

ANAND RATHI

Private Wealth. uncomplicated

SMC Ranking

★ ★ ★ ☆ ☆ (2.5/5)

Issue Highlights

Industry	Retail Broking
Total Issue (Shares) - Offer for sale	12,000,000
Eligible Employees	250,000
Net Offer to the Public	12,000,000
Issue Size (Rs. Cr.)	636-660
Price Band (Rs.)	530-550
Employee Discount	25
open Date	2-Dec-21
Close Date	6-Dec-21
Face Value	5
Lot Size	27

Issue Composition

	In shares
Total Issue for Sale	12,000,000
QIB	5,875,000
NIB	1,762,500
Retail	4,112,500
Eligible Employees	250000

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	74.74%	50.62%
QIB	25.26%	34.66%
NIB	0.00%	4.24%
Eligible Employees		0.60%
Retail	0.00%	9.88%
Total	100.00%	100.00%

*calculated on the upper price band

Objects of the Issue

The objects of the offer are to achieve the benefits of listing the equity shares on the stock exchanges.

Book Running Lead Manager

- Equirus Capital Private Limited
- BNP Paribas
- IIFL Securities Limited
- Anand Rathi Advisors Limited

Name of the registrar

- Link Intime India Private Limited

About the company

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 the country. The company offers a wide product portfolio of wealth solutions, financial product distribution, and technology solutions to its clients. The company provides services primarily through its flagship Private Wealth (PW) vertical where it manages ₹ 294.72 Bn in AuM as of August 31, 2021. The company's PW vertical caters to 6,564 active client families, through a team of 233 RMs. In addition to the PW vertical, the company has 2 other new-age technology-led business verticals, i.e., Digital Wealth (DW) and Omni Financial Advisors (OFA). The company has achieved a dominant position in the distribution of financial products, with a focus on the growing HNI segment. Currently, the company has a presence across 11 cities in India.

Strength

Focus on the underserved and less price sensitive HNI segment: The company's PW vertical focuses on the HNI segment with AuM potential of Rs. 50 - Rs. 500 million, who are seeking quality and value addition rather than low cost solutions. While the targeted AuM potential is above Rs. 50 million, the company typically on-board clients with a relationship value of a minimum of Rs. 5 million. Through its uncomplicated, standardized and well researched approach, the client relationship value increases over a period of time. 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 the company a better opportunity to be the sole or a dominant wealth services provider to clients. Based on its experience, its clients belonging to the HNI segment are less price sensitive for the value of the service it offers. The number of active client families with respect to its PW vertical stood at 6,564 as on August 31, 2021, wherein 54.69% of its Clients have been associated with it for a period of over three Financial Years. Its Clients in the UHNIs category represents families having an AuM of greater than Rs. 50 Crore 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: 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 their service proposition. Its model portfolio consists of an optimal combination of mutual funds and structured products making it relatively simpler for clients to understand. The model portfolios are created using its 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 Convertible Market Linked Debentures: The company is amongst the Top-3 leading Mutual Fund Distributor ("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 the company. The company is the 3rd largest mutual fund distributor on the basis of the gross commission non -bank MFDs in Fiscal 2019, 2020 and 2021. Apart from distribution of mutual funds, it also sells Structured Products/ market linked non-convertible debentures to their Clients. MLDs form an important part of the company's 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. A large portion of the MLDs gross mobilization of the company comes from repeat purchasers, i.e. Clients who have invested in ARGFL MLDs before. Over the last 3 Fiscals and 5 months ended August 31, 2021, 78% of its MLDs sales (₹ 69.16 billion out of ₹ 88.67 billion) have come from its repeat purchasers.

Focus on value added services i.e., safety net and estate planning services: The company believes in a holistic approach, and as part of managing wealth for its Clients, its proposition also includes estate planning, succession planning and creating wills as part of its core objectives, without any cost to its Clients. It safeguards and enables smooth transmission of wealth, which brings effective long-term relationship with the Clients. For the company, the estate planning services are critical and imperative, for which, it has in-house team of four qualified lawyers, who are providing services to its Clients with succession and estate planning services across all locations. Its focus on estate planning is through a two-fold process: Advising and creation of wills & Designing and creation of private family trust.

