

## PB Fintech Ltd.

IPO Note – 1<sup>st</sup> Nov 2021

Recommendation	NEUTRAL		BACKGROUND																																																													
Price Band	Rs. 940 – Rs. 980		PB (PB Fintech) launched Policybazaar, its flagship platform, in 2008 and Paisabazaar in 2014, with the goal to transform how Indians access insurance and personal credit by emphasizing on awareness, ease, convenience, choice and transparency; and create a consumer-pull based, provider-neutral distribution model. Policybazaar enjoys monopoly status in India's digital insurance marketplace with a 93.4% market share, while Paisabazaar is India's largest digital consumer credit marketplace with a 51.4% market share.																																																													
Bidding Date	1 – 3 Nov																																																															
BRLM	Kotak, Citi, ICICI Bank, Morgan Stanley, IIFL, Jefferies, HDFC Bank																																																															
Registrar	LINK Intime																																																															
Sector	Financial Services																																																															
<b>Minimum Retail Application</b>																																																																
Number of Shares	15		<b>Details and Objects of the Issue</b> <ul style="list-style-type: none"> <li>The total issue size is Rs. 5710 Cr constituting (i) Offer For Sale of up to 2.0 Cr equity shares aggregating to Rs. 1960 Cr by investors; and (ii) fresh issue of up to 3.83 Cr equity shares aggregating to Rs. 3750 Cr. The offer shall constitute 13.0% of the post-offer paid-up equity capital of the company.</li> <li>PB proposes to utilise the proceeds from the fresh issue towards enhancing brand visibility, acquisitions and expanding offline presence as well as presence outside India.</li> </ul>																																																													
Min. Application Money	Rs. 14,700																																																															
Discount to retail	N.A																																																															
Payment Mode	ASBA																																																															
Financials (Rs Cr)	FY20	FY21																																																														
Total Income	771	887	<b>Investment Rationale</b> <ul style="list-style-type: none"> <li>Numerous benefits to consumers, insurer partners and lending partners</li> <li>Industry tailwinds cum monopolistic positioning ensures growth visibility</li> <li>PB's scale gives it self-reinforcing flywheels and strong network effects</li> <li>High renewal rates providing clear visibility into future business and delivering superior economics</li> <li>Expand playbook to replicate its platform for SME and corporate clients</li> </ul>																																																													
EBITDA	-320	-160																																																														
PAT	-304	-150																																																														
Valuations	Upper Band																																																															
Market Cap (Rs Cr)	44,051																																																															
EPS*	-3.3		<b>Valuation and Recommendation</b> <p>Policybazaar does not have any direct listed competitor in India and very few globally as most global insurance markets have distribution controlled directly by the insurers either in traditional formats or via digital-first plays. We believe that Policybazaar should be benchmarked against international fast growing online brokers such as Hippo, Goosehead and SoFi. Being the only listed insurance and credit marketplace, we believe PB will command some scarcity premium. Although, at valuations of 49.7x FY21 revenue, we feel PB is fully valued even upon assuming strong profitability going forward. <b>We rate the issue as "NEUTRAL".</b></p>																																																													
P/E Ratio*	NA																																																															
P/Sales*	NA																																																															
Enterprise Value (Rs Cr)	44,051																																																															
<b>Post Issue Shareholding Pattern</b>																																																																
Promoters	0%		(Rs Cr)																																																													
Public	100%																																																															
<b>Offer structure for different categories</b>																																																																
QIB (Including Mutual Fund)	75%																																																															
Non-Institutional Investors	15%																																																															
Retail	10%		<table border="1"> <thead> <tr> <th>Financial Snapshot</th> <th>FY19</th> <th>FY20</th> <th>FY21</th> <th>Q1FY22</th> </tr> </thead> <tbody> <tr> <td>Total Income</td> <td>492</td> <td>771</td> <td>887</td> <td>238</td> </tr> <tr> <td><b>Growth</b></td> <td></td> <td><b>57%</b></td> <td><b>15%</b></td> <td><b>136%</b></td> </tr> <tr> <td>EBIDTA</td> <td>-336</td> <td>-320</td> <td>-160</td> <td>-118</td> </tr> <tr> <td><b>EBITDA Margins</b></td> <td><b>-68.3%</b></td> <td><b>-41.5%</b></td> <td><b>-18.0%</b></td> <td><b>-49.8%</b></td> </tr> <tr> <td>PAT</td> <td>-347</td> <td>-304</td> <td>-150</td> <td>-111</td> </tr> <tr> <td>EPS</td> <td>-7.7</td> <td>-6.8</td> <td>-3.3</td> <td>-2.5</td> </tr> <tr> <td>ROE</td> <td>-71%</td> <td>-24%</td> <td>-8%</td> <td>-23%</td> </tr> <tr> <td>Cost/Income</td> <td>168%</td> <td>141%</td> <td>118%</td> <td>150%</td> </tr> <tr> <td>P/Sales</td> <td>88.7</td> <td>55.7</td> <td>47.5</td> <td>44.7</td> </tr> <tr> <td>P/BV *</td> <td>10.4</td> <td>8.8</td> <td>7.7</td> <td>7.7</td> </tr> <tr> <td>P/E</td> <td>NA</td> <td>NA</td> <td>NA</td> <td>NA</td> </tr> </tbody> </table>		Financial Snapshot	FY19	FY20	FY21	Q1FY22	Total Income	492	771	887	238	<b>Growth</b>		<b>57%</b>	<b>15%</b>	<b>136%</b>	EBIDTA	-336	-320	-160	-118	<b>EBITDA Margins</b>	<b>-68.3%</b>	<b>-41.5%</b>	<b>-18.0%</b>	<b>-49.8%</b>	PAT	-347	-304	-150	-111	EPS	-7.7	-6.8	-3.3	-2.5	ROE	-71%	-24%	-8%	-23%	Cost/Income	168%	141%	118%	150%	P/Sales	88.7	55.7	47.5	44.7	P/BV *	10.4	8.8	7.7	7.7	P/E	NA	NA	NA	NA
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Post Issue Equity (Rs. in Cr)	89.90																																																															
Issue Size (Rs in Cr)	5,710																																																															
Face Value (Rs)	2																																																															
Jehan Bhadha (+91 22 6273 8174) Sr. Research Analyst jehankersi.bhadha@nirmalbang.com																																																																
Mahima Mehta (+91 22 6273 8186) Research Analyst mahima.mehta@nirmalbang.com																																																																

