



# SECURITIES BROKING COMPANIES

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**Margin trading facility volume steady  
even as cash market turnover subsides**

**JUNE 2023**



*While the industry-wide MTF exposure grew over 7x during the two-year period ending March 2022, loan books have remained relatively tepid thereafter*

*Stagnant loan books, coupled with narrowed lending spreads, are likely to keep the profitability of the MTF segment under pressure; however, recent easing of money market yields may provide relief in the near term*



- The average daily turnover (ADTO) in the cash segment started moderating from October 2021 due to dampened investor sentiment caused by intensifying global headwinds. This trend has sustained in multiple quarters and the cash segment ADTO was 22% lower in Q4 FY2023 compared to the year-ago period.



- The dampening of investor sentiment has been accompanied by arrested growth in the margin trading facility (MTF) segment. However, overall MTF exposures have held up, unlike the dip in the cash segment ADTO. While the MTF exposure across the industry grew by over 7x to Rs. 24,525 crore during the two-year period ending March 2022, the loan book has stagnated since then, hovering between Rs. 25,000 crore and Rs. 28,000 crore.



- Brokers primarily relied on money market borrowings for expanding their MTF books. With rising systemic interest rates, money market borrowings became expensive for brokers in FY2023. Further, due to high competition, brokers have limited ability to pass on the hikes to customers. This led to pressure on the net interest margins in FY2023.



- ICRA expects the MTF book size to remain range bound in current year as the active investor base and cash segment volumes are expected to moderate, though, improving penetration of MTF can offset the impact of moderation in overall investor participation. While this shall keep the leverage levels of the brokers steady, the stagnant MTF loan books combined with narrowed lending spreads are likely to keep the MTF segment's profitability under pressure. Nevertheless, the recent easing of yield on money market instruments may provide some relief in the near term.



- Despite the anticipated moderation in overall profitability of brokers, the same is expected to remain healthy with RoE of 15%-20% in FY2024. Hence, the outlook on the securities broking industry remains 'Stable'.



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