

One 97 Communications | SELL

Disrupted quarter

Paytm reported weak 4Q24 results as revenue declined -20% QoQ with adj. EBIDTA of INR 1,020mn (-56% QoQ) and EBITDA margin at 4.5% (vs 7.7% QoQ). Revenue decline was majorly due to a) reduction in revenue from Payment services to consumers (-30% QoQ) after [RBI's embargo on PPBL](#) impacting wallets, FASTag and other PPLs (c.12% of GMV) b) sharp reduction Financial services revenue (-50% QoQ) as the value of loans disbursed declined to INR 58bn (vs 155.4bn in 3Q24, -63% QoQ) as Paytm completely [stopped its Post-paid business](#) in Feb-Mar'24 citing asset quality deterioration in low ticket segment. Net payment margin ex-UPI incentives (of INR2.9bn, received in Q4 of every year) declined to 12bps (vs 15bps QoQ) due to impact on high margin products and temporary disruption in operating metrics (GMV: -8% QoQ, MTU: -4% QoQ, lower active merchants). Marketing services revenue (-23% QoQ) declined sequentially. Cloud business declined sharply YoY while commerce business (ticketing, travel, gift vouchers) grew despite disruption YoY. Contribution margin ex-UPI incentives declined to 50.5% (vs 53.3% QoQ) despite reduction in processing fees and promotional cashbacks and incentives. Loss increased to INR 5.5bn (vs loss of 2.2bn QoQ, due to impairment provisions of INR 2.3bn taken on investments in PPBL, which is now marked to zero). Paytm is in discussion with NPCI for conformation of signing up new UPI consumers via its TPAP app (third party application provider). Management guided that Q1 will see full impact of RBI embargo with negative adj EBITDA of INR 5-6bn (only last 2 months of Q4 were impacted). We remain watchful of the closure of small ticket post-paid business (which acted as a funnel for high ticket PLs) and pivot towards high ticket lending thereof. Although Paytm has found alternatives for PPBL, we believe on boarding of new customers and revival of high margin products in payments business is contingent on regulatory approvals, seamless migration of accounts and smooth integration. Only regaining MTU (down from 104mn in Jan'24 to 80mn in Apr'24 vs 90mn in Mar'23) will support declining revenue and profitability, which will take time. We maintain our SELL rating with target price of INR 300 (valuing Paytm at 7x FY30e E/EBITDA discounted back to FY26).

- **Net payment margin declined to 12bps vs 15bps QoQ:** Paytm's net payment margin ex-UPI incentives (of INR 2.9bn, received in Q4 of every FY, from govt on bank to bank transfers) declined 3bps QoQ to 12bps. The decline was majorly due to impact on high margin products (EMIs, cards etc.) and temporary disruption in operating metrics (GMV: -8% QoQ, MTU: -4% QoQ, lower active merchants). Merchant subscriptions grew 1% QoQ to 10.7mn and the company deployed 0.1 mn devices (revenue of INR 90 per month per device) during the quarter. Payments yields are expected to decline as the share of lower yielding UPI increases to 80-85% from current 70% (payment processing margins including UPI incentives to stabilize at 5-7bps vs 7-9bps guided before).
- **Financial services business pivoting to higher ticket segment:** In 4Q24, the value of loans disbursed declined to INR 58bn (vs 155.4bn in 3Q24, -63% QoQ) as Paytm completely stopped its Post-paid business in Feb-Mar'24 citing asset quality deterioration in low ticket segment. Disbursements in high ticket instant personal loans (-24% QoQ) and merchant loans (-53% QoQ) also declined resulting in sequential decline in financial services revenue to INR 3bn (vs INR6bn in 3Q24, -50% QoQ). Paytm added new lending partners including pilots with banks during the quarter. Paytm indicated plans of entering into secured credit space, starting with micro-lap for small merchants, to drive growth. Paytm

