

29 October 2023

India | Equity Research | Q2FY24 Result Review

## Prudent Corporate Advisory Services

Financial Services

### Tailwinds of AUM growth offset dip in yields; cross-sell optionality intact

Prudent Corporate Advisory Services (Prudent) has progressed well in terms of AUM growth aided by MTM, traction in SIP and growth in MFDs. AUM/SIP book/MFD count clocked CAGRs of 28%/23%/37% between FY19–FY23 and grew by 23%/15%/5% in H1FY24. This has led to elevation in distributor rankings. Possible cost pressure on margins from elevated marketing costs and lower yields due to stoppage of B-30 incentive had led us to downgrade the stock to **HOLD** during Q1FY24 ([Link](#)) – we maintain our rating. Possible upside risks from continued traction in SIP (50% of client base is yet to have a SIP scheme) and spike in insurance cross-sales. Higher mix of equity within AUM (93.7%) lends higher growth potential for Prudent compared to other AMCs. Any MTM fall in AUM pose downside risk.

### Possible INR 1.9bn FY25E PAT; maintain HOLD

With our expectations of 33% AUM growth between Oct'23 to Mar'25, we expect Prudent MF AUM to reach INR 921bn by FY25-end. We expect a dip in MF yields to 89bps in FY24E/FY25E due to no B30 incentive revenue henceforth. We expect FY24/25 yields of insurance premiums at 20% compared to 21% in H1FY24. We estimate total opex at INR 5.8bn/7bn for FY24E/FY25E (INR 2.8bn in H1FY24), leading to 27% EBITDA CAGR during FY23–FY25E. We now value the stock at INR 1,216 (earlier INR 1,102) based on 25x FY25E adjusted EPS (adjusted for goodwill amortisation) of INR 49 (earlier INR 44). Upside/downside risks are favourable/adverse movement in AUM as well as net yields.

### MTM tailwinds + SIP flows provide greater visibility of >15% AUM growth compared to other AUM-based plays

Prudent's QAAUM increased by 13% QoQ in Q2FY24 to INR 666bn. Closing AUM stood at INR 691bn (2.8% higher than average AUM), indicating a head start for H2FY24. Equity ending AUM was up 10.8% QoQ to INR 655bn in Q2FY24 split between 8.4% M2M impact and 2.4% driven by net sales. Gross equity SIP inflows increased 29.3% YoY in Q2FY24 to INR 17.1bn and was 44.4% of gross equity inflows. Monthly SIP book for prudent stood at INR 5.9bn in Sep'23 versus INR 5.4bn in Jun'23. Based on this monthly SIP book, Prudent should see inflows of ~INR 59bn basis SIP flows in FY24 while 7% MTM on H1FY24 ending AUM itself gives a mathematical possibility of 33% AAUM growth in FY24. We factor 18.7% AUM growth in FY25E led by 7% annual MTM and gradual movement towards target of INR 10bn SIP by Mar'26.

### Financial Summary

Y/E March (INR mn)	FY22A	FY23A	FY24E	FY25E
Net Revenue	4,428	6,048	7,594	9,582
EBITDA	1,073	1,689	1,780	2,524
EBITDA Margin (%)	24.2	27.9	23.4	26.3
Net Profit	802	1,167	1,279	1,867
EPS (Rs)	19.3	28.1	30.8	45.0
EPS % Chg YoY	77.1	45.5	9.6	46.0
P/E (x)	66.2	45.5	41.5	28.4
Price to BV (x)	22.4	15.2	11.3	8.2
Dividend yield (%)	0.0	0.1	0.1	0.2
RoE (%)	40.6	39.7	31.1	33.3

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#### Market Data

Market Cap (INR)	53bn
Market Cap (USD)	637mn
Bloomberg Code	PRUDENT IN
Reuters Code	PRUE.BO
52-week Range (INR)	1,378 / 679
Free Float (%)	15.0
ADTV-3M (mn) (USD)	1.7

Price Performance (%)	3m	6m	12m
Absolute	9.4	46.7	75.5
Relative to Sensex	12.9	40.4	67.4

ESG Disclosure	2021	2022	Change
ESG score	-	-	-
Environment	-	-	-
Social	-	-	-
Governance	-	-	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Earnings Revisions (%)	FY24E	FY25E
Revenue	1.4	10.5
EBITDA	-10.7	11.7
EPS	-11.1	11.2

#### Previous Reports

31-07-2023: [Q1FY24 results review](#)

26-06-2023: [Initiating coverage](#)

## Equity/SIP market share performance remains steady

Market share in equity AUM ex-ETF increased for Prudent to 2.51% in Q2FY24 versus 2.46% in Q1FY24. Monthly SIP market share remains stable QoQ at 3.7% in Q2FY24.

