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IPO Report

07th May' 22

Snapshot

Prudent Corporate Advisory Services Limited is an independent retail wealth management services group in India and is amongst the top mutual fund distributors in terms of average assets under management (“AAUM”) and commission received.

VALUATION

Company is bringing the issue at price band of Rs 595-630 per share at p/e multiple of 45x on 9Months FY22 eps basis. Company being operative in an underpenetrated Indian asset management industry, that has grown at a CAGR of more than 20%. have a pan-India diversified distribution network with ability to expand into underpenetrated B-30 markets. Company have demonstrated a consistent track record of profitable growth due to a highly scalable, asset-light and cash generative business model. Hence we recommend “Subscribe” on issue for long term.

Price Band (Rs./Share)	595-630
Opening date of the issue	10th May 2022
Closing Date of the issue	12th May 2022
No of shares pre issue	41406680 Eq Shares
Offer For Sale	8,549,340 Equity Shares
Face Value (Rs/ share)	5
Bid Lot	23
Employee Discount	Rs 59/Share

BIDDING DETAILS

QIBs (Including Anchor)	50% of the offer (Approx 4217752 Eq Shares)
Non-Institutional	15% of the offer (Approx 1265326 Eq Shares)
Retail	35 % of the offer (Approx 2952427 Eq Shares)
Employee Reservation	113835 Equity Shares
Lead managers	ICICI Securities, Equirus Capital, Axis Capital
Registrar to the issue	Link Intime India Pvt. Ltd.

WHAT WE LIKE

Company have a pan-India diversified distribution network with ability to expand into underpenetrated B-30 markets

Company is one of the very few national distributors (non-bank) with presence in the B-30 market catering to retail investors in more than 16,356 pin codes across India. As per AMFI, the share of AUM contributed by B-30 markets to the mutual fund industry increased to 16.45% in September 2021 from 15.53% in March 2014, illustrating the increasing importance of higher-growth B-30 cities. SEBI has also permitted AMC's to charge additional expenses of up to 0.3% on daily net assets of the scheme for B-30 markets to increase MF penetration. The additional TER benefits distributors like company who have built a presence in B-30 markets by getting higher commissions on B-30 AUM.

Company have demonstrated a consistent track record of profitable growth due to a highly scalable, asset-light and cash generative business model

Revenue from mutual fund distribution constitute a significant portion of total revenues and a large portion of such revenues is contributed through SIPs, providing a better visibility of revenue sources in the near term. Equity AUM for the MF industry posted a strong growth of approximately 23% in Fiscal 2021 on account of higher MTM gains during the year. MTM gains in the category to moderate down to an average ~7-11% in next five years post March 2021. In the long term, it is expected the equity AUM to grow at ~9-11% CAGR over March 2022 to March 2026. Company's model is a scalable and asset-light model. Company have focused on managing costs by using a technology-led business model. As a result, company's cost ratio, which is the ratio of total expenses to total revenue, has decreased from 86.42% in Fiscal 2019 to 79.48% in Fiscal 2021 to 76.31% for the nine months ended December 31, 2021. In last couple of years, company have created significant infrastructure in the form of digital assets, physical branch presence, a wide MFD network as well as a large SIP base which will help in generating operating leverage in company's business operations.



COMPANY BACKGROUND

Company's Platforms :

Prudent offer digital wealth management (“DWM”) 153 solutions through its platforms, namely, FundzBazar, PrudentConnect, Policyworld, WiseBasket, Prubazar and CreditBasket.

As on December 31, 2021, Prudent's assets under management from the mutual fund distribution business (“AUM”) stood at ₹ 484,114.74 million with 92.14% of its total AUM being equity oriented. Prudent's equity AUM of ₹ 446,059.12 million as on December 31, 2021, represented 2.39% of total equity AUM of mutual fund industry.

Incorporated in 2003, company provided wealth management services to 13,51,274 unique retail investors through 23,262 MFDs on its business-to-business-to-consumer (“B2B2C”) platform and are spread across branches in 110 locations in 20 states in India, as on December 31, 2021. Of its branches, 50 are locations in beyond the top 30 cities (“B30”) markets and 60 are locations in the top 30 cities (“T-30”) markets. Further, 27.83% of its registered MFDs and 20.56% of retail investors are based out of B-30 markets, as on December 31, 2021. Owing to Prudent's large network of MFDs, it facilitate AMCs access to smaller cities, especially in the B-30 markets. As of December 31, 2021, company is associated as distributors with 42 AMCs. Company's AUM from the B-30 markets was ₹ 25,250.34 million representing 15.15% of its total AUM as of March 31, 2018 and has grown at a CAGR of 36.20% to ₹ 80,586.23 million representing 16.65% of its total AUM as of December 31, 2021.

As per CRISIL, as on December 31, 2021, there were 126,000 AMFI Registration Number (“ARN”) holders registered with AMFI, while the number of ARNs empanelled with company stood at 23,262 representing 18.46% of the industry. Further, 84,784 MFDs have joined the industry during the period between April 1, 2016 and December 31, 2021. During the same period, company have added 18,915 MFDs on its platform. This has helped company to increase the number of retail investors served from 549,881 as of April 1, 2018 to 13,51,274 as of December 31, 2021.

