

12 August 2024

India | Equity Research | Q1FY25 results review

Prudent Corporate Advisory Services

Financial Services

Systematic, mark to market increase in AUM and insurance cross sales set up strong earnings growth prospects

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 31%/28%/21% between FY19–24 and grew by 16%/8%/3% in Q1FY25. As yield consolidates, post removal of the B-30 incentive, we sense a possible upgrade in our earnings estimates driven by overall macro tailwinds and superior execution. Possible upside risks emanate from continued traction in SIP (45% of client base is yet to have an SIP scheme) and spike in insurance cross-sales. Higher mix of equity within AUM (96.78%) lends higher growth potential for Prudent compared to other AMCs. Any MTM fall in AUM poses a downside risk. Maintain **ADD**.

Maintain ADD

We increase our target multiple to 35x (earlier 25x) basis tailwinds of strong SIP/MTM growth and strong revenue growth in the insurance business. We maintain ADD; our revised target price stands at INR 2,576 (earlier INR 1,480). We arrive at this target price with our revised 35x multiple on FY26E EPS of INR 70 (earlier INR 56), after adding back goodwill amortisation of INR 150mn.

Capital market sentiment drives Prudent's robust AUM growth; INR 1trn guidance achieved 15 months in advance

Prudent's QAAUM increased by 10% QoQ to INR 893bn in Q1FY25. Closing AUM stood at INR 963bn (8% higher than average AUM), indicating a head start for Q2FY25. As per press release dated 27 Jul'24 ([Link](#)), Prudent's total AUM has crossed INR 1trn. Equity ending AUM was up 16% QoQ to INR 932bn in Q1FY25, split between 13% MTM impact and 3% driven by net sales. Gross equity SIP inflows increased 40.2% YoY in Q1FY25 to INR 2.2bn and was 37.5% of gross equity inflows. Monthly SIP book for Prudent stood at INR 7.8bn in Jun'24 vs. INR 7.3bn in Mar'24. Management has guided for monthly SIP flows to reach INR 10bn by Mar'25.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	6,048	8,051	11,392	14,092
EBITDA	1,689	1,931	3,117	3,887
EBITDA Margin (%)	27.9	24.0	27.4	27.6
Net Profit	1,167	1,388	2,305	2,902
EPS (INR)	28.1	33.5	55.6	70.0
EPS % Chg YoY	45.6	18.9	66.1	25.9
P/E (x)	82.9	69.7	41.9	33.3
Price to BV (x)	27.6	20.1	13.9	10.0
Dividend yield (%)	0.0	0.1	0.1	0.2
RoE (%)	39.7	33.4	39.1	34.8

Ansuman Deb

ansuman.deb@icicisecurities.com
+91 22 6807 7312

Shubham Prajapati

shubham.prajapati@icicisecurities.com

Sanil Desai

sanil.desai@icicisecurities.com

Market Data

Market Cap (INR)	97bn
Market Cap (USD)	1,150mn
Bloomberg Code	PRUDENT IN
Reuters Code	PRUE.BO
52-week Range (INR)	2,468 /900
Free Float (%)	32.0
ADTV-3M (mn) (USD)	1.9

Price Performance (%)	3m	6m	12m
Absolute	50.5	81.0	88.1
Relative to Sensex	40.5	69.7	67.3

Previous Reports

04-03-2024: [Company Update](#)

29-10-2023: [Q2FY24 results review](#)

Q1FY25 MF revenues grow 13% QoQ; yields adjusted for one-off remain ~88–89bps

MF revenues for Prudent increased 13% QoQ to INR 2.1bn in Q1FY25 with gross yields increasing marginally to 0.919% in Q1FY25, from 0.900% in Q4FY24. The increase in yield was a result of Prudent receiving INR 44.1mn of withdrawal brokerage, which was for the period of FY23/24. Adjusted for this, yields are in the range of 88–89bps, which is flat compared to last year yields ex of B-30 incentive. Going ahead, yields are expected to remain in the range of 88bps.

