

23<sup>rd</sup> February 2024

**Prudent Corporate Advisory – BUY**

**CMP** : Rs. 1,384  
**Target Price** : Rs. 1,825  
**Upside** : 31%+  
**Stop Loss** : Rs. 1,212 (Closing basis)

## Investment Thesis

- PRUDENT is one of the very few (non-bank) national distributors of mutual funds with presence in the Beyond 30 (B-30) market catering to retail investors in 16,766 pin codes across India. Mutual Fund Distributors (MFDs) enable PRUDENT to solidify its presence in the B-30 market. PRUDENT has registered 28,890 MFDs with itself. 19% of PRUDENT'S AUM is in B-30 markets compared to 17.5% for industry is a testament to this strategy. This wide and deep distribution presence is significant moat over competition.
- PRUDENT'S business model is neither CAPEX nor OPEX intensive. Despite expansion in branches to 120 in FY23 from 72 in FY19 and employee count increasing to 1,119 from 894 in FY19 in the same period; the cost-to-income ratio has been on a decreasing trend to reach 18.4% in FY23 from 27% in FY19. Thereby, EBITDA margin has been improving consistently and stands at 28.4% in FY23 as against 17.2% in FY19.
- This asset light model enables a significant free cash flow generation. This helped during the acquisition of Mutual Fund AUM of Karvy Stock Broking Limited for Rs. 151.00 crs. As on the date of acquisition the AUM of Karvy was Rs. 8,093 crs, Live SIPs were ~1.63 lakh with a SIP value of Rs. 33.87 crs p.m. Management aim SIP book to reach Rs. 1,000 crs by FY26.
- During Q3FY24, AUM of PRUDENT reached Rs. 77,774 crs. Over the course of the last decade, PRUDENT has bridged the gap between its competitors and is fast reaching equal standing. For example, in terms of commission income HDFC Bank was 5.4x larger than Prudent in FY13, now HDFC Bank is only 1.1x bigger than Prudent. In terms of AUM HDFC Bank was 6.7x larger than Prudent in FY13, now HDFC Bank is only 1.8x bigger than Prudent.
- The insurance distribution business has also witnessed transformative growth as commission and fee income rose by 109.1% Y-o-Y to Rs. 29.9 crs. Consequently, the share of revenue has increased to 14.2% from 9.0% Y-o-Y. Management is confident about the growth of the sector and the long-term story of the insurance industry remains intact, thereby this vertical has massive upside potential.

## Financials

- During 9MFY24, PRUDENT recorded a total revenue of Rs. 565.4 crs up 30.2% over Rs. 434.4 crs in 9MFY23. The insurance business continued to grow as record pace with 109.1% Y-o-Y jump to reach Rs. 29.9 crs in Q3FY24.

Particulars	FY22	FY23	FY24E	FY25E	FY26E
Revenue (Rs in Crs)	458.7	620.9	694.4	847.2	1,033.5
EBITDA (Rs in Crs)	123.1	182.9	166.7	224.5	273.9
Adj. PAT (Rs in Crs)	80.3	116.7	125.0	186.4	222.2
Adj. EPS (Rs.)	19.4	28.2	30.2	45.0	53.7
PE Multiple (x)	NA	28.8	43.3	29.0	24.4
RoE (%)	55.1%	54.1%	30.3%	32.8%	28.8%

## Stock Data

Market Cap (Rs. Crs)	5,734
Market Cap (\$ Mn)	699.4
Shares O/S (in Crs)	4.14
Avg. Volume (3 month)	97,917
52-Week Range (Rs.)	1,444 / 703

## Shareholding Pattern

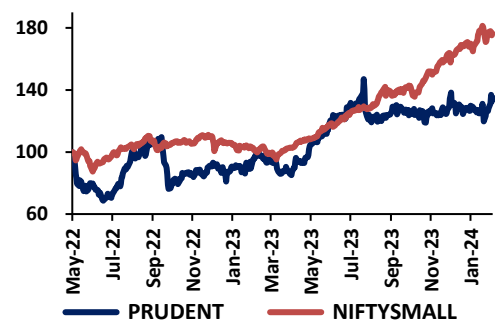
Promoters	58.43
FII's	3.77
Institutions	15.75
Others (incl. body corporate)	22.05

## Key Ratios

Div Yield (%)	0.1
TTM PE (x)	42.5
ROE (%)	39.7
TTM EPS (Rs.)	32.7

## Stock Performance

Performance (%)	1M	6M	1Yr
ABSOLUTE	4.7	11.6	41.1
RELATIVE	-2.2	-23.1	-33.3



- The EBITDA for the Q3FY24, moved up by 15.9% to Rs. 50.0 crs as the EBITDA margin expanded sequentially to 23.8% from 22.7%. On a Y-o-Y basis the EBITDA witnessed a contraction 300 bps on account of the removal of B-30 incentive by SEBI.
- Management is exploring opportunities for M&A to ramp up growth.

