

## Anand Rathi Wealth Ltd.

Recommendation	SUBSCRIBE		BACKGROUND																																																																																
Price Band	530-550		ARW (Anand Rathi Wealth) is one of the leading non-bank wealth solutions firms in India and has been ranked amongst the top three non-bank mutual fund distributors in the country. ARW offers wealth solutions, financial product distribution and technology solutions to its clients. It provides services primarily through its flagship PW (Private Wealth) vertical where it manages Rs. 29,472 Cr in AUM as on Aug, 2021. The company's PW vertical caters to 6,564 active client families, through a team of 233 RMs. ARW generates higher revenue yields compared to competition as the company has consciously avoided stock broking and stock advisory businesses and restricted its focus to the high yielding segments of distribution of structured products and mutual funds.																																																																																
Bidding Date	2 – 6 Dec																																																																																		
BRLM	Anand Rathi Advisors, BNP Paribhas, Equirus Cap Pvt Ltd, IIFL Sec																																																																																		
Registrar	Link Intime																																																																																		
Sector	Finance - Wealth Management																																																																																		
<b>Minimum Retail Application</b>			<b>Details and Objects of the Issue</b>																																																																																
Number of Shares	27		The total issue size is Rs. 659 Cr constituting Offer For Sale of up to 1.2 Cr equity shares.																																																																																
Min. Application Money	14,850		<b>Investment Rationale</b>																																																																																
Discount to retail	N.A		<ul style="list-style-type: none"> <li>Focus on the underserved and less price sensitive HNI segment</li> <li>Presence in the structured products or non-convertible market linked debentures</li> <li>Uncomplicated, holistic and standardized solutions offered to clients based on an objective-driven approach</li> <li>Focus on safety net and estate planning services provides value addition to clients</li> </ul>																																																																																
Payment Mode	ASBA		<b>Valuation and Recommendation</b>																																																																																
<b>Financials (Rs Cr)</b>	<b>FY20</b>	<b>FY21</b>	The wealth management business has characteristics (annuity revenue, degree of cyclicity, ROE) which are skewed more towards AMCs than stock brokers. We observe that ARW's ROE has consistently been higher than peers like IFL Wealth and Edelweiss Wealth. Although ARW's FY19-21 growth in revenue & profits has lagged Edelweiss Wealth, its current year growth has been encouraging and above that of both the peers. At valuations of 18.7x Apr-Aug'21 annualized earnings, ARW does offer some scope for upside on listing, given ~20% earnings CAGR potential in the longer term combined with cross cycle ROE range of 20-30%. <b>We recommend subscribing to the issue.</b>																																																																																
Total Income	332	265	<i>Rs. Cr</i> <table border="1"> <thead> <tr> <th>Financials</th> <th>FY19</th> <th>FY20</th> <th>FY21</th> <th>Apr-Aug'21</th> <th>Apr-Aug'21 Annualised</th> </tr> </thead> <tbody> <tr> <td>Net Revenues</td> <td>277</td> <td>332</td> <td>265</td> <td>167</td> <td>401</td> </tr> <tr> <td>Growth</td> <td></td> <td>20%</td> <td>-20%</td> <td></td> <td>51%</td> </tr> <tr> <td>EBIDTA</td> <td>98</td> <td>107</td> <td>70</td> <td>74</td> <td>177</td> </tr> <tr> <td><b>EBITDA Margins</b></td> <td><b>35.4%</b></td> <td><b>32.2%</b></td> <td><b>26.3%</b></td> <td><b>44.2%</b></td> <td><b>44.2%</b></td> </tr> <tr> <td>Adjusted PAT</td> <td>59</td> <td>53</td> <td>56</td> <td></td> <td></td> </tr> <tr> <td><b>Growth</b></td> <td></td> <td><b>5%</b></td> <td><b>-27%</b></td> <td></td> <td><b>172%</b></td> </tr> <tr> <td>EPS</td> <td>14.2</td> <td>14.7</td> <td>10.8</td> <td>12.3</td> <td>29.5</td> </tr> <tr> <td>BVPS</td> <td>30</td> <td>45</td> <td>58</td> <td>69</td> <td>98</td> </tr> <tr> <td>ROE</td> <td>48%</td> <td>33%</td> <td>19%</td> <td>NA</td> <td>30%</td> </tr> <tr> <td>P/E</td> <td>38.7</td> <td>37.3</td> <td>50.8</td> <td>-</td> <td>18.7</td> </tr> <tr> <td>P/B</td> <td>18.5</td> <td>12.3</td> <td>9.5</td> <td>-</td> <td>5.6</td> </tr> <tr> <td>P/Sales</td> <td>8.3</td> <td>6.9</td> <td>8.6</td> <td>-</td> <td>5.7</td> </tr> </tbody> </table>			Financials	FY19	FY20	FY21	Apr-Aug'21	Apr-Aug'21 Annualised	Net Revenues	277	332	265	167	401	Growth		20%	-20%		51%	EBIDTA	98	107	70	74	177	<b>EBITDA Margins</b>	<b>35.4%</b>	<b>32.2%</b>	<b>26.3%</b>	<b>44.2%</b>	<b>44.2%</b>	Adjusted PAT	59	53	56			<b>Growth</b>		<b>5%</b>	<b>-27%</b>		<b>172%</b>	EPS	14.2	14.7	10.8	12.3	29.5	BVPS	30	45	58	69	98	ROE	48%	33%	19%	NA	30%	P/E	38.7	37.3	50.8	-	18.7	P/B	18.5	12.3	9.5	-	5.6	P/Sales	8.3	6.9	8.6	-	5.7
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<b>Valuations (Apr-Aug'21 Annualised)</b>	<b>Upper Band</b>																																																																																		
Market Cap (Rs Cr)	2,289																																																																																		
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<b>Post Issue Shareholding Pattern</b>																																																																																			
Promoters	48.8%																																																																																		
Public	51.2%																																																																																		
<b>Offer structure for different categories</b>																																																																																			
QIB (Including Mutual Fund)	50%																																																																																		
Non-Institutional Investors	15%																																																																																		
Retail	35%																																																																																		
Post Issue Equity (Rs. in Cr)	20.81																																																																																		
Issue Size (Rs in Cr)	659																																																																																		
Face Value (Rs)	5																																																																																		
<b>Jehan Bhadha (+91 22 6273 8174)</b> Sr. Research Analyst jehankersi.bhadha@nirmalbang.com																																																																																			
<b>Mahima Mehta (+91 22 6273 8186)</b> Research Analyst mahima.mehta@nirmalbang.com																																																																																			

