Paytm | Q4FY24 Earnings Call |

Call Date : May 22, 2024 | Time: 16:00 PM Indian Standard Time

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Moderator: Thank you for joining and welcome to Paytm's earnings call to discuss financial results for the quarter ended and financial year ended 31st of March 2024. From Paytm's management we have Mr. Vijay Shekhar Sharma, Founder and CEO, Mr. Madhur Deora, President and Group CFO, and Mr. Anuj Mittal, Senior Vice-President, Investor Relations. A few standard announcements before we begin. This call is for existing shareholders of Paytm and potential investors and research analysts. This call is not meant for the media. If any media representatives are on this call, request you to kindly drop off at this point. The information to be presented and discussed here should not be recorded, reproduced or redistributed 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 call is scheduled for 60 minutes. It will have a presentation by the management, followed by a Q&A. With this, we'll start the call. I request Mr. Vijay Shekhar Sharma to kindly initiate the call. Over to you, Vijay.

Mr. Vijay Shekhar Sharma: Thank you, Pranav. Hello, good evening, everybody. Thank you for joining us in this quarter's earning call. As you are aware, the last three months have been quite a rollercoaster in the journey of Paytm. We learned a lot of our lessons. We learned how to become better and resilient. We also resolved ourselves to be fully compliant according to regulators' expectations in letter and in spirit. And I'm very happy to see that our results are indicating that.

Expectedly, the February and March months were very, very uncomfortably bad. At the same time, they were filled with lots of lessons for long-term sustainability and growth of the company. In fact, I'm very happy to tell you, you might have read the earnings release that sort of our worst is behind us in terms of consumers and merchants and few line items of businesses that we, first of all, were proactively able to stop or pause or sort of reduce, we now have started to come back to those line items of businesses and started to build a large revenue and profit centric company in the long term.

Many of our teammates, these days, have been going through the test of time, lessons and learning of life where they have learned what we needed to do and what we have been able to do. In fact, I can say that as Paytmer, I couldn't be more proud of each of our teammates' commitment. In this quarter, we have two months of impact on the business. Still, we have the performance at the annual level, which is better than last year and we remain committed to grow sustainably with focus on profits, with focus on the core of the business, which is payment business and cross-selling of financial services business.

Overall, it is important to note that as Paytm, we were committed to building India's financial economy and contributing towards our country's financial inclusion. We will remain aligned to our regulators and our government's mission to digitize and formalize the financial economy. With this, I give my teammate Madhur this slide. Then we will talk about a few Q&As and the way forward. Thank you.

Mr. Madhur Deora: Thank you, Vijay. And welcome, everyone. And thank you for joining the earnings call. Just to hit on a few key points and then spend enough time on Q&A. For the full year results, we achieved the first full year of EBITDA profitability since IPO at Rs 559 crores. Our revenue was close to 10,000 crores with growth across the three businesses on a year-on-year basis. Our contribution profit was 5,500 crores and at 56% . And like we said, EBITDA, including UPI incentive was Rs 559 crores, a margin of 6%. So, all of this is evidence to say that we have significant momentum all through the year and we are outperforming every metric from the previous year and frankly some of our internal estimates as well. Obviously, as Vijay mentioned, starting February and March this year, we started to see an impact on our business.

For the quarter, we did see a revenue drop of Rs 2,267 crores. This was a decline on a quarter-on-quarter basis. Normally, there is some festive impact but obviously most of this impact, the vast majority of it rather, was due to the transitions that we needed to do starting February 1, this year. Our contribution profit also declined to Rs 1288 crores, flattish on last year, including UPI incentive and 57% margin. Our EBITDA before ESOP was Rs 103 crores. As we mentioned earlier, we got Rs 288 crores of UPI incentive, which is over a 50% growth from previous year, including some UPI incentive that we get from our new partner banks.

A little bit of a deep dive on our business. Our merchant business has started to grow in April and May. Our MTUs have stabilized in the month of May. Our MTU is down 24% as compared to January.

April was the worst and May has now started to stabilize at least on a daily transacting user basis and we expect this to stay stable. Our MTU growth will come only when we get the new TPAP user onboarding commencement from NPCI. On the devices side, we have started acquisition of new merchants and are focusing on activation of inactive merchants. As you would imagine, during February and March, we did see a reduction in our active merchant base as we were pending migration to our partner banks. The active base declined by 10 lakhs. So, roughly about 10% of our overall merchants did become inactive. This was due to higher attrition in February and March and also because we were not doing new merchant addition, which normally would offset at least the regular attrition as well as show increase in numbers. We remain very, very committed to the subscription device merchants and that business. We continue to innovate and launch newer devices with improved features. A couple of them are on the cover of this presentation.

On our Payments GMV, we have slightly better news to report. The business has come off its worst. 12% of our GMV was coming from businesses which are currently discontinued or disrupted. This also includes the services that we were distributing for Paytm Payments Bank, such as Wallet and Banking, but also other places we're going to put in view. Excluding that, we are down 6% compared to January and we're about 3 to 4% higher than the March lows. So, we do expect this to continue to show uptick from here on.

On payment services in terms of a little bit of outlook, just to calibrate everyone, the business now becomes primarily about focusing on UPI, which is 80 to 85% of our GMV, card processing and EMI payments processing. So, consumers are effectively in India paying merchants using these three instruments. And of course, as we have customers on our app as well as merchants for whom we provide payment processing services. Our GMV was down a little bit like we mentioned earlier, up on a year-on-year basis. Merchant subscription, this is a device space. Our net payment margin is impacted. So, Rs 748 crores excluding UPI incentive became Rs 565 crores and Rs 853 crores including UPI incentive. As I mentioned earlier, the business is about UPI, debit and credit cards and EMI.

I just want to remind everyone on the business model. So, for bank-to-bank UPI merchant payments, we don't earn an MDR from the merchant, but we do receive subventions of the government, which is the UPI incentive that we talked about. There are other instruments where we earn MDR from merchants including certain instruments that work on the UPI rails, such as UPI credit card, credit overdraft and so on. And I'm sure there'll be more innovation going forward as well as debit and credit card processing and EMI aggregation. So, that's where we earn a higher payment processing margin and also on bank-to-bank UPI we earn subvention from the government.

