IIFL Capital Services Ltd — Jan 2022 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Beat **One-line:** Strong performance driven by a booming Investment Banking pipeline and aggressive digital customer acquisition, though high operational spend and reliance on volatile "Other Income" warrant monitoring.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance	Strong Beat	Revenue up 16% QoQ and 71% YoY; IB revenues up 44% YoY.	□
Earnings Quality	Moderate	Boosted by □32 Cr of treasury/investment gains ("Other Income").	□
Guidance Confidence	Neutral	No formal quantitative guidance, but target of 2-3L new clients/ qtr.	□
Management Credibility	Strong	Historically delivered on the demerger and now scaling the digital engine.	□
Business Quality Signal	Improving	Shift toward agency/distribution model; AUC at □1.32 Lakh Cr.	□
Key Q&A Exchange	Q#2 — Derivative Mix	97-98% of ADTO is options; mgmt admits they don't know how many make money.	□
The Street's Primary Anxiety	Retention & Tech	High cost of acquisition (□1200+) and platform stability vs discount brokers.	□
Capital Cycle Stage	Investment	Aggressive hiring (hired 160 people QoQ) and tech spend (25-30% of admin).	□
Margin Trajectory	Deteriorating	Finance costs doubled YoY; Admin costs up 58% YoY on marketing/sub-brokerage.	□
Pricing Power	Eroding	70% of new acquisitions are on "discounted" flat-fee plans to match competition.	□
FCF Conversion & Quality	Distorted	High working capital requirements for IPO financing/IPF segment.	□
Competitive Moat Signals	Stable	Leading private sector IPO house (#1 FY18-21); institutional research remains strong.	□
Balance Sheet Strength	Strong	Net cash position of □160 Cr (Cash □350 Cr vs Debt □190 Cr).	□
Working Capital Efficiency	Deteriorating	Borrowings up significantly to fund the Margin Trading Facility (MTF) book.	□
Mgmt Guidance Track Record	Reliable	Consistent execution on IB mandates and digital account opening transition.	□
Key Vulnerability	Market Cyclicality	Revenue is highly sensitive to capital market volumes and IPO windows.	□
Management Tone	Confident	Optimistic on structural penetration of equity in India.	□

Key Takeaways * **Positives:** Investment Banking (IB) is the clear standout with 6 new DRHPs filed and a #1 ranking in private sector IPOs; Distribution income is diversifying revenue (up 12% QoQ) through high-yield products. * **Negatives:** Operating leverage is being tested by a 61% YoY increase in employee costs and doubling of finance costs; the retail brokerage mix is heavily tilted toward low-margin, high-velocity options (98% of turnover). * **Street Concern:** Analysts are focused on the "Cost of Acquisition" (COA) versus the lifetime value

of millennial "DIY" traders who predominantly use discounted plans. * **Forward Watchpoint:** Progress on the liquidation of ₹600 Cr in real estate assets, which remains a non-core drag on ROE.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS

Metric	Current Qtr	YoY Change	QoQ Change	Trend	Mgmt Commentary
Total Revenue (₹Cr)	368	↑ 71%	↑ 16%	↑	Driven by IB momentum and treasury gains.
Brokerage Revenue (₹Cr)	135	↑ 47%	→ 0%	→	Management cited flat QoQ performance despite volume growth.
IB Revenue (₹Cr)	32	↑ 44%	↑ 14.3%	↑	Strong pipeline; 11 marquee deals closed in Q3.
Distribution Revenue (₹Cr)	56	↑ 43.6%	↑ 12.2%	↑	Focus on open architecture and high-yield products.
ADTO (₹Cr)	83,546	Not in Doc	↑ 23.6%	↑	Volume driven primarily by derivatives (₹81,000 Cr).
AUC (₹Cr)	1,32,000	Not in Doc	Not in Doc	↑	Assets under custody reflecting market growth.
New Accounts (Lakhs)	2.23	Not in Doc	↑ 48.7%	↑	95% of accounts opened digitally.
MTF Book (₹Cr)	225	Not in Doc	↑ 28.5%	↑	Growth in margin funding; book up from ₹175 Cr.
Employee Count	2,460	↑ 24.5%	↑ 7%	↑	Headcount increased to support sales and tech.
Finance Cost (₹Cr)	Not in Doc	↑ 100%+	↑ 30%	↓	Spike due to IPO/IPF financing borrowings.
Real Estate Asset (₹ Cr)	600	→	→	→	Long-drawn liquidation process; no sales this quarter.

2B. SEGMENT BREAKDOWN

Segment	Revenue (₹ Cr)	YoY Growth	Margin	Trend	vs Co. Avg	Key Development
Retail Broking	140*	Not in Doc	Not in Doc	→	In-line	70% of new clients on discount plans.
Institutional Broking	93*	Not in Doc	High	↑	Above	Strong block deal execution and research.
Invest. Banking	32	44%	High	↑	Above	Filed 6 new DRHPs; #1 in Private Sector IPOs.
Distribution	56	43.6%	Moderate	↑	Below	Shift to open architecture model.
Treasury/Other	32	67% (QoQ)	100%	↑	Above	High volatility; includes investment gains.

