Twitter Thread by Anurag Singh

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#PolicybazaarIPO Long thread: There is monetary printing by RBI, there is lending by banks & finally there is the Indian IPO. “Foreign owned” company with ~1 Bn investment is selling “Indian” unicorn to “savvy” Indians for $ 6.2 Bn. Want to know how this printing works? Let’s go-

The basics: Rs 6017 Cr being raised by new shares (Rs 3750) & re-selling (Rs 2267). Face value Rs 2 offered at Rs ~1000 per share is one of a kind. Who decides the price? Examine the valuation ladder below.
With ~$ 150 Mn invested till 2017, we see $ 525 Mn rushes in after 2018

PolicyBazaar Funding Rounds

	Date	Amount Raised	Post-money Valuation	Investors
Unattributed	May 2011			Intel Capital
Series A	Mar 2013	$4.6 m		Intel Capital, Inventus Capital Partners
Series B	Apr 2013	$5 m		Intel Capital, Inventus Capital Partners, Info Edge
Series C	May 2014	$20 m		Tiger Global Management
Series D	Apr 2015	$40 m		Steadview Capital, Tiger Global Management, Ribbit Capital, PremjiInvest, ABG Capital
Series E	Oct 2017	$77 m		Wellington Management, Tiger Global Management, Temasek Holdings, IDG Ventures India, PremjiInvest, True Northland
Series F	May 2018	$200 m	$1 b	Temasek Holdings, Info Edge, SoftBank Vision Fund
Series G	Sept 2019	$150 m	$1.5 b	Tencent Holdings
Unattributed	Mar 2021	$45 m		
Private Equity	Mar 2021	$75 m	~ $ 2.65 Bn	Falcon Edge Capital

Source: YourStory - November 2019

So, a company valued $1 Bn in 2018 & $ 1.5 Bn in 2019 by key investors like Tencent, suddenly “needs money” in March 2021. Falcon Edge “invests” all of $ 75 Mn in March at valuation of $ 2.65 Bn.
Enter IPO bankers a couple of months later & they value the company at $ 6.2 Bn

Why does PolicyBazaar need $ 75 Mn just 6 months before IPO & give away 2.5 times in returns? And it doesn’t even use that money as the B/S reflects appx Rs 1000 Cr in cash lying around.

What kind of a favor is that? Why do they need US investment bank for this just before IPO?

Notice 50% rise in shareholding of promotors here & a 1: 500 bonus share issue. After all, how do you print money & still keep share price at “reasonable” Rs 1000?
Without bonus issue in June 2021, each share would have costed Rs 50,000. Heard of circular valuation?

(d) Set forth below are details of Shareholders holding 1% or more of the paid-up share capital of our Company as of two years prior to the date of this Draft Red Herring Prospectus:

S. No.	Shareholder	Number of equity shares of face value ₹ 10 held	Percentage of pre-Offer Equity Share capital (%)*#
1.	Makesense Technologies Limited	11,950	16.51%
2.	Tiger Global Eight Holding	3,041	12.55%
3.	Etechaces Employees Stock Option Plan Trust*	13,661	9.41%
4.	Internet Fund III Pte Limited	5	8.51%
5.	SVF India Holdings (Cayman) Limited	5	7.15%
6.	Claymore Investment (Mauritius) Pte Ltd	5	7.10%
7.	Diphda Internet Services Limited	4	5.20%
8.	PI Opportunities Fund – II	10	4.28%
9.	Inventus Capital Partners Fund II, Limited	5	3.55%
10.	Mr. Yashish Dahiya	4,428	3.05%
11.	Ribbit Capital	292	2.97%
12.	True North Fund VI LLP	1	2.60%
13.	True North Fund V LLP	5	2.59%
14.	Startup Investments (Holding) Limited	5	2.39%
15.	Ithan Creek MB	5	2.07%
16.	Steadview Capital Mauritius Limited	5	1.52%
17.	Motherson Lease Solutions Limited	455	1.32%
18.	ABG Capital	5	1.00%
	Total	**33,887**	**93.76%**

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2. ***Shares issued for consideration other than cash***

Details of equity shares issued pursuant to a bonus issue are as follows:

Date of allotment	Reason / Nature of allotment	No. of equity shares allotted	Face value per equity share (₹)	Issue price per equity share (₹)	Benefits accrued to our Company
June 28, 2021	Bonus issue in the ratio of 499 bonus Equity Shares for every 1 Equity Share held in our Company (1)	176,735,820	2	-	N.A.

