IIFL Capital Services Ltd — Feb 2026 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Inline (Operational) / Beat (Bottom-line due to One-offs) **One-line:** IIFL Capital delivered a resilient quarter in terms of asset gathering, but core operating profitability is under pressure as the "Wealth Pivot" costs front-load while retail brokerage margins contract.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Miss (Operational)	Operating PBT fell 27% QoQ to □119.4 Cr despite flat revenues.	□
Earnings Quality	Low (One-off driven)	PAT of □187.8 Cr was heavily aided by a □89.7 Cr property sale and MTM gains on BSE shares.	□
Guidance Confidence	Neutral	Mgmt lowered expectations on RM hiring (10-15 more by year-end) vs previous "aggressive" targets.	□
Management Credibility	Neutral	Paid □27 Cr ad-hoc tax following a 2025 IT search; though "prudential," it creates a governance overhang.	□
Business Quality Signal	Improving (Assets)	Distribution Assets grew 8.8% QoQ to □48,300 Cr; MTF book reached a record □1,640 Cr.	□
Key Q&A Exchange	Q#1 (Wealth Path)	Mgmt expects Wealth breakeven "by next year," but recruitment remains a bottleneck.	□
The Street's Primary Anxiety	OpEx & RM Productivity	Rising employee costs (+14% QoQ) and high attrition in the PCG/Existing RM base.	□
Capital Cycle Stage	Investment	Continued high spending on technology, branding, and senior wealth talent.	□
Margin / Return Ratio Trajectory	Deteriorating (Core)	Annualized ROE (9MFY26) fell to 20% from 33% in FY25 as costs outpace revenue.	↓
Pricing Power	Stable	Retail brokerage yields holding, but volume mix shifting toward lower-yielding F&O.	→
FCF Conversion & Quality	Distorted	Operating profit masked by a □71 Mn statutory charge and high variable pay provisioning.	□
Competitive Moat Signals	Stable	Strong Institutional IB pipeline (8 IPOs mentioned); distribution network of 3,100+ EWMs.	→
Balance Sheet Strength	Strong	Net worth rose to □3,030 Cr; significant headroom to scale MTF book beyond □2,000 Cr.	□
Working Capital Efficiency	Stable	99% accounts opened digitally; focus remains on shifting to ARR (recurring) assets.	→
Mgmt Guidance Track Record	Mixed	Delivered on asset growth but struggling to scale headcount as quickly as initially guided.	□
Key Vulnerability / Red Flag	Cost-Income Gap	Core Op PBT is now only 20.4% of Revenue (vs 27.7% in Q2), signaling high operating leverage on the downside.	□
Management Tone	Cautiously Prudent	R. Venkataraman pivoted from "aggressive" to "going slow" on hiring due to competitive intensity.	□

Sentiment: □Neutral

Key Takeaways: * **Positives:** The asset-gathering engine remains robust. Distribution Assets crossed the ₹48,000 Cr mark, and the Mutual Fund AUM surged 27% QoQ to ₹19,870 Cr. The Margin Trade Funding (MTF) book—a high-margin, defensive asset—grew 8.6% QoQ to ₹1,640 Cr, acting as a critical buffer against retail brokerage volatility. * **Negatives:** Core operational health is weakening. Operating PBT (excluding MTM and property gains) fell significantly as employee costs (+14% QoQ) and admin expenses (+5% QoQ) rose while revenues stayed flat. The one-time hit from a property sale (₹89.7 Cr) and MTM gains on exchange shares are masking a 27% sequential decline in core operating profit. * **The Street's Concern:** Analysts are focused on the "Cost of Growth." Management's admission of facing recruitment challenges and a subsequent slowdown in RM hiring (only 10-15 targeted for Q4) suggests the Wealth pivot may take longer to reach meaningful scale. * **Forward-looking Watchpoint:** The "Breakeven" Clock. Management has committed to a Wealth segment breakeven by FY27. Any further slowdown in RM additions or a spike in senior talent attrition will push this timeline back, further depressing consolidated ROEs.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS

DATA SOURCE: PPT figures primary; Concall used for commentary and unlisted metrics.

