

March 24, 2026

The obvious risk no one is talking about in the stock market now

Devina Mehra

Synopsis

Rising margin trading exposure in Indian equities could amplify downside risks amid market volatility. With the MTF book expanding sharply and concentrated in less liquid stocks, any further correction may trigger margin calls and forced selling. Upcoming RBI norms on broker funding add another layer of potential deleveraging pressure.



Rising MTF leverage may amplify downside risk in equities.

While there is considerable discussion on several factors that may impact the stock markets, including geopolitical uncertainty, crude prices, supply disruptions, currency crash etc, there is also an internal local factor that has not been focused on.

This is the outstandings under the MTF or Margin Trading Facility.

What is MTF and how does it work?

A quick simplified primer on what MTF is. It is effectively a way to provide leverage to the stock market investor or trader. Thus, if the broker is willing to provide, let us say, 3:1 leverage, the stock market participant can put up Rs 25 and buy stock(s) worth Rs 100. The Rs 75 is effectively a loan taken by the investor to fund their position.

This borrowing or leverage enhances both the profit and the loss on the stock position. It is a double-edged sword. Hence, if the stock goes up 25% from 100 to 125, the investor makes a 100% return on their investment of Rs 25 (less the interest paid on the loan taken). However, if the stock falls 25% to Rs 75, the entire money paid by the investor is wiped out and the broker or lender will ask for more cash to top up the margin. This is called a margin call in finance parlance.

While at an individual level this appears like a containable problem, when a large number of

stocks fall, many margin calls are triggered. Stock market participants often do not have ready cash to meet these margin calls. Indeed, if they had the cash, they would mostly not have borrowed in the first place. Their positions are then sold in the market and this accelerates the fall further.

Why the size and composition of the MTF book increase the risk

Right now there are two sources of risk in this scenario of a market fall being accelerated.

One, the total MTF book has grown by nearly 59% from less than Rs 70,000 crore in April 2025 to almost Rs 1.1 lakh crore as of March 17, 2026.

Two, only four of the top 10 MTF stocks are part of the Nifty 50. This effectively means that stock market participants have borrowed against many less liquid stocks. The total MTF positions for stocks like HDFC Bank and Reliance are 50% to 70% of their daily volumes, but they are 7.3 times the daily volume for Patanjali Foods and more than 12 times the daily volume for Nazara Technologies. If these less liquid stocks fall such that margin calls are triggered, the stock prices will spiral downwards as lenders sell the borrowers' stocks to top up margins and the market may not have the depth to absorb the selling.

MTFBook MoM Change (%)			Stocks with Highest MTFExposure (as on 17-03-2026)		
Month	MTFBook (INR Cr.)	MoM % Change	Stock Name	Funded Amt (INR Cr.)	% of Avg Daily Vol
Mar-2026	1,09,799	-4.96	HINDUSTAN AERONAUTICS LTD	1494	206%
Feb-2026	1,15,534	-1.83	RELIANCE INDUSTRIES LTD	1233	69%
Jan-2026	1,17,689	3.33	JIO FIN SERVICES LTD	1214	263%
Dec-2025	1,13,899	1.19	TATA CONSULTANCY SERV LT	1120	137%
Nov-2025	1,12,556	2.33	MAZAGON DOCK SHIPBUIL LTD	1052	129%
Oct-2025	1,09,993	10.61	HDFC BANK LTD	1028	46%
Sep-2025	99,446	5.95	ITC LTD	991	165%
Aug-2025	93,860	2.12	NAZARA TECHNOLOGIES LTD	929	1203%
Jul-2025	91,909	8.58	VEDANTA LIMITED	924	143%
Jun-2025	84,646	7.03	CENTRAL DEPO SER (I) LTD	906	180%
May-2025	79,087	14.33	DIXON TECHNO (INDIA) LTD	877	147%
Apr-2025	69,176	1.63	PATANJALI FOODS LIMITED	859	733%

Nippon Gold ETF (Gold Bees) funded amt till Mar-17-2026	913 cr
Nippon Silver ETF (Silver Bees) funded amt till Mar-17-2026	1035 cr

Source: NSE India [Margin Trading disclosure reports], First Global Research

How the MTF book has moved in the recent past

Now let us move to what happened to MTF outstandings as the market moved up and down, and what can happen now.

