

PB Fintech Ltd

7th November 2023

Position for imminent profitability

In Q2 FY24, PB Fintech's revenue surged by 41.5% on a YoY basis, driven by a remarkable growth of 129.5% on a YoY basis in the insurance business. EBITDA margins improved from -39.4% (Q2 FY23) to -11.0% (Q2 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

In Q2 FY24, renewal and trail commissions (ARR) surged by 48.3% from Rs. 2940 Mn to Rs. 4360 Mn, on a YoY basis. It has 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 36.5% on a YoY basis. New protection (Health + Term) premiums increased by 53% on a YoY basis, with the primary driver being the substantial growth in health insurance. Lending disbursements grew by 41.6% on a YoY basis, reaching a total of Rs. 41,390 Mn in Q2 FY24. Furthermore, the Company issued 149,000 credit cards during the quarter, achieving a growth of 27.4% on a YoY basis.

PolicyBazaar and PaisaBazaar are jointly classified as the core online business that has seen revenue growth of 45.6% on a YoY basis in Q2 FY24, one of the highest growth achieved in the past 4 quarters.

Digitalization to reduce cost

The Company's focus on unassisted sales has lowered costs and boosted profitability. Notably, over 75% of credit cards and 50% 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 & Valuation

We have revised our estimates and maintained a BUY Rating for PB Fintech Ltd, with a target price of Rs. 968 (10x FY25E P/S multiple). The Company stands 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. 713

TARGET Rs. 968 (+35.8%)

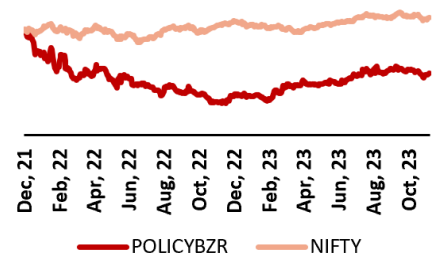
Company Data

Bloomberg Code	POLICYBZ IN
MCAP (Rs. Mn)	321,046
O/S Shares (Mn)	450
52w High/Low	818 / 356
Face Value (in Rs.)	2
Liquidity (3M) (Rs. Mn)	908

Shareholding Pattern %

	Sep '23	Jun '23	Mar '22
Promoters	0	0	0
FIIIs	49.4	49.6	50.4
DIIIs	16.3	15.3	14.0
Non-Institutional	34.3	35.1	35.6

POLICYBZR vs NIFTY



Source: Keynote Capitals Ltd.

Key Financial Data

(Rs Bn)	FY23	FY24E	FY25E
Revenue	25.6	33.5	43.6
EBITDA	-6.6	-1.8	1.2
Net Profit	-4.9	-0.3	1.8
Total Assets	62.5	63.2	66.2
ROCE (%)	-9%	0%	4%
ROE (%)	-9%	-1%	3%

Source: Company, Keynote Capitals Ltd Estimates

Devin Joshi, Research Analyst
Devin@keynoteindia.net

PB Fintech Ltd | Quarterly Update

Q2FY24 Result Update

Result Highlights (Rs. Mn)

Particulars	Q2FY24	Q2FY23	Change % (Y-o-Y)	Q1FY24	Change % (Q-o-Q)	H1FY24	H1FY23	Change % (Y-o-Y)	FY23
Revenue	8,116	5,735	41.5%	6,656	21.9%	14,772	10,787	37%	25,578
Employee Cost	4,228	4,103	3.1%	3839	10.1%	8,067	7,919	2%	15,396
Advertisement & Promotion Expense	2,474	3,124	-20.8%	1989	24.4%	4,462	6,022	-26%	13,572
Other Opex	2,005	525	281.8%	1,331	50.6%	3,336	999	234%	2,257
EBITDA	-891	-2,261	-60.6%	-771	15.6%	-1,662	-4,603	-64%	-6,616
EBITDA %	-11%	-39%	2844 Bps	-12%	61 Bps	-11%	-43%	3143 Bps	-26%
Depreciation	223	156	43.2%	195	14.3%	418	288	45%	638
EBIT	-1,114	-2,416	-53.9%	-966	15.3%	-2,080	-4,892	-57%	-7,254
EBIT %	-14%	-42%	2841 Bps	-15%	79 Bps	-14%	-45%	3127 Bps	-28%
Finance Cost	72	55	29.6%	63	14.7%	134	96	40%	214
Other Income	975	604	61.5%	912	6.9%	1,887	1,078	75%	2,590
PBT	-211	-1,868	-88.7%	-117	80.0%	-328	-3,909	-92%	-4,878
Tax	-3	0		3		0	0		0
Profit from Associates/JV	-3	2		1		-2	0		-1.6
PAT	-211	-1,866	-88.7%	-119	77.3%	-330	-3,910	-92%	-4,879
EPS	-0.45	-4.19		-0.26		-0.7	-8.8		-11.0

Source: Company, Keynote Capitals Ltd.

