay in the first seven days, they go to delinquency. I can give you because we're sitting on the sixth. We have not seen any material change, actually no change, hardly half a percent change here and there on the way the trends were when we were not bottom scraping as aggressively as we are doing today. So, from a portfolio outcome perspective, if that is your question, I don't think there is any portfolio outcome challenge because of not removing the postpaid limit that guy will not repay back because anyway, it is not a cash out loan, right? It is a merchant. So, it's for consumption. And in fact, this activity will maybe

further strengthen our belief that the quality of credit that we were generating for partners was very robust. So, as in when we believe the macro is back to normalcy, we could further try to scale up.

Vijit Jain, Citi: Got it. And my second question is, so if I go on to my Paytm app, and if I'm not a consumer of Paytm Postpaid today, right now you in terms of new brand-new users into Paytm Postpaid that will almost very dramatically slow down. Is that how one should understand this?

Bhavesh Gupta: Not dramatically slowdown. So we used to originate about 350,000 to 400,000 new Postpaid accounts every month. If I was to give you the breakup of that, how much as you saw in the chart number one that I presented, 70% were below Rs.50k and 30% were above Rs.50k. So, the idea is to operate in cohorts on new acquisition also, which are very, very comfortable in the current macro and the overall guidance that is available in the system. So, yes, it will not be 350,000, but it will also not be zero. I don't know the number yet, because funnels will play out. But yeah, that number may also drop down by 50%, or maybe a bit more than that. But you have people who will still be able to apply and get a new Postpaid loan if they're credit worthy.

Vijit Jain, Citi: Got it. And one last question, Bhavesh. What kind of impact does this has on the customer acquisition engine for the personal loan business for the higher ticket size loan? Because a big chunk of these customers are older Postpaid customers of Postpaid, right? So, from a two to three quarter perspective, how should one think about that?

Bhavesh Gupta: I think, again, a great question. So, as you actually kind of answer that question, these people who are high quality remain to be Postpaid customers, continue to be originate for Postpaid customers. So, the cohort, whatever the cohort is, whose lowest risk and high value and has a higher propensity to be cross sold a personal loan or a credit card or whatever the case may be. I can very confidently say that that cohort will continue to enjoy the facility. There will always be some edge cases. I just want to confess because when you do an exercise in which you want to tighten the policy, there will always be an edge case of 5% users who generally are very good, but may not continue to be renewed on the Postpaid limit. But by and large, if I can say, our upsell funnel coming out of Postpaid will be largely unaffected for the users who we believe in this environment should be given a higher ticket personal loan or a credit card to our partners.

Vijit Jain, Citi: Got it. Perfect. Thanks. Thanks, Bhavesh.

Moderator: Our next question comes from the line of Sachin Salgaonkar of Bank of America.

Sachin Salgaonkar, Bank of America: Thanks, Rishi. Hey, guys, just three questions from my side. First question, Bhavesh, we're only talking about two companies like Aditya Birla and Fullerton and Sumitomo. So, the question out here is, is this generally coming from those partners versus you guys? And the reason I'm asking is we saw one more fintech today announced a decision to shut down because Aditya Birla pulled down. And the extension of that question is, are we going to see a similar change of approach by other partners eventually?

Vijay Shekhar Sharma: Sachin, I just put it in the context of the other fintech because that fintech was of our friends. They were looking out for buyers since a year before because they were looking to merge into another company, but that merger wouldn't happen. So, I don't think that their action has anything to do with what we are doing or anything else. They have been in the market to find a partner for a long time. So...

Sachin Salgaonkar, Bank of America: No, no. Vijay, I completely get that. It's just that media articles said that just because Aditya Birla pulled out of it, that acted as a last straw or a catalyst to sort of shut down.

Vijay Shekhar Sharma: I wonder how and where this has come from. You heard us explicitly talk about that. So, I hope that is clarified.

Sachin Salgaonkar, Bank of America: Okay, got it.

