Equity Journey of Individual Investors in India

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Abstract

Capital market is considered as critical and long-standing determinant of economic growth. Capital market stimulates economic growth by helping companies in raising needed capital. Indian Equity market has exhibited impressive growth and the benchmark indices NSE and BSE recently reached all time new high in its history. A clear shift in investment behaviour of Indian households has been observed since recent past. The percentage of retail investors choosing equity market as their investment destination is increasing but India has a long way to go to achieve wide spread equity culture. Increased retail investor participation brings more depth and stability to the market and that impacts the economic growth positively. The present study is carried with an objective of studying equity cult and household equity exposure in India. The study carried out the analysis based on secondary data.

***Keywords**: Indian Stock Market, Retail Investor, Shareholding, Investment Behaviour*

Introduction

The primary motive of investing is to meet the financial obligations that may arise in future. Simply saving a portion of income is making inadequate for individuals because of mounting cost of living. To beat the rising inflation and to have a financially secured future, investing the saving funds is essential. Today, a number of investment options are available to park the surplus funds. Stock market investment is one such option that provides investors with high inflation adjusted returns.

Stock market plays a constructive role in promoting economic growth and facilitates financial deepening. The stock market development has significant and positive impact on nation's GDP (Ali Raza Sattar et al., 2018). Effective mobilization and allocation of surplus funds to productive enterprises enhances efficiency of an economy radically. Indian Equity market has exhibited impressive growth and the benchmark indices NSE and BSE recently reached all time new high in its history. Sadly, only a very few Indians stand to benefit from the boom. The rally in Indian stock market to a large extent is driven by foreign investments. FIIs are the dominants player in Indian stock market and there exists significant correlation between FII investment flow and index movement (V.Aditya Srinivas, 2016). Despite the thriving stock market in India, the participation rate of Indian households in stock market is far away from the potential. This is clearly evidenced in the shareholding pattern of 1579 stocks on NSE. By the end of December 2016, the stake of small investors stood at 7.07% which is well below when compared to foreign portfolio investors stake that stood at 18.95%.

The risk-averse nature and the quest for safe bets have been driving Indian households allocating a major portion of savings to unproductive assets. Individuals risk perceptions on stock market investment outweigh the impressive returns delivered by stock market and making them to low equity exposure. Broad participation particularly the household participation is crucial for a financial market to be strong and vibrant as it makes the domestic market less vulnerable to global shocks

Objective of the study

The primary objective of the study is to understand equity culture in India and household (retail) exposure to equity asset class.

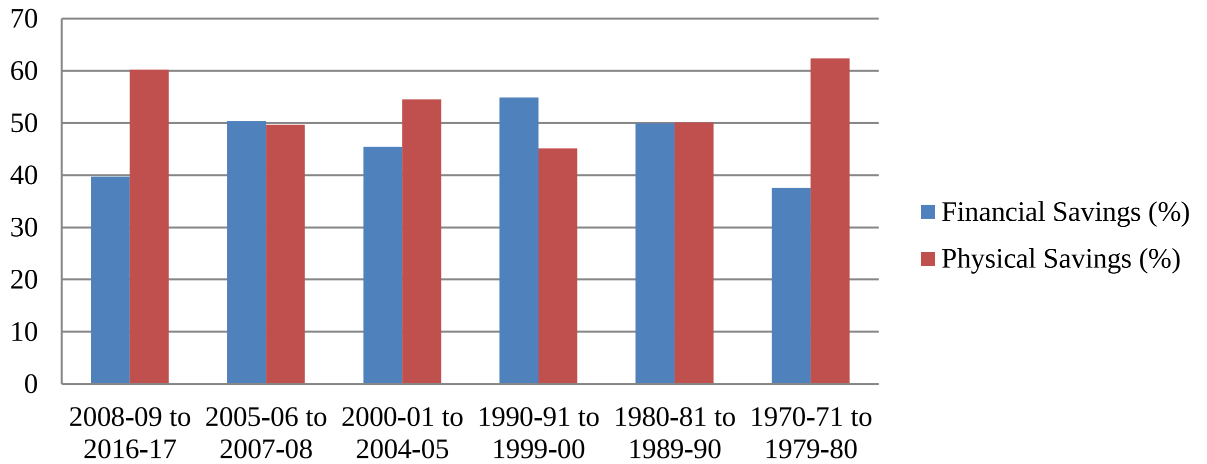
Methodology

The study is based on secondary data and the nature of the study is descriptive. The study collected data from regulatory reports, online news articles and research journals.

