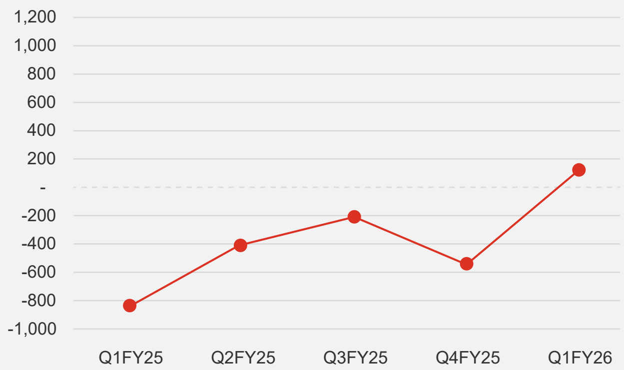
Paytm (One 97 Communications):
A Profitability Inflection Point Emerges

Executive Summary

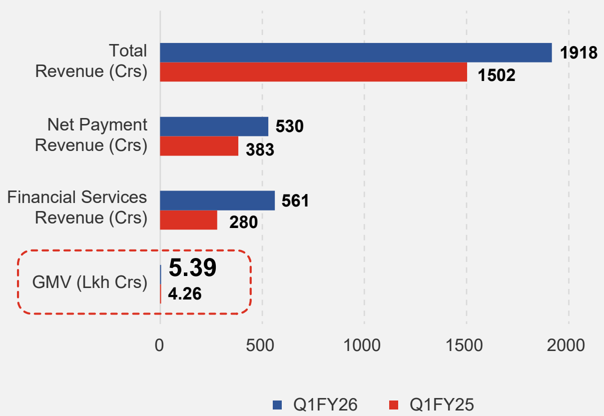
Paytm has achieved a significant milestone with its first-ever net profit as a listed entity, reporting ₹123 crores PAT in Q1 FY26. This dramatic turnaround from a ₹839 crore loss in Q1 FY25 represents a fundamental inflection point for India's leading fintech platform.

The company’s growth engine is reinforced by an AI-first strategy, deep merchant ecosystem, and a rapidly scaling lending distribution platform. The company's path to profitability, combined with the recent RBI approval for payment aggregator license, and strong balance sheet reserves of ₹12,872 crores coupled with operational discipline, Paytm is positioned at an inflection point for sustainable value creation.

PAYTM PAT Qtr Progression (INR Crs)



Q1FY25 vs Q1FY26 METRICS



Paytm's Path to Profitability: Quarterly PAT Progression

Q1 FY26: The Profitability Breakthrough

Financial Performance Highlights

Paytm's Q1 FY26 results demonstrate robust operational improvements across all key metrics. Revenue grew 28% year-over-year to ₹1,918 crores, driven by strong performance in payment services and financial services distribution. The company achieved positive EBITDA of ₹72 crores with a 4% margin, marking a complete turnaround from the ₹792 crore EBITDA loss in Q1 FY25.

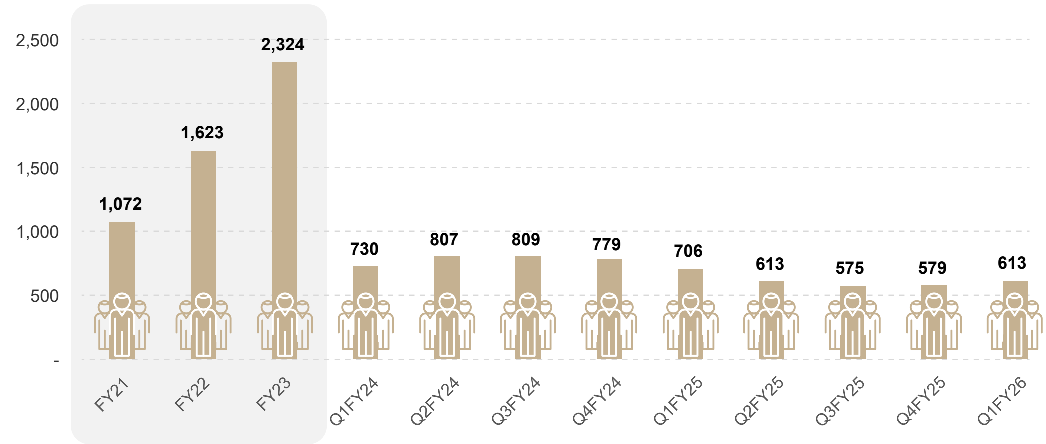
The contribution margin expanded significantly to 60%, an improvement of 10 percentage points year-over-year, reflecting improved operational efficiency and a favorable revenue mix shift toward higher-margin financial services.

