October 29, 2024

BSE Limited
Department of Corporate Services
Phiroze Jeejeebhoy Towers,
Dalal Street, Fort,
Mumbai - 400 001

Scrip Code: 543396

National Stock Exchange of India Limited
The Listing Department
Exchange Plaza,
Bandra Kurla Complex,
Mumbai - 400 051

Symbol: PAYTM

Sub.: Disclosure under Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 - Transcript of the earnings conference call conducted on October 22, 2024

Dear Sir / Ma'am,

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the earnings conference call, conducted on October 22, 2024, on financial results of the Company for the quarter and half year ended September 30, 2024.

The transcript is also available on the website of the Company at https://ir.paytm.com/financial-results.

Kindly take the same on record.

Thanking you

Yours Sincerely,
For **One 97 Communications Limited**
SUNIL KUMAR BANSAL
Digitally signed by SUNIL KUMAR BANSAL
Date: 2024.10.29 15:44:26 +05'30'
Sunil Kumar Bansal
Company Secretary and Compliance Officer

Encl. as Above

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Paytm | Q2FY25 Earnings Call |

Call Date : October 22, 2024 | Time: 17:00 PM Indian Standard Time

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Moderator: Thank you for joining and welcome to Paytm's earnings call to discuss our financial results for the quarter ending on September 30th, 2024. We will start our call with Q&A after introduction to the management. 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, SVP, Investor Relations. A few standard announcements before we begin. 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 earnings call is scheduled for 60 minutes. A replay of this earnings call and transcript will be made available on the company's website subsequently. We will start our Q&A now. If you seek to ask a question, kindly utilize the raise hand feature on your zoom dashboard. Please ensure that your name is visible as your name, last name followed by your company name for us to be able to identify you. We will unmute your line and take questions in the respective sequence of the raised hands. Our first question is from Alok Srivastava from UBS. Alok, you may please go ahead.

Alok Srivastava: Yeah. Hi, everyone. I think the first question is if Madhur or Vijay, if you could explain this DLG model with an example in terms of how revenue will accrue, how cost will be there, I think it will be helpful for everyone.

Mr. Madhur Deora, President and Group CFO: Yeah. Hi. Thank you Alok, I can begin to answer that. So, as you know, in our previous model, without DLG, which is a model that we continue with certain partners, we have a sourcing fee, which we have described earlier as 3.5 - 4%. So that continues as is. We give a DLG to our partners upfront, which obviously is well within the regulatory guidelines. So we give that DLG we have, as mentioned in the earnings release, we expensed that entirely currently in the quarter in which it was given. So in the last quarter we have expensed all the DLG that we have given and as a result of this, we get higher collection revenue during the life of the loan. The overall take rate, net of DLG, still works out and here we're talking about merchant loans because we have given data only for merchant loans. The overall take rate during the life of the loan, net of DLG cost, still works out to be north of 5%, which was, which is, and as you know earlier we did not have a concept of net of DLG cost. So we had an overall take rate. We think that the overall take rate will still be north of 5%, net of DLG cost. So we do expect a significant amount of collection revenue over the life of the loan under the DLG model.

Mr. Vijay Shekhar Sharma, Founder and CEO: This is Vijay. Thank you for joining. Also, I would go ahead and say that we were reviewing our all regulated businesses and we were seeing what is the market practice and regulatory, sort of guidance on those businesses. And as you are aware, the more or less industry had matured or materialized and had reached towards a DLG based structure. While our commercial model never had any challenge from any audits, etc. but our lenders did look at it. But we were more about that how can we make the business very much aligned to like what everybody else does? So there, the commercial model and viability, we waited till the month where we were able to see that we have enough income. So we have reported in the quarterly earnings that we have actually taken the all DLG amount that we paid as a cost in the provision, the cost in the quarter and I'm very happy to say this, that it does not change our profit guideline. We are going to make larger money and this is going to be helping us net the DLG cost, if at all, any quarter we are assigning in that, and expectedly every quarter they will be DLG cost and I also want to extend next further that DLG costs, as you are aware are going to be paid back to us, so higher revenue. So, in a way, the business does not require additional equity capital or investment because this is in a rotation. Money is in a rotation here.

Alok Srivastava: Okay, sure just a follow up on this, Madhur, this 5% net that you'll be making, is it over and above the upfront fees that you will make on the loan?

Mr. Madhur Deora, President and Group CFO : It's the total money that we make. So we make a sourcing fee upfront, we have DLG cost upfront, and then we have collection revenue over time. The total of all of that, net of the upfront DLG cost that we talked about, will be north of 5% or is expected to be north of 5%.

Alok Srivastava: Sure and typically, are we talking about a tenor of 12 months or so?

Mr. Madhur Deora, President and Group CFO: Yeah. So the average tenor is about 12 months, I mean, most of our loans are 12 to 18 months. There can be some which are slightly longer, some which are slightly shorter but yes, that is in the ballpark of what we do.

Alok Srivastava: Sure, sure, Madhur. That is helpful. Secondly, on net payment margin, I think my calculation is suggesting some three and a half basis points NPM, that's roughly a basis point improvement over last quarter. So how has this happened? Has there been some change in mix or something which has driven this improvement?

Mr. Madhur Deora, President and Group CFO: I won't comment on exactly what the improvement was, but yes, it has gone up, as we have indicated in our earnings release, that has been due to largely better monetization of merchants as well as control over our payment gateway costs. So it has been on both sides.

Alok Srivastava: Okay and should this be the run rate that we should be looking at in coming quarters?

Mr. Madhur Deora, President and Group CFO: Yeah. We do think that we should be able to manage and we should be able to maintain these sorts of levels, going forward. We do have some quarterly volatility, maybe because of festive being slightly better, slightly worse and so on and obviously, I'd just like to point out here that all of these numbers are excluding UPI incentive. So including UPI incentive, for the year, we expect our payment processing margin to be significantly higher.

