

12 August 2024

India | Equity Research | Q1FY25 results review

PB Fintech

Financial Services

Superlative growth continues; should be able to manage lower contribution/loan disbursements to deliver on PAT guidance despite less-than-expected Q1FY25 PAT

PB Fintech's (PBF) Q1FY25 performance continued on the superlative growth performance in insurance while growth led investments resulted in lower contribution margin and adverse externalities led to lower Paisabazaar disbursements. While premium growth is the singular essential criterion, Q1FY25 adjusted PAT of INR 0.2bn (adjusted for exceptional gain of INR 0.4bn) will need better margin coordination to reach INR10bn PAT in FY27E. The platform's moat is well established, having grown more than the industry in key segments (health/life)(Refer exhibit 14) along with important client wins. Ability to gain market share, expansion of client base and growth in registered customers (3.2mn / 2.4mn newly registered customers on Policy Bazaar / Paisa bazaar respectively in Q1FY25) are structural advantages.

Growth concern from potentially lower porting is a near term concern. Downgrade to **HOLD**; DCF-based TP revised to INR 1,418 (from INR 1,311), implying a valuation multiple of ~59x for FY27E. Risk: Less-than-expected growth in core premium. Upside risk stems from better cost optimization leading to improvement in contribution ratio.

Core premium growth healthy – this the biggest earnings driver for the company

Overall core premium for PBF witnessed strong 46% YoY growth and stood at INR 33.5bn. In new business premium, total health & life insurance premium was up 78% YoY in Q1FY25. The trend has been strong for a long time now (40% in Q1FY24, 53% in Q2FY24, 44% in Q3FY24 and 53% in Q4FY24). PBF's core business revenue grew 40% YoY to INR 5.4bn in Q1FY25. Annual Renewal Revenue (ARR) run rate reached INR 5.6bn in Q1FY25, from INR 4.1bn in Q1FY24. Growth is noteworthy, considering the ~85% margin level in this segment. Renewal revenue growth is comparably smaller due to varying favourable/unfavourable base quarter in terms of multi-year policies.

Contribution margin declined for Core business despite strong premium growth

Contribution margin declined for core business from 45.3% in Q1FY24 to 43% in Q1FY25. Decline in contribution margin can be attributed to decline in take rate for core business, which dipped on a YoY-basis from 16.6% in Q1FY24 vs. 16% in Q1FY25. As per management, decline in take rates was because of increase in savings mix, especially ULIPs. Take rates for savings product has now become ~60% of what it was earlier. Market share in savings product has doubled in the last four quarters for PBF aided by offline segment.

Financial Summary

Y/E March (INR mn)	FY24A	FY25E	FY26E	FY27E
Premium (Cons)	1,58,740	2,43,529	3,50,388	4,62,970
Growth (%)	37.0	53.4	43.9	32.1
Disbursal	1,48,080	1,40,676	1,61,777	1,94,133
Growth (%)	27.4	(5.0)	15.0	20.0
Revenue	34,377	46,594	65,242	83,959
Contribution	10,267	13,518	19,136	24,559
Margin (%)	29.9	29.0	29.3	29.3
EBITDA (Adj.)	1,437	3,981	8,804	13,431
Margin (%)	4.2	8.5	13.5	16.0
Adj. PAT	3,944	7,020	12,316	11,343

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Market Data

Market Cap (INR)	667bn
Market Cap (USD)	7,943mn
Bloomberg Code	POLICYBZ IN
Reuters Code	PBFI BO
52-week Range (INR)	1,664 /661
Free Float (%)	66.0
ADTV-3M (mn) (USD)	36.2

Price Performance (%)	3m	6m	12m
Absolute	18.6	56.6	96.4
Relative to Sensex	8.5	45.3	75.6

Previous Reports10-05-2024: [Q4FY24 results review](#)28-12-2023: [Company Update](#)

In the last 12 months, productivity has increased for this offline channel, which led to increase in savings mix (NRIs have good traction with ULIPs). Contribution margin was lower because of: 1) USD 3mn investment in capacity building; and 2) high growth in fresh business of health insurance. Health insurance is a zero-margin product in the first year. Take rates have not changed for health and life insurance.

Robust growth in health business, strong renewals to lift future profitability

Total new health & life insurance premium increased 78% YoY in Q1FY25. Growth in the health business is ahead of management's expectations and in anticipation of growth continuing, PBF spent USD 3mn (~INR 240mn) in Q1FY25 on capacity build up. The company expects continued strong growth on renewals as follows.