Our outlook on payment processing margin is expected to be 5 to 6 basis points including UPI incentive. We have elaborated on this in the earnings release that just the way the quarterly numbers work, we expect this to be in the 3 to 3.5 basis points range on a quarterly basis and including UPI incentive to be 5 to 6 basis points. And the last 2 years pattern is that UPI incentive comes towards the end of the financial year, usually in the fourth quarter.

I've already talked about merchant deactivation or inactive base which we are focusing on reactivating and obviously adding new merchants as well. Due to a certain number of merchants going inactive, our subscription per device on an overall deployed basis, the 107 lakh number that we shared, has gone down. We expect that to now go up. Obviously, this always remains subject to market forces and competitive dynamics. We expect net additions in terms of device merchants to come back to past trend lines by Q3.

On financial services as we have mentioned starting in December, on the personal loan side, the vast majority of our focus has shifted to the distribution-led model for personal loans. This is a new opportunity that we saw where we have scaled up business where for lenders, we do distribution-only and lenders are responsible for collections. We do not provide collection services on this. This combined with the fact that we are extremely cautious on personal loans with collections means that the vast majority of our business right now and going forward, at least in the near future, is expected to come from a distribution-only model for personal loans.

Our take rate overall has gone up a little bit as we had mentioned earlier that Postpaid had slightly lower take rates. With the mix changing more and more towards personal loan and merchant loan, our overall take rates have gone up a little bit. Given that we are going to focus on distribution-only loans and at least at this point the credit cycle will be really selective on focusing on prime and super prime customers, there might be a slight compression in our take rates and we are overall saying we should settle this at 3-3.5%.

We are expanding our focus into insurance broking as we have mentioned over the last couple of quarters. This is focused on being extremely product-led, so embedded insurance and DIY products. So, the vast majority of our effort goes into building the best-in-class DIY products for our consumers. On equity broking, two separate pieces of business. One is to have a great platform for equity trading and F&O trading, which is Paytm Money. We are also expanding distribution of mutual funds where we see strong tailwinds in terms of participation in the equity markets by retail investors. Here are key focuses on SIPs where we think we can expand the financial inclusion towards wealth management products.

Just to double click on that a little bit, on the consumer loans, we are expanding on different types of distribution-only loans where we earn only distribution fees and we have paused small personal loans and Postpaid loans as we had mentioned earlier where we were helping partners with collections to earn distribution and collection bonus. On merchant loans, our continued focus remains on merchant loans where we deal with collections because these are existing payment merchants of Paytm who are receiving lots of money using Paytm every day. So, that remains the core focus.

We are starting to see some opportunities and starting to do some pilots on different types of other business loans. These are, for example, larger ticket loans where we are only doing distribution. So, that's another part of the business. As you can see on the right-hand side, we have given you monthly data just so that you can see where the trend lines of the business have been during this period of transition in February, March and April. So, in January we had done Rs 3,300 crores of total disbursals. Rs 720 crores of that was Postpaid. Like I mentioned, that is paused. Rs 1,393 crores of personal loans included both models, distribution-only and distribution plus collection. In February, March and April all of these numbers are on a distribution-only model and in merchant loans we had done about Rs 1,100 crores. Broadly paused that in February and now we are starting to see significant scale up in that close to back to previous levels.

Marketing services is a high margin business for us which is an upsell on our payments consumer base and this consists of travel, advertising and credit cards largely. Travel and advertising revenues have been impacted due to lower MTUs during this period compared to the previous period. As we see stabilization and growth in our customer base, we should see this business scale up again.

We also wanted to share some of the financial impact. So, we have broadly broken it up into three buckets. The big picture is that last quarter there were obviously a bunch of moving parts and some of them affected us earlier in the quarter and some of them affected us later in the quarter. So, the full EBITDA impact, effectively the full quarter impact will only be felt in Q1 and we do start to expect meaningful recovery from that in Q2 because we mentioned a number of things are temporary and we can restart.

So, to begin with, the first is as we had mentioned I think it was January 31st or February 1st that on account of embargo on the PPBL products particularly inability for customers to add money to wallet and PPBL bank accounts there is an EBITDA impact to Paytm as a distributor of those services and for other services that we provided to PPBL of about Rs 500 crores on an annual basis. We had given a range of Rs 300 to 500 crores, we think we're going to be at the higher end of that range unfortunately.

So, most of this impact will start from Q1 because for the vast majority of Q4 we were offering these services although on a slightly smaller scale but the volumes were more or less intact. The second impact is like we mentioned our MTUs have gone down and a number of active merchants have gone down because of this in Q1 we expect incremental EBITDA impact of Rs 100 to 150 crores as we get more consumers and more merchants on the platform we should see recovery from this EBITDA impact. We also mentioned that we have, in line with certain prudent measures that we have taken, during this period of transition, and in line with certain regulatory guidances, we have paused certain businesses in Q4, the full quarter EBITDA impact of that would be an incremental Rs 75 to 100 crores according to our estimates and again here we expect there to be recovery starting in Q2.

So, overall, we expect Q1 to be, like I said, the full quarter impact of this if you add up all of these incremental impacts then we come currently we're doing about Rs 180 crores of negative EBITDA before UPI incentive and obviously, we're not expecting UPI incentive in Q1, hence if we add up all of this impact we expect Q1 to be Rs 500 to 600 crores. This includes investment in marketing in February and March of last quarter we effectively paused most user growth marketing. We have restarted that so if you include that impact as well, we expect Rs 500 to 600 crores. And we're confident of meaningful movement from this number in Q2 and onwards and the reason for that is that certain products which have been paused, some have already restarted, some we expect to restart very soon and we're also achieving steady growth in operating metrics.