Financial Summary					(INR mn)
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
GMV (INR bn)	8,600	13,280	18,340	21,859	28,046
YoY growth (%)	113%	54%	38%	19%	28%
MTU (mn) - EOP	70.9	90.0	96.0	111.5	128.3
YoY growth (%)	41%	27%	7%	16%	15%
Revenue (INR mn)	49,742	79,063	99,800	114,830	148,910
Operating expenses (INR mn)	73,144	96,218	108,880	129,053	152,729
EBITDA (INR mn)	(23,402)	(17,155)	(9,080)	(14,222)	(3,820)

Source: Company data, JM Financial. Note: Valuations as of 22/May/2024



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Recommendation and Price Target

Current Reco.	SELL
Previous Reco.	SELL
Current Price Target (12M)	300
Upside/(Downside)	-18.7%
Previous Price Target	590
Change	-49.2%

Key Data – PAYTM IN

Current Market Price	INR369
Market cap (bn)	INR234.5/US\$2.8
Free Float	48%
Shares in issue (mn)	694.5
Diluted share (mn)	
3-mon avg daily val (mn)	INR1,677.5/US\$20.1
52-week range	998/310
Sensex/Nifty	74,221/22,598
INR/US\$	83.3

Price Performance

%	1M	6M	12M
Absolute	-2.3	-59.9	-47.8
Relative*	-3.0	-64.3	-56.4

* To the BSE Sensex

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decided to temporarily pause disbursement of lower yielding, small ticket post-paid loans, a segment in which chances of receiving collection incentives are less given deteriorating asset quality. Mgmt. expects take rates to settle down to 3-3.5% as the low ticket post-paid business is shut down. We remain watchful as Paytm tries to drive higher volumes to set-off the potential loss in revenue.

- **Commerce business steady while cloud business shows weakness:** Marketing services revenue (-23% QoQ) declined sequentially. Cloud business declined sharply YoY while commerce business (ticketing, travel, gift vouchers) grew despite disruption YoY. Credit card marketing continues to scale with 1.18mn activated credit cards as of Mar'24, compared to 0.59mn last year.
- **Valuations and view:** We remain watchful of the closure of small ticket post-paid business (which acted as a funnel for high ticket PLs) and potential loss in revenue due to pivot towards high ticket lending thereof. Although Paytm has found alternatives for PPBL, we believe onboarding of new customers and revival of high margin products in payments business is contingent on regulatory approvals, seamless migration of accounts and smooth integration. Only regaining MTU (down from 104mn in Jan'24 to 80mn in Apr'24 vs 90mn in Mar'23) will support declining revenue and profitability, which will take time in our view. We maintain our SELL rating with target price of INR 300 (valuing Paytm at 7x FY30e EV/EBITDA discounted back to FY26).