Bhavesh Gupta: In addition to what Vijay has said, Aditya Birla finance and because you asked specifically and I'm sure you can and will and should check with the lending partners. Does three lines of businesses postpaid loan, they continue to do postpaid loans in a similar measure to what they were doing earlier. Obviously, the reduction that we collectively agreed that we should do, the reduction will happen for them, but they will continue to support the product as they were doing earlier and grow and materially support the product. They continue to do personal loans, which is unaffected, and they continue to do merchant loans, which is unaffected in this business. And even for other lending partners to have questions that can they come back and what is lender led. I think every decision that we make on loan distribution has to be lender led because at the end of the day, they're taking the risk. It is their customer. But it is always a consultative process. When we started to cut down in Q3 of 23, I had gone on record to say, nobody was at that point in time saying there is an issue and why are you cutting? Because there was no news around it. But we could see early trends that things are not good. So, we cut. That time lenders were not asking us, but we were asking them that we should cut and we did what we did and we continue to do so. In postpaid loan also, we were very clearly working with lenders and because this time there was regulatory guidance available to them. And generally, the macro data that is available to them, the less than Rs.50k loans are seeing multiple trade lines, etc, etc. And delinquency off in the market, not on Paytm, but in other loans, they may be originating with other fintechs or otherwise. It is better that we slow it down and calibrate our focus on high ticket, which is what we respect always and we did it. So, can other lending partners do the same? I think the simple answer is we continue to add more lending partners and our existing lending partners continue to support the business. So, I don't think that that assumption may hold true. But yeah, anything can happen in the future. But I don't think that that could hold true today.

Sachin Salgaonkar, Bank of America: Thanks Bhavesh for articulating that. The second question is on what in the last line you pointed out to incremental lending partners. We are talking about one bank and two large NBFCs. Is it fair to assume that in this market they'll focus a bit more on the merchant loan side or the Rs.50,000 and above ticket size versus postpaid as well as below Rs.50,000 personal loan?

Bhavesh Gupta: So, you'd be a bit surprised that this conversation that we want to focus on which product hasn't changed even after what has happened in the environment in the last 30 days. Because these agreements got signed six months back, seven months back and integration going on. So, there has not been any conversation that we will launch not this cohort or that cohort. So, I just want to make that clear because it is not that something is now started to change. The other piece is, of the three lending partners, one lending partner is explicitly for merchant loans and the remaining two lending partners are available to us for personal loans. Some of them will do high ticket and medium ticket. Obviously, there is hardly anybody doing less than Rs.50k today and neither are we doing. So, it will always be all above Rs.50k, but it will be personal loans with two more partners.

Sachin Salgaonkar, Bank of America: Got it. And last question, now there are two parts which will happen or impact your book. One is the scaling down which you sort of quantified in terms of a 50% decline in postpaid. And second part is a scaling up because of it's a relatively new business. So, the question out there is how could we, anything you could help us to quantify the impact in the near term and slightly longer term. Near term in the sense that, of course, should we see a couple of

quarters numbers being not as great versus your average run rate of Rs.5000 to Rs.6000 crores, and then things would sort of meaningfully pick up in a meaningful manner. Anything that actually could help us?

Bhavesh Gupta: I think I answered that question in the previous ask that the postpaid because it's a 30-day product used to demonstratively have a larger value optics on the Rs.6000-crore number, almost Rs.3000 crores of that was Rs.6000. Give or take if that number was to come down to Rs.1500, I'm just giving one off the back number, it could be more, it could be much less, but let's say in that range of Rs.1200-1500 crore number. So, that Rs.1500 crores will go away from Rs.6000. So, you left with Rs.4500. That Rs.4500 will have Rs.3000 crores of personal loan and merchant loan which will grow. So, yes, in the next quarter, you will see the run rate of Rs.6,000 crores drop because of postpaid loan and some compensation happening by additional merchant loan and personal loans, both on the existing business and the new ticket business. On a longer arch, if you take a quarter one to quarter four of next year, yeah, it will be more or less compensated, albeit with some more growth coming in because the high ticket business is a very large ticket business, even with a lesser number of loans, you will do more. On the revenue side, I just want to call out very clearly that, as you know, postpaid was the lowest take rate business followed by PL which was closer to 4% and merchant loans more than 5%. So, from a revenue impact perspective, while the optics of disbursement could be a bit lower, but revenue impact will be very, very marginal and more than enough compensated by the expansion to high ticket, etc. and other revenue items that we will talk more about in Q3 of other financial services.

