IIFL Capital Services Ltd — Oct 2024 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

The punchline. Read this first — it frames everything below.

Result: Strong Beat **One-line:** Massive operating leverage is now a structural reality, as non-brokerage segments (IB & Distribution) scale against a largely fixed cost base, while non-core property monetization adds a secondary layer of value realization.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Strong Beat	PAT grew 91% YoY; Revenue grew 32% YoY.	□
Earnings Quality	High (with one-off)	Growth driven by core IB/Distribution; □24.05 Cr property gain is a planned non-core monetization.	□
Guidance Confidence	Strong	IB pipeline stated as "4-6 quarters" of visibility; 20 DRHPs filed in H1.	□
Management Credibility	Strong	Executing on property monetization and IB market-share gains (4 IPOs, 5 QIPs in Q2).	□
Business Quality Signal	Improving	Revenue mix shifting toward sticky Distribution (AUM □31,200 Cr, +31% CAGR).	□
Key Q&A Exchange	PPT_ONLY: Not applicable	N/A	□
The Street's Primary Anxiety	Cyclicality of IB revenue	Mgmt response: Strong pipeline of 20 DRHPs filed suggests revenue is not "one-quarter wonder."	□
Capital Cycle Stage	Harvesting	Converting a 43-analyst research platform and digital tech into high-margin fees.	□
Margin / Return Ratio Trajectory	Improving	PBT margin (ex-other income) expanded to ~37% vs ~26% in Q2FY24.	□
Pricing Power	Stable	Maintaining top-tier status with 961+ empanelled institutional clients.	□
FCF Conversion & Quality	Distorted	Cash flow not provided; PBT boost from property sales needs tracking vs actual cash receipts.	□
Competitive Moat Signals	Widening	Distribution AUM reached □31,200 Cr; MF AUM up to □15,470 Cr (+150% in 3.5 years).	□
Balance Sheet Strength	Strong	Finance costs growing slower (79% YoY) than PBT (111% YoY) for H1.	□
Working Capital Efficiency	Improving	99% digital account opening and reduced admin expenses (-18% YoY).	□
Mgmt Guidance Track Record	Reliable	Delivering on IB mandates and distribution scaling as signaled.	□
Key Vulnerability / Red Flag	Market Volatility	High sensitivity of the IB pipeline and brokerage volumes to a "bear market" scenario.	□
Management Tone	Confident	Tone inferred from "prolific period" and "continue to win mandates."	□

Key Takeaways (Positives & Negatives): * **Positives:** The business has reached an inflection point where operating expenses (+12% YoY) are decoupled from revenue (+32% YoY). The Investment Banking franchise has moved from "emerging" to "dominant," closing 13 transactions in Q2 alone. Financial Product Distribution (AUM ₹31,200 Cr) provides a structural "annuity-style" floor that mitigates brokerage cyclicality. * **Negatives:** Other Income includes a ₹24.05 Cr gain from property sales; while positive for capital allocation, it masks the core operational performance slightly. Total expenses rose 11% QoQ, primarily driven by a 15% jump in employee costs as they hire for the HNI/UHNI wealth platform. * **Forward-looking Watchpoint:** The monetization of the remaining 9 properties (WDV ₹173 Cr, but market value likely significantly higher given the first 9 properties fetched ₹425 Cr) represents a major hidden asset value on the balance sheet.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS

DATA SOURCE: Concall not available — Mgmt Commentary column is absent.

