

# Prudent Corporate Advisory Services

BFSI | India

IPO | 09 May 2022

## Prudent Financial Products Distributor at a Premium

### About the Company

Prudent Corporate Advisory Services (Prudent) provides retail wealth management services and offers mutual fund products, life and general insurance solutions, stock broking services, SIP with insurance, gold accumulation plan, asset allocation and trading platforms. The company was incorporated in 2003, and operates digital platforms like FundzBazar, PrudentConnect, Policyworld, WiseBasket and CreditBasket. Prudent is coming out with an IPO of Rs5.4bn, comprising fully OFS. The price band is at Rs595-Rs630, and the market cap at the higher band is seen at Rs26bn.

### PAN India Distribution Network

Prudent is one of India's leading independent and fastest-growing financial services groups. The company has built a nation-wide network, servicing 16,356 pin codes and has 1,067 employees, 3.5mn live folios and 1.5mn live SIPs as of 3QFY22. Moreover, it has provided wealth management services to ~1.35mn unique retail investors through 23,262 channel partners on the B2B2C network, which is spread across 110 branches in 20 Indian states.

### Huge Opportunities in the Market

Prudent operates in an underpenetrated Indian asset management industry. As data suggests, amongst other retail financial products category, retail mutual funds posted the highest CAGR of 22% over FY16-21 to Rs17tn as of Mar'21. The company distributes its products through the online and offline channels. It is amongst the top 10 mutual fund distributors in terms of average assets under management (AUM) as of FY21.

### Financials in Brief

The company's AUM of mutual fund distribution business grew from Rs167bn in FY18 to Rs484bn as of 9MFY22, with 92% of the total AUM being equity oriented. Prudent participated in the bidding process for the transfer of Karvy Stock Broking and acquired the entire mutual fund folios/AUM of Karvy's for Rs1.5bn in Nov'2021, so its 9MFY22 financial have only one month impact of the merger. For 9MFY22, Prudent reported a revenue of Rs3.2bn, while EBITDA stood at Rs815mn, registering a margin of 25.4%. The company witnessed a strong expansion in EBITDA margin of 17-22% during FY19-21. For FY21, it reported a revenue of Rs2.9bn, with a PAT of Rs453mn. PAT margin increased by 9.5%-15.8% during FY19-21. Moreover, RoE stood at 28.7% in FY21, as against 24.8% in FY20.

### Our View

On FY22 annualized financials, the IPO is valued at 6.3x EV/sales and 33x P/E, which is at a premium compared to peers. The company operates in an underpenetrated Indian asset management industry, which has clocked a CAGR of more than 20%. Prudent has an experience of over 2 decades that helped to integrate knowledge and expertise in financial product distribution with technology and provide a comprehensive business platform. It offers digital wealth management solutions through platforms, namely FundzBazar, PrudentConnect, Policyworld, WiseBasket and CreditBasket. Each platform is designed to provide mutual fund distributors (MFDs) and the retail investors a comprehensive set of financial service solutions, based on their investment needs. **Although the company has a strong financial track record, innovative technology, massive PAN India distribution network, the IPO is aggressively priced and hardly leaves anything meaningful on the table for investors with a medium-term perspective.**

#### IPO Details

Price Band (Rs)	Rs. 595 - Rs. 630
Face Value (Rs)	5
Issue Open/Closing Date	10 may 22/12 May 22
Fresh Issues (mn)	-
<b>OFS (mn)</b>	<b>8.5</b>
Total Issue (mn)	8.5
Minimum Bid Qty. (Nos)	
<b>Issue Size (Rs bn)</b>	<b>5.4</b>
QIB / HNI / Retail	50%/15%/35%
<b>Implied Market Cap (Rs bn)</b>	<b>26.1</b>

\*At a higher band

#### Object of the Issue

- ▶ OFS
- ▶ Listing Benefit

#### Key Risk

- ▶ Highly regulated environment
- ▶ Non-compliance with regulatory guidelines
- ▶ Inability to innovate and further develop the platform
- ▶ Highly dependent on information technology.
- ▶ Systems failures and resulting interruptions in the availability of the platform