Sachin Salgaonkar, Bank of America: Got it. So, just to sum up, maybe one quarter impact here and there, but from second quarter onwards, you should see revenues picking up because of this change in strategy.

Bhavesh Gupta: Yeah, so lending revenue, what you're saying is right, but overall, I don't think there'll be any material impact because overall, there are multiple engines at Paytm, not only just lending, so we have payments and we have other financial services in commerce. And as I said that we would like to talk more about it after Q3 on other financial services and payments business, which obviously is showing very healthy signs of growth and trends on profitability.

Sachin Salgaonkar, Bank of America: Great. Thank you. That's it for me.

Bhavesh Gupta: Thank you.

Moderator: Our next question comes from the line of Piran Engineer from CLSA.

Piran Engineer, CLSA: Yeah. Hi. Good afternoon. Thanks for taking my question. Am I audible?

Bhavesh Gupta: Yes, Piran.

Piran Engineer: Yeah. Hi, Bhavesh. I'm just a bit confused, to be honest, because we've anyway been doing bottom scraping of BNPL customers. That's been our strategy. And we have still always seen growth.

Bhavesh Gupta: Yes.

Piran Engineer, CLSA: We used to add 4 lakh customers per month. Now we may add maybe 80,000, 1 lakh. I'm just putting a number.

Bhavesh Gupta, CLSA: Yes, yes, yes.

Piran Engineer, CLSA: So, why is it that our disbursements will half then? I think growth should slow down. But why should there be minus 50% growth?

Bhavesh Gupta: Good question. So, there are two parts of this piece. Bottom scraping, we were doing earlier also. And if you see postpaid loan growth till the time, we were declaring monthly disbursements, and then obviously you see in the last two quarters, postpaid loan GMV growth was anyways getting calibrated. Earlier it was going 20-25% every quarter, then we brought it down to about 10-12%, then we brought it down to about 7-8% last quarter. So, now the difference is this time that there is a clear understanding we carry that less than 50,000 rupees segment, which is 70% of postpaid, seems to be showing trend in the environment, not with us. I want to repeat because we're declaring our data very, very clearly. I don't have market data, but there is a lot of noise around this in the environment. And lenders, because they have visibility in their books and overall book, clearly feel that there is some stress building in their other portfolios and the general bureau report etc. So, it's better to calibrate it.

So, if you see today, out of the 10 million postpaid users, and let's say 6 to 7 million who are active, there is 70% of them who will be carrying limits below 50,000 rupees. So, that portfolio will be materially impacted by the decision because we will not renew or we will reduce the limits after 30 days, given the understanding that we carry at this point in time. And similarly, when we're originating new loans, we will originate lesser, as you really call out. So, a combination of that will mean that your GMV growth will drop by the percentage that I gave you as a range bond number.

Piran Engineer, CLSA: Okay, so you're, when you're talking about bottom scraping, you literally bottom scrape most of the sub-50,000-rupee BNPL.

Bhavesh Gupta: But you could say, if I was bottom scraping...

Piran Engineer, CLSA: Majority, okay.

Bhavesh Gupta: I could bottom scrape 40-50% of cohort because somebody who has a limit of 10,000 rupees and was spending 4000 rupees, that person could be brought down to a lower limit or may not be allowed to renew, because we believe that the person will be running more credit lines in the market and has maybe a situation of higher stress building up because that's a visibility that lenders carry because the bureau depth, etc. So, yes, that's the reason this will drop. It's not that high quality customers will be asked to shut down postpaid or their postpaid will not be renewed.

