Our private capital market

Financial markets are meant to have a public character. But in India, the small investor either exists on the fringes or is absent

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Just as it is for institutional investors, a long bull run, a zooming Sensex, highest-ever FII inflows and good corporate results should also be a reason to celebrate for the small investor. The sad truth is the small investor is far removed from the euphoria sweeping the market, as he is just not there. The Indian capital market is fast losing its public character. And this is happening in all its segments -- secondary cash market, primary equity market, derivatives, mutual funds, corporate bonds, you name it.

Where's the public?

Most listed companies are no longer truly public, as an analysis of the shareholding pattern of the top 10 companies, based on market capitalisation as on June 30, shows. Public holding in these giants of corporate India ranges from a meagre 0.9 per cent (Bharti Tele-Ventures) to 15.3 per cent (Infosys); it's less than 10 per cent in six of them. On an aggregate basis, the public holding in these 10 companies is just 8.9 per cent (See table: Small holdings). It might be even less, as some shares of promoter relatives, friends and associates might be hidden here.

In an ideal scenario, retail money could have been represented by mutual funds. But mutual funds too have only a marginal holding in these 10 companies -- 0.4 per cent (Wipro) to 13.5 per cent (ITC); it is less than 10 per cent in nine companies. On an aggregate basis, the holding of mutual funds in these 10 companies is only 1.7 per cent. This figure becomes even more dismal considering that corporate funds account for a large percentage of mutual funds assets. The Indian public and mutual funds, together, hold just 10.6 per cent equity of the top 10 Indian companies.

This number will probably reduce further when the September numbers are released. Of late, preferential allotments to promoters and institutional investors, and GDR/ADR/FCCB issues to foreign investors have reduced the public's share.

Even at the origination stage, the primary market, the public has been marginalized. Till the mid-90s, when there were no FIIs and few institutional investors, every public issue was offered solely to -- and subscribed by -- the small investor. Things have changed substantially since. Between January 2003 and June 2005, the ongoing public issue boom period, a high Rs 42,879 crore was raised through public issues. This, however, was just 14 per cent of these companies' total capital of Rs 3,06,909 crore. Worse, due to policies, the allocation to small investors was a paltry Rs 9,174 crore –just 3 per cent of the issuing companies' total capital!

Private party

In other market segments, public participation is even less. The corporate bonds segment is almost entirely out of the small investor's domain. So is the derivatives market. Collective investment vehicles too have fared poorly. Mutual funds have hardly reached out to the small investor, provident funds are not allowed to invest in equities yet, private pension funds, which represent big retail money in developed markets, are yet to take off.

Due to issues of confidence, policies and processes, the share of investments in equities as a percentage of total household savings has fallen to alarming levels -- from 23.3 per cent in 1991-92 to 1.1 per cent in 2004-05, despite the growth in the rate of household savings. The number of equity investors, as represented by the number of demat accounts in force, is only 7 million – just 0.7 per cent of our population!

The public has been reduced to mere spectators. The capital market has truly become a capitalist phenomenon, aided in a major way by the exclusion of the public from policymaking. It touches the lives of a few million urbanites and completely excludes rural India. When it comes to showcasing progress in the market, we often cite comparisons with the US markets. What we fail to recognise is that the small investor there doesn't live on the fringes -- he is present in numbers, both directly and through mutual funds and pension funds.

For how long will the public have to live off crumbs? If that is the case, we might as well officially debar the small investor from the capital market and convert it into a private club. The public will then, at least, be saved from spending their time and money on understanding a market that that has become a trader's playing ground rather than an investor's destination, that doesn't belong to them, where they are constantly discriminated against, where manipulators sucker them into useless penny stocks. Members of this restricted-entry club can trade thousands of crore among themselves, rejoice in the Sensex scaling new heights and equate that high with the state of the economy -- far removed from the ground realities and the common person!

Small holdings			
	Mutual funds	**Indian public**	**Total**
ONGC	0.9	2.3	3.2
Reliance	1.7	12.3	14.0
TCS	1.3	5.8	7.1

Infosys	2.4	15.3	17.8
Bharti	1.6	0.9	2.5
Wipro	0.4	8.0	8.4
SBI	5.2	6.4	11.6
ITC	13.5	12.0	25.5
ICICI Bank	1.3	6.2	7.5
HLL	0.9	19.1	20.0
Total	**1.7**	**8.9**	**10.6**
Holdings in top 10 companies, ranked by market cap;			
All figures in per cent, as on June 30			