We have put a bunch of commentary in the earnings release about how we're looking at cost. There is an opportunity for us to create a much leaner organization structure, in line with some of the revenue and profitability impact that we have had. We're very conscious about the fact that we need to relook at every cost. Our largest indirect cost is of course people cost and we're expecting annualized people cost savings of Rs 400 to 500 crores, going forward. I'll turn it back to Vijay to talk about our focus areas going forward.

Mr. Vijay Shekhar Sharma: As I said our attention to governance, compliance remains prime attention in next few quarters, so you expect us to do more independent board members and subject matter experts on our subsidiaries and associates and on parent board and you also expect us to drive lots of internal overhaul or reviewing the workflow processes that we are looking at. Important to note that we are committed to our payments business as core payment business driving on recovering on consumer and merchant base that's important thing that's our core moat.

We will continue to invest in the sales team or marketing to drive our due market share or customer count on both merchant and consumer side and the cross selling wise we are very clear we've seen it works. The cross sell is done using the financial services distribution model, obviously we have seen how we have pivoted on our loan business from collection centric approach to distribution-only, while on merchant side the distribution plus collection works out great so we'll continue to expand on that and disbursements of insurance and equity mutual fund products. It is important to know that we are looking at our cost structures or the business line items so that we can prune our non-core assets and we can create a leaner organization focused on profitability. Thank you.

Mr. Madhur Deora: Yeah, we can open it up to questions.

Moderator: Thank you. First question we'll take from Alok Srivastava from UBS. Alok you may please go ahead.

Mr. Alok Srivastava: So, I was asking what is the view on the marketing services business because in the earnings release as well as your comments on the call there is no mention of the marketing services business and there is also a mention of pruning of non-core businesses. So, I just want to understand that going forward what is going to happen in that business because you have been mentioning payment as core and distribution of or cross sell of financial products.

Mr. Vijay Shekhar Sharma: Oh, Alok the key reason that we did not mention much about was that we saw lesser consumer base and that is why our growth or the numbers were flattish as far as the marketing services to merchant is concerned, that remains are fortifying or sort of solidifying relationship with merchant and that continues as a focus. We have done a good job of integrating, creating merchant opportunities where we offer advertising, we offer marketing, we offer APIs-led structure where we have consumer ticketing, travel, etc. So, the intention of this messaging was that we are not losing focus and sight from our core which is payment cross sell financial services. Marketing services, we more or less see as a support to the payment business and is the reason that we didn't mention much, but you could see that numbers are good and have more or less not dropped significantly.

Mr. Alok Srivastava: Okay, fair. So, what exactly is non-core Vijay when you are saying pruning of non-core businesses?

Mr. Vijay Shekhar Sharma: So, internally we were running many projects including let's say cross-border payments and we don't need to do that now. We were running a lot of products which were useful for various bank partners like software service to banks etc. So, we are trying to find out whether those businesses, if you notice our cost structure of overall engineering and technology people etc. have been larger than what a pure payment company would have had. So, these are those kinds of items.

Mr. Alok Srivastava: Okay, got it. The second one is do you have any update on the payment aggregator license that you haven't got so far and do you see any risk that your existing customer base could also be impacted at some point in time? Can RBI say that the government has not given approval and we have reached a point where the existing customers also will have to be given up. Do you have any update on that and also if you could let us know if over the last three months you have lost any of the big online payments' customers?

Mr. Vijay Shekhar Sharma (26:04 mins): So, first of all, the RBI has a variable approval, sort of that, inform us in 15 days of getting feedback from the government. So, there is no delta of how long it is or not in more or less. So, we don't foresee that as a risk there. As of the approval, it is inter-ministerial committee meetings. I think it was due or will be due once the government gets formed. I can't comment about when it will be done or so on. So, that is why we are in a waiting state. As for losing any online merchants, no we did not lose any. We have actually focused on deepening relationships by farming relationships. So, practically speaking, I can share that there are revenues from online merchants that have grown on a product to product basis. Obviously, our revenues included other payment instruments like Postpaid etc that we used to have which we have paused. So, that part of revenue if we don't account for, then like to like basis, our revenues from our online merchants have increased.

Mr. Alok Srivastava: Okay, fair. I just have one more, on your guidance of, 3 to 3.5 basis points NPM (ex of UPI incentives), your UPI incentives wss roughly one and a half basis point in FY24. And when you look at government allocation to UPI incentive, that number is growing at a slower pace versus the growth of overall UPI P2M GMV. So, incrementally in FY25, when you are likely to lose market share, means I'm finding it difficult to understand how you will get two basis points when this year you did one and a half. So, shouldn't it be, unless I'm missing something, shouldn't it be more like a four to five basis points kind of a guidance for NPM?

Mr. Madhur Deora: Yeah. So, just a couple of clarifications. The incentive scheme this year was very, very similar to the incentive scheme last year, in terms of how they think about industry and non-industry teams, groups of merchants and what the incentives were to the acquiring banks. So, it was very similar. As you saw, we got a number which was slightly more than 50% more than the previous year. So, that's the first point. Second is on acquiring GMV. Of course, we have not seen a few months of growth, but it's more or less back to especially UPI acquiring is more or less back in fact, probably about flat to January. So, yes, we haven't had the growth that we would have otherwise had from January to April. But our acquiring numbers including on UPI is very strong.

The third is purely, UPI was previously 70% of our GMV. And now it is going to be 80 to 85% of our GMV. So, that has a little bit of a blending impact as well. And finally, while overall, our UPI incentives sharing with partners is similar to what we had with Paytm Payments Bank, there are some small nuanced differences. And the final point is that Paytm is now a TPAP. So, there's a small amount of money that the TPAP gets, which we will also get going forward.

Mr. Vijay Shekhar Sharma: I think, Alok, overall, I also want to tell you that UPI is headed towards MDR. If you notice the indication of different payment instruments that have come on UPI, for example, like RuPay on UPI for Rs 2000 rupees plus payments, MDR is charged to the merchant. Credit on UPI also is very clearly out there with the charging to the merchant and then prepaid on UPI is also charging towards the merchant. And if you notice, the regulator has brought three different buckets of merchants, small merchant, mid-sized merchant, large sized merchant. In my opinion, while the government incentives are, like you said, may not be growing in the same ratio as UPI is growing. But at the same point of time, the percentage growth of UPI in itself is not very, very large as a volume, but on other instruments, which are MDR worthy. So, we don't see that there is a reason for it not to be in the five bps range.

