

# IIFL Capital Services Ltd — Jan 2024 Quarterly Analysis

## 1. VERDICT & BUSINESS QUALITY SNAPSHOT

**Result:** Strong Beat **One-line:** IIFL Securities has successfully decoupled from mass-retail cyclicality via an "Affluent-first" pivot and a dominant Investment Banking franchise, doubling PAT YoY despite the structural setback of the 5Paisa deal withdrawal.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Strong Beat	PAT of ₹150.5 Cr vs ₹75.4 Cr in Q1; Revenue up 42% vs Q1 baseline.	☐
Earnings Quality	High (Core driven)	Growth driven by IB (17 deals) and Distribution (AIF/PMS/ Insurance), not just market beta.	☐
Guidance Confidence	Neutral	Mgmt transparent on withdrawing 5Paisa scheme; pivot to "Affluent" is executing well.	☐
Management Credibility	Strong	Decisive action to withdraw 5Paisa deal rather than accept stale valuations.	☐
Business Quality Signal	Improving	Revenue mix shifting to high-margin fee income (IB + Distribution = 27% of Ops Rev).	☐
Key Q&A Exchange	5Paisa Withdrawal	Scheme withdrawn to re-evaluate due to "substantial changes" in market/valuations.	☐
The Street's Primary Anxiety	5Paisa Deal Collapse	Mgmt response: Market conditions changed too much to use a 12-month-old valuation.	☐
Capital Cycle Stage	Consolidation	Focusing on organic "Affluent" growth while re-evaluating structural demergers.	☐
Margin / Return Ratio Trajectory	Improving	Annualized ROE hit 28.1% vs 22% in Q1; PBT margins expanded to 35%.	☐
Pricing Power	Stable	Exiting discount pricing (Z20) to focus on ad-valorem/premium affluent segments.	☐
FCF Conversion & Quality	Distorted	CFO data absent; cash used to fund ₹3,500 Cr client margin book.	☐
Competitive Moat Signals	Widening	Dominance in ECM/IPO BRLM space (Cello, Doms, Chola) reinforces IB moat.	☐
Balance Sheet Strength	Adequate	Networth at ₹1,690 Cr; borrowing increased 134% YoY to support MTF growth.	☐
Working Capital Efficiency	Stable	Finance costs (₹100.8 Cr) rising in tandem with MTF book and interest rates.	☐
Mgmt Guidance Track Record	Reliable	Delivered on the IB pipeline promised in prior quarters.	☐
Key Vulnerability / Red Flag	Regulatory/Deal Risk	5Paisa withdrawal delays the "lean broker" thesis by at least 6-9 months.	☐
Management Tone	Confident	Bullish on IB pipeline and "Affluent" segment lifecycle value.	☐

**Sentiment:** ☐ **Positive Key Takeaways:** \* **Positives:** The business has achieved a significant profit scale-up (PAT doubled vs Q1), driven by a record Investment Banking quarter (17 deals) and a 100%+ YoY surge in

Distribution income. The strategic shift to "Affluent" customers is yielding higher quality earnings with reduced reliance on mass-market trading churn. \* **Negatives:** The collapse of the current 5Paisa retail transfer scheme is a setback. While management claims it's for "revaluation," it leaves the company with the high-cost mass-retail database it originally intended to offload, creating operational complexity. \* **Street Concern:** Analysts are laser-focused on the 5Paisa withdrawal. Management's refusal to proceed with a stale 12-month-old swap ratio shows fiduciary prudence but creates uncertainty regarding the structural end-state of the group. \* **Forward Watchpoint:** Monitor the "revalued" 5Paisa scheme terms. Any significant change in the swap ratio (prior: 1:50) will indicate how management perceives the value of their mass-retail book in the current bull market.