Alok Srivastava: Sure, sure. Thanks a lot, Madhur and Vijay. Thanks. All the best.

Mr. Madhur Deora, President and Group CFO: Thank you.

Mr. Vijay Shekhar Sharma, Founder and CEO: Thank you.

Moderator: Thank you. Thank you Alok. Next question is from Aditya Bagdia of Buoyant Capital. Aditya, you may please unmute your line.

Aditya Bagdia: Yeah. Hi. Thanks for the opportunity and congratulations on a good set of numbers. So just one question, like you have mentioned in the presentation about increased monetization of the devices which were not in use. So if you could just highlight your strategy on that and what would be the rough take rate on those devices right now.

Mr. Madhur Deora, President and Group CFO: So just to be clear, yes, we are focusing on increased monetization from our devices. The core piece of that, of course, remains subscription revenues and those subscription revenues have been inching slightly upwards as we get, as we get greater active rates and so on. We have talked in the release about reactivations but also pick up refurbishment and redeployments. So we're quite focused on that. So the core of it is subscription revenue. I think we have given a couple of examples of other places where active devices can also give us increased revenue, and there have been a couple of examples of that but just to be clear, that relates to active devices, not to inactive devices.

Aditya Bagdia: Okay. Thanks and what would be the subscription revenues for the quarter, like is there a change if you redeploy an inactive device?

Mr. Vijay Shekhar Sharma, Founder and CEO: Aditya, the interesting thing is that once we pick up a device, that merchant does not remain a merchant anymore with us because we picked up the device. So one number gets reduced there but if we refurb and redeploy the device, we did not incur a capex of the size of typical capex. We did incur some refurb cost, which in turn signed up a new merchant. So what we've done and we've written in the detail there, is that we will continue to pick up or recoup the devices from the market if the merchant is no more using them, refurbish them and redeploy so that is how we are trying to say we will more monetize the device. I hope I'm detailing it and you can ask which part I should detail further please.

Aditya Bagdia: Sure Sir, fair enough, fair enough. Thanks a lot. That's all.

Mr. Vijay Shekhar Sharma, Founder and CEO: Thank you.

Moderator: Thank you. Next question will be from Siddharth Gupta, followed by Pranav Gundlapalle of Bernstein. Siddharth Gupta, Voyager Capital. Can you please unmute your line and ask your question?

Siddharth Gupta: Okay. Hi. I hope I'm audible. Good evening gentlemen, great set of numbers. I have a couple of questions. Firstly, on the DLG model if you could elaborate on the difference between the take rate we'd have on non DLG loans and on the DLG loans. Secondly, do we plan on extending this DLG model to our other lending partners as well and if we have an internal cap that we wish to have on these kind of models that we have set around Rs 225 crores for this particular lender and, third, I wanted to understand if we have any plans on, moving back towards a wallet business with a tie up with a potential bank in the future.

Mr. Madhur Deora, President and Group CFO: So Maybe I'll take the first two questions in which I can address the wallet question. So, our net take rate, for the DLG business, like I mentioned, should be a little bit north of 5% over the life of the loan. So when I'm saying net, that is net of DLG cost, that is not dissimilar to loans which are without DLG. I think the key thing that matters in a loan really is, as you can imagine, so, you know, interest rates and so on but also what is the credit loss. And that is where, as we mentioned, we are seeing improving asset quality ever since we restarted doing the merchant loan business in March and April, so we're seeing improving asset quality that's very encouraging.

Our collection performance is also improving so that is what affects the net take rate but compared to the two models, which is where your question was Siddharth, they are quite similar. Of course, in the case of the DLG Model, the DLG cost comes up front. So as this is, once this is ramped up, then it becomes business as usual. But in the first couple of quarters you will see a bit of a drag, right, and obviously we have had the numbers that we have had, despite the meaningful amount of DLG that we have given last quarter.

On your second question, we are open to doing DLG with more partners. I don't think we have a strong preference one way or the other. Like Vijay mentioned, this is the emerging market practice and we are perfectly happy to, you know, be in line with what the market practice is. For various reasons, some lenders may not want a DLG and that is okay as well.

Mr. Vijay Shekhar Sharma, Founder and CEO: Yeah Siddharth, So it's really interesting to know that not every lender has asked for it but we also wanted to. We are particularly looking at the particular type of portfolios, etc. etc. so it is not a wider practice that we are going to go with, and that is why we have not set a limit or a number here either. In other words, we are not saying that it will be on every loan or nor it is going to be with a cap so that's what we are trying to say.

Siddharth Gupta: But then it leaves me open to the question that apart from, say, signaling to the lending partners that we are sort of backing up on the quality of the asset that we are bringing to them, what is our skin, our incentive to kind of go ahead and push forward with this model.

Mr. Vijay Shekhar Sharma, Founder and CEO: I told you a little bit a while back. This has become an industry practice and regulatory best practice. So our interest was to remain within the borders.

Mr. Madhur Deora, President and Group CFO: And the indication that we have also had from partners is that their appetite for doing, for the amount of business they do under DLG model is somewhat higher. So to your point that that signal is not just a sort of qualitative thing, it does actually have an impact on how much business we do from their standpoint and it is also possible that some new lending partners may have a preference for DLG model versus maybe, you know, less of a preference of non DLG model. So our focus is, we're seeing enormous amounts of demand at very good asset qualities and this is a very profitable business for us. So we do want to try to get into win-win partnerships with other lenders. So if existing partners can scale more and new and new partners, some potential new partners are finding it easier to start with this model and continue with this model, then we are open to it.

Siddharth Gupta: Okay, got it and maybe on the wallet bit?

