

Insights Unwrapped

Is the Surge in Margin Trade Funding (MTF) an Alarming Signal?



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Understanding MTF and Its Risks in a Falling Market

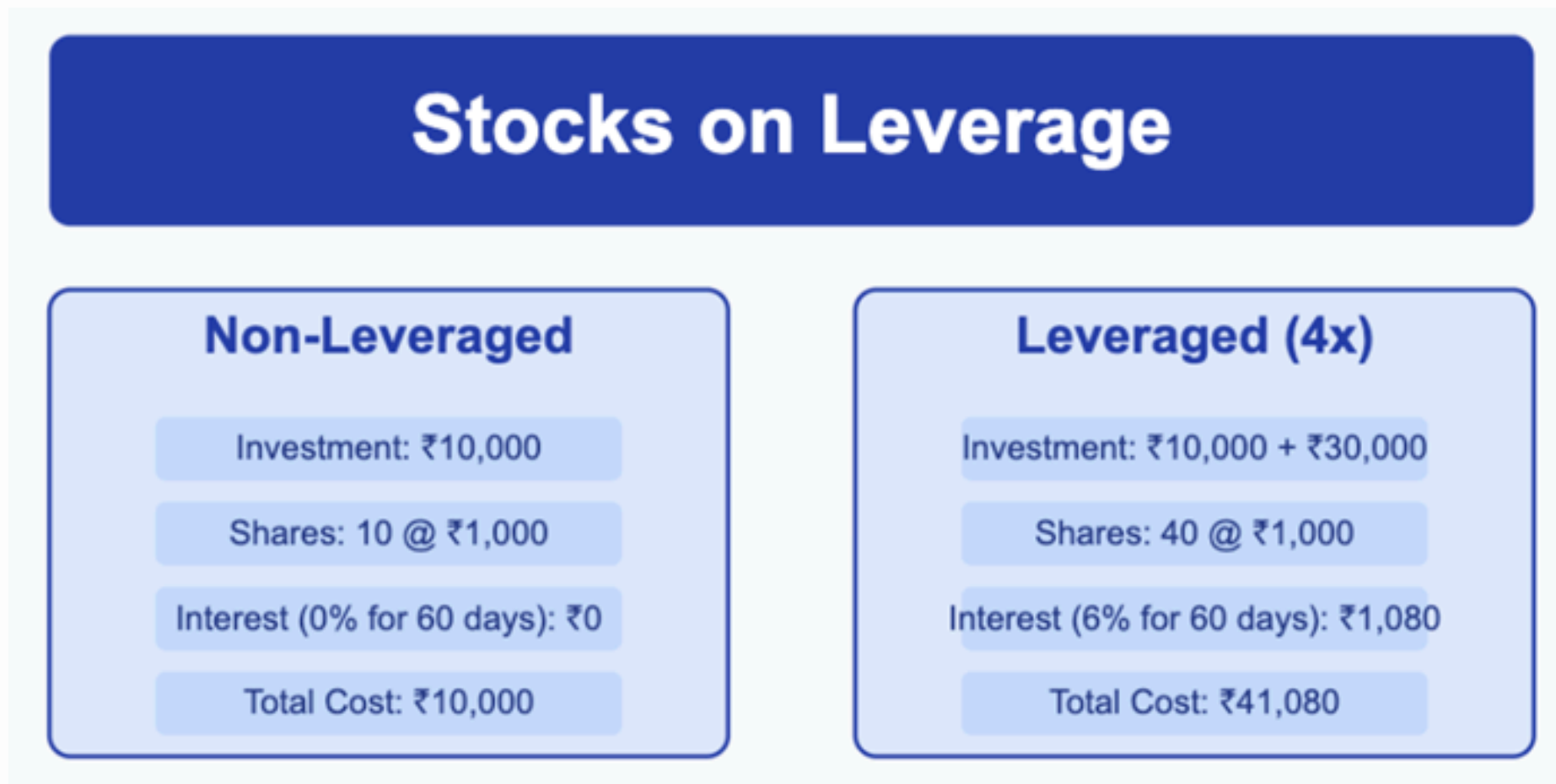
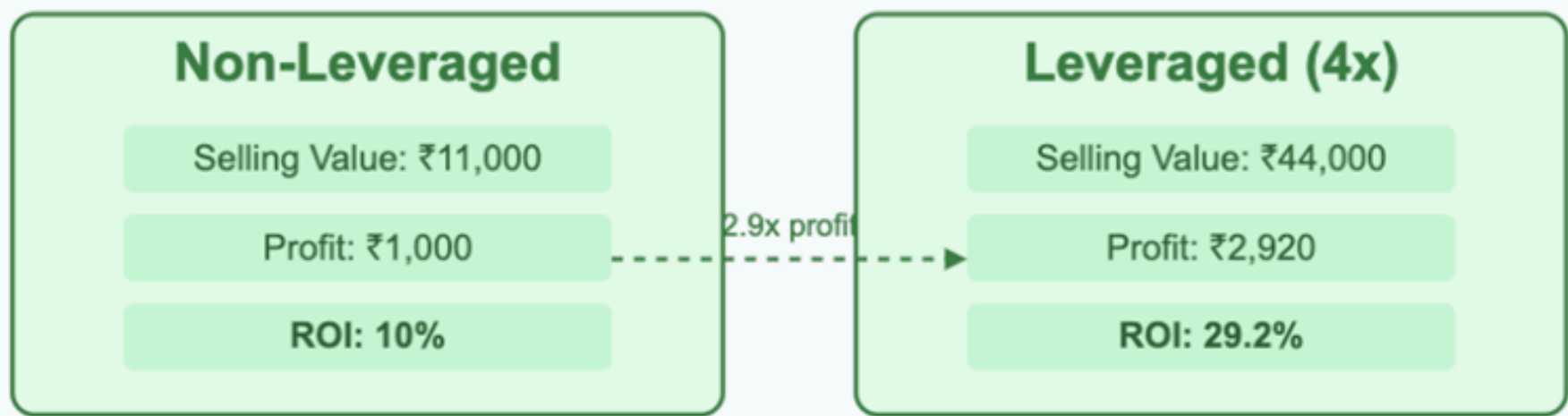
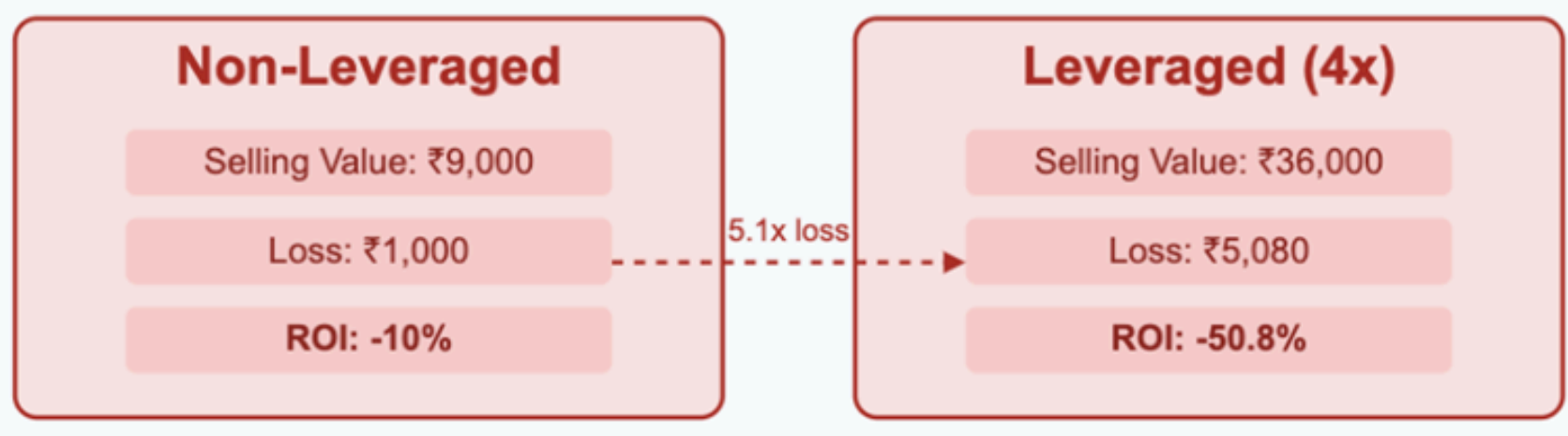


