Prudent Corporate Advisory Services Ltd

09-May-22

Subscribe-Long Term

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Issue Details

Issue Details	
Issue Size (Value in Rs. million, Upper Band)	5,386
Fresh Issue (No. of Shares in Million)	Nil
Offer for Sale (No. of Shares in Million)	8.5
Bid/Issue opens on	10-May-22
Bid/Issue closes on	12-May-22
Face Value	₹ 5
Price Band	595-630
Minimum Lot	23

Objects of the Issue

Fresh Issue: ₹ Nil

Offer for Sale: ₹ 5,386 Million

The company will not receive any proceeds from the Offer for Sale.

Book Running Lead Managers
ICICI Securities Limited
Axis Capital Limited
Equirus Capital Private Limited
Registrar to the Offer
Link Intime India Private Limited

Capital Structure (` Million)	Aggregate Value
Authorised share Capital	240
Subscribed paid up Capital (Pre-Offer)	207
Paid up capital (Post - Offer)	207

Share Holding Pattern %	Pre Issue	Post Issue
Promoters & Promoter group	56.8	56.8
Public	43.2	43.2
Total	**100**	**100**

Financials

Particulars (₹ In Million)	9M-FY22	FY21	FY20	FY19
Revenue from Operations	3,212	2,865	2,348	2,220
Other Income	68	84	14	31
Total Income	**3,280**	**2,949**	**2,362**	**2,251**
Expenses	2,397	2,246	1,882	1,838
Finance Cost	19	17	27	31
Depreciation	87	81	79	76
Total Expenses	**2,503**	**2,344**	**1,988**	**1,945**
Exceptional Item	-	-	-	19
Profit/(loss) before Tax	**777**	**605**	**374**	**287**
Tax	201	152	96	76
Profit/(loss) after Tax	**576**	**453**	**279**	**210**
EPS (₹)	13.94	10.94	6.73	5.08

Company Description

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. 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.

The company 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 five year period ending Fiscal 2021.

The company is an independent platform with no single AMC contributing more than 15% of its AUM as of December 31, 2021. As on December 31, 2021, its 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. Its AUM has increased from ₹ 166,677.52 million as on March 31, 2018 to ₹ 484,114.74 million as on December 31, 2021, at a CAGR of 32.83% with its equity oriented AUM increasing from ₹ 138,657.92 million to ₹ 446,059.12 million during the same period, at a CAGR of 36.49%.

Among national distributors its market share on commission received basis has increased from around 4% in Fiscal 2015 to around 12% in Fiscal 2021. Owing to its large network of MFDs, it facilitates AMCs access to smaller cities, especially in the B-30 markets.

Incorporated in 2003, the company provides wealth management services to 13,51,274 unique retail investors through 23,262 MFDs on its business-to-business-to-consumer ("B2B2C") platform and is 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 its large network of MFDs, it facilitates AMCs access to smaller cities, especially in the B-30 markets. As of December 31, 2021, it is associated as distributors with 42 AMCs. Its 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.

The company believes that its pan-India presence with a network of 23,262 MFDs representing 18.46% of the industry (as of December 31, 2021) increases its value proposition for the AMCs to source business from retail investors in a cost-efficient manner.

Valuation

At the upper end of the IPO price band, Prudent Corporate Advisory Services Ltd. is offered at P/E of 33.9x its FY22 annualised earnings, with a market capitalization of ₹26,086 Million.

The company has a scalable and asset-light model in a high growth underpenetrated Indian asset management industry with diversified distribution network. The company reported RoNW of 28.73% in FY21.

However, the IPO is richly priced and the company will have to continue growing its business at a high growth rate, in order to justify the valuations - hence we give the IPO a **"Subscribe (Long Term)"** rating.

The company's technology platform has given it wider acceptability amongst MFDs in the industry. As on December 31, 2021, there were 126,000 AMFI Registration Number ("ARN") holders registered with 144 AMFI, while the number of ARNs empanelled with it 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, it has added 18,915 MFDs on its platform, which is a demonstration of its ability to provide a consistent and attractive value proposition for MFDs. This has helped it 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. It continues to enjoy long-standing relationships with MFDs, with more than 50.60% of its AUM as of December 31, 2021, being contributed by MFDs who are associated with it for more than five years. Further, its MFD base is well-diversified, with top 50 MFDs (by AUM) contributing only 8.52% of total AUM, as of December 31, 2021.

The company's retail focus has helped grow the number of systematic investment plans ("SIPs") handled by it from 0.79 million as of April 1, 2018 to 1.53 million as of December 31, 2021. Correspondingly, equity AUM from SIPs increased from ₹ 40,384.66 million (representing 29.08% of its total equity AUM) as of March 31, 2018 to ₹ 189,499.09 million (representing 42.48% of its total equity AUM) as of December 31, 2021. SIPs have helped further increase retail investor participation in the mutual fund space.

The company also distributes life and general insurance products in India through its wholly owned subsidiary, Gennext. In the nine months ended December 31, 2021, it 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. The total number of policies distributed through it increased from 53,221 in Fiscal 2019 to 86,988 in Fiscal 2021 at a CAGR of 27.85%. Further renewal of policies constituted 71.32% of the total number of policies sold by it in the nine months ended December 31, 2021 and allowed it to earn premium of ₹ 913.80 million. It distributes insurance products through a mix of online and offline channels, with each contributing 34.23% and 65.77%, respectively to new policies issued in the nine months ended December 31, 2021. Gennext recorded the highest EBITDA and PAT margin in Fiscal 2020 among insurance brokers with digital platforms and focus on point-of-sale channels.

