

## PB Fintech Ltd

9th August 2023

## Position for imminent profitability

PB Fintech's revenue surged by 31.8% on a YoY basis, driven by a remarkable growth of 119.5% on a YoY basis in the insurance business. EBITDA margins improved from -46% (Q1 FY23) to -12% (Q1 FY24), propelled by cost reductions in ESOPs, controlled employee and advertising expenses, resulting in significant operating leverage benefits. We expect this trend to continue for the foreseeable future.

## Renewal and trail commission to drive profitability

Renewal and trail commissions surged from Rs. 2730 Mn (Q1 FY23) to Rs. 4180 Mn (Q1 FY24), a robust 53% growth on a YoY basis. They have an operating margin of 85%+.

PaisaBazaar's collaboration on co-created products with lending partners is yielding results, evident in trail commission now contributing 14% to credit business revenue

## Growth momentum continues

Insurance premiums grew by 23.9% on a YoY basis. New protection (Health + Term) premium grew by 40% on a YoY basis. Savings product growth was subdued during the quarter due to a change in the tax incentives. Lending disbursements grew by 52.7% on a YoY basis to reach Rs. 35,420 Mn in Q1 FY24. The Company issued 140,000 credit cards during the quarter, growing by 45.8% on a YoY basis.

PolicyBazaar and PaisaBazaar are jointly classified as the core online business that has seen sequential revenue growth of 2.4% despite, traditionally, Q4 being the strongest and Q1 being the weakest quarter.

## Digitalization to reduce cost

The Company's focus on unassisted sales has lowered costs and boosted profitability. Notably, over 75% of credit cards and 44% of unsecured lending are now fully digitalized. Additionally, PaisaBazaar's platform has achieved end-to-end digitalization for 13 lending partners. Similarly, 80% of motor and travel insurance transactions are now unassisted.

## View &amp; Valuation

We revised our estimates and maintained a BUY Rating for PB Fintech Ltd, with a target price of Rs. 951 (10x FY25E P/S multiple). The Company is poised at a pivotal juncture, driven by catalysts such as renewal commission growth, strategic expansion into tier-2/3 cities through offline channels, and rigorous cost management, all poised to generate favorable operating leverage.

## BUY

CMP Rs. 746

TARGET Rs. 951 (+27.7%)

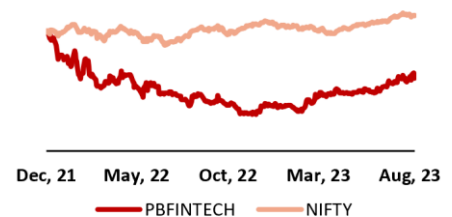
## Company Data

Bloomberg Code	POLICYBZ IN
MCAP (Rs. Mn)	3,35,160
O/S Shares (Mn)	450
52w High/Low	818 / 356
Face Value (in Rs.)	2
Liquidity (3M) (Rs. Mn)	1375

## Shareholding Pattern %

	Jun '23	Mar '22	Dec '22
Promoters	0	0	0
FII's	49.6	50.4	48.0
DII's	15.3	14.0	14.9
Non-Institutional	35.1	35.6	37.1

## PBFINTECH vs NIFTY



Source: Keynote Capitals Ltd.

## Key Financial Data

(Rs Mn)	FY23	FY24E	FY25E
Revenue	25,578	29,624	42,813
EBITDA	(6,616)	(5,277)	1,107
Net Profit	(4,878)	(5,027)	906
Total Assets	62,540	57,997	60,479
ROCE (%)	-9%	-9%	2%
ROE (%)	-9%	-10%	2%

Source: Company, Keynote Capitals Ltd Estimates

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## PB Fintech Ltd | Quarterly Update

## Q1FY24 Result Update

## Result Highlights (Rs. Mn)

Particulars	Q1FY24	Q1FY23	Change % (Y-o-Y)	Q4FY23	Change % (Q-o-Q)	FY23
Revenue	6,656	5,052	31.8%	8,691	-23.4%	25,578
Employee Cost	3,839	3,817	0.6%	3912	-1.9%	15,396
Advertisement & Promotion Expense	1,989	2,898	-31.4%	4565	-56.4%	13,572
Other Opex	1,331	474	180.6%	638	108.5%	2,257
EBITDA	-771	-2,343	-67.1%	-681	13.3%	-6,616
<b>EBITDA %</b>	<b>-12%</b>	<b>-46%</b>	<b>3479 Bps</b>	<b>-8%</b>	<b>-375 Bps</b>	<b>-26%</b>
Depreciation	195	132	47.6%	175	11.6%	638
EBIT	-966	-2,475	-61.0%	-855	12.9%	-7,254
<b>EBIT %</b>	<b>-15%</b>	<b>-49%</b>	<b>3448 Bps</b>	<b>-10%</b>	<b>-467 Bps</b>	<b>-28%</b>
Finance Cost	63	41	53.1%	62	1.6%	214
Other Income	912	475	92.0%	822	10.8%	2,590
PBT	-117	-2,041	-94.3%	-95	23.8%	-4,878
Tax	3	-1	-735.3%	0		0
PAT	-119	-2,043	-94.2%	-93	27.4%	-4,879
<b>EPS</b>	<b>-0.26</b>	<b>-4.62</b>	<b>-94.4%</b>	<b>-0.20</b>	<b>30.0%</b>	<b>-11.0</b>