Shareholding (%)	Pre-Issue	Post-Issue
Promoters	56.8	56.8
Others	43.2	43.2

#### Key Financials

(Rs mn)	FY19	FY20	FY21
Revenue	2,220	2,348	2,865
Operating Profit	382	467	619
Operating Margin (%)	17.2	19.9	21.6
PAT	210	279	453
PAT Margin (%)	9.5	11.9	15.8
EPS (Rs)	5.1	6.7	10.9
P/E (x)	124	94	58
EV/Sales (x)	11.9	10.9	9.0
Net Worth	831	1,125	1,576
RoE (%)	25.3	24.8	28.7
Gross Debt	924	598	965
Net Block	169	179	166
Net Asset Turnover (x)	13.1	13.1	17.2

Source: RHP

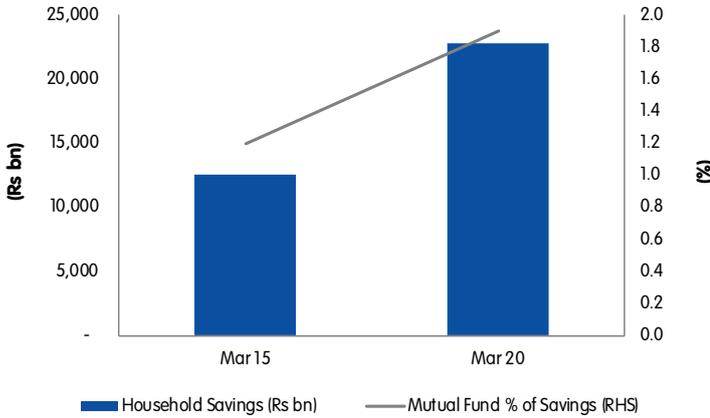
Research Analyst:

Arifat Saiyed

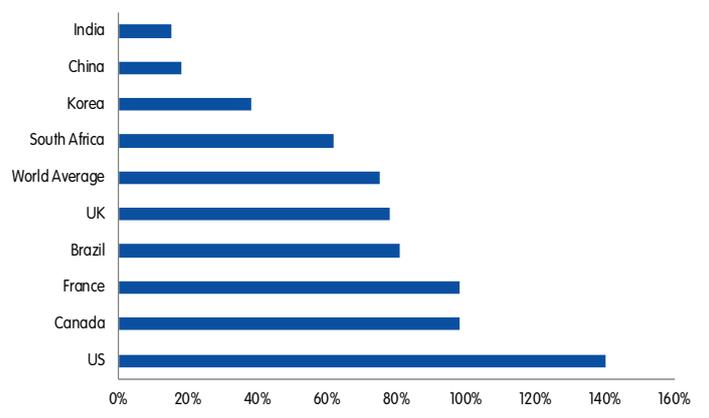
Contact: (022) 41681371 / 9819503007

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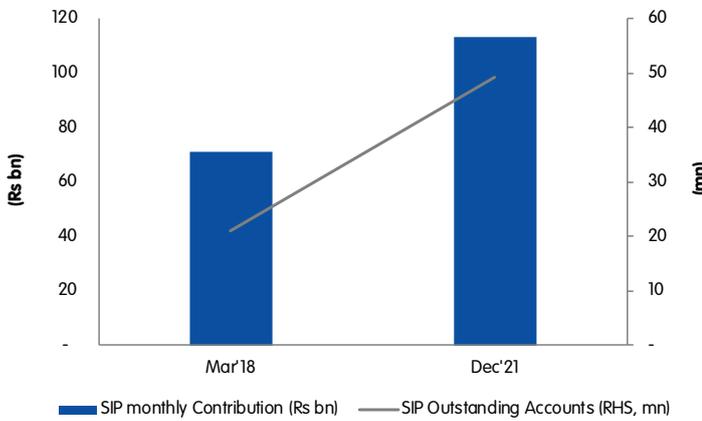
**Exhibit 1: Growing share of Mutual Funds in financial household savings**