Strengths:

- **The company operates in an underpenetrated Indian asset management industry, that has grown at a CAGR of more than 20%**

Mutual fund assets in India have seen robust growth, especially in recent years, driven by a growing investor base on account of increasing penetration across geographies, strong growth in capital markets, higher technology progress, and regulatory efforts aimed at making mutual fund products more transparent and investor friendly. The company believes that the retail wealth management sector in India has significant growth potential. The Indian retail financial products distribution industry grew at a CAGR of approximately 10% over March 2016 to March 2021 and touched ₹ 161 trillion as of March 2021. Retail mutual funds category posted the highest CAGR (22% over the five year period from March 2016 to March 2021) amongst other retail financial products category and touched approximately ₹ 17 trillion as of March 2021.

Mutual fund AUM as a percentage of GDP grew from 4.3% in Fiscal 2002 to approximately 16% as on June 2021, however, penetration levels remained well below those in other developed and fast-growing peers, with a world average of 75%. The ratio of the equity mutual fund AUM-to-GDP in India at 6% is significantly low compared to 89% in the US, 78% in Canada, 50% in the UK, and 30% in Brazil.

- **It is a growing independent financial products distribution platforms**

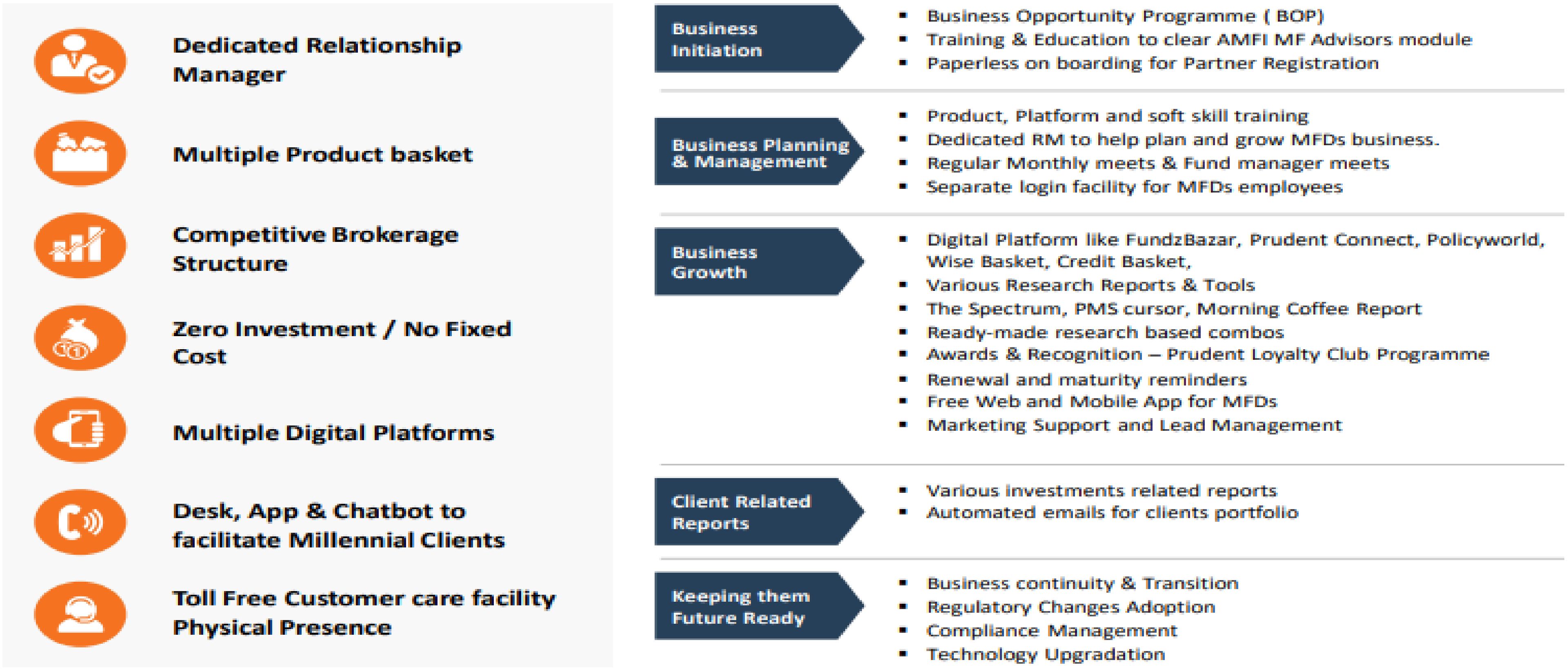
The company is an independent retail wealth management services group in India and is amongst the top mutual fund distributors in terms of AAUM. Commissions from the distribution of mutual funds have been the top contributing business vertical for it. Its AAUM has grown at a CAGR of 32.5% to ₹ 249,100 million in the five year period ending Fiscal 2021 while in the same period mutual funds distributors' AAUM grew at an approximate CAGR of ~12% and touched ₹ 10.19 trillion in Fiscal 2021. It had 12% market share within the national distributor segment on AAUM basis as of Fiscal 2021. It grew faster among national distributor (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 five year period ending Fiscal 2021.

- **It has a granular retail AUM with a mix skewed towards high-yield equity AUM**

As of December 31, 2021, the company had an AUM of ₹ 484,114.74 million and was among the top mutual fund distributors on AAUM basis. Of this its equity AUM stood at ₹446,059.12million as of December 31, 2021. 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, it provides wealth management services to 13,51,274 unique retail investors, through 23,262 MFDs. Its focus on retail investors and systematic investment plan ("SIP") has helped it in having a stable flow of investments from retail investors through SIPs accounts. The number of live SIPs on its platform being 1.53 million as of December 31, 2021, with the corresponding equity AUM from SIPs standing at ₹ 189499.09 million (representing 42.48% of its total equity-oriented mutual fund AUM) as of December 31, 2021. The number of active SIPs has increased from 0.79 million in Fiscal 2018 to 1.03 million in Fiscal 2021 to 1.53 million as of December 31, 2021. The increase in equity mix and retail investor base has been driven by its focus on digital offering and its extensive MFD network across all the country, including B-30 markets. Among various asset classes, equity as an asset class has higher expense ratio and consequently higher earning for distributors. Its commission to AAUM ratio for Fiscal 2021 stood at 1.06%, while the industry average in the same period was 0.65%. This is primarily due to 87.52% of its total AUM being equity oriented.

