Paytm | Quarter and Full-year Ended March 31, 2022 Results | Earnings Call
Date: May 21, 2022 | **Time:** 3 PM Indian Standard Time

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Moderator: Thank you for joining and a warm welcome to Paytm’s earnings call to discuss its financial results for the quarter and fiscal year ended March 31, 2022.

From Paytm’s management team, we are today joined by Mr. Vijay Shekhar Sharma, (Founder and CEO), Mr. Madhur Deora, (President and Group CFO), Mr. Bhavesh Gupta, (CEO, Lending and Head, Offline Payments), and Mr. Anuj Mittal, (Vice President, Investor Relations).

Before we begin, a few announcements for all attendees. This earnings call is meant for the 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, we request you to kindly drop off the call at this point. The information to be presented and discussed on this earnings call shall not be recorded, reproduced, copied or distributed in any manner whatsoever by any of the attendees. Statements or comments made on this earnings call may include forward looking statements. Actual events or results may differ materially from those anticipated in such forward looking statements. Finally, this earnings call is scheduled for 75 minutes. It will have a presentation by the management followed by Q&A. Kindly 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 within the scheduled time. Please ensure your name is visible as first name, last name followed by your company name in brackets for us to be able to identify you. The presentation, a replay of this earnings call and a transcript will be made available on the company website subsequently. With this, I would like to request Mr. Vijay Shekhar Sharma to kindly initiate this earnings call.

Vijay Shekhar Sharma: Thank you everyone for joining. It's an incredible moment for all of us that we had such a great quarter. I think India is clearly demonstrating a trend of moving towards mobile payments. From Tier 1, and Tier II towns, this revolution is now reaching Tier III. We are seeing more number of consumers, more number of merchants in smaller Tier II, Tier III towns taking mobile payment as their primary way of accepting money. I believe that UPI, which is one of India's most important technology platforms, is going to grow even further in next few years, and I believe that Paytm has an advantage of taking leverage of UPI in driving more number of customers and more number of merchants on its platform. The good thing is that more number of customers are coming on Paytm and more number of merchants are coming on Paytm and we are able to drive a monetization strategy on payments too. Important to note, that we started to experiment with levying some customer surcharges on some products and we have seen tremendous uptake of that great monetization on the consumer side by adding such platform charges. And we've seen on the merchant side that merchants have started to accept payments seriously and small merchants are ready to invest, and are investing, in our cloud and device-led strategy of paying for monthly subscriptions. So basically, UPI finally has started to get monetized for us as a Company in terms of how we expected it too and how we see it being scaled in the next few quarters. You will see that the consumer payments side of revenue will grow. You will see that merchant side device-led strategy where merchants are paying for cloud, and for device subscriptions and rental is growing and it shows in this quarter’s number also. It's important to note that in payments, which is our primary bet, we believe that we will be able to earn all its costs and achieve a better contribution margin for payments standalone also. Our bet is payments. Our bet is leveraging payments for disbursement and distribution of credit. I'm sure you must have noticed our phenomenal quarter numbers. I believe that payment is giving way to those customers and small businesses and merchants who did not have access, but deserved credit -

meaning people who could have had higher CIBIL score or could have got better credit pricing from a formal financial institution, these are the kinds of people who are getting access to large financial institutions (who are our lenders), and our marquee lenders are getting access to this new customer base. I believe that credit, which is in its infancy, has started showing that it is a long-term sustainable space, and is going to become a pretty large business for us. Our bet is payment. Our bet is distributing credit, leveraging payments, data and access that we have. I believe that our team - which is motivated by the opportunity, which is completely inspired to see the financial inclusion and access to the formal financial services to the people who deserve it - has done incredibly well in the last quarter and this is just the beginning. You can see it from the results and you will see that in subsequent quarters and years, we will amplify our monetization, contribution margin and profitability. Like I publicly disclosed in a letter, we remain committed and I'm even more convinced that we will be delivering operating profitability - that is EBITDA before ESOP costs - by the September quarter next year. It is truly a privilege to make you explain our business and share our numbers. I will give it to Madhur for giving you a detailed presentation and we look forward to having an engaging conversation post that. Thank you.

Madhur Deora: Thank you, Vijay. I wanted to extend my welcome to everyone. Thank you for joining us, and thank you for following our performance closely. In the Q4 FY22 presentation, once again, we want to reiterate our mission is to bring half a billion Indians to the mainstream economy through technology led financial services. Strong growth in revenue and profitability this quarter. Our revenue from operations for this quarter was Rs. 1,541 crores, slightly more than $200 million. This was 89% year-on-year revenue growth similar to last quarter. Our contribution profit was Rs. 539 crores, 35% of revenue, just about $70 million and this contribution margin like in previous quarters has been growing very fast. It's a huge step change from what we did last year, ending up to 210% higher year-on-year. Our EBITDA before ESOP costs came out at Rs. 368 crores, about $49 million, 24% of revenue. This was an improvement of Rs. 52 crores compared to the year before, and about Rs. 23 crores compared to the quarter before. In the year ending March 22, for the full year, we did 77% growth in revenue. We did about 300% growth in contribution margin and we improved our EBITDA by Rs. 137 crores. We have seen consistent growth in payments' key operating metrics; our average monthly transacting users is growing 40% year-on-year. We have also disclosed the April numbers separately, and currently stand at about 71 million and this is roughly equally driven by the growth in new user acquisition as well as consistently higher retention of transacting users, so an improvement in our cohorts. Our GMV has grown over 100% year-on-year and now it's sitting at 2.6 lakh crores and GMV from MDR bearing instruments grew 52% year-on-year. So we're seeing overall platform growth and within the platform we're also seeing growth of MDR bearing instruments. Our device deployed, which is a strategy that Vijay was talking about earlier, that merchants are getting very well served by our devices. That is up to now 2.9 million devices and we are adding roughly 800,000-900,000 devices a quarter now. Our device merchants, this is very important for us, it is strategically important, our device merchants account for more than 75% of merchant lending disbursals in the last quarter. This is our payment services; our payment services revenue grew 80% year-on-year. This was driven by two major factors, growth in MDR bearing instrument GMV as well as payment devices growth. As you know we break up our payment services revenue in two parts, payment services to consumers which grew 69% to Rs 469 crores. Two major factors are growth in usage of Paytm app like I mentioned earlier the MTU has grown 40% year-on-year as well as growth of bill payments use cases. We're seeing rapid scale up of adoption of bill payments use cases. Payment services to merchants are up

90% year-on-year to Rs. 572 crores, again growth in MDR bearing instruments both in the online space and the offline space. We are seeing the growth in payment devices like I mentioned earlier. There is a little bit of seasonality impact in the Q-and-Q trend purely because in the last quarter we had the positive impact of the festive season, but 80% payment revenue growth year-on-year. Our financial services revenue was driven by healthy growth in loans disbursement. Our financial services revenue grew 340% year-on-year and is now doing Rs. 168 crores or $22 million, for the quarter. Financial services include loans, equity trading and insurance. The major part of this is from lending as all of you know and I'll turn it over to Bhavesh to maybe walk us through the next three slides.