Segment Revenue and Operating Metrics (Rs. Mn)

Particulars	Q2FY24	Q2FY23	Change % (Y-o-Y)	Q1FY24	Change % (Q-o-Q)
Insurance Premium	34,750	25,450	36.5%	30,110	15.4%
Lending Disbursal	41,390	29,220	41.6%	35,420	16.9%
Credit Card Issued	149,000	117,000	27.4%	140,000	6.4%
Segment Revenue					
Insurance Broker Services	6,318	2,753	129.5%	5,064	24.8%
Other Services	1,798	2,982	-39.7%	1,592	12.9%
Revenue Breakup					
Core Online Business	5,970	4,100	45.6%	5,160	15.7%
New Initiatives	2,150	1,640	31.1%	1,490	44.3%

Source: Company, Keynote Capitals Ltd.

*New initiatives include PB Partners and UAE Operations

Q2 FY24 Conference Call Takeaways

Core online business

- In insurance business, new protection (health + term) premium grew by 53% on a YoY basis, which is the highest growth in last 7 quarters.
- Renewal/Trail revenue is at ARR of Rs. 4360 Mn, up from Rs. 2940 Mn, compared to last year same quarter. This typically operates at an 85%+ margin and is a significant source of profit.
- In the Credit business, the Company is at an annualized run rate of Rs. 165 Bn disbursements and 585,000 credit card issuance.
- Digitalization is becoming significant in lending, currently led by credit cards where ~75% of the cards issued and 50% of unsecured lending transactions were done through End-to-End (E2E) digital process. Further, 13 active partners' journey is E2E digitalised.
- In Q2 FY24, trail revenue was 14% of the total credit business revenue. Credit business revenue was Rs. 1540 Mn during the quarter.

New Initiatives

- Includes PB Partners and UAE operations.
- In Q2 FY24, UAE premium has grown by 2.5x on a YoY basis.
- Adjusted EBITDA loss were reduced from Rs. 650 Mn to Rs. 550 Mn on a YoY basis.

Others

- A portfolio of sub Rs. 50K ticket size, contributing 5% of loan disbursed for PaisaBazaar, is seeing some stress in NPAs. This is an industry wide phenomenon.
- Advertisement & promotion expenses were reduced by 20.4% on a YoY basis as some expenses have been reclassified into other expenses (Opex), resulting in other expenses increasing by 281.8%. Opex cost is also elevated as the Company gears up for H2 by investing in manpower and a call centre, which is typically strong growth period for them.
- Management expects to start reporting profits from Q3 FY24 onwards and deliver FY24 as first year with positive PAT.

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	14,249	25,578	33,508	43,560	56,628
Growth %	61%	80%	31%	30%	30%
Raw Material Expenses	0	0	0	0	0
Employee Expenses	12,555	15,396	17,238	19,750	24,218
Other Expenses	2,006	2,803	8,042	10,019	12,458
EBITDA	-9,021	-6,614	-1,825	1,159	4,097
Growth %	465%	-27%	-72%	-164%	253%
Margin%	-63%	-26%	-5%	3%	7%
Depreciation	428	638	862	993	1,152
EBIT	-9,450	-7,252	-2,687	166	2,945
Growth %	370%	-23%	-63%	-106%	1677%
Margin%	-66%	-28%	-8%	0%	5%
Interest Paid	138	216	270	270	270
Other Income & exceptional	1,254	2,590	2,644	2,345	2,515
PBT	-8,334	-4,878	-313	2,241	5,189
Tax	-5	0	0	448	1,038
PAT	-8,329	-4,878	-313	1,793	4,151
Others (Minorities, Associates)	0	0	0	0	0
Net Profit	-8,329	-4,878	-313	1,793	4,151
Growth %	454%	-41%	-94%	-672%	132%
Shares (Mn)	449.5	450.1	450.1	450.1	450.1
EPS	-18.53	-10.82	-0.70	3.98	9.22