- **The company's value proposition has led to increased participation and long-standing relationship with MFDs**

The company offers a comprehensive multi-product investment platform with end-to-end solutions critical for financial products distribution. Its offerings for MFDs include various technology platforms for MFDs as well as for its retail investors, with continuous support through its 59 member in-house technology and 55 member back-office service team. It offers a virtual office for its MFDs providing information which will help to manage and grow its business. It offers end-to-end, process driven and standardised support to its MFDs, as follows:



Its MFDs as well the clients are habituated with the various offerings of its platform in term of execution of transactions, ease of administration and regulatory compliance. Availability of multiple products also reduces the efforts of the MFDs and clients to maintain relationship with multiple service providers. Further, the requirement of individual client consent to change the broker code creates administrative hassles for MFDs to transfer the AUM from its platform, which in turn builds long-standing relationship with MFDs.

- **The company has a track record of innovation and use of technology to improve investor and partner experience**

The company's experience of over two decades has helped it integrate knowledge and expertise in financial product distribution with technology and provide a comprehensive business platform to partners. The company's technology solutions help its partners to increase its focus on core competence of managing clients without a need to make significant investments in operational infrastructure. Over the years, it has enhanced partner engagement and experience through digitisation of processes and augmentation of technology platforms.

The company offers digital wealth management ("DWM") solutions through platforms, namely, FundzBazar, PrudentConnect, Policyworld, WiseBasket and CreditBasket. Each platform is designed towards providing MFDs and the retail investors a comprehensive set of financial service solutions, based on its investment needs. The domain expertise build over the years is based on market intelligence and feedback from clients. It has developed a variety of offerings, such as model stock portfolio WiseBasket in Fiscal 2020, financial solutions offering, CreditBasket in Fiscal 2021 and added stock as an investment option on FundzBazar platform in Fiscal 2021. It believe these offerings will enhance its appeal to the retail investors and make it a "one-stop-shop" solution for the MFDs.

- **The company has a pan-India diversified distribution network with ability to expand into underpenetrated B-30 markets**

The 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. Its 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 as a CAGR of 36.20% to ₹ 80,586.23 million representing 16.65% of its total AUM as of December 31, 2021. Further, 27.83% of its registered MFDs were based out of B-30 markets as on December 31, 2021. As on December 31, 2021, it had branches in 50 locations across B-30 cities with 108 relationship managers and 196 total employees at these locations.

The company's mix of physical and digital model allows it to selectively target markets for expansion, especially in Tier 2 or Tier 3 cities, which are comparatively underpenetrated, thereby representing significant growth potential. It hire's relationship managers capable of identifying, onboarding and catering to MFDs in such jurisdictions. By leveraging its existing technological capabilities and platforms, it is able to offer MFDs significantly lower transaction costs, while its ability to aggregate MFDs in the B-30 markets allows it to offer significant volume growth to AMCs without the associated cost of client acquisition. Since March 31, 2018, it has opened branches in 38 locations, of which 22 have been opened in B-30 markets, with a calibrated and progressive approach towards branch expansion.

- **The company has demonstrated a consistent track record of profitable growth due to a highly scalable, asset-light and cash generative business model**

The company has a track record of consistent financial performance and delivering returns to shareholders. Its business is a scalable and asset-light model. It has focused on managing costs by using a technology-led business model. As a result, its cost ratio, which is defined as 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, it has 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 it in generating operating leverage in its business operations.

- **The company has an experienced management team and are backed by a global investor**

  The company's management team has extensive experience in the financial services sector. Its Chairman and Managing Director, Mr. Sanjay Shah has over two decades of experience in the financial services industry. Further, its CEO and Director, each have experience of more than 15 years and are supported by a qualified and motivated pool of 1,067 employees (as of December 31, 2021). The quality of its management team has been critical in achieving business results and its management's experience will help it make timely strategic and business decisions in response to evolving customer needs and market conditions.

  Further, Wagner, a global investment firm had invested in its Company in Fiscal 2019 and has been part of journey since. It has benefited from the strategic inputs and support of marquee financial investor, Wagner, a member of TA Associates, a global investment fund.

Strategies:

- **The company intends to continue to focus on increasing geographic reach and strengthening relationships with MFDs**

  The company intends to grow their geographic reach by both expanding its distribution network and deepening existing presence. It intends to continue to increase its footprint across India by focusing on growing presence in B-30 cities and rural markets. Its mix of physical and digital model allows it to selectively target markets for expansion, especially in Tier 2 or Tier 3 cities, which are comparatively underpenetrated, thereby representing significant growth potential. Further, its relationship managers are key to its relationship with MFDs. Their role is to bring new MFDs, drive existing MFDs to improve their productivity and also help them to grow its business. It has added 293 relationship managers in existing branches in last 45 months. It plans to hire relationship managers capable of identifying, onboarding and catering to its MFDs. Recently, more specifically during pandemic, it has seen more and more MFDs joining its platform. In the nine months ended December 31, 2021 it has added 6409 MFDs on its platform. To service these MFDs it will continue to add quality relationship managers.

- **The company intends to leverage its existing MFD network to distribute products and services**

  The company intends to maintain the growth momentum in its financial products distribution business through its existing network of 23,262 MFDs and 499 relationship managers and acquire new client base. This network presents it with significant potential to cross-sell other financial products including insurance. As of December 31, 2021, it has 23,262 MFDs, while the number of point-of-sale persons ("POSP") for its insurance products distribution business stood at 6779. This presents significant opportunities to increase its point-of-sale ("POS") base and to cross-sell insurance products to its existing retail investors base. It also endeavors to cross sell insurance products through its PolicyWorld platform. Gennext has been one of the most profitable brokers amongst peers basis synergies derived from the ecosystem. The non-MF revenue contribution has been growing steadily over the past few years and the company wishes to diversify further in the next few years.

