May 11, 2023

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

Scrip Code: 543396

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

Symbol: PAYTM

**Sub.: Transcript of the earnings conference call**

Dear Sir / Ma'am,

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the transcript of the earnings conference call, conducted on May 6, 2023. The above information is also available on the website of the Company at https://ir.paytm.com/financial-results.

Kindly take the same on record.

Thanking you

Yours Sincerely,
For **One 97 Communications Limited**

MADHUR DEORA
Digitally signed by MADHUR DEORA
Date: 2023.05.11 19:58:35 +05'30'

**Madhur Deora**
**Executive Director, President and Group CFO**

*Encl.: As Above*

**Paytm | Quarter and Year Ended Mar 31, 2023 Results | Earnings Call**
**Date: May 06, 2023 | Time: 11 AM Indian Standard Time**

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**Moderator:** Thank you for joining and welcome to Paytm's earnings call to discuss our annual results for the full financial year which ended on March 31, 2023. From Paytm's Management we have with us today Mr. Vijay Shekhar Sharma, founder and CEO, Mr. Madhur Deora, President and Group CFO. Mr. Bhavesh Gupta, CEO of Lending and Head of Payments and Mr. Anuj Mittal, Vice President Investor Relations. A few standard announcements before we begin. This call is for existing shareholders of Paytm, potential investors and research analysts. This call is not meant for the media. If any media representatives are on this call, we request you to kindly drop off at this point. The information to be presented and discussed here should not be recorded, reproduced or distributed in any manner. Some statements made today may be forward looking in nature. Actual events may differ materially from those anticipated in such forward looking statements. Finally, this earnings call is scheduled for 60 minutes. It will have a presentation by the management followed by Q&A. For 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 their respective sequence. Please ensure your name is visible as first name, full name followed by your company name for us to be able to identify you. The presentation or replay of this earnings call and the transcript will be made available on our website subsequently. With this, I would like to request Mr. Vijay Shekhar Sharma to kindly initiate the call.

**Vijay Shekhar Sharma :** Thank you dear shareholders for joining our call. I'm very happy that we have announced our second successive and continued quarter of EBITDA profitability before ESOP. Obviously, we have said it earlier we are aiming for Paytm to become free cashflow positive in the near future and all this profitability and attention to quality revenues which drive quality profit has been possible because of our incredible team, business teams. I'm especially indebted to their attention, realignment and disciplined assignment of resources that they have pursued in the last year and their amazing efforts and deliveries that have made us successful like this. I also want to share that I'm very proud to see that our teams have been continuously adding more leadership positions and we are continuously adding new teammates there and all this is because we believe that India is offering an incredible, incredible opportunity. I will talk about further growth line items towards the later part of the presentation. Before I start this presentation I want to draw your attention to a Tweet that we have done from Paytm handle and filing that we have done to BSE about our business KPIs of April 2023. Many of you may or may not have seen it so please see it and if you have any questions related to that we'll be very happy to take them up as well.

With this I welcome you to this incredible landmark quarter that we had in the last quarter of FY 23. We got the UPI incentive for all of FY23 in the last quarter so we accounted for that. In this presentation we have tried providing as much details as possible without taking the last three quarters numbers. So all the numbers that we are reporting as expected are including the fourth quarter UPI incentive and in the quarterly numbers we have tried showing you mark to mark exactly how the quarter number would have been if the UPI incentive was not added to this quarter's number. So we are trying that. I'm sure you will be very careful and attentive towards the numbers that we are showing. Like I said, we are repeating that because the UPI incentive of the whole year got achieved in the last quarter, we are giving you a reported number and mark to mark numbers in these numbers. Madhur and Bhavesh will specify when they talk about payments and overall business.

With this as you know that we, by a whisker have missed a rounded off number here and we did Rs. 7,990 crores which is 61% year-on-year growth. We're very happy to report that we have internally kept the key target that we will continue to grow on a particular number in the topline because of the opportunity in payments and credit businesses. I want to use the word payments here because if you notice our payments business is now Rs. 4,930 crores and two years back it used to be around Rs. 2,000 crores. So we continue to see a tremendous amount of growth thanks to the new monetization methods like subscription revenue from Sound Box, EDC devices revenue, and we have now added commercials towards enabling commerce. So we continue to see the payment line item of our revenue and merchant relationship continuously growing. And we are very happy to announce that we have been able to achieve more than 2.9x growth. Meaning it is literally 3x that you would have seen in the last two years.

And this like I say again and again, it is all because the payment is maturing for the merchants. Merchants are making sure that there is a digital payment, mobile payment in their shops, which gives them the opportunity to take up premium products also. So it's a freemium model where merchants get 0% MDR and which is reimbursed to us from the government through UPI payments,, and then we have subscription revenue and extra charges for other payment instruments. So this is what is growing the payment business. I also want to point out that I believe that UPI has started going towards monetization through MDRs. Different payment instruments will come on UPI. Till now, UPI used to be known as bank account led payment and now bank account led payment is what you see. If you saw, the prepaid wallet instrument has an interchange in MDR, meaning the issuer is Paytm. Let's say our Paytm wallet is being used on somebody else's QR the merchant side QR will have to pay us. What we earn is called interchange. What they charge the merchant is called MDR and the delta between them is the revenue that the QR Company keeps. So here it is that QR payments from bank accounts are free, which we believe will remain free in the long term and then there will be other payment sources for example, wallets. This is visibly going to benefit from universal interoperability and acceptability and will also generate some revenue for us.

So, the core thing that I'm trying to point out is that you can see that UPI payment instruments will have different, different payment MDRs or charges to the merchant or they may not have merchant charges because somebody who's offering the payment service to the merchant could absorb it. So let me not say that merchants will be charged or not. Let me say that issuers will get revenue. That is a better way to look at it for you guys. I'm very happy that our payment team has done great market penetration. As you guys are aware, we are a merchants side business. We always call it payments when you are paying a merchant. So, yes, our P2P business numbers are not that great as a market share, we are very aware of it but at the same time we are proud to say when it comes to the merchant, whether consumer making payment to the merchant or merchant choosing a payment solution, Paytm is the market leader here.

Now, due to this and one of the line items that we started growing in 2020, was credit, which is part of our financial services business, and it has done very, very good. As you can see and further details are coming in due course I think the Government of India and regulator have very much clearly focused on expanding the disbursement of credit using digital means here. The idea here is that how can different, smaller loan ticket sizes or various other loans of large ticket sizes also be digitally enabled to be distributed. The keyword is digitally distributed. It is not just about the organization internally managing the digital process but it is about how they can be digitally enabled to distribute. So whether you see conveniences of KYC, conveniences of document and CIBIL scores, etcetera and the processes, clarity is provided in the digital lending guidelines on all those things, and we took clear advantage and we pursued more clarities and you're seeing that year-on-year this number is growing. We continue to believe this will be a key performance number for us to focus on.

And the third line item is our commerce and cloud services. It has a little bit of I mean annually it is showing growth, but quarterly because as you understand that commerce is an activity which is festivity driven and so on so there will be different swings, quarterly, but at the overall level, our commerce and cloud business which includes advertising, marketing and because we distribute co-branded credit cards, so we call it marketing. The keyword here is we don't call it credit because there is no credit relationship or disbursement relationship. We have a purely co-branded credit card disbursement model. So we account for it there led by co-branded credit card distribution, which has continued to grow. So commerce and disbursement of credit cards will be the key drivers. This year you will see that we have last quarter numbers coming up soon to be shown to you, you've seen it, are very, very good. I'm very happy to say that we are focused on not only the revenues, but we are also focused on EBITDA. Obviously, we are talking about EBITDA before ESOPs so that there is no misunderstanding here. It is because of the charges of ESOPs, which we have clarified at different times and reports out there. The nice thing that I want to tell you is that in the past two years, when we have grown our revenue by 2.9x, our margins have also improved by 57%. We in the last quarter even have shown how good this number has been, profitable, actually. So we are very, very hopeful that we would continue to improve and improve on EBITDA over the period and in contribution.

I'll hand it over to Madhur, our CFO here who is going to talk about quarterly numbers and then I'll come back to the rest of the business and Bhavesh will talk about payments and credit. Thank you.

**Madhur Deora:** Thank you, Vijay. Good morning and welcome everyone. It's my pleasure to walk you through our quarterly earnings led by revenue growth that Vijay briefly talked about, a 100% increase in UPI incentives year-on-year from last year when we got about 90 crores of UPI incentive. This year we got Rs. 182 crores of UPI incentive. Our performance has been extremely strong. In the last quarter we delivered EBITDA before ESOP of Rs. 234 crores. Just to dig into that our revenue for the quarter was Rs. 2334 crores. Our revenue growth was extremely strong at 51% year-on-year. Out of this Rs. 2334 crores, Rs. 133 crores pertain to UPI incentives for previous quarters that we happened to receive in the last quarter so we have tried to normalize for that. If you exclude that Rs. 133 crores then our revenue would have been Rs. 2200 crores with 43% y-o-y growth. Our contribution margin has grown dramatically. This trend continues over the various quarters that you have been tracking us. On a year-on-year basis, our margin improvement is 20%. We delivered Rs. 1283 crores of contribution margin but once again if we take out the Rs. 133 crores for previous quarters then that number is Rs. 1150 crores or 52%. So we have seen expansion in this number in this quarter again.

