

IIFL Capital Services Ltd — May 2026 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Inline (Operational) / Miss (Reported PAT) **One-line:** IIFL Capital continues its aggressive transition into a wealth and manufacturing engine, with operational PBT rebounding 21% QoQ, though reported PAT was dragged down by the absence of Q3's one-off property gains and a significant tax overhang.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Inline	Operational Revenue of ₹644.3 Cr (+10% QoQ) and Op PBT of ₹144.1 Cr (+21% QoQ).	□
Earnings Quality	Moderate	PAT of ₹115.1 Cr is lower quality compared to Q3 as it strips out property gains but includes a ₹16.4 Cr MTM boost.	□
Guidance Confidence	Neutral	Management lowered expectations on RM hiring ("last year was difficult for recruitment") while maintaining a high IB pipeline.	□
Management Credibility	Neutral	Ongoing Income Tax search (₹56 Cr notice) creates a governance overhang, though mgmt claims no material impact.	□
Business Quality Signal	Improving (Assets)	Distribution Assets grew to ₹52,100 Cr; MF AUM crossed ₹21,000 Cr (+6% QoQ).	□
Key Q&A Exchange	Q#4 (Fund Raise)	Management was evasive about the purpose of a potential fundraise, citing "LODR regulations."	□
The Street's Primary Anxiety	RM Productivity & Cost	Rising employee costs (+16% YoY) and the difficulty in scaling the Wealth RM count.	□
Capital Cycle Stage	Investment	High reinvestment in technology, branches, and "manufacturing" AIF/PMS capabilities.	□
Margin / Return Ratio Trajectory	Deteriorating	FY26 ROE fell to 18.1% (from 23.1% in FY25) as the equity base expanded faster than core earnings.	↓
Pricing Power	Stable	Broadly stable brokerage yields; focus shifting to "advisory-led" wealth models.	→
FCF Conversion & Quality	Weak	High working capital needs for MTF book; finance costs up 45% YoY in Q4.	□
Competitive Moat Signals	Widening	Ranking #1 in mainboard IPOs (25.9% market share) strengthens the "Institutional" moat.	□
Balance Sheet Strength	Strong	Net worth reached ₹3,070 Cr; BVPS rose to ₹101 (from ₹80.9 in Q3).	□
Working Capital Efficiency	Stable	MTF book volatility reflects prudent risk management during market corrections.	→
Mgmt Guidance Track Record	Mixed	Delivered on IB leadership but struggling to hit "aggressive" RM hiring targets.	□
Key Vulnerability / Red Flag	Tax Notice	₹56 Cr demand notice from IT department remains a live litigation risk.	□
Management Tone	Cautiously Prudent	MD focused on "relative resilience" but warned of volatility/monsoon impacts.	□

Sentiment: □Neutral

Key Takeaways: * **Positives:** The pivot to "Recurring Revenue" (ARR) is working; Mutual Fund AUM grew 32% CAGR to ₹21,170 Cr, and Distribution assets reached a record ₹52,100 Cr. The Investment Banking division is now a top-tier player, capturing 1 in every 4 mainboard IPOs in FY26. Operational PBT showed strong sequential recovery (+21%), indicating the core business is absorbing the "Wealth Pivot" costs better than in Q3. * **Negatives:** Operating leverage remains a double-edged sword; employee costs rose 12% YoY, and finance costs spiked 45% as the company borrows more to fund the MTF book. The sequential decline in the MTF book (from ₹1,640 Cr to ₹590.4 Cr, based on PPT/Context reconciliation) suggests a sharp risk-off stance by retail clients during the March volatility. * **Street Concern:** Analysts are questioning the scalability of the Wealth RM model given the management's admission that recruitment is "difficult." The jump in distribution income is currently lumpy (insurance/NCD placements) rather than purely annuity-based. * **Forward-looking Watchpoint:** The outcome of the Income Tax appeal and the utilization of the proposed fundraise will determine if the stock re-rates or remains a "value trap" despite the underlying business growth.

2. BUSINESS PERFORMANCE

2A. KEY METRICS

DATA SOURCE: PPT figures used as primary. Concall used for commentary and missing data points.

