

09 August 2023

India | Equity Research | Q1FY24 result review

## PB Fintech

Financial Services

### Strong growth outlook in insurance/credit, cost performance stands out in Q1FY24

PB Fintech's (PBF) Q1FY24 performance continued to track along the expected lines of premium growth, credit disbursement growth, stable contribution margins, range-bound fixed costs and controlled losses in new initiatives. The roadmap remains to become profitable in FY24 and attain ~INR 9bn-10bn in adjusted EBITDA/PAT by FY27. The crux of the business remains an exponential increase in contribution driven by (1) renewals, (2) new business growth and (3) efficiencies in new business growth (offline is a big imperative here constituting 20% of core new business). We downgrade PBF from BUY to **ADD** basis high valuations. Our revised DCF-based target price stands at INR 818 (earlier: INR 715), implying a valuation multiple of ~40x for FY27E. Risks include less than expected growth in core premiums basis lower demand or competition from other channels.

### Core premium growth remains healthy (Q1 as well as current trends). This is the biggest earnings driver for the company

Overall core premium came in ~INR 23bn, up ~30% YoY but lower 12% QoQ in Q1FY24. Q4 is typically volume heavy along with additional one-off flash sales of INR 470mn in Mar'23, and as such QoQ comparison is not justified. Overall premium growth remains equally split between new business and renewals. There is a positive trend in protection premiums but declining trend in savings in FY24TD. Life and health premium grew 40% in Q1FY24 (31% in Q4FY23). Total number of registered customer with Policybazaar as on Jun'23 stood at 69.5mn of which transacting customers were 14.5mn (bought at least one policy since inception). Number of policies sold since inception till Jun'23 stood at 35.6mn which is ~2.5 policies per customer.

### Overall core contribution margin is up 300bps YoY to ~45%.

Q1FY24 contribution margin stood at 33% split between +45% for core business and (-)10% for the new business initiatives

### Annual renewal EBITDA run rate is now more than INR 3.5bn

Annual renewal run rate currently stands at INR 4.2bn versus INR 3.3bn in Q4FY23 and INR 2.9bn in Q3FY23 with an EBITDA margin of 85%.

## Financial Summary

Y/E (INR mn)	FY22A	FY23A	FY24E	FY25E
Premium (Cons)	69,750	1,15,958	1,58,859	2,05,513
Growth (%)	48.1	66.2	37	29.4
Disbursal	66,070	1,16,200	1,55,708	1,94,635
Growth (%)	126.5	75.9	34	25
Revenue	14,249	25,579	29,020	35,665
Contribution	3,320	6,230	9,789	12,374
Margin (%)	23.3	24.4	33.7	34.7
EBITDA (Adj)	-2,824	-1,190	1,256	2,987
Margin (%)	-19.8	-4.7	4.3	8.4
Adj PAT	-2,129	541	3,992	5,917

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### Market Data

Market Cap (INR)	342bn
Market Cap (USD)	4,133mn
Bloomberg Code	POLICYBZ IN
Reuters Code	PBFI BO
52-week Range (INR)	818 /356
Free Float (%)	53.0
ADTV-3M (mn) (USD)	17.7

Price Performance (%)	3m	6m	12m
Absolute	23.7	57.8	36.4
Relative to Sensex	7.4	9.5	13.3

ESG Disclosure	2021	2022	Change
ESG score	-	-	-
Environment	-	-	-
Social	-	-	-
Governance	-	-	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

### Previous Reports

24-05-2023: [Q4FY23 results review](#)

13-02-2023: [Q3FY23 results review](#)

### **Paisabazaar (PAB) is gaining positive traction and has been EBITDA positive since Dec'22. EBITDA margin is 7% currently; targets 20% in near term**

PAB is now at an annual run-rate of INR 160bn disbursal and 0.6mn credit card issuance. Over 37.6mn customers have accessed its credit score on PAB platform. Nearly 75% of credit cards issued in Q1FY24 were end-to-end (E2E) digital. Co-created product strategy is shaping up well with products like Step-up Card, Duet Credit Card, Credit-line products with good traction. Management also mentioned about renewals building up steadily in PAB. Trail revenue is now at ~14% of total revenue. Tenure of personal loans is 3 years while for credit card it is higher. As of Jun'23, 4.2mn are transacting consumers (who have made at least one transaction on PAB) and total transaction till date since inceptions stands at 5.9mn translating to at least 1.4 transaction per consumer.

