IIFL Capital Services Ltd — FY 2025 Annual Report Analysis

Annual Report Analysis (Consolidated)

Source: CRORES. All figures Crores. Pipeline: v5-Gemini — W1a → W3 → W1b+W2+W2F (parallel, notes-injected) → Merge.

Investor Snapshot

#	Analytical Point	Sentiment
1	**IIFL Capital Services is successfully pivoting to an asset-light "Wealth-Tech" model, evidenced by a 31.6% surge in Financial Products Distribution and a Top-3 Investment Banking ranking.**	□
2	**Top-line growth of 13.66% to □2,520 Cr is increasingly driven by recurring annuity-based wealth revenue, reducing the firm's historical dependence on cyclical brokerage volumes.**	□
3	**The business maintains high capital efficiency with a 33% ROCE and 28.44% ROE, even as it transitions away from a capital-intensive balance sheet.**	□
4	***Reported PAT of 713 Cr is of lower quality, as it is heavily inflated by 130.38 Cr in non-core gains from asset sales and unrealized investment mark-to-market gains.***	□
5	**Debt profile has improved significantly with total debt reducing to □937 Cr (D/E 0.37x) and the complete elimination of □429 Cr in Commercial Paper reliance.**	□
6	**Cash conversion has seen a massive turnaround, with CFO reaching □871 Cr (1.22x PAT) and FCF of □922 Cr providing 10x coverage for dividend payouts.**	□
7	**The shift to a capital-light model is supported by disciplined capex, highlighted by □99 Cr in PPE sales and a strategic doubling of lease liabilities.**	□
8	***Earnings quality is pressured by a 185% spike in unbilled revenue to 45.01 Cr and a 998% explosion in ESOP costs (88.94 Cr), creating a significant non-cash drag.***	□
9	***Governance risks have intensified following a promoter return to the MD role and the proposal of extreme ICD limits of 4,500 Cr (178% of revenue) to group entities.***	□
10	***Asset quality shows signs of stress with "Significant Increase in Risk" receivables surging 167%, while 90% of cash equivalents remain lien-marked for margins.***	□
11	The outlook depends on the successful transition to a wealth-manager valuation multiple, provided the entity is not utilized as a liquidity backstop for the broader group.	□
12	Stance: WATCH; monitor for a reduction in ICD limits below 20% of Net Worth and the stabilization of unbilled revenue and credit costs.	□

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1. BUSINESS OVERVIEW (In Bullet Points)

- **Business Segments:** Operates across Capital Market Activity (Brokerage, Institutional Equities, Investment Banking), Insurance Broking, and Facilities & Ancillary services.
- **Revenue Drivers:** Primarily driven by Brokerage & related income (51.02% of total), Financial Products Distribution (21.39%), and Interest Income from Margin Trading Facility (MTF) and deposits (17.60%).
- **Cost Drivers:** Major expenses include Employee Benefit Expenses (including a massive ESOP component), Sub-brokerage/Referral fees (97% of fee expenses), and increasing Technology investments.

- **Industry Position:** Maintains a Top-3 ranking in Investment Banking league tables; holds a strong intellectual foundation through Institutional Equities with 1,000+ empanelled customers.
- **Expansion Plans:** Aggressively pivoting to a "Wealth-Tech" model, moving up-market to target Affluent/HNI clients with advisory-led relationships rather than low-margin discount brokerage.
- **Acquisitions & Restructuring:** Executed a "slump sale" of the PMS business to subsidiary ICAML to simplify the standalone balance sheet and allow for independent valuation of the AMC/AIF business.
- **Capacity Additions:** Heavy investment in digital infrastructure (□87.04 Cr technology expense) and "Device-Agnostic Platforms" to compete with fintech-first players.
- **Segment Performance:** Financial Products Distribution saw a significant 31.65% YoY surge, signaling successful traction in the wealth management pivot.
- **Geographical Presence:** Transitioning from a physical-heavy presence to a digital-first model, evidenced by the sale of □99 Cr in fixed assets (primarily buildings) and a shift toward leased infrastructure.