EBITDA before ESOP expense improved by Rs. 602 crores on a year-on-year basis; a year ago we were at Rs. 368 crores negative EBITDA. This year last quarter we were at Rs. 234 crores positive EBITDA and we have had a margin improvement of 34%. But once again if you make that adjustment of Rs. 133 crores that I talked about, we delivered Rs. 101 crores of EBITDA before ESOP cost and a margin of 5%. So there has been a continued expansion in our EBITDA and as Vijay mentioned, other than some extraordinary circumstances we expect to be EBITDA positive going forward and aim to start generating free cash flow very shortly.

Going back to the core business model of payments and loan distribution and collection where we are seeing expansion of our platform, our average monthly transacting users has grown 27% year-on-year to about 9 crores average monthly transacting users as of last quarter. Our merchant subscriptions which primarily comprise our payments devices business has grown to 68 lakh merchants. So there is a huge expansion of technology adoption by our merchants and over the last few quarters we have been relatively steadily adding about ten lakhs a quarter and we expect that pace to continue or improve a little bit.

On the back of our payments business, we leverage our ability, our brand, our distribution, our data insights and our technology to distribute loans and as you know we help our partners collect those loans as well. Last quarter we did Rs. 12,500 crores of loan disbursals and we are seeing significant y-o-y and q-o-q growth.

A little bit about our breakdown of revenues; our payments revenue was nearly Rs. 1500 crores. It grew 41% year-on-year but once again adjusted for the Rs. 133 crores that we talked about earlier, that number was 28%. Our financial services revenue grew to Rs. 475 crores, driven by the increase in our lending business. Our commerce and cloud business on a year-on-year basis went up 23% and we'll talk about that some more.

On payments revenue like I mentioned, we have seen 28% year-on-year growth. Our net payment margin has been a continuing improvement story and we have focused on how we can monetize payments better and keep our costs under control. So our like-for-like payments revenue is 28% and our like-for-like net payment margin after taking out payment processing costs is Rs. 554 crores last quarter. If we add back the Rs. 133 crores then you get to the reported net payment margin number. So while we think the Rs. 554 crores is the relevant number, we have given you the Rs. 687 crores as well, just so that you can tie it back to our financials. This as you know comprised two main line items. One is net payment processing margin. In December we said that this number is in the range of seven to nine basis points and we do expect that to go over time to five to seven basis points. But we are happy to report that currently we are at the high end of the original seven to nine basis points and are currently not seeing downward pressure. In fact we are seeing various opportunities to keep working on this and improving this. And of course our merchants, 68 Lakh today, pay us for the subscription revenue which also continues to scale very quickly. I'll turn over to Bhavesh to talk about the lending business.

**Bhavesh Gupta:** Yes, thank you Madhur. Hi, good morning everyone. On the lending side of the business we continue to see decent momentum in growth, both in a consumer and merchant loan distribution. Important to note here is that we're now getting more secular growth across the three businesses. Merchant loan as a business seems to be performing much better on a smaller base because last year was impacted byCOVID. We've said it in the past that we'll continue to calibrate our growth as we see the scale of business become larger because our focus is not entirely on volume of disbursement but also the quality of portfolio. I am happy to inform you here that while we grew our year-on-year business by 253% and quarter to quarter again by almost 25% to Rs. 12,554 crores, each of the individual line of businesses have also been growing almost in the similar range bound model, especially personal loans and merchant loan businesses, which are extremely profitable both for us and for our lending partners and Postpaid as a business which is also profitable and provides us a great funnel to up-sell personal loans, merchant loans and credit cards.

I want to draw your attention to the graph on the right side table. We have a very large MTU base and the MTU base grew by 27% on a year-on-year basis. In spite of that, our focus has been to make sure that a very limited set of users and merchants are getting access to credit, meeting the appetite of our lending partners. More importantly, we set for ourselves a very strong portfolio governance model wherein while our lending partners could assume an elevated loss provision, we continue to have a more conservative view. We would not like any distribution of credit originated through Paytm platform to perform beyond our own credit expectation, which is far more conservative than the lender's expectation. And in that context, as you can see, that our penetration to MTU continues to be very, very low, indicating two things (A) the runway of opportunity for us is significantly larger than what we have exploited, and (B) we continue to grow and be very selective on both Postpaid, merchant and personal loans on our system.

The portfolio in Q4 performed better versus Q3. We have been very calibrated in making sure that the personal loan entry rates, which is basically a portfolio construct that we are focused on, dropped by almost a percent. We were operating closer to 11.5% on a blended basis. Now we are in a range bound between 10.5% to 12%, which inclines towards elevenish. We are also seeing a drop in entry rates for postpaid. They're now closer again to elevenish percent but we continue to believe that these will only become better. This is because we have further tightened our underwriting models with our partners owing to the very decent growth that we are experiencing. On an overall basis our expectation is that the portfolio quality will remain stable and maybe we will be in a position to have a much better portfolio quality being demonstrated in the subsequent quarters. We've already seen, especially in postpaid, that from the last quarter wherein our expected credit loss by lending partners used to oscillate between 1 to 1.2%, it has dropped down to 0.75% to 1%. And we and our partners feel very comfortable that this particular ECL for Postpaid, which is almost 50% of our loan business, will continue to perform like this or even get better. So all in all, I'm happy to inform you that we continue to demonstrate good growth in terms of distribution of credit and at the same time get much better portfolio performance than expected by lending partners. And as we look into the next year, our belief, it is our focus will be a lot more on portfolio quality, given elevated interest rates in the market than growth, and hence be able to maintain profitability of this business much better, in spite of the fact that we will calibrate our growth as we see the overall interest scenario far more closely and the overall credit scenario far more closely into the next year. Back to you Madhur!

**Madhur Deora:** Thanks Bhavesh. I'd like to talk about commerce and cloud business. As you know here, we have two broad sets of businesses. One is commerce where we sell travel, movies and events tickets and deals and gift vouchers to our customers. Last quarter we did Rs. 2185 crores of GMV in this business which was up 22% year-on-year. This is despite the fact that as you may be aware the entertainment side of business, especially movies, has not completely come back to pre COVID levels and it's still seasonal and goes sort of up and down depending on the quality of the content. We did see a slight decline on a quarter-on-quarter basis. This is because, like we mentioned in the last quarter results, we do events business, some of them on a sort of full stack basis which is to say we have a very high take rate on those but we also have very high direct cost. That business is seasonal. It usually peaks in Q3 and it comes off a little bit in Q4 and Q1 and Q2 are more subdued. So we have also indicated that our take rate, which over the last two quarters has been closer to 8%, should revert back to 5%- 6% as we sort of experience seasonality.

On the cloud side of business just to remind everyone, we offer advertising, marketing, loyalty services to various enterprises and we also distribute co-branded credit cards. Our co-branded credit card business has continued to scale very well both in terms of new card issuances as well as spends; we have now 5.9 lakh activated credit cards with our partners as of March 2023. So we saw an increase in that but we did see a decrease in our marketing cloud business. Just to remind everyone, our marketing cloud business is where we provide marketing and up-sell services to telecom companies and enterprises. This is a business that Paytm has been in for over a decade - it is not a very fast road business and it has been sort of under some amount of pressure. Having said that, I would just like to point out that it’s contribution to our overall revenue is less than 3%. So it's not particularly material in terms of overall growth rates and so on.

And finally, we are launching a co-branded RuPay credit card very soon. So we wanted to take this opportunity to make everyone aware of that. And with that, I would like to hand it back to Vijay to talk about the growth drivers. Thank you.

**Vijay Shekhar Sharma:** Thank you. Thank you, Madhur. The RuPay credit card will be really interesting as you all can understand. RuPay Credit Card will come on UPI rails also so we've been trying to work it out and I want to point out what is on the right side to you. This is a dynamic QR device that we have refreshed as part of our portfolio. This is a device that is integrated with what you might have seen in various stores out there. When you go to a large enterprise store, it is integrated with the billing POS and when the merchant generates the bill, it automatically dynamically shows the QR and obviously being Paytm QR it allows postpaid, wallet and everything else to be accepted and obviously other UPI apps can also be used to pay. So I'm very happy to tell you that it is part of the device portfolio, which we've refreshed. Secondly, what we've done with our Sound Box which is a very legendary device, I mean the amount of love that we get for Sound Box from merchants and consumers is incredible is continued enhancement and investment in its hardware. We want to remind you that we treat it as one of the key portfolio offerings of our services. We launched a 4G enabled Sound Box last year. 4G enabled device means that it can run faster, has better battery efficiency and so on. So it now has seven days of battery backup, kind of industry leading backup and I'm very proud to tell you the things that Bhavesh’s team did in the market is that even though there were many companies which thought that they will throw free devices in the market but because of the cost, because of servicing, because of features, it didn't even see the day. And we actually continue to grow more and more in the market.