Company also distribute life and general insurance products in India through its wholly owned subsidiary, Gennext. In the nine months ended December 31, 2021, company distributed 74037 policies, across life and non-life insurance segments, with an aggregate premium of ₹ 1612.03 million, and total brokerage received amounting to ₹ 232.22 million.

Key metrics of company's business verticals as on December 31,2021, are detailed below:

Vertical	Key Metric	Technology platform
Mutual funds	AUM: ₹ 484,114.74 million No. of investors: 1,351,274. No. of MFDs: 23262 AUM per MFD: ₹ 20.81 million AUM per investor: ₹ 0.36 million No. of AMCs associated with: 42	FundzBazar: Online investment platform that offers variety of investment products . PrudentConnect: Virtual office for MFDs registered with company.
Insurance	Premium: ₹ 1612.03 million No. of policies: 74037 Average premium per policy: ₹ 0.02 million No. of life insurance companies associated with: 11 No. of general insurance companies associated with: 26	Policyworld: Online platform which offers variety of insurance solutions
Broking	Cash Delivery Turnover: 37156.36million Active investor base: 19,814 Turnover per investor: ₹ 1.88 million Cash Intraday Turnover: 61347.72 million Active investor base: 5341 Turnover per investor: ₹ 11.49 million Equity Derivatives Turnover: 105571.28 million Active investor base: 1608 Turnover per investor: ₹ 65.65million Other Derivatives Turnover: 42582.78 million Active investor base: 185 Turnover per investor: ₹ 230.18 million	WiseBasket: Online model stock portfolios, aligned with economic trends and offer growth opportunities PruBazar: Online platform for trading in equities



INVESTMENT RATIONALE

Prudent operate in an underpenetrated Indian asset management industry, that has grown at a CAGR of more than 20%.

It is expected that along with an increase in financial literacy, the relative outperformance of financial assets over recent years, and the government's efforts to fight the shadow economy, will increase the share of financial assets as a proportion of net household savings over the next five years. Fiscal 2020 saw household savings in physical assets declined to 58% from 67% in Fiscal 2012 and net financial savings increase to 41% from 31% in Fiscal 2012. The rise in financial assets will further boost the investment under mutual funds. The share of mutual funds in overall gross financial household savings has risen steadily from 0.8% in Fiscal 2013 to 2.7% in Fiscal 2019. With the financial sector being particularly sensitive to improved economic conditions, and given the expected changes in saving patterns, it is expected that an increase in the share of financial assets like mutual funds and insurance within total financial savings. This strong macroeconomic backdrop, coupled with India's rising affluence, digitization and awareness will continue to propel the financialization of savings and therefore the growth of the wealth management sector in India.

Company have a pan-India diversified distribution network with ability to expand into underpenetrated B-30 markets

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Company have demonstrated a consistent track record of profitable growth due to a highly scalable, asset-light and cash generative business model

Revenue from mutual fund distribution constitute a significant portion of total revenues and a large portion of such revenues is contributed through SIPs, providing a better visibility of revenue sources in the near term. Equity AUM for the MF industry posted a strong growth of approximately 23% in Fiscal 2021 on account of higher MTM gains during the year. MTM gains in the category to moderate down to an average ~7-11% in next five years post March 2021. In the long term, it is expected the equity AUM to grow at ~9-11% CAGR over March 2022 to March 2026. Company's model is a scalable and asset-light model. Company have focused on managing costs by using a technology-led business model. As a result, company's cost ratio, which is the ratio of total expenses to total revenue, has decreased from 86.42% in Fiscal 2019 to 79.48% in Fiscal 2021 to 76.31% for the nine months ended December 31, 2021. In last couple of years, company have created significant infrastructure in the form of digital assets, physical branch presence, a wide MFD network as well as a large SIP base which will help in generating operating leverage in company's business operations.

Company have a granular retail AUM with a mix skewed towards high-yield equity AUM

As of December 31, 2021, company had an AUM of ₹ 484,114.74 million and were among the top mutual fund distributors on AAUM basis. Of this equity AUM stood at ₹446,059.12million as of December 31, 2021. Individual investors tend to stay invested for longer periods and prefer equity-oriented schemes, providing predictable, committed AUM to mutual funds and steady, recurring inflows for distributors as well. In equity AUM, the share of individual AUM in the under > 24-month bucket witnessed a sharp increase of 8% percentage points from March 2016 to September 2021. As of December 31, 2021, company provide wealth management services to 13,51,274 unique retail investors, through 23,262 MFDs.



