PB Fintech Limited

"PB Fintech Limited Q1 FY'23 Earnings Conference Call"

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PB Fintech Limited

CHORUS CALL®

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Moderator: Ladies and gentlemen, good day and welcome to the PB Fintech Limited Q1 FY'23 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Ms. Rasleen Kaur. Thank you and over to you, ma'am.

Rasleen Kaur: Thank you for joining us today. We have with us Mr. Yashish Dahiya -- Chairman and CEO, PB Fintech; Mr. Alok Bansal -- Executive Vice Chairman and Whole-Time Director of PB Fintech; Mr. Sarbvir Singh – President, Policybazaar; Mr. Naveen Kukreja -- CEO, Paizabazaar; Mr. Mandeep Mehta -- CFO PB Fintech. Now I request Mr. Yashish Dahiya to give us a brief update about the Q1 FY'23 Results.

Yashish Dahiya: Hello, everyone. Before I get into the details on the way forward and the Q1 FY'23 Performance Metrics, I'd like to reiterate some facts about our business. There are four pillars that I believe we stand on. Firstly, a majority of health and life insurance consumers in India do their research on Policybazaar. This leads to a higher persistency for these consumers, because having done their research, they somewhat know what they are purchasing and hence their likelihood of churning is much lower.

Second, we have the best conversion engine for digital enquiry and continue to improve it, as demonstrated by the increased premium for enquiry of 32% over the last 12-months.

As a third leg, we continue to improve the platform in terms of consumer onboarding, service and claim capability, demonstrated by the CSAT which is at 83%, and the number of unprompted customer messages we receive every day on claim support as well as customer onboarding.

And lastly, but not the least, a higher customer disclosure, which is because the customer is filling out forms themselves, along with stronger data analytics, and fraud detection mechanisms, which lead to a better control on the claim ratios, which eventually also lead to higher claims settlement rates.

We continue to build on all four of these pillars, and we get stronger every day.

Our core businesses, the Insurance Marketplace Policybazaar and the Credit Marketplace Paisabazaar, grew at 59% year-on-year, and have now been adjusted EBITDA-positive for a second quarter running. Out of the total revenue, the credit linked revenue was ₹ 84 crores for the last quarter.

For our insurance business, we had an adjusted EBITDA of ₹ 18 crores positive for the last quarter.

For complicated products like health and life insurance, we have been extending our customer connect beyond remote calling by giving consumers the convenience to have physical meetings at their home or office and in their local language. We are happy that customers have accepted this wholeheartedly and the results continue to encourage. We have also extended on-ground claims support in 114 cities as of date.

Our renewals revenue is now at ₹ 270 crores annual run rate, and as we have previously mentioned roughly 85% of this flows directly to the bottom line.

Paisabazaar, our credit marketplace continues to grow very well and has rebounded strongly from COVID. We are now at an annual run rate of ₹ 11,200 crores disbursal and 4.3 lakh credit cards issued. We have over 29.5 million customers who have accessed the credit score platform in 823 towns. This number represents 13% of India's active credit score consumers. 75% of these consumers are from non-metros. With increasing digitization, the digital marketplace like ours obviously stands to benefit.

Co-created product strategy is shaping up well with step up cards, duet credit cards, etc. Our contribution margins have improved significantly over the last two years. And I'm quite pleased to say, at this stage, we expect the credit business to turn adjusted EBITDA-positive by Q4 this year.

To update on new initiatives, PB partners our seller aggregator platform leads the market in scale, has the highest proportion of non-motor business, and has started increasing efficiency. We continue to be positive on all the other new initiatives as well.

Essentially, we have delivered two quarters of positive adjusted EBITDA on our core business now. Now onwards, the core business, in our best opinion, should continue to grow EBITDA by roughly ₹ 150 crores every passing year.

We are very comfortable supporting new initiatives at roughly ₹ 200 crores a year burn as of the present month.

Just to take you through seasonality, Q4 is easily the strongest quarter in our industry and Q1 is the weakest. However, our core revenues are roughly the same in both these quarters; if you notice Q1 revenue was 96% of Q4.

Last year Q1 was a COVID year and health and life insurance demand in terms of enquiries had peaked. The enquiries in the months of April and May this year were not at the same level as last year. However, we were still able to continue to grow, largely owing to higher premium per enquiry which we achieved due to our operations.

Enquiry growth has returned in the last few months, and we are confident of higher growth in the coming months and quarters.

We are a significant and growing contributor to the fresh retail term and health business, and in fact, even to the savings business now of our country, and have delivered two quarters of positive adjusted EBITDA in our core business. And we feel we could be adjusted EBITDA-positive as a group by Q4 of this year for the entire business. It is close enough and we have confidence enough and we are happy to take questions now.

Moderator: Ladies and gentlemen, we will now begin the question-and-answer session. Our first question is from the line Sachin from Bank of America. Please go ahead.

Sachin: I have a few questions. So first question I would actually like to understand how is the mix for your business change as we are recovering away from COVID in terms of health, motor, life, any specific changes we are seeing out there? And a related question is, hopefully, your business is not too impacted. But any impact on the back of inflation have we seen?