- **The company intends to continue innovating its technology platforms to provide superior experience to MFDs and their clients**

  Given majority of the company's customers invest and interact through its digital platforms, it needs to continuously invest in technology to ensure that it provides their customers with a fast, seamless and secure experience. Its retail focus compels them to create platforms to cater to needs of the masses and continue to innovate in this regards. It plans to continue making investments in the IT infrastructure underlying its digital platforms to augment capacity, deliver innovative products and improve the user interface across devices. It will continue to improve its processing speed, keep up with latest cybersecurity best practices, and increase integration with third parties to provide its customers with more products and services. It also aim to increase the use of technology in other parts of its business to optimise its operations, reduce costs and errors in the areas of sales, customer relationship, information security and risk management. As its customer base increases, it will have access to an increasing amount of data. The company intends to continue investing in its analytics capabilities to ensure that it is able to gain actionable insights from such data. The company has, and will continue to, use analytics to help it understand customer preferences, design new products and identify targets for cross-selling.

- **The company intends to add new offerings to its existing portfolio**

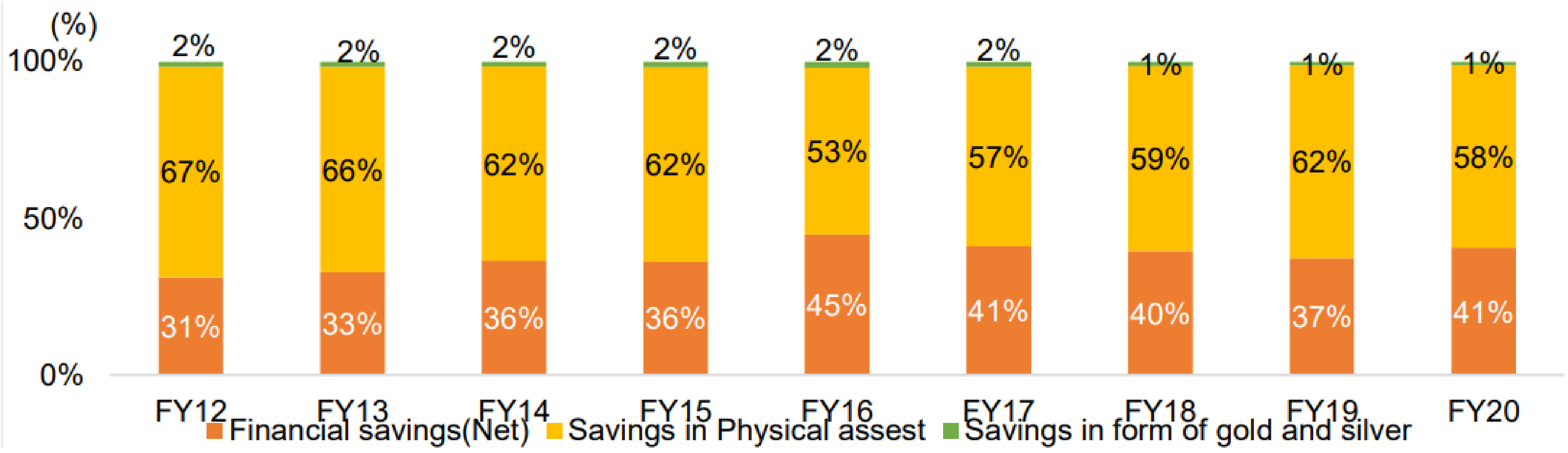
  With the expansion of product basket from mutual funds to other products such as NPS, unlisted securities, bonds, PMS, insurance (for POSP), it assist MFDs to increase its revenue from same set of clients, thereby increasing average revenue per investor. Apart from products distribution it also wishes to strengthen research and advisory offerings to its partners and retail customers. This in turn also helps MFD to acquire new clients by offering a comprehensive suite of products and services. It also intends to expand the target customer base from MFDs and underlying retail customers to the high-net worth individuals and affluent segments of wealth management.

Industry Snapshot*:*

- ***Capital markets to remain attractive part of financial savings***

  While households savings in physical assets declined to 58% in fiscal 2020 from 67% in fiscal 2012, financial savings grew to 41% in Fiscal 2020 from 31% in Fiscal 2012. 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, CRISIL expects the share of financial assets as a proportion of net household savings to increase over the next five years. The rise in financial assets will further boost the investment under mutual funds.

  The share of mutual funds in overall household savings has risen steadily since Fiscal 2013, and stood at 2.7% in Fiscal 2019.However, the share declined in Fiscal 2020.With the financial sector being particularly sensitive to improved economic conditions, and given the expected changes in saving patterns, CRISIL expects an increase in the share of financial assets – direct and through mutual funds and insurance – in total financial savings.



Overall, the financial market in India is expected to continue growing at a healthy pace owing to strong demand- and supply-side drivers, such as expected growth of the Indian economy, increasing urbanisation, rising consumerism because of higher per capita incomes, and favourable changes, thereby indicating market growth potential for established financial service providers in India.

As per the MoSPI, households' net financial savings has improved to 7.8% of gross national disposable income ("GNDI") in fiscal 2020, after touching the fiscal 2012 series low of 7.1% in fiscal 2019. This improvement has occurred on account of sharper moderation in household financial liabilities than that in financial assets.

- ***Retail financial products AUM and distributor's share***

Financial product distributors play a critical role in the market ecosystem in India. The Indian retail financial products distribution industry grew at a CAGR of ~10% over March 2016 to March 2021 and touched ₹ 161 trillion as of March 2021. Retail mutual funds category posted the highest CAGR (22% over March 2016 to March 2021) amongst other retail financial products category and touched ~ ₹ 17 trillion as of March 2021. CRISIL Research estimates, the share of distributors in Life and retail health insurance is in the range of 90-93% and ~83% in retail mutual funds category as of March 2021.

