

Participation of Retail Investors in Indian Equity Market

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Abstract: There are many studies on estimating retail investors in Indian Equity Market. However, each of them remains short on exact number. This paper is also an attempt to arrive at estimated number of retail investors in the Indian equity market and how it compares with rest of the world. We with our justification estimate population of retail investors at 4.45 percent of total Indian population. Retail investor participation in India is amongst the lowest. Retail investors in India disproportionately distributed with western region dominating with nearly half of the investor population.

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I. Introduction

Indian Equity Market is making its mark on the global scenario. It is one of the most sought after securities market around the world. Very recently the two stock exchanges, the Bombay Stock Exchange (BSE) and National Stock Exchange (NSE) scaled new heights when their benchmark indices BSE Sensex and NSE Nifty respectively touched highest record levels to date. The experts are upbeat about the indices and anticipate closing fiscal year on yet new record level in March 2018. Of course the reason for this scenario could be many, but how does it translate to retail investors. Many studies are voicing about elusive retail investors in Indian Equity Market. Does this mean that the role of retail investors in the indices scaling new peaks is not very significant? This paper will look at the population of retail investors in the country to arrive at some numbers.

II. Objectives Of The Study

This paper primarily will seek to estimate population of Retail Investors in the Indian Equity Market. In addition to this, it aims to find the spread/distribution of Retail Investors to assess where from the investment is actually emanating materializing. And then compare the outcome with some of the leading economies of the world.

III. Methodology

The current data would collated from the websites of stock exchanges, databases, depositories, mutual funds and market regulator, few existing survey reports would also be referred to for obtaining the pattern of distribution/spread of investors and some research papers would be referred to for related information.

IV. Findings

Retail Investors in Indian Equity Market: First of all, we need to understand who is referred to as 'Retail Investor' in India. SEBI (Securities and Exchange Board of India) define retail investor as one whose total investment in equity market is not more than Rs. 2 lakhs in a year. This works out approximately USD 3200 at current exchange rate of INR 1= USD 0.016. According to World Bank reports, the GNI per capita income in India in 2016 was USD 6490 (PPP) and GDP per capita was USD 1861.50.

Retail investors can be active or passive. Active retail investors are the ones' who invest in equity market through Primary Market (the New Issue market of IPOs / FPOs) and Secondary Market (Trading on Stock Exchanges) directly. In India, as per the SEBI guidelines, in order to invest actively in equity market, investors must have a Demat Account. This account can be opened only if one has PAN (Permanent Account Number) from the Income Tax department of Government of India. Therefore, every investor have to have Demat Account with the two Depositories, NSDL (National Securities Depository Limited) and CDSL (Central Depository Services (India) Limited). The Investor accounts with these two depositories as of 31 July 2017 stands at 28,975,484 (CDSL 12,951,660 + NSDL 16,023,824) or 29 million out of 1.33 billion population (2016, source: www.worldometers.info), just 2.18 percent.

Passive investment to equity market is through mutual and pension funds. As per the data available from AMFI website, Individual Retail Investors accounts (having investment of Rs. 5 lakh or less), as of June 2017, were 55 million. This forms almost 99 percent of total investors. About 81 percent of these are in Equity oriented schemes. Thus total equity oriented mutual fund retail investors are 44.6 million or 3.36 percent of the total population.

There is a third category of the retail investor which deserves to be mentioned here. There would be some retail investors who may not be active and/or may not have shifted to dematerialized platform as yet. The number of such investors will be very small but may not be insignificant. Similarly, we have cases of duplication or inactive accounts amongst Demat and PAN figures. Again these numbers are small but not insignificant.

Estimation of the Population of Retail Investors in Indian Equity Market: Going with two figures of 29 million of Demat account holders and 44.6 million equity oriented mutual funds, our optimistic estimate of total retail investor population as of July 2017 is 59.1 million (44.6 million + 50% of 29 million). The exclusion of 50 percent of Demat account holders will take care of overlapping/non-overlapping issue and also the third category of the investors. This would mean that only 4.45 percent of the total population of the country is the retail investors.