Metric	Current Qtr (Q4FY26)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Revenue (Operations)	₹644.3 Cr	↑ 20%	↑ 10%	↑	Volume-led growth in retail (+22%) and IB recovery.
Retail Equities Rev	₹298.1 Cr	↑ 22%	↑ 3%	↑	F&O volumes flat but cash volumes showed marginal recovery.
Insti & IB Revenue	₹162.3 Cr	↑ 68%	↑ 1%	↑	Driven by 9 deal closures in Q4 (5 IPOs).
FPD (Distribution) Income	₹181.6 Cr	↓ 4%	↑ 36%	↑	QoQ jump due to insurance and NCD placements.
MTF Book	₹590.4 Cr	↑ 16%	↓ 64%*	↓	Decline due to market volatility (Prior Q: ₹1,640 Cr).
ADTO (Cash)	₹287.5 Cr	↓ 2%*	↑ 7%	↑	Relative resilience vs industry volatility.
ADTO (F&O)	₹3,20,011 Cr	↑ 2%*	↑ 3%	→	Market share stable; growth muted by regulatory jitters.
MF AUM	₹21,170 Cr	↑ 88%	↑ 6%	↑	Strong organic SIP inflows and market MTM.
Employee Cost	₹182.6 Cr	↑ 12%	↑ 4%	↓	Driven by headcount and variable pay provisions.
Operating PBT	₹144.1 Cr	↑ 14%	↑ 21%	↑	Core profitability recovering as revenues scale.
PAT (TCI)	₹115.3 Cr	↓ 9%	↓ 38%	↓	Impacted by absence of Q3 property gain (₹89.7 Cr).
Return on Equity (FY26)	18.1%	↓ 500bps	NM	↓	Impacted by higher net worth base (₹3,070 Cr).
Net Worth	₹3,070 Cr	↑ 22%	↑ 1%	↑	Strong accruals and BVPS growth.
Finance Cost	₹63.4 Cr	↑ 45%	↑ 18%	↓	Cost of funding the MTF/Margin book rising.
Fees & Commission Exp	₹151.6 Cr	↑ 40%	↑ 17%	↓	Higher sub-broker/partner payouts for distribution.

Note: MTF Book and ADTO YoY/QoQ calculations vs Prior Context (Q3FY26).

2B. SEGMENT BREAKDOWN

Segment	Revenue (₹ Cr)	YoY Growth	Margin (Op)	Trend	vs Co. Avg	Key Development
Retail Equities	₹298.1	+22%	Moderate	↑	Below	Interest income now 39% of retail mix (MTF yield).
Insti & IB	₹162.3	+68%	High	↑	Above	25.9% market share in mainboard IPOs.
Fin. Product Dist.	₹181.6	-4%	High	↑	Above	Reached ₹52,100 Cr distribution AUM.
Manufacturing	₹38.0 (est)	NM	High	↑	Above	PMS/AIF AUM reached ₹3,800 Cr.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	IB Pipeline	Likely to execute over 4-6 quarters.	Requires ~8-10 deals/qtr; 45 closed in FY26.	Delivered	Low
Guidance	Wealth RMs	Increase headcount of Wealth RMs.	Target undefined; current 50 Wealth RMs vs 300 PCG.	Missed (Slowed)	High
Strategy	Manufacturing	Shift to multi-strategy asset engine.	PMS/AIF AUM needs to cross ₹5,000 Cr for scale.	In-progress	Medium
Strategy	Digital Reach	Expansion beyond Tier 1 (27% outside Top 10).	Ongoing digital rail expansion (99% digital opening).	Delivered	Low
Macro	F&O Impact	Short-term impact from 1st July RBI regs.	Increased working capital requirements expected.	New	Medium
Governance	IT Notice	No material adverse impact expected.	Subject to ₹56 Cr litigation outcome.	New	Medium

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	4.5	Keshav Karwa, White Pine	Distribution	Business Overview	"What is driving the underlying growth for FPD AUM?"	Management highlighted all-round growth across MF, AI, PMS, and fixed income products with MF AUM hitting ₹21,000 Cr. This signals the successful diversification of revenue away from volatile retail brokerage.	None	4.0	Specific data provided
2	5.0	Keshav Karwa, White Pine	Wealth	Management Commentary	"How many RMs added this quarter and plan for FY '27?"	Management admitted to having only 50 Wealth RMs currently and acknowledged that "last year had been a difficult year for recruitment." The inability to rapidly scale senior talent is a bottleneck for the high- margin wealth segment expansion.	FY27 AUM Target	3.0	Slower pace admitted
3	4.0	Keshav Karwa, White Pine	MTF	Financials	"What led to the sequential decline in the MTF book?"	Management attributed the decline primarily to "increased market volatility" in the last quarter which forced margin reductions. This confirms the MTF	None	4.0	Logical explanation

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						book's cyclical ity and its role as a potential drag during bearish market phases.			
4	4.0	Keshav Karwa, White Pine	Fund Raise	Capex and Allocation	"Can you throw some light on your plans to use those [fundraised] funds?"	Management declined to provide specifics, stating they evaluate "potential acquisitions and new projects" but cannot disclose more under SEBI LODR. This creates ambiguity regarding near-term capital allocation and potential dilution risk.	Intended use of funds	2.0	Evasive — key signal
5	3.5	Prayesh Jain, Motilal Oswal	Regulation	Management Commentary	"What do you see the impact of [July 1st RBI regs] on your broking business?"	Management expects a "short-term impact" due to increased working capital and margin requirements, raising the overall cost of F&O trading. This identifies a headwind for the retail equities segment in H1FY27.	Quantum of impact	3.0	Directional headwind
6	4.0	Prayesh Jain, Motilal Oswal	Yields	Financials	"Impact of SEBI yield reset on institutional	Management believes the impact will be "marginal" as	None	3.5	Reassuring tone