(1) Allotment of Equity Shares of face value ₹ 2 each, by way of bonus issue, to such holders of Equity Shares of our Company, whose names appear in the list of beneficial owners, as received from the NSDL as on the record date, i.e. June 19, 2021

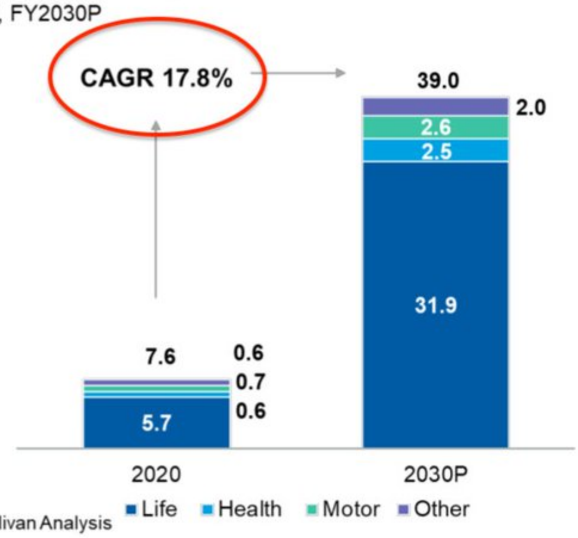
(b) Set forth below are details of Shareholders holding 1% or more of the paid-up share capital of our Company as of 10 days prior to the date of this Draft Red Herring Prospectus:

S. No.	Shareholder	Number of Equity Shares of face value ₹ 2 held	Percentage of pre-Offer equity share capital (%)
1.	Makesense Technologies Limited*	59,890,000	14.56
2.	SVF Python II (Cayman) Limited	38,877,500	9.45
3.	Tencent Cloud Europe B.V.	37,665,000	9.16
4.	SVF India Holdings (Cayman) Limited	25,940,000	6.31
5.	Claymore Investment (Mauritius) Pte Ltd	25,737,500	6.26
6.	Etechaces Employees Stock Option Plan Trust**	22,537,500	5.48
7.	Tiger Global Eight Holdings	19,032,500	4.63
8.	Diphda Internet Services Limited	18,880,000	4.59
9.	Mr. Yashish Dahiya	17,545,000	4.27
10.	PI Opportunities Fund – II	15,525,000	3.78
11.	Internet Fund III Pte Limited	12,897,500	3.14
12.	Falcon Q LP	11,589,500	2.82
13.	Steadview Capital Mauritius Limited	9,812,500	2.39
14.	True North Fund VI LLP	9,440,000	2.3
15.	Startup Investments (Holding) Limited	8,662,500	2.11
16.	Ithan Creek MB	7,515,000	1.83
17.	Inventus Capital Partners Fund II, Limited	6,437,500	1.57
18.	Mr. Alok Bansal	5,958,500	1.45
19.	ABG Capital	4,385,000	1.07
20.	Alpha Wave Incubation LP	4,320,000	1.05
	Total	**362,648,000**	**88.22**

Well, let’s move on to the business model & future potential here. The whole story is tied to the “enormous potential” of insurance in India & how under-penetrated it is.
The DRHP devotes significant weight to mark & Sullivan report on Indian insurance. See the snapshot below:

India Insurance Market By Total Premium[1,2]

