Conference call transcript

26 April 2022

PAYU CREDIT DEEP DIVE CALL

Operator
Good day, ladies and gentlemen, and welcome to the Prosus PayU Credit deep dive call. All participants will be in listen only mode, and there will be an opportunity to ask questions later during the conference. If you should need assistance during the call, please signal an operator by pressing * and then 0. Please also note that this event is being recorded. I would now like to turn the conference over to Eoin Ryan. Please go ahead.

Eoin Ryan
Thanks, Chris. If that hold music didn't get everyone excited, I don't know what will get you excited. Good afternoon everyone and thanks for joining us today on our third of a series of deep dive calls that we are doing to give a better understanding of our businesses and the key growth initiatives within them. Today we're moving to PayU and taking a deeper look at our initiatives in credit, specifically in India.

And on the call with me today. Have the CEO and CFO of our Payment & Fintech segment, Laurent Le Moal and Aakash Moondhra. And we also have Prashanth, CEO of Credit, with us today to talk us through the new initiatives there. We'll talk you through a quick presentation, and then as always we will open it up for Q&A. on today's call I just want to give you a heads up that we will be doing a demo of the LazyPay product, and that is on the IR website. So if you're dialling in on the phone, also go to the website to catch that demo. If you don't see it today, it will be up there for you to look at later. With that I will turn the call over to Laurent.

Laurent Le Moal
Thank you, Eoin, for this introduction, and thank you all for joining us today on this payment and credit deep dive. I hope you will get out of this deep dive as excited as we are actually about the opportunity. Before I get there with Aakash and Prashanth, I just want to step back a bit and remind all of you of the mission of PayU. PayU really exists to focus on high growth markets and connect merchants with consumers and banks to foster digital payments. That's fundamentally what we do. And the reason PayU exists is that we are in all the right markets from India to LatAm to Africa to central Europe. And we have access to all the payment methods that merchants of every size need actually to conduct their digital business.

So we are touching potentially 2.5 to 3 billion consumers with our payment solutions. And today we are connecting hundreds of thousands of merchants will hundreds of millions of consumers. So that's really the context of PayU as a payments company. But I want to take you through the journey we've been through to come from a pure payments company to actually a financial services player. And this very deliberate strategy was really put in act in India where we see the biggest opportunity.

So before I get really into the details and have a demo, which has a lot of potential to excite you I hope, I just want to lay out not just the strategy but the context and what's happening the market. So if you look quickly at slide number three, let's start really with the markets where we operate. How do we make sense of the different trends? The first one is, as I said, we exist purely for digital payments. And in that market what's paramount is to get to scale. Just to give you two examples of why it's important, look at the payment system that didn't exist a few years ago like UPI, the Unified Payment Interface, that was introduced in India just a few years ago. This is now one in two retail payments in India. This is really unique.

When something like this happens in a market like India we are of course well positioned to take advantage of that and grow very fast. And what it means is actually when you have introductions of new platforms of that sort there is a premium to scale to actually grow your business very quickly but also attract capital to grow it. I think just by looking at these numbers this is why we've always been very bullish around the opportunity in India but also very deliberate in our M&A strategy to be the one very active in growing organically and also through acquisitions.

That is the second big trend, the payments industry has always been defined also by M&A and consolidation. In most material markets this has been seen as a way to accelerate growth rates in maturing and slowing down markets, but for us this has been really seen as an acceleration to actually quickly grow and take more market share. But I think what has been interesting about the past 12 months has been really the integration between payments and credit solutions, more specifically buy now pay later solutions. It is seen as a way for payments companies to actually increase their share of checkout and actually increase their position with merchants. And here you have some of the examples of very big operations that have happened. For me one of the most interesting has been between Square and Afterpay for instance.

And the last thing we have seen in most of our markets is actually our innovation has quickly brought us to a position where you can leverage your payment data to start building new product to actually address a bigger problem and therefore a bigger opportunity than pure payments, which is affordability. How do you give the possibility to the young, affluent middle class to buy the products they want by accessing credit purely using your payments data? And there is certainly a flywheel between the two businesses that we will explore in a few slides. But that trend that we have seen taking over the payment industry over the past couple of years we were actually one of the first to work on in India.

