

IPO Note: Anand Rathi Wealth Ltd.

Industry: Wealth Management

Date: December 02, 2021

Issue Snapshot		Issue Break up	
Company Name	Anand Rathi Wealth Ltd.	QIB ex Anchor	20% 2,350,000
Issue Opens	December 02, 2021 to December 06, 2021	Anchor Investor	30% 3,525,000
Price Band	Rs. 530 to Rs. 550	HNI	15% 1,762,500
Bid Lot	27 Equity Shares and in multiples thereof.	RII	35% 4,112,500
The Offer	Public issue of 12,000,000 Equity shares of Face value Rs. 5 each, (Comprising of Offer for by Selling Shareholder).	Total Public	100% 11,750,000
Issue Size	Rs. 635 – 659 Crore	Employee Reservation	250,000
IPO Process	100% Book Building	Total	12,000,000
Face Value	Rs. 5.00	Equity Share Pre Issue (Nos. Cr.)	4.2
Exchanges	NSE & BSE	OFS Share (Nos. Cr.)	1.2
BRLM	Equirus Capital Private Limited, BNP Paribas, IIFL Securities Limited, Anand Rathi Advisors Limited	Equity Share Post Issue (Nos. Cr.)	4.2
Registrar	Link Intime India Private Limited	Market Cap (Rs. Cr.)	2,288.9
		Stake Sale by OFS	28.8%

Objects of the Offer

Offer for Sale

The Company will not receive any proceeds of the Offer for Sale by the Selling Shareholder. (up to 9,285,000 equity shares by Anand Rathi Financial Services Limited, up to 375,000 equity shares by Mr. Anand Rathi, up to 375,000 equity shares by Mr. Pradeep Gupta, up to 375,000 equity shares by Mr. Amit Rathi, up to 375,000 equity shares by Ms. Priti Gupta, up to 375,000 equity shares by Ms. Supriya Rathi, up to 375,000 equity shares by Rawal Family Trust, up to 90,000 equity shares by Mr. Jugal Mantri and up to 375,000 equity shares by Mr. Feroze Azeez)

Company Highlights

- Anand Rathi Wealth Ltd. (ARWL) is one of the leading non-bank wealth solutions firms in India and has been ranked amongst the Top-3 non-bank mutual fund distributors in India by gross commission earned in FY19, FY20 and FY21. The company serve a wide spectrum of clients through a mix of wealth solutions, financial product distribution and technology solutions. The company provide services primarily through the flagship Private Wealth (PW) vertical where they manage Rs. 294.72 billion in AuM as on August 31, 2021.
- The company: (a) 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; (b) purchases non-convertible market linked debentures (MLDs) and offers them to its clients and earns income from these sales. Therefore, the AuM of the company comprises mutual fund schemes and other financial products such as bonds, MLDs and other securities held by clients in their own demat accounts. Further, the company does not include demat holdings of the clients in the AUM unless the client has also used the distribution service of ARWL or have bought MLDs through ARWL.
- As per the industry practice, all such assets kept in the demat account of the clients belong to the respective clients and indicate the value of their assets. Such assets are shown as the AuM of the company. All decisions regarding purchase and sale of mutual funds and other securities are taken by the clients. ARWL is not engaged in any portfolio management of its clients. The Clients or active client families include client families/groups with at least Rs.5 mn in cumulative AuM. Each 'client family' or 'Client' may have one or more sub-accounts or family member accounts through which they invest.
- ARWL have achieved a dominant position in the distribution of financial products, with a focus on the growing HNI segment through an uncomplicated, holistic and standardised offering, delivered through an entrepreneurial team of private wealth professionals, known as Relationship Managers (RMs).
- As of August 31, 2021, PW vertical caters to 6,564 active client families, serviced by a team of 233 RMs. Also, 54.69% of the Clients have been associated with them for over 3 years, representing 73.55% of the total PW AuM, which shows the strength in vintage of both clients and the AuM in the business. ARWL are currently present across 11 cities in India, namely, Mumbai, Bengaluru, Delhi, Gurugram, Hyderabad, Kolkata, Chennai, Pune, Chandigarh, Jodhpur and Noida and they have a representative office in Dubai.

