



SECURITIES BROKING & ALLIED INDUSTRY

**Capital market intermediaries brace
for margin softening amid proposed
MF expense ratio overhaul**

NOVEMBER 2025





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Asset managers stare at over 1 bps erosion in profit yields or 5-10% impact on PAT; profitability will, however, remain strong

Mutual fund distributors may face up to a 3-bps shrinkage in revenue yield or as much as a 10% impact on PAT



Securities and Exchange Board of India (SEBI), aiming to enhance transparency and lower investor costs, released a consultation paper on October 28, 2025, proposing draft mutual fund regulations. Key measures include the removal of the additional 5 bps charge allowed on schemes with exit loads, a reduction in brokerage caps (cash market: 12 basis points (bps) to 2 bps; derivatives: 5 bps to 1 bps), and a downward revision of base expense ratio slabs by about 15 bps. However, brokerage, exchange fees, regulatory charges, and statutory levies will now be charged over and above these slabs. The paper also suggests introducing differential expense ratios and improving clarity around the operations of asset management companies (AMCs), while easing certain compliance requirements.



ICRA expects the proposed measures to moderately impact AMC revenue yields, which typically range between 40-50 bps (net of distribution costs). Besides the revision in the base expense ratio by 15 bps for most slabs, the elimination of the additional 5 bps charge on schemes could shave off another 2 bps for AMCs, with distributors absorbing the remaining 3 bps impact on a distribution yield of 70-90 bps for many equity schemes. Nonetheless, the impact will be offset as certain charges and levies, particularly GST on all expenses other than management fees, will now be charged over and above these slabs. However, the rationalisation of brokerage charges to 2 bps/1 bps for cash/derivative trades, respectively, from the prevalent levels of 4 to 7 bps for the cash segment, will reshape broker-AMC economics, with AMCs likely bearing some costs for brokers' research services despite not recovering them separately from investors.



Overall, the proposed changes, if implemented, could result in up to a 2-bps reduction in net revenue yields for AMCs, translating into over a 1 bps impact on profit yields, i.e., profit after tax (PAT)/assets under management (AUM), which typically falls in the range of 20 to 30 bps, or a 5-10% impact on net profit. Despite this softening, profitability for established players will remain strong, supported by scale efficiencies achieved during the golden run witnessed in recent years.

For securities brokers, revenue impact to vary widely across profiles; small and mid-sized players with strong institutional focus, particularly AMCs, to be impacted the most, while diversified players to see limited hit



For institutional broking, the impact will vary based on a broker's reliance on mutual fund (MF) business versus other institutional clients such as foreign institutional investors, family offices, insurers, AIFs, and corporates, as well as the mix between cash and derivative brokerage. ICRA's sample indicates MFs contribute 20–40% of institutional broking revenue, with cash segment dependence ranging from 50–80%. Given that net brokerage yields in the cash segment typically is at 4-7 bps (for AMC clients, net of other transaction charges), a potential drop to 2 bps could materially affect this revenue stream, though some offset may come from AMCs bearing research costs without passing them to investors. Overall, the decline in MF-related revenue could be 30-50%, translating into a 10–20% hit to overall institutional broking revenues and a 20–40% reduction in profit contribution from the institutional segment.



For established securities brokers and wealth managers, the overall revenue impact is expected to be limited given diversified income streams. For large, multi-segment brokers, institutional broking contributes less than 25% of operating income (and under 10% for many leading players), with mutual funds accounting for only 20–40% of that share. Consequently, the revenue impact for most is likely to remain below 5%, while the impact on PAT would be less than 10%. However, relatively smaller/mid-sized brokers with a strong institutional focus and limited diversification are expected to face a more pronounced hit.

SEBI proposes measures to enhance transparency and lower costs for mutual fund investors



Elimination of additional 5 bps charge allowed on scheme AUM where exit load is applicable/levied

Revision in base expense ratio slabs by about 15 bps with statutory levy over and above the expense ratio

Rationalisation of broking charges allowed in cash and derivative segments

Provision for voluntary adoption of performance-linked differential expense ratios

Rationalisation of expense structure to reshape economics across asset managers, brokers and distributors

Elimination of additional 5 bps charge

Before 2012, exit load collected by schemes was used by AMCs for distributor commissions and marketing expenses. SEBI later mandated crediting exit load to the scheme and allowed AMCs to charge an additional 20 bps, which was reduced to 5 bps in 2018 as a temporary provision. The consultation paper now proposes eliminating this 5-bps charge to rationalise costs for unitholders, while revising the first two expense ratio slabs for open-ended active schemes upward by 5 bps.