## Management targets overall AUM of INR 1trn; monthly SIP flows of INR 10bn by Mar'26

Growth in AUM for Prudent would be driven by strong growth in the SIP book – management expects to reach INR 1bn per month by Mar'26. Management is focusing heavily on SIP growth with the company increasing weightage of SIP flows in its Prudent Loyalty Programme. **Assuming a 7% MTM in H1FY24, FY25, FY26 and linear growth in SIP inflow to meet the target of INR 10bn per month in Mar'26, the AUM target of INR 1trn should be achieved by FY26.**

## MF revenues for Prudent increased 23% YoY in Q2FY24 – split between 29% AUM growth and 2.8bps gross yield decline

MF revenues for Prudent increased to INR 1,619mn in Q2FY24, but revenue yields on MF declined 2.8bps on a QoQ-basis to 9.13bps. FY24 has seen no new revenue from B30 incentives and this revenue will completely stop from FY25. As per management, there has been no change in gross yields adjusted for B30 revenue and remains at 87–88bps, which will become the gross yields from FY25 onwards in the absence of B30 incentives. ~INR 400mn revenue was from B30 in FY23, which accounted for 8% of total revenue. Commission and fees expenses as a percentage of AAUM increased in Q2FY24 (62bps in Q2FY24 vs. 61.5bps in Q1FY24) because of increasing indirect mix in AAUM. Prudent pays 65% commission on indirect AAUM. Indirect mix increased 2.7% in AAUM in Q2FY24.

## EOM guidelines boosted insurance revenue as well as costs

Commission income from insurance has increased for Prudent in the first two quarters of FY24 because of the new EOM guidelines (for both life and non-life insurance). On life insurance, Prudent used to earn an average of about 14%, which has increased to about 18–19%. In the case of general insurance, Prudent used to earn about 14–15%, which has doubled to about 27–28%. This resulted in insurance commission witnessing a significant increase of 78% YoY in Q2FY24 to INR 252mn. Blended take rate for insurance commissions stood at 20% in Q2FY24 versus 21% in Q1FY24. However, consolidated operating expenses also increased 39% YoY driven by increasing spends on marketing spends for insurance and increasing expenses on Prudent Loyalty Club program. EBITDA increased 7% YoY to INR 431mn while PAT increased 10% YoY to INR 304mn in Q2FY24.

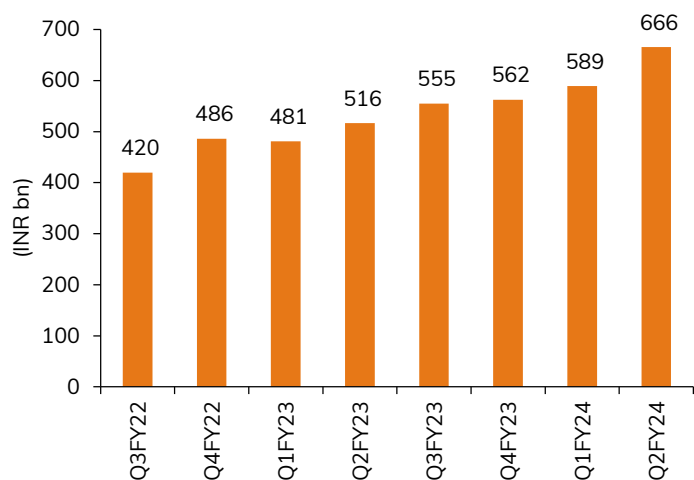
## Key business details

- Other businesses of Prudent, which includes PMS/AIF and liquid loans, are growing swiftly. PMS/AIF has AUM of INR 600mn and has ~800 clients as of Q2FY24.
- Prudent generated CFO of INR 780mn in H1FY24, which will increase treasury book for acquisitions. Treasury book was depleted after acquisition of Karvy.
- As MFDs mature, their productivity escalates significantly. This can be seen by 3.1x more gross sales per client and 1.5x average value of SIP added by MFDs with AUM more than INR 100mn compared to MFDs with AUM less than INR 100mn.
- Average ticket size of SIP increased to INR 3,400 in Sep'23 versus INR 2,700 before Sep'23

