Paytm | Quarter and Half-year Ended September 30, 2021 Results | Earnings Call
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Moderator: Thank you, and a warm welcome to Paytm's inaugural Earnings Call post listing, to discuss its financial results for the quarter and half year ended September 30th, 2021. From Paytm's management team, we are today joined by Mr. Vijay Shekhar Sharma, Founder and CEO; Mr. Madhur Deora, President and Group CFO; and Mr. Bhavesh Gupta, CEO, Lending. Before we begin, a few announcements for all attendees. This earnings call is meant for existing shareholders of Paytm, for potential investors and research analysts, to discuss the company's financial results. This call is not for media personnel. If any media representatives are attending this call, request you to kindly drop off the call at this juncture. The information to be presented and discussed on this earnings call should not be recorded, reproduced, copied or distributed in any manner whatsoever, by any of the attendees.

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With this, I would like to request Mr. Vijay Shekhar Sharma to kindly initiate this earnings call.

Vijay Shekhar Sharma (Founder and CEO): Thank you so much. Hello everyone. Good evening, from New Delhi. It is my pleasure to welcome you to our first, earnings call post IPO. It gives me immense pleasure to see our company's September quarter results. We have extended our payments platform. A strong growth driven by non-UPI and UPI payments is clearly visible in overall GMV growth on our platform. We had started to call out non-UPI GMV so that we can call out direct revenue made using payments business, along with few other revenue line items in payments businesses. I am very happy to say that our focus on monetization has clearly been demonstrated in strong revenue growth that we are posting year-on-year in this quarter. Clearly, our platform leverage can be seen in increased contribution margin, better EBITDA margin, and continued growth in key KPIs.

I am very pleased to announce that my team and I are super, super excited, energized, to see the opportunity in front of Paytm. We are fully committed to keep our heads down and execute and deliver great results quarter-on-quarter, year-on-year going forward.

I am joined by my colleagues Madhur and Bhavesh here, and I would now request Madhur to share our September quarter report card in detail with you. Thank you.

Madhur Deora (President and Group CFO): I hope everyone can see the presentation. Thank you very much for joining our earnings call on a Saturday, and good morning, good afternoon, good evening, wherever you are. So we'll just talk about our quarter ending September 2021. We did put out a release this morning. So, many of you may have had a chance to see that already by this time. Just to remind everyone, our mission is to bring half a billion Indians to the mainstream economy through technology-led financial services.

This is our September quarter in numbers. So our revenue from operations grew to INR 10.9 billion, or INR 1,090 crores. This was up 64% year-on-year. This was driven by 52% growth in non-UPI GMV, year on year. I wanted to call out here that these are now consecutive quarters that the company has delivered over 60%

revenue growth on a year-on-year basis. So we had 62% revenue growth in quarter one, and we now have 64% revenue growth in quarter two. This was combined with Contribution Profit hitting a record high of INR 2.6 billion, or INR 260 crores in the last quarter. This was up nearly 600% on a year-on-year basis. Clearly, this is a very large growth in Contribution Profit, almost, I would describe it as a step change. And our margin has increased from 5.7% in Q2 of last year to 24% of revenues in Q2 of this year. I will give a little bit more commentary about this as we go along.

Our EBITDA losses were INR 4.3 billion, or INR 430 crores. This, as a percentage of revenue, is 39% versus 64% in the same quarter in the previous year. So we have seen some improvements in EBITDA as a percent of revenue. This has been driven in addition to the increase in Contribution Profit, which has been driven by the reduction in indirect costs as a percent of revenues from 70% to 63%. I should point out that the company continues to make investments, and in some cases increased investments, in technology as well as merchant-based expansion. And we have been able to achieve reduction of EBITDA as a percentage of revenue, despite and along with these investments. So our focus would be to continue to make investments in areas that create a long-term expansion of profit pools.

And finally, as Vijay mentioned, GMV, which is an indication of platform growth, reached INR 2 trillion, or INR 2 lakh crores. This is up 107% year-on-year. Many of you would recall that in the June quarter as well we grew more than 100% year-on-year. So there are two consecutive quarters of platform growth of more than 100%, and this is really a function of users and merchants growing on the platform as well as increased engagement on the platform.

So just going through this in a little bit of detail. Our revenue growth, as I mentioned earlier, was 64% up year-on-year. In our financials, we break this up into Payments and Financial Services revenue, which grew by 69% year-on-year, from INR 5 billion to INR 8.4 billion. This was driven, as I mentioned earlier, by 52% year-on-year growth in non-UPI GMV, also, our increase in revenue from Financial Services and Others. So we have a revenue line that we have disclosed as Financial Services and Others, that grew by over three times year-on-year. And we also saw an acceleration of device deployment amongst our merchants, and we'll talk a little bit more about this as we go along. Our Commerce and Cloud Services revenue grew by 47%, from INR 1.7 billion, or INR 170 crores one year ago, to INR 2.4 billion, or INR 240 crores.

There were two primary drivers of that. One is rapid growth in our advertising revenue as a business that we launched a couple of years ago, which is disclosed in our Cloud line; and continued recovery in commerce business. As you may recall, we have a large commerce business around ticketing, and that was heavily impacted due to COVID, as you would understand. And that is starting to recover, and that's why we are seeing strong year-on-year growth as well as Q-on-Q growth.

Going back to GMV. As I mentioned, it grew 107% year-on-year. We did disclose October metrics last weekend where you would have seen that in October, this has accelerated to 131% year-on-year growth. Once again, the non-UPI portion of this grew 52%, for the September quarter. We should also point out that, when a platform grows, we also have some merchants who do not pay us any MDR for payments. These are typically merchants who are accepting UPI or wallet payments using QR code. Many of those merchants are being monetized by the company, not directly through MDR, but indirectly through subscription revenues and merchant lending revenues. And our subscription and merchant lending revenues from this merchant base alone reached INR 550 million in Q2, and that was around 5% of our revenue from operations. So this very large funnel that we have built, where for a particular portion may not make MDR for payments, we are able to make revenues at significant margins from other services. As I mentioned earlier, GMV growth is accelerating in Q3 of FY22, and we have had a particularly strong performance in the festive season. As you

know, in India, October and sometimes early November is the festive season. We had that last year, obviously, and we had it this year as well. On a like-for-like basis, we grew 131%, and that continues in Q3.
Our Monthly Transacting Users grew 33% year-on-year. We increased our average quarterly MTU in the last 12 months by 14.4 million. So there is a significant increase. And MTU, just to remind everyone, is Monthly Transacting Users. These are users who have to come and do a transaction. So it's not active users or somebody is just visiting the app. What is also encouraging is that the engagement on our platform grew by 55% year-on-year. So we are seeing a strong MTU increase and strong engagement increase. And we have achieved this while keeping our marketing expenses flat at 9% of revenues on a year-on-year basis. So this has not been accompanied by significant or drastic increases in marketing expenses relative to our overall scale.

Our device merchant base has expanded by 1 million in the last 12 months. We started this business a couple of years ago. A year ago, in September 2020, we were at 0.3 million devices, and currently we are at 1.4 million devices. And this is strategically important for us because device merchants continue to show higher retention and higher average spends, which are the primary indicators of loyalty on the platform. So they become very high quality behaviour on our platform. One of the things that I would share is that 4% of our device merchants have already taken a loan through our platform, where this is a merchant loan program that we have with partners. This business is accelerating. You would have seen some recently announced bank partnerships for POS, which is aimed at the LFR enterprise segment. And that is really giving us very strong momentum and tailwinds into that segment, and over the next few quarters we'll talk more and more about this.