**Estimated based on 60:40 retail/institutional split mentioned in concall.*

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3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate	Historical Delivery	Risk Flag
Guidance	Customer Acq	2-3 Lakh accounts per quarter.	75k-100k/month	Delivered (2.23L in Q3)	High COA
Strategy	Digital Pivot	95% digital account opening.	Maintain 90%+	Delivered	Tech stability
Guidance	Real Estate	Monetize ₹600 Cr non-core assets.	No timeline given	Missed (No sales in Q3)	Liquidity risk
Strategy	IB Focus	Maintain top league table rankings.	5-6 DRHPs/qtr	Delivered	Market cycle
Macro	Penetration	10% penetration vs developed markets.	Continuous growth	Industry-wide tailwind	Regulatory risk

4. ANALYST Q&A

Q#	Rel.	Analyst / Firm	Theme	Category	Underlying Concern	Mgmt Response & Investment Implication	Evaded	Cred.	Verdict
1	4.0	Rishikesh Oza, RoboCapital	Growth	Outlook	Future customer acquisition pace.	Management expects to maintain the current pace of 2-3 lakh account acquisitions per quarter. This ensures sustained top-line growth but requires high marketing spend, keeping margins under pressure.	None	4.0	Quantified
2	5.0	Sahej Mittal, HDFC Sec	Quality	Business Overview	Risk of retail losses in derivatives.	Management noted that 97-98% of turnover is options and admitted they do not scientifically track the profitability of these retail traders. High dependence on retail F&O is a systemic risk; a market correction could lead to high churn and revenue loss.	Trader P&L data	3.0	Vague
3	4.5	Sahej Mittal, HDFC Sec	Research	Business Overview	Monetization of research assets.	Management tracks that approximately 20-25% of customers actively use their research, while many others read but do not execute. This suggests a potential gap in converting high-value content into transactional volume.	Exact conversion	3.5	Directional
4	4.0	Parin Jhaveri, JNJ Holdings	Assets	Financials	Progress on real estate liquidation.	Management confirmed the real estate portfolio is valued	Sales timeline	2.5	Hedged

Q#	Rel.	Analyst / Firm	Theme	Category	Underlying Concern	Mgmt Response & Investment Implication	Evaded	Cred.	Verdict
						at ~□600 Cr but admitted no sales occurred this quarter due to a "long drawn process." This keeps significant capital locked in non-earning assets, suppressing overall ROE.			
5	4.5	Kajal, ICICI Sec	Costs	Financials	Cost of acquisition (COA) for new clients.	Management disclosed a digital cost of acquisition ranging between □1200 and □1300 per customer. With 70% of new clients on discount plans, the payback period on this COA is likely extending, necessitating high retention.	LTV data	4.0	Specific
6	3.5	Vijay Karpe, Ransom Inv	Credit	Financials	Size and growth of the MTF book.	The MTF book grew from □175 Cr in Q2 to □225 Cr in Q3, reflecting increased leverage by retail clients. While this boosts interest income, it increases credit risk and funding costs in a rising interest rate environment.	None	5.0	Specific
7	4.0	Bhuvneshwar, Investec	Segments	Financials	Breakdown of brokerage revenue.	Management clarified that the □172 Cr (Brokerage + IB) split is roughly 60:40 between retail and institutional clients. This	None	4.0	Directional

Q#	Rel.	Analyst / Firm	Theme	Category	Underlying Concern	Mgmt Response & Investment Implication	Evaded	Cred.	Verdict
						highlights a heavy reliance on the institutional segment for margin stability compared to the hyper-competitive retail space.			

PATTERN FLAGS & SENTIMENT

Analysts are increasingly anxious about the **sustainability of the retail options boom** and the **high cost of customer acquisition**. Multiple questions focused on the profit/loss profile of retail traders and the COA vs. discount brokerage plans. Management appeared confident in their volume growth but was notably vague regarding the actual "health" or profitability of the new millennial cohort they are acquiring. The concern regarding the **unliquidated real estate (□600 Cr)** is a persistent friction point that management continues to deflect with "it's a long process" remarks.

Analyst Sentiment Verdict: The overall sentiment is **cautiously optimistic**. While the IB and Distribution growth were applauded, analysts remained skeptical about the long-term unit economics of the digital retail business given the high COA (□1200+) and flat-fee competitive pressures. Management's credibility on operational execution is high, but the "overhang" of non-core real estate assets remains the primary source of frustration for institutional investors.

GUIDANCE GAPS REVEALED IN Q&A

Topic	What Mgmt Claimed	What Q&A Revealed	Gap / Walk-back	Risk to Thesis
Real Estate	Intent to monetize assets.	No sales progress this quarter.	Lack of execution urgency on □600 Cr asset.	Persistent ROE drag.
Growth Quality	High-growth digital acq.	70% are on discount plans with high COA.	Margin dilution for volume growth.	Payback period risk.

5. WHAT CHANGED vs PRIOR QUARTER

First entry — no prior quarter to compare.