Sarbvir Singh: Sachin, on the first part, we've seen a stronger growth in motor in Q1 than other businesses just because last year was very low. But otherwise, as Yashish mentioned, health and term, we were able to build despite the drop in enquiries from last year. So we're not seeing any major change in the mix of our business in the first quarter. The impact of inflation is also fairly subdued on our business so far. I think there is some general impact on the economy, but for our business has been fairly subdued.

Sachin: Second question is, you guys mentioned on being close to adjusted EBITDA breakeven by 4Q. Any thoughts on how do you guys look at the steady state sustainable EBITDA margin, and how soon you should be able to reach that after being close to EBITDA breakeven?

Yashish Dahiya: So I think we've given a very clear indication now that was really aimed at the analyst community that we believe we should be increasing our profitability by ₹ 150 crores from here onwards every passing year. So that should give you a pretty good steer, and I don't see that slowing down for the next three, four years at least. So that should give you a pretty clear steer on where we believe the profitability could reach over the next four or five years if one breaks even by Q4.

Alok Bansal: Sachin, if we look at the core business, it's been profitable for last two quarters now and that should continue to build and as we get to the year end, that number should be big enough to cover for the experiments that we do. We would definitely want to invest behind the experiments to the extent we feel comfortable, and that number Yashish already given us about ₹ 200 crores. By the way our core business continues to deliver efficiency. I think over next few years starting from next financial year itself, we will continue to see this EBITDA being positive. In fact, the ESOP charges also will come down quite substantially because of the way accounting happens. So from 2024, '25, I think ESOP charges will be quite miniscule compared to the sort of EBITDA we will provide.

Yashish Dahiya: We'll have a third of what they are now.

Alok Bansal: We'll be talking about EBITDA by that time and not adjusted EBITDA.

Sachin: And my last question, Alok is just a follow up on the experiments you mentioned. Clearly, while you guys have given a guidance of ₹ 200 crores, the kind of investments we have made look a bit conservative as compared to ₹ 200 crores. So is there a general thought process that if you're not able to invest that, that could be returned back to shareholders, how do you look at that?

Alok Bansal: When we say, investments, Sachin, we are not talking about investments in third-party or acquisitions, we're talking about investments into our experiments, because the seller aggregation platform, the POSP platform that we have "PBpartners", the corporate business that we are building, and the international business through the UAE entity that we have got. These are the investments that we were mentioning about ₹ 200 crores. We remain choosy in terms of our investment into any inorganic growth opportunities. We will only invest if we feel that there is a potential of some synergy with either Policybazaar or Paisabazaar platforms. But generally, we have been more build versus acquire, and I don't think that is going to change in a hurry.

Moderator: We'll take the next question from the line of Nikhil Agrawal from VT Capital. Please go ahead.

Nikhil Agrawal: Sir, with regard to the new initiatives and investment that you mentioned, so given that we have started the physical model, and we started to begin a physical presence in the form of stores, and we have the target of establishing more than 200 stores by FY'24, Why do we see a reduction in the expenditure in the new initiatives as of this quarter?

Yashish Dahiya: So first of all, all our physical stores or physical presence are not part of our new initiatives. I think we have clarified this many times. They are part of our core business. And so all those costs are in the core business, all those margins are in the core business. And when we say the core business is profitable that at the adjusted EBITDA level, that implies it includes all those costs of all those stores and all those physical people and everything is included in that.

Nikhil Agrawal: Why the expenditure on the core business down from last quarter?

Sarbvir Singh: The expenditure is just a function of the revenue, right. The revenue is down a little bit compared to last quarter because of the seasonal nature of the business. The expenditure follows that. There is no other thing, right.

Yashish Dahiya: There isn't a major change, it's pretty much the same as last quarter.

Alok Bansal: We don't really give a break out in terms of the expenditure done on the FOS or the physical store side that we do. That is still a very nascent part of the core business, it's growing, and we are taking very major calls for each location and each store. As these grow, we keep on investing more and more behind these. Typically, any particular store requires a small investment from CAPEX perspective, and then there is small investment from the OPEX perspective in the first few months. Within those three months or six month timeframe, people start to actually break even within the store or within that location and start to contribute back. So we have been expanding slowly.

Yashish Dahiya: Just to explain, so there's no confusion on this. Our existing business revenue, last quarter was ₹ 386 crores and that is now ₹ 371 crores, and Q4 is the biggest quarter. And the contribution has gone from ₹ 179 crores to ₹ 167 crores. Actually, the EBITDA is down by about ₹ 5 crores. So while the revenue has declined by roughly ₹ 15 crores, the EBITDA is only down by ₹ 5 crores, that means the expenses have gone down by about ₹ 10 crores, which is okay, at that level, it is a 3%, 4% shift here or there. It's pretty much the same as it was, there isn't much change.

Nikhil Agrawal: Sir, if you could give me the renewal revenue for this quarter?

Yashish Dahiya: The renewal revenue for annual run rate is at ₹ 270 crores as of July.

Nikhil Agrawal: What part of the total premium would be life and health premium as of today, since health is a major focus as that generates the most renewal revenue for us?

Sarbvir Singh: Approximately 75% of our premium is life and health.