Coming to our lending business. The value of loans disbursed through our platform has reached $1 billion, annualised in 2021. This is a business that we really started scaling up only about six quarters ago. As you can see, our number of loans disbursed on the platform grew over 700% on a year-on-year basis. Our value of loans disbursed, grew nearly 500% year-on-year. And as I mentioned earlier, our Financial Services and Others revenue line has shown a revenue growth of over three times on a year-on-year basis. And clearly as we'll discuss later, there is a huge runway here.

I just wanted to remind everyone that all of our products are fully digital end-to-end. The products that we have, which is Paytm Postpaid, personal loans, merchant loans as well as credit cards, they are all fully digital, and we do this in partnership, and we do this in partnership only with Tier 1 partners, which are large banks and NBFCs, and you would have seen a few announcements around that. Of course, if you go to our app, you can see who our lending partners are.

Our Contribution Profit grew nearly 600% year-on-year. It was 24% of revenue in this quarter, INR 2.6 billion, as I mentioned earlier. I would just note that in the first two quarters of this year, so the first half of this year, our Contribution profit is already INR 5 billion, or roughly INR 500 crores. And this has already exceeded the Contribution profit that we made in the entirety of FY21, which was INR 3.6 billion, or INR 360 crores. And the reason for this is, as we had mentioned in our meetings prior to IPO, is that we are seeing high margin monetization kicking in at scale, and I just want to give two examples. Obviously, there are many such businesses, but lending and advertising in particular are contributing significant amount of high margin monetization. In addition, our PG cost has reduced from 52 basis points of GMV to 34 basis points of GMV. So we continue to focus on driving more efficiencies in our payments business and making sure that that business is improving its profitability profile.

Our indirect expenses as a percentage of revenue have reduced from 70% in the same quarter last year to 63% in this quarter. This, as I mentioned earlier, is along with investments in people, in marketing and in technology. So just to call out that our marketing cost was maintained at 9% of revenue, even as we have increased MTU by 14.4 million in the last 12 months. And our employee expenses are actually lower as a percent of revenue, going from 40% to 34%, even as we invest more in technology and more in merchant growth and devices growth. So we are able to improve the profile, financial profile of our business, while continuing to make investments in areas that matter.

Just to give you a little bit of break up for our revenues, further break up rather. So, as I mentioned earlier, our Payments and Financial Services revenue grew by 69% year-on-year, 52% increase in non-UPI payment volume. As you will notice in our disclosures, we break the Payments and Financial Services business into three components: our payment services to consumers grew 54% year-on-year. This is driven by an increase in non-UPI payment usage on our consumer platforms. Our payment services to merchants grew 64% year-on-year. This is growing due to growth in non-UPI GMV, particularly in the payment gateway business and our devices merchants. I should note that this business has reached a run-rate of nearly INR 16 billion of run-rate revenues, which is greater than $200 million run-rate. Our Financial Services and Others line grew by 250%, and went from 4% of our total revenues to roughly 8% of our total revenues due to growth in Lending and Wealth primarily. Our Commerce and Cloud business, as we mentioned earlier, grew 47%. Our Cloud business grew due to rapid growth in advertising revenue, and our commerce business grew due to continued recovery in ticketing revenues from the dip due to the second COVID wave in Q1.

Before we finish, I just wanted to summarize key trends. The key trends in our business are that there is growth in Payments revenue and profitability. This is due to growth of payment volumes from non-UPI instruments, including Paytm Payment instruments, that many of you are familiar with, as well as payment services to merchants. So both on the consumer side as well as the merchant side, we are driving adoption of differentiated instruments. We are seeing recovery of high-margin commerce business, and growth of Cloud business. We are seeing an increase of Financial Services revenue driven by the huge ramp in Lending, for which we have disclosed a number of operating metrics as well as revenue trends.

In terms of our operating and financial performance, I just wanted to summarize some of the key trends. We are able to efficiently increase users, merchants and GMV. This is what Vijay described as platform growth. We are seeing a strong momentum in revenue, and we expect that to continue, with 64% growth year-on-year in this quarter. We have seen a step jump in Contribution margin that we have achieved, and there are clear trends and tailwinds towards continued year-on-year improvements. Our indirect expenses as a percent of revenue is going down, even as we are making investments in the key areas which have long-term positive impact for us. And we are very well funded for growth opportunities ahead.

And that's all I have. Thank you very much. Maybe I'll turn it back to the moderator.

Moderator: Thank you Mr. Deora. We will now proceed to Q&A. A kind reminder to all attendees to utilize the raise hand feature on your Zoom dashboard if you seek to ask a question. We will unmute your line and take questions in the respective sequence of raised hands. However, please ensure your name is visible as your first name, last name, followed by organization in brackets, for us to be able to identify you.

With that, I would request the first question from Bhavik Dave at Nippon AMC.

Bhavik Dave: Hi. Am I audible?

Madhur Deora: Yes, please go ahead.

Bhavik Dave: Yes. Hi. Thank you for the opportunity. Couple of questions. One is, if you can break down the GMV into UPI and non-UPI, as an absolute number. Second question is on the Financial Services side. We see a reasonable amount of growth on the revenue side. Just wanted to understand, from a INR 1,200 crore disbursement that we have done during the quarter, what are the take rates like? Because for the take rate calculation, as in I'm sure the Financial Services is not only Lending; it would be the Insurance and Wealth business as well. So from that perspective if you could just break down that piece for us. That would be helpful. That’s about it. Thanks.

Madhur Deora: Your first question. Bhavik, at the moment we are sharing all of this as the detailed disclosure including non-UPI GMV growth. We believe that non-UPI GMV growth is a direct contributor to payments revenue, whereas both UPI as well as non-UPI GMV growth is a driver to the upsell revenues that we have talked about such as devices, commerce, cloud and financial services. So for the moment, we would love for investors to focus on, if they are trying to calculate payments revenue trajectory, we would want for them to have this additional information of non-UPI GMV growth.

Bhavik Dave: Sure.

Madhur Deora: And to your second question. The Financial Services and Others do have a very large chunk of Lending of course. The Wealth and Insurance businesses are somewhat smaller. It is hard to sort of put take rates because the revenue model is quite different. So for example in Wealth, of course, you make money on equity trading, which is not, you know, sort of linked to GMV in that sense as it is linked to a number of transactions and so on.

Bhavik Dave: Right.

Madhur Deora: So I wouldn't necessarily look at that revenue and divide that by one specific metric. But what I would say is that the growth that we are seeing in Lending operating metrics does translate into growth of that particular line item, which is Financial Services numbers, and you should be able to track that on a quarter-on-quarter basis going forward.

Bhavik Dave: Sure. Sir one data point if you could give us, that, the disbursement that we have done during the quarter, can you break that up between consumer and merchants? And also, which are the large partners that are onboarding? Today we have, I think, Clix and Aditya Birla Capital as the two main lenders with us. Have the banks, or the large bank partnerships that we have, have gone live? Which are the products that they are doing currently, or how do you think about it, if you could just give… share some details on those two things. Thank you.

Bhavesh Gupta (CEO, Lending): Yes, Bhavik. Thank you for your question, Bhavik. So we have more than the two partners that you mentioned. As we mentioned earlier in Madhur's presentation that we do business with Tier 1 banks and NBFCs. So on the card side we do have Citibank, SBI, and we recently announced HDFC, while the card has just gone live in a pilot phase, and we hopefully will do more of that in the future. On the Lending side, you rightly said, Clix capital and Aditya Birla, we also have Hero Fincorp and a few others, and there are many more partners that we are currently in conversation with, to integrate and scale. So I can say that the portfolio of partners that we have today is reasonably sufficient for us to really manage the scale and the growth, and we are very confident of doing that.

