IIFL Capital Services Ltd — Nov 2025 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Inline (Operational) / Miss (Bottom-line due to MTM) **One-line:** IIFL Capital demonstrated core operational resilience with flat operating profits despite regulatory headwinds in F&O, but the bottom line remains whipsawed by volatile mark-to-market (MTM) movements on its proprietary exchange holdings.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Miss (PAT)	Q2 PAT of □85.2 Cr is a 51% QoQ decline, primarily due to MTM losses on BSE/NSE shares.	□
Earnings Quality	Low (MTM volatility)	Operating PBT remained stable at □164.0 Cr, but net profit was heavily impacted by a -□44.1 Cr MTM swing.	□
Guidance Confidence	Neutral	Management shifted from "aggressive" RM hiring to a "prudent" internal upgrade strategy.	□
Management Credibility	Strong	Transparent about the □20-25 Cr H1 burn in the wealth business and regulatory hits to retail.	□
Business Quality Signal	Improving (Wealth)	Distribution Assets surged 24.3% QoQ to □44,400 Cr; ARR assets now 61% of total.	□
Key Q&A Exchange	Q#7 (Wealth Breakeven)	Mgmt indicated 2-3 years for wealth business profitability; current H1 loss is ~□25 Cr.	□
The Street's Primary Anxiety	RM Cost/ Productivity	Mgmt response: Focusing on "upgrading" 450 existing RMs to save on high external hiring costs (□50L+).	□
Capital Cycle Stage	Investment	Continued front-loading of wealth tech and RM training costs despite retail revenue pressure.	□
Margin / Return Ratio Trajectory	Deteriorating	Annualized ROE fell to 19% (H1) from 33% (FY25) as costs rise and MTM turns negative.	↓
Pricing Power	Stable	Cash market share held at 2.52-2.55%; MTF yields remain competitive with book growing to □1,510 Cr.	→
FCF Conversion & Quality	Distorted	Operating profit supported by lower variable pay provisions, while PAT is hit by non-cash MTM.	□
Competitive Moat Signals	Stable	Strong IB pipeline (Bluestone, Smartworks) and 3,500+ external wealth manager network.	→
Balance Sheet Strength	Strong	Net Worth at □2,800 Cr with significant headroom (□1,000 Cr+) for MTF book expansion.	□
Working Capital Efficiency	Stable	Digital account opening at 99%; focus remains on shifting to higher ARR asset mix.	→
Mgmt Guidance Track Record	Mixed	Delivered on asset growth but RM hiring pace is slower than the "aggressive" Q1 tone.	□
Key Vulnerability / Red Flag	MTM Exposure	Proprietary holdings in exchanges create non-core volatility that masks operating performance.	□
Management Tone	Cautiously Optimistic	R. Venkataraman emphasized long-term secular trends over quarterly volatility.	□

Sentiment: □Neutral

Key Takeaways: * **Positives:** The strategic pivot to Wealth is gaining scale, with Distribution Assets reaching □44,400 Cr (up from □35,700 Cr in Q1). The MTF (Margin Trade Funding) book is a growing defensive pillar, up 33% in H1 to □1,510 Cr. Management displayed fiscal discipline by reducing variable pay provisions to offset revenue declines in retail equities. * **Negatives:** Retail Equities revenue fell 24% YoY, reflecting the direct impact of SEBI's F&O regulatory tightening. The Wealth business remains in a heavy "burn" phase, losing ~□25 Cr in H1FY26 with a 2-3 year breakeven horizon. The dependence on MTM gains from exchange stakes (BSE/NSE) makes the bottom line unpredictable for long-term fundamental models. * **The Street's Concern:** Analysts are wary of the "Cost-to-Income" ceiling as senior RM hiring costs (salaries □50L+) are being front-loaded. Management's pivot to "upgrading" existing RMs suggests a tactical shift to protect margins. * **Forward-looking Watchpoint:** RM Productivity vs. Variable Pay. If retail volumes do not recover in H2, the company may exhaust its ability to cushion the bottom line via lower bonus provisions.

---

2. BUSINESS PERFORMANCE

2A. KEY METRICS (PPT primary source; conversions: 10 Mn = 1 Cr, 100 Cr = 1 Bn)

