IIFL Capital Services Ltd — FY 2022 Annual Report Analysis

Annual Report Analysis (Consolidated)

Investor Snapshot

#	Analytical point	Sentiment
1	**IIFL Securities is successfully pivoting from a traditional brokerage to a high-margin, tech-led financial services platform, evidenced by a 54% YoY revenue surge to □1,295 Cr.**	—
2	**Revenue diversification has strengthened significantly as Investment Banking income doubled (+104%), reducing cyclical reliance on pure retail brokerage volumes.**	—
3	**Capital efficiency is a core strength, with ROCE expanding from 25% to 32%, driven by digital scalability and a doubling of Monthly Active Users (MAUs) to 1 million.**	—
4	**Profitability remains robust with PAT growing 38% to □306 Cr, supported by the completion of major capex cycles which paves the way for future margin expansion.**	—
5	***The balance sheet reflects an increasingly aggressive risk posture, with Debt-to-Equity rising to 0.51 to fund the expansion of the capital-intensive Margin Trading Facility (MTF) book.***	—
6	Reported Cash Flow from Operations (CFO) of □795 Cr is 2.6x PAT, but this figure is heavily inflated by fiduciary client float and □28,266 Cr in client payables.	—
7	**Working capital management is superior, characterized by high collection efficiency as trade receivables decreased by 17.6% and debtor days reduced to just 8 days.**	—
8	***Earnings quality is clouded by a forensic red flag: unbilled provisions for expenses stand at 893.85 Cr, representing a significant 2.9x the annual PAT.***	—
9	***Governance remains a key area for diligence following a 2.22 Cr SEBI settlement for alleged price manipulation and 50 Cr in legacy security deposits held with related parties.***	—
10	***The firm faces heightened macro sensitivity, where a 1% interest rate hike now impacts PBT by 60.70 Cr due to expanded borrowings for the MTF business.***	—
11	**The outlook is supported by strong investment banking tailwinds and a 30% dividend payout policy, though a market downturn could trigger MTF defaults.**	—
12	**Investment View: ACCUMULATE based on growth momentum and digital efficiency; monitor interest coverage (threshold 3.0x) and further regulatory friction.**	—

1. Business overview

- **Business Segments:** IIFL Securities has transitioned into a "tech-led investment platform" operating across Retail/Institutional Broking, Investment Banking (IB), and Financial Product Distribution.
- **Revenue Drivers:** Primary growth is driven by the **Retail Broking segment** (0.8 million new users in FY22), Investment Banking (104% growth), and Interest Income from the Margin Trading Facility (223% growth).
- **Cost Drivers:** Heavily weighted toward **Employee Benefits** (31.25% of revenue) and Technology Infrastructure (up 56% YoY) as the firm shifts to a cloud-native architecture.
- **Industry Position:** Top-tier institutional franchise covering 263 stocks (78% of India's market cap); defending retail market share against discount brokers via a "phygital" model.

- **Expansion Plans:** Executed a binding term sheet to acquire 100% of **Rajen Chandrakant Securities (RCSPL)** to expand the depository footprint.
- **Acquisitions & Fintech:** Launched a ₹**300 Cr IIFL Fintech Fund** to invest in early-stage startups (e.g., Leegality, FinBox) as a strategic hedge to "buy" innovation.
- **Capacity Additions:** Completed major office infrastructure projects (CWIP dropped from ₹132 Cr to ₹3 Cr) and launched digital products like **BNPL** for margin trading and Option House.
- **Geographical Presence:** Operates through 500+ physical locations coupled with a robust digital stack.

2. Management commentary & outlook

- Management is steering the company toward a "device-agnostic" ecosystem, focusing on the "financialization of household savings" in India.
- Strategy has shifted from being a "service provider" to an "experience provider," utilizing data analytics for personalized customer nudges.
- Focus is on improving **RoE (currently 29%)** through capital-light distribution and high-margin Investment Banking fees.
- Management targets ₹600 Cr in Assets Under Advisory for the new RIA-managed WealthBaskets within 12 months.
- Acknowledges the threat from discount brokers but counters with a "Full-Service" value proposition, integrating fintechs like Quicko and Smallcase to increase platform "stickiness."
- Digital execution metrics show account opening reduced to 3 minutes 18 seconds and a 4X increase in derivatives turnover.
- The launch of Category II and III AIFs signals a move to capture the entire value chain from platform to product to advice.
- Management maintains a cautious tone regarding macro headwinds such as inflation and geopolitical tensions (Russia-Ukraine), preparing for potential cyclical slowdowns in retail activity.
- **Management Tone:** Confident and Tech-Aggressive. Management has successfully pivoted the narrative from "brokerage commissions" to "ecosystem engagement," talking like "Platform Owners" rather than traditional brokers. While highly optimistic about digital scaling, they remain appropriately cautious about macro risks, though a slight gap exists between their "transparency" core values and the practicalities of the SEBI settlement regarding institutional block deals. Positive

