



INDIAN BROKING INDUSTRY ANALYSIS

October 2022

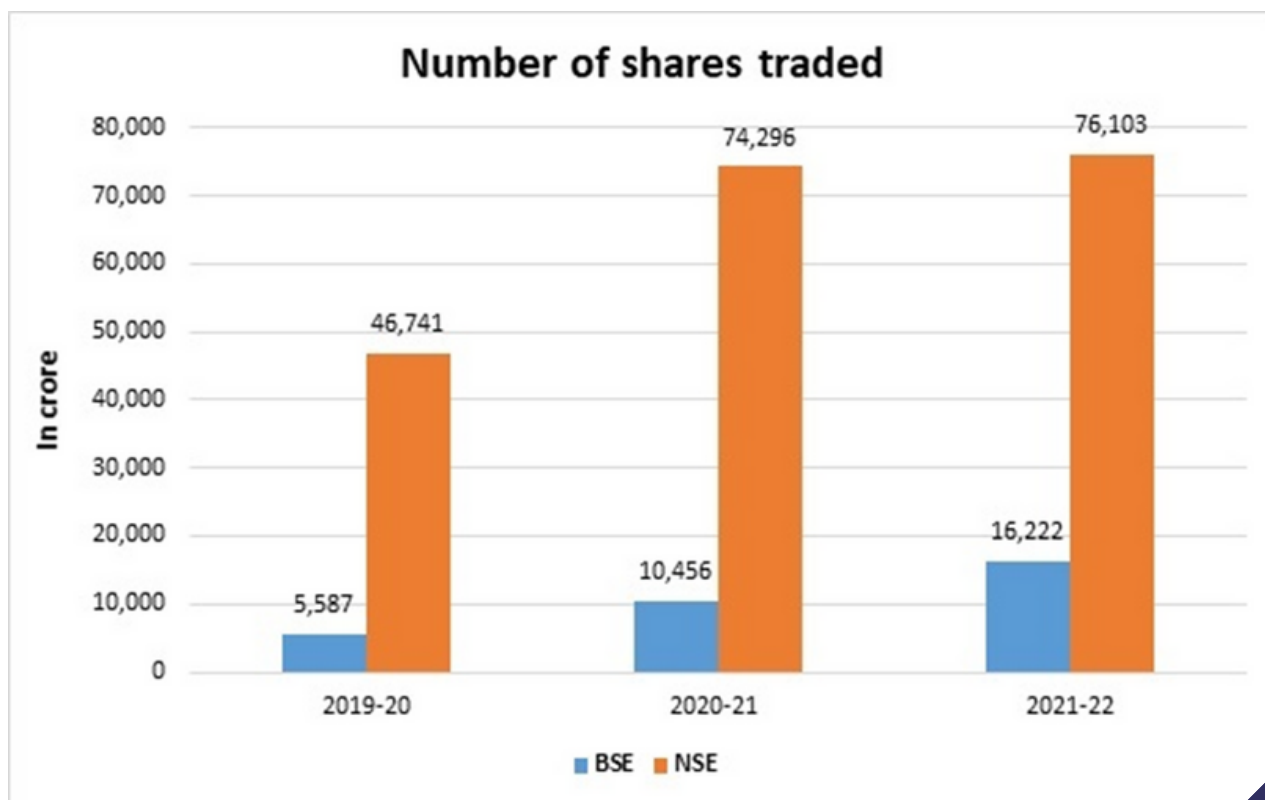


Indian stock broking industry offers a variety of financial services to clients and based on the services provided, there are two main types of brokers for stock market: Full-Service Brokerage firms and Discount Brokerage houses. Full-Service Brokerage firms offer a wide range of services such as trading facilities in stocks, commodities and currencies, advisory, research, asset management and retirement planning services, while discount brokerage firms just provide the trading facility services at low and fixed brokerage fees. They do not offer advisory services and generally use online platforms to offer services.

In recent years, Indian capital market's growth has been phenomenal which is reflected in increase in market cap, turnover, number of participants, product range etc. and rising retail participation in equity trading and growth across the segments like broking, and wealth management has contributed the most growth in the broking industry.