₹ trillion, FY2020, FY2030P



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

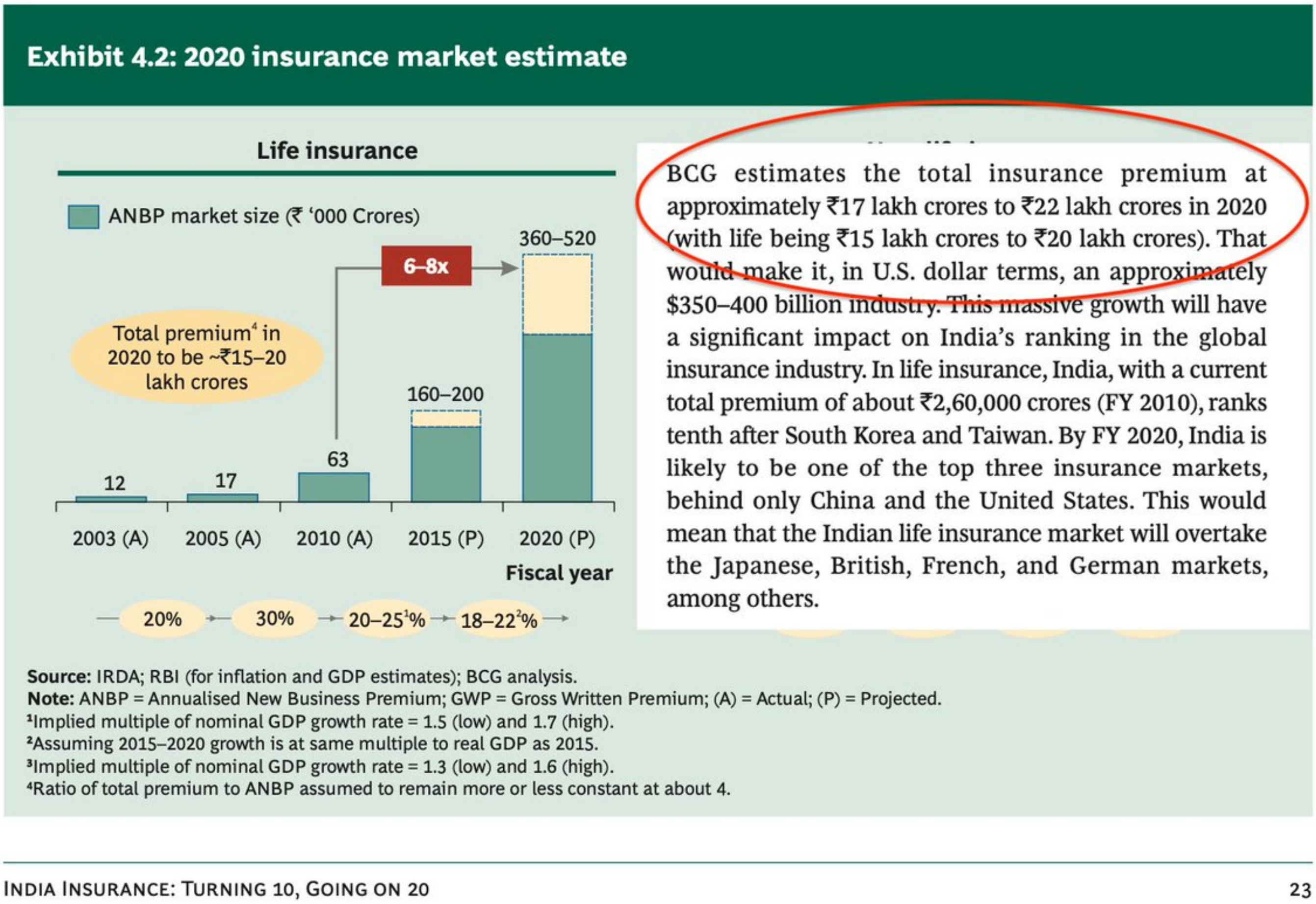
However, as compared with global peers, India has a highly underpenetrated insurance market. India was amongst the lowest in the world in terms of Sum Assured as % of GDP in 2020. India mortality protection gap as a percentage of protection was at 83.0% in 2019, one of highest in the world, despite Indian households being disproportionately dependent on a single income earner.

DHRP quotes “Indian life insurance premiums will grow at 18% CAGR from 2021 till 2030". The 2020 (pre covid) premiums were Rs 5.7 lac Cr.

It adds reasons – under-penetrated market, demographic dividend, need for life insurance, blah blah. So what’s wrong with this?

Well, for one, try searching any other report from Frost & Sullivan for last 10 yrs on Indian insurance. You find nothing. So let me quote no less than the #BCG report for Indian insurance in 2011.

Life insurance was to grow 8 times from 2011 to 2020 to a premium of Rs 20 lac Cr



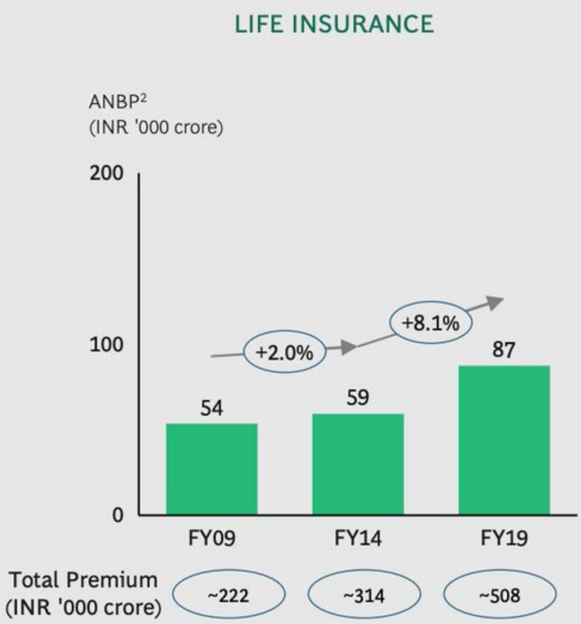
BCG estimates the total insurance premium at approximately ₹17 lakh crores to ₹22 lakh crores in 2020 (with life being ₹15 lakh crores to ₹20 lakh crores). That would make it, in U.S. dollar terms, an approximately $350–400 billion industry. This massive growth will have a significant impact on India's ranking in the global insurance industry. In life insurance, India, with a current total premium of about ₹2,60,000 crores (FY 2010), ranks tenth after South Korea and Taiwan. By FY 2020, India is likely to be one of the top three insurance markets, behind only China and the United States. This would mean that the Indian life insurance market will overtake the Japanese, British, French, and German markets, among others.