Bhavesh Gupta: Thank you, Madhur. Good afternoon, everybody. Madhur, if you could go to the next slide, please. Yeah, thank you. So our total value of loans disbursed as you can see, last quarter was about Rs 3,500 crores plus. We do believe that this trajectory that we have seen is coming on a back of March 21 when we were a bit nascent in our business so definitely that looks very robust at 400%, but quarter-on-quarter also, as you can see we are growing almost at about 50% and we continue to see this trend as very healthy across business and products. Our number of loans is something that we index ourselves on because the entire focus of the management team, of the credit business is to see that we're getting more and more merchants and consumers is the mainstream ecosystem of getting credit. So 1.4 million loans in March 2021 has grown to 6.5 million loans and you must have seen our April announcements in which we see this trajectory moving forward at about 2.6 million loans for the month. So purely from a trendline basis also - this is continuing to be a business where we are seeing very good momentum and still at a very, very small penetration to overall MTU. Just going into a bit of detail, Paytm Postpaid, which is our BNPL, has had two important shifts over the last quarter. In Quarter 3 (ending December 31, 2021) we had called out that we were at close to about 3.5 million merchants who were accepting Paytm Postpaid. I'm glad to inform you that now the acceptance of Paytm Postpaid has moved to more than 9 million merchants. This makes the acceptance of our consumer credit instrument in the country the highest ever because the credit card acceptance is still fairly low and hence Paytm Postpaid acceptance across 9 million plus merchants and growing makes it a very significant move in making Paytm Postpaid a marquee market product for Paytm. Overall on the disbursement side, we saw 400% plus growth. Rs 2,183 crores all what we ended up disbursing. This trend again continues. As you can see quarter-on-quarter, we are seeing a very healthy growth almost at a rate of 100% and we again see that as we move into April and beyond we're seeing this growth continue. Large part of 6.5 million loans have come through Paytm Postpaid, so 6.4 million loans are in the form of Paytm Postpaid and we're also seeing now the ticket sizes start to grow because the book is maturing with our partners and we do find that on a month-on-month basis, the ticket sizes are starting to marginally go up and we do believe this trend will continue and next quarter hopefully we'll see a much better ticket size as the book is maturing. The good piece here is that our personal loan business, which last year same time was just in its infancy and the first quarter of launch, has shown a massive growth from a very small business of Rs. 68 crores now touching almost Rs. 800 crores and in the month of April it is further grown very, very nicely and robustly. The important part of the Paytm Personal loan business is that it is pegged on the Paytm Postpaid customers and I'm happy to inform that almost 50% plus of our personal loan business is coming from the existing Paytm postpaid customers who are actually upgrading themselves and taking a personal loan and personal loan continues to be a product in which we have a very decent ticket size, almost touching Rs. 100,000 and we also have a very good take rate, because this is a product in which we are not only making the service revenue and distribution revenue, but also we have a decent portfolio upside. The third business for us is merchant loans. Merchant loans have been a bit wobbly thanks to COVID wherein we've had some stop-start arrangements in merchant loans. We've had Quarter 4, as the only quarter so far I would say, wherein some part of January, in which we again had a small scare, of COVID break fee. But if you look at the Quarter 4 - this is a sign of how this merchant loan business will perform for us. I'm again happy to inform you that we've seen almost 200% growth in the merchant business. This is a mature business. We've been doing this business for more than two years. So the book has been revolved by almost two times. This Rs. 565 crores is largely coming to us from our devices merchants. 78% of our business that we are originating is from our device merchants, and as devices businesses is gaining momentum and strength, we do believe that this particular trajectory of growth will only become better and if April numbers are to go by, this is a business which hopefully in Quarter 1 of next fiscal should start looking even better than what we've seen in Quarter 4. The other important aspect of this business has been that we are already seeing a great adoption of the product with our merchants. More than 50% of our value of loans that we're disbursing is coming as the second loan that a merchant is taking on our platform. So it does two things for us. (a) It demonstrates the stickiness of the merchant on the Paytm payment platform. So we do continue to get subscription revenue, because these merchants are devices merchants and (b) the merchant appreciates the product and is coming back to us and making sure that we're getting the second loan and maybe hopefully the third loan business. Quick sense of the portfolio. I do understand that we all understand this part that Paytm does not take any kind of credit risk. Our model is very simple: we are distributors and marketers of loans, we do servicing of loans and we also have collections outsourcing agreement with a lending partner for most of our businesses, through which we have an upside that we get if the portfolio was to perform better than what the lender would expect to. Quarter 3, we declared this metric. I'm happy to inform you that the Quarter 4 metric continues to be as robust. We're not seeing any deterioration of any kind of metric that lenders are actually looking at this portfolio for. These are indicative metrics because we manage collections, so we understand the bouncing that is happening. We also understand the bucket evolutions that are happening. The expected credit loss, the number that we're quoting here, is a number, that cumulatively we understand from our partners is what they're providing for. I can only say this here in utmost confidence, so far what we've seen over the last year on a static pool basis that the net credit loss is much lower than expected credit loss being called out here by our partners, but we continue to maintain a very conservative approach in making sure that our partners are clearly aligned to what the risk practices that they would like the portfolio to be generated for and hence always maintain the ECL number as far as the benchmark is concerned, while our incentives are linked to the portfolio performance of net credit losses.

Madhur Deora: Thank you Bhavesh. A quick word on our commerce and cloud business; this grew 61% year-on-year for revenues, roughly Rs. 320 crores in the last quarter. The cloud business grew at 88% to Rs. 217 crores. We saw strong growth across all of our business lines, particularly advertising, credit card, and cloud services. Our commerce business grew 24% year-on-year, slightly slower than the rest of our businesses. The main reason for that was the impact of Omicron for three or four weeks, obviously travel and entertainment get hit the most. There's a bunch of outside data, for example the amount of domestic air travel and so on, which sort of validates the fact that travel and entertainment sectors were impacted in the last quarter. Despite that we grew 24% year-on-year. Our Q-on-Q impact was on account of the festive season in the previous quarter. These are our financial numbers, which all of you have available in our earnings release. I just wanted to call out a few things.