Balance Sheet

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Cash, Cash equivalents & Bank	37,002	7,627	13,356	20,812	30,228
Current Investments	3,275	5,623	5,623	5,623	5,623
Debtors	3,609	6,773	8,873	11,535	14,995
Inventory	0	0	0	0	0
Short Term Loans & Advances	11,732	21,072	14,072	7,072	72
Other Current Assets	98	127	127	127	127
Total Current Assets	55,715	41,222	42,050	45,168	51,044
Net Block & CWIP	2,049	3,133	2,941	2,818	2,657
Long Term Investments	456	598	598	598	598
Other Non-current Assets	1,011	17,587	17,587	17,587	17,587
Total Assets	59,231	62,540	63,176	66,172	71,887
Creditors	1,982	3,061	4,010	5,213	6,777
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	6,458	7,661	9,225
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	53,861	53,548	55,340	59,492
Shareholders' Equity	54,117	54,761	54,448	56,241	60,392
Non Controlling Interest	0	85	85	85	85
Total Equity & Liabilities	59,231	62,538	63,176	66,172	71,887

Source: Company, Keynote Capitals Ltd. Estimate

Cash Flow

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Pre-tax profit	-8,334	-4,878	-313	2,241	5,189
Adjustments	5,449	3,729	-1,511	-1,082	-1,093
Change in Working Capital	-12,557	-1,273	-1,151	-1,459	-1,896
Total Tax Paid	-238	-498	0	-448	-1,038
Cash flow from operating Activities	-15,678	-2,921	-2,975	-748	1,162
Net Capital Expenditure	-311	-639	-670	-871	-991
Change in investments	-21,968	-1,144	7,000	7,000	7,000
Other investing activities	1,013	2,197	2,644	2,345	2,515
Cash flow from investing activities	-21,266	414	8,974	8,474	8,524
Equity raised / (repaid)	0	1,233	0	0	0
Debt raised / (repaid)	0	0	0	0	0
Dividend (incl. tax)	0	0	0	0	0
Other financing activities	36,214	-426	-270	-270	-270
Cash flow from financing activities	36,214	-425	-270	-270	-270
Net Change in cash	-730	-2,932	5,728	7,456	9,416

Valuation Ratios

	FY22	FY23	FY24E	FY25E	FY26E
Per Share Data					
EPS	-19	-11	-1	4	9
Growth %	41%	-42%	-94%	-672%	132%
Book Value Per Share	120	122	121	125	134
Return Ratios					
Return on Assets (%)	-20%	-8%	0%	3%	6%
Return on Equity (%)	-22%	-9%	-1%	3%	7%
Return on Capital Employed (%)	-23%	-9%	0%	4%	8%
Turnover Ratios					
Asset Turnover (x)	0.3	0.4	0.5	0.7	0.8
Sales / Gross Block (x)	5.3	6.4	6.6	7.5	8.4
Working Capital / Sales (x)	251%	172%	106%	84%	70%
Receivable Days	68	74	85	85	85
Payable Days	38	36	39	39	39
Liquidity Ratios					
Current Ratio (x)	16.5	7.5	6.5	5.9	5.5
Interest Coverage Ratio (x)	-59.5	-21.6	-0.2	9.3	20.2
Total Debt to Equity	0.0	0.0	0.0	0.0	0.0
Net Debt to Equity	-0.7	-0.1	-0.2	-0.4	-0.5
Valuation					
Price to Sales (x)	21.9	12.5	9.5	7.3	5.6
Price to Book (x)	5.8	5.8	5.9	5.7	5.3
EV/Sales (x)	19.3	11.2	8.5	6.5	5.0

KEYNOTE Rating History

Date	Rating	Market Price at Recommendation	Upside/Downside
20 th June 2023	BUY	660	+19.5%
9 th August 2023	BUY	746	+27.7%
7 th November 2023	BUY	713	+35.8%

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
NOT RATED (NR)/UNDER REVIEW (UR)/COVERAGE SUSPENDED (CS)	Not covered by Keynote Capitals Ltd./Rating & Fair value under Review/Keynote Capitals Ltd. has suspended coverage

Disclosures and Disclaimers

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).

Keynote Capitals Ltd.. (KCL) is a SEBI Registered Research Analyst having registration no. INH000007997. KCL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock broking services, Depository participant services & distribution of various financial products. Details of associate entities of Keynote Capitals Limited are available on the website at <https://www.keynotecapitals.com/associate-entities/>

KCL and its associate company(ies), their directors and Research Analyst and their relatives may; (a) from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of KCL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report.