Source: Company, Keynote Capitals Ltd.

## Segment Revenue and Operating Metrics (Rs. Mn)

Particulars	Q1FY24	Q1FY23	Change % (Y-o-Y)	Q4FY23	Change % (Q-o-Q)
Insurance Premium	30,110	24,300	23.9%	35,860	-16.0%
Lending Disbursal	35,420	23,200	52.7%	33,570	5.5%
Credit Card Issued	140,000	96,000	45.8%	131,000	6.9%
<b>Segment Revenue</b>					
Insurance Broker Services	5,064	2,307	119.5%	4,438	14.1%
Other Services	1,592	2,745	-42.0%	4,253	-62.6%
<b>Revenue Breakup</b>					
Core Online Business	5,160	3,710	39.1%	5,040	2.4%
New Initiatives*	1,490	1,340	11.2%	3,650	-59.2%

Source: Company, Keynote Capitals Ltd.

\*New initiatives include PB Partners and UAE Operations

## Q1 FY24 Conference Call Takeaways

### Core online business

- In insurance business, new protection (health + term) premium grew by 40% on a YoY basis. Growth has accelerated month on month during the quarter.
- Q4 is traditionally the strongest quarter, and for the first time, core online business revenue for Q1 FY24 is higher than Q4 FY23, beating traditional seasonality.
- Renewal/Trail revenue is at ARR of Rs. 4180 Mn+, up from Rs. 2730 Mn, compared to last year same quarter. This typically operates at an 85%+ margin.
- Contribution margins have improved from 42% to 45%, and adjusted EBITDA is up from 1% to 13% (YoY)
- In the Credit business, the Company is at an annualized run rate of Rs. 160 Bn disbursements and 580K credit card issuance
- Digitalization is becoming significant in lending, currently led by credit cards where ~75% of the cards issued and 44% of unsecured lending transactions were through end-to-end (E2E) digital process.
- Trail revenue is now at 14% of total credit business revenue. Credit business revenue is Rs. 1340 Mn during the quarter.

### New Initiatives

- Includes PB Partners and UAE operations.
- UAE business has grown by 2.6x on a YoY basis.
- PB Partners has seen a significant revenue decline as the nature of business has changed dramatically, where business from retail agents is up significantly, but business from larger agents has gone down considerably. Resulting in the business mix tilting towards retail agents, which has better economics.
- Adjusted EBITDA loss has reduced from Rs. 710 Mn to Rs. 460 Mn on a YoY basis.

### Others

- Advertisement & promotion expenses were reduced by 31.4% on a YoY basis and 56.4% on a QoQ basis as some expenses have been reclassified into other expenses.

## Financial Statement Analysis

## Income Statement

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	14,249	25,578	29,624	42,813	61,948
Growth %	61%	80%	16%	45%	45%
Raw Material Expenses	0	0	0	0	0
Employee Expenses	12,555	15,396	15,942	19,872	27,018
Other Expenses	2,006	3,226	4,147	5,994	8,673
EBITDA	-9,021	-6,616	-5,277	1,107	3,336
Growth %	465%	-27%	-20%	-121%	201%
Margin%	-63%	-26%	-18%	3%	5%
Depreciation	428	638	994	1,175	1,374
EBIT	-9,450	-7,254	-6,271	-68	1,962
Growth %	370%	-23%	-14%	-99%	-2976%
Margin%	-66%	-28%	-21%	0%	3%
Interest Paid	138	214	201	201	201
Other Income & exceptional	1,254	2,590	1,447	1,402	1,739
PBT	-8,334	-4,878	-5,026	1,132	3,500
Tax	-5	0	0	226	700
PAT	-8,329	-4,878	-5,026	906	2,800
Others (Associates)	0	-2	-2	-2	-2
Net Profit	-8,329	-4,879	-5,027	904	2,798
Growth %	454%	-41%	3%	-118%	210%
Shares (Mn)	449.5	450.1	450.1	450.1	450.1
EPS	-18.53	-10.84	-11.17	2.01	6.22

