IPO Note

October 31, 2021

PB Fintech Limited

Issue Snapshot:

Issue Open: Nov 01 – Nov 03 2021

Price Band: Rs. 940 – 980

*Issue Size: 58,265,306 eq sh (Fresh issue of Rs.3750 crs + offer for sale of 1960 crs)

Reservation for:

QIB	atleast	75% eq sh
Non Institutional	Upto	15% eq sh
Retail	Upto	10% eq sh

Face Value: Rs 2

Book value: Rs 51.19 (June 30, 2021)

Bid size: - 15 equity shares and in multiples thereof

100% Book built Issue

Capital Structure:

Pre Issue Equity:	Rs. 82.3 cr
*Post issue Equity:	Rs. 89.9 cr

Listing: BSE & NSE

Book Running Lead Managers: Kotak Mahindra Capital Company Ltd, Morgan Stanley India Company Private Ltd, Citigroup Global Markets India Private Ltd, ICICI Securities Ltd, HDFC Bank Ltd, IIFL Securities Ltd, Jefferies India Private Ltd

Registrar to issue: Link Intime India Private Ltd

Shareholding Pattern

Shareholding Pattern	Pre issue %	Post issue %
Promoter and Promoter Group	0.0	0.0
Public & Employee	100.0	100.0
Total	100.0	100.0

*=assuming issue subscribed at higher band
Source for this Note: RHP

Background & Operations:

PB Fintech Limited (PBFL) has built India's largest online platforms for insurance and lending products leveraging the power of technology, data and innovation. It provides convenient access to insurance, credit and other financial products and aims to create awareness amongst Indian households about the financial impact of death, disease and damage. Through its consumer-centric approach, it seeks to enable online research-based purchases of insurance and lending products and increase transparency, which enables Consumers to make informed choices. It also facilitates its Insurer and Lending Partners in the financial services industry to innovate and design customised products for Consumers leveraging its extensive data insights and data analytics capabilities.

PBFL 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. In Fiscal 2020, Policybazaar was India's largest digital insurance marketplace with a 93.4% market share based on the number of policies sold. Furthermore, it constituted 65.3% of all digital insurance sales in India by number of policies sold (including online sales done directly by insurance companies and by insurance distributors).

In 2014, the Company 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 was India's largest digital consumer credit marketplace with a 53.7% market share, based on disbursals in Fiscal 2021. It is also widely used to access credit scores, with approximately 22.5 million Consumers cumulatively having accessed their credit score through its platform as of June 30, 2021. It's Policybazaar and Paisabazaar platform offerings address the large and highly underpenetrated online insurance and lending markets.

Business Model

PBFL has an asset-light capital strategy and do not underwrite any insurance or retain any credit risk on its books.

It has two reportable segments (i) Insurance Web Aggregator/Broker Services, which are provided by its subsidiary Policybazaar and are regulated by the Insurance Regulatory Development Authority (Web Aggregator) Regulations, 2017 and Insurance Regulatory and Development Authority of India (Insurance Brokers) Regulations, 2018; and (ii) Other Services, which consists of online marketing, consulting and support services provided largely to the financial service industry by Paisabazaar and services provided by the Company and other group entities.

PBFL primarily generate revenues from the following sources: (i) for its Policybazaar business, from insurance commission that it receive from its Insurer Partners, and additional services that it provides to Insurer Partners such as telemarketing and other services relating to sales and post-sales services, account management, premium collection and various other services, (ii) for its Paisabazaar business, from the commission that it receive from Lending Partners, credit advisory and related services that it provides to its Consumers or Lending Partners, and marketing services that it provide to financial services partners and other third parties, and (iii) for PBFL, from providing online marketing, consulting and technology services to Insurer and Lending Partners.

Objects of Issue:

The Offer comprises a Fresh Issue aggregating up to Rs.37,500 million by PBFL and an Offer for Sale by the Selling Shareholders.

Offer for Sale

PBFL will not receive any proceeds of the Offer for Sale by the Selling Shareholders. Each of the Selling Shareholders will be entitled to the respective proportion of the proceeds of the Offer for Sale after deducting their respective portion of the Offer related expenses.

Fresh Issue

FBPL proposes to utilise the funds which are being raised through the Fresh Issue, up to Rs.37,500 million, after deducting the Offer related expenses to the extent payable by the Company with respect to the Fresh Issue, towards funding the following objects.

- Enhancing visibility and awareness of brands, including but not limited to "Policybazaar" and "Paisabazaar" (Rs.15000 mn);
- New opportunities to expand Consumer base including offline presence (Rs.3750 mn);
- Strategic investments and acquisitions (Rs.6000 mn);
- Expanding presence outside India (Rs 3750 mn); and
- General corporate purposes.

In addition to the aforementioned Objects, PBFL expects to receive the benefits of listing of the Equity Shares on the Stock Exchanges.

Competitive Strengths

Created strong, Consumer-friendly brands offering wide choice, transparency and convenience: PBFL offer wide choice, transparency and the ability for Consumers to research and access insurance and personal credit products offered by its Insurer and Lending Partners. Through Consumer centric approach, it has created strong brands in both Policybazaar and Paisabazaar which is recognised throughout India. Policybazaar is a household name for insurance and is one of the most trusted insurance brands in India. The strength of its brands are also reflected in the fact that in Fiscal 2021, 83.0% of the policies sold on Policybazaar and 66.0% of loans originated on Paisabazaar were to Consumers who came to its platform directly or through direct online brand searches. Similarly, in the three months ended June 30, 2021, 82.1% of policies sold on Policybazaar and 54.3% of loans originated on Paisabazaar were to Consumers who came to its platform directly or through direct brand searches. Its innovative marketing campaigns are focused on themes including "comparing products and features", "not getting fooled" and "making the right buying decision", reinforcing the purpose of Policybazaar and Paisabazaar to enable Consumers to make informed purchasing decisions, by comparing options and features across products and Insurer Partner and Lending Partners.

Proprietary Technology, Data and Intelligence Stack: PBFL's proprietary technology stack helps it design user-friendly Consumer journeys across all of its processes by automating various aspects across the product value chain. Using technology, it engages with Consumers through easy-to-navigate mobile apps and websites which automate and digitise the Consumer journey of purchasing insurance and personal credit products. It has been leveraging technology to provide high quality consumer service. Additionally, it has enabled digital KYC or video KYC for many products sold on its platforms. The graphic below illustrates select examples of Policybazaar's process flow. It also applies voice analytics and behavioural insights of Consumers, based on their browsing activities, time taken to fill forms, queries asked and many other activities, enabling it to detect fraud at the time of purchase and when filing claims. This enables its Insurer Partners to have better risk selection and pricing for insurance products, which has resulted in significantly higher quality financial and operating results through Policybazaar. Similarly, Paisabazaar has also been strengthening its infrastructure and capabilities to facilitate end-to-end digital processes for loans and credit cards. It has been working with its Lending Partners and are deeply focused on digitising each leg of the process from application to documentation, income validation, setting up repayment mandate and e-signing of the agreement. This provides a seamless and convenient experience to Consumers and also brings in efficiency and better turn-around times for lenders.

Collaborative partner for Insurer and Lending Partners: Policybazaar was India's largest digital insurance marketplace with a 93.4% market share based on the number of policies sold in Fiscal 2020. Further, in Fiscal 2020, Policybazaar constituted 65.3% of all digital insurance sales in India by number of policies sold (including online sales done directly by insurance companies and by insurance distributors). 48 Insurer Partners as of September 30, 2021 sell their products on Policybazaar, which represents 84.5% of all licensed insurers in India. Paisabazaar was India's largest consumer credit marketplace with a 53.7% market share based on disbursals in Fiscal 2021. Paisabazaar has 56 partnerships with large banks, large NBFCs and fintech lenders.