Source: Company data, NBRR; \* denotes post IPO P/Sales &amp; P/BV

### Company Background

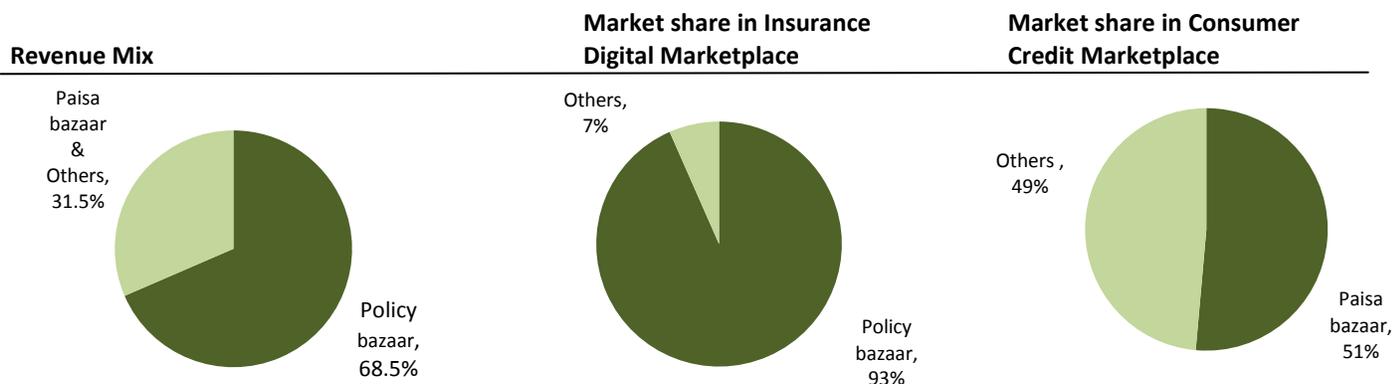
PB (PB Fintech) launched Policybazaar, its flagship platform, in 2008 to respond to Consumers' need for more awareness, choice and transparency and create a consumer-pull based, provider-neutral model for insurance distribution. **Policybazaar is India's largest digital insurance marketplace with a 93.4% market share based on the number of policies sold. Furthermore, in FY20, 65.3% of all digital insurance sales in India by volume was transacted through Policybazaar.**

PB has an asset-light capital strategy and does not underwrite any insurance or retain any credit risk on its books. Policybazaar is registered with and regulated by IRDAI as a direct (life and general) insurance broker. **As of March 31, 2021, 51 Insurer Partners have offered over 340 term, health, motor, home and travel insurance products on Policybazaar platform, representing a substantial portion of all licensed insurance companies in India.** The technology solutions are focused on automation and self-service driven consumer experiences requiring minimal human intervention.