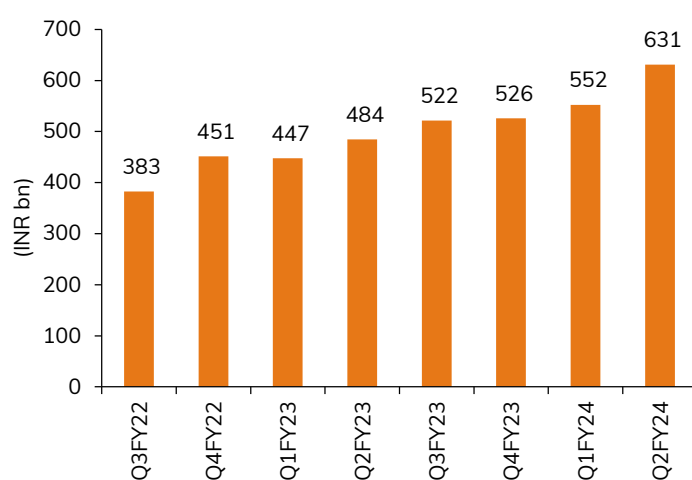
**Exhibit 1: Q2FY24 result review**

INR (mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)
<b>Commission and Fees Income</b>	1,900	1,457	30.4%	1,653	15%
<b>Expenses:</b>					
Commission and Fees Expense	1,032	796	30%	906	14%
Employee Benefit Expenses	233	206	13%	223	5%
Impairment on Financial Instruments	0	-20	-100%	-2	-102%
Other Expenses	204	72	182%	134	52%
<b>Total Expenses</b>	<b>1,469</b>	<b>1,054</b>	<b>39%</b>	<b>1,260</b>	<b>17%</b>
<b>EBITDA</b>	<b>431</b>	<b>403</b>	<b>7%</b>	<b>393</b>	<b>10%</b>
<b>Margin</b>	<b>23%</b>	<b>28%</b>		<b>24%</b>	
Other Income	41	31	33%	49	-16%
Finance Costs	5	5	8%	5	8%
Depn	61	60	3%	60	3%
<b>Profit/(Loss) Before Tax</b>	<b>406</b>	<b>369</b>	<b>10%</b>	<b>377</b>	<b>8%</b>
<b>Tax Expenses:</b>	<b>102</b>	<b>94</b>	<b>8%</b>	<b>96</b>	<b>6%</b>
<b>Exceptional</b>	-	-		-	
Adjusted Profit	304	275	10%	281	8%
<b>Profit/(Loss) for the Year</b>	<b>304</b>	<b>275</b>	<b>10%</b>	<b>281</b>	<b>8%</b>
<b>PAT Margin</b>	<b>16%</b>	<b>19%</b>		<b>17%</b>	