PBFL provides its Insurer and Lending Partners with access to the large Consumer bases of both Policybazaar and Paisabazaar to enhance their sales. Using its data insights, Insurer and Lending Partners are able to target the right Consumers for their products. The consumer acquisition cost for Insurer and Lending Partners is one of the lowest through its platforms. It works with Insurer and Lending Partners, leveraging its technology and insights to improve their risk assessment models, fraud detection and Underwriting capabilities. It also works with them to help them create customized products to address the needs of Consumers and market gaps and better serve their consumers.

Scale gives unique self-reinforcing flywheels and strong network effects: PBFL' 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. It benefit 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 its Policybazaar and Paisabazaar platforms attract more Insurer and Lending Partners who offers 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 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. These strong network effects for both Policybazaar and Paisabazaar gives significant competitive advantages and ability to further enhance competitive position.

High renewal rates providing clear visibility into future business and delivering superior economics: Given the strong value proposition PBFL offers to its consumers, and the nature of many insurance products, such as health and motor insurance where renewals are common, it is able to benefit from long term retention and visibility of business from existing Consumers with negligible marginal CAC. This provides clear visibility into its 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.

Benefits from economies of segmentation: PBFL' Policybazaar and Paisabazaar platforms serve Consumers with varied needs, credit profiles, demographics, employment types and income levels. It systematically segments Consumers into different cohorts based on their needs and disclosures, such as the insurance proposal questionnaire, medical declarations, family and lifestyle history, income and credit score to ensure higher accuracy of product offers. For Paisabazaar, it also aims to build customised lending solutions for different consumer segments. Its micro-segmentation has helped grow the product offerings on its platforms, streamline transaction processes, deepen partnerships with Insurer and Lending Partners, and offer tailor-made financial services solutions for varied segments. Its ability to identify and address a wide range of segments increases the number of products sold on platform through providing Consumers with more personalised and appropriate product offers, which in turn increases the business. With the rich data it generates, it maintains a significant competitive advantage over individual financial services providers.

Capital efficient model with low operating costs: As PBFL aggregate and distribute insurance and personal credit products offered by insurers and lenders and do not create its own products, it does not carry any corresponding Underwriting or credit risks. Further, as its brand continues to grow stronger, a larger percentage of users will use its platform directly or without marketing costs. As its platform and Consumer cohorts continues to develop, it expects a larger proportion of Consumers to buy either unassisted or with reduced levels of assistance, which should increase its capital and operational efficiency.

Founders with clarity of purpose backed by experienced management: PBFL' founders have a deep understanding of its Consumers' pain points and the structural problems in the insurance and financial services industry. They each have almost two decades of experience and commitment to solve those problems, along with a deep understanding of Consumer insights and technology. Its management team has rich domain expertise obtained through experiences in the sector. Its entrepreneurial culture and relentless focus on execution has helped it attract and retain talent to further help grow its business and execute on its plans. The Company's employees are guided by its culture and values to be focused on consumer protection and consumer service in everything that they do.

Business Strategy:

Broaden and deepen Consumer reach in India: PBFL endeavour to attract new Consumers while deepening its relationship with current Consumers for both Policybazaar and Paisabazaar platforms. Policybazaar strives to deepen engagement with its 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, it plans to expand its presence through offline channels by leveraging recently approved direct (life and general) insurance broker license. It aims to provide in-person Consumer engagement and services in local languages through offline retail offices across India. Further, leveraging direct (life and general) insurance broker license, PBFL will now also be able to provide its existing and new Consumers on-ground claims support.

It plans to follow a hub and spoke structure, wherein it will hire one regional manager for every five designated regions. Further, it also plans on developing a network of point-of-sale-persons across strategic locations in India.

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. As PBFL broaden and deepen its Consumer reach it will continue to play a significant role in the distribution of insurance products.

Expand playbook to replicate platform for SME and corporate clients: PBFL has built a proven, scaled and capital efficient business model targeting retail Consumers across insurance and credit. It plans to leverage its execution capabilities, 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. Its 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.

Continue to invest in brands: PBFL has created strong consumer brands with both Policybazaar and Paisabazaar that deeply signify trust and its consumer recall. It will continue to invest in its brand building activities to educate Consumers about insurance and personal credit needs and increase its brand awareness while maintaining proposition of neutral advice. Its approach is to invest in historically successful mediums such as television, while also expanding its marketing presence to capture shifts in Consumers' media consumption habits, such as in social media, digital media and embedded advertisements.

Neo-lending strategy to cover innovation and segment gaps: PBFL aims to co-create and design innovative products to address evolving Consumer needs, enable underserved segments to access credit, build lifetime engagement with consumers and create annuity revenue streams. These products would be targeted to large credit-starved segments, across geographies and income levels, and helping them meet unfulfilled credit needs. This will also allow the Company to collect large quantities of data related to usage and behaviour, which will provide key insights and intelligence that will help it improve and innovate further.

Continue to invest in digital and technology infrastructure: PBFL technology infrastructure and data analytical capabilities form the foundation of solving core issues for all its stakeholders, namely Consumers, Insurer Partners and Lending Partners. It will continue to invest in its platforms to ensure a seamless experience packed with convenience, speed and choices for Consumers, while providing finer data insights to its Insurer Partners and Lending Partners to further improve service delivery. It plans to use data analytics extensively to help Consumers with more personalised recommendations and an intuitive and effective experience.

Pursue strategic investments and acquisitions to enhance product and service capabilities: PBFL intends to pursue strategic investments and acquisitions which are complementary to its business to enhance product and service capabilities, which will help the Company scale faster. It aims to enhance its service capabilities both internally and externally through investments in the health and wellness segments that can offer better Consumer claims and purchase experiences.

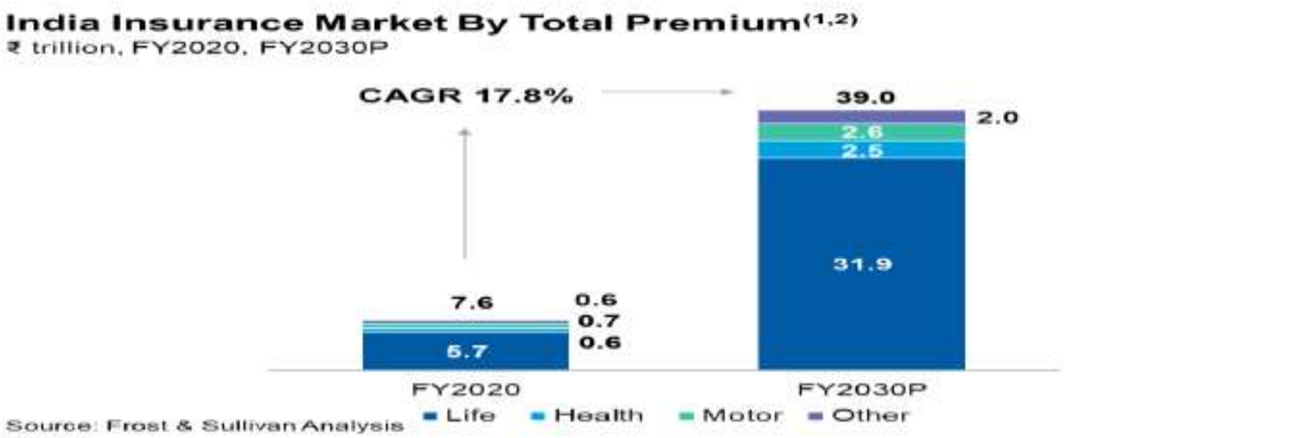
Pursue international expansions: PBFL has begun to expand in the Middle East with operations in Dubai, and it plans to scale up its operations and brand presence in Dubai and in the broader Gulf Cooperation Council ("GCC") region by investing in creating a strong brand, building a robust team to cater to the prospective consumers and in its operational capacity including through investments to develop technology and related infrastructure to service consumers in these geographies. It may pursue similar opportunities in select Southeast Asian countries by replicating its proven business model in India along with exploring inorganic growth opportunities. The Company also intends on building a team of experienced engineers and support staff in these regions who would work on building and maintaining its technology infrastructure. Apart from technology, it intends to invest in physical infrastructure, communication infrastructure, employee cost and support cost incurred on facilities used by employees and Consumer service.