*PB Corporate premium has dipped from INR 3bn in Q3FY23 to INR 1.2bn in Q4FY23 (usually lumpy) and has increased to INR 2.2bn in Q1FY24.*

### **Non-core premium growth has been sequentially lower with decline in contribution**

Total contribution loss from new business initiatives has increased from INR 40mn to INR 150mn while the resultant loss margin has widened from 1% in Q4FY23 to 15% Q1FY24. Dubai premium has increased from INR 0.8bn in Q3FY23 to INR 1.1bn in Q4FY23 to INR 1.3bn in Q1FY24. PoSP premium increased from INR 5bn in Q3FY23 to 8.3bn in Q4FY23 but declined to INR 5.8bn in Q1FY24. PB Partner has a high proportion of non-motor business at 34% and is present in 15k pin codes across India. Contribution margin improved for non-core business to (-)1% in Q4FY23 from (-)15% in Q3FY23 but declined to (-)10% in Q1FY24.

### **Core insurance take rates remain steady**

Implied take rate for insurance segment (core plus new business initiative) came in at 17.6% vs 21% vs 17/18.6/16.6%/21% in Q1/Q2/Q3/Q4FY23 respectively. Paisabazaar take rate increased from 3.6% in Q4FY23 to 3.8% in Q1FY24. Core insurance take rate (including PB Corporate) increased from 14.5% in Q4FY23 to 15.1% in Q1FY24 while new business initiatives take rate declined from 39% in Q4FY23 to 30.5% in Q1FY24.

### **Overall fixed cost continues to be stable**

Fixed cost increased from INR 1.88bn in Q4FY23 to INR 1.96bn in Q1FY24. Management has guided for 8% increase over Q4FY23 level translating to INR 8.5bn in FY24. Other income increased sharply in Q1FY24 to INR 900mn from Q4FY23 to INR 822mn

### **PBF fares well on key guidance**

(1) Paisabazaar's adjusted-EBITDA was likely to be positive by Q4FY23 and the management indicated that breakeven was achieved in Q4FY23; Q1FY24 EBITDA margin has been 7%; 2) total business is likely to be positive in adjusted-EBITDA terms by Q4FY24 (Q1FY24/Q4FY23 adjusted EBITDA came in at INR 230mn/INR 280mn vs loss of INR 1.5bn in (9MFY23); 3) reported PAT is likely to be positive in FY24 (company maintains the guidance; 4) reported PAT is likely at INR 10bn by FY27; 5) increase in adjusted-EBITDA in core business by INR 1.5bn-2bn every year (FY23 over FY22 adjusted EBITDA has increased by 1.6bn), 6) fixed costs will not grow by more than 10-12% annually (management has guided for 8% growth in fixed cost over Mar'23). Q1FY24 fixed cost stood at INR 1.96bn (up 4.3% QoQ and 14% YoY); 7) new businesses will be contribution-positive by FY24-end and can add to adjusted-EBITDA from FY25 (Q4FY23 contribution margin has improved from (-)15% in Q3FY23 to (-) 1% in Q4FY23 but widened back to (-)10% in Q1FY24).