So if we move to slide number four you will see if we move to a bit more detail of the underlying strategy of PayU clearly we see that we started as a payments business and certainly today this is still the core business in terms of growth, in terms of revenues. And certainly this is a business that is growing domestically but also and more importantly at a cross-border lever. But when it comes to India what has been interesting is that for us we always believed that beyond the opportunity this was the best market for us to innovate because we add all the elements of the business model with the merchant distribution network, with a consumer base that we could rely upon to distribute new credit product, and also because we had deep and entrenched relationships with the banks. So with all these three elements together we've seen how India was the best place for us to start the transition from pure payments to credit an actually start building the whole credit business which is the topic of today.

On slide number five I just wanted to give you an idea of the scale of the business over the past few years. The most recent public numbers we can disclose are FY21. Soon we will be closing, as you can imagine, our fiscal year. Just looking at these few years you can see the growth of our payments business in terms of volumes. We are talking from $12 billion to $55 billion of volumes in our key markets. But also how we've been able to increase the revenues in that business 4x. And what is more interesting is how you start seeing the contribution of what is labelled as new initiatives. Part of it is credit, and that part will become more and more important and more and more relevant when you get to the last section, which is on trading profit.

When Aakash and myself joined six years ago this was a business at $12 billion of revenues and $140 million of revenues, losing $60 million. We spent really the first couple of years turning around that business to make sure that we had a solid platform for growth, then really consolidating through acquisitions. And with Prashanth and the acquisition of the business that Prashanth founded, PaySense, we started building in parallel a credit business. To build a credit business it takes about five years. Today we are in year three and really start seeing the acceleration. This has ben also a big area for us as investment.

As you can see on slide number six, India is one of the biggest opportunities for credit around the world. In fact, when we were looking at comparable markets we actually took the US, just to give you an idea of two different markets. India you know will be a top five global economy in a few years, right. If you look at the potential in terms of penetration of credit for the overall population, let alone the middle class, this is certainly a market that has been untapped. And one of the reasons is that the products available in the market were still until a few years ago just credit cards which banks, the incumbents, actually didn't really push beyond a very small part of the population.

What we've seen here for us is a huge potential for new generation products like buy now pay later, which are truly a credit product but derived from a payments product. And what we have seen here is of course how the part of online payments will start shifting to these credit businesses. We are talking about $80 billion or $100 billion of volumes quickly shifting to credit in just a few years. So when we look at these numbers, when we look at the positions that PayU has in the market, we thought this would be the best strategy for us and the best allocation of capital.

In slide number seven what we want to show is basically that our plan today has been from payments using data and the merchant distribution network to move into credit and build a full range of products. And what we are now building as we scale our credit business is actually the path to moving to digital banking, which is truly the end game for us, to have a digital bank in India to serve the young, affluent middle class. We are talking about

500 million people here. And we will build this by leveraging our credit business. So that's really for us the strategy, leveraging at every stage the business that we have. And right now we are in the third stage, which is the digital bank. So, on these few words of introduction I would invite Prashanth actually to take us through the journey of PayU Credit built on PaySense and explain how we're going to get there.

Prashanth Ranganathan
Thank you, Laurent. Folks, I'm Prashanth Ranganathan, the CEO of PayU Credit. I think what Laurent has laid out is this massive market opportunity that is in front of us. We have some big aspirations. But let me start you off on slide eight by sharing with you why we will win and what it takes to be successful in a credit business. So there are three key elements of any credit business anywhere around the world. The first is one needs to have access to a low-cost customer acquisition flywheel at scale. The second is you need to have access to multiple data sources, some of which are proprietary to your entity. And the third is of course, capital being the raw material in any business, you need to have access to both low cost as well as fairly infinite amounts of capital to be able to build a scalable, successful credit business.

Now, how do we stack up as PayU Credit against these? On the first dimension, which is the access to customer acquisition, we as LazyPay, which is a branded payment mark, offer a deferred payment product. This is less about affordability and more about convenience. We have some 3 million users who use our product quite extensively. We are present across 45,000 merchants across India. We're adding 150,000 new customers to our platform every month. This is without significant rewards, without significant cashbacks. This is without actually digging a big hole in terms of economics. This is because the product has surely found product market fit and consumers love the utility and the simplicity that comes with LazyPay when it comes to online payments.

