SECTOR THESIS · FINTECH / RETAIL INVESTING · INDIA

India's Retail-Investing Reset — Trade to Advice

A top-down thesis on the next phase of Indian fintech: SEBI's F&O clampdown and the maxing-out of the broking model are pushing value from the commoditising trade to the durable relationship — advice, wealth, and engagement.

DEPLOY
ADVICE, NOT THE TRADE

CATALYST	F&O reset
AVOID	F&O-led broking
EDGE	AUM + engagement

DEMAT ACCTS ~21 cr	ACTIVE (1+/YR) ~4.8 cr	F&O LOSERS FY25 91%	F&O NET LOSS FY25 ~₹1.06 L cr
ACTIVE EXODUS '25 ~2M	DISC-BROKER REV / F&O ~80%	MF AUM ~₹80 L cr	MONTHLY SIP ~₹29.5k cr

Jay Kapoor · Sector Thesis Jun 2026 TOP-DOWN THESIS

I Thesis

India's investing boom was built on a fragile engine — **F&O volume from retail traders who overwhelmingly lose money.** SEBI just throttled that engine, and the economics will never look the same.

01 **The trade layer is commoditising and now regulated.** Discount brokers draw up to 80% of revenue from derivatives — precisely the segment SEBI is curbing. With 91% of F&O traders losing money, the model is under regulatory and ethical pressure, and fee competition leaves no room to recover margin.

02 **The real asset base is dormant, not active.** Of ~21 crore demat accounts, only ~4.8 crore are active. The boom created a vast registered base that the trade-led model never learned to monetise — that gap is the opportunity.

03 **Durable value sits in the relationship, not the transaction.** Advice, wealth management and engagement earn recurring, AUM-based revenue and compound with the customer — the opposite of a per-trade business at the mercy of the next regulation.

II The setup — the F&O reset

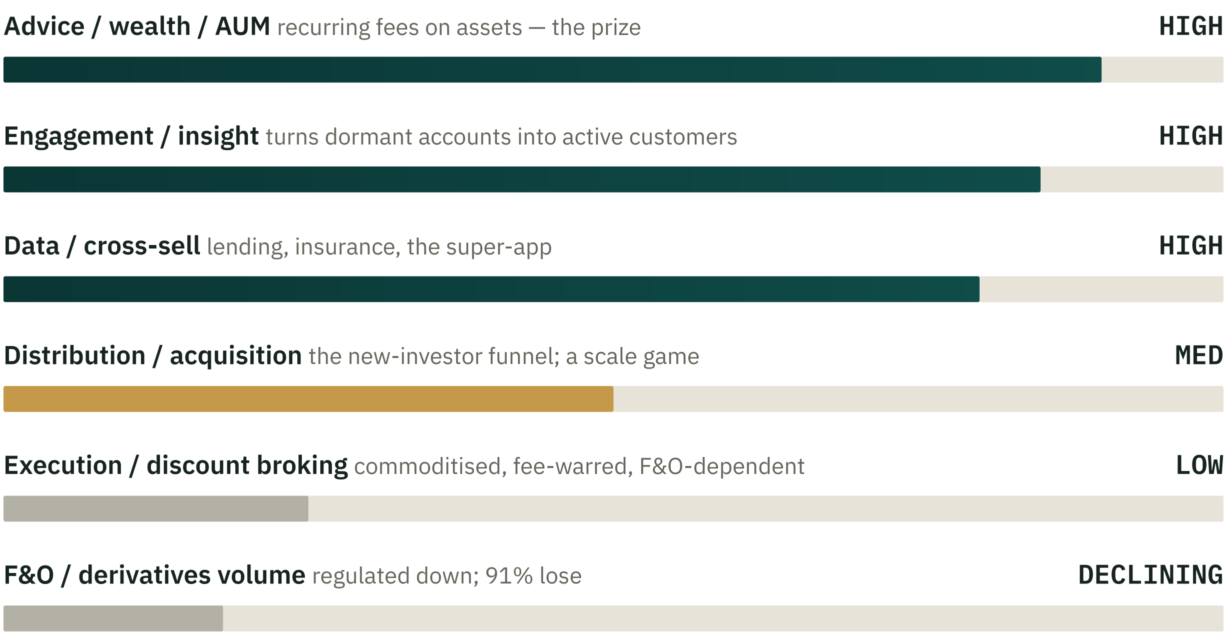
Demat accounts grew ~5× since 2020 to ~21 crore, but the profit pool leaned heavily on derivatives. From **October 2024 through mid-2025**, SEBI ran a deliberate campaign to cool it: a ~60% STT hike on F&O, weekly expiries cut to Nifty/Sensex only, lot sizes raised from ₹5–10 lakh to ₹15–20 lakh, tighter position limits, upfront premium collection, and a mandatory login warning that **nine of ten traders lose**.

