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SECURITIES BROKING INDUSTRY

Golden run set to pause as regulatory measures kick in to curb hyperactive trading in derivatives

DECEMBER 2024

Agenda

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Key Updates and Takeaways

Highlights

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Industry stares at moderation in performance from peak in H1 FY2025; 5-10% decline in revenues and margin contraction of up to 500 bps in FY2026 cannot be ruled out

The securities broking industry is expected to witness moderation in performance from Q4 FY2025 onwards, after having scaled new peaks in preceding periods. The aggregate net operating income (NOI)[1] of the securities broking industry grew over 40% YoY in FY2024, which coupled with operating leverage resulted in record profitability with profit after tax (PAT)/NOI of 46% (past 5-year average of 39%) and return on equity (RoE) of 29%. The trajectory continued in H1 FY2025 as well aided by vibrant activity in primary and secondary markets; and is estimated to have supported 30% revenue growth and a new high in profitability. However, with implementation of regulatory measures to curb irrational exuberance in weekly index derivatives, the industry is staring at a revenue de-growth. Meanwhile, the headline profit and revenues in FY2025 are likely to touch new highs supported by performance so far in the current fiscal. As per ICRA's estimates, a degrowth of 5-10% in industry-wide NOI and a resultant margin contraction of up to 500 bps in FY2026 from H1 FY2025 cannot be ruled out. The moderation is expected to be more pronounced for discount brokers with high share of revenues from index options, while on the other hand, full stack brokers (including bank brokers) by virtue of their relatively diversified revenue mix would be impacted to a lesser extent.

Equity mutual fund AUM# scales new high with record SIP^ registrations; though some slowdown in additions witnessed in recent months

Unprecedented scaleup of retail participation in recent fiscals

In recent years, the industry has witnessed sizeable participation of retail investors. During March 2020 to October 2024, unique retail investors in mutual funds grew by ~2 times to ~5 crore, their direct participation in equities has been more prominent with ~5-fold increase in national stock exchange (NSE) active clients to 4.8 crore as of October 31, 2024. Despite selloff of over Rs. 7 lakh crore by foreign portfolio investors (FPIs) in the cash equity segment in the past 45 months, the market has been supported by strong domestic participation*. In the derivative segments, the surge in retail participation has been even sharper with about 19 times increase in active traders to ~96 lakh in 2024 from ~5 lakh in 2019. About half of the new investors in 2024 participated in derivatives.

*[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; * estimated to be over Rs. 12 lakh crore (including mutual funds, insurance and direct equity investments by retail); ^ Systematic investment plan; # Asset under management*

Highlights

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Average daily index options traded in December falls by 54% from peak in September 2024; despite remaining higher than FY2023

Introduction of a new weekly index option in January 2025 likely to lend some support

Cash ADTO declines by 31% in December from peak in June 2024; nonetheless remains better than historical levels

MTF book sustains above Rs. 80,000-crore mark

Trading activity in index options tumbles with onset of regulatory measures

After relentless growth of trading activity in index options in the past fiscals, it plummeted in December 2024 with implementation of regulatory measures starting from November 20, 2024. Till December 29, 2024, the average daily premium turnover/average daily option contracts traded declined by 14%/37% from November 2024, 25%/45% from October 2024, and 7% each from FY2024, respectively. Nonetheless, it continues to be higher by 24%/140% from FY2023. ICRA notes that the recent fall could also be influenced by seasonal factors (although it did not influence the trend last season), temporal market sluggishness, and adjustment period for recalibration of trading strategies by traders/investors. Additionally, a meaningful adoption of MSEI-SX40 weekly index options (commencing January 2025) could also soften the impact to some extent. More clarity is expected to emerge in the forthcoming quarters. Earlier, the industry witnessed key regulatory implementations such as peak margin reporting, 50% cash margin, and prohibition on use of client funds for availing bank guarantees, but it overcame the hiccups without much impact.

Cash volumes and MTF[2] too moderated in recent months after strong pickup in past 6 quarters

Supported by buoyant market conditions in the initial quarters of the current fiscal, the cash segment average daily turnover (ADTO) increased to Rs. 1.29 lakh crore in 8M FY2025 up by 46% from FY2024. However, the cash volumes started moderating from peak in June 2024 amid tapering secondary market returns. In December 2024, the cash ADTO moderated by 31% from peak observed in June 2024, nonetheless it continues to be higher by 25% from FY2024. The MTF book too moderated by 6% in the subsequent period after achieving peak of Rs. 85,400 crore in September 2024. Despite, temperedness in the market, the MTF exposures have remained largely resilient and continue to support delivery volumes. However, the possibility of the industry being impacted by any adverse global/domestic development cannot be ruled out. With increasing MTF and working capital requirements, the aggregate borrowings and financial leverage may continue to increase.

[2]*MTF- margin trade financing*

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Thank You!