

IPO Report

“Subscribe with Caution” to

Prudent Corporate Advisory Services

‘Expensive Valuation’



IPO Report

Salient features of the FPO:

- **PRUDENT CORPORATE ADVISORY SERVICES LIMITED (PCAS)** is amongst the top mutual fund distributors in terms of average assets under management (“AAUM”) and commission received.
- As on Dec 31, 2021, mutual fund distribution business (AUM) stood at Rs48,411 cr with 92% of their total AUM being equity oriented.
- Total issue is purely OFS of 0.85 cr shares. At the higher price band of Rs630, issue size comes at Rs539 cr.
- During 9MFY22, PCAS reported operating revenue of Rs321 cr and PAT of Rs58 cr.

Key competitive strengths:

- Operating in an underpenetrated Indian asset management industry that has grown at a CAGR of more than 20%.
- Growing independent financial products distribution platforms.
- Granular retail AUM with a mix skewed towards high-yield equity AUM
- Pan-India diversified distribution network with ability to expand into underpenetrated B-30 markets
- Track record of innovation and use of technology to improve investor and partner experience

Valuation: At the higher price band of Rs630, the issue is valued at P/E of 33.9x on FY22E annualized EPS and at P/S of 6.1x on annualized FY22E. The demanding valuation at Rs2,608 cr seems expensive leaving no margin of safety for investors in highly competitive financial products distribution industry.

Below are few key observations of the issue: (continued in next page)

- Indian retail financial distribution industry grew at a CAGR of 10% over FY16-FY21 within which retail mutual fund category posted the highest CAGR of 22%. Mutual fund assets have grown strongly in India, especially in recent years, as a result of a growing investor base across geographies, a strengthening capital market, higher technological advancements, and regulatory efforts aimed at making mutual funds more transparent and investor-friendly.
- The cumulative AUM of the Indian mutual fund industry has grown at a healthy pace of 18% CAGR over FY15-FY21 driven by growing economy, low penetration of financial products and increasing awareness about financial assets among retail investors. Equity AUM posted 24% CAGR whereas non-equity AUM grew at 14% CAGR during the same period. In the long term, i.e. between March 2021 and March 2026, MF industry’s AUM is projected to sustain a high growth trajectory of 11-13% CAGR and reaching Rs57 trillion from Rs37.5 trillion as of Sep’21.
- PCAS, incorporated in 2003, is amongst the top mutual fund distributors in terms of average assets under management (AAUM) and provided wealth management services to 13.5 lakh unique retail investors through 23,262 independent financial advisors (MFDs) to business-to-business-to-consumer (B2B2C) platform. On the business presence front, PCAS has branch network across 110 locations in 20 states in India, as on December 31, 2021 and has 1,067 employees on its payroll.

Rating	Subscribe with Caution
Price Band	Rs595 - Rs630 per share
Face Value	Rs5 per share
Shares for Fresh Issue	NIL
Shares for OFS	0.85 cr
OFS Issue Size (at higher price band)	Rs539 cr
Total Issue Size	Rs539 cr
Bidding Date	May 10' 2022 - May' 12' 2022
MCAP at Higher Price Band	Rs2,608 cr
Enterprise Value	Rs2,600 cr
Book Running Lead Manager	ICICI Securities Limited, Axis Capital Limited, Equirus Capital Private Limited
Registrar	Link Intime India Private Limited
Industry	<u>Financial Products Distribution</u>

Retail application money at higher cut-off price per lot

Number of shares per lot	23
Application Money	Rs14,490
Employee Discount	Rs59/sh

Allocation Detail

Qualified Institutional Buyers (QIB)	50%
Non-Institutional Investors (NII)	15%
Retail Individual Investors (RIIs)	35%

Shareholding Pattern

	Pre-Issue	Post Issue
Promoters & promoters group	56.8%	56.8%
Public	43.2%	43.2%
Total	100.0%	100.0%

