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TAKING COVER Many have asked investors to cough up higher margins as volatility in the market rises sharply

Brokers Cautious on Leveraged Bets

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Mumbai: Broking houses have turned cautious in allowing leveraged bets on several counters that are considered susceptible to sharp corrections. Many brokers have asked investors to bring in higher margins, while some discontinued margin funding for the moment, market participants told ET.

Sensex plunged nearly 1,100 points intraday on Friday over fears of a liquidity crunch and increase in the cost of borrowing.

"Keeping your best interests in mind, we will be implementing restrictions on all the leveraged products until further notice," said a circular by Gojil Financial Services. "This is to safeguard you from sudden volatility in the markets. However, square off for existing positions will be permitted".

Indian equity markets, according to analysts, could continue to trade

weak amid the ongoing crisis at IL&FS. The Nifty 50 Index dropped 175 points on Monday to end below the crucial 11,000 mark. Several stocks in the small-cap and mid-cap space have dropped up to 30%.

"After observing volatility in stocks during the pre-market opening session, we may routinely impose additional margins on them or disable them for intraday trading."

For instance, a stock showing high volatility may attract higher margin or may be disabled for intraday trading," said an ICICI Securities spokesperson. Upfront margin is like a deposit that traders should have in their account at the time of

Sensex has declined nearly 1,000 points in the last two days

Nifty shed 304 points since Friday

Sensex plunged nearly 1,100 points intraday on Friday

No point allowing leverage bets at the current market conditions

DHARMESH KANT, IndiaNivesh Securities

placing a trade in futures and options. Some brokers allow traders to buy stocks 4-5 times their capital in the cash market. "F&O margins have already increased on Sept 21 because of additional surveillance

KEY REASONS

FEARS ON LIQUIDITY CRUNCH

CONCERNS ON INCREASE IN BORROWING COSTS

Volatility on the downward side will lead to higher margin requirements. Anyone who has taken leveraged positions in the market will need to bring in higher margins

A LEADING BROKERAGE

margin requirements for various sets of stocks. "All margin requirements are regulated by exchanges, based on daily observations of stock movements. However, some brokers demand margins higher than those stipulated by the exchange, as a safety measure."

"Volatility on the downward side will lead to higher margin requirements. Anyone who has taken leveraged positions in the market will need to bring in higher margins," said the CEO of a leading brokerage. Although margin calls have not triggered this time despite the sharp fall in several counters, brokers are taking a cautious stance as they believe volatility is likely to escalate, in the absence of any immediate reason for an upturn.

"No point allowing leverage bets at current market conditions," said Dharmesh Kant, IndiaNivesh Securities. "Market sentiments have turned cautious on the liquidity crunch in finance companies. Interest sensitive stocks will continue to face pressure in the short term due to rising yields."