ICRA estimates that about 60% of this additional charge was shared with distributors, and hence, its removal could reduce AMC revenue yields by ~2 bps, with distributors absorbing the remaining 3 bps.

Revision in base expense ratio slabs

To improve transparency, the proposal suggests excluding statutory levies—such as securities transaction tax (STT), goods and services tax (GST), and stamp duty—from base expense ratio limits, along with brokerage, exchange, and regulatory fees. Currently, GST on management fees is charged over and above the total expense ratio (TER), while other statutory charges fall within it. Under the new framework, TER limits will exclude these levies so future changes can be passed on to investors. ICRA estimates that the net impact on AMCs from this exclusion will be minimal.

AUM slab (Rs. crore)	Equity oriented scheme		Other than equity-oriented scheme	
	Existing	Proposed	Existing	Proposed
First Rs. 500 crore	2.25%	2.10%	2.00%	1.85%
Next Rs.250 crore	2.00%	1.90%	1.75%	1.65%
Next Rs.1,250 crore	1.75%	1.60%	1.50%	1.35%
Next Rs.3,000 crore	1.60%	1.45%	1.35%	1.25%
Next Rs.5,000 crore	1.50%	1.35%	1.25%	1.15%
Next Rs.40,000 crore	Reduction of 0.05% for every increase of Rs.5,000 crore			
On balance of the assets	1.05%	0.90%	0.80%	0.70%

Rationalisation of broking expenses

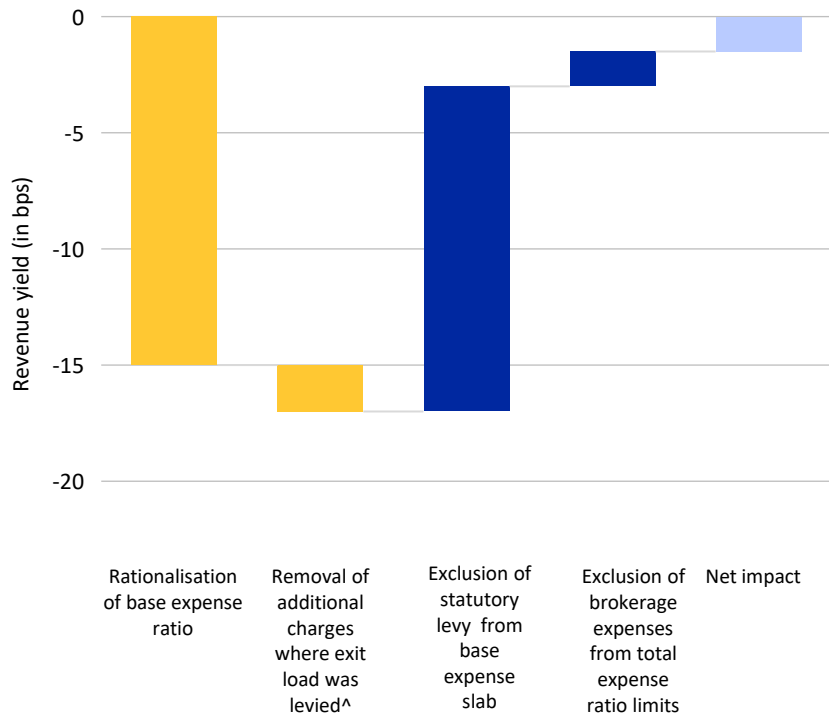
Current regulations permit AMCs to charge a brokerage of up to 12 bps for cash trades and 5 bps on derivatives. According to the regulator, these charges include research costs, effectively making investors pay twice, once via AMC advisory fees and again through brokerage. To improve transparency, the consultation paper proposes rationalising brokerage to 2 bps for cash and 1 bps for derivatives, charged over and above the base expense ratio.

ICRA's sample of institutional brokers indicates that cash-segment broking yields an average of 4–7 bps. Thus, the decline in MF-related revenue could be over 50%. However, research services bundled with brokerage have historically been a key value proposition for AMCs. As a result, the new norms are expected to reshape broker-AMC economics, with AMCs likely absorbing some research costs. Overall, the decline in MF-related revenue could be 30-50%, translating into a 10–20% hit to overall institutional broking revenues and a 20–40% reduction in profits of the segment.

Source: SEBI, ICRA Research; *first Rs. 500 crore of daily net assets and next Rs. 250 crore of daily net assets

Moderate compression in yields for asset managers

Exhibit : Net impact on revenue yields for asset managers



Source: ICRA Research; [^] adjusted for the share borne by distributors

ICRA expects the proposed measures to moderately impact AMC revenue yields, which typically range between 40-50 bps (net of distribution costs). Besides the revision in the base expense ratio by 15 bps for most slabs, the elimination of the additional 5 bps charge on schemes could shave off another 2 bps for AMCs, with distributors absorbing the remaining 3 bps impact on a distribution yield of 70-90 bps for many equity schemes.