Trading Statistics of Stock Exchanges inside

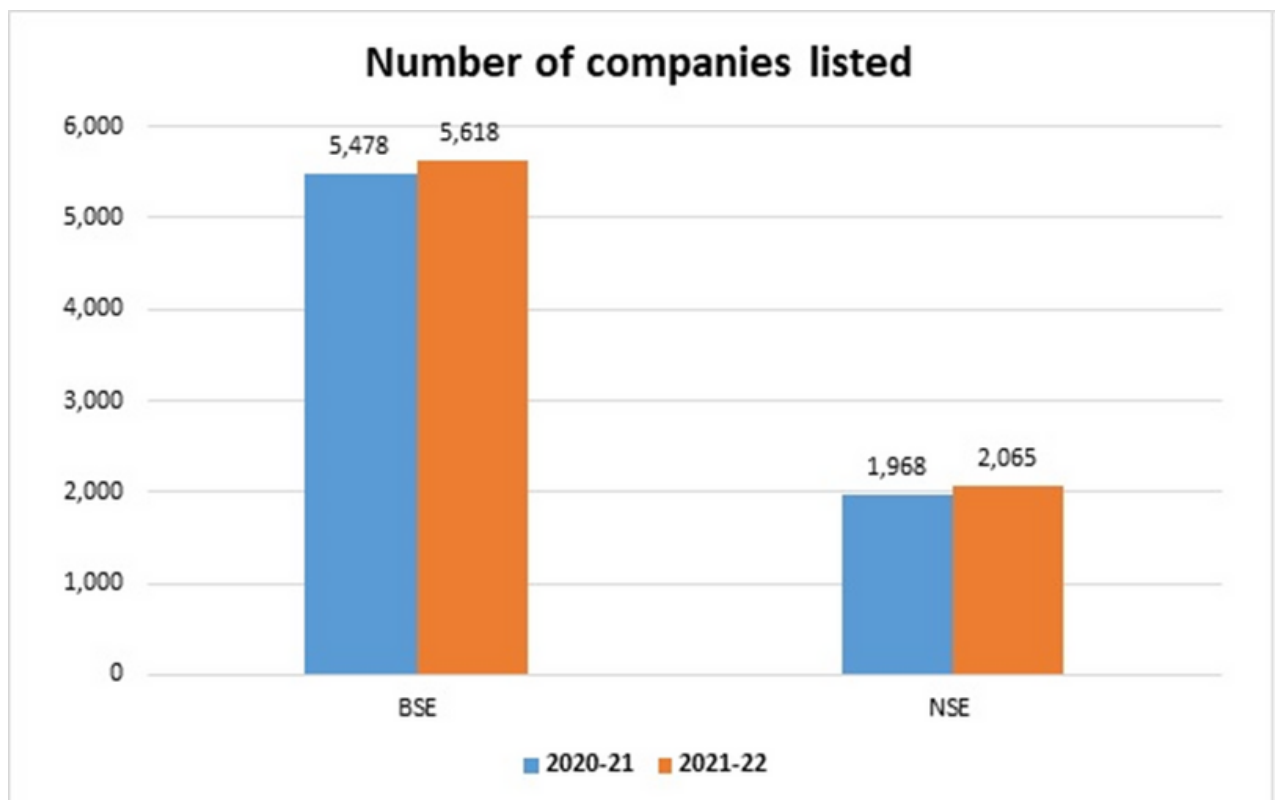
There were 248 trading days available in 2021-22, while the total number of shares traded at BSE was 16,222 crore in 2021-22 as against 10,456 crore in 2020-21. At NSE, 76,103 crore shares traded during 2021-22 as compared to 74,296 crore in 2020-21. Besides, cash segment turnover of BSE increased to 13.4 lakh crore in 2021-22 from Rs 10.5 lakh crore in 2020-21, while NSE's turnover in the cash segment increased to 166 lakh core in 2021-22 from Rs 154 lakh crore in 2020-21.



