IIFL Capital Services Ltd — May 2024 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Strong Beat **One-line:** IIFL Securities has evolved into a diversified capital markets powerhouse, with non-broking fees (IB and Distribution) now contributing 27% of revenue, effectively cushioning the business against potential retail F&O cooling.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Strong Beat	PAT of □180.4 Cr vs □150.4 Cr in Q3 (↑20% QoQ).	□
Earnings Quality	High (Core driven)	Growth led by Investment Banking (↑40% QoQ) and Distribution (↑17% QoQ).	□
Guidance Confidence	Strong	Management delivered on the "robust pipeline" promised in Q3.	□
Management Credibility	Strong	Executed the Chairman/MD role split as per global governance standards.	□
Business Quality Signal	Improving	Cross-sell AUM hit □26,100 Cr (CAGR 32%); shifting from churn to "sticky" AUM.	□
Key Q&A Exchange	Q2 - F&O Risk	Mgmt admits 99% derivative concentration is a "cause for concern."	□
The Street's Primary Anxiety	F&O Regulation	Fear of retail F&O curbs; Mgmt response: "It's an industry-wide risk we must take in stride."	□
Capital Cycle Stage	Harvesting	Record FY24 revenues being used to fund MTF book expansion.	□
Margin / Return Ratio Trajectory	Improving	ROE continues to expand; PBT margins remain resilient despite cost hikes.	□
Pricing Power	Stable	Maintaining ad-valorem rates in "Affluent" segment; no price wars seen.	□
FCF Conversion & Quality	Distorted	Cash being retained/reinvested into □1,035 Cr MTF book and margin needs.	□
Competitive Moat Signals	Widening	#1 position in several IB segments (IPOs/QIPs) creates a virtuous cycle for Research/Insti biz.	□
Balance Sheet Strength	Adequate	Networth rising via internal accruals; Debt utilized primarily for MTF funding.	□
Working Capital Efficiency	Deteriorating	Finance costs up 26% QoQ to support margin requirements for higher volumes.	□
Mgmt Guidance Track Record	Reliable	Consistently hitting IB deal targets and distribution growth milestones.	□
Key Vulnerability / Red Flag	Finance Cost Spike	178% YoY jump in finance costs indicates heavy reliance on borrowed capital for growth.	□
Management Tone	Confident	Bullish on medium-term capital market deepening despite short-term election volatility.	□

Sentiment: □Positive

Key Takeaways: * **Positives:** The business has achieved a significant profit scale-up, with FY24 being the "best year ever" for Investment Banking (59 transactions). The institutional franchise is now a top-tier BRLM, which feeds the high-margin retail distribution of IPOs and private placements. The split of the CMD role (Nemkumar H as MD, R. Venkataraman as Chairman) strengthens the governance thesis. * **Negatives:** Finance costs are rising faster than top-line growth (26% QoQ vs 21% Revenue growth), driven by the increasing need for working capital to fund client margins and the ₹1,035 Cr MTF book. * **Street Concern:** Analysts are increasingly worried about the sustainability of retail F&O volumes given potential regulatory headwinds. Management conceded the "lopsided" nature of the market (derivatives vs cash) is a systemic concern but emphasized their shift toward "Affluent" clients who are less sensitive to basic trading churn. * **Forward Watchpoint:** Monitoring the growth of the "Cross-sell AUM" (Distribution biz) as a % of total revenue. If this continues to grow, IIFL Securities effectively de-risks from being a cyclical broker to a wealth-distribution hybrid.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS DATA SOURCE: PPT figures used as primary source. Concall used for Mgmt Commentary and granular breakdowns.