- The HNI segment of clients (i.e., individuals with net worth between Rs. 50 - 500 million), is an attractive and underserved segment in terms of quality of service and creating a platform to serve this segment is often time consuming and difficult to build. In ARWL experience, Clients belonging to the HNI segment are less price sensitive and appreciate the high quality and personalized services the company offer. ARWL client families have consistently grown with new family additions of 965, 863, 988 and 455 in FY19, FY20, FY21 and 5MFY22 respectively. Correspondingly, the PW AuM has also grown at a CAGR of 22.47% from Rs. 180.37 billion as of 31st March, 2019 to Rs. 294.72 billion on March 31, 2021.
- ARWL process driven approach, aims to achieve consistent Client outcomes through a standardised investment strategy, augmenting the RM capability. With regards to mutual fund distribution, the company has devised in-house methodologies that consider a defined set of parameters for mutual fund selection. Non-Convertible Market Linked Debentures (MLDs) form an integral part of the model portfolios enabling predictable returns, with lower risk as compared to equity investment over a medium to long term period. The product mix of mutual funds and MLDs, further positions ARWL well to capture the target clientele.
- In addition to PW vertical, ARWL have 2 other new age technology led business verticals, i.e., Digital Wealth (DW) and Omni Financial Advisors (OFA). Technology is the key to keeping the business future proof. The DW and OFA verticals are examples of the tireless efforts to create a technology platform to acquire new clients at lower cost as well as service and retain the existing clients. These in-house developed technologies, including mobile application for clients and partners provides them a ready platform to integrate with the PW vertical in future as and when required reducing the time to market for a digital solution.

View

- Anand Rathi Wealth is one of the leading non-bank wealth solutions firms in India and has been ranked amongst the top three non-bank mutual fund distributors in India by gross commission earned in FY20. It serves a wide spectrum of clients through a mix of wealth solutions, financial product distribution and technology solutions.
- India has witnessed an increase in the number of affluent individuals, owing to rising income levels. Individual taxpayers declaring gross total income of more than Rs 1 crore have increased from 36,690 in 2013 to 97,689 in 2019, with an increase of 17.7% CAGR. Adding to this, a shift in preference from traditional forms of investments, such as bank deposits, is likely to increase the demand for services related to wealth management.
- Equity mutual funds, which historically have delivered superior returns as compared to other asset classes, account for 42.5% of its AUM. An increase in the AUM will result in higher commissions being charged as a % of AUM, thereby paving the way for the company to earn more profits. Also, mutual funds' penetration in India stood at 16% in 2020 as against a global average of 63%.
- The company focuses on the underserved and less price-sensitive HNI (high-net-worth individuals) segment, which includes individuals with financial assets between Rs 5 crore to Rs 50 crore, who are seeking quality and value addition rather than low cost solutions. The HNI segment of clients is the most attractive and underserved segment in terms of the quality of service. Creating a platform to serve this segment is often time consuming and difficult to build, however, this platform has the potential to provide it a better opportunity to be the sole or a dominant wealth services provider to clients. Through the uncomplicated, standardized and well researched approach, the client relationship value increases over a period of time. Out of 233 RMs, more than 150 RMs have been associated with the firm for more than three years and take care of around 87 per cent of its AUM.
- The Company 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 its service proposition. The solutions, coupled with a motivated team of trained RMs help it in attracting and retaining clients.
- On the financial front, performance in FY21 decline on account of a fall in income from distribution of debt mutual funds as the clients shifted to liquidity funds due to fear of a crisis in markets due to the pandemic. However, profitability margins have been strong throughout the last three fiscals. There has been a substantial increase in its profitability margins in the 5 months when seen against its full-year FY21.
- In terms of the valuations, on the higher price band, ARWL demands a P/E multiple of 50.8x based on FY21 post issue fully diluted EPS and 18.7x based on 5MFY22 post issue fully diluted EPS.