Metric	Current Qtr (Q2FY25)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Revenue (Operations)	₹645.4 Cr	↑ 27.3%	↑ 0.9%	↑	Volume-driven brokerage + IB fees.
NII (Interest Income/ Finance Cost)	₹101.4 Cr*	↑ 16%*	↓ 7%*	↓	*Derived: (Total Revenue - Fees/Comm - Ops Revenue).*
Fee Income Growth (Dist.)	₹212.4 Cr (H1)	↑ 25.0%	N/A	↑	Strong MF AUM and Insurance growth.
Investment Banking Revenue	₹95.8 Cr*	↑ 103%	↓ 25.6%	↑	*Q2 derived from H1 total of 224.5 Cr minus Q1's 128.7 Cr.*
PAT	₹205.3 Cr	↑ 90.8%	↑ 12.6%	↑	Includes ₹24.05 Cr one-off property gain.
Distribution AUM	₹31,200 Cr	↑ 44.4%	↑ 7.6%	↑	Significant growth in MF and AIF/PMS assets.
Mutual Fund AUM	₹15,470 Cr	↑ 80.9%	↑ 20.3%	↑	Scaled from ₹8,550 Cr (Q2FY24).
Retail Brokerage (H1)	₹383.3 Cr	↑ 34.0%	N/A	↑	Reflects high retail participation and digital reach.
Employee Cost	₹149.3 Cr	↑ 17.8%	↑ 15.2%	↓	Increased hiring for Wealth/HNI segments.
Admin & Other Expenses	₹106.6 Cr	↓ 18.2%	↓ 37.4%	↑	Significant cost optimization/ rationalization.

**Note: Calculation based on "Total Income" minus "Revenue from Ops" and "Other Income."*

2B. SEGMENT BREAKDOWN

Segment	Revenue (₹ Cr)	YoY Growth	Margin	Trend	vs Co. Avg	Key Development
Investment Banking	₹95.8*	~103%	High	↑	Leader	Completed 13 deals including 4 IPOs and 5 QIPs in Q2.
Financial Distribution	₹106.2*	~25%	Moderate	↑	Average	SIP transactions hit 250k count; MF AUM crossed ₹15,000 Cr.
Retail Brokerage	₹195.7*	~34%	Stable	↑	Laggard	99% of accounts now opened digitally.
Institutional Broking	Not Specified	N/A	High	↑	Leader	Research covers 71% of India's M-Cap.

**Note: Q2 specific segment revenues are estimated based on H1 totals provided in PPT and prior Q1 context.*

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Math Feasibility	Historical Delivery	Risk Flag
Guidance	Investment Banking	Pipeline to be executed over next 4-6 quarters.	Needs ~₹75 Cr/qtr to beat FY24; current H1 run-rate is ₹112 Cr/qtr.	Delivered	Low
Strategy	Asset Monetization	Monetizing real estate (18 properties total).	9 sold for ₹425 Cr; 9 remaining (WDV ₹173 Cr) to be divested.	Delivered	Low
Strategy	Wealth Mgmt	Set up HNI/UHNI platform via senior experienced hires.	Requires AUM/RM of ~₹100 Cr+ to reach breakeven on new hires.	In-Progress	Medium
Strategy	Distribution	Scaling non-cyclical distribution income.	AUM CAGR target of 31% (current 44% YoY).	Exceeded	Low
Macro	Market Presence	Research coverage of 71% of India's market cap.	Requires retention of 43-analyst pedigreed team.	Delivered	Low

4. ANALYST Q&A

Section not applicable — investor presentation only. No concall conducted or available.

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q1FY25)	This Quarter (Q2FY25)	Direction
Core Profitability	PAT ₹182.3 Cr	PAT ₹205.3 Cr	↑ (Driven by cost control)
Operating Efficiency	Admin Expenses ₹170.2 Cr	Admin Expenses ₹106.6 Cr	↑ (37% Reduction QoQ)
Distribution Scale	Distribution AUM ₹29,000 Cr	Distribution AUM ₹31,200 Cr	↑ (Strong inflow momentum)
Investment Banking	10 Transactions completed	13 Transactions completed	↑ (Increased deal velocity)
One-off Gains	Nil	₹24.05 Cr (Property Sale)	↑ (Value unlocking)
Employee Investment	Employee Cost ₹129.6 Cr	Employee Cost ₹149.3 Cr	↓ (Margin pressure from hiring)
Mutual Fund Size	MF AUM ₹12,860 Cr	MF AUM ₹15,470 Cr	↑ (Strong retail adoption)

Thesis Conclusion: The thesis of IIFL Securities as a "Capital Markets Compounder" is strengthened this quarter. While brokerage remains the cash cow, the **Investment Banking** arm is now a top-tier contender (handling Samvardhana Motherson and PNB QIPs), and the **Distribution** business is reaching a scale (□31k Cr AUM) where it can support the cost base even in lean brokerage periods. The sharp reduction in administrative expenses suggests management is tightening the ship even as they invest in high-end Wealth Management talent.

STOP HERE.