

**Paytm | Quarter Ended June 30, 2022 Results | Earnings Call**

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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 ending June 30<sup>th</sup> 2022. From Paytm's management team, we are joined by Mr. Vijay Shekhar Sharma, Founder and CEO, Mr. Madhur Deora, President and Group CFO, Mr. Bhavesh Gupta CEO, Lending and Head of Offline Payments, and Mr. Anuj Mittal, Vice President Investor Relations. Before we begin, a few customary 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 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 at all times 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.

**Mr. Vijay Shekhar Sharma:** Thank you. Hello and welcome, everyone. This is an important quarter for us. We have done a great amount of effort on focusing on simplifying communication and business KPIs. If you see here, we have stated that our core business is to acquire payment customers and distribute loans. Everything else has to amplify either the ability to acquire payment customers, or amplify the ability and capabilities of disbursing loans. In our payments business, as you see, we acquire consumers who in turn, work with merchants and in other words, make payments to the merchants. And merchants in turn, give commerce services to the consumers. This business model, where we have more than 75 million monthly transacting users as of June 2022 and 28 million merchants, allows us to create a brand, distribution, insight and technology that allows us to create an incredible loan distribution and collections business. Yes, our business model in credit remains and focus remains in distributing and enabling collections. As you can see for consumers, we have postpaid and personal loans, and co-branded credit cards and for merchants, we have merchant cash advance loans. So when you look at our business and you look at the majority of revenue and the focus of the company is on acquiring customers for payments and distributing loans. Here is our revenue model on payments. It's an important thing. I took the time to build this slide specially describing how we earn in the payments business? And it's an interesting business because our margins are expected to grow further. So we wanted to clarify how you should look at our payments business and how we internally look at the payments business. These are the key components of our payment business where merchants use Paytm app to collect payments. So you know, various utility merchants, credit card bills, rent, BBPS etc. all those services where merchants are using Paytm app to collect payments. Here the merchant obviously will pay us a certain fee, which is the instrument MDR. We have started to charge a platform fee to select customers based on their instrument or the kinds of use case they are using. And this experiment has been very successful. If you notice our payments service to consumers segment has had as high as 73% year on year revenue growth. And we incidentally call this line item as payments service to the consumer. When the merchant is using Paytm app to collect payments, merchants are also using Paytm app to sell/upsell their services. We call it enabling commerce business where merchants can sell deals, tickets, or take advertising. And this is the business we showcase under

commerce and cloud services. The same business has shown incredible growth year on year as you can see Rs. 331 crores, 64% year on year revenue. We believe that this is a business which was hit by Covid but over the period of time will continue to grow and find new use cases where we enable different commerce services for merchants on our Paytm app.

Now, merchants are using Paytm app capabilities on our platform. Merchants have their own shops, apps, websites and there, they collect payments, using Paytm's platform services and abilities. We call these services as payment services to the merchant. Here, merchants pay a subscription fee, typically for a device. In addition, they are also going to pay us for different services that we enable for them. For example, like let's say they're going to pay a subscription for enabling forex payments. They're going to enable a subscription fee for a certain amount of reconciliation service that we will provide. So merchants pay subscription fees for using our services. It's an important thing that the Soundbox and the critically important revenue of UPI led monetization comes under this, because we believe that merchants who are accepting payments on UPI need services. So merchant subscription fee is a key focus area for the company. Second is, a merchant pays MDR for MDR bearing instruments like card, wallet, postpaid, etc. and third is that the Government of India, in their Digital India Mission have subvented the UPI merchant fees. So, technically UPI has the MDR, which the Government is actually paying, and the payment typically comes towards Q3 or Q4, so we will show it at that point of time in our earnings. Incidentally, all payment instruments, UPI, wallet, card, or postpaid or net banking etc. all bear small or large fees to the merchant. And in addition to that, because those margins are very small, we have started to find out services that merchants are ready to pay a subscription for. It's exactly what our long term vision will be. Here on the right side, I've tried showing the model case for different merchants. Let's say an entry level merchant, typically a roadside hawker uses our Paytm QR. Now Paytm QR enables all bank UPI apps, in addition wallet, postpaid, in other words, all payment instruments, including Paytm Payment Instruments. So this is where our differentiation also comes to the merchant. And in this case, typically, we will get an incentive from the Government on UPI payments this merchant receives. These incentives are published and we would, if needed, be able to showcase the notification on demand basis. You could google search for MeitY (Ministry of Electronics and Information Technology) incentives for UPI payments, zero MDR announcement where the merchants are not to be charged, and the Government is going to pay us the money. So, this is where we make money using the UPI based payments and many times merchants are paying fees on wallet and postpaid also. These merchants we upgrade to subscription merchants where these merchants take a Soundbox. Soundbox is one of those businesses which we could figure out as a requirement on the ground, and we built it and it is taking off very, very well in our IoT or device business, which is incredibly growing. If the merchant has to take, let's say card payments - so then comes the card payments device, so he pays a subscription and pays MDR also for different instruments. This EDC device is also our gateway to enable Buy now pay later from other providers like EMI from banks and NBFCs. So this merchant here is also a customer for us in driving EMI payments from merchants and we get higher margin on this. So these are higher value customers than Soundbox customers. Then come these Omni-channel online merchants. These are the classic online e-commerce companies where they take our API and SDKs and give us MDR. And finally, like I told you, some merchants who don't use their website, or in addition to that they use our app, and this is what we title as consumer payment because customers are using Paytm app. Incidentally, this is also a merchant payment, the merchant is eventually taking payments on Paytm app. So, this stack that you will see are different kinds of merchants that we have on our system, and revenue models are clear where we leverage distribution of Paytm app to grow, number one, and number two, which is payment service to the consumer and commerce and cloud service. And

we use the sales team to distribute and expand our merchant payments service, which incidentally, year-on-year grew, again, incredibly well Rs. 557 crores, 67% year-on-year, and standalone basis. All these three line items have our attention in terms of technology and product development. And we continue to expand different services on this site.

I'll talk about the second part of the revenue, which is the loan disbursement and collection. We call it a loan distribution & collection business. Classically, we have been declaring that in our credit business, our scope is loan sourcing and cross selling, meaning if a customer has come to take a loan on Paytm app, we also cross sell him another type of loan from the same lender, so we don't do cross sell of another lender. Let's say, you've got a personal loan from lender A, you will be cross sold another loan only from lender A. So we call it loan sourcing and cross sell fee. This way, both us and our lender partner continue to deeply engage and we get overall LTV of loan business in partnership with the lender. Again, I'm reiterating that our cross sell revenues also work in a way that if the customer goes on their platform and takes it we still get our part of sourcing and cross sell fee. So, this is loan cross selling and sourcing fees that we account for. Second part is that we help our partners collect meaning we will build interfaces on Paytm app, we would have disbursement and collection services and we will have full effort on bringing collections. We get certain revenue on the portfolio performance that we are collecting. I also want to share the fact that we do collections not just for the loans that are sourced on Paytm platform, we also do it for the loans that are not necessarily sourced from Paytm platform. For example, like a lender could be distributing or disbursing loans by themselves, they can still use Paytm's service for servicing and collections. So that is why we call this a two parts business model. And part two of the revenue also has a bonus on a pool basis. Incidentally, our business had issued and disbursed loans, as you know, more than a year back, and portfolios are maturing. So we are starting to get a certain bonus part of this servicing and collection fees. My colleague, Bhavesh in due course will talk about the business. Here I have summarized that our three products, personal loans, merchant loans and postpaid for consumers are our primary three products. We do not treat credit cards as a loan because eventually our role is only as a branding and acquiring a customer. We do get over a period, revenues and those are shown in commerce and cloud business because cloud and advertising come together, just so that you know this. So, here are the loans that we work in partnership with our lenders. Personal loan ticket size, which is around Rs 1,00,000 is about a one-year product and merchant loan where the ticket size is Rs 1,40,000 is about again a one-year product. Incidentally these are in tune with our approach 2x2 - we say less than two lakhs (or not more than two lakh) and not more than two years. So these are, I would say, high frequency and high speed disbursement and collection products, which gives an incredible amount of comfort to our credit partners. And you will hear more how the quarter has been for these services as we have announced the numbers already. Postpaid is a monthly billing and continues to grow in ticket size. If you notice that at one point of time, we used to have it in a few Rs. 1,000s and it has now reached Rs 4,000, which means that customers' acceptance of postpaid, which is at different, different places is increasing, and customers are finding it useful and spending more and more using postpaid products. Our total disbursements on personal loans as you can see here, which we have announced also, is about a quarter, Rs. 1,344 crores. Obviously, it was on a very minuscule base on a year-on-year basis, so it's a large percentage. At the same time, we believe that key KPIs remain our disbursement dollar value size. And incidentally, the performance of the portfolio of our partner, though we don't have access to the portfolio performance, but based on the data that is shared with us, based on the servicing and collection detail revenue invoicing that we do, here, we are showing that how our business is performing in the last few quarters. Last quarter actually, this is the kind of bounce rate that you see 11.5% to 12.5%. Merchant loan is a daily

