

Play on digital distribution in insurance market...

About the Company: PB Fintech is the leading online platform for insurance & lending products thereby providing access to insurance, credit and other financial products. It is India's largest online platform for insurance (PolicyBazaar) and lending (Paisabazaar) products leveraging the power of technology, data and innovation.

- PolicyBazaar was India's largest digital insurance marketplace with a 93.4% market share
- Paisabazaar was India's largest digital consumer credit marketplace with a 53.7% market share

Key trrigers/Highlights:

- In FY20, India had a ₹ 7.6 lakh crore insurance industry, measured in terms of total premium and is expected to grow at a 17.8% CAGR to ₹ 39 lakh crore by FY30
- As compared with global peers, India has a highly underpenetrated insurance market. India was among the lowest in the world in terms of sum assured as percentage of GDP at ~25% in FY21
- The penetration of non-life insurance in India, in terms of gross direct premium as percentage of GDP, has come close to being ~1% of GDP, which is considerably low compared to 6.5% in the US and 2.1% in China
- Total 72.3% of population in India are uninsured compared to 10.9% in the US and 35% in China
- In 2018, India's health expenditure was among the lowest globally at ₹ 5500 (US\$73) per capita, compared with ₹ 83300 (US\$1,111) per capita in US and ₹ 37600 (US\$501) per capita in China
- India's consumer lending market is expected to witness 9% CAGR, reaching ₹ 78.1 lakh crore in outstanding balance by FY30 from ₹ 36 lakh crore at the end of FY21

What should investors do? PB Fintech is the leading online platform for insurance & lending products with insurance under penetration & increasing digitalization as main drivers ahead. At the upper end of the price band, it is valued at 39x P/S on Q1FY22 (annualised)

- We assign **UNRATED** rating to the IPO

Key risk & concerns

- Potential of new entrants may increase competition
- Decline in fee rates may affect business adversely
- Failure of insurers & lending partners to offer products may affect business



PB Fintech Limited

IPO Details

Issue Details

Issue Opens	1st November, 2021
Issue Closes	3rd November, 2021
Issue Size (₹ crore)	5710
Fresh Issue (₹crore)	3750
Offer for Sale (₹crore)	1960
Price Band (₹)	940-980
No. of shares on offer (in crore) @ upper price band	5.8
QIB (%)	75
Non-Inst Bidders (%)	15
Retail (%)	10
Min Lot size (No. of shares)	15

Shareholding pattern

	Pre-Issue	Post-Issue
Promoter Group	0.0	0.0
Public & Others	100.0	100.0

Objects of the issue

Objects of the issue

Enhancing visibility and awareness of brands. New opportunities to expand consumer base including offline presence. Strategic investments and acquisitions. Expanding presence outside India

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Key Financial Summary

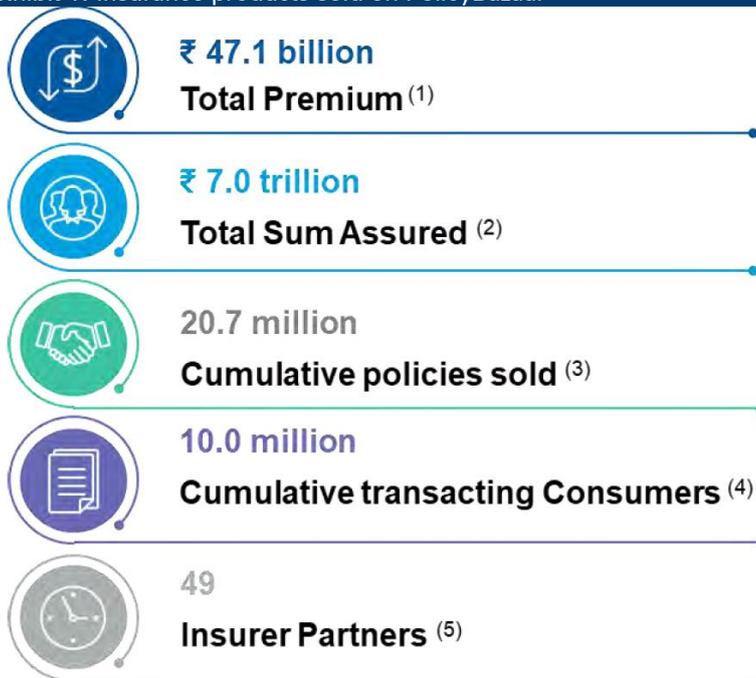
₹ crore	FY19	FY20	FY21	Q1FY22	2 year CAGR (FY19-21)
Total Income	528.8	855.6	957.4	258.2	34.6
Net Profit	-346.8	-304.0	-150.2	-110.8	NA
EPS	-12.0	-8.7	-4.1	-2.5	
BVPS	17.0	36.1	54.5	126.8	
ROE	-70.7	-24.0	-7.5	-5.7	
P/S (annualised)				39.0	