Analyst

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(Contd...):

- Over the past five fiscal ending FY21, commission and AAUM grew at CAGR of 34.4% and 32.5% respectively, fastest among financial product distributors. As of Dec' 2022, AUM from the mutual fund distribution business stood at Rs48,412 cr with 92% of their total AUM being equity oriented. The company also distributes Life and General Insurance Products in India having tie up with the 37 insurance companies.
- PCAS provides services through its platforms such as Funzbazar, Prudent Connect, Policy World, Wise Basket, Prubazaar and CreditBasket. Fundzbazar is an online investment platform offers variety of investment products includes mutual funds. PrudentConnect is a virtual office for all MFDs registered with the company which provides end-to-end support for MFDs for various processes. Policyworld is an online insurance platform offers completely paperless transactions for variety of insurance solutions. WiseBasket an online facility to invest in multiple model stock portfolios. Prubazaar provides the facility to the clients to buy/sell equities through web portal or mobile app. CreditBasket portal offers finance to customers through a wide range of retail loan products and credit card products for varying financial needs.
- ***The company derives significant share of business from commission and fee income which accounted for 97.8% of revenue in 9MFY21. Income from distribution of mutual fund products contributed 84.9%, income from distribution of insurance products of 7.3%, stock broking and allied services at 4.7% and other financial and nonfinancial products at 1.3% in 9MFY22.***
- ***Operating revenue grew by a CAGR of 13.6% to Rs286 cr over FY19-FY21 mainly driven rising incremental investments by retail in equity mutual funds. During the same period, the company average EBIDTA stood at 19.6% and avg. NPM of 12.4%. Return ratios also remained at healthy level with average RoE of 26.3% during the period.***
- ***The company has highly scalable, asset-light and cash generative business model. In FY22, the company is likely to post strong growth at 50% YoY (on annualized sales). In 9MFY22, EBIDTA margin rose to 25.4% and 17.9% driven by the scalability of the business. Commission & fee expenses is the major expenses for the company, accounting for ~55% of sales) which it paid to registered MFDs. As the company is operating in high industry growth phase (Equity MF AUM posted 24% CAGR over FY15-FY21), we believe PCAS's business may grow at high double digit over the coming fiscals. Since ~85% of the business coming from MFs distribution, the business is highly cyclical to equity market behavior. Furthermore, the competitive intensity in financial product distribution industry is intense with entry of lot of fin-tech players. Thereby maintaining margin at ~25% would remain challenging for the company going forward.***
- ***At the higher price band of Rs630, the issue is valued at P/E of 33.9x on FY22E annualized EPS and at P/S of 6.1x on annualized FY22E sales. Based on our quick forecast, EPS is expected to increase to Rs21.6/sh by FY24E and thereby demanding valuation comes at P/E at 29x FY24E which seems stretched. We believe the demanding valuation at Rs2,608 cr is expensive leaving no margin of safety for investors in highly financial products distribution industry. Considering all above parameters, we assign 'Subscribe with Caution' rating to the issue.***

Peer comparison and valuation:

At the higher price band of Rs630, the issue is valued at P/E of 33.9x on FY22E annualized EPS and at P/S of 6.1x on annualized FY22E. Based on our quick forecast, EPS is expected to increase to Rs21.6/sh by FY24E and thereby demanding valuation comes at P/E at 29x FY24E which seems stretched. We believe the demanding valuation of Rs2,608 cr is expensive leaving no margin of safety for investors in highly competitive operating industry. Considering all above parameters, we assign 'Subscribe with Caution' rating to the issue.

Below mentioned peers are given in the RHP. However, these are not truly comparable an business fronts. We view Anand Rathi Wealth and IIFL Wealth Management are more appropriate peers.

