

India's online brokers face profits hit after regulatory clampdown



Intervention by watchdog Sebi to calm frenzied trading brings down volumes by 70%

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Indian online brokerages face a hefty hit to their revenues, say industry executives, after the regulator intervened to curb retail investors' frenzied trading of risky derivatives markets.

The Securities and Exchange Board of India (Sebi) became concerned last year about millions of young Indians gambling in the derivatives markets to try to quickly profit from the country's soaring stock market.

With nine out of 10 losing money, Sebi unveiled plans to raise barriers to trading and temporarily ban some prominent "finfluencers" that young people have looked up to for financial advice.

Daily volumes of index options plunged 70 per cent between November and January, according to Jefferies, even though the rules are yet to be completely rolled out — and that is starting to hit brokerage groups that had profited handsomely from the trading boom.

"People who had no business being in the stock market were gambling because you could trade as low as a dollar," said Siddhartha Bhaiya, managing director of Aequitas Investment Consultancy in Mumbai.

India is the world's largest equity options market and last year accounted for 89 per cent of volumes globally, according to data from industry body the FIA.

Bhaiya estimated that Indian retail investors lost \$20bn in the three years to March 2024 and the same again in the nine months since — as global high-frequency traders profited.

"For the brokers, the volumes were unsustainable," he said, pointing to India's huge derivatives volumes compared with other markets.

With the average daily turnover having fallen significantly, "your revenues are going to go down", which will impact their profitability, he added.

During a quarterly earnings call in January, Dinesh Thakkar, chair of Angel One, one of the country's largest brokerage houses, estimated a 13 to 14 per cent hit to total net income.

The company's gross revenue declined 17 per cent to \$146mn in the quarter ending December compared with the previous quarter.

"We will know more about the real impact of these interventions by the end of March," said Thakkar.

Sebi's crackdown includes raising the minimum contract size on index derivatives by nearly three times to Rs1.5mn (\$17,300), limiting trading of weekly options contracts to one per exchange, and improved transparency of transaction fees.

Its move came after the watchdog and India's finance ministry repeat-

edly warned of the risks of derivatives markets.

Investors can use options to leverage their bets by borrowing many times the amount they have on deposit, but this can magnify losses as well as gains.

Somnath Mukherjee, vice-president for corporate development at Zerodha, one of Angel One's top competitors, told the Financial Times that the operating revenues for the top players might suffer by up to 40 per cent by March, not counting the revenue added through other sources and new clients.

He did not share his company's own figures.

HDFC Securities, the trading arm of India's largest private bank, saw its net revenues drop 13 per cent to \$91mn in the fourth quarter of last year compared with the previous quarter.

Ananth Narayan Gopalakrishnan, a Sebi board member, said in a public lecture last month that the regulator's analysis last year "showed that a bulk of small investor losses were specifically in trading — indeed, overtrading in index options on expiry day, when premiums are very small".

Sebi had intervened while keeping investor protection and market stability in mind, he said.

It was still "too early" to pass judgment on the measures, but the regulator noticed a 31 per cent month-on-month reduction in notional volumes and about 13 per cent reduction in the actual premium in December, Gopalakrishnan added.

High growth: India is the world's largest equity options market and last year accounted for 89 per cent of volumes across the globe

Dhiraj Singh/Bloomberg

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"This is in line with our objectives of improving the quality of the trades, without coming in the way of trading and risk management," Gopalakrishnan said.

Another senior Sebi official told the FT that it had to intervene due to the amount of trading activity.

"The threat was becoming systemic," the official said.

Gaurav Seth, chief executive of broker 5paisa Capital, said in its earnings call in late January that the company's broking revenue dropped 8 per cent quarter-on-quarter to \$28mn, which was "primarily due to new regulations related to Sebi and [futures and options] norms".

The regulatory changes have affected client participation and — with the capital markets having fallen by about 10 per cent, he said — the industry-wide acquisition of new customers was down by 24 per cent to 9.9mn between the third and fourth quarters of 2024.

Zerodha's Mukherjee said the regulatory changes have sped up the brokers' plans to boost their earnings, including offering more services and increasing their fees in the long run, and some brokers have already revised pricing in certain segments.

"Brokers are waiting to see the entire after-effects," he said. "As it's still only from January that these changes have come into being . . . there is scope to increase brokerage [fees]; that will eventually happen."

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