Our payment processing charges grew only 52% year-on-year whereas our payments revenue, as you saw earlier grew about 80% year-on-year. That is a significant job that we are seeing contributing to operating leverage and profitability. Three main reasons, we continue to optimize transaction routing to lower cost payment gateways. We are seeing great improvements in our transaction rates with our partner banks. We are in active discussion and negotiations with them. And we also see an increase in the share of low cost instruments and mix, including for wallet loading. UPI benefits us, when customers use UPI for wallet loading, that is financially beneficial for us. On contribution profit, we're seeing a strong growth in contribution driven by margin improvements in payments, largely because of what I mentioned earlier about payments processing charges, not growing as fast as revenues. And we're also seeing a huge increase in the share of high margin offerings such as lending and cloud. Quick bridge from contribution margin to EBITDA. Like I mentioned earlier, our EBITDA improved by 12% year-on-year. Our marketing cost has declined, 21% on a quarter-on-quarter basis, despite investments in sponsorship, because we had a lot of cricket matches last quarter and growth in user base. Our Q1 has also got a lot of cricket, including IPL and international matches. So we expect marketing costs to remain high in this quarter. Employee cost, we made significant investments in FY 22 in our sales team for merchant acquisition and in our technology teams, which is why our employee costs went up 64% year-on-year. On a full-year basis that went up 51% year-on-year. And we'll talk a little bit more about the trends there. We do believe that our current headcount is sufficient to support our growth plans for next year. So that's an important phase of our company, where we added a large number of employees in the last year, but we don't expect our headcount to go up from here. And as a result of this, like I mentioned, our EBITDA improved by 12% year-on-year. As a percentage of revenue, it improved to 24% from 51%. So obviously, we're seeing a step change in EBITDA margin as well. Finally, just to wrap up, we are on track to achieve operating profitability by the September 2023 quarter like Vijay mentioned, as defined by EBITDA before ESOP costs. I want to just summarize some trends in our business. We are seeing a consistently growing and engaged customer and merchant base like Vijay mentioned. Customer monetization is gaining momentum. We're seeing that growing engagement on our platform, regardless of which payment instrument it is through, gives us monetization opportunities across payment, lending and commerce. Similarly, on the merchant side, our merchants will start their journey from free products, such as QR code, are increasingly adopting device subscriptions and lending which are obviously monetizable products for us and very high contribution margin. We also see an attractive upsell opportunity via lending. We disclosed earlier this week that we have now hit the run rate of Rs. 20,000 crores of annualized lending disbursals through our platform. On our revenue growth and operating leverage trends we're seeing 89% growth year-on-year. We expect this strong momentum in revenue growth to continue. We're seeing clear trends in contribution margin improvement, 21%, same period last year to now 35% and we are saying now that we expect to see continued improvements in contribution margins. On indirect expenses, I want to call out those two investments that I mentioned on the previous page, marketing expenses to drive MTU growth at 40% year-on-year and employee cost to drive device deployments to somewhere between 800,000 to a million devices per quarter and investments in technology. And we are saying now that we expect moderation in indirect cost growth going forward and we expect the trajectory of EBITDA improvement will steepen starting next quarter. I finally wanted to give two quick updates. One is a sort of clarification. You will see in our income statement below net profit in other comprehensive income that we have seen a gain of $125 million. That is because of the revaluation of our stock acquisition rights in PayPay. That is not impacting our net income positively but it is impacting our other comprehensive income positively. We believe that our stake in PayPay is very valuable. Secondly, a couple of weeks ago we had done a press release that we are going to go down the general insurance route through an organic route. Our board last night has approved that we will invest Rs. 950 crores over the next 10 years in our general insurance venture. So those are two material updates, which I wanted to share towards the end of this call. And with that, I'll hand it back to the moderator.

Moderator: Thank you Mr. Deora. We will now proceed to Q&A. If you wish to ask a question, kindly utilize the raise hand feature on your zoom dashboard. We will unmute your line and take your question in the sequence of raised hands. However, a reminder to please have your first name, last name followed by your company name in brackets visible at all times. Only then would we be able to identify you and take your question. With that the first question of the session would be from Mr. Sachin Salgaonkar from Bank of America. Sachin your line is unmuted.

Sachin Salgaonkar: Thank you for the opportunity. I have a few questions. First question Madhur if it is possible for you to give a breakup between UPI and non- UPI GMV and to Vijay's point in opening remarks where he mentioned that you guys are experimenting with some levying surcharges and some of the other things. So a rough take rate on both of them would be helpful.

Madhur Deora: Sachin on UPI versus non-UPI split, we have not disclosed that. We have told folks that UPI is slightly more than 50%. But that is not a number that we are disclosing. On levying of convenience fee, this has been sort of an ongoing activity. For example, we started with levying charges on credit card to wallet add money and we're just expanding the scope of that wherever we think the customers are happy to pay for the convenience that we offer. I think the best thing to get a sense of that is to just look at the difference between our non-UPI GMV growth and our revenue. Vast majority of that comes from an increase in take rates.

Sachin Salgaonkar: Thank you. Second question, clearly a great work in terms of reducing the payment processing charges. So the question out here is how much room for further optimization and how low could this go as a percentage of GMV?

Madhur Deora: We expect to, as a percentage of revenue, and as a percentage of GMV for this to continue to improve. For the same three factors that I mentioned, those trends are ongoing trends, transaction routing continues to keep getting better. Our transaction rates continue to get better and the transaction mix continues to improve in our favor. We believe that all three trends should continue to contribute and our payments revenue should grow faster than our payment processing charges.

Sachin Salgaonkar: So would this be the primary line which shows perhaps the biggest delta going ahead from a cost perspective?

Madhur Deora: When you think about payment contribution margin, that is correct. Obviously, there are other reasons why contribution margin is growing very fast, which is the mix of our financial services business, primarily lending, going up as a percent of revenue, and that is a higher margin business for us. And secondly, we are seeing generally speaking, improvements in our commerce and cloud business, as well as improvements in margins also in our commerce and cloud business.

Sachin Salgaonkar: Got it.

Vijay Shekhar Sharma: I also would add Sachin that when I was talking about UPI and your earlier question that more number of merchants are ready to pay cloud, and device rental subscription and because that is coming in, the margin looks increasing and that means that our revenues are not dependent on MDR. More and more payment revenues are moving towards a large number of customers, and merchants paying for subscriptions.

Sachin Salgaonkar: Got it Vijay. The third question perhaps is to Bhavesh on this rising interest rate what we are seeing right now and I completely understand you guys are more as a distributor, but the general consumer who ends up getting the loan is you know at some level a risky base given that you know, traditional channels are not lending. So what kind of an impact generally do you see on this base and to your numbers going ahead in this rising interest rate environment?

Bhavesh Gupta: Sachin, two clarifications I am going to make. One piece here is we are not only focused on new to credit or people who are typically at the bottom of the pyramid. Important part here is that 100% of P&L business is to all the people who have taken a loan and our average bureau scores continue to be in the range which is called prime range by the banks and non-banks. Postpaid and merchant is where 75% of our customers are already credit tested. And they also continue to be in the range called prime range by the bank, which is generally arguably a number of about 700 -725 credit score. So a very small percentage of the portfolio is new to credit, which gets significantly augmented by the Paytm payments data, which actually helps the banks and non-banks to underwrite them, and they continue to perform reasonably well. To your specific question, rising interest rates, very honestly, the unsecured credit market has more resilience to increase of interest rates, because there are margins and spreads for banks, and margins and spreads for distributors like us are fairly decent. So far with a 40 basis point increase in rates, we haven't seen any of our lending partners come back and increase rates to our consumers and merchants. I do believe if the rates were to further go up by let's say, 100 basis points, we could see maybe 25 basis or 50 basis point increase of rates to the end consumers and merchants, but given the ticket size that we operate in, it does not have any impact on our commercials or has any impact on the demand by the consumers.

Sachin Salgaonkar: Thanks, it is very clear and the last question perhaps Madhur if you guys could give a little bit more color on the ban by RBI on payments bank for acquiring new customers, the timeframe for resolution and what kind of an impact could we see in near term because you guys are not allowed to acquire new customers out there?

Madhur Deora: I'll let Bhavesh answer that question.

Sachin Salgaonkar: Sure.

Bhavesh Gupta: Sachin, Paytm Payments Bank, as you know, is an associate of One 97 Communication so as investors of Paytm Payments Bank, we have a fair understanding of what the bank is currently engaged with the Reserve Bank of India. Our two updates in that regard, number one piece is that the process that the regulator laid out for the bank is working in a time bound manner. So we do believe that the broader time limit the bank has been given, which is between three to five months, hopefully the process should get over. But we obviously are dependent upon the audit and everything else that the bank is expected to deliver and the bank is fully prepared to deliver it and has been able to do a wonderful job, the last 30 days of demonstrating its intent, and also the outcome as and when the entire RBI audit is completed. To the second question that you have said about the impact so there is no impact to the customers of the bank. The existing customers of the bank continue to manage their wallets or bank account, debit card, net banking, as they were doing earlier. As you know that Paytm Payments Bank has a very, very large consumer base and hence, their ability to really churn that consumer base and merchant base for more activation is an objective, which is always the primary objective of the bank and they continue to do that job far more effectively and efficiently now. UPI continues to be something which the bank is allowed to do. So we continue to onboard new customers on the Paytm app for customers who want to come and add up a UPI handle to payments, and hence the customer acquisition is happening. Purely new wallets and purely new CASA accounts is something which is currently not allowed. To that extent the impact has been extremely marginal and you could see that in our April announcements and MTU that our MTUs have continued to grow.

