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Broking firms revive expansion plans Several Firms Look To Set Up Own Branches While Others Try The Franchisee Route

Apurv Gupta
MUMBAI

EVEN as trading volumes on the bourses have been stagnant for the past several months, many retail stock broking firms are gradually reviving their expansion plans which had been put on hold during the stock market downturn.

These brokerages are plodding cautiously, as retail participation is yet to pick up in a big way. Some large firms are expanding by setting up their own branches, while others are looking at the sub-broker route to increase their presence.

"We will continue to expand through our own branches, sub-broker and online route," says D Kannan, managing director, Kotak Securities, adding that the mix will depend on the location where they are looking to expand.

For instance, in a remote location, Kotak Securities may choose to have

one branch and about half-a-dozen franchisees.

Many large brokerage houses had either merged or closed quite a few branches when the market nose-dived between January 2008 and March 2009.

"We will be opening close to around 75 offices in this financial year of which most of them will be own branches," said Satish Menon, director, operations, Geojit BNP Paribas Financial Services.

"In a branch network, it is possible for us to sell all kind of products to our clients, which may not be fully possible with a franchisee," added Mr Menon, whose firm plans to expand in tier 2 and 3 cities.

Both own-branch and franchisee models have their advantages and disadvantages. During an uptrend, it is profitable to have your own branches as you do not have to share

the profits. In a downturn, it is better to have franchisees, as it helps keep operating costs to the minimum.

Experts say that expanding through own branches yields returns only in the long run, though it is expensive in the short term.

"Branch costs have gone up by around 30-35% primarily because of the rent increase and subsequently that increased the deposit charged for the office," says Mr Menon.

Agrees Divyesh Shah, CEO of Indiabulls Securities. "The cost of setting a new branch has increased considerably but then it depends on the cities where you wish to set up the branch. Even tier 3 cities are getting expensive," he says.

Rahul Rege, business head—retail, Emkay Global Financial Services, says merely increasing the number of branches will not add to the bottomline. "Rather than

expanding heavily through new branches and franchisee, we are moving away from micro retail to higher ticket (mass affluent) retail clients. It is not commercially viable to operate new branches, given the increase in cost structure so it is better to upgrade the current infrastructure and increase manpower," he added.

While the broking houses were already feeling the pressure of declining trading volumes, BSE's move to slash membership deposit rates by 90% has some of the smaller brokerages worried.

But the large firms are unfazed. "Membership fee is a very small part of the total working capital required in this business," says Mr Ketan Shah of Angel Broking.

"One also needs to maintain capital with the exchanges, investment in infrastructure and systems & processes in place apart from compliance to all regulatory requirements," he says.

apurv.gupta@timesgroup.com