### Estimate INR 9.4bn PAT ex ESOP in FY27E

We estimate core premium to increase from INR 82bn in FY23 to INR 19.5bn in FY27E. Accordingly we expect total premium income to increase from INR 21.5bn to INR 45.6bn, which includes renewal income which is increasing from INR 3,3bn to 8.4bn. We expect overall insurance take rate to decline from 18.6% in FY23 to ~14-15% levels in FY24/25E. We expect PAB disbursements to grow at 25% CAGR between FY23-27E to ~INR 280bn. We expect overall contribution to increase from INR 6.2bn in FY23 to INR 20.3bn in FY27E and contribution margin to increase from 24.4% to 36.5% during the same period (core contribution margin is expected to increase from 43% in FY23 to 52% in FY27E). EBITDA (pre-ESOP) is expected to improve from a negative ~INR 1.2bn in FY23 to a positive INR 9.4bn in FY27E. This improvement would be driven by an increase in renewal mix in the core insurance business and Paisabazaar/new initiatives turning profitable by FY24E end. We estimate 'other income' offset by tax to lead to ~INR 9.4bn of adjusted PAT (ex ESOP) in FY27E.

### Capital infusion in subsidiaries over FY24 and FY25 as per plans underlined in IPO

(1) PBF will infuse INR 7bn in Policybazaar Insurance Brokers Private Limited, a wholly owned subsidiary of the Company, in one or more tranches, (2) INR 2bn in Paisabazaar Marketing and Consulting Private Limited, a wholly owned subsidiary of the Company, in one or more tranches and (3) INR 2bn in PB Fintech FZ-LLC (UAE), a wholly owned subsidiary of the Company, in one or more tranches.

### Exhibit 1: Q1FY24 Result Review

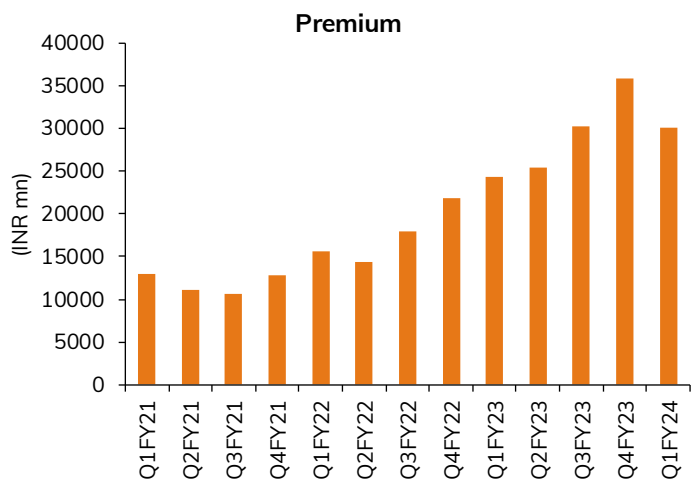
Profit and loss statement (INR mn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	YoY (%)	QoQ (%)
Total Premium	24,300	25,450	30,280	35,860	30,110	24%	-16%
Total Disbursal	23,200	29,220	30,210	33,570	35,420	53%	6%
Total operating income (A)	5,052	5,735	6,100	8,691	6,656	32%	-23%
Of which Insurance Web Aggregator Services	2,307	2,753	3,181	4,438	5,064	120%	14%
Of which other Services	2,745	2,982	2,920	4,253	1,592	-42%	-63%
<b>Operating expenses for contribution profit (B)</b>	<b>3,922</b>	<b>4,315</b>	<b>4,500</b>	<b>6,491</b>	<b>4,316</b>	<b>10%</b>	<b>-34%</b>
Contribution Profit (A-B)	1,130	1,420	1,600	2,200	2,340	107%	6%
Contribution margin	22.4%	24.8%	26.2%	25.3%	35.2%	57%	39%
<b>Other operating costs (C)</b>	<b>3,473</b>	<b>3,681</b>	<b>2,933</b>	<b>2,881</b>	<b>3,111</b>	<b>-10%</b>	<b>8%</b>
<b>Total Operating expenses (D) (B + C)</b>	<b>7,395</b>	<b>7,995</b>	<b>7,433</b>	<b>9,372</b>	<b>7,427</b>	<b>0%</b>	<b>-21%</b>
<b>EBITDA (E) (A-D)</b>	<b>-2,343</b>	<b>-2,261</b>	<b>-1,333</b>	<b>-681</b>	<b>-771</b>	<b>-67%</b>	<b>13%</b>
Adjustment for share based payment and IPO cost (F)	1,683	1,731	1,050	960	1,000		
Adjusted EBITDA (excludes the impact of share based payment) (E-F)	-660	-530	-283	279	229	-135%	-18%
Adjusted EBITDA margin	-13%	-9%	-5%	3%	3%		
Other income	475	604	689	822	912	92%	11%
Depreciation and amortisation expense	132	156	175	175	195	48%	12%
Finance costs	41	55	56	62	63	53%	2%
Other expenses	2	-2	2	-1	-1		
Loss before tax	-2,044	-1,866	-877	-94	-116	-94%	23%
Income tax	-1	0	0	-0	3	-724%	-1304%
Restated loss during the year	-2,043	-1,866	-877	-94	-119	-94%	27%
Adjusted PAT	-360	-136	173	866	881	-344%	2%

