

# (Equity Research Report)

# paytm Karo





Paytm was started in 2010 in Noida by Vijay Shekhar Sharma. At first, the growth was very insignificant due to the low percentage of smartphone and internet users in India. The Paytm tale, however, took a significant change when the monetization process occurred in India and Paytm rose to prominence in the online money transfer industry. Paytm has also benefited from the expansion of Jio and other government programmes like PPI (prepaid payment instrument), UPI (universal payment interface), and payment banking. Due to Covid-19, there was no revenue increase from 2019 to 2021 because of the high operational correlation between the commerce & cloud and P2M (payments to merchant) segments. economy's economic processes. The business experienced a very good recovery at the end of year 22 and reported a 50% rise in revenue and a % drop in loss on sales.

For instance, it is used in a wide range of industries, including finance, cloud service providers, computing, advertising, payment aggregation, ticketing, online lending, loan collection, and more. Additionally, it has lost trillions of rupees since 2010 and is owned by dozens of businesses. The P2M ecosystem and lending are the company's primary areas of concentration. Paytm will turn a profit in the upcoming years. Paytm operates in sectors with extraordinarily high growth rates, such as online loans, unneeded A/C opening (just 4% of Indians invest in the stock market), and Paytm money (potential). significant as the majority of small business owners still rely on unsecured loans, mobile payments (which are predicted to expand by 50% in the next five years), etc.

Paytm will continue to dominate the industry in this area of merchant payments, be profitable over the coming years, and keep a high operating margin (like its global peers) Growth factors for the industry will continue to include e-commerce, digital payments, increased smartphone use, and online lending markets.



# Paytm

**About the Stock:** With millions of merchants, Paytm is the largest payment network. According to Q2 of FY23, it has an average of 79.7 million MTUs (monthly transaction users). Its lending operations are expanding quickly, as seen by the recent quarter's 8x and 5x increases in the value of personal loans disbursed and post-paid loans, respectively.

- The management's primary focus is on providing merchants with lending and payment services.
- The Company is one of India's most creative fintech companies. For instance, the first e-wallet, Payment Bank, was introduced in 2014, and Sound Box for retailers was introduced in 2020. All of these innovations were pioneered by a player in India.

**Results of the Q2 of fiscal year 23:** Operating revenue increased 14% Q-o-Q 1914cr & 76% Y-o-Y 1086 Cr.

**Payment service revenue** increased by 9 QoQ (1188Cr)

**Financial and commercial services and cloud revenue** Up 29% and 14% QoQ and 293% and 55% YoY (349 Cr and 377 Cr)

**-EBITDA before ESOP** up 259 Y-o-Y (-426 Sep 21 to -166 Sep 22) and profit margin improved from 39% to 9%.

**-GMV** (Total Cargo Volume) **2.0 lakh Cr** to **3.2 lakh Cr** annually.

**-Indirect costs (excluding ESOP costs)** decreased from 63% of revenue in Q2 2022 to 53% of revenue in Q2 2023 and in absolute value remained stable quarter-on-quarter at Cr 1,010, despite continued investment to support the growth of our platform and operations.

## What Should investors do?

- Paytm has so far been a significant asset destroyer for investors as its IPO failed horribly and the company is currently trading at about 70% below its IPO value.
- Our valuations indicate that the stock could go from negative to positive.
- If you can't hold Paytm for at least five years, you shouldn't buy it.
- Because the management is putting a lot of effort towards achieving the objective of enhancing loan revenue, payment for sellers, and EBITDA prior to ESOP. This will promote Paytm's expansion. The business is pursuing the strategy of improving unit economy and broadening the revenue-generating platform.