Source: RHP, ICICI Direct Research * Figures for Q1FY22 are annualised, EPS & BVPS for Q1FY22 are calculated on post issue basis

Company Background

PB Fintech is the leading online platform for insurance and lending products, providing access to insurance, credit and other financial products. In 2008, PB Fintech launched **PolicyBazaar** aimed at catering to consumers who need more information, choice and transparency in insurance policies. PolicyBazaar is an online platform for consumers and insurer partners to buy and sell insurance products. According to Frost & Sullivan, PolicyBazaar was India's largest digital insurance marketplace with a 93.4% market share based on the number of policies sold in FY20. As of September 30, 2021, 48 insurer partners offered over 390 term, health, motor, home, and travel insurance products on the policy bazaar platform. PolicyBazaar offers its users i) pre-purchase research, ii) purchase, including application, inspection, medical check-up, and payment; and iii) post-purchase policy management, including claims facilitation, renewals, cancellations, and refunds.

Exhibit 1: Insurance products sold on PolicyBazaar



Source: RHP, ICICI Direct Research

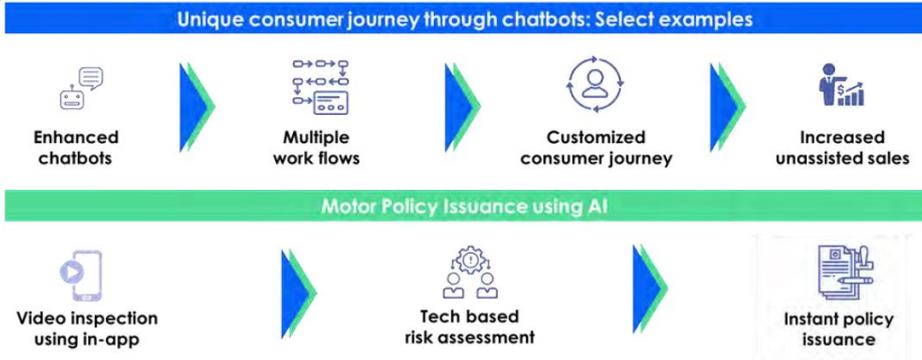
PB Fintech also launched **Paisabazaar** in 2014 intending to provide ease, convenience and transparency in selecting a variety of personal loans and credit cards for the consumers. The company has partnered with 56 large banks, NBFCs and fintech lenders offering a wide choice of products to consumers across personal credit categories, including personal loans, business loans, credit cards, home loans and loans against property. According to Frost & Sullivan, Paisabazaar was India's largest digital consumer credit marketplace with a 53.7% market share, based on disbursals in FY21. During FY19, FY20, FY21 and Q1FY22, Paisabazaar enabled disbursals of ₹ 5101.5 crore, ₹ 6549.6 crore, ₹ 2916.8 crore and ₹ 984.2 crore, respectively.

Exhibit 2: Snapshot of Paisabazaar's app

<p>One Platform For all the Consumer's Insurance Needs</p> 	<p>Product Features in Jargon-Free Language</p> 	<p>Compare Comprehensive List of Plans and Get Customised Quotes</p> 
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Source: RHP, ICICI Direct Research