Sachin Salgaonkar: Perfect. Thank you, guys.

Madhur Deora: Thank you Sachin.

Moderator: The next question is from Mr. Bhavik Dave from Nippon Asset Management. Bhavik your line is unmated.

Bhavik Dave: Just a couple of questions. One is, if you can clarify, what is the kind of government reimbursements that we would have received? We spoke about it last time as well but this time around, is there any monies that came during the last quarter which has got amortized this quarter, as well as the revenue line item and what is the quantum that we got for FY 22 for the UPI reimbursement?

Madhur Deora: Bhavik, the reimbursement was received during last financial year for each of the quarters and there's a small amount that did come in Q4. We haven't quite disclosed that amount so I'm going to refrain from doing that, but it was not a material movement to our revenue trends.

Bhavik Dave: Sure. Second question is to Bhavesh just to understand this postpaid product better and we have like 4 million odd customers here, I just want to understand Rs 2,000 crores that we disburse, I understand this is a product where customer might or might not pay on time and revolve over like two three months, just want to understand out of the people who take this credit how many revolve and extend the credit for a longer duration versus just paid at the end of the month?

Bhavesh Gupta: Less than 5%.

Bhavik Dave: Sorry.

Bhavesh Gupta: Less than 5%.

Bhavik Dave: Revolve is it?

Bhavesh Gupta: We do not have an option of revolving, which is a credit card feature. The consumers, basis the risk profile, are given an option by the lenders that they can convert their outstanding into an EMI. So, therefore not 100% of borrowers who offer postpaid have an option to convert. The ones who have an option to convert a very small percentage convert that product. I repeat again for the benefit of everyone - Paytm Postpaid is positioned as a consumption credit product and hence if you see the ticket size of Rs. 3,500, now moving towards Rs. 4,000 - 85% of the spends are towards consumption spends, grocery, fuel, medicines, etc., etc. And the consumers are more willing to pay at the end of the 30-day period versus revolving or converting to EMI. So, we see that number to be less than 5%.

Bhavik Dave: Sure, and just another point on this is when we see the disbursement growth, right, quarter-on-quarter has been extremely good like you mentioned 50-60% kind of growth, but when you look at the revenue momentum, right, that's only 30-35% kind of growth that is visible there so any reasons why this slow down on quarter-on-quarter basis when it comes to disbursement versus revenue growth on the lending business?

Bhavesh Gupta: (a) that entire revenue is not attributable to lending, but at the same time, a disproportionate portion of the revenues are attributable to lending. The mix is an important factor as we have said in the past postpaid has a marginally lesser take rate than PL and merchant loans. Any quarter where we see a marginal change in the mix, we will find a very small reduction in the revenue as a percentage overall, and hence it could appear to be small. In Quarter 4, we did see postpaid, as a percentage of our total disbursement increase much beyond 50% of total disbursement and hence that's a small impact and (b) the portfolio incentive is also deferred. So the more business we're doing, the more we are deferring our portfolio incentive, and hence, we will see some back loading of incentives to that extent.

Bhavik Dave: Understood, and just on the payments business, I remember during IPO, we mentioned that out of the 50-55 million then customers around 30-40%, or around 50% of customers are white-listed with three use cases +, or five, six transactions per week, what would be that commensurate number now with 70 odd million MTUs that we have and at that time, we mentioned that almost 30% of the customers used to be new to credit, 30% with thick files, and 30% with thin files how is that mix now and what is the kind of penetration that we've already done within the 70 million if you could just talk about that?

Bhavesh Gupta: 72 million MTU, we have now delivered 4 million. So that number stands at approximately 5% of the MTU. We are seeing that on a month-to-month incremental basis, we are able to add close to about 400,000 new postpaid users. So this number is looking at a very secular trajectory. We haven't seen that number change materially at a downward trend, we only seen an upward trend to that number. So we continue to deepen our relationship with our existing MTU customers. From our lenders' perspective, they continue to have more than half of our MTU base white listed for postpaid, so that funnel is very, very strong for us. I think we have seen a small reduction, instead of 30-30-30, we've seen about a quarter of our customers are new to credit, and the remaining customers continue to be credit tested, etc. So we are just seeing as the portfolio is maturing and as a product is now getting accepted at 9 million shops there are more and more good quality customers, not just good quality purely from a credit profile perspective but customers who are more evolved, who have credit cards with them, but they love the product, and the ease and convenience of the product and hence we're seeing a lot more people who are owning credit cards coming and opting for Paytm Postpaid, and which is a very good sign for this business.

Bhavik Dave: Sure and last question is on the credit card itself. I remember us mentioning that it is a part of the cloud business. When does it normalize or how do we think about this business? Like if that revenue that we originate cards for, like HDFC Bank or SBI cards or Citi, sits in the cloud business if I'm not wrong, do we plan to normalize it towards the lending business or could it continue to be in that cloud business segment revenue line item?

Madhur Deora: Maybe I could take that. That business is run by our lending team. So it does get operated by Bhavesh and his team. It's purely an auditor discussion point that it sits in cloud. We will have discussions with the auditor later this quarter to see if they have a preference for that being in cloud or lending. We do understand that from an investor valuation perspective, it might be better to have that in lending, but obviously it's subject to conversation with auditors.

Bhavik Dave: And any quantum that what would be the normalized, pure cloud based revenue versus when we strip out that credit card business, how would the cloud income look, any color, any number that you could state?

Madhur Deora: If we do break it out Bhavik, we'll show historical numbers as well. I'll just hold back on that, because that's a number which we have disclosed so far.

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

Madhur Deora: Thank you so much.

Moderator: Thank you Bhavik. A request to everyone to try and limit to two questions per person given the Q&A queue currently and the scheduled time. Next question would be from Mr. Manish Adukia from Goldman Sachs. Manish, you can unmute your line.

Manish Adukia: Hi. Good afternoon. Thank you so much for taking my questions. My first question is on the payments business and the monetization there. So again, on the reported basis, the take rates were stable quarter-on-quarter, but if I say strip out UPI based on my estimates the take rates even excluding devices seems to have seen a pretty sharp jump and this was again on the back of a jump that we saw last quarter. So can you just help us understand again, as to you know, what's driving that take rate on non-UPI higher again and how should we think about the sustainability of that? That will be my first question.

Madhur Deora: Maybe I'll start, and Bhavesh can add as well. I think there are two major reasons. One is the mix effect of various instruments that we process on our platform. And the second is our growth, one of the key things that's happening in Paytm is that we are capturing a larger and larger amount of non-UPI payments in the offline world through our device strategy. So out of the 3 million plus devices that we have deployed, a fair number of them are card machines, which basically, we did not do as a business two or three years ago. And as a result, the overall share of all card transactions that happen in India in the offline world that go through Paytm has gone up very meaningfully. I don't know Bhavesh, do you want to add something to that?