Metric	Current Qtr (Q2FY26)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Total Op Revenue (□ Cr)	□591.6	↓ 8%	↓ 4%	↓	YoY decline driven by retail F&O regulatory hits.
Retail Equities Rev (□Cr)	□271.1	↓ 24%	↑ 3%	↔	Sequential stability despite F&O headwinds.
Dist. Income (□Cr)	□130.0	↑ 22%	↓ 10%	↓	QoQ dip due to absence of one-off upfront NCD fees.
Insti & IB Revenue (□Cr)	□186.0	↑ 5%	↓ 9%	↓	IB deals are lumpy; Institutional Equities stable.
MTF Book (□Cr)	□1,510.0	↑ 62%	↑ 33%	↑	Intentional book growth to leverage balance sheet.
Interest Income (□ Cr)	□105.0 (est)	→	→	→	Stable yields on MTF and client margins.
Distribution Assets (□Cr)	□44,400	↑ 24%	↑ 24%	↑	Strong organic growth and market appreciation.
Mutual Fund AUM (□ Cr)	□18,270	↑ 69%	↑ 10%	↑	Focus on ARR assets yielding results.
Market Share - Cash (%)	2.52%	↓ 27 bps	↓ 5 bps	↔	Market share under slight pressure from discount brokers.
Market Share - F&O (%)	0.62%	↓ 2 bps	→	→	Stable share in a regulatory-constrained market.
ADTO (□Cr)	□2,63,568	↓ 21%	↑ 18%	↑	QoQ volume recovery led by F&O.
Employee Cost (□ Cr)	□153.7	↑ 3%	↓ 13%	↑	Decreased QoQ due to lower variable pay provision.
PAT (□Cr)	□85.2	↓ 58%	↓ 51%	↓	Hit by □44.1 Cr MTM loss vs gains in prior quarters.
BVPS (□)	□90.6	↑ 12%	↑ 12%	↑	Net worth growth supporting valuation floor.

2B. SEGMENT BREAKDOWN

Segment	Revenue (□ Cr)	YoY Growth	Margin (Op)	Trend	vs Co. Avg	Key Development
Retail Equities	□271.1	-24%	Moderate	↔	In-line	Impacted by SEBI F&O norms; MTF is the buffer.
Insti & IB	□186.0	+5%	High	↓	Above	Robust deal pipeline; 7+ IPO mandates active.
Financial Dist.	□130.0	+22%	High	↑	Leader	MF AUM growing at 69% YoY; core focus area.
Other/MTM	-□44.1	NM	NM	↓	Below	Negative swing from BSE/NSE share prices.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	RM Hiring	Target 75-100 Wealth RMs (currently ~55).	Needs 10-20 hires/upgrades per quarter for H2.	Slower pace	Low
Guidance	Wealth Profit	Breakeven in 2-3 years.	Requires ARR assets to double to ~□54,000 Cr.	In-progress	Medium
Strategy	MTF Expansion	Headroom for another □1,000 Cr+ growth.	Feasible on □2,800 Cr Net Worth (cap ~□4,000 Cr).	Delivered	Low
Strategy	RM Upgrading	Upgrade 450 retail RMs to HNI wealth profile.	High training intensity; may lead to sales productivity lag.	New Focus	Medium
Macro	F&O Sustainability	Secular upward sloping trend long-term.	Dependent on retail participation vs regulatory caps.	Consistent	High
Macro	IB Pipeline	Expect strong H2FY26.	Validated by active IPO mandates (Bluestone, etc.).	High	Low

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
1	5.0	Prayesh Jain, Motilal Oswal	Regulations	Financials	Impact of SEBI consultation paper on brokerage caps (12bps to 2bps).	Management noted capping affects Mutual Funds but not Foreign Institutional Investors; exact impact is currently difficult to ascertain. FII brokerage remains a protective moat for institutional revenue.	Exact impact quantum	3.0	Evasive on specifics
2	4.0	Prayesh Jain, Motilal Oswal	Distribution	Financials	Sequential drop in financial product distribution revenue.	Mgmt attributed the 10% QoQ drop to absence of upfront income from NCD issuances present in Q1. Confirms distribution income remains transactional/ lumpy rather than fully ARR-based.	None	5.0	Specific and clear
3	4.5	Prayesh Jain, Motilal Oswal	Wealth Mgmt	Management Commentary	Progress on Wealth RM hiring and team size.	Team stands at 50-55 RMs with flat sequential growth as mgmt pivots to "upgrading" existing internal RMs. This shift highlights the extreme cost of external hiring in the	None	4.0	Strategy shift revealed

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
						current market.			
4	3.5	Prayesh Jain, Motilal Oswal	Retail RMs	Business Overview	Breakup of RMs in retail vs wealth upgrading potential.	Company has 450 retail RMs and hopes a "bulk" of them can be upgraded to wealth roles. Execution risk lies in whether retail-focused RMs can effectively pivot to HNI advisory.	None	3.0	Directional
5	4.5	Prayesh Jain, Motilal Oswal	Broking	Management Commentary	Sustainability of October F&O volume run-rate.	Management views India as an under-penetrated market with a secular 10-15 year uptrend regardless of short-term regulatory noise. Reaffirms the long-term volume thesis for the broking segment.	None	4.0	High conviction
6	4.0	Prayesh Jain, Motilal Oswal	Revenue Mix	Financials	Revenue breakup between F&O and Cash segments.	Broking revenue is split approximately 60% F&O and 40% Cash. This confirms high sensitivity to F&O regulatory changes compared to cash-heavy peers.	None	5.0	Quantified
7	5.0						None	4.0	