Exhibit 3: PolicyBazaar's process flow



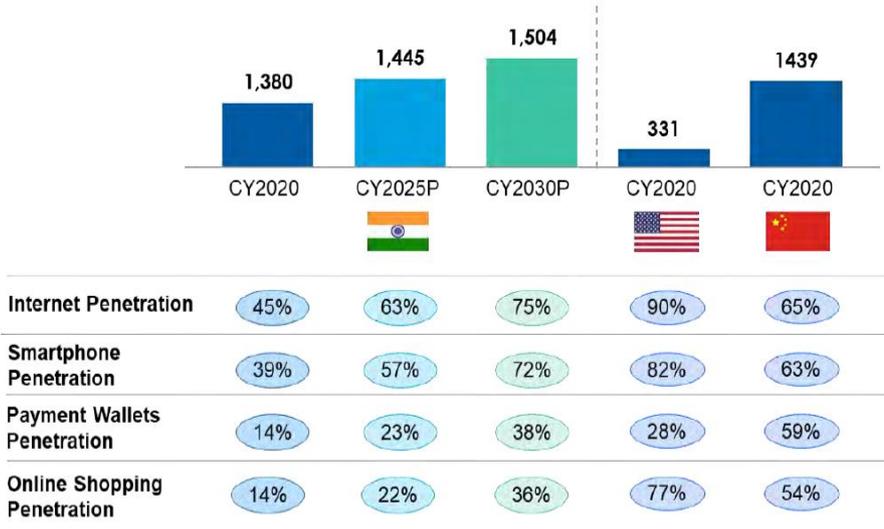
Source: RHP, ICICI Direct Research

Industry Overview

Rapid digital adoption with internet, smartphone penetration doubling from 2015 to 2020: In the last five years, India has seen exponential growth in internet penetration, with over 62.1 crore people in India (45% of the population) connected with the internet in CY20 and 79.5 crore people in India (57% of the population) connected with the internet in FY21 compared with 31.4 crore people (24% of the population) in CY15. Currently, India has one of the cheapest internet rates in the world of ₹ 6.7/GB, leading to the highest data consumption per user in the world with monthly data consumption of 13.5 GB per user, much ahead of US (~7 GB per user) and China (~8 GB per user).

Exhibit 4: Online consumer trends – India, US, China

Total population (millions) in CY2020, CY2025P, CY2030P

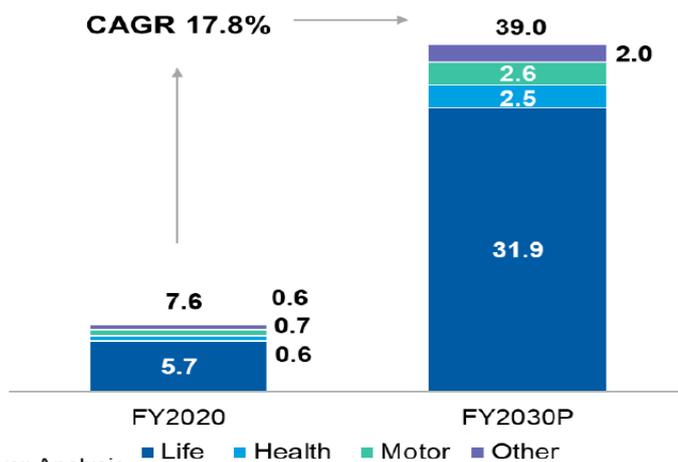


Source: RHP, ICICI Direct Research

Insurance industry in India: In FY20, India had a ₹ 7.6 lakh crore (US\$102 billion) insurance industry, measured in terms of total premium. This industry is expected to grow at 17.8% CAGR to ₹ 39 lakh crore (US\$ 520 billion) by FY30, with life, health and other non-life insurance growing at 18.8%, 15.3% and 13.5% CAGR, respectively, as per Frost & Sullivan. In FY21, India’s non-life insurance industry grew 5.2% to ₹ 2 lakh crore, with health, motor and other non-life insurance at ₹ 0.6 lakh crore, ₹ 0.7 lakh crore and ₹ 0.7 lakh crore, respectively, measured in terms of total premium.

Exhibit 5: India insurance market by total premium

₹ trillion, FY2020, FY2030P

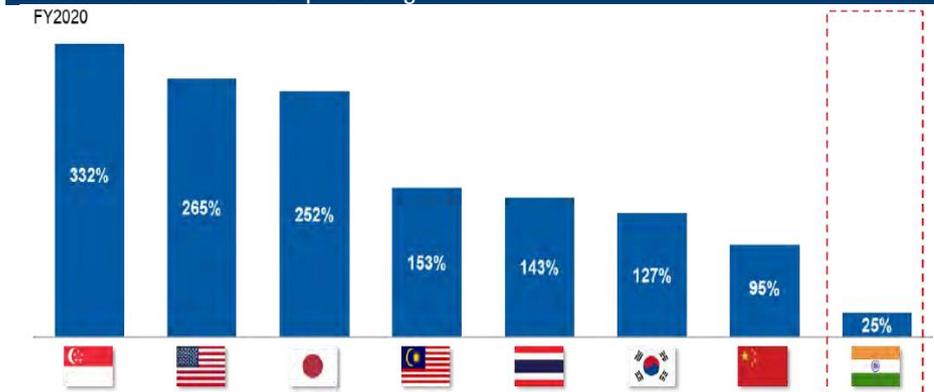


Source: Frost & Sullivan Analysis

Source: RHP, ICICI Direct Research

However, compared with global peers, India has a highly underpenetrated insurance market. India was among the lowest in the world in terms of sum assured as percentage of GDP in FY21. India’s mortality protection gap as a percentage of protection was at 83% in 2019, one of highest in the world, despite Indian households being disproportionately dependent on a single income earner.