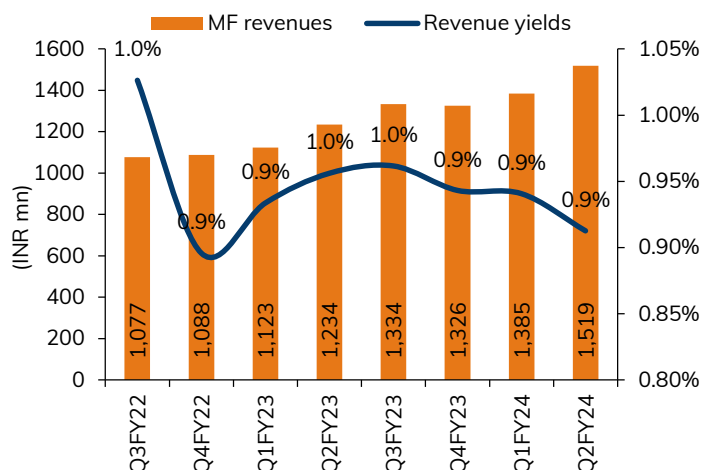
Source: I-Sec research, Company data

**Exhibit 2: AAUM trend for Prudent**

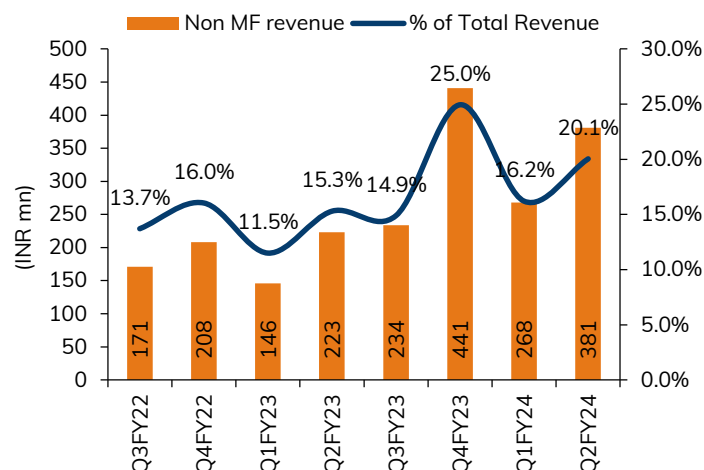
Source: I-Sec research, Company data

**Exhibit 3: Equity AAUM trend for Prudent**

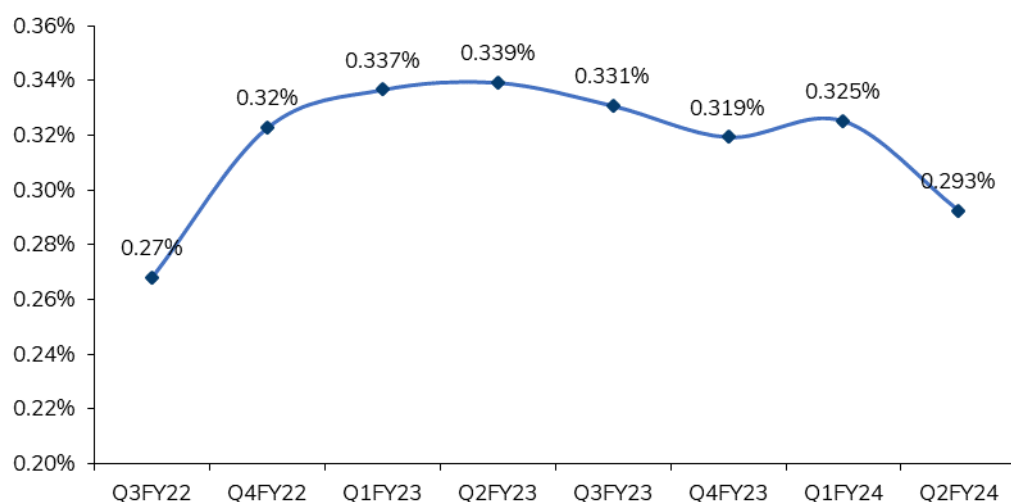
Source: I-Sec research, Company data

**Exhibit 4: MF revenue and gross yields trend**

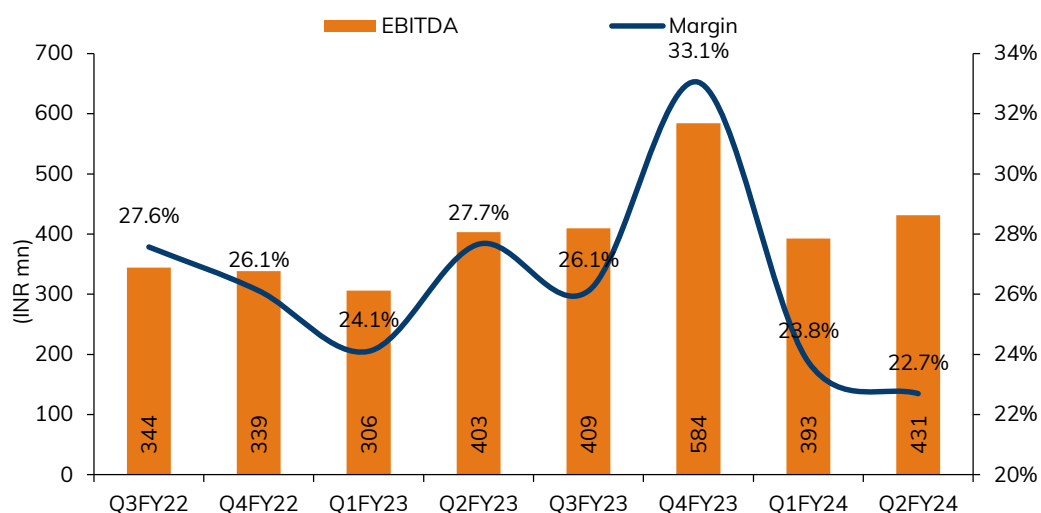
Source: I-Sec research, Company data

**Exhibit 5: Non-MF revenue Trend**

Source: I-Sec research, Company data

**Exhibit 6: Net yield declining in FY24 because of no B30 incentive revenue**

Source: I-Sec research, Company data

**Exhibit 7: EBITDA margin has been declining for Prudent**

Source: I-Sec research, Company data

**Exhibit 8: AUM growth Estimation (INR bn)**

AUM Estimation	FY23	FY24E	FY25E	FY26E
<b>Total Consolidated AUM ( closing)</b>	<b>562</b>	<b>776</b>	<b>921</b>	<b>1,104</b>
<b>SIP Inflows</b>		<b>57</b>	<b>91</b>	<b>109</b>
Growth in Net Equity Flows		15%	61%	20%
<b>Other flows and M2M</b>		<b>157</b>	<b>54</b>	<b>74</b>
Other flows and M2M % of Opening AUM		28%	7%	8%
<b>Average AAUM</b>	<b>528</b>	<b>669</b>	<b>849</b>	<b>1,013</b>

Source: I-Sec research, Company data; Note: We have taken only SIP flows in our calculation

**Exhibit 9: Productivity of MFD Increases once they cross the INR 100mn mark**

Particulars	Average Gross Sales Per client	Average Value of New Sips Added Per Client	Average AUM per Client
MFDs with AUM more than INR 100mn	1,34,585	2,388	7,27,855
MFDs with AUM less than INR 100mn	44,001	1,577	2,67,044
Difference (in Times)	3.1	1.5	2.7

Source: I-Sec research, Company data

**Exhibit 10: Peers commission income no of times to Prudent**

Peers (x)	FY13	FY23
Citibank N.A.	5.5	0.2
HDFC Bank Limited	5.4	1.1
Hongkong & Shanghai Banking Corporation Ltd	4.8	0.2
NJ India invest Pvt Ltd	4.2	2.6
Standard Chartered Bank	3.0	0.2
