



ICRA

A MOODY'S INVESTORS
SERVICE COMPANY

INDIAN BROKERAGE INDUSTRY

Industry growth rate expected to
moderate in FY2023 after a record
performance in 9MFY2022

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BROKING INDUSTRY OUTLOOK: STABLE

ICRA's outlook on brokerage industry is stable

Brokerage industry income growth to taper in FY2023 after a record performance in FY2021 and H1 FY2022

Performance of small and mid-sized brokerage companies expected to be impacted by operational and funding challenges; industry to consolidate further

Stable outlook on brokerage industry

The broking industry is expected to report a strong growth in FY2022, building on the performance of the previous fiscal, supported by favourable capital markets and record transaction volumes. ICRA expects the industry to clock gross revenues of Rs. 27,000-28,000 crore in FY2022, registering a year-on-year growth of 28-33%. While cash broking yields witnessed some improvement with an increase in the share of delivery-based turnovers, blended yields continued to reel under pressure, given the significant increase in volume contribution from low-yielding index options. Nonetheless, the healthy growth in the turnover has more than offset the impact on broking yields during this fiscal. Going forward, the market rally is expected to taper with transaction volumes expected to normalise. The industry growth rate is expected to moderate to 5-7% in FY2023 with an expected gross revenues of Rs. 28,500-29,000 crore. The share of core gross broking income in FY2022 and FY2023 is expected to be steady in the range of 70-75%.

The broking segment is expected to witness an improvement in profitability, supported by the increase in the economies of scale. This is also expected to be supported by the growing share of retail participation, rising internet penetration and increase in the distribution of financial products despite pricing pressure and contracting yields. With the growing prominence of the margin trade funding (MTF) business, the gearing across the industry, particularly for retail-oriented broking entities, has increased in the current fiscal. Going forward, with the gradual scaleup of the capital market related lending book, ICRA expects the gearing of the brokerage industry (particularly for larger entities with adequate ability to raise debt) to increase from the current level. However, a prolonged slowdown in capital market environment will have a drag on the overall earnings profile of the industry.

- Strong performance of Indian capital markets:** The domestic capital markets have reported a strong performance in the current fiscal, building on the trend observed in the previous fiscal. Market traction has been supported by better-than-expected corporate earnings, pickup in economic activity, healthy participation from retail and domestic institutions and a record number of initial public offerings (IPOs). Furthermore, factors such as healthy liquidity, rising internet penetration and optimism related to mass scale vaccination continued to support the market momentum. The equity markets reported an aggregate turnover of ~Rs. 11,422 lakh crore in 9M FY2022, registering a growth of 171% over ~Rs. 4,222 lakh crore in 9M FY2021 (~Rs. 6,787 lakh crore in FY2021). The average daily turnover (ADTO) increased to Rs. 63.07 lakh crore in 9M FY2022 from Rs. 22.46 lakh crore in the comparable period last year and Rs. 27.92 lakh crore in FY2021 (growth of 126%). After a sluggish performance during FY2018-19, the small cap and midcap indices registered a resurgence, outperforming the large-cap indices. Market, however, have witnessed a correction in the current quarter, with benchmark indices trailing below their peak (mid-January) by ~10%. Going forward, markets are expected to remain volatile amidst various domestic and international cues. While the transaction volumes have reported a month-on-month growth primarily led by the derivative segment during the period, a prolonged

subdued capital markets could have a bearing on the cash segment turnovers & other allied capital market business which in turn could impact industry's earnings. Domestic policy initiatives, corporate earnings outlook, expected global policy normalisation, elevated global inflation levels, and rising geopolitical tensions could further impact market returns and volatility.