3. Financial analysis

3.1 Financial statements

P&L statement (□Cr)

Line item	Mar 2022	Mar 2021
Sales	1,295	841
Sales Growth %	54.01	10.92
Expenses	749	487
Manufacturing Cost %	16.36	14.16
Employee Cost %	25.08	25.20
Other Cost %	16.38	18.54
Operating Profit	546	354
OPM %	42	42
Other Income	22	27
Exceptional items	10.93	6.57
Other income normal	10.96	20.46
Interest	102	50
Depreciation	63	46
Profit before tax	402	285
Tax %	24	23
Net Profit	306	220
Minority share	0	0
Exceptional items AT	8	5
Profit excl Excep	298	215
Profit for PE	298	215
Profit for EPS	306	220
Profit Growth %	38	41
EPS (□)	10.07	7.27
Dividend Payout %	30	14

Balance sheet (□Cr)

Line item	Mar 2022	Mar 2021
Equity Capital	61	61
Reserves	1,121	907
Borrowings	607	292
Long term Borrowings	0	0
Short term Borrowings	0	0
Other Borrowings	607	292
Other Liabilities	4,252	2,285
Non controlling int	0	0
Trade Payables	2	4
Advance from Customers	8	14
Other liability items	4,242	2,266
Total Liabilities	6,041	3,544
Fixed Assets	482	403
Land	69.16	69.16
Building	281.61	233.93
Equipments	6.83	6.42
Computers	29.20	23.22
Furniture n fittings	53.64	51.78
Vehicles	3.28	1.28
Intangible Assets	113.76	112.91
Other fixed assets	96.68	23.46
Gross Block	654.16	522.16
Accumulated Depreciation	172.01	119.28
CWIP	3	132
Investments	228	74
Other Assets	5,329	2,936
Inventories	0	2
Trade receivables	28	34
Cash Equivalents	3,740	1,678
Loans n Advances	47	52
Other asset items	1,514	1,170
Total Assets	6,041	3,544

Cash flow statement (□Cr)

Line item	Mar 2022	Mar 2021
Cash from Operating Activity	795	152
Profit from operations	594	367
Receivables	-1	-7
Inventory	2	11
Payables	-36	-32
Loans Advances	-375	-74
Other WC items	693	-55
Working capital changes	283	-157
Direct taxes	-82	-58
Cash from Investing Activity	-86	148
Fixed assets purchased	-18	-153
Fixed assets sold	45	90
Investments purchased	-399	-773
Investments sold	297	962
Interest received	11	13
Dividends received	2	3
Other investing items	-24	4
Cash from Financing Activity	108	-361
Proceeds from shares	4	1
Proceeds from borrowings	429	668
Repayment of borrowings	-114	-835
Interest paid fin	-98	-59
Dividends paid	-91	-30
Financial liabilities	-13	0
Other financing items	-8	-106
Net Cash Flow	817	-62
Free Cash Flow	822	89
CFO/OP	161	59

Key ratios

Line item	Mar 2022	Mar 2021
Debtor Days	8	15
Inventory Days	0	0
Days Payable	0	0
Cash Conversion Cycle	8	15
Working Capital Days	-891	-498
ROCE %	32	25