The data behind it is damning: **91% of individual F&O traders lost money in FY25**, for net losses of **~₹1.06 lakh crore — up 41% year-on-year**. Roughly **2 million active users exited the top brokers** in 2025 (Groww −600k, Zerodha −550k, Angel One −450k), while bank-backed brokers quietly grew. The trade-led engine isn't dead — volumes have partly recovered — but it is structurally capped, contested, and politically exposed.

III Where does the money go?

VALUE-CAPTURE POTENTIAL BY LAYER

Author's analytical scoring



The shape of the bet: the layers SEBI is squeezing are the low-value ones; the durable, recurring value sits in advice, engagement and the data that compounds with the relationship.

THE VALUE CHAIN, MAPPED

LAYER	WHAT IT IS	WHY IT DOES / DOESN'T CAPTURE VALUE
F&O volume	Retail derivatives trading	Regulated down; 91% lose — unsustainable and shrinking
Execution / broking	Discount trading apps	Commoditised, fee-warred, ~80% F&O-dependent
Distribution	Onboarding the next investor	Owns the funnel, but thin and contestable
Engagement / insight	Guidance that activates users	The answer to the dormant-account gap
Advice / wealth / AUM	Advisory, managed money	Recurring, AUM-linked, sticky — the durable prize
Data / cross-sell	Lending, insurance, super-app	Compounds the relationship into a platform

IV Where I'd deploy

The relationship layer — wealth and advice first, engagement as the wedge.

The prize is converting **16 crore-plus dormant accounts into advised, compounding customers**. That means earning per rupee managed, not per trade — wealth management, advisory, goal-based investing and the engagement layer that gets a first-timer from 'I have an account' to 'I know what I own and why.' This is recurring, AUM-linked, and structurally insulated from the next derivatives regulation.

The cleanest entry is **engagement / insight** (cheap to acquire, builds the trust that advice monetises), graduating into **wealth / AUM**. Bank-backed brokers, wealth-tech and advisory platforms, and insight-led players are positioned to win it; pure discount brokers are not.

V Where I'd pass — and what kills the thesis

R1 **F&O-dependent discount brokers.** An ~80% revenue tie to the one segment the regulator is throttling, with no pricing power to offset it — a structurally short position.

R2 **Undifferentiated execution plays.** In a zero-brokerage price war, scale without a relationship layer is a race to the bottom.

R3 **The trade engine is resilient.** ADTV rose 23% in Q3FY26 and F&O participants are recovering — the crackdown only partly worked, so the shift may take longer than the thesis assumes. Timing is the risk.

R4 **Advice is hard to monetise in India.** Willingness to pay for advice is historically low; the relationship layer has to prove Indians will pay for guidance, or the prize quadrant stays small.

VI How this maps to my coverage

This thesis is the top-down frame behind my fintech calls. **Groww** (HOLD) is the broking model going public — my ledger bet that its market cap holds above $7B despite F&O pressure is really a bet on how fast it pivots from trade to relationship. **CRED** (WATCH) is a pure relationship/affluent-engagement play whose open question is monetisation — the same question this thesis poses for the whole advice layer. And **Crowwd** (my competitive teardown) sits squarely in the engagement/insight wedge this thesis likes most. The thesis tells me where to lean in (advice, engagement, data) and where to stay short (F&O-led broking) — and the ledger grades whether the shift actually plays out.

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