Source: Company data, NBRR

### Company Background

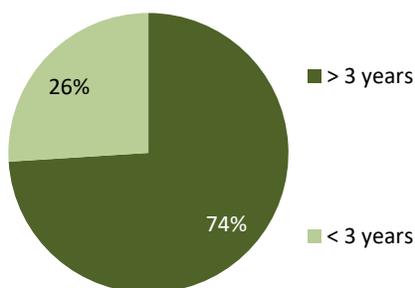
ARW (Anand Rathi Wealth) is one of the leading non-bank wealth solutions firms in India and has been ranked **amongst the top three non-bank mutual fund distributors in India** by gross commission earned over FY19-21. ARW serves a wide spectrum of clients through a mix of wealth solutions, financial product distribution and technology solutions. It provides services primarily through its flagship Private Wealth vertical where it manages Rs. 29,472 Cr in AUM as on Aug, 2021. Its AUM is a sum of (i) all third-party assets that generate commissions or incomes, which could be upfront and/or on a trail basis and (ii) custody assets of clients having demat as well as MF accounts (customers having only demat accounts are excluded).

ARW commenced activities in FY02 as an AMFI registered mutual fund distributor and as of Aug 2021, the PW (Private Wealth) vertical caters to 6,564 active client families, serviced by a team of 233 RMs. As on Aug 2021, 55% of its clients have been associated with ARW for over 3 years, representing 74% of the total PW AUM, which shows its strength in vintage of both clients and their AUM. Client families have consistently grown with new family additions of 965, 863 and 988 in FY19, FY20 and FY21 respectively. Correspondingly, the **PW AUM has also grown at a CAGR of 20% from Rs. 18,037 Cr as of March, 2019 to Rs. 26,058 Cr on March 31, 2021**. Growth in the PW vertical is driven by experienced management team with decades of experience in financial services led by Rakesh Rawal (CEO) and Feroze Azeez (Deputy CEO). ARW is present across 11 cities in India, namely, Mumbai, Bengaluru, Delhi, Gurugram, Hyderabad, Kolkata, Chennai, Pune, Chandigarh, Jodhpur and Noida.