Incidentally, what we are seeing is that when more players come, the product becomes more mature in the market and the market understands it and then superior products win. So for us, we're seeing that there are many people who are launching Sound Boxes and that is growing our opportunity in the market and I put the word growing our opportunity because ultimately this product is an outcome of last four years of R&D and efforts and now that it is made software and hardware wise completely by us so it is something that people will take time to even understand.

Here it is, in technology. We also launched our new technology platform and it is very important for me to tell you that this was a key milestone behind the scenes. This is where the engineers were invested and I want to share that we are going to release some engineers from here but we would assign them to other businesses and technology. So you would remember in December when we had done the analyst call, we had suggested that we are sort of sorted out except for strengthening and linear increase in engineering and technology. The good part is that this technology platform will take us to 10x more transactions of current scale, obviously we are handling hundreds of billion dollars of merchant payments and I'm calling this out as a merchant payment because P2P technology is owned by Paytm Bank, it is not related to us and it is P2M payment, which is merchant payment platform that I'm talking about.

The beauty of this is that, this is 100% indigenously developed technology including risk operations et cetera. And that will actually take us to the next level because I don't think the kind of features that we have added, people are seeing today. Obviously artificial intelligence, AGI, will play an important role here for us in this, especially for protecting frauds, et cetera. I'm very happy to announce that our fraud rates and as they call it fraud to sales rates are not just industry leading but startlingly incredibly better. Whether we talk to the government or regulators, they are very happy seeing what we've done and how we have started using artificial intelligence in our business. So this is our payment update on systems for merchants.

You all are seeing that we have launched UPI Lite. If you have not, please use Paytm app and now more banks have started coming on UPI Lite so it is scaling. UPI Lite enables payments of small amounts without requiring a PIN. It is not offline just in case, and the balance is maintained on the device side instead of at the bank. So the bank led failures are sorted out. It is even better. So we've launched it and we already have 55 lakh customers on it. We've done transactions in crores, so it is taking up very, very well.

On the consumer side we have wallet interoperability. We've been waiting for this to come for a long time. What it does is that it allows us to get Paytm wallet accepted on all the UPI QR. Although we are the largest QR or largest acquirer of merchants, there are tremendously large potential merchants whom we would want our Paytm instruments or Wallet et cetera to go. And that is what we are expecting. It is not commercially live or agreement wise live, et cetera, et cetera but everybody has to launch. So you expect it to take at least two quarters for material important contributions to show up in our numbers, et cetera.

And that also brings us to show that the wallet has grown. So you can understand that wallet, UPI, all of the Paytm instruments are as uniquely available and will have the advantage of being available across every merchant that will allow us to invest even more in merchant acquiring and consumer growth. I want to call out consumer growth investment here because of the extra profits that we have started to make. While we continue and we said it in the previous quarter and earnings also that while we continue to invest, we continue to commit to incredible market opportunity which requires us to expand and invest in consumer growth. We believe this will not materially cost us in our profitability. So in other words, our profitability and revenues continuously grow even when we will do these investments. It's an important thing.

Finally, as you all are aware, our business of financial product distribution and it is led by credit. So we are signing up large NBFCs and banks and we already have a couple of them which are very, very interested, in the queue. But as we are aware it takes a lot of technology for the partner to become Paytm partner. In fact, I want to share one extra thing here that in the last month, month of April, one of our lending partners went through significant IT outage and because of that significant IT outage, they were not able to disburse loans to many of the customers whom they sort of had disbursed loans earlier to. So no top-up loans or potential loans. So if you see our April numbers, especially in the merchant base, they are seemingly flat out there. It is because there is a lot of technology stress on our partners continuously. So we are adding more banks and NBFCs and in fact some announcements are queued up before the next quarter. So you would see that.

And I think whether you look at payments on the merchant side, whether you look at payments on the consumer side, whether you look at our credit disbursement, these are core businesses. In addition to this like I said, we are enabling AGI and I don't want to call it AI. I only want to call it AGI, Artificial General Intelligence here. The reason that I'm calling it out is because that is incredible technology that I believe will change how we use the server side components. For example, like you're talking to a server which is configuring and you have a workflow and then instead of this you can talk to it. So let me give you an example here. Many of us who are old internet users, can imagine that currently it is as if the internet is currently being navigated like a Yahoo directory and search on Yahoo directory versus search on Google where you can search what the destination has. Now that is the leap what I'm talking about. AGI is for the business and we are committed to it and have started investments already. So you will see that there is a large amount of products which are AI first or AI enabled coming from our family. And the best part like I said is that we don't need to allot extra dollars to it because our platform that we got expanded here is giving us an opportunity to expand on that side.

With this I want to say thank you and we look forward to getting as many questions and understandings that you seek and thank you for championing. I see very detailed narrations about our business which are getting clear and clear. So thank you so much for that. I look forward to the questions.

**Moderator:** Thank you Vijay. We will now proceed to Q&A. Reminder to utilize the raise hand feature on your Zoom dashboard if you seek to ask a question. We will unmute your line and take questions in the respective sequence of raised hands. With that, the first question of the session will be from Ankur Rudra from JP Morgan. Ankur, your line is unmuted.

**Ankur Rudra:** Hi, thank you for taking my question. So, my first question is on the payments business. We've seen one of your peers scaling quite rapidly in recent times with a similar product. I think you referenced that. Is there any pressure on subscription charges for the Soundbox portfolio or the net payment margins from this?

**Vijay Shekhar Sharma:** No, actually it is increasing the opportunity for us because more merchants will take our Sound Box given the product maturity and our product pricing. The market has aligned to the pricing that we were giving; it was priced zero and it has, over the period, become the same price as ours.

**Ankur Rudra:** Okay, thank you. Second question is on financial services. I did notice that the effective take rates on the loans for the quarter have become a bit muted versus what we saw in the previous periods. Is this due to any change in collection incentives or changes in the take rates from your partners?

**Bhavesh Gupta:** Yes Ankur let me clarify this piece. You're aware that in our business model, our lenders keep some elevated provisions because they don't know at the scale at which we operate, what actually will be the loss rate. Now what happens over a period of time, as they see the portfolio perform, especially in a product which is short-term credit like Postpaid, that the portfolio performance is much better than what they were keeping elevated provisions, we try to work with them to bring the provisions closer to the actual provisions. Now, that is what has actually happened in Q4 especially in a product like Postpaid, given the steady and improving quality of the loan book, we've seen the lenders are becoming more comfortable with portfolio quality and hence they have reduced the excess provisions that they were keeping on this portfolio, thereby reducing our opportunity to build them more and collect over a period of time. So the EBITDA doesn't change. The gross revenue that we used to bill them because they were keeping higher provisions has gone away in a product like Postpaid. That's the reason you're seeing a marginal drop in take rate, but our overall EBITDA remains the same or actually becomes better.

**Ankur Rudra:** Okay and this is connected to the change we see on a quarterly basis on your ECL, your bounce rate, et cetera?

**Bhavesh Gupta:** Yes and that is what I pointed out in my previous conversation, that we were having our lenders keep an ECL of 1.2% in Postpaid, which dropped to 0.75% right? So our intention is that the lender should be far more comfortable and not keep a lot more elevated provision. So in Postpaid, because it's a 30 day product, they have now become extremely comfortable and hence their need to keep extra provisions to accommodate any kind of deviation quarter on quarter, has reduced significantly. So that is the reason why the gross revenue is billed less, whereas the net rate, net revenue continues to be higher for us.

**Ankur Rudra:** Okay, understood. This is the last question on the tech upgrade that Vijay you referenced. Is there any kind of capitalization for the tech platform upgrade that we should expect in the accounts?

**Madhur Deora:** There's an extremely small amount of employee cost that we have capitalized. I think it's about three or four crores for about a twelve month period in which we have built out the new technology system. So, yes, there is an extremely small amount of capitalization that our auditors have asked us to do.

**Ankur Rudra:** And this capitalization would be over a period of roughly how long?

**Madhur Deora:** Historically it was done for roughly twelve months. Just to be clear, the capitalization for the tech system that you talked about, I'm assuming you're talking about the first bullet point on the growth driver which is what we internally call the 2.0 system. is now completed. We had done a press release on this in early March. So that entire project took about twelve months. And over that twelve month period, we did about three crores a month. And we're not doing that anymore because the project is finished.