Source: IRDA; RBI (for inflation and GDP estimates); BCG analysis.
Note: ANBP = Annualised New Business Premium; GWP = Gross Written Premium; (A) = Actual; (P) = Projected.
[1]Implied multiple of nominal GDP growth rate = 1.5 (low) and 1.7 (high).
[2]Assuming 2015–2020 growth is at same multiple to real GDP as 2015.
[3]Implied multiple of nominal GDP growth rate = 1.3 (low) and 1.6 (high).
[4]Ratio of total premium to ANBP assumed to remain more or less constant at about 4.

India Insurance: Turning 10, Going on 20 23

Except that it didn't. Not only did #BCG missed the mark, it missed it by 70%. Life insurance could muster a measly Rs 5.7 lac Cr in 2020. A projected CAGR of 25% came to barely 4% for a decade. But it is BCG, so in 2021, it says "Indian has disappointed". Disappointed whom? BCG?

EXHIBIT 1 | Different Growth Trajectories in Life and Non-Life Insurance Segments



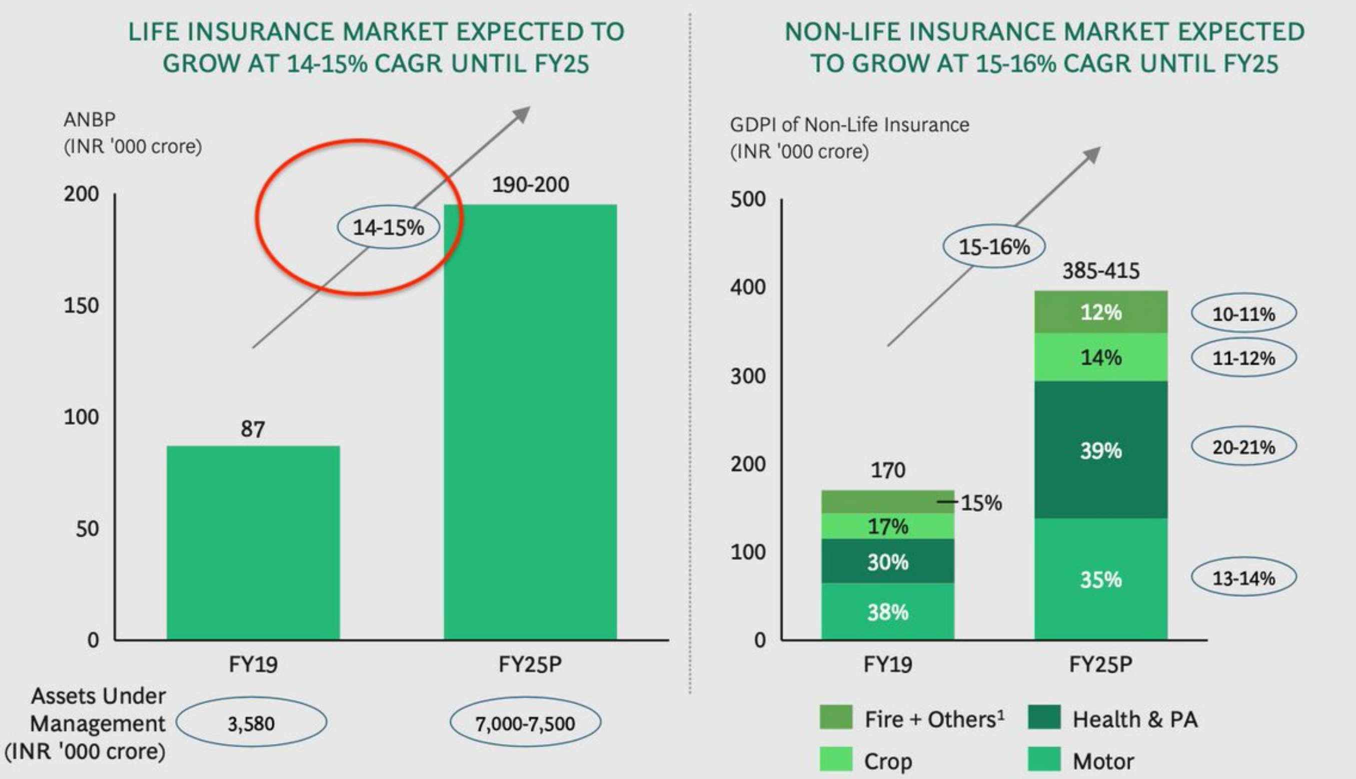
19) paint a picture of slow growth. Between FY09 and FY14, the life insurance annualized new business premium (ANBP) grew at a compounded annual growth rate (CAGR) of 2.0 percent. The growth gathered momentum from FY14 to FY19 as ANBP grew at a CAGR of 8.1 percent (as shown in Exhibit 1). Between FY09 and FY19, life insurance penetration, a ratio of insurance premium to GDP, has fallen. Insurance density, a measure of premium per capita, has barely grown. This is in sharp contrast to euphoria around the turn of the decade caused by explosive growth in Unit Linked Insurance Products (ULIPs). The life insurance segment spent the first half of this decade restructuring its model in response to the regulatory changes at the start of this period, with a return to growth only in the last few years.

