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PB Fintech | Asia Pacific

1QF23: Good quarter; big pivot to profitability – guidance for adjusted EBITDA break-even in 4Q

Stock Rating
Overweight

Industry View
Attractive

Price Target
Rs840.00

Revenues were 10% ahead of our estimate, contribution was 75% ahead, and adjusted EBITDA loss was lower than we'd expected. We saw a clear pivot in commentary on profitability – management guided to adjusted EBITDA break-even in 4Q and adjusted EBITDA addition of Rs1.5bn p.a. from there.

Consolidated operating revenues at Rs5.05bn (+113% YoY, -6% QoQ) were 15% higher than our estimate:

Insurance broking & related revenues were 10% above our estimate and credit-related revenues were 47% above our forecast. Calculated take rate for the insurance broking business was 17.3% vs. 13.2% for 1QF22, 21.5% for 4QF22, and our 16.0% estimate.

Revenues from existing business (core insurance + credit) grew 59% YoY (-4% QoQ), to Rs3.71bn. Revenues from new initiatives were Rs1.34bn (-13% QoQ).

1QF22 renewal revenue annualized run-rate (ARR) was Rs2.7bn. For July 2022, premium ARR was Rs97bn, up 52% YoY; disbursement ARR was Rs112bn, up 136% YoY; and credit card issuance ARR was 0.43mn, up >600% YoY.

Consolidated contribution margin improved QoQ from 18% to 22% and was better than we'd forecast (15%); contribution margin for existing business was 45% vs. 31% for 1QF22 and 46% for 4QF22:

Contribution of existing business was Rs1.67bn (+129% YoY), while new initiatives reported a loss of Rs540mn – an improvement from Rs810mn loss in 4Q. Consolidated contribution at Rs1.13bn was up 66% YoY, up 15% QoQ, 75% better than our estimate.

Also, adjusted EBITDA loss at Rs660mn was better than we'd forecast, with the core insurance business being positive on an underlying basis:

Adjusted EBITDA margin was -13% for 1QF23 vs. our -18% estimate. 1QF23 adjusted EBITDA for existing business was reported at Rs50mn vs. the Rs320mn loss reported in 1QF22. Existing core insurance business adjusted EBITDA was Rs180mn while credit business had an adjusted EBITDA loss of Rs130mn. Per management, adjusted EBITDA in the credit business should turn positive by 4QF23.

See next section for [Discussion of productivity, profitability, and guidance, plus Results table.](#)

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PB Fintech Limited (PBFI.NS, POLICYBZ IS)

India Financials / India

Stock Rating	Overweight
Industry View	Attractive
Price target	Rs840.00
Up/downside to price target (%)	50
Shr price, close (Aug 10, 2022)	Rs560.50
52-Week Range	Rs1,470.00-454.30
Mkt cap, curr (mn)	Rs251,945
Avg daily trading value (mn)	Rs1,039
EV, curr (mn)	Rs211,667

Fiscal Year Ending	03/22	03/23e	03/24e	03/25e
ModelWare EPS (Rs)	(20.34)	(16.09)	(3.24)	6.31
Prior ModelWare EPS (Rs)	-	-	-	-
Revenue (Rs mn)*	14,249	22,736	34,883	47,330
EBITDA (Rs mn)	(9,023)	(8,278)	(2,192)	3,362
ModelWare net inc (Rs mn)	(8,329)	(7,563)	(1,525)	2,965
P/E	NM	NM	NM	88.9
EV/EBITDA	NM	NM	NM	63.0
Return on avg eqty	(22.5)	(15.0)	(3.3)	6.4

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Discussion of productivity, profitability, and guidance

New business productivity is improving: PB Fintech tracks the improvement in productivity (conversion of leads into business) driven by the combination of the offline channel with online lead generation, via the "new insurance premium per enquiry per month," which was Rs1,595 for 1Q, +32% YoY and +15% QoQ. It said the number of enquiries in health and term business had fallen YoY, yet it saw good conversion in these business lines. Savings business, however, got a big fillip from the offline channel.

Management gave guidance on profitability for the first time: The existing business has been profitable for two quarters now (at an adjusted EBITDA level), driven by the core insurance business. It expects the credit business (existing) also to break even by 4Q. It expects adjusted EBITDA on existing business to completely offset adjusted EBITDA loss on new initiatives in 4QF23, thereby achieving adjusted EBITDA break-even (for 4Q) at a consolidated level. Thereafter it expects additional adjusted EBITDA of Rs1.5bn every year to the previous year's adjusted EBITDA.