## Key Business Highlights

- PRUDENT 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 business consists of distribution of mutual funds, insurance policies, and other financial products like PMS, AIF, FDs bonds, unlisted equities, stockbroking solutions, loans against securities, NPS, structured products, etc. and Stock Broking services.
- The share of Equity AUM inched up to 95.7% in Q3FY24 from 93.7% in Q3FY23 and 94.8% in Q2FY24. At the end of Q3FY24, Ex-ETF Prudent has a market share of 2.52% in Equity AUM. Further, the Monthly SIP flow jumped to Rs. 649 crs in Q3FY24 from Rs. 483 crs in Q3FY23 which led to 10 bps gain in market share to 3.7%, from 3.6%.
- PRUDENT has 37 insurance companies associated with itself and average premium per policy stood at Rs. 38,191.
- 34% of the registered MFDs which PRUDENT is associated with having been on board for more than 5 years. These vintage MFDs account 73.3% of the MFD AUM and source 60% of the New SIP.

## Valuation

After a robust set of number for Q3FY24, PRUDENT saw a good rally and is currently trading at Rs. 1,392. This makes PRUDENT available at a TTM PE / EBITDA multiple of 42.5x / 27.5x against the average of its peers in the Asset Management segment which are trading at 36.2x / 32.1x which is reasonable. Considering the tailwind in the sectors, the strong brand image of PRUDENT and an expert management capable of sound execution, we believe PRUDENT has significant potential.

Therefore, considering the above, we assign a **BUY** rating for **PRUDENT** with a **target price** of **Rs. 1,825** translating to an **upside** of **31%+**.

## Risk & Concern

- Regulatory changes by SEBI
- Economic slowdown both global and domestic.

## Graphs & Charts

Figure 1: Revenue Trend (Rs. in Crs)

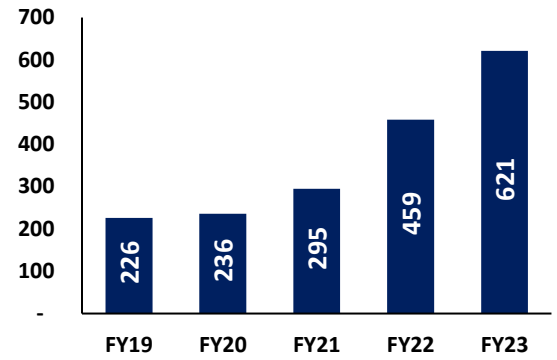


Figure 2: EBITDA & EBITDA Margins Trend

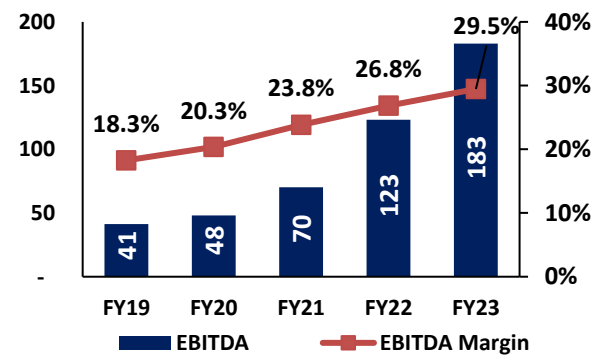


Figure 3: Quarterly Average AUM Trend

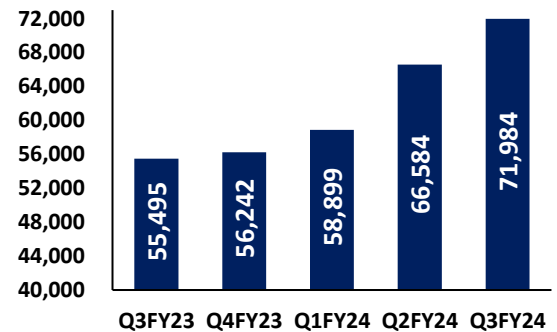
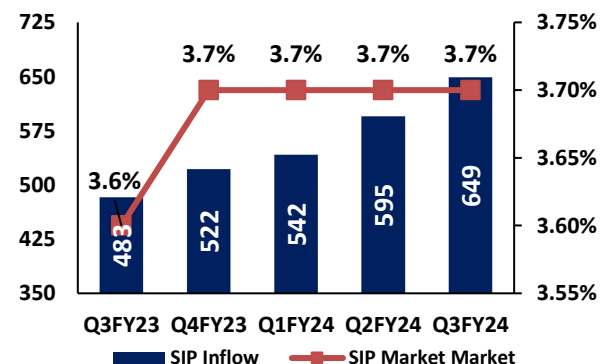


Figure 4: SIP Inflow & Market Share Trend



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