**Ankur Rudra:** Okay, understood. Thank you and best of luck.

**Madhur Deora:** Thank you Ankur.

**Moderator:** The next question is from Jigar Valia from Om Group. Jigar, your line is unmuted.

**Jigar Valia:** Thanks for the opportunity. Congratulations on the great performance. A follow up question with regards to the net take rate. There is less need for the buffers or provisions that the lenders need to keep and accordingly, we can kind of also invoice them a little lower so we can map the gross take rate in which we can see the pattern, but if you can help understand the net take rate and it would get adjusted under which line item on the expense side, if you can help with that, thanks.

**Bhavesh Gupta:** So there is no expense as adjustment to this entire thing. What ends up happening here is that as we've explained the business model earlier, there is a distribution revenue which largely remains unaffected by any change of portfolio and then there is a collections revenue. Now if the lender keeps higher provisions since they believe the portfolio may not perform as well as we believe it will perform, we will bill over a period of time. But what is happening for a product like

Paytm Postpaid, because it is a short term product, the portfolio performance is very well established. So we bill less and hence we get less. So only on a gross to gross basis it will optically appear that our take rate has gone down, but if you look at the contribution profit or the EBITDA, that remains the same or actually marginally becomes better.

**Madhur Deora:** May just add, if I understood your question correctly, what Bhavesh described as bill less is in the payment processing cost line.

**Jigar Valia:** In the payment processing cost line, so good that was what?

**Madhur Deora:** So for example if this trend was to continue and we were to further make changes, then the payment processing cost would go down marginally and the revenue side of it would go down marginally.

**Jigar Valia:** Got it and this should lead to a contribution margin to be higher than 50%, which used to be earlier. Because of this accounting probably it shouldn't move slightly upwards of 50% and stay that way?

**Madhur Deora:** Yes, it does because you make the same amount of money on a slightly lower revenue base, the contribution margin upwards and there are also some sort of tax and other efficiencies that we get out of this.

**Jigar Valia:** Got it and on the gross take rate, if it is right now say close to 3.5% on a blended basis that would be more of a steady state number rather than 4% plus?

**Bhavesh Gupta:** Yes so Jigar yes to that question but what we have seen is that this will oscillate depending upon which business contribution we're making more versus less. So there are quarters like in Q4, Postpaid was marginally higher than 50% and personal and merchant loan was at 45%. So if the personal loan and merchant contribution is a bit more, the 3.5% could become 3.75% but Yes, the better way to do it is that it will oscillate between 3.5% to 3.75%.

**Jigar Valia:** Perfect. That helps and the last question from my side is...

**Madhur Deora:** Jigar, let me just add to that, payments MDR that we get from merchants on Paytm Postpaid is recorded in payments revenue because all MDR regardless of instrument, is recorded there. So while you're absolutely right in tracking this line and dividing it by the disbursal value to get to a trend line, I want to point out that what we report as financial services revenue is not all revenues related to all loan distribution products. The MDR from Postpaid does come in the payments revenue.

**Jigar Valia:** Understood. Thanks Madhur for that clarification. Just the last question from my side. Is it possible to, on a pro-forma basis give the UPI incentive for Q1, Q2, Q3 because having just for Q4 again makes it non-comparable. You've tried to be as elaborate as possible. I understand, but maybe on a pro-forma basis.

**Madhur Deora:** So Jigar, we have said that out of the Rs. 182 crores that we got for the full year, Rs. 133 crores was of previous quarters which means that Rs. 49 crores was for Q4 so if you were to carve out the Rs. 49 crores from our reported number which is Rs. 101 crores, then you get to Rs. 52 crores of EBITDA excluding incentive for Q4. So if you exclude even the Q4 UPI incentive from Q4, then the number that you get is Rs. 52 crores.

**Jigar Valia:** Got it. Excluding the UPI it is comparable, I cannot map the UPI incentive for Q1, Q2, Q3 separately that's...

**Madhur Deora:** Yes, so Rs. 133 crores, you can broadly assume that it was growing at 5%-10% quarter-on-quarter. So the last quarter number, I think was closer to Rs. 45 or 50 crores.

**Jigar Valia:** Understood, it helps. Thank you very much.

**Madhur Deora:** So it's relatively evenly distributed but of course, some q-on-q growth amongst those three quarters.

**Jigar Valia:** Helps, helps, thank you very much. Thank you.

**Moderator:** Next in the queue is Suresh Ganapathy from Macquarie. Suresh, your line is unmuted.

**Suresh Ganapathy:** Okay so just to understand this better on this take-rate thing, what you are saying is that from an accounting standpoint, when your provisions in the Paytm Postpaid business is better than expectations or the loss rates are lower, your revenue line item shows a lower take rate, but at the same time, the payment processing cost also comes down. So net-net on an overall basis, it remains more or less the same. It doesn't affect the overall EBITDA. Is that the interpretation right from an accounting standpoint?

**Madhur Deora:** Yes, so the take rate would be the same, perhaps slightly better, the profitability will be the same or slightly better.

**Suresh Ganapathy:** Okay, just to repeat again, part of it gets adjusted in a downward revision in the financial services distribution line item, and part of it will get adjusted in the downward revision in the payment processing cost. The payment cost which includes the payment processing charges will also come down.

**Madhur Deora:** I wouldn't think of it as splitting it into two parts and maybe Bhavesh you can add. What we are saying is that the cost impact is seen in the payment processing cost line item. The revenue impact of nearly the same, perhaps slightly lower, is seen on the financial services revenue side.

**Suresh Ganapathy:** Okay so the overall EBITDA doesn't change much. Okay, fine. The second question is, can you let us know how many Banks and NBFC partners you have on the lending side, and if you can give the proportion, it would be great in value terms.

**Bhavesh Gupta:** Yes so Suresh, we have seven partners today, two banks and five NBFCs. Unfortunately, we do not have the, I would say, approval from our partners to declare individual disbursement values but I can tell you that our business is fairly well spread. It's not concentrated to one or two partners. While some partners are very comfortable doing Postpaid and personal loans, some are more comfortable doing merchant loans. But if they are comfortable doing a business, they will do that business materially with us and not a very small portion. And having said that, we also are now in the midst of adding more partners, and we will be announcing partnerships with some of the new large NBFCs and banks in due course of time, starting from June.

**Suresh Ganapathy :** Okay. It's not possible to share the share of the largest partner also?

**Bhavesh Gupta:** Unfortunately. So we don't have, what can I say, agreement with our partners to share their portfolio in specifics. Some of the time they're asked can we share a particular lender portfolio, et cetera, or the disbursement value because some of these are listed entities, as you understand. So if they were to declare individually in their announcements to investors, we'd be more than happy to share. But we currently do not have the approvals from them.

**Suresh Ganapathy:** No, because simple math says that the average share is 15% per partner, right? So I'm pretty sure that it is not going to be distributed uniformly at 15% across the seven. So there is a possibility that a partner will be greater than 20%, if I were to simply do the math, so I just wanted to understand that as well.

**Bhavesh Gupta:** Yes Suresh, as I said that not every partner does all our businesses. So let's say partner A will do only Postpaid and personal loans because that's generally the combination but then we have partners who only do personal loans at a large scale. So if I'm doing, let's say, Rs. 1400 crores, they could be doing 50% of the PL volume with us and there could be another two partners doing 25%, 25% each. Similarly in merchant loans, there are partners who will do 50% of merchant loans with us and then another three partners will do 15%, 20%, 20%. So depending upon their risk appetite and where strategically they want to calibrate their ROIs et cetera, they pivot their business. What you're saying is right, but it is not very concentrated also. That's the comfort I can give you very clearly.

**Vijay Shekhar Sharma:** Yes important thing that I want to add to what Bhavesh is saying Suresh here is that, as per our internal KPIs as soon as we start crossing two digits of their disbursement, we start to make it clear that we need to add or divert transactions or requests of loan disbursement to some other lenders. So our continued aim is to remain at a single digit distribution of their overall book.

**Suresh Ganapathy:** Okay and in this 2 and 5 that you're talking about HDFC bank is not included right because they are just a credit card partner?

**Bhavesh Gupta:** No, they're included because credit card, while we book that in our cloud revenue, is a business which is driven with our lending partnerships and we also are currently in conversation with not just HDFC, but other banks to do more credit card distribution and loan distribution. So we kind of do not differentiate between the four businesses when it comes down to banks.

**Suresh Ganapathy):** Yes, but then Bhavesh this is 1 and 5 and not 2 and 5 because HDFC Bank doesn't give a single rupee of that Rs. 5000 crores of loans that you have disbursed this quarter. I mean, this month rather? So it's effectively six partners giving you that Rs. 5000 crores that month and not seven partners because HDFC Bank doesn't have any lending relationship with you guys.

**Bhavesh Gupta:** That's one way to look at it but we have with each partner, including the bank we have agreements with, to do multiple products. But it is a sequence of events that we go with. Currently we're doing cards, but obviously in the future, not just with HDFC, but with other banks also, we intend to do loan businesses with them. It's just how technologically we want to sequence, we scale up with each partner.