2. MANAGEMENT COMMENTARY & OUTLOOK

- The formal rebranding to **IIFL Capital Services** signals a structural shift from cyclical brokerage to an annuity-style "Asset Accumulation" model (Mutual Funds, AIFs, PMS).
- Strategy involves de-prioritizing low-margin discount brokerage users to focus on high-touch advisory for the Affluent/HNI segment.
- Management aims to create a "closed-loop" ecosystem by linking Investment Banking "origination" with Wealth Management "distribution."
- The Investment Banking division is shifting focus toward "Left Lead" mandates and M&A advisory to capture higher margins.
- The leadership reshuffle in March 2025, with Co-Promoter R. Venkataraman returning as MD, suggests a "war-time" footing to accelerate the wealth pivot.
- Hiring of Joint CEOs for Wealth/Securities indicates a strategy of acquiring specialized expertise to drive the new business model.
- The appointment of an ex-RBI Chairperson (Rekha Warriar) is intended to bolster regulatory credibility and governance optics.
- Management is combating the loss of client float income (due to SEBI rules) by aggressively pushing the Margin Trading Facility (MTF).
- Ongoing focus on "Product Personalization" and cybersecurity (ISO 27001) to meet heightened regulatory and client expectations in the wealth segment.
- **Management Tone:** The tone is one of urgent transformation and strategic aggression. While the operational successes in Investment Banking and the Wealth pivot are highlighted with confidence, the sudden return of the promoter to the MD role and the massive ESOP "catch-up" suggest a management team that is dissatisfied with the status quo and is willing to take bold, high-cost actions to secure the company's long-term "Wealth-Tech" vision. □Positive on vision, □Neutral on execution stability.

3. FINANCIAL ANALYSIS

3.1 Financial Statements

Source: Screener.in — all monetary values in Crores. Use these numbers directly.

P&L Statement (□Crores)

Line Item	Mar 2025	Mar 2024
Sales -	2,520.00	2,217.00
Sales Growth %	13.66	62.93
Expenses -	1,405.00	1,284.00
Manufacturing Cost %	19.82	21.62
Employee Cost %	23.47	20.64
Other Cost %	12.47	15.67
Operating Profit	1,115.00	933.00
OPM %	44.00	42.00
Other Income -	48.00	14.00
Exceptional items	44.50	7.40
Other income normal	3.06	6.82
Interest	183.00	150.00
Depreciation	55.00	114.00
Profit before tax	925.00	683.00
Tax %	23.00	25.00
Net Profit -	713.00	513.00
Minority share	-1.00	-1.00
Exceptional items AT	34.00	5.00
Profit excl Excep	679.00	508.00
Profit for PE	678.00	507.00
Profit for EPS	712.00	512.00
Profit Growth %	34.00	104.00
EPS in Rs	22.98	16.64
Dividend Payout %	13.00	18.00

Balance Sheet (Crores)

Line Item	Mar 2025	Mar 2024
Equity Capital	62.00	62.00
Reserves	2,445.00	1,725.00
Borrowings -	937.00	1,154.00
Long term Borrowings	0.00	0.00
Short term Borrowings	0.00	0.00
Other Borrowings	937.00	1,154.00
Other Liabilities -	4,511.00	4,934.00
Non controlling int	3.00	2.00
Trade Payables	3.00	5.00
Advance from Customers	50.00	7.00
Other liability items	4,456.00	4,920.00
Total Liabilities	7,956.00	7,875.00
Fixed Assets -	388.00	379.00
Land	58.90	69.16
Building	181.78	280.06
Equipments	8.63	8.19
Computers	50.17	33.64
Furniture n fittings	80.40	71.53
Vehicles	0.07	5.26
Intangible Assets	113.76	113.76
Other fixed assets	186.39	105.61
Gross Block	680.10	687.21
Accumulated Depreciation	292.19	308.38
CWIP	2.00	1.00
Investments	486.00	159.00
Other Assets -	7,080.00	7,335.00
Inventories	0.00	0.00
Trade receivables	45.00	48.00
Cash Equivalents	4,010.00	4,468.00
Loans n Advances	60.00	52.00
Other asset items	2,965.00	2,768.00
Total Assets	7,956.00	7,875.00

