

A STUDY ON RETAIL INVESTOR GROWTH IN INDIA

Mr. Avish Parmar¹

¹Hassaram Rijhumal College of Commerce and Economics HSNC University

avishbharat@gmail.com

ABSTRACT

The Indian scenario, over the last couple of years, has taken the astonishing retail investor participation very seriously. This added to the propitious economic conditions and given a new turn to retail investor growth, which improved financial literacy facilitated by the advancement of technology. Issues of the paper include analysis of leading causes that influence the development of retail investors, demographic and behavioural aspects of investors, and implications for capital markets.

The information used for this study are from the very latest points in time, including data received through National Stock Exchange (NSE) and Economic Survey 2023-24, and others.

1. INTRODUCTION

This has brought in a new protagonist to the Indian stock market, creating an overall sea change in the attitude of Indians toward financial markets. Traditionally, most savings went into asset classes such as gold and real estate; however, there has been a major diversion toward equity and mutual funds. The concept of retail investors and the historical significance of their participation in the capital market is discussed in this chapter.

Retail Investors

Demat Account Opening accounts

Indian demat account have been quite sensational. Since FY20, it has surged to around 15 crore in FY24. The growth rates have almost galloped four times.

Demat Account Growth

FY2020 -4 crore

FY 2024 -15 crore

Regional Growth

However, growth is very uneven in its distribution with North India specially Indore cities witnessing growth while the East and smaller towns also going along with registering notable contributions to this growth. By FY24, the registered investor base at the NSE would almost triple from 3.1 crore as of March 2020 and could account for 20% of Indian households siphoning their savings into financial markets.

Market Participation

This has thus placed retail investors as part of the 35.9% equity cash segment turnover, which represents a significant percentage in injecting much-needed liquidity and stability into the capital market. They also own nearly 10% direct equity in the market through investments in more than 2,500 listed companies.

Growth Enablers

Advancement of Technology

This investment process is no longer a hassle, courtesy of the opening of demat accounts with Aadhaar verification and e-KYC. The usage of a smartphone coupled with internet access has made this journey of investment relatively smoother. Cheap brokerages and platforms have eased this rise further.

2. FINANCIAL LITERACY

Improvement in financial literacy and education initiatives also undertaken by the stock broking firms had also significantly contributed to enhancing retail investor participation. Not to mention government policies toward financial inclusion as well as growth of the digital infrastructure played a big role too.

Economic Conditions

The COVID-19 pandemic has come as a mammoth opportunity and push to people who have invested in the stock markets. Economic uncertainty had pushed more people looking for a return much above what routine savings options would offer. The attractive returns in the Indian stock market with the Nifty 50 index nearly double from its March 2020 low also blame some of the more retail investors.

IPO's (Initial Public Offering)

It has also been the case with India, where IPO market has been proved very attractive with IPO shares risen on average by 39% in their first trading day and 42% in their first month of 2024. This moved an increasingly more middle-class worker to look for a slice of the action and at times invited family members to open multiple trading accounts.

Performance of the IPO

| IPO | Average Returns |
|-------------------|-----------------|
| First Trading Day | 39% |
| First Month | 42% |

Demographic and Behavioural Attributes

Age and Occupation

It is huge, and millennials and the next generation of investors form a significant reason for this growth. A huge percentage of F&O traders are below the 30 age group, and there is 43% of F&O traders in FY 2024. These investors are more risk-taking and favour the stock market for investment.

Investment Preferences

Since then, the retail investors, who had always been buying gold and real estate, have since flipped more towards equity and mutual fund products. MF AUM is running 35 per cent year over year to ₹14 lakh crore in FY24, through mark-to-market gains and rising industry expansion.

Capital Market Liquidity and Stability

Increased participation infused the much-needed liquidity and stability into the capital market by retail investors. Retail investors presently form the chunk in daily transactions, which even continued contributing positively toward market turnovers to date [3][5].

Derivative Trading

Derivatives trading has risen to very great heights in the world of the retail investor and is quite in vogue. Though India has been at 78% of all equity options traded globally last year, according to the data from the Future's Industry Association, the other side of the picture has also seen a rather grim side to it as 93% of the retail investors of the F&O market have incurred losses over the last three fiscal years, with the average loss being an amount of ₹2 lakh per investor[2].

Concerns and Regulatory Response

Risk and Speculation

Only now that regulators SEBI 'sound warnings of the risks of this gamification of Indian equities' with a spurt in retail investor participation. The Economic Survey 2023-24 cautions against speculative returns without real market conditions.

Financial Education

It hence, lays more emphasis on investor education and constantly updates financial education to caution the individual investor not to indulge themselves in trading derivatives thereby cautioning the possibility of huge loss in case correction in market price.

3. CONCLUSION

Retail investors have mushroomed suddenly in India. All good signs reflecting growing maturity and financial literacy, advancing technology, and increasingly confidence in the economy in the country. This results in some of the issues like over-confidence and speculation. The practices of responsible investment by regulators must be sustained in such a manner that the capital market would remain stable and sound. The increased participation by the retail investor lends strength to the capital market but caution must be exercised lest it opens up its doors to pitfalls.

4. REFERENCES

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