Commission and fees expenses for MF distribution business are 62% of total MF revenue, as per management. MF commission for Q1FY25 was INR 1.3bn, which translates to pay-out yields of 0.57% on AAUM vs. 0.558% in Q4FY24 and 0.583% in Q1FY24. Net MF yields for Q1FY25 stood at 0.349%, which was higher than Q4FY24 (0.342%), but lower than Q1FY24 (0.357%).

Strong growth in insurance business post EOM guidelines; momentum to continue ahead

Commission income from insurance declined 34% QoQ as Q4 is a seasonally strong quarter for insurance. On a YoY-basis, insurance commission increased 60% YoY. Insurance commission for Q1FY25 stood at INR 261mn. Total premium disbursed by Prudent in Q1FY25 stood at INR 1.2bn vs. INR 2.2bn in Q4FY24 and INR 0.8bn in Q1FY24. 61% of the premium distributed by prudent was life insurance vs. 78% in Q4FY24 and 61% in Q1FY24. Yields on life insurance stood at 17.9% in Q1FY25 while yields for non-life insurance stood at 35.8% in the same period. Blended yield rate for insurance commissions stood at 22.2% in Q1FY25 vs. 17.8% in Q4FY24.

In Prudent's Q1FY25 earnings call, management guided towards strong expansion in the insurance business. In the life insurance space, Prudent historically used to distribute term and annuity plans; it has recently started distribution of ULIPs also.

Plans to increase insurance distribution –

60–70% of distributors for Prudent are insurance agents. Two main aims for prudent are –

- Convince distributors who are not selling insurance to sell insurance; and
- Convince distributors who were doing insurance business directly with the LIC or other insurance companies to work Prudent.

In the next few months, Prudent plans to launch its insurance business on a fundzbazar platform, which could be a trigger to attract many other partners who are not selling insurance business till now. With the convenience of the same platform now selling insurance, distributors might look at selling insurance with Prudent.

Prudent is also seeing strong growth in renewal premiums. Total renewal premiums, as a % of total premiums, increased from 60.9% in Q1FY23 to 69.2% in Q1FY24 to 78% in Q1FY25. As per management, Prudent has always focused on quality of business and has one of the best persistency ratios helping renewal growth.

EBITDA increases 50% YoY, but margin sees decline due to high costs

Prudent reported EBITDA of INR 590mn, which was up 50% YoY. But EBITDA margin declined 20bps on a YoY-basis, from 23.8% in Q1FY24 to 23.6% in Q1FY25. This decline in margin was a result of 22% YoY increase in employee costs and 61% increase in other expenses. Employee expenses were higher because of increase in salaries and hiring done for existing branches as well as new branches. 78 people were added in Q1FY25 and its full impact has not been accounted yet. Management has guided for full year employee expense growth to be around 17.5–18.5% in FY25. Other

expenses were up because of higher CSR expenses, costs incurred on opening 16 new branches in Q1FY25 and cost of training and selection program which was not there in Q1FY24. Prudent reported a PAT of INR 442mn in Q1FY25.

Merger of broking subsidiary

Prudent received the approval for merger of Prudent broking services subsidiary with Prudent corporate advisory. Major reason for the merger was to have operating convenience. Strategy for broking will continue to provide strong and robust execution to customers. In broking, Prudent's focus is more towards the cash segment rather than F&O.

SIP/MTM and growth in insurance renewals could potentially lift earnings; expect INR 2.9bn PAT in FY26E

We estimate 42% AUM growth between Jun'24 and Mar'26 to reach INR 1.36trn. Growth can be split between gross SIP addition of INR 219bn (monthly average of INR 7.3bn), gross lump sum addition of INR 338bn (monthly average of INR 48bn), outflows hovering at ~62% of total inflows and an average MTM of 8% in FY25E/26E. All of these estimates are tenable, basis past trends.

For example,

- Against our estimate of 60%, outflow as a % of total inflows have been 54%/63.5% in FY23/FY24.
- Against our estimate of average Monthly SIP book growth to be 6.1%. Average monthly SIP book growth has been 7.8%/8.9% in FY23/FY24
- Against our estimate of average MTM growth per quarter of 2% of opening AUM, Average MTM growth per quarter as a % of opening AUM was 1%/8% in FY23/FY24.

