IIFL Capital Services Ltd — FY 2026 Annual Report Analysis

Annual Report Analysis (Consolidated)

Investor Snapshot

#	Analytical point	Sentiment
1	**The business is undergoing a high-risk transition from a cyclical retail brokerage (revenue -16%) toward a debt-funded margin lending and asset management model.**	—
2	**Top-line growth remained stagnant at □2,420 Cr as the 11.33% growth in Institutional Equities was offset by the sharp contraction in the core retail segment.**	—
3	***Operating margins are under pressure as technology spending spiked 37% to 119 Cr, reflecting the high cost of maintaining digital competitiveness amidst falling retail volumes.***	—
4	***Reported PAT fell 21% to 564 Cr, but actual operational profitability is lower as 12% of PBT (90.66 Cr) was derived from a one-time sale of fixed assets.***	—
5	***Balance sheet leverage surged 94% to 1,821 Cr, driving the Debt-to-Equity ratio from 0.18x to 0.50x to fund a high-risk 55% expansion in the MTF loan book.***	—
6	***Cash Flow from Operations (CFO) collapsed from + 871 Cr to - 1,070 Cr, driven by a massive 2,048 Cr working capital absorption.***	—
7	***Free Cash Flow (FCF) is deeply negative at - 936 Cr, forcing the company to utilize debt and capital infusions to sustain value-destructive dividend payouts.***	—
8	***Earnings quality is poor, characterized by a CFO/PAT ratio of -1.89x and a 28% increase in unbilled receivables (57.76 Cr), suggesting aggressive revenue recognition.***	—
9	***Governance risks are elevated due to proposed Related Party Transaction (RPT) limits of 4,300 Cr (177% of revenue) and a 65% hike in MD pay despite falling profits.***	—
10	***Liquidity is severely constrained as 91.4% of cash (4,631 Cr) is lien-marked for exchange margins, leaving minimal free cash for general corporate purposes.***	—
11	**The outlook depends on the successful scaling of the PMS/AIF platform (currently □38 Bn) and the strategic utilization of the □2,000 Cr Fairfax India capital infusion.**	—
12	***Investment View: Avoid; monitor for a return to positive CFO/PAT (>0.8x) and a reduction in RPT exposure limits to below 20% of Net Worth.***	—

1. Business overview (In Bullet Points)

- **Business Segments:** Operates as a diversified financial services firm transitioning from a pure-play retail broker to an integrated "ecosystem" player. Key segments include Retail Equities, Institutional Equities, Investment Banking, and Financial Products Distribution.
- **Revenue Drivers:** Primarily driven by Institutional Equities & Investment Banking (29.42% of revenue), Retail Brokerage (28.25%), and Financial Products Distribution (23.62%). Interest income from Margin Trading Facility (MTF) is a growing contributor (8.32%).
- **Cost Drivers:** Major costs include Employee Benefits (28.41% of revenue), Sub-brokerage/Referral fees (22.07%), and Finance Costs (8.67%). Technology expenses (4.93%) are a rapidly rising structural cost.
- **Industry Position:** Moving from a distributor of third-party products to a "manufacturer" of proprietary investment strategies (PMS/AIF) to decouple valuation from brokerage cyclicality.

- **Expansion Plans:** Aggressive pivot toward a "Wealth-Tech" model, leveraging a 3.2 million retail customer base to cross-sell high-yield Wealth and Investment Banking mandates.
- **Acquisitions & Structural Shifts:** Fairfax India's □2,000 Cr infusion for a >51% stake marks a shift to institutional control. The PMS and AIF businesses have been moved into a dedicated subsidiary (ICAML).
- **Capacity & Infrastructure:** Maintains ~100 branches and 2,600+ partners. Despite a digital focus, physical infrastructure remains high-touch for HNI/UHNI acquisition.
- **Geographical Presence:** Primarily India-focused; voluntary strike-off of IIFL Wealth (UK) Ltd indicates a streamlining of international operations.
- **Segment Performance:** Institutional Equities & Investment Banking grew 11.33% YoY, while Retail Brokerage saw a sharp 15.95% contraction.

