

One 97 Communications | BUY

Significantly higher UPI incentive – big positive

As per the Union Budget 2026-2027, incentive scheme for promotion of Rupay debit cards and low-value P2M UPI transactions has seen a significant revision to INR 21.96bn for FY26 vs. INR 4.37bn in 2025 budget. Furthermore FY27 also sees a budgeted allocation of INR 20bn vs. expectations of a significantly lower number (even zero). This would likely result in Paytm receiving roughly INR 800mn/730mn in FY26/FY27, significantly higher than JMFe of INR 400mn/300mn. Furthermore, as the cost of operations is already in the PnL, this will be a direct pass-through to EBITDA. Hence, we are likely to see a 6.9%/3.3% upgrade to JMFe EBITDA in FY26/FY27. With the management already sharing that PIDF impact would be cushioned by 30-40% in Q4FY26 and improve further in FY27, we expect this trigger to largely nullify the downside resulting from a potential discontinuation of PIDF.

- **What is this incentive?:** With P2M UPI transactions still operating under a zero MDR regime, the union government allocates this incentive in the annual budget to compensate the relevant players for the cost of growing and maintaining UPI ecosystem. Notably, this incentive is only for Rupay debit cards and low-value (<INR 2k) payments to merchants. It is paid to acquirer banks that are expected to share it with issuer banks, payment service providers (PSPs) and third party app providers (TPAPs) basis a defined calculation metrics.
- **Likely impact on Paytm?:** In FY25, when the actual incentive was INR 1.9bn, Paytm received a subsidy of INR 700mn. If we assume a similar allocation in FY26 and FY27, Paytm is likely to receive roughly INR 800mn/730mn in FY26/FY27. This number could be even higher as the company has gained marginal market share across merchants and customers vis-a-vis FY25, when they were coming out of the disruption in Jan'24. Furthermore, this revenue benefit is likely to pass through to EBITDA as the costs of running these operations are already in the PnL. Therefore, as shown in [exhibit 1](#), the company could see an EBITDA upgrade of 6.9% / 3.3% in FY26/27.
- **PIDF impact largely nullified:** As per management, Paytm is expected to cushion 30-40% of EBITDA impact due to the potential discontinuation of PIDF in Q4FY26 itself. With offsetting measures kicking in, this cushioning could further be increased to 50-60% in FY27, implying INR 800-900mn EBITDA impact due to PIDF. As highlighted above, almost INR 730mn is likely to come directly from UPI incentive, where the broad assumption was zero (JMFe was INR 300mn though). Hence, the company could likely see a reversal to its earlier EBITDA trajectory in FY27.
- **Impact of STT rise in F&O transactions:** As per the budget, STT on futures and options transactions have been revised upwards to 5bps and 15bps, respectively. We expect nil to minimal impact on Paytm due to this as Paytm Money (broking app) accounts for sub-3% (as per JMFe) revenue in FY26 with F&O trading likely accounting for an even smaller proportion. Even in a worse-case scenario, FY26 EBITDA is unlikely to see an impact of over 40-50bps.
- **Attractive valuations; reiterate 'BUY' on Paytm:** Paytm remains one of the cheapest platform companies in India, basis FY28E EBITDA multiple. With strength sustaining in core business (20-25% revenue growth) along with significant operating leverage (55%+ contribution margin), we find the stock ideally positioned for a long-term bet on digitisation of payments and credit distribution – segments with multi-decadal tailwinds. We continue to value the company at 40x FY28E EBITDA, with Mar'27 TP of INR 1,660. Maintain BUY.



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Exhibit 1. Expect c.7% / 3% EBITDA improvement in FY26 / 27E on account of revised incentive structure outlaid in Budget for FY26-27

All numbers in INR mn	FY25A	FY26E -Revised	FY27E	Comments
UPI and RuPay debit cards incentives (A)	19,228	21,962	20,000	As per the Union Budget FY26-27
Incentive payout to Paytm - Actual (B)	700			
as % of total incentives [C = B / A]	3.6%	3.6%	3.6%	Assuming similar allocation as in FY25
Incentive payout to Paytm - Earlier forecast (D)		400	300	JMFe
Potential incentives after revision [E = A * C]		800	728	Calculated
Incremental incentives [F = E - D]		400	428	Potential for FY27 to be higher
EBITDA impact (G)		400	428	100% EBITDA pass-through
Earlier JMF expectations				
Revenue (H)		84,103	102,619	JMFe
EBITDA (I)		5,765	12,819	JMFe
EBITDA margin % (i)		6.9%	12.5%	Calculated
Impact of new incentive structure				
Revenue [J = H + F]		84,503	103,047	Calculated
EBITDA [K = I + G]		6,165	13,247	Calculated
EBITDA margin % (ii)		7.3%	12.9%	Calculated
EBITDA improvement [L = (K / I) - 1]		6.9%	3.3%	
EBITDA margin improvement		44bps	36bps	

Source: Company, JM Financial estimates, Expenditure budget document 2026-2027.

APPENDIX I

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