3.2 Financial analysis summary

- The company delivered a robust 54.01% growth in **Revenue** to □1,295.00 Cr, primarily driven by a 104.33% surge in Investment Banking income and a 222.94% expansion in interest income from the Margin Trading Facility, which translated into a 38.00% increase in Net Profit to □306.00 Cr.
- Despite aggressive top-line expansion, **Trade Receivables** on the Balance Sheet decreased from □34.00 Cr to □28.00 Cr, reflecting superior collection efficiency and a shift toward upfront brokerage models, contributing to an improvement in Debtor Days from 15.00 to 8.00.
- **Operating Profit** margins remained stable at 42.00%, but PAT margin slightly compressed to 23.63% as Finance Cost doubled to □102.00 Cr to fund the expanded funded book, with total Borrowings rising 107.88% to □607.00 Cr.
- **Employee Cost** as a percentage of Revenue remained steady at 25.08%, though absolute spending rose significantly to support talent acquisition, while ESOP costs increased to □38.40 Cr, representing a non-cash drag on Net Profit.
- **CFO** reached □795.00 Cr, vastly exceeding PAT of □306.00 Cr, primarily due to a □693.00 Cr inflow from Working Capital items; however, this is largely driven by a 137.63% spike in "Clients Payables" (fiduciary funds) within Other Liabilities.
- The **Balance Sheet** saw a massive expansion in Total Assets to □6,041.00 Cr, supported by a 122.88% increase in Cash Equivalents to □3,740.00 Cr, although □2,638.93 Cr of liquidity is restricted as pledged Fixed Deposits for exchange margins.
- **Fixed Assets** increased to □482.00 Cr as CWIP of □132.00 Cr was capitalized into the Gross Block, signaling the completion of major infrastructure projects, while Depreciation rose to □63.00 Cr.
- **Capital Allocation** remained focused on growth and shareholder returns, with Dividend Payout % increasing to 30.00% and Free Cash Flow surging to □822.00 Cr, though FCF is inflated by fiduciary inflows.
- **ROCE** improved significantly to 32.00% from 25.00%, demonstrating enhanced capital efficiency, even as the Debt/Equity ratio deteriorated to 0.51 due to aggressive leverage for the Margin Trading Facility.
- **Interest Coverage** ratio weakened from 6.70 to 4.94 due to the 104.60% increase in Finance Cost, highlighting a heightened sensitivity where a 1% rate hike would impact pre-tax Profit by □60.70 Cr.
- **Other Income** was aided by a sharp reversal in proprietary positions, with unrealized gains on FVTPL assets contributing □133.68 Cr, helping offset a 56.21% increase in Technology Cost.
- The 146.84% spike in "Unbilled Provision for Expenses" (**□89.38 Cr**) is a forensic concern; it represents nearly 30% of annual PAT and could be used for future earnings smoothing.
- The massive jump in "Clients Payables" (137.63% increase) and "Clients Receivables" (46.53% increase) reflects a surge in trading activity; the disproportionate growth in payables suggests the company is holding significantly more client float, aiding liquidity but increasing fiduciary risk.

- The dominant financial theme of the year is a high-growth transition toward a capital-intensive, leverage-backed Margin Trading model and high-margin Investment Banking, achieving superior **ROCE** while becoming increasingly sensitive to interest rate cycles and fiduciary fund management.

3.3 Contingent liabilities & commitments

- **Litigation:** Management applies significant judgment in estimating outcomes; penalties are only disclosed after finality of appeals, potentially delaying loss recognition.
- **Tax Disputes:** Not explicitly quantified in snippets, but noted as subject to management judgment.
- **Guarantees (FD Pledged): □26,389.34 Cr** (up from □13,932.16 Cr) pledged to stock exchanges for margins, restricting free liquidity.
- **Capital Commitments: □25.49 Cr** (down from □465.51 Cr), reflecting the completion of major CWIP projects.

3.9 Earnings quality & forensic checks

#	Check	Impact	Status	Notes detail
1	PAT vs CFO trend	Profit ↑ — fiduciary inflows from client payables inflate CFO relative to PAT.	—	CFO is boosted by □28,266 Cr in client payables.
2	Receivables & channel-stuffing signal	Revenue ↑ — high quality growth as receivables declined despite 54% sales jump.	—	Note 5: Strong collection efficiency despite aggressive expansion in brokerage.
3	Revenue timing (unbilled/contract assets)	Revenue ↑↓ — accrual-based investment banking fees introduce high estimation and timing risk.	—	Note 2.p: Success-fee based mandates are accrual-based, increasing revenue recognition subjectivity.
4	Revenue from related parties %	Neutral — inter-company revenue remains immaterial relative to total fee income.	—	Note 44: Related party receivables doubled but remain <1% of revenue.
5	Inventory vs revenue growth	Profit ↑ — liquidation of non-core real estate inventory improves liquidity and focus.	—	Note 12: Entire inventory of unsold properties liquidated during the year.
6	Inventory valuation method change	Neutral — no change in valuation policy; inventory fully liquidated in FY22.	—	Note 12: Exit from non-core real estate holdings completed in FY22.
7	Exceptional items in operating profit	Profit ↑ — non-recurring gains from asset sales/items boost reported net profit.	—	P&L: Exceptional items contributed approx 2.6% to the final PAT.
8	Depreciation rate vs useful life policy	Profit ↑ — useful lives exceeding Schedule II limits potentially lower annual depreciation.	—	Note 2.d: Deviation from Companies Act standard lives may smooth earnings.
9	Provision reversals boosting PAT	Profit ↑ — reversal of FVTPL losses into gains significantly volatility-driven earnings.	—	Note 27: Proprietary market positions cause high volatility in other income.
10	Tax rate consistency	Profit ↓ — cash tax paid exceeds P&L tax provision, impacting liquidity.	—	Note 2.l: DTA of □156 Cr recognized on doubtful debt provisions.
11	CWIP age and stalling projects	Profit ↓ — conversion of CWIP to assets will increase future depreciation charges.	—	Note 11.c: Completion of major office/ infrastructure projects and capitalization into PPE.
12	Deferred tax asset recognition adequacy	Profit ↑ — front-loading tax benefits on bad debt provisions assumes future profitability.	—	Note 2.l: Tax benefit taken now for expenses not yet tax-deductible.
13	RPT quantum and trend	Profit ↓ — significant capital locked in non-interest bearing deposits with directors.	—	Note 8: Long-term rental advances represent persistent related-party capital exposure.
14	Dividend paid vs FCF adequacy	Neutral — dividend payout is well-covered by exceptionally high reported free cash.	—	CF Statement: FCF is high but heavily influenced by fiduciary float.
15	Unbilled Expense Provisions	Profit ↑↓ — massive build-up of unbilled provisions could be used for future earnings smoothing.	—	Note 17: Provision is 2.9x annual PAT; represents a significant forensic red flag.
16	Interest Rate Sensitivity	Profit ↓ — aggressive MTF book expansion has doubled the impact of rate hikes on PBT.	—	Note 36.C.1: Sensitivity increased from □29.16 Cr in the prior year.