Particulars	Amount (Cr)
Market Capitalization	54,223
Total Debt (FY22)	204
Cash and Investments (FY22)	6140
EV	49592
52-week H/L (Rs)	1961/510
Equity capital	13713
Face value (Rs)	1.0

## Shareholding Pattern

	Dec'22	Mar'22	Jun'22	Sep'22
Promoters	8.89	8.89	8.92	8.92
FII's	9.36	4.42	6.45	77.26
DII's	1.06	1.07	1.15	1.33
Public	89.58	94.51	93.40	21.42

## Nifty Vs PAYTM



## Key Risk

- RBI Regulations
- Increasing Competition
- Loss in the P/L till now



# S.W.O.T Analysis Of PAYTM

## Strength

- Market leader in merchant payments.
- Strong brand
- New innovative products
- Strong revenue growth in recent Quarters
- Impressive Growth in lending activity

## Weakness

- Over-diversifying Service
- Low participation rate compared to global peers
- Management is less focused on risk management
- Low market share in UPI transactions (all).

## Opportunities

- Fast growing industry
- Increase the adaptability of digital payment
- Great opportunity in lending and P2M
- Internet users are increasing in India (expected to reach 950 MN by 2026)

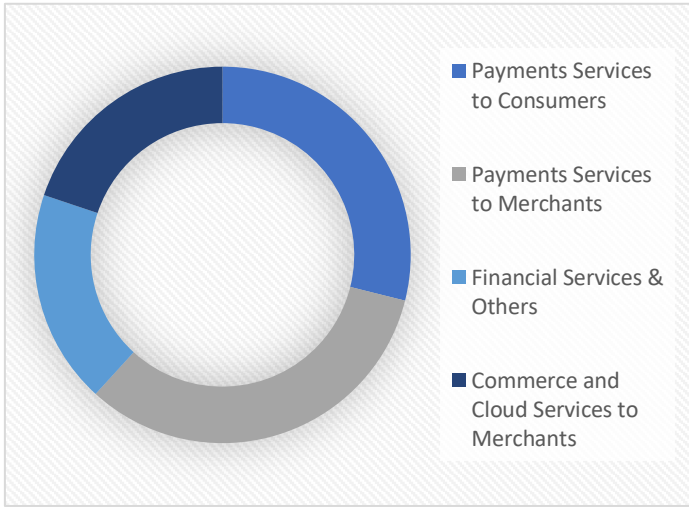
## Threats

- Increased competition (Phonepe, Google Pay, WhatsApp pay and others).
- Regulations of the RBI
- Rapid technological change