Nikhil Agrawal: Going forward in the POSP business, as we've been doing this, the third-party agents on come on our platform and sell our insurance products, and we forego major part of the fee to them. So going forward, how much of that is going to be given to the third-party agents? Are we changing that in the coming quarters or is it the same model as of now?

Sarbvir Singh: So I think the answer to that question varies by category and by sub-category even. And as you can imagine, it's a competitive market. So I can't share exact details with you. But what we are trying to do is to improve the retention as we go along as the loyalty of our agents builds. So the way this works is that agents care about cash flow, they care that who pays them on time and who pays them reliably. Now, we've established that over the last four quarters that we are a big player in the market, we are paying on time, our technology now is the best in the market. So people like to work with us. So, as that happens, we will be able to retain more as we go along, and you will see the impact of that as the quarters develop.

Nikhil Agrawal: Any target for physical presence for this year in the form of stores?

Sarbvir Singh: Stores are a small part of our overall physical presence. Just to give you a sense, we have over 600 people deployed in the field. We have 40 stores only. So stores are a small portion of the overall story. We expect that as the economics prove themselves out, we will continue to expand both the number of people in the field as well as the number of stores.

Nikhil Agrawal: How much are we spending on the customer grievances, that is the call center service and other people that are picking up the calls and addressing the demands of the customers?

Yashish Dahiya: I remember as of last few months, there are about 300 people who are answering customer queries and grievances. So yes, we, of course, spend on that but that cost is included within our margins from our core business.

Nikhil Agrawal: And does it form a significant portion of the employee expenses?

Yashish Dahiya: No, it's not a major portion.

Moderator: We'll take our next question from the line of Sachin Dixit from JM Financial. Please go ahead.

Sachin Dixit: My first question was with regards to the life insurance sector. Today itself it's a very dominant force with almost 20%-odd market share and you guys onboarded LIC five, six months. Are you driving benefits from that partnership now or is it still work-in progress?

Sarbvir Singh: LIC online journey started just last month with us after all the integrations have been completed. The first month, as you can imagine, it's been a good start. We are slowly building the business. We are very optimistic and I think we see a very good opportunity ahead. As you said, LIC is a major player in the business, and I think we will also benefit from that as we go along.

Sachin Dixit: So far the traction is not good?

Sarbvir Singh: I said the traction is very good. We've just started.

Sachin Dixit: If you can provide me some sort of mix between new business premium renewal, and B2B or the POSP premium basically, because obviously for you guys, new initiatives are coming to almost 25% of your revenue today and we do not have much numbers. So would be helpful to get some perspective?

Yashish Dahiya: We don't do those breakups historically. Sorry about that.

Sachin Dixit: Just like it's become a significant part of your revenue today, right, so, would be helpful going forward at least?

Yashish Dahiya: The revenues are mentioned. So I think we only do Policy versus Paisa, we don't go into segment wise breakup within the company. We just don't do it for various reasons. I understand that there is requirement or desire to have that, but we don't provide it.

Sachin Dixit: Because without any drivers, we do not have numbers for POSP, we do not have premium, right, it's very tough for us to drive the model, as this is just a number for us right now.

Moderator: We'll take the next question from the line of Arjun Vikas from Alpha Wave Global. Please go ahead.

Arjun Vikas: Quick questions. On credit card, I understand we are going to launch co-branded cards or come out with some card offering of our own. Does that get impacted in any shape and form with the recent PPI in regulation with banks loading of those cards with credit?

Naveen Kukreja: Arun, the PPI regulation was impacting the prepaid instrument. When we talked about the cards we have two co-branded credit cards live in the market. So they do not get impacted because they are on the credit card platform not on the PPI platform. And they satisfy the co-branding conditions that RBI has laid out when they came out with a regulation on what is allowed and what is not allowed for a co-brand partner to be doing. In both the cases we work with different banks. So we working with them as per the regulations.

Arjun Vikas: So no impact in our plans going forward either I'm assuming?

Naveen Kukreja: Absolutely, no impact.

Arjun Vikas: I was seeing the slide on the claim settlement ratio, which says that we're probably eight percentage points higher than the industry. Just wanted to check are we doing here which is so different, is it just the underwriting, which is driving this in some shape and form because there's less of frauds involved at the time of underwriting or there's actually something they're doing at the time of service, which is helping this incremental percentage?

Sarbvir Singh: The claim settlement ratio is an example from health insurance. So the reason that is happening is that because we have higher disclosure upfront. So the main reasons why claims tend to get rejected is because there was lack of disclosure. So person has not told that there is certain pre-existing illness so the insurer has to reject for that reason. Because we have such high disclosure, our customers, when they claim, their policies tend to be very clean. And secondly, our customer also understand their policies much better than probably average. So the whole process both in terms of their making relevant claims, and the fact that they disclose everything, tends to do that. On top of this, we've spoken about the claim support that we are providing. So, we have physical presence in 114 cities now. Our person shows up at the hospital if required, we have call center support as well. So when a person has to file a claim, we guide them in terms of what documents are required, what all is needed. So that also helps in ensuring a higher claim settlement ratio.

Arjun Vikas: Would you be able to share any kind of guidance or numbers around customer acquisition costs, and the kind of premium we do per agent at the call center now or has it changed significantly?