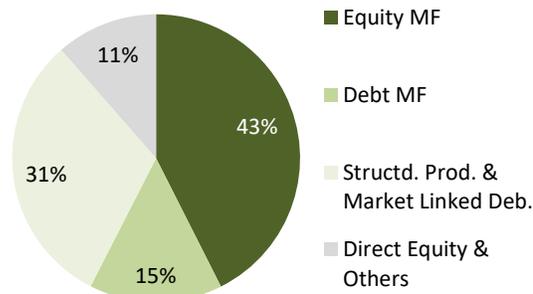
ARW's process driven approach, aims to achieve consistent client outcomes through a standardised investment strategy, augmenting its RM capabilities. With regards to mutual fund distribution, ARW has devised in-house methodologies that consider a defined set of parameters for mutual fund selection. **Structured products (59% of FY21 revenue) form an integral part of its model portfolios enabling more predictable and stable returns, with lower risk as compared to equity investment over a medium to long term period.** As part of its holistic approach to clients, ARW also facilitates estate planning, succession planning and creation of wills as part of its core objectives, without charging any cost to its clients.

In addition to PW (Private Wealth) vertical, ARW has two other new age technology led business verticals, i.e., Digital Wealth (DW) and Omni Financial Advisors (OFA). The DW and OFA verticals are ARW's efforts towards creating a technology platform to acquire new clients at lower cost as well as service and retain existing clients. These in-house developed technologies, including mobile application for clients and partners provides it with a ready platform to integrate with its PW vertical in future as and when required reducing its time to market for a digital solution.

**Vintage of AUM**



**Break up of AUM (Pvt. Wealth + Digi. Wealth)**



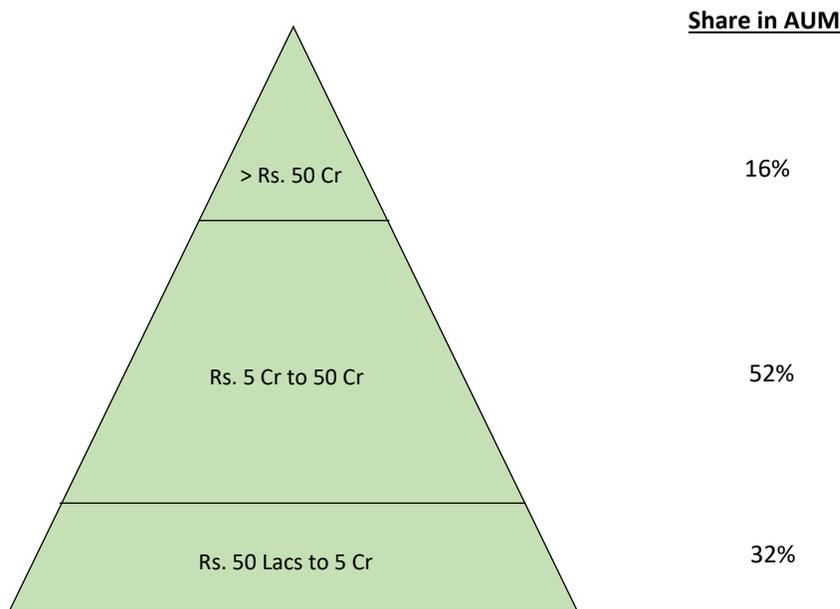
Source: RHP

## Investment Rationale

### Focus on the underserved and less price sensitive HNI segment

The PW (Private Wealth) vertical focuses on the HNI segment with AUM potential of Rs. 5 to 50 Cr, who are seeking quality and value addition rather than low cost. While the targeted AUM potential is above Rs. 5 Cr, the company typically on-boards clients with a relationship value of minimum of Rs. 50 lacs. Through ARW's uncomplicated, standardized and well researched approach, the client relationship value increases over time. HNI segment of clients is an attractive and underserved segment in terms of the quality of service. Creating a platform to serve this segment is often time consuming and difficult to build, however, this platform has the potential to provide a better opportunity to be the sole or a dominant wealth services provider to clients. Clients belonging to the HNI segment are less price sensitive for the value of the service the company offers.