2. Management commentary & outlook

- **Strategic Pivot:** Management is explicitly shifting the business identity from a "distributor" to a "manufacturer" of proprietary investment strategies to improve the Quality of Earnings (QoE).
- **Fairfax Partnership:** The □2,000 Cr infusion by Fairfax India is framed as a vote of "institutional credibility" and a strategic anchor to shield the company from regulatory and contagion risks.
- **Growth Guidance:** The focus has shifted from "market share" to "recurring income streams." Management aims to use Retail Equities as a top-of-funnel acquisition tool for Wealth and Investment Banking.
- **Demand Environment:** Management acknowledges a "degrowth in profits" due to an intensive "investment phase" in wealth management and a slowdown in retail participation.
- **Competitive Intensity:** Heavy investment in digital platforms (37% spike in tech spending) is the primary response to the retail brokerage slowdown and competitive pressure from discount brokers.
- **New Projects/Launches:** The in-house asset manufacturing platform (PMS/AIF) has grown to □38 Bn, signaling a move toward higher-margin, sticky fee income.
- **Long-term Vision:** The goal is to build a "single relationship" ecosystem where the company acts as an advisor rather than just a custodian, targeting a total AUM/Custody base of □2,296 Bn.
- **Management Tone:** The management tone is **"Aggressively Defensive."** While touting growth, synergy, and institutional backing through Fairfax, the underlying actions—such as seeking massive RPT limits and liquidating physical assets to fund a digital pivot—suggest they are fortifying the balance sheet against regulatory volatility and market cyclicality.

3. Financial analysis

3.1 Financial statements

P&L statement (□Cr)

Line item	Mar 2026	Mar 2025
Sales	2,420	2,520
Sales Growth %	-3.96	13.66
Expenses	1,572	1,405
Manufacturing Cost %	0	19.82
Employee Cost %	28.41	23.47
Other Cost %	36.55	12.47
Operating Profit	848	1,115
OPM %	35	44
Other Income	183	48
Exceptional items	0	44
Other income normal	183	3
Interest	210	183
Depreciation	65	55
Profit before tax	756	925
Tax %	25	23
Net Profit	564	713
Minority share	-2	-1
Exceptional items AT	0	34
Profit excl Excep	564	679
Profit for PE	561	678
Profit for EPS	561	712
Profit Growth %	-17	34
EPS (□)	18.02	22.98
Dividend Payout %	17	13

Balance sheet (□Cr)

Line item	Mar 2026	Mar 2025
Equity Capital	62	62
Reserves	3,003	2,445
Borrowings	1,821	937
Long term Borrowings	1,821	0
Short term Borrowings	0	0
Other Borrowings	0	937
Other Liabilities	4,671	4,511
Non controlling int	5	3
Trade Payables	5	3
Advance from Customers	0	50
Other liability items	4,661	4,456
Total Liabilities	9,558	7,956
Fixed Assets	295	388
Land	0	58.90
Building	0	181.78
Equipments	0	8.63
Computers	0	50.17
Furniture n fittings	0	80.40
Vehicles	0	0.07
Intangible Assets	9.07	113.76
Other fixed assets	0	186.39
Gross Block	0	680.10
Accumulated Depreciation	0	292.19
CWIP	1	2
Investments	390	486
Other Assets	8,872	7,080
Inventories	0	0
Trade receivables	62	45
Cash Equivalents	5,065	4,010
Loans n Advances	1,445	60
Other asset items	2,299	2,965
Total Assets	9,558	7,956

Cash flow statement (□Cr)

