

SECURITIES BROKING INDUSTRY

**Share of commercial paper funding in
capital market exposures at all-time high**

January 2024





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Equity indices reach new highs as investor sentiment revives in the current fiscal

Demand for MTF accelerates with MTF book crossing Rs. 50,000 crore mark in December 2023

Share of CP funding in capital market exposures reaches all-time high as money markets remain primary source of funding for brokers and LAS providers



The domestic benchmark indices registered new highs in December 2023 and further in January 2024, driven by the revival of foreign institutional investor (FII) inflows and the sustained participation of domestic investors. With the resurgence of investor sentiment and the improvement in primary market activity, the active National Stock Exchange (NSE) client base expanded in recent months after having moderated from March 2022. Moreover, the industry witnessed a resurgence in cash segment volumes, with the average daily turnover (ADTO) reaching an all-time high in December 2023.



After the tepid growth in margin trading facility (MTF) exposures in FY2023, the MTF exposures crossed Rs. 50,000 crore, reaching a new high in December 2023 amid the improvement in secondary market returns. While brokers have witnessed a narrowing of lending spreads with the gradual increase in money market borrowing rates amid tight liquidity in banking system, the churning in the MTF exposures has supported an increase in delivery cash volumes.



While brokers historically had low dependency on money market borrowings, they have reported a notable increase in the same with the material scale-up in the MTF loan book since CY2021. With the sharp growth in the MTF book, the commercial paper (CP) borrowings outstanding for ICRA's sample of leading securities broking companies increased to an all-time high of ~Rs. 45,000 crore, accounting for 11% of the overall CP outstanding in November 2023 compared to 2% two years ago. The share of CP outstanding of LAS-focused NBFCs has also crossed 4% from less than 2% till a few years ago.



While the black swan event in March 2020 didn't result in any losses for MTF and loan against security (LAS) focused entities, the leverage at the system level was low at that time. The aggregate MTF book of the industry has grown to Rs. 54,375 crore as of January 11, 2024, from about Rs. 7,100 crore as of February 20, 2020. With sizeable increase in leveraged positions, the industry's ability to manage the heightened risk during periods of market turmoil remains to be seen.



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