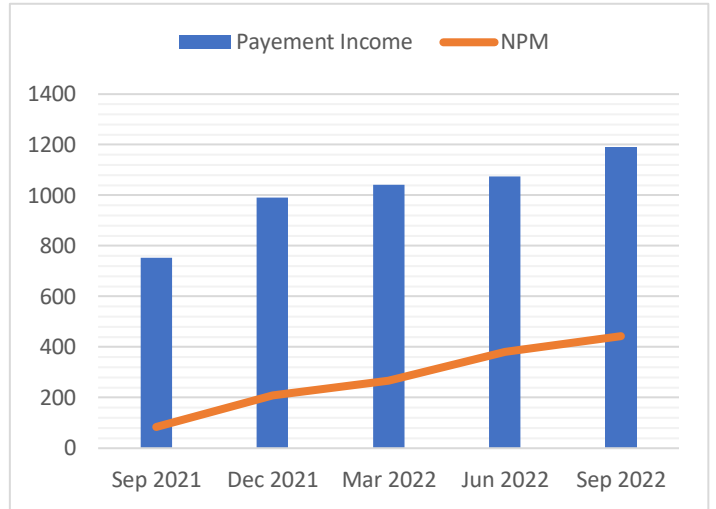


# Growth Drivers

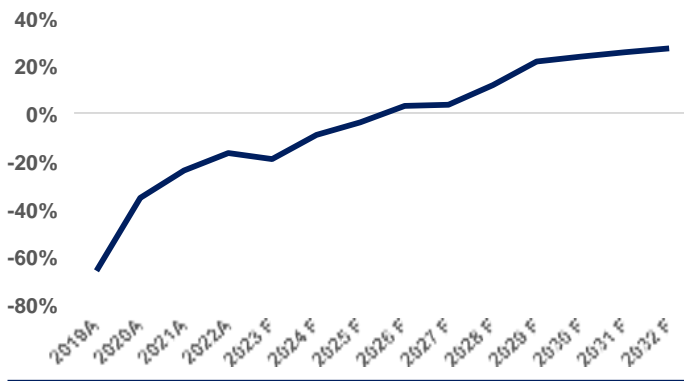
## Revenue Mix



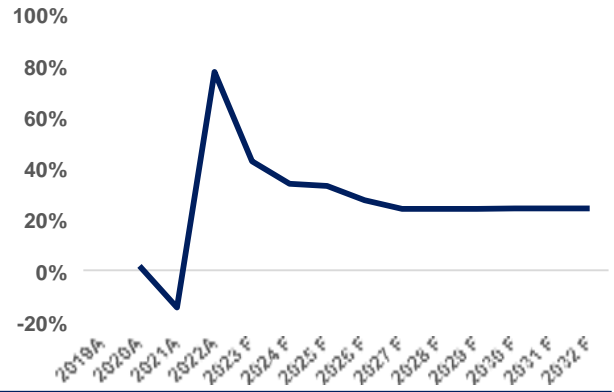
## Payment Revenue vs NPM



## ROCE %

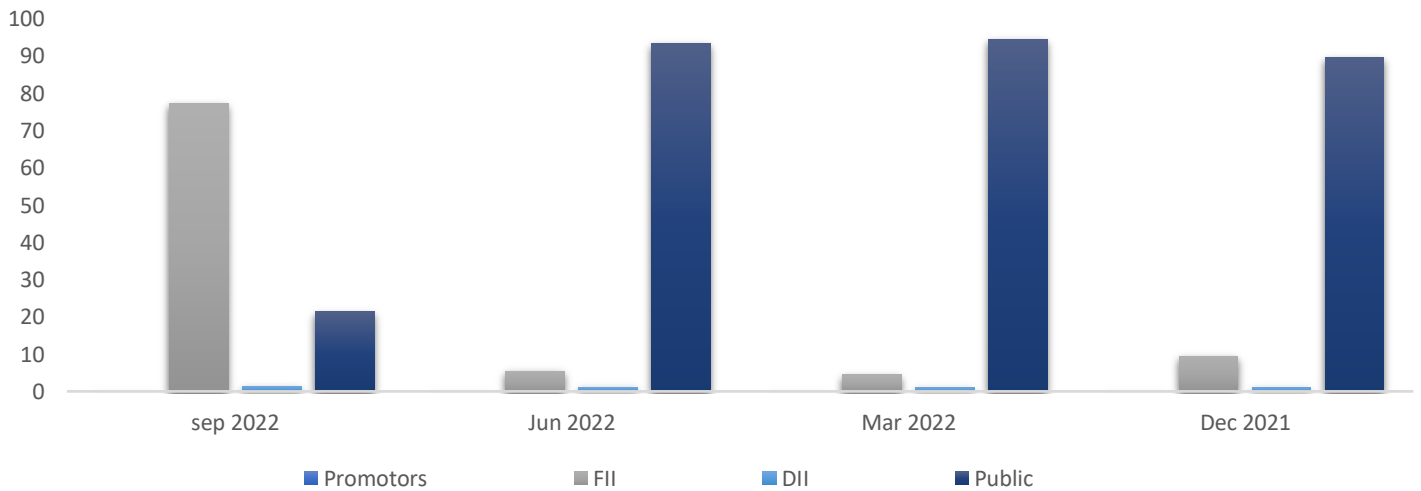


## Revenue Growth %



Source: Earning Report Q2

