

# Anand Rathi Wealth Ltd

Refer to important disclosures at the end of this report

## Wealth management advisor to the affluent; SUBSCRIBE

Price band:  
Rs 530-550

### Summary of the issue

Anand Rathi Wealth Ltd (“ARWL”) is one of the leading non-bank wealth solutions firms in India and has been ranked as one of the three largest non-bank mutual fund distributors in the country by gross commissions earned in Fiscal 2019, 2020 and 2021. It has achieved a dominant position in the distribution of financial products, with a focus on the growing HNI segment through an uncomplicated, holistic and standardized offerings, delivered through an entrepreneurial team of private wealth professionals, known as Relationship Managers (“RMs”).

ARWL will launch its IPO on 2<sup>nd</sup> December, 2021 (Thursday) with an issue size of Rs6.6bn and market cap of Rs22.89bn at the higher end of price band of Rs530-550.

### About the company

- ARWL acts as a mutual fund distributor, registered with the Association of Mutual Funds in India. It distributes mutual fund schemes managed by asset management companies and earns distribution commissions on a trail basis from asset management companies;
- It purchases non-convertible market linked debentures (“MLDs”) and offers them to its clients and earns income from these sales.

ARWL is mainly into wealth management, via its **Private Wealth (“PW”)** vertical, with total asset under management of Rs294.72bn as on Aug 31, 2021. The AUM comprises mutual fund schemes and other financial products such as bonds, MLDs and other securities held by clients in their own demat accounts. Demat holdings of the clients are not included in the AUM unless the client has also used the distribution service of ARWL or have bought MLDs through ARWL.

The clients or active client families include client families/groups with at least Rs5mn in cumulative AuM. Each ‘client family’ or ‘Client’ may have one or more sub-accounts or family member accounts through which they invest.

The company is currently present in 11 cities in India - Mumbai, Bengaluru, Delhi, Gurugram, Hyderabad, Kolkata, Chennai, Pune, Chandigarh, Jodhpur and Noida. It has a representative office in Dubai as well.

In addition to the PW vertical, ARWL has two other new-age technology led business verticals, i.e., Digital Wealth (“DW”) and Omni Financial Advisors (“OFA”).

The DW vertical is a fin-tech extension addressing the large mass affluent segment of the market with a wealth solution delivered through a ‘phygital channel’.

The OFA vertical is a strategic extension for capturing the wealth management landscape by providing a technology platform for Independent Financial Advisors (“IFAs”) to service their clients and grow their business.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-NBFCs \(page 8\)](#)

### Financial Snapshot (Standalone)

(Rs mn)	FY19	FY20	FY21	FY22 (Up to August 31)
Revenue from operations	2,766	3,318	2,653	1,669
Stated EBITDA	1,063	1,110	838	757
EBITDA Margin	37.4%	33.0%	30.0%	44.8%
Net profit (Rs)	584	616	451	511
Profit margin (%)	20.6%	18.3%	16.2%	30.3%
EPS (Rs) - Diluted	14.40	14.95	10.85	12.25
RoE (%)	57.8%	39.8%	21.1%	19.4%
NAV (Rs) - Diluted	30.14	45.14	57.76	68.63

Source: Company IPO Prospectus

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### Issue Details

Price Band	Rs530-550
Issue Opens	02 Dec 2021
Issue Closes	06 Dec 2021
Issue size	12mn shares
Issue Size	Rs6.6bn
No. of Shares Pre-issue	41.62mn
No. of shares Post issue	41.62mn
Post issue market cap	Rs22.89bn

