

## Company Overview

Incorporated in 2003. Prudent Corporate Advisory Services is one of India's leading independent and fastest growing financial services groups. The company provides retail wealth management services. The company 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 also offers digital wealth management solution through platform like FundzBazar, PrudentConnect, Policyworld, Wisebasket and CreditBasket. They provide investment and financial services platforms for the distribution of financial products through online and offline channels. As of FY21, the company is amongst the top 10 mutual fund distributors in the terms of average assets under management (AAUM). As of December 31, 2021, PCAS issue wealth management services to 13,51,274 unique retail investors through 23,262 channel partners on the business-to-business-to-consumer (B2B2C) network, which is spread across 110 branches in 20 states of India. The company is also associated as a distributor with 42 AMCs.

## Objects of the issue

The IPO aims to utilize the net proceed for the following objectives;

- ⇒ To carry out an offer for sale by selling shareholders.
- ⇒ To achieve the benefits of listing the Equity Shares on the Stock Exchanges.

## Investment Rationale

### Growing independent financial products distribution platforms

The company is an independent retail wealth management services group in India and are amongst the top mutual fund distributors in terms of in terms of AAUM. A commission from the distribution of mutual 147 funds has been the top contributing business vertical for them. Their AAUM has grown at a CAGR of 32.5% to INR 249,100 mn in the five year period ending FY 2021 while in the same period mutual funds distributors' AAUM grew at an approximate CAGR of ~12% and touched INR 10.19 tn in FY 2021. As per AMFI's Commission Report of 2020-21, banks and national distributors are dominant in the mutual fund distribution industry, together accounting for INR 6.55 tn of AAUM in FY 2021. The market share of the top three national distributors (non-bank) has increased substantially from 23.0% in FY 2015 to 48.6% in FY 2021 on AAUM basis and from 33.1% in FY 2015 to 64.0% in FY 2021 on commission basis. The company had 12% market share within the national distributor segment on AAUM basis as of FY 2021.

### Intend to continue to focus on increasing geographic reach and strengthening relationships with MFDs

The company intends to grow their geographic reach by both expanding their distribution network and deepening their existing presence. The company expects significant improvement in productivity of their branches and consider it as one of the levers for their growth in the next few years. The company intends to continue to increase their footprint across India by focusing on growing their presence in B-30 cities and rural markets. Their mix of physical and digital model allows them to selectively target markets for expansion, especially in Tier 2 or Tier 3 cities, which are comparatively underpenetrated, thereby representing significant growth potential. They have added 293 relationship managers in existing branches in last 45 months. They plan to hire relationship managers capable of identifying, on-boarding and catering to their MFDs. In the 9 months ended December 31, 2021 they have added 6,409 MFDs on their platform. To service these MFDs they will continue to add quality relationship managers.

## Valuation and Outlook

The company offers a technology-enabled, comprehensive investment and financial services platform with end to end solutions critical for financial products distribution and presence across both online and offline channels. They grew faster among national distributors (amongst the Top-10 mutual fund distributors) in terms of commission and AAUM with a CAGR of 34.4% and 32.5% respectively for the 5 year period ending Fiscal 2021. With the increasing financialization of investments and a greater understanding of financial investments among Indians, there is significant potential to launch newer products and enter into newer segments. In particular, certain asset classes are underpenetrated among their customer base and they will leverage their analytics capabilities to recommend customized products for their investor base. Apart from product distribution, they also wish to strengthen their research and advisory offerings to their partners and retail customers. On the upper end of the price band, the issue is valued at a PE of 33.9x based on FY22 annualized earnings, which we believe is fairly priced. Hence, we recommend a "SUBSCRIBE" rating on this issue for the long term.

## Issue Details

Offer Period	10 <sup>th</sup> May - 12 <sup>th</sup> May 2022
Price Band	INR.595 to INR.630
Bid Lot	23
Listing	BSE&NSE
Issue Size (no. of shares in mn)	8.5.
Issue Size (INR. in bn)	5.38
Face Value	5

## Issue Structure

QIB	50 %
NIB	15 %
Retail	35 %
BRLM	ICICI Securities, Axis Capital Ltd, Equirus Capital Pvt Ltd.
Registrar	Link Intime India Pvt Ltd.