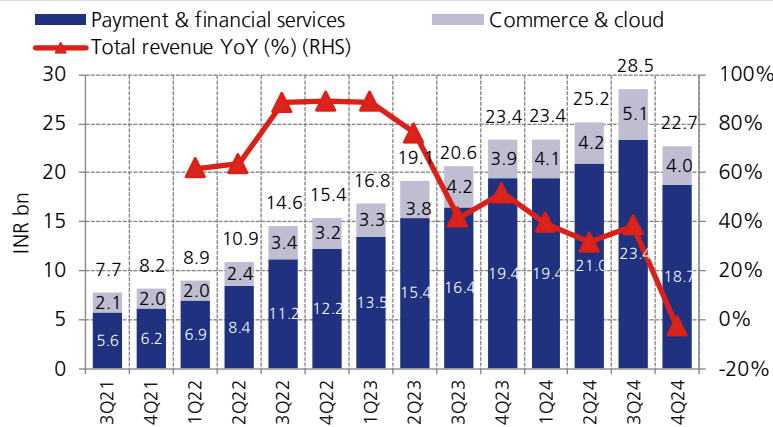
OCL – 4QFY24 Trends

Exhibit 1. 4QFY24 Key Quarterly Highlights

INR mn	4QFY23	3QFY24	4QFY24	YoY (%)	QoQ (%)
Payment Services	14,670	17,300	15,690	7%	-9%
Financial Services (incl others)	4,750	6,070	3,040	-36%	-50%
Cloud and Commerce	3,930	5,140	3,950	1%	-23%
Revenue from Operations (A)	23,350	28,510	22,680	-3%	-20%
Payment Processing Charges	7,800	9,820	7,150	-8%	-27%
Promotional Cashback and Incentive	780	1,060	460	-41%	-57%
Other Expenses	1,930	2,420	2,190	13%	-10%
Total Direct Expenses (B)	10,510	13,300	9,800	-7%	-26%
Contribution Profit (C)	12,840	15,210	12,880	0%	-15%
Total Indirect Expenses (D)	10,500	13,010	11,860	13%	-9%
EBITDA (E)	2,340	2,200	1,020	-56%	-54%
Other income and expenses	-4,000	-4,360	-3,951	1%	9%
Profit before share of associates, exceptional items and tax	-1,660	-2,160	-2,931	-77%	-36%
Share of profit/loss of associates/JV	-20	-40	-2,438	-12090%	-5995%
Exceptional items	-	-	-	-	-
Tax expense	-10	10	141	1510%	1310%
Reported PAT	-1,670	-2,210	-5,510	-230%	-149%
Contribution Margin %	55.0%	53.3%	56.8%	1.8%	3.4%
EBITDA Margin %	10.0%	7.7%	4.5%	-5.5%	-3.2%
GMV (INR bn)	3,600	5,100	4,690	30%	-8%
Merchant Transactions (mn)	6,850	9,990	9,620	40%	-4%
MTU (avg) (mn)	90	100	96	7%	-4%
Loans ('000)	12,000	11,500	1,600	-87%	-86%
Value of Loans disbursed (INR bn)	125.5	155.4	58.0	-54%	-63%

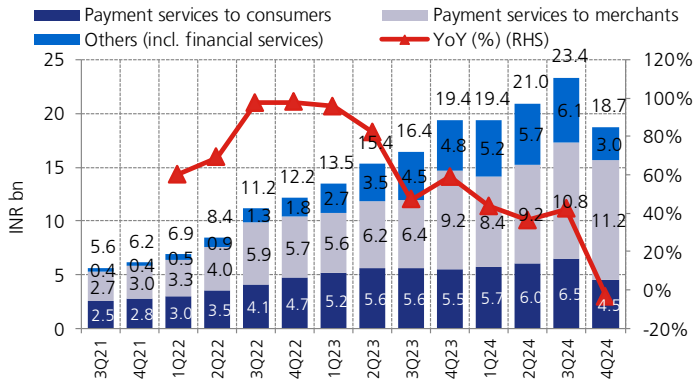
Source: Company, JM Financial

Exhibit 2. OCL: Revenue from operations trend



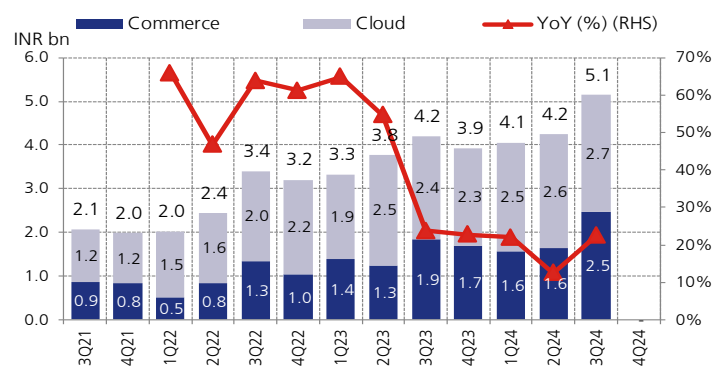
Source: Company, JM Financial; Figures in INR mn

