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SECURITIES BROKING INDUSTRY

Regulatory measures and waning secondary market returns temper trading volumes and brokers' performance

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Key Updates and Takeaways

Highlights

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Momentum in demat additions cools from record highs; while average monthly additions in 8M FY2026 fell 27% YoY, active NSE clients contracted by 8%

Although equity MF AUM# scales new high with record SIP^ registrations, pace of additions has moderated from record levels seen last year

After moderating from record highs, the securities broking industry is poised for a gradual rebound, supported by rising MTF[2] exposures and stabilising trading volumes amid improving investor sentiment, though profitability is expected to remain below the record levels of FY2025. Supported by buoyant trading activity in H1 FY2025, ICRA's sample set of 41 brokers reported ~20% year-on-year (YoY) growth in NOI[1] in FY2025, resulting in strong profitability with net profit from core operations/NOI of 36% (past 5-year average: 34%). However, the decline in trading activity from record levels amid domestic and global headwinds, coupled with the full impact of regulatory measures (phased implementation starting November 2024) in the current fiscal, is estimated to have caused a 6% revenue reduction and an almost 500-basis point (bps) contraction in profitability margins during H1 FY2026. Nonetheless, with the stabilisation of volumes, early signs of recovery in investor sentiment and rising revenue contribution from MTF, aided by scale-up in exposures and the easing cost of funds, ICRA expects the industry-wide NOI to grow about 10% in FY2027 with a resultant margin expansion of up to 200 bps from the current level. The performance will, nevertheless, remain sensitive to global and domestic factors besides regulatory uncertainties.

Retail participation moderated, post regulatory tightening in F&O segment and easing secondary market returns

Amid the challenging market backdrop and reforms in index derivatives framework from November 2024, retail risk appetite recalibrated, with investments through mutual funds (MFs) increasingly preferred while direct participation in secondary market moderated. While individuals deployed over Rs. 4.6 lakh crore directly in equities since the pandemic, they became net sellers in 8M FY2026 for the first time, registering a modest Rs. 0.13 lakh crore outflow as interest shifted to initial public offerings (IPOs) and bullion, and prior gains were monetised. Consequently, demat additions cooled from record highs, with monthly additions falling 27% YoY in 8M FY2026. Participation of existing investors also weakened, with active clients contracting by 8% between March and November 2025, underscoring the slowdown in engagement. The reversal in client participation was most pronounced in derivatives, with the number of unique investors trading on NSE in November 2025 falling sharply, reverting close to the level seen three years ago.

[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; ^Systematic investment plan; # Assets under management; [2] Margin trade financing

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Cash ADTO was 21% lower during October-November 2025 compared to the Q2 FY2025 high but remains well above historical levels

MTF book climbs new high, crossing Rs. 1,15,000-crore mark; contribution in brokers revenue profile continues to inch up

Average daily options contracts traded rebounded 33% from Q1 FY2026 lows during October-November 2025; remained 5% above Q1 FY2024 level

Cash volume levels out from record levels, though MTF continues to scale new highs

With tapering returns in small cap counters and shifting investor preference towards MFs, the cash segment average daily turnover (ADTO) has moderated in recent months. Subdued derivatives trading further weighed on associated cash positions, which typically form a part of broader trading strategies. After peaking at Rs. 1.39 lakh crore in Q2 FY2025, the cash ADTO declined to Rs. 1.09 lakh crore in Q3 FY2026 (October-November), though it remains above the 10-quarter average of Rs. 1.05 lakh crore and FY2024 levels. It stood at Rs. 1.10 lakh crore in 8M FY2026 versus Rs. 1.21 lakh crore in FY2025 and Rs. 0.88 lakh crore in FY2024. Meanwhile, the industry's gross MTF book, which expanded 5.7 times between March 2021 and March 2025, rebounded after a brief correction to touch a new high of Rs. 1.16 lakh crore by November 2025, with investor sentiment turning a corner. However, the possibility of adverse global or domestic developments impacting the industry cannot be ruled out and aggregate borrowings and financial leverage may continue to increase with rising MTF and working capital requirements for securities brokers.

After sharp decline due to regulatory tightening, trading in derivatives begins to stabilise with early signs of recovery

Following an unprecedented surge in index derivatives trading – driven by miniaturised contracts, daily expiries, and multiple weekly options – the phased implementation of regulatory measures from November 2024 triggered a steep correction in volumes. Average daily options contracts plunged to 21 crore in Q1 FY2026 from the peak of 70 crore in Q2 FY2025, though the impact on order volumes, critical for futures & options (F&O) brokerage revenues, was relatively moderate at 25-35%. Exchanges' move to restrict weekly index options to Nifty 50 on NSE and Sensex on Bombay Stock Exchange (BSE) curtailed speculative participation to some extent. Nevertheless, aided by recalibrated trading strategies and reshuffled expiries, daily volumes rebounded by 33% from the Q1 lows to 28 crore in Q3 FY2026 (October-November), marginally surpassing the Q1 FY2024 level.

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Thank You!