And I'll talk a little bit more about that customer base and the acquisition flywheel itself, but we have that fairly well squared away and in our favour. The second is access to multiple data sources. In Laurent's introduction he talked about the amount of payments we process and the ecosystem play that we have which gives us access to significant and unprecedented amount of customer payment transaction data. That data combined with the data around how people perform on their buy now pay later transactions gives us a unique data set that allows us to serve a very large base. In fact, in India today we have pre-approved 62 million consumers for our product. This is the largest by any standard across any fintech, any bank, any payment service provider. 62 million consumers are pre-approved for LazyPay, which means when a merchant turns on our payment mark they have pretty much all their customers potentially pre-approved. Anyone who is digitally savvy, digitally active in India there is a very high likelihood that we have pre-underwritten them and we are able to serve them.

The third is access to capital. This is where we really benefit from both the parentage of Prosus as well as given that we run a NBFC, which is a non-banking financial corporation, we benefit from the fact that we carry an A+ credit rating on the NBFC. So the A+ credit rating on the NBFC plus the parentage that we carry from Prosus actually gives us a significant advantage in terms of accessing the debt markets in the country from the public sector banks and some of the other financial institutions that are willing to lend to us at a very low cost So we have access to both very deep debt markets as well as a very low cost attached to the borrowing itself.

Now, let's go a little bit further on the transaction credit consumer flywheel. That's the part I was mentioning. Today the LazyPay mark, like I mentioned, is available on 45,000 merchants. And this is truly in partnership with the PayU payments business which is fairly omnipresent in the country. Now, the consumer discovers us on these payment pages across these merchants. To give you a few examples, we are live on pretty much every high frequency merchant in the country. Mind you, I said the LazyPay brand is a convenience deferred product, not an affordability product. Consumers want to use it because they don't want to go through the hassle of entering their card information, entering their OTP and going through a painful, multi-step process. They want a quick checkout.

So you will see us very actively used on merchants like Swiggy, Zomato, BookMyShow, Dunzo and a few hundred very common household names. So there is this massive transference of trust that happens when consumers find our payment mark, which is LazyPay, on these merchants. Consumers of course understand the brand and the value and the utility of those merchants, but they discover LazyPay on those merchants and hence start to associate us with the same level of trust.

This drives the adoption of LazyPay across high frequency merchants, so merchants where a consumer on average will spend three or four times a week. This also gives us access to very deep, unprecedented data and stickiness with those consumers, which allows us an unique opportunity to be able to underwrite them or pre-underwrite them for longer tenure credit products like our personal loans. So we have a very large and thriving personal loans unsecured lending business which basically is benefitting from the fact that consumers adopt the LazyPay product upfront, use that for convenience, and then if and when they need a loan of sorts – which most Indian consumers do at some point – they turn to us versus turning to anywhere else because there is also familiarity and there is stickiness that has already been pre-established.

Now, 3 million consumers have adopted this product. 1 million of them come back every month to use our product. This gives us a unique opportunity to not just serve them with credit products, because these consumers are frankly underserved. India is a country where people are both overserved and underserved at the same time. So overbanked and underbanked at the same time. We actually have an opportunity to serve these 3 million consumers with more products. The demo I will show you later is us actually going beyond credit into more unique, diversified financial services to serve these 3 million consumers in more unique ways.

Before we go there, let's talk a little bit more about how we've gone about these last two years – I'm now on slide 10 – in building a resilient consumer credit portfolio. If you look at the chart on the left, this is Jan 2020. This is when I came on board. And I took the consumer business and we had 1.3 million consumers who had ever used the product. That number today stands at 3.1 million. This is through a pandemic. The last couple of years have pretty much been a write-off in terms of pandemic for most of us. This is where we also really thrive. We have grown 2.5x in this time period. Not only have we grown, but if you notice the rate of change has fundamentally changed. The first year we went from 1.3 million to 1.8 million, but the second year we jumped from 1.8 million to 3.1 million. So the rate of change in this consumer business is fundamentally changing in our favour.

If you go to the chart on the right what you will see is exactly how our monthly issuances played out during these last two years. We were doing about $13 million of issuance per month by Jan 2020. And then slowly by February we had all discovered ourselves to be in the middle of a pandemic and there were lockdowns and there was a fair bit of panic on how to deal with a global pandemic, one that none of us have ever experienced before. If you noticed, we receded to high ground just like everybody else. We were unsure as to how the business plays out. And we wanted to save the franchise first, so we receded to high ground and we pretty much pulled the issuances back to something very negligible.