Exhibit 3. OCL: Payment and financial services revenue trend



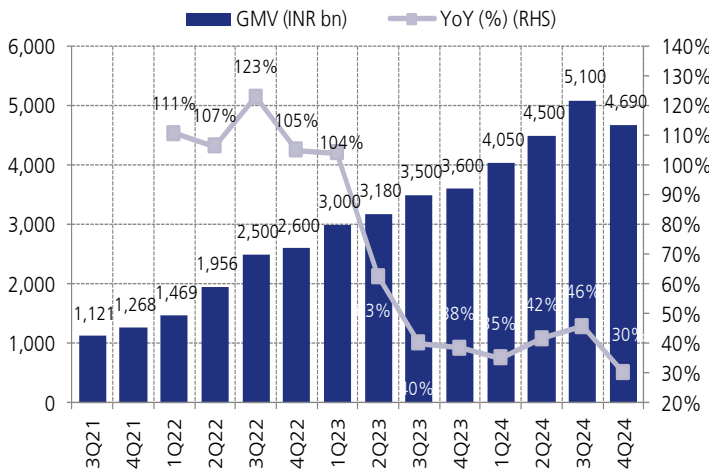
Source: Company, JM Financial; Figures in INR mn

Exhibit 4. OCL: Commerce and cloud services revenue trend



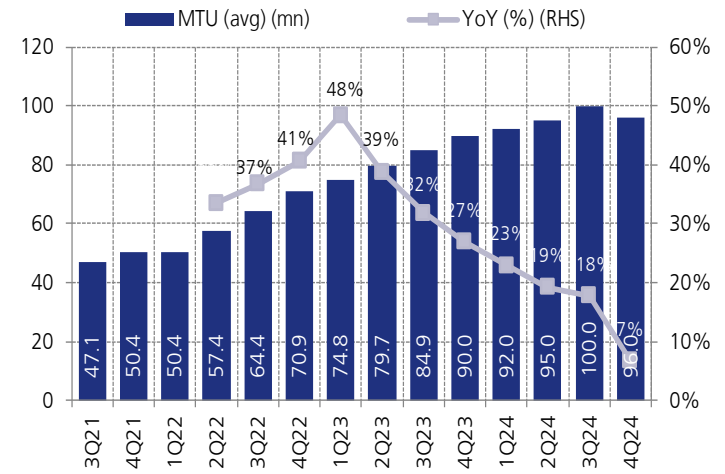
Source: Company, JM Financial; Figures in INR mn

Exhibit 5. OCL: Trend in GMV



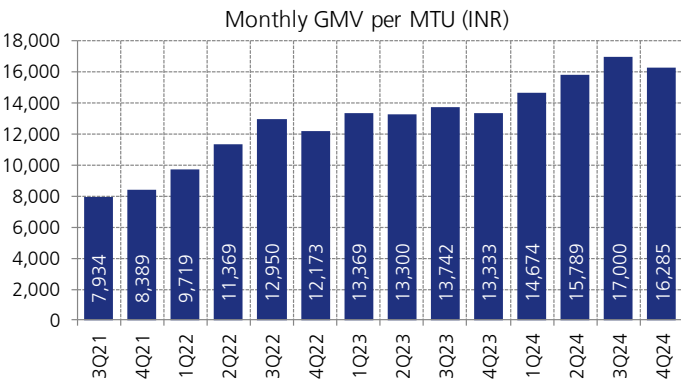
Source: Company, JM Financial

Exhibit 6. OCL: Trend in MTU



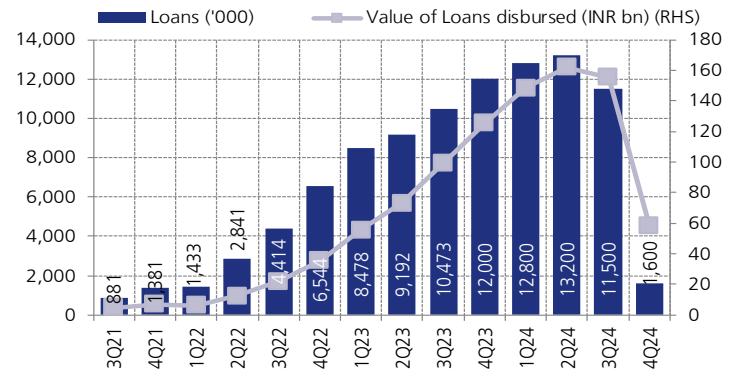
Source: Company, JM Financial

Exhibit 7. OCL: Trend in monthly GMV per MTU



Source: Company, JM Financial

Exhibit 8. OCL: Trend in volume and value of loans disbursed



Source: Company, JM Financial

Financial Tables (Consol)