Metric	Current Qtr (Q4FY24)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Total Income (₹Cr)	704.4	↑ 74%	↑ 21%	↑	Driven by record IB activity and brokerage volumes.
Brokerage Income (₹Cr)	300.0	↑ 66%	↑ 12%	↑	Growth in both retail and institutional segments.
IB Fee Income (₹Cr)	76.0	↑ 138%	↑ 40%	↑	Completed 14 deals in Q4; includes 3 IPOs and 4 QIPs.
Distribution Income (₹Cr)	117.0	↑ 23%	↑ 17%	↑	Focus on AIF, PMS, and Insurance cross-sell.
Finance Cost (₹Cr)	122.4	↑ 178%	↑ 26%	↓	Used for funding margin requirements and MTF book.
Employee Cost (₹Cr)	129.1	↑ 33%	↑ 10%	↓	Increase due to increments and variable bonus provisions.
PAT (₹Cr)	180.4	↑ 109%	↑ 20%	↑	High operating leverage as fee income scales.
Custody Assets (₹Cr)	162,200	↑ 54%	↑ 14%	↑	PPT states ₹1,622 Bn; strong inflow in trading accounts.
Cross-sell AUM (₹Cr)	26,100	↑ 32%	↑ 9%	↑	PPT states ₹261 Bn; Mutual Funds are 40% of mix.
ADTO Cash (₹Cr)	3,120	↑ 37%	↑ 25%	↑	Volume expansion in high-yield segment.
ADTO Derivatives (₹Cr)	296,975	↑ 147%	↑ 10%	↑	Market-wide options explosion reflected in book.
MTF Book (₹Cr)	1,035	Not stated	Not stated	↑	Concall: Strategic focus for higher returns.
Partners (Count)	6,000+	Not stated	→	→	Contribute 35-40% of retail brokerage revenue.

2B. SEGMENT BREAKDOWN

Segment	Revenue (□Cr)	YoY Growth	Margin	Trend	vs Co. Avg	Key Development
Brokerage	300.0	↑ 66%	Moderate	↑	Below	60% Retail / 40% Institutional mix.
Distribution	117.0	↑ 23%	High	↑	Above	Mutual Fund AUM reached □108 Bn (CAGR 39%).
Invest. Banking	76.0	↑ 138%	Very High	↑	Above	Best year ever; □224.5 Cr revenue for FY24.
Interest/Others	211.4*	↑ 100%+	Moderate	↑	Average	MTF interest and MTM gains on investments.
**Derived from Total Income (704.4) - Brokerage (300) - IB (76) - Dist (117).*						

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Distribution	Focus on AIF, PMS, and Insurance to grow fee share.	Needs ~15-20% AUM growth to sustain fee momentum.	**Delivered**: Cross-sell AUM CAGR of 32% since FY20.	Low
Guidance	IB Pipeline	Pipeline remains "strong" and "robust."	FY24 run-rate was ~15 deals/qtr; pipeline supports this.	**Strong**: Record 59 deals in FY24.	Low
Strategy	Customer Acq	Focusing on "Affluent" via 500+ RMs and 6k partners.	Not quantified; focus is on yield per client.	**Improving**: Custody assets up 54% YoY.	Low
Strategy	Margin MTF	Retaining cash to fund growing MTF requirements.	MTF book at □1,035 Cr; self-funding via retained PAT.	**Consistent**: Interim dividend kept as final to retain cash.	Medium
Strategy	Governance	Separation of Chairman and MD roles.	Approved by Board; subject to shareholders.	**New**: Effective May 15, 2024.	Low
Macro	F&O Concentration	Derivative dominance (99% of vol) is a "cause for concern."	Industry-wide risk; no specific mitigation stated.	N/A	High

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	3.5	Narendra / RoboCapital	Partner Network	Business Overview	"How many AAA associates or authorized persons do you have right now?"	Management confirmed 6,000+ partners who contribute 35-40% of retail brokerage revenue. This partner-led model allows geographic expansion without heavy fixed branch costs, protecting margins during downturns.	YoY partner growth rate	4.0	Clear and quantified
2	4.5	Prayesh Jain / Motilal Oswal	F&O Risk	Management Outlook	"Retail F&O participation needs to be checked... how do you see the F&O market trajectory going ahead?"	Management acknowledged that 99%+ volume happening in derivatives is a concern but stated they cannot predict if/when the regulator will curb it. This confirms a high systemic risk overhang that could impact brokerage revenues if SEBI intervenes.	Specific mitigation plan	2.5	Hedged - Industry risk
3	3.5	Prayesh Jain / Motilal Oswal	Distribution	Strategy	"How are we thinking about building [partners] from a distribution standpoint?"	Management noted they are gradually training partners (historically broking-focused) to cross-sell AIF and insurance products.	Current cross-sell % of partner rev	3.0	Directional evidence