Cash Flow Statement (□Crores)

Line Item	Mar 2025	Mar 2024
Cash from Operating Activity -	871.00	-118.00
Profit from operations	1,311.00	1,035.00
Receivables	-27.00	-10.00
Inventory	0.00	0.00
Payables	-236.00	15.00
Loans Advances	-14.00	-426.00
Other WC items	41.00	-550.00
Working capital changes	-237.00	-971.00
Direct taxes	-203.00	-182.00
Cash from Investing Activity -	-177.00	-74.00
Fixed assets purchased	-48.00	-31.00
Fixed assets sold	99.00	11.00
Investments purchased	-223.00	-58.00
Investments sold	1.00	39.00
Interest received	10.00	5.00
Dividends received	0.00	0.00
Other investing items	-16.00	-39.00
Cash from Financing Activity -	-490.00	430.00
Proceeds from shares	16.00	9.00
Proceeds from borrowings	267.00	683.00
Repayment of borrowings	-483.00	-15.00
Interest paid fin	-171.00	-142.00
Dividends paid	-93.00	-92.00
Financial liabilities	-26.00	-14.00
Other financing items	0.00	1.00
Net Cash Flow	204.00	239.00
Free Cash Flow	922.00	-138.00
CFO/OP	96.00	7.00

Key Ratios (₹Crores)

Line Item	Mar 2025	Mar 2024
Debtor Days	7.00	8.00
Inventory Days	0.00	0.00
Days Payable	0.00	0.00
Cash Conversion Cycle	7.00	8.00
Working Capital Days	-346.00	-497.00
ROCE %	33.00	35.00

3.2 Financial Analysis Summary

- **Revenue** grew by 13.66% YoY to **₹2,520.00 Cr**, primarily driven by a 31.65% surge in Financial Products Distribution Income (**₹509.38 Cr**) and steady Brokerage income (**₹1,214.88 Cr**), supporting a **Trade Receivables** position of **₹45.00 Cr**.
- **Operating Profit** margins (**OPM %**) improved to **44.00%** from **42.00%**, despite **Employee Cost %** rising to **23.47%** due to a 998.39% explosion in ESOP costs to **₹88.94 Cr**, a non-cash charge that suppressed **PAT** but did not affect **CFO**.
- **Net Profit** increased by 39.03% to **₹713.00 Cr**, though quality is diluted by **Other Income** of **₹48.00 Cr**, including **₹44.50 Cr** in non-operational gains from **Fixed Assets** sales and **₹85.88 Cr** in unrealized FVTPL gains.
- **Finance Cost** rose to **₹183.00 Cr**, yet **Interest Coverage** improved to **6.05x** as the company reduced **Total Debt** from **₹1,154.00 Cr** to **₹937.00 Cr**, eliminating **₹429.30 Cr** in Commercial Papers to mitigate rollover risk.
- **Depreciation** fell sharply to **₹55.00 Cr** from **₹114.00 Cr**, following a **₹44.36 Cr** impairment of Intangible Assets in the prior year and a reduction in the **Gross Block** of Buildings from **₹280.06 Cr** to **₹181.78 Cr**.
- **Working Capital** management showed a massive turnaround with **CFO** reaching **₹871.00 Cr** (vs -₹118.00 Cr last year), driven by lower **Working Capital** absorption of **₹237.00 Cr** and a 7x surge in **Advance from Customers** to **₹50.00 Cr**.
- **Trade Receivables** ageing reveals emerging stress, with "Significant Increase in Risk" receivables rising to **₹13.55 Cr** from **₹5.07 Cr**, while **Unbilled Revenue** spiked 185.17% to **₹45.01 Cr**, indicating potential lags in future cash realization.
- **Capital Allocation** focused on deleveraging, with **Repayment of borrowings** of **₹483.00 Cr** and a **Cash Equivalents** balance of **₹4,010.00 Cr**, of which **₹3,385.21 Cr** is lien-marked for exchange margins.
- **Investments** tripled to **₹486.00 Cr**, supported by **Investments purchased** of **₹223.00 Cr**, while **Free Cash Flow (FCF)** turned strongly positive at **₹922.00 Cr**, comfortably covering **₹93.00 Cr** in **Dividends paid**.
- **ROCE** remained robust at **33.00%**, and **ROE** stood at **28.44%**, reflecting high capital efficiency as the company shifted toward a capital-light distribution model while maintaining a low **Debt/Equity** of **0.37**.
- **Other Assets** were impacted by a 29.35% increase in Client Receivables (**₹1,533.07 Cr**) related to T+2 settlements, increasing counterparty risk, while **Other Liabilities** benefited from the 7x surge in **Advances from Customers**, acting as zero-cost funding.
- **Other Expenses** were driven by a 75% rise in "Miscellaneous Expenses" to **₹7.75 Cr**, acting as a minor unclassified cost bucket, alongside a 43.77% increase in **Technology Expenses** to **₹87.04 Cr**.
- The dominant financial theme of the year is a powerful liquidity reset, where massive **CFO** recovery and aggressive debt reduction have successfully de-risked the balance sheet during a high-stakes strategic pivot.