Profit & Loss						(INR mn)
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Revenue	49,742	79,063	99,800	114,830	148,910	
-Payment Services	34,205	48,460	62,380	69,358	88,369	
-Merchant Services	11,048	15,199	17,380	22,135	27,170	
-Financial Services	4,489	15,404	20,040	23,338	33,371	
Direct costs	34,761	40,921	44,410	54,368	69,569	
Contribution	14,981	38,142	55,390	60,463	79,341	
Indirect cost	38,383	55,297	64,470	74,685	83,160	
EBITDA	(23,402)	(17,155)	(9,080)	(14,222)	(3,820)	
Depreciation and amortization expense	2,473	4,853	7,356	3,961	4,220	
EBIT	-25,875	-22,008	-16,436	-18,183	-8,039	
Finance costs	394	233	242	1	1	
Other income	2,901	4,097	5,477	2,224	1,076	
Profit before share of associates/JV, exceptional items and tax	-23,368	-18,144	-11,201	-15,959	-6,965	
Share of profit / (loss) of associates / JV	-459	-125	-2,648	-200	100	
Restated loss before exceptional items and tax	-23,827	-18,269	-13,849	-16,159	-6,865	
Exceptional items	-24	-	-60	-	-	
Restated loss before tax	-23,851	-18,269	-13,909	-16,159	-6,865	
Total Tax expense	113	336	321	-	-	
Restated Loss for the year from discontinued operation	-	-	-	-	-	
Restated Profit/(Loss) for the year	-23,964	-18,605	-14,230	-16,159	-6,865	
Less: Non-controlling interests	-35	-6	-54	-	-	
PAT	-23,929	-18,599	-14,176	-16,159	-6,865	

Source: Company, JM Financial

Cash Flow						(INR mn)
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Cash flow from operating activities:						
Restated loss before tax from						
- Continuing operations	(23,851)	(18,269)	(13,909)	(16,159)	(6,865)	
Operating loss before working capital changes	(14,365)	(1,411)	2,462	(2,682)	1,860	
Cash used in operations	(10,884)	5,078	3,317	(2,906)	1,339	
Income taxes (net of refunds)	1,479	1,762	321	-	-	
Net cash (outflow) from operating activities (A)	(12,363)	3,316	2,996	(2,906)	1,339	
Net cash inflow / (outflow) from investing activities (B)	(54,886)	26,255	(23,701)	10,347	(9,823)	
Net cash inflow / (outflow) from financing activities (C)	80,535	(11,123)	17,025	12	(4)	
Net increase/(decrease) in cash and cash equivalents (A+B+C)	13,286	18,448	(3,680)	7,452	(8,487)	
Cash and cash equivalent at the beginning of the year	454	13,789	32,260	28,580	36,032	
Effect of exchange differences	49	23				
Cash and cash equivalent at the end of the year	13,789	32,260	28,580	36,032	27,545	

Source: Company, JM Financial

Balance Sheet						(INR mn)
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E	
Share Capital	649	634	636	635	635	
Reserve & Surplus	140,867	129,522	132,630	116,471	109,606	
Networth	141,516	130,156	133,266	117,107	110,242	
Non-controlling interests	(221)	(227)	(282)	(282)	(282)	
Total Equity	141,295	129,929	132,984	116,825	109,960	
Borrowings	1	20	-	13	10	
Current liabilities	33,324	44,848	35,153	67,971	84,497	
Non-current liabilities	5,296	4,860	3,254	5,641	6,964	
Sources of Fund	179,916	179,657	171,391	190,450	201,431	
PPE, Tangible Assets, Intangible assets	9,259	12,202	12,609	19,532	23,149	
Investment in JV, associates	2,233	2,518	338	2,838	5,338	
Other non-current assets	60,974	25,075	36,807	25,533	25,663	
Cash and cash equivalent	52,020	70,395	52,462	48,576	35,089	
Other current assets	55,430	69,468	69,175	94,373	113,175	
Application of Fund	179,916	179,658	171,391	190,852	202,413	