Sarbvir Singh: I think it's really hard to talk publicly about these sensitive numbers, but I would just say that, as you can imagine the premium per enquiry is building, right, I think that number has been shared at over ₹ 1,500 per enquiry. So I think as that builds, you can imagine that the productivity of our agents is only improving as we go forward. And again, just to remind everyone, the reason our agents are productive is the fact that the person when he comes to Policybazaar, there higher intention of buying insurance. So this is the only platform in the insurance ecosystem where someone comes to buy insurance versus being sold insurance. So that is step one for the reason why our productivity is high. And then of course, our agents are very well trained, they have, great support from a technology perspective, from a CRM perspective, and everything. So it's these two things put together. The fact that a person comes with higher intention of buying insurance, and secondly, because we have very well trained and very capable agents. These numbers are only building as we go along.

Yashish Dahiya: If you look at our overall health and life business per se, at a very rough number, that number is about ₹ 10 lakhs per agent, at a broad number per salesperson, that's about ₹ 10 lakhs per month. Typically, an agent in the market would be quite happy if they are selling about ₹ 50,000. So about 20x the productivity of what you would call a standard offline agent. And as Sarbvir mentioned, that is largely driven by the fact that there is a desire on the part of the consumer to buy, which is what is expressed by at least voluntarily coming to the site to research that particular product, and the technology platform which allows for better onboarding, issuance, etc.,

Moderator: We'll take our next question from the line of Nischint Chawathe from Kotak Securities. Please go ahead.

Nischint Chawathe: Two questions from my side. One is the new premium per enquiry, this has gone up by around 15% on a quarter-on-quarter basis. So how should we really think of it? You mentioned that for obvious reasons, motor premium was higher in this quarter. I would believe that motor premiums would be maybe in line or maybe slightly below your average premium. So how should we really think about it, is it something that you were able to grow savings at a faster pace or is it something that you've seen a very similar increase in ticket size across products?

Sarbvir Singh: So first of all, motor is a very small portion of that answer. I think the real answer is that as we just discussed the productivity of our agents is going up. So they are able to convert more leads per agent than they were converting earlier. This is driven again by two or three things; intent of the customer, the technology that we are providing our agents to talk as well as the onboarding, etc., and the third thing is the offline component that we have added, where a person is able to visit the customer in their home or office as they desire. And that is giving us an incremental productivity and incremental conversion. So when you put these three things together, that is what you're seeing in that average premium per enquiry, which is being driven upward.

Yashish Dahiya: So just to kind of add to Sarbvir's answer there, iif you look at the last 14 years of our existence, we have been putting in the efforts on technology, product and the customer, and our training all along. But never in history, have we seen a premium per enquiry go up at the rate that it has gone up in the last 12-months. And the primary reason for that is the fact that we have started the physical channel. That is the biggest reason why this premium per enquiry is going up. Although that alone will not explain it, because only about 15% of the premium started going through that channel. So that does not explain 32% increase. But that will probably be the biggest differentiator over the last few years.

Nischint Chawathe: Basically, the offline format is obviously doing larger ticket?

Yashish Dahiya: There is no doubt the offline format is more productive.

Nischint Chawathe: So these are 15% offline enquiries –

Yashish Dahiya: We don't have a single offline enquiry, just wanted to clarify. All enquiries come online. They can be closed on the website without assistance, which is what happens to almost all motor, two wheeler and travel business. For health and life, a bulk of the business used to get closed by the call center through a voice call or a video call, and now increasingly, customers also have the ability to meet with our agents in their office or their home. And that last leg is contributing to about 15% of the business. And that is where some of the growth in productivity, etc., is coming from, and that 15% has been growing every month for the last 12 months, 15% is a significant part to start going through a new channel.

Alok Bansal: Mix change and all will keep on happening. Some of these are controllable, some of these are not controllable. But if we were converting at x-percentage earlier, are we doing a better job of it? Yes, because of the training, because of a lot of other stuff, integrations and all. The effort required per transaction has come down and it's coming down every quarter. The second part is are you able to add something to the x, is it becoming x-plus delta. That's where the offline physical part is also helping. So for the same 100 enquiries, we're able to convert more and convert faster. And that is an effort which will continue specifically on the physical side, it's a very young experiment still. As we understand more, and as we learn more, I think we continue to hopefully deliver more and more premium per enquiry from that perspective.

Nischint Chawathe: The second question is on EBITDA line, I'm looking at slide #4. What you're saying is that Q1 FY'23 adjusted EBITDA, non-GAAP is negative ₹ 66 crores number. And specifically what you are guiding is that the ₹ 66 crores will come closer to zero by the fourth quarter. Is that right reading?

Yashish Dahiya: Right reading, absolutely.

Nischint Chawathe: And the new initiatives, which I believe largely is the POSP business is currently you have expense of around ₹ 71 crores this quarter and you mentioned that you are okay to spend approximately ₹ 200 crores per year. So, in that sense, your existing business will have to kind of match up to get into a negative or to a near zero number, is that a right reading?

Yashish Dahiya: Yes, so the existing business will more than cover that cost by the Q4, we are fairly confident of that.