Product offerings through Policybazaar: PBFL provides Consumers with access to an extensive range of insurance products offered by its 48 Insurer Partners as of September 30, 2021, which it broadly group into risk protection products, compliance led products and other products. As the Company is a Consumer-pull based platform and Consumers disclose their profiles and needs to it, it is able to analyse sets of small Consumer segments and provide Insurer Partners with access to those segments, assisting them in creating and offering targeted need-based products for each segment.

Industry:

Insurance Industry in India

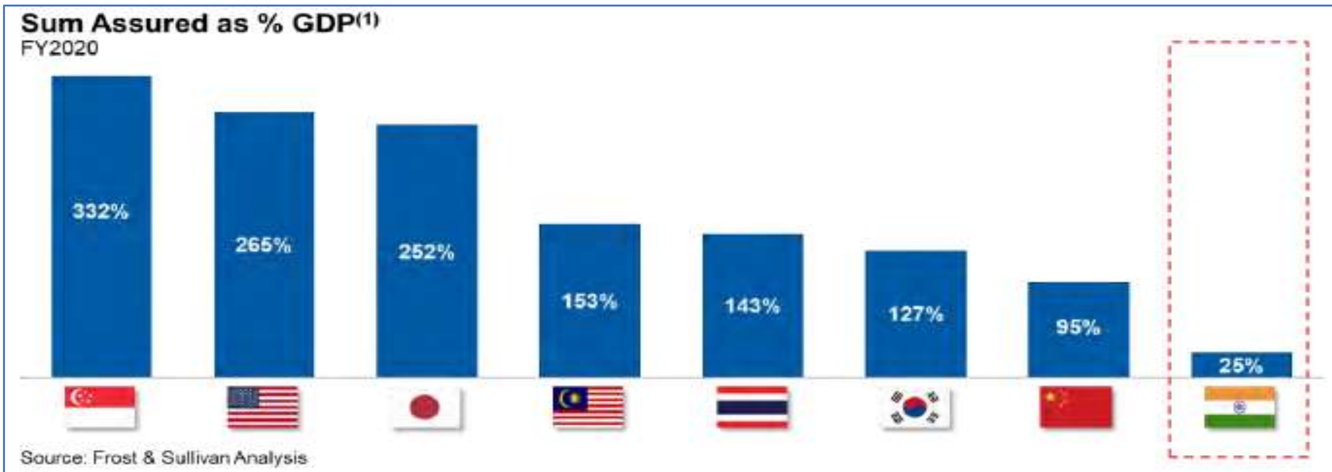
In FY2020, India had a Rs. 7.6 trillion (US$ 102 billion) insurance industry, measured in terms of Total Premium. This industry is expected to grow at a 17.8% CAGR to reach Rs. 39.0 trillion (US$ 520 billion) by FY2030, with life, health and other non-life insurance growing at 18.8%, 15.3% and 13.5% CAGR respectively, as per Frost & Sullivan. In FY2021, India's non-life insurance industry grew by 5.2% to Rs.2.0 trillion, with health, motor and other non-life insurance at Rs.0.6 trillion, Rs.0.7 trillion and Rs.0.7 trillion respectively, measured in terms of Total Premium.



Source: Frost & Sullivan Analysis

Notes:
1. Total Premium of Life Insurance is the sum of total premium underwritten by LIC and private sector life insurers and includes individual and group new business and renewals, if any
2. Total Premium of Non-life Insurance (Health, Motor and Other) represents Gross Direct Premium Income earned by non-life insurers from individual and group new business and renewal, if any

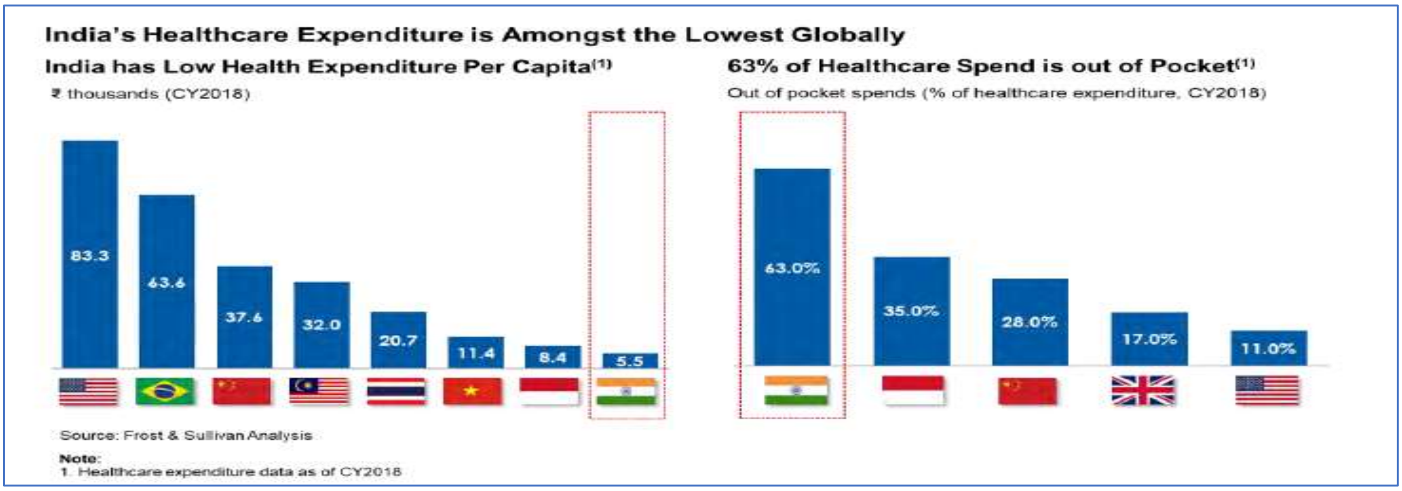
However, as compared with global peers, India has a highly underpenetrated insurance market. India was amongst the lowest in the world in terms of Sum Assured as % of GDP in FY2021. India mortality protection gap as a percentage of protection was at 83.0% in 2019, one of highest in the world, despite Indian households being disproportionately dependent on a single income earner. The below chart represents Total Sum Assured as a percentage of GDP for Singapore, Japan, USA, Malaysia, South Korea, Thailand and India for FY2020.



Source: Frost & Sullivan Analysis

Note:
1.Represents Total Sum Assured as of FY2020

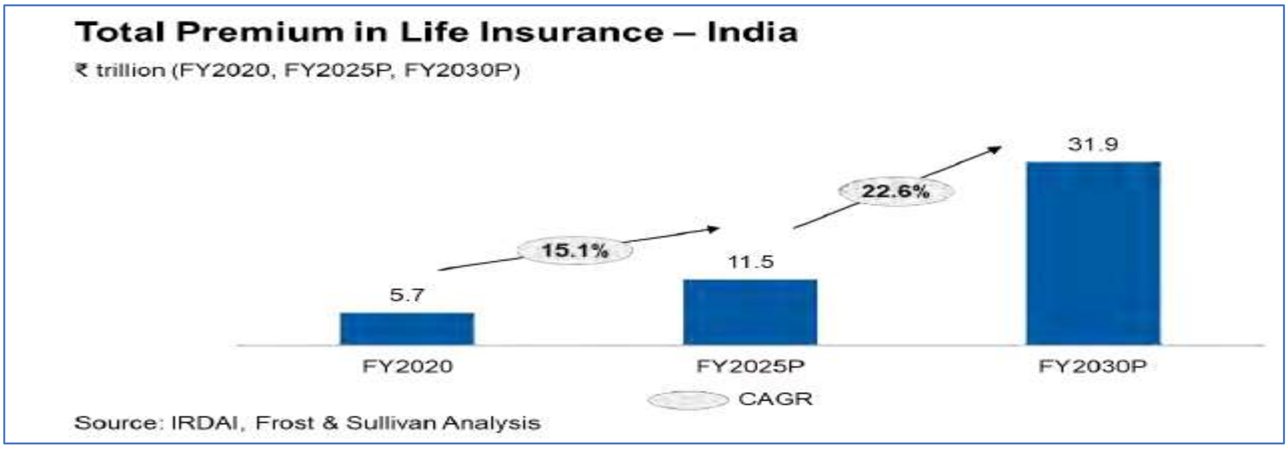
Over the last two decades, the penetration of non-life insurance in India, in terms of gross direct premium as % of GDP, has come close to holding ~1.0% of GDP. However, this is considerably low compared with 6.5% in USA and 2.1% in China. 72.3% of population in India are uninsured as compared to 10.9% in USA and 35.0% in China as per Frost & Sullivan. In 2018, India's health expenditure was amongst the lowest globally at Rs. 5.5 thousand (US$ 73) per capita, compared with Rs. 83.3 thousand (US$ 1,111) per capita in USA, and Rs. 37.6 thousand (US$ 501) per capita in China. Additionally, 63.0% of the India's healthcare expenditure was funded out of pocket in 2018, with only 10.0% getting financed by health insurance, as demonstrated by the tables below.