product. So daily installment collections, so there is no bounce rate concept here. And postpaid remains, again 11 to 13%. More details and exact further detailed numbers are part of our presentations. This is my summary of telling you how our revenue model of loan disbursement and collection works out. Now, I will hand over the call to my colleague, Madhur, who will give you much detailed insights about the business. We remain bullish on the customer demand here, as you can see our usage of platform and monetization is on track and we believe that we will very comfortably be able to achieve the timeline that we have informed to the stock exchanges that we will be able to achieve EBITDA breakeven before ESOP cost by the next September quarter.

**Mr. Madhur Deora:** Thank you, Vijay. Great pleasure to be able to report the results of all the hard work the team has done this quarter. This quarter, we saw very strong improvement in revenue and profitability. Just a few financial highlights to begin with. Our revenue from operations was about Rs. 1,680 crores up 89% year-on-year and 9% quarter-on-quarter. So, we will double click on that in a moment. Our contribution profit, record high of course, Rs. 726 crores or 43% of revenue. Last quarter, this number was 35% of revenue. Our contribution profit growth has been 200%. So, roughly 3X year-on-year and has grown 35% even compared to the previous quarter. Our EBITDA loss before ESOP cost is now at Rs. 275 crores. This is a Rs. 93 crore improvement from the previous quarter. A quarter ago we said we were at Rs. 368 crores and we said we are going to hit EBITDA breakeven in six quarters. So, compared to that we are ahead of plan in that sense. Operational highlights as Vijay mentioned value of loans disbursed Rs. 5,554 crores. We are run-rating now close to Rs. 24,000 crores and it is about, call it, 9X year-on-year increase. But interestingly, even on a larger base on a quarter-on-quarter basis, we grew 56% this quarter which is a substantial ramp up in the business. On payments devices, which is a key part of our strategy as you know, we have 3.8 million devices now deployed, 2.8 million of these have been added in the last 12 months, and nearly a million has been added in the last three months alone. So there's a significant scale up of the size of deployment in the market as well. A little bit more about operating metrics. On the left hand side our average monthly transacting users grew about 49%. Last quarter this number was in the low 40s. So we are seeing some amount of acceleration there. UPI customer acquisition is working really well for us. Our GMV basically doubled year-on-year. So 101% to Rs. 3 lakh crores. Our GMV from MDR bearing instruments grew 52%. We'll talk a little bit more about this right at the end. And our payments devices, like I mentioned earlier, grew by about 2.8 million on a year-on-year basis.

These are Payment Services Revenue. This grew 69% year-on-year and our net payments margin which we define as payments revenue minus payment processing cost, grew to 35% from 17% a year ago. Our payment services to consumer, which is this part, has been, as you can see, increasing steadily. It has been basically supported by MTU growth and the huge amount of activity that we see on the Paytm app for bill payments and top-ups. Our payment services to merchants on a year-on-year basis grew 67% to Rs. 557 crores. This, as Vijay mentioned, is for collecting payments in merchant's own apps, websites or shops or stores. There are a few drivers here that I want to call out. Clearly the thing that continues to grow for us is our subscription revenue, as we deploy more and more devices. The March 2022 Quarter was flattish because of the seasonality impact, as we had mentioned in the previous call. We did do and I wanted to call this out for everyone's attention, we did do some account level rationalization among online merchants as a part of our focus on profitable GMV. This had a revenue impact of about Rs. 29 crores in this quarter. So we did take a one-time step starting the middle of April, to rationalize certain accounts which have not been making money effectively. And I should also call out that in this quarter, we did not have any UPI incentive recorded. The update there is that while the Government has announced the

incentive for the next year, we don't have the final notification from MeitY yet. And our policy is that we record this only after we get the final notification from MeitY. So this quarter, we recorded no revenues for UPI incentive.

On the next page, I wanted to double click on the Net Payment Margin, which as I mentioned on the previous page has grown from 17% to 35%. This is one of the most impressive things that the team has done, which is to really focus on unit economics and really focus on profitability. There are two sides of this coin. The first is to drive higher revenue, of course, from higher MTU, as well as from subscription revenue. The other side of the coin is to work with our bank partners to have substantial reduction in payment processing costs. So we negotiate better processing rates, and we make sure that our routing is as optimized as it can be to get as much benefit out of this net payments margin. Like I mentioned earlier, we did some account level rationalization in the online merchant business that also contributed a little bit to the improvement in net payments margin.

In summary, our net payments margin has gone from Rs. 108 crores a year ago to Rs. 382 crores as a substantial improvement, which obviously flows straight down to the contribution margin and down to the EBITDA. I will hand over to Bhavesh to talk about lending and I'll come back and talk about the rest.

**Mr. Bhavesh Gupta:** Thank you Madhur. Good afternoon everyone. Financial Services Revenue as you can see here has grown from Rs. 55 crores to Rs. 271 crores. It is important to mention that the Rs. 271 crores also include revenue generated from non-credit activities albeit that number continues to be small. So Rs. 271 crore has a predominant share of credit activities and that number continues to grow. The good news for us is on a quarter-on-quarter basis, we are seeing the value of loans disbursed grow. Now if you can notice from March to June 22, we've grown by more than 50%. And now we are run-rating at a level that we could end the year at about Rs. 24,000 crores of loan disbursed through Paytm platform. Important here again is the number of loans also continuing to grow. And the ticket size also is now starting to grow. It just gives us an indication that what we are seeing is an increased upsell happening both for personal loan customers, and merchant loan customers. And we're also seeing limit enhancement happening to our postpaid customers, because our lending partners are getting more comfortable by giving them higher limits, which is the spend limit to postpaid customers and that is jumping up the ticket size per user on postpaid. And we do see that this trend may continue quarter-on-quarter and we could see ticket sizes continue to move on.

