Record share of domestic investors in listed companies

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DOMESTIC INVESTORS are tightening their grip on listed companies at a time when foreign portfolio investors are pruning their holdings due to global uncertainty and rising interest rates in the US. Significantly, the share of retail, high net-worth investors, and domestic institutional investors (DIIs) as a whole, reached an all-time high of 23.34 per cent as on March 31, 2022, well above the FPI (foreign portfolio investors) share of 20.15 per cent.

The data compiled by primeinfobase.com showcases the rise of the domestic individual investor and the huge counterbalancing role they have played to foreign investors. Seven years back in March 2015, while the FPI share was 23.32 per cent, the

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EXPLAINED

E. The rush and the worry

AS MARKETS soared after the sharp fall following the outbreak of Covid-19, retail investors entered the market in large numbers over the last two years. Their holding of listed companies has touched an all-time high now. Experts, however, caution investors hoping for quick returns. In the past, a retail rush into markets at high levels has not ended well.

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combined share of retail investors, HNIs and DIIs was 18.47 per cent. What has been remarkable though, has been the rise of retail within domestic investors, from 6.12 per cent in March 2015 to 7.42 per cent in March 2022.

The value of retail investor holdings too has risen from Rs 5.26 lakh crore to Rs 19.16 lakh crore, according to Pranav Haldea, Managing Director, PRIME Database. The rise picked pace over the last two years when Covid-19 struck and has continued despite the volatility in the stock markets following the Russian invasion of Ukraine, inflation, and monetary tightening by the US Federal Reserve.

In fact, over the last two years, retail investor participation in equity markets has grown remarkably. This is reflected in the more than doubling of the demat account numbers to 8.97 crore in the two years ending March 31, 2022. The investor accounts at the CDSL depository have almost tripled to 6.3 crore in March 2022 from 2.12 crore in March 2020.

But leading market experts warn retail investors looking for quick returns. Prashant Jain, ED and CIO at HDFC AMC said, "I think retail is a very big participant in these markets. And I have seen on two or three occasions in the past that whenever retail participation is very high, it is not a good sign. Because in stock markets, the majority is seldom right over long periods."

Jain pointed out that almost 30 per cent of household financial savings is now flowing into equities. "I don't think this is a number that should give us a lot of comfort."

Over the last six months – between October 1, 2021, and March 31, 2022 – FPIs sold equity holdings worth Rs 1.65 lakh crore. High net worth individuals (with more than Rs 2 lakh shareholding) sold equity in the last quarter of financial year 2021-22 as is reflected in their reduced shareholding – 2.21 per cent on March 31, 2022, compared with 2.28 per cent on December 31, 2021.

Domestic institutional investors (DIIs), however, invested a net of over Rs 2 lakh crore into Indian equities in the six months ending March 31, 2022. During this period, the benchmark indices, Sensex of the BSE, and Nifty of the NSE, rose by 0.54 and 0.63 per cent, respectively.

The large-scale selling by FPIs comes on the back of global uncertainty when they embrace a risk-off trade – meaning, moving from risky assets like equities to more of bonds and gold (considered safe). "The global investing scenario has been plagued by the risk-off trade since October 2021, as central bankers hinted at policy tightening with inflation moving from being 'transitory' in nature to somewhat of a medium-term headache. This aided the bond trade globally as yields started to become attractive, nudging investors to allocate a higher portion towards Fixed Income as an asset class," said a recent Axis Mutual Fund report.