Analysis & Findings

The savings and investment pattern of Indian households undergone major changes over a period of time. The asset portfolio of households majorly comprised of physical assets till 1979-80. Between 1980-81 and 1989-90, both the physical and financial savings on an average share the same percentage in total household savings. The proportion of financial savings to total household savings crossed 60% and reached peak in the year 1994-95. From 2000-05, households reversed the saving pattern and routed a significant portion to physical assets and the same trend continued till 2011-12. The preference for financial assets over physical assets started increasing and the share of financial savings increased from 31% in 2011-12 to 42% in the year 2016-17.

Figure 1. Indian Households Savings Pattern



Source: RBI

Table 1. Trends in Allocation of Household Financial Savings in India

(Figures in Percentages)

Year	Bank Deposits	Life Insurance Funds	PPF	Shares & Debentures
2010-11 to 2016-17	52.72	20.13	15.55	1.75
2000-01 to 2009-10	44.46	17.14	12.78	4.06
1990-91 to 1999-00	34.71	10.13	18.83	7.04
1980-81 to 1989-90	40.32	7.54	17.46	3.9
1970-71 to 1979-80	45.61	9.03	19.56	1.45

Source: RBI

The analysis discloses the fluctuating investment trend of Indian households. Bank deposits continue to dominate with more than 40% (on average) of household financial investment. Shares and debentures were not seen as a lucrative investment medium by Indian households till 1979-80. The period between 1980-81 and 1999-2000 saw a marginal increase in allocation of financial savings to corporate securities. The share of corporate securities in household financial asset portfolio stood around 10% between 1991-92 and 1994-95. However, after global financial crisis, the preference for bank deposits increased and the share of corporate securities in the financial asset portfolio of households saw a sharp decline from 9.62% in 2007-08 to 2.58% in 2016-17. The average household investment in shares & debentures between 2000-01 and 2016-17 stood at 3.11% which indicates the huge untapped potential for investment in securities market.

Equity culture in India is not that robust when compared to its peers and other developed economies. The proportion of financial savings in equities and the percentage of population investing in stock market is far less when to that of developed nations.

Table 2. Stock Market Participation across Countries

Country	Percentage of Population Investing in Stock Market (%)
USA	54
Hong Kong	48
Japan	40.24
China	9.48
Australia	31
Malaysia	7.9
India	**2.3**

Source: Compiled from Various Sources

According to Gallup survey 2017, on an average, one in two U.S. adults has invested money in stocks. Other economies like Hong Kong, Japan, Australia, China, Korea and Malaysia stay a much head of India in stock market investor population. Based on Demat account statistics, in India by the end of 2017, only one (approximately) in fifty people have participated in securities market. The growth in household financial saving is not translated into stock investments. Over a period of 5 years, between 2012-13 and 2016-17, the net financial savings of household recorded an average annual growth of 10.6% whereas during the same period, the average annual growth in Demat accounts was just 6.9%.