Just to give a bit of a deep down, the growth has not just been a single product growth, the growth has come from all the three products. And both the engines on the consumer side, which is postpaid and personal loans are intertwined with each other because Personal Loans are predominantly coming on the back of customers who are maturing their Postpaid with us. So if you're a postpaid customer, and you mature more than six months on the platform, you're more likely to get an approval from the lender for a personal loan. More Postpaid loans given through the platform, directly add to more personal loans being given on the platform. So as you can see, the personal loan growth from March to this June quarter has been very substantial and we've grown relatively on the back of a very strong growth which came in a quarter before. We're not seeing any letdown in these numbers. Postpaid continues to keep growing in spite of the fact that we had seen some slowdown in new acquisition, but we are again seeing the new acquisition come back, after the lull month that we had for one month in the quarter. Merchant loan is a product that we are seeing come back very, very strongly. As you can understand last year, at the same time, it was materially impacted by Covid. And also through the year, we had Covid impact on merchant

loans. This is the first quarter, I would say maybe about five months, when we are seeing there is no impact of Covid. Markets are open, shops are open, GMV is growing very, very nicely. And hence, we are seeing merchant loans grow from Rs. 565 crores to Rs. 827 crores. So the trend suggests to us even in the month of July, that this trend is continuing to be very positive. And we'll continue to see this growth maybe at the same momentum or a bit better momentum, especially on the merchant loan and personal loan side.

This is a bit of a drill down on the portfolio. This is the indication that we get being a collection partner to our lending partners. These numbers have remained broadly at a similar range. We haven't seen any deterioration of the portfolio. When I use the word deterioration, there is no material change in the way the lender expected the portfolio to behave, versus the way the portfolio is behaving. So if you look at the bounce rates for our personal loan business, though the personal loan growth has been so massive and significant, the bounce rates have continued to be the same or a similar range between 11 to 12% same as for Postpaid. We are seeing much better bucket one resolution now in Postpaid, which is now inching to 90+ bucket one resolution while we've given you the range of 89 to 92. Merchant loans again we are getting much better resolution because markets have opened up completely. We've seen only 1% deterioration in postpaid, if we were to look at the last quarter, we were ranging between 82% to 85%. Now we are ranging between 81 to 83%. We do believe that this is going to be back to the same level of 82% to 85%. ECLs have remained exactly similar, the 4.5 to 5% and 5 to 5.5% for Personal Loan and Merchant Loan respectively. I want to call out very clearly here that these ECL numbers are what the lender sees on a quarter-to-quarter basis as a model that they have built for their accounting standards. The actual credit losses are lower at the lowest range. So when we say the personal loan, ECL will be 4.5 to 5%, actually we are seeing a net credit loss which is sub 4%. Merchant net credit loss sub 5% and postpaid net credit loss sub 1%. So the book is very healthy and that's the reason we see new lenders getting added and we are also seeing the existing lenders expanding their appetite to do more loans. Back to you Madhur.

**Mr. Madhur Deora:** Thanks Bhavesh. I want to touch upon commerce and cloud revenues. Our commerce revenues, which are in light blue at the bottom, performed very strongly last quarter. It is up 168% on a year-on-year basis, but importantly on a quarter-on-quarter basis, it was up 35%. Our travel merchants sold more tickets on our platform, largely because of a resurgent demand as we had mentioned briefly in the last quarter. We did see a Mini-Omicron wave in January and early February, so the demand came back very strongly after that for our travel merchants and also our entertainment merchants had a seasonally strong quarter with big movie releases, so that contributed to the strong growth in commerce business. Our cloud business, while we have grown 29% on a year-on-year basis, we are down quarter-on-quarter, and I did want to call out that advertising, not just for us, I think there's an industry wide phenomenon, is seeing some headwinds due to reduced marketing spends, particularly from consumer internet companies. So while we're confident that we'll recover advertising revenue more and more, this quarter did see some meaningful headwinds. We are also seeing strong traction in credit card distribution, and expect it to continue going forward and contribute to growth of the cloud revenue business.

I wanted to touch upon the contribution margin. We talked about net payments margin earlier, that plus other things, have resulted in a contribution margin remaining on a very strong upward trajectory. So we have gone from 27% of revenues a year ago to 43% of revenues now. This is ahead of our expectations in terms of our execution. We have tripled our contribution margin from about Rs. 245 crores a year ago to Rs. 726 crores now. Like I mentioned, the key drivers for this is number one, the significant improvement

that we saw on that payment margin, but also the fact that financial services have grown from 6% of total revenue to 16% of total revenue and financial services is a higher margin business for us. And also commerce revenues have grown 34% on a quarter-on-quarter basis, which has resulted in contribution margin growing from 35% to 43%. Our other costs such as cash backs and incentives and other direct costs have remained broadly flat over this period.

Finally, on EBITDA, strong message or strong performance this quarter, we have improved by Rs. 93 crores on a quarter-on-quarter basis. We are on the one hand focusing on cost rationalization, but we are going to continue to invest on growth just like we have done in the past quarter and in this quarter. Increase in marketing spend will really stand out to you, that is almost entirely due to seasonal sponsorship spend as a result of IPL. On employee cost, we did have a 10% quarter-on-quarter increase and that was because of appraisals as well as select investments in our sales team as well as our technology team. Our software cloud and data center expenses as well as other indirect expenses have declined as a percentage of our revenue. What we saw is that while contribution profit grew 35% quarter-on-quarter, our indirect expenses only grew 10% quarter-on-quarter. As a result of that we have a 25% improvement in EBITDA losses or Rs. 93 crore improvement. Our EBITDA losses now are 16% of revenue, compared to 37% of revenue a year ago. So that is a significant improvement of 21% from where we were a year ago.

And finally, key trends in our business. Just to summarize, continued strong growth in users and merchants. The government incentives have now made UPI P2M GMV profitable. And we actually believe that non-UPI GMV, which is something that we started to disclose in December, is not really a relevant metric to focus on going forward. Our loan disbursements, while they have hit Rs. 24,000 crores of run rate like Bhavesh mentioned, has ample opportunity to increase penetration going forward. Our growing payments business is giving us significant engagement and monetization of merchants. Our contribution margin has gone up dramatically. We continue to invest in sales and technology, but we do believe that our indirect expenses will continue to reduce as a percentage of revenues and we are prioritizing payment services and lending in our resource allocation. That's all I had, and with that I'll hand it back to the moderator for Q&A.

**Mr. Vijay Shekhar Sharma:** Madhur, you said a very key point about UPI GMV and non-UPI GMV. We want to reiterate that UPI P2M GMV has effectively started to become profitable on a line item basis. So we believe that overall GMV that we announce is actually where we have the revenue to be accounted for, obviously it is not coming every quarter, it will come at a lump sum basis somewhere, so we would showcase it at that time. Back to you.

**Moderator:** Thank you. 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. A request to please limit to two questions per person given the Q&A queue currently and the scheduled time. A reminder to please have your first name last name followed by a company name in brackets visible at all times for us to be able to identify you and take your questions. With that the first question of the session is from Mr. Vijit Jain from Citi.

**Mr. Vijit Jain:** Yeah, thank you very much. Congratulations for that great set of numbers, some strong improvement in the contribution and adjusted EBITDA margin there. My question is on the payment processing charges and clearly this quarter, a lot of the improvement is driven by your gross profits improving. So, is it just the negotiations that are driving those payment processing charges down, because even if I use the non-MDR GMV base, it does look like that number went down seven or eight basis point



QoQ? And the second question related to payment is, when you say the Government is encouraging UPI monetization, are you referring to those lump sum payments that the Government makes only or is there anything around the convenience fee, platform fees, etc. that you are starting to charge on the consumer side?