**Exhibit 2: MF AUM % of GDP**

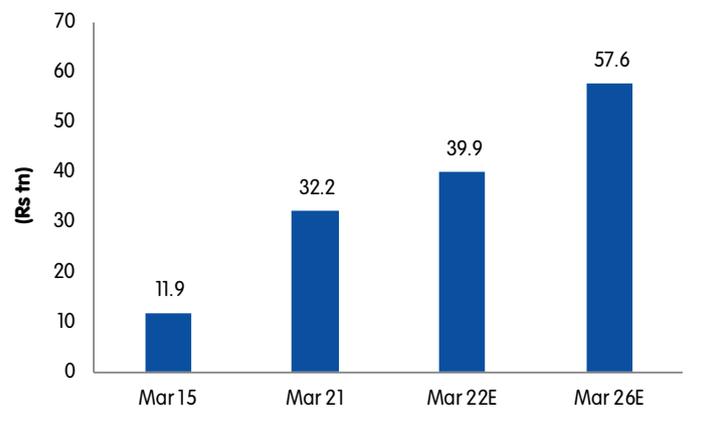


**Exhibit 3: Rising SIP contribution**



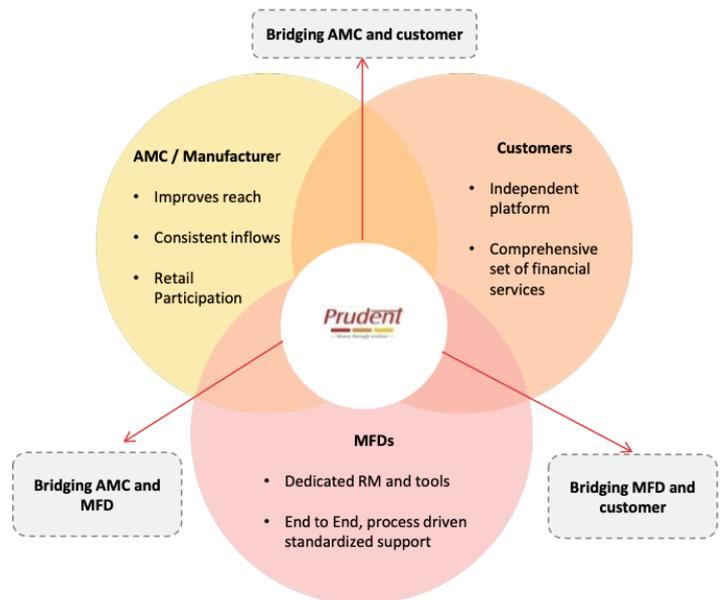
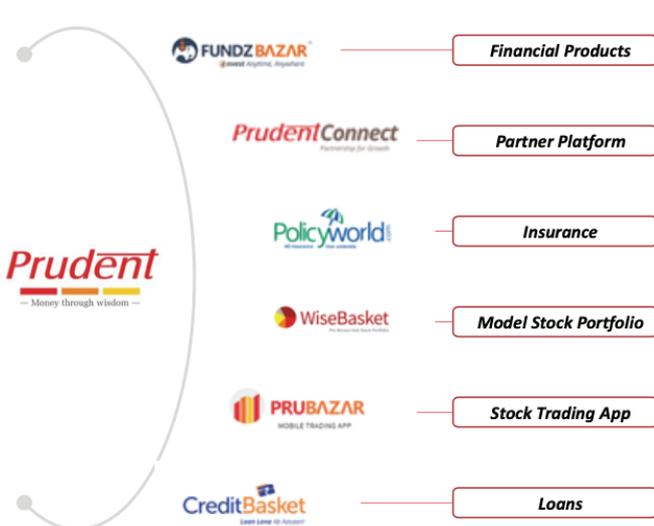
Source: RHP

