

One97 Communications

Operator: We welcome attendees to ask questions with their videos on or off, as they prefer. To ask a question, you can raise your hand through your Zoom dashboard. To ensure a seamless flow, participants will be promoted as panelists in advance. Today, from Paytm's management, we have with us Mr. Vijay Shekhar Sharma, Founder and CEO; Mr. Madhur Deora, President and Group CFO; and Mr. Anuj Mittal, Senior Vice President, Investor Relations. In today's call, some statements made may be forward-looking in nature. Actual events may differ materially from those anticipated in such forward-looking statements. This earnings call is scheduled for 45 minutes. A replay of the call and transcript will be made available on the company's IR website subsequently. I would now like to invite our Founder and CEO, Mr. Vijay Shekhar Sharma, to share his opening remarks. Over to you, Vijay.

Vijay Shekhar Sharma – Founder & CEO: Thank you. Thank you. Good afternoon, everyone, and thank you for joining us. I think this was an interesting quarter. We have clearly come out of the question of whether Paytm can make a profit or not, and it is now very clear that the business model is compounding from where we were, let us say, last year or the year before. Fundamentally, we acquire customers through payments and cross-sell financial services. Obviously, the biggest financial service that India needs is credit. Therefore, helping small merchants, which are our primary business drivers, is our primary revenue model.

I actually created a business presentation about what we believe our business is. I will start this time, after a long time, by giving you a business presentation about how I think. The intention is to explain how we work, and this was intended because we were pursuing some of the international businesses. So, I started to think about how we believe Paytm should be viewed.

Obviously, small businesses are our foray, and small businesses are our game. This is our purpose. We build the financial system for the world's small businesses, starting from India and taking them to the rest of the world. We champion the shop on the street, the family business, the growing SME, everyone. We solve small-business problems beyond payments.

Vijay Shekhar Sharma – Founder & CEO: [line issue] Is it? Can you hear me? All right. Okay. I hope you can hear me because I can see some of you. Please give me a thumbs-up if you can hear me, the audience on the call. All right. I hope you can hear me. All right, then. Thank you.

As you know, we go beyond the payment device on the counter because we believe that this is the starting point of the journey. Credit is what earns us money. Insurance and wealth become deeper, and AI binds everything together. The question of what you would do with AI probably sits within this message: every payment starts every relationship. We acquire small, medium and large businesses, and payment flow underwrites credit. This is the critical thing. This is the critical thing that you will see in our business: we start from small payments and move to larger ones, and depending on different states, we unlock the next stage with merchants.

Then we protect the owner, family, team and shop. This is the expansion of our insurance bucket. Then idle cash earns. This is how we help them. Obviously, digital gold or mutual fund distribution comes here. This is something that we believe we are building as our AI stack for small merchants. If you read it, it is something that all small businesses need: capabilities that large companies have,

Report is AI-generated and may contain inaccuracies.

One97 Communications

but they do not have somebody to operate them, so AI operates on their behalf.

It is AI-first, including the very fact that we code, generate and so on. So, whether it is onboarding or customer...

Can I ask Manish and Sachin, since you are on the call, whether you are able to hear me normally? Please give me a thumbs-up.

Sachin Salgaonkar – Bank of America: Yes, I can hear you. Your voice is a bit feeble.

Vijay Shekhar Sharma – Founder & CEO: How is it? Is it better now?

Sachin Salgaonkar – Bank of America: Not really.

Vijay Shekhar Sharma – Founder & CEO: [line issue] Okay. We will disconnect this and connect through our laptop.

I am sure you can hear me better now. I am assuming.

Sachin Salgaonkar – Bank of America: Much better. Thank you.

Vijay Shekhar Sharma – Founder & CEO: Okay. I hope you can hear me better now. All right. Thank you. AI first—the brain works! [laughs]

The point is that all of our business runs with AI first. I cannot say that it applies to only one line item or another; every line item works with AI first. The best part is that even our sales team works this way. Which is the correct merchant to acquire, where the high yield is, and which merchant is important to retain are decided by a machine, not just by individuals. This is important.

Paytm changed the cost of serving a small business into a profitable model, and that is what we have probably been out there proving: serving small businesses can be profitable. Then, as you know, this is how it works. It starts with payments, credit and underwriting, and money flows into the partner. Pricing is visible and AI-first. We want to take this to the rest of the world. That is it.

With this, we will start inviting our friends to ask questions. Yes?

Management: Yes.

Operator: Thank you, Vijay. We will start the Q&A now. The first question is from Sachin Salgaonkar from Bank of America, followed by Manish Adukia from Goldman Sachs. Sachin, please go ahead with your question.

Sachin Salgaonkar – Bank of America: Thank you, {? Anindita ?}. Congratulations to the management on another good set of numbers. I have three questions.

First, I wanted to follow up on the MDR implementation on UPI. You did mention in the shareholder letter a 2.5 percentage-point improvement in payment processing margin, let us say, over a period of 2 to 3 quarters. There are two sub-questions. Number one, how do you think this will flow through to EBITDA? Number two, from an opportunity point of view, are you looking to

Report is AI-generated and may contain inaccuracies.

One97 Communications

incrementally scale on the consumer side or the merchant side, because the incremental LTV-to-CAC is now perhaps getting better?

In the past, I remember Madhur, you sounded a bit more cautious about competition picking up. Any incremental comments from the competition point of view would also be helpful.

Vijay Shekhar Sharma – Founder & CEO: You will have to give us the second part again because I was unlocking Madhur's laptop. You said, before competition picks up, what was the question?

Sachin Salgaonkar – Bank of America: Sorry. Let me repeat it. First, Vijay, with 2.5 percentage points of payment processing margin, how should we think about this flowing through to EBITDA margin? Do we see a full flow-through to EBITDA margin, or do we see some incremental investments because you will now be targeting more consumers or merchants? Also, what are your general thoughts on competition, especially in this space with monetization picking up?

Vijay Shekhar Sharma – Founder & CEO: Yes. So, Sachin, [off-mic discussion] we switch it off like this; it is here. Just unmute when we want to start. Okay, Sachin, the answer is that this is a bottom-line-accretive number, and it is an upside. The plan for consumer acquisition does not change or get deterred because of this. We remain committed to acquiring more consumers.

Consumer market share is Paytm's obligation to win, and I remain committed. I am surprised that we unlocked some shocking and surprising things that were restricting our growth, and they were not just internal; they were external, if you will. I am very happy to say that we are going to go all in on market share, and we call it a primary KPI for my team.

It is not dependent on whether there is MDR or not, because in our business model, MDR is not factored in at all. We tried it by looking at the most conservative method, and then we found out that 2.5 bps is something that we can make. Remember, there is more revenue in this business because there is a platform fee that consumer apps are typically putting up in the market. There is also an acquiring-side platform fee that exists when large merchants, which have very large negotiating powers, put up a very low margin. Companies then put a platform fee even on the acquiring side.

I am going to say that the bps we quoted does not factor in any potential additional revenue if any platform-side fees could have been added. This is the logical best-case number that we know of today. In my opinion, this is bottom-line-accretive because this is not the basis of our consumer acquisition. We will remain as aggressive as, or less aggressive than, the current level while acquiring more consumers.

Consumer acquisition is a very positive number for us. I would rather tell you that the number of features, the capabilities and the way we are acquiring customers are things we are very happy about. I am very positive about them.

Sachin Salgaonkar – Bank of America: Understood, Vijay. Just a quick follow-up. When I do a quick calculation for FY28 at a 2.5% margin, it translates into incremental EBITDA of close to 900 crores. Is the calculation broadly correct?