Bhavik Dave: Sure. And the breakup of that INR 1,200 odd crore? Merchants versus consumers?

Madhur Deora: Bhavik we 're not quite giving the break up at this point. What I would just point out is that we also have roughly 100,000 credit cards in partnership with our card partners. We do not include the spends of those into our disbursal numbers. And… so this only includes postpaid, personal loan and merchant loan. There is not a huge amount of difference. Obviously, each business has different take rates, but there is not a huge amount of difference in take rates between the three lines of lending that we are doing.

Bhavik Dave: Sure. That's all. Thank you.

Moderator: Thank you. Next question, Mr. Jayant Kharote from Credit Suisse. Hi Jayant, you can ask your question.

Jayant Kharote: Yes. Hi. Thank you for the opportunity. Sir, again, dwelling a little bit on the Financial Services revenue. If you could give us some idea about how much is coming from lending and others, non-lending? And then, how do we sort of make sense of how much lending can scale up as a part of the mix?

Madhur Deora: I would probably turn to Bhavesh to give you a broad framework for the second part of the question, and then maybe I can try to address the first part.

Bhavesh Gupta: Thanks Madhur. So Jayant, I'm sure you are aware of this piece that India has a very, very large opportunity for credit. We, being a two-sided ecosystem, have a wonderful opportunity as we see both on the consumer and the merchant side. What we have seen thus far, during the last 18 months, is that, the adoption of credit products on our platform mainly Paytm postpaid which is our buy-now-pay-later product, consumer credit which is personal loan, and merchant credit, and the recently launched credit card… the adoption is very, very high. And the growth rate suggests that the scale up can be fairly large from where we stand today. And I think it will be important for us to recognize that this opportunity itself in India, and definitely the opportunity that's present on this platform, on Paytm, will be fairly large, and we are very excited to take this opportunity forward from our perspective.

Madhur Deora: Now, in terms of the break up, we have sort of outlined in the prospectus to some extent as well, which is that, something like a majority of the Financial Services and Others revenue has to do with lending. So we are seeing sort of that trend continue. Each of these lines of businesses is growing, whether it's Lending and Wealth and so on. So I would leave that to you, on how to analyse that, but we are currently sharing Financial Services and Others as a separate disclosure in the Prospectus and in our quarterly financials going forward.

Jayant Kharote: Sure. This helps. Thank you sir.

Madhur Deora: Thank you.

Moderator: Thank you. Next question from Mr. Gaurav Kochar from Mirae Asset. Gaurav your line is unmuted.

Gaurav Kochar: Yes. Sorry. Am I audible?

Moderator: Yes.

Gaurav Kochar: Yes. Hi. Good evening everyone. Thanks for taking my question. Coming to the payments processing cost, if I look at that number as a percentage of overall payments revenue, that has moved up from 83% last quarter to 89%. And given the non-UPI revenue is up 52… sorry, non-UPI GMV is up 52%, and the overall is up 107%, it is safe to assume that the UPI GMV would have grown much, much higher than that. In that backdrop, what explains this rise in payments processing cost sequentially from 83% to 89%?

Madhur Deora: I don't know if I followed every part of your question, Gaurav. But, yes when you look at our GMV growth, our total GMV growth is higher than the non-UPI GMV growth. So you can make that deduction. From quarter to quarter there will be some volatility in terms of payment instrument cost as a percentage of GMV and so on. And the reason for that is, it is a pretty complex output of the type of instrument that is being used, as well as the type of merchant that it is being used at, right. So what we focus on is that the percentage of GMV will just continue to bring that down. And part of that, like you have correctly inferred, is a mix effect, but a significant chunk of that is also improvements that we continue to make. But some of those improvements maybe sort of flattish in one quarter but a reduction in another quarter and so on. So if you are taking it as a percentage of something, I'll just encourage you to look at it over a slightly longer period. I think on a year-on-year basis it is dropped by about 20%

Gaurav Kochar: Yes. It was 98% and now it's down to 89%. YoY it is down, and on a quarter-on-quarter basis it's up slightly… But yes, you are right, I mean, one quarter can have some aberrations.

Madhur Deora: Gaurav, there is also some volatility and some mix effect issues with respect to the June quarter having lots COVID lockdowns, and the September quarter not being like that, and the December quarter will obviously have the festive seasons which means that there will be slight differences in instrument usage and so on. So it's a little bit hard to really draw trend lines on a Q-on-Q basis. So that's why we encourage folks to do that on a year-on-year basis.

Gaurav Kochar: Okay, fair enough. My next question is with regards to the non-UPI take rates. If you can disclose that number, you know for this quarter or maybe you know, on a YoY basis where has that moved, some directional…you know and going forward how should we look at the non-UPI take rates.

Madhur Deora: I think there hasn't been any meaningful change in take rate of non UPI GMV, and of course this is also focused on the mix effect of cards, wallets and many other instruments that we use which are non UPI but we haven't seen any meaningful change.

Gaurav Kochar: Okay, and the share of commerce in the GMV, I am sorry the share of commerce would have gone up because last year it was I mean the last year it was relatively weaker, so in that context, on the non-commerce sort of non-UPI GMV has there been moderation or it's…. it's all the same.

Madhur Deora: When you say commerce would have gone up, I mean commerce doesn't generate a huge amount of GMV for us in our scheme of things, right?

Gaurav Kochar: Okay.

Madhur Deora: Because you know when we're looking at trillions of rupees of commerce revenues, sorry payment volumes in a quarter, obviously commerce that happens on our platform is reasonably small, so I wouldn't try to take out commerce from that, that the point on commerce is that it is very, very high take rate and very high contribution margin. So growth of that, results in obviously revenue growth and contribution margin tailwinds.

Gaurav Kochar: Sure, so we should assume a flattish sort of known non-UPI take rate going ahead at least for this year, the remainder of this year?

Madhur Deora: That has been the trend in the past.

Gaurav Kochar: Sure, and just last question on the lending business, if we look at the ticket size, it has not moved even on YoY basis or on a sequential basis, it is about INR 4,400. Any color on what kind of tickets should we look at, given that the customers do migrate to a higher limit going ahead, based on usage and you know that there is some sort of operation that happens from a postpaid loan to a personal loan, etc. So what kind of ticket size are we looking at? Is that the right metric to look at you know, given that the penetration of number of users and the ticket size, I think both of that matters in the context of financial services revenue, so what kind of ticket size are you internally sort of targeting, some color around what kind of ticket size should we look at?

Bhavesh Gupta: Gaurav, the way to see this data is that if you look at the number of loans, the expansion has been very, very large and the ticket size remaining the same means that on an incremental basis we have a higher ticket size that's the reason the overall ticket size has remained same. What our belief it is, that the opportunity to give credit through our platform with the help of our lending partners is so large that our focus is to expand the number of users who can get access to credit be it consumers and merchants and ticket size as an outcome which you rightly pointed out, as the book matures with our lending partners ticket sizes is a natural accretion that you will see on our platform. So in a nutshell, we…our focus is to expand the number of consumers and merchants who can get access to credit right. Ticket size is an outcome that we are necessarily not changing but we definitely see that ticket size will keep improving as it has improved in the past on an incremental basis.

Gaurav Kochar: Understood. And on the penetration part…

Madhur Deora: Just before that, Vijay do you want to add something to that as well.