Nonetheless, the impact will be largely offset as certain charges and levies, particularly GST on all expenses other than management fees, will now be charged over and above these slabs. However, rationalisation of brokerage charges to 2 bps/1 bps for cash/derivative trades respectively from prevalent levels of 4 to 7 bps for cash segment—will reshape broker-AMC economics, with AMCs likely bearing some costs for brokers' research services despite not recovering them separately from investors.

Overall, the proposed changes, if implemented, could result in up to a 2-bps reduction in net-revenue yields for AMCs, translating into over 1 bps impact on profit yields i.e PAT/AUM, which typically falls in the range of 20 to 30 bps) or 5-10% impact on net profit. Despite this softening, profitability for established players will remain strong (average RoE of key listed players was over 25% in FY2025 and likely to remain well above 20%), supported by scale efficiencies achieved during the golden run witnessed in recent years. Over the medium term, scale-driven efficiencies and a rising share of high-yield products—such as portfolio management services, alternatives, and systematic investment funds—are likely to mitigate the aforesaid impact.

Strong retail participation via mutual funds has driven a surge in trading volumes for securities brokers

Exhibit : Trend of ADTO in NSE's cash segment - Mutual funds

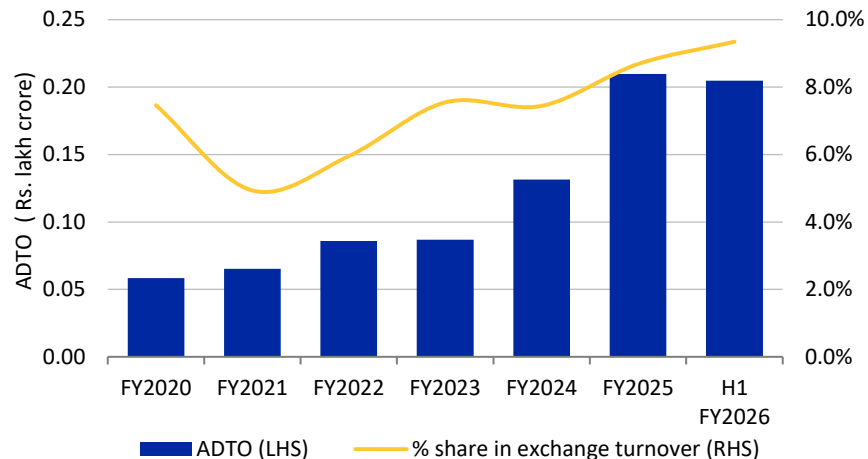
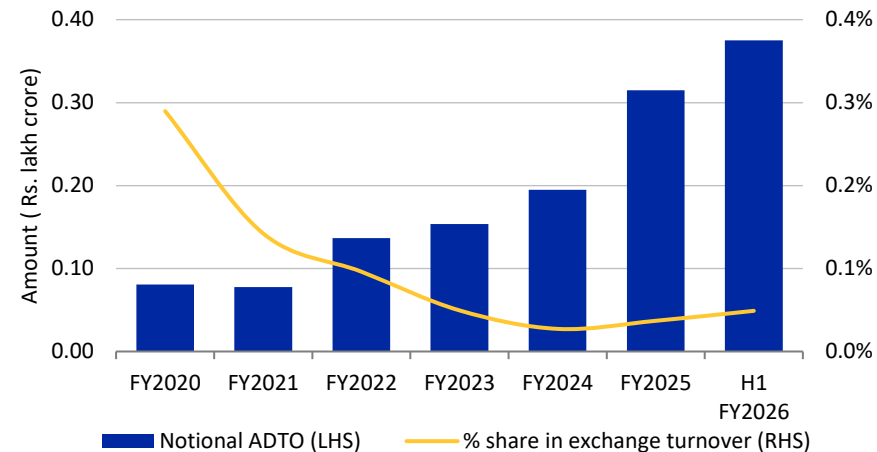