Piran Engineer, CLSA: Got it. And what will you see in the environment to which will make you, if at all change or reverse this decision?

Bhavesh Gupta: I think the two or three parts, if you ask me honestly, there is definitely the fact that if interest rates are to come down. And generally, we believe that the leverage that the customers are having to go through, because of higher inflation, higher interest rates is starting to soften, there'll be early trends. And if you do start finding lead indicators in payments data, that we are currently finding insights on payments data, which reflect on a lead indicator basis that these people are doing okay or not doing okay, if those macro trends start to become positive, we may start to open up the product in consultation with the partners if they're comfortable over the next couple of quarters.

Piran Engineer, CLSA: Got it.

Bhavesh Gupta: As you understand, it can be managed very, very effectively, depending upon how the environment changes, unlike a personal or merchant loan, where you have to take binary decisions here, you can be more calibrated.

Piran Engineer, CLSA: Got it. But so, if I were a customer today of Aditya Birla, now you've stopped my line. Tomorrow, the environment improves, just hypothetically, can I be given to another lender if Aditya Birla still does not want to do the business?

Bhavesh Gupta: No, that will not be okay.

Piran Engineer, CLSA: So, it's basically up to them then

Bhavesh Gupta: No, no, we can give them, if Aditya Birla finance as an example, because we're making Aditya Birla in the center, I don't have permission to talk on their behalf. But let's say we have three lending partners on postpaid loan, or we have four lending partners on personal loan, etc. Any lending partner decides not to do a particular cohort of users or a business, they have to give us the approval to offer that customer to somebody else. If that was the case, we have an approval, we will do. But if they were to decline that user on credit risk, obviously, we will not offer it to somebody else.

Piran Engineer, CLSA: Got it. And just last question now on personal loans. So, we've been doing that one and a half lakh rupee personal loan sort of business. Yeah, two lakhs. And now we're talking about five lakhs, six lakhs. Like, firstly, what are the yields that you're offering? And secondly, why would such a high-ticket customer come to you versus directly to his bank or her bank?

Bhavesh Gupta: Yeah, so same philosophy. We are clearly seeing today, and I can give you broad data on this piece that if let's say, we are doing thousand, five hundred crores of personal loans in a month, the various lending partners could be approving closer to two and a half thousand crores. So, the thousand crore that is getting approved, but not being disbursed when we were actually working with partners to see what has happened to them, we found a reasonably good share between 30-40% of people who were getting credit of a higher amount and lower interest rate because the creditworthiness was fantastic from somebody else.

And we then felt that the people are genuinely coming to our platform, they like our product. But instead of maybe a partner who's, because we have a restriction on offering by design of a product, that we don't want to offer more than two lakhs for 24 months, somebody is seeking four lakhs for let's say four years. But after taking approval, they figured out they've not got four lakhs, they've got only two lakhs for 24 months. And as they don't get it from us, they want to take it from somebody else. If that somebody else, pricing, etc. is available on our platform, they will take it from us. So, we tested it out. And we found very good results. And when I say very good results it is not that we tested out on, for 10 crore rupees disbursement, etc. I'm talking about AAA disbursement. And after testing it for almost three odd months, and seeing that there is a genuine demand because the product and experience that we built for such a cohort of users is fantastic, we felt that now it's a time that we should open up this segment, given definitely the environment also and the opportunity to go forward. So, it's again, the same question of product, and the partners you have. And here the banks would also be very interested to do so and you will see some area of interest, as I said, in my presentation, the banks will participate in this area, apart from the current partners and more partners coming our way, who want to participate both for personal loans and merchant loans.

Piran Engineer, CLSA: Okay, so this is like a 13-14% personal loan, not a 24%...