Vijay Shekhar Sharma: Yes, I think Gaurav, one of the interesting things I want to share with the experience of payments that it was tough to drive mobile payments for small tickets, because it was a consumer habit kind of thing, similarly in this case, as you can see what Bhavesh is sharing exactly what I would expand on to say that small ticket sizes and completing the whole recovery and disbursement , the whole cycle of small ticket size, makes the platform understand the nuances, the spread of customer type and various other system platform insights. So, it is important for us to grow the user base with a smaller ticket size and, obviously, like you said, the customer comes back on the same platform and our relationship with our lenders is also like this so that we are able to cross sell or upsell another type of loan to the customer. So a smaller ticket size is like a, I would say, performance metric here, not like a limitation. It is easier to issue larger and larger ticket sizes if you will, but we are keeping it very, very focused on spread or number of customers, rather than the ticket size, total dollar value of the loans and so on and so forth.

Madhur Deora: Vijay, I just wanted to add 10 seconds or just summarizing that point is that we do very strongly believe that if you get small ticket sizes right, doing larger ticket sizes is much easier than going the other way around, which is that you start doing large ticket sizes and then you have to often reinvent your business to be able to do smaller ticket sizes, so we love the trajectory and we have seen that in payments and I think a lot of financial services companies have seen that the reverse is a little bit harder or significantly harder.

Gaurav Kochar: Sure, that helps and just lastly, on the penetration mean if I look at the number of MTU is 6.3…… 63 million as of October. What is the sort of penetration of financial services products and you know internally if you would have identified, what percentage of these MTUs would be eligible for financial services products be it wealth, insurance or lending? Can you give some color around it, just to… you know… get what is the size of opportunity we're looking at over a medium term?

Madhur Deora: Maybe I'll start and then hand it over to Bhavesh to talk specifically, maybe about different products as well. So on the consumer side, like you pointed out, we have 63 million monthly transacting users, we have roughly 2x this number as annual transacting users, but if you just take that monthly transacting users number, then our penetration on lending side is roughly 2% on our BNPL product, it has grown dramatically over the last one year, but it is roughly 2% right now. If you look at, for example, our equity trading business that is less than half a percent. It is significant numbers, a couple of hundred thousand users but in the scheme of Paytm's things in one year we have got less than half a percent penetration, fairly significant user numbers and then we sort of move on from there right, because obviously the market opportunity is very large and I should point out that we are able to address a large percentage of our user base because the business model is that we do it with very little or no incremental CAC so when a payments user needs to move into lending, or wealth or commerce or cloud or whatever it might be there's almost no incremental CAC to move that user from payments to financial services. So that hopefully answers the penetration question. Also the question about ticket sizes, right, if we had a huge amount of incremental CAC, we could potentially not be able to do that, which is to be able to address a large percentage of that base and be able to address it at all the other ticket sizes. Bhavesh if you want to add something.

Bhavesh Gupta: Yeah I think I will just add two cents to what Madhur just said. So Gaurav, the way to look at this piece here is the demand for credit through our platform. We've seen very high adoption of our consumers and merchants. The fact that we have great partners on our platform, who would love to have our merchants and consumers get access to credit, gives us tremendous confidence that the current penetration with itself is very low, but in actual numbers, as Madhur said, is giving us a very, very high penetration with regards to the scale of this business. It can continuously keep growing, and we have a very large runway ahead of us, and that is actually what makes us very, very excited about this business.

Gaurav Kochar: Sure…sure, perfect.

Madhur Deora: I hate to do this, but I'm getting very nasty messages from the moderator because it is restricted to one question.

Gaurav Kochar: Perfect. Thanks a lot.

Madhur Deora: You know, will come back to you as soon as we work through the queue.

Gaurav Kochar: Sure, perfect. Thanks. All the best.

Moderator: Thank you. A kind request to everyone, please restrict to one question each, given the volume of questions and once we unmute your lines if you could announce your firm because everyone hasn't changed their names to the firm. Next question is from Mr. Saurabh Kumar, from JP Morgan.

Saurabh Kumar: Hi this is Saurabh from JP Morgan. So Bhavesh, a question to you is essentially you know what is the credit charge that you are seeing with your partner banks, if you can just quantify what you are seeing this year versus how the portfolio was behaving last year. And the second related piece is essentially on the Reserve Bank of India (RBI) paper which has come out. I mean it has talked about FLDGs potentially not being allowed and also, you know, the usurious lending rates that some of the digital apps have been charging. So, how does it alter your competitive landscape? How do you read the ramifications of that paper? Thank you.

Bhavesh Gupta: Thank you for the question Saurabh. So the first question's answer may not be fully complete from our perspective, because we do not manage the portfolio of any partner, they do themselves, we definitely help them in collections. But we have a fair understanding of how the portfolio is performing and what we understand from our partners is that they feel very comfortable with what they see. The important element to see in this particular piece here is that we are adding new partners to our platform, as you can see from the growth of our credit, we are expanding credit very, very rapidly. So, very clearly, one can assume that our lending partners are seeing very healthy portfolio performance vis-à-vis, over the last one year, even through Covid, which has given them great confidence to continue to grow their business as far as Paytm platform's current business is concerned. On your other question about the recently introduced working group paper on digital credit, actually we find it… you know… it's important for me to mention this piece, that is important that the digital lending space gets further organized, this paper aims to really further organize this entire thing. From our perspective, as we had mentioned earlier also in our roadshows, we have always maintained that we are completely aligned with current regulations that are prevalent in the country, which are the digital lending guidelines of June 2020 and also the outsourcing guidelines. So from our model we have always maintained an alliance to what was available in the present. The newer guidelines are actually aligned to what we do in our system. Actually, what we see here is that if and when these guidelines get implemented, it will further strengthen the platform and the way Paytm has been doing business versus what many of the other industry players have been doing, especially towards FLDG and funding into prepaid instruments, etc., etc., that we do not pursue and follow.

Saurabh Kumar: Thanks Bhavesh. I will come back in the queue. Thank you.

Moderator: Thank you Saurabh. The next question is from Mr. Vijit Jain, from Citi.

Vijit Jain: Hi there, thank you for the opportunity. This is Vijit Jain from Citi. Just on the payment gateway business can you talk a little bit about, you know, do you look at this business as e-commerce versus billing business, and how are you looking at this business beyond payments here, as the opportunity with the customers that is. Thank you.

Madhur Deora: Vijay would you like to take that question. I see Vijay unmuting.

Vijay Shekhar Sharma: Thank you Vijit for this question. The way we look at the payment gateway business is as an opportunity to bring to the small medium merchants, and the large corporates, the advantage of Paytm's payment instruments. That is our primary use case. And then we also give an opportunity for other bank issued, other partners' issued instruments. What we have seen is clearly that the scale and the pricing that we are able to drive, gives an advantage to everyone. I'm sure you know that Paytm is probably the largest, if not the largest, and one of the largest acquiring side partner for all payment networks, whether it is Visa, Master and NPCI, Amex, UPI or any other mode, and that gives us a superior edge of scale of technology and pricing. And that advantage we are able to pass to our partners and that is why we continue to see large corporates including Flipkart and including many other big corporates like large retailers, everybody using our platform and we're very happy with the way the expansion is going on in our online payment gateway. In fact, Madhur just probably shared that we have merchant side revenues of plus $200 million purely because of this fundamental advantage that we have. And A plus B, meaning on Paytm app and off Paytm app, both continue to grow, like you just saw in the transaction volumes.