Metric	Current Qtr	YoY Change	QoQ Change	Trend	Mgmt Commentary
Revenue (Operations)	₹585.6 Cr	↑ 1%	↓ 1%	→	Volume-led growth in retail offset by 14% drop in IB/ Insti revenue.
Retail Equities Rev	₹288.5 Cr	↓ 3%	↑ 6%	↑	Sequential recovery driven by 19% ADTO growth in F&O.
Financial Dist. Income	₹133.7 Cr	↑ 25%	↑ 3%	↑	Focus on recurring distribution income paying off; MF AUM up significantly.
Insti & IB Revenue	₹160.0 Cr	↓ 6%	↓ 14%	↓	Lumpy deal closures; Institutional brokerage was ~₹100 Cr of this.
MTF Book	₹1,640.0 Cr	↑ 76%	↑ 8.6%	↑	Intentional scaling to utilize surplus net worth.
ADTO (Total)	₹3,14,660 Cr	↑ 13%	↑ 19%	↑	Growth dominated by F&O; Cash ADTO up marginally (₹2,685 Cr vs ₹2,612 Cr).
Distribution Assets	₹48,300 Cr	↑ 35%	↑ 8.8%	↑	Mix shifted toward TBR (Transactional) this qtr due to NCD/Fixed Income.
Mutual Fund AUM	₹19,870 Cr	↑ 84%	↑ 39%	↑	Strong organic inflows and market tailwinds.
Employee Cost	₹174.8 Cr	↑ 17%	↑ 14%	↓	Impacted by variable pay provisions and ₹7 Cr labour law hit.
Operating PBT	₹119.4 Cr	↓ 36%	↓ 27%	↓	Margin compression due to front-loaded costs and flat top-line.
PAT (TCI)	₹187.3 Cr	↓ 5%	↑ 121%	↑	Inflated by ₹89.7 Cr property sale gain and MTM gains.
Annualized ROE (%)	20%	↓ 1300bps	↓ 200bps (est)	↓	Impacted by higher net worth base and lower core profitability.
Net Worth	₹3,030.0 Cr	↑ 69%	↑ 8.2%	↑	BVPS reached ₹80.9 supporting valuation floor.

2B. SEGMENT BREAKDOWN

Segment	Revenue (₹ Cr)	YoY Growth	Margin (Op)	Trend	vs Co. Avg	Key Development
Retail Equities	₹288.5	-3%	Moderate	↑	In-line	Sequential recovery in F&O volumes (₹3.11 Lakh Cr ADTO).
Insti & IB	₹160.0	-6%	High	↓	Above	8+ active IPO mandates including Wakefit and Aequs for H1CY26.
Financial Dist.	₹133.7	+25%	High	↑	Above	MF AUM now ₹19,870 Cr; focus shifting to HNI distribution.
Wealth Mgmt	Not Disclosed	NM	Negative	↓	Below	Still in "burn" phase; breakeven target shifted to FY27.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Wealth Breakeven	Breakeven by next year (FY27).	Requires asset ARR to grow ~30% while capping RM costs.	In-progress	Medium
Guidance	RM Hiring	Add 10-15 RMs in the next 2 months.	Highly feasible; however, pace has significantly decelerated from Q1.	Miss (vs aggressive plan)	High
Strategy	Distribution Mix	Maintain 60/40 (TBR/ ARR) mix.	Current mix is 61% ARR/39% TBR; guidance suggests a push for more transactional.	Delivered	Low
Strategy	MTF Scaling	Continued growth in MTF book.	Headroom to grow to ₹2,500-3,000 Cr based on net worth.	Delivered	Low
Macro	F&O Sustainability	India remains an under-penetrated market.	Dependent on retail participation vs regulatory volatility.	Consistent	High
Governance	IT Search	No material adverse effect expected.	Subject to final orders; ad-hoc ₹27 Cr payment is a "prudential" cost.	New	Medium