3.3 Contingent Liabilities & Commitments

- **Litigation/Claims:** The Group policy is to disclose contingent liabilities only after the "finality" of representation or appeals. No specific claims against the Group were acknowledged as debt in the current AR.
- **Regulatory Penalties:** SEBI penalties of ₹0.14 Cr were noted for UCC data errors and inspection violations.
- **Guarantees & Commitments:** No specific guarantees or capital commitments were disclosed in the provided notes, though the Group maintains a high level of lien-marked FDs (₹3,385.21 Cr) for exchange margins.

3.9 Earnings Quality & Forensic Checks

#	Check	Impact	Status	Evidence	Notes Detail
1	PAT vs CFO trend	Profit ↑ — cash conversion improved; CFO ₹871 Cr exceeds PAT ₹713 Cr due to working capital release.	□	PAT ₹713 Cr, CFO ₹871 Cr (FY25) vs CFO -₹118 Cr (FY24).	CFO/OP ratio jumped from 7% to 96% YoY as WC changes normalized from -₹971 Cr to -₹237 Cr.
2	Receivables & channel-stuffing signal	Revenue ↑↓ — low risk; receivables flat at ₹45 Cr while sales grew 13.6% to ₹2,520 Cr.	□	Receivables ₹45 Cr (FY25) vs ₹48 Cr (FY24); Sales ₹2,520 Cr.	Debtor days improved from 8 to 7. Inventory is non-applicable (0) for this financial services model.
3	Revenue timing (unbilled/ advances)	Profit ↑ — aggressive recognition; unbilled revenue spiked 185% while customer advances rose 7x.	□	Unbilled Revenue ₹45.01 Cr; Advances from Customers ₹49.56 Cr.	Note 5 shows unbilled revenue growth outpaces sales growth, suggesting potential lag in actual invoicing/cash collection.
4	Revenue from related parties %	Neutral — minimal impact; RPT receivables are well below 10% of total revenue or assets.	□	RPT Receivables ₹4.15 Cr vs Total Assets ₹7,956 Cr.	Note 8 & 18 confirm balances are immaterial; however, ₹5 Cr deposit with directors remains static.
5	Inventory vs revenue growth	Neutral — no impact; company operates a service-based model with zero inventory.	□	Inventory ₹0.00 Cr in both FY25 and FY24.	Financial services sector typically carries no physical inventory; revenue driven by brokerage and fees.
6	Inventory valuation method change	Neutral — no impact; no inventory held, thus no valuation policy or changes.	□	Inventory ₹0.00 Cr.	Accounting policy Note 2.2 confirms no inventory-related valuation risks.
7	Exceptional items in operating profit	Profit ↑ — non-core boost; ₹44.5 Cr gain from PPE sale and FVTPL gains inflated PAT.	□	Exceptional items ₹44.50 Cr (P&L); Other Income ₹48 Cr.	Note 26 highlights ₹44.5 Cr gain on PPE derecognition and ₹85.88 Cr unrealized FVTPL gains as non-operational.
8	Depreciation rate vs useful life policy	Profit ↑ — lower charges; depreciation fell 51.7% despite a slight increase in fixed assets.	□	Depreciation ₹55 Cr (FY25) vs ₹114 Cr (FY24); Fixed Assets ₹388 Cr.	Note 2.2(b) uses internal technical evaluations for useful lives rather than Schedule II, allowing subjective adjustments.
9	Provision reversals boosting PAT	Profit ↓ — credit stress; ECL allowances increased by ₹4.8 Cr rather than reversing.	□	Total ECL Allowance ₹45.69 Cr (FY25) vs ₹40.85 Cr (FY24).	Note 35A.1 shows deteriorating quality with "Significant Increase in Risk" receivables rising from ₹5 Cr to ₹13.5 Cr.
10	Tax rate consistency	Profit ↑ — tax efficiency; effective rate dropped to 23% due to lower-taxed investment income.	□	Tax Rate 23% (FY25) vs 25% (FY24); Cash Tax Paid ₹203 Cr.	P&L tax charge matches cash tax paid (₹203 Cr), showing high tax accounting quality despite rate drop.
11	CWIP age and stalling projects	Neutral — immaterial; CWIP is negligible at ₹2 Cr relative to the balance sheet size.	□	CWIP ₹2.00 Cr (FY25) vs ₹1.00 Cr (FY24).	Minimal capital is locked in unfinished projects; no evidence of stalling or impairment risk.
12	Deferred tax asset recognition	Neutral — stable; tax rate drop explained by capital gains rather than DTA manipulation.	□	Tax % 23.00; Net Profit ₹713 Cr.	Forensic alert notes ₹19.69 Cr impact from "income taxable at different rates" (capital gains) reducing the rate.
13	RPT quantum and trend	Neutral — low risk; RPT balances are declining or	□	Payables to RPT ₹7.90 Cr (FY25) vs ₹11.06 Cr (FY24).	Note 8/18 shows a downward trend in payables to related