Source: IRDAI, General Insurance Council, Life Insurance Council, Company Public Disclosures
1. SAHI—Stand-Alone Health Insurance companies
2. ANBP—Annualized New Business Premium
3. GDPI—Gross Direct Premium Income (within India)

The fun doesn't end here. The same consultants publish with yet another report in 2021 & this time take a CAGR of 15% till 2025. The same as Frost & Sullivan report that PolicyBazaar quotes.

Most within industry know that it not feasible. But it does help bullish IPO, never mind

EXHIBIT 6 | Life Insurance and Non-life Insurance Segments to Grow Consistently



Source: IRDAI, Company Public Disclosures, BCG analysis
1. Others include Marine, Liability, Aviation, Engineering, Credit guarantee and miscellaneous lines of business

Move to another lever of growth: The power of digitization & why PolicyBazaar can do what insurers couldn't. Drive online business at low cost.
Let's examine this myth in view of life insurance that is almost ~60% of revenue for PB. Life ins is a people intensive push business.

There comes complexity of scale. Look at below P&L & examine the employee expense. These range from 80% in 2019 to 62% in 2021, despite positioning for IPO. It's standard for life insurance biz.
How can #policybazaar scale digitally when 65% costs are employee expenses?

	Fiscal					
	2019		2020		2021	
	(₹ in millions, except for percentages)					
	₹	% of revenue from operations	₹	% of revenue from operations	₹	%of revenue from operations
Revenue from operations	4,922.45	100%	7,712.97	100%	8,866.62	100%
Insurance Web Aggregator Services	3,103.09	63.0%	5,159.21	66.9%	6,069.42	68.5%
Other Services	1,819.36	37.0%	2,553.76	33.1%	2,797.20	31.5%
Other income	365.62	7.4%	842.66	10.9%	707.51	8.0%
Total income	**5,288.07**	**107.4%**	**8,555.63**	**110.9%**	**9,574.13**	**108.0%**
Expenses:						
Employee benefit expense	3,976.23	80.8%	5,208.49	67.5%	5,540.47	62.5%
Depreciation and amortisation expense	304.22	6.2%	472.95	6.1%	413.78	4.7%
Advertising and promotion expenses	3,458.54	70.3%	4,452.17	57.7%	3,678.43	41.5%

And it talks of opening branches for better conversions (Read - selling insurance like bank RMs do). Aside of term plans, life insurance is pushed by salesforce.
Revenue = Salesmen x policies sold x avg premiums. Can't beat this equation. Have you ever bought a ULIP on your own?

Talking of push, let’s compare the revenue growth for PB with some banks. Firstly #SEBI, pls ask 5 yr financials for loss making cos seeking to list. Post Covid, 3 yr P&L doesn’t tell us much. Of course, PB also hasn’t disclosed anything more.

If you’re impressed that losses in 2021 have reduced, just notice "advt & sales promotion" expenses. If we keep the same proportions as last 2 yrs, the loss % would be exactly the same.
But magically, the promotional exp reduce in IPO year. How? Ask Zomato & Paytm. Same trick.

PB Fintech Limited (Erstwhile, PB Fintech Private Limited / Etechaces Marketing and Consulting Private Limited)
CIN: U51909HR2008PLC037998
Annexure II - Restated Consolidated Statement of Profit and Loss