## 2. BUSINESS PERFORMANCE

### 2A. KEY METRICS *PPT available — numbers sourced from consolidated results table.*

Metric	Current Qtr (Q3FY24)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Total Revenue	₹582.3 Cr	↑ 68%	↑ 9%	↑	Driven by 73% jump in brokerage and 45% jump in IB fees.
Brokerage Income	₹268.0 Cr	↑ 73%	→ 0%	→	Flat QoQ as retail trading stabilized; 60:40 Retail:Insti mix.
IB Fee Income	₹55.0 Cr	↑ 32%	↑ 45%	↑	Completed 17 transactions; pipeline remains strong.
Distribution Income	₹100.0 Cr	↑ 89%	↑ 18%	↑	Surge in AIF, PMS, and Insurance cross-sell.
Finance Cost	₹100.8 Cr	↑ 134%	↑ 42%	↓	Increased borrowing to support growing MTF book.
Employee Cost	₹117.8 Cr	↑ 30%	↓ 7%	↑	Headcount stable; QoQ dip due to variable pay timing.
Admin & Other Exp	₹106.8 Cr	↑ 31%	↓ 17%	↑	Higher tech spend and sub-broker payouts vs last year.
PAT (TCI)	₹150.4 Cr	↑ 134%	↑ 40%	↑	High operational leverage as non-broking fees surged.
ROE (Annualized)	28.1%	↑ 810 bps	Not stated	↑	Significant expansion from 20% in FY23.
Net Worth	₹1,690 Cr	↑ 25%	↑ 10%	↑	Internal accruals driving book value growth.
AUM (Custody)	₹1,81,582 Cr	Not stated	Not stated	↑	Includes ₹24,000 Cr in cross-sell AUM.
ADTO (Cash)	₹2,495 Cr	Not stated	↑ 2%	→	Stable cash volumes; institutional block activity high.
ADTO (Derivatives)	₹2,68,815 Cr	Not stated	↑ 9%	↑	Gaining traction in BSE derivative segment.

### 2B. SEGMENT BREAKDOWN

Segment	Revenue (₹Cr)	YoY Growth	Margin (PBT)	Trend	vs Co. Avg	Key Development
Brokerage	₹268.0	↑ 73%	Moderate	→	Below Avg	Shift to "Affluent" RMs; exiting discount pricing (Z20).
Distribution	₹100.0	↑ 89%	High	↑	Above Avg	Focus on AIF/PMS wrappers for ₹10L+ AUM clients.
Invest. Banking	₹55.0	↑ 32%	High	↑	Above Avg	Leading position in Equity Capital Markets (ECM).
Others/MTF	₹136.5*	↑ 100%+	Moderate	↑	Average	Margin Trading Facility (MTF) driving interest income.

\*Derived: Total Op Revenue  
(558.8) - Broking (268) - Dist  
(100) - IB (55)

### 3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate	Historical Delivery	Risk Flag
Guidance	Affluent Pivot	Targeting customers with ₹10 Lakh+ AUM via RM-led model.	50k-55k new customers/ qtr (Current).	<b>Delivered:</b> Acquisition numbers consistent.	<b>Low</b>
Guidance	5Paisa Transfer	Re-evaluating the scheme after withdrawal of prior application.	Needs new valuation/ Board approval in 1-2 quarters.	<b>Missed:</b> Prior scheme (Dec-22) cancelled.	<b>High</b>
Strategy	IB Dominance	Maintain leadership in IPO/ ECM transactions.	Completed 17 deals in Q3; pipeline remains robust.	<b>Strong:</b> Consistently top-ranked in BRLM.	<b>Low</b>
Strategy	Margin MTF	Grow MTF book to leverage client relationships.	Finance costs up 42% QoQ to support this book.	<b>Delivered:</b> Rapid book expansion.	<b>Medium</b>
Macro	GDP / Markets	Real GDP growth >6%; MF ownership at 8.7%.	N/A	Aligned with macro tailwinds.	<b>Low</b>
Balance	Cap Allocation	30-35% Dividend payout policy remains.	Sustainable at 28% ROE.	<b>Consistent:</b> DPS trends stable.	<b>Low</b>