Revenue from Operations - Breakup

	FY19		FY20		FY21		5MFY22	
	Revenue (Rs. Bn)	% of Total	Revenue (Rs. Bn)	% of Total	Revenue (Rs. Bn)	% of Total	Revenue (Rs. Bn)	% of Total
PWM Aum								
Equity Mutual Fund	78.4	43.5%	58.2	32.4%	95.0	36.4%	123.1	41.8%
Debt Mutual Fund	46.8	25.9%	49.1	27.3%	45.3	17.4%	44.1	15.0%
Total MF	125.1	69.4%	107.2	59.7%	140.3	53.8%	167.2	56.7%
Structured Products/ MLDs	39.6	22.0%	57.5	32.0%	93.3	35.8%	92.9	31.5%
Total	164.7	91.3%	164.8	91.7%	233.5	89.6%	260.2	88.3%
Direct Equity and Others	15.7	8.7%	14.9	8.3%	27.0	10.4%	34.6	11.7%
Total	180.4	100.0%	179.7	100.0%	260.6	100.0%	294.7	100.0%
DWM Aum								
Equity Mutual Fund	2.6	73.0%	2.5	62.8%	4.3	70.3%	5.5	74.2%
Debt Mutual Fund	0.9	24.7%	1.0	25.4%	1.0	16.8%	1.1	14.3%
Total MF	3.5	97.8%	3.4	88.2%	5.3	87.1%	6.5	88.5%
Structured Products/ MLDs	0.1	2.3%	0.5	11.8%	0.8	12.9%	0.9	11.5%
Total	3.6	100.0%	3.9	100.0%	6.1	100.0%	7.4	100.0%
Direct Equity and Others	-	-	-	-	-	-	-	-
Total	3.6	100.0%	3.9	100.0%	6.1	10.0%	7.4	100.0%
PWM & DWM Aum								
Equity Mutual Fund	81.0	44.0%	60.6	33.0%	99.3	37.2%	128.6	42.6%
Debt Mutual Fund	47.6	25.9%	50.1	27.3%	46.3	17.4%	45.2	15.0%
Total MF	128.6	69.9%	110.7	60.3%	145.6	54.6%	173.7	57.5%
Change YOY(%)	NA		-0.1		0.3		0.2	
Structured Products/ MLDs	39.7	21.6%	58.0	31.6%	94.1	35.3%	93.8	31.1%
Total	168.3	91.5%	168.7	91.9%	239.7	89.9%	267.5	88.6%
Direct Equity and Others	15.7	8.5%	14.9	8.1%	27.0	10.1%	34.6	11.4%
Total	183.9	100.0%	183.6	100.0%	266.7	100.0%	302.1	100.0%

Installed Capacity, Actual Production and Capacity Utilization

(Rs. in Cr.)	FY19	FY20	FY21	5MFY22
Mutual fund AUM and mutual fund distribution income				
MF AUM	12,861	11,068	14,559	17,375
Mutual Fund Distribution Income	104.0	99.6	90.2	55.6
MLDs mobilised and income from the sale of MLDs				
MLDs Sold	1,866	2,973	2,871	1,157
Income from Sale of MLDs	123.2	213.5	147.9	92.2

Financial Statement

(In Rs. Cr)	FY19	FY20	FY21	5MFY22
Share Capital	13.5	13.5	13.8	20.8
Net Worth	136.5	197.1	252.9	298.4
Long Term Borrowings	0.4	33.4	25.0	22.9
Other Long Term Liabilities	23.8	18.7	7.5	5.3
Short-term borrowings	0.2	8.4	8.4	8.4
Other Current Liabilities	70.0	151.6	45.6	67.3
Fixed Assets	81.2	139.6	123.5	118.6
Non Current Assets	78.9	118.8	121.7	136.2
Current Assets	112.4	150.6	94.1	147.6
Total Assets	230.8	409.1	339.4	402.3
Revenue from Operations	276.6	331.8	265.3	166.9
Revenue Growth (%)		20.0	(20.0)	
EBITDA	97.9	106.7	69.9	73.7
EBITDA Margin (%)	35.4	32.2	26.3	44.2
Net Profit	58.4	61.6	45.1	51.1
Net Profit Margin (%)	21.1	18.6	17.0	30.6
Earnings Per Share (Rs.)	14.4	15.0	10.9	12.3
Return on Networth (%)	47.8	33.1	18.7	17.8
Net Asset Value per Share (Rs.)	30.1	45.1	57.8	68.6

Source: RHP, Ashika Research

Cash Flow Statement

(In Rs. Cr)	FY19	FY20	FY21	5MFY22
Cash flow from Operations Activities	67.1	140.3	(21.0)	34.8
Cash flow from Investing Activities	(42.3)	(151.7)	74.8	(29.1)
Cash flow from Financing Activities	(13.9)	28.2	(16.7)	(13.6)
Net increase/(decrease) in cash and cash equivalents	10.8	16.8	37.1	(8.0)
Cash and cash equivalents at the beginning of the year	0.6	11.4	28.3	65.3
Cash and cash equivalents at the end of the year	11.4	28.3	65.3	57.3

Source: RHP

Comparison with listed industry peers

Co Name	Net Sales (Rs. Cr.)	OPM (%)	D/E (x)	ROCE (%)	RONW (%)	P/E (x)	P/BV (x)	EV/EBIDTA (x)	MCap/Sales (x)	Market Cap (Rs. Cr.)
Anand Rathi Wealth Ltd.	265.3	26.3	0.1	24.5	18.7	18.7	7.7	32.4	3.7	2288.9
IIFL Wealth Management Ltd.	1810.2	52.0	1.7	9.3	12.9	28.4	4.6	16.8	7.8	13255.4

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