## Shareholding pattern





# Growth Drivers

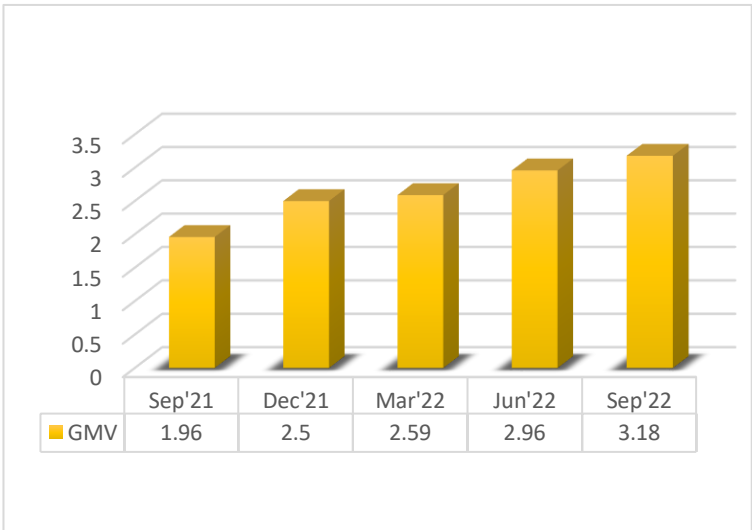
## Loans Disbursed



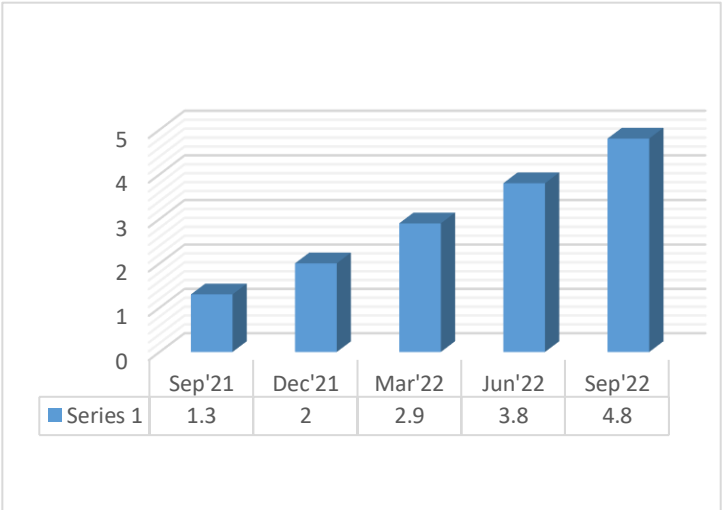
## Monthly Transacting User



## Gross Merchandise Value

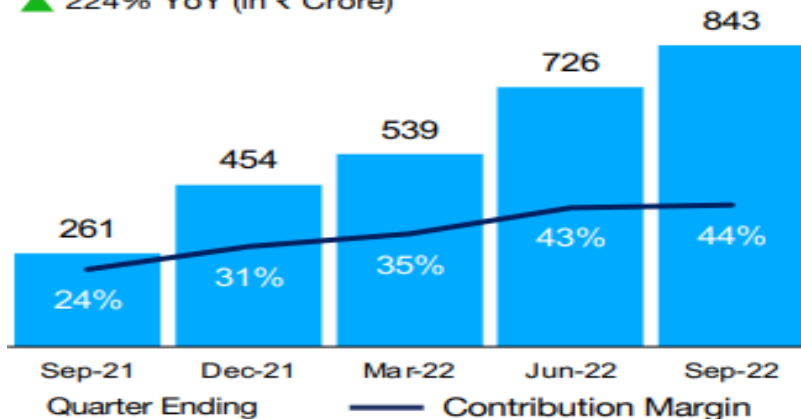


## Merchants Subscriptions



## Contribution Profit

▲ 224% YoY (in ₹ Crore)



