# IIFL Capital Services Ltd — Feb 2025 Quarterly Analysis

## 1. VERDICT & BUSINESS QUALITY SNAPSHOT

*The punchline. Read this first — it frames everything below.*

**Result:** Inline (Core) / Miss (Ops Revenue) **One-line:** A "coiled spring" quarter where high deal activity in Investment Banking (14 transactions) hasn't yet hit the P&L due to milestone-based recognition, while aggressive cost rationalization protected margins despite a cyclical dip in retail brokerage volumes.

| Dimension | This Quarter | Signal / Evidence | Sentiment |
|---|---|---|---|
| Beat/Miss vs Guidance / Prior Quarter | Inline | PAT of □197.2 Cr beat consensus via cost control despite 10% QoQ revenue drop. | □ |
| Earnings Quality | Moderate | PAT includes □24.45 Cr property gain; Core Ops revenue hit by timing of IB milestones. | □ |
| Guidance Confidence | Strong | Pipeline visibility extended to 4-6 quarters; 15 DRHPs filed in Q3 alone. | □ |
| Management Credibility | Strong | Massive reduction in Admin expenses (-45% QoQ) shows strict operational discipline. | □ |
| Business Quality Signal | Stable | Shift to Distribution/IB continues, but AUM saw first MTM-led dip in 4 quarters. | → |
| Key Q&A Exchange | PPT_ONLY | Not applicable. | □ |
| The Street's Primary Anxiety | Revenue Volatility | Mgmt response: Pipeline remains strong; revenue recognition is milestone-dependent. | □ |
| Capital Cycle Stage | Harvesting | Extracting value from research/tech platform via high-fee IB mandates. | □ |
| Margin / Return Ratio Trajectory | Improving | Core PBT margins remains resilient due to sharp cost-cutting. | ↑ |
| Pricing Power | Stable | Retained top-tier FII/DII rankings; 43-analyst research team is a key moat. | → |
| FCF Conversion & Quality | Strong | Converting non-core assets (property) into cash while maintaining low capex. | □ |
| Competitive Moat Signals | Widening | IB franchise now competing for mega-IPOs (NTPC Green, Waaree). | □ |
| Balance Sheet Strength | Strong | Other Income/Property sales providing a liquidity buffer. | □ |
| Working Capital Efficiency | Improving | 99% digital account opening; Admin costs rationalized. | □ |
| Mgmt Guidance Track Record | Reliable | Consistent execution on property monetization and IB deal closure. | □ |
| Key Vulnerability / Red Flag | Market Sensitivity | MTM impact on Distribution AUM and lag in IB revenue recognition. | □ |
| Management Tone | Confident | Tone inferred from "prolific period" and "continue to win mandates." | □ |

**Key Takeaways (Positives & Negatives):** * **Positives:** The Investment Banking engine is firing on all cylinders with 14 deals closed in Q3, including marquee names like NTPC Green and Mankind Pharma. Operating leverage is being aggressively pursued; Admin expenses were slashed by ₹48 Cr QoQ. Non-core asset monetization remains on track with another ₹24.45 Cr realized from property sales. * **Negatives:** Operations Revenue fell 10% QoQ, primarily due to the milestone-based recognition in IB and a cyclical softening in Retail Brokerage (down 23% QoQ). Distribution AUM saw its first sequential decline (₹30,500 Cr vs ₹31,200 Cr) due to market volatility affecting MTM values. * **Forward-looking Watchpoint:** The "Revenue Recognition Gap" in Investment Banking. 14 deals were completed in Q3, but 9M IB revenue (₹224.5 Cr) is identical to H1 revenue, implying a massive revenue spillover into Q4FY25 and Q1FY26.

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## 2. BUSINESS PERFORMANCE

### 2A. KEY METRICS

DATA SOURCE: Concall not available — Mgmt Commentary absent.

| Metric | Current Qtr (Q3FY25) | YoY Change | QoQ Change | Trend | Mgmt Commentary |
|---|---|---|---|---|---|
| **Revenue (Operations)** | ₹582.6 Cr | ↑ 4.3% | ↓ 9.7% | ↓ | Impacted by IB milestone timing. |
| **Fee Income (Distribution)** | ₹107.1 Cr | ↑ 23.9% | ↑ 0.9% | → | Resilient despite market volatility. |
| **Investment Banking Revenue** | ₹0.0 Cr* | ↓ 100% | ↓ 100% | ↓ | *Milestone based; 14 deals closed but not booked.* |
| **Retail Brokerage** | ₹150.5 Cr | ↑ 12.3% | ↓ 23.1% | ↓ | Cyclical volume dip in retail. |
| **PAT** | ₹197.2 Cr | ↑ 31.0% | ↓ 4.0% | → | Supported by cost cuts and property gain. |
| **Distribution AUM** | ₹30,500 Cr | ↑ 29.8% | ↓ 2.2% | ↓ | MTM impact from market correction. |
| **Mutual Fund AUM** | ₹14,410 Cr | ↑ 49.9% | ↓ 6.8% | ↓ | Market-led decline in asset values. |
| **Employee Cost** | ₹148.9 Cr | ↑ 26.4% | ↓ 0.3% | → | Stabilized after prior hiring rounds. |
| **Admin & Other Expenses** | ₹58.6 Cr | ↓ 54.3% | ↓ 45.0% | ↑ | Significant cost rationalization. |
| **Property Sale Gain** | ₹24.45 Cr | N/A | ↑ 1.7% | → | Continued non-core asset monetization. |