Source: I-Sec research, Company data

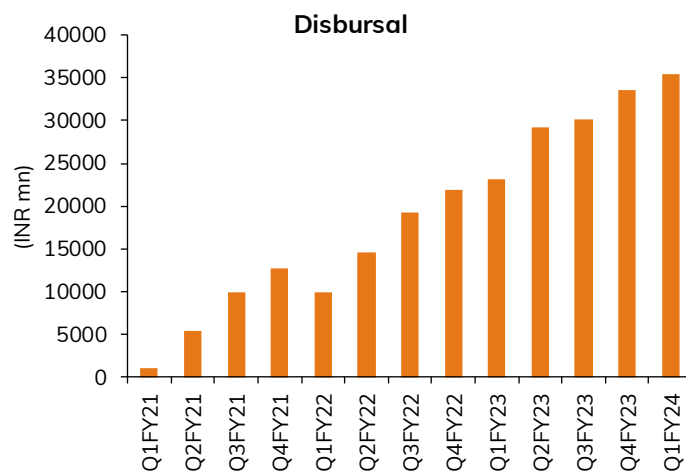
**Exhibit 2: Performance Highlights**

(INR mn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	YoY	QoQ
Core Business Revenue	3,710	4,100	4,250	5,040	5,160	39.1%	2.4%
Of which Insurance	2,870	3,090	3,180	3,840	3,820	33.1%	-0.5%
Of which Paisa Bazaar	840	1,010	1,070	1,200	1,340	59.5%	11.7%
New Initiatives Revenue	1,340	1,640	1,850	3,645	1,490	11.2%	-59.1%
Total	5,050	5,740	6,100	8,690	6,650	31.7%	-23.5%
<b>Operating Data</b>							
Total Premium	24,300	25,450	30,280	35,860	30,110	23.9%	-16.0%
Core Premium		20,000	21,480	25,200	20,780		-17.5%
PB Corporate			3,000	1,230	2,220		80.5%
Dubai	510	5,450	800	1,110	1,300	154.9%	17.1%
POSP			5,000	8,300	5,810		-30.0%
Total Disbursal	23,200	29,220	30,210	33,570	35,420	52.7%	5.5%
<b>Take rate</b>							
Total Premium	17.3%	18.6%	16.6%	20.9%	17.6%		
Total Disbursal	3.62%	3.46%	3.54%	3.57%	3.78%		
Core insurance			13.0%	14.5%	15.1%		
<b>Contribution</b>							
Core Business	1,570	1,840	1,880	2,200	2,340	49.0%	6.4%
New Initiatives	-510	-430	-280	-40	-150		
Total	1,060	1,410	1,600	2,160	2,190	106.6%	1.4%
<b>Contribution Margin</b>							
Core Business	42.3%	44.9%	44.2%	43.7%	45.3%		
New Initiatives	-38.1%	-26.2%	-15.1%	-1.1%	-10.1%		
Total	21.0%	24.6%	26.2%	24.9%	32.9%		
Fixed Cost	1,720	1,940	1,880	1,880	1,960	14.0%	4.3%
EBITDA	-2,343	-2,261	-1,332	-680	-770		
ESOP cost	1,683	1,731	1,050	960	1,000	-40.6%	4.2%
Adjusted EBITDA							
Core Business	50	120	260	640	690	1280.0%	7.8%
New Initiatives	-710	-650	-540	-360	-460		
Total	-660	-530	-280	280	230		
Other income	475	604	689	822	912	92.0%	10.9%
Depreciation and amortisation expense	132	156	175	175	195	47.6%	11.6%
Finance costs	41	55	56	62	63	53.1%	1.6%
Other expenses	2	-2	2	-1	-0		
PBT	-2,044	-1,866	-876	-93.7	-115.8		
Taxes	-1	-0	0	-0	3		
PAT	-2,043	-1,866	-876	-93.4	-119.0		