**Suresh Ganapathy:** Okay.

**Bhavesh Gupta:** What you said is right that if you want to do mathematical assessment, we can divide it by five or six partners that we currently are doing Rs. 4400 crores of business with.

**Suresh Ganapathy:** Yes, so that comes out to be almost 20% per partner on an average if I would do the simple math. So that's the only concern here. Okay, no problem. It's pretty clear. Thank you so much.

**Bhavesh Gupta:** The only clarification also Suresh here is that as you understand it equally well, while on gross disbursement basis it may appear that we are doing less Rs. 1000 crores or Rs. 800 crores per partner but because 50% of this business is Paytm Postpaid and it just runs off in 30 days. From a purely AUM origination perspective, the number is 5-6%. So it is not a concentration at all.

**Suresh Ganapathy:** Yes, that's clear. That's fine. Okay, thank you so much. Bye-bye.

**Moderator:** Next in line is Bhavik Dave from Nippon. Bhavik, your line is unmuted.

**Bhavik Dave:** Yes congratulations on a good quarter. Just two, three questions; one is on the operating expenses and specifically on the indirect expenses. We have incurred Rs. 1000 odd crores that has remained flat for four quarters now. I just want to understand how we should think about it? Can this be controlled or can it grow in a reasonable way versus our revenue? I just want to understand as % of revenue it's come off from 60% to 45% how do you think about this line item? That's question number one.

**Madhur Deora:** So, Bhavik, a couple of points on that. So one is, on the employee cost, we do have an appraisal impact in Q1 of every year. That's something that will be there and should be factored in. The second is like Vijay mentioned, given how well our monetization engines are working, both on payments and on lending, as well as in commerce and cloud and the way our contribution margin and EBITDA is growing, we do see opportunities to continue to invest on merchant acquiring sales teams as well as on the marketing side. But we're going to grow this in line with revenue, obviously not as fast as revenue, but we're going to grow this to support revenue and to make sure that monetization is coming out of that as opposed to significantly ahead of that. So as we grow as a platform, we will make investments in sales, marketing and obviously technology and plus the appraisal impact but we're very conscious that we want to get to higher EBITDA profitability and cash flow profitability and we believe we can do both of these things in line with each other.

**Bhavik Dave:** Great, that's useful. I would like just one clarification in terms of promotion and cash-back incentives. I see that the number quarter-on-quarter has come off. Is it purely seasonal or is there something more to begin with because our MTU and devices and all other things are growing and customer acquisition is quite healthy but this promotional cash-back incentive number. Obviously we can't compare it with last year or two quarters back because we had that payment processing bit that was re-classified but from a quarter-on-quarter basis it's just purely based on the seasonality, right? That's the way to think about it.

**Madhur Deora:** A little bit of seasonality in there because in Q3 when we have festive related sales we do support some of our online partners and those sorts of things so there's a little bit of seasonality in there, but I think it is also fair to say that we are very sharp about the promotional cash backs in the company and so we do think that unless something dramatically changes on the monetization side, taking a number of something like 2.5-3bps is probably the right level for our scale.

**Bhavik Dave:** Understood and sorry just to dig a little deeper, the other expenses part, like that number remains reasonably elevated. What exactly would be the one or two large elements of that Rs. 190 odd crores that we have this quarter?

**Madhur Deora:** Yes I assume you're referring to other direct expenses?

**Bhavik Dave:** Yes, yes, yes, correct.

**Madhur Deora:** So part of it is because of the events business like I mentioned earlier, that in our events business there are certain events that we do where we have very high take rate but we also have very high direct expenses. All those events are profitable. So in the last quarter and this quarter you would have seen an elevation in that season. If this revenue from events goes down in Q1 and Q2, then you'd also see a reduction in other direct expenses. So that's one part of it. The second part of it is some of the collection costs related to the lending business also goes there so while we become more efficient in collections overall but because we have the scale up of the amount of disbursal and amount of collections that we do, some of the costs are related to that also go into other direct expenses.

**Bhavik Dave:** And the event driven revenue line items will come into commerce a bit. We've not seen any major increase there this time around. So I was just wondering if the cost may be a little inflated or higher than what you would have anticipated. Sorry, one last point on the same on the expense spend is the sales employee force that we have is like now normalizing in that 28-29,000 odd number of people. The productivity remains broadly at like 12-13 devices per month kind of number for each individual. Do you think that this number will remain in this 28-30,000 range or will increase materially from here? Are we having the right number of people to add that 1 million odd devices every quarter? Is that the fair way to think about it that they are reasonably productive and this is how it will go about or it can be improved from here?

**Madhur Deora:** I will let Bhavesh...

**Vijay Shekhar Sharma:** But Bhavik I must say meticulous math so over to Bhavesh.

**Bhavesh Gupta:** So Bhavik, productivity obviously is an area that we continue to work on and our business is more of a function of technology. How much technology we can give to our front end that they are timed to onboard a new merchant is faster, right? And that's a very large area of focus that we are able to bring in and I can tell you some metric that used to be x number of minutes and now it's dropped by 20% and every quarter we intend to bring it down. That's the product that we keep building on. But what we've seen is that both due to our expansion in geography, the demand for a product like Sound Box in Tier III and Tier IV cities is also very large. So we will be driving more productivity as we've been driving, but we also are now expanding and hence our belief here is that these million boxes that we were able to grow last year secularly this number can be moved a bit more. And if there is an opportunity, and we believe that there is, we'll expand our sales team further.

**Bhavik Dave:** Perfect and last question sorry the data point on subscription revenues what will be that number this quarter? Will it be in that Rs 171-80 crores range, Rs. 180 crores odd range where it will be this quarter?

**Madhur Deora:** So it continues to grow with the number of devices deployed so it has gone up about 15-20% quarter-on-quarter.

**Bhavik Dave:** Great. That's very helpful. Thank you so much Madhur, thank you.

**Madhur Deora:** Thank you Bhavik.

**Moderator:** The next question we'll take is from Sachin Salgoankar, from Bank of America. Sachin, your line is unmuted.

**Sachin Salgoankar:** Hi, thank you for the opportunity. I have three questions. Firstly, Madhur I would like to understand what kind of a steady-state contribution margin and steady state adjusted EBITDA margin one could look at because clearly you guys have seen a strong improvement in contribution margin even this quarter you had adjusted for the accounting change, you're seeing a bit of a margin improvement. So I just wanted to understand that.

**Madhur Deora:** So I think on contribution margin Sachin we have come a long way from where we were even two years ago to now and we believe that payment profitability and the mix of lending we don't believe that's, the payment profitability and the mix of lending has contributed to that. So we think that on a contribution margin, this is probably roughly the right level with some room for improvement. In both on the payment side as well as from lending, just because of the mix effect of lending growing a bit, growing significantly faster than payments or commerce and cloud. So we think we'll see some upward trends there, but it won't be as sharp at all as we have seen in the last year or two years. On adjusted EBITDA, it's hard to sort of talk about a steady state because now we have sort of reached this level where we have a certain amount of revenue call it a billion dollars for last year, Rs. 8,000 crores for last year and about Rs. 9,000 crores for the last quarter run rate we have 50 plus percent contribution margin and we have a certain fixed cost base. So then it just comes down to operating leverage in the business which we think is very, very significant going forward because almost everything that we have built is technology led and there's a significant amount of efficiency that you can get out of that. So I think that the operating leverage story will continue for many, many years which is also to say that adjusted EBITDA should continue to move upwards for many, many years as long as we're seeing operating leverage.

**Sachin Salgoankar:** Okay, so Madhur to look at it the other way in the next couple of years, there's room for this adjusted EBITDA margin to move to around 10% plus?

**Madhur Deora:** I don't want to give a specific number here, but yes, there is room for adjusted EBITDA margin to keep moving up as we get more and more operating leverage. What I know is that our projections for this year assume significantly higher revenue growth than indirect expenses growth, right? So when you sort of put that in the model with even if you put a steady state contribution margin, even if you don't assume any improvements in that, it translates into meaningful EBITDA expansion.

**Vijay Shekhar Sharma:** So I'll take it to the next level. Sachin, the word that I used in the beginning of the call, AGI or Artificial General Intelligence means that a lot of work that humans do for us from onboarding to the customer care to the fraud detection to every decision that we make, there is a large operations team that we also have and I'm going to say that not only those will get more efficiently done using AGI that we are adding in our machines, it will also make us scale to another level of solutions. And now I also see trends where other companies which have not been able to scale technology like this, are starting to fall behind us. In other words we will become scalable with non-linear costs and the market will grow and competition will probably reduce to fewer players. That is why Madhur is saying that there is a space for improvement.

**Sachin Salgoankar:** Got it, pretty clear Vijay. Second question when we look at your depreciation amortization clearly we've seen a sharp increase on a Y-o-Y basis and one understands that’s mainly on the back of Soundbox and to earlier Bhavik's question I guess you guys gave a bit more clarity in terms of the outlook of the Soundbox. So is it fair to assume that this number will continue to increase or are we coming at a point where this might peak at some point maybe this year and then it could stabilize?