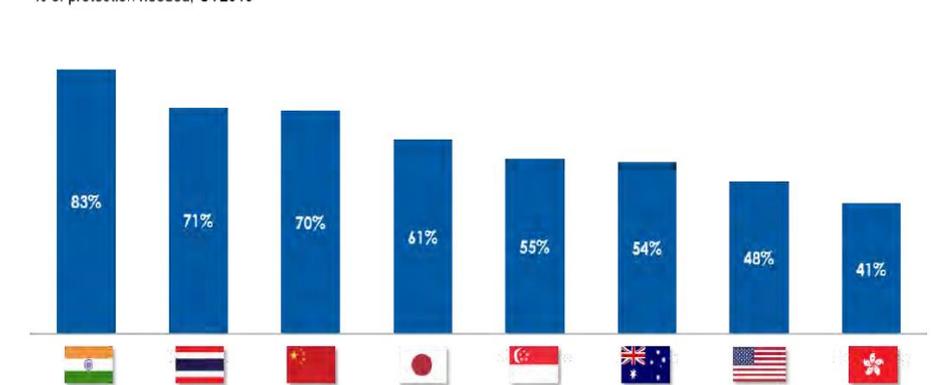
Exhibit 6: Sum assured as percentage of GDP



Source: RHP, ICICI Direct Research

Exhibit 7: Mortality protection gap

% of protection needed, CY2019



Source: RHP, ICICI Direct Research

Over the last two decades, the penetration of non-life insurance in India, in terms of gross direct premium as percentage of GDP, has come close to being ~1% of GDP. However, this is considerably low compared with 6.5% in the US and 2.1% in China. Total ~72.3% of population in India are uninsured compared to 10.9% in the US and 35% in China as per Frost & Sullivan.

Exhibit 8: Non-life Insurance penetration in CY20

Particulars	Unit	India	USA	China
Gross Direct Premium as % of GDP	%	1.0%	6.5%	2.1%
As % of population with no insurance	%	72.3%	10.9%	35.0%

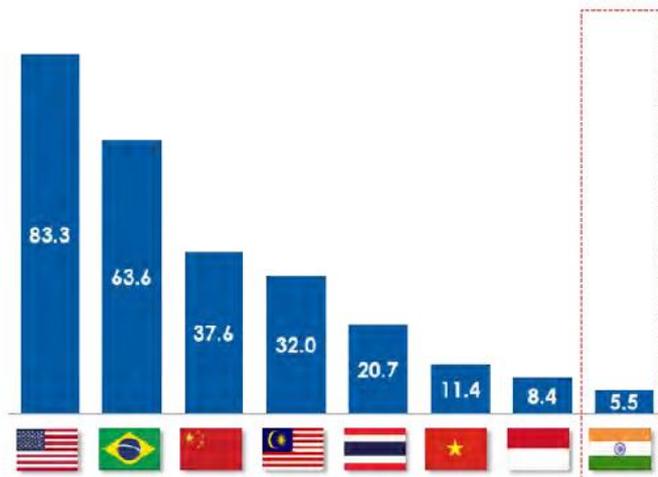
Source: RHP, ICICI Direct Research

In 2018, India’s health expenditure was among the lowest globally at ₹ 5500 (US\$73) per capita, compared with ₹ 83300 (US\$1,111) per capita in the US, and ₹ 37600 (US\$501) per capita in China. Additionally, 63% of India’s healthcare expenditure was funded out of pocket in 2018, with only 10% getting financed by health insurance.

Exhibit 9: India's healthcare expenditure

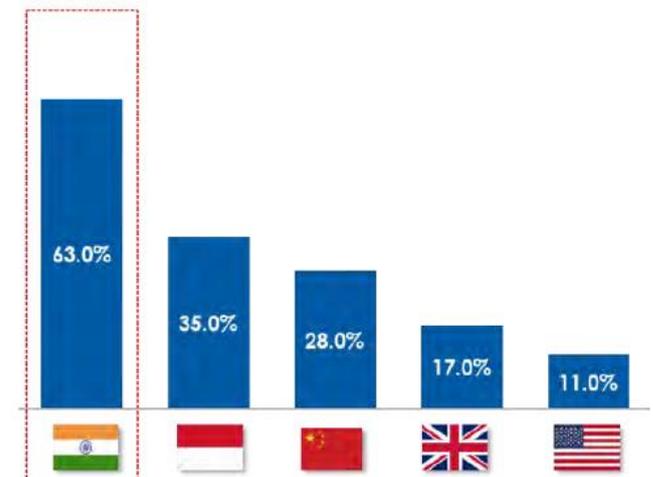
India has Low Health Expenditure Per Capita⁽¹⁾