One97 Communications

Madhur Deora – President & Group CFO: On our GMV, which is 28 lakh crores at the current scale, 2.5 bps would give you something slightly more than 700 crores. If you are looking at the FY28 number, that sounds broadly right. We obviously expect to grow GMV faster than the market on both the consumer and merchant sides, so hopefully there is some upside there as well.

Sachin Salgaonkar – Bank of America: Understood. Very clear.

My second question is about what you mentioned regarding offering an AI platform to enterprise merchants. Based on Vijay's opening remarks, I understand the focus is more toward smaller merchants. Should we consider this the equivalent of Tally in an AI world? It would be useful to get some color on whether you are thinking of this as a subscription model, who your target base is and what kind of monetization we could expect.

Vijay Shekhar Sharma – Founder & CEO: I believe subscription fees, transaction fees, or both will be applicable. Marketing is a very simple method, and we have started acquiring customers where we have charged a platform fee. We are working with Meta and Google—actually, Meta—where we are charging a monthly platform fee and then also receiving a percentage of the spend.

All these models are emerging. You can factor in that a certain percentage of our customers who are glass-door merchants, as we look at it, will be able to acquire or sell some kind of AI service. So, yes, it is for small businesses. For large businesses, we have something more in development. Hopefully, we will announce it after some time, but right now we are focused on creating agents for small businesses.

Sachin Salgaonkar – Bank of America: Understood. Logically, should monetization start picking up in 6 to 9 months from now?

Vijay Shekhar Sharma – Founder & CEO: Yes, 1 year. Three months have already passed, so 9 months plus 3 equals 1 year.

Sachin Salgaonkar – Bank of America: Understood. My last question is about how we should think about the mix between DLG and non-DLG and how that could change over time. I would also like to understand how the consumer loan is scaling versus the merchant loan right now, now that consumer loans have started to pick up.

Vijay Shekhar Sharma – Founder & CEO: I will talk about consumer loans and merchant loans first. One of the things we learned, Sachin, is that we do not have—or rather, the consumer app business does not have—any right to win in the consumer loan distribution business if we are putting in an additional risk-reward-based bonus, which we have on the merchant side.

So, we switched our business model completely toward distribution without requiring any upside or FLDG to be given in the consumer business, and I think that has shown us the result. We have been able to distribute a large amount of credit to small and large consumer segments. We can serve any ticket size in that category, and you can see the revenue.

It has surprisingly and pleasantly surprised me as well. The team has done phenomenally well, and we are going to go all in, double down and so on. There is an opportunity.

Report is AI-generated and may contain inaccuracies.

One97 Communications

Regarding the DLG mix, I will ask Madhur to also contribute, but the simple answer is that we do not look at the mix. We look at the availability of capital and the availability of lenders, and we want to have more participants. I always say that if there is a new lender coming in, or if there is an existing lender that wants to give us more capital because it wants to take DLG, it should take it.

It is revenue-accretive because we get more revenue, and it is profitability-accretive because it opens up more accounts for merchants and increases the dollar or rupee value that they disburse. Overall, in our business model, the one downside is that it is a charge in the immediate month. However, we want to remain a credit distribution platform and never have anything involving future-forward discounting of revenue.

As the Board guided, we have taken the charge in the same quarter. Therefore, you will see that our revenue in that quarter will also have a cost because of DLG. However, overall as a business, it is a better business because there is no future-forward discounting to be added to revenue.

Incidentally, it is a pure technology business, and we are happy to extend this, which gives us more revenue in the long term. Madhur, what is your point of view?

Madhur Deora – President & Group CFO: I think Vijay covered it. We do not say no to a lender just because it wants DLG. We do not route more business to a lender that has less DLG or no DLG. The idea is to find the right lender for the borrower and do as much business as possible.

As we have mentioned consistently, even when DLG was going down or going up, we have consistently said that we are largely indifferent to it. If a lender has a preference, we let it have the DLG. [cut off]

Madhur Deora – President & Group CFO: It back-ends some of our profitability, so that is worth pointing out. When there are changes in the DLG mix, it is worth pointing this out to analysts so that they get the models right: some additional amount of our profitability is being back-ended.

The final point I would make is that we have been doing this for about 2.5 years, so we do have a method for this and we know how to manage DLGs quite well. It has never really given us any negative surprises or results. We are therefore quite comfortable running a large book within which a large percentage might be DLG-based.

Sachin Salgaonkar – Bank of America: Thank you. One last quick question. We are already at the end of October, and there is an NPCI market-share cap of 40%. Have you heard anything from NPCI officials about whether this would be implemented in December?

Vijay Shekhar Sharma – Founder & CEO: We do not have the answer; NPCI does. We are the recipients. We do not make the decision.

Sachin Salgaonkar – Bank of America: Thank you very much.

Management: [off-mic discussion] We are trying to optimize for this situation. Please keep the phone speaker on for the line.

Vijay Shekhar Sharma – Founder & CEO: Yes.

Report is AI-generated and may contain inaccuracies.

One97 Communications

Management: [off-mic discussion] We will keep muting and unmuting depending on that.

Vijay Shekhar Sharma – Founder & CEO: Okay. The laptop and speaker here at Vijay's location will remain on.

Management: [off-mic discussion] Okay, okay. We will manage the muting and unmuting. I will make sure that you are muted.

Vijay Shekhar Sharma – Founder & CEO: Okay. Sure. Sure.

Sachin Salgaonkar – Bank of America: All right. Thank you very much, everyone.

Vijay Shekhar Sharma – Founder & CEO: Thank you.

Management: Thank you, Sachin.

Operator: We will take the next question [cut off]

Management: [off-mic discussion] Mute yourself. Turn off your speaker. This speaker. Yes, that's right. Go ahead.

Operator: We will take the next question from Manish, followed by Vijit Jain from Citi. Manish, you may go ahead.

Manish Adukia – Goldman Sachs: Thank you, Ananta. Hi, Vijay and Madhur. It is good to speak with you. I have a couple of follow-up questions from the earlier discussion with Sachin.

When you mentioned that you want to go all in on market share, is that comment specific to consumer market share, or is it broad across markets?

Vijay Shekhar Sharma – Founder & CEO: It is both consumer market share and merchant market share, Manish. Whenever we talk about market share and the market-share cap, we are talking about consumers. So, whenever I quote it specifically, it is for consumers. In merchants, we are all in, and it would be awkward for us to lose even a little bit.

Manish Adukia – Goldman Sachs: When you say that you want to go all in on market share, what will drive that?

Vijay Shekhar Sharma – Founder & CEO: We need to acquire customers. We need to acquire customers in different ways and segments where there is one factor or another, whether it is marketing spend, a collaborative partnership, a product feature, a new insight or something viral.

I do not want to do it based only on marketing spend or cashback burn, if you will. I want to do it through products and features. We partnered with Perplexity at one point, if you remember. I was thinking that there would be large usage, but there is a lot on the table. Do not think about it narrowly. We do not view our consumer market share as something for which people have to come only for UPI payments.

Report is AI-generated and may contain inaccuracies.

One97 Communications

Manish Adukia – Goldman Sachs: Very clear. My second question is about the period before the MDR implementation was pushed from October 15 to after Diwali. Can you give us a glimpse into the conversations you were having with your merchants?

I am trying to understand the operational implementation of UPI MDR whenever it happens, let us say, after Diwali. When you go to a merchant and the cap is 40 basis points, does everybody automatically get switched on at 40 basis points, or do you need to have a bilateral negotiation with each merchant to say that one merchant will pay 40 and another will pay 30? From an operational implementation perspective, how heavy is it, or can it happen at the flip of a switch on day one?