Low penetration in insurance industry stems from financial illiteracy, lack of awareness of need and sufficiency of insurance, low household disposable income, complex products, gaps in product offerings and inefficiencies in distribution system. Opaque cost structures, hidden fees, difficult to understand language and jargons has made people averse to insurance products. With limited disposable income, it is also difficult for most people in India to pay annual premiums to protect their life, health and other assets. The majority of people in India also view life insurance as an investment and tax-saving tool. People have been unenthusiastic to pure protection products as no monetary benefits accrue during life of the individual. On the distribution side, reach remains low and is a push driven model with agents, brokers and bank channels serving as primary sales channel. Lastly, there is no legal requirement for people in India to purchase non-life insurance (except 3rd party motor insurance), contributing to its low penetration.

Life Insurance

India is the world's 10th largest life insurance market, worth Rs. 5.7 trillion (US$ 76 billion) in FY2020 in terms of total premium. The new business premium from life insurance grew by 7.5% to Rs.2.8 trillion in FY2021. Despite being 10th largest, India's life insurance penetration remains lower at 24.6% (25.0% as of March 2021), compared to 265.0% in USA & 95.4% in China when measured in terms of Sum Assured as % of GDP, as of March 2020.

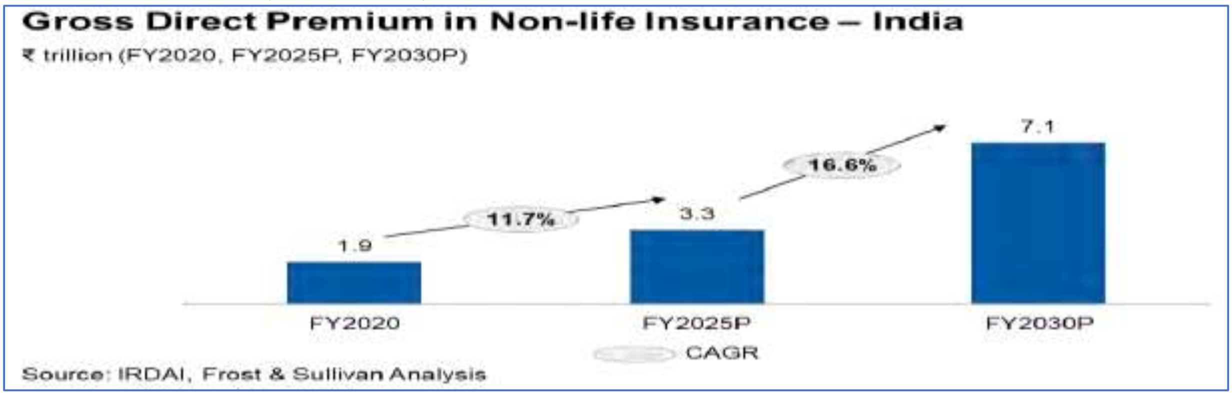


India's life insurance market is expected to grow at 18.8% p.a. to reach Rs. 31.9 trillion (US$ 425 billion) in FY2030 from Rs. 5.7 trillion (US$ 76 billion) in FY2020, driven by favorable macro indicators, rising awareness towards financial products and services, digitization and simplification of products and processes, online channels for distributions, innovations and customizations in products and favorable government policies and regulatory push. Industry participants are focusing on simplification of insurance process across the value chain ranging from documentation to underwriting to issuance. Introduction of eKYC, tele medicals, digital application forms and claim filing through website and linked bank accounts are some of the changes introduced by industry incumbents. Online players are playing a big role in making insurance purchase simpler and more convenient. Additionally, product and process innovation by manufacturers as well as insurtech players is narrowing the gap with consumer needs. Better policy management and easier claims process is also playing a key role in enhancing consumer experience. For example - adjustable life insurance, in which companies give policyholders the flexibility to modify premium payments, period of protection, and face amounts, thereby building confidence in life insurance products. Companies are also becoming better at assessing risks by adopting and deploying emerging technologies like data analytics and artificial intelligence and offering customized underwriting based on customer profile. In the last five years, the government has consistently supported the digitalization of services in India, resulting in the world's leading public digital infrastructure based on Aadhaar and UPI. Additionally, in 2021, IRDAI directed life insurers to standardize term insurance through Saral Jeevan Bima. This is expected to make it easy and convenient for the consumers to compare and buy term insurance plans. Furthermore, income tax benefits under the exempt, exempt, exempt (EEE) method of taxation available in section 10(10D) and 80C of the Indian Income Tax Act, 1960 are also expected to encourage middle-class consumers to invest in life insurance policies.

The spread of the Covid-19 pandemic has further raised public awareness about life and health risks and has increased demand for protection products. Consumers are becoming cognizant of their vulnerabilities and are able to better understand the benefits of buying life insurance products to ensure their dependents remain financially afloat for a long time.

Non-life Insurance

Measured in terms of gross direct premium, India was the world's 15th largest non-life insurance market, worth Rs. 1.9 trillion (US$ 25 billion) in FY2020 and Rs.2.0 trillion (US$ 26 billion) in FY2021.



The non-life insurance market in India is expected to grow at 15.2% p.a. to reach Rs. 7.1 trillion (US$ 95 billion) size (gross direct premium) in FY2030 from Rs.2.0 trillion (US$ 26 billion) in FY2021, driven by a burgeoning middle-class, rising awareness about insurance protection, innovative products, growth in associated industries, and favorable regulatory landscape. With consistent growth of disposable income in recent years, Indian households tend to diversify their consumption and purchase more financial products and insurance products. Risk awareness regarding the need for protection for any contingency are improving in India due to increasing financial literacy, urbanization and advance education system.

The lack of public health infrastructure, insufficient coverage of health insurance by government and expensive private healthcare facilities has brought insurance into limelight particularly during impending COVID-19 pandemic. In the future, with rising medical inflation and ~15% of the population in India turning 40 years old in the next ten years, India's health expenditure is expected to grow manifold. As a result, health insurance segment will become one of the most significant contributors to the growth of overall non-life insurance in India. Rise in affordability of motor vehicles is expected drive demand for motor insurance. Rapid rise in the urban middle-class households is expected to drive demand for housing and consequently more demand for property insurance.

In 2020, IRDAI allowed the issuance of health policies digitally, without physical documents and wet signatures. In addition, recent technological advancements on the distribution side, such as online insurance has led to a wider reach of non-life insurance in India and improving consumer experience. Regulations around withdrawal of bundled own damage / 3rd party insurance policies (2020) and allowance of point-of-sale (PoS) agents to sell insurance products (2017) are also expected to enable higher penetration for 2-wheelers 3rd party insurance. After the Reserve Bank of India (RBI) allowed lenders to act as insurance brokers in 2015, the number of tie-ups of banks with insurers have increased with deeper product level collaborations. Special income tax benefits under section 80D of the Indian Income Tax Act, 1960 are also expected to encourage middle-class consumers to buy medical insurance policies for themselves and their family.