## Balance Sheet

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Cash, Cash equivalents & Bank	37,002	7,627	9,119	15,216	22,529
Current Investments	3,275	5,623	5,623	5,623	5,623
Debtors	3,609	6,773	7,844	11,337	16,404
Inventory	0	0	0	0	0
Short Term Loans & Advances	11,732	21,199	14,199	7,199	199
Other Current Assets	98	0	0	0	0
Total Current Assets	55,715	41,222	36,786	39,375	44,755
Net Block & CWIP	2,049	3,133	3,028	2,923	2,632
Long Term Investments	456	598	597	595	593
Other Non-current Assets	1,011	17,587	17,587	17,587	17,587
Total Assets	59,231	62,540	57,997	60,479	65,567
Creditors	1,982	3,061	3,545	5,124	7,414
Provision	205	282	282	282	282
Short Term Borrowings	0	0	0	0	0
Other Current Liabilities	1,187	2,166	2,166	2,166	2,166
Total Current Liabilities	3,374	5,509	5,993	7,572	9,862
Long Term Debt	0	0	0	0	0
Deferred Tax Liabilities	-1	0	0	0	0
Other Long Term Liabilities	1,742	2,183	2,183	2,183	2,183
Total Non Current Liabilities	1,741	2,183	2,183	2,183	2,183
Paid-up Capital	899	900	900	900	900
Reserves & Surplus	53,218	53,863	48,835	49,739	52,538
Shareholders' Equity	54,117	54,763	49,736	50,640	53,438
Non Controlling Interest	0	85	85	85	85
Total Equity & Liabilities	59,231	62,540	57,997	60,479	65,567

Source: Company, Keynote Capitals Ltd. Estimate

## Cash Flow

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Pre-tax profit	-8,334	-4,880	-5,026	1,132	3,500
Adjustments	5,449	3,728	-252	-25	-164
Change in Working Capital	-12,557	-1,340	-587	-1,914	-2,777
Total Tax Paid	-238	-498	0	-226	-700
Cash flow from operating Activities	-15,678	-2,990	-5,865	-1,034	-141
Net Capital Expenditure	-311	-637	-889	-1,070	-1,084
Change in investments	-21,968	-1,012	7,000	7,000	7,000
Other investing activities	1,013	2,064	1,447	1,402	1,739
Cash flow from investing activities	-21,266	414	7,558	7,332	7,655
Equity raised / (repaid)	0	0	0	0	0
Debt raised / (repaid)	0	0	0	0	0
Dividend (incl. tax)	0	0	0	0	0
Other financing activities	36,214	-425	-201	-201	-201
Cash flow from financing activities	36,214	-425	-201	-201	-201
Net Change in cash	-730	-3,001	1,492	6,096	7,313

## Valuation Ratios

	FY22	FY23	FY24E	FY25E	FY26E
<b>Per Share Data</b>					
EPS	-19	-11	-11	2	6
Growth %	41%	-41%	3%	-118%	210%
Book Value Per Share	120	122	111	113	119
<b>Return Ratios</b>					
Return on Assets (%)	-20%	-8%	-8%	2%	4%
Return on Equity (%)	-22%	-9%	-10%	2%	5%
Return on Capital Employed (%)	-23%	-9%	-9%	2%	6%
<b>Turnover Ratios</b>					
Asset Turnover (x)	0.3	0.4	0.5	0.7	1.0
Sales / Gross Block (x)	5.3	6.3	5.5	6.7	8.3
Working Capital / Sales (x)	251%	172%	112%	73%	54%
Receivable Days	68	74	90	82	82
Payable Days	38	36	41	37	37
<b>Liquidity Ratios</b>					
Current Ratio (x)	16.5	7.5	6.1	5.2	4.5
Interest Coverage Ratio (x)	-59.5	-21.8	-23.9	6.6	18.4
Total Debt to Equity	0.0	0.0	0.0	0.0	0.0
Net Debt to Equity	-0.7	-0.1	-0.2	-0.3	-0.4
<b>Valuation</b>					
Price to Sales (x)	21.9	13.1	11.3	7.8	5.4
Price to Book (x)	5.8	6.1	6.7	6.6	6.3
EV/Sales (x)	19.3	11.8	10.2	7.0	4.9

## KEYNOTE Rating History

Date	Rating	Market Price at Recommendation	Upside/Downside
20 <sup>th</sup> June 2023	BUY	660	+19.5%
9 <sup>th</sup> August 2023	BUY	746	+27.7%

## Rating Methodology

Rating	Criteria
BUY	Expected positive return of > 10% over 1-year horizon
NEUTRAL	Expected positive return of > 0% to < 10% over 1-year horizon
REDUCE	Expected return of < 0% to -10% over 1-year horizon
SELL	Expected to fall by >10% over 1-year horizon
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