Vijay Shekhar Sharma – Founder & CEO: It can happen at the flip of a switch on day one.

Manish Adukia – Goldman Sachs: So, you do not necessarily need to speak to your merchants and tell them that it is happening? You can simply do it and negotiate later?

Vijay Shekhar Sharma – Founder & CEO: There is no negotiation. We work with small businesses. Large businesses have large negotiating capabilities; we do not. Our business is very straightforward. A small merchant, a small task—turn it on and it is done.

If you are a large merchant, you may want to negotiate and say, "I would like to pay a lower price." Then somebody else will enter at that price. Even then, you will negotiate only when somebody else enters. A small merchant is always an easier and better business, and it is less complex to serve.

Manish Adukia – Goldman Sachs: Right. Based on that statement, can I say that the majority of your GMV transactions should be closer to the 40 bps cap rather than a much lower number?

Vijay Shekhar Sharma – Founder & CEO: Yes, but it will come only when there are Rs.2,000 transactions.

Manish Adukia – Goldman Sachs: Understood. My last question is about growth momentum in the business. This quarter, of course, you had very strong growth across financial services, marketing and payments, and your commentary suggests that financial services look good in the near term, marketing has recovered, and payments benefited from the festive season.

Across the various businesses you have, are there any businesses where there is any near-term growth headwind? In the past, Madhur, and I know this was perhaps more than a year ago, you had guided for revenue growth in the 20s to sustain over the medium term. Given what you have seen in the business over the last couple of quarters, excluding MDR, has that expectation of revenue-growth momentum been reset upward?

Madhur Deora – President & Group CFO: We have now seen 2 consistent quarters of 28% growth. While we stand by the reported numbers, if you exclude PIDF from the same quarters of the previous year, this number is in the 30s.

We are seeing a strong tailwind. As you pointed out, across the board—consumer and merchant, payments and financial services—we are seeing very healthy tailwinds in the lending business.

One97 Communications

Personal loans are recovering as we come out of the credit cycle. This was our expectation 4 or 5 quarters ago, when we were in the middle of the credit cycle. As Vijay pointed out, it was a personal-loan distribution business.

The merchant-loan business continues to perform very well, including some TAM expansion opportunities that we have discussed, both in slightly smaller ticket sizes and in larger ticket sizes outside the core business we have been conducting for the last 7 years.

On payments, we see GMV growth, market-share growth and better pricing. All of this is excluding MDR, of course. So, things are progressing very well.

Sharper execution is also possible because of AI. We have a large cost structure in sales, collections, service and other areas. All of these generate better ROI through AI. Some of that appears as better costs, and some of it first appears as faster revenue. Some of this does show up as faster revenue. For example, if we collect better, it shows up as higher revenue in our business model, as you understand it.

There are some very small parts of the business where there are a few headwinds. For example, our equity trading business—equity broking, rather—is doing quite well on MTF, but overall market volumes have not been very strong, so it has not scaled up as much as we would have liked.

Travel has been somewhat on and off, so there are headwinds in the travel industry. There has also been an overall headwind in wealth, including the gold business. These are much smaller businesses for us, but you asked and I wanted to be complete.

In 85–90% of our revenue, we are seeing significant tailwinds rather than any meaningful headwinds.

Manish Adukia – Goldman Sachs: Thank you for answering my questions. All the best.

Operator: Thank you, Manish.

Vijay Shekhar Sharma – Founder & CEO: Wait a second.

Management: [off-mic discussion] Is he with us? Go ahead.

Vijay Shekhar Sharma – Founder & CEO: Madhur is joining from a different room so that we do not have an echo in the same room. [laughs] There was a small logistical error here in the room. Okay.

Operator: We will take the next question from Vijit, followed by {? Pranav Kshatriya from Antique ?}. Vijit, you may go ahead.

Vijit Jain – Citi: Hi, thank you. Hi, Vijay. Congratulations on a good set of numbers.

My first question is a follow-up on MDR to what Manish asked earlier. In general, do you think the industry is ready for MDR to be switched on immediately after Diwali? I know there were discussions around some outstanding points of clarification needed from NPCI, and there are various players in the payments ecosystem who are all supposed to be ready to implement it. The MDR you collect needs to flow through properly into the system.

Report is AI-generated and may contain inaccuracies.

One97 Communications

In terms of operational readiness, are we there yet for it to be switched on after Diwali? Is there any specific date? That is the first part of my question, and then I will follow up with the rest.

Vijay Shekhar Sharma – Founder & CEO: We are ready.

Vijit Jain – Citi: The industry—

Vijay Shekhar Sharma – Founder & CEO: The industry is [cut off]

Vijit Jain – Citi: The industry as well? Sorry, Vijay, I know you are [cut off]

Vijay Shekhar Sharma – Founder & CEO: The industry's role is larger. We are one of the participants. We are ready. We can do it, and we do it. We already generate MDR-based revenue through credit cards on UPI and UPI credit lines, which are postpaid. Issuing and acquiring are all working. It works.

Vijit Jain – Citi: Understood. Perfect. My second question [cut off]

Vijay Shekhar Sharma – Founder & CEO: By the way, I will say that it works for the industry as well. It is just one payment instrument called the bank account.

I am sure, Vijit, that if you go deeper, “MDR on UPI” is a shorthand for MDR on bank payments through QR, while other payment methods already have MDR, as you know, on credit cards or credit lines and so on. The system for everyone is actually working.

Vijit Jain – Citi: Understood. So, in that sense, it only needs the decision on the date?

Vijay Shekhar Sharma – Founder & CEO: Yes. That is right.

Vijit Jain – Citi: Understood. Perfect.

My second question is on the devices business. It is good to see another good quarter, with approximately 700,000 devices rolled out during the quarter. Now that MDR is there, in terms of where you roll out devices and what kind of merchants you target, is there any change in whom you would want to target?

Would you look specifically at merchants who process more than Rs.2,000 transactions? That is the first part. Second, I know there is a provision to improve device penetration in smaller-tier towns, which is carved out in the UPI program from NPCI. You already have that capability and infrastructure in place.

Is that where you would focus more of your device rollout plans? I wanted to get a broader view of how you are looking at that. A related question is about capex. Should I use your first-half capex on device rollouts as a benchmark for what capex would look like going forward?

Vijay Shekhar Sharma – Founder & CEO: Madhur, you can take that.

Madhur Deora – President & Group CFO: Vijit, as we have said, UPI MDR is an upside to our business model, but it is not fundamental to our business model. I will refer back to that and explain what I mean.

Report is AI-generated and may contain inaccuracies.

One97 Communications

In the small-merchant space, the primary business model remains the same: we acquire customers through payments and upsell financial services. At our current penetration rates, financial-services revenue is significantly larger than either the fund or MDR opportunity.

The short answer is that the core business does not fundamentally change. We will not actively enter the very small-merchant business or get distracted by the possibility of additional MDR because the larger monetization opportunity and payback period come from financial services.

At the end of the day, the AI models we use for what we call ARMS—acquisition, retention, monetization and service—provide insights such as putting more sales effort into one pin code or more service effort into another pin code. They will factor in the small-merchant fund and MDR opportunity, just as they currently factor in the RuPay on UPI and RuPay credit card on UPI opportunity.

That will be an input, but I do not think the models will fundamentally produce surprising new facts. On capex, yes, we have said it was about 400 crores on an inward-devices-count basis, and we expect that to remain the same. That number is somewhat higher than before, but we are focusing heavily on the engagement and retention of high-quality and high-potential merchants.