- The products available on PB's platform are essentially modular products designed in the last 15–18 months working with insurance companies.
- No claim bonus accumulates with each renewal. After a few years, the coverage can increase 2–3x due to no claim bonus, and a new insurer will likely charge higher for similar coverage on shifting.
- PBF's prompt service to customers for claim management also helps in renewals.

As per management, the company wants to become a good distributor who works with both customers as well as insurance companies. PB aims to create products that allow the customers to stay in the same product for a longer period of time instead of the customers shifting every year. As per management, renewal premiums for Q1FY25 were around 35%, and management expects it to be 45–46% for FY25E.

Paisabazaar' s (PAB) disbursal declines due to industry-wide stress; to increase secured lending going ahead

PAB, in Q1FY25, witnessed a QoQ decline of 11.3% in disbursements to INR 31.4bn, which was below management's expectations. Industry, as a whole, has seen moderation in terms of unsecured lending. Credit card issuances stood at 130k in Q1FY25 vs. 140k in Q1FY24. PAB's revenue for Q1FY25 declined 9.6% QoQ to INR 1.3bn. Take rate for PAB increased to 4.2% in Q1FY25 vs. 4.12% in Q4FY24 and 3.78% in Q1FY24. The company is also strengthening its focus on secured loans. Management expects the secured business to grow at a faster pace than unsecured. The long-term strategy is for the secured business to become half of overall disbursements, which currently stands at ~15%.

PAB is seeing good demand in secured loans, but it cannot fulfil the demand digitally. The company has been building capacity since the last few quarters for secured lending. Management expects to see results in H2FY25. PAB is also trying to make the business stickier, as unsecured business keeps having fluctuations every few years. Management will give more clarity on Paisa Bazaar's direction in upcoming quarters.

POSP model for PAB is a possibility for secured lending, as per management. There are already 2–3 players in this segment who do this and have revenue of INR 6,000mn.

PAB also plans to increase engagement through financial management on the back of account aggregator framework. The idea here is to simplify financial management for consumers and help them manage their money better, thereby increasing engagement. The pilot is expected to be launched in Q2FY25. No significant cost is expected in this project.

New initiatives business witnesses' strong growth, but sees contribution loss in Q1FY25 after two quarters of breakeven

New initiatives business for PBF, which includes PB Partners, PB Corporate and the UAE operations broke even at a contribution level in Q3FY24 and remained at that level in Q4FY24. However, it saw a contribution loss of INR 20mn in Q1FY25. Total premium for new initiatives business increased 113% YoY to INR 15.1bn. Total revenue for new initiatives business reported robust growth of 132% YoY. On a QoQ-basis, new initiatives revenue declined 18% due to a seasonally weak Q1. Take rate for new initiatives business was 26% in Q4FY24, but declined to 23% in Q1FY25. Going ahead, we estimate new initiatives business to become contribution positive and estimate contribution margin of 2%/2.9% for FY25/FY26E vs. -3.2% in FY24 and -0.6% in Q1FY25.

Exceptional gain was on account of subsidiary level transactions

PBF reported an exceptional gain of INR 411mn in Q1FY25. This was on account of subsidiary-level transactions, described as follows –

- Impairment of goodwill acquired for Myloancare Ventures Private Limited (INR 155mn)
- Gain on sale of investment – Visit Health Pvt Ltd (INR 543mn). PB Fintech sold 29.3% of share in Visit Health leading to gain of INR 543mn
- Loss on sale of investment – Visit Internet Services Private Limited (INR 203mn)
- Gain on fair valuation of investment – Visit Health Private Limited (INR 226mn). Due to stake sale, Visit Health is now re-classified as financial investment, which lead to fair value gain of INR 226mn

The reason for stake sale given by management was that because PB had a majority stake, promoters of the company left operations to PBF. PBF only wanted to be a financial investor and wanted their investments to be a founder-led company. Stake sale was to reduce majority holding. Management said they will not do any majority stake purchases in futures unless its strategic.

Adjusted EBITDA positive for sixth quarter; PAT positive for third quarter

PBF became adjusted EBITDA positive for the first time in Q4FY23 and remained positive since then. It reported adjusted EBITDA of INR 490mn in Q1FY25 vs. INR 690mn in Q4FY24 and INR 230mn in Q1FY24. Adjusted EBITDA margin stood at 4.8% in Q1FY25 vs. 6.3% in Q4FY24 and 3.5% in Q1FY24. PBF became PAT positive in Q3FY24 and reported PAT of INR 600mn in Q1FY25. The company reported an exceptional gain of INR 411mn in Q1FY25 on account of subsidiary-level transactions. Adjusted for this PBF reported PAT of INR 189mn in Q1FY25.