ICICI Bank Limited	2.9	0.7
Kotak Mahindra Bank Limited	2.9	0.5
Axis Bank Limited	2.8	0.9
ICICI Securities Limited	1.9	0.8
State Bank of India	1.2	1.6
Bajaj Capital Ltd	1.2	0.2

Source: I-Sec research, Company data

**Exhibit 11: Peers AUM no of times to Prudent**

Peers (x)	FY13	FY23
Citibank N.A.	4.90	0.10
HDFC Bank Limited	6.70	1.80
Hongkong & Shanghai Banking Corporation Ltd	5.00	0.40
NJ Indiainvest Pvt Ltd	3.20	2.30
Standard Chartered Bank	3.20	0.40
ICICI Bank Limited	3.10	0.90
Kotak Mahnidra Bank Limited	5.20	0.80
Axis Bank Limited	2.30	1.30
ICICI Securities Limited	2.20	1.00
State Bank of India	3.00	2.70
Bajaj Capital Ltd	1.30	0.20

Source: I-Sec research, Company data

**Exhibit 12: Shareholding pattern**

%	Mar'23	Jun'23	Sep'23
Promoters	58.4	58.4	58.4
Institutional investors	11.0	10.7	19.2
MFs and others	9.7	9.2	15.4
FIs/Banks	0.0	0.0	0.0
Insurance	0.0	0.0	0.0
FIIIs	1.3	2.5	3.8
Others	30.6	30.9	22.4

Source: Bloomberg

**Exhibit 13: Price chart**

Source: Bloomberg

## Financial Summary

### Exhibit 14: Profit & Loss

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
<b>Net Sales</b>	<b>4,428</b>	<b>6,048</b>	<b>7,594</b>	<b>9,582</b>
Operating Expenses	3,355	4,359	5,814	7,059
<b>EBITDA</b>	<b>1,073</b>	<b>1,689</b>	<b>1,780</b>	<b>2,524</b>
EBITDA Margin (%)	24.2	27.9	23.4	26.3
Depreciation & Amortization	134	240	248	249
EBIT	939	1,449	1,532	2,275
Interest expenditure	26	21	32	29
Other Non-operating Income	-	-	-	-
<b>Recurring PBT</b>	<b>1,070</b>	<b>1,568</b>	<b>1,709</b>	<b>2,496</b>
<b>Profit / (Loss) from Associates</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Less: Taxes	268	401	431	629
PAT	802	1,167	1,279	1,867
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
<b>Net Income (Reported)</b>	<b>802</b>	<b>1,167</b>	<b>1,279</b>	<b>1,867</b>
<b>Net Income (Adjusted)</b>	<b>802</b>	<b>1,167</b>	<b>1,279</b>	<b>1,867</b>