Exhibit : Trend of ADTO in F&O segment- Mutual funds

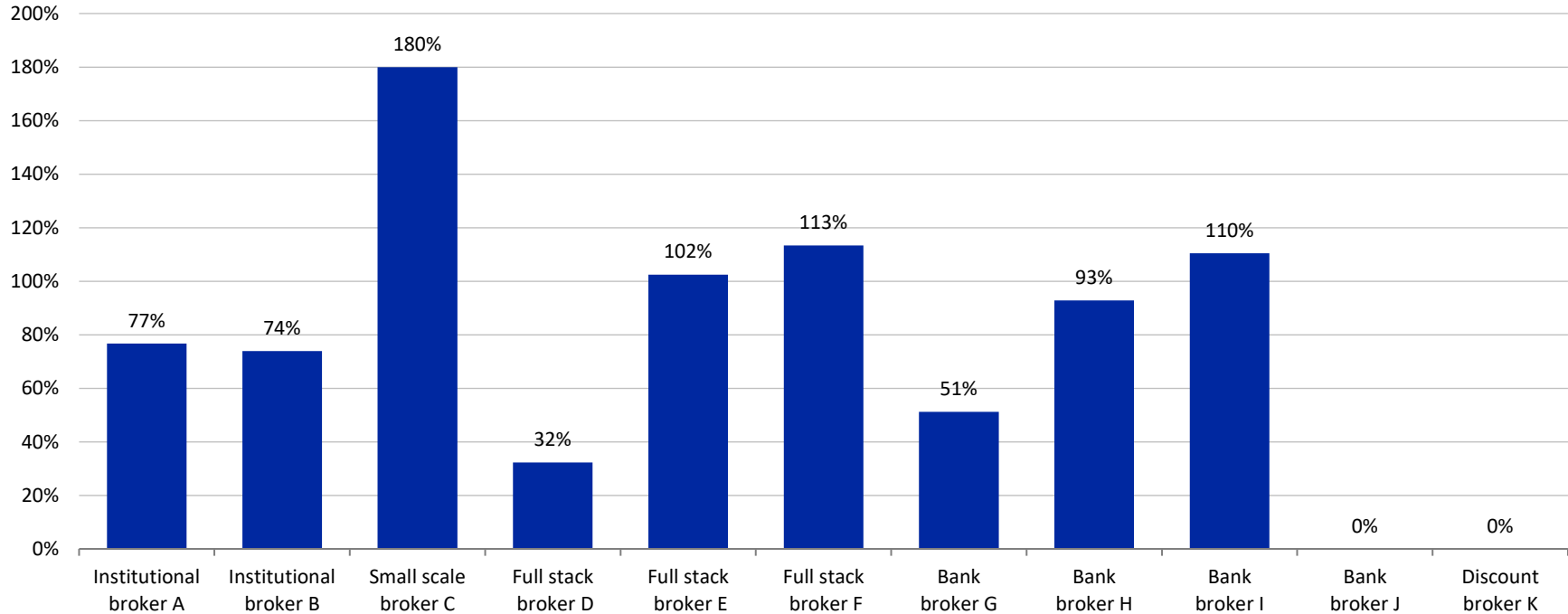


- Driven by sustained retail participation, the average daily cash turnover (ADTO) by mutual funds has surged 3.1 times over the past five and a half years. Their share of market turnover has climbed to about 9.3% in recent quarters, up from a low of 4.9% in FY2021.
- Mirroring the cash market, mutual funds' average daily notional derivative volumes have steadily risen since FY2021. Unlike other investor classes, where trading positions are driven by speculation, mutual funds primarily use derivatives for hedging. Consequently, while retail and foreign portfolio investors' volumes fell sharply post-November 2024 amid the phased implementation of regulatory measures, mutual fund derivative volumes have continued to rise.

Source: NSE, ICRA Research

Growth in trading turnover led to higher institutional broking revenue for brokers

Exhibit : Percentage growth in institutional broking income during FY2023 - FY2025