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Scenario #1: Price Increases to ₹1,100 (+10%)



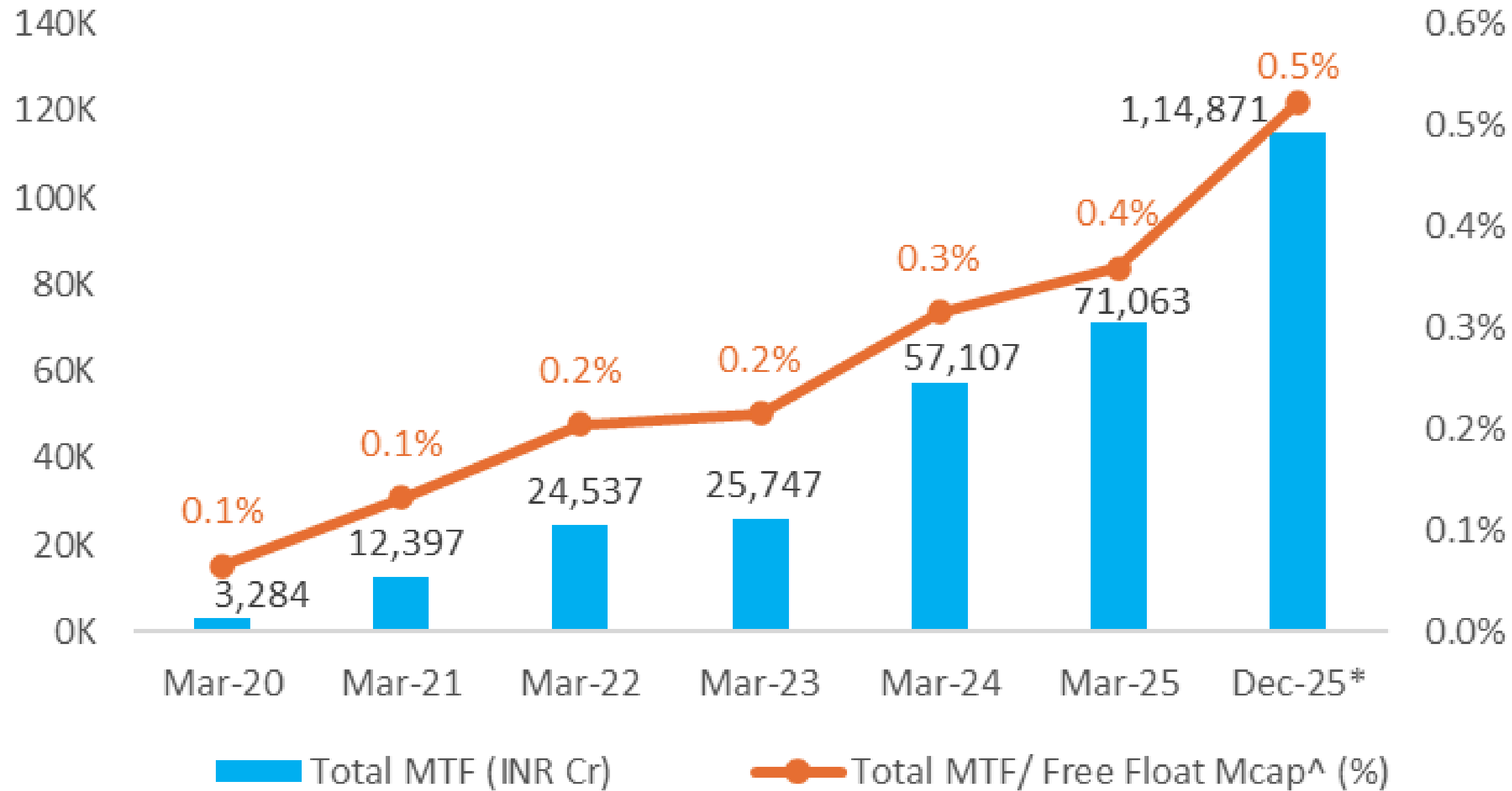
Scenario #2: Price Decreases to ₹900 (-10%)



While Leveraged investments (using MTF) maximizes profits in a rising market (29.2% vs. 10%), it also amplifies losses in a falling market (50.8% vs. 10%).

Assessing MTF: Absolute Numbers Mislead; Free-Float Ratio Matters

Margin Trade Facility (INR Cr)



*: As of 9 Dec 2025; ^: Free Float MCap of current constituents of BSE 1000 Index.