Alok Bansal: There are three parts again here if you look at it. One is what we're doing on the insurance side, which continues to be EBITDA-positive and continues to become stronger and stronger over the quarters. The second is what is happening on the credit side, where the EBITDA loss has come down. And as Yashish mentioned earlier, by the end of this year it'll be breakeven. And third is the experiments, which you can already see compared to last quarter, this quarter, the number has come down in terms of the investment that we have done on those experiments. But our endeavor is to keep it around ₹ 200 crores for the year. This was the first quarter, obviously, you can see that the number has come down to ₹ 70 crores from ₹ 90 crores. But for the year, we are quite hopeful that it will be very near to ₹ 200 crores. So by the time we get to the Q4, all these things put together, should hopefully jump into adjusted EBITDA-neutral or positive quarter for us.

Nischint Chawathe: Just one request. If one or two quarters down the line, if can start sort of splitting the existing business into the credit and the insurance business, I think that will just help us to read the numbers or the underlying terms better?

Alok Bansal: We will take that input and come back to you on it.

Moderator: Next question is from the line of Arpit Shah from Stallion Asset. Please go ahead.

Arpit Shah: I have a couple of questions. I just wanted to understand what will be a quarterly revenue share, let's say how the first quarter would look like and how the fourth quarter would look like because we are a season businesses and this Q4 is a typically a heavy quarter for the insurance industry, so how would Q1, Q2, Q3 and Q4 would look like in terms of as a percentage?

Yashish Dahiya: See, we don't give forward guidance and all that, except for the one I'm giving for Q4, I'm giving some forward guidance, because I think everybody needed it and we also feel fairly confident of it now. But historically, the year has been about 5.5x of the first quarter, but seasonality is reducing for us. So you can make your own judgment call on how it would play out. It varies by vertical also.

Alok Bansal: Typically, what happens is, if you look at industry, because industry is skewed towards savings product, that's why you see much higher seasonality for the industry. In our case, because we have very big portion of protection, which is not as seasonal, the number is not as skewed also, and the number has been coming down for us. In fact, a few years back that number used to be quite big, but now I think as Yashish said this number for a couple of years would have been about 5 to 5.5.

Yashish Dahiya: If you look at last year, we did ₹ 1,400 crores at the end and this quarter was ₹ 240 crores. So that's a little more than 5x. But we have a lot of growth of new initiatives in the latter part of the year. So there are two parts there, right. Last year, actually, Q1 was quite a strong quarter because of COVID compared to the rest of the year, but at the same time, we had a lot of new initiatives growth. So my view is as a fair assessment, the number has historically been about 5 to 5.5x. I don't think that'll be the case this year. I think it'd be on the lower end of that spectrum at best.

Arpit Shah: So in Q1 into five is a typical for the volume?

Yashish Dahiya: We do have plans, we don't share them. It's up to you if you want to assume. Historical number has been 5 to 5.5x.

Arpit Shah: The ESOP cost this quarter would be around ₹ 170 crores. Would that be a right number?

Yashish Dahiya: ₹ 167 crores.

Arpit Shah: I just wanted a clarity on the ₹ 150 crores adjusted EBITDA you are referring to an increase every year. So what is that number exactly, like ₹ 150 crores which would keep happening every year or how is it?

Yashish Dahiya: It would keep increasing by approximately ₹ 150 crores every year. That's our assessment.

Arpit Shah: On adjusted EBITDA or normal EBITDA?

Yashish Dahiya: At the adjusted EBITDA level. So if we do x-adjusted EBITDA in a particular year, the next year it should be about ₹ 150 crores more than that.

Arpit Shah: This year, we are expecting to be zero and probably for FY'24, will move to ₹ 150 crores?

Yashish Dahiya: The year won't be zero, the last quarter would be zero.

Arpit Shah: As LIC come into as a partner, wouldn't your addressable opportunity go higher by like, let's say 3 or 4x because they are like 70% of the market in the life insurance?

Sarbvir Singh: It doesn't work quite like that as you can imagine. I wouldn't want to go into what our opportunity could be. But you're right, it's a very big opportunity. Obviously, LIC has very strong distribution already. So I won't say that there is 4x opportunity. But it's a big opportunity and our focus always is to make the most of it and see where we end up.

Arpit Shah: And just in the new initiatives, what will be our fixed –

Yashish Dahiya: If you were to think about this, think about it in a very simple manner, it's like a restaurant where a certain number of customers come, and it has a certain set of dishes, and suddenly the most popular dish also becomes available. It'd be very hard to say that the restaurant sales would become 4x just because the most popular dish became available. Same set of customers coming, right. So yes, the restaurant revenues might go up some bit. But I think that's the way to look at it. It's like there is a fixed number of people who are coming to us. I doubt if our conversion rates will quadruple. But yes, we expect some improvement.

Arpit Shah: Just wanted to understand there are fixed overheads in a new initiatives business. We're burning close to ₹ 1 crore. But what will be that fixed cost overhead line item sitting there, and at what scale that line item will stop growing actually?

Yashish Dahiya: On the new initiatives, I think we've peaked out on that. It wouldn't require a lot more from here onwards. I don't have a view on it increasing any further. We peaked out on it. As I explained last quarter that we had peaked out on the overall losses. And this quarter I can say we peaked out.