The payback periods are working so well that we want to ensure that we have enough of a funnel of high-quality, highly engaged merchants entering financial services.

Vijit Jain – Citi: Perfect. Thank you, Madhur.

My last question is on net payment margins. This is a quarter with no UPI, so it is business excluding UPI, and net payment margin is 9 basis points. I would like a general sense of what drove that.

If I look at the industry data from the top down, credit-card spending has been somewhat soft both quarter-on-quarter and year-on-year, and nothing particularly interesting has happened in the industry. I know you have other drivers, such as credit cards on UPI, Paytm Postpaid, devices and subscription fees. What would you attribute the 8.5-to-9 bps movement in this quarter to?

Madhur Deora – President & Group CFO: Part of it is slightly higher discipline around the pricing we want to achieve from a certain type of merchant. We have a certain threshold for the pricing we want to make, and we have imposed some additional discipline around that number.

The second factor is that we have other areas where we are gaining good share and have had momentum for a while, such as EMI and DCC on the enterprise side. It is a combination of a few different factors.

Vijit Jain – Citi: Understood. Perfect. Thank you very much, and best of luck for the next quarter.

Madhur Deora – President & Group CFO: Thank you.

Vijay Shekhar Sharma – Founder & CEO: Thank you, Vijit.

Operator: Thank you, Vijit. We will take the next question from Pranav, followed by Sooraj Das from Sundaram Mutual Fund. Pranav, you may go ahead.

Report is AI-generated and may contain inaccuracies.

One97 Communications

Pranav {? Gundlapalle ?}: Thank you, Vijay and Madhur, for this opportunity. My first question is regarding Postpaid. Your commentary suggests that Postpaid is scaling well, and I think that once there is M [cut off]

Pranav {? Gundlapalle ?}: MDR on UPI, there should possibly be enough reason for people to start accepting Postpaid even more. How should we view this scaling up? There was a quarterly disbursement scale of approximately 9,000 crores. Do you think we can reach that level in 1 or 2 years, or in some other period? In terms of customers, it was a fairly broad-based customer base of almost 10 million for this product. Are we getting closer to those numbers? Are you seeing any change in the behavior of those customers?

This was also a funnel for personal loans. It would be useful to get some color on how this is progressing.

Management: Number one, I do believe that, as you suggested, it is even more suitable for the acquiring side and the issuing side, which is the consumer side, than it was when we launched it, because customers have learned about it and it is now more of a multi-player game.

When the market had learned the product, in the first version we were teaching the product. In this version, we already know that the customer is using it. Therefore, we believe it has upside potential.

I do not know whether it will take some number of quarters or some other number of quarters, but it has a target expectation of reaching those numbers. There is no secret about it. Why would we not want to reach those numbers?

At the same time, Madhur and I have always said that it is accelerating better than before. It took time last time, and it will take time this time. We want to be very sure about the quality of customers, the quality of the credit book and so on.

Incidentally, it is an EBITDA-positive business by itself. It is contribution-margin-positive for us. We remain committed to building a large customer base and a large merchant base. When customers and merchants use it, large disbursements will follow.

Madhur Deora – President & Group CFO: I would point out that certain elements of this network have grown even further than the first time around, particularly the number of merchants who accept it in month 6, month 9 and month 12, as you would imagine.

That connects to your point: if they are accepting RuPay on UPI, they should not have a problem paying with this, and MDR should help with that as well.

Spend per active customer started at a very solid number. It did not start low and then increase. The customers who were already using it liked it. Our learnings from the collection work we had done previously are also being used directly now. We did not have to become better and better at collections; we started with a very high base of learning and technology. All those factors are helping us, as you would imagine.

Pranav {? Gundlapalle ?}: Excellent. My next question is a follow-up to Vijit's question. If I assume approximately Rs.60 as rent per device, payment processing margin is approximately 5 basis

Report is AI-generated and may contain inaccuracies.

One97 Communications

points, whereas you state that it is above 4 basis points. There seems to be fairly strong growth.

I am asking more about its sustainability and what is driving it, because it could be bill payments, payment gateways, credit cards or RuPay credit-card penetration. Some color on that would be useful.

Management: [laughs] Pranav, I will take it to another dimension. I have read a few reports that talked about GMV being up only 1% quarter-on-quarter.

We have pursued strictly high-quality merchants. Strictly high quality means giving up large online merchants who negotiate a dollar down to 90 cents. They discount something to a level below the source price. Many companies want to IPO or raise more money in private markets, and they do this because it is good for them. For us, it is acceptable not to do so.

This is specifically in the online category. If you notice, this was a festive season when they were negotiating particularly hard because they wanted to put money somewhere else. We decided not to participate in that. That is number one.

Number two, there was a customer that was commercially unattractive for us and whose transaction had to be concluded. It was a large insurance company. We probably concluded the contract, so that GMV did not show up. However, that was simply a bottom-line-contribution-positive business.

These elements are important. Pranav, we are very clear that this is now a free-cash-flow-generating business. It is no longer about adding a customer at any cost. Ultimately, every customer is our customer. It is about choosing good-quality revenue and bottom-line-driving revenue.

We have become aggressive in acquiring more customers and more types of payment options for payments and cross-selling, instead of simply saying that something is very cheap and being willing to discount it below the price at which we source it.

What you saw is very nuanced, and I acknowledge that it has been examined carefully. The reason is that we are looking for good-quality GMV over any GMV available in the market. Quality means bottom-line contribution.

Pranav {? Gundlapalle ?}: Excellent. My next question is regarding the investment you discussed in Paytm Cloud Technologies Limited. There is an enabling resolution of approximately 500 crores to invest over the next 12 months. Can you shed some light on where that investment will go? Does it have anything to do with the capex increase you discussed?

Madhur Deora – President & Group CFO: I acknowledge that the name Paytm Cloud Technologies may give the wrong impression. There is a small potential near-term need in one of our wholly owned subsidiaries. When we went to the Board, we took an enabling resolution allowing us to invest up to 500 crores in this subsidiary. The same amount, up to 500 crores, can also be invested in one of our international subsidiaries.

Pranav {? Gundlapalle ?}: Understood.

Report is AI-generated and may contain inaccuracies.

One97 Communications

Madhur Deora – President & Group CFO: This is allowed over 12 months in multiple tranches. It is not one specific need. It could be a combination of 3 or 4 things that might add up to a few hundred crores, up to 500 crores.

To the extent that it is infused into the Singapore subsidiary of PCTL, Paytm Cloud Technologies Limited, it is likely to be used for seed investments in international markets. However, at the moment, we do not expect or have any concrete plans for it to actually be 500 crores. It could be up to that number or lower.

This is an enabling resolution that we have taken. As and when we infuse funds or make any investments, including seed investments, most of those will be disclosed immediately in any case.

Pranav {? Gundlapalle ?}: Thank you very much for answering all the questions. I wish you all the very best. Thank you.

Madhur Deora – President & Group CFO: Thank you, Pranav.

Management: Thank you.

Operator: I would request the speakers to restrict their questions to 2. We will take the next question from Sooraj, followed by Pranav Gundlapalle from Bernstein. Thank you.

Sooraj Das – Sundaram Mutual Fund: Hi. I actually have 4 questions [laughs], not 2. In any case, I will ask them one by one.

Management: [laughs] No, you were in the queue, so how can you say that you brought 4 questions? What about the next person? [laughs]

Sooraj Das – Sundaram Mutual Fund: First of all, I think these are great numbers. Congratulations. My first question is about P2M GMV. I think it is flat quarter-on-quarter, which seems to be happening for the first time since COVID. What is your view on why it was flat quarter-on-quarter this quarter, and how should we think about it?