Bhavesh Gupta: Manish two more trends that I can share with you. One piece is that our penetration is continuously increasing in the mid-market and enterprise segment, which is basically on the EDC side and the more and more we're able to penetrate in that area not just are we trapping a lot more credit card and debit card penetration on which we make a decent net take rate but we're also doing a lot more EMI aggregation now than we were, let's say, doing a quarter back. And you will see this trend continue because Paytm not just has its own EMI product, and Paytm Postpaid product, but we also aggregate for other issuers of credit card specifically and BNPL players on our devices. This trend is very profitable. The take rates are generally much higher than the net take rate that you get on a credit card business and that's been a delta that we could see in the system. The second big trend that we're seeing it is that consumers coming and making payments using credit cards and other credit bearing instruments on a platform are increasing and they're happy to give us much higher margins and were also able to charge the merchants a bit higher margins on the overall integration and convenience to be able to provide to consumers and merchants. And that's really seeing a very good uptake for us and demonstration of the great product that Paytm has built.

Madhur Deora: Just one other thing to add I know you asked about how we should think about these trends, I think the right way to look at it is the growth of payments revenue versus the growth of non-UPI on our platform that gets you sort of to a closer and truer picture of how we're doing. And we have said before, and this trend continues that we expect that to be broadly stable and if we do a really good job then maybe marginally increase.

Manish Adukia: Thank you Madhur. So Madhur just if I can confirm based on your and Bhavesh's response whatever we see in the last two quarters in terms of uptake in the take rate you're saying it's more structural rather than a one quarter phenomenon. There's no reason to believe that in the near term, it will come down again sharply, is that a good understanding?

Madhur Deora: Just to clarify, I think we don't exactly look at the business on the basis of payments revenue divided by GMV. We look at it on the basis of how our payments revenue is tracking relative to the growth of non-UPI GMV. On that basis, we believe that there's no structural decline which is to say that the fact that there is a lower zero cost instrument in the market doesn't mean that we cannot monetize the other instruments. In fact, we do monetize them, customers are continuing to use them more and more and more, and we monetize them, and they're quite profitable.

Manish Adukia: Sure, thank you. And the second question is on just the profitability and guidance, which you've again reiterated for September 2023. Of course, you know, the macro environment has become increasingly difficult in the last few months. So as we think about from here to the next, let's say, five or six quarters, before you let's say reach profitability what are the one or two key things that investors and analysts should monitor as we think about, your path to profitability or what are let's say the key drivers in your view that you should be thinking about for Paytm to reach profitability in the next six quarters?

Madhur Deora: I think, like I touched upon in the last page of my presentation, increasing contribution margin - that has been driven by improvement in margins in the payment business and the mix effect, particularly with respect to lending becoming a larger percentage of our revenue. That's one and the second is the growth of our indirect expenses would slow down, they continue to grow, but they would slow down. And we have also said, towards the end of the presentation, that we expect the improvement in EBITDA on a sequential basis to steepen.

Manish Adukia: Sure, thank you so much for taking my question.

Madhur Deora: Thank you, Manish.

Moderator: The next question is from Mr. Saurabh Kumar from JP Morgan.

Saurabh Kumar: I just had two questions. One is on these indirect expenses Madhur so you guided that the employee costs will not go up materially so for the full year, should we expect a number, which is something similar to Q4 annualized and what will be your guidance for the indirect expenses growth and if you could just break up between these four items you have and how should we think about each of those items? That's first and the second is, again on the guidance, so the September 23 guidance would assume that by that point, the contribution profits should be in the 40-45% odd ballpark, will that be a fair assumption?

Madhur Deora: On your first question just to clarify we have said employee headcount should not go up. Obviously, you know, we give annual appraisals to the employees who do really well and so on. So there might be some uptick on employee costs, but I think it's important given the amount of headcount that we added last year, particularly in those two areas, technology and offline sales that we did last year, we wanted to clarify that we feel like we're fully capacitized in those areas. So it was more of a headcount comment. In terms of growth, we do expect it to moderate across the board - indirect expenses. Our indirect expenses last year in marketing and indirect expenses grew about 60% year-on-year. Our technology and other expenses grew between 30 and 40% year-on-year. So we expect all of those line items to moderate. One of the key drivers, to get to the second part of the question, one of the key drivers for us to get to profitability is the improvement in contribution margin, which I was referring to in the conversation with Manish as well. I don't want to call out specific numbers, but yes, it will be one of the key drivers and we are confident of improving contribution margin.

Saurabh Kumar: And Madhur when you say moderate, what should we think about what is moderate, like, you know, is 30% moderate, is 40% moderate?

Madhur Deora: I think if you work backwards from the EBITDA numbers, the sorry EBITDA breakeven point that we have made then you sort of get to what those indirect expenses look like six quarters from now.

Saurabh Kumar: Okay thanks.

Madhur Deora: Thank you Saurabh.

Moderator: Thank you Saurabh. The next question is from Mr. Piran Engineer from CLSA. Piran you can unmute your line.

Piran Engineer: Hi am I audible?

Moderator: Yes.

Piran Engineer: Hi, thanks. Congrats on the quarter. Just a couple of questions, firstly, in our revenues from services to merchants, could you give us a broad mix of the subscription related revenues and the payments related revenues? And I'm asking this because we've seen you know, the number of devices we deploy go up 50% Q-o-Q but our merchant revenues are still down Q-o-Q.

Madhur Deora: We charge anywhere between $2 - $2.5, about Rs. 125 to Rs. 150 on a blended basis. Sorry, we charge Rs. 125 for our Soundbox and then it sort of goes up from there for various types of devices. On an average, it's about Rs. 150-175 a device, depending on the mix, maybe Rs. 200 a device. That's the trend. You are --

Piran Engineer: No, no. Sorry Madhur, to cut you short. Out of our Rs. 575 crores revenue, what percentage of that would be subscription related?

Madhur Deora: Yeah, we haven't given that break up, but what I was trying to help you with is that, yes, devices subscription revenue did go up last quarter. The Q-on-Q is purely because of the huge amount of demand that we see in the festive season, right? So if you are trying to adjust for seasonality, yes, there is a seasonal impact in payment services to merchants, which is pretty significant, both offline and online. On a year-on-year basis, that number is up 80%. I know I'm not sort of directly giving you the exact number that you want, that you're seeking, but that might be a way to think about how to model this.

Piran Engineer: Okay, that's fine. But then that leads me to my next question, our total GMV is flat or slightly up 3-4% and merchant related transaction volumes are down so does this basically mean that bill payments by consumers on the app is up meaningfully Q-o-Q because what balances the total GMV number otherwise?

Madhur Deora: Yeah, that's right. Our consumer engagement on our app, transactions, GMV and revenue did see a very, sizable improvement in Q4.

Piran Engineer: Okay and by consumer engagement, it's essentially bill payments, right or could there be some other sort of --

Madhur Deora: Vast majority of it is bill payments. The customers also add money to Paytm wallet on our app. Obviously, they also do money transfers on our app, but if you're trying to compare GMV and revenues, yes, there was significant GMV growth on our consumer app, and there was significant revenue growth in our consumer app as well.

Piran Engineer: Got it and my next question is on UPI Lite, how do you sort of think about the future of wallets when you have UPI Lite?

Madhur Deora: Vijay, you want to take that?

Vijay Shekhar Sharma: UPI Lite is a storage of money for avoiding the failures of UPI. If you would have noticed in the initial days, the UPI system was officially kept on hold that you cannot do balance check etc. So this is a method that UPI is taking to offload traffic. As far as the use case of a wallet is concerned, a wallet is used by customers who transfer money from their bank account to a wallet instrument. I mean, as a product user, I can say that wallets serve many different, different requirements, for example, like the same wallet balances used in NCMC card, FASTag, offline payments, online payments, and so on so forth. While UPI Lite will be trying to solve the throughput requirement that banks systems solve so there are two different products.

