RETAIL INVESTORS

A SHRINKING TRIBE

THE RECENT VOLATILITY WITNESSED ON THE BOURSES HAS SLOWED THE RETAIL INVESTOR'S RUSH INTO THE

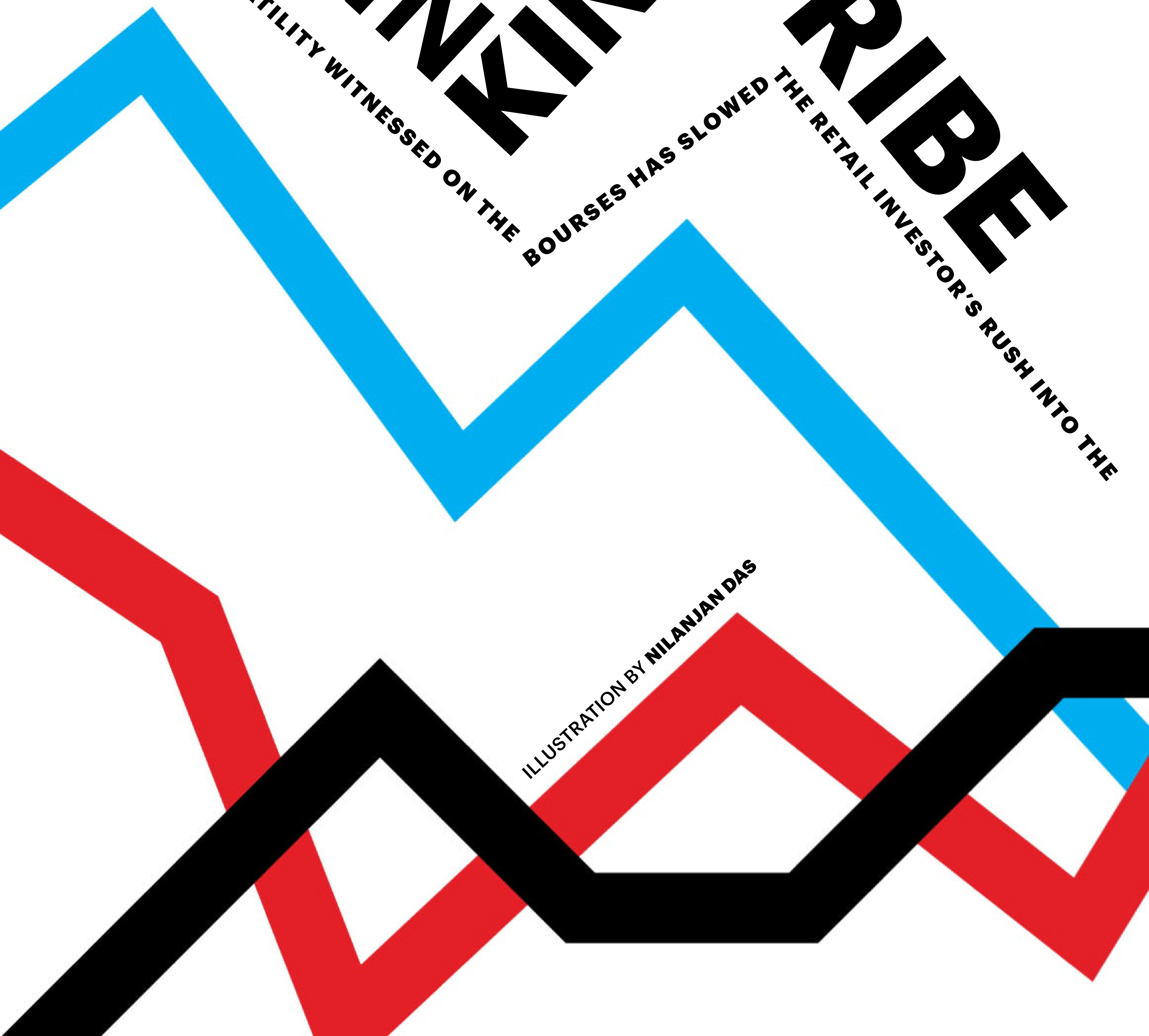


ILLUSTRATION BY **NILANJAN DAS**

EQUITY MARKETS. IT MIGHT TAKE A LOT TO GET THE FENCE-SITTERS TO JUMP IN NOW

BY **ASHISH RUKHAIYAR**

THE YEAR WAS 2020, a time of significant market turmoil exacerbated by various economic headwinds due to the Covid-19 pandemic. That year and the ones after it have turned out to be unforgettable for most people, organisations and sectors, and not always in a good way. But one segment of the economy that benefitted hugely due to the pandemic, even as most others ran for cover, was retail investors.