In FY21, PB originated premium of Rs. 2743 Cr for its Insurer Partners from new insurance policies and a total premium of Rs. 4701 Cr including renewals. **As of March 31, 2021, over 4.8 crore consumers have registered on Policybazaar platform and purchased over 1.9 crore policies from its Insurer Partners. In FY21, the annual number of visits on Policybazaar website was 12.65 crore. This traffic has enabled PB to capture rich behavioural and other data insights. PB considers this to be a source of significant competitive advantage over other insurance distributors.**

In 2014, PB launched Paisabazaar with the goal to transform how Indians access personal credit by accentuating ease, convenience and transparency in selecting a variety of personal loans and credit cards. **Paisabazaar is India's largest digital consumer credit marketplace with a 51.4% market share, based on disbursements in FY20.** Paisabazaar is also widely used to access credit scores, with approximately 21.5 million consumers cumulatively having accessed their credit score through its platform as of March 31, 2021.

**Paisabazaar has built 54 partnerships with large banks, NBFCs and fintech lenders who offer a wide choice of product offerings on its platform across personal credit categories, including personal loans, business loans, credit cards, home loans and loans against property.** PB's algorithm-based technology platform provides consumers with access to multiple personal credit offers across all segments, data-driven product recommendations, comparison tools, unbiased advice on the most suitable offers and digital KYC processes that make loan and credit card applications seamless and convenient. **67% of the disbursements in FY21, were to existing consumers, most of who were acquired by Paisabazaar using the free credit score utility.** During FY19/20/21, Paisabazaar enabled disbursements of Rs. 5101 Cr / Rs. 6550 Cr / Rs. 2917 Cr respectively.

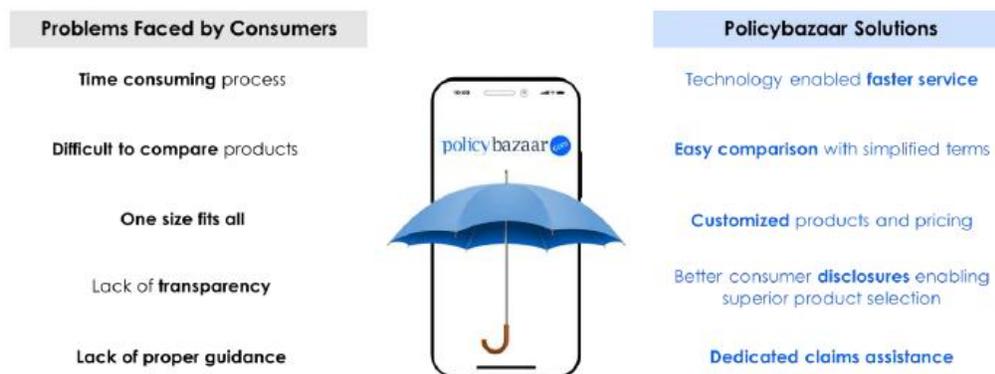


Source: RHP

### Investment Rationale

#### Policybazaar's benefits to Consumers

Policybazaar offers consumers the ability to **research and compare a wide range of insurance products offered by its 51 Insurer Partners, thereby increasing choice and transparency for consumers**. Once consumers provide the details of their requirements, PB provides them with multiple options with related costs, detailing the features, in a simple and easy to understand manner for them to make an informed purchase conveniently. Since PB provides numerous options from multiple Insurer Partners, **consumers do not need to visit the platforms of the multiple Insurer Partners individually, but can instead explore many options in one place directly through Policybazaar**.



#### Policybazaar's benefits to Insurer Partners

As a high-volume transaction channel targeting younger consumer cohorts and enabling micro consumer segmentation, Policybazaar provides Insurer Partners with **access to a quality and growing consumer base**. In addition, high brand recall, ability to independently attract consumers to the platform and better consumer targeting due to its data insights and analytics significantly lowers the consumer acquisition costs for Insurer Partners. **The consumer acquisition cost for Insurer Partners is one of the lowest** on PB platforms when compared to other online and offline channels. For insurance policies originated on the Policybazaar platform, the Insurer Partners have witnessed **lower lapse rates, higher renewal rates and lower claims ratio**.