Addressing the Challenges in the Indian Insurance Industry

The Indian insurance industry faces challenges such as high turnaround time in policy issuance due to manual processing of documents, lack of standardization of product features, lack of proper assistance for claims filing, and lack of full transparency about costs. Higher controls over the insurance sales process by manufacturers, introduction of standardized products and digitization across the value chain is helping in reducing these challenges. For example, the number of instances of misselling has reduced in recent years, from 47,503 complaints in 2018 to 35,178 complaints in 2020. This is led by constant efforts from insurance players and regulator in digitizing manual processes, improving transparency, and spreading consumer awareness. Digitization is also helping insurers to reduce processing time by improving and simplifying the overall insurance policy issuance and claims process. Further, players are focusing on maintaining a complete record of consumer interactions (including voice calls) for better risk management.

Role of Technology in the Insurance Industry

In the last few years, technology has become a focus area for all major insurers and many fintech players have emerged in the insurance space. Technological innovations are now helping insurers and fintech companies to increase productivity, improve consumer experience and cut operational costs, thereby creating value across the chain. These companies also leverage their deep data insights to understand specific consumer needs and provide a wider choice of customized products, improving the attractiveness of online financial services. Furthermore, using advanced technologies such as artificial intelligence and big data, such companies can create data-driven, risk-scoring models, thereby enabling better risk coverage across all lines of insurance business and helping their partner insurers in advance pricing simulation.

Online Distribution Channels

Online distribution channels are changing the insurance distribution landscape in India. Insurers and distributors now focus on providing a self-service platform through online modes which assist in delivering a superior consumer experience and making information sharing cost efficient and transparent.

The online insurance market consists of direct online sales by insurance companies and online sales by insurance distributors. In India, the online insurance market is highly underpenetrated with 1.0% of total premium sold online in FY2020 as compared to 13.3% in USA and 5.5% in China in CY2020. Further, of this market, digital insurance marketplace occupies 54.3% share in total online insurance market in FY2020. Going forward, share of online insurance is expected to improve significantly due to rapid digital adoption.

Digital insurance marketplace is playing a key role in distribution of insurance products in India. According to Frost & Sullivan, in Fiscal 2020, Policybazaar was India's largest digital insurance marketplace among all online insurance distributors with a 93.4% market share based on the number of policies sold. For this purpose, number of policies sold by all online insurance distribution platforms as per IRDAI has been used to derive the market share. Furthermore, in Fiscal 2020, Policybazaar constituted 65.3% of all digital insurance sales in India by number of policies sold (including online sales done directly by insurance companies and by insurance distributors). For this purpose, number of policies sold online directly by insurance companies and by insurance distributors has been estimated to derive the market share.

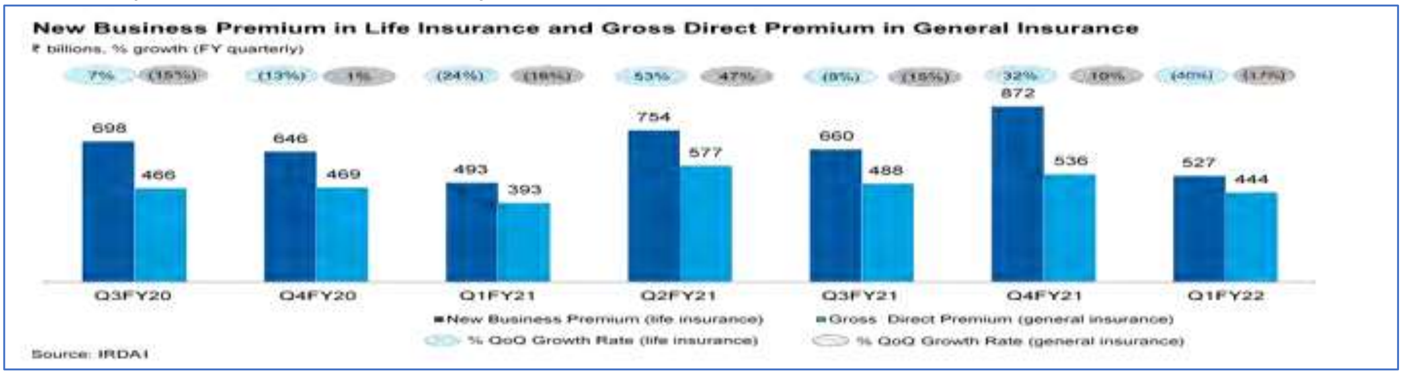
Models of Digital Insurance Distribution

Digital distribution models in insurance are of two types based on consumer interactions: -

Online insurance distribution model: This model focuses on aggregation of demand. It is fully digital and unassisted and provides consumers an end-to-end online experience. In this model, consumers can search for insurance products online from various insurers, compare and buy suitable policies and manage them digitally.

SAAS for agent aggregation (SFAA) – In this model, SFAA players onboard individual agents on their digital platform to interact with consumers and sell partner insurers products. These agents collate the data and upload it on digital platforms, helping insurers to issue policies digitally. While this model helps educate the consumers, there is a limited digital experience for them and no data insights for insurers apart from policy application details. Currently, the SAAS model assists in pilot testing and impact assessment of new technologies such as mobile and social media channels, thereby helping in designing comprehensive strategies around new platform/channel development. In India, while the online insurance distribution model exists for some protection products, a hybrid model with call center executives calling to aid is also prevalent.

Covid-19 Impact on India Insurance Industry



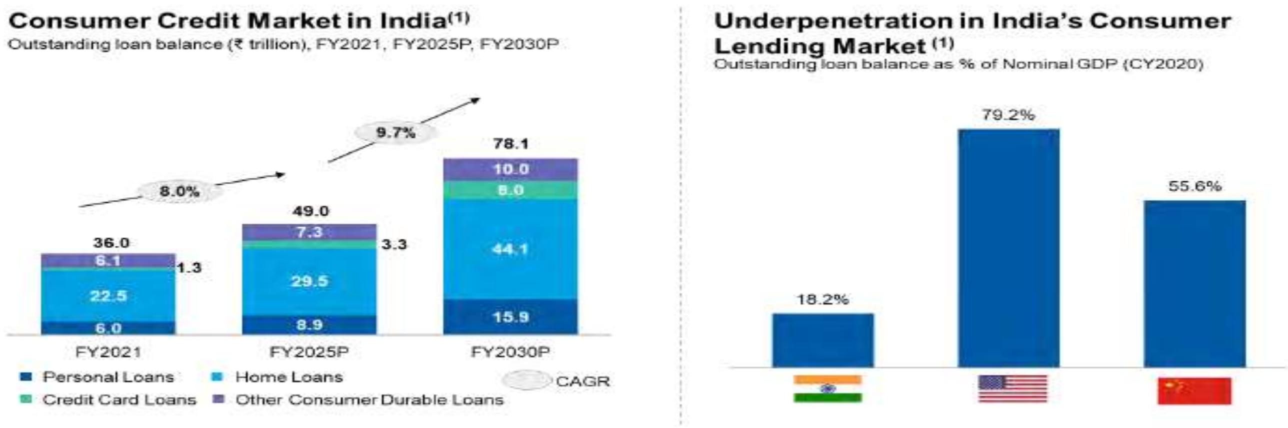
The Covid-19 pandemic rapidly raised public awareness about both health risks and the importance of insurance. During FY2020-21, insurers introduced various initiatives to deliver a superior consumer experience using eKYCs, video calls, AI-assisted tele-calling & contactless claims servicing, thereby simplifying the onboarding and claims process. Moreover, consumers who were confined to their homes during lockdowns welcomed the idea of securing themselves by purchasing insurance through online channels.

At the onset of a surge in the Covid-19 positive cases, India's insurance industry found itself digitally unprepared with significant reliance on physical KYCs and in-person medical checkups, affecting the consumer acquisition process resulting in a 24% fall in new business premiums for life insurance and a 16% fall in gross direct premium for non-life insurance in Q1 FY2021.