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					equities from 1st April?"	current effective yields are already aligned with suggested levels. This provides comfort that institutional brokerage margins are relatively protected from recent regulatory changes.			
7	4.5	Prayesh Jain, Motilal Oswal	Wealth	Business Overview	"How much AUM would you have got from [Ultra HNI] customers?"	Management estimated the HNI segment AUM at roughly ₹12,000 Cr out of the total ₹52,100 Cr. This reveals that ~23% of distribution assets are already high- value, supporting the shift toward a more sophisticated client base.	None	4.0	Quantified split
8	3.0	Neha R, Abakkus	Interest Split	Financials	"Split of MTF interest vs interest on deposits?"	Management indicated a rough "50-50" split between MTF interest and other exchange- related interest income. This clarifies that only half of the "Interest Income" is driven by active client	Precise basis points	3.0	Rough split given

Q#	Relevance (1–5)	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility (1–5)	Verdict
						lending, while the rest is passive cash management.			
9	4.0	Neha R, Abakkus	Margins	Financials	"Sustainable net interest margins for the company?"	Management struggled with the hearing quality but eventually clarified that the "net interest spread is roughly about 4%." This provides a benchmark for the profitability of the MTF/ Working Capital deployment.	None	3.0	Verifiable spread
10	3.5	Neha R, Abakkus	Distribution	Financials	"What exactly led to the jump on distribution income?"	Management attributed the jump to insurance revenue and placement of NCDs/Fixed Income in the last quarter. This confirms that current distribution income has a high "transactional" component rather than being purely recurring.	None	4.0	Mix explained
11	3.0	Apeksha Bajaj, AV Fincorp	Stake Sale	Governance	"Any color on further acquisition by Fairfax?"	Management refused to comment on market rumors regarding Fairfax increasing its stake. This	Evasive/No comment	1.0	Deflected

Q#	Relevance (1–5)	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility (1–5)	Verdict
						remains a "wait and watch" item for institutional investors.			
12	3.0	Abhijeet Sakhare, Kotak	Net Worth	Financials	"How is the net worth utilized across business lines?"	Management stated that the "bulk of the business has been put in broking, MTF and exchange margins." This confirms the company's capital- intensive nature in its core brokerage and lending operations.	Segmental equity allocation	3.0	Broad allocation

PATTERN FLAGS & SENTIMENT * **Recruitment Bottleneck:** A recurring theme was the stagnant RM count. Analysts are concerned that while the "Wealth" narrative is strong, the execution is lagging due to high talent costs and attrition. Management's tone was defensive here, shifting the focus to "quality over quantity," but the stagnation in Wealth RMs (50) remains a live concern for growth projections. * **Asset Quality vs. Revenue Lumps:** While AUM growth is impressive, analysts pressed on the "quality" of distribution income. Management admitted that Q4's spike was driven by one-off insurance and NCD deals. This implies that the transition to a high-quality "Annuity" model is still in the early innings. * **Capital and Governance:** The combination of an ambiguous fundraise and the ₹56 Cr IT notice created friction. Analysts were looking for a clear use-of-proceeds (e.g., AMC license or major acquisition), but management's refusal to comment left the "Capital Allocation" theme unresolved.

Analyst Sentiment Verdict: The sentiment was **cautiously skeptical**. While analysts applauded the #1 ranking in IB and the strong MF AUM growth, there was visible friction regarding RM hiring and the fundraise purpose. Management's credibility on the Wealth pivot took a minor hit due to the "difficult recruitment" admission, but the operational PBT recovery (+21% QoQ) provided a fundamental floor to the skepticism. The primary unresolved risk remains the **Tax overhang** and potential **dilution** from a fundraise without a clearly articulated growth engine.

GUIDANCE GAPS REVEALED IN Q&A | Topic | What Mgmt Claimed (Prior Q) | What Q&A Revealed | Gap / Walk-back | Risk to Thesis | | :--- | :--- | :--- | :--- | :--- | | RM Hiring | Aggressive additions to Wealth segment. | "Last year was difficult... only 50 Wealth RMs." | Significant slowdown in headcount scaling. | Medium | | MTF Growth | Intentional scaling to utilize surplus cash. | Sequential decline in Q4. | Volatility exposes the cyclical nature of the "defensive" MTF income. | Low | | Distribution Mix | Targeted shift to ARR (Annuity). | Jump driven by "NCD placements" (Transactional). | Near-term dependency on one-off deal fees persists. | Medium |

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q3FY26)	This Quarter (Q4FY26)	Direction
Core Operating PBT	₹119.4 Cr	₹144.1 Cr	↑ (Improving)
Reported PAT	₹187.3 Cr	₹115.1 Cr	↓ (Normalized)
MF AUM	₹19,870 Cr	₹21,170 Cr	↑ (Improving)
MTF Book	₹1,640 Cr	₹590.4 Cr	↓ (De-leveraging)
IB Market Share	Lumpy Pipeline	#1 in mainboard IPOs (25.9%)	↑ (Strengthening)
Governance	IT Search ongoing	₹56 Cr Demand Notice received	↓ (Risk established)
Hiring Tone	Aggressive	"Going slow/Difficult"	↓ (Caution)
Finance Costs	₹53.8 Cr (est)	₹63.4 Cr	↓ (Cost pressure)

STOP HERE.