₹ thousands (CY2018)



63% of Healthcare Spend is out of Pocket⁽¹⁾

Out of pocket spends (% of healthcare expenditure, CY2018)

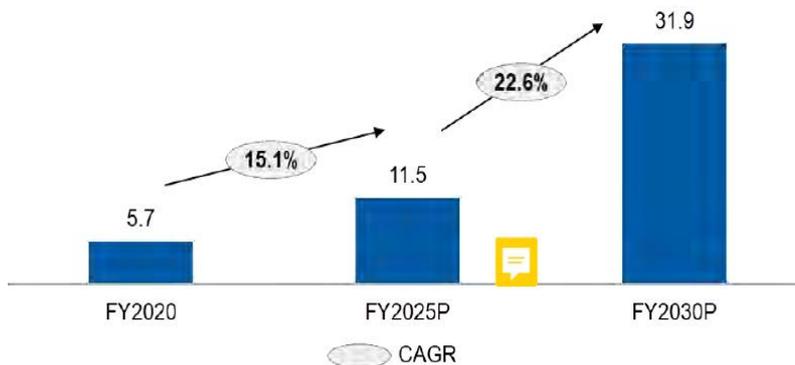


Source: RHP, ICICI Direct Research

Life insurance: India is the world's tenth largest life insurance market, worth ₹ 5.7 lakh crore (US\$76 billion) in FY20 in terms of total premium. India's life insurance market is expected to grow at 18.8% per annum to ₹ 31.9 lakh crore (US\$425 billion) in FY30. The new business premium from life insurance grew 7.5% to ₹ 2.8 lakh crore in FY21. Despite being tenth largest, India's life insurance penetration remains low at 24.6% (25% as of March 2021), compared to 265% in the US & 95.4% in China when measured in terms of sum assured as percentage of GDP, as of March 2020.

Exhibit 10: Total premium in life insurance - India

₹ trillion (FY2020, FY2025P, FY2030P)

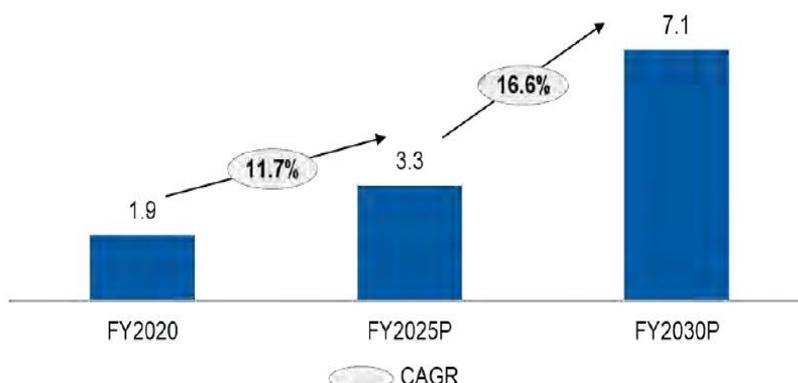


Source: RHP, ICICI Direct Research

Non-life Insurance: Measured in terms of gross direct premium, India was the world's 15th largest non-life insurance market, worth ₹ 1.9 lakh crore (US\$25 billion) in FY20 and ₹ 2 lakh crore (US\$26 billion) in FY21. The non-life insurance market in India is expected to grow at 15.2% per annum to ₹ 7.1 lakh crore (US\$95 billion) size (gross direct premium) in FY30 from ₹ 2.0 lakh crore (US\$26 billion) in FY21.

Exhibit 11: Gross direct premium in non-life insurance - India

₹ trillion (FY2020, FY2025P, FY2030P)



Source: RHP, ICICI Direct Research

Online Distribution Channels: In India, the online insurance market is highly underpenetrated with 1% of total premium sold online in FY20 compared to 13.3% in the US and 5.5% in China in CY20. Further, of this market, digital insurance marketplace occupies 54.3% share in total online insurance market in FY20.

Exhibit 12: Online distribution channel in CY20

Particulars	Unit	India	USA	China
Premium via Online Channel	US \$ billion	1.0 (₹73billion)	208.0	35.5
As % of Total Premium	%	1.0%	13.3%	5.5%

Source: RHP, ICICI Direct Research

Consumer lending industry in India: India’s consumer lending market was ₹ 36 lakh crore (US\$480 billion) in terms of outstanding credit balance at the end of FY21. India’s consumer lending market is expected to witness 9% CAGR, reaching ₹ 78.1 lakh crore in outstanding balance by FY30 from ₹ 36 lakh crore at the end of FY21.