### Issue Structure

QIBs	50%
Non-Institutional Category	15%
Retail	35%

### Objects of the Issue

To achieve listing on stock exchanges and partial exit to current shareholders

### Shareholding Pattern (%) Post Issue

Promoters	37.33%
Promoter group	11.49%
Public	51.18%

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### Manjith Nair

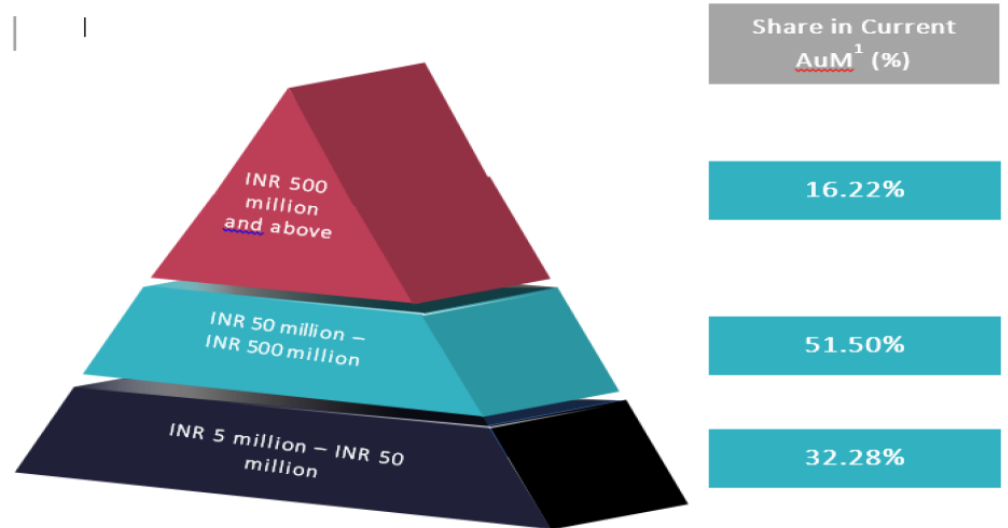
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## Strengths of the business

### Focus on the underserved and less price sensitive HNI segment

The PW vertical focuses on HNI customers with AuM potential of Rs50-500mn, who are seeking quality and value addition rather than low-cost solutions. While the targeted AuM potential is above Rs50mn, ARWL typically onboard clients with a relationship value of a minimum of Rs5mn. Through their uncomplicated, standardized and well-researched approach, the client relationship value increases over a period of time.

#### Exhibit 1: Below is a split of the AuM and Client count across different categories



Source: Company IPO Prospectus, Emkay Research

The number of active client families with respect to the PW vertical stood at 6,564 as on August 31, 2021, wherein 54.69% of the Clients have been associated with the firm for a period of over three Financial Years.

The value proposition of ARWL has enabled it to make consistent additions to the number of Clients during the last three Fiscals as showcased in the table below:

#### Exhibit 2: Additions to number of Clients

Fiscal	2018-19	2019-20	2020-21	April 01, 2021 to August 31, 2021
No. Of Clients added	965	863	988	455

Source: Company IPO Prospectus

The clients in the UHNIs category represent families having an AuM of greater than Rs500mn and these UHNIs were mostly HNIs when they were on-boarded and have subsequently elevated as UHNIs over a period of time.

### Uncomplicated, holistic and standardized solutions offered to clients based on an objective-driven approach

ARWL follows a process-driven approach in providing wealth solutions and aims to achieve consistent client outcomes through a standardized investment strategy which augments the RM's ability to deliver on the service proposition. Its model portfolio consists of an optimal combination of mutual funds and MLDs making it relatively simpler for clients to understand. This combination envisages liquidity along with limited risk to capital to the clients in the medium term. The firm believes in an 'uncomplicated' objective-oriented approach which helps the potential clients identify their wealth goals and create conviction to act upon their investment decisions. Its solutions, coupled with a motivated team of trained RMs, have helped ARWL to attract and retain clients.

**Exhibit 3: Below chart explains ARWL's end-to-end, process driven, standardized and well-researched solution approach:**



Source: Company IPO Prospectus

The model portfolios are created using in-house research and analytical tools in allocating assets and selecting securities that are aligned to each client's liquidity and risk profile. The portfolio is periodically monitored and if required, strategic calls are organized with clients to modify strategy and help them reach their financial goals.

**One of the leading non-bank mutual fund distributor in India, coupled with presence in Non-Convertible Market-Linked Debentures**

**Mutual Fund:** ARWL is one of the three leading Mutual Fund Distributors ("MFD") in India. It distributes mutual fund schemes managed by leading Asset Management Companies ('AMCs') in India and receive commissions linked to the outstanding market value of financial assets procured by them. ARWL is the third-largest mutual fund distributor on the basis of the gross commission non-bank MFDs in Fiscal 2019, 2020 and 2021.