In the case of mutual funds, the expense ratio for retail investors is in the range of 1.5-2.0% per annum and the commission paid to the distributors is ~0.5-1.0% per annum. Since the commission is paid on trail basis (except in the case of SIPs where upfront commission of upto 1% is allowed), distributors continue to get commission as long as investor continues to remain invested in the fund. For life insurance, the commission paid on individual products (except pure risk products) is 2.0% and it is 7.5% in individual pure risk product for single premium products. In case of regular premium, the commission paid is 50% (40% in first year and 10% in renewal premiums).

- ***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.

In 1987, other public sector banks entered the mutual fund space. SBI Mutual Fund was set up in June 1987, followed by the launch of Canbank Mutual Fund in December 1987. Subsequently, other entities such as Life Insurance Corporation of India, Punjab National Bank, Indian Bank, Bank of India, General Insurance Corporation of India, and Bank of Baroda opened their own mutual fund houses, taking the industry assets to ₹ 470 billion by 1993-end.

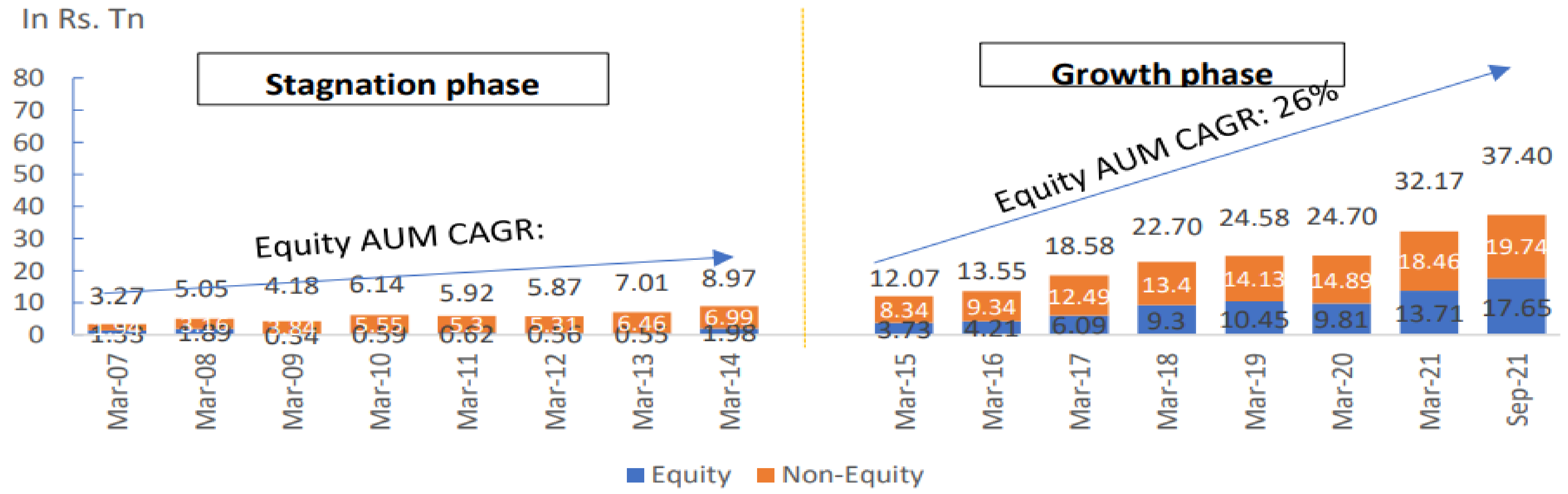
Seeing the rise in demand for mutual funds, and with the onset of onset of economic liberalisation in the country, the industry was opened to the private sector in 1993. The year also saw the introduction of the first formal mutual fund regulations, Securities and Exchange Board of India (Mutual Fund) Regulations, 1993. All mutual funds, except UTI, were under the ambit of these regulations, which were later replaced by SEBI (Mutual Fund) Regulations, 1996. Similarly, SEBI introduced SEBI (Portfolio Managers) Regulations, 1993, for the regulation of portfolio management services and SEBI (Alternative Investment Funds) Regulations, 2012 for the regulation of alternative investment funds. The Association of Mutual Funds in India, a member association of the mutual fund industry, was incorporated in August 1995. It recommends and promotes best practices and the code of conduct to its members.

Kothari Pioneer Mutual Fund (now merged with Franklin Templeton Mutual Fund), started in July 1993, was the first private sector mutual fund in the country. This triggered the entry of various mutual fund houses, both domestic and foreign, taking the number of providers at the end of January 2003 to 33 and the total AUM to ₹ 1,218 billion.

- ***Historical AUM growth***

The aggregate AUM of the Indian mutual fund industry has grown at a healthy pace of 18% CAGR, against the backdrop of an expanding domestic economy, robust inflows, and rising investor participation, particularly from individual investors. In this phase, equity AUM posted 24% CAGR whereas non-equity AUM grew at 14% CAGR. As of December 31, 2021, the monthly average equity AUM was ₹ 18.69 trillion whereas the total MAAUM for the industry was ₹ 37.91 trillion in the same period.

- ***Mutual funds AUM growth***



Aggregate industry AUM (based on MAAUM) grew 35% YoY to ₹ 37.4 trillion as of September 2021 from ₹ 27.74 trillion as of September 2020, driven by recovery post the Covid-19 pandemic, increased B30 penetration and rising popularity of systematic investment plans ("SIPs") as an investment vehicle.

