

Booming leverage in stocks fuels \$33-bn debt binge

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STOCK BROKERS ARE emerging as a major force in short-term debt market, borrowing billions of dollars to finance investors' growing appetite for leveraged equity bets.

Brokers accounted for about 21% of commercial paper issuance so far this year, up from just 4% in 2021, according to primedatabase.com. They raised about ₹3.2 lakh crore, the data showed, based on

issuance by prominent brokers.

The surge shows how India's boom in margin trading is spilling into the debt market.

The value of leveraged equity positions approached a record ₹1.6 lakh crore as of September 30, according to IndiaMTF.com, increasing funding needs even as Indian stocks tumble on surging oil prices and elevated global yields.

"The rise in CP issuance by brokers is closely aligned with the growth in their margin trade facility books," said Sandeep Chordia, chief operating officer at Kotak Securities,



which is among the large issuers of the securities. "We expect this linkage to continue as MTF scales up."

The shift toward debt funding is getting a push from stricter rules. The Reserve Bank

of India in February curbed bank lending to proprietary trading firms, prompting brokerages to seek alternatives. In June, the markets regulator proposed allowing brokers to raise money through bonds to

finance such trades, broadening their choices beyond bank loans and commercial paper.

Even with that additional funding option, commercial paper is likely to remain dominant in brokers' borrowing mix because of its lower cost and the short tenor of margin loans.

Three-month notes issued by non-bank financiers yielded 7.18% last week, according to data compiled by *Bloomberg*, compared with rates of about 9% to 20% charged by brokerages on margin loans, depending on the terms.

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