IIFL Capital Services Ltd — May 2022 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Beat **One-line:** Strong FY22 performance masks a sequential softening in high-margin retail brokerage, now heavily subsidized by a record-breaking Investment Banking (IB) cycle and aggressive digital spending.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Prior Quarter	Strong Beat (Rev)	Revenue up 52% YoY; FY22 PAT up 39% YoY.	□
Earnings Quality	Moderate	Growth driven by IB cyclicality and treasury; Brokerage yields stagnant at "low levels."	□
Guidance Confidence	Neutral	Vague on revenue growth; targeted 1.5-2L client acquisition per quarter.	□
Management Credibility	Neutral	Delivering on digital scale but failing to execute on real estate monetization (□650 Cr value).	□
Business Quality Signal	Stable	Transitioning to a diversified "Financial Products Distribution" house; SIP AUM up 5% QoQ.	□
Key Q&A Exchange	Q#5 — Real Estate	Mgmt confirms □650-670 Cr market value vs □243 Cr book; no timeline for sale.	□
The Street's Primary Anxiety	Expense Inflation	Admin/Emp costs up 50%+ YoY; analysts fear revenue growth won't outpace spending.	□
Capital Cycle Stage	Investment	Headcount increased by 31% YoY (601 new staff) to support digital pivot.	□
Margin Trajectory	Deteriorating	Finance costs up 105% YoY; Admin costs up 54% YoY on lead gen/ sub-brokerage.	□
Pricing Power	Eroding	Yields stagnant (Cash: 7.6 bps; Deriv: 0.10 bps); mgmt admits "continuously trending downwards."	□
FCF Conversion & Quality	Weak	CFO-to-PAT distorted by high borrowing (Finance costs up 105%) to fund MTF book.	□
Competitive Moat Signals	Stable	Institutional #1 ranking in private sector IPOs (FY18-21) provides lead-gen for retail.	□
Balance Sheet Strength	Adequate	Net Worth up to □1,180 Cr; leverage increasing to support MTF growth.	□
Working Capital Efficiency	Deteriorating	Borrowings for Margin Trading Facility (MTF) up as gross book hits □538 Cr.	□
Mgmt Guidance Track Record	Reliable	Consistently hitting digital account opening targets (63% digital).	□
Key Vulnerability	Market Cyclicality	50:50 Retail/Insto mix makes revenue highly sensitive to secondary market volumes.	□
Management Tone	Confident	Bullish on "mass affluent" digital strategy and IB pipeline.	□
Sentiment: □Positive	□Negative	□Neutral	

Key Takeaways * **Positives:** The Investment Banking segment is the engine of outperformance, doubling revenues YoY to □150.4 Cr, supported by a #1 ranking in private sector IPOs. Distribution income is scaling fast

(+73% YoY) through an open architecture model, diversifying the revenue base away from volatile brokerage. * **Negatives:** Operating leverage is currently negative as employee costs (+53% YoY) and admin expenses (+54% YoY) are rising in lockstep with revenue. The retail brokerage business is facing severe yield pressure, with cash yields stuck at 7.6 bps. * **Street Concern:** Analysts are hyper-focused on the surge in operational expenses and the lack of progress on selling □650 Cr worth of non-core real estate assets, which remains a massive drag on ROE. Management's response was "we hope to see results," but offered no concrete binding agreements. * **Forward Watchpoint:** The sustainability of the 2-lakh-per-quarter customer acquisition pace as market volatility increases and interest rates rise, potentially cooling the MTF book and IPO activity.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS

Metric	Current Qtr (Q4FY22)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Revenue (□Cr)	362.1	↑ 41%	↓ 2%	→	IB grew sharply (□66 Cr vs □33 Cr QoQ); Brokerage up 8% QoQ.
PAT (□Cr)	79.1	↑ 2%	↓ 8%	↓	Impacted by lower "Other Income" vs Q3 and high variable pay.
Brokerage Revenue (□Cr)	156.0	↑ 26%	↑ 8%	↑	Mix is 50:50 between retail and institutional clients.
IB Revenue (□Cr)	66.0	↑ 78%	↑ 100%	↑	Pipeline remains strong; filed 3 DRHPs in the past quarter.
Distribution Revenue (□Cr)	56.0	↑ 107%	→ 0%	→	Flat QoQ; focus on open architecture (MF/ Insurance).
AUC (□Cr)	1,30,479	Not in doc	↑ 1%	→	Reflects total assets under management and custody.
ADTO (□Cr)	1,11,535	Not in doc	↑ 34%	↑	Driven by derivatives (□1,09,651 Cr); Cash at □1,884 Cr.
MTF Book - Gross (□ Cr)	538.0	Not in doc	Not in doc	↑	Yielding 14-15%. Used as a tool for cash segment engagement.
Client Acquisition (Lakhs)	2.08	Not in doc	↓ 7%	↓	63% of accounts opened digitally (DIY journey).
SIP AUM (□Cr)	1,510	Not in doc	↑ 5%	↑	(Original unit □15.1 Bn); Monthly avg count: 1.47 Lakh.
Employee Cost (□ Cr)	91.1	↑ 53%	↑ 13%	↓	Headcount up 31% YoY to 2,529; includes higher variable pay.
Finance Cost (□Cr)	27.6	↑ 35%	↓ 53%	↑	Lower QoQ due to decreased IPO funding activity.
Admin Expense (□ Cr)	124.8	↑ 63%	↑ 10%	↓	Driven by sub-broker payouts, tech, and lead generation.
Net Worth (□Cr)	1,180	↑ 22%	↑ 9.5%	↑	(Original unit □11.8 Bn).
ROE (%)	29%	↑ 500bps	↓ 600bps	→	FY22 at 29% vs FY21 at 24%.

2B. SEGMENT BREAKDOWN

Segment	Revenue (□ Cr)	YoY Growth	Margin	Trend	vs Co. Avg	Key Development
Brokerage	156.0	26%	Moderate	↑	Below	50:50 Retail/Insto split; yields at record lows.
Invest. Banking	66.0	78%	High	↑	Above	Record quarter; filed 3 DRHPs; #1 in private IPOs.
Distribution	56.0	107%	High	→	Above	Insurance premium up 8% QoQ (□59.4 Cr).
Treasury/ Other	15.0	↓ 16% (QoQ)	100%	↓	Above	Lower gains from sale of investments vs Q3.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate	Historical Delivery	Risk Flag
Guidance	Customer Acq	1.5 to 2.0 Lakh new clients per quarter.	50k-67k/month	Delivered (2.08L in Q4).	Market vol.
Guidance	Real Estate	Monetize non-core assets (Chennai, etc.)	□650 Cr potential	Missed (No sales in Q4).	Liquidity.
Strategy	Digital Pivot	Device-agnostic DIY digital experience.	60%+ digital acq	Delivered (63% digital).	Tech spend.
Strategy	IB Pipeline	Strong momentum to continue into next year.	~3-4 DRHPs/qtr	Delivered (Filed 3).	IPO window.
Balance	MTF Growth	Scale MTF to engage cash segment customers.	Gross book >□500 Cr	Delivered (□538 Cr).	Credit risk.

4. ANALYST Q&A

Q#	Rel.	Analyst / Firm	Theme	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Cred.	Verdict
1	4.0	Vivek R., DSP MF	MTF	Financials	"What percentage of your customers avail of margin funding, and how important is it when you acquire customers?"	Management confirmed the gross MTF book is ₹538 Cr and used primarily to engage customers in the cash segment under a "Buy Now Pay Later" branding. This leverage increases interest income but exposes the firm to higher credit risk during market drawdowns.	% of total customers	3.5	Directional
2	4.5	Mudita N., Abakkus	Yields	Financials	"Are there any impact on the yield front in the brokerage side?"	Management admitted that brokerage yields are "continuously trending downwards," with cash at 7.6 bps and derivatives at 0.10 bps. Persistently low yields suggest that revenue growth is now entirely dependent on volume expansion and cross-selling.	None	5.0	Quantified
3	3.5	Kartik S., Myriad	Tie-ups	Business	"What percentage of those [2 lakh] clients were added through these tie-ups?"	Management clarified that fintech tie-ups (Golden Pi, Quicko, etc.) are for "engagement and holistic experience" rather than primary acquisition. This implies customer acquisition costs (CAC) remain high as they rely on internal lead generation rather than partner ecosystems.	None	4.0	Clear