Mr. Vijay Shekhar Sharma, Founder and CEO: Can you ask the question again? Were you asking that you want to bring the wallet back again?

Siddharth Gupta: Yes, are we envisaging bringing the wallet back with another banking partner, or is it a product that we've put on the shelf for now, for the foreseeable future?

Mr. Vijay Shekhar Sharma, Founder and CEO: The Paytm wallet was operated by Paytm Payments Bank, which is under regulatory supervision right now, we would wait for a clear direction on that side first.

Siddharth Gupta: Okay. Thank you.

Mr. Vijay Shekhar Sharma, Founder and CEO: Thank you.

Moderator: Thank you. Next question will be from Pranav Gundlapalle of Bernstein, followed by Rahul Jain of Dolat Capital. Pranav, you may ask your question now.

Pranav Gundlapalle: Hey. Good evening. I'm just going to go back to the question on DLG. While the average take rate would be the same versus the earlier arrangement. Would the sensitivity of the revenue to asset quality change with this model versus the prior model?

Mr. Madhur Deora, President and Group CFO: I think over the last 4 or 5 years since we have started doing merchant cash advance or merchant loan business, we have seen asset quality in a relatively tight range, right and obviously, we have disclosed that every quarter, as you're aware. I think within those ranges, and I would say even give or take a couple of percentage points as much as a couple of percentage points, on expected credit loss, we don't expect the net take rate to be different or to be different than what I just mentioned earlier. Right. So the answer is that in all reasonable scenarios, we don't expect that to be different. In theory, it can be different because it is a little bit more dependent on collection revenue but, as long as our expected credit losses are in that range or even somewhat higher, we don't expect the way this model is out is that you will get enough and more collection revenue so that the net take rate will be, like I mentioned, north of 5%.

Pranav Gundlapalle: Understood, so, yes, I think, you know, in normal circumstances, it probably would remain the same. I'm just trying to understand, let's say there's zero credit losses for a portfolio. Would we end up with much higher revenue? Similarly, if there is doubling, would we end up with a much lower revenue?

Mr. Madhur Deora, President and Group CFO: So if you had zero credit losses, we would expect we would have much higher revenues, much higher net take rates. If you had even meaningfully higher ECLs, we would still end up with, through the life of the loan, roughly the same net take rate. Of course, in a theoretical scenario where we breach, you know, like you mentioned, 2x, then yes, our collection revenue would be lower but like I mentioned, and it's mentioned in the earnings release as well. The reason why we are doing this is to release more capital, our lenders are very confident of the business. We are very confident of the business, we are seeing improving asset quality. Our lenders are committing more capital on the back of it and the timing, in addition to the regulatory and the market practice, the timing has been when we feel comfortable that we're not going to have such scenarios.

Pranav Gundlapalle: Understood. Now, I'm just trying to understand the benefit for the partners so that was the basis of the question. The second question is on your cost base. You've seen, again, a material reduction this quarter versus last. Would it be fair to say this is a new base or is there room for further reduction in the near term?

Mr. Madhur Deora, President and Group CFO: At the moment we are guiding to this being the new base, although we continue to look at our cost base, particularly on people, software costs and other indirect expenses, which is the largest chunk, about 85% of our other indirect expenses to continue to find optimization opportunities. I'm optimistic that we will find such opportunities like you may remember, last quarter we had guided to 5% to 7% for the reduction on the back of full quarter impact and so on, we exceeded that on employee cost. So we continue to remain very disciplined on trying to find as many areas as possible and, yeah. So I think that is an ongoing exercise and to find more and more opportunities, including AI driven opportunities to find efficiencies.

Mr. Vijay Shekhar Sharma, Founder and CEO: Pranav, this is Vijay. I'd like to add a couple of points on both line items. Important to note that if you notice our contribution margins, they have gone back to near 55% without any UPI incentive, which is the guidance that we had done with the UPI incentive and in my belief, this is going to be the new norm. We are very hopeful and sure that it should not cross or go much lower than these numbers and UPI incentives, sort of what comes out will become on top of it number one.

Number two, there is one large cost. Pranav, because I love the way you write those notes and I love to read them, I want to tell you that there is a cloud cost, a pretty large amount of cloud cost and we've seen one of our industry peers make a cloud in a capex model instead of an opex model and that's another way to look at the cost structure there. So I personally would operate that as AI comes further and further, it will become that we are far more profitable on a point to point basis, but we are far more capital efficient also in using the capital the way this is meant to be. So, I personally remain committed that technology wise for a per transaction and for per bit of revenue, we should lower cost for people, lower cost of machines and as you are aware, we are talking AI, which is a little bit of cost, but we would remain even further cost efficient on that. The models that we are deploying and the cost that we are incurring on them are phenomenally low.

I'm very happy to tell you we in literally ten months, reduced 60% of our manpower cost on support and that was so good and this was all triggered by Klarna's blog post that you would have seen out there and we internally have created AI IVR. You can talk to a machine like it is a human. So interactive IVR response that used to be front end for the merchants, now there is a single model that is answering them on a text, and if you want to continue the call, it will continue there and the agent will also know this. So these are even opportunities to fork out and to be full blown independent technology and software businesses.

I'm very hopeful, like Madhur is saying, that this is a new norm, that we will be further finding out ways of our cost, but not necessarily in people, but on an operating cost which are beyond people's costs. The point is that, and I also believe that our business with this new DLG model that we've done will bring us more capital towards credit disbursement to the merchants, and this is more of a future forward underwriting that our lenders have learned over the period and the quality that they have seen. Remember, the quality that they saw in last quarters gave us more revenue is the reason that we earned more credit revenue and more financial services revenue that we've written in the earnings release. So you're talking about higher margin business getting more excess of growth, opportunity of growth while the machine based leverage is growing this. So I'm personally hopeful. Let's see what goes up in the future.