Source: Company, JM Financial

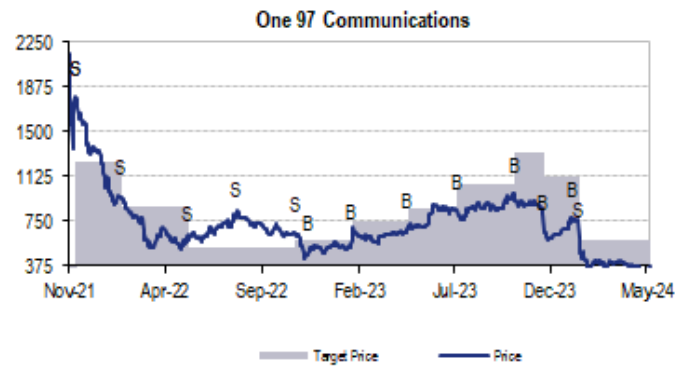
Ratios					
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Valuations					
EPS (INR)	(36.9)	(29.3)	(22.3)	(25.4)	(10.8)
BVPS (INR)	218	205	210	184	173
P/E (x)	(10.0)	(12.6)	(16.5)	(14.5)	(34.2)
P/BV (x)	1.7	1.8	1.8	2.0	2.1
P/Revenue (x)	4.7	3.0	2.3	2.0	1.6
P/GMV (%)	2.7	1.8	1.3	1.1	0.8
Dividend					
DPS (INR)	-	-	-	-	-
Yield (%)	-	-	-	-	-
Payout (%)	-	-	-	-	-
Margin (%)					
Contribution	30.1	48.2	55.5	52.7	53.3
EBITDA	(47.0)	(21.7)	(9.1)	(12.4)	(2.6)
EBIT	(52.0)	(27.8)	(16.5)	(15.8)	(5.4)
PAT	(48.1)	(23.5)	(14.2)	(14.1)	(4.6)
As % of GMV (%)					
Contribution	0.17	0.29	0.30	0.28	0.28
EBITDA	-0.27	-0.13	-0.05	-0.07	-0.01
EBIT	-0.30	-0.17	-0.09	-0.08	-0.03
PAT	-0.28	-0.14	-0.08	-0.07	-0.02
Return ratio (%)					
RoAE	(23.1)	(13.7)	(10.8)	(12.9)	(6.0)
Growth (%)					
Revenue	77.5	58.9	26.2	15.1	29.7
GMV	113.2	54.4	38.1	19.2	28.3
AAU	25.0	15.0	18.0	15.0	14.0
GMV / MTU (INR) - Ticket size	57.9	14.0	18.8	10.0	11.0
Networth	116.6	(8.0)	2.4	(12.1)	(5.9)

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
26-Nov-21	Sell	1,240	
28-Nov-21	Sell	1,240	0.0
7-Feb-22	Sell	875	-29.4
22-May-22	Sell	525	-40.0
7-Aug-22	Sell	525	0.0
8-Nov-22	Sell	600	14.3
1-Dec-22	Buy	600	0.0
7-Feb-23	Buy	750	25.0
6-May-23	Buy	855	14.0
23-Jul-23	Buy	1,060	24.0
22-Oct-23	Buy	1,325	25.0
7-Dec-23	Buy	1,120	-15.5
22-Jan-24	Buy	1,120	0.0
1-Feb-24	Sell	590	-47.3

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

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Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
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* REITs refers to Real Estate Investment Trusts.

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