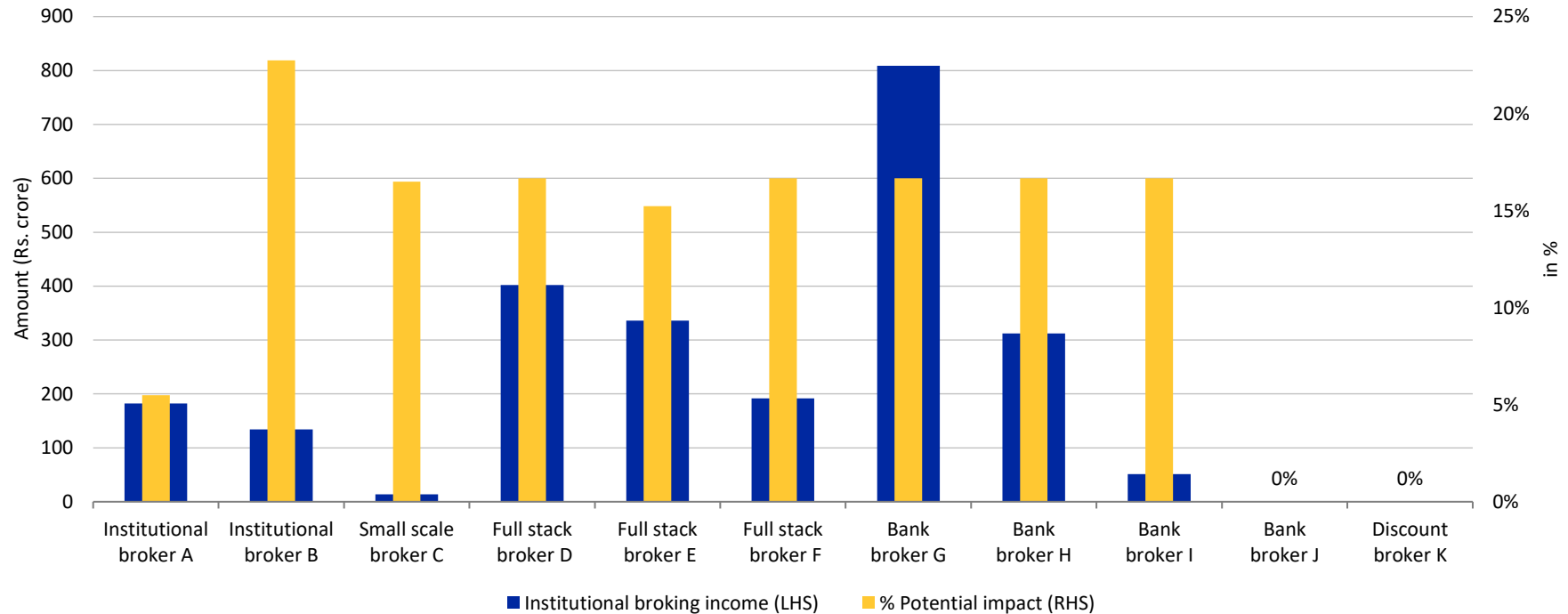


Source: ICRA Research; Note: Institutional broker term is used for brokers primarily operating in institutional segment. Full stack broker term is used for legacy brokers having established and large-scale retail broking operations, while having sizeable presence in institutional broking as well.

Sensitivity Label : Public

Proposed norms to weigh on institutional broking revenues; extent of impact tied to dependence of MF clients

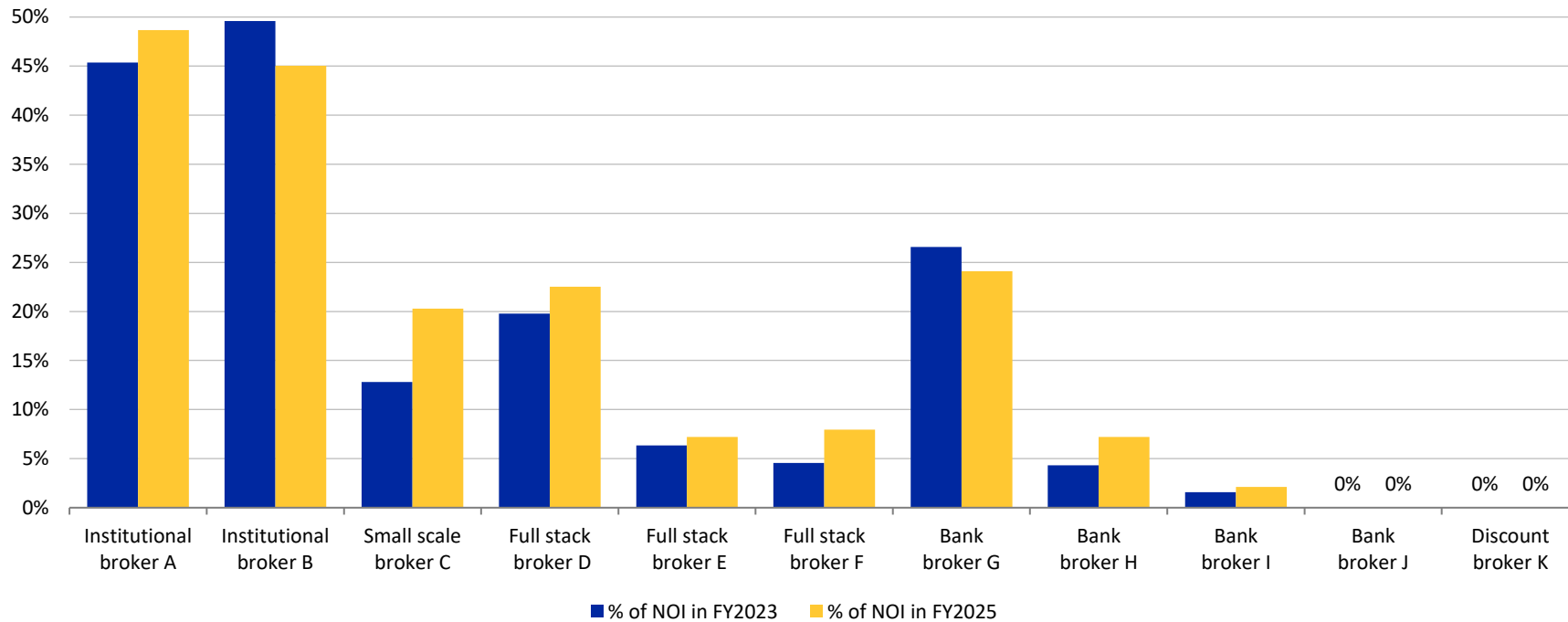
Exhibit : Institutional broking income in FY2025 and potential impact on it (assuming no impact absorption by AMCs)