Madhur Deora: Vijit, maybe I could just add in terms of trends and recent developments. So the one huge advantage that we have is that it creates a really nice network effect because there are Paytm payment instruments at very large scale, that is, I would say, one of the differentiators of why a partner would want to work with us. And then they are able to see our technology, our rates and so on, given the scale of our payment processing and over time we are able to do many, many different types of payments for them, whether it's cards and UPI and non-UPI and Paytm payment instruments and so on. And that does give more use cases to our consumers to use Paytm payment instruments. So there is a fantastic network effect that gets created as a result of this. Some of the recent trends that we are seeing are that there are even the large merchants who are starting with Paytm right off the back with all payment instruments. And in some cases, exclusively actually, and these are partners who would have been exclusive if with a competitor, for many, many years, if not over a decade. And they are just sort of switching lock, stock and barrel to Paytm, and I think the next big opportunity for us here is to continue our penetration in the mid-market and the startup community and our product is certainly very, very ready for us to make that additional push.

Vijit Jain: Great thanks for that. Madhur, just one final question from my side: if you can share the current user base on the postpaid product, in terms of number of active users using that or any metric around that that will be great and that's my last question, thank you.

Madhur Deora: What I would say is that we have shared October data of the number of loans disbursed. In terms of the number of loans, a vast majority of the loans are Postpaid. That split is very different when you come to the value of loans. But in terms of the number of loans, a vast majority, as you might expect, is post-paid. So, if you put a very high percentage for that number that will probably give you the monthly active users on, or at least October active users, on postpaid.

Vijit Jain: Okay, fine. Thank you so much.

Moderator: Thank you, Vijit. Next question is from Nilanjan Karfa, from Nomura. Nilanjan, you can unmute your line.

Nilanjan Karfa: I know. am I audible?

Moderator: Yes.

Nilanjan Karfa: Just one question, I mean if I have to look at expenses, how would this split look between the financial services, and you know, the cloud and other businesses. More specifically, if I have to let's say look at two years back, when we were still growing that commerce business versus today, when we are almost defocusing, would it be fair to assume a very large percentage today of the costs primarily are to the financials services only and how would you think this number will look like in its another year or two years down the line?

Madhur Deora: I just want to start with just making a small correction. There's no defocus on the commerce business. The revenue split between commerce and payments and financial services has gone through some changes. Part of that reason has been because of Covid, because entertainment and travel obviously for periods of time was very deeply impacted, in fact entertainment was shut down for a period of time. And also because there are multiple parts of Paytm that are growing, most recently, the financial services business and so on. So there will be some sort of mix effect trends, as a result of that. So, you should not take that away as there is any kind of defocus. Just to clarify, the vast majority of our commerce revenues come from commerce of digital goods, if you will, such as entertainment ticketing, travel ticketing, and so on, and that has been doing quite well for us. In terms of costs attributable we do very much run the company as a platform. So it is possible to allocate cost up to a point, but not, you know entirely, because then you start getting into debates of, if the customer came in through payments which vast majority of customers do. Then, should the payments business be charging commerce business some internal rate and so on and all of that. But putting those aside, what we have indicated in our Prospectus, as well as in our presentations is that our commerce and cloud business and our financial services businesses are very, very high margin monetization.

Nilanjan Karfa: And you're not letting the GMV into cloud and commerce, at least for now.

Madhur Deora: Just given the scale of Paytm as a platform, our own commerce in terms of GMV is a very small percentage, right? Because you know there are very, very large merchants, very, very large use cases that we do payments for. And if you look at our commerce businesses, they have been selected to be, number one, digital categories; number two, places where we can, as a result, make very high margin monetization and we also have a large number of users who are interested in using those categories. So, for example, if you are our payments user, the chances that you would go to the movies once a month or once a quarter is fairly high. So, we have not gone into sort of niche categories, but it's not a big driver of our GMV. Maybe I should put it that way, so commerce business is not a huge driver of our GMV. It is a very good driver of retention of consumers on our platform. It is an excellent driver of high margin monetization.

Nilanjan Karfa: Okay, that will be all, for further questions, I will come back. Thanks.

Vijay Shekhar Sharma: Nilanjan I will add that the commerce GMV is led by, if you notice, cinema tickets, movie tickets, travel tickets and so on, deals, etc. which are small GMV and thanks to the lockdown, much smaller year-on-year. You could actually expect it to be in minute single digits, much smaller single digits as a GMV of commerce business on Paytm app as a percentage of total overall GMV.

Nilanjan Karfa: Yeah, understood.

Moderator: Thank you. A kind reminder to please announce the name of your firm before your question. The next question is from Mr. Chandrasekhar Sridhar from Fidelity. Mr. Sridhar you can unmute your line.

Chandrasekhar Sridhar: Hi good evening, this is Chandrasekhar from Fidelity. Just a couple of questions from my side. You say your GMV per MTU is about INR 11,000. Now the average credit card user spends about INR 10,000 bucks a month, and this cohort of 30 million sort of 32 million unique users are actually at the higher end of the spending curve. I am just trying to understand. I am trying to reconcile the two numbers, given the demographics are a little different and does that mean that there is a certain portion of GMV, which has a certain level of double counting? That's question number one and second is that just quarter on quarter, and I can understand there is some level of volatility in the business vision on a quarterly basis, our net payment revenues are actually down on a quarterly basis after adjusting for, the payment processing charges and after the promotional cashbacks and incentive, it seems that we are about break even this quarter, so maybe just some trajectory on how this plays out over the next 2-3 years? Thank you.

Madhur Deora: Chandra, I will be happy to sort of take some of these citing more detailed questions offline as well, or address these separately. The commerce business is seeing strong recovery. Just to go back to your first question, which is about the spends. The span of the type of use cases that a Paytm user does across their daily use cases such as bill payments or lifestyle use cases, either on the Paytm app or on our partner or with our merchant partners, as well as the spend that they're doing in the offline world - is in many cases a much bigger span than an average user would do using a credit card. I see the comparison that you're trying to draw, but it may not be sort of like for like in that sense, because our objective is that users should be able to do nearly all use cases that matter to them through digital payments, through our platforms, either on the issuing side or the acquiring side. So I see the comparison, but may not be sort of directly comparable in that sense. I don’t know if Bhavesh or Vijay want to add something.

Vijay Shekhar Sharma: Chandrasekhar I just want to give you one of the very pleasant things that I have seen that once a customer starts to use our platform, he starts to get into the use cases which typically he would have not done using credit card. While this number from your reference point of credit card looks larger from our reference point of spend on Payment platform using digital payments, which are driven by like you know bank account or wallet or postpaid etc., are probably in the same range, as it should be, or it should grow further actually, we believe that it should grow further. And between us, the number that we have as a reference of our co-branded credit card user, it is not INR 10,000, I mean it is significantly more than 10,000 on our co-branded credit card per active card spend that we see. So this number of a per user is significantly less than the credit card user actually, so maybe the reference point of INR 10,000 is something that we are not able to see, where are you picking the reference from and secondly, the number that we are seeing is very, very clearly a depiction of the depth of the customer and lock-in of the customer, retention of a customer. And as far as our co-branded credit card spend is concerned, it is significantly more than the number that you could quoted here.

Chandrasekhar Sridhar: I am just quoting the industry data, which is that much. And this is sort of the top end of the spending spectrum, spending an average of INR 10,000, so just curious to reconcile the two, but we could take it up later.

Madhur Deora: I think the key difference may be just a span of use cases that the person who's spending INR X thousand rupees on a credit card, let’s say INR 10,000 or 15,000 rupees on credit card - their monthly spends across all use cases, of course are significantly larger than that. And what I think the way this will reconcile is that Paytm has been able to bring all use cases for all users and I shouldn't exaggerate by saying all, but much greater span of use cases that users can use. So, if they were not using a credit card for a certain purpose, in many cases, they still use Paytm for that purpose, either, it could be through cards or it could be through wallet or it could be through UPI and so on.