Bhavesh Gupta: Yeah, it will definitely not be the range that we are in, but it will, it will depend upon the cohort what is available, it could be 12%, it could be 13%, could be 18%, but definitely not be above 18%. So, it will be in the range, which is more what is called as prime and super prime, but a higher ticket on which the credit risk appetite of everybody is much better. And obviously, the market is much, much larger.

Piran Engineer: Got it. Okay, thanks for answering my questions and all the best.

Moderator: Thank you, Piran. I would request all participants to limit to two questions each. We are extending this call to 4:45 to come up with new questions. The next question comes from the line of Saurabh Kumar at JP Morgan.

Saurabh Kumar, JP Morgan: Hi, so just two questions. So, one is on this PL's the new PL, the take rate would certainly not be in the 5% and net at 4% ballpark height, it will be much lower.

Bhavesh Gupta: So, we don't have a 5% take rate on PL, we have a 4% take rate as you know, on PL about 3% up front and 1% carry. So, they will be lower than 4% for sure, because they're operating at a fine price, but not much lower. So, on a blended basis, you would see that the take rates will be higher than what we were making on postpaid loans, but lower than what we're making in PL. So, it'll be more revenue accretive versus a shortfall on postpaid loans, but not enough to personal loans' current business models. I hope I could answer your question.

Saurabh Kumar, JP Morgan: No, I understand that. But the point is this, I mean, if you do the math, then it's very hard to see how it can be just at 4%. It needs to be much lower, but maybe I'll take this offline. The second is just on this payment.

Bhavesh Gupta: I just want to clarify, the take rate will be higher than postpaid, which is about 2.2%. It will be in the range of 2.25% to 4%. It could be 3% also at a blended basis, it could be 3.5% also, right, it will depend upon the scale. Today, the take rate of this business is higher than 3.5%. But it is lower scale. When we scale, let's say this becomes 500 crores a month, etc. I'll be in a better position to answer, what is the right sweet spot of take rate going forward, maybe in early Q1 '25, after Q4 '24 results. But it will be more than postpaid loan take rate and shared lower than personal take rate. So, it will be in the range of 2.25% to 4%. You can actually for argument sake, you can take the range to be between 2.5% to 3.5%.

Saurabh Kumar, JP Morgan: Okay. The second question is basically that in this BNPL was also part of your payment processing, payment revenues, right? The MDR was getting captured there. And so basically, what happens to your payment margins now?

Bhavesh Gupta: Not much because if you remember, we used to say that our interchange is 1% or our take rate on postpaid is broadly 1%. So, it was not net margin accretive. So, whatever the reduction is, will not necessarily impact a net margin. So, expenses of 1% will go out of the reduction in the book and the income correspondingly will go out. So, on a net basis, it will not have any impact.

Saurabh Kumar, JP Morgan: But even the payment revenue will slow down, right? As a result, I mean, I understand the margin will be there.

Bhavesh Gupta: On 1500 crores as a give or take number, 1% is negligible.

Saurabh Kumar, JP Morgan: Okay. Got it. And this last question, is there any offset on the indirect piece in the next two quarters?

Bhavesh Gupta: There will be, obviously, because postpaid had its own costs, etc. And otherwise, also, we were seeing a massive amount of operating leverage. And with high ticket loans coming in, it will have a very, very lower opex because there's no collection costs, etc. So, we will see some operating leverage coming and we'll talk more about it after the Q3 results.

Saurabh Kumar, JP Morgan: Okay, thank you.

Bhavesh Gupta: Thank you.

Moderator: Our next question comes from the line of Ruchit Puri at Marshall Wace.

Ruchit Puri, Marshall Wace: Hey, sorry, can you hear me?

Bhavesh Gupta: Yeah, hi, Ruchit. Hi.

Ruchit Puri, Marshall Wace: Hey, how are you guys? Just a quick question from me. I mean, you heard a lot of the questions earlier have been around credit quality of customers. And obviously, that is coming from the fact that there's been a lot of noise on fintech disbursements. So, for the benefit of all the investors on this call, any data that you could provide on credit quality, whether it is credit score or anything like that for your customers would be very helpful, I think.