During this time while we were doing very little large tenure, long cycle personal loans, what we did is we systematically and continuously maintained our buy now pay later or our transactional credit product. Now, mind you, any credit professional in the world will tell you the true secret or the true essence or the way we judge a credit business is to see how it performs in a downcycle. And we've had two downcycles back to back. So the testament to us surviving two downcycles and thriving through those is actually noteworthy.

If you notice, we systematically grew all the way to April 2021 and we had COVID wave two. In India COVID wave two was quite painful. But if you notice something quite different happened here. We didn't pull the stick all the way back. In fact, we had a minor little blip that lasted about a month, and then we kept going. Not only did we continue to accelerate the issuance through the second wave, because we had learnt our lessons and learnt our new way of operating from COVID wave one, but we also wrote the best book and the most performant book we had ever written in the history of PayU Credit during this period.

So this is a clear demonstration of not just prudence but also of resilience. So we demonstrated prudence right up front, like most credit managers around the world did, but then we also demonstrated massive amounts of resilience through the cycle not just once but twice. We stand at $68 million worth of issuances on a monthly basis, so quite a jump from where we were in Jan 2020, and we've definitely lasted two credit cycles and actually thrived through them.

So moving forward how are we doing? I'm going to slide 11. How are we doing as a business? While we've scaled our issuances we've also in this period done three phenomenal things. One is we have 4x our revenue. This is year on year. We have 4x our revenues over the last year. We've also cut our annualised loss rate for our personal loans. So we were initially coming in at 6% the year prior, and now we're coming in at 2.8%, so a fundamental change. Like I said, we are not only growing our book but we're also pulling back on the risk. We are cutting back on the risk in a very meaningful way, and all this while – like I mentioned – doubling our issuance. So this is all a systematic effort to build scale in a very sustainable way. The two S's need to come together in a credit business. We are building a scalable but highly sustainable business. That is what you're going to see here.

We are increasing our scale. We are diversifying our source of funds, so how we're accessing debt. Our cost of debt has been going down systematically because we continue to outperform our targets. And we are using data in a more interesting and a more capable way. Our models have seen a lot of good, bad and ugly, and we have learnt and are able to use that data to predict credit in a much better way. And now in many ways we have also hit economies of scale. Like Laurent mentioned, this is year three on a five year journey, but we are already turning a massive corner in terms of the economies of scale that we are hitting in terms of our costs.

So moving on to slide 12, we see a clear path to profitability. Building on this story of scale, building on this story of improving our revenues and reducing our credit losses and doubling our issuance, what you're seeing is a snapshot view of how our loans are doing. This is the unit economic slide steady state and the current state. You notice the bottom half of this chart shows the current state. Today we are lending out at 22%. In fact, as of mid-April we've already taken it up to 23%. Our cost of capital, while highly diversified, was coming in at 10%. We have already reduced this down to 9%. Our loss rates were predicted to come in at 4%. We are actually, like I mentioned in a previous slide, coming in at 2.8%. So, we are already in the long term view in many ways of this business.

And finally, our marketing and overheads. This is basically our cost of acquisition, our cost of loaning to a customer. Typically or current it runs at about 7%, and that is coming down to about 5%. We have clear line of sight. And primarily because now we're sitting on a very large base of very highly sticky and recurring customers, so we are able to cross-sell them a lot more effectively than we did two years ago.

So what does that mean for the business? Today our trading profit that we carry is about 1% on a 22% net revenue margin loan. But that in the very short future will go up to 6%. Our trading profit goes up to 6%, a big jump. And that's only because we are systematically investing across the board on every vector that affects our credit business. So you will see us making these deep investments to basically make our business a lot more resilient as well as profitable.

I'm going to switch gears again. So, what does all this mean? I'm now on slide 13. We are setting ourselves up beautifully towards building that digital bank that Laurent mentioned. We have the data. We have the aspiration. We have the customers. We have the demand where consumers are saying, hey look, I look at LazyPay as a trusted partner to do more than just convenience, to do more than just a short-term personal loan. I'm looking at LazyPay to do a lot more with. So they are looking for a card. They are looking for more payments. They are looking for wealth management. They are looking for insurance.