Source: ICRA Research

Institutional broking share remaining modest for most, barring niche players, is a mitigating factor

Exhibit : Share of broking income from institutions in net operating income (NOI) – FY2023 vs. FY2025



Source: ICRA Research

Impact on overall revenues and profits likely contained as most established players are diversified and discount brokers are absent in this segment

Exhibit : Potential decline in NOI if institutional broking yields dip

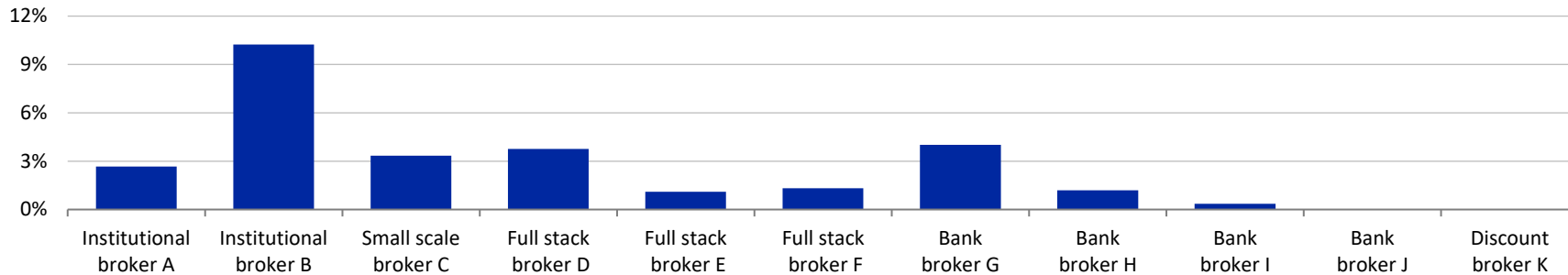
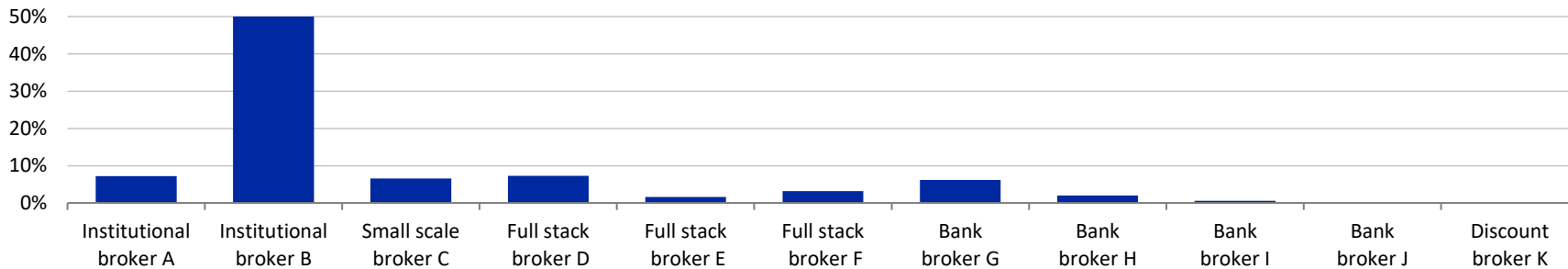


Exhibit : Potential impact on profit before tax if institutional brokerage declines (without cost rationalisation)



Source: ICRA Research

Timely execution of healthy deal pipeline will help diversified players with investment banking presence absorb potential impacts