Sarbvir Singh: I just want to add that if you see Q3, Q4 and Q1 of this year, each quarter the investment in the new initiatives has come down. To your point, slowly we're moving to a point where the fixed costs start getting covered. And as Yashish said by Q4, we would like to be at breakeven for the whole business.

Arpit Shah: So our direct costs in that business around ₹ 200 crores every quarter, right?

Yashish Dahiya: For all new initiatives put together, yes, roughly about ₹ 190 crores.

Arpit Shah: Once we see the new business revenues crossing to ₹ 100 crores broadly that is when we become contribution –

Alok Bansal: So these are direct costs. Before we get into that detail, just let's take a step back and understand a bit about our business. The three things, scale, growth and profitability. And scale and growth, although they are very linked to each other, but both have different connotations for us in terms of what sort of support we get from suppliers, what sort of input we get from investor community and everyone else. Now, new initiatives are very important, because these are opportunities out there where we want to invest. I don't know whether we have mentioned this, but we have got more than ₹ 5,000 crores on the balance sheet as of June end. And it will be quite stupid of us as a management team not to figure out what are the right opportunities to invest and look for the future growth, next three years, five years growth. So in new initiatives, bulk of it is direct cost. And direct cost will obviously grow as the revenue grows, but we will try to become more and more efficient. So if you look at our contribution percentage on new initiative, it used to be 52% negative last quarter, which has come down to 40% negative. Our hope is we'll continue to drive this downwards, whether it is one year, two years, three years, but in some time, we are able to get to a zero contribution number here. But we all believe that this is the right way for the business to look at growth over next five years or seven years' timeframe. So, we will continue to invest and the number that Yashish mentioned earlier, I am just reiterating that will be about ₹ 200 crores for the year that we are willing to invest as of now. If it changes, we'll obviously come back to you guys and inform you.

Moderator: Our next question is from the line of Dipanjan Ghosh from Citi. Please go ahead.

Dipanjan Ghosh: First is a data-keeping question. If you can split your premiums on the insurance business between new and renewal? Second, more from a quality perspective, if I just do some numbers on your contribution margins, what it looks like is that the entire benefit has come from the old or rather the digital insurance business where the contribution margins are probably at now 60%-plus. And to some extent that looks like that that is probably in a significant reduction in your ad and promotional spend, that goes into the contribution even though the share of customers coming directly and some of these factors and the mix has probably remained constant. So, if you can give some color on that? And third, more from the premium mix side, it looks that the YoY growth in premium for your digital channel has been in high double digits, or maybe a little bit more than that. So is it because of slowdown or is there something to read into it?

Sarbvir Singh: So the first question, Dipanjan, is that our ad spend is driven by the business and everything that we're doing in each month. So there is no such thing that we have slowed down or speeded up the process. Last year was a COVID year. So April, May were very strong months because of COVID. So obviously, we were very visible and active on television. This quarter is a more normal quarter and we spent as we would in any first quarter of the year.

Yashish Dahiya: If you're okay, could take this offline with Rasleen, that would be helpful, because our brand spend or our ad spend has not really come down, if anything, it's higher. So I would say just take it offline, that would that probably be more helpful.

Dipanjan Ghosh: Sure, I will do that. And if you can give the split between renewal and new business premium for the quarter?

Yashish Dahiya: So of the total premium, new business is ₹ 1,390 crores renewal is ₹ 1,040 crores.

Dipanjan Ghosh: The origination of the premiums, it looks like the origination for the digital channel has been a bit soft. Is my understanding correct, and if you can elaborate the probable reasons for that?

Sarbvir Singh: I think what you're attributing to is, again, because in the protection business last year was a very strong quarter, first quarter was very unusually strong, because of COVID. So there is some difference because of that. So that has obviously happened in this quarter. But other than that, I think if you see the results especially on the revenue side the growth is really strong.

Alok Bansal: And if you look at Q4 versus Q1, we are pretty flat on our premiums. So there isn't any slowdown, etc., so to say this year from that perspective. Of course, last year was an exceptional year. So you cannot really take the demand for last year because obviously during COVID everybody needed health and life insurance a lot more than they would in a non-COVID year. But yes, Q4 to Q1, we are good.

Moderator: Our next question is from the line of Dhaval from DSP. Please go ahead.

Dhaval: A couple of questions. First is could you just give the revenue for Paisabazaar for the quarter?

Yashish Dahiya: The credit revenue is ₹ 84 crores for the quarter.

Dhaval: The distribution like the credit card, etc., would be?

Yashish Dahiya: We don't go into segment-by-segment, but the leading product out there is unsecured loans and credit cards, and they are both growing well. But we do not give more disclosure than that, we just don't do product level reporting.

Naveen Kukreja: What we have given is the disbursal growth and credit card growth; disbursals grew by about 135% YoY and number of credit cards issued grew by about 600%-plus YoY. So you can get a sense from that.

Dhaval: And the ₹ 84 crores equivalent number for last quarter would be, approximate?

Naveen Kukreja: Our revenue QoQ grew by about 8%.