Mr. Alok Srivastava: Fair. Okay, thanks. Thanks a lot. All the best.

Mr. Madhur Deora: And Alok, of course, this is on the basis that next year's UPI circular will be very similar to last year's, like last year's are very similar to the year before. So, this is a little bit of crystal balling. But that UPI incentive assumption is based on the same.

Mr. Alok Srivastava: Yeah, that's fair. Okay, thanks.

Moderator: Thank you. I request all the participants to limit their questions to two per participant. We'll take next questions from Sachin Salgaonkar of Bank of America. Sachin, you may please go ahead. Sachin, now you're allowed to permit. Yeah. Hi.

Mr. Sachin Salgaonkar: Yeah, thank you, sir. First of all, Madhur, Vijay thank you for sharing incremental outlook pointers and data points on recent trends. Really appreciated. My first question is on loans. I thought one of the advantages that Paytm historically had was collections, given your strong data analytics. Now going ahead, this distribution-only loan model, is this something which is temporary or we could see a change? And a related question to this is, how are your partners thinking because I do understand none of your partners have left you. But most appear to be in a wait and watch mode.

Mr. Vijay Shekhar Sharma: Sachin, I believe that we took a call, based on the overall market macro where the credit disbursements were clearly under stress when it came to personal loans. If you notice, we have looked at small personal loans and BNPL specifically is a very small personal loan out there and our personal loan ticket size was also very small. So, we have taken a call that till the time the market comes back, we will not do collection-incentive led volume on that side. While on the merchant side, as you know, we have a very clear way to help lenders collect. So, we continue to do it.

So, as you are understanding, based on these, it is temporary, till the time market comes back, where the collection activity by our platform can generate collection bonus. If we are not going to generate a collection bonus, we are not going to do it. That is what our approach is. And this adds an opportunity for us to experiment and bring a few more types of credit disbursement products and also hedge. So, as they say, there is an opportunity in adversity. We looked at it as expansion of other kind of credit and we see very good approach there and it has given us opportunity to partner with few banks also actually surprisingly.

Mr. Sachin Salgaonkar: And your thoughts on merchants?

Mr. Vijay Shekhar Sharma: Merchants, we continue to do collection centric loans.

Mr. Sachin Salgaonkar: Got it. And Vijay, obviously in opening remarks, you guys did mention you're piloting on the other side of loans. We did see gold loans on your app. So, any such categories we should think about how big is this opportunity for you guys?

Mr. Vijay Shekhar Sharma: Sachin, we are looking at Micro LAP as of now, and we also tried gold loans. So, we are trying secured credit also, as part of our experiments and because it is not material, we have not mentioned much in the numbers yet. But at the same time, I want to tell you that secured credit is more about monetizing the traffic. So, we were wondering whether it makes sense or does not make sense. But at the same time, we are integrating for a couple of secure credit lines, especially for small merchants, Micro LAP makes a lot of sense.

Mr. Sachin Salgaonkar: Got it. And the last question from me is your use of cash. Clearly you have a good amount of cash on your balance sheet. Basis your guidance and where things are. One gets a sense that the worst is over, per se, for you. So, again, from that perspective, I wanted to understand, should we see, a) some kind of a buyback to help the stock or b) could we see heavy investments in marketing as you focus in terms of acquiring more users and merchants?

Mr. Vijay Shekhar Sharma: I do not mind telling you that, like I told you that we will invest in customer acquisition for sure, because that is the first right of our business. At the same time, for wider use, I will ask Madhur to comment on that.

Mr. Madhur Deora: Yeah. So, Sachin, we do have excess cash. There's no doubt about that. We have about Rs 8,300 crores excluding PML customer funds. While we have mentioned that next year, the next quarter will be EBITDA negative. We will get back very quickly on the path back to profitability. I think over the last quarter, the most important thing for us to do was to finish these transitions and also to unpause some of the things that we had paused temporarily. And the important thing was also for us to make sure that we take this opportunity to make sure that our investors and analysts who have been effectively waiting for a full update since the embargo on Paytm Payments Bank have that full information symmetry with us or as much less information asymmetry as we can have.

Now that we have done that, I do expect to go back to the board and discuss how much excess cash we have and what is the best use of that cash. Even with the point that Vijay mentioned is that we do have to invest in marketing, which we have mentioned. And we have to focus on getting back to profitability. But yes, in that journey, we do have a significant amount of excess cash. And it is logical for us that unless we're going to spend that cash, we should be having discussions with our board about how best to return that cash to shareholders.

Mr. Sachin Salgaonkar: Thanks, Madhur. All the best for the future.

Mr. Madhur Deora: Thank you, Sachin.

Moderator: Thank you. Next question is from Vijit Jain of Citi. Vijit, you may please ask your question.

Mr. Vijit Jain: Yeah, hi. Thanks, Madhur. So, Madhur, my first question is, aside from the impact on your UPI market share, which we can see in the data, can you talk about overall, the recovery trajectory that you're seeing across merchant categories in general in GMV terms? So, online, in-app, offline, online, off-app, and also on a slightly different vector, if you can talk about enterprise and SME merchants?

Mr. Madhur Deora: Yeah. So, let's just go to the slide where we had GMV trends. So, if you see, like we mentioned, there's clearly an impact of 12% from disrupted instruments. Overall, like we said, we're down about 6 to 7% from January. Now, if we further break that up into consumers and merchants, and just to calibrate everyone, when we say consumers, we mean transactions that happen on the Paytm app, which is, for the most part of it, bill payments, as well as some of the commerce categories that are on the Paytm app. And the merchant side is all the offline merchants where we help merchants accept payments, as well as on the online merchants. So, that business, if you can see from this chart, Vijit, has been significantly less impacted to begin with, and has stabilized earlier. So, even as the consumer side, because of MTUs, was declining, this stabilized here, and then it had gone up here.