We expect a dip in MF yields from 91.5bps in FY24 to 88.5/87bps in FY25E/FY26E, as B-30 additional revenue flushes out of the system. Basis this, we estimate MF commissions to be INR 8.8bn /10.9bn in FY25/26E vs. INR 6.4bn in FY24 and INR 2.1bn in Q1FY25.

We factor in MF commission to be 62% of total MF revenues, which implies an outgo of 54.9bps/54bps in FY25E/26E. We estimate total MF commissions to be INR 5.4bn / 6.8bn in FY25/26E vs INR 3.9bn in FY24 and INR 1.3bn in Q1FY25. We estimate net MF yields to be 33.6bps/33bps in FY25/26E.

Driven by increase in renewals, increase in distribution network and starting of distribution of ULIPs, we expect strong growth in insurance premiums going ahead. We expect insurance premiums to be INR 9bn/11.7bn in FY25/26E vs. INR 5.6bn in FY24 and INR 1.2bn in Q1FY25. With increasing mix of ULIPs and renewals, we estimate gross commission on premiums to be 20%/19% in FY25/26E vs. 20% in FY24 and 22% in Q1FY25. This leads to total commission income from insurance to be INR 1.8bn/2.2bn in FY25/26E vs INR 1.1bn in FY24 and INR 0.27bn in Q1FY25. We build in total insurance commission at 11% /10% in FY25/26E.

We estimate broking income to be INR 329mn/374mn in FY25/FY26E vs. INR 237mn in FY24 and INR 73mn in Q1FY25. We estimate other operating income to be INR 467mn/537mn in FY25/FY26E vs INR 329mn in FY24 and INR 108mn in Q1FY25.

We estimate total commissions expenses (including MF, insurance and others) to be INR 6.1bn/7.6bn in FY25/FY26E vs INR 4.4bn in FY24 and INR 1.4bn in Q1FY25.

We estimate employee expenses to be INR 1.1bn/1.3bn in FY25E/FY26E vs. INR 0.93bn in FY24 and INR 0.27bn while we estimate other expenses to be INR 1.1bn/INR 1.4bn in FY25/25E vs. INR 0.84bn in FY24 and INR 0.22bn in Q1FY25. Other expenses include

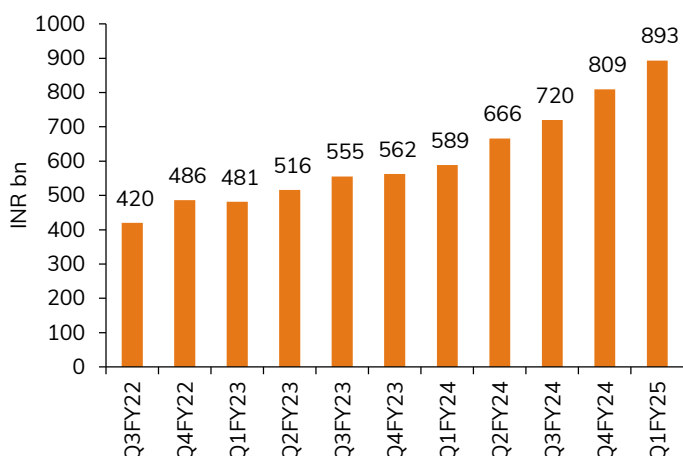
marketing expenses done on insurance. Prudent spent ~INR 300mn in FY24 on insurance marketing. We expect this expense to grow in sync with an increase in insurance premiums and to be INR 486mn/632mn in FY25E/FY26E. We estimate EBITDA to be INR 3.1bn/INR 3.9bn in FY25E/FY26E vs. INR 1.9bn in FY24 and INR 0.6bn in Q1FY25. We expect EBITDA margin to rise to 27.4%/27.6% in FY25/FY26E vs. 24% in FY24 and 23.6% in Q1FY25. These estimates result in 42% EBITDA CAGR during FY24–26E. We estimate PAT to be INR 2.3bn/INR 2.9bn in FY25/FY26E vs. INR 1.4bn in FY24 and INR 0.44bn in Q1FY25.

