Brokers raise Rs 3.2 lakh crore as demand for leveraged equity debt grows: Report

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Stock brokers have increased their borrowing activity in the short-term debt market as they tap commercial paper to fund the growing demand for leveraged equity investments. Brokers accounted for around 21% of commercial paper issuance so far in 2026, a sharp increase from just 4% in 2021, a Bloomberg report citing Prime Database shows.

Brokerages have raised about Rs 3.2 lakh crore, or roughly $33 billion, through such issuances during the year, highlighting the rapid expansion in their short-term funding requirements.

The increase in commercial paper borrowing comes as margin trading gains popularity among Indian investors. The value of leveraged equity positions stood close to a record Rs 1.6 lakh crore as of September 30, the report said. The growing use of margin funding is creating a corresponding need for brokerages to secure larger pools of short-term capital, even as the broader equity market faces pressure from higher crude oil prices and elevated global bond yields.

The relationship between margin financing and commercial paper issuance is becoming increasingly evident. Brokerages are raising more short-term debt as their margin trade facility books expand, with the trend expected to continue as leveraged trading gains traction.

The shift has also been reinforced by regulatory changes. The Reserve Bank of India tightened lending rules for banks in February, restricting financing to proprietary trading firms and encouraging brokerages to look beyond traditional bank funding. Separately, the Securities and Exchange Board of India proposed in June that brokers be permitted to raise funds through bonds to finance margin trading activities, giving them another source of capital beyond bank borrowings and commercial paper.

Despite the availability of additional funding avenues, commercial paper is likely to remain an important part of brokerages' borrowing mix because of its relatively lower cost and short maturity, which closely matches the nature of margin loans.

The three-month commercial paper issued by non-bank financial companies carried a yield of around 7.18% last week, according to Bloomberg data. In comparison, brokerages typically charge investors interest rates of roughly 9% to 20% on margin loans, depending on the product and borrowing terms. This spread provides brokerages with an incentive to continue using short-term debt markets to finance margin lending.

Several of India's largest bank-backed brokerage businesses, including HDFC Securities, ICICI Securities and Kotak Securities, are already among the major issuers of short-term debt.

The growing dependence on commercial paper highlights how the rapid expansion of leveraged equity trading is increasingly influencing India's broader financial markets, creating a closer link between retail trading activity, brokerage funding requirements and the short-term debt market.

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