4. Management & governance

A. Auditor report & key audit matters

- **Audit Opinion:** Unqualified.
- **Key Audit Matters (KAMs):**
  - **Revenue Recognition:** Focus on trade-date basis for brokerage and accrual-based success fees in investment banking, noting higher estimation risks in the latter.
  - **Litigation and Contingent Liabilities:** Management applies significant judgment in estimating outcomes; penalties are only recognized after appeals are finalized, potentially delaying loss recognition.
- **Auditor Status:** M/s V Sankar Aiyar & Co. recommended for re-appointment for a second 5-year term. Internal financial controls were noted as operating effectively.

B. Related party transactions

Party	Relationship	Nature	Amount (□ Cr)	Concern
Directors/ Relatives	KMP/Relatives	Security Deposits (Landlords)	50.00 Cr	***High-value long-term advances held by insiders***
Group Entities	Associates/ Group	Infrastructure Support Income	63.76 Cr	Potential for non-arm's length pricing in shared services
Group Entities	Associates/ Group	Receivables	50.55 Cr	Doubled YoY; indicates increasing inter-company dependency
Group Entities	Associates/ Group	Payables	5.46 Cr	Minimal impact on liquidity

- **RPT Verdict:** Monitor. The □50.00 Cr security deposit with directors is a legacy governance overhang. While inter-company receivables are growing, they remain small relative to the total balance sheet (<1% of revenue).

C. Shareholding

- **Pledged Shares:** Assumed zero or not material (not disclosed as a flag in AR).

D. Board composition + KMP compensation

- **Total Directors:** 6 | **Independent %:** 66.67% | **Women Directors:** 1 (Rekha Warriar).
- **KMP Compensation (EBITDA/Operating Profit = □546.00 Cr):**
  - **R. Venkataraman (CMD):** Remuneration grew 11%, lagging the 54.24% Operating Profit growth.
  - **Narendra Jain (WTD):** Remuneration growth not disclosed.
  - **Pay Ratios:** CMD pay is 80.84x median employee pay; WTD is 15.85x.
  - **Correlation:** KMP pay growth (11%) is well below the 54% profit growth, signaling performance-aligned, conservative executive pay.

F. Capital allocation & capex

Action	FY current (□Cr)	FY prior (□Cr)	% of CFO	Signal
Dividends	91.00 Cr	30.00 Cr	11.45%	—
Capex	18.00 Cr	153.00 Cr	2.26%	—
Net Debt Change	315.00 Cr	-167.00 Cr	39.62%	—
Working Capital Investment	283.00 Cr	-157.00 Cr	35.60%	—
Interest Payments	98.00 Cr	59.00 Cr	12.33%	—
Investments (Financial)	399.00 Cr	773.00 Cr	50.19%	—

- **CAPEX Analytical Notes:**
  - **CFO Coverage:** CFO of □**795.00 Cr** provides 44.17x coverage of the □18.00 Cr capex.
  - **Nature:** Primarily technology-led (Computers/Software) following the completion of major office projects (CWIP dropped to □**3.00 Cr**).
  - **Efficiency: Revenue** grew 54.01% on marginal capex, reflecting high digital scalability.
  - **Takeaway:** Transition from physical to digital assets is complete, allowing for high-margin growth.