#	Check	Impact	Status	Evidence	Notes Detail
		stable, showing no value leakage.			parties, reducing dependency on group entities.
14	Dividend paid vs FCF adequacy	Profit ↑ — sustainable; FCF of □922 Cr easily covers the □93 Cr dividend payout.	□	FCF □922 Cr; Dividends Paid □93 Cr; Payout 13%.	Strong FCF generation in FY25 provides 10x coverage for dividends, indicating high payout safety.
15	Auditor Policy Subjectivity	Profit ↑ — Depreciation management; useful lives based on internal evaluations rather than Schedule II.	□	Depreciation fell 51.7% YoY.	Note 2.2(b) allows management subjectivity in aligning depreciation with usage, potentially smoothing earnings.
16	Asset Quality Deterioration	Profit ↓ — Rising credit risk; "Significant Increase in Risk" receivables rose 167%.	□	SICR Receivables □13.55 Cr vs □5.07 Cr.	Note 35A.1 indicates a deteriorating credit environment in retail/franchisee segments despite overall CFO growth.
17	Non-Operational PAT Inflation	Profit ↑ — Core earnings vs reported; □130.38 Cr contribution from non-core gains.	□	Gain on PPE sale (□44.5 Cr) + Unrealized FVTPL gains (□85.88 Cr).	Core operational earnings growth is significantly lower than the reported 39% PAT growth.

4. MANAGEMENT & GOVERNANCE

A. Auditor Report & Key Audit Matters

- **Audit Opinion Type: Unqualified Opinion**. The auditors, V. Sankar Aiyar & Co., confirm a true and fair view.
- **Key Audit Matters (KAMs):**
  - **Revenue Recognition (Brokerage & IB):** Focused on "satisfaction of performance obligations" for milestone-based fees. Management uses accrual-based estimates verified against contracts.
  - **Expected Credit Loss (ECL) on Trade Receivables:** Flagged subjectivity in the provision matrix. Management's model captured a sharp increase in "Significant Increase in Credit Risk" (SICR) assets.
  - **Impairment of Intangible Assets:** Testing of "Commercial Rights." No impairment taken in FY25 following the □44.36 Cr write-down in FY24.
- **Auditor Continuity:** Re-appointed for a second 5-year term (up to 32nd AGM).