Piran Engineer: No, but if the threshold for UPI Lite goes up from say Rs. 200 to say Rs 500 or Rs. 1,000 rupees, and your wallet average ticket size is also around Rs. 400-500 so then essentially the use cases of wallets can be also solved with UPI Lite, right, online payments, offline payments, etc. Do you not see this as a threat at all?

Vijay Shekhar Sharma: At least not yet. We don't see it as a particular usage and the product workflow-wise.

Piran Engineer: Okay, okay, that's fair. Thanks for taking my questions and all the best.

Vijay Shekhar Sharma: Thank you Piran.

Moderator: Thank you Piran. The next question is from Karan Danthi from Jetha Global. Karan, you can unmute your line.

Karan Danthi: Hi Paytm team. I have two questions. One is you mentioned these deferrals that will come through, could you perhaps add some more color there, what's the value of those deferrals, the timing of those deferrals, because it feels like it could be quite meaningful and help us perhaps even get to profitability earlier, if we get that upside. So I just want to understand if that's also baked into your September 23 timing and then a second question I had was related to collections. I just want to understand what is your collections related opex and how does that scale from here and can we scale it in a more moderate fashion even as the lending book keeps growing at this rate, I know we do digital collections to the extent possible, but I'm curious as to your levels in terms of the size of your lending book, whether that has to change?

Vijay Shekhar Sharma: I'll take the first part. Our September quarter breakeven is explicitly and completely based on operating revenues. Any extraordinary charges like ESOPs or any extraordinary gains, if there are any, are not part of the plan, or even calculated or factored in. It's completely and absolutely operating revenues and operating costs basis and that's what you should track.

Bhavesh Gupta: Karan if I understood your question correctly, the first part which is when you're talking deferrals, you are talking about the collection portfolio incentives, is that right?

Karan Danthi: Yes.

Bhavesh Gupta: So the way we see this piece is that the way it works is that the lenders expect the portfolio to perform in a particular manner. And basis their own accounting guidelines of expected credit loss, their provisioning, that this book is going to, let's say, for example, going to give them a loss of 5% or 6%. And in our estimates, when we are doing and helping them to collect as an outsource partner, we are already seeing on a static pool basis of book that we originated, let's say 12 months back, because our average tenure as you see for merchant loans and personal loans, which are a very large chunk of deferral incentives built into the entire economics, we are seeing already that, that amount is ranging between 1% to 1.5% of the loans that we disbursed. So we do believe that this number, as we keep growing should continue to be accretive to our business. Will it become very, very large? The answer is no. Our model of lending is not built on deferral incentives. Our model of lending is built on an upfront distribution servicing revenue. If you're able to make a deferral incentive of 1-1.5%, that's an upside that we don't plan for but we hope we can get it upside to have any kind of downside if at all in the future which it can negate. But so far, we've seen that number in that range bound and we do believe that number should continue within that range. To your other question on collections, we have our own collections infrastructure, which is a company called CreditMate, which is a 100% subsidiary of Paytm. Now we do three parts of collections. We do pre EMI delinquency management, which is using the entire Paytm app infrastructure to reach out to consumers and merchants far more effectively, and smartly to make them and to nudge them to make a payment in time. That's the reason if you could see that our bounce rates that our lenders observe on the portfolio originated on customers continue to be in the range where the prime borrowers behave. We have again, the second part, which is a digital engagement model, which has zero cost to us because all of it is led by technology, both in terms of digital engagement of the app, and bot engagement, which is done through either the app or through our progressive and predictive dialing infrastructure that we have. A very, very small percentage of our consumers and merchants have a physical leg of collection for which we have more than 100 people on rolls of Paytm, which number hasn't been growing. So that number, let's say two quarters back would have grown by about 25 people so we don't see that cost materially change. In totality, collection costs are very, very low. I can't quote a number because that's a commercial conversation because we do price our business in that manner but it's significantly lower than what lenders generally expect in the market from traditional collection companies. So that number is not going to materially alter our commercials in the future.

Karan Danthi: Got it, thank you. Just one follow up to the first question, which is can you then monetize portfolio upside by increasing take rates for your lending partners if that portfolio continues to perform and is that an annual conversation?

Bhavesh Gupta: Bang on. It is actually not an annual discussion. It's a six-month conversation and we do engage at two levels to make sure that our consumers and merchants are getting the best pricing because typically lenders tend to be risk pricing a bit on the north side so our intention is the consumer or merchant should get the right price. And obviously in that bargain, we also renegotiate take rates for ourselves and that would reflect into our books in P&L hopefully from Quarter 3, Quarter 4 onwards as the portfolio matures for most of our lenders. The answer to the question is yes.

Karan Danthi: Thank you.

Moderator: Thank you Karan. Next question is from Mr. Nilang Mehta from HSBC Asset Management.

Nilang Mehta: Thanks for taking my question. My question is regarding merchant loans so I just wanted to get a sense that what percentage of these are digitally sourced or do you have a physical source for merchant loans as well?

Bhavesh Gupta: Nilang we have zero physical engagement for any of our loans. We have zero call centers for any of our loans. Only for merchant loans in particular, where we have an offline payments team who engages the merchant for devices and QR codes. If the merchant needs any assistance in navigating through the app, they do seek the help of the field sales executive, or the account manager who will be mapped to that merchant to help them navigate the loan on the app of the merchant. But there is no field force or a call center we have for any of our businesses.

Nilang Mehta: Okay and the kind of credit limits you give to merchants is a function of the velocity of transactions, which you see through the payment device?

Bhavesh Gupta: Yes, it is. It is a combination of velocity that we see. So it has four elements at a high level. The kind of consumers who come in and make a payment to the merchant, the consistency of those consumers coming in and making the payment, the kind of instruments that customers are using to make a payment to the merchants - so this one vector. The second vector that we have is looking at the kind of value of payments and the number of payments the merchant is getting and obviously, the frequency of the payments, is it every day, every second day or the third or the fourth day. Basis these two pieces of information plus a lot more intelligence that we have about the merchant, the merchant is allocated a limit which is eventually approved or declined by the lending partners. And that's the reason a merchant could take anywhere as low as Rs 25,000 and as high as Rs. 500,000.

Nilang Mehta: And just one last question, if I may, regarding your merchant base, if you could give some colour on what is the concentration of transactions and what is the retention rate of the merchants you acquire every quarter? So out of the 2.9 million like what are the dropout rates if you could give some colour on that?

Bhavesh Gupta: See it depends upon the kind of merchants because at the bottom of the pyramid we have the QR merchant, wherein we do find that the activation, if we look at an M6 activation, that will be somewhere in the range of 30-50% because these are merchants who have zero inertia in changing the QR code. They don't pay anything for it. The moment you come to a devices merchant, which is what we index our focus on because QR code is to bring the guy into the digital ecosystem, and upgrade them to an IoT product, which is Soundbox or EDC. There we see the M6 activation and retention of more than 85% of both types. Soundbox is actually much higher, but on EDC devices we see more than 85%.

Nilang Mehta: Okay, thanks. Thanks a lot.

Moderator: Thank you Nilang. Next question is from Mr. Subhranshu Mishra from UBS.

Subhranshu Mishra: Hi, good afternoon. Thank you for this opportunity. Madhur and Vijay many congratulations on the reappointment. My first question is on - there's a note number eight, which says that Vijay has got around 21 million ESOPs with certain milestones. So if it's possible, if we can discuss those particular milestones here. What are they and what are their respective timelines? Second is when are we likely to see a profit, the bottom line, not the EBITDA ex ESOPs, is it FY 24, FY 25 if we can discuss that, that is second. The third question is what happens if Vijay and Madhur are both out of the business for any reason? How does this organization go forward? These are my three questions, thanks.