Exhibit 1: Q1FY25 result review

INR (mn)	Q1FY25	Q1FY24	YoY	Q4FY24	QoQ
Commission and Fees Income	2,494	1,653	50.9%	2,396	4%
Expenses:					
Commission and Fees Expense	1,418	906	56%	1,278	11%
Employee Benefit Expenses	271	223	22%	232	17%
Impairment on Financial Instruments	-0	-2	-100%	-0	-99%
Other Expenses	216	134	61%	279	-23%
Total Expenses	1,904	1,260	51%	1,789	6%
EBITDA	590	393	50%	607	-3%
Margin	23.6%	23.8%		25.3%	
Other Income	70	49	44%	62	13%
Finance Costs	5	5	7%	8	-37%
Depn	63	60	6%	64	-2%
Profit/(Loss) Before Tax	592	377	57%	597	-1%
Tax Expenses:	150	96	57%	152	-1%
Exceptional	-	-		-	
Adjusted Profit	442	281	57%	445	-1%
Profit/(Loss) for the Year	442	281	57%	445	-1%
PAT Margin	18%	17%		19%	

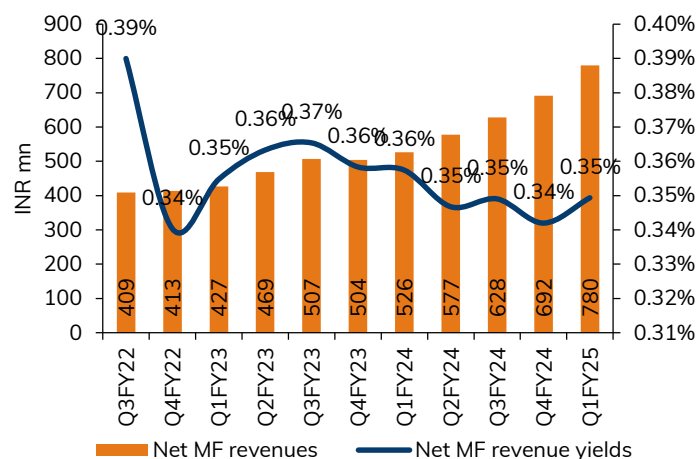
Source: I-Sec research, Company data

Exhibit 2: AAUM trend



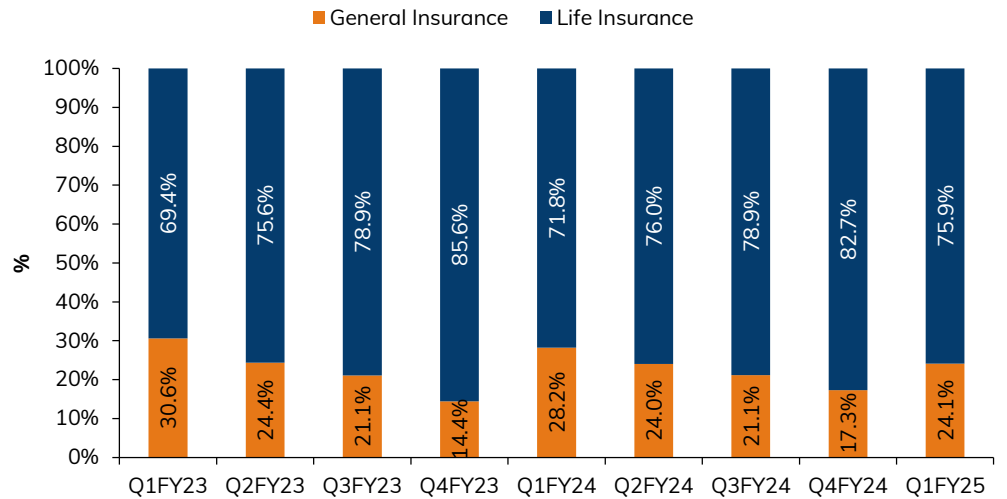
Source: I-Sec research, Company data

Exhibit 3: Net MF revenue and yield trend



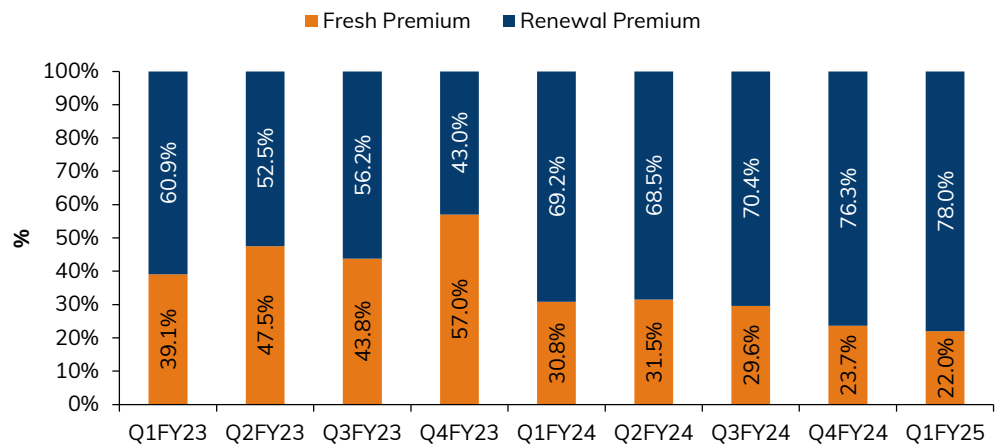