In Q2 FY2021, life insurance industry saw a 53% quarterly jump in new business premiums with eKYCs adoption and consumers push towards life insurance products to cover themselves and their families from the risk of loss of life in pandemic. The non-life insurance industry also saw a quarterly increase of 47% in gross direct premiums in Q2 FY2021, driven majorly by increased awareness about health protection policies. While health was an outlier in the non-life insurance space, motor insurance continued dismal performance in Q2 FY2021 due to poor auto sales and restrictions on road travel.

Indian economy started opening up in Q3 FY2021 after lockdowns. Consequently, situation worsened again in Q4 FY2021 at the onset of 2nd wave of Covid-19 pandemic in India. This brought back the consumers' fear for loss of life and led to a sharp rise in investment towards insurance products. As a result, there was a quarterly jump of 32% in new business premiums of life insurance in Q4 FY2021, wiping out all losses in life insurance premiums for first nine months of FY2021 Supply side constraints re-surfaced in Q1 FY2022 due to lockdowns and travel restrictions imposed across many states, resulting in 40% fall in new business premiums of life insurers in Q1 FY2022 since last quarter. Steady recovery post 2nd wave of covid has seen new business premiums in August 2021 increase by 36% month-on-month, driven by growing demand of unit-linked insurance plans. The non-life insurance industry also saw a similar trend with a quarterly 17% fall in gross direct premiums in Q1 FY2022 and an 8% increase in August 2021 on month-on-month basis.

Consumer Lending Industry in India



Source: Frost & Sullivan Analysis

Note:

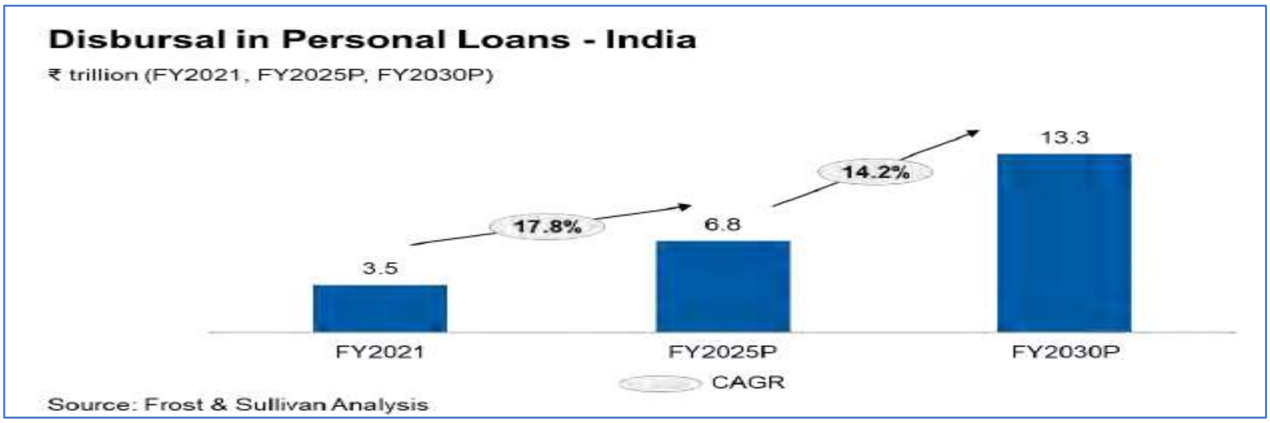
1. FY2021 for India. Includes year end outstanding balance of personal loans, credit card loans, home loans, education loans, auto loans and consumer durable loans. Excludes loans against property (LAP)

India's consumer lending market was Rs.36.0 trillion (US$ 480 billion) strong in terms of outstanding credit balance at the end of FY2021. Despite the large market size, India's consumer lending penetration, measured in terms of outstanding consumer debt as % of nominal GDP, is considered relatively low at 18.2% in FY2021 compared with 79.2% in USA & 55.6% in China in CY2020. The low consumer lending penetration in India is majorly due to inadequate financial literacy amongst the borrowers, the limited reach of lending institutions in tier 3 cities and rural India, low creditworthiness and lack of credit history of borrowers, and traditional consumer mindset of remaining debt-free.

India's consumer lending market is expected to witness 9.0% CAGR, reaching Rs. 78.1 trillion (US$ 1,041 billion) in outstanding balance by FY2030 from Rs. 36.0 trillion (US$ 480 billion) at end of FY2021, driven by improving financial literacy, growing discretionary spending, evolving consumer behavior to avail credit to fund regular expenses, wider reach of lending institutions, digitization by incumbents including KYC & application processes, entry of new age tech lending players and aggregators increasing reach and favorable regulatory push to improve lending process.

Personal Loans

Personal loans help consumers fund any shortfall in their discretionary expenses or medical emergencies. India had a Rs. 6.4 trillion (US$ 86 billion) personal loan market in terms of outstanding credit balance at the end of FY2021. In terms of outstanding credit balance to GDP ratio, India's personal loan penetration stood at 3.3% at end of FY2021. Additionally, in FY2021, disbursal in India's personal loans market reached Rs. 3.5 trillion (US$ 47 billion).

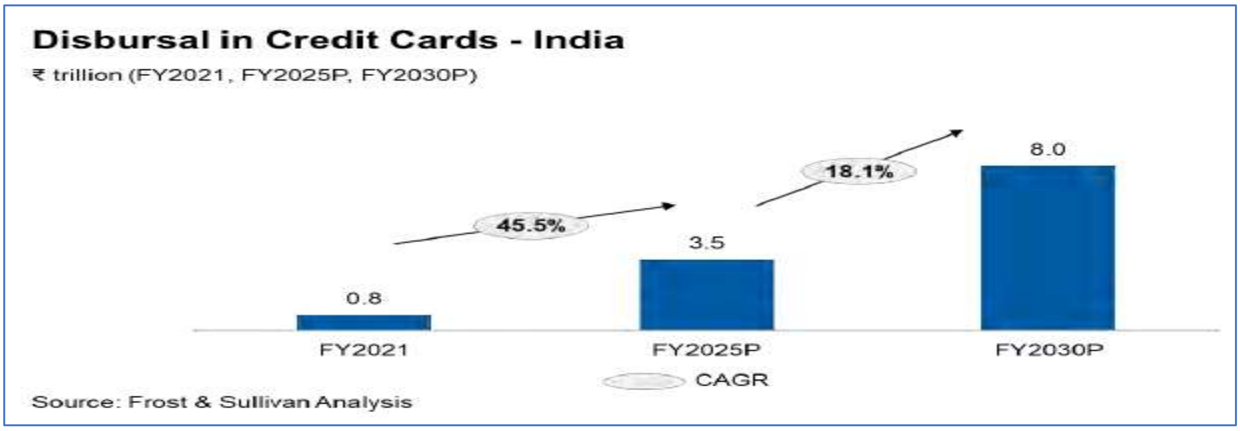


India's personal loan market is expected to reach Rs. 13.3 trillion (US$ 177 billion) in disbursal by FY2030 from Rs. 3.5 trillion (US$ 47 billion) in FY2021. This growth of 15.8% CAGR is expected to be driven by rising financial awareness, changing consumer mindset, improved credit scoring of borrowers, increasing discretionary spending, and digitization in lending processes.

There is a noteworthy change in Indian consumers' credit behavior away from obtaining credit for large one-time expenses such as weddings or medical needs, towards financing regular purchases. This shift has resulted in rising demand of small ticket size personal loans, which is largely unmet for new-to-credit consumers. This demand is expected to increase as awareness and availability of such products increases in India. Additionally, credit scoring of consumers with no credit history is expected to increase with rising organized sector employment and availability of alternative behavioral credit variables such as online transaction behavior, mobile app-based data, location information, and social media data. Rising per capita income in India is also expected to boost discretionary spending in organized retail market, leading to more demand for consumer credit. Moreover, digitization of KYCs, mobile app-based loan application process, and automated credit decision making reduce the time between loan application and disbursal, apart from improving service quality, leading to growth in personal loans lending in India. Furthermore, schemes such as 'Buy now, pay later', which provides convenient and faster form of financing for retail purchases and targeted towards millennials who do not have a credit card, are expected to contribute in improving personal loans penetration in India.