Pranav Gundappe: Understood, that's super helpful. Thanks a lot. All the very best.

Moderator: Thank you Pranav. Next question will be from Rahul Jain of Dolat Capital, followed by Jayant Kharote of Jefferies. Rahul, you may ask your question now.

Rahul Jain: Yeah. Hi. Firstly, on the personal loan distribution business, when you see things turning better and the way we would like to grow in this space, and from the revenue recognition point of view, do you see the take rate to ideally go up by 50 to 100%?

Mr. Madhur Deora, President and Group CFO: Sorry. Can you just repeat the second question? Rahul, explain that before I answer both questions.

Rahul Jain: Yeah. I'm saying in general, for the total business, do we see the take rate going up by 50-100% in the lending business.

Mr. Madhur Deora, President and Group CFO: So on your first question on personal loan distribution, we have done a fairly good job of disbursing about Rs 1600 - 1700 Crs last quarter. But we do recognize, as we mentioned in the release, that we have more work to do. I think we have done a decent job this quarter of adding some new lending partners, and we do hope to add more lending partners in the next quarter as well. I think that is critical for us. That scaling the lending partners that we have added last quarter. All those lending partners are relatively small on the platform right now. As well as, you know, adding and scaling new partners, that really is the way we want to grow this business. I think we've been talking about that for the last two quarters. I think once we are able to do that and hopefully in the next when we're talking a quarter from now, we will have more proof points to show to you. We'll be very confident of scaling this business because the market opportunity is massive. It's just that, you know, you have to bring in as much supply as you can and as quickly as you can so that is the key, in terms of, how does this business scale.

There are other factors, there are other tailwinds that could also exist. We are seeing in some sense enough demand. Right. So the number of key financial services customers that we had last quarter was about 6 lakhs. But this one is obviously a subset of that. So there is enough and more demand. I think it is fair to say that in the early days, us and some of our partners are being quite cautious as well. So there is an increasing penetration opportunity. Finally, I would say, it is important and it is what it is that we are going through a very cautious phase of the cycle, as it should be, both for us and our lending partners. So maybe 6 or 12 or 18 months from now, that sort of overall market backdrop is more supportive.

With respect to your second question, we do expect our lending, or, sorry, financial services revenues to continue to scale up. On a QoQ basis, we did have a very good quarter on the revenue side, despite the fact that the volume disbursed, the number of Financial Services customers did not go up very fast, but we did get better revenues. This does create a base for us to continue to scale it. I think as we get more volume through our platform on both, Merchant Loans and Personal Loans, we should be able to achieve that over the next couple of quarters.

Rahul Jain: And just last bit, if I could ask one more, on the ad initiative on the sound box, do we see this could be a meaningful contributor in the near term basis and what should be the ideal runway?

Mr. Vijay Shekhar Sharma, Founder and CEO: Rahul, I don't think it will be a meaningful contributor. The intention was to say that we really continue to innovate on the technology and the various aspects of merchant businesses. This is something that FMCG companies asked us and then Meesho asked us. So we thought that we would talk about it. Meaningful is a big number. So I'm going to say that these are one of those 20% experiments that our team continues to do.

Mr. Madhur Deora, President and Group CFO: I would add that, this channel of advertising is a bit of a differentiator. We would hope that this does scale but these things specifically, this particular channel, any new channel does take a little bit of time to scale. We also hope that we see, knock-off impact of this on our overall advertising business that we are able to offer a differentiated, effectively publishing property to our advertisers and as a result, they advertise they do this, but they also advertise more on our platform.

Mr. Vijay Shekhar Sharma, Founder and CEO: And we are trying to defend our product actually by creating more ways to earn revenue per product.

Rahul Jain: Sure. Thank you. That's all.

Moderator: Thank you Rahul. Next question will be from Jayant Kharote of Jefferies, followed by Anand Dama of Emkay. Jayant you may ask your question.

Jayant Kharote: Thanks, Pranav. This one's for Madhur. Madhur, I just wanted to understand the accounting for this DLP model. I get it that the net take rate should remain on MLs north of 5%, but the structure is through the P&L. Should it be like a gross take rate of 10% minus the FLDG cost and the net take rate? And if that is the case, how many quarters do we take to reach that steady state? Sort of accounting gross and net numbers.

Mr. Madhur Deora, President and Group CFO: Yeah. So, the sourcing fee is taken up front. The DLG cost is basis an ECL model. Given this is a new product, we have taken, basis of the ECL model, the entire cost of DLG has been taken up front. It is in the other direct expenses, so above contribution margin. The collection revenues will come in under financial services revenue over time. The time period of that, like we mentioned, the average tenor of these loans is about 12 to 18 months. So the vast majority of that revenue will come in less than 18 months. Actually, the largest chunk comes in 12 months, but let's say the vast majority comes in about 18 months. Then there is some tail revenue because you have loans which may have gone GCL, but you continue to recover those loans even past the full tenor of the loan or even past the last repayment date so that's sort of the profile. These are not very long dated, but at least for the next couple of quarters, they create a bit of a drag compared to if we had to do these loans without DLG.

Jayant Kharote: Just to clarify, 12 months from now, our gross take rate if the ECL is holding up goes to 8 to 10% and net of FLDG we will be at 5%. Of course, it can be better if the recovery is stronger. Is that a correct understanding, 12 months from now?

Mr. Madhur Deora, President and Group CFO: That's probably correct.

Jayant Kharote: Great and lastly on the costs. Again, phenomenal job guys. I think in two quarters it will come down to these levels. How do we go from here? Is this now, should we expect quarter on quarter growth on this, especially the non sales employee cost base or is there more more headroom?