Source: ACE Equity, NSE, BSE

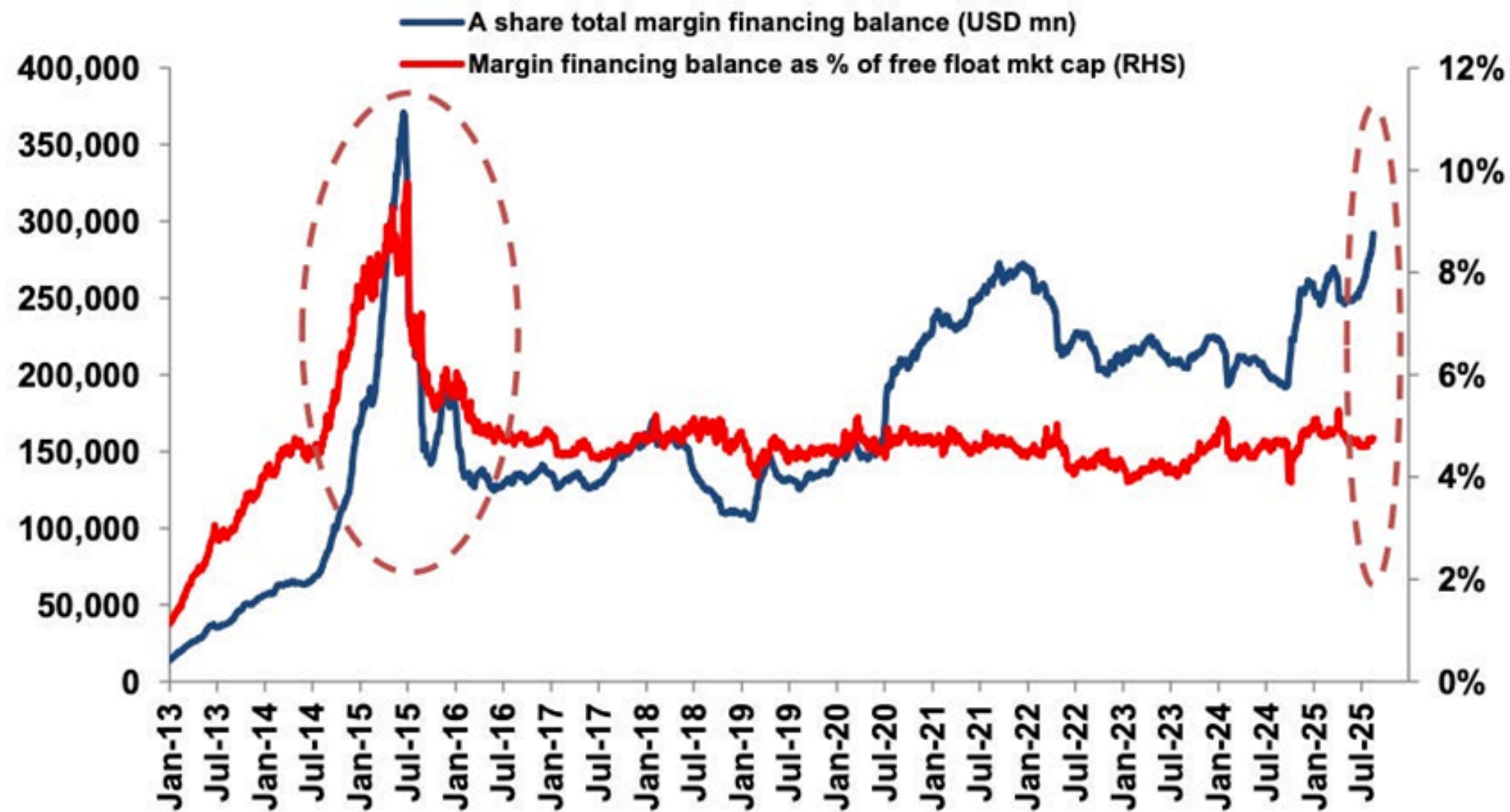
MTF currently stands at INR 1.15 lakh crore (~USD 13 billion), **just 0.5% of free-float market cap.** Even with an 87% CAGR from FY20–25, this ratio is not so alarming.

For context, **China's margin financing is USD 320 billion (2.3% of free float; peak 4.7% in 2015), and U.S. margin debt is USD 1.1 trillion (roughly 2% of S&P 500 market cap).**

Source: FINRA, Reuters

Margin Funding in China Nears 2015 Bull-Run Levels

Exhibit 4: A-share margin financing (USD mn) and % as of free float market cap



Source: CEIC, Morgan Stanley Research. Note: Data as of August 18, 2025

Margin trading, introduced in 2010, played a key role in China's market reforms. During the 2014-15 bull run, the Shanghai Composite Index surged 150%, fuelled by 2.2 trillion yuan (\$350 billion) in margin-financed stock purchases.

As of September 2025, outstanding margin financing has climbed to a new record of 2.29 trillion yuan (about \$320 billion), surpassing the peak from a decade earlier.

Margin financing now only accounts for 2.3% of China's total floating market cap, much lower than a peak of 4.7% a decade ago, when China's stock market was much smaller (Source: Reuters)

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