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						Success here would transform the "churn-heavy" partner book into a recurring fee "wealth" book.			
4	3.0	Abhijeet Sakhare / Kotak Sec	Working Capital	Financials	"Is there a thumb-rule... for working capital for this business?"	Management stated there is no fixed rule but highlighted the 1,035 Cr MTF book as a key consumer of capital. This explains the 178% YoY spike in finance costs as the company borrows to fund this high-yielding book.	Specific WC/ Revenue ratio	3.0	Vague but consistent
5	3.5	Abhijeet Sakhare / Kotak Sec	Margins	Financials	"The margin requirement has more of a role to play in the retail business, right?"	Management clarified that while retail needs more margin capital (MTF), institutions have limited requirements. This implies that as the retail MTF book scales, interest expense will continue to be a primary margin headwind.	None	4.0	Specific clarity

PATTERN FLAGS & SENTIMENT

- **The Transition Anxiety:** Analysts are pivoting from "growth" questions to "risk" questions, specifically focusing on the concentration of F&O volumes. Management's posture was realistic—admitting the lopsided market structure is a concern—but they offered no company-specific hedge other than diversifying into Investment Banking and Wealth. This remains a live systemic risk.

- **The Funding Shift:** Multiple questions touched upon the need for capital (MTF and Margins). By keeping the interim dividend as the final dividend, management signaled a shift from "distributing cash" to "reinvesting for margin needs," suggesting they see higher ROE in funding client trades than in returning capital currently.
- **Analyst Sentiment Verdict:** Analysts appear **impressed by the operational performance (IB record)** but **cautiously skeptical of the brokerage quality** due to the F&O concentration. Management credibility improved due to the governance-positive split of Chairman/MD roles. The primary unresolved issue is the regulatory risk to F&O, which will likely dominate the narrative in FY25.

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5. WHAT CHANGED vs PRIOR QUARTER (Q3FY24)

What Changed	Prior Quarter (Q3FY24)	This Quarter (Q4FY24)	Direction
Governance Structure	Single CMD (R. Venkataraman).	**Split**: Nemkumar H (MD), Venkataraman (Chairman).	↑ Improving
Profitability	PAT: □150.4 Cr.	PAT: □180.4 Cr.	↑ Improving
IB Performance	17 deals in quarter.	**Record Year**: 59 deals in FY24 (14 in Q4).	↑ Improving
Finance Burden	Finance Cost: □100.8 Cr.	Finance Cost: □122.4 Cr.	↓ Deteriorating
Capital Allocation	Active Dividend Payout.	**Conserving Cash**: Retaining PAT for margin/ MTF.	□Strategy Shift
5Paisa Overhang	Major concern/withdrawal of deal.	**Stabilized**: Focus shifted back to organic growth.	↑ Improving
Asset Base	Custody Assets: □1,81,582 Cr.	Custody Assets: □1,62,200 Cr.*	↓ (Note 1)

Note 1: While PPT lists 1,622 Bn (1.62 Lakh Cr), prior quarter was stated at 1.81 Lakh Cr in Q3 summary. This discrepancy likely stems from market value fluctuations or reclassification of institutional vs retail custody assets mentioned in the concall (where Venkataraman cites 1.88 Lakh Cr total).

INVESTOR NOTES: * **Thesis Reinforcement:** The transition from a "cyclical broker" to a "diversified financial fee house" is accelerating. IB and Distribution now represent a significant profit cushion. * **Risk Escalation:** The 178% YoY increase in Finance Costs is the "canary in the coal mine." While it funds a high-yielding MTF book, it makes the P&L more sensitive to interest rate hikes and client defaults. * **Governance Check:** The appointment of Nemkumar H as MD is a significant positive, professionalizing the management tier and allowing the Chairman to focus on group strategy.

STOP HERE.