**Mr. Madhur Deora:** Maybe I'll take the first one and hand it over to Bhavesh and Vijay for the second one. So Vijit obviously, when you're looking at payment processing costs there are a couple of different ways to look at it, whether its revenue minus payment cost or as a percentage. But if I could just point out that our absolute payment processing charges went down this quarter by about Rs. 80 crores from Rs. 774 crores to Rs. 694 crores. So maybe I'll use that to be able to answer your question. And I think there are probably three major factors there. One is, like you mentioned, negotiations with banks to reduce the rate that we pay to them, whether it's for credit cards or other instruments. The second is, like I mentioned, we did do account rationalization for certain online merchants, who were a negative impact on us effectively. So while we lost Rs. 29 crores of revenue, we were able to shed off slightly more than that in terms of payment processing cost. And the third, which is an ongoing trend, is that when customers add money using UPI to Paytm wallet, and so on, it costs us less money. So UPI in that sense also helps us reduce the loading costs for one of the revenue generating instruments, which is wallet. So those three factors would be sort of the primary factors that why despite an increase in GMV of about 18 odd percent, and despite the increase in MDR-bearing GMV there as well, we were able to actually reduce in absolute terms, the payment processing costs.

**Mr. Bhavesh Gupta:** On the UPI question - last year, the Government came out with the mandate that they will reimburse the MDR applicable on P2M transitions on UPI and RuPay cards. And this year, they have further reinitiated that conversation by passing the budget that MeitY is going to further announce the amount. We believe the minimum amount will be the same amount that they did last year for the industry, if not more and that's the reason for our beliefs on the fact that UPI P2M is now becoming technically an MDR bearing GMV, while the MDR is being subsidized by the Government. It becomes highly profitable for Paytm, with us being one of the primary players in the market for offline P2M payments and also on online payments on P2M. The second part of UPI is very interesting, which is that UPI is further monetized through our devices strategy. Sandbox basically helps the merchant technically become primary for Paytm. So not only do we make money through UPI P2M GMV, which is, as we said, getting subvented/ subsidized on MDI by the Government, we also start getting far more take on the Sandbox because the GMV starts getting incrementally attributed to Paytm. And we obviously make subscription revenues and eventually the merchant lending book, which gets generated through this transaction history for our lending partners. Your other question about have we started to charge customers on a convenience fee, etc. we were always charging customers for certain use cases on a platform convenience fee, which is like adding money to a wallet using credit card, which we've been doing for many quarters in the past. We've also started to now charge on certain use cases, a platform fee; there we believe Paytm provides significant advantage and value add to consumers in the form of bill reminders, assurance of payment happening to the billers in time etc., And we have not seen any inertia in consumers making that convenience fee or a platform fee to us. So that has become a fairly decent revenue item for Paytm.

**Mr. Vijit Jain:** Got it. Thanks Bhavesh. Thanks a lot. My next question is in general, recently the RBI obviously set the stage for introduction of credit cards on UPI and in the same time we've seen some developments around restriction of credit line on prepaid cards. So, your broader sense on what the

regulator is thinking here and a related question to that would be just the progress on the RBI IT audit for you guys? Thank you. And I'll jump back into the queue after that

**Mr. Bhavesh Gupta:** See, the credit card being used which is the RuPay credit card instrument on UPI rail is a welcome move. We think any development in this space which expands the acceptance of credit instruments is always going to benefit the industry as a whole. At this point in time, it is too premature because the semantics are still being worked down. And as they become more publicly available, one would be in a position to give you an opinion, but we welcome this move because it expands the market. With regards to the PPI conversation, I think they are not interconnected. That was an arbitrage which was being used by certain non-bank PPI issuers in loading credit limits on PPI instruments, which was very clearly called out that it is not allowed. What the regulator has done has removed any level of misinterpretation or gray area in the minds of operators by clearly calling out that you cannot create a prepaid instrument product as a credit instrument product, for which you need a license. And they've opened the licensing also to NBFCs in the same spirit. What was your other question, sorry Vijit, I missed that? You had another follow up point that you had asked..

**Mr. Vijay Shekhar Sharma:** He wanted to know about the RBI audit.

**Mr. Bhavesh Gupta:** Yeah, so the RBI audit is continuing. The auditors are currently in the process of conducting the audit. It is a time bound process that we mentioned in our last quarterly release also. We do believe that the process is, as we understand from our Paytm Payments Bank colleagues, progressing in a good manner and over a period of time, we will have more information to share. But currently the audit is progressing very well.

**Mr. Vijit Jain:** Thanks Bhavesh. I'll jump back into the queue.

**Moderator:** The next question is from Mr. Sachin Salgaonkar from Bank of America.

**Mr. Sachin Salgaonkar:** Hi, thank you for the opportunity. Congratulations for a good set of numbers. A couple of questions from me. First question is on Soundbox, Madhur, quite a few media articles or rather advertisements by you guys, is actually indicating that the Soundbox monthly rental has gone down to zero. So just wanted to understand the monetization out here and also we are seeing some competition pick up in this space with the likes of BharatPe and PhonePe entering this space. Again, your thoughts out here.

**Mr. Madhur Deora:** I think I heard Bhavesh clear his throat, so I will let him answer this one..

**Mr. Bhavesh Gupta:** Thanks, Madhur. So, Sachin, I just want to mention here that Soundbox is an innovation that we're very proud of, and which Paytm brought to India in the year 2020. As you can see from the numbers, we've been market dominant in this space and we do believe this is one of the innovations and products, which has allowed us to monetize UPI GMV, and further augmented by the credit GMV that this entire ecosystem produces, and which we're able to work with the lenders to give loan distribution. Having said that, we have seen multiple attempts by various competitors in the market in the past to try and launch products in this space albeit not very successfully. We also in the same way believe that this market is so large that we will see certain competition come our way and will obviously expand the market. And we absolutely welcome that piece. So because we believe our product is very, very superior. It's a Made in India product, we've been at this product for a very long period of time. It's a three in one Soundbox that we position in the market, which allows the merchant not only to get very

competitive rentals, but also get access to our service network, which is very important in this space and also get credit. Now to your specific question with regards to competition who's launched and our belief with regards to pricing, I think that pricing is more of a marketing thing that we keep doing. At this point in time because of whatever competition sentiment is, it seems to have picked up in a manner where everybody's thinking that every Soundbox will become zero. That's not the case. A very, very small percentage of merchants are being given the offer from our perspective, because we want to value those merchants and this is something that we keep doing. We've been doing it for the last many years and will continue to do so in the future. So we don't see any impact or any material impact if I may say on the subscription revenue of Soundbox. In fact, we would see a positive impact because the GMV that we generate through Soundbox will further go up. Our installation of Soundbox will further go up and the outcome, which is merchant lending, will significantly go up. So we do believe this is only going to add to our bottom line versus having any dent to the bottom line.

**Mr. Sachin Salgaonkar:** Very clear Bhavesh. Second question is actually on payment, you know, the core payment business, the implied take rate appears to have gone down in the quarter and I heard an earlier comment from Madhur about some account rationalization. So I just wanted to understand, you know, maybe it's a QoQ fluctuation but wanted to understand what's happening out here?