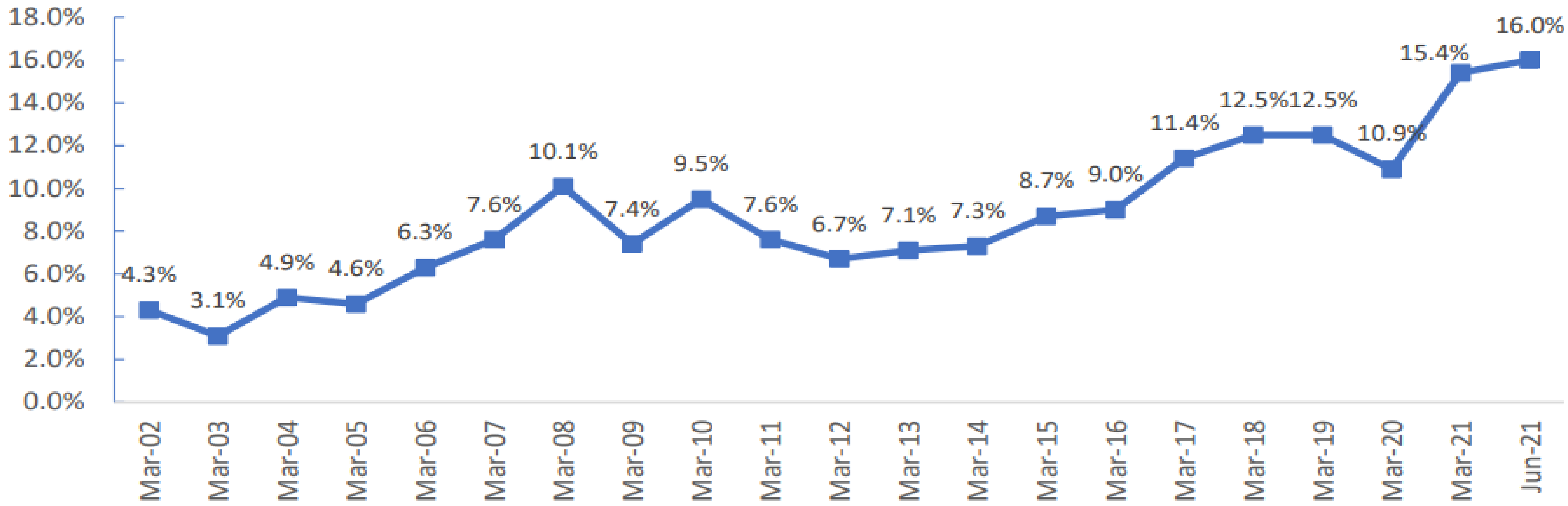
- ***Key growth drivers***

Mutual fund penetration

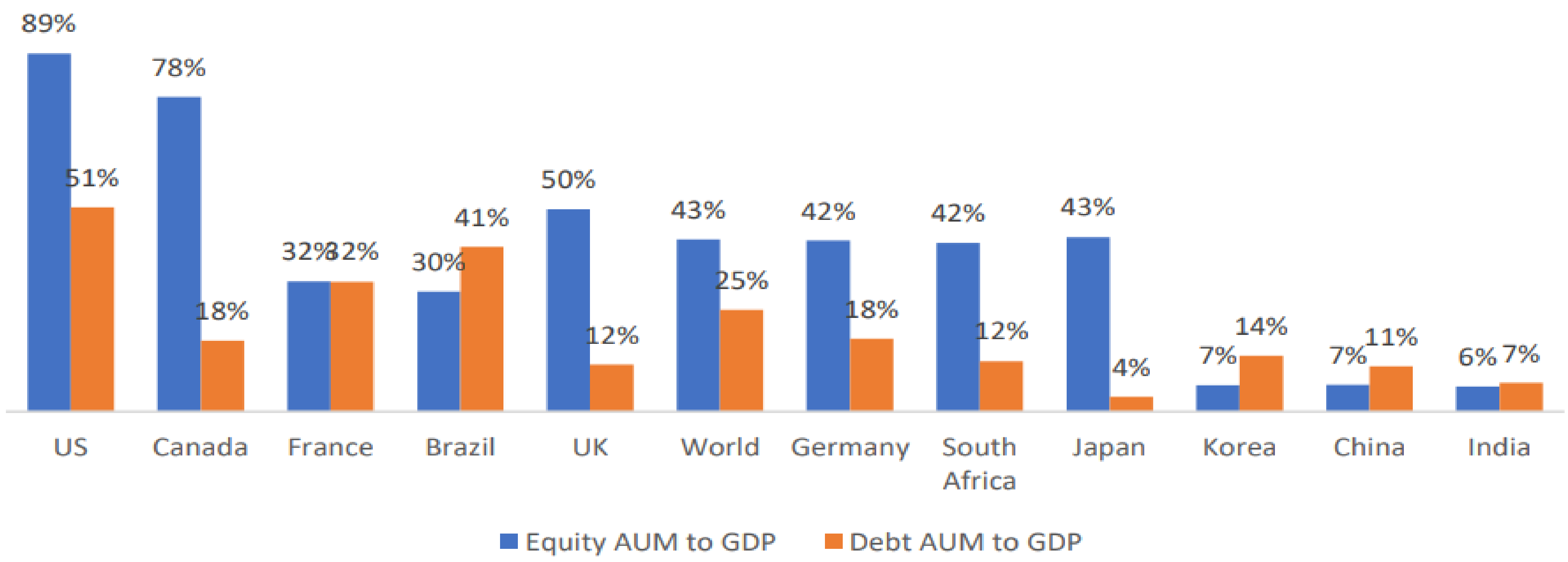
Mutual fund assets in India have seen robust growth, especially in recent years, driven by a growing investor base due to increasing penetration across geographies, strong growth in capital markets, technological progress, and regulatory efforts aimed at making mutual fund products more transparent and investor-friendly.

Although mutual fund AUM as a percentage of GDP grew from 4.3% in Fiscal 2002 to ~16% in June 2021, penetration levels remained well below those in other developed and fast-growing peers.

