



SECURITIES BROKING INDUSTRY

**Investor exuberance propelling
industry performance; MTF achieves
a new high**

January 2024



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Market rally in current fiscal led by small-cap and mid-cap scrips; MF industry achieves new highs in equity segment with record AUM and SIP counts

Supported by improvement in market activity, aggregate active NSE client base bounced back in recent months after moderating for a few quarters

With improved capital market activity, the aggregate net operating income (NOI)¹ of the brokerage industry is expected to grow by 18-22% in FY2024, following the 13% increase in FY2023 and the record growth of 37% in FY2022. The growth in FY2023 was primarily driven by a few leading discount brokers with a dominant presence in the futures & options (F&O) segment even as industry-wide brokerage from the cash segment declined amid tepid market conditions. The profitability had also moderated in FY2023, following the peak in FY2022, due to higher operating expenses and increased working capital requirements. However, the aggregate net profit is expected to register a new high in the current fiscal with the increase of 22-25% after remaining flat in FY2023. While ICRA's outlook for the securities brokerage industry remains Stable, the possibility of the industry performance trajectory being impacted by any adverse global/domestic development cannot be ruled out. With new highs in the margin trading facility (MTF) exposures and increased working capital requirements amid the evolving regulatory landscape, the industry has witnessed a sustained and notable increase in the leverage. This has been more noticeable in the case of bank brokers, which enjoy a lion's share in the MTF segment. Going forward, the MTF book growth rate would remain a function of the secondary market.

Recovery in secondary market returns after tepid FY2023

Secondary market returns recovered in the current fiscal after a tepid performance in FY2023. The performance in the preceding months was largely supported by domestic institutional investors (DIIs). Foreign institutional investors (FIIs) too turned net buyers in 10M FY2024 after being net sellers in the last two fiscals. While the domestic markets continue to trade at a premium, the possibility of FII inflows boosting the secondary market returns further cannot be ruled out, given the signs of the pausing of rate hikes.

Resurgence in retail participation; revival in equity mobilisation through public issuances

With the resurgence in investor sentiment, the industry witnessed a revival in equity mobilisation through public issuances in 7M FY2024. Boosted by the improvement in market activity, the active National Stock Exchange (NSE) client base, which was moderating since March 2022, expanded in recent months. The average monthly demat account addition increased to 31 lakh in September 2023 from 16 lakh in April 2023. With the sizeable initial public offering (IPO) pipeline, the retail participation trajectory is expected to remain intact in the near term. In addition to direct equity participation, the mutual fund (MF) industry witnessed an improvement in retail participation, resulting in record equity assets under management (AUM) in the current fiscal.

1: NOI includes net broking income, net interest income, distribution income, advisory income, depository income and other fee income excluding proprietary trading and gains on investment book

Discount brokers continue to gain market share, in terms of active NSE clients, and maintain dominant position in F&O segment

Cash ADTO was 27% higher in 7M FY2024; healthy share of delivery volumes supported yields.

Industry-wide MTF book achieves new highs; bank brokers continue to maintain dominant position

F&O contracts traded increased by ~9 times during FY2020 to FY2023; ~2.5 times YoY increase in 7M FY2024

Growing prominence of discount brokerage houses driven by surge in retail participation

Supported by record retail participation in recent years, discount brokerage houses have cemented their position and emerged as prominent market participants. The market share of discount brokerages, in terms of NSE active clients, increased to 65% in November 2023 from 18% in March 2019. On the other hand, full stack brokers, which held a market share of more than 51% in March 2019, witnessed a sharp decline in the same during the last few fiscals to ~21% in November 2023. The share of bank-based brokerages in, terms of total active NSE clients, contracted to 14% from 35% during this period.

Cash segment volumes rebound amid recovery in secondary market; MTF book achieves new highs

With the recovery in secondary market returns, the cash segment average daily turnover (ADTO) rebounded to Rs. 0.73 lakh crore in 7M FY2024, up 27% from the FY2023 level. The ADTO in the cash segment had started moderating from October 2021, amid dampened investor sentiment, and declined by 20% in FY2023. The MTF segment also gained traction with the revival in market sentiment, 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. While the industry has witnessed a recovery in cash volumes and achieved new highs in the MTF segment, it remains primarily dependent on broader market performance.

Relentless growth in F&O segment continues

Notwithstanding the weak performance of a vast majority of the retail traders in the F&O segment, the participation of the retail segment in F&O increased multi-fold in the past two fiscals, led 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. With the continued participation of the retail segment in the current fiscal, the number of contracts traded increased by ~2.5 times YoY in 7M FY2024.



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Analytical Contact Details

Name	Designation	Email	Contact Number
Karthik Srinivasan	Senior Vice-President	karthiks@icraindia.com	022 – 6114 3444
Anil Gupta	Senior Vice-President	anilg@icraindia.com	0124 – 4545 314
Deep Inder Singh	Vice-President	deep.singh@icraindia.com	0124 – 4545 830
Subhrajyoti Mohapatra	Senior Analyst	subhrajyoti.mohapatra@icraindia.com	080 –4332 6406





ICRA

Business Development/Media Contact Details

Name	Designation	Email	Contact Number
L Shivakumar	Chief Business Officer	shivakumar@icraindia.com	022-61693304
Neha Agarwal	Head – Research Sales	neha.agarwal@icraindia.com	022-61693338
Rohit Gupta	Head Business Development - Infrastructure Sector	rohitg@icraindia.com	0124-4545340
Vivek Bhalla	Head Business Development - Financial Sector	vivek.bhalla@icraindia.com	022-61693372
Vipin Saboo	Head Business Development – Corporate Sector - West & East	vipin.saboo@icraindia.com	022-61693348
Shivam Bhatia	Head Business Development – Corporate Sector - North & South	shivam.bhatia@icraindia.com	0124-4545803
Naznin Prodhani	Head – Media & Communications	communications@icraindia.com	0124-4545860





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