KCL and / or its affiliates do and seek to do business including investment banking with companies covered in its research reports. As a result, the recipients of this report should be aware that KCL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

Details of pending Enquiry Proceedings of KCL are available on the website at <https://www.keynotecapitals.com/pending-enquiry-proceedings/>

A graph of daily closing prices of securities is available at www.nseindia.com, www.bseindia.com. Research Analyst views on Subject Company may vary based on Fundamental research and Technical Research. Proprietary trading desk of KCL or its associates maintains arm's length distance with Research Team as all the activities are segregated from KCL research activity and therefore it can have an independent view with regards to Subject Company for which Research Team have expressed their views.

Regional Disclosures (outside India)

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject KCL & its group companies to registration or licensing requirements within such jurisdictions. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

Specific Disclosure of Interest statement for subjected Scrip in this document:

Financial Interest of Research Entity [KCL] and its associates; Research Analyst and its Relatives	NO
Any other material conflict of interest at the time of publishing the research report by Research Entity [KCL] and its associates; Research Analyst and its Relatives	NO
Receipt of compensation by KCL or its Associate Companies from the subject company covered for in the last twelve months; Managing/co-managing public offering of securities in the last twelve months; Receipt of compensation towards Investment banking/merchant banking/brokerage services in the last twelve months; Products or services other than those above in connection with research report in the last twelve months; Compensation or other benefits from the subject company or third party in connection with the research report in the last twelve months.	NO
Whether covering analyst has served as an officer, director or employee of the subject company covered	NO
Whether the KCL and its associates has been engaged in market making activity of the Subject Company	NO
Whether the Research Entity [KCL] and its associates; Research Analyst and its Relatives, have actual/beneficial ownership of 1% or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance.	NO

The associates of KCL may have:

- financial interest in the subject company
- actual/beneficial ownership of 1% or more securities in the subject company
- received compensation/other benefits from the subject company in the past 12 months
- other potential conflict of interests with respect to any recommendation and other related information and opinions.; however, the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of KCL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report.
- acted as a manager or co-manager of public offering of securities of the subject company in past 12 months
- be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies)
- received compensation from the subject company in the past 12 months for investment banking / merchant banking / brokerage services or from other than said services.

The associates of KCL has not received any compensation or other benefits from third party in connection with the research report.

Above disclosures includes beneficial holdings lying in demat account of KCL which are opened for proprietary investments only. While calculating beneficial holdings, it does not consider demat accounts which are opened in name of KCL for other purposes (i.e. holding client securities, collaterals, error trades etc.). KCL also earns DP income from clients which are not considered in above disclosures.

Analyst Certification

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report.

Terms & Conditions:

This report has been prepared by KCL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of KCL. The report is based on the facts, figures and information that are believed to be true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. KCL will not treat recipients as customers by virtue of their receiving this report

Disclaimer:

The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent. This report and information herein is solely for informational purpose and may not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. Certain transactions -including those involving futures, options, another derivative product as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. No representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document. The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. This information is subject to change without any prior notice. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval. KCL, its associates, their directors and the employees may from time to time, effect or have affected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. KCL, its associates, their directors and the employees may from time to time invest in any discretionary PMS/AIF Fund and those respective PMS/AIF Funds may affect or have effected any transaction in for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting the document. This report has been prepared on the basis of information that is already available in publicly accessible media or developed through analysis of KCL. The views expressed are those of the analyst, and the Company may or may not subscribe to all the views expressed therein. This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject KCL to any registration or licensing requirement within such jurisdiction.

The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction. Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. The person accessing this information specifically agrees to exempt KCL or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold KCL or any of its affiliates or employees responsible for any such misuse and further agrees to hold KCL or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.

Keynote Capitals Limited (CIN: U67120MH1995PLC088172)

Compliance Officer: Mr. Jairaj Nair; Tel: 022-68266000; email id: jairaj@keynoteindia.net

Registered Office: 9th Floor, The Ruby, Senapati Bapat Marg, Dadar West, Mumbai – 400028, Maharashtra. Tel: 022 – 68266000.

SEBI Regn. Nos.: BSE / NSE (CASH / F&O / CD): INZ000241530; DP: CDSL- IN-DP-238-2016; Research Analyst: INH000007997

For any complaints email at kcl@keynoteindia.net

General Disclaimer: Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.keynotecapitals.com; Investment in securities market are subject to market risks, read all the related documents carefully before investing.