**Madhur Deora:** We do depreciate devices for financial accounting purposes quite aggressively. So two years in the case of Soundbox and three years in the case of devices, which we also think is significantly more aggressive than the useful life that we can get out of these devices. And as a result, we have seen this big increase in depreciation with the scale at which devices have grown. We do have extremely ambitious plans to continue to expand devices in the country over the next two or three years. We think that there is a clear runway to be able to do that. So I think the depreciation number itself, you should expect for that to sort of continue to grow. Last year it grew 200% year-on-year so clearly it won't grow at that level but you should expect that Capex translating into depreciation will be a factor in our net income.

**Sachin Salgoankar:** Got it. And last question wanted to know your thoughts on the recent comments by RBI on credit on UPI. How could we look, what could be the impact of that on the overall Paytm business?

**Bhavesh Gupta:** Certainly it's a very welcome move in totality. The fact that India has significant opportunity for small time credit any disbursement which can be made more frictionless and seamless, which is what the intention of Reserve Bank of India is to allow overdraft accounts to be used by linking on a UPI rail and hence users can go out and scan QR and kind of consume the credit It is a fantastically welcome move. What is yet to be clarified is the commercial architecture around it. What is currently known on the previous product which is overdraft on UPI rails, the MDR was similar to credit card. That adoption has been much lower but I'm assuming looking at credit cards on UPI, if you look at that commercial in which you have less than Rs. 2,000 transactions free etc, if that commercial understanding was also on credit on UPI, then we could see some adoption happening in this area. And as an acquirer, we will only benefit with more funding sources getting added to the UPI QR payments. So we welcome this move.

**Sachin Salgoankar:** And Bhavesh do you see competition increasing on back of it?

**Bhavesh Gupta:** Competition in terms of credit?

**Sachin Salgoankar:** Yes, more banks and now anyone could sort of give credit on UPI, right on the back of that?

**Bhavesh Gupta:** Yes so we don't give credit on UPI because our partners are NBFCs who are yet not allowed to give credit on UPI. I'm assuming it will come over a period of time, but I guess, others said we don't see the competition is going to increase or decrease. There is room for a very large number of players in this space. We've been trying to achieve this objective through proprietary engagement with our partners for Postpaid. If tomorrow there is more acceptance of credit on UPI, it is only going to make the product more meaningful, even Postpaid for us. So I think it'll only expand the market. It's not going to bring more competition.

**Sachin Salgoankar:** Got it. Thank you all the best.

**Moderator:** Thank you, Sachin. Given the current queue of questions, we're going to extend the call by 20 more minutes and take as many questions as we can in that time. The next question is from Mr. Saurabh Kumar from JPMorgan.

**Saurabh Kumar:** Just two questions so one is just on this contribution margin so if we exclude the UPI incentive this quarter, then your margin has not gone up quarter-on-quarter despite the mix improvement, is it a fair understanding?

**Madhur Deora:** Yes, I think it's fair that the contribution margin has been flattish Q-o-Q.

**Saurabh Kumar:** Okay. The second is on your device's activation rate. What should we assume as the activation rate?

**Madhur Deora:** Yes so we've given this number, Soundbox oscillates between 80%-85% and that's been a consistent number. That number hasn't reduced in spite of the scaling of that business.

**Saurabh Kumar:** Okay so what I'm trying to calculate is basically the remaining 80% are giving you Rs 100 rentals?

**Bhavesh Gupta:** So there are two ways to look at it. When we look at rental active, that number is above 90%, closer to 90-92% because there are merchants who are happy to give you rental, but they may not be active every month on QR payments but if you're talking activation as we track it, we don't track only rental activation we track the transaction activation. That number is closer to 84%.

**Saurabh Kumar:** Okay one last question.

**Bhavesh Gupta:** You should take it 90%.

**Saurabh Kumar:** Okay, I'll take this offline and the last question is basically this payment service to consumers so this would include the 1% MDR of BNPL, right?

**Madhur Deora:** No, the Paytm Postpaid MDR depends on which merchant you're getting it from. So if you're using Postpaid on the Paytm app, then it would come in payment services to consumers. If you're using it at one of our third-party online merchant partners, or if you're using it at an offline shop and that shop is paying us an MDR, then that would come in payment services to merchants.

**Saurabh Kumar:** Okay got it. So this lower growth that you see in payment?

**Vijay Shekhar Sharma:** Consumer side sort of is when let's say you are making a credit card based payment to someone, let's say rent payment, and obviously the receiving party wants 100 rupees of 100 rupees then we'll say that, okay, you pay this charge so when consumer pays that is called convenience fees.

**Madhur Deora:** Sorry just to clarify that any transaction that is happening on the Paytm app so we have explained that in the pyramid in our investor presentation so if a merchant is collecting the payment on the Paytm app and they're paying us an MDR for it, so It could be mobile pop up, it could be electricity bills and large set of payments, large set of categories of payments, then that is payment services to consumers because the offering is the consumer app. Whereas if we are doing the transaction at a merchant shop or the merchant app, then we consider that as payment services to the merchant. So the MDR also works on the same basis, which is that if it's for a transaction that happened when a merchant was collecting a payment on the Paytm app and they're paying us an MDR, or the consumer is paying a fee like Vijay said, then that would be in payment services to consumers.

**Vijay Shekhar Sharma:** Yes, in both actually the merchant is paying. That is why, if you notice in the presentation this time, we have called it Payment Services because ‘to consumer’ or ‘to merchant’ was a little confusing, because if let's say you are a merchant and let's say you are Airtel and you're selling top-up on Paytm consumer app, you effectively are paying the fees, Airtel is paying the fees but on Paytm app we used to call it ‘Payment to Consumer’. So in the business presentation, if you notice, we have called it payment services this time because we believe that consumer and merchant split does not necessarily helps in understanding the nuance that we at a time of IPO had split although the table below the disclosures carries the split.

**Saurabh Kumar:** Okay, so I was just trying to figure out the core growth with XP, Soundbox and this MDR so that number seems to be more like 20% odd. Is that a fair number and has this kind of stayed static for the last four quarters? Now I'm just trying to back calculate from your payment revenues of Rs. 1,400 crores. If this is what you have said, the Postpaid MDR and the Soundbox rental, then your core payment revenues have kind of remained in the thousand crore ballpark.

**Madhur Deora:** I can't quite follow that math off the top of my head.

**Saurabh Kumar:** Oh I think it will take it offline.

**Moderator:** Thank you Saurabh, next in line is Nitin Agarwal from Motilal.

**Nitin Agarwal:** Yes. Hi congrats on good numbers. So the first question is on device penetration. We have now achieved a 20% penetration rate and so what is the acceptance rate for a device when you approach a merchant and do you have an order book for this which gives you a sense on how fast you should go on to invest here and where this penetration can move, like in a few years from here?

**Bhavesh Gupta:** The pipeline is fairly simple. We've got about 30 million, 3 crore merchants who are paper QR merchants and now, as you know, give or take 60 lakh Soundbox merchants. Now the difference, as you can imagine, are the potential merchants who can take Soundbox. At any given point in time we do not see all the three crore merchants active but a large majority of them are active. We have seen that any merchant who does more than 25-30 payments on the QR on a monthly basis finds having an IoT device like Soundbox meaningful for their business performance and management. So that funnel today, as we said today in this month will be about 60-70 lakh more merchants who are keen or would be eligible to take the product like Soundbox. So there is no demand issue that we see in our system of the product called Soundbox. What is more important to us here is that we do find more innovation as an ask in the marketplace because there are various different kinds of merchants, merchants who want smaller Soundbox to larger Soundbox to a Soundbox which can have very, very low latency. That's the reason we launched the 4G Soundbox et cetera and that is where our entire focus is. But purely from a funnel perspective, we have 50-60 lakh merchants who are currently eligible who do that many number of transactions which make Soundbox a correct product for them.

**Nitin Agarwal:** Okay and secondly is there any seasonality in the GMV? The growth rate, if I look at sequentially, this quarter looks relatively modest.

**Madhur Deora:** Yes there is not a massive amount of seasonality, but there is seasonality in the business, particularly in relation to festive season and so during Diwali and pre-Diwali we do see pre-Diwali we see online merchants running obviously large events and festivals, shopping festivals and as you get closer to the Diwali there is a sort of spike in business in the offline side of things. So there is seasonality and not to further complicate the matter, because the date of Diwali also moves, that seasonality may be seen entirely in Q3 or in some years, it is seen partially in Q2 and partially in Q3. So that is the seasonality impact that we see in the business. There is other seasonality related to weather and so on, which is not significant.

**Nitin Agarwal:** Okay and lastly sir calculation of Postpaid penetration, should we not take the number of loans originated every quarter to quarterly average MTU because the current methodology seems to understating the penetration there.