In terms of the further cut of this against online enterprise and what we call sort of soundbox merchants or QR merchants, I think EDC, which is card machines, was the fastest to recover, and is actually higher than January levels, and online and semi-organized slightly slower, and semi-organized especially because we had to do the migration to partner bank. And obviously, that's a very large base of merchants, so to be able to communicate to all of them all at the same time, that there's no reason to be worried, we will be able to offer you continuity of service, is more challenging. So, we saw that impact to be a little bit longer, but that has started to come back very meaningfully as well. So, there isn't a huge difference between the three merchant categories as I described them, which is organized offline, kind of semi-organized and unorganized offline, and the third being online. There isn't a huge difference, but there was earlier and more recovery in the organized offline market.

Mr. Vijit Jain: Got it, thanks. My second question is, just looking at the Q1 guidance that you've provided, and thanks for providing that. So, if I look at the EBITDA guidance for Rs 400 to 500 crores of losses, it seems to suggest you will have maybe somewhere around 40% contribution margins with whatever fixed cost structure you have. So, I'm just wondering if you could walk us through how you get from 40% to back to 50% contribution margins, which is also your medium-term guidance. And are there specific one-offs in this Q1 guidance, or is it all to do with the scale that you are hitting in Q1?

Mr. Madhur Deora: So, Vijit, our indirect cost base is about Rs 1200 crores. So, if you do that math in the Rs 1500 - 1600 crores revenue, and of course we're working with ranges here, we don't expect contribution margin to go down to 40%. I would say that excluding UPI incentive, which for simplification purposes, let's just say it's Q1, Q2, and Q3 of every year, and Q4, then you get the UPI incentive, and then you have an annual number. Excluding UPI incentive, we might be in the high 40s to 50%. And including UPI incentive for the full year, we would be a few points north of that. So, that's sort of the general direction of the business right now.

Of course, there are a few moving parts, particularly the unpausing and the ramping up of some high-margin businesses. So, we might be off by a couple of points here and there. So, that's where our broad business is landing. With respect to the second part of your question, I wouldn't say one-offs, I would say that, like we mentioned, that there are certain pieces of business which are at different levels of recovery path. So, for example, the user side of the business, just the MTU base, has stabilized, but the growth of that depends on new user onboarding.

The merchant side of business is slightly more under our control, in the sense that we are doing an enormous amount of reactivation efforts, especially since there were 10 lakh odd merchants who went inactive, and we are adding new merchants as well. So, that recovery is a little bit sharper, and we will start to see that even in Q1, let alone, and obviously in Q2 and Q3 as well. So, I would call them sort of temporary impacts with slightly different recovery paths, back to the original trend lines, as opposed to necessarily one-off items.

Mr. Vijit Jain: Got it. Last question, if I can just sandwich that in. The merchant loans have obviously recovered pretty well, right? You're almost back to where you were in January on that. And you mentioned that as well, Madhur, when you spoke just now. So, suffice to say, greater confidence in continuing to ramp this as per original plans going forward from here, whereas consumer loans, obviously, because the product has changed quite a bit, is a little bit slower growth. That's how one should look at it? And within consumer loans, if you can talk about, how much of the April run rate is, these very high-ticket loans of, the ones that you launched in December quarter?

Mr. Madhur Deora: Yeah. So, on the first part of the question, on the merchant loan where we are doing collections, which is vast, vast majority of the merchant loan number that you see here, which is Rs 971 crores in April, I would say, yes, there has been significant recovery nearly back to the January numbers. But we should add that we are, any, the reason why we make this distinction between collection and distribution-only is because we do take up this task of doing the collection, we also take up some sort of a sync-up obligation with the lenders, that our collection should be effective.

Hence, if we are finding any concerns, either as a macro or in our base, on potential asset quality deterioration, we take a very, very conservative view to the extent of working with lending partners to slow down disbursals or to get much more targeted and so on. So, even in the merchant loan business, while there is this ramp up in significant momentum and tailwinds, we are going to be very focused on signs of asset quality deterioration.

So, I don't want to create an expectation that we will very soon be doing numbers much, the same as before or much larger than before, just because of the momentum that we're seeing over the last two or three months, because our most important metric is whether our lending partners are seeing any kind of asset quality deterioration on businesses where we are doing collections, right? So, I would say just a little bit of wait and watch and give us some time to just make sure that, and there could also potentially be some signals of, hey, there's some latent demand here, because when we don't do business in February, then there might be a little bit more to do in March and April.

So, we are very focused on this business. It is core to us. It has performed very, very well for us in the past, but we are not going to sort of just extrapolate mindlessly. On the new type of loans, where we do not collect and only get distribution fees, that's a very small part of the business in the last three months. They're encouraging in terms of having done a lot of the upfront work and the partners' interest in scaling this up. But I think for now, you could call it a pilot. Did I miss one of your sub questions, Vijit?

Mr. Vijit Jain: No, thank you. That's about it. Thank you.

Mr. Madhur Deora: Perfect. Thank you.

Moderator: Thank you. Next question is from Rahul Jain of Dolat Capital. Rahul, you may please go ahead.

Mr. Rahul Jain: Yeah, hi. Hope I'm audible. So, a part of my question was answered, but just trying to attempt it in a different way. Our guidance kind of suggests that our cost on an absolute basis would be stable. Is it simply coming because of lower net payment margin, or there is more built into that to come to that number, or it's simply more conservative to begin with?