Madhur Deora – President & Group CFO: Q2 versus Q1 is usually somewhat subdued, but it depends on the timing of the festive season. If some festive pre-sales come in Q2, then Q2 versus Q1 can be higher.

This time, obviously, Diwali is late, so the festive season is almost entirely in Q3. That is one general factor.

More specifically, as Vijay mentioned, we have a certain threshold for how much margin we want to make from a certain type of customer. For example, if it is a large enterprise customer, we have a threshold for how much we want to make. We have been very meticulous about maintaining discipline around this number.

There have been 2 or 3 customers affected by this, and we are perfectly happy to let them go to the competition. Among them was one quite large customer with which we had a long-term contract that expired. We are discussing whether we would continue on a different pricing basis. If not, we are happy to let that customer go.

Report is AI-generated and may contain inaccuracies.

One97 Communications

Sooraj Das – Sundaram Mutual Fund: This seasonality would also have existed in earlier years, over the last 4 or 5 years.

Madhur Deora – President & Group CFO: Depending on the—

Management: It matters which month Diwali falls in because holidays and other events follow in sequence. In addition, the reason Madhur is giving is that this was a materially large negative-contribution-margin customer. Our contract ended, and we will continue only if the negative contribution is addressed.

Madhur Deora – President & Group CFO: The evidence of that is in the point Vijit mentioned: our net payment margin increased from 8.5 to 9. That customer was a drag on profitability, even though it was meaningful for GMV. Its departure had an effect. If that customer had remained, you would have seen growth.

Sooraj Das – Sundaram Mutual Fund: When you say it was meaningful for GMV, would its share have been in the double digits or perhaps the high single digits?

Madhur Deora – President & Group CFO: Not a double-digit percentage, but [hesitates] yes, it was significant.

Sooraj Das – Sundaram Mutual Fund: High single digits. Understood.

My second question is about this investment. Can you shed some light on what Paytm Cloud does? Is this also the entity through which you refurbish devices and incur capex? I see that its PAT has increased almost 7 times year-on-year. The number is very small, at 84 crores, but why has it increased so much? Does it have anything to do with supplying more devices to Singapore, Indonesia or any other country where you may be planning to build the merchant business?

Madhur Deora – President & Group CFO: The operations of PCTL exist, but they are not very significant. PCTL is an entity through which we make investments in some foreign ventures.

For example, we announced the establishment of a business in the UAE. We also announced the subsidiary in Luxembourg. A lot of that is done through PCTL.

I would view it as an operating company, but the use of proceeds in that company would largely be funding other overseas ventures, including the funding needs of existing overseas ventures. That is the plan.

We do not have a firm number, which is why we took an enabling resolution of up to 500 crores and made it valid for up to 12 months. This avoids having to go back to the Board repeatedly for the same type of approval.

Of course, each investment, if any, will be approved by the respective Boards and will be disclosed if it is material.

Sooraj Das – Sundaram Mutual Fund: If I am not mistaken, you also used to have a One97 Communications Singapore entity that served as the umbrella entity for the international business. Now, I think you are conducting this international business through PCTL. What is the difference? I

Report is AI-generated and may contain inaccuracies.

One97 Communications

think you received the PayPay cash in that entity, correct?

Madhur Deora – President & Group CFO: We can discuss some of the nuances offline, Sooraj, if you do not mind.

Sooraj Das – Sundaram Mutual Fund: Certainly.

Madhur Deora – President & Group CFO: Basically, One97 Singapore has been conducting the international business of some of our old business, which is the marketing cloud business, where we service telecom companies and enterprises around the world. It was essentially the One97 business, as it was called.

PCTL is largely conducting merchant-payment and merchant-lending partnerships, which we have described in previous press releases as partner-operated and Paytm-operated merchant payments and upselling to lending-type businesses.

Sooraj Das – Sundaram Mutual Fund: Understood. I have 2 more questions very quickly. Regarding the AI platform you have started offering to merchants, once you begin monetizing the business, in which P&L line item will the monetization be reflected?

Management: Cloud, cloud, and marketing, marketing cloud, marketing services.

Madhur Deora – President & Group CFO: Marketing services. Among the 3 lines, it will come under marketing services. The nature of it will evolve over time, but the vast majority, if not all, of this will be in marketing services.

Sooraj Das – Sundaram Mutual Fund: Perfect. My last question is on FLDG. We have had enough discussion on FLDG, and I understand that it is P&L-neutral. From a business point of view, why do lenders switch back and forth?

For example, you have said that from next quarter one of your large lenders will start doing FLDG again. I think 3 or 4 quarters ago it started doing FLDG, then stopped, and now it is coming back again. From a business-decision point of view, why does a lender choose FLDG or not? I understand it is probably best for you, but it is also a recurring matter. FLDG works like a current account, or perhaps like margin-trading funding, from an operational point of view. When somebody switches back and forth every quarter, it seems that there is some decision factor. Can you shed some light on what that decision factor is?

Madhur Deora – President & Group CFO: This lender used to do FLDGs in FY25. At the beginning of FY26, we had a discussion, and they said, "It is not really that important for us to take FLDGs." We requested them not to, so they said, "For 2, 3 or 4 quarters, we will not."

They were kind enough not to take FLDGs for 6 quarters while scaling up the business with us and remaining one of our longest-standing and deepest relationships. We are very appreciative that what was perhaps intended to be a temporary pause lasted 6 quarters.

It is therefore not a huge surprise to us that at some point they would want FLDGs again. As I said, we are largely indifferent, so we do not challenge them on all the details. Our sense is that it may

Report is AI-generated and may contain inaccuracies.

One97 Communications

also have to do with certain RBI guidelines under which they can offset it against credit losses and so on. Therefore, it may be more useful to them in the current structure than it was under previous structures.

As Vijay said, this is not a top [cut off]

Madhur Deora – President & Group CFO: factor that we negotiate with lenders. In fact, I tell the team that this is not a top-5 factor for me. Do more business, do it with the right partners and obviously at the right credit quality. Make sure we are investing in collections and building a funnel for more lending in the future.

Do not focus on 6 months; focus on 2 years, 3 years and 5 years. Build great technology. Those are the things we focus on when considering which partner will support us. {? Way ?} is lower on the list.

Sooraj Das – Sundaram Mutual Fund: Sure. Perfect. Thank you.

Madhur Deora – President & Group CFO: Of course, because we have conservative accounting around this, it creates situations where, this time, we have taken the opportunity to flag it at the beginning of the quarter rather than at the end of the quarter.

The quarter we are discussing right now has no impact from that. However, we have taken the opportunity to flag it ahead of time so that there are no surprises at the end of the quarter. It is quite relevant in these conversations, although we do not give it as much priority in our discussions.

Sooraj Das – Sundaram Mutual Fund: Sure, sure. It is good to hear that. Thank you very much for answering all my questions.

Madhur Deora – President & Group CFO: Thank you.

Operator: The next question is from Pranav {? Gundlapalle ?}, followed by {? Nitin Aggarwal ?} from Motilal Oswal Financial Services. We will also extend this call by another 30 minutes to accommodate more participants, and I request the speakers to limit their questions to 2. Thank you. Pranav, you may go ahead.

Pranav {? Gundlapalle ?}: Thank you, Vijay, and thank you for taking the question. I have 2 questions.

The first is about sales-team additions. You have made a significant addition to your sales strength, but device additions are largely flat year-on-year. Are these sales additions in a different area, or are they largely directed toward the same Soundbox additions?