Key milestones for PBF

- New initiatives business broke even at contribution level in Q3FY24 and remained so in Q4FY24, but witnessed INR 20mn contribution loss in Q1FY25.
- Paisabazaar became adjusted EBITDA positive in Q3FY23 and remains so.
- Core business became adjusted EBITDA positive in Q4FY22 and reported adjusted EBITDA of INR 920mn in Q1FY25.
- PBF became overall EBITDA positive in Q4FY23 and reported adjusted EBITDA of INR 490mn in Q1FY25.
- PBF became PAT positive in Q3FY24 and reported PAT of INR 600mn in Q1FY25 and an adjusted PAT of INR 189mn in Q1FY25.

Estimate ~INR 11.3bn PAT ex ESOP in FY27E

We estimate core premium to increase from INR 113bn in FY24 and INR 33.6bn in Q1FY25 to INR 292bn in FY27E. Accordingly, we expect core premium income to increase from INR 17.9bn in FY24 and INR 5.3bn in Q1FY25 to INR 43.8bn in FY27E. We expect overall insurance take rate to decline to 15.6%/15.6%/15% in FY25/26/27E vs. 15.8% in FY24. We expect moderation in PAB disbursements and expect it to grow at 9.5% CAGR between FY24–27E to ~INR 194bn. We expect overall contribution for core business to increase from INR 10.5bn in FY24 to INR 23.3bn in FY27E and contribution margin to increase from 44% to 45.3% during the same period (contribution in Q1FY25 stood at INR 2.9bn and margin was 43%). EBITDA (pre-ESOP) is expected to improve from ~INR 1.4bn in FY24 to a positive INR 13.4bn in FY27E. This improvement would be driven by an increase in renewal mix in the core insurance business and new initiatives turning profitable in the near term. We estimate PAT adjusted for ESOPs to be INR 11.3bn in FY27E vs. INR 4bn in FY24 and INR 1.5bn in Q1FY25.

Exhibit 1: Performance highlights

INR mn	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	YoY	QoQ
Core Business Revenue	5,160	5,970	5,930	6,690	6,650	28.9%	-0.6%
Of which Insurance	3,820	4,430	4,480	5,230	5,330	39.5%	1.9%
Of which Paisa Bazaar	1,340	1,540	1,450	1,460	1,320	-1.5%	-9.6%
New Initiatives Revenue	1,490	2,150	2,780	4,210	3,460	132.2%	-17.8%
Total	6,650	8,120	8,710	10,896	10,105	52.0%	-7.3%
Revenue Ex Paisa Bazar	5,310	6,580	7,260	9,440	8,790	65.5%	-6.9%
Total Premium	30,110	34,750	42,610	51,270	48,710	61.8%	-5.0%
Core Premium	23,000	26,300	29,100	35,160	33,570	46.0%	-4.5%
PB Corporate	2,220	1,150	3,560	2,000	2,720	22.5%	36.0%
Dubai	1,300	1,550	1,940	2,110	2,130	63.8%	0.9%
POSP	3,590	5,750	8,010	12,000	10,290	186.6%	-14.3%
Total Disbursal	35,420	41,390	35,800	35,470	31,400	-11.3%	-11.5%
Take rate (Core Business)	16.6%	16.8%	15.4%	14.9%	15.9%		
Total Premium	17.6%	18.9%	17.0%	18.4%	18.0%		
Total Disbursal	3.78%	3.72%	4.05%	4.12%	4.20%		
Take Rate (Core + Corp)	15.1%	16.1%	13.7%	14.1%	14.7%		
Take Rate (Dubai + Posp)	30%	29%	28%	30%	28%		
Contribution							
Core Business	2,340	2,660	2,590	3,020	2,860	22.2%	-5.3%
New Initiatives	-150	-190	-	-	-20		
Total	2,190	2,470	2,590	3,020	2,840	29.7%	-6.0%
Contribution Margin							
Core Business	45.3%	44.6%	43.7%	45.1%	43.0%		
New Initiatives	-10.1%	-8.8%	0.0%	0.0%	-0.6%		
Total	32.9%	30.4%	29.7%	27.7%	28.1%		
Fixed Cost Ex Esops	1,960	2,340	2,200	2,330	2,350	19.9%	0.9%
EBITDA	-770	-890	-254	54	-393		-824.2%
ESOP cost	1,000	1,020	644	636	883	-11.8%	38.8%
Adjusted EBITDA							
Core Business	690	680	760	1,120	920	33.3%	-17.9%
New Initiatives	-460	-550	-370	-430	-430		0.0%
Total	230	130	390	690	490	113.0%	-29.0%
Other income	912	970	936	983	1,003	10.0%	2.0%
Depreciation and amortisation expense	195	220	231	238	250	28.2%	5.1%
Finance costs	63	70	64	66	64	1.8%	-3.0%
Other expenses	-0			-5	1		-127.7%
Exceptional					-411		
PBT	-115.8	-210.0	387.0	728.9	708.0		-2.9%
Taxes	3			127	108		-14.8%
PAT	-119.0	-210.0	387.0	601.9	599.8		0%
Adjusted PAT (For exceptional)					189.3		