Credit Cards Lending

With only 63.4 million credit cards as on July 2021, India's credit card market is still in the nascent stages. India's credit card industry size was Rs. 0.8 trillion (US$ 10 billion) in terms of gross lending in FY2021. Despite being next to only China in terms of the number of debit cards issued, India has very low credit card penetration, which stands at only 4.5% (as of July 2021) when compared with 137.3% in USA & 54.1% in China in FY2021. The low penetration of credit cards in India is majorly due to lack of general awareness about credit card features and benefits to the consumers, very high interest rates. Additionally, lack of credit score results in ineligibility for new to credit consumers.



Faster adoption of e-commerce by tech-savvy population in India is helping in improving awareness about credit card benefits. Various schemes such as 'Interest-free EMIs' offered by merchants, 'Reward points', and credit card related cashbacks and discounts are expected to result in more credit card sales in India. Further, consumers' preference towards convenience and ease of doing transactions over cost factors, is also expected to drive India's wide scale credit card acceptability. New age players are focusing on using alternative consumer variables, such as utility payments profile, psychometric data, and social media insights as an alternative to credit score to issue credit cards. Further, the government of India push for digitization through UPI (instant funds transfer) and 'Bharat Bill Payment Service' (digitizing cash-based bill payments), and growth in POS infrastructure is expected to drive more cashless transactions and ultimately encourage more credit card usage in India.

Home Loans Lending

At the end of FY2021, India's housing credit industry size was Rs. 22.5 trillion (US$ 300 billion), measured in terms of outstanding balance. Despite being home to over 1.3 billion population, India had very low housing credit penetration in terms of the outstanding housing loan as % of GDP, which stands at only 11.4% in FY2021 when compared with 57.8% in USA & 41.2% in China in FY2020.

Credit Scoring in Lending Industry

Credit score is considered a vital indicator of creditworthiness or financial health of an individual. Lenders evaluate the credit score before giving credit to observe the borrowers' ability to repay the loan, understand their credit risk profile, and decide on the loan amount and interest rate applicable. Credit scoring is also used to determine minimum regulatory and economic capital levels and solicit prospective consumers and businesses with offers.

There are four credit bureaus in India that analyze the consumer data to provide the credit score - TransUnion Credit Information Bureau (India) Limited or CIBIL, Equifax, Experian, and CRIF High Mark. Traditionally, factors such as income level, amount of existing debt, number of active credit accounts, guarantees and collateral value, historical payment performance such as default information and payments in arrears, amounts owed, length of credit history, new credit, and types of credit are considered for computing the credit score. With the rising adoption of technology in consumer lending, behavioral data such as psychometric test scores and social media insights are also used in credit score computation.

Presently, there is very low awareness about credit score in India with ~300 million people in India with a credit score, representing only ~22% of the total population. The process of getting credit scores is highly time-consuming in India. It takes up to 20 business days to get the credit report in case of offline application and at least a day in case of online application with the credit bureaus, with each report (including credit score) costing Rs. 399-550.

Indian Consumer Lending Industry Recovering from Covid-19 Impact

Covid-19 pandemic impacted the consumer lending industry both structurally and cyclically. The pandemic introduced long-term changes in consumer behavior by shifting demand from aspirational & want-based credit to cautious need-based credit.

On the other hand, the pandemic also influenced the immediate consumer spending with travel restrictions and lockdowns, making consumers cutting down expenses on dining, luxury acquisitions, and other indulgences. Also, salary reductions and fear of job losses pushed consumers for smaller ticket size loans, for emergencies or immediate financing requirements. The pandemic created a liquidity crunch with NBFCs struggling with high credit losses and lack of new capital raise from securitization, on the supply side. Tighter underwriting of loans by lenders resulted in low approval rates. Additionally, lack of digital preparedness in the lending industry, with physical KYCs and paper-based loan application process, significantly impacted the consumer acquisition process, resulting in more than 60% y-o-y fall in loan inquiry volumes across personal loans, credit cards, and home loans in Q1FY2021.

To benefit the consumer lending market meaningfully, RBI injected Rs. 4.2 trillion liquidity via CRR reduction, long term repo operations and marginal standing facility. Government of India also announced loan moratorium and Rs. 13 trillion fiscal stimulus to help India recover from the Covid- 19 induced financial risks.

Furthermore, faced with low credit demand, lenders improved the loan disbursal process by making it quick, seamless, and filled with better convenience, using eKYCs, mobile-app based online loan application process, digital scoring and responsive consumer care facilities. Further, PSU banks started offering personal loans at attractive rates for consumers facing financial hardships, leading to growth in personal loans inquiry volumes Q2 FY2021 onwards. Also, credit cards inquiry volumes improved in Q3 FY2021, almost reaching one year before levels, due to a rise in spending options after the economy re-opening from the covid-19 lockdowns. Similarly, home loan situation improved after lockdowns, with inquires increasing in Q2 FY2021 and registering 4.8% y-o-y growth in FY2021. This growth was driven by pent-up demand, reduced interest rates, and attractive payment schemes, leading to many people refinancing their loans at lower interest rates. The 2nd wave of covid saw inquiry volumes fall by 49%, 8% and 13% quarterly for home loans, personal loans and credit cards respectively. However, the growth in inquiry volumes was better than that in Q1 FY2021 due to better preparedness of businesses and financial institutions (eKYCs, online loan application processes, etc.) for covid induced disruptions.

Key Concerns

- PBFL has a history of losses and it anticipates increased expenses in the future.
- The COVID-19 pandemic, or a similar public health threat, could adversely affect the business, financial condition, and results of operations.
- Operates in dynamic and competitive online fintech industries, which makes it difficult to predict future prospects.
- If PBFL Insurer and Lending Partners fail to offer insurance and credit products catering to the evolving needs of Consumers, it may not be able to retain existing Consumers or attract new Consumers to its online platforms.
- One of PBFL's objects of the Offer is to undertake investments in enhancing visibility and awareness of its brands, including but not limited to "Policybazaar" and "Paisabazaar". The manner in which such expenditure or investment will be made, or the outcome of such expenditure or investment, is not ascertainable at this stage.
- Any harm to PBFL's brand, failure to maintain and enhance brand recognition or reputation, or failure to do so in a cost-effective manner may materially and adversely affect the business and results of operations.
- Depends on cooperation with Insurer and Lending Partners. Business may be negatively affected if business partners do not continue their relationship with PBFL or if their operations fail.
- PBFL may not be able to ensure the accuracy and completeness of product information and the effectiveness of its recommendation of insurance products on its platform.
- Business is subject to intense competition, and it may fail to compete successfully against existing or new competitors, which may reduce demand for services, reduce operating margins, and further result in loss of market share, departures of qualified employees and increased capital expenditures.
- Insurance broking business is subject to various laws and regulations and PBFL's inability to comply with them may adversely affect the business, results of operations and reputation.
- The proper functioning of online platform and technology infrastructure is essential to the business. Any disruption to IT systems and infrastructure could materially affect the ability to maintain the satisfactory performance of platform and deliver consistent services to PBFL's users.

- Business generates and processes a large amount of data, and any failure to protect confidential information, prevent cybersecurity and data breaches or improper use or disclosure of such data will materially and adversely affect the business, reputation, financial condition and results of operations.

- PBFL uses sophisticated technologies for daily operations that require continuous developments and upgrades. It cannot be assured that these technologies will continue to fully support the business.

- PBFL integrates information technology systems with Insurer and Lending Partners' platforms. If there is any unauthorised data revision or a failure to maintain data integrity on the part of third parties, or if such third parties do not perform adequately or terminate their relationships with PBFL, it may severely and negatively impact its ability to serve Consumers, and its business, financial condition and results of operations could be adversely affected.