Q#	Rel.	Analyst / Firm	Theme	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Cred.	Verdict
4	4.5	Nagesh, NR Family	Costs	Financials	"Do you see the expenses growing in line with the revenue growth or there will be any changes?"	Management attributed the cost spike to a headcount increase (up 601 people), wage inflation, and marketing, expressing "hope" that revenue will grow faster than expenses ahead. This lack of a firm cost-reduction target suggests margins may remain under pressure in the near term.	Specific cost targets	2.5	Hedged
5	5.0	Pranay J., JNJ Holdings	Real Estate	Capex/Alloc	"If you can just throw some light on the real estate portion and the progress on that?"	Management revealed a massive gap between the □243 Cr book value and the ~□650-670 Cr market valuation, but admitted no sales were closed in Q4. Significant shareholder value remains trapped in these non-core assets, acting as a persistent ROE overhang.	Sales timeline	2.0	Evasive
6	4.0	Sumit J., Motilal	Activation	Business	"Active clients last year was 3 lakh and now it is 11 lakh... what helped in making that [plan] active?"	Growth was driven by activating a "large set of government customers" through call-and-trade and leveraging the IPO boom to engage dormant accounts. While activation is high, the "government customer" cohort may have lower lifetime value (LTV) than high-	Client LTV data	3.5	Directional

Q#	Rel.	Analyst / Firm	Theme	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Cred.	Verdict
						net-worth digital traders.			
7	3.0	Rishikesh O., Robo Cap	Growth	Management	"How many [customers] do we plan to acquire for FY2023?"	Management set a floor of 1.5 to 2.0 Lakh acquisitions per quarter, but noted they would "change the target" if market conditions deteriorate. This confirms that the digital growth engine is highly sensitive to broader market sentiment.	Revenue guidance	3.0	Vague

PATTERN FLAGS & SENTIMENT * **Operating Leverage Anxiety:** Analysts repeatedly questioned the 57% YoY jump in total expenses. Management's defense—citing a 31% headcount increase and tech investments—suggests a "build phase" that has yet to mature into efficiency. The Street remains skeptical that the massive marketing spend will yield high-LTV customers. * **The Real Estate Overhang:** The ₹400 Cr+ unrealized gain in real estate is a source of frustration. Management's inability to close sales despite a "buoyant market" raises questions about the liquidity of these specific assets (especially the 2.5L sq ft Chennai property). * **Analyst Sentiment Verdict:** Skeptical on unit economics, bullish on IB cycle. Analysts were impressed by the IB and Distribution growth but remain wary of the brokerage segment's profitability given stagnant yields and rising CAC. Management's credibility is currently tied to their ability to monetize the real estate book; until that happens, ROE is viewed as artificially suppressed.

GUIDANCE GAPS REVEALED IN Q&A | Topic | What Mgmt Claimed | What Q&A Revealed | Gap / Walk-back | Risk to Thesis | | :--- | :--- | :--- | :--- | :--- | | Real Estate | "Aim is to sell" | "It is very difficult for me to give a figure [on market value/timeline]" | Lack of execution timeline on the ₹650 Cr portfolio. | Persistent ROE drag. | | Customer Acq | Growth strategy | Tie-ups are for "engagement," not "acquisition" | Internal marketing spend (Admin costs) must stay high to hit 2L/qtr. | Margin compression. |

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q3)	This Quarter (Q4)	Direction
IB Revenue	₹32.0 Cr	₹66.0 Cr	↑ Massive spike
Finance Costs	₹58.7 Cr	₹27.6 Cr	↓ Improving (IPO activity)
Headcount	2,460	2,529	↓ Increasing cost base
Other Income	₹32.0 Cr	₹15.0 Cr	↓ Normalized
PAT Trajectory	₹85.6 Cr	₹79.1 Cr	↓ Softening
Client Acq Pace	2.23 Lakh	2.08 Lakh	↓ Marginal slowdown
Real Estate Stance	"Long drawn process"	"Difficult to say... dealing with approximating"	↓ Reduced visibility
Yield Commentary	Focus on volume	Admits yields "continuously trending downwards"	↓ Structural pressure

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END OF REPORT