**Non-Convertible Market Linked Debentures (MLDs):** Apart from the distribution of mutual funds, it also sells non-convertible market-linked debentures to its clients. MLDs form an important part of the model portfolio acting as a hedge to market variability providing more predictable returns based on the market performance movement with medium- to lower return risk as compared to equity investment over the maturity period.

In line with its process-driven approach in providing wealth solutions, with an aim to achieve consistent client outcomes, it presently choose MLDs issued by Anand Rathi Global Finance Limited ("ARGFL"), which fit into their standardized investment strategy and target returns. It buys these products from ARGFL which are then sold to certain of their clients and the income is earned by ARWL from such sale. The MLDs are back-tested to assess the probability of delivering target returns. This process has resulted in delivery of favorable returns to clients.

As can be seen in the table below, a large portion of the MLDs gross mobilization comes from repeat purchasers, i.e., clients who have invested in ARGFL MLDs before. Over the last three Fiscals and five months ended August 31, 2021, 78% of its MLD sales (Rs69.16bn out of Rs88.67bn) has come from repeat purchasers.

**Exhibit 4: Trend in Market-linked debentures (MLD) product**

Fiscal	2018-19	%	2019-20	%	2020-21	%	2021-2022 (till Aug - 2021)	%	Total	%
No of Products	331		530		634		177		1672	
Gross Mobilisation (Rs mn)	18,660	100	29,730	100	28,710	100	11,570	100	88,670	100
Repeat Purchases by existing clients (Rs mn)	16,360	87.65	24,460	82.28	19,310	67.25	9,040	78.11	69,160	78

\*Repeat purchase have been identified based on existing / previous MLD holding by same PAN number

Source: Company IPO Prospectus

### Focus on value-added services, i.e., safety net and estate planning services

ARWL believes in a holistic approach, and as part of managing wealth for the clients, the proposition also includes estate planning, succession planning and creating wills as part of their core objectives, without any cost to the clients. It safeguards and enables smooth transmission of wealth, which brings effective long-term relationship with the clients. For ARWL, the estate planning services are critical and imperative, for which, it has an in-house team of four qualified lawyers, who are providing services to the clients with succession and estate planning services in all locations.

The company's focus on estate planning is through a two-fold process:

- **Advising and creation of wills** – The estate planning team comprise of various subject-matter experts which provide relevant legal advice and case studies to decide on the distribution of wealth as per the client's desire and create customized documents as per the client's requirements.
- **Designing and creation of private family trust** – ARWL believes that the safety nets are critical for clients since it increases the probability of protecting the accumulated wealth against any liability or encumbrance that the client may face in its business or profession. It typically recommends clients for the creation of private family trusts that can help them achieve their wealth goals.

### Focused on attracting and retaining talent through an entrepreneurial work culture

ARWL hires account managers, who are business management graduates/CAs by qualification. These AMs assist RMs in servicing clients. Each RM is usually assisted by one AM. As of August 31, 2021, the firm had a total of 228 AMs. ARWL provides intensive training and guidance, to develop the skills of AMs which helps in their smooth transition to the role of an RM. Over the last three years and for the five months ended August 31, 2021, 58 AMs have successfully progressed into the role of RM.

ARWL constantly strives to enhance the work environment and work culture, which it believes are of utmost importance and has contributed toward them being able to retain the current RMs as well as attract new talent. It is led by a professional management team with extensive experience in the wealth management business.

ARWL has built several people practices that it believes provide a competitive advantage in its business. All employees in the role of business heads, including unit heads and team leaders, actively also work as RMs and manage client relationships. As a result, the entire management, product and advisory teams bring a deep and hands-on understanding of the market that it believes enables them to be extremely agile as a business, identify and take advantage of strategic opportunities quickly and proactively respond to the changing competitive and regulatory landscape in India.

ARWL promotes and focuses on an entrepreneurial and low-ego work culture as an integral part of its business strategy. It encourages and helps RMs to prepare their own business plans, focus on new client acquisitions without any geographical restrictions or collaborate with other team members, and actively mentor new hires. The RMs have an uncapped financial upside linked to their business.