Vijay Shekhar Sharma: One of the important things Chandrasekhar, we want to add is that we have seen credit card companies promoting adding money to the Paytm wallet as a feature because they want themselves to expand the use case of the money spent through credit card potentially. And that is also one of the interesting reasons for our year-on-year non-UPI revenue to grow because many issuers of credit card and debit card want to increase the acceptability of that instrument. And that is possible using a wallet as a method. And it is important to know that we have seen a tremendous number of banks, top tier banks, long tail banks all alike, pushing promotions on Paytm platform of spending cashback funded by them to add money to the wallet. And that probably is also the reason, the acceptance network is a behind the scene the biggest reason for it. I am sure INR 10,000 like you suggested as an average is a clear indication that mobile payment will completely do off the credit card spends over the period, which it has when you see the retail payment overall dollar volume anyways.

Chandrasekhar Sridhar: Just on the second one.

Vijay Shekhar Sharma: Could you repeat that second one?

Chandrasekhar Sridhar: Yeah I just said that the net payment revenues were actually down from INR 108 crores to about INR 84 crores, quarters, this is after I am guessing the payment processing charges. And then after the cashbacks, which you would have seemed to have given, it seems that the payment revenue is effectively just broken even for quarter, so maybe just some trajectory on how we should think of things?

Madhur Deora: Chandra, what I would suggest is that you do look primarily at year-on-year trends, rather than quarter-on-quarter trends. A couple of reasons for that, because on a quarter-on-quarter basis, of course, we will choose to make a little bit more investments in one quarter versus another quarter. The second is the quarters that we are comparing also do have Q1 which was heavily Covid impacted where the mix of the business was quite different versus Q2 where again that mix was very different, with respect to percentage of offline payments and percent of certain types of merchants, and so on. So, it is a little bit hard to compare any two quarters on a Q-on-Q basis, particularly this particular Q1 versus Q2. On a year-on-year basis the trend line is very strong for some of the sort of percentages that you quoted, which is translating into this contribution margin. So if you're taking out payment instrument cost, and you're taking out cash back, we in fact take out those two costs, as well as many other direct expenses and then come to the contribution margin. And that contribution margin is actually grown from 6% to 24% on a first half to first half basis, just to take a slightly longer period. It has grown from 10% last year to 25.5% this year. So I would look at year-on-year trends of the primary way of evaluating efficiency on those lines, especially given the Q-on-Q is a harder comparison.

Vijay Shekhar Sharma: And I will add to one more thing Chandrasekhar here on your statement on breakeven of payments. While we have not disclosed or are disclosing it like this, it is clear that some of the line items in our payment business are not just profit making but free cash flow generating. It is an important statement that I'm making here, that some of the line items in our payment business are not just profit generating, but free cash flow generating. So it should be clear that our payment business which is and that is the biggest reason that we've called out non-UPI GMV in this quarter result that our revenues and contribution margins are clearly growing on the back of payments and financial services business where payment itself is the primary driver.

Chandrasekhar Sridhar: Thank you very much. Thank you.

Moderator: Thank you. Next we like to call Mr. Anish Rai from UBS. Anish your line is unmuted now.

Anish Rai: Hi, good evening, everyone. So this is Anish from UBS. So a couple of questions, so one question would be related to the MTUs we have. So I just wanted to understand. So if we see, say, some 60 million odd MTUs in a month, what would be the breakup of the vintage of these users? I mean, how many of these would be recently acquired? How many of these would be three years old on the platform or something or some color of that sort? And the other question which was related to merchants. So if possible, could you throw some colour on the percentage of GMV, which comes from merchants, which don't pay any MDR. I mean, there would be a lot of intersection between UPI and QR code base merchants who don't pay any MDR. So I would just like to understand how that works. And the other question for MTUs. Yeah, that's it. Thanks.

Madhur Deora: MTU math is obviously very complicated. So, just to simplify it a little bit, what I would say is that in any period, over 12 months, roughly 60 to 80% of our MTU are new, and 20 to 40% are reactivated over a 12-month period, right. So I think those are the sorts of trends that we normally see, of course, they are somewhat dependent on, you know, how well reactivation efforts are working and how well new user efforts are working over long term trends. Actually, that data is a little bit more true for annual active users. On a monthly basis, of course, there are users who will come and they will use us in a certain month and organically come back and use us, maybe use us in the next month. But even if they skip a month, they'll come back and use us in the month after. So on an annual active basis, that trend has held up pretty well, which is 60 to 80% would be new and 20 to 40% would be reactivated. And I think on your second question, our merchant base is north of 20 million as we put in the Prospectus and growing. Like I said we have over a million merchants who have devices. So in the offline world, those are the merchants who generate us revenue, including large format retailers, and so on. So I would start to look at the merchant funnel in this way that there are merchants who pay us MDR because they want to accept all kinds of payments, online and offline. And there are merchants who are smaller who may not pay us MDR but they pay us for devices, merchant lending and so on.

Vijay Shekhar Sharma: Right. So what Madhur just said, Anish it'd be nice to see our Merchant base categorized into no MDR merchants and then a second bucket could be MDR merchants who are Paytm non-UPI instrument led merchants like Shoppers Stop or Big Bazaar or any other ones who take credit, card buy now pay later and Paytm postpaid wallet, etc., etc., And then in the second merchant that you're talking about are inevitably also paying for some or other subscription platform fee too. So how we look at our merchant base is, one merchant base, which makes money using payment itself as a line item of revenue. And the second merchant base is a beautifully even more monetizable merchant base, because that merchant base, even though he takes 0% MDR payment on the platform, but he does not have access to credit and our credit partners (banks and NDFCs) are happy to extend credit, thanks to the payment rail that we have created. The advantage of the payment rail is that they are not just able to disburse but also collect from the collections every day. So Anish, we earn on our zero MDR merchant, disbursement and collection margins on our platform. And that makes that merchant who's a zero MDR merchant, very useful for the Paytm platform, and equally and even more useful for our lending partner because these become over the period priority sector lending and whatnot. So Anish, we continue to acquire merchants on both buckets, one who pay us for a payment service, and that is why we are talking about non-UPI GMV here, and that talks about the merchants who give us money for payment acceptance, and platform, basically, device subscriptions and various other things. And the second bucket is even more useful, because this is like, you can guess tens of millions of merchants out there never have access to formal credit and the financial institutions and partners are looking forward to a solution in a platform like us. Remember, our two sided platform is an edge here. If we were purely a bank, we would have only seen the bank account of this customer and then we would have wild guessed what is this kind of money, with no predictability. While it is a payment platform where we also map consumer detail on our platform, we can say, oh, Anish is paying the shop means that this shop must be a high value shop. And oh, we have seen other customers who are of high value quality are also paying at this shop. So remember, our merchant business is fabulous from two aspects: payment revenue and credit revenue.

Anish Rai: Got it Vijay. Thanks.

Madhur Deora: Anish, I just wanted to clarify my earlier comment on MTU, just to make sure it came out right, which is we have this annual transacting user base. A vast majority of them transact the next year as well. And then the growth comes largely from new users who come to our platform, and in some cases, users who may have not used us in the previous year, but used in the year before who come back, due to some reactivation efforts that we do. But the core base going into any new year is that the vast majority of our existing customers do transact the next year as well.