### Split of ARW's client-wise AUM



Source: RHP

### Presence in Structured Products or Non-Convertible Market Linked Debentures

Apart from distribution of mutual funds, ARW also sells structured products or non-convertible market linked debentures to its clients. MLDs form an important part of its model portfolio acting as a hedge to market volatility providing more predictable returns based on the market performance with medium to lower return risk as compared to equity investment over the maturity period. ARW selects MLDs issued by Anand Rathi Global Finance Limited (subsidiary of Anand Rathi Financial Services Limited), which fit into ARW's standardized investment strategy and target returns. ARW buys these products from ARGFL which are then sold to clients and the income is earned by ARW from such sale. The MLDs are back-tested to assess probability of delivering target returns. A large portion of the MLDs gross mobilization comes from repeat purchasers, i.e. Clients who have invested in MLDs before. Over the last three years and five months ended August 31, 2021, 78% of the MLDs sales (Rs. 6916 Cr out of Rs. 8867 Cr) has come from repeat purchasers.

## Uncomplicated, holistic and standardized solutions offered to clients based on an objective-driven approach

ARW follows a process driven approach in providing wealth solutions and aims to achieve consistent client outcomes through a standardized investment strategy which augments the RM’s ability to deliver service proposition. The company’s model portfolio consists of an optimal combination of mutual funds and MLDs (market linked debentures) making it relatively simpler for clients to understand. This combination envisages liquidity along with limited risk to capital in the medium term. The model portfolios are created using in-house research and analytical tools in allocating assets and selecting securities that are aligned to each client’s liquidity and risk profile. The portfolio is periodically monitored and if required, strategic calls are organized with clients to modify strategy and help them reach their financial goals.

## End-to-end process driven, standardized and well researched solutions approach



Source: RHP

## Focus on safety net and estate planning services provides value addition to clients

As part of managing wealth for clients, ARW’s proposition also includes estate planning, succession planning and creating wills as part of its core objectives, without any cost to its clients. It safeguards and enables smooth transmission of wealth, which brings effective long-term relationship with the clients. The estate planning services are critical and imperative, for which, ARW has an in-house team of four qualified lawyers, who provide succession and estate planning services to all its clients across all locations.

The focus on estate planning is through a two-fold process:

- **Advising and creation of wills** – The estate planning team comprises of various subject-matter experts which provide relevant legal advice and case studies to decide on the distribution of wealth as per the client's desire and create customized documents as per the client's requirements.
- **Designing and creation of private family trust** – Safety nets are critical for clients since it increases the probability of protecting the accumulated wealth against any liability or encumbrance that the client may face in its business or profession. ARW typically recommends its clients for creation of private family trusts that can help them achieve their wealth goals.

## Concerns

**Volatility in the securities market:** The company operates in the distribution of financial products. The performance of such investment products is largely dependent on the financial markets. Any major discrepancies or volatility in the securities market can adversely affect the business.

**High competition from existing and new market participants:** In the wealth management segment, the company faces competition from several market participants, including established Indian and foreign banks, as well as private banks and dedicated wealth management companies. The company also competes with a large number of independent financial advisors as a consequence of the fragmented wealth management market in India. Further with the rise in the use of technology, competition from new entrants in the industry who may leverage technology to provide products and services better suited to the investors may adversely affect the business operations of ARW.

**Subject to various laws from different financial bodies:** ARW is subject to various financial services regulations by the SEBI Act, the SEBI (Intermediaries) Regulations, 2008, the SEBI (Investment Advisers) Regulations, 2013 or directions issued by AMFI. Any significant regulatory changes in the industry will likely subject industry participants to additional and more stringent regulations. SEBI prescribes the upper limits with respect to the TER (total expense ratio). From time to time these TER limits may be reviewed and revised by SEBI. For example, with effect from April 1, 2019, TERs for open-ended equity-oriented schemes were reduced from a range (depending on AUM) of 2.5% to 1.75% to the current range of 2.25% to 1.05%. There is a possibility that TER limits may be reduced further in the future which may impact ARW's financials.