## Particulars Pre Issue % Post Issue %

Promoter	56.78%	56.78%
Public	43.22%	43.22%
<b>Total</b>	<b>100%</b>	<b>100%</b>

(Assuming issue subscribed at higher band)

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## Income Statement (In mn)

Particulars	FY19	FY20	FY21	9MFY22
<b>Revenue from operations</b>				
I Commission and Fees Income	2,154	2,293	2,776	3,141
II Interest Income	65	48	33	32
III Net gain on fair value Changes	1	7	56	40
<b>Total Revenue</b>	<b>2,220</b>	<b>2,348</b>	<b>2,865</b>	<b>3,212</b>
<b>Expenses</b>				
Commission and Fees Expense	1,250	1,205	1,531	1,769
Impairment on Financial Instruments	(10)	12	20	(1)
Employee benefit expenses	432	489	555	483
Other expenses	166	176	140	146
<b>Total Operating Expenses</b>	<b>1,838</b>	<b>1,882</b>	<b>2,246</b>	<b>2,397</b>
<b>EBITDA</b>	<b>382</b>	<b>467</b>	<b>619</b>	<b>815</b>
Depreciation and amortisation expense	76	79	81	87
Other income	31	14	84	68
<b>EBIT</b>	<b>337</b>	<b>401</b>	<b>622</b>	<b>796</b>
Finance Costs	31	27	17	19
Exceptional Item	19			
<b>Profit before tax</b>	<b>287</b>	<b>374</b>	<b>605</b>	<b>777</b>
Current tax	98	110	157	176
Deferred Tax Charge/ (charge)	(21)	(14)	(5)	25
<b>Total Tax</b>	<b>76</b>	<b>96</b>	<b>152</b>	<b>201</b>
<b>PAT</b>	<b>210</b>	<b>279</b>	<b>453</b>	<b>576</b>
<b>Diluted EPS</b>	<b>5.1</b>	<b>6.7</b>	<b>10.9</b>	<b>13.9</b>

Source: RHP, BP Equities Research

## Cash Flow Statement (In mn)

Particulars	FY19	FY20	FY21	9MFY22
Cash flow from operating activities	123	503	577	506
Cash flow from investing activities	128	(48)	(277)	(1,388)
Cash flow from financing activities	(94)	(221)	(114)	211
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>157</b>	<b>234</b>	<b>187</b>	<b>(671)</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>382</b>	<b>542</b>	<b>806</b>	<b>993</b>
<b>Cash and cash equivalents on acquisition of subsidiary</b>	<b>4</b>	<b>30</b>	<b>-</b>	<b>-</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>542</b>	<b>806</b>	<b>993</b>	<b>322</b>

Source: RHP, BP Equities Research



## Balance Sheet (In mn)

Particulars	FY19	FY20	FY21	9MFY22
<b>Liabilities</b>				
Share capital	10	10	10	207
Other equity	821	1,115	1,566	1,941
Instrument entirely equity in nature	0	0	0	
<b>Net worth</b>	<b>831</b>	<b>1,125</b>	<b>1,576</b>	<b>2,148</b>
Borrowings				
Current Tax Liability (net)	4	3	12	5
Other non- financial liabilities	68	81	113	22
Provisions	30	47	57	70
Deferred tax liabilities (net)	0	0	0	4
<b>Total Non current liabilities</b>	<b>102</b>	<b>131</b>	<b>182</b>	<b>100</b>
Borrowings	229	78	26	330
Lease liabilities	72	94	100	128
Trade payables	695	520	939	1,136
Other financial liabilities	3	13	25	32
Liabilities for current tax (net)				
<b>Total Current liabilities</b>	<b>1,000</b>	<b>705</b>	<b>1,091</b>	<b>1,625</b>
<b>Total Liabilities</b>	<b>1,932</b>	<b>1,961</b>	<b>2,849</b>	<b>3,873</b>
<b>Assets</b>				
Property, plant & equipment	169	179	166	162
Right-of-use asset	69	91	93	122
Capital work in progress				
Intangible assets	5	4	4	1,487
Deferred tax assets (net)	17	31	36	15
Current Tax Asset (net)	7	8	8	10
Other non-current assets	10	22	22	160
<b>Total Non Current Assets</b>	<b>277</b>	<b>336</b>	<b>329</b>	<b>1,956</b>
Inventories				
Investments	72	62	206	326
Trade receivables	776	395	683	876
Cash and cash equivalents	542	806	993	322
Bank balances other than above	118	167	399	208
Loans	5	9	5	5
Other financial assets	127	146	103	116
Securities for trade	15	40	131	64
<b>Total Current Assets</b>	<b>1,656</b>	<b>1,625</b>	<b>2,520</b>	<b>1,917</b>
Net Current Assets	656	920	1,430	292
<b>Total Assets</b>	<b>1,932</b>	<b>1,961</b>	<b>2,849</b>	<b>3,873</b>

Source: RHP, BP Equities Research

### Key Risks

- ⇒ If company do not continue to innovate and further develop their platform or their platform developments do not perform, or they are not able to keep pace with technological developments, company may not remain competitive and their business and results of operations could suffer.
- ⇒ The company business operations are highly dependent on information technology. Failure or disruption of their Information Technology ("IT") systems may adversely affect their business, financial condition, results of operations and prospects
- ⇒ The company inability to grow at their historical rates could adversely affect their business, results of operations and financial condition.



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Disclaimer Appendix

**Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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