Line item	Mar 2026	Mar 2025
Cash from Operating Activity	-1,070	871
Profit from operations	1,180	1,311
Receivables	-30	-27
Inventory	0	0
Payables	-218	-236
Loans Advances	-514	-14
Other WC items	-1,286	41
Working capital changes	-2,048	-237
Direct taxes	-201	-203
Cash from Investing Activity	314	-177
Fixed assets purchased	-28	-48
Fixed assets sold	162	99
Investments purchased	-46	-223
Investments sold	205	1
Interest received	21	10
Dividends received	4	0
Other investing items	-3	-16
Cash from Financing Activity	568	-490
Proceeds from shares	14	16
Proceeds from borrowings	932	267
Repayment of borrowings	-49	-483
Interest paid fin	-198	-171
Dividends paid	0	-93
Financial liabilities	-39	-26
Other financing items	-93	0
Net Cash Flow	-187	204
Free Cash Flow	-936	922
CFO/OP	-102	96

Key ratios

Line item	Mar 2026	Mar 2025
Debtor Days	9	7
Inventory Days	0	0
Days Payable	0	0
Cash Conversion Cycle	9	7
Working Capital Days	-361	-346
ROCE %	23	33

3.2 Financial analysis summary

- **Revenue** remained flat with a marginal 0.62% growth to ₹2,420.04 Cr, as a sharp 15.95% contraction in Retail brokerage & related income to ₹683.61 Cr was offset by an 11.33% growth in Institutional equities & Investment banking to ₹711.95 Cr.
- **Operating Profit** fell by 23.95% to ₹848.00 Cr, causing OPM % to compress from 44.00% to 35.00%, driven by a 16.42% increase in Employee Benefits Expenses to ₹687.48 Cr and a 37.08% spike in Technology expenses to ₹119.32 Cr.
- **Net Profit** of ₹564.00 Cr was significantly bolstered by Other Income of ₹183.00 Cr, which included a one-time gain of ₹90.66 Cr from the derecognition of Property, Plant and Equipment, accounting for 12% of PBT.
- **Total Debt** surged by 94.28% to ₹1,821.00 Cr, primarily to fund a 55.27% expansion in the Margin Trading Facility (MTF) book to ₹1,445.33 Cr, leading to a 16.51% increase in Finance Cost to ₹209.74 Cr.
- The **Debt/Equity** ratio deteriorated from 0.18 to 0.50, further pressured by the introduction of ₹614.81 Cr in unsecured Commercial Papers, increasing short-term refinancing risk.
- **Cash from Operating Activity** turned deeply negative at -₹1,070.00 Cr (vs ₹871.00 Cr prior year) as Working Capital changes consumed ₹2,048.00 Cr, largely driven by the growth in MTF loans and a ₹1,286.00 Cr outflow in other working capital items.
- **Free Cash Flow** plummeted to -₹936.00 Cr, indicating the business is unable to self-fund its balance sheet expansion and is dependent on external Borrowings and Fixed Assets sales (₹162.00 Cr) for liquidity.
- **Trade Receivables** rose to ₹62.00 Cr with Debtor Days increasing to 9.00; notably, ₹18.71 Cr of receivables are "Credit Impaired," including ₹15.24 Cr aged over 3 years.
- **ROCE %** diluted significantly from 33.00% to 23.00% as the Total Assets base expanded to ₹9,558.00 Cr without a commensurate increase in Revenue.
- Liquidity is structurally constrained as ₹**4,631.34 Cr** of Cash Equivalents (91.43% of total cash) are pledged under lien for bank guarantees and exchange margins, leaving limited unencumbered cash.
- **Related Party Transactions** show a 6.5x surge in receivables to ₹27.27 Cr, while proposed ICD limits to group entities (₹4,300 Cr) exceed 177% of annual Revenue.
- The **CFO/PAT** ratio of -1.89x highlights poor earnings quality, as reported profits are trapped in the MTF loan book and a 28.33% increase in unbilled receivables to ₹57.76 Cr.
- **Other Assets** are dominated by Client Receivables (₹1,633.60 Cr), which is 5.3x the Equity Share Capital, posing systemic liquidity risk. Other Liabilities include a sharp 80% drop in Advances from Customers to ₹9.89 Cr, suggesting a change in client billing cycles.
- **Other Expenses** were impacted by a 74% YoY increase in CSR Expenses to ₹11.06 Cr and a 37% spike in Technology Expenses, reflecting structural cost shifts.

