THE ECONOMIC TIMES

Wed, 04 May-22; Economic Times - Mumbai; Size : 263 sq.cm.; Circulation:227412;
Page : 10

CIRRUS

CASH CHEST Over six large firms raised funds in excess of ₹3,000 cr through short-term papers in the last week of April

Brokers Tap Bonds as Margin Rules Kick In

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Mumbai: Several stock broking firms recently tapped the money market to build a cash chest ahead of the onset of the tighter equity margin rules from May 2.

With the new regulations expected to increase the funding requirements of brokers, various large firms rushed to raise funds through short-term debt instruments in the last week of April, said two people familiar with the matter.

More than half a dozen brokers raised at least ₹3,618 crore through Commercial Papers (CPs) between April 25 and 29. Most of them are believed to be bank-owned broking companies.

Bankers said larger broking firms approach the CP market occasionally, but their fundraising activity picked up in the last week of April.

"The margin requirements, which came into effect from Monday, had prompted some brokerages to tap the CP market," said Ajay Manglunia, managing director and head of debt capital market at JM Financial. "Although money is fungible, CP issuances showed signs of uptick last week."

These firms borrowed funds at rates between 4.09% and 9.30% with maturities spread across one to 10 months.

"Rates offered were not out of range as those brokerages are all A1+ rated with brand names," said Manglunia.

The fundraising drive of these firms happened in the run-up to Securities and Exchange Board of India's (Sebi) new margin rules kicking in from this month. Under the norms, brokers cannot use the cash of one client for another's upfront margin requirement. Also, traders must bring in at least 50% of their futures and options margin requirement in cash.

These changes are expected to increase brokers' fund needs. Till April 30, brokers allowed trading clients to use pledged shares as collateral to initiate trades. Clients were always required to bring in 50% of their total collateral in cash, but brokers never enforced it. This is because exchanges' clearing corporations recognised margin requirements at the broker level. That allowed brokers to use cash from one client to make up for the deficiencies of others from its cash pool lying with the exchanges. Sebi decided to change this system as it felt that allowing the use of one client's cash to make up for the shortfall of others could lead to systemic risks.

Now, clearing corporations must maintain a separate account for every investor. This also means every client of the broker must bring in half of the margin in cash or equivalent. Brokers can, however, fund the 50% cash collateral requirement from their own capital.

Broking executives said some firms are vying for volumes from big derivatives traders by offering cheaper funding deals, deepening the competition in the cut-throat industry.

"Brokers with deep pockets and better access to the bond markets are in a position to offer lucrative funding packages to potential clients," said the chief executive of a brokerage, which raised money through CPs in the last week of April.

Some large brokers like Zerodha have informed clients that they would be charged 0.035% per day or 12.5% per annum on cash margin shortfalls.

Need for More Reserves

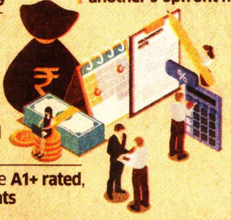
₹3,618 cr: Funds raised through CPs **between April 25 and 29**

Under new margin norms, brokers cannot use the cash of **one client for another's upfront margin requirement**

4.09%-9.30%: Rate paid with maturities spread **across one to 10 months**

Most of the CP issuers are likely **bank-owned broking firms**

Most of these firms are **A1+ rated, said market participants**



Besides, traders must bring in at least **50% of their F&O margin requirement in cash**

These changes are expected to **increase brokers' fund needs**