Market capitalization of BSE & NSE

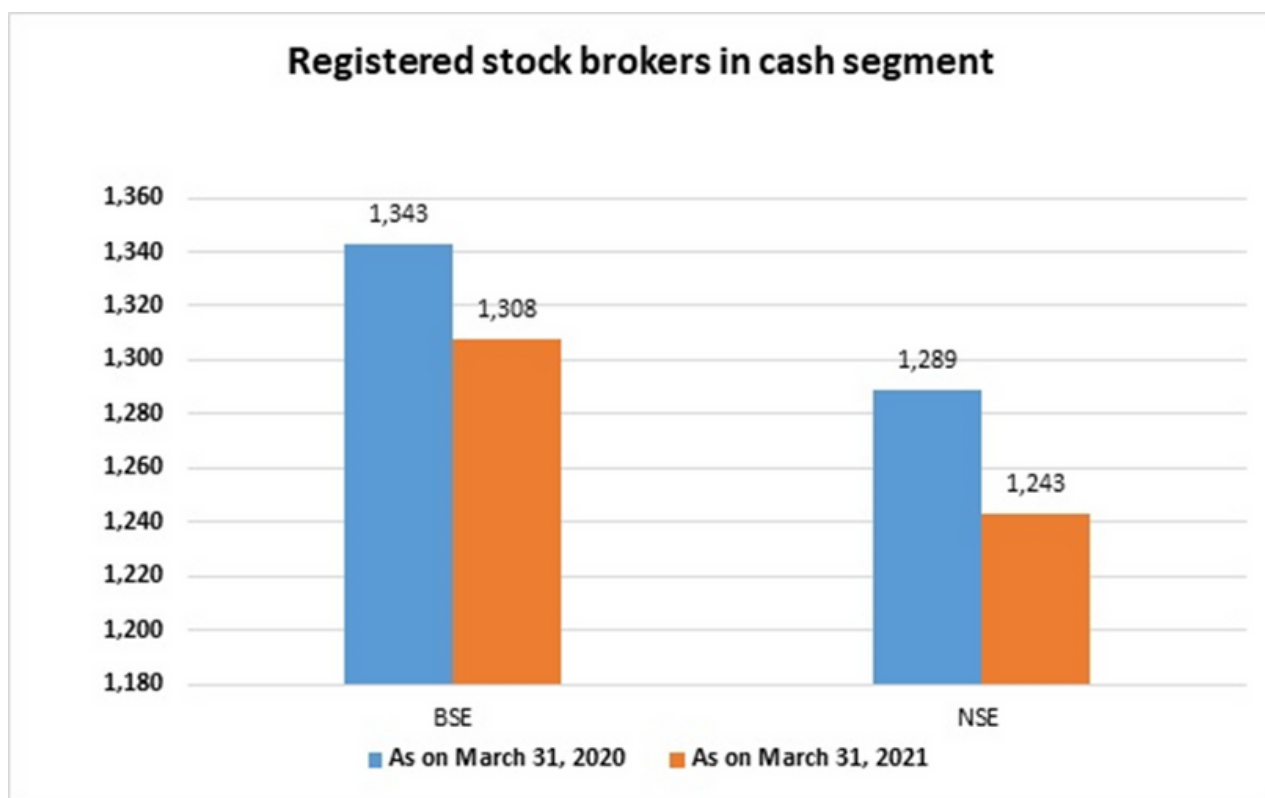
At the end of 2021-22, total market capitalization at BSE increased to Rs 264.1 lakh crore as against Rs 204.3 lakh crore in 2020-21, while total market capitalization of NSE surged to Rs 261.8 lakh crore at the end of 2021-22 from 203 lakh crore in 2020-21.

While the number of companies listed at BSE increased to 5,618 at the end of March 2022 from 5,478 at the end of March 2021, the number of companies listed at NSE also surged to 2,065 at the end of March 2022 as against 1,968 at the end of March 2021.



Registration of stock brokers

During 2020-21, the cash segment witnessed higher cancellation or surrender of memberships than fresh additions across the exchanges. Though, the fresh membership were granted to 17 stock brokers in the cash segment of BSE and 18 stock brokers in the cash segment of NSE, 52 stock brokers at BSE and 64 stock brokers at NSE lost their membership either on account of cancellation or surrender. At the end of March 2021, the total number of registered brokers in the cash segment of BSE and NSE stood at 1,308 and 1,243 respectively, marginally lower than 1,343 and 1,289 stock brokers respectively at the end of previous year.