- The dominant financial theme of the year is an **aggressive, debt-funded transition toward a fund-based margin lending model**, which has resulted in a total collapse of operating cash flows and a reliance on non-recurring asset sales to support the bottom line.

3.3 Contingent liabilities & commitments

- **Lien-marked Deposits:** ₹4,631.34 Cr of Fixed Deposits are pledged for bank guarantees and stock exchange margins.
- **Capital Commitments:** ₹46.49 Cr in capital advances for pending projects.
- **Tax Disputes:** Significant management judgment involved in uncertain tax positions; effective tax rate rose due to ₹27.42 Cr in prior-year adjustments.
- **Regulatory Risks:** The company discloses penalties/actions as contingent liabilities only after the finality of appeals, potentially delaying the recognition of regulatory risks.

3.9 Earnings quality & forensic checks

#	Check	Impact	Status	Notes detail
1	PAT vs CFO trend	Profit ↓ — earnings overstate cash; □1,070 Cr CFO outflow vs □564 Cr PAT.	—	CFO/OP ratio at -102% due to massive working capital absorption in MTF loans.
2	Receivables & channel-stuffing signal	Revenue ↑↓ — credit risk rising; receivables + MTF loans grew 54% vs sales -4%.	—	Note 6: Aggressive MTF lending used to drive volumes despite stagnant brokerage revenue.
3	Revenue timing (unbilled)	Revenue ↑ — aggressive recognition; unbilled revenue rose 28% while customer advances fell 80%.	—	Note 2.p: Revenue recognized on trade date; unbilled portion suggests lag in advisory invoicing.
4	Revenue from related parties %	Neutral — limited direct revenue impact; risk is on balance sheet leakage via receivables.	—	Note 8: RPT receivables surged 6.5x, though not yet a dominant % of total revenue.
5	Inventory vs revenue growth	Neutral — business model is service-based; inventory is not a material line item.	—	Financial Services sector; no physical inventory held.
6	Inventory valuation method change	Neutral — no inventory held; no change in valuation policy reported.	—	Note 2: Accounting policies confirm no inventory-related valuation risks.
7	Exceptional items in operating profit	Profit ↑ — non-core gain; □90.66 Cr PPE sale gain inflates PBT by 12%.	—	Note 27: One-time gain from derecognition of Property, Plant and Equipment artificially boosts PAT.
8	Depreciation rate vs useful life policy	Profit ↑ — lower charges; useful lives deviate from Schedule II via "technical evaluation."	—	Note 2.d: Management uses internal estimates for PPE life, allowing discretion in expense timing.
9	Provision reversals boosting PAT	Profit ↑ — under-provisioning; ECL expense fell 47% despite 55% growth in MTF book.	—	Note 2.i: Simplified ECL approach on MTF book may understate risk in volatile markets.
10	Tax rate consistency	Profit ↓ — tax drag; effective rate rose to 25.5% due to prior adjustments.	—	KAM: Auditor highlights judgment in tax positions; □27.42 Cr prior year tax adjustment.
11	CWIP age and stalling projects	Neutral — immaterial balance; CWIP reduced from □2 Cr to □1 Cr.	—	Minimal capital work-in-progress relative to the size of the balance sheet.
12	Deferred tax asset recognition	Profit ↑ — non-cash gains; DTA on unrealized profit indicates MTM-driven "Other Income."	—	Forensic Alert: Large portion of Other Income is non-cash MTM gains on AIF/ Equity holdings.
13	RPT quantum and trend	Profit ↑↓ — value leakage risk; receivables from related parties increased 557% YoY.	—	Note 8: Sharp spike in dues from group entities suggests potential balance sheet support.
14	Dividend paid vs FCF adequacy	Profit ↓ — unsustainable payout; dividends paid despite negative □936 Cr Free Cash Flow.	—	Company is borrowing (Proceeds □932 Cr) to fund operations and maintain dividend payouts.
15	Auditor KAM: ECL Subjectivity	Profit ↑ — potential under-provisioning; Auditor flagged complexity in forward-looking ECL estimates.	—	KAM: Subjectivity in ECL model for MTF book poses risk of sudden credit losses.
16	Auditor KAM: Level 3 Valuation	Profit ↑↓ — MTM volatility; □100.78 Cr held in Level 3 AIFs using unobservable inputs.	—	KAM: High MTM volatility in unobservable inputs could lead to non-cash P&L hits.
17	RPT: Proposed ICD Limits	Profit ↓ — liquidity drain; Proposed ICD limits of □4,300 Cr to group entities.	—	—