### Strategic approach to the marketing initiatives

While references given by existing clients is the most popular mechanisms to onboard new families, another mechanism that has been successful for the firm is the focused group discussions. In this event, groups of RMs invite prospective clients, and a speaker does the rendition of the firm's proposition. These sessions were conducted physically during Fiscal 2018 and 2019. In addition, some of the focused group discussions were covered by leading business news channels. Such events were conducted across all major locations in India. It also sponsors various programs in India, including elite clubs like golf events, pre- and post-budget discussions and commercial policy discussions. It also leverages the research, intellectual and informative referencing material developed in-house on macro-economic trends for lead generation. Several members of the leadership team participate in various electronic media discussions around wealth solutions and offerings, which effectively helps in generating new clients.

Fiscal 2020-21 saw new challenges due to the Covid-19. The firm conducted digital webinars and its interactive webinars increased as against the physical events, giving the firm a wider outreach. While new client acquisitions seem to have been challenging, given the constraints of not doing physical meetings, the team still acquired 988 clients, with an average of approximately 82 clients per month in the Fiscal Year ending March 31, 2021.

## Key Managerial Personnel

### Exhibit 5: Board of directors

Sr No.	Name	Designation	Profile
1	Anand Rathi	Promoter, Chairman, Non-executive director	He has been associated with the company since March 18, 2005. Prior to joining the company, he was with Aditya Birla Nuvo Ltd, with BSE (where he also held the position of President) and was one of the first directors of CDSL.
2	Pradeep Gupta	Non-executive director	He has been with the company since March 18, 2005. He has promoted Anand Rathi Share and Stock Brokers Ltd (formerly known as Navratan Capital and Securities Pvt Ltd) and thereafter he joined ARFSL (formerly known as Anand Rathi Securities Pvt Ltd) with Anand Rathi in the year 1998. He has over 30 years of experience in capital markets.
3	Amit Rathi	Non-Executive director	He has been associated with the company since March 18, 2005. He is associated with the private wealth management and investment banking businesses of the Anand Rathi Group. He is also a director on the board of their corporate Promoter, ARFSL (formerly known as Anand Rathi Securities Pvt Ltd).
4	Mohan Tanksale	Independent director	He has been associated with the company since February 6, 2018. He has more than 42 years of experience having served 3 major public sector banks being, Union Bank of India, Punjab National Bank as Executive Director and Central Bank of India. He has also served on the board of various subsidiaries of Punjab National Bank and Central Bank of India and Life Insurance Corporation of India.
5	Ramesh Chandak	Independent director	He has been associated with the company since March 15, 2018. He was also the managing director of KEC International Ltd.
6	Kishan Gopal Somani	Independent director	He has been associated with the company since March 15, 2018. He has around 50 years of experience. Prior to joining the company, he was a president of ICAI.
7	Sudha Navandar	Independent director	She has been associated with the company since March 15, 2018.

Source: Company IPO Prospectus

### Exhibit 6: Key Managerial Personnel

Sr No.	Name	Designation	Profile
1	Rakesh Rawal	Chief Executive Officer, Executive director	He has been associated with the wealth management business of Anand Rathi Group since April 2, 2007. Prior to joining the company, he worked with Deutsche Bank and Hindustan Lever Ltd. He currently focusses on the business development and client acquisition for the private wealth management business of the company.
2	Rajesh Kumar Bhutara	Chief Financial Officer	He is the Chief Financial Officer of the company. He has been associated with Anand Rathi Group since August 8, 2000. He is a member of the Institute of Chartered Accountants of India. He also holds a Bachelor's degree in Commerce from Jiwaji University, Gwalior. In his experience of over 21 years with Anand Rathi Group, he has played a key role in looking at various functions areas like finance, accounts and taxation.
3	Ashish Chauhan	Company Secretary	He is the Company Secretary and Compliance Officer. He has been associated with the company since December 2, 2019. He is a Fellow Member of the Institute of Company Secretaries of India and has a Bachelor's degree in Commerce from the University of Mumbai, along with a Bachelor's degree in Law from the University of Mumbai. Prior to joining Anand Rathi Group, he worked with Sutlej Textiles and Industries Limited, Cipla Limited and Hindustan Construction Company Limited, and has over 10 years of experience in secretarial functions.