Source Company data, I-Sec research

### Exhibit 15: Balance sheet

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
<b>Total Current Assets</b>	<b>1,392</b>	<b>1,572</b>	<b>2,935</b>	<b>4,759</b>
of which cash & cash eqv.	575	698	1,781	3,486
<b>Total Current Liabilities &amp; Provisions</b>	<b>1,256</b>	<b>1,219</b>	<b>1,219</b>	<b>1,219</b>
<b>Net Current Assets</b>	<b>136</b>	<b>353</b>	<b>1,716</b>	<b>3,540</b>
Investments	496	1,506	1,506	1,506
<b>Net Fixed Assets</b>	<b>1,744</b>	<b>1,641</b>	<b>1,493</b>	<b>1,443</b>
<b>Total Assets</b>	<b>2,377</b>	<b>3,500</b>	<b>4,715</b>	<b>6,489</b>
<b>Liabilities</b>				
Equity Share Capital	207	207	207	207
Reserves & Surplus	2,169	3,293	4,507	6,281
<b>Total Net Worth</b>	<b>2,376</b>	<b>3,500</b>	<b>4,715</b>	<b>6,488</b>
Minority Interest	-	-	-	-
<b>Total Liabilities</b>	<b>2,377</b>	<b>3,500</b>	<b>4,715</b>	<b>6,489</b>

Source Company data, I-Sec research

### Exhibit 16: Cashflow statement

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
<b>Operating Cashflow</b>	<b>930</b>	<b>1,267</b>	<b>1,070</b>	<b>1,677</b>
Working Capital Changes	75	(66)	(279)	(218)
Capital Commitments	(18)	(19)	(100)	(100)
<b>Free Cashflow</b>	<b>912</b>	<b>1,249</b>	<b>970</b>	<b>1,577</b>
<b>Other investing cashflow</b>	<b>(1,614)</b>	<b>(1,103)</b>	<b>210</b>	<b>250</b>
Cashflow from Investing Activities	(1,632)	(1,122)	110	150
Issue of Share Capital	-	-	-	-
Interest Cost	(26)	(21)	(32)	(29)
Inc (Dec) in Borrowings	(26)	-	-	-
Dividend paid	(3)	(41)	(64)	(93)
Others	(49)	(53)	-	-
Cash flow from Financing Activities	(104)	(116)	(96)	(122)
<b>Chg. in Cash &amp; Bank balance</b>	<b>(806)</b>	<b>30</b>	<b>1,084</b>	<b>1,705</b>
Closing cash & balance	188	218	1,300	3,005

Source Company data, I-Sec research

### Exhibit 17: Key ratios

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
<b>Per Share Data (INR)</b>				
Reported EPS	19.3	28.1	30.8	45.0
Adjusted EPS (Diluted)	19.3	28.1	30.8	45.0
Cash EPS	22.6	33.9	36.8	51.0
Dividend per share (DPS)	0.1	1.0	1.5	2.3
Book Value per share (BV)	57.3	84.4	113.7	156.5
Dividend Payout (%)	0.4	3.5	5.0	5.0
<b>Growth (%)</b>				
Net Sales	59.5	36.6	25.6	26.2
EBITDA	102.6	57.4	5.4	41.8
EPS (INR)	77.1	45.5	9.6	46.0
<b>Valuation Ratios (x)</b>				
P/E	66.2	45.5	41.5	28.4
P/CEPS	56.8	37.8	34.8	25.1
P/BV	22.4	15.2	11.3	8.2
EV / EBITDA	48.5	30.1	28.0	19.1
P / Sales	12.0	8.8	7.0	5.5
Dividend Yield (%)	0.0	0.1	0.1	0.2
<b>Operating Ratios</b>				
Gross Profit Margins (%)	100.0	100.0	100.0	100.0
EBITDA Margins (%)	24.2	27.9	23.4	26.3
Effective Tax Rate (%)	25.0	25.6	25.2	25.2
Net Profit Margins (%)	18.1	19.3	16.8	19.5
<b>Profitability Ratios</b>				
RoE (%)	40.6	39.7	31.1	33.3
RoC (%)	35.6	36.7	27.9	30.4

Source Company data, I-Sec research



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