4. Management & governance

A. Auditor Report & Key Audit Matters * **Audit Opinion:** Unqualified Opinion. * **KAM - Impairment of Financial Assets (ECL):** Auditor flagged the complexity of the Expected Credit Loss model and subjectivity in "forward-looking estimates." Forensic Risk: Potential under-provisioning for the MTF book which grew 55.27% YoY. * **KAM - Fair Value of Level 3 Instruments:** Focused on □100.78 Cr held in Level 3 AIFs using unobservable inputs. Forensic Risk: High MTM volatility could lead to sudden, non-cash P&L hits. * **KAM - Income Taxes:** Significant management judgment in estimating budgeted profits for advance tax and uncertain tax positions. Effective tax rate rose to 25.47% due to □27.42 Cr in prior-year adjustments. * **Auditor Independence:** No auditor change reported; however, reliance on management's "internal technical evaluation" for asset useful lives suggests limited auditor pushback on aggressive depreciation policies.

B. Related Party Transactions | Party | Relationship | Nature | Amount (□Cr) | Concern | | :--- | :--- | :--- | ---: | :--- | | IIFL Finance Limited | Common Promoter | Proposed ICD Limit | 1,500.00 Cr | ***61.98% of Revenue; Contagion risk*** | | IIFL Samasta Finance Ltd | Common Promoter | Proposed ICD Limit | 1,500.00 Cr | ***High-risk MFI exposure*** | | IIFL Home Finance Ltd | Common Promoter | Proposed ICD Limit | 1,300.00 Cr | ***Aggregate limits exceed 177% of Revenue*** | | IIFL Management Services | WOS | Proposed Investment | 1,500.00 Cr | ***Intra-group capital shifting*** | | Related Parties | Group Entities | Receivables | 27.27 Cr | ***557% YoY increase*** | | Related Parties | Group Entities | Payables | 8.89 Cr | **Stable vs 7.90 Cr** |

C. Shareholding | Line item | Mar 2026 | Mar 2025 | | :--- | ---: | ---: | | Promoter | 30.87% | 30.70% | | Fairfax Group | 30.51% | 30.51% | | DIIs | 3.50% | 3.06% | | FIIs | 15.07% | 16.89% | | Public | 20.05% | 18.84% |

- **Pledged Shares:** 0.00%. However, 91.4% of Cash Equivalents (□4,631.34 Cr) are lien-marked for exchange margins.

D. Board Composition + KMP Compensation * **Total Directors:** 6 | **Independent %:** 66.67% | **Women Directors:** 1 (Rekha Warriar - Chairperson). * **KMP Compensation:** * ***R. Venkataraman (MD):*** □9.96 Cr (FY26) vs □6.04 Cr (FY25) — **64.90% YoY Growth**. * **Performance Mismatch:** MD compensation grew 64.9% while Operating Profit declined by 23.95%. * **ESOP Dilution:** Consolidated ESOP charge of □76.62 Cr represents 9.03% of Operating Profit.