Paytm Q1 FY26 vs Q1 FY25: Key Revenue Metrics Comparison

AI-First Business Model: A Structural Advantage

Paytm operates as India's leading full-stack payments and financial services ecosystem, offering devices, payment gateway, analytics, and services. Paytm's achievement of profitability reflects disciplined cost management and operational leverage from AI implementations across business processes. The company has successfully reduced employee costs while expanding sales team capacity, and marketing expenses have been optimized through more targeted, product-led growth strategies.

Employee Cost (ex- ESOP Cost) - Crs



*includes cost related to divested business of Entertainment ticketing business till Aug-2

Its AI-first approach delivers both cost efficiency and competitive edge:

Merchant Onboarding:
AI enables onboarding of 500,000+ merchants monthly, cutting costs and improving quality assessment.

Fraud Prevention (PTM Intelligence):
AI analyses thousands of variables per transaction in real-time, processing billions of transactions with proven success in India and Japan.

Marketing & Customer Lifecycle:
AI-powered segmentation enhances customer acquisition, retention, & monetization, optimizing ₹400–500 crores of annual marketing spend.

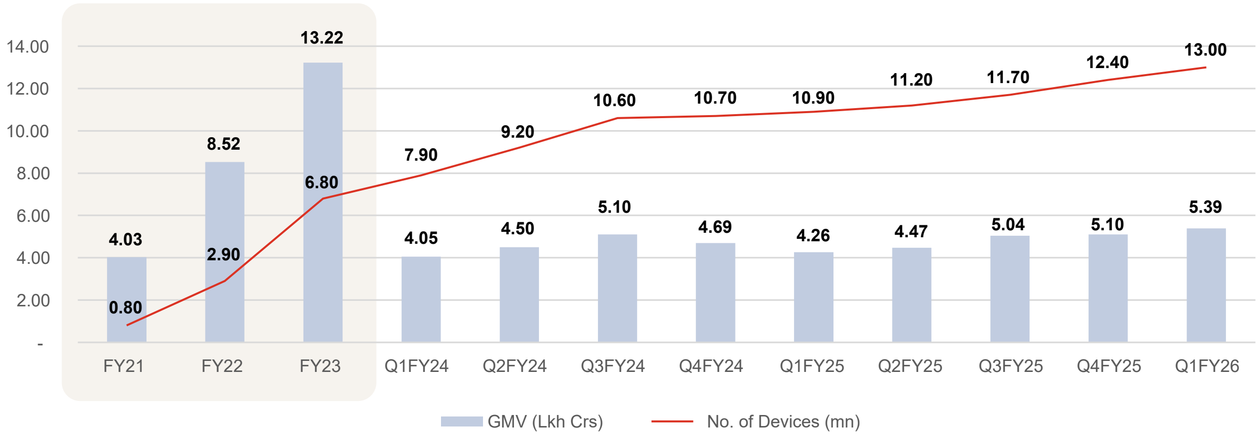
Salesforce Productivity (ARMS):
AI prioritizes tasks for 20,000–40,000 field agents, optimizing sales, device capex, and collections.

Dev AI & Operating Leverage:
Internal AI tools have reduced non-sales employee costs by 35% YoY while increasing tech output.

Consumer AI Experiences:
AI-first innovations in Paytm Money and Travel (robo-advisory, interactive discovery) drive new engagement.