**Mr. Madhur Deora:** Yeah, so Sachin, some of the merchants that we rationalized were higher take rate. So that has some impact on it. There's some Q-on-Q fluctuation, like you mentioned, as well. And over time, we do think that the overall take rates may actually go down, right? What we focus on is basically net payment margin and making sure that nearly all of the GMV that we are doing should either be positive on net payment margin or it should have immediate upsell opportunities, or both. So that's sort of how we run our business, we don't really run our business on the basis of, doing or not doing business just because it has certain take rates. Because you can end up making some suboptimal decisions that way. So in other words, if our take rate last quarter was 40 basis points and we had some business that we could do profitably at 10 basis points, we would do it and if there's some business that we could do only unprofitably at 1% take rate, we would not do it. So that's how we run our business. And there's a focus on unit economics, rather than take rates. And if you notice, we don't really calculate take rate and present that, although investors can calculate it. And the reason for that is we calculate and put out to investors, the metrics that we think matter and take rate is one that we actually don't calculate and put out there.

**Mr. Sachin Salgaonkar:** It makes sense Madhur, just a small follow up out here. There is a phenomenal improvement in the net payments margin, you guys are now at 35%. Any thoughts on what could be the steady state net payment margins?

**Mr. Madhur Deora:** We would continue to try to improve this number. Having said that, if there was business to do at a slightly lower net payment margin, we will do that as well. So our threshold is that it should be positive on net payment margin and as long as it's positive on net payment margin, we should be attracted to that business, especially if it has upsell opportunities attached to it.

**Mr. Sachin Salgaonkar:** Okay, so directionally, it may not go up going ahead, but it needs to be at a net payment margin from your perspective?

**Mr. Madhur Deora:** Yeah. So all business that we do should be net payment margin positive and / or have upsell opportunities attached to it.

**Mr. Sachin Salgaonkar:** Thank you.

**Mr. Madhur Deora:** Thank you.

**Moderator:** The next question is from Mr. Karan Danthi from Jetha. Karan, your line is unmuted.

**Mr. Karan Danthi:** Hi, Vijay, Madhur and Bhavesh. Thanks again for the opportunity. And congrats on the results. I had two questions. The first was, there's so if you look at revenue, divided by loan disbursal it looks like the take-rate is going up. So I'd be curious as to whether that continues. And then secondly, on market share, all external indicators suggest that there has been a change, in the sense that you've stabilized market share, vis-a-vis a year ago, at least within payments or GMV, whichever way you look at it. Could you may be bring up that sort of concept of market share in the merchant device business and then also in the lending businesses, there's some way to think about how those market shares come out because, given your closed loop system and your early investments, you should have a higher market share in those areas than you do just in the regular sort of GMV or MTU. If you just look at it that way. So I'm just curious what those numbers would be?

**Mr. Madhur Deora:** Bhavesh do you want to start and maybe I'll add to it?

**Mr. Bhavesh Gupta:** Sure, so Karan, just a small note. Mathematically, the Rs. 271 crore number divided, obviously by the disbursals, gives you a take rate, as we said in the commentary while making the presentation that all of the Rs. 271 crores is not lending, a disproportionate share of that is credit. But having said that, we do believe the take rate is kind of stabilized at the level that we currently see, which is operating maybe close to 4 to 4.5%. We are now starting to get some bit of collection incentives, because we started to scale up the business, materially around the same time last year, and that book has started to mature and we have started to get some collection incentive. Going forward, I don't think that the incentives or the take rates for credit are going to significantly improve, while we could see a swing of 25 to 50 basis points on quarter-to-quarter basis depending upon how the entire collection performance behaves.

**Mr. Madhur Deora:** Yeah, so Karan I am not sure if I fully followed the market share question. But it is the case that in UPI, we are stable or gaining market share. And with respect to other instruments as well. In many of those instruments, we have very, very large market share. I think the focus is how do we help merchants to accept payments in every way that it matters, and, when a merchant is accepting payments from customers, our technologies, our instruments, and our solution should try to add as much value in that process as possible. So whether the merchant is accepting payments, using a QR code or device, we should be there, whether the customer in that instance is paying using Paytm app or a third party app to that merchant, we should be there as well. And obviously, on our consumer app, we continue to see massive traction. So that's sort of our focus. If you look at the third party data on UPI P2M we are growing in share, which is our focus, like we did describe the entire pyramid was about P2M payments and on wallets and Paytm postpaid and so on, we continue to do very, very well.

**Mr. Bhavesh Gupta:** And Karan, if your specific question was hinting towards devices, I think the Soundbox while there is no public data available, but whatever is available, you can clearly see that we have disclosed that we are at 3 million plus Soundboxes and growing and hence, we do believe that market is disproportionately towards Paytm. On the card machine side, there is some public data available which suggests that on an incremental basis, we are taking a quarter of the market if not more, but there is no

data available completely to suggest issuer by issuer devices on the card machine side, but I can just share with you an incremental basis, this is what is available.

**Mr. Karan Danthi:** Got it thank you, and I will squeeze in one more, is merchant retention improving?

**Mr. Bhavesh Gupta:** Merchant retention is definitely improving. So we look at the static cohorts of merchants. When we look at our base of the number of merchants that we have, 28 million, that number doesn't move by a few percent's every quarter. But we are seeing on a card machine side, merchant retention cohorts improving every quarter by about a percent. On Soundbox it's stable between 85% to 86%.

**Mr. Karan Danthi:** Thank you.

**Moderator:** Thank you. The next question is from Mr. Manish Adukia from Goldman Sachs.

**Mr. Manish Adukia:** Hi, good afternoon. Thank you so much for taking my questions. My first question is on the user growth - clearly, in the quarter, you've called out the MTU growth has been very strong. And it doesn't look like the RBI ban on Paytm Payments Bank in the month of March has had any impact on user growth. But when we look at the marketing spending, particularly cashback and incentives, that seems to have gone up sharply as a percentage of sales on a quarter-on-quarter basis. So are you having to drive MTU growth or having to spend more on cashbacks and incentives to drive user growth? Or is there some other dynamic at play here?

**Mr. Madhur Deora:** Yeah, so Manish those points are not quite related. Our marketing spends were like I mentioned earlier, purely seasonal, because we are, as you may know, one of the sponsors for IPL. And this year, we also had a longer IPL, as you know, so we have some spends related to that. Our cashback spends had partly to do with the comeback of our travel and entertainment ticketing businesses. So while those businesses are massively contribution profitable, there is a small amount of cash back associated with that revenue, because they're high margin businesses and you know, we can fund a little bit of cashback and still make a lot of money on it. So those were the two primary drivers, we have not changed our CACs (customer acquisition costs), in the last three or four quarters. In fact, the team is focused on directionally moving it downwards. So, no we have not pushed harder just to try to hit an MTU number. We feel comfortable at certain CAC levels, and we look to continue to optimize that rather than sort of throw in additional CAC. We did not face any headwinds in consumer acquisition. But even if we had, we will not take that strategy.

**Mr. Manish Adukia:** Thank you so much Madhur. My second question is on the commerce and cloud business, of course, the commerce business has seen a pretty sharp growth quarter-on-quarter. But when I compare the growth to some of the other listed peers in the movie exhibition or travel space, looks like the growth was somewhat weaker than those peers and even in the cloud business, you did call out that consumer internet companies did spend less on advertisement, but the revenue is actually dipped quarter-on-quarter, despite potentially your credit card business, having scaled up or been scaling up quite well in the last few months. So, just trying to understand if you have any more color to add for this line of business?

**Mr. Madhur Deora:** Yeah, so commerce business is not entirely travel and entertainment. We do think we have very strong performance in travel and entertainment - in flights, buses, trains and movie ticketing. I know for a fact that we gained share pretty much across the board in the reopen, if you will. So I think

we have done as well, if not better than industry at an overall level. The Commerce services business also has deals and gift vouchers and a few other businesses, which may be sort of distorting your number a little bit. Those weren't as impacted in Q4 of last year, so maybe that's the like for like comparison, which might be different. Credit cards did grow. But it is a relatively small part of that overall Rs. 200 crores of revenue that we make per quarter, roughly Rs. 200 crores in the cloud business. I think advertising, like I said, was lower compared to the previous quarter, which was the primary reason for the decline.