Dhaval: And the second question, just to get it clear, assuming the adjusted EBITDA is zero in the fourth quarter, and basically we are saying that the adjusted EBITDA next year would be zero, and our ESOP cost, which probably this year given the trajectory could end about ₹ 600-odd crores, that will also phase out in the next year. So, somewhere in FY'25 or so, we expect sort of EBITDA breakeven or close to EBITDA, breakeven, is the understanding correct?

Yashish Dahiya: Your understanding is correct, but your and my understanding might be different is what I'm saying. So let's wait and watch.

Dhaval: Where would the difference be?

Yashish Dahiya: Looking at the past numbers, and looking at what all you know, your understanding is correct.

Dhaval: Just to confirm the ESOP cost for the year, we expect it to be around ₹ 600 crores for the year?

Alok Bansal: It will be lower; I think it'll be more like ₹ 550 crores. The bulk of ESOPs that you see here, were allocated last October. So the yearly cost gets divided between two financial years, last two quarters of the last financial year and two quarters of this financial year, then it comes down a little bit, again, two quarters of this year and two quarters of next year. So we'll continue to see it coming down for next five years. But, the number for this year is about ₹ 545, 550 crores.

Yashish Dahiya: Just to give everybody clarity on this, just make a note of it so you guys are all clear. This year, it's about ₹ 550 crores, next year it's about ₹ 300 crores, the year after it's about ₹ 189 crores, the year after it's less than ₹ 100 crores, the year after it's about ₹ 30 crores, the FY'24, '25, it's about ₹ 80, 90 crores. And from all the information we know at this stage, I don't see why our profit shouldn't be higher than that, let's just do the math, by the end of '22-23 we broken even, then by the ₹ 150 crores we're talking about clearly we should be at a run rate to deliver this ₹ 190 crores, I don't see why not. Even think about the ₹ 150 crores the breakeven part. Why am I saying this? Look, last year Policybazaar in the last quarter made ₹ 28 crores of EBITDA.

Paisabazaar made about ₹ 18 crores or something of loss. Next year the credit business is going to be breakeven. So, there is no reason why Policybazaar will not do about ₹ 50 crores of positive and there is no reason our new business will take more than ₹ 50 crores. So, at this point, we feel fairly confident about that number. Now things change, of course, we will watch it, but why should things change, let's see.

Dhaval: In terms of the split that you gave for a new and renewal, the renewal rate seems to have come down. So is it more seasonal or product -?

Yashish Dahiya: That's a wrong conclusion. I can clarify very, very categorically that our renewal rate if anything, has actually gone up by a few percentage points and definitely is one of the strongest in the industry. In fact, we are positively surprised by it. So do not go to the wrong conclusion is all I would suggest. You may be reading something more than what needs to be read in the data.

Moderator: Our next question is from the line of Abhishek Khanna from Jefferies. Please go ahead.

Abhishek Khanna: I just had a basic question. Because we've been talking about that seasonality in different quarters. I just wanted to understand Q4 to Q1, we've seen a growth in our renewal revenue, we've seen a growth in our insurance premiums, in the disbursals as well. So what really explains that 6%, 7% decline in the existing revenue, is it some product mix, what explains that decline despite whatever 10%, 12% increase that we've seen in the disbursals, premiums and the renewal revenue also?

Yashish Dahiya: Broadly, if I were to explain to you, the 4% decline that we see in the revenues from Q4 to Q1 would be probably because of about 8% decline in fresh insurance premium compared to Q4 – Which is very expected, right? You're comparing the March quarter with the April, May, June quarter. In the insurance industry, those are not really very comparable quarters. And I think that is it. There is not much mix change, etc., Just seasonality, nothing more than that. If your revenue is the same as the strongest quarter of the year, which is pretty much the same, that is a pretty strong result I would say.

Sarbvir Singh: Just to add, I would encourage you to look at the industry statistics, which come out every month and have come out for the first quarter. So you will find that the industry seasonality is much more than the seasonality that you're seeing over here.

Abhishek Khanna: No-no, I totally understand that. But the question that I had was because your premiums aren't declining. So are you saying that the decline is in your new business premiums, is that the case?

Yashish Dahiya: There may be some higher renewal. We gave you the renewal premium and the fresh premium breakup also, which was 1,390 new and the 1,040 of renewal premium. So, all I'm saying is don't read too much into a 4% shift.

Abhishek Khanna: When you say that on the renewal revenue, your margins are about 85% or so. Is that all of the costs taken from that?

Yashish Dahiya: Everything taken into account. We do our internal analysis. Fully loaded, it's about 85%. So we've done this analysis multiple times. The telecom, people, management, everything gets into it.

Abhishek Khanna: Last question on that, because I remember that number being 90%, I know it's not a material shift, but as the revenue –

Yashish Dahiya: We have added all costs, everything, so then it's 85%.

Abhishek Khanna: Now that this ₹ 85 crores number should be inclusive of our cost and should stay as it is right now, 85% number going forward should also be a good –

Yashish Dahiya: You have to understand the renewal dynamic, right? First year, it is x, next year it is more than x, third year, it is more than x million, by the time we get to the third year is 97%. So hopefully, as our book builds up into the future, the cost of doing the renewal should be reducing, but 85% is also good enough.

Moderator: We'll take our next question from the line of Umang Shah from Arohi Asset Management. Please go ahead.