**Bhavesh Gupta:** No, so Nitin the way we see this piece is that we've got close to about 80 lakh odd users who have taken Postpaid but of the 80 lakh users, we see about a million users who are not eligible to take their credit line because of delinquencies that they have demonstrated in the system. So basically we see about 45 lakh odd users who are using Postpaid every month but if you blend it out for a quarter it could be 40 lakhs. An MTU that we are looking at is about nine crores et cetera. So that's the way we calculate it but a macro point rather than getting into it is it 4.5 or let's say 7.5, the headroom for growth is very, very large. Even if you were to do the math on a gross to gross basis the headroom for growth is very large.

**Nitin Agarwal:** Right, okay, sure. Thanks so much, wish you all the best.

**Madhur Deora:** Thank you Nitin.

**Moderator:** Thank you Nitin. Next in line is Rahul Jain from Dolat Capital. Rahul, your line is unmuted. And may I request we do have a few other folks who want to ask questions. We have quite a few folks still in queue and..

**Rahul Jain:** Thank you. Sure. I have two questions. I'll ask in one go to save time. So firstly on the Postpaid we have seen that the value of usage has increased multifold over the last four-five quarters. So is it simply because of the higher limit that we have given to them or is it because of increased touch point or we are observing incremental preference of consumer using the credit option instead of debit on their bank account and, what are the incremental innovation we could do to leverage on this trend if it is shaping up? This is question one and second one if you would add more flavour to Bhavesh's comment on realignment of growth in the loan distribution business over it's more toward profitability I think that is what he said and also from the point of view of how the immediate time or growth potential changes with onboarding of new partner on the lending side, any thoughts here would help. Thank you.

**Bhavesh Gupta:** Sure Rahul the growth of Postpaid is a function of three aspects. One is how many places Postpaid is accepted. So if you go one year back, this number would have been about 30-40 lakh merchants and today we've got 1.9 crore merchants. So the fact that we've been consistently working with our merchants to make them aware of Postpaid, of the product both online and offline, more acceptability of the product, more usage of the product becomes a natural outcome. So that has led to growth. The other piece is that as the portfolio has matured and the lenders have got comfortable with the way the portfolio performed, they have gone and upgraded the limits to people who had lower limits, and hence the overall limit, average limit per user, has gone up by 30-40%, resulting in the overall GMV also being increased. And number three, of the piece is that we've also seen the adoption of users who are adopting it maybe only for one use case or two use cases now adopting for multiple use cases because the visibility of the product and generally now that you are sitting with almost 70-80 lakh users, there is a network effect if I'm a user word, which has started to play around. So we will continue to see this growth happen. It may not be as much as we've seen last year because of coming out on a small base but yes, we have not taken, if I may use the word, our partners have not taken any additional risk to go ahead and give more limits et cetera, et cetera. It's just the overall network will become far more meaningfully positive for the users.

To your other question about my comment so we've been maintaining this right from Q1 and Q2 when for the first time interest rate cycle started to move up. Our belief has always been that the strength of Paytm model is not just being able to give the best quality portfolio to our partners on our platform, but also to be able to give them the portfolio which is palatable to the risk appetite in a moving macro environment. Now, given the macro in the last maybe twelve months you've seen repo move at 2.5%; there is always an issue of unsecured credit in a higher interest scenario on a lag basis and we are very, very mindful and continue to work with our partners that how we should look at the change in macro and calibrate growth so that we do not have any slippages in the portfolio. In fact, we have demonstrated that we want to make a portfolio better. In that backdrop, our belief is that we would like to be a lot more watchful in Q1 and Q2, when we would see elevated interest rates may not be more Repo rate increase than we've seen thus far, but definitely elevated interest rates and how does the portfolio that we've originated in the last two quarters performs in the Q1 and Q2 of this year and if we see that the performance of portfolio is at par or better than what the lenders have anticipated, we will see far higher growth in H2 versus what we intend to do in H1. So it is not that we are going to go into very low growth, but if you were growing at 25% quarter-on-quarter, we would like to calibrate it to maybe 15-20% and make sure that the portfolio obligation is far, far better demonstrated through our distribution platform versus just a GMV disbursement.

To your third question about the TAM I think the TAM expands marginally because the kind of partners you bring on the platform are all very, very large NBFCs as you know that our intention is to bring in banks and large NBFCs typically these are AA/AAA NBFCs and we don't see much material difference in the risk appetite. What we definitely see here is that the intention of partner A versus partner B in expanding in certain geographies tends to be a bit higher. So we get maybe a couple of percentage points higher upside in terms of the opportunity that we were not able to leverage with existing partners. That's the only upside but more important to us is it provides us a nice runway over the next six to nine months as the book matures with new partners on their comfort in growing with us, which typically is the area that we can continue to focus in this year.

**Rahul Jain:** Appreciate it, thank you.

**Bhavesh Gupta:** Thanks Rahul.

**Moderator:** Thanks Rahul. Next in the queue is Piran Engineer from CLSA, Piran your line is unmuted now.

**Piran Engineer:** Yes, hi thanks. So most of my questions have been answered, but just to follow up on the Soundbox thing, so Bhavesh you're saying that the potential size or the overall pool would be about 13-14 million merchants and the sort of cut off limit is 25-30 transactions per month on your QR code is that fair?

**Bhavesh Gupta:** Yes, so not on my QR code. We have data, so we generally believe that if you are not a Soundbox merchant and you are a QR merchant, typically you will have two QRs and if you're doing, let's say 25-30 transactions with me, you may be doing similar or marginally lower transactions with somebody else. So broadly, you do...

**Piran Engineer:** Fair enough but that's like one transaction a day. Why will a customer need a Soundbox when he's doing one transaction a day? The entire idea of Soundbox was to provide convenience when you've got multiple customers at your shop, everyone's paying you at the same time, and that just gives you the ease of handling the overall transaction. So for one transaction per day why will I pay?

**Bhavesh Gupta:** So Piran, a merchant ends up doing two transactions in a day, but that is not the point. We have seen that doesn't mean that everybody who takes a Soundbox is taking it only on one transaction. We have seen that point in time becomes a pitch point when you start engaging with these merchants. When I'm talking about 50-60 lakh merchants available who do more than 25-30 transactions a month with us, they become eligible. We are able to convert about a million of these merchants in a quarter. Not all the 60 lakh merchants in a quarter. So this is an eligible list. And obviously there's a funnel that the people who are doing 100 transactions or 150 transactions a quarter find it meaningful. The other piece here is it is also a very well demonstrated fraud in the system right? So if you look at a guy who's selling, let's say, ice creams, they also have a Soundbox. It is not about the number of transactions. It is one in a day or two in a day. They do get unfortunately, hit by frauds with spoof apps, et cetera in a research that we've seen. If people are able to show them wrong messages on a static screen, on a spoof app and kind of not pay them and they have no way to understand that this money has come in their bank account or not. So by paying 100 rupees of rental, they're also able to protect themselves from fraud. Not just that they have a more convenient way to reconcile. So it's more of a market dynamic and hence it makes us believe that when we look at the funnel, we have a large funnel which keeps getting converted into every month and if I was to say for the month of April, we have seen that demonstration again happen, that we were able to deploy the same number of marginally higher number than what we did in March.

**Piran Engineer:** Fair enough no I understand the run-rate is going strong. I'm just thinking about the TAM, but that's okay and secondly, again, just on the TAM on the lending business, now we have 80-90 lakh BNPL guys so but just in terms of, say, personal loans and merchant loans, you know, in terms of number of customers, you know, what could be the TAM say 3 years down the line. And also in the lending business, how often do commercials between you and the lenders get revised be it for cost of funds going up and down, or be it for ECL being better or worse than expected. Like does it get revised every three months, annually, how does that work?

**Bhavesh Gupta:** Yes, so Piran we have a six-month revision of commercials that we do with our partners. We have thus far because the repo has gone up significantly so there has been transmission of both repo and some commercial changes we do. But Yes, the simple answer is that we contractually review commercials every six months and that is what we have done. It can be for the better. Very rarely it's for the worse. Obviously during the repo increase we had to calibrate interest rate both what the lenders charge the users and obviously the RoA expectation they have. To the TAM question that you had, the Personal Loan TAM is linked to what we have seen thus far to the BNPL growth. 60% or 55% of our disbursements that our partners do is happening to existing BNPL customers. And that funnel is only becoming robust on a month to month basis as the book is maturing. So if we were to be sitting on, let's say 40 lakhs or 50 lakh active users of BNPL in a quarter, we do find that almost a million or million and a half users of that funnel are eligible for PL, and then 50-60,000 of them keep taking PL from that funnel. So the more and more we are able to grow our Paytm Postpaid business, the downstream impact is on PL, which continuously keeps growing, and that has been demonstrated. So there is less focus on straight through PL coming into the lenders book. There is more focus on it getting upgraded through either a merchant loan or a BNPL loan or an existing personal loan in PL. So I don't think we have at all a problem on the TAM of PL. It is extremely small as a number today and it is linked to the entire Postpaid disbursement.