- Subsidiaries are subject to a stringent regulatory framework that affects the flexibility of PBFL's operations and increases compliance costs and any regulatory action against the Company and its employees may result in penalties and/or sanctions that could have an adverse effect on its business, prospects, financial condition and results of operations.

- PBFL is subject to periodic inspections by the IRDAI. Non-compliance with the observations made by the IRDAI during any such inspections could adversely affect the reputation, financial condition and results of operations.

- Negative publicity about PBFL, its Shareholders, Insurer and Lending Partners, user traffic channels that it cooperates with and other participants in the insurance industry may harm brand and reputation and have a material adverse effect on the business and operating results.

- PBFL's business model may be replicated by other online insurance and credit distributors or product and service platforms, and internet companies and traditional insurance companies aiming to engage in online insurance distribution business.

- Derives revenues from the sale of financial services products primarily on commissions and other fees agreed between PBFL and its Insurer and Lending Partners, and any decrease in these fee rates may have an adverse effect on the results of operations.

- Relies on third-party vendors for payment processing services. Any failure by such vendors to provide these services or to main adequate controls could adversely affect the reputation, business, financial condition and results of operations.

- Relies on collecting and analysing data to enhance business performance and results, and it cannot be assured that it will be able to accumulate or access sufficient data in the future or analyse the data effectively, the lack of which may materially and adversely affect the business and results of operations.

- A significant portion of revenue is contributed by insurance products. If Insurer Partners are unable to continue to offer these insurance products on PBFL's platform for any reason or the popularity of these products declines, its revenue may decrease and financial condition and results of operations may be materially and adversely affected.

- If PBFL cannot manage the growth of its business or execute its strategies effectively, its business and prospects may be materially and adversely affected.

- PBFL' strategy to expand internationally involves risks that could increase its expenses, adversely affect the results of operations and require increased time and attention from management.

- Acquisitions, strategic alliances and investments could be difficult to integrate, disrupt PBFL's business and lower its results of operations and the value of investment of investors.

- Success depends on the continued efforts of senior management. If one or more of PBFL' key executives were unable or unwilling to continue in their present positions, its business may be severely disrupted.

- If PBFL is unable to recruit, train and retain qualified personnel, its business may be materially and adversely affected.
- Future growth depends on the further acceptance of the internet as an effective platform for disseminating insurance products and content.
- The inability to identify, obtain and retain intellectual property rights could harm its business. Further, it may be subject to intellectual property infringement claims or other allegations by third parties, and any failure to protect its intellectual property could harm its business and competitive position.
- PBFL may not be able to obtain additional capital when desired, on favourable terms or at all.
- Failure to deal effectively with any fraud perpetrated on PBFL's platforms could harm the business.
- PBFL's Policybazaar platform is subject to seasonal fluctuations, which makes results of operations difficult to predict and may cause quarterly results of operations to fall short of expectations.
- Inability to use software licensed from third parties, including open source software, could negatively affect the ability to sell PBFL's solutions and subject it to possible litigation.
- A credit crisis or prolonged downturn in the credit markets may materially and adversely affect the reputation, business, results of operations and financial position of Paisabazaar.
- If the products available on PBFL's Paisabazaar platform or its services do not maintain or achieve sufficient market acceptance, or if it is unable to effectively manage Consumer or Lending Partner complaints and claims, or adequately comply with applicable regulatory requirements, its financial results and competitive position will be harmed.
- PBFL requires certain licenses, permits and approvals in the ordinary course of business, and the failure to obtain or retain them in a timely manner may materially adversely affect its operations.
- Changing regulations in India could lead to new compliance requirements that are uncertain.

Profit & Loss

Particulars (Rs in million)	Q1FY22	FY21	FY20	FY19
Revenue from Operations	2377.3	8866.6	7713.0	4922.5
Other income	204.4	707.5	842.7	365.6
Total Income	**2581.7**	**9574.1**	**8555.6**	**5288.1**
Total Expenditure	**3560.9**	**10464.3**	**10911.9**	**8283.4**
Employee benefit expense	2099.2	5540.5	5208.5	3976.2
Advertising and promotion expenses	1062.5	3678.4	4452.2	3458.5
Network and internet expenses	159.1	588.0	507.5	317.3
Other expenses	240.2	657.4	743.7	531.3
PBIDT	**-979.1**	**-890.1**	**-2356.3**	**-2995.3**
Interest	28.9	115.2	119.2	74.8
PBDT	**-1008.0**	**-1005.4**	**-2475.5**	**-3070.1**
Depreciation and amortization	100.4	413.8	473.0	304.2
PBT	**-1108.4**	**-1419.1**	**-2948.4**	**-3374.3**
Tax (incl. DT & FBT)	**0.0**	**83.3**	**91.9**	**93.8**
Current tax	0.0	82.9	91.9	0.0
Tax related to earlier periods/years	0.0	0.4	0.0	-0.5
Deferred Tax	0.0	0.0	0.0	94.3
PAT	**-1108.4**	**-1502.4**	**-3040.3**	**-3468.1**
EPS (Rs.)	-2.91	-4.11	-8.68	12.01
Face Value	2	2	2	2
OPM (%)	-45.8	-16.7	-37.4	-63.6
PATM (%)	-42.9	-15.7	-35.5	-65.6

Balance Sheet

Particulars (Rs in million) As at	Q1FY22	FY21	FY20	FY19
ASSETS				
Non-current assets				
Property, plant and equipment	203.2	234.7	403.0	318.9
Right of use assets	1144.1	976.8	1013.3	850.0
Intangible assets	35.7	36.1	56.8	19.9
Investments	0.5	0.5	0.0	0.0
Other financial assets	118.3	104.8	59.2	106.1
Current tax assets (net)	661.5	549.5	1117.5	817.4
Other non-current assets	6.1	9.9	0.8	4.4
Total non-current assets	**2169.3**	**1912.3**	**2650.6**	**2116.7**
Current assets				
Financial assets				
Investments	5550.8	1377.1	19.9	1252.5
Trade receivables	1609.0	1729.0	1787.7	1312.9
Cash and cash equivalents	411.0	4387.7	8534.3	1069.4
Bank balance other than cash and cash equivalents	9306.3	13714.1	2522.1	1604.2
Loans	3.9	3.2	5.8	2.8
Other financial assets	3588.2	57.4	76.6	1.2
Other current assets	150.5	126.5	163.1	154.8
Total current assets	**20619.7**	**21395.0**	**13109.4**	**5397.8**
TOTAL ASSETS	**22789.1**	**23307.3**	**15760.0**	**7514.5**
Equity and liabilities				
Equity				
Equity Share Capital	822.5	0.5	0.4	0.4
Instruments entirely equity in nature	0.0	11.9	10.7	8.4
Reserves and surplus	18699.0	19905.0	12647.4	4894.2
Total equity	**19521.5**	**19917.3**	**12658.5**	**4902.9**
Non-current liabilities				
Financial liabilities				
Other non-current liabilities	0.0	0.0	0.0	2.6
Lease liabilities	1,119.78	958.28	934.86	644.43
Employee benefit obligations	246.16	222.1	136.16	92.21
Total non-current liabilities	**1365.9**	**1180.4**	**1071.0**	**739.2**
Current liabilities				
Financial liabilities				
Lease liabilities	132.05	128.57	149.56	242.66
Trade payables				
total outstanding dues of micro enterprises and small enterprises	34.99	36.93	92.11	29.79
Total outstanding dues of creditors other than Micro and small enterprises	994.97	982.18	1,087.20	1,080.43
Other financial liabilities	359.16	444.51	364.96	285.9
Employee benefit obligations	192.08	163.47	136.21	99.86
Other current liabilities	188.35	453.88	200.46	133.68
Total current liabilities	**1,901.60**	**2,209.54**	**2,030.50**	**1,872.32**
Total liabilities	**3,267.54**	**3,389.92**	**3,101.52**	**2,611.54**
Total equity and liabilities	**22,789.05**	**23,307.26**	**15,759.99**	**7,514.48**

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