B. Related Party Transactions

Party	Relationship	Nature	Amount (₹ Cr)	Concern
IIFL Finance Limited	Common Promoters	Proposed ICD Limit	1,500.00 Cr	***59.52% of Revenue; High contagion risk***
IIFL Home Finance Limited	Common Promoters	Proposed ICD Limit	1,500.00 Cr	***Potential liquidity drain to group***
IIFL Samasta Finance Ltd	Common Promoters	Proposed ICD Limit	1,500.00 Cr	***Aggregate limits exceed 178% of Revenue***
IIFL Management Services	WOS	Proposed Investment	1,500.00 Cr	***Significant intra-group capital shifting***
Directors/Relatives	Promoters	Security Deposits	5.00 Cr	***Non-standard use of corporate funds (p.303)***
Related Parties	Group Entities	Payables	7.90 Cr	**Decreased from 11.06 Cr (Note 18)**
Related Parties	Group Entities	Receivables	4.15 Cr	**Increased from 2.19 Cr (Note 8)**

C. Shareholding

Line Item	Mar 2025	Mar 2024
Promoters	30.70%	31.11%
FIIs	16.89%	16.89%
DIIs	3.06%	2.53%
Public	49.35%	49.47%

* **Pledged Shares:** 90%+ of Cash Equivalents (₹4,010 Cr) are pledged for exchange margins, indicating high operational encumbrance.

D. Board Composition + KMP Compensation

- **Total Directors:** 6 | **Independent %:** 66.67% (4/6) | **Women Directors:** 1 (Chairperson Rekha Warriar).
- **KMP Compensation:**
  - **R. Venkataraman (MD):** ₹6.04 Cr (0.54% of EBITDA).
  - **Nemkumar H (Ex-MD):** ₹1.37 Cr.
  - ***Aggregate ESOP Cost:*** ₹88.94 Cr (7.98% of EBITDA), a **998% YoY increase**.
- **Correlation:** MD compensation is 4.4x the professional predecessor, reflecting promoter status. ESOP surge is a massive non-cash drag on earnings.

F. Capital Allocation & Capex

Action	FY Current (Cr)	FY Prior (Cr)	% of CFO	Signal
Dividends	93.00 Cr	92.00 Cr	10.68%	**Stable**
Capex	48.00 Cr	31.00 Cr	5.51%	**Growth**
Net Debt Change	(217.00) Cr	668.00 Cr	(24.91%)	**Deleveraging**
Working Capital Investment	237.00 Cr	971.00 Cr	27.21%	
Interest Payments	171.00 Cr	142.00 Cr	19.63%	

CAPEX Analytical Notes: * **CFO Coverage of Capex:** CFO (871 Cr) provides **1,814% coverage** of the 48 Cr capex. * **Nature of Capex:** Primarily **Technology (87.04 Cr expense)** and digital infrastructure. * **Deployment Efficiency:** Fixed asset purchases (48 Cr) are offset by 99 Cr in sales, indicating a shift to an **asset-light model**. * **Key Takeaways:** The company is successfully pivoting to a digital-first model, but **101.69 Cr in Lease Liabilities** indicates a shift from owned to leased infrastructure.

H. Risks

- ***Group Contagion:*** 4,500 Cr proposed ICD limits to IIFL Finance affiliates (1.78x Revenue exposure). **Impact:** High risk of liquidity drain if group entities face stress.
- ***Liquidity Encumbrance:*** 3,385.21 Cr in FDs are lien-marked (Note 35B). **Impact:** Only ~10% of cash is "free" for operations.
- ***Regulatory Penalties:*** SEBI penalties for UCC data errors. **Impact:** Reputational damage and potential for higher future fines.
- ***Credit Risk (MTF):*** MTF book of 930.85 Cr. **Impact:** Market crash could lead to collateral shortfall and bad debts.
- ***Unbilled Revenue:*** Spiked 185% to 45.01 Cr. **Impact:** Potential for future revenue reversals or cash flow lags.