Source: I-Sec research, Company data

Exhibit 4: Insurance premiums mix between life and general insurance premiums



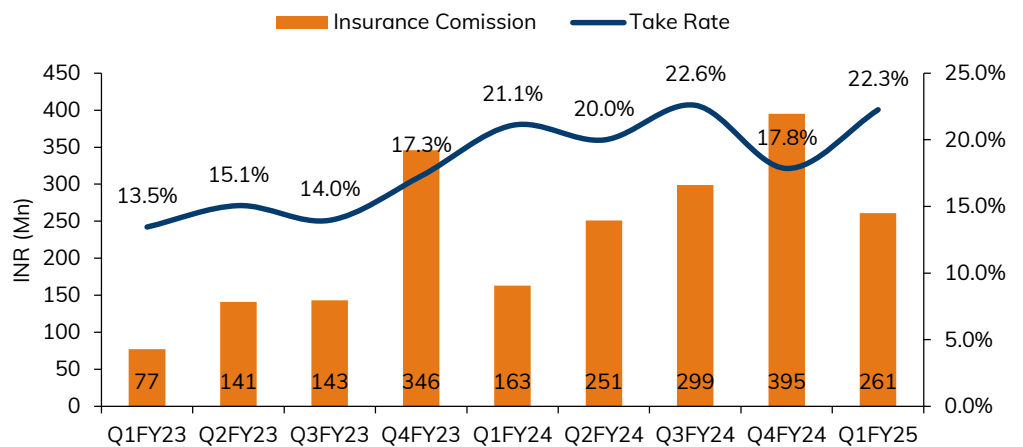
Source: I-Sec research, Company data

Exhibit 5: Insurance premiums mix between fresh and renewal premiums



Source: I-Sec research, Company data

Exhibit 6: Insurance commission and yields trend



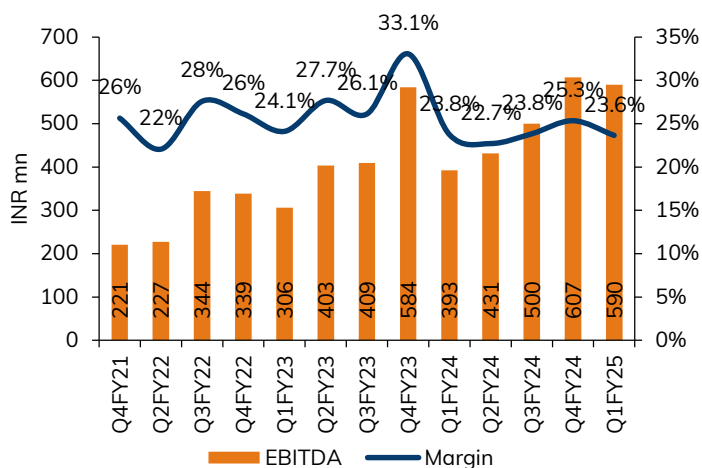
Source: I-Sec research, Company data

Exhibit 7: Insurance yields breakup

	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Total insurance Yields	13.4%	14.5%	13.9%	16.5%	21.1%	20.0%	22.6%	17.8%	22.2%
Life Insurance yields	13.0%	14.5%	13.8%	16.6%	17.8%	15.5%	20.3%	16.9%	17.9%
General Insurance yields	14.4%	14.5%	14.5%	15.4%	29.4%	34.1%	30.9%	22.5%	35.8%

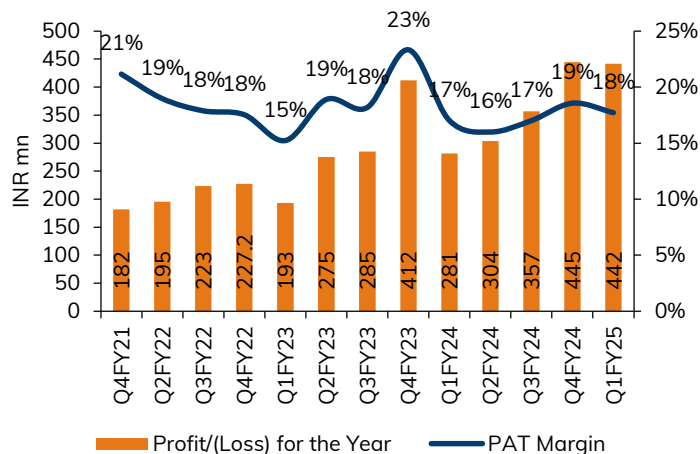
Source: I-Sec research, Company data

Exhibit 8: EBITDA and EBITDA margin trend



Source: I-Sec research, Company data

Exhibit 9: PAT and PAT margin trend



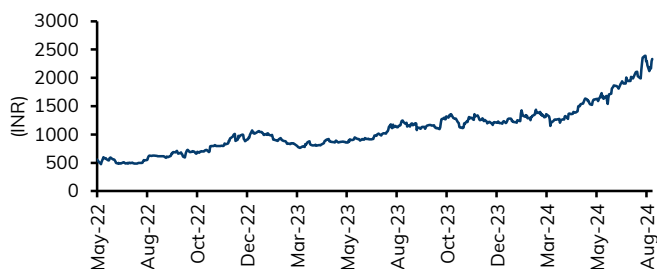
Source: I-Sec research, Company data

Exhibit 10: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	58.4	58.4	58.4
Institutional investors	19.6	27.8	35.1
MFs and others	15.5	15.5	22.0
FIs/Banks	0.3	0.0	0.0
Insurance	0.0	0.0	0.0
FIIIs	3.8	12.3	13.1
Others	22.0	13.8	6.5

Source: Bloomberg

Exhibit 11: Price chart



Source: Bloomberg

Financial Summary

Exhibit 12: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	6,048	8,051	11,392	14,092
Operating Expenses	4,359	6,119	8,276	10,205
EBITDA	1,689	1,931	3,117	3,887
EBITDA Margin (%)	27.9	24.0	27.4	27.6
Depreciation & Amortization	240	248	255	262
EBIT	1,449	1,683	2,861	3,625
Interest expenditure	21	21	30	33
Other Non-operating Income	-	-	-	-
Recurring PBT	1,568	1,858	3,081	3,880
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	401	471	777	978
PAT	1,167	1,388	2,305	2,902
Less: Minority Interest	-	-	-	-
Extraordinary (Net)	-	-	-	-
Net Income (Reported)	1,167	1,388	2,305	2,902
Net Income (Adjusted)	1,167	1,388	2,305	2,902