Results table

Exhibit 1: 1QF23 consolidated earnings summary

Rs mn	Q1F22	Q4F22	Q1F23	YoY %	QoQ %	Q1F23e	Actual vs Estimates
Revenue from operations	2,377	5,403	5,052	113%	-6%	4,408	15%
-- o/w Insurance and Insurance related	2,045	4,679	4,212	106%	-10%	3,838	10%
-- o/w Existing	1,998	3,136	2,870	44%	-8%		
-- o/w New Initiatives	40	1,540	1,340	3250%	-13%		
-- o/w Credit and credit related	332	724	840	153%	16%	570	47%
Expenses deducted for contribution margin	1,697	4,423	3,922	131%	-11%	3,762	4%
Contribution Income	680	980	1,130	66%	15%	646	75%
Contribution margin	29%	18%	22%			15%	
Expenses other than those deducted for contribution margin	1,144	1,780	1,790	56%	1%	1,439	24%
Total expenses	2,841	6,203	5,712	101%	-8%	5,202	10%
Adjusted EBITDA	-420	-800	-660	NM	NM	-794	NM
Adjusted EBITDA margin	-18%	-15%	-13%			-18%	
ESOP expenses	720	1,750	1,683	134%	-4%	1,543	9%
IPO Cost	44						
EBITDA	-1,184	-2,550	-2,343	NM	NM	-2,337	NM
EBITDA margin	-50%	-47%	-46%			-53%	
Depreciation and amortisation expense	100	120	132	32%	10%	120	10%
Other Income	204	509	475	132%	-7%	225	111%
Share of loss of associates	0	0	-3	NM	NM	0	NM
EBIT	-1,079	-2,162	-2,003	NM	NM	-2,232	NM
EBIT margin	-45%	-40%	-40%			-51%	
Finance Costs	29	39	41	41%	5%	32	29%
Loss before tax	-1,108	-2,201	-2,044	NM	NM	-2,264	NM
Tax Expense	0	-5	-1	NM	NM	0	NM
Loss for the period	-1,108	-2,196	-2,043	NM	NM	-2,264	NM
Key Operating and financial metrics	Q1F22	Q4F22	Q1F23	YoY %	QoQ %	Q1F23e	Actual vs Estimates
Total premium (including POSP)	15,529	21,770	24,300	56%	12%	23,991	1%
Revenues from Insurance Web aggregator / Broker services as % of total Premium (Take Rate)	13.2%	21.5%	17.3%			16.0%	
Total Disbursements	9,862	21,890	23,200	135%	6%	17,259	34%
Revenues from Credit and credit related as % of total Disbursements (Take Rate)	3.4%	3.3%	3.6%			3.3%	

Source: Company data, Morgan Stanley Research estimates

Valuation Methodology and Risks

PB Fintech Limited (PBFINS)

Our F23 (March) price target is derived using a discounted equity method. We apply a target one-year forward adjusted EV/EBITDA multiple of 27x (in our base case) to our F27 adjusted EBITDA assumption and derive F26 enterprise value (EV). We discount this EV back to F23 and add net cash as of F23 to arrive at our market cap. We divide this by diluted share count to arrive at our base-case valuation per share, which is our price target.

Risks to Upside

- Higher-than-expected growth in insurance premiums sourced through Policybazaar.
- Increase in contribution margin.

Risks to Downside

- IRDAI reduces maximum permissible commission rates to be paid by insurers to intermediaries.
- Key insurers and lenders leave the platform.

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(as of July 31, 2022)

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	COUNT	% OF TOTAL	COUNT	% OF TOTAL IBC	% OF RATING CATEGORY	COUNT	% OF TOTAL OTHER MISC
Overweight/Buy	1366	39%	318	42%	23%	593	39%
Equal-weight/Hold	1559	44%	357	47%	23%	708	46%
Not-Rated/Hold	0	0%	0	0%	0%	0	0%
Underweight/Sell	613	17%	91	12%	15%	226	15%
TOTAL	3,538		766			1527	

Data include common stock and ADRs currently assigned ratings. Investment Banking Clients are companies from whom Morgan Stanley received investment banking compensation in the last 12 months. Due to rounding off of decimals, the percentages provided in the "% of total" column may not add up to exactly 100 percent.

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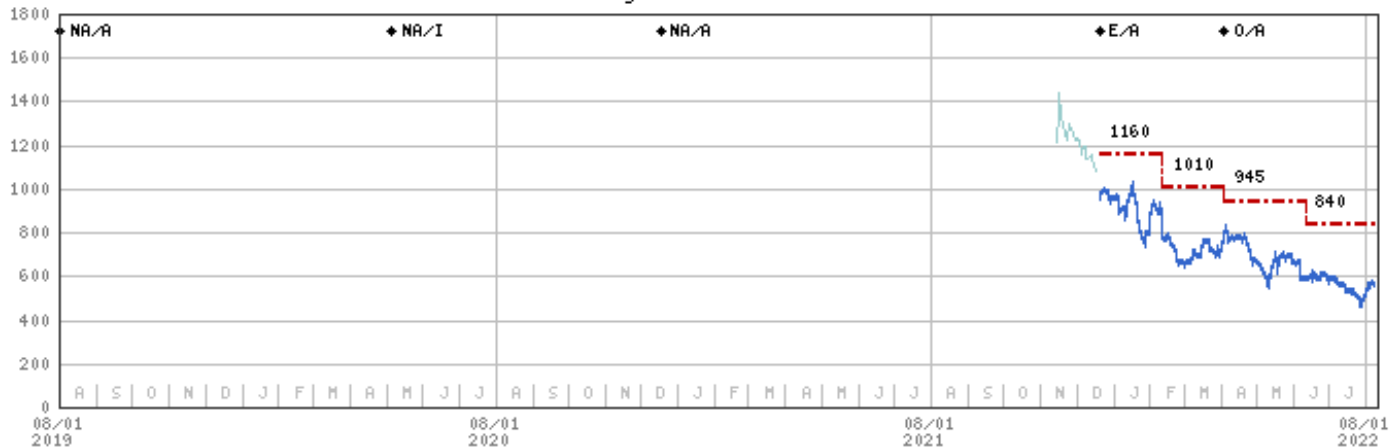
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PB Fintech Limited (PBF1.NS) - As of 8/9/22 in INR
Industry : India Financials