5. SCORECARD & VERDICT

Part A: Scorecard

Dimension	Rating (1–5)	Delta	Key Evidence	One-line Rationale
Business Quality	4	→	31.6% growth in Distribution; Top-3 IB ranking.	Strong pivot to annuity-based wealth model with world-class IB/Research.
Financial Health	4	↑	D/E 0.37x; CFO 871 Cr > PAT 713 Cr.	Significant deleveraging and powerful recovery in operating cash flows.
Earnings Quality	3	↓	130 Cr non-core gains; 185% spike in unbilled revenue.	Reported PAT is heavily inflated by asset sales and unrealized investment gains.
Management & Governance	2	↓	4,500 Cr ICD limits; 998% ESOP surge; MD swap.	Extreme RPT limits and promoter re-intervention signal high contagion risk.
Capital Allocation & Earnings Visibility	4	↑	ROCE 33%; FCF 922 Cr; Asset-light shift.	Disciplined capex and strong FCF support the transition to a capital-light model.

BUSINESS POSITIVES (for this company this year) * **Strong Cash Conversion:** CFO reached 871 Cr, representing 1.22x PAT, a massive recovery from the previous year's deficit. * **Successful Wealth Pivot:**

Financial Products Distribution income grew 31.65% YoY to 509.38 Cr, reducing reliance on cyclical brokerage. * **Balance Sheet De-risking:** Total debt reduced from 1,154 Cr to 937 Cr, with the complete elimination of Commercial Paper reliance. * **High Capital Efficiency:** Maintained a robust ROCE of 33% and ROE of 28.44% despite the structural business model shift. * **Positive Free Cash Flow:** Generated 922 Cr in FCF, providing 10x coverage for the 93 Cr dividend payout.

BUSINESS NEGATIVES / CONCERNS (for this company this year) * **Extreme RPT Exposure:** Proposed ICD limits of 4,500 Cr represent 178% of annual revenue, creating severe group contagion risk. * **Non-Core PAT Inflation:** Reported profit includes 130.38 Cr from PPE sales and unrealized FVTPL gains, masking lower core growth. * **Deteriorating Asset Quality:** "Significant Increase in Risk" receivables surged 167% to 13.55 Cr, indicating rising retail credit stress. * **Revenue Recognition Lag:** Unbilled revenue spiked 185% to 45.01 Cr, suggesting aggressive booking ahead of actual invoicing. * **Massive ESOP Dilution:** A 998% surge in ESOP costs (88.94 Cr) represents a significant non-cash drag on shareholder value.

OVERALL SCORECARD SUMMARY IIFL Capital Services is in a state of high-performance but high-risk transition. Financially, the company has never looked stronger, with a powerful recovery in **CFO**, significant deleveraging (**D/E 0.37x**), and a successful pivot toward recurring wealth management revenue. However, governance remains a major overhang due to the egregious **4,500 Cr ICD limits** and the promoter's return to the MD role, which positions the entity as a potential liquidity backstop for the broader group. While the business trajectory is improving operationally, the governance posture remains deteriorating, requiring investors to weigh high capital efficiency against systemic group risks.

Part B: Governance Check Matrix

#	Check	Status	Evidence
1	Audit opinion clean?		Unqualified opinion provided by V. Sankar Aiyar & Co.
2	Promoter pledge = 0?		Not explicitly zero; 90%+ of cash equivalents are lien-marked for margins.
3	KMP pay < 5% of PAT?		MD compensation (6.04 Cr) is ~0.85% of PAT.
4	RPT quantum < 5% of revenue?		Proposed ICD limits (4,500 Cr) are 178% of revenue.
5	Board > 50% independent?		66.67% (4 out of 6) directors are independent.
6	At least 1 woman director?		Rekha Warriar serves as Chairperson.
7	No statutory dues outstanding?		Statutory dues of 51.92 Cr are current/ regular.
8	No fraud reported?		No fraud reported in the auditor's summary.
9	Audit trail enabled?		Confirmed in the governance report.
10	Frequent Auditor change		Auditor re-appointed for a second 5-year term.
Total: 8/10 — Governance Rating: 2 (Downgraded due to extreme RPT limits)			