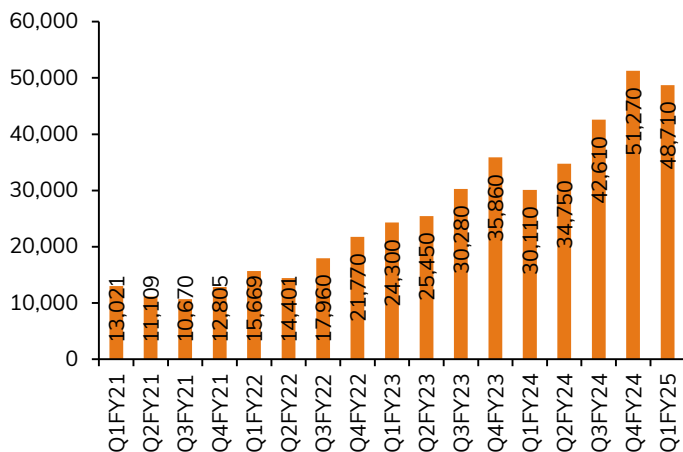
Source: I-Sec research, Company data

Exhibit 2: Q1FY25 result review

Profit and loss statement (INR mn)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	YoY	QoQ
Total Premium	30,110	34,750	42,610	51,270	48,710	62%	-5%
Total Disbursal	35,420	41,390	35,800	35,470	31,400	-11%	-11%
Total operating income (A)	6,656	8,116	8,709	10,896	10,105	52%	-7%
Of which Insurance Web Aggregator Services	5,064	6,318	6,972			-100%	-100%
Of which other Services	1,592	1,798	1,737			-100%	-100%
Operating expenses for contribution profit (B)	4,466	5,646	6,119	7,876	7,265	63%	-8%
Contribution Profit (A-B)	2,190	2,470	2,590	3,020	2,840	30%	-6%
Contribution margin	32.9%	30.4%	29.7%	27.7%	28.1%		
Other operating costs (C)	2,961	3,361	2,845	2,966	3,233	9%	9%
Total Operating expenses (D) (B + C)	7,427	9,007	8,964	10,842	10,497	41%	-3%
EBITDA (E) (A-D)	-771	-891	-255	54	-392		
Adjustment for share based payment and IPO cost (F)	1,000	1,020	644	636	883		
Adjusted EBITDA (excludes the impact of share based payment) (E-F)	229	129	389	690	490		
Adjusted EBITDA margin	3%	2%	4%	6%	5%		
Other income	912	970	936	983	1,003		
Depreciation and amortisation expense	195	220	231	238	250		
Finance costs	63	70	64	66	64		
Other expenses	-1			-5	1		
Exceptional					-411		
Loss before tax	-116	-211	386	729	708		
Income tax	3	-	-	127	108		
Restated loss during the year	-119	-211	386	602	600		
Adjusted PAT (For ESOPs and Exceptional)	881	809	1,030	1,238	1,072	62%	-5%