*(Valuation and Recommendation on next page)*

## Valuation and Recommendation

The wealth management business has characteristics (annuity revenue, degree of cyclicity, ROE) which are skewed more towards AMCs than stock brokers. IIFL Wealth is the only listed peer to ARW in the wealth management business. Edelweiss Wealth, although not listed, was acquired in March 2021 by PAG (acquired 61.5% stake) valuing the company at Rs. 4400 Cr, and thus we use the company for peer analysis. We observe that ARW's ROE has consistently been higher than peers. Although ARW's FY19-21 growth in revenue & profits has lagged Edelweiss Wealth, its current year growth has been encouraging and above that of peers. We believe at valuations of 18.7x Apr-Aug'21 annualized earnings, ARW offers some scope for upside on listing, given ~20% earnings growth potential in the longer term combined with cross cycle ROE range of 20-30%. **We recommend subscribing to the issue.**

### Wealth Management Players

Parameters as on FY21	Comments	IIFL Wealth	Edelweiss Wealth*	ARW
AUM/AUA		1,84,650	1,55,000	26,670
CAGR (FY19-21)		15%	21%	20%
<u>AUM/AUA Mix</u>	<u>Yields</u>			
Own MF/PMS	High	31%	-	-
Structured Products	High	-	-	31%
Distribution of MFs	Mid	16%	-	58%
Brokerage & Margin Funding	Low	53%	-	11%
Revenue		915	1,043	265
CAGR (FY19-21)		-7%	20%	-3%
<u>Revenue Mix</u>	<u>Yields</u>			
Own MF/PMS	High	28%	-	-
Structured Products	High	-	-	59%
Distribution of MFs	Mid	15%	-	34%
Brokerage & Margin Funding	Low	57%	-	7%
PAT		369	245	45
CAGR (FY19-21)		-1%	23%	-12%
<u>Key Ratios</u>				
Revenue Yield		0.50%	0.67%	0.99%
Cost/Income		54%	70%	77%
PAT Yield		0.20%	0.16%	0.17%
<u>ROE</u>				
FY20		13%	26%	33%
FY21		15%	16%	19%
ROE (H1FY22 Annualised)		22%	17%	30%
<u>Valuations</u>				
P/E FY21		35.0	18.0	50.5
P/E H1FY22 Annualised EPS		25.0	14.9	18.7
P/BV Sep'21		4.6	2.6	8.0

Source: NBRR

\*Edelweiss Wealth is unlisted

## Financials

P&L (Rs. Cr)	FY19	FY20	FY21	Apr-Aug 21	Apr-Aug21 Ann.
Net Revenue	277	332	265	167	401
<b>% Growth</b>		<b>20%</b>	<b>-20%</b>		<b>51%</b>
Employee Cost	132	167	151	74	178
<b>% of Revenues</b>	<b>47.8%</b>	<b>50.2%</b>	<b>56.8%</b>	<b>44.5%</b>	<b>44.5%</b>
Other expenses	47	59	45	19	45
<b>% of Revenues</b>	<b>16.8%</b>	<b>17.6%</b>	<b>16.8%</b>	<b>11.3%</b>	<b>11.3%</b>
<b>EBITDA</b>	<b>98</b>	<b>107</b>	<b>70</b>	<b>74</b>	<b>177</b>
<b>EBITDA Margin</b>	<b>35.4%</b>	<b>32.2%</b>	<b>26.3%</b>	<b>44.2%</b>	<b>44.2%</b>
<b>% Growth</b>		<b>9%</b>	<b>-35%</b>		<b>68%</b>
Depreciation	16	21	17	7	16
Other Income	8	5	14	2	5
Interest	6	3	3	1	2
<b>PBT</b>	<b>83</b>	<b>87</b>	<b>64</b>	<b>68</b>	<b>164</b>
Tax	25	25	18	17	41
<b>Tax rate</b>	<b>30%</b>	<b>29%</b>	<b>29%</b>	<b>25%</b>	<b>25%</b>
<b>PAT</b>	<b>58</b>	<b>62</b>	<b>45</b>	<b>51</b>	<b>123</b>
<b>% Growth</b>		<b>5%</b>	<b>-27%</b>		<b>172%</b>
<b>Adj PAT</b>	<b>59</b>	<b>61</b>	<b>45</b>	<b>51</b>	<b>123</b>
<b>% Growth</b>		<b>4%</b>	<b>-27%</b>		<b>172%</b>
<b>EPS (Post Issue)</b>	<b>14.2</b>	<b>14.7</b>	<b>10.8</b>	<b>12.3</b>	<b>29.5</b>