Exhibit: Trend in annual resource mobilisation

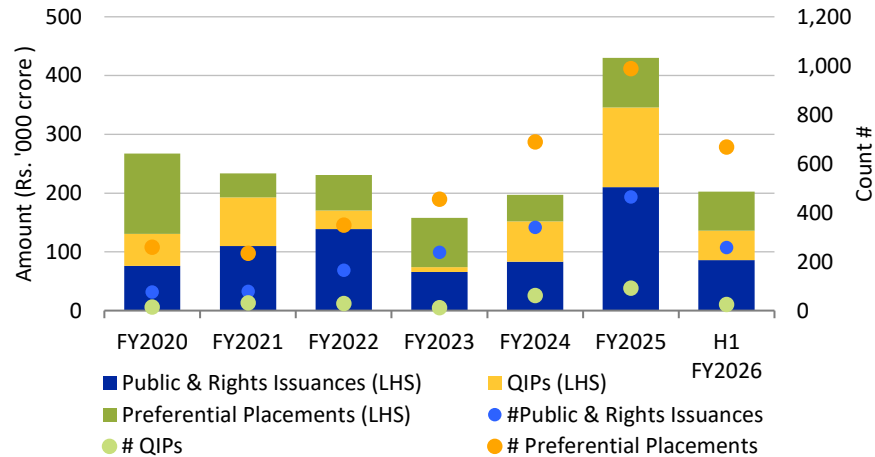
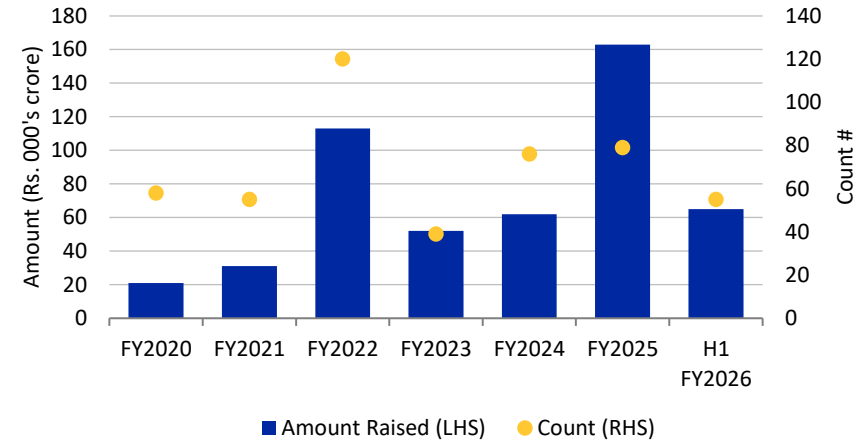


Exhibit: Trend in main board IPO issuances



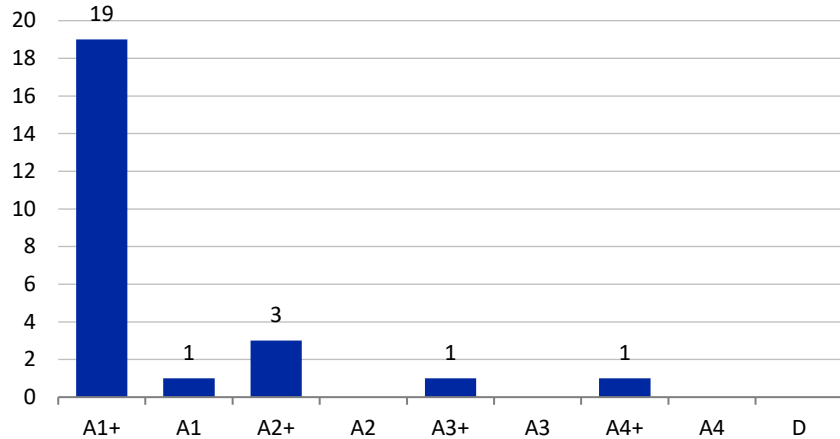
- After a strong primary market performance in FY2025, with 79 main board IPOs mobilising ~ Rs. 1.6 lakh crore, surpassing the combined fundraising of FY2023 and FY2024, the momentum carried into the current fiscal. Driven by large IPOs such as Tata Capital, HDB Financials, LG Electronics, and NSDL, the industry witnessed sizeable fund mobilisation in 7M FY2026.
- The outlook remains favourable, with a pipeline of over 80 companies expected to raise over Rs. 1 lakh crore in the remaining five months of FY2026. Timely execution of these deals could drive healthy investment banking (IB) revenues for capital market players focused on the institutional segment across broking and IB, providing headroom to offset the impact. However, the performance remains sensitive to global and domestic market conditions.

