

THE ECONOMIC TIMES

PEs are driving force in brokerage consolidation

Prashant Mahesh
MUMBAI

PRIVATE equity firms could drive brokerage consolidation — it's probably a connection that is hard to decipher for most people. By all indications, it does seem as if the consolidation among brokerages has been driven by private equity firms. Here's how the story has been unfolding.

Over the last two years, there have been a slew of private equity players making significant investments in broking firms. Among the prominent deals are those of Citi Venture Capital acquiring a 85% stake in Sharekhan in a Rs 650-crore deal, it also picked up 19.9% in Anand Rathi for Rs 100 crore and Barings PE arm Duckworth picked up a 45% stake in JRG Securities for Rs 150 crore. Apart from this, ICICI Ventures and Barings Private equity bought into Karvy Stock Broking with a 20% stake for Rs 440 crore and IFC picked up a 12.5%

holding in Angel Broking for Rs 150 crore.

The index, meanwhile, has shed over 5,000 points from its peak in January this year which has resulted in tough times for smaller brokerages. These establishments have been unable to recover the losses incurred in the crash. Volumes, too, have fallen to about 25-30% from their peak levels. If all this was not enough, the stocks of listed brokerages are down to about a third of their peak prices. Overall, these brokerages are facing critical issues that include falling brokerage rates, lower volumes, lack of capital to expand and non-availability of skilled manpower.

"Over a period of time, smaller brokerages have found it tough to invest in research, manpower and other value-added services, leading to loss of clients to larger players," says Alok Churiwala, director, Churiwala Securities. Another point of view comes from Saurabh Tripathi, partner and managing director, Boston Consulting Group, who thinks the way forward will be

anything but easy. "The last five months, have made all small brokers realise that this is a game of scale and it will be difficult for them to survive," he thinks. Today, the retail broking industry is pretty fragmented with the top ten players accounting for merely a quarter of the market which makes analysts believe that the next round of consolidation is not too far away. If expanding the business is looking difficult, the private equity players could actually step in. Vinnie Vyas, CEO, Crossover Advisors, points out that the private equity players could well be the catalyst for such mergers and acquisitions.

"Since the IPO option is far away, value can be added before divestment through consolidation," he says. Vyas adds that brokerages that do not have the capital today will be forced to sell out.

It's not as if the deals that are spoken of are too far into the future. "A lot of broking deals are coming to us. Some of these do have private equity investors," confirms Venkatesh Srinivasan, COO, Future Capital Holding,

which recently acquired a stake in Centrum Broking. Others like Sharekhan too remain open to opportunities. "For the next two years, the first priority is to build the Sharekhan business. If something interesting comes that fits the portfolio, we are open to add," says Ajay Relan, MD, Citi Venture Capital International.

The scenario, going forward, promises to be interesting. Already, conglomerates such as AV Birla Group, Tata Capital and Religare have expressed interest to expand their financial services business through the inorganic route. The AV Birla Group recently bought a stake in Apollo Sindhoori Capital. "Big corporate houses looking to expand in financial services could look to buying PE firms' stakes in unlisted brokerages," says Mahesh Chhabria, DIRECTOR, 3India. Foreign banks, too, have been quite active. HSBC has picked up a stake in IIFPS Investsmart, while Standard Chartered has acquired UTI Securities. The consolidation story in the broking space has barely started.