Above figure is almost 75 percent higher to the 33.7 million total retail investors according to the SEBI Investor Survey 2015 (SIS2015). The improved investor confidence and rising market indices has increased consumer confidence resulting in bringing back the retail investor to the market. It seems that an effort by government to attract more and more retail investors to equity market appears to be paying. Using same percentage proportions that of SIS2015, we note that Urban Retail investors' form 41.37 million (70 percent) and 17.73 million (30 percent) belong to Rural background. Amongst these 5.22 million (18 percent of Demat account holders) form IPO subscribers.

Compare this with other leading economies of the world in Table 1. In USA, nearly half of the population invests directly or indirectly (2013). One-third of Singapore working population invests in equity market. In Malaysia this works out to 26 percent (2015) while in China it is 14.6 percent (2015) of total population. In China the nearly 85 percent of trading in stock market is done by retail investors, one of the highest in the world. Compare this with 53 percent in USA.

Table 1: Retail Participation Asia & USA		
Economy	Retail Investor Participation (% of Total Population)	GDP Per Capita Income in 2016 (Amount in USD)
USA	48.8 (2013)	57,466.79
Singapore	29.1 (2015)	52,960.71
Malaysia	26 (2011)	9,502.57
China	14.6 (2015)	8,123.18
India	4.45 (2017)	1,709.39

Source: Collated from various sources.

Distribution of Retail Investors: A strong zonal incongruence exists with regards to location of investors. Whether it is cultural disparities or approach to savings and investment, investors are unevenly spread on pan-India map. Similarities and disparities are also noticed amongst different studies and reports. The CDSL report of January 2016 provides state-wise distribution of Demat investor accounts. In the West Zone, two states Maharashtra (with 22.6 percent) and Gujrat (with 13.56 percent) account for nearly 36 percent of 46.36 percent Investor Accounts followed by South Zone with 23.03 percent and North zone with 19.84 percent. East zone has least number of investor accounts at 10.74 percent.

According to the SIS2015 data, more than half of investors are located in West zone (51.2 percent), followed by North (26.5 percent), East (15.2 percent) and South (7 percent). Data released by NSDL in 2007, also indicates that two states of Maharashtra and Gujrat account for nearly 40 percent investor Demat accounts. Further to this city wise distribution of investors also indicates to the west dominance in investments. As per NCAER Household Survey of July 2011, Mumbai, the financial capital of India, accounts for 36.25 percent of investors, followed by Delhi (8.79), Bangalore (7.29), Pune (6.18), Kolkatta (5.69) and Surat (5.38). This survey also points to the fact that West zone invests 55.36 percent followed by South zone (21.43), North zone (12.99) and East (8.04).

V. Conclusion

Population of retail investors in Indian equity market is dismally low when compared with other leading economies. However over the time period, the numbers have increased since the investor confidence is being maintained. More investors are still vary of direct investment in the equity market, but are taking keen interest to investing through passive investment thanks to the investor initiatives by AMFI in promoting

investments in mutual funds. This can be noticed with 55 million investors in mutual funds (June 2017) compared to 29 million Demat account holders (July 2017). Another noteworthy interesting fact is that half or more, of the retail investment by arises in western region of the country. Within this, major chunk of about three-fourth is from Mumbai and Pune Cities.

VI. Recommendations

The existing initiatives by SEBI, AMFI and government needs to be continued and additional modalities are worked out to allay the fear of retail investors particularly towards active participation. The move by government to link Aadhar Card with PAN and Demat Account will help in weeding out invisible investors and a realistic picture would be drawn. That for sure will enable focused attention on real investors. Further, when we compare the Indian Retail Investors' participation with rest of the world alongwith the per capita income, one clear message can be drawn – we need to provide more income to the people so that they can participate freely in the equity market.

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