Mr. Vijay Shekhar Sharma, Founder and CEO: I think Jayant primarily you should think of if you were to expand marketing costs. I mean that too when UPI new customer onboarding and market share cap etc. show up which I believe that for concentration risk will be done. So in my opinion, once that is taken care of, we would spend money on marketing and that is the time that you should see this growing. As far as people are concerned, not really, but I do believe that UPI consumer growth offers an incredibly large opportunity for us. As you are aware, this business was earlier not being done by OCL, but by our associate, PPBL. Thanks to RBI and NPCI, they allowed us to become a player as OCL and now we are awaiting new customer additions and once that is allowed, we would spend on marketing, but albeit only large when we will take care of market share cap also. So you are expecting the increase only at a materially changing market condition. Not otherwise.

Jayant Kharote: Great and if I could just squeeze one last one. On the active sales employees, I see that that base is stabilizing at around 30,000 - 31,000. Given that you are doing a lot of redeployment of devices, should we expect this number to grow moderately rather than going back to that 35,000 - 40,000 number?

Mr. Vijay Shekhar Sharma, Founder and CEO: We are also enhancing the productivity per employee, behind the scene. Let me also say the AI that we keep singing a song of is also going to help us on per employee productivity in the sales field. So while the number would increase slowly, there will be further productivity enhancement rather.

Jayant Kharote: Great, and congrats guys for the great set of numbers.

Mr. Vijay Shekhar Sharma, Founder and CEO: Thank you so much. Thank you.

Moderator: Thank you Jayant. Next question is from Anand Dama of Emkay followed by Suresh Ganapathy. Anand, you may ask your question.

Anand Dama: Hey, thank you and congratulations for a great set of numbers. Is it possible for you to quantify what the collection revenue that included in the, you know, financial services?

Mr. Madhur Deora, President and Group CFO: We don't really break that out historically, and I would be reluctant to sort of put out another data point. But we have mentioned earlier that 3.5% - 4% historically was the sourcing revenue and roughly 1%, and maybe in some quarters slightly more, is the collection revenue so that's broadly the split on obviously the non FLDG model and non-distribution model. So not the loan distribution only, which obviously doesn't have the collection revenue. In the last quarter it was slightly higher in terms of that split, because we did a really good job of repayments and collections and like we had mentioned, just merchants are just using mobile payments more so that helps the overall performance of the merchant lending business. So it was slightly higher, so that's about as much direction as I could give you.

Anand Dama: For sure. And this is primarily on the Merchant loans and Personal loans business both right put together ?

Mr. Madhur Deora, President and Group CFO: Well, actually it's the merchant loan. Because on the merchant loans, just to remind you we are doing the same model we've been doing over the last 4 or 5 years, obviously now in part with FLDG also. In the personal loan business, the vast majority of our business over the last 2 - 3 quarters has been a distribution only model. So there is really no collection arrangement. Our lending partners do their own collection.

Anand Dama: And any update on the new loan products that we are talking about earlier on, like you know, home loans, mortgages and stuff?

Mr. Madhur Deora, President and Group CFO: I think there are a few experiments and integrations going on with a few secured products. I don't think that at this point, in the financial services business, that is our number one priority, because we see a big penetration opportunity in both merchant lending and personal loans. Like we mentioned earlier, in merchant loans, there's a huge amount of demand and we just want to unlock more capital, including through these DLG arrangements and on personal loans, the focus is on adding more and more partners so that is really the core focus of financial services. While we have work going on, I think you should really look at that as maybe having some meaningful contribution after the next 2 or 3 quarters, as opposed to any time very soon.

Anand Dama: And lastly, is there anything pending from our side to be done for the NPCI to approve the new user or customer onboarding?

Mr. Vijay Shekhar Sharma, Founder and CEO: Hi, this is Vijay. So as of now nothing seems like it. We are just in a wait and watch state. I wish we can start sooner.

Anand Dama: Thank you.

Moderator: Thank you Anand. Next question will be from Suresh Ganapathy of Macquarie, followed by Nitin Agarwal from Motilal Oswal. Suresh, you may please ask your question.

Suresh Ganapathy: Yeah. Thanks. So, Madhur, sorry, just a little bit more on this FLDG thing. So if you have about Rs 1600 crores of portfolio, which is under the FLDG, and let's assume you are giving 5%. So you are saying that 80% is given in the form of bank guarantee, and there is a cost associated with that bank guarantee and apart from that, a certain ECL cost which has been expensed through the P&L. Is my understanding right?

Mr. Madhur Deora, President and Group CFO: No. Sorry. That's, let me just clarify. Suresh, so Rs 1650 crores is the AUM, as of September 30th. The disbursed amount is slightly higher than that, as you would expect, because some installments have already started, and have been repaid. So the disbursed amount is slightly higher than that. On that amount, the arrangement is that we give a DLG. The DLG is not 5% it is meaningfully lower than 5%. 5% is the cap, as you obviously know from the regulator. So our DLG is significantly lower than that. There is no bank guarantee here, although there is flexibility to give it as a bank guarantee under regulation. Our arrangement is that, in this case we would most likely give this as a FD, which would be lien marked, and all of that cost, 100% of the DLG that we give, the arrangement is that we most likely give that in the form of a FD, and that FD would be lien marked, and that entire amount of DLG that we are giving in the form of lien marked FD, has been expensed in the last quarter. So in other words, there is no DLG given which is not expensed in the P&L this quarter.

Suresh Ganapathy: Okay. Okay. So just to understand the numbers, let's assume it is Rs 1500 crores and the disbursement is higher and 2% is what you have given. That means you are saying 30% has been expensed, Rs 30 crores has been expended to the P&L. I'm just telling the ballpark, just a rough calculation.

Mr. Madhur Deora, President and Group CFO: That's right. Yeah.

Suresh Ganapathy: Okay, so Rs 30 crores has been fully expensed to the P&L and it is coming in the other direct expenses, right?