And if you look at the chart in front of you, you will see that each one of these are poised to explode in coming years. The payments business, while large in India, is still a fraction of what it will be four years' from now. Credit, as you all know, India is massively underpenetrated from a credit standpoint where the top 30 million consumers have all the fun and the remaining 300 million have almost no access to credit. And we're changing that. And then when it comes to wealth management and insurance, the story is pretty much the same. There will be a significant jump in how the addressable market comes into the fray and how we as a digital first credit provider who has the customers' trust and has the customer using our app on a monthly basis will want to be that port of call for all those other financial services beyond just credit. So the opportunity for credit is massive, but the opportunity to springboard from credit onto digital services or digital financial services is that much bigger, and it is our right to capture, hence the excitement.

What you will see next – I'm now on slide 14 and Chris will soon play the video for you – is where we are going. And what you will see is how we see us capturing the full digital bank opportunity on the back of the LazyPay brand. Some of the stuff that you will see is already in play, and some of it is coming within the next year. So enjoy. *[Video plays – no narration].*

Laurent Le Moal
Thank you, Prashanth, for this. I just want to leave you with a few takeaways that you can see in front of you on slide number 15. I think you can see really the massive potential that we have in building not just the merchant business but really a consumer business and an SME business around credit in India. And we can do that because we already have a business at scale in payments that gives us the competitive advantage through the distribution network, the flywheel for consumers and the data to actually build our own product, build our own balance sheet, to be the largest digital credit provider in India. And we can do this with a clear view not just of the revenue model but the profitability of that business as it compounds over the years.

And as we are building a digital bank it means that first and foremost we are bringing a value proposition of credit to consumers. But we are enriching this experience with a lot of other services. And this is the reason we have done also several investments in leading companies in India like Fisdom in wealth management so that we can bring the product and services from these companies where we own a significant stake into our digital bank platform and then really have the full view of the financial services life of our consumers. Thanks for your attention. Now I would like to turn to you for questions that we will take with the team.

Operator
Thank you very much, sir. Ladies and gentlemen, if you wish to ask a question, please press * and then 1 on your touchtone phone or on the keypad on your screen. You will hear a confirmation tone that you have joined the queue. If you wish to withdraw your question. Please press * and then 2 to remove yourself from the queue. Our first question is from Lisa Yang of Goldman Sachs. Please go ahead.

Lisa Yang
Good afternoon. Thanks very much for this very comprehensive presentation. I have a few questions. You talked a lot about the opportunity for further M&A and consolidation, and obviously you have announced the acquisition of BillDesk, so you're going ot be a clear leader in payments. Do you think you need to acquire anything in credit? How do you see the landscape consolidating and what role do you intend to play in that space? That's the first question.

The second one is more specifically on the competitive environment in credit, especially in the BNPL. It seems like a lot of your competitors including Paytm are talking about aggressive expansion plans there. Could you talk about the differentiation of PayU and LazyPay? What are your market share ambitions in that BNPL segment over time?

And the third question is just on the digital lending and payment landscape in India. Could you talk about your thoughts on the evolution of the regulatory landscape? It seems like there have been some new draft guidelines last year which could potentially impact the lending model of fintech platforms. How does that impact your business and your ability to scale your lending book? Thank you.

Laurent Le Moal
Thank you for your questions. Look, I will take the first one on the opportunity for further investment/consolidation in the credit space. Prashanth, I will let you tackle the one around the competitive landscape in India, while Aakash will give you another view of the changes in regulations and how we think net-net it's a positive for us. On the first one, look, BillDesk aside we spent close to $1.7 billion of investment in the past six years. 75% of that has been truly on M&A, which means buying and integrating businesses.

And part of that actually has been laying out the foundation of our credit business. Prasanth is well placed for that because we acquired his company, PaySense, to give us the foundations of our personal loans business. At this stage I don't really see the need to further do M&A in the credit space because actually we believe that now we have all the different elements we need, the data, the credit scoring and the distribution. Now the investments are truly organic investments to accelerate our own business. And we believe quite frankly right now that we are already the leader in digital credit in India. So right now for me it's all about focus on scaling up products and business as fast as we can. Prashanth, can you tell us how you see the various propositions of competitors and actually maybe potential partners?

Prashanth Ranganathan
Thanks Laurent. Look, I think I've done credit for some ten odd years now. I will come back to the three key tenants. I think access to customers at scale, access to multiple unique data sources and access to capital, all three have to play a meaningful role for a company to be successful in credit. While I see most competition, to speak generically, have one or two and perhaps fake their way into the third, I think we have a stronghold in basically having all three. The LazyPay brand is a phenomenal flywheel for customer acquisition at scale. We do have unique data sources that are proprietary to us that we enjoy over others. That's because we're part of the PayU ecosystem in India, one that's been built over many years. And then we also have access to the deepest capital.