Mr. Madhur Deora: Rahul, I think it's a couple of things. One thing I should point out is that in Q4, our marketing spend was roughly half of what we spent per quarter. And that was deliberate, because in February and March, we want to make sure that transitions are completed, as opposed to really focusing on specific user campaigns, right? So, we do expect in Q1, our marketing costs to be higher than Q4, because now we are seeing, and you saw some of the ads, hopefully, at the beginning of the call. These are ads that I think we have launched or about to launch, Vijay can tell me. So, this is really just straight from the oven, and we're going out with that. So, we will spend more on marketing. Q4 was abnormally low. So, there is that one impact, and I think we've mentioned that in the earnings release. It will be partially offset on the indirect cost side by some of the people cost actions that we have taken in the past, and the sort of expectations that we have created here of Rs 400 to 500 crores of annual people cost savings. So, but that takes a little bit of time to come through fully in the financial numbers. So, we will not see all of that in Q1.

Mr. Rahul Jain: Right, right. And, a question for Vijay. While we have closed down some businesses like Postpaid, given the greater discomfort on possibility of converting into cash or any other factor, but do we see a possibility of recreating this product as distributor or manufacturer in a way that better aligns with the comfort zone of the norms?

Mr. Vijay Shekhar Sharma: First of all, BNPL was not against the norm, which means that we could potentially bring it back how it was, number one. And secondly, there is an opportunity of credit line on UPI, which is very adjacent to this. So, yes, there are two opportunities.

Mr. Rahul Jain: So, so in one of your comments where…

Mr. Vijay Shekhar Sharma: We paused it because small ticket loans were going through extraordinary delinquencies.

Mr. Rahul Jain: Right, right. And in your comment in the press release, you mentioned that happy to share these products have been restarted and they're more in the process of starting soon. You're trying to indicate products even as far as wallet or Postpaid or those could be a little more in the future?

Mr. Vijay Shekhar Sharma: This is because most of the products are in partnership with other financial services organizations, including Postpaid, including wallet now, if you notice. So, a lot depends on technology, comfort, scale, then piloting starting. So, that is why I've said and literally everything is on the table. We need to start FASTag distribution, as you might have seen.

Mr. Rahul Jain: Yeah, I completely understand the way a lot of things have happened. But I think importantly, like one new product launch we did on the device side, but newer products has to be the instrument to re-imagine the TAM which we always was offering. And if some of these products don't exist, then the TAM has to get redefined back to the similar or higher size with newer launches. So, would be happy to hear more inputs on that in the time to come.

Mr. Vijay Shekhar Sharma: Absolutely, Rahul, you're correct. And you have pointed out towards the product that will be our attention and much less of our attention. It is definitely dependent on our partners, their market's response, et cetera, et cetera. So, we will do what our partners are interested in. Our technology and distribution becomes our moat.

Mr. Rahul Jain: Appreciate it. Thank you.

Mr. Vijay Shekhar Sharma: Thank you.

Moderator: Thank you. Next question is from Gaurav Singhal. Gaurav, you may please go ahead.

Mr. Gaurav Singhal: Hi, thanks for taking my question. So, I wanted to understand your view on breakeven. Given that next quarter, what I understand is expected to be like a bottom of Rs 500 - 600 crore loss and then improvement from there on. But if I just look at the various moving parts here, I mean the payment, net payment, revenue, now it seems too structurally lower. And then on the lending side also, you mentioned you're not going to scale it up aggressively from the April number that you have disclosed. So, maybe that's also a more gradual scale up. And then marketing and others is probably more, I guess, trend in line with GMV. So, if we put all of this together, it seems there are not a lot of paths near term for breakeven. But I'm wondering if you have a different view or if you feel like in four or five quarters, you do see things coming to breakeven again. And then if yes, what kind of path do you have in mind?

Mr. Madhur Deora: Thank you, Gaurav. This is Madhur Deora; I'll take your question. So, I think there are various drivers, right, for our business. So, one is on the payment side itself, we are seeing, as you saw, GMV recovery. And obviously, GMV has a direct impact on margins, the payment processing money that we can get in absolute rupee and dollar terms. So, that's the first one. Second is, as we mentioned, the sort of, a little spike in the inactive merchants, which we are now fixing and correcting and reactivating, does result in additional subscription revenue, which effectively goes straight down to the bottom line, or at least to the EBITDA line. So, that is a very positive contributor going forward.

On financial services, I think they're very interesting conversations for us to have with our lending partners now that the payment business has stabilized, as we have said in the presentation. I think those conversations were, quite frankly, a little bit harder in February and March than they are now, especially now we are sort of public with all of these numbers. So, I think those conversations are a lot easier to have now than they were in February and March. I think it's hard to be very, very specific about which one of these line items will do better than expected and which ones may not grow very significantly from here.

What I was commenting to Vijit, was just our basic approach to be conservative. We are not seeing issues in asset quality in merchant loans, but I also wanted to be calibrated about creating an expectation that that would automatically translate into us dramatically growing the business. But there are opportunities in lending, both in the distribution-only model in personal loans, as well as scaling up merchant loans, both with collections and without collections, and the pilots that we have in secured lending. In addition, insurance and wealth can become positive contributors going forward. These businesses are not quite off the scale of our lending business right now, obviously, but there is incremental money to be made.

On our commerce and cloud businesses, I do think we can do a lot more about being sharper, about getting slightly greater monetization per MTU or engaged customer than we currently do. And finally, on the cost side, while, like I mentioned in Q1, we'll spend more on user growth than we did in Q4 because Q4 was abnormally lower, we are very focused on making sure that we are lean as an organization and that we have a lot of discipline on cost.

So, across the platform, there are many, many opportunities. I think we did sit down and think about whether this is the time for us to give slightly longer-term guidance beyond Q1. And we thought that as we are having these discussions with partners, as well as internal conversations about where the next Rs 100, Rs 200, Rs 500 crores of bottom line is going to come from and over what time period, we thought it's better to wait. We should give the Q1 guidance, but it is better to wait until at least July, if not a bit longer, to be a little bit more specific about when exactly we get to that break-even.

Mr. Gaurav Singhal: Hi. Thanks a lot. That's very helpful. And then the other question I had was on adding MTUs. So, you mentioned you would be discussing with NPCI, which I think was one of the points that RBI mentioned, but then the other point was also to finish migration of all the existing users, existing UPI users. So, has that been completed? And is the discussion with NPCI the only outstanding point or is something else left to start adding MTUs?