Madhur Deora: Maybe I'll attempt all three and Vijay and Bhavesh can add. On the first one we have said in the March letter Subhranshu that none of these ESOPs would vest to Vijay until the stock price goes above the IPO market cap. So that's the guidance we have given. So there's a tranche at that level and then there are tranches at higher levels. So basically that is the crux of the milestone. Sorry can you just repeat your second question? I didn't –

Subhranshu Mishra: When do you see a profit in which year --

Madhur Deora: I got that. Our view on how our financial performance should be measured is that we should look at EBITDA before ESOP costs because that is the closest to cash operating EBITDA. And the number of shares outstanding that investors should use is 695 million. What some analysts and investors do is they don't take the 695, they actually take a lower share count and then they start looking at reported EBITDA. We don't think that's the right way of looking at that, because the ESOP charges are non-cash charges and better adjusted in the share count, because that is effectively the dilution that investors are taking. Having said all of that, one additional thing that I can add is that the ESOP charge will remain high for 10 quarters. We're now in the third quarter since October 1, last year. Since October 1, 2021 when the ESOP charge went up, it is expected to remain high for 10 quarters and then start coming down after that. That's the way ESOP accounting works. And on the third question, and if Vijay would want to add as well, one of the conscious things that we're doing is making sure that there's a very, very deep management team at Paytm. We are a very ambitious company and we see a huge amount of opportunity in India and below Vijay, and me and Bhavesh we have really built extremely good talent at the next level and the level below that and that is the culture, that is a culture of empowerment, which is trying to build the best talent that we can in the organization who also believe in the mission that we do.

Subhranshu Mishra: Many thanks, best of luck.

Madhur Deora: Thanks Subhranshu.

Moderator: Thank you Subhranshu. The next question from Mr. Kunal Shah from ICICI.

Kunal Shah: The question is with respect to the marketing and the promotional –

Moderator: Kunal your line is not very clear

Kunal Shah: So –

Madhur: I apologize, it's not working. Maybe we can go to the next person and come back to Kunal?

Kunal Shah: Alright, I will take it offline.

Madhur: Sorry about that.

Moderator: A quick time check, that we have time for about three or four more questions, in the remaining time. With that will go back in the queue to Mr. Saurabh Kumar from JP Morgan.

Saurabh Kumar: Hello. Just one follow up, on the POS device, is it possible to quantify the rental contribution and what will be the activation rate post six months currently for your Soundbox devices, thanks.

Bhavesh Gupta: Yes, Saurabh I'll just repeat the answer I just gave. So we are seeing M6 activation of much more than 85% for our Soundbox devices, and EDC is ranging between 80 to 85% M6 on activation.

Saurabh Kumar: Okay, so basically the 150 into this 85% should basically get us to be vendor number?

Bhavesh Gupta: Mathematically, but it's not to say that the remaining people who are inactive remain inactive and they don't pay rent. I'm talking about transaction active. Rent activation typically ends up being a bit more.

Saurabh Kumar: Okay, got it.

Vijay Shekhar Sharma: And rent is itself a function of not just rent but also cloud subscription fees that they're keeping we keep doing cross selling upselling to

Saurabh Kumar: Yes, that part is very clear.

Bhavesh Gupta: Okay, thanks a lot. Thank you

Moderator: Thank you Saurabh. Next question is from Mr. Nilang Mehta from HSBC. Nilang you can unmute your line.

Nilang Mehta: *[Inaudible]*

Madhur: Nilang I'm sorry, your line is not very good. We can go to the next question. We can try to come back to Nilang.

Moderator: Sure. Next question we'll take is a repeat question from Karan Danthi from Jetha Global.

Karan Danthi: Sorry. I don't have any more questions. My questions were answered sufficiently. Thank you.

Moderator: Sure. Next we'll take the question from Sumeet Kariwala from Morgan Stanley.

Sumeet Kariwala: Hi, good afternoon, everyone. I have a quick question on wallets becoming interoperable. Is there any decision on the interchange MDR? It was supposed to get operational from April so I'm just trying to get an update on that piece. Thank you.

Bhavesh Gupta: Sumeet, you are right, this was supposed to get operational from the first of April. I think there is some delay in the network to get alignment on tech specs etc. So we do believe that it should get operationalized soon as we are pursuing the network, and other participants to make it operational. The commercial alignment broadly has been achieved but the operational alignment is where some more work needs to be done. So we are hopeful that maybe in the next couple of months it should be operational.

Sumeet Kariwala: And Bhavesh is this the right time to get some details on the commercial alignment, in the sense interchange?

Bhavesh Gupta: No, obviously it is yet not in the public domain but it is in line with our expectations that we wanted it to be, I can say only that much.

Sumeet Kariwala: Bhavesh just one more question very quickly. Would you be able to share as to how many loans or individuals in the Paytm postpaid and personal loans would be related to, you know, FinTechs, or startups and so on? What percentage of loans or individuals would be from FinTech or startup sectors, gig economy, etc.?

Bhavesh Gupta: Sumeet I'm sorry, we don't track anything –

Vijay Shekhar Sharma: No, no we don’t do anything to the gig economy. We have absolutely no connection whatsoever with any merchant partners, sub-gig economy people. So we don't give loans to any rider, etc., that we would have partnered, let's say, with some food delivery service, local delivery services. These are the customers who are active, long-term users of Paytm app when it comes to consumers and our usage of Paytm merchants. We don't rely on somebody else's data on a customer. So Sumeet this is not even applicable for us.

Madhur Deora: Sumeet it will be an easy question to answer if we were using channel partners or doing any sort of other FinTech, or food tech or other partnerships - we don't do that and hence, if somebody is a gig worker, that is not a data point that we track, what we track is their engagement on Paytm platform.

Sumeet Kariwala: Yeah, I'm just thinking that some of these users could be using Paytm, quite often, and therefore --

Vijay Shekhar Sharma: No, actually no, because these people, as you heard from Bhavesh that these are high CIBIL score customers, and this is a convenience generic loan and it is not led by these kinds of factors that you're noticing. And actually, as a Paytm user, you're welcome to be a gig user or welcome to be, let's say somebody else, but we don't judge on that either. That said, it's a significant number of other use variables, if you will. Sumeet it's led by usage.

Sumeet Kariwala: Thank you. Thank you everyone.

Moderator: Thank you Sumeet. Next question we'll take is from Mr. Sachin Salgaonkar from Bank of America.

Sachin Salgaonkar: Thank you. So just one last follow up question from my side, you know, given your stock price where it is, and given the cash on your balance sheet, and your timeline on terms of you know, being close to a EBITDA breakeven by September 2023 - any thought process for management and board to contemplate on looking at something like a buyback or anything to help, we saw some of the US companies doing that?

Vijay Shekhar Sharma: I'm going to buy. I publicly made an announcement also some other time, not because I think it is a plan of a buyback, but I believe that's a great value. Madhur you can talk about the rest.

Madhur Deora: Sachin it had come up in a couple of conversations with investors and so on and we have decided that for the first six months absolutely not. We are not going to discuss it, we are not going to discuss it with the board and so on. We may as we move forward, evaluate the environment and let the board take a decision on that. But for the first six months, we were head down focused on making sure that we meet investor expectations with respect to revenue, contribution margin and profitability. You're right with the observation, which is, given our September 2023 timeline, at the time we hit operating EBITDA breakeven, we would have a substantial amount of cash on our balance sheet, but a very large percentage of the IPO cash. So we do have some options, but we will at the appropriate time discuss that with the board.