And I don't say this lightly. We've also been very disciplined about how we've approached our business. We have not taken shortcuts. We have not accelerated when we shouldn't. we weren't the first out the gate. In credit never pays to be first out the gate. We've been very disciplined in how we approach the market. We are very patient in growing our book. And that has actually served us well, both through our rating as well as the market and how it sees us as an avenue for debt capital deployment. So we enjoy that.

In terms of competition I will just speak very generically. You have the banks who are just not savvy with being able to go beyond what the bureau will let them underwrite. Any alternate means of underwriting they are not capable of doing. You have the fintechs, but they seem to be quite distracted in terms of their offerings. They are definitely not focussed or disciplined. And while they may have customers, they don't have sticky customers who come back to them and use them as a utility. They don't have a differentiated product that allows them to uniquely solve a customer's pain point, which means they have a generic product that does not have clear product market fit. They have to buy their customer every transaction, which means they do not have a flywheel that allows them access to massive amounts of customers.

Finally, I think where companies have solved one and two, they don't have access to deep capital, nor have they demonstrated the ability to lend in a very disciplined way and maintain an A+ rating. Nor do they have the parentage of a Prosus, so they are disadvantaged on the third part. That is, to be honest, how I see competition and why we win.

Laurent Le Moal
And on the third question on the regulatory landscape, Aakash.

Aakash Moondhra
Thank you, Laurent. On the regulatory landscape I think first Prime Minister, Mr Narendra Modi, has been on the digital lending mission for the last seven years. All the regulatory framework is to proactively increase digitisation in the country. The regulator has been very proactive. The two recent things are on the payment side the PBL licenses which actually will increase trust in the consumer digital services. And we have applied for that license. We have a great standing on the payment side in India. So that will help us in strengthening that business.

The most recent guideline that has come out – and this is early days, but a very forward-looking regulation – is around the digital banking units which Reserve Bank of India has allowed. Reserve Bank of India has said that they will allow up to 75 DBUs to be set up by 2023. Fintechs will be allowed to partner with banks. Currently it's just one regulation and we are working with the regulator very closely as to how this will unfold. But our relationship and partnership with the regulator also in terms of formulating the policy is going to help us in building the digital bank of the future in India.

Lisa Yang
Great. Thank you.

Operator
Thank you very much. The next question is from Catherine O'Neill of Citi. Please go ahead.

Catherine O'Neill

Hi. Thank you very much. I just wanted to understand a bit more about the point on the capital requirements. Is all the lending on your own balance sheet, or do you sell the loans? I just wanted to understand a bit more about the detail of that and how it works on the balance sheet side of things. And then in terms of your target for the 6% trading profit margin, what kind of timeframe are we looking at and what sort of scale do you need in terms of those number of users in order to get there? The final thing I was going to ask about was on the license requirements which you just mentioned. What license requirements would there be for you to get to the end point of the digital bank, and how long does that take?

Laurent Le Moal

Thanks for your questions. Aakash, I will defer to you on the capital requirements, the unit economics evolution, and I will wrap up with the license actually.

Aakash Moondhra

Thanks for the question. On the capital requirements it is important to understand how we are building our credit business. We are building our credit business with two different ways. One is the on balance sheet side, and the second is the off balance sheet side. We have already aligned with almost 25 different banks and non-banking financial companies on the on balance sheet side where we book the loan on the balance sheet.

And then on the off balance sheet side, which is a kind of co-lending model where we take a little bit of risk but the loan sits on the balance sheet of the financial institution, that is one piece. Given that we will scale the business significantly over the next three years, what line of sight I have today, we are way ahead on our capital needs in terms of whatever we need. We have that, and we actually have much more than that aligned with the banking institutions.

Prashanth also made one point, which is this whole risk model that we have. Going from 6% to 3% by itself has encouraged a lot of financial institutions to come back to us and say, look, we want to lend more. So on the capital piece we are very well covered. The 6% trading profit margin, I just want to draw the attention that the profit margin in that business is actually 25% overall. That unit economics slide shows that you make on every loan that you give out $23 as your APR. If the loan is $100 you make $23 as your APR and your profit margin is 6%. So 6% on $23 is close to 25% margin. So that's what we are aiming at. We are already at about 5% margin because on $22 we are making $1 today. But we will get towards 25% in the next two to three years.