Mr. Vijay Shekhar Sharma: I think as a migration, logically, the migration was of the system and technology, because as a consumer, as you can guess, let's say we have X million customers, only a fraction of them come and not every one of them will effectively come in the lifetime to get migrated. And we do the migration of these customers as and when they come on the app. So, we are very actively converting them and migrating them. As for any other concerns or inputs, we are in active conversations with NPCI and they're very supportive. And we are hopeful that they should give us this in due course. If we get feedback, we solve them.

Mr. Gaurav Singhal: All right. So, just one last thing. So, on this UPI, you mentioned the bank-to-bank UPI is the one which does not have any monetization apart from the incentive. How much is that as a percentage of the total UPI GMV for us, roughly?

Mr. Vijay Shekhar Sharma: I think the intention is to say when you pay from a bank account, which is a primary way of making a payment on UPI, the other payment instruments like credit, credit card, overdraft, prepaid are very minuscule, not even 10% . I'd rather say a few single percent.

Mr. Madhur Deora: So, if I may just add, out of the about annualized 20 lakh crores, we have said 80 to 85% is UPI, of which is a very small percentage of non-bank to bank link, vast majority of that 80 to 85% is bank.

Mr. Gaurav Singhal: Okay. Thank you.

Mr. Madhur Deora: Thank you.

Moderator: Thank you. We will extend the call for another 10 minutes because there are a few questions. We'll take the next question from Jayant of Jefferies. Jayant, you may please go ahead.

Mr. Jayant Kharote : Thanks for the opportunity. First question is to Vijay. About this Rs 400 to 500 crore of annualized people cost savings, how are you thinking? Can you help us understand the journey of the savings? It's almost 15% of your current employee cost base. And how would this play out between the field force versus the HO? We saw you had almost a half thousand reduction in the count of sales employees. So, if you could just help us understand the journey of the savings, how will this play out?

Mr. Vijay Shekhar Sharma: First and foremost, I want to tell you, Jayant, that we will continue to add more sales executives. And this churn of sales executive, if at all, is due to uncertainty, what kind of product that we should sell, when we are migrated, other banks have started and so on. So, instead of retaining, we let them continue to churn and not bother about them. But I want you to know that we will increase that overall number and we are committed to grow our merchant side ecosystem by adding more sales people.

As for overall cost, there is a clarity of number of product and technology and operation side. There is a tremendous amount of scope available. So, we are able to add that. I mean, very simple customer care is merchant care is the systems and people and operations where, let's say, Excel sheets move instead of the system could get modified. So, a lot of space for cutting that kind of slack. We will definitely increase the number of people in the field area. It will be, I mean, given our attention and direction, our machines are chugging along well and in terms like they're working smoothly with our partner bank, we will continue to increase the number of salespeople that we look at on that side.

Mr. Jayant Kharote: And the device deployment rate, do you expect that to go back to, I mean, maybe not one and a half million, but maybe at some level of that, not what we're seeing currently.

Mr. Vijay Shekhar Sharma: Well, Jayant, I can tell that I track this daily and I'm happy to tell you that some of our numbers are actually very, very much going towards the previous numbers.

Mr. Jayant Kharote: Oh, great, great. That's great to hear, Vijay. The second one is for Madhur, on the margins on lending business. If you could help us understand, there was an element of collection expenses as well, right, which used to be a part, I think, of the other contribution expenses. So, if you could help us understand the margins on lending products, where you do collections and where you don't do collections. How was that before? And now that you're seeing more of these non-collection products, how will the margins on the lending business play out?

Mr. Madhur Deora: So, Jayant, on the, let's say, contribution margin basis or EBITDA margin basis, because some of this is people cost, the margins for similar size loans are not that different, whether it is with collections or without. Obviously, with collections also means that some of the collection revenues and collection incentives are slightly back-ended. So, there might be a little bit of a timing issue there, but on a bottom-line basis, they're not particularly different. It is possible that some of the higher ticket loans might be to even more prime customers, or if it's a higher ticket, then the take rate might be slightly lower. The average take rate of distribution-only loans is slightly higher than the loans that we do with collections. So, there could be those elements as well. But like for like, the bottom line is not very different.

Mr. Jayant Kharote: Thank you. Thanks Vijay.

Moderator: Thank you. Next question is from Saurav Kumar of JPM. Saurav, you may please go ahead.

Mr. Saurav Kumar: Hi, thanks for that. So, just two questions, one on slide six, you basically say that the average per device subscription revenue, which is Rs 90 will go down to Rs 80 and then recover back to Rs 100. I'm wondering what is driving that? It is just that you're expecting more fall off in Q1. So, is it just the active rate, which is basically declining in Q1 and going back to Q4? Or is there something else, some discounts which you're giving, which probably come out? So, that's one. And the second is again, on the indirect cost basis, whatever you kind of guided to, will it be fair to say that your full year indirect cost should be in the Rs 4500 crores odd range? These are the two questions. Thank you.

Mr. Madhur Deora: Yeah. So, on the first question, it is purely kind of the full quarter impact of how we have exited Q4, Saurav. So, obviously, January was based on normal active rates or inactive rates. And then February and March, we saw this 10 lakh drop. So, we have exited Q4 slightly, well, 10 lakhs worse, if you will, than our normal active rates would suggest. In Q2, we do see, sorry, in Q1, we do see recovery in those active rates and early signs are positive. But it is because you exited weaker than, for the overall quarter, there is slightly less subscription revenue. So, to clarify, we're not seeing deterioration in Q1, but we're seeing in Q1, the full quarter impact of the deterioration we saw in Q4.

Mr. Saurav Kumar: So, it's just a percentage active rate change is what is driving this.

Mr. Madhur Deora: And also, the fact that we could not add new merchants for a portion of, well, all of February and a portion of March, and we are adding new merchants now. So, for those merchants activated, obviously the early active rates are quite high. And to your second question, I think give or take 5% sort of range, that probably sounds right.