The Indian stock markets—that had been struggling for decades to enhance their penetration into non-metros and the hinterland areas—suddenly saw a deluge of new and young investors. More importantly, the new entrants were coming from across the country.

The influx of the average Joe and Jane as retail investors during the lockdown has been amply corroborated by the fact that the share of retail participation on the National Stock Exchange (NSE)—the country's largest bourse in terms of market share—jumped to 45 per cent in FY21, from the previous year's tally of 38.8 per cent.

This was seen as a huge milestone for the Indian stock markets as it was the first time that retail investors accounted for over 40 per cent of the total trading turnover in a fiscal. In contrast, their share was only at 33 per cent in FY16. Interestingly, a large section of market participants believed that the long-awaited inflection point had finally arrived as a large pool of India's household savings was flowing into equities.

Indeed, the inflection point was upon the markets, and brokers—including new-age tech-led platforms—were busy courting new clients through various incentives. Consequently, for most of the leading broking firms, the duration of the Covid-19 lockdowns has been the best period till date in terms of the number of new clients on-boarded.

But now, it seems that the number of retail investors jumping into the markets is tapering as the effects of the pandemic wear off. "The Covid-19 years set a high benchmark in terms of new client additions in the market. With a record number of investors entering during that period, it becomes challenging to continue growing at the same pace. It may take some time before we see a consistent upward trend in new client numbers again," says Faisal Mohammed, Associate VP-Business at Zerodha.

A couple of weeks ago, even the World Health Organization officially stated that Covid-19 is no more a global health emergency. Separately, data shows that the interest level of retail investors in the stock markets is also waning since the past many months.

For context, the share of retail investors in the total turnover of the NSE dipped to 40.7 per cent in FY22 from a high of 45 per cent in FY21; the number fell to 36.5 per cent in FY23.

"The share of retail investors tapered significantly in FY23, as they reduced their direct participation in Indian equities through secondary markets... Retail inflows in FY23 were the lowest in the past three years," states the latest monthly bulletin of NSE.

Market participants attribute this trend to a combination of factors, ranging from heightened market volatility and correction, to range-bound trading post the highs of 2020 and 2021, to the global economic slowdown and rising interest rates. The fact is that the sentiment of retail investors has taken a hit, making them increasingly cautious when it comes to investing their hard-earned money in the markets.

THE CUMULATIVE SHARE OF DOMESTIC INSTITUTIONAL INVESTORS, RETAIL AND HNI (HIGH NET-WORTH INDIVIDUAL) INVESTORS TOUCHED A PEAK OF 25.72 PER CENT ON MARCH 31, 2023, FROM 24.44 PER CENT ON DECEMBER 31, 2022

THE VANISHING TRIBE

"During Covid-19, brokers had spent a lot of money to acquire new customers. Many of these custom-

THE BUTTERFLY EFFECT

RETAIL INFLOWS IN FY23 WERE THE LOWEST IN THE PAST THREE YEARS, TOUCHING ₹49,200 CRORE, COMPARED TO ₹1.65 LAKH CRORE IN FY22 AND ₹68,400 CRORE IN FY21

THE NUMBER OF RETAIL INVESTORS IN THE CASH SEGMENT OF NSE TOUCHED A RECORD 11.7 MILLION IN JANUARY 2022; A FALL OF NEARLY 4 MILLION BROUGHT THE NUMBER DOWN TO 8 MILLION IN MARCH 2023

THE SHARE OF RETAIL INVESTORS TAPERED SIGNIFICANTLY IN FY23 AS THEY REDUCED DIRECT PARTICIPATION IN INDIAN EQUITIES THROUGH SECONDARY MARKETS; THE NUMBER CONTRACTED 421 BASIS POINTS MONTH-ON-MONTH IN MARCH 2023 TO 36.5 PER CENT—THE LOWEST IN THE POST-PANDEMIC YEARS

INVESTOR REGISTRATIONS HAVE BEEN FALLING SINCE HITTING A PEAK IN NOVEMBER 2021; OVERALL REGISTRATIONS FOR FY22 WERE MORE THAN 19 MILLION, NEARLY 81 PER CENT HIGHER THAN THE PREVIOUS FISCAL. BUT IN FY23, NSE ADDED ONLY 13.3 MILLION NEW INVESTORS

ers opened accounts simply due to the incentives. As fast as they came, they have disappeared faster," says Vijay Chandok, MD and CEO of ICICI Securities. "In the past 18-odd months, the equity market has been flattish, making it difficult to make earnings out of the markets, thereby leading to a sharp decline in investor interest, particularly [in the case of] those who came in during the Covid-19 period."