The last piece on licenses, I already talked about it. But we have all the required licenses in place to do lending and credit. We already have a non-banking financial company license, which is the NBFC license. And as we go into digital bank we are working with the regulator and with other non-banking partners to see what is the best model to pursue a digital bank going forward for us.

Catherine O'Neill

Okay. Thanks. Just back on your point around the margin, I just wanted to understand if you've got 3.1 million customers at the moment what your assumption is you'd need in terms of scale on the customer side to get to that level by 2025?

Aakash Moondhra

Unfortunately we don't give out any forward looking numbers, so I would refrain from saying anything as to what numbers will look like going forward. And also the FY22 results are not published, so I cannot mention the numbers here right now. But you will see as things unfold going forward. But we have very aggressive plans and we are doing very well in the business.

Catherine O'Neill

All right. Thanks very much.

Operator

Thank you. The next question is from Cesar Tiron of Bank of America. Please go ahead.

Cesar Tiron

Yes. Thanks. Hi everyone. Thanks for the call and the opportunity to ask questions. I have three if that's okay. The first one, I wanted to understand better what range of loan amount are you considering for the digital lending business going forward and also what is the average loan duration? The second question would be to understand better the overlap of users that would indirectly use PayU and clients of the credit business. And the third one, I just wanted to have a better sense. You gave us this digital lending addressable market of 1.6 trillion. What type of market share do you have in mind in the very long term? I am not asking for anything precise, but are we talking about single digit, double digit etc.? Thank you so much.

Laurent Le Moal

Thank you for these questions. Prashanth, I think you are best placed to take the first two to understand the continuum of the products we have and the type of users. I will let Aakash answer the third one.

Prashanth Ranganathan

First was the size of loan and duration of the digital loan. Look, I think again I'll explain this. We have the LazyPay product, which is a convenience product. There the ticket size is immaterial. It's basically a deferred payment product. Consumers use it not because they can't afford their next meal but because they just find it a lot more convenient to pay for it using a LazyPay instrument. So there the ticket sizes are less than $5 if you may. It repeats itself so many times and across so many users that you get a massive build of a few tens of millions and then it gets paid off within 15 days.

Now, when it comes to the longer form personal loans, those loans on average are about $1,000. And the average duration right now is anywhere between 13 and 15 months. So $1,000, 15 months. Anything short of that creates a spin effect, which is what we would like to avoid. We would like to keep it in that 15 month range.

In terms of overlap of users, we have an approach which differentiates us in the market. We like to pre-underwrite our users before we go out and acquire them. That makes our funnel a lot more efficient. So our overlap with users coming through PayU – and PayU as a payment product pretty much sees all of transacting in India – I would say the overlap between PayU users and the digital loan users is going to be fairly close to 100%.

Aakash Moondhra
On your third question on addressable market, first of all the market consists of digital as well as non-digital. That's the first part. But we are already the largest digital lender in the country when it comes to fintech lending in India. So while I don't really pinpoint and say what market share we are looking at, I will give you an example of Bajaj Finance. Bajaj Finance is one of the largest NBFCs in India today. And we would like to be as large as them in a few years' time. Bajaj took about 14 years to get to $100 million of revenue, and we will do it at probably one third of that time or even less.

Cesar Tiron
Thank you so much. Very clear.

Operator
Thank you very much. Ladies and gentlemen, we have time for one more question, which will be from Seenam Khan [?] of Barclays. Please go ahead.

Andrew Ross
Hi guys. It's Andrew Ross here from Barclays. Hopefully you can hear me okay. I've got three, if that's okay. The first one is just to come back to slide 12 and the unit economic breakdown you gave on the loans. Can you talk a b it about the fees you get on the merchant side for LazyPay transactions? When we think about LazyPay five years' out, how should we think about the split of gross profit between the fees from merchants and the interest income on the loan?

The second question is to go back to the core payment business. Clearly there it's slightly positive on a trading profit basis as it stands today. Can you just remind us wat you need to do to make that core payment business more profitable? I guess comparable models in the west are more profitable than that. And then the third question is I don't know if you gave any stats on the conversion uplift that merchants see when they start to use LazyPay, but if you have any to hand, that would be interesting. Thank you.

Laurent Le Moal
Thank you. Aakash, if you want to take the first two questions, and Prashanth the third one, and then I will add my comment.