- Brokerage entities continue to grow with record earnings performance in FY2021:** With healthy growth in trading volumes and retail investor participation at an all-time high, the brokerage industry reported a robust growth in earnings in FY2021. The ICRA sample of 18 brokerage companies reported an estimated total net operating income (NOI) of Rs. 12,438 crore in FY2021, up 38% from Rs. 9,011 crore in FY2020. The companies continued to report a 23% annualised growth in the NOI in H1 FY2022. The cost-to-income ratio improved to 54.4% in FY2021 (51.3% in H1 FY2022) compared to the average of 68.5% during FY2018 to FY2020. This was supported by greater economies of scale coupled with the increased focus on online channels for client acquisition and reduced dependency on physical modes. The ICRA sample of entities reported a net profit of Rs. 4,972 crore in FY2021 (net profitability of 40%), registering a year-on-year (YoY) growth of 121% over Rs. 2,253 crore in FY2020 (net profitability of 25%). The earnings performance remained strong in H1 FY2022 with the sample entities reporting a net profit of Rs. 3,203 crore on NOI of Rs. 7,668 crore.
- Marginal Improvement in turnover in currency and commodity segments:** The commodity market clocked an ADTO of Rs. 0.39 lakh crore in 9M FY2022 (turnover of Rs. 73.12 lakh crore), up 6% from Rs. 0.36 lakh crore (turnover of Rs. 91.96 lakh crore) in FY2021, driven by energy derivatives. Bullion continued to contribute 40% to the total volumes in 9M FY2022, followed by energy (37%), base metals (16%) and agricultural commodities (7%). The currency segment witnessed a marginal decline in the ADTO to Rs. 0.60 lakh crore in 9M FY2022, after reporting a flat performance with an ADTO of Rs. 0.68 lakh crore in FY2021 and FY2020, with foreign portfolio investors (FPIs) turning net sellers.
- Growing prominence of discount brokerage houses driven by surge in retail participation:** Supported by healthy retail participation over the past five years, discount brokerage houses have cemented their positions and emerged as prominent market participants. The market share of discount brokerages in terms of National Stock Exchange (NSE) active clients increased to 52% as of December 2021 from 1% as of March 2016. On the other hand, bank brokers, which held a market share of over 33% as of March 2016, witnessed a sharp decline in the same during the last few fiscals to ~18% as of December 2021. The share of traditional brokers in total active NSE clients contracted to 30% from 65% during the same period. The industry, however, witnessed a healthy expansion of active clients; the NSE active client base continued to increase and stood at 315.6 lakh clients as of December 2021 compared to 183.6 lakh clients as of March 2021 (101.7 lakh clients as of March 2020). During the same period, the total number of demat accounts increased to 805.9 lakh from 551.0 lakh as of March 2021 and 408.0 lakh in March 2020. Disclosures by prominent listed brokerage entities point towards an increasing share of younger age groups (less than 30 years) in new clients acquired. Along with the healthy increase in net retail client additions, the industry witnessed an improvement in retail broking income per active client. Across a sample of ICRA rated broking companies, the average retail broking income per active NSE client increased by 23% to Rs. 12,127 in FY2021 from Rs. 9,832 in FY2020.

ABOUT ICRA

ICRA Limited (formerly Investment Information and Credit Rating Agency of India Limited) was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange.

Alliance with Moody's Investors Service

The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder. The participation of Moody's is supported by a Technical Services Agreement, which entails Moody's providing certain high-value technical services to ICRA. Specifically, the agreement is aimed at benefiting ICRA's in-house research capabilities, and providing it with access to Moody's global research base. The agreement also envisages Moody's conducting regular training and business seminars for ICRA analysts on various subjects to help them better understand and manage concepts and issues relating to the development of the capital markets in India. Besides this formal training programme, the agreement provides for Moody's advising ICRA on Rating-products strategy, and the Ratings business in general.

The ICRA Factor

Our services are designed to

- Provide information and guidance to institutional and individual investors/creditors;
- Enhance the ability of borrowers/issuers to access the money market and the capital market for tapping a larger volume of resources from a wider range of the investing public;
- Assist the regulators in promoting transparency in the financial markets;
- Provide intermediaries with a tool to improve efficiency in the funds raising process.

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