**Mr. Manish Adukia:** Thank you so much. I just have a very quick follow up on one of the earlier questions on the payment processing costs. So now, when you think about the payment processing cost, of course, a component of that is also paid to Paytm Payments Bank. But as you also called out earlier that the savings is resulting from two or three different factors of which you know, just your negotiations with banks is one of them. So just trying to understand is the savings broadly spread out across different banks or could Paytm Payments Bank let's say be a disproportionate share of that or not really?

**Mr. Madhur Deora:** It is not a disproportionate share. So the savings is spread out across our bank partners. Because we take from Paytm Payments Bank, the Paytm wallet, primarily. There's also net banking, and from third parties, we take things like credit card, debit card, net banking, and so on. So, it is spread out quite well across the key payment acquirers and payment issuers in the country.

**Mr. Manish Adukia:** Thank you so much. And congrats again for a great set of numbers.

**Moderator:** Thank you. The next question will be from Mr. Rahul Jain from Dolat Capital.

**Mr. Rahul Jain:** Hi, am I audible?

**Moderator:** Yes.

**Mr. Rahul Jain:** First of all, congratulations on a very strong performance. Firstly, my question is, what could be the contribution from this introduction of platform fee on payments to consumers? I'm assuming this will be rolled out to all MTU over time? So can you give when we would see the ideal potential for this to play out?

**Mr. Bhavesh Gupta:** Rahul this is currently a very, very small percentage of revenue. Will we roll it out to the entire MTU? I can't comment on that at this stage in time. Wherever Paytm believes we're adding platform value to a use case, and we believe the customer would be willing to pay for the value that we bring on, we shall price it appropriately. So it's a process which we will see as we build more value on the platform and how much price the customer is ready to pay for the platform. But yes, over a period of next couple of quarters, we do believe platform revenue or platform fee could become a reasonable portion of the consumer fee that we generate for ourselves but not a very large fee. If you think if this could become a few Rs. 100 crores per quarter kind of a number, no that it won't be, it will still be relatively small.

**Mr. Rahul Jain:** Got it. Secondly, there was this comment that in the EMI servicing and collection fee business, we do it even for the people who we are not distributing loans for so are these loans for the same NBFC partner but not distributed by us all these are also done by NBFCs for whom we don't distribute at all.

**Mr. Bhavesh Gupta:** Rahul, it's both. The NBFCs that we work with currently, surely understand that our ability to collect on the portfolio that we originate is very good and hence they offer their portfolio also

on a case to case basis. But we also have independent players who leverage our platform for various elements of EMI servicing and collection for which we charge them a fee and that is a part of the collection that we will be generating today and that number is currently small. But we obviously believe that number can become material over a period of time.

**Mr. Rahul Jain:** And what could be the ideal channel for this - is it mostly outside the app or how are we efficient here.

**Mr. Bhavesh Gupta:** Rahul, this is actually completely on the app - our ability to have customer insight, and overlay the customer insight for a lending partner for them to reach more intelligently and more contextually to their borrowers through the Paytm app is a value that we provide and overlaid on top of it through every other technology set, including multilingual bot calling, progressive dialers, etc. that we've built for our own collection stack, which we offer to these customers. We don't go out looking for doing collections for customers, either in the harder buckets and/or for customers outside of Paytm app. Our entire pivoting point is to leverage the customer insights that we have on Paytm app and a technology stack that we build for our lending business.

**Mr. Rahul Jain:** Got it, got it just last one, if I can squeeze in, in this particular quarter, we see significant improvement in profitability, despite the miss on the UPI incentive plus there was a wage hike and, there was this marketing spend which also bumped up in this quarter. So is it safe to assume if we maintain the kinds of growth traction we have, we would see similar or even superior improvement in EBITDA in the subsequent quarter.

**Mr. Madhur Deora:** Rahul, I don't want to specifically talk about next quarter yet, time will come to talk about that. But I can say that I think that the business has significant tailwinds with respect to not just growth and revenue, but also in terms of profitability. So we are seeing for some of the reasons that you mentioned, despite being fully invested in areas that matter, we have been able to achieve this EBITDA performance and that is what we will continue to try.

**Mr. Rahul Jain:** Yeah, and just one clarification on this Rs. 29 crore impact that we talked about in payment services to merchants. If this fully baked in in the quarter or there was an exit impact, which we feel in the coming quarters?

**Mr. Madhur Deora:** That's a good question. It is more or less a run rate impact. Not every single rationalization happened on April 1, as you can imagine, but it is more or less a full proper impact.

**Mr. Madhur Deora:** Rahul did that answer your question?

**Mr. Rahul Jain:** Sorry I missed the last 20 seconds. You said everything didn't happen on 1st April?

**Mr. Madhur Deora:** I said it's more or less a full quarter impact.

**Mr. Rahul Jain:** Sure, sure. Thank you so much. That's it from my side.

**Moderator:** The next question is from Mr. Saurabh Kumar from JPMorgan.

**Mr. Saurabh Kumar:** So the first question, you know, is on financial services, so Bhavesh can you quantify what incentive income - percentage of the loans we would have indicated last year, what percentage of that loan have you started receiving as an incentive income in this quarter? And the second piece is you

know, can you also talk about what are the volumes you're indicating in the credit card business and have you launched the EMI?

**Mr. Bhavesh Gupta:** Have we launched the EMI business, Saurabh you asked right?

**Mr. Saurabh Kumar:** Yeah.

**Mr. Bhavesh Gupta:** Let me start with a third question, we have an EMI business, which is on Paytm Postpaid. But if your question is that are we doing EMI, like some of our contemporaries do in the market as young personal credit card use etc. that product is currently in the bill, we hope to launch sometime in this fiscal. So we haven't launched it in full scale at this point in time. To your question before this on credit cards, we have not disclosed credit card numbers, but I can confidently tell you that this business is performing better than we expected, especially on the back of the recent partnership that we did with India's largest card issuer and we are seeing massive momentum, both on the new card issuance that we're doing, the spend per active card, and the activation by itself on the overall issued portfolio. So we're very bullish on that business, that that business will start adding material revenue, and overall EBITDA profitability to our cloud business on a quarter on quarter basis. To your first question on the incentives on the collection portfolio, so we don't necessarily calculate the incentive on the last year's book - what have we gotten and what have we not. But broadly, I can suggest to you is that what we see it as is, let's say the last year book that we generated for personal loans or merchant loans, what was the loss expectation the lenders had, and what is the actual loss on static pool basis that we brought for them this time, so that the difference is our incentive. That number is better than we expected and if you're looking for a range, that number is between 100 basis points to 200 basis points of the disbursed value of last year on these two products.

**Mr. Saurabh Kumar:** Okay, that's very clear. The second, you know, on the contribution margin so if you do some incremental contribution analysis, the incremental contributions seems to be around 50%, so will it be fair to say Madhur that as the year progresses, your revenue grows, there is upside to this margin or are you guys happy at this 40 to 44% level because this was around the long term levels, you had indicated at the time of IPO

**Mr. Madhur Deora:** There are opportunities for us to improve this particularly because of the mix even if net payment margins do not continue to improve from there - there are opportunities there as well but even if you said net payment margins stay roughly at this level, can we improve contribution margin further? Yes, there are levers for us to do that, particularly the growth of financial services being the most obvious one, which is higher margin; commerce business continuing to grow, as well as recovery in advertising business. So if we're able to do any or all of those three, we should see those opportunities of potentially improving contribution margin. Perhaps not as sharply as we have over the last two, two and a half years. But could there be sort of gradual incremental improvements? Yes. We will very much drive towards that.