Peer comparison

Companies	CMP (Rs/s)	Face Value	6M (R%)	12M (R%)	M Cap (Rs cr)	EPS (Rs)	P/E (x)	EBIDTA Mar. (%)	NPM (%)	RoE (%)	RoA (%)	D/E (x)	EV	Sales CAGR FY19-FY22
Prudent Corporate Advisory Services *	630	5	-	-	2,608	18.6	33.9	25.4%	17.9%	35.8%	19.8%	0.0	2,600	24.5%
Anand Rathi Wealth	643	5	10.2%	-	2,675	30.5	21.1	42.4%	30.5%	36.9%	26.5%	0.1	2,627	14.2%
IIFL Wealth Management	1,760	2	8.5%	49.0%	15,611	65.2	27.0	50.6%	31.2%	23.8%	14.0%	2.1	16,288	41.1%
Central Depository Services Limited	1,256	10	-13.4%	58.6%	13,062	29.9	42.0	66.2%	56.4%	28.5%	23.5%	3.1	12,856	5.5%
Computer Age Management Services	2,413	10	-20.0%	7.5%	11,773	56.0	43.1	46.3%	31.5%	54.1%	32.4%	4.1	11,593	-0.4%
HDFC Assets Management	1,990	5	-25.2%	-27.0%	42,586	65.1	30.6	75.7%	65.9%	25.2%	23.7%	5.1	42,578	0.7%
Nippon Life India Assets Management	308	10	-27.7%	-9.1%	19,158	12.0	25.7	60.5%	56.9%	21.4%	19.6%	6.1	18,820	-7.4%
UTI Assets Management	780	10	-32.0%	21.0%	9,906	42.0	18.6	52.9%	40.5%	14.8%	13.4%	7.1	9,508	7.9%

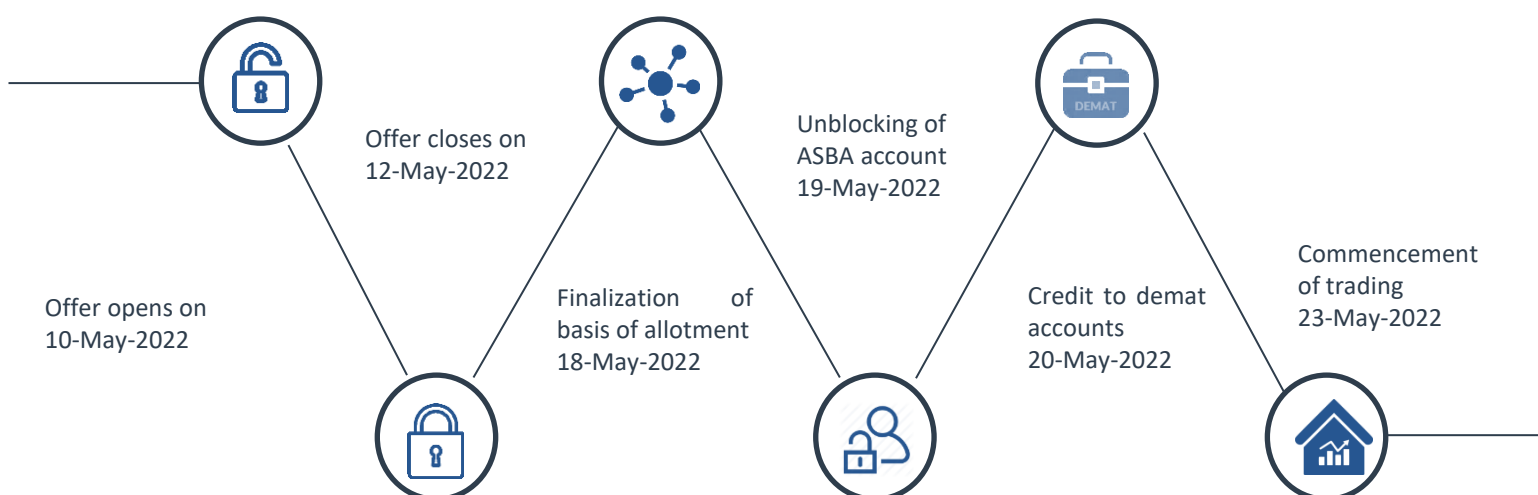
Companies (Rs cr)	P/E (x)	P/BV (x)	P/S (x)	EV/EBIDT A (x)	EV/Sales (x)	CASH	BVPS	Sales TTM	EBIDTA TTM	PAT TTM	Debt	Net Worth	Total Assets	Num of shares
Prudent Corporate Advisory Services *	33.9	12.1	6.1	8.0	6.1	52.9	51.9	428	109	77	0	215	387	4
Anand Rathi Wealth	21.1	7.8	6.4	14.8	6.3	87	83	417	177	127	39.0	344	480	4
IIFL Wealth Management	27.0	6.4	8.4	17.4	8.8	67	273.5	1,851	936	578	744.0	2,426	4,128	9
Central Depository Services Limited	42.0	12.0	23.7	35.2	23.3	206	105.0	551	365	311	0.0	1,092	1,326	10
Computer Age Management Services	43.1	23.3	13.6	28.9	13.4	180	103.5	866	401	273	0.0	505	842	5
HDFC Assets Management	30.6	7.7	20.1	26.6	20.1	8	258.4	2,115	1,600	1,393	0.0	5,530	5,880	21
Nippon Life India Assets Management	25.7	5.5	14.7	23.8	14.4	338	55.9	1,307	791	744	0.0	3,479	3,797	62
UTI Assets Management	18.6	2.7	7.5	13.6	7.2	398	283.9	1,319	698	534	0.0	3,606	3,988	13