Umang Shah: The first one is on slide #3. If we have the year-over-year premiums increasing come 1,594 to 2,430 how much of the growth is explained using new initiatives? And how much is the growth in the core Policybazaar business, if you could help us appreciate that?

Sarbvir Singh: We haven't shared this breakup, but again, you can do the math based on the revenue, right, you can get to some numbers. Obviously, the new initiatives add to the growth and there is growth in the existing business as well.

Yashish Dahiya: See, ₹ 134 crores revenue there on the new initiatives. And if you take away the credit revenue, there is probably ₹ 290-odd crores of revenue here on the existing businesses. You could perhaps take some kind of a split.

Umang Shah: But is there material improvement in take rates or is the entire growth in the revenues explained by growth in premiums?

Yashish Dahiya: The take rate has improved materially in one of the segments in the existing business. We'll just leave it there.

Umang Shah: Hence, just wanted to understand the premium growth in the core?

Sarbvir Singh: Sorry, can you repeat that?

Umang Shah: Because we have some revenue growth, we are experienced and increase in take rate, and hence wanted to understand the premium growth.

Sarbvir Singh: So just to be clear, the take rate point that Yashish was making is in a particular segment of our existing business. On an overall basis, the take rates are fairly steady. Take rate expansion is not a key driver of the whole thing.

Umang Shah: The second question I had was to Naveen. Could you share the contribution margin for Paisabazaar?

Naveen Kukreja: For the credit business, contribution margin at a business level, we're not sharing but on an overall level, we've shared that numbers, which is about 45% between both insurance and credit business.

Umang Shah: So the credit business is higher or lower than this number?

Yashish Dahiya: It is lower than this number. But let's not get into further details. So there is a slide in the presentation, which is the slide #36, where you can see, how the lending business has been moving.

Naveen Kukreja: That gives you an indication of how the EBITDA margin is improving over a period of last two years and how we're getting close to the profitability.

Umang Shah: The last question I had was the outlook on the retail protection side. If you see the industry, a lot of the life insurers are reporting massive drops in retail protection. And given that we are market leaders in that space, how does it impact our business, and how do we think about growth in this business more from a medium-term view?

Sarbvir Singh: I think there are two things to understand about retail protection. The number of people in India who have Term Insurance is only 60 lakhs or so. So there is a large opportunity that is available for term insurance in India. So the medium to long term view on this, I think segment is very positive. What has happened in the near term is that because of COVID, the industry went through a significant shift in terms of both process and price. That it you see in this quarter probably came together, because last year was a very high demand quarter. Now going forward, what we expect is the processes have largely stabilized, pricing also has largely stabilized because of the new use and file regulations, you're going to get new products, much more innovation in this category as we go forward. And I think you will find that the category will build as we go through this year. So we are actually very optimistic about term and protection in general. And I think you will see that building as we go through this year.

Yashish Dahiya: I want to say something in addition to this, and I'm saying something, having watched this industry now for the last 13, 14 years Policybazaar has been at the forefront of this whole term insurance. Markets should take my word for whatever you think they're worth. See, from 2009 to 2017, you saw a steady decline every year in term insurance prices. And I think certain new channels were really, really opened up in about 2016, '17 in that timeframe. And I think those who are in the know of the market know which channels those were. And I think there was a differential experience very clearly on the claim ratio. Because essentially the same prices that were coming through the direct channel or the digital channel or us and the insurance companies' direct platforms was also extended to certain other channels, and that had a dramatically negative effect on the reinsurers. Now at least that is acknowledged in some circles. And that led to essentially a negative surprise to at least RGA and a few other reinsurers. RGA essentially pretty much pulled out and then there was a dearth of reinsurers, everybody was a bit worried. My assessment is there is very clear understanding at the reinsurance end now that there is differential risk across channels… and I don't talk about just Policybazaar here, okay, I talk about the entire Policybazaar, the insurance companies websites, etc., they are at a differential risk for disclosure reasons or whatever reasons. Because of the amount of effort that has been put in and the checks and balances that have been put in place. And if you wish, at some point I would love to, host a one-hour session where we could take you what kind of checks and balances have been put in place which lead to that. And because of that the reinsurers in my opinion, are willing to support some kind of different prices across these. Now, it is up to insurers to take those, not take those, and to some extent, that will determine the future of the industry. I do think some insurers are taking those, some insurers are not taking those as of now. But the industry is in that zone. That's my assessment of the situation. I think the market will grow. We continue to do good quality business. We haven't seen what has been reported in the media or whatever has been reported, that data we have not seen, and our data is quite out there. But I'll kind of leave it there. And I'm not talking about term versus TROP, etc., I'm talking about just term, term, term, that's it. For those who understand there is a TROP segment and there's a term segment and the TROP can have slightly higher premiums, but the risk component that is limited. So for the ones who know you already know it.

Moderator: We will take that as the last question. I now hand over the floor back to the management for closing comments. Over to you, sir.

Yashish Dahiya: Thank you very much to all of you for all your participation and all your questions. Very heartening to see the participation and look forward to speaking to you in another three months' time. Thank you for now. Have a good evening. Bye.

Moderator: On behalf of PB Fintech Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.