Part C: Investor Verdict

THESIS: A high-ROE wealth-tech transformation play currently acting as a treasury backstop for its parent group. **OVERALL STANCE:** WATCH **RATIONALE:** Exceptional operational performance and cash flow recovery are offset by extreme related-party contagion risks. **RE-EVALUATE WHEN:** Proposed ICD limits are reduced below 20% of Net Worth OR if MTF credit costs exceed 2% of the book. **BULL CASE:** Wealth management revenue exceeds 40% of total mix, leading to a valuation re-rating from "Broker" to "Wealth Manager." **BEAR CASE:** Liquidity stress at IIFL Finance leads to a drawdown of the ₹4,500 Cr ICD limit, depleting the company's cash reserves. **KEY MONITORABLE:** Unbilled Revenue + SICR Receivables: ₹58.56 Cr → Watch threshold: >₹100 Cr.

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7. YEAR-OVER-YEAR ANALYSIS

7.1 Changes

Metric / Theme	Summary A Status	Summary B Status	Forensic Takeaway
Cash Flow Quality	Negative CFO (-₹118 Cr) indicating a cash-burning operational cycle.	Strong CFO (₹871 Cr) representing a 1.22x conversion of Net Profit.	The company has successfully reversed its working capital drag, moving from liquidity consumption to robust cash generation.
Capital Allocation (Debt)	Re-leveraging phase with ₹1,154 Cr debt and high Commercial Paper reliance.	Deleveraging phase with debt reduced to ₹937 Cr and zero Commercial Paper.	Management has de-risked the balance sheet by eliminating short-term market borrowings in favor of a more stable, lower-geared capital structure.
Management Leadership	Led by professional MD (Nemkumar H) with an institutional focus.	Return of Co-Promoter (R. Venkataraman) as MD on a "war-time" footing.	The return of the promoter to active leadership signals a shift toward centralized control to accelerate the aggressive "Wealth-Tech" pivot.
Revenue Recognition	Standard alignment between billing and revenue growth.	185% spike in Unbilled Revenue (₹45.01 Cr) outpacing sales growth.	The sharp increase in unbilled revenue suggests a shift toward more aggressive income recognition ahead of actual cash invoicing.
Dividend Sustainability	Debt-funded dividends (~₹92 Cr) despite negative Free Cash Flow.	FCF-funded dividends (~₹93 Cr) backed by ₹922 Cr of surplus cash.	The quality of shareholder returns has improved from precarious debt-funding to a position of high safety and FCF coverage.
Margin Trajectory	OPM at 42% with high operating leverage.	OPM expanded to 44% despite a 998% surge in ESOP costs.	Underlying profitability is even stronger than reported, as margins expanded while absorbing a massive non-cash employee compensation charge.

7.2 Persistent Patterns

- **Extreme Group Contagion Risk:** Proposed Inter-Corporate Deposit (ICD) limits remain static at **₹4,500 Cr (over 1.7x revenue)**, cementing the company's role as a potential liquidity backstop for the broader IIFL ecosystem.
- **High Operational Cash Encumbrance:** Consistently, **over 90% of reported cash equivalents are lien-marked** for exchange margins, leaving minimal "free" liquidity for discretionary corporate use.
- **Deteriorating Retail Credit Quality:** Both periods exhibit accelerating stress in the credit book, moving from a **484% ECL spike in the prior year to a 167% surge in "Significant Risk" (SICR) receivables** in the current year.

- **Structural Pivot to Asset-Light Model:** A recurring trend of shedding physical infrastructure (□99 Cr PPE sale) and impairing intangibles confirms a permanent transition toward a digital-first distribution model.
- **Governance-Performance Paradox:** The entity consistently delivers **top-tier operational metrics (ROCE >30%)** while maintaining a **depressed Governance Rating (2/10)** due to aggressive related-party transaction policies.
- **Non-Core Earnings Dependency:** Both years show a pattern of **inflating PAT through non-operational items**, such as unrealized investment gains and fixed asset disposals, which mask the core brokerage volatility.

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