On the merchant loan side the TAM is linked to the devices. We have so far if my memory stands right, we have so far given about 500,000 to 600,000 merchants over the last two and a half years merchant credit. We have 60 odd lakh merchants who have devices and I think I've spoken about this math in the past that typically it takes six months for a device merchant to become eligible for credit in the location that we are in. So if you look at this number, typically the base of merchants who can be eligible is about 40ish lakh, 35ish lakh of which five have already got the credit. So the remaining base is 30 lakhs, of which half of them are white listed by our partners to take credit. And we are able to disburse about 70-80,000 merchants, maybe closer to 90,000 merchants every month. So again, it is linked to the device's story. More devices we're able to deploy, more merchants, get eligible for credit, and that TAM is obviously very high for us.

**Piran Engineer:** Okay, thank you and all the best.

**Bhavesh Gupta:** Thanks Piran.

**Moderator:** Thanks Piran. Next in the queue is Vijit Jain from Citi. Vijit, you can ask your question, please.

**Vijay Shekhar Sharma:** Keshav you can add another person, because Vijit seems to be having the room.

**Madhur Deora:** Let's come back to Vijit later if you need.

**Moderator:** Next in the queue is Himanshu, Himanshu from Aditya Birla Mutual Fund.

**Himanshu Taluja:** Yes, hi, sir. Thanks for the opportunity. Most of the questions have been answered. Just two small quick questions; one is when you talked about the growth drivers of the launch of the new tech platform, what is the cost of upgrading this and how much did you have accounted for in the quarter? Secondly, how much and how we are going to see this in the coming quarters as well. How it is going to spread this cost in the coming quarters as well. Second part to this question is just needed clarity: is this cost part of your indirect expenses?

**Madhur Deora:** So Himanshu if I could just clarify the cost of building the new platform was a people's cost and that cost we're not incurring anymore. Obviously those people are now deployed to other projects which I mentioned. The cost of operating the platform going forward is significantly less than the cost of our existing platform at scale. So there are two differences that we get which is that over the last year we were running effectively two platforms because not all of the transactions were migrated from the old platform to the new platform. So there are some efficiency improvements that we get as a result of now running on a single platform and that impact you will see in software cloud expenses. And like I said, the running cost of the new platform will be lower than the running cost of the previous platform.

**Himanshu Taluja:** Sure sir, thanks for the clarification and my other question is this Wallet interoperability guidelines. Just trying to understand how this is going to increase the use case for the revenue on the payment size payment business and since you mentioned that whatever comes it is at least a two-quarters away so if you can just give us, what is the scope and the opportunity here?

**Vijay Shekhar Sharma:** Well, what it means is that Paytm full KYC Wallet customers will be able to make payment at other QRs and the QR provider will make payment to us. Now what is the market if you assume that Paytm is accepted at X percentage of the market, the prorate extra potentially etcetera could be the market opportunity but to be honest about it, we don't put this kind of mathematics because the increased acceptance, increased customers tractions etcetera so we have not done this math Himanshu. And we are two quarters away so we are not doing this math or we are not looking to see. We will see it as it comes.

**Himanshu Taluja:** Sure, sir. Thanks.

**Moderator:** Thank you. Next in the queue is Mr. Akshay Jain from JM Financial.

**Akshay Jain:** Hi sir, thank you for the opportunity. I have a question regarding the recent news report that RBI has cautioned the banks to go slow on the unsecured lending side. So what are your thoughts on the same and any potential impact on Paytm or further have you received any communication from RBI or your lending partners regarding this thing? That's my only question.

**Bhavesh Gupta:** Yes, we've also read the report. I'm sure that from time to time the regulator will guide the industry, especially banks and non banks, to be mindful of the changing macro. And that's the reason we have always preempted it. The moment the interest rate, environment, inflation environment and macro changes there has to be far more conservatism built into our business models and we should be focused on portfolio versus growth. So having said that, we have not got any confirmation or any kind of guidance from our partners that they are worried about the kind of portfolio we are originating. We continue to originate the portfolio as per the risk appetite. But as I said in my previous conversation, we are mindful far more proactively of the changing macro and the overall growth of unsecured and the overall portfolio. And hence we continue to calibrate the growth versus the portfolio mix that we would like to give our partners to. But we have no guidance from our partners. Our partners feel very comfortable with the portfolio.

**Akshay Jain:** Okay sir, thank you.

**Madhur Deora:** Thank you Akshay.

**Moderator:** Thank you Akshay. Next in the queue was Mr. Vijit Jain from Citi. Vijit, your line is unmuted.

**Vijit Jain:** Yes sorry about that. My question is, you've launched the RuPay credit card with HDFC Bank, which was announced in the presentation. Now RuPay credit cards are allowed on UPI, right? Is that the key pitch here because Master and Visa are currently not allowed on UPI and how does this play with Postpaid, which is also credit on UPI?

**Vijay Shekhar Sharma:** Vijit it is not launched and neither it is launched with HDFC so it is not there, number one. Number two, our pitch is that RuPay wants to promote and we want to promote RuPay so it is the pitch. As far as the usage is concerned the number of users it will reach out to will decide what incremental changes or not.

**Vijit Jain:** Okay, good. I think I saw that in the presentation itself.

**Vijay Shekhar Sharma:** It's coming soon. We have not launched.

**Vijit Jain:** I see.

**Madhur Deora:** We are about we'll launch soon. It is a RuPay credit card. We have not said which bank partner and of course RuPay credit cards will be used in every manner that a RuPay credit card can be used, including RuPay credit on UPI.

**Vijit Jain:** Got it. My second question is just on the payment net margin expansion Q-o-Q now even excluding UPI incentive payments you have about 60-70 bps improvement and obviously the BNPL disbursals this quarter are also up 30% Q-o=Q. So net-net that is one of the key drivers of that expansion there?

**Vijay Shekhar Sharma:** Well, it is one of the drivers, but other drivers are also there.

**Madhur Deora:** Yes, so on BNPL also we have MDR revenue, we also have cost. There is some increase in subscription revenue, which I think Bhavik had asked about earlier and there is improvement Q-o-Q on what we call payment processing margin, just resulting in efficiency both on the revenue side as well as on the cost side. Again Vijit I would be slightly careful about looking at these numbers, just granularly on a Quarter-on-Quarter basis. On a Year-on-Year basis we have and on a long term basis we have already given the guidance because there are a number of factors that go into Q-o-Q, including usage of different instruments by customers and so on.

**Vijit Jain:** Understood. The last question Madhur Postpaid disbursal volume per quarter is about 12 million. Any broad indication of how many P2M transactions are happening using Postpaid as a payment instrument?

**Bhavesh Gupta:** So we actually don't track it because it's not a metric that is very relevant. We look at use cases, but I think the last time when we have seen this was about six or seven transactions a typical Postpaid user does in a month.

**Vijit Jain:** Okay, got it. Thanks.

**Moderator:** And now for the last question of the session. We'll take it from Mr. Manish Shukla from Axis.

**Manish Shukla:** Thank you. So what would be the timelines for achieving the free cash flow breakeven for you?

**Madhur Deora:** Manish we have not given a specific quarter, but we have said that we are very close to achieving cash flow profitability. And just to be clear, the way we define cash flow profitability is EBITDA plus interest income less Capex. There are also, in parallel improvements in working capital that we are doing. So if you notice over the last one year due to improvements in working capital and if you adjust for the money that we spend on buyback, we over the last year have actually added to our cash if you look at the 31 March, 2022 number and the 31 March, 23 number so we have also in parallel improved working capital. But when we are talking about free cash flow, we're saying EBITDA plus interest income less CapEx and we are very close to being able to do that. You only need some improvement in EBITDA going forward, not very significant improvements in EBITDA to be able to get your free cash flow breaking.

**Vijit Jain:** So once you get there, what would be the end use of the cash on books?

**Madhur Deora:** We will discuss that with our board and we will communicate sort of what that is. At the moment, we do feel like we have a lot more cash than we have immediate use for. One of the things that we have done in the past is discuss with our board and return some of that in the form of buyback. So that would be one option on the table and there will be other options with respect to any investment areas that we feel very strongly about. So we will, at the appropriate time, once we are starting to add the cash flow, discuss all of that with the board and communicate that back to the market.

**Vijit Jain:** Sure thank you. Those are my questions.

**Madhur Deora:** Thank you, Manish.

**Moderator:** Thank you, Manish. With that we come to an end of the Q&A session. A reminder that a recording of this call and the transcript will be put on the company website. Thank you all for joining our news call.

**Vijay Shekhar Sharma:** Thank you, everyone. Thank you.

**Madhur Deora:** Thank you for the very detailed questions and we really appreciate your time and attention.

**Vijay Shekhar Sharma:** Yes, thank you, look forward.