Mr. Madhur Deora, President and Group CFO: Exactly.

Suresh Ganapathy: Okay. Let's hypothetically assume that the number is 5%. The actual experience of that client is 5%. So effectively, we are saying that instead of Rs 30 crores, it's closer to say Rs 60 - Rs 70 crores. What happens with the remaining Rs 30 crores? Who bears the hit? The company bears the hit or what happens to Paytm? Is there a clawback arrangement? Because you have only expensed till Rs 30 crores, right? Just throwing numbers off the air but just to understand the mechanism.

Mr. Madhur Deora, President and Group CFO: Sure, so let me just simplify the numbers because they're all illustrative anyway. Let's say we do Rs 100 crores of disbursal and let's say we have 3% DLG. Okay. So though that Rs 3 crores will be given in the form of FD. That entire three crores will be expensed. Now, let's say the GCL is higher than 3% or higher than three crores on that book of Rs 100 crores. All of that hit is credit loss for the partner. So in this case, because we have publicly disclosed, I can say in this case where we have given DLG, we're talking about SMFG, where we have given a separate disclosure. And that is a part of their P&L. Because obviously they're making interest income as well. And on the remaining 95% or 97% of loans, which are good, so they're making interest income on that, even net of that additional 2% or 3% whatever we are talking about here, they have very good RoA, right. So it is a DLG. In this case the first 3% as we were using in our illustration, the first 3% gets offset against the FD. After that, all the hit is passed on. And then on top of that, depending on the performance of the book, we also make what we expect to be a significant amount of collection revenue. But that over the life of the loan.

Suresh Ganapathy: But if it crosses 3%, how can they give you a collection incentive? Because you have already crossed the FLDG limit. And the company is not happy with the number being crossed 3%. You will still get a collection incentive if the GCLs are higher than 3%?

Mr. Madhur Deora, President and Group CFO: Yes. So, let's extend that same example. So we have Rs 100 crores of disbursal. We have 3% DLG and let's say the partner has, let's say the book eventually ends up at 5% NCL. So the partner now has Rs 5 crores of credit cost. They get Rs 3 crores from us. And on that performance level, over the life of the loan, Paytm would not only not have any additional cost to the partner, we will also make significant collection revenue from the partner.

Suresh Ganapathy: Okay. So this is clear. But just one final question, because this is an important thing for all of us to understand. Now the RBI is very clearly telling us, as per the rules and regulations, both synthetic FLDG and non synthetic structures like collections will be taken as a part of the overall 5% limit. Somewhere down the line we are saying this collection is not a non synthetic FLDG because the RBI may view it as a non-synthetic FLDG, right?

Mr. Madhur Deora, President and Group CFO: I cannot speculate on that Suresh. Honestly, we have gone through extreme rigor to ensure that this is in alignment with the regulations, alignment with market practices, of course, and to the satisfaction of compliance teams of both sides. So the collection arrangement that we have is very much permitted, and it isn't what you may call a synthetic DLG. We are not in the business of giving synthetic DLGs.

Suresh Ganapathy: Okay. This is pretty clear. Thank you so much, Madhur.

Mr. Madhur Deora, President and Group CFO: Thank you. Please feel free to reach out with any other questions.

Suresh Ganapathy: Sure. Yeah.

Mr. Madhur Deora, President and Group CFO: Thank you. Suresh.

Moderator: Thank you. Next question is from Nitin Aggarwal and this will be the last question for today. Nitin, you may ask your question.

Nitin Aggarwal: Yeah. Hi. Thanks for the opportunity. Good evening everyone. So two questions. One is like, what do you plan to do with the cash on the balance sheet now that it has increased after the sale of the business and what is the optimal number you would like to carry for your new requirements in terms of cash?

Mr. Madhur Deora, President and Group CFO: I think Nitin, we want to address and visit that question with our board. I think one of the things that we have decided is we want to be consistently free cash flow positive, which is not that far away from for us now before we take that decision, to the board and come up with a sort of a firm guidance, or not. I mean, firm guidance, as in a directional framework for what we think of as excess cash, how do we think about returning that cash and of course before that, what are the uses of that cash? So yes, we have talked about this. This does come up on nearly every quarterly call and I do acknowledge that we have Rs 10,000 crores of cash, and I don't see any scenario under which we will be able to use up any meaningful percentage of that cash. But I think we have decided that let's get to the the most important thing is that business should throw off cash. Right and we feel like we're getting close to that and we'll absolutely address that with our board and hopefully have a better answer for you once we have crossed that milestone.

Nitin Aggarwal: Sure Madhur, And the other question is like, if I look at in metros and key cities, there is already a good coverage of digital payment provisions there at almost all merchants will be something that will be like signing merchants. So what is the TAM that you really look at? Is the growth in merchants coming in more from suburban regions or say like going one level down metros and both in numbers, I mean, as well as in the value in terms of GMV. What is the TAM that you are really looking at?

Mr. Vijay Shekhar Sharma, Founder and CEO: Hi, this is Vijay and while we all see significant amount of Paytm and Paytm soundboxes all around us in metro cities, I am going to surprise you by saying that the penetration scope is nearly double of what it is penetrated as of now in metro cities, I'm talking metro cities only. So we are talking about a significant amount of TAM in the metro cities themselves. Possible and the reason that metro cities I'm talking about is because there is a consumer merchant network effect, because more metro city consumers pay using smartphones, mobile payments, the more merchants need soundbox number one.

Number two, what we are seeing in metro cities and a little bit ahead, let's say top 10 cities or top 20 cities is that merchants now do not wait for a larger percentage of QR based payment, Paytm QR based percent payments. They are starting to take a soundbox very early in the journey of being onboarded itself. So here, I mean, numbers can be very comfortable. I mean, NPCI gave about 60 million merchant data, although I do not know the uniqueness check etc on that data but I can say that there is a market of tens of million more sound boxes out there.