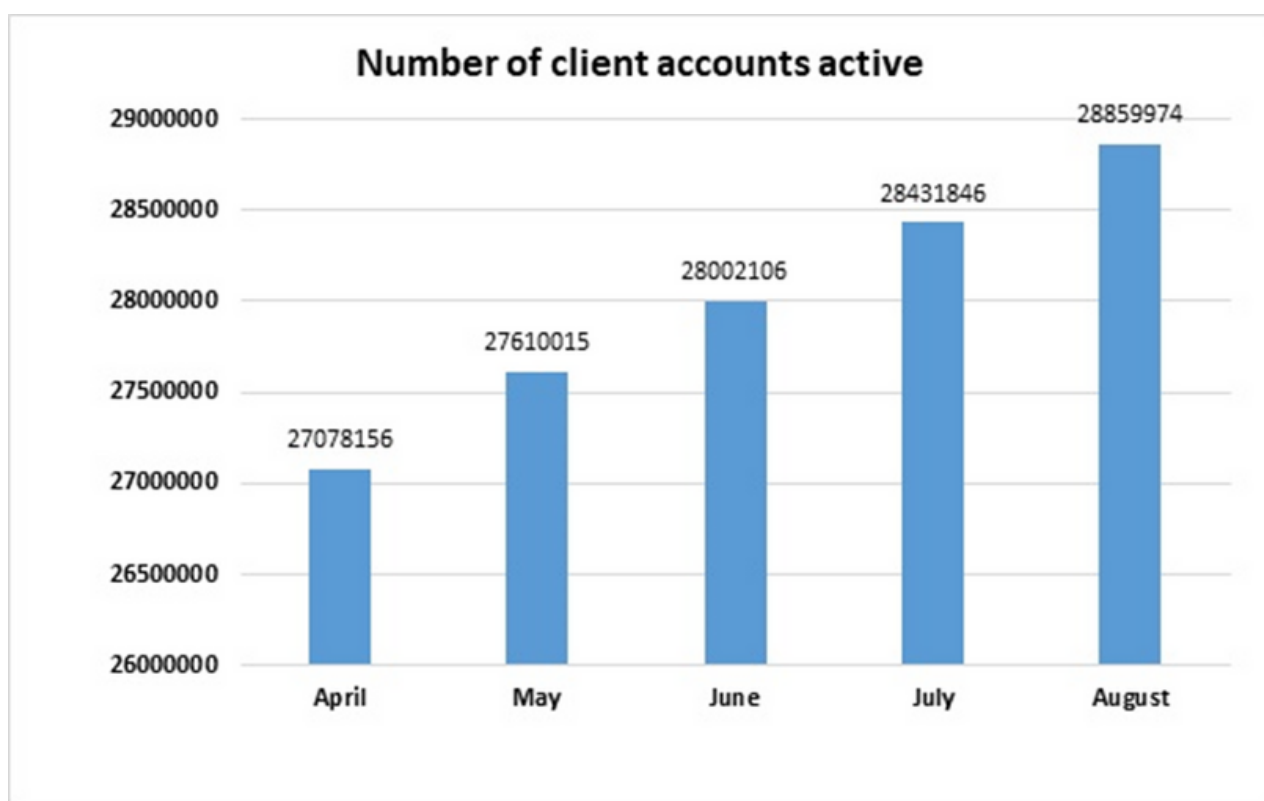


Number of client accounts active

The participation of investors in the Indian stock markets is increasing with the growing knowledge about investing and about different asset classes. As per the National Securities Depository (NSDL), number of client accounts active increased 1.51% to 2,88,59,974 as on August 31, 2022 as against 2,84,31,846 accounts as on July 31, 2022, an addition of 4,28,128 accounts.