# Financial Statements



## Revenue Forecast

Years	2019A	2020A	2021A	2022A	2023 F	2024 F	2025 F	2026 F	2027 F	2028 F	2029 F	2030 F	2031 F	2032 F
<b>GVM</b>	2,29,200.00	3,03,200.00	4,03,000.00	8,52,000.00	11,92,800.00	16,69,920.00	23,37,888.00	30,39,254.40	39,51,030.70	51,36,339.90	64,20,424.90	80,25,531.20	1,00,31,913.90	1,25,39,892.40
Total Revenue	2,159	3,025	2,802	4,964	7,086	9,491	12,619	16,080	19,949	24,754	30,724	38,143	47,365	58,829
% of GVM	0.94%	1.00%	0.70%	0.58%	0.59%	0.57%	0.54%	0.53%	0.50%	0.48%	0.48%	0.48%	0.47%	0.47%
revenue growth%		40.10%	-7.40%	77.20%	42.70%	33.90%	33.00%	27.40%	24.10%	24.10%	24.10%	24.10%	24.20%	24.20%
<b>Payments &amp; Financial Services</b>														
Payment Services to Consumers	1085	1012	969	1,529										
Payment Services to Merchants	486	765	1,012	1,892										
Financial Services and Others	124	129	128	437										
Total of P&FS	1,695.00	1,906.00	2,109.00	3,858.00	5,594.10	7,552.04	10,195.25	13,049.92	16,312.40	20,390.49	25,488.12	31,860.15	39,825.18	49,781.48
% Change YOY		12.40%	10.70%	82.90%	45.00%	35.00%	35.00%	28.00%	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%
<b>Commerce &amp; Cloud Services</b>														
Commerce	119	710	245	374										
Cloud	345	407	448	731										
Total	464	1,117.00	693	1,105.00	1,491.80	1,939.30	2,424.10	3,030.10	3,636.10	4,363.40	5,236.00	6,283.30	7,539.90	9,047.90
% Change YOY		140.70%	-38.00%	59.50%	35.00%	30.00%	25.00%	25.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%
Total Revenue	2,159	3,023	2,802	4,963	7,086	9,491	12,619	16,080	19,948	24,754	30,724	38,143	47,365	58,829
EBIT margin					-40.00%	-15.00%	-5.00%	5.00%	5.00%	15.00%	25.00%	25.00%	25.00%	25.00%
EBIT (Excluding ESOPs)					-2,834.36	-1,423.70	-630.97	804.00	997.42	3,713.08	7,681.03	9,535.86	11,841.27	14,707.35
Reinvestment Rate					848.57	962.18	1,564.02	1,730.35	1,934.25	2,402.66	2,985.15	3,709.62	4,610.84	5,732.14