#### Paisabazaar's benefits to Consumers

The algorithm-based technology platform provides consumers with **ease of comparison of multiple offers available** and unbiased advice. From application to disbursal, **Paisabazaar accompanies the consumer at each step, providing last-mile assistance** such as document collection and assistance until disbursal and advices through its dedicated team of experts including a proprietary model indicating the chance of approval after application as well as consumer service advisor support. Strong partnerships, built through **technology and data integration with Lending Partners to provide real-time data flow and status updates**, allows the Paisabazaar platform to offer quick decision making, ease of processes and faster disbursals.

#### Paisabazaar's benefits to Lending Partners

PB provides its Lending Partners with **access to varied consumer segments, high quality consumer data** and creating digital capabilities such as digital KYC that can be easily integrated. **This helps the Lending Partners achieve operational efficiencies and stronger Underwriting and risk pricing**. In addition, the **Lending Partners are able to reduce their consumer acquisition costs**. Using its consumer insights, PB helps its Lending Partners to develop digital products, which helps them **plug the credit need gaps for specific segments**, that can be met efficiently and scaled over time **through innovative lending products and thus reach untapped consumer segments**.

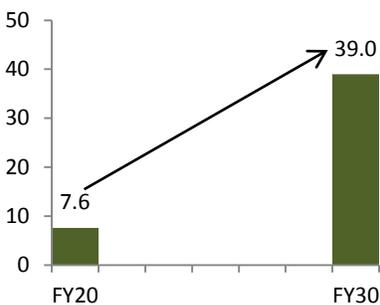
## PB Fintech Ltd.

### Strong Industry Tailwinds on top of Monopolistic Positioning ensures growth visibility

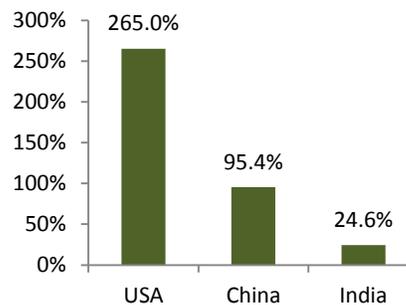
The market for insurance products in India is estimated to be Rs. 7.6 trillion (US\$102 billion) in total premium in FY20 across life and non-life insurance and is expected to grow to Rs. 39.0 trillion (US\$520 billion) by FY30 at a CAGR of ~18%. The Indian insurance market is highly underpenetrated, with the life insurance market penetration in terms of sum assured as a percentage of GDP of only 24.6%, as compared to 265.0% in USA and 95.4% in China in FY20.

In FY20, 1.0% of the total premium was sold through online channels in India, which was much lower compared to 13.3% in USA and 5.5% in China. Policybazaar was India's largest digital insurance marketplace with a 93.4% market share based on the number of policies sold in FY20. Further, in FY20, 65.3% of all digital insurance sales in India by volume was transacted through Policybazaar. The high under-penetration of insurance products combined with the compelling Policybazaar platform presents abundant market opportunities for PB.

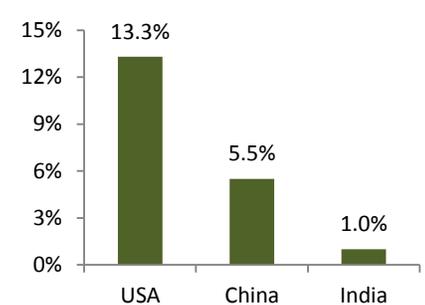
**Insurance Premiums to grow at ~18% CAGR till 2030 (Rs Trn)**