* - Prudent Corporate Advisory - P&L data , return ratios on FY22 annualized basis, BS - latest reported

About the issue:

- Prudent Corporate Advisory Services (PCAS) is coming with initial public offering of 0.86 cr share
- The issue is a pure offer for sale (OFS)
- Issue price is fixed at Rs595-Rs630 per share
- At the higher price band of Rs630, OFS size is stood at Rs539 cr
- Promoter & promoter group is not participating in the OFS.
- The issue constitutes 20.65% of the post issue paid-up equity capital of the company.
- Not more than 50% of the net offer shall be available for allocation on a proportional basis to a qualified institutional investors (QIIs).
- Further not less than 15% shall be available for allocation on a proportional to non-institutional investors (NIIs) and not less than 35% of net offer shall be available for allocation to Retail Institutional Investors (RIIs).
- The issue will open for subscription on May 10'2022 and close on May 12'2022.
- Promoter & promoter group is not participating in the OFS.
- Wagner Limited, a major shareholder, is selling 0.83 cr share of the total OFS of 0.86 cr shares. Wagner, a member of TA Associates, a global investment fund, had invested in company in FY19. Post issue, Wagner stake will reduce to 20% from the 40%.
- Average cost of acquisition of equity shares for Wagner Limited is Rs151/sh, and for other selling shareholder namely Mr. Shirish Patel is Rs0.13/sh.
- Based on the upper cap of the price band, market cap of the company comes at Rs2,608 cr.
- PCAS is a dividend paying company. Rate of dividend stood at 60% in 9MFY22, 25% in FY21, 25% in FY20 and 439% in FY19.
- PCASL has reserved shares worth Rs6.5 cr for its eligible employees and offering them a discount of Rs59 per share.

Indicative IPO process timeline:



Company Introduction and Business Overview:

PRUDENT CORPORATE ADVISORY SERVICES LIMITED is an independent retail wealth management services group which incorporated in 2003 in India and is amongst the top mutual fund distributors in terms of average assets under management (AAUM) and provided wealth management services to 13,51,274 unique retail investors through 23,262 MFDs to 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. Apart from mutual funds, it also distributes financial products like insurance, portfolio management schemes, alternative investment funds, bonds, unlisted equities, stock broking solutions, loans against securities, NPS, among others. The company becomes an important confluence between asset management companies (AMCs) and mutual fund distributors or independent financial advisors (MFDs), over the last two decades, an independent platform with no single AMC contributing more than 15% of our AUM as of December 31, 2021.