Stock Rating History: 8/1/17 : NA/I; 10/25/17 : NA/A; 5/6/20 : NA/I; 12/17/20 : NA/A; 12/20/21 : E/A; 4/4/22 : O/A

Price Target History: 12/20/21 : 1160; 2/11/22 : 1010; 4/4/22 : 945; 6/11/22 : 840

Source: Morgan Stanley Research Date Format : MM/DD/YY Price Target -- No Price Target Assigned (NA)
 Stock Price (Not Covered by Current Analyst) — Stock Price (Covered by Current Analyst) ■
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INDUSTRY COVERAGE: India Financials

COMPANY (TICKER)	RATING (AS OF)	PRICE* (08/10/2022)
Subramanian Iyer		
Aditya Birla Capital Ltd (ADTB.NS)	O (03/20/2020)	Rs105.60
Bajaj Finance Limited (BJFN.NS)	O (03/20/2020)	Rs7,149.40
Cholamandalam Investment and Fin Co Ltd (CHLANS)	E (04/04/2022)	Rs771.85
HDFC (HDFC.NS)	++	Rs2,398.30
HDFC Asset Management Company Ltd (HDFANS)	E (04/04/2022)	Rs1,984.50
HDFC Life (HDFL.NS)	O (04/04/2022)	Rs540.90
ICICI Lombard General Insurance Company (ICIL.NS)	O (12/07/2021)	Rs1,230.65
ICICI Prudential Life Insurance (ICIR.NS)	O (12/04/2020)	Rs557.15
IDFC First Bank Ltd (IDFB.NS)	U (03/21/2017)	Rs44.80
Indiabulls Housing Finance (INBF.NS)	U (03/06/2018)	Rs122.65
IndoStar Capital Finance Ltd (INAC.NS)	U (03/20/2020)	Rs131.50
LIC Housing Finance Ltd. (LICH.NS)	U (05/04/2020)	Rs378.80
Mahindra and Mahindra Financial Services (MMFS.NS)	O (05/30/2017)	Rs196.90
Multi Commodity Exchange of India Ltd (MCEI.NS)	U (10/26/2021)	Rs1,279.90
PB Fintech Limited (PBF.NS)	O (04/04/2022)	Rs560.50
PNB Housing Finance Ltd (PNBH.NS)	O (11/03/2021)	Rs349.60
SBI Cards and Payment Services Ltd (SBIC.NS)	O (03/12/2021)	Rs907.00
SBI Life Insurance Company Ltd (SBIL.NS)	O (12/04/2020)	Rs1,273.20
Shriram City Union Finance Ltd (SHCU.NS)	++	Rs2,000.05
Shriram Transport Finance Co. Ltd. (SRTR.NS)	++	Rs1,396.40
Sumeet Kariwala		
AU Small Finance Bank Ltd (AUF.NS)	O (02/01/2021)	Rs645.15
Axis Bank (AXBK.NS)	O (02/15/2019)	Rs739.00
Bank of Baroda (BOB.NS)	O (06/09/2021)	Rs118.65
Bank of India (BOI.NS)	U (03/03/2021)	Rs48.30
Canara Bank (CNBK.NS)	U (03/03/2021)	Rs225.50
Federal Bank (FED.NS)	O (10/25/2021)	Rs109.75
HDFC Bank (HDBK.NS)	++	Rs1,466.30
HDFC Bank (HDB.N)	++	US\$63.07
ICICI Bank (IBN.N)	O (01/13/2018)	US\$21.31
ICICI Bank (ICBK.NS)	O (10/25/2017)	Rs848.75
IndusInd Bank (INBK.NS)	O (12/17/2020)	Rs1,063.10
Kotak Mahindra Bank (KTKMNS)	E (12/17/2020)	Rs1,828.35
One 97 Communications Ltd (PAYT.NS)	E (03/14/2022)	Rs826.75
Punjab National Bank (PNBK.NS)	E (03/03/2021)	Rs33.00
RBL Bank Limited (RATB.NS)	U (10/21/2018)	Rs96.95
State Bank of India (SBI.NS)	O (11/05/2020)	Rs514.70

Stock Ratings are subject to change. Please see latest research for each company.

* Historical prices are not split adjusted.