**Sum assured as % of GDP**



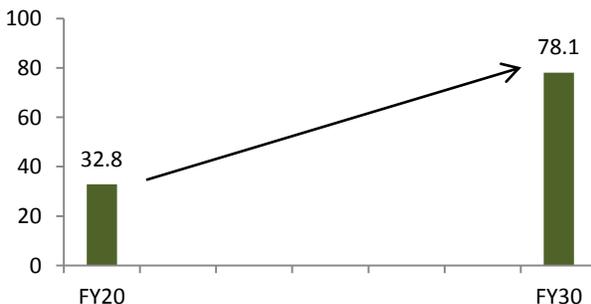
**Premiums sold online**



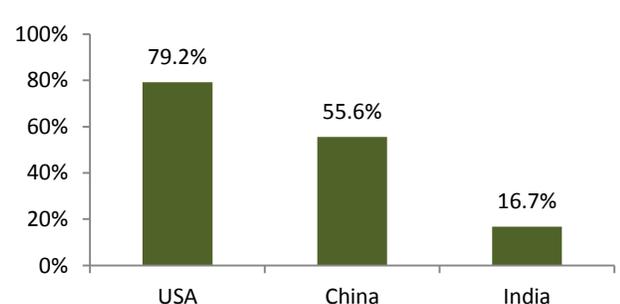
Source: Companies, NBRR

India's consumer lending market was Rs. 32.8 trillion (US\$437 billion) in FY20 and is estimated to reach Rs. 78.1 trillion (US\$1,041 billion) by FY30, representing a CAGR of 9.1%. Despite the large market size, India's lending market is highly underpenetrated and stood at 16.7% of nominal GDP, much lower as compared to USA at 79.2% and China at 55.6%. **In FY20, only 0.9% of disbursements were through digital marketplaces in India. Paisabazaar was India's largest digital consumer credit marketplace with a 51.4% market share based on disbursements in FY20.** This represents a meaningful market opportunity for Paisabazaar's current digital lending offering to tap.

**Consumer lending to grow at ~9% CAGR till 2030 (Rs Trn)**



**Lending market as % of GDP**



Source: Companies, NBRR

### PB's scale gives it self-reinforcing flywheels and strong network effects

Policybazaar and Paisabazaar platforms have large, efficient and intelligent networks, **providing consumers with the ability to browse financial services products offered by 51 Insurer Partners and 54 Lending Partners**. PB benefits from powerful network effects at scale as a result of its positioning as a trusted and default search engine for insurance and personal credit products in India. **Its large and growing number of visitors to the Policybazaar and Paisabazaar platforms attract more Insurer and Lending Partners who offer more products, which in turn further attracts more consumers, creating a virtuous cycle. With every new Consumer, Insurer and Lending Partner, financial services product and transaction on its platforms, the data insights and intelligence of its network continues to improve, helping its Insurer and Lending Partners to offer customised products to Consumers with superior unit economics and more accurate risk assessment capabilities, leading to better financial and operating results. This gives them the ability to offer better prices to Consumers, driving higher Consumer satisfaction and retention, which further accelerates PB's network effects.** These strong network effects for both Policybazaar and Paisabazaar gives PB significant competitive advantages and ability to further enhance its competitive position.

### High renewal rates providing clear visibility into future business and delivering superior economics

Given the strong value proposition PB offers its consumers, and the nature of many insurance products, such as health and motor insurance where renewals are common, PB is able to benefit from long term retention and visibility of business from existing consumers with negligible marginal CAC (customer acquisition cost). For example, as of March 31, 2021, consumers who purchased health insurance through Policybazaar in FY14 for the first time have made repeated health insurance purchases worth 5.9 times the FY14 premium. Similarly, the multiplier is 3.4 times for motor insurance. This provides clear visibility into PB's future business outlook as it is able to generate revenue from a consumer over a long time period with negligible additional spend towards consumer acquisition leading to superior unit economics.

### Future optionalities: Expand playbook to replicate its platform for SME and corporate clients

PB has built a proven, scaled and capital efficient business model targeting retail consumers across insurance and credit. PB plans to leverage its execution capabilities and expertise in the Indian financial services sector and relationships with Insurer Partners and Lending Partners to continue to design and offer products for SME and corporate clients. PB facilitates digital quotations to corporate consumers for their employees' insurance requirements, which would otherwise be a lengthy process, and allow for digital purchasing and servicing. PB's goal is to develop high quality servicing for corporate employees with a high degree of platform-based flexibility to manage their policies, along with integrated wellness and OPD offerings.

### Concerns

**Insurers may delist from third party platforms and themselves focus on building in-house online platform:** In Aug'21, HDFC Ergo announced plans to delist products from third-party brokers while deciding to invest heavily on its in-house online platform. With brokers continuing to gain negotiating power for higher margins, there is a likelihood of other larger players also following suit, impacting the number of products offered.