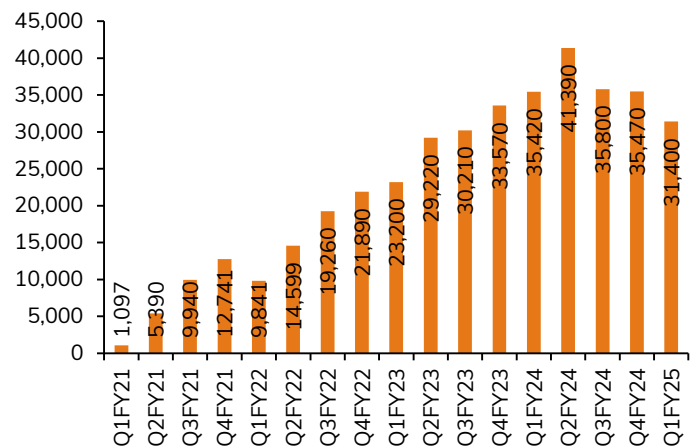
Source: I-Sec research, Company data

Exhibit 3: Total Premium trend



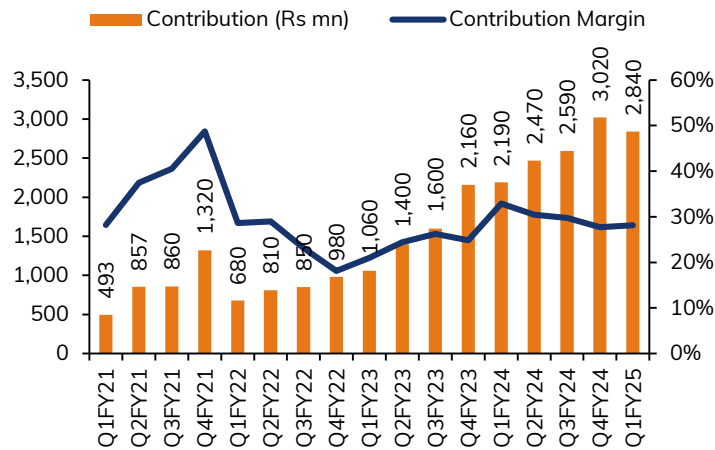
Source: I-Sec research, Company data

Exhibit 4: Disbursals declined in Q1FY25



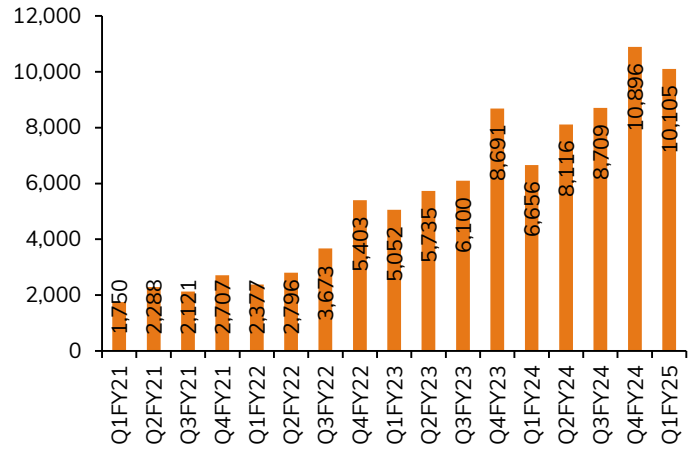
Source: I-Sec research, Company data

Exhibit 5: Total contribution and contribution margin trend



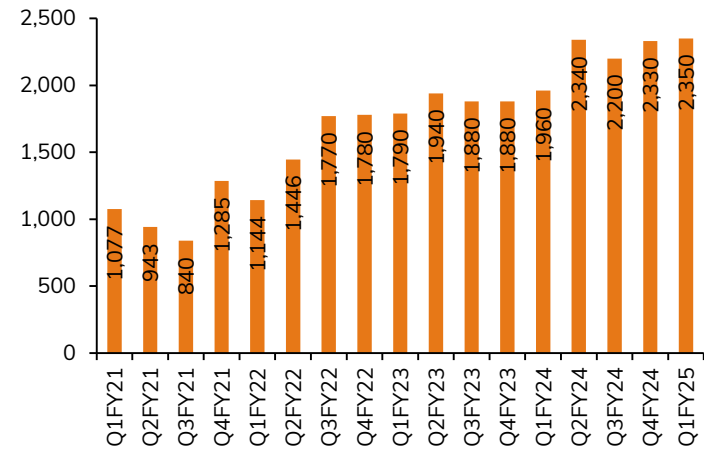
Source: I-Sec research, Company data

Exhibit 6: Operating revenue grew 52% YoY in Q1FY25



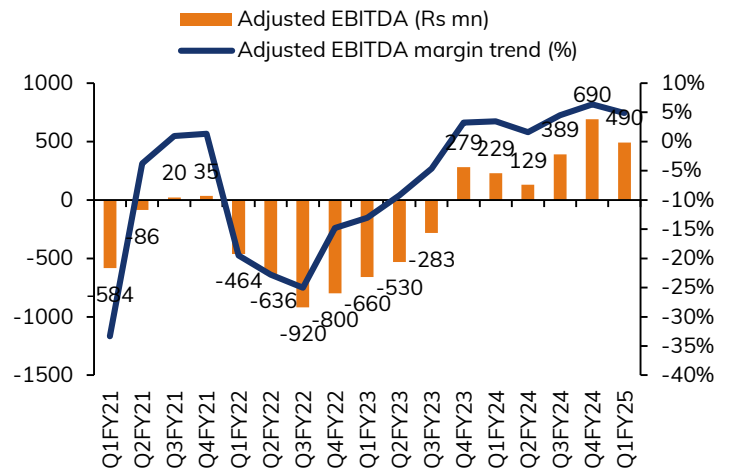
Source: I-Sec research, Company data

Exhibit 7: Fixed cost remained stable in Q1FY25



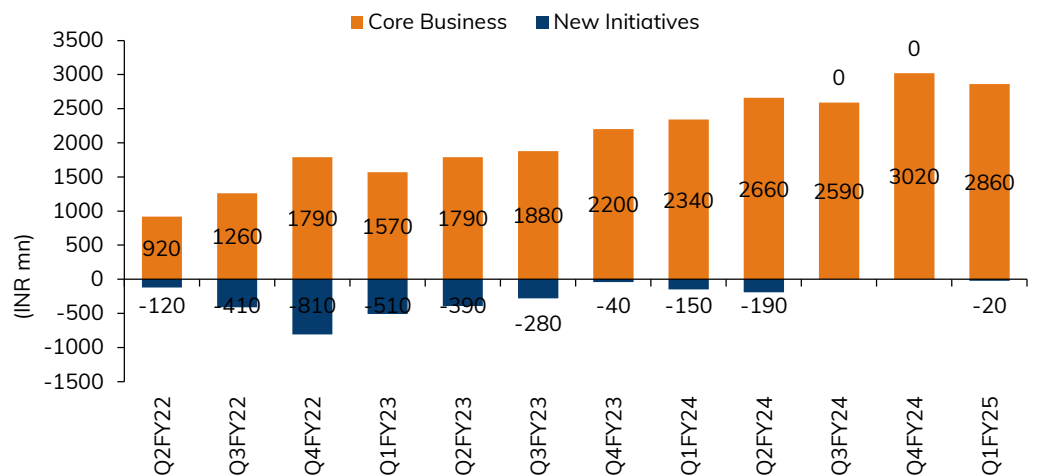
Source: I-Sec research, Company data

Exhibit 8: Adjusted EBITDA trend



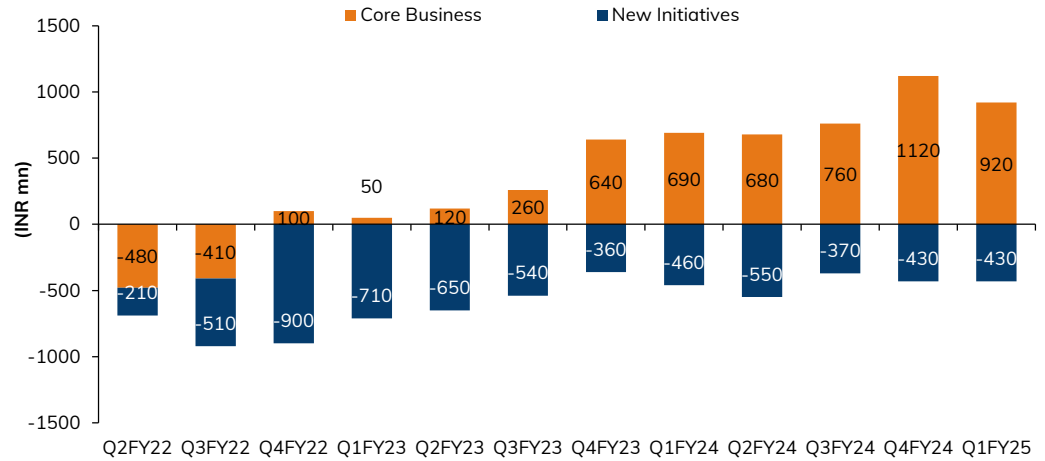
Source: I-Sec research, Company data

Exhibit 9: Contribution trend for core and new initiatives business



Source: I-Sec research, Company data

Exhibit 10: Adjusted EBITDA trend for core and new initiatives business



Source: I-Sec research, Company data

Exhibit 11: Policy Bazaar growth in transactions and customers

	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Registered Consumers (mn)	56.4	58.9	61.2	63.4	65.4	67.5	69.5	72.3	74.7	77.3	80.5
Newly added consumers		2.5	2.3	2.2	2	2.1	2	2.8	2.4	2.6	3.2
Transacting Consumer (mn)	11.1	11.8	12.3	12.8	13.4	14	14.5	15	15.7	16.6	17.4
1st time transacting Consumer		0.7	0.5	0.5	0.6	0.6	0.5	0.5	0.7	0.9	0.8
Policies Sold (mn)	24.6	26.4	27.9	29.8	31.8	33.8	35.6	38.2	39.8	42.1	44.3
New policies sold		1.8	1.5	1.9	2	2	1.8	2.6	1.6	2.3	2.2