The second question is about the lending business. Do you have a sweet spot in terms of merchant GMV to which you would like to lend, based on EMI-to-GMV, EDI-to-GMV or any other such ratios? If you have such a range, how many device merchants actually fall within that range?

You have 16 million merchants, but how many would fall into a lendable category? Those are my 2 questions.

Report is AI-generated and may contain inaccuracies.

One97 Communications

Vijay Shekhar Sharma – Founder & CEO: The field sales executives added in the first question are in the same category. Pranav, they take time to mature. We train them and first give them retention jobs and market revisits, and then we give them deployment jobs. It is a matter of sequencing.

We have been able to recruit because we had been waiting to recruit for a long time, and quick-commerce companies have been taking large numbers of people of this type. That is why. Hopefully, you will see us adding more Soundbox merchants, and we are also rejuvenating the relationship, as you asked.

One thing that concerns us more than GMV is aging on our platform. A shopkeeper may often be taking cash or using another payment method, but the fact that the merchant is retained on our platform gives it a higher probability of obtaining a loan from our lending partners than the dollar value, which may be large.

Even if you look at an average ticket size of Rs.2 lakh, we are talking about a person who generates even Rs.1,000 per day, which means Rs.500 per day, our threshold for what the person should be able to repay. So, Rs.500 multiplied by 365, plus 365, is the kind of calculation we use for ticket sizes.

The threshold is not based on GMV alone; it is based on aging, with some element of GMV definitely included. If you are earning Rs.100 per day, we are not going to give you credit. By the way, we could give you Postpaid in that case, [laughs] so remember that. It would not be a term loan; it would be a merchant cash advance.

How many merchants are creditworthy? That is a very interesting question. If you notice, we have not dramatically increased the number of merchants because I told my team that, as I showed you in the beginning, the business model is payment and credit, payment and credit.

That means we need more creditworthy merchants than merchants who are merely signed up. Again, merchant quality is critical. Merchant quality equals the bottom line, and the bottom line from financial services is larger than the bottom line from MDR or subscription. A retained merchant is therefore more valuable.

Although we may have acquired many merchants, we remove merchants that we do not see as active or transacting. So, although you are seeing net active merchants, gross actives are higher, which is why this number may look lower than expected.

At the same time, the net active monthly merchants, which is what we report every quarter, will definitely grow. Personally, on a base of 15 million, I believe that more than 10 million are definitely good-quality merchants.

Pranav {? Gundlapalle ?}: So, at least 2/3 would be merchants you would be comfortable lending to?

Vijay Shekhar Sharma – Founder & CEO: It is all based on the relationship and aging. I do believe that I want even more than 2/3 to move into that category rather than acquire new customers. That was the message to my sales team.

One97 Communications

Pranav {? Gundlapalle ?}: Would it be fair to say that at least 2/3 have GMV of Rs.1,000 per day or more?

Vijay Shekhar Sharma – Founder & CEO: I do not think that is a number I would usually disclose, but I track exactly the same number you are referring to—the lendable merchant number, if you will—and it is 2/3.

Pranav {? Gundlapalle ?}: Understood. Two-thirds is good to hear. I have one minor question, if I may squeeze it in, about the growth in indirect sales costs. There has been a significant spike in software and cloud expenses. Is that a one-off, or is it a new normal for the expense line?

Vijay Shekhar Sharma – Founder & CEO: We have co—

Madhur Deora – President & Group CFO: We have commented on this as part of the migration of the merchant-payments business that we carried out in our subsidiary. There was some platform redevelopment that we wanted to do to consolidate certain platforms, which does involve some cost while the project is being carried out.

That was largely in this quarter. There is a little of it in the next quarter as well, {? exercise ?}.

I should also point out that we are spending more on AI. We are seeing significant gains and substantial ROI, largely in indirect expenses and sales growth, from the spending we are doing on AI.

Given the nature of our platform, if we retain merchants better, it shows up in revenue. If we conduct collections better, it shows up in revenue. There is also a tendency that if you reduce the cost of doing something, your first instinct is to do more of that activity.

Therefore, you may not necessarily see it as a cost reduction; you may see it in revenue growth. The combination of revenue growth, which is now in the 30s on a like-for-like basis, and indirect expenses remaining under control despite the sales and service investments we are making, {? this is what ?} we wanted. We are actually comfortable spending more on AI costs as well.

There is some element of that. Perhaps by the end of next quarter, we will be able to start discussing a slightly more normalized number, both for the increase in AI costs and for putting this one-time project behind us.

Vijay Shekhar Sharma – Founder & CEO: I want to tell you a particularly interesting fact, Pranav. I personally look at the cost and output of AI at a different level than Madhur would as someone focused on cost control.

I look at the yield of what is shipped—not just what is created, but what is shipped, what earns revenue and so on. I am very happy to tell you that what we have built is showing clear benefits. Obviously, revenue does not appear immediately; products are loved and liked, spending is lower and growth is taking place. All those advantages are very visible.

In this quarter, when I looked at the cost of cloud, the majority was because the online business was in one entity and the offline business was in another entity. We brought them into a single entity,

Report is AI-generated and may contain inaccuracies.

One97 Communications

and the platforms had to be merged. There was duplication and, as Madhur said, a small amount of this will also be present in the next quarter.

The majority of the incremental cost was actually due to this migration. The majority of the additional cost was attributable to the migration.

Pranav {? Gundlapalle ?}: Understood. So, essentially, there is no need {? indirect cost to go at that ?}. If you have ways of earning revenue through AI or cloud spending, that is obviously positive.

Vijay Shekhar Sharma – Founder & CEO: Completely. Very well put, very well put. The majority of the incremental cloud cost was clearly attributable to the migration of the online and offline businesses. This now gives us omnichannel payments, just in case. The same merchant can access both.

Pranav {? Gundlapalle ?}: Thank you. All the best. Thank you.

Vijay Shekhar Sharma – Founder & CEO: Thank you. Thank you, Pranav.

Operator: We will take the next question from Jayant, followed by Prakhar Sharma from Jefferies.

Jayant: Hi. Congratulations, Vijay and Madhur, on another great quarter. I will begin with MDR on UPI.

For the 2.5 basis points, could you give us a broad split between consumer and merchant? The merchant side is clearly where you will enjoy the benefits. On the consumer side, there is a concern that this pool may get competed away, especially for the top 2-5% of spenders who make transactions above Rs.2,000.

Are we going to participate and sacrifice some of that margin? Or, given what we have done this quarter, are we rightfully focusing more on profitable GMV? I mean, that—

Madhur Deora – President & Group CFO: Jayant, first of all, this has not yet been implemented. One can construct many different scenarios. What we have put forward is a number that we are confident of delivering.

As Vijay said in response to an earlier question, there are certain scenarios under which we may hopefully do better than this. When we put out a number, we do not put out the high end of our range. We apply a haircut for various scenarios.

Regarding whether we should assume that there is a greater chance of the benefit being competed away on the consumer side than on the merchant side, and what the intensity might be, we will find out only in Q2 or Q3 after implementation.

Vijay Shekhar Sharma – Founder & CEO: An important point, Jayant, is that we should be open and transparent about this: the consumer business is ours to win.

There have been issues that were not internal or led only by us, which caused us to have such a low UPI consumer market share. Our product and capabilities are continuously improving, and internally we are far more confident, hopeful and certain of winning market share than we were last year or

Report is AI-generated and may contain inaccuracies.

One97 Communications

the year before last.

It is not as if the result is already out and we are simply there. We want to tell you that we will change the result through our hard work, perseverance and by pushing as much as possible, including on the consumer side. You have already said that we will win on the merchant side, but the consumer side is also certainly ours to win.