Exhibit 13: Consumer lending penetration in CY20

Particulars	Unit	India	USA	China
Credit card lending as % of GDP	%	0.4%	14.7%	51.9%
Number of credit cards as % of population	%	4.5%	137.3%	56.8%
Housing credit outstanding as % of GDP	%	11.4%	57.8%	41.2%

Source: RHP, ICICI Direct Research

In FY21, digital consumer lending market share was 22% in India with digital consumer credit marketplace occupying 4.4% of this market. Penetration of digital lending and marketplace players in the consumer lending industry in India is expected to improve in future due to growth in internet adoption. In FY21, Paisabazaar was India’s largest digital consumer credit marketplace with a 53.7% market share, based on disburseals.

Exhibit 14: Disburseals in CY20

Particulars	Unit	India	USA	China
Total Consumer Lending Market	US \$ billion	171 (₹12.9 trillion)	6104.0	8885.0
Total Digital Consumer Lending Market	US \$ billion	38 (₹2.8 trillion)	3358.0	2270.0
As % of Total Disburseals	%	22.0%	55.0%	25.6%

Source: RHP, ICICI Direct Research

Investment rationale

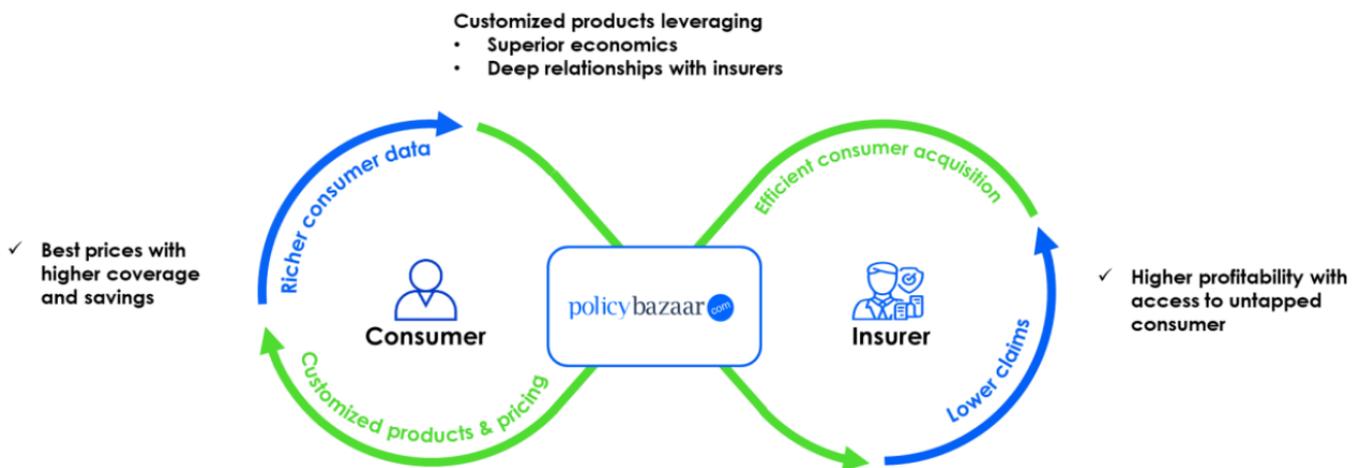
Strong, consumer-friendly brand offering wide choice, transparency and convenience

PB Fintech offers wide choice, transparency and provides consumers the ability to research and access insurance and personal credit products offered by its insurer and lending partners. Through its consumer centric approach, they have created strong brands in both PolicyBazaar and Paisabazaar, which is recognised throughout India. As per Frost & Sullivan, PolicyBazaar is a household name for insurance and is one of the most trusted insurance brands in India. The strength of its brands is also reflected in the fact that in FY21, 83% of policies sold on PolicyBazaar and 66% of loans originated on Paisabazaar were to consumers who came to their platform directly or through direct online brand search. Similarly, in Q1FY22, 82.1% of policies sold on PolicyBazaar and 54.3% of loans originated on Paisabazaar were to consumers who came to the platform directly or through direct brand search.

Large scale of business gives unique, strong network effects

PB Fintech’s PolicyBazaar and Paisabazaar platforms have large, efficient and intelligent networks, providing consumers with the ability to browse financial services products offered by 48 insurer partners and 56 lending partners. They benefit from powerful network effect at scale as a result of its positioning as a trusted and default search engine for insurance and personal credit products in India. Their large and growing number of visitors on 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 the platforms, the data insights and intelligence of network continues to improve, helping the 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 Fintech’s network effects. These strong network effects for both PolicyBazaar and Paisabazaar gives them significant competitive advantages and ability to further enhance their competitive position.