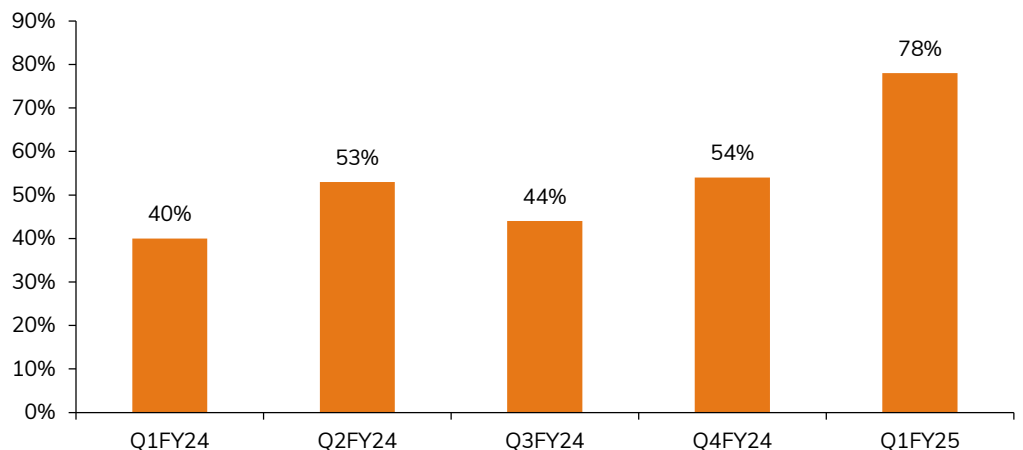
Source: I-Sec research, Company data

Exhibit 12: Paisa Bazaar growth in transactions and customers

	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Consumer Accessed Credit Scores (mn)	25.5	27.3	29.5	31	33	34.9	36.9	39.1	41.2	43.1	45.5
Newly added consumers		1.8	2.2	1.5	2	1.9	2	2.2	2.1	1.9	2.4
Transacting Consumer (mn)	2.5	2.7	3	3.2	3.5	3.8	4.2	4.5	4.8	5.1	5.4
1st time transacting Consumer		0.2	0.3	0.2	0.3	0.3	0.4	0.3	0.3	0.3	0.3
Transactions (mn)	3.6	3.8	4.2	4.6	5	5.4	5.9	6.4	6.9	7.3	7.8
New Transactions		0.2	0.4	0.4	0.4	0.4	0.5	0.5	0.5	0.4	0.5

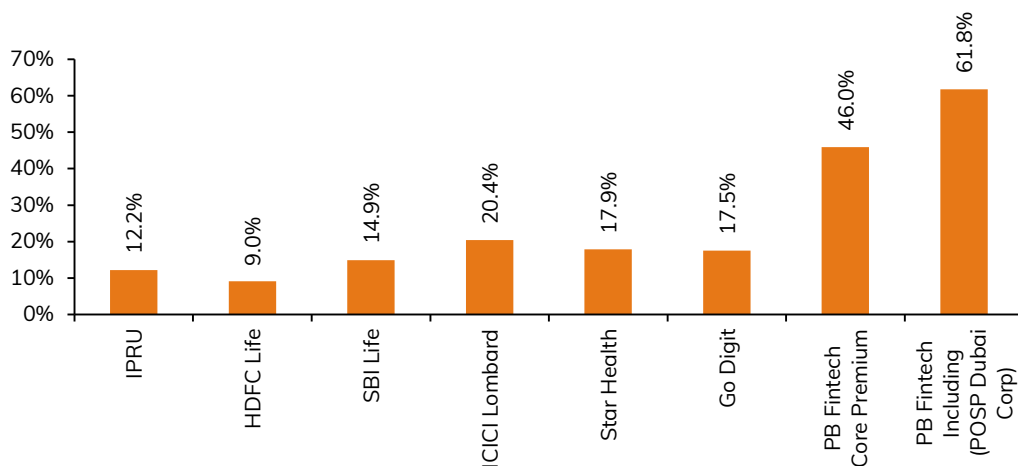
Source: I-Sec research, Company data

Exhibit 13: Health and Life insurance YoY premium growth trend for PB Fintech



Source: I-Sec research, Company data

Exhibit 14: PB fintech Premium growth YoY vs Insurance company premium growth in Q1FY25



