

After 2 bumper years, brokerages' profit took a hit in Q1: ICRA

However, outlook remains stable, says rating major

OUR BUREAU

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The performance of domestic broking industry has moderated in Q1 FY23 with a 10 per cent quarter-on-quarter (QoQ) fall in net operating income (NOI) and 25 per cent QoQ dip in net profit, said ICRA.

According to an ICRA Research, geopolitical concerns and the adverse macroeconomic outlook have affected investor mood, resulting in a fall in profitability — profit after tax (excluding mark to market gains)/NOI to 34 per cent in Q1 FY23 from 38 per cent in Q4 FY22, along with a decline in the transaction volumes of high-yielding cash

broking segment. Domestic capital markets had a great performance in the past two fiscal years, with healthy participation from retail investors and domestic institutions and a large number of initial public offerings.

Deep Inder Singh, Vice-President, ICRA, states, "As the incremental retail participation dampened in the current fiscal, the pace of new client additions slowed compared to the last fiscal." Notwithstanding the recent trend reversal, the foreign institutional investors (FIIs) remained net sellers in H1 CY22, which also weakened investor sentiment, he said.

"Given the ongoing monetary tightening domestically and globally, the sustained level of participation from FIIs and retail investors in the do-

mestic markets remains a key monitorable," he added. Smaller brokers are losing active client market share to larger firms due to industry consolidation. Stricter compliance, technology requirements, and discounted pricing pressures have hurt small brokerages.

On the other hand, discount brokerage houses are estimated to have accounted for about 60 per cent of NSE active clients as of June 2022, up from 2 per cent in March 2016.

Overall retail participation and transaction volumes are expected to remain healthy compared to the pre-Covid 19 pandemic levels. On the back of this, the outlook for the brokerage industry is stable, though its revenue trajectory and profitability are expected to moderate from the FY2022 levels."