Incidentally, the number of active retail investors in the cash segment (equities market) of NSE was around 3 million in January 2020, just before the lockdowns began. It surged to a peak of 11.7 million in January 2022, but since then, their numbers have fallen by nearly 4 million, to 8 million in March 2023.

There are a few key reasons for the consistent decline in unique client codes (UCCs) in the past 18 months. "The primary market has been extremely subdued and there is a lack of good quality IPOs... Small- and mid-cap indices—where the participation of retail investors is the highest—have remained sluggish for the past 18 months, and delivered practically zero returns during the period [since October 2021]. This sluggishness has resulted in the loss of investors' interest and therefore, inactive UCCs," says Jimeet Modi, Founder & Group CEO of SAMCO, that has a presence in the discount broking and mutual funds segments.

Not only that, even the benchmark Sensex touched a low of 46,160.46 in 2021, but rose swiftly to touch a then record high of 62,245.43 in 2021. The last calendar year (2022) also saw the Sensex trade in a broad range, between a high and low of 63,583.07 and 50,921.22, respectively. In the current year till May 12, the index is up less than two per cent from last year's close of 60,841.

"In the past one and a half years, the markets have been volatile but there has been no net increase in Nifty 50 levels. Non-serious participants are not active anymore, and hence the declining trend," says Yash Upadhyay, Chief Strategy Officer at 5Paisa Capital.

In a similar context, Gaurav Rastogi, Founder of Kuvera, an online wealth management platform, says that the final stages of a bull market typically see many new traders entering the markets to make a quick buck, driven by the good returns. "These are usually day traders and not long-term investors. When the returns don't materialise, as has happened in the past two years, they leave. What we have seen in the past three years is the same cycle play out in India."

It is quite clear that the deluge of retail investors, who swamped the stock markets between early-2020 and mid-2022, are abandoning the equity ship in equally large numbers. But the larger question that remains is, if not equities, then where is the retail money sailing?

THE MONEY TRAIL

It is not that retail investors are keeping cash in their bank accounts or at their homes. Therefore, retail money is certainly being invested somewhere. The past few years have seen a significant rise in interest rates, and coupled with the heightened volatility in the equities markets, market watchers say that retail investors are moving their money from stocks to bank deposits (fixed deposits, recurring deposits, etc.), debt instruments and even pre-paying their loans.

"Post Covid-19, brokers spent a lot of money to acquire customers. Many of them opened accounts due to the incentives. As fast as they came, they have disappeared faster"

VIJAY CHANDOK
MD & CEO, ICICI SECURITIES

"Broking as an industry has focussed on revenue-maximising day trading and F&O segments, with little effort to build good long-term investment habits"

GAURAV RASTOGI
FOUNDER & CEO, KUVERA

"With fixed deposit rates for banks crossing 7 per cent, and for well-rated corporates above 9 per cent, we are seeing a lot of money coming into safer FDs [fixed deposits]. The expert view that we are close to the end of the rate increase cycle also makes locking higher FD rates more attractive today," says Rastogi, adding that gold, too, has benefitted from the heightened risk aversion among retail investors.

Zerodha's Mohammed says that a large portion of funds typically get allocated to fixed-income investments during periods of increased market volatility, and a bearish outlook. This shift reflects investors' desire for more stable returns and reduced exposure to risks associated with equity investments. Indeed, FD rates—that had dipped below 5 per cent for shorter tenures at one point of time—are hovering around 6-7 per cent, currently. "Fixed-income instruments like FDs, bonds, debt mutual funds (MF) are the flavour of the season. A certain proportion of money has moved from equity to debt. Within equity, focus is more on passive instruments like MFs," says 5Paisa's Upadhyay.

MFs seem to be a big beneficiary of the trend, even though money invested in funds ultimately goes to stocks if invested in an equity or hybrid scheme, or any scheme that is not a pure debt product.

Interestingly, the cumulative amount of money routed through systematic investment plans (SIPs) touched a new record of ₹1.56 lakh crore in FY23. Further, the monthly flows have exceeded ₹13,000 crore for each of the past seven months.