H. Risks

- **Regulatory Penalty:** Settlement of □**2.22 Cr** with SEBI regarding alleged manipulation of block deal prices; carries reputational risk.
- **Interest Rate Sensitivity:** High impact; a 1% rise in rates would reduce PBT by □**60.70 Cr**.
- **Cyber Security:** Operational risk to networks and customer data; potential for massive fiduciary loss.
- **Credit Risk (MTF):** Interest income on loans grew 223% YoY; expansion of the funded book increases exposure to market volatility.
- **Fiduciary Risk:** Handling □**28,266.57 Cr** in client payables creates a massive liability and regulatory oversight risk.

5. Scorecard & verdict

Part a: scorecard

Dimension	Rating (1–5)	Delta	Key evidence	One-line rationale
Business quality	4	→	54% Revenue growth; IB income +104%	Strong diversification into high-margin IB and distribution.
Financial health	4	↑	ROCE 32%; CFO □795 Cr > PAT □306 Cr	Excellent returns and cash generation, though leverage is rising.
Earnings quality	3	→	Unbilled provisions □893 Cr; Fiduciary CFO	High growth is genuine, but CFO is inflated by client float.
Management & governance	3	↓	□2.22 Cr SEBI settlement; □50 Cr RPT deposit	Strong operational execution offset by regulatory friction and RPTs.
Capital allocation & earnings visibility	4	↑	Capex efficiency; 30% Dividend payout	Disciplined tech spend driving high-margin revenue visibility.

Business positives (for this company this year) * **Revenue Growth:** Robust 54.01% YoY increase to ₹1,295 Cr. * **Capital Efficiency:** ROCE improved significantly to 32.00% from 25.00%. * **Collection Efficiency:** Trade Receivables decreased by 17.6% despite the massive revenue jump. * **Segment Diversification:** Investment Banking income surged 104.33%, reducing reliance on pure brokerage. * **Digital Scalability:** Account opening time reduced to 3m 18s; MAUs doubled to 1 million.

Business negatives / concerns (for this company this year) * **Regulatory Friction:** Paid ₹2.22 Cr to SEBI to settle alleged price manipulation charges. * **Interest Sensitivity:** A 1% rate hike now impacts PBT by ₹60.70 Cr due to expanded borrowings. * **Forensic Red Flag:** Unbilled Provision for Expenses (₹893.85 Cr) is 2.9x the annual PAT. * **Governance Overhang:** ₹50 Cr in security deposits remains locked with directors/relatives. * **Leverage Increase:** Debt-to-Equity deteriorated to 0.51 to fund the risky MTF book.

Overall scorecard summary IIFL Securities is in a strong growth phase, successfully pivoting from a traditional broker to a high-margin investment banking and tech-led platform. Financial strength is characterized by superior ROCE (32%) and robust cash flows, though the latter is heavily influenced by fiduciary client float. Governance remains the primary area for diligence due to recurring regulatory settlements and legacy related-party deposits. The business is on an improving trajectory operationally, but with an increasing risk-on posture through its expanded margin funding book.

Part b: governance check matrix

#	Check	Status
1	Audit opinion clean?	—
2	Promoter pledge = 0?	—
3	KMP pay < 5% of PAT?	—
4	RPT quantum < 5% of revenue?	—
5	Board > 50% independent?	—
6	At least 1 woman director?	—
7	No statutory dues outstanding?	—
8	No fraud reported?	—
9	Audit trail enabled?	—
10	Frequent Auditor change	—

Final line: "Total: 10/10 — Governance Rating: 4" (Note: Rating 4 due to SEBI settlement and RPT deposit despite 10/10 check status).

Part c: investor verdict

Thesis: A high-growth financial services platform successfully transitioning to a capital-efficient, tech-led model with strong investment banking tailwinds. **Overall stance:** ACCUMULATE **Rationale:** Superior ROCE and digital scalability outweigh the regulatory and interest rate risks in the near term. **Re-evaluate when:** Interest Coverage falls below 3.0x or further SEBI penalties exceed ₹10 Cr. **BULL CASE:** IB pipeline conversion and MTF book expansion drive PAT growth >40% with RoE sustaining at 30%. **BEAR CASE:** Sharp market downturn leads to MTF defaults and a 50% drop in retail participation. **Key monitorable:** Net Interest Margin on MTF book: Current sensitivity ₹60.70 Cr/1% → Watch for rate cycle peaks.