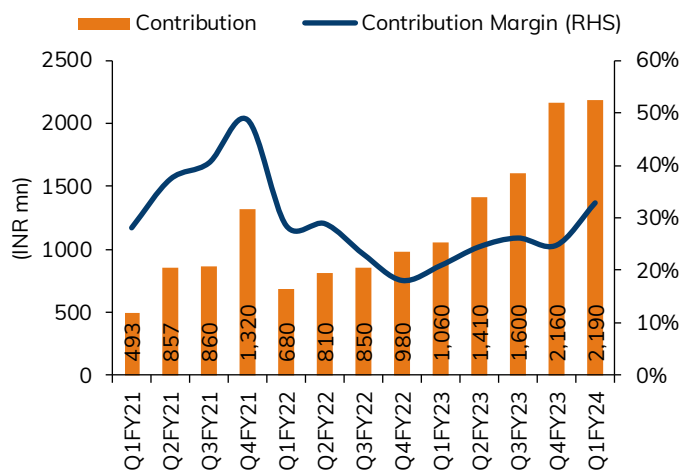
Source: I-Sec research, Company data

**Exhibit 3: Q1FY24 saw a sequential dip in premium**

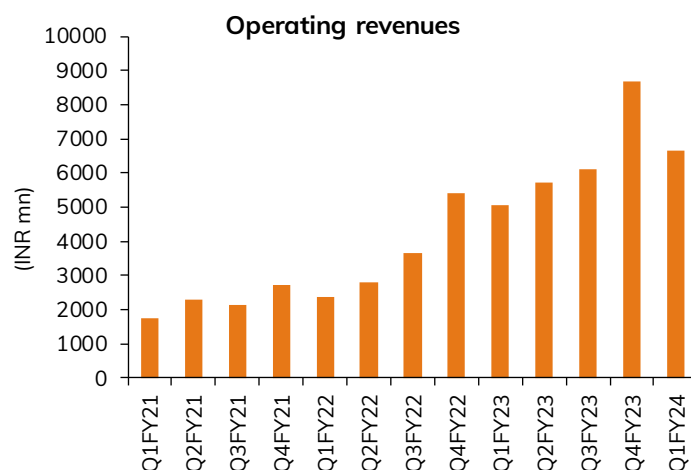
Source: Company data, I-Sec research

**Exhibit 4: Q1FY24 saw a marginal increase in disbursements**

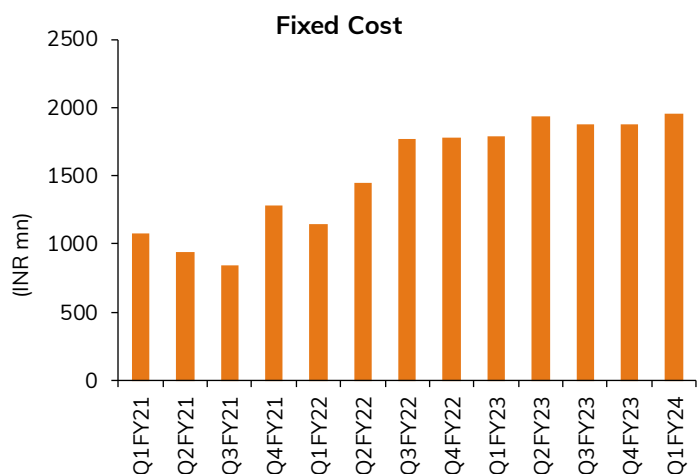
Source: Company data, I-Sec research

**Exhibit 5: Absolute contribution has increased; margins increased in Q1FY24**

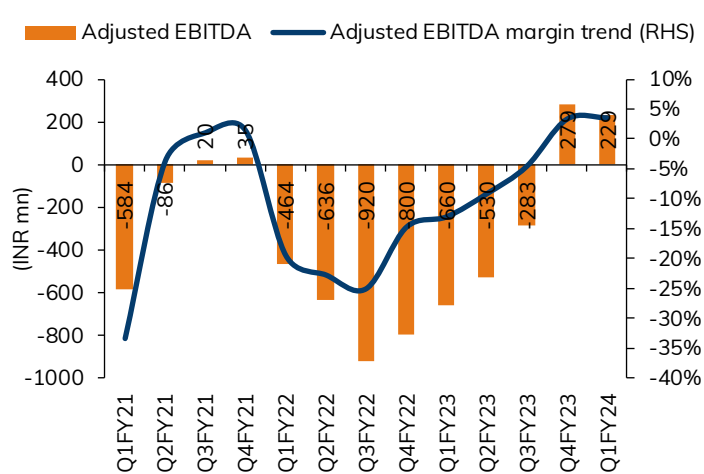
Source: Company data, I-Sec research

**Exhibit 6: Q1FY24 saw YoY increase in operating revenues**

Source: Company data, I-Sec research

**Exhibit 7: Fixed cost remained stable in Q1FY24**

Source: Company data, I-Sec research

**Exhibit 8: Adjusted EBITDA remains positive in Q1FY24**

Source: Company data, I-Sec research

**Exhibit 9: Shareholding pattern**

%	Dec'22	Mar'23	Jun'23
Promoters	0.0	0.0	0.0
Institutional investors	63.0	64.4	65.5
MFs and others	8.1	7.3	7.5
FIs/Banks	0.2	0.2	0.2
Insurance	2.2	2.6	3.5
FIIIs	52.5	54.3	54.3
Others	37.0	35.6	34.5