Source: Company IPO Prospectus

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## Issue details

### Exhibit 7: Broader Details of the IPO

IPO Opening Date	December 2 <sup>nd</sup> , 2021
IPO Closing Date	December 6 <sup>th</sup> , 2021
Issue Type	Book Built Issue IPO
Face Value	Rs5 per equity share
IPO Price	Rs530 to Rs550 per equity share
Employee Discount	Rs25 per share
Market Lot	27 Shares
Min Order Quantity	27 Shares
Issue Size (Rs mn)	6,600
Fresh issue (Rs mn)	-
Offer for Sale (mn)	6,600
Issue Size (mn shares)	12.00
Issue Size (Rs mn)	6,600
Fresh issue (Rs mn)	-
Shares outstanding post IPO (mn)	41.62
Market cap (Rs bn)	22.89

Source: Company IPO Prospectus, IPO Price Band Advertisement

### Exhibit 8: Shareholding Structure

	% shareholding pre offer	Shares (mn) pre offer	Offer for Sale (shares mn)	Offer for Sale (Rs mn)	Shares (mn) post offer	% shareholding post offer
<b>Promoters</b>						
Mr. Anand Rathi	12.85%	5.35	0.375	206.25	4.98	11.95%
Mr. Pradeep Gupta	5.47%	2.28	0.375	206.25	1.91	4.58%
Anand Rathi Financial Services Limited	43.12%	17.95	9.285	5106.75	8.67	20.81%
<b>Promoter Group (Other than Promoters)</b>						
Mr. Amit Rathi	4.33%	1.8	0.375	206.25	1.43	3.42%
Ms. Priti Pradeep Gupta	3.69%	1.54	0.375	206.25	1.17	2.80%
Others	5.27%	2.19			2.19	5.27%
<b>Other Selling Shareholders</b>						
Ms. Supriya Rathi	3.60%	1.5	0.375	206.25	1.13	2.70%
Rawal Family Trust, acting through Mr. Rakesh Rawal	2.13%	0.89	0.375	206.25	0.52	1.24%
Mr. Jugal Mantri	0.47%	0.2	0.09	49.5	0.11	0.26%
Mr. Feroze Azeez	2.65%	1.1	0.375	206.25	0.73	1.74%
<b>Others</b>	16.41%	6.83			18.83	45.23%
<b>Total</b>	<b>100%</b>	<b>41.63</b>	<b>12.00</b>	<b>6600.00</b>	<b>41.63</b>	<b>100%</b>
Free Float	0.00%	0.00			21.31	51.17%

Source: Company IPO Prospectus

## Valuation comparison

### Exhibit 9: Anand Rathi vs. IIFL Wealth

As of FY21	AUM (in Rs bn)	Total Revenue (in Rs bn)	EBITDA Margin (%)	Profit Margin (%)	PE (x)	RoE (%)
Anand Rathi Wealth Ltd	267	2.65	30%	17%	51	21.1%
IIFL Wealth Management Ltd	1,583	16.59	57%	22%	35	12.7%

Source: Company IPO Prospectus, Company

The non-annualized EPS for the five months ending Aug 2021 stands at Rs12.25 v/s FY21 EPS of Rs10.85 which has been considered in the above exhibit. This needs to be factored in assessing the likely forward price multiples. As such, we recommend a subscribe rating on the IPO issue.

## Risks

- The continuing effect of Covid-19 on ARWL's business and operations is highly uncertain and cannot be predicted.
- Its revenues from distribution and sale of financial products are dependent on its sustained ability to increase 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 the distribution commission income, which may have a material adverse effect on the business, financial conditions or results of operations.
- As per Press Note dated April 8, 1999 issued by the RBI, a company will be treated as an NBFC if its financial assets are more than 50% of its total assets (netted off by intangible assets) and income from financial assets should be more than 50% of the gross income. The firm believes that its investments in subsidiaries are neither purchase and sale of securities nor the acquisition of marketable securities, which falls within the purview of business of financial institution as defined in Section 45I (c) of the RBI Act. It believes that its investments in business done through subsidiaries should be excluded for this purpose as it primarily comprises the deployment in non-financial assets such as infrastructure, software development, technology upgrade, etc., which in turn provides the physical and software platform for the company to run business operations smoothly. It has addressed these concerns to the RBI and is awaiting clarifications on the same.
- The company is dependent on Anand Rathi Global Finance Limited ("ARGFL"), one of the group companies, for the business relating to the structured products. Any change in the regulatory environment of non-banking financial services may have an adverse impact on the business and operations of the company.