The company business primarily consists of distribution of mutual funds, and also distribute other financial products such as insurance, portfolio management schemes (PMS), alternative investment funds (AIF), corporate fixed deposits (FDs), bonds, unlisted equities, stock broking solutions, loans against securities, NPS, structured products, etc. The company earn commissions from third parties for the distribution of their products, which may be in the form of recurring commissions. Commission and fee income from distribution of mutual fund products of Rs271. cr, Rs231 cr, Rs 196 cr and Rs 195 cr in the nine months ended December 31, 2021, Fiscals 2021, 2020 and 2019, respectively, representing 84.5%, 80.7%, 83.3% and 88.1% of our total revenue from operations, respectively.

Vertical	Key Metric	Technology Platform
Mutual Funds	AUM: ₹ 484,114.74million	FundzBazar PrudentConnect
	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	
Insurance	Premium: ₹ 1612.03 million	Policyworld
	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	
Broking	Cash Delivery	WiseBaskets PruBazar
	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: 105571.28million	
	Active investor base: 1608	
	Turnover per investor: ₹ 65.65million	
	Other Derivatives	
	Turnover: 42582.78million	
	Active investor base: 185	
Turnover per investor: ₹ 230.18 million		

Source: Choice Equity Broking



Competitive strengths:

- Operating in an underpenetrated Indian asset management industry that has grown at a CAGR of more than 20%.
- Growing independent financial products distribution platforms.
- Granular retail AUM with a mix skewed towards high-yield equity AUM
- Pan-India diversified distribution network with ability to expand into underpenetrated B-30 markets
- Track record of innovation and use of technology to improve investor and partner experience

Business strategy:

- Focus on expanding geographic reach and strengthening relationships with MFDs
- Distribute products and services through its existing MFD network
- Enhancing its technology platforms to provide superior experiences to its MFDs and their clients
- Add new offerings to its existing portfolio



Risk and concerns:

- Highly competitive
- Unusual or infrequent events or transactions
- Changes in accounting policies
- Significant economic and regulatory changes

Financial statements: (Rs crore)

Profit & Loss A/c

Particulars	FY19	FY20	FY21	9MFY22
Operating Revenue (OR)	222.0	234.8	286.5	321.2
Commission and Fees Expense	(125.0)	(120.5)	(153.1)	(176.9)
Impairment on Financial Instruments	1.0	(1.2)	(2.0)	0.1
Employee Benefit Expenses	(43.2)	(48.9)	(55.5)	(48.3)
Other Expenses	(16.6)	(17.6)	(14.0)	(14.6)
EBITDA	38.2	46.7	61.9	81.5
Depreciation and Amortization Expenses	(7.6)	(7.9)	(8.1)	(8.7)
EBIT	30.6	38.7	53.8	72.8
Finance Costs	(3.1)	(2.7)	(1.7)	(1.9)
Other Income	6.8	1.4	8.4	6.8
Exceptional items		0.0		
PBT	28.7	37.4	60.5	77.7
Tax Expenses	(7.6)	(9.6)	(15.2)	(20.1)
PAT	21.0	27.9	45.3	57.6