Nitin Aggarwal: This is very interesting and lastly, just as a data point, how many inactive devices do we have any plan to pick from merchants? How much is that number?

Mr. Vijay Shekhar Sharma, Founder and CEO: We don't. So nothing of sort of that we know that this is the inactive merchant. We are trying to go activate the merchant, and we say the device is not working or picking up because of that. So it's an ongoing journey. What I can only tell you one thing here is that we found out that these devices, which we are picking back from the market, are more like battery outage or some plastic refurbishments, etc. we see which is not very large. So the keyword is that there you go with the opportunity of picking them back and then installing refurb devices back. So merchants become active, revenue starts coming back so that is why you are seeing there is a larger amount of TAM out there.

Nitin Aggarwal: Got it. Thank you so much and wish you all the best.

Mr. Vijay Shekhar Sharma, Founder and CEO: Thank you, thank you.

Moderator: Thank you. Next question will be taken from Sachin Salgaonkar. Sachin, you may ask your question.

Sachin Salgaonkar: Thanks Pranav Apologies. I signed up late. So if any of these questions is answered. Sorry about that in advance. First question, just wanted to understand how fast we could see the wealth insurance business growing and what are some of the new areas which you guys are exploring in terms of secured lending and any color you could provide that would be helpful.

Mr. Vijay Shekhar Sharma, Founder and CEO: Sachin, first of all, secure lending or the loans which are of low margin, etc., we've learned that everything ends up becoming the book for lenders and if we are assigning secure lending distribution also on the same side of disbursement allocation, we rather lose an opportunity of another high, better product for the customers. So we are not doing a large amount of secure lending and that is one of the big factors, by the way, that personal loan disbursements were sort of not in line with what somebody would have expected. So in other words, we are not aggressively going after secure loans. Let's say that and then I personally suggested that this is something that we will look at later, if at all we need to look at.

Then when you talk about wealth and insurance, the good thing is that these things, especially the wealth market, have had a tailwind. Where there is a great amount of opportunity happening and opportunity coming in. But when you look at insurance, there is a distribution that we are working on, are they going to become materially important. That is exactly the reason if you notice, we have started to give number of transacting users or number of, financial services customers because overall the business model will look like payment customers and cross-sell to them and cross-sell per customer will be the revenue because disbursements or GWP or whatever we help distribute won't be the primary number, but the revenue per customer is what we are headed behind the scene so yes. We don't expect them in 1 or 2 quarters, but do expect them in due course, let's say second quarter. Third quarter onwards showed up as better than today's contributions and that is why we are trying to say financial services at large matters, not just credit distribution.

Sachin Salgaonkar: Thanks Vijay, very clear.A quick follow up out here. So from a loan perspective, is it only the merchant loan book which would materially scale up, let's say in the foreseeable future?

Mr. Madhur Deora, President and Group CFO: I think we see opportunities in both merchant and personal loans. I think the demand side of it, the ability to do very, very sensible business in both of those is enormous. I think the dynamics are slightly different. Where in merchant loans you know, I think the growth of our devices business, after some interruptions that we had earlier this year, is now creating that ramp up. On personal loan, I think, we did talk about this a little bit earlier, but I'm happy to repeat, that one of the key things that we had talked about over the last two quarters is adding new partners. So we're pleased to say that we did add some new partners this quarter, but quite frankly, they're not ramped up yet and we do have other partners in the pipeline as well. So we need to get the new partners as well as potential new partners, integrated and ramped up and that will create the opportunity. There's no dearth of demand. It is just that we have to create more supply on the platform.

Sachin Salgaonkar: Very clear. Thank you. Thank you. Second question, I just wanted to understand a bit more on your what kind of steady state EBITDA margin should we expect from the business, particularly given the fact that business model has evolved a bit after some interruptions?

Mr. Madhur Deora, President and Group CFO: Yeah, I don't think we should necessarily give that guidance right now. We have talked about, which I talked about last quarter, about being profitable, in, by having one profitable quarter by the end of the year and despite the DLG costs that we talked about earlier in the call, we expect to not only meet that guidance but exceed that guidance. So deliver some significant profitability this year and then with all the tailwinds that we have, especially on merchant payments, merchant lending, personal loans, and the huge improvements that we have had in our cost structure, we expect to get very meaningfully profitable. So we are seeing this as getting to very meaningful profitability relatively soon, becoming a business that is throwing off cash. But specific EBITDA margin range I'd rather not get into.

Sachin Salgaonkar: Okay. Thanks and my last question Madhur is just on any thoughts on potential cash return back to shareholders, to your comments about, you know, trying to get into a cash position very soon. There's a guidance of EBITDA breakeven by, let's say, 3Q or 4Q and potentially at some point, you know, as and when the PayPay IPO happens, there could be, you know, incremental cash, which you guys could end up getting. So if you add it all together, do we see some kind of a potential cash return to shareholders? Maybe not immediately, but at some point in the next 12 to 18 months.

Mr. Madhur Deora, President and Group CFO: Yeah. I think your observation is right that we do have more cash than we need for any organic or inorganic opportunities and we do expect to get back in a position where we are generating cash. This question was asked about 10 or 15 minutes ago, by Nitin from Motilal Oswal. I think we want to get to a position where we are sustainably throwing off cash and then have a, you know, a very good robust framework with the board about how we think about the cash balance, use of money, as well as use of excess money. So hopefully in a couple of quarters I'll have a better answer to this.

Sachin Salgaonkar: All right. Thank you.

Mr. Vijay Shekhar Sharma, Founder and CEO: I also, I would also add on behalf of, overall a board discussion that we had that we need to be fairly long haul in generating free cash before we start to think about returning it to the shareholders. There should be a trigger or a reason for it and right now, these cash amounts that we are able to get, we are rather going to be focused on operating business and higher margin and more revenue and more profit.

