



BROKERAGE INDUSTRY

**Moderation in Q1 FY2023, following
record performance in FY2022**

AUGUST 2022





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The domestic capital markets reported a strong performance in the past two fiscals with healthy participation of retail investors and domestic institutions, and large number of initial public offerings. As the average daily turnover (ADTO) increased at a compound annual growth rate (CAGR) of 123% in the past two fiscals to Rs. 71.7 lakh crore in FY2022, the broking industry reported a record performance in FY2022. While the net operating income (NOI) of ICRA's sample of broking entities almost doubled during this period, the profitability (profit after tax (excluding mark-to-market (MTM) gains)/NOI) increased to 38% in FY2022 from 25% in FY2020.



However, investor sentiment dampened in recent months amidst geopolitical tensions and the adverse macroeconomic outlook, which led to a moderation in the capital markets with a decline in the transaction volumes of high-yielding segments. As a result, the industry witnessed a moderation in its performance with a 10% quarter-on-quarter (QoQ) decline in the NOI while the profitability moderated to 34% in Q1 FY2023 from 38% in FY2022. Additionally, the net fair value losses on the investment book, owing to market corrections, remained a drag on the overall profitability.



After reporting a healthy growth in the past two fiscals, incremental retail participation tapered in the current fiscal with the pace of addition of new clients moderating from the peak witnessed in the last fiscal. Additionally, foreign institutional investors (FIIs) remained net sellers in H1 CY2022, though the industry witnessed early signs of reversal of this trend in August, post the sustained net outflows during October 2021 to July 2022. Given the anticipated near-term revision in domestic and global policy rates, the level of participation of retail investors, FIIs and domestic institutional investors (DIIs) in the domestic markets remains a key monitorable.



Nonetheless, overall retail participation and transaction volumes are expected to remain healthy compared to the pre-Covid-19 pandemic levels. On the back of this, the outlook for the brokerage industry is stable, though its revenue trajectory and profitability are expected to moderate from the FY2022 levels.



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