Table 3. Demat Account Statistics in India

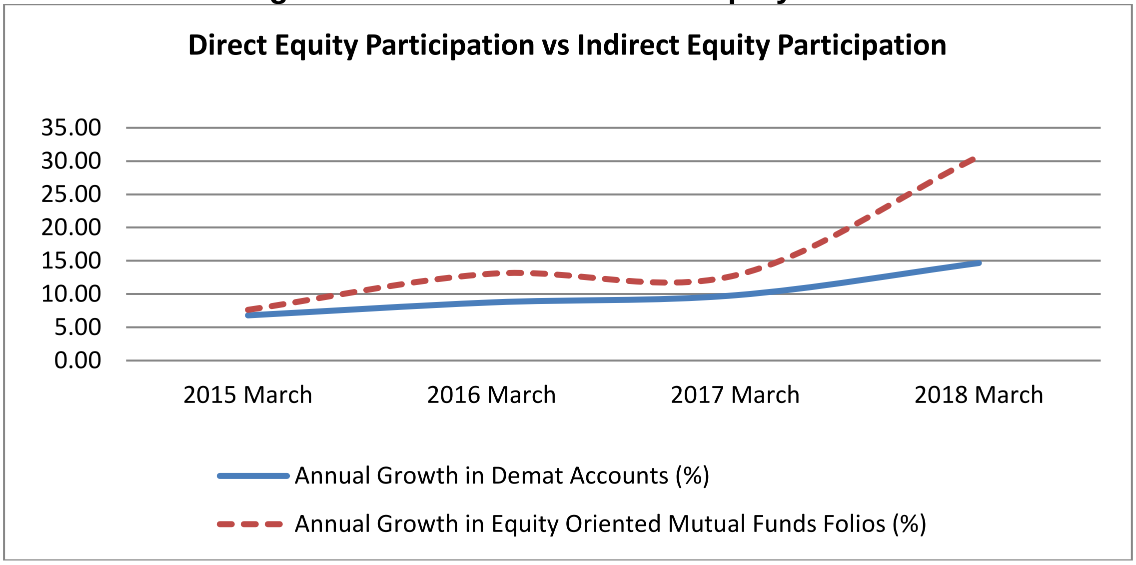
Year	Demat Accounts (CDSL + NSDL) (in Millions)	Annual Growth (%)
Mar-10	171.7	12.87
Mar-11	190.24	10.80
Mar-12	199.65	4.95
Mar-13	210.15	5.26
Mar-14	218.34	3.90
Mar-15	233.18	6.80
Mar-16	253.57	8.74
Mar-17	278.47	9.82
Mar-18	319.32	14.67

Source: NSDL, CDSL

The other discouraging fact about equity market in India is that investors' participation is highly skewed across states and the ownership is largely concentrated at firm level. Out of 29 states and 7 union territories, only five states accounted for little less than 60% of the India's registered stock market investors. The state of Maharashtra holds the lion share with more than 5% population investing in stock market. In addition, Indian firms displayed high concentrated ownership with the 3 largest shareholders holding a more than one half (55%) of the firm's capital.

Based on the household surveys conducted in India, the preference for direct equity ownership is found high till the first half of last decade. It is evidenced in the Household Investors Survey 2004 that, three in four sample households were invested in equity, where as it was just one in three incase of mutual funds. The results of the SEBI NCAER investor Survey 2011 demonstrated shift in mode of equity ownership of Indian household investors. Out of 24.5 million household investors in India, about 43% were invested in mutual funds where as 32% in equity (both IPO and Secondary Markets) .The preference for indirect equity ownership over direct equity ownership is clearly increasing.

Figure 2. Preferred Method of Equity Investment



Source: NSDL, CDSL, AMFI

The above chart exhibits that the growth in equity oriented mutual fund folios is better than the growth in Demat accounts in India. Over a period of four years from 2014-15 to 2017-18, the average annual growth in Demat accounts and equity mutual fund folios are 10% and 16% respectively. On an average, the growth in investor accounts in equity mutual funds are little more than 1.5 times compared to investor accounts growth in equity market between 2014-15 to 2017-18.

Further, the percentage of average daily traded volume of retail category to total cash market average daily traded volume fell from over 80% in 2003 to under 35% in 2013. By the end of March 2017, the share of retail investors with in cash market turnover stood at 54.6%. On the other hand, retail investors' investment in equity oriented mutual funds have grown more than four-fold from ₹.71012.71 crores of AUM as on March 31, 2009 to ₹3,79,476.82 crores as on March 31, 2018.

Conclusion

Equity market in India is underpenetrated despite its substantial performance and growth. The share of equity savings as a percentage of financial savings stood 5% in India which is considerably low when compared to other economies like United States, China, Brazil, Indonesia etc. Further the spread of equity cult is also not even in India. Only a few states accounted for a significant share in stock market turnover. The main reason behind the low exposure to equity by household segment is volatility. Foreign investment flows into the equity market are the major contributor to volatility. Increased domestic participation, household (retail) in particular brings more depth and stability to the market. Hence it is imperative to educate and safeguard the interest of small investors to increase their presence in the equity market

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