Bhavesh Gupta: Yeah, so Ruchit, credit score of our customers is not available with us, it is available with our lending partners. We have a range of the credit score of our customers. We don't do any new to credit in our PL business. And we have never done that. We used to do new to credit in our postpaid loan business, which was about 20% of our portfolio, which reduced to 17%, and has gone down to 12% in the last quarter. Earlier, almost 44% of our customers had a credit card with a postpaid loan, that number has moved to 58%. So, I can give you various other metrics, very clearly, that suggest to you that the people who are borrowing through Paytm platform had or have a very good quality. And we have anyway been sharing quarterly metrics on what are the bounce rates, what are the 30s, 60, 90+ DPD, what's the GCL, what's the ECL, all those numbers have either been stable or come down, right, especially postpaid loans. So, this postpaid loan decision is more an outcome of, what the overall, the word that you use, noise around less than 50,000. And the data that may be beyond Paytm is being seen by industry and not by us, because our data is suggesting that the book is performing absolutely fine, and actually becoming better. But we respect the overall conditions in the market. And hence, we agreed that we should slow it down a bit and see after a couple of quarters as to how the overall environment changes. But we will not have bureau scores because that set of data is not available to us.

Ruchit Puri, Marshall Wace: Got it. Perfect. Thank you.

Moderator: Our next question comes from the line of Manish Shukla at Axis.

Manish Shukla, Axis Capital: Yeah, thank you for the opportunity. So, my first question is, as of today, how many lenders have you signed an agreement with for this high-ticket Personal Loan?

Bhavesh Gupta: Four lenders. One bank and three NBFCs. We've taken one NBFC live, we are currently CUGing one large bank, and two NBFCs are under CUG, starting from next quarter.

Manish Shukla, Axis Capital: So, the upper limit of yield that you said about 18%, at NBFCs cost of funds, you think that product will be viable for NBFCs?

Bhavesh Gupta: I think that, look, that is actually for NBFCs to answer honestly, but the cost of capital that we understand of NBFC is still oscillating at about 8%-8.5% leverage cost. So, there is enough and good margin in the system. And we currently believe that there are a lot of people who

believe at 16 to 17%, with lower credit costs, and lower collection costs is a better product than really offering 20-22% in their environment. So, yes, but will it be 18%? Will it be 14-16% blended? Time will tell. But currently, the number is operating at about 16.5%. It may go to 18% or it may come down to 14%, time will tell.

Manish Shukla, Axis Capital: The other question is on the slide that you showed where more than 30% or around 30% is more than 50,000 ticket size. If we do the average ticket size math for Q2 for BNPL, that comes to about 7000, based on the volume of loans and disbursement. So, I am not struggling to get the 30% more than 50,000.

Bhavesh Gupta: Glad you asked this question, I knew this would come. So, it is on the limit sanctioned, Manish. So, the limit sanction average is close to 16,000 rupees, spends is about 7000 rupees. So, 30% of postpaid loan users have a limit sanctioned by lending partners of more than 50,000 rupees.

Manish Shukla: Very clear. Thank you.

Bhavesh Gupta: Thank you.

Moderator: The next question comes from the line of Saurabh Patva from Quest Investment.

Saurabh Patva, Quest Investment: Sir, thank you for taking the question. I just wanted to clarify, in response to the previous participant's question, you mentioned that the impact of MDR which we would lose on this postpaid would not be much. But if it is 1% and we do it on a quarterly basis, if we had a total of 9000 crores in a year, so why wouldn't we then the number would be lower, sir?

Bhavesh Gupta: Let me explain to you. So, if it was 9000 crores, 9000 is not becoming zero, 9000 could be whatever the number is, let's take an example 4000-5000 crores. On the remaining 4000, 1% is the MDR that we will lose. But correspondingly, the interchange was also 1%. So, on a net margin basis, there is hardly any impact.