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
		Harsh Shah, HSBC AMC	Wealth Unit Econ	Management Commentary	Future contribution and profitability of the wealth segment.	Mgmt expects profitability in 2-3 years, noting current H1FY26 loss is ~₹20-25 Cr. High investment phase (J-curve) will depress consolidated ROE for the foreseeable future.			Specific timeline
8	4.0	Harsh Shah, HSBC AMC	Retail Split	Financials	Split of retail equities revenue between broking and MTF interest.	Retail revenue comprises ~₹160 Cr from broking and ~₹105 Cr from MTF/ margin interest. Interest income now accounts for ~40% of retail revenue, providing a critical margin safety net.	None	5.0	Specific breakdown
9	4.5	Harsh Shah, HSBC AMC	Investment	Financials	Quantum of investment/ loss in the new wealth business this year.	H1 loss is ~₹25 Cr compared to ~₹24 Cr for the full year FY25, indicating intensified investment. Operating leverage will only kick in once asset gathering reaches a higher threshold.	None	5.0	Quantified burn
10	4.0		Insti/IB Split	Financials	Split between	Revenue split is roughly	None	4.0	Directional

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
		Aditya Bhatia, Electrum			Institutional Equities (IE) and Investment Banking (IB) revenues.	60% IE and 40% IB, though IB is volatile based on deal closures. IB serves as the high-margin "kicker" to the steady IE brokerage base.			
11	4.0	Aditya Bhatia, Electrum	Hiring Strategy	Management Commentary	Plans for RM additions in H2.	Mgmt is pausing aggressive external hiring to focus on internal upgrades for better cost efficiency. This is a clear move to protect the P&L from high RM salary overheads.	None	4.5	Pivot confirmed
12	3.0	Prayesh Jain, Motilal Oswal	Strategy	Management Commentary	Geographic strategy for wealth (Tier I vs Tier II/III).	Company will leverage its existing broking footprint in all cities to upgrade clients to wealth services. Strategy relies on cross-selling to the existing 1.1 Mn+ retail customer base.	None	3.0	Logical consistency
13	4.0	Prayesh Jain, Motilal Oswal	Financials	Financials	Details on the □44 Cr MTM loss.	Pertains to price reduction in BSE and NSE shares held by the	None	5.0	Specific source

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
						company. This exposure remains a source of non-operating volatility for the stock.			
14	4.0	Prayesh Jain, Motilal Oswal	MTF	Capex and Allocation	Headroom for scaling the MTF book.	Company can easily add another □1,000 Cr to the MTF book using existing net worth and specific borrowings. MTF is the primary lever for capital allocation in the medium term.	None	5.0	Clear capacity
15	3.5	Lalit Deo, Equirus	Distribution	Financials	Recurring vs Transactional split in distribution income.	Income split mirrors assets, approximately 60% ARR (recurring) and 40% Transactional. Moving toward a 60% recurring base improves earnings visibility.	None	4.0	Quantified

PATTERN FLAGS & SENTIMENT Analyst questioning centered on the **viability and cost of the Wealth pivot**. There is a palpable concern that the "burn" (□25 Cr in H1) is accelerating while the revenue contribution remains small. Management's shift from "aggressive hiring" to "upgrading existing RMs" was a significant takeaway, signaling that the cost of senior talent has become a deterrent to margin expansion.

Analyst Sentiment Verdict: Skeptical on near-term margins but supportive of the long-term asset-gathering strategy. Friction arose around the impact of SEBI's brokerage caps, where management could not provide a definitive impact analysis. Credibility remains high due to transparent loss disclosures in the wealth unit, but the stock's performance will remain tied to the **productivity delta** of upgraded RMs and the stability of F&O volumes.

GUIDANCE GAPS REVEALED IN Q&A | Topic | What Mgmt Claimed (Q1 FY26) | What Q&A Revealed | Gap / Walk-back | Risk to Thesis | | :--- | :--- | :--- | :--- | :--- | | RM Hiring | Targeted "Aggressive Hiring" of senior RMs. | Paused external hiring; focusing on internal upgrades. | Walk-back due to cost/competitive intensity. | Low (Margin positive) | | Wealth Profit | Focus on rapid scale-up. | Breakeven is 2-3 years away. | Longer gestation than street initially modeled. | Medium | | Distribution | Rapid ARR growth. | Revenue dipped 10% QoQ due to lumpy NCD fees. | Highlights continued transactional dependency. | Medium |

---

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q1FY26)	This Quarter (Q2FY26)	Direction
PAT Performance	₹174.5 Cr	₹85.2 Cr	↓ (MTM impact)
MTM Swing	₹63.0 Cr (Gain)	-₹44.1 Cr (Loss)	↓ (Sharp reversal)
Distribution Assets	₹35,700 Cr	₹44,400 Cr	↑ (Accelerating)
Hiring Strategy	Aggressive external hiring	Internal RM upgrades	↔ (Defensive pivot)
MTF Book	₹1,130 Cr	₹1,510 Cr	↑ (Strategic focus)
Operating Costs	Variable pay provisioned high	Variable pay provisioned lower	↑ (Margin protection)
Yield Mix	High dependency on F&O	MTF Interest and ARR Assets rising	↑ (Diversification)
Tone on Headcount	High growth in RM count	Flat RM count (55)	↓ (Slower scaling)

STOP HERE.