	Annexure V Notes	For the year ended March 31, 2021 (Rs. in Millions)	For the year ended March 31, 2020 (Rs. in Millions)	For the year ended March 31, 2019 (Rs. in Millions)
Revenue from operations	14	8,866.62	7,712.97	4,922.45
Other income	15	707.51	842.66	365.62
Total income		**9,574.13**	**8,555.63**	**5,288.07**
Expenses:				
Employee benefit expense	16	5,540.47	5,208.49	3,976.23
Depreciation and amortisation expense	17	413.78	472.95	304.22
Advertising and promotion expenses	18	3,678.43	4,452.17	3,458.54
Network and internet expenses	19	587.96	507.52	317.28
Other expenses	20	657.39	743.71	531.33
Finance costs	21	115.24	119.20	74.77
Total expenses		**10,993.27**	**11,504.04**	**8,662.37**
Restated loss before tax		**(1,419.14)**	**(2,948.41)**	**(3,374.30)**
Income tax expense :				
Current Tax	22(a)	82.90	91.88	-
Tax related to earlier years	22(a)	0.38	-	(0.49)
Deferred tax	22(b)	-	-	94.30
Total tax expense		**83.28**	**91.88**	**93.81**
Restated Loss for the year		**(1,502.42)**	**(3,040.29)**	**(3,468.11)**
Restated Other comprehensive income				
Items that may be reclassified to profit or loss				
Exchange differences on translation of foreign operations	10 (c)	(4.21)	4.65	(3.84)
Income tax relating to these items		-	-	-
Items that will not be reclassified to profit or loss				
Remeasurement of post employment benefit obligations [Gain/(Loss)]	12	(26.16)	4.28	(8.85)
Income tax relating to these items		-	-	-
Restated Total Other Comprehensive Income/ (Loss) for the year, net of tax		**(30.37)**	**8.93**	**(12.69)**
Restated Total Comprehensive Income/ (Loss) for the year		**(1,532.79)**	**(3,031.36)**	**(3,480.80)**
Restated earnings per equity share: [Nominal value per share Rs.2/- (March 31, 2020: Rs.2; March 31, 2019: Rs.2/-), refer Note 26]				
Basic (in Rs.)	26	(2,056.23)	(4,338.46)	(6,006.58)
Diluted (in Rs.)	26	(2,056.23)	(4,338.46)	(6,006.58)

The above Restated Consolidated Statement of Profit and Loss should be read in conjunction with Notes to Restated Consolidated Financial Information appearing in Annexure - V and Statement of Adjustments to Audited Consolidated Financial Statements appearing in Annexure - VI.

For a ~ Rs 1000 Cr sales, the valuation of #policybazaaripo is 46 times SALES. You heard it, “times sales, not profits”. Assume a 15% profit margin in distant future, the PE works out at ~ 306. So how about banks that earn similar revenues from brokerage?

IndusInd bank earned Rs 4500 Cr from fee income & its valuation is $ 12 BN. Axis Bank with Rs 14,000 fee income is valued at $ 30 Bn. And these are BANKS where fee is just a side income.
PolicyBazaar with just Rs 1000 Cr (fee income) revenue is asking $ 6 Bn !

Net Interest Income of the Bank increased by 12.18% to ₹13,527.89 crores from ₹12,058.74 crores. Abundant liquidity available in the system led to softening of interest rates. While Yield on Advances fell marginally to 11.84% as compared to 11.97% in the previous year, the Cost of Deposits registered a sharper decline to 5.38% from 6.51% a year ago. Consequently, the Net Interest Margin for the year improved to 4.17%.

Non-Interest Income fell by 5.65% to ₹6,558.61 crores from ₹6,951.31 crores. Owing to the subdued economic activity, Core Fee Income such as commission, exchange, loan processing and account management fees, fees on Investment Banking and distribution of third-party products, and earnings from foreign exchange business was ₹4,679.22 crores as compared to ₹5,785.83 crores earned in the previous year.

of ₹10 each fully paid at a price of ₹1,709 per equity share. Accordingly, the share capital increased by ₹15.77 crores and the share premium by ₹2,679.49 crores.

Last resort – "Well PB is not only insurance but PaisaBazaar also. It is expanding into lending & can make money there". Well, not really.

First, PB is 70% insurance biz. Second, the PB revenues have been growing on "outsourcing services" & "Online consulting". What's that story

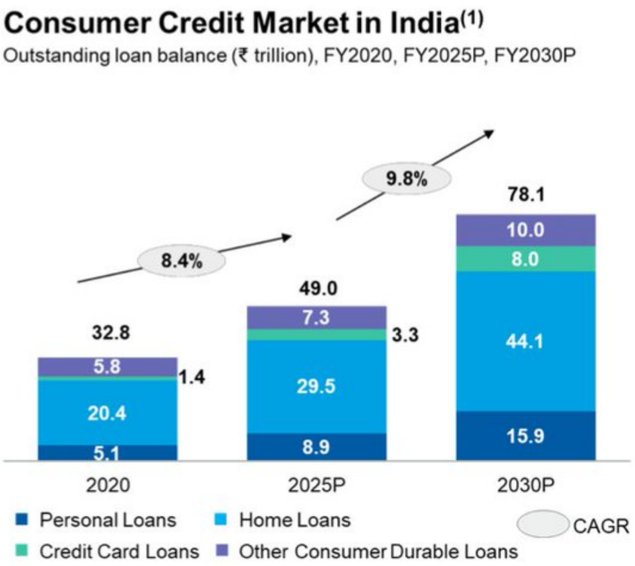
Note 14 : Revenue from operations	**For the year ended March 31, 2021 (Rs. in Millions)**	**For the year ended March 31, 2020 (Rs. in Millions)**	**For the year ended March 31, 2019 (Rs. in Millions)**
Sale of services (net of applicable taxes):			
Insurance Commission*	2,591.36	2,133.57	1,316.72
Outsourcing services	2,994.19	2,568.41	1,518.39
Product listing services	0.20	0.85	0.95
Rewards	483.67	456.38	267.04
Commission from online aggregation of financial products	578.30	1,449.01	866.99
Online marketing and consulting	1,638.27	553.81	439.79
Sale of leads	352.20	451.86	439.08
IT support services	218.81	60.33	7.20
Marketing support	7.74	36.10	65.71
Telecalling services	0.22	0.67	-
Human Health Services	1.66	1.98	0.09
Investment advisory fees	-	-	0.49
Total	**8,866.62**	**7,712.97**	**4,922.45**