Balance Sheet

Particulars	FY19	FY20	FY21	9MFY22
Share Capital	1.0	1.0	1.0	20.7
Reserves and Surplus	82.1	111.5	156.6	194.1
Long Term Borrowings	22.9	7.8	2.6	33.0
Lease Liabilities	7.2	9.4	10.0	12.8
Long Term Provisions	3.0	4.7	5.7	7.0
Other long term liabilities	0.3	1.3	2.5	3.2
Trades Payables	69.5	52.0	93.9	113.6
Other current liabilities	6.9	8.1	11.3	2.5
Total Liabilities	193.2	196.1	284.9	387.3
Tangible Assets	23.8	27.1	26.0	28.4
Intangible Assets	0.5	0.4	0.4	148.7
Tax assets (net)	0.7	0.8	0.8	1.0
Other Non Current Assets	12.7	14.6	10.3	11.6
Trade Receivables	77.6	39.5	68.3	87.6
Cash and Bank Balances	66.0	97.3	139.2	52.9
Current Investments	8.7	10.2	33.7	39.0
Other Current Assets	3.2	6.3	6.2	18.1
Total Assets	193.2	196.1	284.9	387.3

Cash Flow Statement

Particulars	FY19	FY20	FY21	9MFY22
Cash Flow from Operating Activities	12.3	50.3	57.7	50.6
Cash Flow from Investing Activities	12.8	(4.8)	(27.7)	(138.8)
Purchase of fixed assets and properties	(4.4)	(3.5)	(1.7)	(152.5)
Cash Flow from Financing Activities	(9.4)	(22.1)	(11.4)	21.1
Net Cash Flow	15.7	23.4	18.7	(67.1)
Opening Balance of Cash and Bank Balances	38.6	57.2	80.6	99.3
Closing Balance of Cash and Bank Balances	54.2	80.6	99.3	32.2

Financial Ratios

Particulars	FY19	FY20	FY21	9MFY22
Growth & Margin ratios				
Revenue Growth Rate (%)		5.8%	22.0%	
EBITDA Growth Rate (%)		22.2%	32.6%	
EBITDA Margin (%)	17.2%	19.9%	21.6%	25.4%
EBIT Growth Rate (%)		26.6%	38.9%	
EBIT Margin (%)	13.8%	16.5%	18.8%	22.7%
Adjusted PAT Growth Rate (%)		32.5%	62.6%	
Reported PAT Margin (%)	9.5%	11.9%	15.8%	17.9%
Turnover ratios				
Trade Receivable Turnover Ratio (x)	2.9	5.9	4.2	
Accounts Payable Turnover Ratio (x)	3.2	4.5	3.1	
Fixed Asset Turnover Ratio (x)	9.3	8.7	11.0	
Total Asset Turnover Ratio (x)	1.1	1.2	1.0	
Working Capital Turnover Ratio (x)	0.0	2.6	2.0	
Operational ratios				
Current Ratio (x)	2.0	2.5	2.4	1.7
Debt to Equity (x)	0.4	0.2	0.1	0.2
Total Debt (Rs cr)	30.1	17.2	12.6	45.8
Net Debt (Rs cr)	-35.9	-80.1	-126.6	-7.2
Net Debt to EBITDA (x)	-0.9	-1.7	-2.0	-0.1
Net Debt to Equity (x)	-0.4	-0.7	-0.8	0.0
Return ratios				
RoE (%)	25.3%	24.8%	28.7%	35.8%
RoA (%)	10.9%	14.2%	15.9%	19.8%
RoCE (%)	26.3%	28.8%	30.6%	36.3%
RoIC (%)	23.2%	24.0%	24.0%	
EV (Rs cr)	2,571.7	2,527.5	2,481.0	2,600.4
EV/Sales (x)	11.6	10.8	8.7	
EV/EBITDA (x)	67.3	54.2	40.1	
Per share ratios (Rs sh)				
EPS	5.1	6.7	10.9	18.6
BVPS	20.1	27.2	38.1	51.9
OCF/sh	3.0	12.1	13.9	48.9
FCF/sh	-10.3	6.3	-0.4	265.9
Valuation ratios				
P/E (x)	124.1	93.6	57.6	33.9
P/BVPS (x)	31.4	23.2	16.5	12.1
P/S (x)	11.7	11.1	9.1	6.1
EV/EBITDA (x)	67.3	54.2	40.1	8.0
EV/Sales (x)	11.6	10.8	8.7	6.1

Source: Choice Equity Broking

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