Jayant: Do you want to highlight what this external factor was, Vijay, because the numbers you are seeing are very strong? Or should I take it offline?

Vijay Shekhar Sharma – Founder & CEO: The point is—

Madhur Deora – President & Group CFO: We can take it offline.

Vijay Shekhar Sharma – Founder & CEO: My intention is to say that there are many factors because we are part of a network. We have to align and work with all the network components, and the more deeply you examine it, the more possible optimizations you find.

I will simply say that previously we were not as focused on the product and technology as we are now, and the results are becoming visible.

Jayant: My second question is about the MDR GMV you have assessed, which is the eligible GMV. Is it growing slower or faster than overall GMV? What I am trying to understand is, once we set a new take rate in the new environment, does that take rate expand from there, stabilize or perhaps decline?

Madhur Deora – President & Group CFO: I do not think the mix is changing dramatically. Paytm's unique strength is in the small-merchant business, which is growing very quickly. For different reasons, the enterprise business and online business are also growing quite quickly.

As you know, we were under embargo online until August of last year. Since the beginning of this year, we have been seeing good progress. In enterprise, we are improving because of EMI offerings, DCC offerings, greater distribution and other factors. We are gaining share across the board.

I do not think there is a major secular trend that I can point to where we are at a certain percentage of eligible GMV and I expect that to increase or decrease by 10 percentage points over the next couple of years.

I also do not think that will be a major factor. The major factor will simply be how well we execute for our merchants.

Jayant: What would have happened over the last 12 months?

Madhur Deora – President & Group CFO: To be honest, I have literally not even checked that data.

Jayant: Understood. No issue.

Madhur Deora – President & Group CFO: I know what the data is as of this quarter, and I know that as we roll the data forward, the mix effect will not be a major factor.

Report is AI-generated and may contain inaccuracies.

One97 Communications

Jayant: Understood. I have one last question on DLG accounting. You have explained this to us multiple times. We want our models to be clean. Contribution margin shrinks and then recovers as we reach the tail end of the portfolio and the lumpy payments come through. Throughout this period, EBITDA margin keeps expanding at a normal pace. Is that a correct understanding?

Madhur Deora – President & Group CFO: No. When contribution margin goes down—

Madhur Deora – President & Group CFO: There is a drag on EBITDA as well in that quarter. For example, if I am giving 2% to a partner and I go from 0% to 2%, that 2% appears in direct expenses in that quarter. There is a little additional revenue in that quarter, but most of the additional revenue comes over the duration of the loan.

Therefore, the impact on contribution margin also flows through to EBITDA. What we have said is that there are significant tailwinds across the businesses overall, including the merchant-lending business. We do not expect EBITDA to decline next quarter. We do expect EBITDA to continue increasing this quarter despite this drag.

Jayant: Is EBITDA declining in absolute terms, or is EBITDA margin declining?

Madhur Deora – President & Group CFO: I am saying that the isolated effect of providing DLG is a drag on EBITDA. On an overall basis, given the significant momentum we have as a company, absolute EBITDA will still expand quarter-on-quarter.

Management {? Vijay ?}: {? No ?}, EBITDA margin is not declining. Madhur is saying that revenue [cut off]

Jayant: Great. Sorry, and thank you. I am sorry, Madhur, but I will use this last question. With EBIT margin and depreciation increasing, and capex increasing, how should we think about it?

Madhur Deora – President & Group CFO: Depreciation has not increased very much year-on-year, but as I said, we have undertaken more capex in the first half than previously. Therefore, with a drag in FY28 and so on, there will be more depreciation.

However, it is all being done for a specific purpose: higher engagement, higher retention and higher financial-services revenue. We are doing this only because we are seeing strong payback from the investment, whether in service costs or capex [cut off]

Management {? Vijay ?}: Keep an eye on whether we are collecting well and collecting consistently. In a broader macro sense, I can say that the details of our collection levels tell us there is a significant opportunity, and the festive season is becoming visible.

The recipe we have built for financial-services distribution and credit distribution is quite unique. This is an AI-language recipe, not a chef's recipe, and I am pushing it into AI as much as possible so that it is not dependent on people internally.

We will see much more. I do not think there is anything we are looking at without discussing it. We have generally discounted things in advance in the past. Right now, there is not much that I do not see. Madhur, is there anything you want to add?

Report is AI-generated and may contain inaccuracies.

One97 Communications

Madhur Deora – President & Group CFO: To clarify, Prakhar, for merchant loans we provide ECL data. It is largely unchanged in terms of the range we provide. Personal loans, of course, are a distribution-only business.

I wanted to add that we take significant responsibility for being cautious in this business. On the one hand, we keep trying to improve the funnel and the lendable base, as Vijay mentioned earlier. That is what we rely on for the growth of the business. We do not rely on being reckless, loosening policies or taking similar actions.

There is a reason we try to be very cautious and responsible. We now have more than a dozen lending partners, many of whom have been with us for 3, 4 or 5 years.

We also believe that we can create something that becomes a significant driver of financial inclusion if it continues to scale linearly and rapidly over the next 5, 7 or 10 years. We believe this product can have a major impact on small merchants in India, where financial inclusion, employment, investment and many other positive outcomes can occur.

As Vijay showed at the beginning of the meeting in the presentation, we also believe that we are pioneers of a model that could be taken to other countries. This is a problem we will prioritize solving in India first, but it remains unresolved in many other parts of the world.

The starting point must be caution and responsibility because it is a credit business, and we have to recognize it for what it is. We cannot afford to have 6 good quarters followed by 2 bad quarters. That does not set us back by 2 quarters; it sets us back by many more quarters.

Therefore, we have to recognize the nature of the business and be as cautious as possible.

Management {? Vijay ?}: Prakhar, as Madhur said, we do not want it to appear that there is a future time bomb sitting in our revenue. One thing is very clear: that is why we use conservative accounting and do not allow revenue to come in when it could represent a discounted obligation in the future.

The best thing I can tell you is that we want to be a technology distribution company. We do not want to be the owner of the book. We have announced this to the public a number of times.

I like the financial-services business, but not to the extent that we end up carrying the weight of the book on our shoulders. We will remain a technology platform and a platform business that compounds through consumers and increased usage. Customers include both merchants and consumers.

It is a technology distribution business, and I am very happy to say that the SKU we distribute, if you were to describe it informally, is credit. Credit is in very high demand and requires logistics equivalent to collections. Voilà.

Jayant: Absolutely. Perfect. Thank you very much, and best wishes to all of you.

Madhur Deora – President & Group CFO: Thank you.

One97 Communications

Operator: We will take the next question from Gaurav, followed by the last question of the day from Rahul Jain from Daulat Capital. Gaurav, you may go ahead.

Gaurav: Thank you. Hi, and congratulations, Vijay and Madhur. I have a couple of questions.

First, the MTU acceleration we have seen—is it driven by better gross additions or improving churn? It appears that your CAC has fallen substantially. How sustainable is this?

Management {? Vijay ?}: Gaurav, the idea is that when you start looking at whom you want to acquire, you spend less money spreading across a wider customer base. For each customer who is valuable, this appears as a lower CAC.

We have sufficiently large budgets. We want to expand and certainly expand the customer base. We will spend more money on customer acquisition. However, as I always say, it should be spent on valuable customers, not through a spray-and-pray approach of acquiring a large number of customers and hoping that UPI GTV eventually converts into revenue.