**Exhibit 4: Total MF AUM**



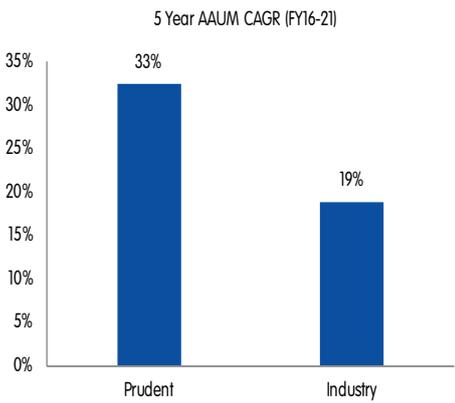
Source: RHP

**Exhibit 5: B2B2C platform enables offering diversified financial products**

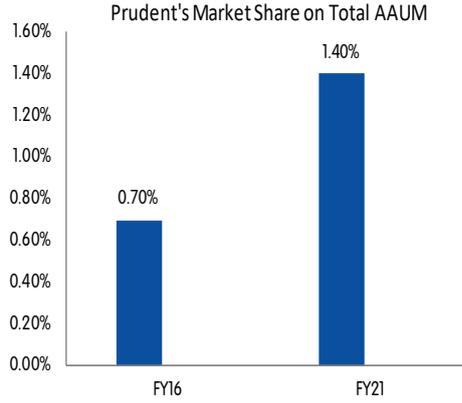


Source: RHP

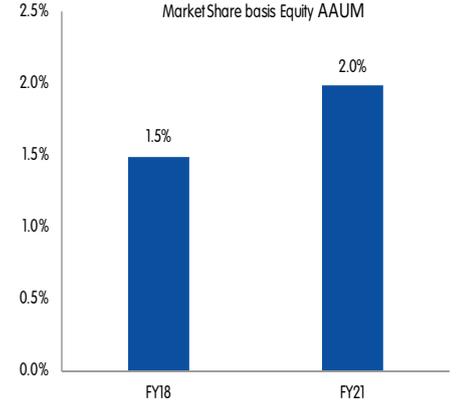
Exhibit 6: Retail centric focus has allowed to grow AUM



Source: RHP

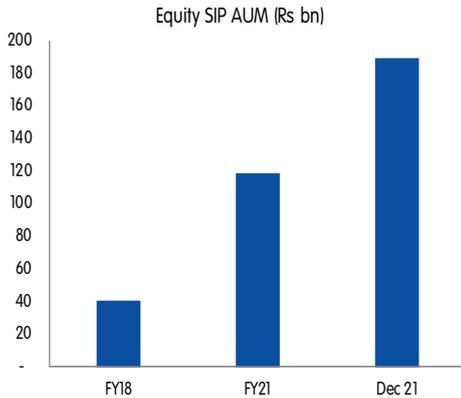


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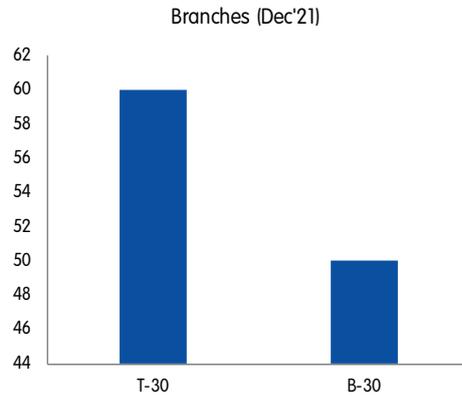


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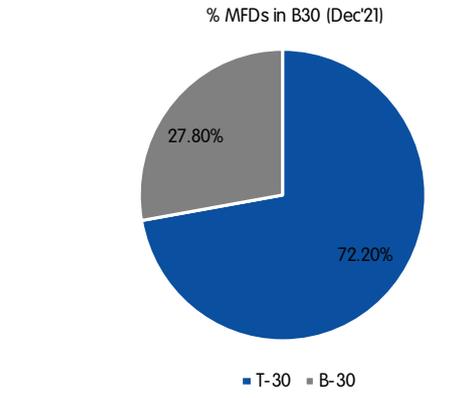
Exhibit 7: Equity SIP AUM