**Mr. Saurabh Kumar:** Okay, and just one last question on your staff costs - from here on we should expect more moderation, like you know, indirect expenses, especially the staff cost, because I'm guessing most of the hiring would have rolled out and wage hikes would have been rolled out.

**Mr. Madhur Deora:** We did say last quarter that we don't expect significant headcount increases, I will say that, given how well the Soundbox business is performing or the devices business overall I should say



is performing, if you know, if Bhavesh and the payments team wanted to do more in that area and that meant that we had to, you know, do a 5 or 10 or 15% increase in the sales team, as long as we are performing really well as a company and as long as you know, Soundbox is as powerful product as it is right now in terms of engagement and retention rates and so on, we would continue to invest. So, our objective is to be profitable, and be profitable at scale. So we are going to drive scale and investments and these things sort of interplay with each other. So if our revenue and contribution margins are doing really well, then we are going to continue to invest in areas where we are seeing that strong performance.

**Mr. Saurabh Kumar:** Thank you.

**Moderator:** The next question will be from Mr. Manish Shukla from Axis Capital.

**Mr. Manish Shukla:** Good evening, and thank you for the opportunity. First question Bhavesh what percentage of revenue from financial services will be credit?

**Mr. Bhavesh Gupta:** We don't necessarily disclose that number but you can say that it is disproportionately large.

**Mr. Madhur Deora:** Manish, it hovers between 70 and 80%.

**Mr. Vijay Shekhar Sharma:** Actually Manish if you notice, in my presentation I called out that our business is to use payment as a method to acquire customers and drive credit disbursement. So if you notice, we are actively pursuing credit as a primary financial service.

**Mr. Manish Shukla:** Sure, thanks and the point where I was coming from is, as you said, you're analyzing Rs. 24,000 crore kind of disbursement number over the next three years, it could scale up to maybe more than 40 or 45,000 crores. How do the financial services take rate shift as you disperse more and more, right? How does that move?

**Mr. Bhavesh Gupta:** Manish our business is fairly simple, we get an upfront revenue, which is I would say it's 70 to 80% of the take rate that we so desire for our product. So that doesn't shift at all, because the scale is not coming on the back of us expanding to profitable cohorts, it is coming on the back of the fact that we have such a large MTU. And it is needless to say that in spite of us delivering what we've delivered, Postpaid is 4% percent penetration of MTU. So there are still 96% of the customers who haven't yet been touched on Postpaid and this number on personal loans and merchant loans is less than 4%. So there's a massive road ahead for us. So we don't have to deviate from earning upfront incentives. The other piece is collection, which is contingent on portfolio performance, that could swing 50 basis points here and there. So we don't see any material impact on the take rate that we're seeing today. My personal view is that it will only improve and not go down from where it stands today, just because our collection incentives will kick in on the back of very large business that we're doing this year into the next year.

**Mr. Manish Shukla:** Sure and as you scale this business up, do you see the necessity to increase the lending partnerships, or do you think your existing partners have enough appetite, to disburse the kind of run rate which you can potentially do?

**Mr. Bhavesh Gupta:** So we have five lenders and three credit card issuers currently in our portfolio of companies, all of them are triple A rated. They have a lot of balance sheet size and appetite to do so. But having said that, our belief is that we will continue to expand by adding more partners and you can look forward to seeing some announcements in this regard in this quarter and the next quarter.

**Mr. Manish Shukla:** Sure are you in a position to quantify the UPI P2M reimbursement that you got for FY22?

**Mr. Bhavesh Gupta:** The percentage number is anyways available publicly on how much the Government announced. And as Vijay said, it is available as a MeitY release. The number for this year hasn't been announced, but the last year number is available publicly

**Moderator:** A quick time check that we'll have time only for two more questions. The next question is from Mr. Kunal Shah from ICICI.

**Mr. Kunal Shah:** Firstly, in terms of this entire negotiations with banks, as well as account rationalization with certain online merchants, so are we largely done through this or it is maybe an ongoing exercise, and we should see the benefit flowing through - so where would we be in terms of the journey with respect to the benefits that can kick in from here.

**Mr. Madhur Deora:** Kunal, it is an ongoing exercise. We didn't have a one off this quarter, we had particular success in changing the rates with certain banks, if you will. So you shouldn't expect that we'll be able to continuously drop the amount of payment processing costs that we have, like this quarter we had a drop in absolute terms by Rs. 80 crores. So that shouldn't be the expectation. But the way I'd say it is that the net payment margins uplift that we have seen, we should be able to continue to maintain that. It is an ongoing thing, because there's a banking alliance team within Paytm, who constantly talks to banks about how we can work together and what win-win partnerships we can create and as a result we continuously get better and better rates.

**Mr. Kunal Shah:** Sure, and besides that also when we look at payment services to merchants, in fact, past three quarters even if we are to add Rs. 29 odd crores, in fact it's been a pretty steady, it's not going up as much as consumer services payment, which revenues are still up, but this line segment is actually not improving a lot on a quarter on quarter basis. So maybe when we look at it in terms of the rollout of the devices, that's good, but the lower revenues that would be kicking in from there. So when should we see the momentum coming back with respect to this particular line item?

**Mr. Bhavesh Gupta:** Yeah, I would just slightly disagree with that, Kunal. Because, if you look at where we were, for example, in Q2, the September 2021 quarter, this business had Rs. 400 crores of revenue. Currently, we have Rs. 557 crores of revenue. So there's clearly been a significant change from September 21 to June 22. Perhaps what you're referring to is that in the December quarter, we were already at Rs. 580 odd crores, but that was a seasonally strong quarter, as we all know in festive season you get huge amounts of online and offline demand coming through. March quarter weaned that off, because March quarter is obviously not festive and then this quarter, we had the account rationalization and no UPI incentive. But if you just look at it over a slightly longer period of time and I'm taking September 2021 quarter, perhaps as a base which is the pre-festive quarter, there has been a call it, 40% increase in a three quarter period, which we think is very substantial

**Mr. Kunal Shah:** Sure. As the base sets, in maybe December, just looking at the volumes which we are still doing, maybe because of the lower take rates, lower MDRs or maybe the lower subscription fee, would we see maybe the growth not significantly higher in Q3? So I agree what you're talking about from September to June, that's an improvement, but as the base sets and even though volumes are there, are we sacrificing a bit in terms of the revenue?

**Mr. Madhur Deora:** There are a couple of things there - one is we are seeing growth in GMV and underlying revenue base in this business. If we were to compare normalized, let's say Q3 versus Q3, I think we will see significant improvement just given the GMV and underlying revenue trends that we have in the business. So we will see significant growth. Like I mentioned, the one thing which is different starting this quarter is that we have done that account level rationalization. So that amount of revenue you probably need to take out of this. But other than that we are seeing strong tailwinds in both online and offline business.

**Mr. Kunal Shah:** Sure, sure, okay. Thanks and all the best to you.

**Mr. Madhur Deora:** Thank you Kunal.

**Moderator:** Thank you Kunal and now the last question of the session is from Mr. Piran Engineer from CLSA.

**Mr. Piran Engineer:** Hi, guys - congrats on the quarter. Just wanted to harp a bit more on processing charges so that I get this pretty clear, would you be able to disclose how much of that is paid to Paytm Payments Bank?