**Regulatory risks:** The insurance segment continues to be under heavy regulatory scrutiny with regards to commissions, distribution models, capital adequacy and there exist potential risks with regard to regulatory headwinds in the form of any adverse changes.

## PB Fintech Ltd.

**Third wave of Covid:** In case there is a third wave of covid, PB would get impacted in both its businesses as the overall demand takes a hit. Paisabazaar platform shall suffer more as lockdowns impact the KYC procedures which require wet signatures. During previous two waves, Paisabazaar witnessed a significant decrease in revenue owing to this.

**Possible aggression from new fintech companies:** The online independent fintech industry in India that Policybazaar and Paisabazaar operates in is constantly evolving and highly competitive. Any aggressive marketing from new age fintech players which are backed by large global investors could result in loss of market share and impact future financials of PB.

### Valuation and Recommendation

Policybazaar does not have any direct listed competitor in India and very few globally as most global insurance markets have distribution controlled directly by the insurers either in traditional formats or via digital-first plays. Additionally, the retail insurance addressable market is curtailed in multiple countries as health and life insurance is often provided by the employers or by the governments as part of social security schemes. We therefore believe that Policybazaar should be benchmarked against international fast growing online brokers such as Hippo, Goosehead and SoFi. Being the only listed insurance and credit marketplace, we believe PB will command some scarcity premium. Although at valuations of 49.7x FY21 revenue, we feel PB is fully valued even upon assuming strong profitability going forward. **We rate the issue as "NEUTRAL".**

FY21 Nos.	Indian Insurance Marketplace					Indian Credit Marketplace		
	Turtlemint	Renewbuy	Coverfox	Plum	Policybazaar	BankBazaar	CreditMantri	MyMoneyMantra
Revenue	250	800	74	200	887	80	29	480
FY19-21 Revenue CAGR	NA	NA	131%	NA	34%	-12%	NA	89%
Insurer/Banking Partners	40	35	32	NA	51	50+	50+	100+
July Month Online Traffic (Lac)	5	2	14	NA	100	-	-	-
<b>M&amp;A Monitor</b>								
Stake Sale Date	Mar-21	Aug-21	Apr-20	May-21	Nov-21	Jul-20	May-20	Jul-19
Transaction Value	335	74	30	114	5710	16	6	104
Buyer	Many	Evolvece	Glitterbug	Tiger Global	Public	Sequoia +	Many	IFSD
Valuation	1311	1080	1033	630	44051	1982	151	693
<i>Price to Sales</i>	5.2	1.4	14.0	3.2	49.7	24.8	5.2	5.0

Source: RHP, Tracxn.com, NBRR

FY21 Nos.	Global Insurance/Credit Marketplace Cos. (USD Mn)				
	Goosehead	Hippo	SoFi	LendingTree	Moneysupermarket
Country	US	US	US	US	UK
Main Business	Insurance	Insurance	Lending	Lending	Lending+Insurance
Revenue	117	52	570	910	345
FY19-21 Revenue CAGR	40%	49%	45%	9%	-2%
PAT Margin	8%	-3%	-10%	6%	20%
Valuation	2924	2354	15711	2055	1154
<i>Price to Sales</i>	25.0	45.6	27.6	2.3	3.3