Strategy

Increasing RM count with a focus on higher vintage RMs: RMs are the building blocks for its business. The greater is the vintage of a RM, the more productive such person is able to garner clients and increase high yield AuM. Currently, 87.02% of the AuM is generated by the RMs having a vintage of three years or more. The company aims to improve its RMs strength and increase the higher vintage RMs to generate maximum business. The basis for growth in RMs shall be supplemented by its efforts on developing quality in-house talent. These RMs, who have been with the company know the nuances of its operations, are better placed to garner high quality business and deliver desired growth.

Focus on scaling its business by capitalizing on current market opportunities and through geographic expansion: With increase in start-ups, rising income levels and friendly macro factors with ease of doing business will drive growth of young HNI population in India; there is a big opportunity for a wealth management firm to tap into an underpenetrated market with huge upside growth potential for wealth managers. Also, as part of its expansion plans, it will continue the hub-and-spoke model to leverage common infrastructure and increase operational efficiency and aim for its geographic expansion to include tier 1, tier 2 and tier 3 cities across the country. It also intends to grow its branches in other key states in India. Although, it would explore the growing concept of e-office which is gaining momentum, its expansion through digital outlets across state levels will be rapid. Till such time, its business will continue to be managed centrally with the overall supervision from its corporate office.

Brand-building efforts with an increased digital focus: it intends to increase its brand recognition through various brand-building efforts, communication and various promotional initiatives. Such promotion would enhance the visibility of its brand and also improve its business positioning and credibility. In addition, several of its leadership team participates in various electronic media discussions around the private wealth sector, which also helps build brand visibility and attract new clients. It wants to continue its efforts to build financial awareness create brand awareness and become the preferred private wealth firm of its target client segments. It wants to enhance its brand as

the most uncomplicated private wealth firm in the HNI segment by engaging its existing and potential clients through social media campaigns and participation in relevant programs on popular business channels. Its brand enhancement will also include multi-channel initiatives like electronic media, Social media, articles in magazines and newspapers etc.

Risk factors

- The company margins are on declining mode in the last 3 years.
- The company operates in a highly regulated environment.
- The company is highly dependent on its management team and Relationship Managers.
- The company has entered into related party transactions.

Peer comparison

Co_Name	Total Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
IIFL Wealth Mgt	1829.8	459.12	51.85	28.87	4.69	319.48	2	1497.05	13255.35
Anand Rathi Wealth Limited	265.33	45.10	43.34	12.69	9.05	60.77	5	550.00	2288.89

Valuation

Considering the P/E valuation on the upper price band of Rs.550, EPS and P/E of FY2021 are Rs.43.34 and 12.39 multiple respectively and at a lower price band of Rs. 530, P/E multiple is 12.23. Looking at the P/B ratio on the upper price band of Rs.550, book value and P/B of FY21 are Rs. 60.77 and 9.05 multiple respectively and at a lower price band of Rs. 530 P/B multiple is 8.72. No change in pre and post issue EPS and Book Value as the company is not making fresh issue of capital

Industry overview

The Indian Wealth Management market is on a sustained path of growth, given India's long-term economic prospects, positive demographics, rising income levels and current low penetration. While the percentage of wealthy individuals in India is very small compared with developed markets, very high potential of growth in wealth is estimated in future. India has the key ingredients of a high-growth wealth management market, namely driven by a very large and young mass affluent segment; an increase in the wealth of global Indians; the Indian government's push to control illegal channel of funds and push for tighter regulations of the capital markets. The demographic difference presents an opportunity to create new products to address the needs of a young population and leverage new technologies, such as social and software-based investing applications as a key differentiator. Indian wealth management industry is largely focused mainly on the urban segment, leaving untapped majority of Indian population. One of the key factors for Advisors is to develop trust with the potential investors where advisors constantly need to build its brand, focus on overcoming trust barriers, invest in technology and focus on transparency and compliance.