## Emkay Alpha Portfolio – BFSI-NBFCs



**Analyst: Manjith Nair**

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### Sector

Non-bank financial companies (NBFC)

### Analyst bio

Manjith R Nair holds a B.E, MBA (ISB). He has total 13 years of research experience covering financials. Prior to that, he was in Europe managing client account relations for an IT major.

### EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
<b>BFSI-NBFCs</b>	<b>7.61</b>	<b>7.61</b>	<b>0%</b>	<b>0</b>	<b>100.00</b>
Bajaj Finance	1.87	1.87	0%	0	24.65
Cholamandalam Investment	0.22	0.22	0%	0	2.90
Edelweiss Financial Services	0.00	0.00	NA	0	0.00
HDFC	4.90	4.92	0%	2	64.67
L&T Finance Holdings	0.06	0.06	0%	0	0.81
LIC Housing Finance	0.11	0.11	0%	0	1.49
<b>Mahindra Finance</b>	<b>0.09</b>	<b>0.00</b>	<b>-100%</b>	<b>-9</b>	<b>0.00</b>
Nippon Life India Asset Management	0.06	0.06	-8%	0	0.73
Ponawalla Finco*	0.00	0.04	NA	4	0.49
Shriram City Union Finance	0.00	0.03	NA	3	0.44
<b>Shriram Transport Finance</b>	<b>0.29</b>	<b>0.29</b>	<b>1%</b>	<b>0</b>	<b>3.81</b>
<b>Cash</b>	<b>0.00</b>	<b>0.00</b>	<b>NA</b>	<b>0</b>	<b>0.00</b>

Source: Emkay Research

\* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

### Sector portfolio NAV

	Base					Latest
	1-Apr-19	1-Dec-20	1-Jun-21	1-Sep-21	1-Nov-21	1-Dec-21
EAP - BFSI-NBFCs	100.0	122.4	142.5	157.5	162.8	153.4
BSE200 Neutral Weighted Portfolio (ETF)	100.0	115.2	133.7	147.7	153.0	143.7

\*Performance measurement base date 1<sup>st</sup> April 2019

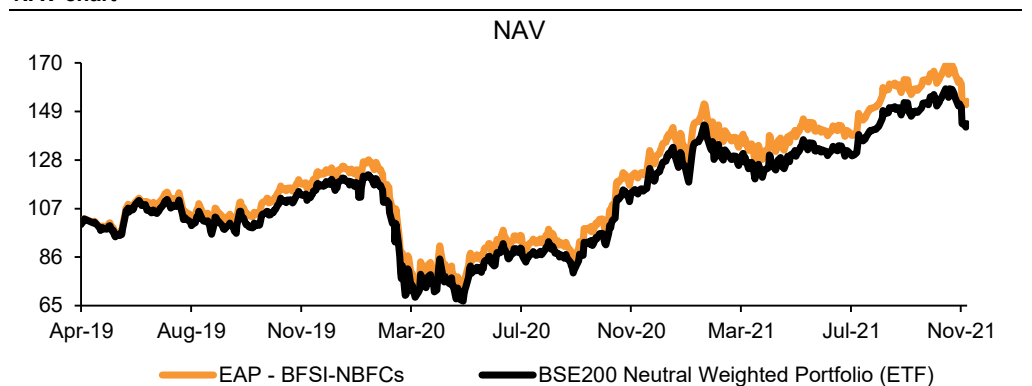
Source: Emkay Research

### Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-NBFCs	-5.8%	-2.6%	7.7%	25.4%
BSE200 Neutral Weighted Portfolio (ETF)	-6.1%	-2.7%	7.5%	24.7%

Source: Emkay Research

### NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”



## Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 02 Dec 2021 20:32:54 (SGT)  
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Sources for all charts and tables are Emkay Research unless otherwise specified.

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