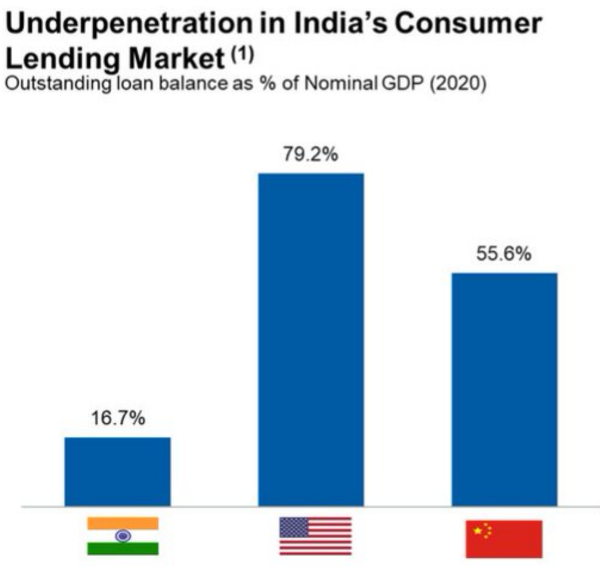
*Earned by rendering Telemarketing services

Note 15 : Other income	**For the year ended March 31, 2021 (Rs. in Millions)**	**For the year ended March 31, 2020 (Rs. in Millions)**	**For the year ended March 31, 2019 (Rs. in Millions)**
Interest Income			
- On bank deposits	272.22	85.60	12.00
- On income tax refund	75.69	1.74	0.05
- On unwinding of discount - measured at amortised cost	5.60	7.40	7.72
Gain on sale of current investments measured at fair value through profit or loss (net)	278.24	705.78	343.22
Income from sublease from right-of-use assets	-	11.65	-
Gain on termination of leases	2.30	9.74	-
Covid-19-related Rent Concessions	24.79	-	-
Provision/Liabilities no longer required written back	-	-	0.06
Foreign exchange fluctuation (Gain)	-	-	0.11
Fair value gain on investments measured at fair value through profit or loss (net)	4.13	0.45	2.46
Profit on sale of property, plant and equipment	-	0.10	-
Loss allowance no longer required written back	30.73	17.57	-
Liabilities no longer required written back	13.81	2.63	-
Total	**707.51**	**842.66**	**365.62**

#PaisaBazaar revenues have fallen adversely due to lack of loan disbursals in covid (Paisa Bazaar loan disbursal fell by 50% in FY 21). But there is always Frost & Sullivan with their rosy projections (no track record), under-penetrated loan market, & blah blah.