Phase 1 roughly corresponds to the bull phase when the NSE 500 gave a return of about 12% from April to December 2025.

During this time, the MTF book went up by 64.5% from approximately Rs 69,000 crore to Rs 1.14 lakh crore.

The MTF book grew 5.4 times faster than the index. This is classic leveraged euphoria. When the market is moving up, the investor sees gains as explained above. These fuel fresh borrowing, expanding the book well beyond index movement.

Phase 2 is when the market fell. From January 2026, the fall in the Nifty 500 has been about 10%.

In this period, the MTF book has declined by only 6.7% from Rs 1.17 lakh crore to Rs 1.10 lakh crore, a decline of about Rs 7,000 crore.

The index fell by 10% but the MTF book contracted by a lower proportion (6.7%). Leveraged positions are sticky on the downside. It appears that there has been limited forced selling so far.

Why margin calls lag the market fall

MTF positions do not have a daily mark-to-market forced closure like Futures & Options (F&O). The lender, usually the broker, monitors the portfolio value against the funded amount and only triggers a margin call when the buffer erodes below the maintenance threshold. MTF positions typically get a margin call when the stock falls more than 15% to 20% from entry.

With a market fall of about 12% spread over 10 to 11 weeks, many positions are still within the buffer and only a small portion has been impacted.

As per estimates, borrowers who entered around the January peak have already been liquidated due to the recent price fall. Around Rs 7,900 crore worth of positions have been liquidated.

Broadly, the January 2026 batch (worth Rs 3,800 crore) has been largely flushed out, and liquidation is now moving into the October to December 2025 period.

During the October to December 2025 quarter, the MTF book increased by Rs 14,400 crore. Out of this, an estimated Rs 4,000 crore has already been liquidated, and the remaining Rs 10,400 crore is near liquidation.

Coming to the April to September 2025 period, the MTF book increased from Rs 69,175 crore to Rs 99,500 crore (approximately Rs 30,000 crore increase). These positions still have a

cushion, as they were built at lower price levels.

However, the last two weeks have changed this. If the Nifty 500 drops meaningfully, say another 5% to 8% in the last two weeks of March 2026, the situation could worsen. Positions from October to December 2025 are approaching trigger thresholds and could face further liquidation pressure.

Additional risk from RBI regulations

The RBI has changed rules for banks funding brokers, effective April 1:

- 100% collateral mandatory for every rupee lent
- Minimum 50% collateral must be cash
- 40% haircut on equity pledged
- Proprietary trading desk funding by banks banned

The entire Rs 1.10 lakh crore book was built under a more flexible regime. The exact exposure to bank funding is not available, so the impact cannot be precisely quantified.

However, brokers dependent on bank borrowings may need to shrink their MTF books, forcing clients to reduce or close positions.

Three scenarios from April 1

Scenario 1: Broker shrinks the book

Clients may be forced to reduce positions, adding selling pressure. Around Rs 10,400 crore from the October to December 2025 batch could be impacted.

Scenario 2: Broker raises MTF interest rates

Borrowing costs may rise to 14% to 25%. Investors may exit loss-making positions. A portion of the Rs 30,000 crore April to September 2025 batch may gradually unwind.

Scenario 3: Broker finds alternative funding

NBFC funding could keep the system functioning, but at higher costs, limiting fresh leverage and gradually shrinking the book.

The key risk remains that a significant portion of the MTF book is in relatively illiquid stocks. Any sharp decline in these could trigger a severe downward spiral, as the market may not be able to absorb forced selling.

(Sandeep Lingineni of First Global also contributed to this article)