Given that, how has CAC improved? It has improved simply by becoming more precise about whom to acquire and whom not to acquire. The AI models enable this. Our models are built by us; they are not third-party models. This is a very important point. We are not renting intelligence from outside. We build our own models, systems and capabilities, which is why we have been able to produce these nuanced outputs.

The elusive promise of AI is that it will behave on a one-to-one basis and deliver impactful outcomes in operating costs and revenue upside. That is what we stand for.

Gaurav: My second question is about the investments going into AI. At present, it is acting as a drag on the P&L, but when it starts generating revenue, it will be earnings-accretive. How large is the drag right now, and what operating leverage can we think about?

Madhur Deora – President & Group CFO: I would not call it a drag per se; it is just [cut off]

Management {? Vijay ?}: Zero. Zero drag. The migration of cloud from the other payment systems to a single new payment system has been uncomfortable, but it has absolutely no drag. Every dollar we spend on AI generates more dollars than ever before.

There is absolutely no drag. Either it has saved more cost than it has incurred, or it has generated more revenue than it has cost. Gaurav, there is absolutely no drag.

We are not making random claims about KPIs such as how many tokens we use. We do not even discuss that. We are among the most efficient users.

Madhur was invited by Cursor to join the global CFO council they created because they said he was the world's fourth-most-efficient user of a coding model. I am sorry to say this, but there is absolutely no confusion.

The increase in cloud cost is due to the migration from 2 systems into 1 consolidated system, with all 3 systems switched on for some time while they were being optimized.

Report is AI-generated and may contain inaccuracies.

One97 Communications

Madhur Deora – President & Group CFO: Let me clarify that cloud expenses have increased for 2 main reasons.

The first is the consolidation Vijay mentioned, which has nothing to do with AI. Our online-business payment stack was in a subsidiary, and the offline business moved to that subsidiary at the end of last year. We were therefore running 2 different stacks: one payment stack for online and one for offline.

At the beginning of last quarter, we started a project to consolidate them, which gives us higher TPS and better efficiency. That project requires certain one-time cloud costs because of the way the data queries work and so on.

Most of that was completed last quarter, and some of it will be completed this quarter. I am not saying that the cost will suddenly decline this quarter. That was the major component.

The second component is that we are spending more on AI. Gaurav, in our case, it is not a situation where we spend on AI projects now and receive the benefits 6 to 12 months later. That may be the case for other companies; I cannot comment on that.

If our experience is different, it is probably because we already operate in a very data-rich environment. If AI changes a decision—for example, to put more sales effort in one place, more service effort in another place, or visit one merchant rather than another—that is how we are already running the business. AI is now providing better inputs.

If AI helps us deploy something faster, instead of deploying it in 3 or 4 weeks, we may deploy it in 2 or 3 days. We receive that uplift as a result.

Because we are very data-rich, very data-led in our decisions and end-to-end technology-driven, the impact of many of the AI initiatives we undertake starts appearing almost immediately.

There are greater long-term benefits, of course, because the models are becoming better and smarter about our context. However, we believe we receive a multiple-of-1x benefit immediately in that quarter, and hopefully it will improve over time.

Gaurav: How should we view sustainable operating leverage in the business? For every incremental dollar of contribution margin, how much will flow into EBITDA? Similarly, how much of that EBITDA will flow into free cash flow on a sustainable basis?

Madhur Deora – President & Group CFO: We do not try to manage it quarter-on-quarter. However, when I take a step back, my target is that our indirect expenses—including hiring expenses, marketing, sales, service and cloud expenses—should grow at less than half the rate of revenue growth over a 3- or 4-quarter period.

Revenue growth divided by contribution-margin growth, assuming contribution margin is broadly flat through the cycle, should be less than half of contribution-margin growth, to be more precise. This does 2 things. First, there is structural operating leverage. Second, if you can accelerate revenue growth, you get accelerated operating leverage.

Report is AI-generated and may contain inaccuracies.

One97 Communications

27 October 2026

Gaurav: And what about free cash flow?

Madhur Deora – President & Group CFO: Free cash flow will also work in this way. There is a capex component, on which we will provide more guidance next quarter, but broadly free cash flow will work in line with EBITDA.

Gaurav: Thank you.

Madhur Deora – President & Group CFO: To be clear, we report EBITDA; we do not report adjusted EBITDA. There is no ESOP–cost exclusion. ESOP costs are already included.

Gaurav: Understood.

Operator: Thank you, Gaurav.

Madhur Deora – President & Group CFO: Thank you, Gaurav. It is good to see you again.

Madhur Deora – President & Group CFO: Would you like to take Rahul? I think we lost Rahul. Please go ahead.

Rahul Jain – Daulat Capital: Hi.

Madhur Deora – President & Group CFO: Hi.

Rahul Jain – Daulat Capital: I have one last question. I wanted to understand how the maturity of some of your lending partners has evolved over time. They have been using a platform like ours, and we can clearly see that they are scaling the capital they deploy.

In terms of respecting the data we provide, one thing is using it as a digital channel and another is giving due importance to our data. Is this being reflected in approval rates or in their collaboration around our data, or is it still largely restricted to their own underwriting methods?

Madhur Deora – President & Group CFO: Scaling up is a measure, Rahul, of their growing confidence in our insights. There are other aspects as well. Over time, they have also gained more confidence in our collection capabilities because we help them with both distribution and collections.

As they scale up, they spend much more time with our collections team understanding how we monitor collections and how we handle early-warning signals. It is not simply a matter of somebody becoming delinquent and then asking us to collect the loan.

We can identify early-warning signals and make sure that the sales and service team expansion—part of which is in this area—allows for early intervention so that the merchant does not actually fall below a certain GMV [cut off]

Management: Because we see daily GMV, of course, they have more confidence in our collection capabilities. They also join us on parts of the journey that we have taken with other lending partners, such as how to think about repeat business, top-up business, newer segments and newer pin codes.

Report is AI-generated and may contain inaccuracies.

One97 Communications

That is a constant dialogue. There is a great deal of collaboration and dialogue between us and our lending partners.

Of course, they start with something they already understand well. Over time, many of them—not all at exactly the same pace—become curious about what drives the scaling up of this business.

Technology is also part of this. I forgot to mention it earlier. They work with us to understand the bottlenecks: whether there is a KYC failure that needs to be addressed or something else that needs attention. They work with us on many of these issues as well.

Rahul Jain – Daulat Capital: Understood. Regarding the marketing business, have you mentioned what drove it in this particular quarter? How soon could we see a meaningful number from AI revenue? Is there any milestone, such as 500 crores or 5% of revenue, that we can use as a benchmark? How soon could we expect that?

Vijay Shekhar Sharma – Founder & CEO: I think we will need at least 2 or 3 more quarters because it is still developing. Revenue per merchant is small, and it needs sufficient scale. In the large revenue buckets that are driving overall revenue, it will appear small for some time, but then it can grow.

Perhaps by the same quarter next year, we should assess what it has achieved.

Rahul Jain – Daulat Capital: Understood. That is all from my side. Thank you very much.

Vijay Shekhar Sharma – Founder & CEO: Thank you, Rahul.

Operator: Thank you, Rahul. With that, we have come to the end of this call. Thank you very much for joining, everyone. Have a good day.

Management: Happy Diwali.

Vijay Shekhar Sharma – Founder & CEO: Happy Diwali, everyone. Goodbye.

Management: Is there more music, Vijay, or are we done?

Vijay Shekhar Sharma – Founder & CEO: Yes, many people missed the music. [laughs]

Note: {? ... ?} indicates a figure or name where audio clarity was insufficient for confident transcription. Verify against the source audio or the company's published filings.