4. ANALYST Q&A

Q#	Relevance (1–5)	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility (1–5)	Verdict
1	5.0	Keshav Kanwa, White Pine Investment	Wealth Breakeven	Management Commentary and Outlook	"How many RMs did you add this quarter? And when do you think wealth management business will break even?"	Management confirmed the wealth segment is currently loss-making but expects it to reach breakeven "by next year." This confirms that the J-curve investment phase will continue to depress ROEs for at least 4-5 more quarters.	None	4.0	Specific timeline given
1a	4.5	Keshav Kanwa, White Pine Investment	RM Hiring	Business Overview	"How many RMs do you see to add in FY '26?"	Management plans to add only 10-15 RMs in the next two months, a significant slowdown from the "aggressive" hiring tone of previous quarters. This suggests difficulty in finding quality talent at acceptable costs, risking the scale-up speed of the wealth business.	None	3.5	Slower pace confirmed
2	4.0	Aditya Bhatia, Electron Capital	Distribution Mix	Financials	"For the last nine months, I have been seeing that the mix is increasing towards our TBR rather	Management clarified that the targeted mix remains 60% ARR and 40% TBR, though recent	None	4.0	Clear and quantified

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					than the ARR."	quarters saw higher NCD/ fixed income allocations boosting TBR. Investors should expect lumpy distribution income rather than a smooth recurring annuity in the near term.			
3	4.0	Aditya Bhatia, Electron Capital	Revenue Mix	Financials	"Can you give me the split between IE (Institutional Equities) and IB (Investment Banking) income?"	Management indicated Institutional Equities accounted for ~□100 Cr out of the total □160 Cr segment revenue. This 62% dependency on brokerage confirms that the IE segment remains the stable base, while IB provides the high-margin but volatile upside.	Yield data for IE/ Retail	3.0	Directional split given
4	3.5	Aditya Bhatia, Electron Capital	Yields	Financials	"What is the yield that we are making on broking income for institution as well as retail?"	Management did not have the yield data available upfront and offered to share it offline. This lack of immediate clarity on core unit economics is	Yield data	2.0	Deflected — key signal

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						a minor transparency gap during a period of rising costs.			

PATTERN FLAGS & SENTIMENT

The primary anxiety among analysts centers on the **speed and cost of the Wealth pivot**. Last quarter's optimism about "aggressive RM hiring" has met the reality of a "competitive recruitment landscape," leading to a visible slowdown in headcount additions. Analysts were specifically looking for a roadmap to profitability for this unit, as it is currently a drag on consolidated margins.

Management's posture was **defensive regarding headcount** but **confident on asset quality**. By shifting the target to "10-15 RMs," they are attempting to manage expectations for H2 costs, though this lowers the probability of a sharp revenue breakout in Wealth. The ad-hoc tax payment and IT search update were handled transparently, though they remains an unresolved overhang.

Analyst Sentiment Verdict: Skeptical on the pace of execution. While the asset growth (AUM/MTF) is undeniable, the doubling of employee costs YoY against flat revenues has raised concerns about operating leverage. The greatest risk remains the **productivity-to-cost ratio** of new wealth hires in a market where talent costs are skyrocketing.

GUIDANCE GAPS REVEALED IN Q&A

Topic	What Mgmt Claimed (Prior Q)	What Q&A Revealed	Gap / Walk-back	Risk to Thesis
RM Hiring	Aggressive hiring of senior Wealth/UHNI RMs.	"Going slow" and adding only 10-15 RMs.	Significant slowdown in execution pace.	Medium
Wealth Profit	Focus on rapid scale-up.	Business is "currently loss-making."	First explicit confirmation of the current loss quantum.	Low
Asset Mix	Gradual shift to ARR (Annuity) assets.	TBR (Transactional) assets rose due to NCDs.	Transactional dependency remains high (40%).	Medium

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q2FY26)	This Quarter (Q3FY26)	Direction
Core Operating PBT	₹164.0 Cr	₹119.4 Cr	↓ (Deteriorating)
Non-Core Gains	-₹44.1 Cr (MTM Loss)	₹89.7 Cr (Prop Sale) + MTM Gains	↑ (Inflating PAT)
RM Hiring Pace	"Aggressive" / Upgrade 450 RMs	"Going slow" / 10-15 additions	↓ (Slower scaling)
MTF Book	₹1,510 Cr	₹1,640 Cr	↑ (Improving)
Mutual Fund AUM	₹14,300 Cr (est)	₹19,870 Cr	↑ (Accelerating)
Employee Costs	₹153.7 Cr	₹174.8 Cr	↓ (Cost pressure)
Governance Status	IT Search ongoing	₹27 Cr ad-hoc tax paid	↓ (Overhang established)
Wealth Outlook	Investment phase	Confirmed loss-making; FY27 breakeven	↔ (Clarity provided)

STOP HERE.