Source: Bloomberg

**Exhibit 10: Price chart**

Source: Bloomberg

## Financial Summary

### Exhibit 11: Profit & Loss

(INR mn, year ending Mar)

	FY22A	FY23A	FY24E	FY25E
<b>Net Sales</b>	<b>14,249</b>	<b>25,578</b>	<b>29,020</b>	<b>35,665</b>
Operating Expenses	23,273	32,188	30,914	34,678
<b>EBITDA</b>	<b>(9,024)</b>	<b>(6,610)</b>	<b>(1,894)</b>	<b>987</b>
EBITDA Margin (%)	(63.3)	(25.8)	(6.5)	2.8
Depreciation & Amortization	428	638	829	912
EBIT	(9,452)	(7,248)	(2,724)	75
Interest expenditure	136	214	235	258
Other Non-operating Income	-	-	-	-
<b>Recurring PBT</b>	<b>(8,334)</b>	<b>(4,879)</b>	<b>842</b>	<b>3,917</b>
<b>Profit / (Loss) from Associates</b>	-	-	-	-
Less: Taxes	(5)	0	-	-
PAT	(8,329)	(4,879)	842	3,917
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
<b>Net Income (Reported)</b>	<b>(8,329)</b>	<b>(4,879)</b>	<b>842</b>	<b>3,917</b>
<b>Net Income (Adjusted)</b>	<b>(2,129)</b>	<b>541</b>	<b>3,992</b>	<b>5,917</b>

Source Company data, I-Sec research

### Exhibit 12: Balance sheet

(INR mn, year ending Mar)