Exhibit 15: PolicyBazaar’s strong network effects



Source: RHP, ICICI Direct Research

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

Given the strong value proposition they offer to consumers and the nature of many insurance products, such as health and motor insurance where renewals are common, they are able to benefit from long term retention and visibility of business from existing consumers with negligible or marginal CAC. 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 2014 premium. Similarly, the multiplier is 3.4 times for motor insurance. This provides clear visibility into the future business outlook as they are able to generate revenue from a consumer over a long time period with negligible additional spend towards consumer acquisition leading to superior unit economics.

Exhibit 16: Consumer cohort of total premium from health insurance

	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	Total
FY14	1.0x	0.7x	5.9x						
FY15		1.0x	0.6x	0.7x	0.7x	0.7x	0.6x	0.7x	5.0x
FY16			1.0x	0.7x	0.7x	0.7x	0.7x	0.7x	4.5x
FY17				1.0x	0.7x	0.7x	0.7x	0.7x	3.8x
FY18					1.0x	0.6x	0.7x	0.8x	3.1x
FY19						1.0x	0.6x	0.7x	2.2x
FY20							1.0x	0.6x	1.6x
FY21								1.0x	1.0x

Source: RHP, ICICI Direct Research

Exhibit 17: Consumer cohort of total premium from motor insurance

	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	Total
FY14	1.0x	0.5x	0.4x	0.3x	0.3x	0.3x	0.3x	0.3x	3.4x
FY15		1.0x	0.5x	0.4x	0.4x	0.4x	0.3x	0.3x	3.4x
FY16			1.0x	0.6x	0.5x	0.4x	0.4x	0.3x	3.2x
FY17				1.0x	0.6x	0.5x	0.4x	0.3x	2.8x
FY18					1.0x	0.5x	0.4x	0.4x	2.3x
FY19						1.0x	0.6x	0.4x	2.0x
FY20							1.0x	0.6x	1.6x
FY21								1.0x	1.0x

Source: RHP, ICICI Direct Research

Broaden, deepen consumer reach in India

PolicyBazaar strives to deepen engagement with their consumers to meet all their insurance requirements (including protection against death, disease and damage) through cross-sell and up-sell, improving consumer retention and reducing consumer acquisition costs. To supplement PolicyBazaar’s digital presence, they plan to expand their presence through offline channels by leveraging recently approved direct (life and general) insurance broker license. As of July 15, 2021, they have already set up 15 physical offices and intend to develop up to 200 physical retail outlets across all city tiers in India by the end of FY24. Further, leveraging its direct (life and general) insurance broker license, they will now also be able to provide existing and new consumers on-ground claims support. For Paisabazaar, a key focus area is to continuously engage with its large consumer base acquired through the free credit score platform. Paisabazaar strives to deepen consumer engagement and boost loyalty to become the destination of choice for consumers for their credit solutions.

Key Risks

Client concentration risk

The four largest partners in terms of contribution to its revenue from operations accounted for 32.81%, 35.11% and 30.82% of the total revenue from operations for FY21, FY20 and FY19, respectively, and 32.77% and 38.77% for Q1FY22 and Q1FY21, respectively. While they continually seek to diversify their partners, there can be no assurance that the concentration will not decline or further increase. The arrangements with their partners are typically not exclusive and they may have similar or more favourable arrangements with PB Fintech's competitors. If PB Fintech's partners are dissatisfied with their services and solutions or find it ineffective in enhancing their profitability, they may terminate their relationships with PB Fintech's and decide to cooperate with PB Fintech's competitors.

Any harm to brand or failure to maintain its brand recognition or reputation may adversely affect business

Maintaining and enhancing the recognition and reputation of the brand are critical to PB Fintech's business and competitiveness. Many factors, some of which are beyond the control, are important to maintain and enhance the brand. Promoting and positioning of the brand will depend largely on the success of its marketing efforts and its ability to provide high quality services. Furthermore, if they are unable to conduct their branding and marketing activities cost-effectively, then its financial condition and results of operations may be materially and adversely affected.