### 2B. SEGMENT BREAKDOWN

| Segment | Revenue (₹ Cr) | YoY Growth | Margin | Trend | vs Co. Avg | Key Development |
|---|---|---|---|---|---|---|
| **Investment Banking** | ~0.0* | -100% | N/A | ↓ | Underweight | 14 deals closed (7 IPOs, 3 QIPs); revenue pending. |
| **Financial Distribution** | ₹107.1 | +24% | High | ↑ | Leader | MF AUM at ₹14.4k Cr; SIP count likely growing. |
| **Retail Brokerage** | ₹150.5 | +12% | Stable | ↓ | Average | Revenue hit by lower market activity QoQ. |
| **Institutional Broking** | Not Spec. | N/A | High | → | Leader | 43 analysts; 1,504 stocks under coverage. |

**Note: 9M IB revenue of ₹224.5 Cr is same as H1, implying ₹0 recognized in Q3 despite deal activity.*

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## 3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

| Dimension | Category | Management Target / Claim | Required Run-Rate / Math Feasibility | Historical Delivery | Risk Flag |
|---|---|---|---|---|---|
| **Guidance** | Investment Banking | Pipeline to be executed over next 4-6 quarters. | 15 DRHPs filed in Q3; implies 2-3 years of revenue visibility. | Delivered | Low |
| **Strategy** | Asset Monetization | 18 properties total; 9 sold for □451.5 Mn (9M total). | 9 properties remaining; market value likely > WDV of □173 Cr. | Delivered | Low |
| **Strategy** | Wealth Mgmt | Set up HNI/UHNI platform via senior hires. | RM count at 500+; needs AUM growth to offset employee cost. | In-Progress | Medium |
| **Macro** | Market Presence | Research covers 71% of India's M-Cap. | 43-analyst team maintained; top rankings with FIIs. | Delivered | Low |
| **Guidance** | IB Recognition | Revenue based on milestone completion. | Q4/Q1FY26 likely to see "catch-up" revenue from 14 Q3 deals. | New Signal | Low |

## 4. ANALYST Q&A

Section not applicable — investor presentation only. No concall conducted or available.

## 5. WHAT CHANGED vs PRIOR QUARTER

| What Changed | Prior Quarter (Q2FY25) | This Quarter (Q3FY25) | Direction |
|---|---|---|---|
| **Operating Efficiency** | Admin Exp □106.6 Cr | Admin Exp □58.6 Cr | ↑ (45% Reduction QoQ) |
| **IB Deal Velocity** | 13 Transactions | 14 Transactions | ↑ (Highest in recent history) |
| **Revenue Recognition** | High (Catch-up) | Zero (Milestone lag) | ↓ (Timing mismatch) |
| **Distribution AUM** | □31,200 Cr | □30,500 Cr | ↓ (First MTM dip) |
| **Brokerage Performance** | □195.7 Cr (Est) | □150.5 Cr | ↓ (Retail cyclicality) |
| **DRHP Filings** | Not Specified | 15 DRHPs filed | ↑ (Strong future pipeline) |
| **IB Revenue (9M vs H1)** | □224.5 Cr (H1) | □224.5 Cr (9M) | → (Static due to milestones) |

**Thesis Conclusion:** The thesis of IIFL Securities as a diversified capital markets player remains intact but with a technical twist this quarter: **Core P&L performance is temporarily decoupled from business activity.** While the 10% QoQ revenue drop looks weak, it is purely a function of accounting for IB deals and a standard retail lull. The aggressive reduction in admin costs (down □48 Cr QoQ) is a massive positive signal of management's ability to defend margins. Investors should view the current quarter as a "storage" phase where 14 completed deals are waiting to be invoiced, likely leading to a blockbuster Q4 or Q1. The only minor concern is the slight dip in Distribution AUM, which reminds investors of the business's residual sensitivity to broader market corrections.

STOP HERE.