Sachin Salgaonkar: Thanks. Very clear Vijay.

Mr. Vijay Shekhar Sharma, Founder and CEO: Thank you.

Moderator: Thank you. Next question will be from Vijit Jain of Citi and this will be the last question for today. Vijit you may go on and ask your question.

Vijit Jain: Yeah, thanks. And sorry I joined late. So if this is a repeat, my apologies. My first question is, within the merchant loans business going forward, what kind of share do you think DLG will take as a, you know, in terms of disbursements going forward? Are you looking at a mix in mind? That's my first question.

Mr. Madhur Deora, President and Group CFO: Vijit, we, honestly, that's not a metric. We have gone through and we'll share the transcript with you. We've gone through the DLG economics in some detail earlier in the call, as you would imagine. But in summary, over the life of the loan, we see this business as very profitable. We see, you know, regulatory clarity on this. We see certain lenders having a preference for this and of course, we see a huge amount of demand and this is very like I said, this is a very profitable business for us, with or without DLGs. Right? So when you look at it from that prism, we are perfectly okay for business to be done on DLG model going forward and I don't think there is a metric that we're trying to manage to do x percent should be DLG and x percent should be non DLG and we're going to find out more in the next few quarters whether it stabilizes to a certain number, in which case we can start talking about, hey, what do we expect but we're certainly not managing to a number.

Vijit Jain: And my next question is going to be, you know, are there any major areas within, payments or financial services that you think you could still venture into. I know I've asked this question before, but, once you get the RBI payment gateway license, does that open up things like cross-border? Is that meaningful? Is that something that you would like to do? That's my first question and, if you can just comment on if there's a timeline on when you get RBI license and also on the NPCI side. Thank you.

Mr. Vijay Shekhar Sharma, Founder and CEO: Thank you Vijit. This is Vijay, and I'm taking this question. So number one. Yes, that is one of the big reasons that I'm personally, whenever this discussion of returning capital to the shareholders comes up, I am suggesting that there are tremendous opportunities for Paytm to grow within the current framework. First and foremost, let's go back to the moment when Paytm Bank originated. We gave the wallet to the bank. We transferred the bill payment business to the bank, and in due course, the UPI also was operated by the bank. Being at arm's length and being at a different entity, the payment bank had its own business priorities and instead of growing UPI market share, it probably focused on other business models. So consumer side UPI market share for Paytm Payments Bank was something that we all know was not in the range of what other apps were showing. While when you look at Paytm operated Wallet or Paytm operated QR, Paytm operated different services, we were the market leader there very clearly and are the market leader very clearly.

Now, the consumer base of UPI is an opportunity which is way bigger than what we anticipate in a conversation as of now. Remember, the UPI consumer for Paytm is an open and wide open opportunity. The product, technology, market ownership, customer ownership, everything belongs to Paytm, and I really thank RBI and NPCI for making this possible and partner banks that as Paytm we are able to get these consumers. So Vijit think about right now RBI asked and Paytm Bank transferred 130 million customers plus 200 million handles to OCL and now once NPCI will give us a confirmation, we will be able to grow and my friend, I'm telling you, we are not in this to become a mediocre player or remain a fringe player.

We are here to solve the problem of concentration risk or a market share, and we remain that aggressively committed towards consumer payment like you've seen us committed towards merchant payments. So the very fact that Paytm will have an opportunity to play in UPI consumer market share will be an extraordinarily large opportunity. As you can guess, once we have the customer on our platform, ownership of our customer customers on our platform, we will be able to grow tons of cross-sell of financial services to this consumer and then obviously there are byproducts like marketing services and advertising, etc. that you're talking about. And remember, in the UPI ecosystem, when RBI allowed us to become a TPAP player, it very clearly marked us a responsibility to Paytm that we will be able to potentially solve for concentration risks that the system carries.

As an Indian player, as a pioneer of the mobile payment system in India, we remain committed and we remain committed to invest and expand our offering. So remember, as an Indian player, as India's homegrown champion, we are here to invest in payments and there is a tremendous large amount of opportunity in consumer payments. When you come about the merchant side, as a PA license, you should know that online payment innovations are something that we were able to bring QR on a desktop so that the customers' higher trust, less fraud prone and superior payment checkout systems happened. Since two years we've not acquired new consumers, but we have built a dramatically large amount of technologies, including cross border multi-currency, including quick commerce which requires many other payment products.

We are waiting to onboard as many more merchants so that we can onboard newer quality products and offering to those customers. And I'm very happy to tell you, Vijit, you could figure out for yourself these foreign transfers, including another service such as omnichannel payments systems, have very impactfully showed up in the market right now. Imagine Tanishq is a customer for us offline, let's say, but they are not online. For us, we are not able to build an omnichannel payment and India has to lead the way in payments. I do believe that extraordinary amount of opportunity in payments for us to grow a larger TAM. What we are right now focused, as you could see, is monetization and we are showing the market that we can very well optimize and monetize and in due course we will, when we get an opportunity, we will expand the TAM of the consumer and merchant both together.

Vijit Jain: Great. Thank you so much Vijay, and best of luck with everything and hope you guys have a really good festive Diwali ahead. Thank you so much.

Mr. Vijay Shekhar Sharma, Founder and CEO: Thank you. Thank you and thank you everybody for joining us. Wish you all a very happy Diwali festive season and your support means a lot to us and see you again after Diwali.

Mr. Madhur Deora, President and Group CFO: Yes, Bye.

Moderator: With that, we come to an end of this call. A replay of this earnings call and the transcript will be made available on the company website subsequently. Thank you all for joining, you may now disconnect your lines.

Mr. Vijay Shekhar Sharma, Founder and CEO: Thank you. Bye.