Source Company data, I-Sec research

Exhibit 13: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	1,572	2,804	4,821	7,399
of which cash & cash eqv.	698	1,320	2,964	5,358
Total Current Liabilities & Provisions	1,219	2,116	2,116	2,116
Net Current Assets	353	688	2,705	5,283
Investments	1,506	2,593	2,593	2,593
Net Fixed Assets	1,641	1,532	1,682	1,832
ROU Assets	-	-	-	-
Capital Work-in-Progress	-	-	-	-
Total Intangible Assets	-	-	-	-
Other assets	-	-	-	-
Deferred Tax assets	-	-	-	-
Total Assets	3,500	4,814	6,980	9,709
Liabilities				
Borrowings	-	-	-	-
Deferred Tax Liability	-	-	-	-
provisions	-	-	-	-
other Liabilities	0	-	-	-
Equity Share Capital	207	207	207	207
Reserves & Surplus	3,293	4,607	6,773	9,501
Total Net Worth	3,500	4,814	6,980	9,709
Minority Interest	-	-	-	-
Total Liabilities	3,500	4,814	6,980	9,709

Source Company data, I-Sec research

Exhibit 14: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	1,268	173	1,862	2,613
Working Capital Changes	(66)	230	(479)	(296)
Capital Commitments	(19)	(300)	(300)	(300)
Free Cashflow	1,249	(127)	1,562	2,313
Other investing cashflow	(1,103)	196	250	288
Cashflow from Investing Activities	(1,122)	(104)	(50)	(13)
Issue of Share Capital	-	-	-	-
Interest Cost	(21)	(21)	(30)	(33)
Inc (Dec) in Borrowings	-	0	-	-
Dividend paid	(41)	(83)	(138)	(174)
Others	(53)	-	-	-
Cash flow from Financing Activities	(116)	(104)	(168)	(207)
Chg. in Cash & Bank balance	31	(35)	1,644	2,394
Closing cash & balance	218	182	1,826	4,219

Source Company data, I-Sec research

Exhibit 15: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	28.1	33.5	55.6	70.0
Adjusted EPS (Diluted)	28.1	33.5	55.6	70.0
Cash EPS	33.9	39.4	61.7	76.3
Dividend per share (DPS)	1.0	2.0	3.3	4.2
Book Value per share (BV)	84.4	116.1	168.3	234.1
Dividend Payout (%)	3.5	6.0	6.0	6.0
Growth (%)				
Net Sales	36.6	33.1	41.5	23.7
EBITDA	57.5	14.4	61.4	24.7
EPS (INR)	45.6	18.9	66.1	25.9
Valuation Ratios (x)				
P/E	82.9	69.7	41.9	33.3
P/CEPS	68.7	59.1	37.8	30.6
P/BV	27.6	20.1	13.9	10.0
EV / EBITDA	55.9	48.0	29.2	22.8
P / Sales	16.0	12.0	8.5	6.9
Dividend Yield (%)	0.0	0.1	0.1	0.2
Operating Ratios				
Gross Profit Margins (%)	100.0	100.0	100.0	100.0
EBITDA Margins (%)	27.9	24.0	27.4	27.6
Effective Tax Rate (%)	25.6	25.3	25.2	25.2
Net Profit Margins (%)	19.3	17.2	20.2	20.6
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	-	-	-	-
Net Debt / EBITDA (x)	14.6	19.4	27.3	37.1
Profitability Ratios				
RoCE (%)	(65.9)	(41.1)	(45.2)	(40.1)
RoE (%)	39.7	33.4	39.1	34.8
RoC (%)	36.7	30.2	36.3	32.5
Fixed Asset Turnover (x)	-	-	-	-
Inventory Turnover Days	-	-	-	-
Receivables Days	49	68	111	153
Payables Days	-	-	-	-

Source Company data, I-Sec research

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Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal, Contact number: 022-40701000, E-mail Address : complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Bhavesh Soni Email address: headservicequality@icicidirect.com Contact Number: 18601231122