Ratios & Others	FY19	FY20	FY21	Apr-Aug 21	Apr-Aug21 Ann.
EBITDA Margin (%)	35%	32%	26%	44%	44%
PAT Margin (%)	21%	18%	17%	31%	31%
ROE (%)	48%	33%	19%	NA	30%
Cost/Income	70%	74%	77%	59%	59%

Turnover Ratios	FY19	FY20	FY21	Apr-Aug 21	Apr-Aug21 Ann.
Debtors Days	15	10	15	-	-
Creditor Days	0	2	0	-	-
Asset Turnover (:)	2.2	1.5	1.0	-	0.9

Valuation Ratios	FY19	FY20	FY21	Apr-Aug 21	Apr-Aug21 Ann.
EPS Diluted	14.2	14.7	10.8	12.3	29.5
BVPS Diluted	30	45	58	69	98
Price/Earnings (x)	38.7	37.3	50.8	-	18.7
Price/BV (x)	18.5	12.3	9.5	-	5.6
Mkt cap/Sales (x)	8.3	6.9	8.6	-	5.7

Source: Company Data, NBRR

Balance Sheet (Rs. Cr)	FY19	FY20	FY21	Apr-Aug 21
Share Capital	13	14	14	21
Reserve & Surplus	110	172	228	266
<b>Networth</b>	<b>124</b>	<b>186</b>	<b>241</b>	<b>287</b>
Non controlling Interest	13	12	12	12
<b>Total Loans</b>	<b>1</b>	<b>42</b>	<b>33</b>	<b>31</b>
Trade payable	0	2	0	0
Provisions	34	42	21	24
Other Current Liab	7	9	12	8
Other Liabilities	53	118	20	41
<b>Total Equity &amp; Liab.</b>	<b>231</b>	<b>409</b>	<b>339</b>	<b>402</b>
Fixed Assets & CWIP	81	140	124	119
Loans & Advances	0	65	-	27
Investments (AR Global Fin)	75	103	104	105
Cash	11	28	65	57
Debtors	11	9	11	13
Deferred & other non cu	37	18	20	34
Other Current Assets	15	47	15	48
<b>Total Assets</b>	<b>231</b>	<b>409</b>	<b>339</b>	<b>402</b>

Cash Flow (Rs. Cr)	FY19	FY20	FY21	Apr-Aug 21
EBITDA	98	107	70	74
Provisions & Others	4	4	13	1
<b>Op. profit before WC</b>	<b>102</b>	<b>111</b>	<b>83</b>	<b>75</b>
Change in WC	0	50	(80)	(11)
Less: Tax	(35)	(20)	(24)	(29)
<b>CF from operations</b>	<b>67</b>	<b>140</b>	<b>(21)</b>	<b>35</b>
Addition to assets	(33)	(59)	1	(0)
(Purchase)/Sale of invst.	(9)	(92)	74	(29)
Dividend Received	0	0	0	0
<b>CF from Investing</b>	<b>(42)</b>	<b>(152)</b>	<b>75</b>	<b>(29)</b>
Proceeds/(Repayment) c	(0)	41	(8)	(2)
Interest paid on borrowi	(3)	(1)	(1)	(0)
Dividend Paid	0	0	(7)	(7)
Issue of Shares	0	0	11	0
Repayment of lease liab	(10)	(12)	(11)	(4)
<b>CF from Financing</b>	<b>(14)</b>	<b>28</b>	<b>(17)</b>	<b>(14)</b>
<b>Net Change in cash</b>	<b>11</b>	<b>17</b>	<b>37</b>	<b>(8)</b>
Cash at beginning	1	11	28	65
Cash at end	11	28	65	57

**Disclosure:**

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