Sachin Salgaonkar: Madhur the first six months are largely done, right?

Madhur Deora: Exactly. The first six months are just done, like three days ago, and we will over the next few months, go to the board with various options and make a decision based on all factors.

Sachin Salgaonkar: Okay, so there is a possibility in the next six months, you know, depending upon how you guys and the board think we might see something.

Madhur Deora: Yeah, it would depend on a number of factors and the board would have to take the final decision, but I don't have anything to sort of announce or guide towards right now.

Sachin Salgaonkar: Got it. Thank you, and all the best.

Madhur Deora: Thank you.

Moderator: Thank you Sachin. And now for the last question of the session Mr. Rahul Jain from Dolat Capital.

Rahul Jain: Hi, thanks for the opportunity and congrats on strong numbers. Just one question, of course, it may sound a bit repetitive. With the payment processing charges, we've been mentioning some of the reasons why it's been kind of coming up because of transaction routing efficiency and scale up but is there a floor that we cannot reach? I know payments have a lot of other revenue streams so we cannot directly correlate, but is there the kind of floor that we can define based on the kinds of mix we have right now?

Vijay Shekhar Sharma: You mean, take rate, meaning a particular take rate?

Madhur Deora: I think the question was payment processing charges as a percentage of, let's say, GMV, or as a percentage of revenues. Rahul, what I'll say is that it is fast evolving, and we see lots and lots of opportunities - and this is on the cost side, one of our key focus areas, and is obviously our largest cost at roughly 50% of our total revenue. So you can imagine this gets a huge amount of attention internally. And there are lots of opportunities here and every time we execute against a few opportunities, more opportunities open up. It's hard to right now, say where this would land, a year or two years from now as a percentage of GMV, but we definitely both as a percentage of GMV and as a percentage of revenues, continue to see opportunities yeah.

Rahul Jain: So is it an ideal way to look at this charge as related to payment revenues or it will be more relevant for the entire GMV as a percentage?

Vijay Shekhar Sharma: That's a good question Rahul. I would say that you should take it as a payment revenue because GMV is a mix of various factors including zero MDR, UPI, then government incentive comes and then there is subscription revenues or different services that we are giving. And then there are different take rate basis products like the debit card of a particular network which is zero, but other networks are large, and credit cards etc. So it's simple payments revenue. Should we bother about GMV as a number? In my opinion the best way to look at payment revenue is how your customer base and merchant base is growing. And how your payment revenues are growing and what payments growth will be. If you will start to look at it as a percentage of GMV it starts to add this variable where a particular payment instrument's growth is shadowing other payment instruments' growth and then there is growth from other instruments. So I would rather keep it as the payment revenue instead of revenue divided by GMV.

Rahul Jain: Right, right and maybe slightly forward looking but if you could give any idea. Given the run rate that we have right now probably for next Rs. 1,000 core incremental revenue we may have this extra Rs. 400 crore of extra profits, which means that Rs. 2,500 crore give or take kind of a quarterly run rate we will have this adjusted EBITDA breakeven. So what could be the journey beyond that? Will that mean that this would be a significant profit pool beyond that, because our business does not have a lot of marginal cost attached to a transaction or will we be spending more on the objective of reaching this 500 million consumer, from an activation point of view versus we are today at much lower number than that. So there at that point, the cost could be a very different nature, given that goal push and chasing them.

Vijay Shekhar Sharma: Rahul, very, very good question. And especially, this is the kind of conversation I do with my team. And I want to share the excitement and the thrill is that we not only will be profitable, we will be significantly free cash generating and profitable subsequently. We don't have a desperate ambition in the short term of getting 500 million people on our active number level. We would remain moderate about it. We already have signed up a lot of users, then people who create an account, people who were once active, we just went through all these kinds of different matrices, and we found out at the time of IPO, that the best thing is monthly active. So the number that you're seeing is monthly active. Surprisingly, if I was to quote 500 million customers, we already would have signed them up as a customer already, before even the IPO process. When we say bringing into the mainstream of the economy, we try saying that having a bank account, credit opportunity, wealth and insurance that any partner may like to distribute and give them access. So there is a significant dependency on partners' plan to distribute based on technology and access that we provide. It's an important thing Rahul as you've said, that it is to be understood that we will be as effective as our technology will allow our partner to reach out to the customer base, understand the customer base and offer one or two of those financial services. Our business remains payments, which is a spread and then our business remains set on credit and then subsequent two-three years forward we look at other financial services. So payment and credit, like you said, not only will be profitable at EBITDA level, let's say the sequencing wise - it would be EBITDA before ESOP, overall EBITDA, PAT, free cash, and then sizable free cash. That's the journey Rahul that we're looking at. We are clear about it that a company's moat should be free cash it generates, and the impact that it creates with the free cash incentives.

Madhur Deora: Rahul may I just add one more thing, which is that at the time we hit breakeven, I do expect that both in areas like lending commerce and cloud and so on, we would have still barely scratched the surface and these are large profit pools, large opportunities, and very profitable for us.

Rahul Jain: Right and lastly, if I can squeeze in one question, you said something about the organic insurance business, if you could elaborate a little more than on what said there?

Madhur Deora: We re-evaluated our insurance plans and we think at this point, it makes more sense for us to apply for an organic venture. We would have 74% stake upfront, 26% as you know in India has to be owned by an Indian person. The venture, basis our business plan, requires Rs. 950 crores of capital over 10 years. Obviously, this would go through a process with IRDA - of them approving the business plan and so on. And we believe that investing and creating long-term value by investing Rs. 950 crores over the next 10 years is a very capital efficient way for us to build this business.

Vijay Shekhar Sharma: I'm going to extend Rahul one more factor here that we look at it as a 3 - 5 year forward business for us. We don't look at it as short term. Number two, any of these plans that we are talking about and a few minutes back I was answering for any other capital gain or other things that could be added into the bottom line - we look at the operating breakeven meaning cash that we generate from the business and cash we spent in the business remains committed and we are aggressively convinced, further convinced, that it will be achieved definitely by that time period. So this is more for planning three, five years forward and as you understand these various approval processes take time.

Madhur Deora: And Rahul, sorry - one final point to Vijay's final point, our focus does not change. Our focus is very much what Vijay described right at the beginning of the call, which is payments and credit.

Rahul Jain: Right. And just one bit more clarification, since we would be investing this money, of course, a big part of it will be capitalized. But whatever opex we would be generating over, let's say, next six, seven quarters, will that have any bearing on the guidance that we’ve given on the EBITDA side, or this is outside of that?

Madhur Deora: Rahul that's what Vijay I think was saying. Obviously, we have 74% of this entity, this will be consolidated. And with Paytm on a consolidated basis too, the plan for EBITDA breakeven in six quarters absolutely does not change.

Rahul Jain: Thank you. That's it from my side.

Moderator: Thank you Rahul. With that, we come to an end of this earnings call. The presentation discussed by the management today, a recording of this call and the transcript will be available on our website shortly. Thank you all for joining.

Vijay Shekhar Sharma: And thank you everyone for joining. It was really good interacting with you. I see some hands up here. I want to request them to send an email to ir@paytm.com and we will literally take every question as an opportunity to get back to you. And thank you for your support and interest in our business. It is humbling, and thank you from everyone from Paytm side. Thank you so much. Good day.

Bhavesh Gupta: Thank you, everyone.

Madhur Deora: Thank you