Exhibit 18: Advertising and promotion expenses

Particulars (₹ crore)	FY19	FY20	FY21	Q1FY22
Advertising and promotion expenses (A)	345.9	445.2	367.8	106.2
Total income (B)	528.8	855.6	957.4	258.2
Advertising and promotion expenses as a percentage of Total income (A/B)	65.4%	52.0%	38.4%	41.2%

Source: RHP, ICICI Direct Research

Business model may be replicated by other online insurance & credit distributors which may result into intense competition

PB Fintech's current or potential competitors include a whole host of online and offline insurance and credit product and service providers. New competitors may emerge at any time. Existing or potential competitors may have substantially greater brand recognition and longer operating histories and possess more financial, marketing and research resources. The competitors may introduce platforms with more attractive products, content and features, or services or solutions with competitive pricing or enhanced performance.

Any decline in commission rates may have adverse effect

PB Fintech derives its revenue primarily from commissions and other fees paid by the insurer & lending partners whose insurance and credit products its consumer purchases on the platforms. The fee rates are set by insurer and lending partners or negotiated between insurer and lending partners and PolicyBazaar. The commissions that they can charge to its insurer partners are based on charges specified under the IRDAI Commission Regulations, which specify the maximum remuneration or commission payable to insurance brokers. Commissions, other fee rates and premium rates can change based on the prevailing economic, regulatory, taxation and competitive factors that may affect financial performance.

Financial summary

Exhibit 20: Profit and loss statement				
₹ crore				
Particulars (in ₹ crore)	FY19	FY20	FY21	Q1FY22
Income				
Revenue From Operations	492.2	771.3	886.7	237.7
Other income	36.6	84.3	70.8	20.4
Total income	528.8	855.6	957.4	258.2
Expenses				
Network and Internet expenses	31.7	50.8	58.8	15.9
Advertising & promotion exp	345.9	445.2	367.8	106.2
Employee benefits expense	397.6	520.8	554.0	209.9
Other expenses	53.1	74.4	65.7	24.0
Total expenses	828.3	1091.2	1046.4	356.1
EBITDA	-299.5	-235.6	-89.0	-97.9
Finance Cost	7.5	11.9	11.5	2.9
Depreciation & amortisation	30.4	47.3	41.4	10.0
PBT	-337.4	-294.8	-141.9	-110.8
Tax	9.4	9.2	8.3	0.0
PAT	-346.8	-304.0	-150.2	-110.8

Source: RHP, ICICI Direct Research

Exhibit 21: Key ratios				
₹ crore				
Particulars (in ₹ crore)	FY19	FY20	FY21	1Q FY22
Net Worth	490.3	1,265.8	1,991.7	1,952.2
Total Premium	2,315.4	3,758.6	4,701.3	1,566.9
Total Sum Assured	3,54,700.0	4,81,800.0	7,01,900.0	2,22,800.0
Total Operating income	492.2	771.3	886.7	237.7
Total Disbursal	5,101.5	6,549.6	2,916.8	984.2
Return Ratios				
Return on net worth (%)	-70.7	-24.0	-7.5	-5.7
ROA%	-46.2	-19.3	-6.4	-4.9
Valuation				
EPS (₹)	-12.0	-8.7	-4.1	-2.5
NAV	17.0	36.1	54.5	126.8
P/E	-81.6	-112.9	-238.4	-336.8
P/S				39.0

Source: RHP, ICICI Direct Research

* Figures for Q1FY22 are annualised

Exhibit 22: Balance sheet				
₹ crore				
Particulars (in ₹ crore)	FY19	FY20	FY21	Q1FY22
Cash, Cash equivalents and Bank	267.4	1105.6	1810.2	971.7
Investments	125.2	2.0	137.8	555.1
Loans	0.3	0.6	0.3	0.4
Trade Receivables	131.3	178.8	172.9	160.9
Fixed assets, CWIP and intangible	118.9	147.3	124.8	138.3
Other current assets	15.6	24.0	18.4	373.9
Other non-current assets	92.8	117.7	66.4	78.6
Total Assets	751.4	1576.0	2330.7	2278.9
Share Capital	0.0	0.0	0.0	82.2
Other equity	490.3	1265.8	1991.7	1869.9
Total Equity	490.3	1265.8	1991.7	1952.2
Employee benefit obligations	19.2	27.2	38.6	43.8
Lease Liabilities	88.7	108.4	108.7	125.2
Trade Payables	111.0	117.9	101.9	103.0
Other liabilities	42.2	56.5	89.8	54.8
Total Equity and Liabilities	751.4	1576.0	2330.7	2278.9

Source: RHP, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to companies that are coming out with their initial public offerings and then categorises them as Subscribe, Subscribe for the long term and Avoid.

Subscribe: Apply for the IPO

Avoid: Do not apply for the IPO

Subscribe only for long term: Apply for the IPO only from a long term investment perspective (>two years)



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