

## PRESS RELEASE

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### Investor exuberance propelling broking industry performance; MTF achieves a new high: ICRA

- **Industry expected to register all-time high revenue and net profit in FY2024, driven by revival in investor sentiment**

ICRA has analysed the performance of 29 prominent brokerage companies in H1 FY2024. Supported by improved market activity, ICRA's sample set of companies reported a sharp 20% annualised growth in the net operating income. Given the benefits of economies of scale, the aggregate profitability of this sample set also improved, with a 24% annualised increase in the net profit and a return on equity of 27% in H1 FY2024 compared to 25% in FY2023. ICRA expects the industry to report all-time high revenues and net profits with a year-on-year (YoY) expansion of 18-22% and 22-25%, respectively, in FY2024.

Secondary market returns have recovered in the current fiscal with major benchmark indices registering new highs after the tepid performance in FY2023. While this was supported by the sustained participation of domestic investors, foreign institutional investors too turned net buyers in 10M FY2024 after being net sellers in the last two fiscals. While Indian markets continue to trade at a premium, the possibility of foreign portfolio investor inflows further boosting secondary market returns, in light of the indications of rate cuts by major central banks in the near to medium term, cannot be ruled out.

According to **Mr. Deep Inder Singh, Vice President – Financial Sector Ratings, ICRA**, *“The active National Stock Exchange (NSE) client base, which was moderating since March 2022, expanded in recent months amid revival in primary market activity and improving secondary market returns. Investor exuberance is also visible in the record equity assets under management and systematic investment plan counts registered by the mutual fund industry in the current fiscal. With the healthy initial public offering pipeline, the retail participation trajectory is expected to remain intact in the near term.”*

With the improvement in investor sentiment, the cash segment average daily turnover rebounded to Rs. 0.73 lakh crore in H1 FY2024, up 27% from the FY2023 level. The margin trade funding (MTF) segment also gained traction, registering new highs in the current fiscal. After reporting a flattish trajectory in FY2023, the aggregate industry-wide MTF exposure grew by 98% from March 2023 to ~Rs. 51,000 crore on December 28, 2023. The participation of retail investors also remained strong in the futures & options segment, driven by the launch of new index options, miniaturisation of contracts/lot sizes, and separate weekly expiries for each index option. During FY2020 to FY2023, the number of contracts traded increased by about nine times. Moreover, the number of contracts traded expanded by 2.4 times, on a YoY basis, in H1 FY2024. While the participation of retail investors can be impacted in the short term by adverse developments, the modest share of wallet of the equity segment in household savings indicates untapped potential for sustainable growth for the broking industry over the longer term.

Providing more insight, **Mr. Singh said**, *“Supported by the buoyant market conditions in Q2 FY2024, the annualised average revenue per user of 12 of the 17 leading brokers in H1 FY2024 is estimated to have exceeded the industry's best-ever performance till date, which was in FY2022.”*

Given the substantial new client additions in the past few fiscals, discount brokerage houses continue to hold a leadership position, in terms of market share of active NSE clients, at 65% in November 2023 compared to 18% in March 2019. The market share of non-bank full-service brokers and bank-based brokers stood at ~21% and 14%, respectively, in November 2023.

Although the borrowings by brokerage entities were historically low, financial leverage has increased considerably in recent fiscals with the material scale-up of the MTF and increased working capital requirements due to regulatory changes for the securities broking industry. The aggregate leverage of bank brokers, which dominate the MTF segment, increased to 1.9 times as of September 30, 2023, from 0.4 times as of March 31, 2020. During this period, the aggregate gearing of non-bank full-service brokers increased to 1.1 times from 0.4 times. Discount brokers, with a limited presence in MTF, reported marginal dependence on borrowings.

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