The company's AI-powered merchant onboarding and transaction monitoring capabilities provide competitive advantages in both operational efficiency and risk management, supporting sustainable margin expansion.

Financial ecosystems play across Payments, Lending & Monetization



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The Gross Merchandise Value (GMV) reached ₹5.39 lakh crores, growing 27% year-over-year, while maintaining leadership in merchant payments with 1.30 crore merchant device subscriptions. Company has demonstrated a stable net take rate currently on the payments which has potential to increase if the MDR on UPI evolves in future. Also, the scope to grow the merchants on the device subscription annually by 20% appears achievable with stable ARPU.

2

Lending Distribution Platform

In 1QFY26, Financial services revenue doubled to ₹561 crores, representing 100% year-over-year growth, driven by continued expansion in merchant loans and trail revenue from the Default Loss Guarantee (DLG) portfolio. Net payment revenue surged 38% to ₹529 crores, benefiting from growth in high-quality subscription merchants and improved payment processing margins.

Company has seen strong growth in Merchant lending as well as personal loan segment and the scope for sustained growth for next few years appears achievable driven by increase in penetration of lending across merchants from current ~6 lakh merchants to more than 4-5x. Also the penetration of personal loan segment has scope to expand to 5-6x from current <1% levels.

All this is driven by the strong advantage that company has led by Granular transaction data especially at merchant level, daily collections and PSL benefits for lending partners.

3

Other Businesses

Monetisation of the existing and expanding user base with many use cases (Travel, Equity broking and financial instrument distribution) remains the key growth factor apart from the payment and lending businesses. Company's strong balance sheet could help in growth of Margin Trading Facility book on equity broking side which currently stands at ₹350–400 crores by 4-5x easily driving better return on the cash surpluses.

Strategic Regulatory Victory: Payment Aggregator License

Removing a Key Overhang

On August 12, 2025, Paytm received in-principle approval from the Reserve Bank of India (RBI) to operate as an online payment aggregator through its subsidiary Paytm Payments Services Limited (PPSL). This approval removes a critical regulatory overhang that had restricted the company's ability to onboard new merchants since November 2022.

The timing of this approval, coming shortly after Ant Financial's complete exit from the company, addresses previous regulatory concerns regarding foreign ownership and compliance with FDI norms. This development significantly improves the outlook for other pending regulatory approvals, including the potential resumption of Buy Now Pay Later (BNPL) services.

Business Impact and Implications

While the immediate financial impact may be modest, the payment aggregator license enables Paytm to resume onboarding new merchants for its online payment gateway business. This capability is particularly valuable for capturing smaller merchants in the long tail, who typically generate higher margins than large enterprise clients.

The approval also provides regulatory clarity for Paytm's core offline payments business, as the RBI had previously indicated that offline payment facilitators would fall under payment aggregator regulations.

Risk Considerations

- Regulatory uncertainty in UPI pricing, lending, and payments.
- Competitive intensity from PhonePe, Google Pay, and new fintech entrants.
- Macroeconomic slowdown could impact payment volumes and loan demand.

Investment Perspective

Paytm stands at a strategic and profitability inflection point, leveraging its market leadership alongside AI-driven cost efficiencies and growth catalysts in payments and lending. With GMV expected to expand at 15–20% and financial services scaling rapidly, the company is well positioned for sustained long-term value creation.

The opportunity to broaden its total addressable market and deepen penetration across business verticals should support strong revenue momentum, while AI- and platform-led cost optimization is set to drive meaningful margin expansion and earnings growth in the coming years.

At current levels, Paytm trades at attractive valuations relative to its growth outlook, with the stock having rebounded meaningfully from prior lows. Regulatory approvals and the milestone of achieving profitability provide justification for a re-rating premium. A strong earnings trajectory, coupled with multiple optionalities such as Wallet and BNPL, further reinforces the potential for continued stock price appreciation.

This analysis is based on publicly available information and Quest Investment's independent research. Past performance does not guarantee future results. Investors should conduct their own due diligence and consider their risk tolerance before making investment decisions.

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