Outlook

Anand Rathi Wealth Limited is one of the leading non-bank wealth solutions firms in India. It offers wide product portfolio of wealth solutions, financial product distribution and technology solutions to its customers. The Company has posted stable revenues in the last 3 years. However, the Issue is OFS and money that will be raise through the issue will not come to the company. As stock markets are expected to do well, the company may continue to draw the benefit. Investment may be considered with a long term perspective.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
Bid/Offer Opens Date	Dec 02, 2021
Bid/Offer Closing Date	Dec 06, 2021
Finalisation of Basis of Allotment with the Designated Stock Exchange	On or about Dec 09, 2021
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	On or about Dec 10, 2021
Credit of Equity Shares to depository accounts of Allottees	On or about Dec 13, 2021
Commencement of trading of the Equity Shares on the Stock Exchanges	On or about Dec 14, 2021

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended	Period ended	Period ended
	30-Aug-21 (5 Months)	31-Mar-21 (12 Months)	31-Mar-20 (12 Months)
Total Operating Income	166.93	265.33	331.83
Total expenditure	93.19	195.47	225.11
Operating Profit	73.73	69.86	106.72
OPM%	44.17	26.33	32.16
Other Income	1.98	13.92	4.59
PBDIT	75.71	83.78	111.31
Depreciation	6.51	17.29	21.05
PBIT	69.20	66.49	90.26
Interest	0.86	2.91	3.30
PBT	68.34	63.58	86.96
Tax	17.25	18.49	25.35
Profit After Tax	51.09	45.10	61.61

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 30-Aug-21	As on 31-Mar-21	As on 31-Mar-20
Non-current assets			
Property, plant and equipment	6.68	7.16	8.86
Right-of-use Asset	8.71	12.26	25.14
Capital work-in-progress	70.22	69.04	65.39
Goodwill	2.90	2.90	2.90
Other Intangible assets	30.06	32.18	37.33
Intangible assets under development	0.00	0.00	0.00
Financial assets			
- Investments	101.82	101.82	101.32
- Other Financial assets	8.20	4.28	5.17
Deferred Tax Assets	4.38	4.50	5.12
Other Non Current Assets	21.77	11.12	7.23
Total Non- Current Assets	254.72	245.25	258.45
Current assets			
Investments	2.80	2.68	1.83
Trade Receivables	12.92	10.87	9.11
Cash and Bank balances	57.32	65.32	28.25
Bank Balances other than cash and cash equivalents	0.05	0.05	0.04
Loans	26.79	0.00	64.86
- Other Financial Assets	46.36	13.71	33.34
Other Current Assets	1.36	1.53	13.16
Total current assets	147.61	94.15	150.61
Total Assets	402.32	339.40	409.06
Liabilities			
Non-current liabilities			
Financial liabilities			
Borrowings	22.85	24.96	33.36
Lease Liabilities	4.74	6.32	16.51
Provision	0.58	1.16	2.16
Total non-current liabilities	28.18	32.45	52.03
Current liabilities			
Financial liabilities			
Borrowings	8.38	8.40	8.37
Lease liability	5.57	7.81	10.07
Trade payables			
-Total outstanding dues of micro enterprises and small enterprises	0.00	0.08	0.34
-Total outstanding dues of creditors other than micro enterprises and small enterprises	0.01	0.12	1.32
Other Financial Liabilities	30.68	5.63	90.97
Other Current liabilities (net)	7.92	12.23	9.14
Provisions	23.16	19.77	39.71
Total current liabilities	75.72	54.04	159.93
Total liabilities	103.89	86.50	211.96
	298.43	252.91	197.11
Net worth represented by:			
Equity share capital	20.81	13.76	13.51
Other equity	265.99	227.53	172.01
Non Controlling Interest	11.64	11.62	11.59
Total Equity	298.43	252.91	197.11

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

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