But investments alone do not seem to be on retail investors' minds. A large section of market participants believe that the rising rate regime has forced many to review their loans and even prepay or close some of their outstanding borrowings, especially home loans.

"I think the largest amount of money is going to people prepaying EMIs. As interest rates have risen by 2-2.5 percentage points in the past 24 months, the outgo in terms of various EMIs of the salaried class people has increased by 15-20 per cent, depending upon their loan exposure," says Modi.

A RETURN TO FORM

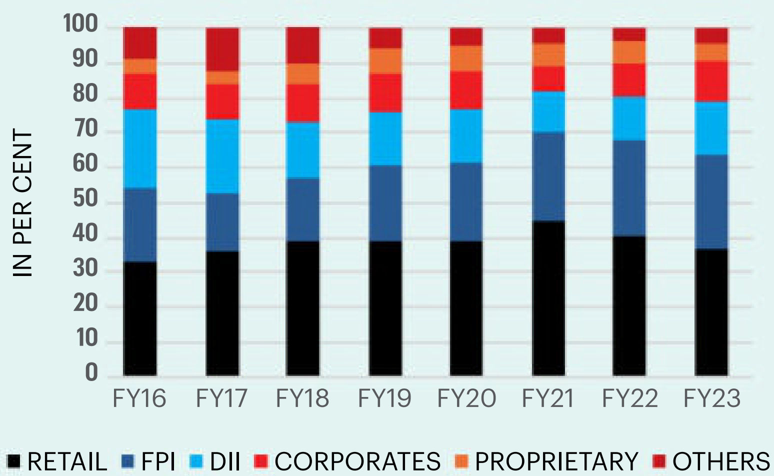
Although experts are of the view that the stock markets will probably not see the kind of influx of retail investors that it witnessed in 2020 again, they add that the category has become a significant player in the markets.

"During the Covid-19 period—and in the world of zero interest rates then—[an excessive] amount of money funded broking firms... With that money evaporating, the luring practices of broking firms have come to a sudden halt and therefore, we are seeing a reversal to the true mean as far as [their] activities are concerned," explains Modi. "So, this is not just transitory, but all the excess that got created because of zero interest rates and free money during Covid-19 is coming back to reality."

But this does not mean that retail investors are losing their sway on the stock markets. Consider

SEEKING REFUGE

The share of retail investors on NSE has fallen below 40 per cent in FY23, from the peak of FY21...



SHARE OF CLIENT PARTICIPATION ON NSE; **SOURCE** NSE

...while the flow of money into systematic investment plans has been steadily going up

MONEY FLOWING INTO SIPs; **SOURCE** AMFI

63.6 MILLION TOTAL NUMBER OF SIP ACCOUNTS AS ON MARCH 31, 2023, PER AMFI

7.9 MILLION NUMBER OF ACTIVE RETAIL INVESTORS ON NSE AS ON MARCH 31, 2023, PER NSE

this: the share of retail investors who had shareholding of up to ₹2 lakh in a company increased to an all-time high of 7.48 per cent as on March 31, 2023, from 7.23 per cent on December 31, 2022, per data from primeinfobase.com. "The power of the retail investor is going to stay. It is not going anywhere. On the contrary, over... 5-10 years, retail investors will probably be the most powerful set of investors either directly, or indirectly through domestic institutional investors. But the power of retail investors will not only continue to remain strong, but strengthen in the times to come," says Modi of SAMCO.

This assumes significance as the cumulative share of domestic institutional investors (DIIs), retail and HNI (high net-worth individual) investors touched a high of 25.72 per cent as on March 31, 2023, from 24.44 per cent on December 31, 2022. "In 2014, there were 3 million Indians investing in stocks in a year, versus 35 million in 2023. If you look at the US, 55 per cent of adult Americans invest in stocks directly. Hence, we have a long highway of growth, with the occasional bumps as we are witnessing now," says Chandok of ICICI Securities.

While there is no doubt that there is significant room for growth in a market that has recently become the world's most populous country with over 1.4 billion people, there is still a big question mark on whether the bulk of retail investors or new potential investors would invest in the stock markets directly or through MFs.

"A major proportion of retail investors still, and will continue to choose MFs. That's where we have seen continuous inflows even when foreign investors were on a selling spree. With the rise in middle-class incomes, we will continue to see that trend," says Upadhyay.

The average Indian retail investor is much more mature today, but there is no denying the fact that many of them have burnt their fingers in the stock markets in the past few years. And this is making them wary of investing directly. They will need some time to heal—and have clear visibility of potential gains in the future—before they take the plunge again. BT

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