

THE ECONOMIC TIMES

Broking firms take a hit as investors play it safe

Business Slumps As Most Investors Wait For Correction Before Buying Again

Apurv Gupta
MUMBAI

MOST retail brokerage firms have been left holding their heads in despair, as rangebound movement in share prices have kept high net worth and retail investors away from the market for the better part of the current quarter. Analysts tracking the sector say earnings of retail brokerage firms for the current quarter could be under pressure because of indifferent clients.

Key share indices have risen over 20% in the past six months. But that has not made much of a difference to the shares of brokerage firms which, in fact, have fallen 20-30% during his period. Barring a few, stock prices of most of the brokerages peaked out in the second half of 2009.

"Retail volumes have dipped in the last couple of months," says Angel Broking ED (equity broking) Vinay Agrawal. "This is because of the sideways movement in share prices. Investors are waiting for either a correction or a breakout, to start buying afresh," he says.

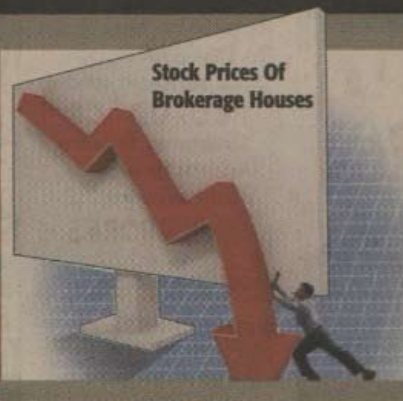
Some brokers say poor performance of some of the prominent initial public offerings (IPOs) in the past six months has also contributed to investor apathy. Usually, when IPOs deliver good returns, investors re-invest the profit in the secondary market.

"The next financial year is going to be challenging," says Kotak Securities executive vice-president Trivikram Kamath. "Retail participation has not been going up. As a result, the share of cash market turnover in the total turnover has gone down from one-fourth in 2007 to less than one-fifth in this quarter. We expect that

DOWN IN THE DUMPS

Brokerage House	CMP	52-Wk High	% Fall
India Infoline	120	173	-31
Religare Enterprise	370	523	-29
Networth Stock Broking	41	58	-30
Geojit BNP	35	53	-34
Emkay Global	84	97	-13
Motilal Oswal	175	190	-8
Edelweiss Capital	430	542	-21
Indiabulls Securities	31	61	-49
JM Financials	36	65	-44
Aditya Birla Money	55	71	-23

Source: ETIC Database



some small and small medium brokerages will exit the business by selling out to the larger players," he added.

According to stock exchange data, the share of retail investors in the equity derivatives segment has fallen to its lowest levels in the past six years. Similarly, retail investor participation in the cash market too has declined after the rally in mid- and small-cap shares fizzled out in January.

In January this year, retail investors grossed a turnover of Rs 16.2 lakh crore, about 54% of the total traded turnover in the futures and options segment. This is down from the peak of 67% (Rs 20.4 lakh crore) in the later part of 2007. Dealers say that most of the retail clients and HNIs are playing safe by avoiding leveraged bets.

"Overall volumes are down 5% and cash equities volumes are down 13% quarter-on-

quarter reflecting in the stock prices of stock broking firms," says Pankaj Agarwal, an analyst with Execution Noble, an investment banking group.

Average daily turnover in cash and derivatives segments of both the exchanges stood at Rs 55,000 crore in Q4FY09 — one of the worst quarters in recent times. However, the turnover jumped by 60% in the next quarter to around Rs 92,000 crore. Since then, this figure is hovering between Rs 90,000 crore and Rs 1,00,000 crore till this quarter. Cash market volumes have been declining every quarter.

For broking firms, it is the cash market transactions that yield the best margins. While turnover in the options segment has been on the rise, brokerage firms are unexcited because option trades generate low margins.

apurv.gupta@timesgroup.com