F. Capital Allocation & Capex | Action | FY 2026 (□Cr) | FY 2025 (□Cr) | Signal | | :--- | ---: | ---: | :--- | | Dividends | 93.40 Cr | 93.00 Cr | — | | Capex | 28.00 Cr | 48.00 Cr | **Asset-Light** | | Net Debt Change | 883.66 Cr | (217.00) Cr | — | | Working Capital Investment | 2,048.00 Cr | 237.00 Cr | — |

- **CFO Coverage of Capex:** N/M. CFO (-□1,070 Cr) failed to cover the 28 Cr capex, which was funded entirely via debt.
- **Nature of Capex:** Primarily **Technology (□119.32 Cr expense)** and digital infrastructure.
- **Deployment Efficiency:** Revenue remained flat (0.62% growth) despite the 37% spike in technology spending, suggesting diminishing returns.
- **Key Takeaways:** The company is liquidating physical assets (□162 Cr sold) to fund a digital pivot, but **□101.72 Cr in Lease Liabilities** indicates a shift to off-balance sheet infrastructure. Dividends were effectively funded by fresh borrowings.

H. Risks * ***Liquidity Encumbrance:*** 91% of cash (□4,631.34 Cr) is restricted; zero buffer for systemic shocks. * ***Group Contagion:*** □4,300 Cr proposed ICD limits to IIFL affiliates; potential 1.4x Net Worth drain. * ***Credit Risk (MTF):*** MTF book grew 55% to □1,445.33 Cr; market crash could lead to collateral shortfall. * ***Short-term Refinancing:*** □614.81 Cr in new Commercial Papers; high sensitivity to interest rate hikes. * ***Asset Quality:*** Credit Impaired receivables (>3yr) up 40%, indicating poor recovery of legacy dues.

5. Scorecard & verdict

Part a: scorecard

Dimension	Rating (1–5)	Delta	Key evidence	One-line rationale
Business quality	3	→	Retail Rev -16%; Inst. Rev +11%	Transitioning from cyclical brokerage to asset management but core is weakening.
Financial health	2	↓	D/E 0.50x; CFO -₹1,070 Cr	Negative CFO and rising debt to fund MTF book signal high financial stress.
Earnings quality	1	↓	CFO/PAT -1.89x; 12% PBT from PPE sale	Profits are non-cash, bolstered by asset sales and aggressive unbilled revenue.
Management & governance	2	↓	RPT Limits 177% of Rev; MD Pay +65%	Egregious RPT limits and decoupling of KMP pay from falling profits.
Capital allocation & earnings visibility	2	↓	FCF -₹936 Cr; Debt-funded dividends	Value-destructive allocation; borrowing to pay dividends while FCF is deeply negative.

Business positives (for this company this year) * **Institutional Backing:** Fairfax India's ₹2,000 Cr infusion provides a strategic shield and capital for inorganic growth. * **Segment Diversification:** Institutional Equities & Investment Banking grew 11.33% to ₹711.95 Cr, reducing reliance on retail. * **Asset Manufacturing Pivot:** Proprietary PMS/AIF platform reached ₹38 Bn, targeting higher-margin recurring fees. * **Zero Promoter Pledge:** 0.00% of promoter holding is pledged, providing some comfort on ownership stability.

Business negatives / concerns (for this company this year) * **Cash Flow Collapse:** CFO turned deeply negative at -₹1,070 Cr, with FCF at -₹936 Cr. * **Governance Red Flag:** Proposed ICD limits to group entities total ₹4,300 Cr, representing 177% of annual revenue. * **Earnings Quality:** 12% of PBT (₹90.66 Cr) came from a one-time PPE sale; core operations are weaker than reported. * **Leverage Spike:** Total debt surged 94% to ₹1,821 Cr, primarily to fund a high-risk 55% expansion in MTF loans. * **Liquidity Restriction:** 91.4% of cash (₹4,631.34 Cr) is lien-marked and unavailable for general corporate use. * **RPT Surge:** Related party receivables increased 6.5x to ₹27.27 Cr, suggesting balance sheet support to group entities.

Overall scorecard summary IIFL Capital is in a high-risk transition phase, aggressively leveraging its balance sheet to pivot toward fund-based margin lending as its retail brokerage core weakens. Financial strength is deteriorating, evidenced by a total collapse in operating cash flow and a heavy reliance on debt and one-time asset sales to support the bottom line and dividend payouts. Governance remains a primary concern due to massive proposed related-party exposure limits and a decoupling of executive compensation from declining profitability, placing the company on a deteriorating trajectory.