Source: Morningstar, NBRR

## PB Fintech Ltd.

## Financials

P&L (Rs. Cr)	FY19	FY20	FY21	Q1FY22
Revenues	492	771	887	238
<b>% Growth</b>		<b>57%</b>	<b>15%</b>	<b>136%</b>
Employee Cost	398	521	554	210
<b>% of Revenues</b>	<b>80.8%</b>	<b>67.5%</b>	<b>62.5%</b>	<b>88.3%</b>
Advertising	346	445	368	106
<b>% of Revenues</b>	<b>70.3%</b>	<b>57.7%</b>	<b>41.5%</b>	<b>44.7%</b>
Network & Internet	32	51	59	16
<b>% of Revenues</b>	<b>6.4%</b>	<b>6.6%</b>	<b>6.6%</b>	<b>6.7%</b>
Other expenses	53	74	66	24
<b>% of Revenues</b>	<b>10.8%</b>	<b>9.6%</b>	<b>7.4%</b>	<b>10.1%</b>
<b>EBITDA</b>	<b>(336)</b>	<b>(320)</b>	<b>(160)</b>	<b>(118)</b>
<b>EBITDA Margin</b>	<b>-68.3%</b>	<b>-41.5%</b>	<b>-18.0%</b>	<b>-49.8%</b>
Depreciation	30	47	41	10
Other Income	37	84	71	20
Interest	7	12	12	3
<b>PBT</b>	<b>(337)</b>	<b>(295)</b>	<b>(142)</b>	<b>(111)</b>
Tax	9	9	8	0
<b>Tax rate</b>	<b>-3%</b>	<b>-3%</b>	<b>-6%</b>	<b>0%</b>
<b>PAT</b>	<b>(347)</b>	<b>(304)</b>	<b>(150)</b>	<b>(111)</b>
<b>% Growth</b>		<b>-12%</b>	<b>-51%</b>	
<b>EPS (Post Issue)</b>	<b>(7.7)</b>	<b>(6.8)</b>	<b>(3.3)</b>	<b>(2.5)</b>
Ratios & Others	FY19	FY20	FY21	Q1FY22
EBITDA Margin (%)	-68%	-41%	-18%	-50%
PAT Margin (%)	-70%	-39%	-17%	-47%
Cost/Income (%)	168%	141%	118%	150%
ROE (%)	-71%	-24%	-8%	-23%

Turnover Ratios	FY19	FY20	FY21	Q1FY22
Debtors Days	97	85	71	62
Inventory Days	-	-	-	-
Creditor Days	82	56	42	40
Asset Turnover (x)	1.0	0.6	0.4	0.5

Valuation Ratios	FY19	FY20	FY21	Q1FY22
Price/Earnings (x)	-127	-145	-293	-99
EV/EBITDA (x)	-130	-134	-264	-90
Price/BV (x)	10.4	8.8	7.7	7.7
P/Sales (x)	88.7	55.7	47.5	44.7

Source: Company Data, NBRR

Balance Sheet (Rs. Cr)	FY19	FY20	FY21	Q1FY22
Share Capital	1	1	1	82
Reserve & Surplus	489	1,265	1,990	1,870
<b>Networth</b>	<b>490</b>	<b>1,266</b>	<b>1,992</b>	<b>1,952</b>
<b>Total Loans</b>	-	-	-	-
Lease Liabilities	89	108	109	125
Other non-curr liab.	9	14	22	25
Trade payable	111	118	102	103
Employee benefit obligatic	10	14	16	19
Other Current Liab.	42	57	90	55
<b>Total Equity &amp; Liab.</b>	<b>751</b>	<b>1,576</b>	<b>2,331</b>	<b>2,279</b>
Fixed Assets & CWIP	117	142	121	135
Other Intangible Assets	2	6	4	4
Investments	125	2	138	555
Current Tax Assets	82	112	55	66
Other non Curr. assets	11	6	11	12
Trade receivables	131	179	173	161
Cash	107	853	439	41
Bank	160	252	1,371	931
Other Current assets	16	25	19	374
<b>Total Assets</b>	<b>751</b>	<b>1,576</b>	<b>2,331</b>	<b>2,279</b>
Cash Flow (Rs. Cr)	FY19	FY20	FY21	Q1FY22
EBITDA	(336)	(320)	(160)	(118)
Provisions & Others	56	33	101	(244)
<b>Op. profit before WC</b>	<b>(280)</b>	<b>(287)</b>	<b>(59)</b>	<b>(363)</b>
Change in WC	33	(38)	39	(59)
Less: Tax	(35)	(39)	48	(11)
<b>CF from operations</b>	<b>(282)</b>	<b>(364)</b>	<b>29</b>	<b>(433)</b>
Addition to assets	(35)	(32)	(5)	(2)
(Purchase)/Sale of invst.	409	103	(1,232)	26
Dividend Received	1	9	35	16
<b>CF from Investing</b>	<b>375</b>	<b>79</b>	<b>(1,202)</b>	<b>40</b>
Lease Liability Interest	(7)	(10)	(11)	(3)
Lease Liability Principal	(16)	(18)	(11)	(2)
Proceeds from issue of sh	0	1,059	781	-
<b>CF from Financing</b>	<b>(23)</b>	<b>1,031</b>	<b>759</b>	<b>(5)</b>
<b>Net Change in cash</b>	<b>70</b>	<b>746</b>	<b>(414)</b>	<b>(398)</b>
Cash at beginning	38	107	853	439
Cash at end	107	853	439	41

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