Are retail investors losing interest in equity markets?

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BL Explainer

Why have retail investors flocked to the stock market like never before?

The Indian equity market saw a massive influx of retail investors over the last two years. Thanks to the bull-run that began after a massive market rout in March 2020 due the onset of the Covid-19 pandemic, surplus liquidity and shift to work from home which left people with more savings and time to invest in the stock market.

Besides the growing digitisation, simplified on-boarding process and user experience provided by new age discount brokers and fintechs also attracted a large number of first time young investors into the market. As a result, the country saw nearly five crore new demat accounts being opened in just two years. To put it in perspective, 20 lakh new demat accounts have been opened every month since March 2020.

What is their share in the overall market?

According to data compiled by Primeinfobase.com, an arm of Prime Database Group, the share of retail investors in NSE- listed companies touched an all-time high of 7.32 per cent as of December 2021.

On the other hand, institutional shareholding in these NSE-listed companies declined due to massive sell-off by foreign portfolio investors (FPIs) during this period.

As a result, institutional shareholding in NSE-listed companies declined to a nine-year low of 20.74 per cent.

The value of retail shareholders (in rupee terms) also touched a record high of ₹18.98 lakh crore as of December 2021. The analysis is based on shareholding patterns of 1,714 of the total 1,768 NSE companies.

Have retail investors gained significant scale?

Although the shareholding of retail investors is currently not significant enough to decide the market direction, they are slowly emerging as an important market force to reckon with. Amid rising interest rates by the US Federal Reserve and other global central banks, geopolitical tensions due to Russia-Ukraine war and high valuations of Indian stocks, FPIs have been on a selling spree in the Indian market since October 2021.

Foreign investors pulled out ₹1.49-lakh crore between October 2021 and March 2022.

Typically, the stock market would have crumbled during such a huge outflow of FPI funds, but it did not. The key benchmark index, NSE Nifty 50, fell only by 1 per cent from 17,618.15 points at the end of September 2021 to 17,464.75 points as of March 2022.

While FPIs were selling relentlessly, domestic institutional investors (DIIs) and retail investors saved the market from crashing through their sustained buying. Not just direct equity investment. Retail participation through equity mutual fund investment via systematic investment plans (SIPs) have also helped the market.

Between October 2021 and April 2022, mutual funds mopped up ₹79,975 crore through SIPs, which flow into equity mutual funds.

Why are some experts worried about retail investors exiting the market?

Although retail investors emerged as the vanguard over the last few months, protecting the market downfall due to intense FPI sell-off, market experts believe their defence cannot sustain for too long.

According to Jefferies, a record $60 billion retail inflow (through MFs & direct) came into the domestic equity over the last 12 months, which helped absorb heavy foreign selling. However, the global broking firm said retail inflows cannot be taken for granted, although the structural retail shift towards equities should help in the long term.

Going forward, rising Inflation and increase in interest rates and an upturn in other investment assets like gold and real estate may reduce retail investment flows into equities as investors diversify their investments in search of better returns.

The early signs are already visible. For instance, the net inflow into equity-linked mutual fund schemes declined by 44 per cent month-on-month to ₹15,890.98 crore in April against ₹28,463 crore in March.