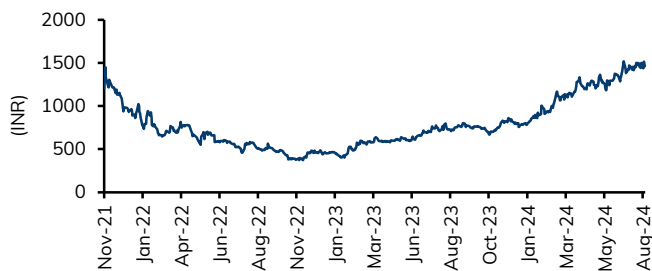
Source: I-Sec research, Company data

Exhibit 15: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	-	-	-
Institutional investors	65.1	65.7	67.8
MFs and others	10.5	10.9	11.3
FIs/Banks	0.0	0.0	0.0
Insurance	3.9	4.0	4.3
FII	50.7	50.8	52.2
Others	34.9	34.3	32.2

Source: Bloomberg

Exhibit 16: Price chart



Source: Bloomberg

Financial Summary

Exhibit 17: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Net Sales	34,377	46,594	65,242	83,959
Operating Expenses	36,239	44,613	57,438	70,828
EBITDA	(1,863)	1,981	7,804	13,131
EBITDA Margin (%)	(5.4)	4.3	12.0	15.6
Depreciation & Amortization	887	976	1,074	1,181
EBIT	(2,750)	1,006	6,730	11,951
Interest expenditure	265	291	320	352
Other Non-operating Income	-	-	-	-
Recurring PBT	791	5,020	11,316	17,204
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	127	-	-	6,161
PAT	664	5,020	11,316	11,043
Less: Minority Interest	-	-	-	-
Extraordinary (Net)	-	-	-	-
Net Income (Reported)	664	5,020	11,316	11,043
Net Income (Adjusted)	3,944	7,020	12,316	11,343

Source Company data, I-Sec research

Exhibit 18: Balance sheet

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Total Current Assets	43,989	55,952	72,987	87,849
of which cash & cash eqv.	7,350	18,022	33,366	47,348
Total Current Liabilities & Provisions	5,226	10,225	14,925	18,626
Net Current Assets	38,763	45,727	58,062	69,223
Investments	16,549	16,549	16,549	16,549
Net Fixed Assets	912	836	662	681
ROU Assets	2,242	2,242	2,242	2,242
Capital Work-in-Progress	-	-	-	-
Total Intangible Assets	56	56	56	56
Other assets	381	400	420	441
Deferred Tax assets	3,158	3,316	3,481	3,655
Total Assets	62,059	69,124	81,471	92,846
Liabilities				
Borrowings	-	-	-	-
Deferred Tax Liability	-	-	-	-
provisions	-	-	-	-
other Liabilities	761	782	803	826
Equity Share Capital	902	927	936	945
Reserves & Surplus	57,808	64,828	77,144	88,487
Total Net Worth	58,710	65,755	78,080	89,432
Minority Interest	54	54	54	54
Total Liabilities	62,059	69,124	81,471	92,846

Source Company data, I-Sec research

Exhibit 19: Cashflow statement

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Operating Cashflow	(16,341)	7,533	11,650	9,918
Working Capital Changes	(9,957)	3,552	2,846	2,648
Capital Commitments	(600)	(900)	(900)	(1,200)
Free Cashflow	(16,941)	6,633	10,750	8,718
Other investing cashflow	9,755	4,306	4,906	5,606
Cashflow from Investing Activities	9,155	3,406	4,006	4,406
Issue of Share Capital	-	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	2	24	9	9
Others	-	-	-	-
Cash flow from Financing Activities	5	(267)	(311)	(343)
Chg. in Cash & Bank balance	(7,181)	10,672	15,345	13,981
Closing cash & balance	7,350	18,022	33,366	47,348

Source Company data, I-Sec research

Exhibit 20: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
Per Share Data (INR)				
Reported EPS	8.6	15.2	26.3	24.0
Cash EPS	3.4	12.9	26.5	25.9
Book Value per share (BV)	128.0	141.9	166.8	189.2
Margins (%)				
EBITDA Margins	(5.4)	4.3	12.0	15.6
EBIT Margins	(8.0)	2.2	10.3	14.2
PBT Margins	2.3	10.8	17.3	20.5
PAT Margins	1.9	10.8	17.3	13.2
Contribution Margin	29.9	29.0	29.3	29.3
Growth (%)				
Revenue	34.4	35.5	40.0	28.7
EBITDA	(71.8)	(206.4)	293.8	68.3
Adj PAT	(113.6)	655.7	125.4	(2.4)
EPS	621.8	76.2	73.7	(8.8)
Total Premium Growth	37.0	53.4	43.9	32.1
Total Disbursal Growth	27.4	(5.0)	15.0	20.0
Valuation Ratios				
P/E(x)	170.1	96.5	55.6	60.9
P/S(x)	19.5	14.5	10.5	8.2
P/BV(x)	11.4	10.3	8.8	7.7

Source Company data, I-Sec research

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