6. Consumer Lending Industry in India





Source: Frost & Sullivan Analysis

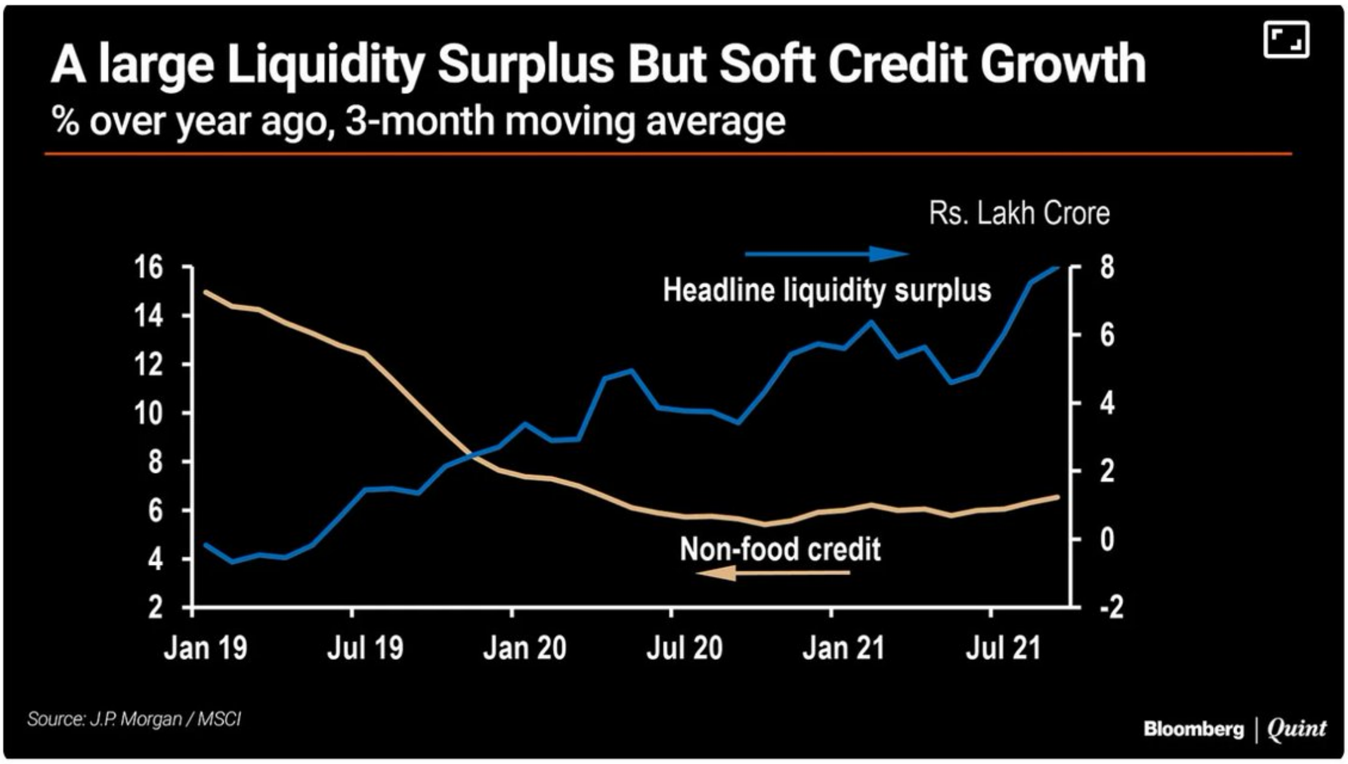
Note:

1. FY2020 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)

Again, not happening. Loan growth in India has been falling consistently since 2019 as the below chart indicates (Sajjid Chinoy of Morgan Stanly).

If banks can't have loan growth, brokers like #paisabazar can't grow more on their backs.

Why the disconnect between liquidity and credit growth?



Finally, look at contribution margins for #policybazaaripo . The margins look fine in 9 – 13%, but bloat to 39% in the IPO year.
Suddenly, revenue seems to go up with a fall in employee costs & promotion expenses. This one-year fall raises more questions than it tries to answer

The following table reconciles contribution profit and contribution margin to our revenue from operations for the periods indicated:

	Fiscal		
	2019	2020	2021
Contribution profit	*(₹ in millions, except percentages)*		
Revenue from operations (A)	4,922.45	7,712.97	8,866.62
Employee benefit expense (B) [(1)]	2,431.41	3,478.92	3,091.09
Advertising and promotion expenses (C) [(2)]	2,068.65	3,181.13	2,245.54
Contribution profit (D=A-B-C)[(3)]	**422.39**	**1,052.92**	**3,529.99**
Contribution margin (E=D/A)[(4)]	**8.6%**	**13.7%**	**39.8%**

(1) Employee benefit expense relates to expenses for call center operations which helps in acquiring and retaining Consumers
(2) Advertising and promotion expenses relates to online marketing expenses which includes cost of search engine marketing and other online digital marketing
(3) Contribution profit is a non-GAAP financial measure. We define Contribution profit as revenue from operations less operating costs (employee benefit expenses) and Consumer acquisition costs (advertising and promotion expenses but excluding brand spends)
(4) Contribution margin is the percentage margin derived by dividing contribution profit by revenue from operations.

Let not all pessimism cloud us. Yashish Dahiya, Alok Bansal & team have built a unique company that tries to make buying insurance easy, less messy with digital touch & good service. Hats-off to their resilience as entrepreneurs.Very few can do this in a tough & regulated market

Conclusion: To buy or not to buy?
We have a business that grows 4 times in valuation in 3 yrs & 2.5 times in just 6 months, operates in an industry that has grown by just 4% CAGR in last decade. The business is people intensive & digital scalability benefits are limited

With no 5-year financials, sharp drop in expenses in 2021 look out of line with trend. To pay 305 PE multiple for a semi-mature business, looks very pricey.
Light all fire crackers this Diwali but stay away from this financial bomb. You may burn your fingers.