Aakash Moondhra

Thanks Laurent. On the first question on economics of BNPL, I think it is important to first state that BNPL is a short term loan product and it is also positioned more as a convenience product. It's not technically a credit product. Yes, it is a credit product in the strict sense, but it is a convenience product. On each transaction we make money through the MDR, which is the merchant discount rate. So a merchant pays us for the transaction going through. It increases the success rates for the merchant. That's the benefit the merchant gets.

Then over a period if the consumer either delays the payment or if the consumer wants to say, look, I have an outstanding of $100 on my BNPL, I want to only pay $50 after 14 days but I want to revolve the other piece, then we make money on that. So that's the BNPL. The BNPL economics we are getting positive on two levels in spite of the fact that we position it as a convenience product, because cross-sell becomes very important there.

The second question was around PayU Payments and the profitability of PayU Payments. You wanted to know about that. Look, the markets where we operate versus the markets in the western players is slightly different. For example, in India in the value chain you make very limited gross margin in the payments play. That being said, we are already at a very healthy margin. When our results for FY22 come out for the payments business you will see a significant improvement in those numbers as well. Laurent, back to you for the third question.

Prashanth Ranganathan

I'll take the third one. I'll answer it slightly differently. The reason merchants actually pay us a higher MDR than they pay the average credit card or debit instrument or UPI is for the following reason. In India, unlike in the western world, the payment rails are still evolving. On average transaction success rate hovers anywhere between 75% and 80% for our merchants. For high frequency merchants, which is where LazyPay is prevalent, this is a huge pain because the cart abandonment issue is a very significant issue for them. The LazyPay success rate is 99.99%, which is a significant deviation from the average in the favour of the merchants. So the merchants continue to push for LazyPay even in the early days when they don't have data on significant uplift.

The second thing that happens is truly magical. What happens over time is merchants start to push more and more of their consumers towards LazyPay as the preferred instrument because they don't want cart abandonment. What ends up happening is the most loyal customers of Swiggy or Zomato or Dunzo or any of the other merchants slowly but surely become LazyPay users because they get that one click checkout experience. It's partly because LazyPay promotes it, and over time the merchant continues to promote it.

I don't have a quantified view on what the true uplift would be. Anecdotally merchants have said anywhere between 7x to 10x of what they would expect from their highly retained customers. But that's also slightly skewed because they end up pushing all their highly retained customers to us. So it's a tough one, but clearly there's a product market fit for both the merchant as well as the consumer which benefits us.

Laurent Le Moal

I would like to go back to the second question which was really how we think about the overall profitability of our payments business. The way I think about it is if you look at our payments business globally outside of India what we see for us as a really strategic objective over the next three years is first we are going to double the share of our cross-border. Cross-border means FX. Cross-border means payment instruments with higher merchant discount rates. And this is something that today is already the fastest segment of volumes for our payments business. It is going to double. Therefore this will have a significant impact on the gross margin and the net profits of the business.

The second element that for us is also important is we spent the first few years and some of the investments really consolidating all platforms to get to platforms at a regional level. Now we're starting to approach the second phase, which is we are moving upstream in the value chain and starting to incorporate more of the elements of the payments value chain. I will give you a concrete example. Just last week we announced the acquisition of a business in Colombia. Colombia is a very big market for us. It's one of the most dynamic economies in Latin America. And we announced the acquisition of a business called which gives us not only capabilities because we can do our own acquiring and own issuing, but also it gives us the licenses. And this will actually have a very positive impact on the overall profitability of our business. We want to do more of that.

And the last one is like we've seen this playing out in India we are starting actually to build our credit business outside of India, starting from central Europe. I guess this is maybe the topic of another call. I just want to keep you guys in suspense for a bit. But you should expect us to really quickly scale our credit business outside of India. With these three elements this is how we're going to significantly change the profitability of our business in the core payments business.

Andrew Ross
Thank you.

Operator
Thank you very much. Ladies and gentlemen, we have no further questions and I'd like to hand the call back to management for some closing comments.

Laurent Le Moal
Thank you everyone for your attention and for your time. We will share of course this presentation with you and we will make sure to keep you updated on our progress across all the different markets, not just India. Thank you for your attention today.

Eoin Ryan
Thank you everybody.

Operator
Thank you very much. Ladies and gentlemen, that then concludes today's event and you may now disconnect.

END OF TRANSCRIPT