## 4. ANALYST Q&A

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Q#	Rel.	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Cred.	Verdict
1	4.0	Hiten Boricha / Sequent	Acquisition	Overview	"We are adding 50k-55k customers vs 2 lakhs earlier. What are we doing to add more?"	Management clarified that the 2 lakh/month era focused on low-value mass retail; they have strategically shifted to "Affluent" customers with higher wallets. This reduces customer churn and increases long-term LTV per user, shifting the thesis from "volume" to "value."	None	4.5	Clear Pivot
2	3.5	Narendra / Robo Capital	Margins	Financials	"What do we take as the steady-state margins going higher? This quarter was above 40%."	Management attributed the current 40% margin to high capital market activity and block deals, warning it is "cyclical." Investors should expect margin compression if market volumes/IB activity normalize.	None	4.0	Cyclicality Warning
3	4.0	Rishabh Nahar / Swan Cap	5Paisa Deal	Governance	"Is it true that the 5Paisa retail client transfer notification has been withdrawn?"	Management confirmed the withdrawal, citing SEBI observations and a 1-year delay that made old valuations irrelevant. The deal is "back to the drawing board" for revaluation, delaying the group's structural simplification.	New swap ratio timeline	3.0	Deal Overhang
4	3.0	Rishabh Nahar / Swan Cap	Algo/High Vol	Overview	"Are we focusing on some sort of trading community like Zerodha?"	Management admitted they have historically underperformed in the high-volume/ algo segment due to low yields. They indicated a need to "improve offerings" here, suggesting	Specific tech spend	3.5	Gap identified

Q#	Rel.	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Cred.	Verdict
						potential future tech capex.			
5	3.5	Rishabh Nahar / Swan Cap	Pricing	Overview	"What kind of brokerage model do we provide? I see you also provide a discount model."	Management confirmed they are "more or less exiting" the discount/flat pricing (Z20) space to focus on ad-valorem rates for affluent clients. This reinforces the strategy to prioritize yield over market-share metrics.	None	4.0	Quality Shift
6	3.0	Tushar Sarda / Athena	Revenue Mix	Financials	"Institutional brokerage mentioned blocks... how much is institutional brokerage?"	Institutional broking accounts for ~40% of the brokerage revenue, with retail at 60%. This balance provides a cushion when retail participation dips, as institutional block activity often spikes in bull markets.	None	5.0	Precise Data

**PATTERN FLAGS & SENTIMENT \* The 5Paisa Anxiety:** Multiple questions targeted the collapse of the 5Paisa retail transfer. Management was firm but defensive, framing it as a "valuation mismatch" due to the 1-year SEBI delay. This remains a live concern; until a new swap ratio is announced, the stock will carry a "complexity discount." \* **Yield vs. Volume:** Analysts questioned the drop in customer acquisition. Management's posture was confident in the "Affluent" pivot, signaling they are willing to lose mass-market share to Zerodha/Groww to protect ROE and service quality. \* **Analyst Sentiment Verdict:** Analysts are **impressed by the P&L (doubling PAT) but skeptical of the corporate structure.** The withdrawal of the 5Paisa deal was the main point of friction. Management credibility remains high due to operational performance, but the "structural simplification" thesis has taken a hit.

## 5. WHAT CHANGED vs PRIOR QUARTER (Q1FY24)

What Changed	Prior Quarter (Q1FY24)	This Quarter (Q3FY24)	Direction
<b>Profit Scale</b>	PAT: ₹75.4 Cr	PAT: ₹150.5 Cr	↑ Improving
<b>Revenue Base</b>	Total Income: ₹411.0 Cr	Total Income: ₹582.3 Cr	↑ Improving
<b>5Paisa Thesis</b>	"Awaiting NOC" for transfer.	<b>Withdrawn.</b> Re-evaluating swap ratio.	↓ Deteriorating
<b>Cost Efficiency</b>	Admin costs surged 63% YoY.	Admin costs down 17% QoQ; efficiency improved.	↑ Improving
<b>ROE Profile</b>	ROE (Annualized): 22%	ROE (Annualized): 28.1%	↑ Improving
<b>Pricing Strategy</b>	Testing discount (Z20) model.	<b>Exiting</b> discount/flat pricing focus.	↑ Yield-Positive
<b>IB Deal Volume</b>	9 deals completed.	17 deals completed.	↑ Improving
<b>Interest Burden</b>	Finance Cost: ₹26.2 Cr	Finance Cost: ₹100.8 Cr	↓ Higher Risk

**INVESTOR NOTES:** \* **CFO/PAT Divergence:** While PAT is ₹150.5 Cr, the 134% surge in Finance costs indicates massive working capital consumption to fund the MTF (Margin Trading) book. \* **Structural Reset:** The withdrawal of the 5Paisa deal is the most material change. It means the "pure-play affluent" thesis is delayed, and the company must continue managing its mass-retail base for now. \* **Thesis Verdict:** Thesis remains intact but **transition timeline extended**. The core business is firing on all cylinders (IB, Wealth, Distribution), making the stock a strong play on Indian capital market deepening, regardless of the 5Paisa structural delay.

STOP HERE.