Booming leverage in Indian stocks fuels $33 billion debt binge- Moneycontrol.com

Bloomberg

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AI Powered Summary

Stock brokers are major players in India's short-term debt.

Brokers' commercial paper issuance rose to 21% this year.

Leveraged equity positions near record 1.6 trillion rupees.

Stock brokers are emerging as a major force in India's 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 trillion rupees ($33 billion), 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 trillion rupees as of Sept. 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 Ltd., 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.

Some of India's biggest bank-owned brokerages, including HDFC Securities Ltd., ICICI Securities Ltd. and Kotak Securities, are among the largest issuers of short-term debt.

While margin-loan positions account for less than 0.5% of India's $4.8 trillion stock market, its rapid growth has prompted concern. Nithin Kamath, founder of Zerodha Broking Ltd., India's second-largest stock broker, warned in August that a sharp market decline may pose risks to the firm's fast-growing margin-loan business, even as the product becomes an increasingly important source of revenue.

Demand for those loans shows little signs of abating.

“The size of the industry’s funding book has more than tripled in three years and there remains huge appetite for leverage trading,” said Dharmesh Vala, chief executive of Nayan M. Vala Securities Pvt. in Mumbai.