IIFL Capital Services Ltd — Jan 2023 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

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

Result: Beat (QoQ) / Miss (YoY) **One-line:** Profitability is recovering from the Q1/Q2 lows as the Investment Banking (IB) engine restarts, but a structurally higher cost base (+17% Employee, +23% Admin) continues to drag down margins compared to the prior year's bull run.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Beat	PAT of □63.3 Cr is a 16% QoQ increase and significantly above the Q1 low of □40.3 Cr.	□
Earnings Quality	High (Core driven)	Growth driven by operational revenue (+8% QoQ) rather than "Other Income," which fell 27% QoQ.	□
Guidance Confidence	Neutral	IB pipeline delivery is strong, but the core brokerage business remains volume-sensitive.	□
Management Credibility	Neutral	Successfully executed several high-profile BRLM mandates, proving the institutional franchise's strength.	□
Business Quality Signal	Stable	Franchise strength in IB is evident; however, retail market share concerns from prior quarters persist.	□
Key Q&A Exchange	N/A — no concall	PPT_ONLY mode.	□
The Street's Primary Anxiety	Operating Deleverage	9M Total Expenses (+13%) are outstripping Revenue growth (+1%), squeezing PBT margins.	□
Capital Cycle Stage	Consolidation	Management is sweating the high headcount and tech investments made in FY22.	□
Margin / Return Ratio Trajectory	Deteriorating	9M PBT margins fell to 23% from 31% YoY, despite the sequential recovery.	□
Pricing Power	Eroding	Continued shift toward discount/flat brokerage models in the retail segment (per prior context).	□
FCF Conversion & Quality	Not in document	CFO data not provided in the quarterly update.	□
Competitive Moat Signals	Stable	IB pedigree is a moat; retail broking moat is being tested by discount entrants.	□
Balance Sheet Strength	Strong	Net Worth grew to □1,350 Cr from □1,180 Cr YoY; zero net debt mentioned.	□
Working Capital Efficiency	Improving	Finance costs for the 9M period fell 33% YoY to □3.7 Cr.	□
Mgmt Guidance Track Record	Mixed	Strong delivery on the IB pipeline, but cost management remains defensive.	□
Key Vulnerability / Red Flag	Fixed Cost Rigidity	Employee and Admin costs are rising at double-digit rates while revenues stay nearly flat.	□
Management Tone	Cautious	PPT focuses on execution of mandates and ESG rather than aggressive growth guidance.	□

Sentiment: □Neutral

Key Takeaways (Positives & Negatives): * **Positives:** Sequential recovery is visible with PAT growing 16% QoQ, ending the downward slide seen in H1FY23. The Investment Banking division is firing on all cylinders, having successfully managed IPOs for Sula Vineyards, Archean Chemical, and Bikaji Foods during the quarter. * **Negatives:** The YoY comparison remains grim; 9M PBT is down 25% due to severe operating deleverage. Revenue grew only 1% for the 9M period, while the cost of doing business (Employee + Admin) grew ~20%. * **Street Concern:** Analysts remain focused on the "sticky" nature of expenses. The presentation shows no sign of meaningful cost rationalization, suggesting that the "new normal" for margins is significantly lower than the FY22 peak. * **Watchpoint:** Monitor the conversion of the 7 DRHPs mentioned in the pipeline; the IB segment is currently the primary protector of the bottom line while the retail brokerage segment stabilizes.

---

2. BUSINESS PERFORMANCE

2A. KEY METRICS

DATA SOURCE: Concall not available — Mgmt Commentary column absent. All metrics converted from □ Millions to □Crores.

