

Big Brokers Tie up with Smaller Peers to Cut Costs



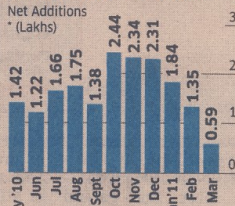
Big Brokers Aim at a Bigger Footprint

Number Of Sub Brokers In Indian Markets



SOURCE: SEBI

Number Of Demat Accounts



* Number of demat accounts opened with NSDL and CDSL

SOURCE: NSDL & CDSL

Most are appointing sub-brokers on a high profit-sharing basis to expand investor base

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Eroding profit margins, dwindling retail revenue and lacklustre markets have prompted brokerages in India to appoint sub-brokers on high profit-sharing basis to expand reach in small cities and towns. An increasing number of brokerages are tying up with sub-brokers in a bid to cut administrative cost and broaden investor base.

In the past one year, 10,184 brokers appointed over 8,000 sub-brokers, according to data from Securities and Exchange Board of India. This takes the total number of sub brokers in the country to 83,782 as on February end.

"Retail broking has fallen significantly over the past one year," said Vinay Agrawal, executive director, retail broking, Angel Broking. "At the same time, brokers are witnessing an uptick in fixed costs such as salaries and rent. The sub broker model is an easier way to expand business, broaden investor base, and lower fixed costs," Agrawal said.

Big brokerage houses such as Kotak Securities, Religare, India Infoline and Motilal Oswal are forging alliances with sub brokers to save cost on rent and other infrastructure expenses and also to boost the declining retail investor base.

Some broking houses have shut down

their non-profitable operations or entrusted the business with a sub broker on a high profit-sharing basis, sources said. Unlike the bull run years, brokers are now willing to give sub brokers at least 60-65% share in profits, they said. To make a small branch office of a brokerage profitable, it requires average monthly revenue of ₹4.5-5.0 lakh, else it is cost effective to opt for sub brokers to run the business, brokers said.

Brokers with own branches in states such as Karnataka, Tamil Nadu, Kerala, Assam, Punjab, Orissa, Madhya Pradesh and Kolkata, are all suffering losses as retail volume is declining, sources in broking circles said.

Retail trading volumes have declined over 40% over the past three years, broking sources estimated. Profit margins of leading brokerages such as Motilal Oswal Financial Services, Geojit, and Edelweiss Capital are down about 20-30% compared with 2008.

"The sub broker model will help brokers reduce fixed costs significantly. Another reason for adopting franchisee model is that it helps accumulation of retail clients," said D Kannan, managing director, Kotak Securities.

"Sub brokers are good in getting business, especially in three-tier cities where community bias prevails. Investors in rural market would prefer to hand over money to people whom they know," Kannan said.

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