PRESS RELEASE
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Regulatory Tightening Cools Index Options Surge; Signs of Stabilisation Emerge: ICRA

Rating agency ICRA highlighted that trading activity appears to be stabilising in index derivatives and options volumes, reflecting strategic recalibrations by market participants, after three consecutive months of declines following regulatory interventions. Although margin trading facility (MTF) exposures have retracted closer to Rs. 71,000 crore from their December 2024 peak, given their strong correlation with market trends, a resurgence in investor confidence could drive the trajectory back towards the Rs. 1 lakh crore mark.

The phased implementation of regulatory measures, beginning November 2024, led to a sharp contraction of trading activity in index options. Between December 2024 and March 2025, the average daily premium turnover had declined by 18% compared to the April–November 2024 period, while the number of options contracts traded fell by 60%. Order volumes, critical for F&O brokerage, were moderately impacted (down 25–35%). Despite this, trading activity remains above historical levels.

In Q4 FY2025, ICRA's sample of nine securities broking firms reported a 19% YoY drop in net revenue and a decline in profitability[1] to 26% — the lowest in the past 12 quarters.

Also, after three consecutive months of declining options volumes, trading activity appears to be stabilising, reflecting strategic recalibrations by market participants. The anticipated uptake of the MSEI-SX40 weekly index options could also help cushion the impact. However, the overall activity remains highly sensitive to future regulatory developments.

According to **Deep Inder Singh, Vice President and Sector Head – Financial Sector Ratings, ICRA:** *"Adjustments in lot sizes and the rationalisation of weekly expiries have shifted trading towards longer-tenure contracts. These changes have notably reduced participation from smaller investors. In March 2025, the number of investors with a monthly premium turnover below Rs. 10,000 on the NSE dropped by 49% YoY, while those in the Rs. 10,000–Rs. 1 lakh cohort declined by 37%. The investor count with higher monthly premium turnovers, were, however, less impacted."*

The broader market sentiment also weakened, as reflected in the cash and MTF segments. In Q4 FY2025, the average daily turnover in the cash segment declined by 8% QoQ to about Rs. 1 lakh crore, while MTF exposures fell 18% QoQ. This slowdown has weighed on broking firms, with ICRA's sample set reporting a 19% YoY drop in net revenue and profitability slipping to 26% - a 12-quarter low. Exchanges and depositories also experienced a decline, with operating revenues falling to a five-quarter low.

Overall, the earlier hyperactivity in index options has moderated significantly, contributing to a more stable market environment. This has reduced speculative trading and associated price volatility. The move to a single weekly

[1] Operating profit after tax (PAT) as a percentage of net revenue (total income excluding proprietary trading income and adjusted for interest expenses

index derivative per exchange has also diversified market participation and is expected to foster healthier competition.

Providing more insight, **Singh said** *"Although MTF exposures have retracted closer to Rs. 71,000 crore from their December 2024 peak, of over Rs. 86,000 crore, given their strong correlation with market trends, a resurgence in investor confidence could drive the trajectory back towards the Rs. 1 lakh crore mark. Considering the evolving investor preferences, India's relatively untapped equity market continues to present a compelling growth opportunity, which is likely to benefit market intermediaries in the years ahead."*

For further information, please contact:

Media Contacts:	
Naznin Prodhani Group - Head Media & Communications ICRA Ltd. Tel: + (91 124) 4545300, Dir – 4545 860 Email: communications@icraindia.com	**Saheb Singh Chadda** Manager - Media & Communications ICRA Ltd. Mob: +91- 9833669052 Email: communications@icraindia.com

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