Mutual fund AUM (as % of GDP)

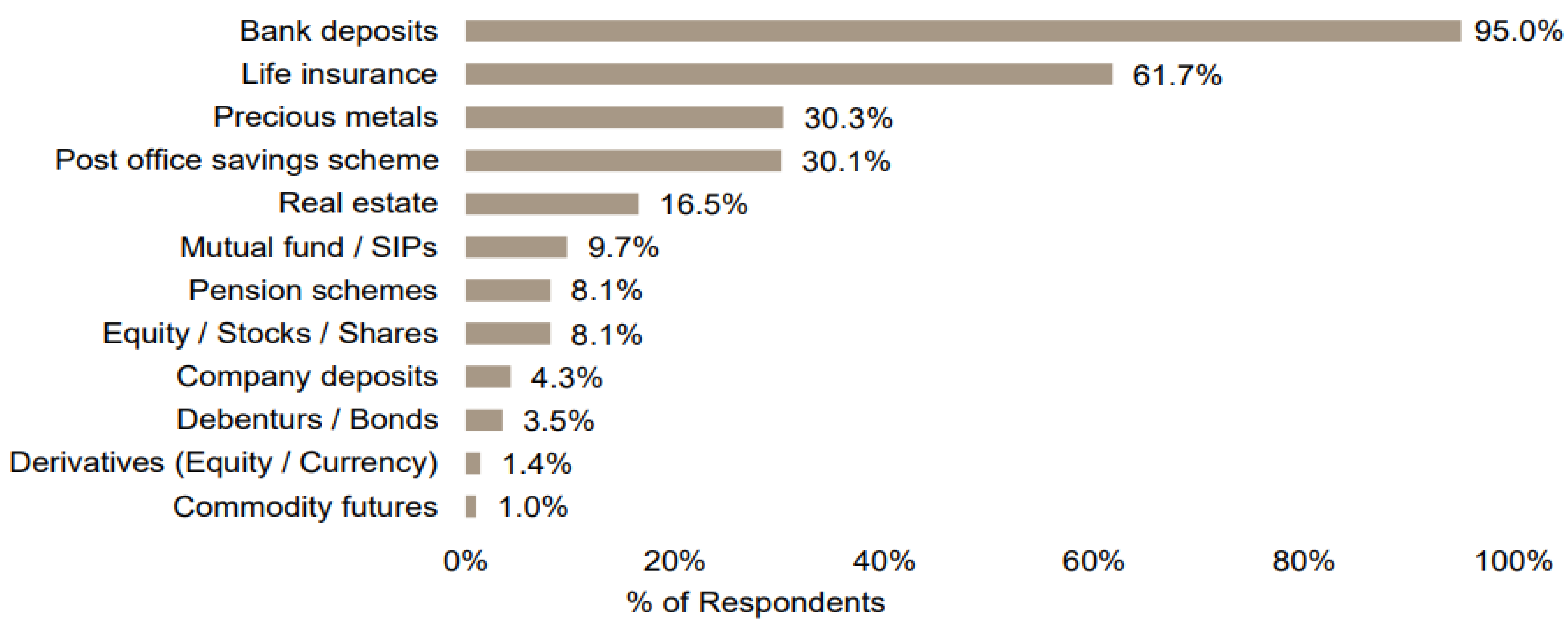


The ratio of the equity mutual fund AUM-to-GDP in India is considerably low at 6% compared with 89% in the US, 78% in Canada, 50% in the UK, and 30% in Brazil.



Financial inclusion

The low mutual fund penetration in the country is largely due to the lack of awareness about this investment vehicle. The SEBI's investor awareness survey of 2015 showed that mutual funds/ SIPs were used by only 10% of the respondents as investment and saving avenues.



The Central government launched the Pradhan Mantri Jan Dhan Yojana with an objective to widen financial inclusion by bringing the unbanked population into the formal banking system. Under the scheme, there were as many as 397.1 million beneficiaries as on June 30, 2020, with deposits totalling ₹ 1,325 billion. Over time, these new banking customers are also expected to utilise other financial sector activities such as investing in capital markets through mutual fund products. Other government and regulatory initiatives aimed at widening the formal financial system will also aid this growth.

Investor education

As outlined above, the SEBI has directed AMCs to annually set aside at least 2 bps of their daily net assets for investor-education initiatives such as boosting awareness about capital market investment products. The overall increase in advertising by the fund houses and robust market performance are likely to boost industry AUM, which, in turn, will result in higher spending on investor awareness. This will ultimately help deepen mutual fund penetration among new investors, particularly in B30 markets.

Retirement planning

Retirement planning is an untapped market in India. If channelled through mutual funds, it has the potential to significantly improve penetration among households. EPFO's move to invest 15% of its fresh accretion into ETFs has boosted the industry. This illustrates how mutual funds can be promoted as a vehicle for retirement planning in India. The substantial proportion of young population offers huge potential for this.

Tax benefits

The popularity of ELSS, a mutual fund product that helps investors save income tax (under Section 80C of the Income Tax Act, 1961), has also grown. These schemes have a lock-in period of three years. Over the past five years, many of these schemes have outperformed their benchmark indices Their aggregate AUM as of September 2021 stood at ₹ 1,537 billion, up from ₹ 395 billion in March 2016, clocking a CAGR of 28%. This further illustrates retail investors' rising interest in equity products.

Technology

Technology is expected to play a pivotal role in taking the financial sector to the next level by helping overcome the challenges stemming from India's vast geography. Financial sector players are finding it commercially unviable to have dense physical footprints in smaller locations. India's demographic structure, with the median age at 28 years, is also favourable for technological advancement in the sector. The younger population is expected to be able to use seamless technological platforms to meet their financial requirements. Increasing smartphone penetration and improved data speed are expected to support digitalisation of the sector, which, in turn, should help AMCs lower their cost and improve overall efficiency. Service providers with better mobile and digital platforms will be better positioned to acquire new customers entering the industry.

Easy access to mutual fund products

In May 2017, SEBI allowed investments up to ₹ 50,000 per mutual fund per financial year through digital wallets. Given the rise in the penetration of smartphones and greater adaption of technology platforms by the young population, measures such as these can make mutual fund products more easily available to investors.