**Mr. Madhur Deora:** I think that is publicly disclosed and we will perhaps point you to that. But effectively, we pay to Paytm Payments Bank for wallet and that banking alone and we pay to all other banks for credit card including for adding money to Paytm wallet.

**Mr. Piran Engineer:** No, no, I meant the quantum - what percentage of your Rs. 700 Crore quarterly charge would be to them?

**Mr. Madhur Deora:** I don't have that handy, Piran - if we have publicly disclosed it then we will point you to that separately. If we haven't publicly disclosed it, then I wouldn't be able to do that.

**Mr. Vijay Shekhar Sharma:** If you calculate it here, Paytm Payments Bank offers their customers wallet and net banking for which we have given and if you notice these prices and revenues could be somewhere in the related party disclosures, if not specifically specified but overall. If you notice the total customer base that we would take payments processing for our merchants for, Paytm Payments Bank does not constitute a substantial number across the total number of customers. So it's a customer ratio, if you will, that should be replicated.

**Mr. Piran Engineer:** Okay, that makes sense. I get your point that we've negotiated with banks and you've done some account rationalization, but it's the first time we're seeing like a 6-7 basis points reduction in payment processing charges. So at 23 bps, do you think it is sustainable? I know you don't look at it as bps of GMV but still if I were to nudge you towards that, would 23 bps or so be sustainable.

**Mr. Vijay Shekhar Sharma:** More and more payment is going to come from UPI and UPI MDR rates are publicly announced and I could show you that on the MeitY website, where UPI MDR rate that Government is going to give is there, you can expect that to be 50, 60, 70% over the period. So looking at our business model with bps is not accurate and that is why one of the important factors that I took time to explain was how merchants make revenue for us. But merchants don't make revenue only on MDR which is a western way of looking at the business of payments. If you look at Stripe, Adyen or some of those companies, you actually will look at total GMV and percentage of take rate, because that's the business driven primarily with that. In India, because we all are in a market where we need to expand

and we as Paytm, and Government and Regulator, all of us champion the disbursement of payment or distribution of payment to far and wide. We all have clearly found out our India model where instead of GMV, and bps, it is about the kind of extra services - including subscription services, instead of just MDR platform charges etc. that we levy. So I would say that model is extremely western, not practically long term applicable in India, as based on the business that we're seeing. What we can say is that our overall payments revenue and contribution instead of payment GMV and take rate, is what you should look at. To be honest about it, we wanted to specify that the UPI GMV and non-UPI GMV, these are good metrics of how consumers are behaving. As far as business is concerned, it is more about what payment revenue you made and if you notice, like I remind you again, in the slide I said this is how we make payments revenue and what is the contribution margin on that. That's the better way because GMV base growth will be dramatically higher than the bps that are chargeable because the Government of India when it is paying, it's not going to pay 23 bps.

**Mr. Piran Engineer:** I get that.

**Mr. Madhur Deora:** I obviously agree with everything that Vijay said. But I think on your question of 23 bps and so on, what I would say is that there are no one offs in there. So you should not feel like hey, that 30 bps dropped down now at 23 basis points because of something that happened only in this quarter, and will not happen in the future. There is no such thing. These are structural opportunities that we saw to go and reduce some of our processing costs and obviously we took those opportunities and going forward, this number, which is purely an output number, and not something that we focus on controlling or optimizing, will depend on payment instruments. So if I could do tons of more credit card business, and even if it costs me more in terms of payment processing costs, but makes me that margin, I'll do it. If I could do tons of UPI business where I would get some money from the Government and it won't cost me anything other than payment gateway cost, I would do that as well. So as a result, we don't go out and try to drive a specific instrument mix. What we try to do is try to offer all types of payment solutions to our consumers and merchants and then they decide and then we choose to do business which is profitable.

**Mr. Piran Engineer:** What I'm trying to really think is that if you all have negotiated say 3, 4 bps lower with banks, what are the margins that banks make that they can afford to give you 3-4 bps?

**Mr. Bhavesh Gupta:** Let me answer that question to you differently. See, what is happening at a systemic level is that the networks which drive credit card usage - so the charge is credit card predominantly, everything else, as you can imagine, is either free or fixed. Systemically, two things have started to happen over the last quarter, and this quarter it was more amplified, that even the networks, be it Visa or MasterCard, are generating more schemes for issuers to charge lower interchange. So if there was a merchant category code, which was operating at 1.25, 1.50 - they've introduced schemes in which they're saying we would like smaller merchants to accept credit cards, we would like them to be given an interchange which is much much lower and automatically the rate drops. So they're also trying to fight this particular battle, which is moving to more low charge instruments and protecting their instrument and hence the overall systemic charge is coming down. It's just not about our negotiation, it is also the instrument charges per se by networks which are also coming down.

**Mr. Piran Engineer:** Okay, got it.

**Mr. Bhavesh Gupta:** Hence there is enough profit pool on volume, which is available and Paytm arguably being the largest credit card processor in the country between online-offline and on-app payments is able to command that negotiated price, better MCC price and overall incentives leading to this reduction that you're seeing, which will be sequentially reduced over a period of time - is what Madhur is trying to say.

**Mr. Piran Engineer:** Okay, okay, if I swipe my credit card and pay on Google and you allow the payment gateway, the interchange that you pay to the credit card issuer is also part of this payment processing costs.

**Mr. Bhavesh Gupta:** Yeah, we are paying MDR because it depends upon if I'm the acquirer or and the issuer. But the overall cost of the card processing itself is going down for many, many use cases, like utilities, like small merchants, etc. The overall processing costs are going down by the network. So as a percentage, if I was paying earlier 1.75% MDR, that itself has come down to let's say 1%. So on a percentage basis, it is looking much, much lower.

**Mr. Madhur Deora:** So Piran what you said, is exactly right. For example, we have a price with Uber, and then we negotiate price with banks, but that rate, that price that we negotiate with banks is called MDR, and not interchange.

**Mr. Piran Engineer:** Okay, that makes sense. Bhavesh just a clarification from what you said earlier, these discounted rates on Soundboxes, given that your competitors have launched it at cheap prices, and you will also have to sort of be somewhat in line with the market - this will only be for incremental merchants or these 3 million merchants who have been already given Soundboxes and they were charged Rs. 125 earlier, maybe you reduced it to 50 or 75 to be competitive. How should we think about, incremental merchants being given discounted rates versus existing merchants also being given discounted rates?

**Mr. Bhavesh Gupta:** See Piran, I just want to clarify that that's a part of our sales strategy and I do not want to talk more about it. But I can tell you that if 100 merchants are there in a portfolio, this cohort of merchants who may not end up paying me a rental, will be a very, very small percentage of customers and linked to certain other behavior plus linked to their potential to take much in credit. So it's a very thought-through strategy not linked to what the market is doing today, but we continue to do. This time we have obviously gone and advertised so it is obviously the public domain, but it does not change materially our rent per device that we are generating on a Soundbox today or in the future.

**Mr. Piran Engineer:** Got it, got it. Okay, that answers my question. Thank you. All the best. Thank you.

**Moderator:** Thank you. With that, we come to the end of the Q&A session. The presentation discussed by the management today, a recording of this call and the transcript will be made available on the company website. For some of the questions we couldn't take and for any follow up queries, please email those to the company at [ir@paytm.com](mailto:ir@paytm.com).

**Mr. Madhur Deora:** On behalf of the management team, I want to thank everyone for all your time and attention and engagement. We really appreciate it.