	FY22A	FY23A	FY24E	FY25E
<b>Total Current Assets</b>	<b>52,440</b>	<b>35,600</b>	<b>40,759</b>	<b>48,789</b>
of which cash & cash eqv.	37,002	7,627	13,199	20,555
<b>Total Current Liabilities &amp; Provisions</b>	<b>2,990</b>	<b>4,898</b>	<b>5,889</b>	<b>8,056</b>
<b>Net Current Assets</b>	<b>49,450</b>	<b>30,701</b>	<b>34,869</b>	<b>40,734</b>
Investments	3,731	22,498	22,498	22,498
Net Fixed Assets	359	684	455	442
ROU Assets	1,442	2,014	2,014	2,014
Capital Work-in-Progress	-	-	-	-
<b>Total Intangible Assets</b>	<b>26</b>	<b>58</b>	<b>58</b>	<b>58</b>
Other assets	365	398	418	439
Deferred Tax assets	792	1,289	1,354	1,421
<b>Total Assets</b>	<b>56,165</b>	<b>57,642</b>	<b>61,665</b>	<b>67,605</b>
<b>Liabilities</b>				
<b>Borrowings</b>	-	-	-	-
<b>Deferred Tax Liability</b>	-	-	-	-
provisions	-	-	-	-
other Liabilities	454	528	542	557
Equity Share Capital	899	900	918	927
Reserves & Surplus	53,218	53,863	57,854	63,771
<b>Total Net Worth</b>	<b>54,117</b>	<b>54,763</b>	<b>58,772</b>	<b>64,698</b>
Minority Interest	-	85	85	85
<b>Total Liabilities</b>	<b>56,165</b>	<b>57,642</b>	<b>61,665</b>	<b>67,605</b>

Source Company data, I-Sec research

### Exhibit 13: Cashflow statement

(INR mn, year ending Mar)

	FY22A	FY23A	FY24E	FY25E
<b>Operating Cashflow</b>	<b>(15,678)</b>	<b>(2,990)</b>	<b>2,589</b>	<b>4,405</b>
Working Capital Changes	(12,555)	(1,341)	1,333	1,418
Capital Commitments	(311)	(637)	(600)	(900)
<b>Free Cashflow</b>	<b>(15,367)</b>	<b>(2,353)</b>	<b>3,189</b>	<b>5,305</b>
<b>Other investing cashflow</b>	<b>(20,955)</b>	<b>1,052</b>	<b>3,800</b>	<b>4,100</b>
Cashflow from Investing Activities	(21,266)	415	3,200	3,200
Issue of Share Capital	36,453	1	17	9
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	-	-	-	-
Others	-	-	-	-
Cash flow from Financing Activities	72,668	(424)	(200)	(240)
<b>Chg. in Cash &amp; Bank balance</b>	<b>35,724</b>	<b>(2,998)</b>	<b>5,589</b>	<b>7,365</b>

Source Company data, I-Sec research

### Exhibit 14: Key ratios

year ending Mar)

	FY22A	FY23A	FY24E	FY25E
<b>Per Share Data (INR)</b>				
Reported EPS	(4.7)	1.2	8.7	12.8
Cash EPS	(17.6)	(9.3)	3.6	10.4
Book Value per share (BV)	120.3	120.6	128.1	139.6
<b>Margins (%)</b>				
EBITDA Margins	(63.3)	(25.8)	(6.5)	2.8
EBIT Margins	(66.3)	(28.3)	(9.4)	0.2
PBT Margins	(58.5)	(19.1)	2.9	11.0
Contribution Margin	23.3	24.4	33.7	34.7
PAT Margins	(58.5)	(19.1)	2.9	11.0
<b>Growth (%)</b>				
Revenue	60.7	79.5	13.5	22.9
EBITDA	464.8	(26.8)	(71.3)	(152.1)
Adj PAT	454.4	(41.4)	(117.2)	365.4
EPS	-	(125.2)	630.5	46.8
Total Premium Growth	-	66.2	37.0	29.4
Total Disbursal Growth	-	75.9	34.0	25.0
<b>Valuation Ratios</b>				
P/E(x)	(160.6)	638.2	87.4	59.5
P/S(x)	24.0	13.5	12.0	9.9
P/BV(x)	6.3	6.3	5.9	5.4

Source Company data, I-Sec research



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