## Consolidated Income Statement

	2019A	2020A	2021A	2022A	2023 F	2024 F	2025 F	2026 F	2027 F	2028 F	2029 F	2030 F	2031 F	2032 F
<b>Revenue</b>	3,224	3,279	2,801	4,972	7,086	9,491	12,619	16,080	19,949	24,754	30,724	38,143	47,365	58,829
growth YOY%		1.70%	-15%	78%	43%	34%	33%	27%	24%	24%	24%	24%	24%	24%
<b>Expenses</b>	7,592	5,964	4,640	7,356	9,566	10,440	12,619	14,472	17,954	19,803	21,507	26,700	33,156	41,181
as revenue %	235.50%	181.90%	165.70%	147.90%	135.00%	110.00%	100.00%	90.00%	90.00%	80.00%	70.00%	70.00%	70.00%	70.00%
<b>Operating Profit</b>	-4,368	-2,685	-1,839	-2,384	-2,480	-949	0	1,608	1,995	4,951	9,217	11,443	14,210	17,649
OPM %	-135.50%	-81.90%	-65.70%	-47.90%	-35.00%	-10.00%	0.00%	10.00%	10.00%	20.00%	30.00%	30.00%	30.00%	30.00%
<b>Exceptional items</b>	-82	-304	-26	-2	0	0	0	0	0	0	0	0	0	0
<b>Other income normal</b>	361	259	383	289	0	0	0	0	0	0	0	0	0	0
<b>EBITDA</b>	-4,089	-2,730	-1,482	-2,097	-2,480	-949	0	1,608	1,995	4,951	9,217	11,443	14,210	17,649
as revenue %	-126.80%	-83.30%	-52.90%	-42.20%	-35.00%	-10.00%	0.00%	10.00%	10.00%	20.00%	30.00%	30.00%	30.00%	30.00%
<b>Interest</b>	38	54	38	42	42	42	42	42	42	42	42	42	42	42
<b>Depreciation</b>	112	174	178	247	354.3	474.6	631	804	997.4	1,237.70	1,536.20	1,907.20	2,368.30	2,941.50
as revenue %	3.50%	5.30%	6.40%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
<b>EBT</b>	-4,239	-2,958	-1,698	-2,386	-2,876	-1,466	-673	762	955	3,671	7,639	9,494	11,799	14,665
<b>Tax expense</b>	0	0	0	0	0	0	0	190.5	238.9	917.8	1,909.80	2,373.50	2,949.80	3,666.30
<b>Tax %</b>	24.00%	24.00%	24.00%	24.00%	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%	25.00%
<b>NET INCOME</b>	-4,239	-2,958	-1,698	-2,386	-2,876	-1,466	-673	572	717	2,753	5,729	7,120	8,849	10,999
growth YOY%									25%	284%	108%	24%	24%	24%
<b>NPM%</b>	-131.50%	-90.20%	-60.60%	-48.00%	-40.60%	-15.40%	-5.30%	3.60%	3.60%	11.10%	18.60%	18.70%	18.70%	18.70%
<b>EPS in Rs</b>	-61.1	-42.6	-24.5	-34.4	-41.4	-21.1	-9.7	8.2	10.3	39.7	82.6	102.6	127.5	158.5



## DCF Valuation

Years	2023 F	2024 F	2025 F	2026 F	2027 F	2028 F	2029 F	2030 F	2031 F	2032 F
EBIT	-2,834.00	-1,424.00	-631.00	804.00	997.00	3,713.00	7,681.00	9,536.00	11,841.00	14,707.00
EBIT(1-t)	-2,834.34	-1,423.70	-630.97	804	997.43	3,556.70	5,760.78	7,151.89	8,880.95	11,030.51
Tax %	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
Reinvestment	848.57	962.18	1,564.02	1,730.35	1,934.25	2,402.66	2,985.15	3,709.62	4,610.84	5,732.14
Free Cash Flow	-3,682.91	-2,385.88	-2,194.99	-926.35	-936.82	1,154.04	2,775.63	3,442.27	4,270.11	5,298.37
NOL	2,834.34	4,258.04	4,889.00	4,085.00	3,087.58	0	0	0	0	0
	1	2	3	4	5	6	7	8	9	10
Discount Factor(WACC)	13%	13%	12%	12%	11%	11%	9%	9%	8%	8%
Cumulated discount factor										
	0.88375135	0.78101644	0.69022434	0.60998669	0.539076556	0.476409633	0.421027656	0.372083758	0.328829523	0.290603534
Present Value of FCFF	-3,254.78	-1,863.41	-1,515.04	-565.06	-505.02	549.80	1,168.62	1,280.81	1,404.14	1,539.73
Terminal Value										60195.59537
Persent Terminal value										17,493.05

Perpetuity Growth Rate-Based Valuation				
Total PV of Cash Flows	-1,760.21		Beta	1.14
Terminal Value	60,195.60		G(Terminal Growth)	4%
PV of Terminal Value	17,493.05		Risk Free Rate	5.40%
Enterprise Value	75,928.43		Cost Of Equity	13.30%
(+) Cash	17057		Cost of Debt	8.00%
(-) Financial Liabilities	346		Total Equity	14152 (98%)
Equity Value	1,06,791.43		Total Debt	221 (2%)
No. Outstanding Shares	694000000		Total Capital	14373
Price per Share	1,538.78		WACC	13.15%

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