Source: SEBI, ICRA Research



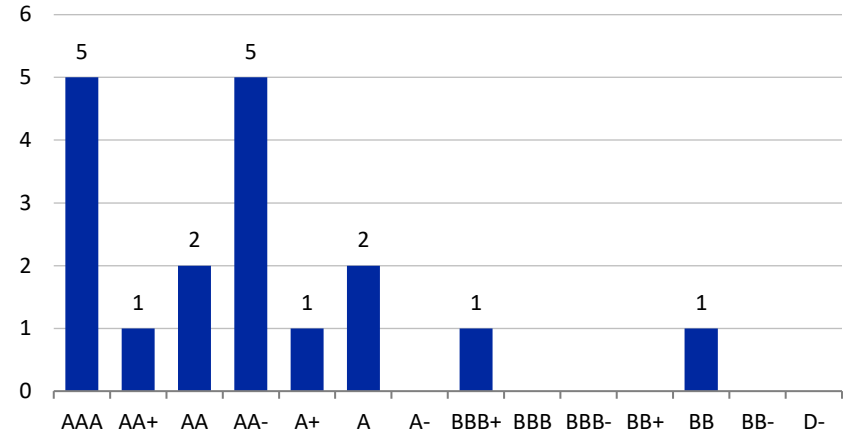
Annexure

Exhibit : Distribution of ICRA's short-term ratings for securities brokers[^]



Source: ICRA Research; [^] As on October 31, 2025

Exhibit : Distribution of ICRA's long-term ratings for securities brokers[^]



Source: ICRA Research; [^] As on October 31, 2025

- ICRA has ratings outstanding on 29 securities broking companies.
- Of these, long-term ratings are outstanding for 18 companies, while 25 have been rated on the short-term scale.
- Rating for one securities broker was upgraded in 7M FY2026 due to its strong market position and demonstrated ability to harness sector momentum.

ICRA-rated securities brokers (1/2)

Exhibit : List of ICRA-rated securities brokers^

Company Name	Long-term (LT) Rating	Outlook on LT Rating	Short-term (ST) Rating
Angel One Limited	[ICRA]AA-	Stable	[ICRA]A1+
Axis Securities Limited	[ICRA]AAA	Stable	[ICRA]A1+
Barclays Securities (India) Private Limited			[ICRA]A1+
Cholamandalam Securities Limited			[ICRA]A1+
Emkay Global Financial Services Limited	[ICRA]BBB+	Positive	[ICRA]A2+
Geojit Financial Services Limited	[ICRA]A+	Stable	[ICRA]A1+
Globe Capital Market Limited	[ICRA]AA-	Stable	
Groww Invest Tech Private Limited	[ICRA]AA-	Stable	[ICRA]A1+
HDFC Securities Limited	[ICRA]AAA	Stable	[ICRA]A1+
ICICI Securities Limited	[ICRA]AAA	Stable	[ICRA]A1+
IIFL Capital Services Limited			[ICRA]A1+
JM Financial Institutional Securities Limited	[ICRA]AA	Stable	[ICRA]A1+
JM Financial Services Limited	[ICRA]AA	Stable	[ICRA]A1+
Kotak Securities Limited	[ICRA]AAA	Stable	[ICRA]A1+
Master Capital Services Ltd.			[ICRA]A2+

Source: ICRA Research; ^ As on October 31, 2025

ICRA-rated securities brokers (2/2)

Exhibit : List of ICRA-rated securities brokers^

Company Name	Long-term (LT) Rating	Outlook on LT Rating	Short-term (ST) Rating
Mirae Asset Capital Markets (India) Private Limited			[ICRA]A1+
Motilal Oswal Financial Services Limited	[ICRA]AA+	Stable	[ICRA]A1+
Nuvama Wealth Investment Limited	[ICRA]AA-	Positive	[ICRA]A1+
Nuvama Wealth Management Limited	[ICRA]AA-	Positive	[ICRA]A1+
Pace Stock Broking Services Pvt. Ltd.	[ICRA]A	Stable	
PhillipCapital (India) Private Limited			[ICRA]A1
Prabhudas Lilladher Private Limited			[ICRA]A2+
Rakhecha Securities Limited	[ICRA]BB	Stable	[ICRA]A4+
SBICAP Securities Limited			[ICRA]A1+
Sharekhan Limited			[ICRA]A1+
SMC Global Securities Limited	[ICRA]A	Stable	[ICRA]A1+
Standard Chartered Securities (India) Limited	[ICRA]AAA	Stable	[ICRA]A1+
Sushil Financial Services Private Limited			[ICRA]A3+
360 One Distribution Services Limited			[ICRA]A1+

Source: ICRA Research; ^ As on October 31, 2025



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