The growth in AUM through the direct route can also be partially attributed to the ease of transactions facilitated by online portals, including mobile applications. While the direct route is mainly used by institutional investors, as per CRISIL there has been a gradual increase in the share of individual investors through this route. The introduction of the mutual fund utility platform, which allows investors to transact with schemes of multiple fund houses through a single window, has also boosted the ease of access.

Instant access facility

In May 2017, SEBI allowed mutual funds to offer instant access facility via online mode to individual investors in liquid schemes. People can redeem up to ₹ 50,000 or 90% of the folio value, whichever is lower, via this route. The regulation will facilitate instant redemption for liquid fund investors who park money for shorter time frames. While this category of mutual funds is currently dominated by institutional investors, introduction of the facility is encouraging individual investors to park excess funds in liquid products instead of savings accounts.

e-KYC for retail Investors

Reintroduction of Aadhaar-based KYC (which was discontinued in September 2018 due to a Supreme Court ruling) will allow investors residing in India to go to any AMC website to complete their e-KYC process. Various online platform such as FundzBazar and NJ E-Wealth have already introduced this feature which will reduce the time and cost associated with paper on-boarding processes. This will also lower the inconvenience threshold, which keeps a section of investors from entering the market.

As per the latest notification on November 5, 2019, even SEBI-registered mutual fund distributors and advisors will be able to complete the e-KYC process by registering as a sub-KUA with a KYC user agency ("KUA"). The KUA has to be registered with the Unique Identification Authority of India.

Net inflow in mutual funds to strengthen with retail participation

Fiscal 2021, however, saw a resurgence of investor interest in mutual funds despite challenges heaped by the pandemic. The industry saw aggregate inflows of ₹ 2,192 billion in the financial year compared with peak inflows of ₹ 3,430 billion in Fiscal 2017. As per AMFI monthly disclosure, Industry witnesses an inflow of ~₹ 1,696 billion as of September 2021. In the long term, with expectations of higher returns from the capital markets, the fund flow into equity funds is expected to be high. Increasing share of mutual funds in the financial savings of households, driven by expectations of higher and stable returns, is a key factor that will contribute to fund inflows, especially into passive and equity fund categories.

Risk:

- There is an outstanding criminal case in which the Economic Offences Wing has issued notices to Prudent Comder Private Limited (since merged with their Subsidiary, Prudent Broking Services Private Limited ("PBSPL")), its Promoter and a director of its Subsidiary and there is an outstanding SEBI matter against PBSPL, which if determined in an adverse manner, may result in a loss of license of PBSPL and consequently may adversely impact their future operations, reputation and profitability.

- Recommendations, suggestions and advice provided by Mutual Fund Distributors ("MFDs") using its platform to their clients may be subject to errors or fraudulent behaviour and are beyond its control and any resultant adverse impact to their clients could have an adverse impact on its reputation, business and results of operations.

- Any reduction in their commission or brokerage of other financial products could have adverse effect on its business, financial condition, cash flows, results of operations and prospects.

- The company depends on its ability to attract and retain registered Mutual Fund Distributors ("MFDs") on its platforms and any inability to retain them may adversely affect its business and results of operations.

- The company's revenues from distribution of mutual funds is dependent on certain Asset Management Companies ("AMCs") and their sustained ability to increase its Assets Under Management ("AUM") as well as on the performance of the funds that it distributes. Any changes in the total expense ratio due to regulatory changes may reduce its distribution commission income which may have a adverse effect on its business, financial condition or results of operation.
- Direct investments in mutual funds by its existing as well as potential clients will have an adverse impact on its revenue from mutual fund distribution.
- High levels of inflation in the Indian economy may shift the trend of savings and investments adversely.
- Security breaches of clients' confidential information that it stores may harm its reputation and expose it to liability.

Peer Comparison:

Name of company	Total Income for FY 2021 (In ₹ million)	EPS (Diluted) (₹)	RoNW (%)	NAV/ (₹ Per Share)	Closing price on April 22, 2022 (₹)	Market Capitalisation as on April 22, 2022 (in ₹ million)	P/E
Prudent Corporate Advisory Services Limited	2,948.96	10.94	28.73%	38.13			57.6x*
IIFL Wealth Management Ltd	16,590.20	41.76	13.06%	321.77	1,750.00	1,55,238.66	41.9x
ICICI Securities Ltd	25,861.70	33.08	5.86%	56.55	597.05	1,92,655.33	18.0x
Central Depository Services (India) Limited	4,006.33	19.17	21.88%	88.04	1,431.85	1,49,628.33	74.7x
Computer Age Management Services Limited	7,352.55	41.93	39.80%	105.73	2,620.00	1,28,127.09	62.5x
HDFC Asset Management Company Limited	22,017.40	62.16	27.76%	224.28	2,044.00	4,35,941.36	32.9x
Nippon Life India Asset Management Ltd	14,193.40	10.9	21.91%	50.29	326.60	2,03,163.37	30.0x
UTI Asset Management Company Ltd	11,986.30	38.97	15.27%	255.31	949.00	1,20,474.64	24.4x

*At upper price band of Rs.630/- per share

Valuation:

At the upper end of the IPO price band, Prudent Corporate Advisory Services Ltd. is offered at P/E of 33.9x its FY22 annualised earnings, with a market capitalization of ₹26,086 Million.

The company has a scalable and asset-light model in a high growth underpenetrated Indian asset management industry with diversified distribution network. The company reported RoNW of 28.73% in FY21.

However, the IPO is richly priced and the company will have to continue growing its business at a high growth rate, in order to justify the valuations - hence we give the IPO a "**Subscribe (Long Term)**" rating.

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Ratings Guide (12 months)	Buy	Hold	Sell
Large Caps (>₹300Bn.)	15%	5%-10%	Below 5%
Mid/Small Caps (<₹300 Bn.)	20%	10%-15%	Below 10%

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