Source: RHP

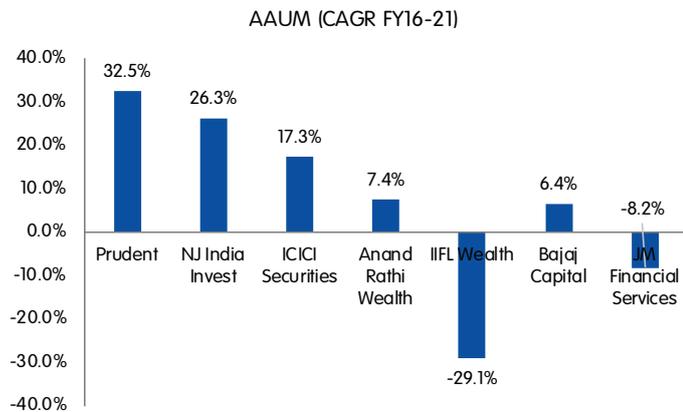


Source: RHP



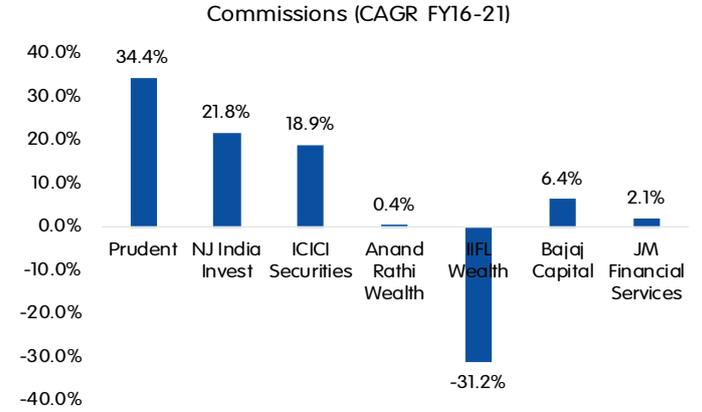
Source: RHP

Exhibit 8: AAUM growth



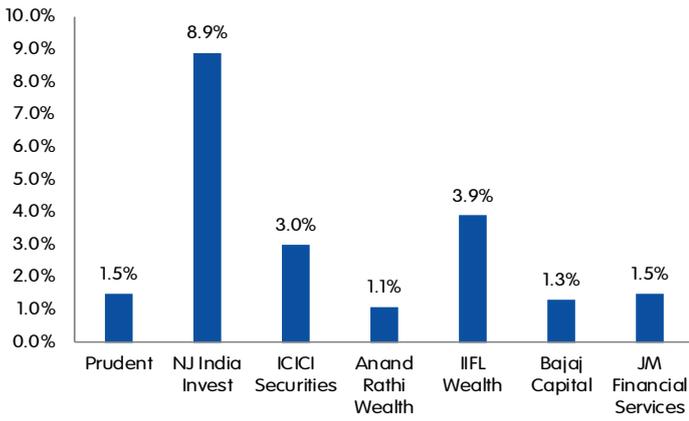
Source: RHP

Exhibit 9: Peer Comparison



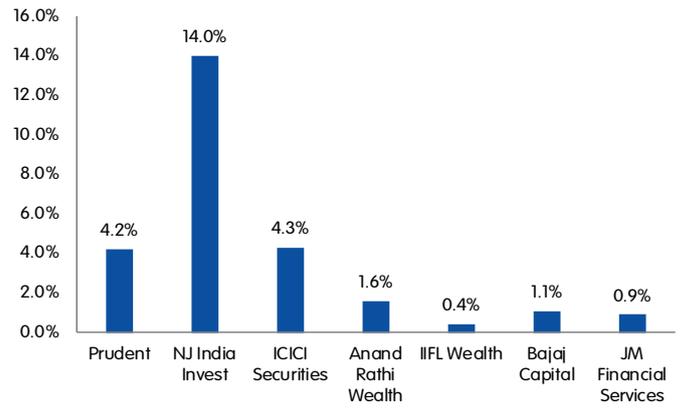
Source: RHP

Exhibit 10: Market Share of Commission (FY16)



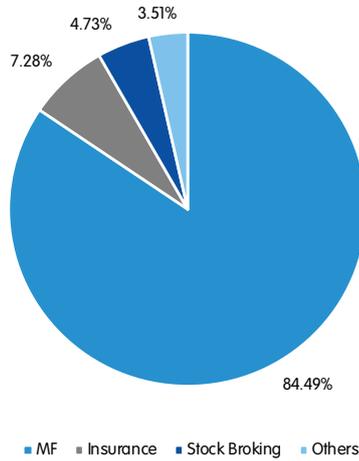
Source: RHP

Exhibit 11: Market Share of Commission (FY21)



Source: RHP

Exhibit 12: Prudent's Split of Total Revenue (9MFY22)



Source: RHP

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