Out of total, active accounts of resident clients was higher by 1.52% to 2,81,15,364 as on August 31, 2022 compared to 2,76,93,068 accounts as on July 31, 2022, an addition of 4,22,296 accounts. Besides, active accounts of NRI clients also rose 1.24% to 3,87,825 as on August 31, 2022 as against 3,83,081 accounts as on July 31, 2022. However, active accounts of Bank clients decreased marginally to 4,941 as on August 31, 2022 as compared to 4,954 as on July 31, 2022.

Besides, as per the NSDL, FPI client accounts active stood at 11,323 as on August 31, 2022, higher by 0.01% as compared to 11,240 as on July 31, 2022, while active accounts of HUF clients surged to 2,06,249 as on August 31, 2022 as against 2,05,668 active accounts as on July 31, 2022.



Reforms and initiatives

Maintenance of current accounts in multiple banks by stock brokers

In order to facilitate seamless settlement of funds and for the convenience of investors, the Securities and Exchange Board of India (SEBI) clarified that stock brokers should maintain current accounts in appropriate number of banks for holding the client funds (i.e., client account), for settlement purposes (i.e., settlement account) and any other accounts mandated by stock exchanges such as exchange dues account subject to the condition that brokers are using these accounts for their defined purposes. The clarification comes after SEBI received representations regarding the issue being faced by stock brokers. They requested the regulator to issue instructions in respect of maintenance of current accounts in multiple banks.

Execution of Power of Attorney by the Client in favor of the Stock Broker / Stock Broker and Depository Participant

To protect the interest of investors by discouraging the use of power of attorney (PoA) in the securities market and to mitigate any chances of fraud by the brokers, vide circular dated August 27, 2020, it was specified that PoA is optional and PoA which is executed in favour of stock broker / stock broker depository participant by the client needs to be utilized for transfer of securities held in beneficial owner accounts, deliveries/settlement obligations, pledging/re-pledging etc.

Sebi issues guidelines for brokers providing algorithmic trading services

SEBI came out with guidelines for stock brokers, who provide services relating to algorithmic trading to investors, in order to prevent instances of mis-selling. The guidelines came after the Securities and Exchange Board of India (Sebi) observed that certain stock brokers provide algorithmic trading facilities to investors through unregulated platforms.

The unregulated platforms are offering algorithmic trading services or strategies to investors for automated execution of trades.

SEBI updates cyber security framework for stock brokers

The SEBI unveiled modifications in cyber security and cyber resilience framework for stock brokers and depository players as part of its investor safeguard mechanism. As per the Sebi's circular, stock brokers and depository participants must notify the stock exchanges or depositories as well as SEBI of any cyberattacks, threats or breaches within six hours of them becoming aware of the incident or it being brought to their notice.

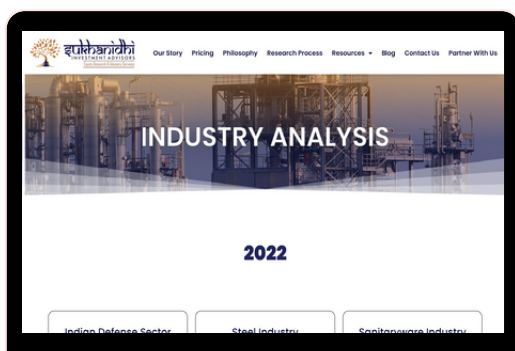
The incidents must also be reported to the Indian computer emergency response team (CERT-In) with accordance to the rules or directions that are issued by CERT- In. Additionally, the National Critical Information Infrastructure Protection Centre (NCIIPC) requires stockbrokers, and/or depository participants with systems designated as 'Protected Systems' to report such incidents.



Outlook

Indian stock broking industry is likely to witness growth with increasing participation of investors and rising financial literacy across the country. The industry will continue to innovate and adopt technology in products and services, which will deliver a superior customer experience, strengthen business processes of the industry and help to deeper market penetration. The growing penetration of internet and smartphone will also help the sector to expand its customer base.

The growth of the industry will be supported by favourable liquidity in both domestic and international markets and better-than-expected corporate earnings. Client addition for the broking firms is expected to remain healthy, amid increased interest among various investor groups along with attraction towards flat brokerage plans. With increasing number of clients opting to conduct transactions online, the broking industry players will consolidate their networks and prefer to have fewer branches.



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