Saurabh Patva, Quest Investment: The interchange was 2.5% because the sourcing fee is 2.75% and the interchange is 2.5%.

Bhavesh Gupta: Let me explain. So, there is a payment margin and there's a loan margin. The loan margin is 2.25%, which is a combination of convenience fee that we charge on postpaid loans, plus any kind of overdue charges that the user is paying. That 2.5% gets booked in the financial services lending revenue. And the 1% gets booked in payments revenue because that's the MDR that payments team charges, we're going to interchange also they are paying. So, overall, we make 3.25%, it's split between the two. The 2.25% gets impacted on financial services revenue on the reduction at a gross level, the net level is very small. On the payment side, the gross and net itself is very, net is nothing because the interchange, etc. is nothing. But the net margin, there is no impact but on a gross level, yes, on 4000 crores, you will not be able to show 1% postpaid led revenue on payments.

Saurabh Patva: So, in the past, we've been highlighting that HDFC bank, I think four-three quarters back highlighted that HDFC bank has already partnered with credit card and at some point, may defer. So, what's the status on that, sir? Are the talks still around?

Bhavesh Gupta: Those are talks, the agreement we have, I had said earlier, not just HDFC, there are other banks also that we've signed the agreement with, there is a technology integration, prioritization at their end, and at our end, which has unfortunately taken more time than we expected. So, we are going to take one other large bank live fairly soon. And I'm hoping to make an announcement, as and when that goes live in full scale next quarter. And in particular, with HDFC

bank, our partnership with them is very, very strong, not just on credit cards, but also on payments. And we're committed together to do more things with them, including expanding credit distribution through Paytm platform, which hopefully, in the near future, you should be able to see.

Saurabh Patva, Quest Investment: Thanks a lot. Thank you. I'll get back in the queue.

Moderator: Our next question comes from the line of Arpit Shah at Stallion Asset Management.

Arpit Shah, Stallion Asset Management: Hello. Am I audible?

Bhavesh Gupta: Yes.

Arpit Shah, Stallion Asset Management: Hey, just wanted to understand the growth part for personal loan and merchant loans. We have already guided for 50% lower business for the postpaid business, but what kind of growth risk can we see for personal loans and merchant loans business going ahead, let's say, on a YoY basis?

Bhavesh Gupta: I think I will speak for today that merchant loans could be in the vicinity of 30% to 45% because we believe that our right on the back of payments and our distribution of sandboxes is very, very strong and remains strong. In personal loans on the back of high ticket, we could see some growth. My sense is personal loans could grow maybe between 15% to 20% YoY as things stand today. If the environment becomes better, it could be more, if the environment is not better, it could be a bit lesser. But that's a broad guidance I can give to you, but we'll be in a far better position to talk about it when we talk about this in Q1 of next year after our Q4 results. Because by then we will have a much better understanding of how the environment is changing or not changing and how the high-ticket business is growing.

Arpit Shah, Stallion Asset Management: Yeah. All right. Thank you.

Moderator: Next question comes from the line of Jigar Walia of Ohm Capital.

Jigar Walia, Ohm Capital: Hi, thanks for the opportunity. Most questions are answered. Just one thing. Are you focused on RuPay cards? Is it more for NFC or are we looking at more innovative products or anything?

Vijay Shekhar Sharma: I think RuPay cards offer an incredible opportunity. In fact, in the market, RuPay credit cards are now called UPI credit cards, because people who have RuPay credit cards are linking in large volume to apps like us and they're making QR led payments. So, there is an incredible opportunity of expanding on rupee credit cards. You've seen Paytm has one with SBI and it is actually doing very, very good.

Jigar Walia, Ohm Capital: Okay. Okay. Yeah. Thanks. Other questions are answered.

Bhavesh Gupta: Thank you.

Moderator: That was our last question for today. Thank you, participants, for joining the call. You may now disconnect.

Vijay Shekhar Sharma: Thank you very much.

Bhavesh Gupta: Thank you, everyone. Thank you. Bye.