Mr. Saurav Kumar: Okay. Thank you.

Mr. Madhur Deora: I should mention that while I think to get to that number, you have taken out Rs 400 to 500 crores of savings that you mentioned, the marketing number would vary a little bit, depending on what actions we are taking in Q2, Q3, Q4. Like I said, last year, we did spend about Rs 100, Rs 150 crores less than what we expected to because of the February and March impact.

Mr. Saurav Kumar: Thank you.

Moderator: Next question. And the last question is from Piran Engineer of CLSA. Piran, you may please go ahead.

Mr. Piran Engineer: Yeah. Hi, thanks for taking my question. Am I audible?

Moderator: Yeah, you're audible.

Mr. Piran Engineer: Yeah, thanks. Just firstly, if you can just comment on how many lending partners are active with you as on date, and in this sourcing only model, is there some sort of FLDG agreement or any sort of that sort of stuff? Because there's a lot of media speculation around it. So, I just want to clarify this.

Mr. Vijay Shekhar Sharma: Yeah, none of the lending partners have entered any agreement with us. So, practically, depending on the disbursement rate, yes, no, maybe, and so on. So, everybody is on. As far as FLDG, we've not given or don't plan to. We don't see, we would rather go in a disbursement-only model, like we are talking, as you can see. And as for the media report, we did file a stock exchange clarification the next day. So, hopefully, that clarifies.

Mr. Piran Engineer: But Vijay, just to be fair, this Rs 2000 crores of disbursements you all did in April, that has come from all seven partners, have all seven contributed, or is it some are dormant, some are, because at least one partner is public about wanting to reduce the share to zero.

Mr. Vijay Shekhar Sharma: Yes. So, not every partner is active or disbursing.

Mr. Piran Engineer: And hence my question, can you give a sense of how many are active with you?

Mr. Vijay Shekhar Sharma: Again, this is more about the comfort, like I told you, Piran, that which state of business stability are we at of different lending partners. So, we already have enough and ample supply of capital, as you can guess. We are doing these numbers as you are seeing them. So, we rather are trying to find out for disbursement of, on a merchant side, as you can see, the numbers are showing up, and we are expanding on that, up to a particular level. But we are more focused on disbursement-led partners, which could be many more different kinds of partners than the same partners as before. So, the approach here is not necessarily to go to the same partner for the same product, if you notice. Because we are not doing BNPL and personal loan with collection, so we may not need to necessarily seek that partnership.

Mr. Madhur Deora: And Piran, I would just add one other thing, which is that while we have had the disruptions that we had in February and March, and the pausing of business and unpausing of some of those already and unpausing hopefully more later, I think we also have to keep in mind the overall context of the market, where partners who are doing lending with players like us also have different views about what their approach should be given the overall market backdrop. And we have always worked with our partners on the basis of, you should only lend to people that you're comfortable lending to because we don't give you FLDGs. So, partners will take certain views from time to time, which is why we have been talking about how many partners we have, and our desire and focus to increase those number of partners, because we don't control partner decisions, nor do we influence partner decisions, nor do we try to catalyse partner decisions by giving FLDGs.

Mr. Piran Engineer: Got it. Okay, that's clear. Just a couple of clarification questions, if I heard them correctly. Did you mention that the UPI incentive sharing with the new bank partners will be similar to what you had with Paytm Payments Bank?

Mr. Madhur Deora: Our overall commercials are similar, some of the nuances of arrangements might be different. Because remember, in the case of Paytm Payments Bank, Paytm Payments Bank was running UPI, it was hosted on Paytm App for customers, and we were also a merchant acquirer for Paytm Payments Bank. Our model going forward as TPAP is different, right? So, the arrangements that a TPAP would enter into with a partner bank, a sponsor bank, would be slightly different than the arrangements that we had in the past, but the commercial impact to us is roughly the same.

Mr. Piran Engineer: Okay, that clarifies. And secondly, could you just explain this thing on the previous participant's question, the subscription device rental is different for active and inactive merchants?

Mr. Madhur Deora: No, sorry, that wasn't the clarification. So, maybe if I understood the question correctly, and the way I explained it, is that I think the question was, you have said Rs 90 will go to Rs 80. Does that mean that you are seeing deterioration in ARPU per customer in Q1? And the point that I was making is that we saw deterioration in ARPU per customer in Q4, especially on account of the inactive base going up by 10 lakhs, like we have described. So, we have exited March with that state of play. And we actually expect recovery of that, not full recovery, but partial recovery of that in Q1. So, we expect Q1 momentum to be upwards, whereas Q4 momentum in the last two months was downwards. But as you think about what your weighted average ARPU per device would be in Q1 versus Q4, that will be downwards because you exited Q4 weak.

Mr. Piran Engineer: No, I got that Madhur. So, it basically means that an inactive merchant pays you lower rent than an active merchant, right?

Mr. Madhur Deora: An inactive merchant actually does not pay us rent because we deduct from their settlement. Of course, we have other ways of sending a salesperson to go collect subscription fees and so on, but that is significantly harder, right? So, an active, the surest sign of being able to, the surest way of being able to earn subscription from a merchant is if they are active. If they do transactions. Because if they do one or two transactions, even one or two transactions a month, obviously merchants, soundbox merchants do many, many, many more than on an average. But if a merchant goes inactive for whatever reason, then it is significantly harder to collect. And obviously, then we use remote reactivation efforts and then on-field reactivation efforts. And those activation efforts take a little bit of time to kick in on a base of 10 lakhs.

Mr. Piran Engineer: Okay. Okay. Now I understand. Got it. Got it. Thanks for the clarification guys and all the best.

Mr. Madhur Deora: Thank you.

Mr. Vijay Shekhar Sharma: Thank you. Thank you, Piran.

Moderator: Thank you. With that, we come to an end of this call. A replay of the earnings call and a transcript will be made available on the company website subsequently. Thank you all for joining.

Mr. Vijay Shekhar Sharma: Thank you everybody.

Mr. Madhur Deora: Thank you.