Metric	Current Qtr (Q3FY23)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Total Income	□347.0 Cr	↓ 5.7%	↑ 7.3%	↑	Sequential recovery from Q2.
Revenue from Ops	□342.0 Cr	↑ 1.8%	↑ 8.0%	↑	Core operations gaining traction.
Other Income	□5.0 Cr	↓ 84.4%	↓ 26.5%	↓	Sharp decline in non-core gains.
Employee Cost	□92.0 Cr	↑ 5.5%	↑ 1.7%	↓	Costs remain elevated; 9M up 17%.
Admin/Other Exp	□136.1 Cr	↑ 20.1%	↑ 9.8%	↓	High growth in non-personnel costs.
PBT	□85.1 Cr	↓ 25.0%	↑ 13.0%	↑	Recovery vs Q2 but weak vs FY22.
PAT (TCI)	□63.3 Cr	↓ 25.1%	↑ 16.4%	↑	Margin expansion of ~150bps QoQ.
PBT Margin (%)	24.5%	↓ 630 bps	↑ 120 bps	↑	Sequential improvement.
Net Worth	□1,350 Cr	↑ 14.4%	↑ 1.5%	↑	Stable capital base.
9M Revenue	□965.2 Cr	↑ 1.1%	N/A	→	Flat top-line for the fiscal year.
9M PAT	□161.6 Cr	↓ 28.5%	N/A	↓	Reflects the H1 margin collapse.

2B. SEGMENT BREAKDOWN

Note: Segment-wise revenue was not explicitly split in the PPT table but was highlighted through deal activity.

Segment	Performance Highlights	YoY Trend	Key Development
Investment Banking	Completed 6 major IPO/Pre-IPO mandates (Sula, Bikaji, etc.)	↑	Healthy pipeline with 7 DRHPs filed; key driver of Q3 recovery.
Retail Broking	Implicitly under pressure given the modest 2% YoY Revenue growth.	↓	Industry-wide shift to discount models; reliance on DIY acquisition (per prior context).
Institutional Broking	Strong deal flow in secondary markets (Archean, Fusion).	↑	Remains a core strength of the IIFL brand.
Distribution	Not specifically broken out in Q3 PPT table.	→	Focused on cross-selling as an ARPU booster.

---

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Margins	Expected improvement (implied by sequential trend).	Needs PBT of ~₹140 Cr in Q4 to match FY22 9M margins (High difficulty).	Missed YoY; Beat QoQ.	**High**
Guidance	IB Pipeline	Continued execution of filed DRHPs.	Dependent on secondary market stability for IPO pricing.	Strong (Delivered 6 deals in Q3).	**Medium**
Strategy	Customer Acq	Focus on digital/DIY (60-70% DIY per prior context).	N/A	Consistent digital pivot.	**Low**
Strategy	ESG	Focus on "Sakhiyon Ki Baadi" and Women in Workforce.	23% women workforce currently; aims for higher diversity.	Ongoing delivery.	**Low**
Balance	Capital	Maintaining dividend payout (DPS history provided).	Historical DPS of ₹3.0 suggests continued high payout ratio.	Consistent.	**Low**

(N/A — no concall conducted or available. Data points extracted from presentation financial tables and project slides.)

---

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 (Q2FY23)	This Quarter (Q3FY23)	Direction
PAT (Quarterly)	₹54.4 Cr	₹63.3 Cr	↑ 16.4%
PBT Margin	23.3%	24.5%	↑ 120 bps
IB Deal Momentum	Sluggish	High (6 mandates completed)	↑
Employee Costs	₹90.5 Cr	₹92.0 Cr	↑ (Sticky)
Admin Expenses	₹123.9 Cr	₹136.1 Cr	↑ 9.8%
Other Income	₹6.8 Cr	₹5.0 Cr	↓ 26.5%
Net Worth	₹13.3 Billion	₹13.5 Billion	↑

Investor Notes: * **Thesis Check:** The "High Fixed Cost" thesis remains intact. While the company can grow earnings when the market is favorable (as seen in the sequential recovery), it lacks the agility to cut costs during downturns. * **The Cost Trap:** 9M Revenue is up only ₹10.7 Cr YoY, but Employee costs alone are up ₹38.4 Cr. This structural shift in the cost base requires significantly higher volumes just to maintain flat YoY profits. * **Capital Efficiency:** Despite margin pressure, the business remains high-ROE and cash-generative, evidenced by the rising Net Worth and steady dividend track record. * **Watchpoint:** The 20% YoY spike in Admin expenses in Q3 needs investigation—whether it's marketing for client acquisition or one-time tech costs will determine if margins can expand further in Q4.

STOP HERE.