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: 9/10 — Governance Rating: 2 (Downgraded due to RPT quantum)"

Part c: investor verdict

Thesis: A brokerage-to-wealth transition play currently acting as a liquidity backstop for its promoter group, funded by aggressive leverage.

Overall stance: Avoid

Rationale: Deeply negative operating cash flows, deteriorating earnings quality (asset-sale driven), and egregious related-party transaction limits outweigh the Fairfax investment thesis. Re-evaluate when: CFO/PAT returns to >0.8x and proposed RPT ICD limits are reduced to <20% of Net Worth. BULL CASE: Successful scaling of the "manufacturing" (PMS/AIF) business to □100 Bn+ AUM with Fairfax-led governance improvements. BEAR CASE: A market correction triggers massive defaults in the □1,445 Cr MTF book, coupled with a liquidity drain to group NBFCs. Key monitorable: Related Party Receivables: □27.27 Cr → Watch Threshold: >□50 Cr.

7. Year-over-year analysis

7.1 Changes

Metric / theme	Summary a status	Summary b status	Forensic takeaway
Cash Flow Generation	Strong CFO (□871 Cr) with 1.22x PAT conversion.	Deeply negative CFO (-□1,070 Cr) with -1.89x PAT conversion.	The company has transitioned from a cash-generative model to a massive consumer of liquidity driven by working capital absorption.
Capital Structure	Deleveraging phase; Debt at □937 Cr with zero Commercial Paper.	Re-leveraging phase; Debt doubled to □1,821 Cr including □614 Cr in Commercial Paper.	Management has significantly increased solvency risk by re-introducing short-term market borrowings to fund the MTF book.
Margin Trajectory	Robust OPM at 44%.	Compressed OPM at 35%.	Operating efficiency is deteriorating as technology and employee costs outpace stagnant revenue growth.
Dividend Sustainability	Dividends (□93 Cr) fully covered by □922 Cr Free Cash Flow.	Dividends (□93 Cr) paid despite negative □936 Cr Free Cash Flow.	Shareholder payouts have shifted from being earnings-backed to being effectively funded by fresh debt and asset sales.
Management Tone	"War-time" footing focused on aggressive promoter-led pivot.	"Aggressively Defensive" focusing on Fairfax institutional backing.	The narrative has shifted toward seeking institutional credibility to offset the optics of deteriorating operational cash flows.
Asset Base Composition	Fixed Assets at □388 Cr; MTF book at □930 Cr.	Fixed Assets at □295 Cr; MTF book at □1,445 Cr.	The balance sheet is being hollowed of physical assets to fuel high-risk, interest-sensitive margin lending.

7.2 Persistent patterns

- **Extreme Group Contagion Risk:** Proposed Inter-Corporate Deposit (ICD) limits remain structurally high at **□4,300 Cr - □4,500 Cr (over 1.7x revenue)**, confirming the entity's role as a liquidity clearinghouse for the IIFL group.
- **High Operational Cash Encumbrance:** Consistently, **over 90% of reported cash equivalents are lien-marked** for exchange margins, leaving the company with minimal unencumbered liquidity for emergencies.
- **Non-Core Earnings Dependency:** A recurring pattern of **inflating PAT through one-time fixed asset sales** (□99 Cr in A; □162 Cr in B) to mask volatility in core brokerage income.
- **Aggressive Revenue Recognition:** Persistent reliance on **Unbilled Revenue**, which continues to grow (□45 Cr to □57 Cr), suggesting income is booked well ahead of cash realization.
- **Governance-Performance Paradox:** The company consistently maintains **top-tier ROCE (>20%)** while simultaneously carrying a critically low Governance Rating due to egregious related-party limits.
- **Deteriorating Credit Quality:** A sustained trend of **rising stress in the retail credit book**, evidenced by significant spikes in "Significant Increase in Credit Risk" (SICR) and credit-impaired receivables across both years.