Anish Rai: Right. So Madhur probably just let me sort of put this in another way. So just a follow up to what you just mentioned. So if my question is, say, if we have x annual transacting users this year, what percentage could I assume that these users are transacting even the next year? I mean, what would be the drop off rates or something of that sort if possible, for you guys to sort of disclose?

Madhur Deora: We haven't quite shared that number but it is the vast majority of those users regardless. Sorry Vijay.

Vijay Shekhar Sharma: Yes, I was saying that Madhur is using the correct word. Anish, if you remember, a few minutes back, we were answering a question, how our customer is spending more money and that happens because the customer is actually living on this platform more number of times. So over the period, thanks to the number of use cases and the opportunities of multiple funding sources and services that we bring, that customer remains on our platform. Surprisingly, the commerce business that has been discussed in this call is one of the reasons that we started it. It is a key use case for our customer to retain and come back on our platform.

Anish Rai: Right. Sure. Thanks.

Moderator: Thank you. The next question from Mr. Sameer Bhise, from JM Financial. Sameer, your line is unmuted.

Sameer Bhise: Yeah. Hi, thanks for the opportunity. Just looking at the number of sales employees, I see a sharp jump Y-o-Y, probably that is also driving the merchant growth. What's the outlook here going ahead?

Madhur Deora: The comparison of this number on September on September is slightly tricky for one primary reason because the offline world just sort of came back a little bit later in Q2 last year, whereas this year, obviously, we had COVID impact in Q1, but by the time Q2 rolled around, there were plenty of opportunities for us to have feet on street and start selling devices and so on. And we will continue to invest in merchant growth, you would have seen, Sameer, when you sort of digest all of this data, you will see that we've been able to reduce our employee expense as a percent of revenue, despite increasing the sales force. So we have those levers in our business. We will continue to invest in the merchant business. But we think we can do that, while maintaining our indirect expenses at a certain percentage of revenue, and in fact, decreasing it.

Vijay Shekhar Sharma: It's an important thing to remember Sameer that from Paytm’s vantage point, we see a tremendous opportunity to grow payments as a mode to acquire consumers and merchants. We continue to invest in engineering, professional, and teammates. As you can see from the number of employees, there are more and more engineers added to the system, because we are building for new use cases and other financial services that we are building. Secondly, on the merchant side, like Madhur said, an incredible and large strong growth ahead is possible clearly, because more merchants are getting ready to accept digital payments.

Madhur Deora: I just want to add Sameer that just from accounting standard perspective, if we have insourced field employees, then they show up in employee costs. If they are outsourced employees, then they show up in other expenses as an outsourced cost. So depending on our specific strategy during those quarters, whether we are having those employees on roll versus outsourced, and there are some pros and cons of that, you may see some slight differences. So you may not be able to model the number of employees straight into employee cost.

Sameer Bhise: Sure. But is this the same number which shows in the RHP, as around six and a half thousand as of June. Is that the same trajectory? Or is there a slight change?

Madhur Deora: Yes, that's right. In RHP, obviously we have more disclosure around it, so if that's what you're referring to, yes that's correct. And if you have further clarification, you could send us an email and we will just try and get all the data and make sure you have good clarification.

Sameer Bhise: Sure. Thank you and all the best.

Madhur Deora: Thank you, Sameer.

Moderator: Thank you. As we are getting close towards the end of the scheduled time, we'll have time for two more questions. Next question from Mr. Nitin Aggarwal from Motilal Oswal. Nitin you can unmute your line.

Madhur Deora: Nitin if you are speaking, we are unable to hear you.

Nitin Aggarwal: Am I audible now?

Madhur Deora: Yes.

Nitin Aggarwal: Yeah. So thanks for doing a call and thanks for taking my question. So I have two questions, firstly, on the wallet load pattern, if you can comment as to how that has been keeping pace with the overall non-UPI GMV growth. And as we have imposed charges also on wallet loading by credit card so how has the mix changed in terms of, loading the wallet by credit card over past one year so what has the mix come down to now?

Vijay Shekhar Sharma: The best part I can tell you Nitin is that our business of wallet, year on year, has been growing and the credit card charges have either moved the customer to other payment sources like UPI like debit card, or net banking, or made the customer comfortable enough to pay those charges. So the clarity here is that we want to continue to expand on wallet as a use case because this is running as a revenue line item for us. And it is, year on year, showing a very decent growth. In fact, in many cases, we see that customers use wallets to add money, like we just now shared, the banks leverage the wallet as a platform to give their debit card and credit card users an extended acquiring network of Paytm. So this is a strong growth, and we're very happy with how wallet growth is showing up.

Madhur Deora: I just wanted to clarify when Vijay said it has moved users to other payment sources, other payment sources, to add money to their wallets. So, there are many users who have decided they want to continue using credit card and pay the charges, which were implemented in calendar 2020. And there are some users who have said they will move to another payment source such as debit card, net banking, UPI, and so on and not pay the charges. And what that has done is that the wallet take rate has been the same wallet. And it has become more efficient from a loading cost perspective. And some of that does reflect on the year on year contribution margin and year on year payment cost as a percentage of GMV.

Nitin Aggarwal: Thanks so much. And secondly, how do you really compare the productivity or the GMV contribution of merchants wherein you have installed a merchant device like the Soundbox versus the one who doesn't have it? And any approximation as to, because we have say around 24 million merchants, but in terms of Soundboxes, there is huge room to expand. So how much can we really close the gap between that?

Vijay Shekhar Sharma: Nitin I can tell you that the merchants who use Soundbox versus let's say earlier, if they were using static QR, or plastic QR, or paper QR - the one thing that happens there is that the transactions consolidate, meaning no more multiple QR merchants and it sort of becomes nearly exclusive. And then that merchant becomes even more comfortable because they are sure about the payment they are receiving. So we've seen the growth, which, strong is the word I mean, Madhur I leave the rest to you.

Madhur Deora: Yeah, so I wanted to maybe just make two or three points on that. So one is, like I said in the presentation, device merchants and a large percentage of them, more than majority, are Soundbox merchants. They do become significantly higher retention. And also the volume of transactions goes up very, very meaningfully. And which are sort of two separate points, I just want to be clear. And that is very efficient - it is dramatically better unit economics for us and dramatically better CAC to LTV for us because you're not going out and sort of managing churn. You're managing a very different churn profile than you would without devices. The second part to call out is this behavior that I mentioned, which is higher retention, and more spending, which has higher loyalty on the platform, basically, that is nearly perfect behavior for them to become eligible for merchant lending. Because one of the things that you should be clear about is that we don't lend to merchants on thin files. And maybe Bhavesh can add if there's a follow up on that. So it just accelerates the behavior of a merchant towards creating that effectively loyal behavior and thick file on Paytm so that they become eligible for loans from our partners. So this is why I said it is strategically an important initiative for us. Nitin, I would refrain from giving forward looking numbers on this, you have clearly seen the trends. We added a million in the last year, roughly half a million just in the last few months. So clearly this is off on a very strong trend and accelerating.

Nitin Aggarwal: Thank you so much.

Moderator: Thank you Nitin. And now for the last question of this session. Mr. Viral Shah from Credit Suisse. Viral we have unmuted your line you can ask your question.

Viral Shah: Yeah, thank you for giving me the opportunity to ask the question. So, actually, I had two questions. So, the first one is, I know we have touched upon this earlier on Saurabh's question, but wanted to understand more so from a medium to longer term perspective, does the Working Committee report that has been put out alter the medium to longer term different profit pools that Paytm could have developed? Say for example, basically, the underwriting decision needs to be made at the end of the banking partner, right? Probably say, going down the line given the kind of scale and the ways that Paytm would have generated, this could have been one of the monetization channels for Paytm. And, another thing linked to it is, does it kind of, say, impact the BNPL business materially, because primarily the economics in the BNPL business come from MDR. And if you look at it, one of the recommendations is that this kind of credit needs to go into the bank account of the user. So on which the MDR is typically not what it is on, say, a wallet.