OBJECTS OF OFFER

The objects of the Offer are to (i) to carry out the Offer for Sale; and (ii) achieve the benefits of listing the Equity Shares on the Stock Exchanges. Company will not receive any proceeds from the Offer and all such proceeds will go to the Selling Shareholders

RISKS

Company's business activities are subject to extensive supervision and regulation by the Government and various regulatory authorities, such as SEBI, IRDAI, PFRDA, AMFI, RERA, Depositories and the Stock Exchanges. Company is subject to a variety of financial services regulation, including, the SEBI Act, SEBI Intermediaries Regulations, SEBI Investment Advisers Regulations, directions issued by AMFI, PFRDA (POP) Regulations, IRDAI (Insurance Broker) Regulations, 2018, the RERA Act, SEBI Stock Brokers Regulations, SEBI Mutual Fund Regulations, AMFI Guidelines, SEBI Code of Conduct for Intermediaries of Mutual Funds, SEBI Research Analysts Regulations, SEBI Certification of Associated Persons Regulations, SEBI Depositories and Participant Rules, SEBI Intermediaries Circular on Conflicts and various applicable laws issued by Stock Exchanges. The laws and regulations governing advisory and distribution services relating to financial products have become increasingly complex and cover a wide variety of issues, including registration, disclosures and conflicts. Hence could adversely affect company's business, financial condition and results of operations.

Source:RHP

INDUSTRY OVERVIEW

Mutual Fund Industry

The Indian mutual fund industry has a history of over 50 years, starting with the passing of an Act for the formation of the Unit Trust of India ("UTI"), a joint initiative of the Government of India and the RBI in 1963. The Act came into force on February 1, 1964, with the formation of UTI. It was regulated and controlled by the RBI until 1978, and thereafter by the Industrial Development Bank of India. UTI launched its first scheme, Unit Scheme 1964, in 1964 and its AUM reached ₹ 67 billion by 1988.

Indian Broking Industry

The Broking Industry has seen a strong growth over the last five years aided by the robust performance of capital markets. The Active Client Base on NSE increased at 29.6% CAGR from 5.2 Million in March 2016 to ~18.9 Million in March 2021.

Life insurance industry

Life Insurance Industry Continues to Grow at Robust Pace The life insurance in India continues to be one of the fastest growing segment with an estimated gross total premium at ~₹ 6,100 Billion as of fiscal 2021. The premium has grown at a robust ~11% CAGR during the last five years ending fiscal 2021. This was on account of the strong 16% CAGR growth in new business premium ("NBP") during the same period.

Portfolio management services

In India, portfolio management services ("PMS") are offered by AMCs, banks, brokerages and independent investment managers. PMS usually focus on customised discretionary, non-discretionary or advisory service offerings tailored to meet specific investment objectives through basic PMS for stocks, cash, fixed income, debt, structured products and other individual securities. Apart from managing mutual fund schemes, AMCs in India have started offering tailor-made strategies with higher flexibility to investors through PMS. As of May 2021, there were 361 portfolio managers (including AMCs) registered under SEBI. As of May 2021, discretionary PMS dominated the space with an 84.4% share, followed by advisory (9%) and non-discretionary (6.6%) services.

Wealth Management

CRISIL Research estimates India's wealth management industry (including only banks and broking companies offering such services) assets to be at around ₹ 21 trillion in fiscal 2021; CRISIL Research projects the market to grow at a CAGR of 12-14% over March 2021 to March 2025 and cross ₹ 34 trillion by fiscal 2025 supported by significant under penetration compared to other developed economies, increasing population of affluent clients, increase shift from physical assets to financial assets and increasing complexity of assets amid rising competition.



(Rs in Mn)

Financials	FY19	FY20	FY21	As at 31 Dec'21
Total Revenue (A)	2219.84	2348.33	2865.07	3212.21
Total Expenditure (B)	1837.79	1881.61	2245.97	2397.25
EBIDTA	382.05	466.72	619.10	814.96
EBIDTA Margin	17.21	19.87	21.61	25.37
Other Income	30.74	13.87	83.89	67.77
Depreciation	76.23	79.46	81.19	86.90
EBIT	336.56	401.13	621.80	795.83
Interest	30.85	26.79	16.56	18.91
PBIT	305.71	374.34	605.24	776.92
E/O Items	-19.18	0.00	0.00	0.00
PBT	286.53	374.34	605.24	776.92
Tax	76.34	95.81	152.27	200.64
PAT	210.19	278.53	452.97	576.28
NPM	9.47	11.86	15.81	17.94
ROE %	25.29	24.75	28.73	26.83
EPS	5.08	6.73	10.94	13.92
Eq Cap	10.34	10.34	10.34	207.03
Net Worth	830.97	1125.18	1576.45	2148.02

(Source:RHP)

Peer Comparison

Company Name	OPM%	ROE %	PE	PBV
CDSL	66.54	25.14	41.32	11.76
CAMS	46.62	39.11	43.35	18.16
HDFC Asset Management	75.63	30.18	29.86	7.52
ICICI Securities	63.62	70.98	12.36	7.03
IIFL Wealth	50.55	31.22	26.89	5.18
Nippon Life	60.52	56.89	25.16	5.38
UTI Asset	52.91	40.52	18.49	2.74
Prudent	25.37	28.73	--	-

(Source:Ace Equity database as on 05th May'22)



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