Bhavesh Gupta: Viral let me take both of your questions. Purely from a model perspective it is important to understand that the working group committee, as I mentioned earlier to Saurabh's question, we currently practice what largely has been recommended by the Working Committee, because we've been following the current laid down guidelines of June 2020, digital lending guidelines, etc. So purely from an implementation of a working group, I think it'll be very positive for our business model and it will further amplify what we have believed in building the credit business at Paytm. And obviously, it will remove some of the so-called smaller players who have been doing all kinds of things, I think, in the ecosystem, which may not be helping the digital ecosystem to prosper. Now, clearly, from an economics perspective, there are two things to really remember in our model: our lending business is aligned with our payments business. So as Madhur had mentioned that we do thick files now what we mean by thick files here is we are not going in soliciting customers just for credit. So credit is a byproduct of what the customer or a merchant does on our platform, the more transactions they do their ability to get credit through our lending partners increases. And the more credit they consume, we believe the stickiness of the platform, be it the consumer or the merchant, increases. So it's kind of a flywheel, and that's a flywheel we are currently focused on. So it's just not the way to look at this business to make money from an element of lending business, but in the total flywheel we make money also on payments and also on credit and vice versa.

Viral Shah: Sorry, if I may just interject, apologies for that. But just, my question was not more so from how the business is currently, but what it could potentially be. Say, for example, given the kind of data that you have, over a period of time, you could have actually, say, provided the underwriting tools, or the data that you have, you could have provided a score, like we have, say, for example, a KaKao bank in Korea does or many of these neo-banks do, you create a score and based on which the lenders uses those scores to lend to customers. Does this kind of take away those kinds of profit pools because now the lenders would be required to basically document the underwriting and the process that they have at their end? And secondary like, in terms of your interaction that you have with your partners have you seen some indications of them having to now reevaluate, say, their clients or the arrangements that they typically have not just with you, but generally?

Bhavesh Gupta: Viral, to the second question, we don't know about the other partners but from a Paytm perspective, we continue to have very, very strong support from our partners in growing, so there has been no letdown in terms of scale of business. If you are indicating, on the basis of the Working Group committee, the answer is no. To your previous question, I think our focus is always to build a legitimate business. Legitimate business means that we would like to protect what is the right product for the customers and their interests. And hence, our belief has been that what Paytm offers is technology, what Paytm offers is a very, very unparalleled opportunity to distribute credit to a very large segment of customers. And also what Paytm offers is the ability to collect using our digital tools, digital platforms and the entire merchant ecosystem. So I think this is our strength, we would like to play to our strengths and I think there are enough and more revenue pools in our strength in the medium to long term which we would like to exploit.

Vijay Shekhar Sharma: It is important to know that our lending partners, clearly see not just technology and like you suggested, let's say if we could build some score sorts and we could give them and that could help them. They see two important line items, which is the disbursement and collection as even more critical KPIs than just the, let's say, help in underwriting, if you will. The reason I want to tell you Viral is that if they go on the open internet, the cost of acquiring customers on the open Internet for NBFCs and banks is dramatically higher, because there are many aggregator platforms and methods that open Internet uses, that the CAC remains way, way, higher compared to the margin that they create. I mean, I would not hesitate to say that nearly all the margin they could have made would have gone in CAC if they would have chosen to scale on the open Internet. And the reason is, like I said, that there are a number of aggregators who sort of hijack the traffic plus even the financial institutions don't have the wherewithal, they even deploy third party agencies to acquire customers off that grid. Companies inevitably seek multiple channels. And the advantage of Paytm is like, imagine a Diwali market and I ask a financial institution partner bank partner NBFC, to say, please open your stall here. And then the customers whom I invited in the Diwali market are available to you. Paytm approach is this: that come over, we have a customer base on the Paytm app, which in workflow could have a conversion towards your product. This approach does not cost them any increased cost of customer acquisition. If they go on loan disbursal platforms like you know many other marketplace kind of products where there are just enlisted products, they also lose their own traffic to those platforms. Surprisingly, in our case, it does not happen because we don't fight with them to acquire their own customers. Instead, we offer potentially their customer or new customers on our platform that can be serving them. So Viral important to note is that Paytm's credit business is not zero sum to bank or NBFCs customer acquisition strategy on internet, it is actually adding to that as a key important channel. Number one. Number two, the ability like you said the data and nuances of the system and abilities that we can help them with technology makes their percentage hit rate much better than if this customer was coming from the open internet and hit rate stands for that their credit policy would happily accept this customer with the nuances that they get to know, once the customer is making an application using our platform. In other words, they have a high quality lead issue. Now once you've disbursed this loan, and you know that we are talking about small ticket loans, we are talking about a large number of loans, it is even more important for financial institutions and banks to collect this. That is where Paytm plays an even more important role. And you can imagine for a merchant, they probably will not have made with all to collect unless it is deeply integrated with a thick file that we're discussing, Soundbox customer, merchant, that there is a large number of payments incoming and from that we are deducting daily, weekly, monthly, whatever the interest is. So Viral, while it is nice to think of a KaKao based business model where we could just throw very little and get advantage of that value, it is far more fulfilling for our partner and us to deliver in these three buckets. Number one, disbursement, number two, technology platform and number three, collection. And the best part, like Bhavesh said in the beginning, is that the RBI has called out that please don't go the FLDG or loan guarantee way because that is a credit agency's work. And we work complimentarily, that is why the scale, that is why the margin growth and revenue growth. We are seeing a very, very strong demand Viral, I mean the queue of partners wanting to join the Paytm platform for credit is so long that internally Bhavesh and I are working on adding more engineers only on adding integration partners. Hope you understand.

Bhavesh Gupta: To your another question on BNPL I think a small clarification. So there are two parts in the working group, which at least has come out publicly. One part here is that they have observed that there are a lot of disbursements, which other Fintechs have been doing apparently as per their observation into prepaid instruments, namely a wallet or a plastic card which Paytm anyway doesn't do, which is what they made an observation that that will not be the case which should be further allowed, and it should that disburse will happen into the bank account. In case of Paytm postpaid and especially BNPL, the lending partner disburse directly with the merchant and hence that is an absolutely kosher use case because this is typically the way EMI financing happens on the ground wherein if I go to purchase goods at a shop and the payment is being made by me for a loan that I've taken to buy that goods from that shop. In this case, goods could be digital, goods could be physical, and disbursement is made directly to the merchant's account. So I think that clarification is important and hence the BNPL business that we run is absolutely in line with what has been recommended.

Viral Shah: Right. And just as a follow up, if I may. So how does the economics in this case work as to say the bank disburses money directly into the bank account of the merchant so does the bank then deduct a 2% or 1.8% that is the typical MDR?

Bhavesh Gupta: So the economics I don't want to dwell further. The broad level understanding is that Paytm is also a payments platform. So the MDR is earned by Paytm and then there is a component of interest and other fees which is shared between the two platforms.

Viral Shah: Okay, thank you.

Moderator: Thank you and with that we come to an end of this earnings call. A reminder that the presentation, the replay of this earnings call and the transcript will be available on the company's website subsequently. Thanks to everyone for joining in.

Vijay Shekhar Sharma: Thank you all.