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Participation of Retail Investors in the Indian Stock Markets during and after COVID-19 Outbreak

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Abstract

There are many investors in the country who have never executed a single trade through his/her broker. According to a report, only 2% of entire pan cardholders India invest directly in Indian stock markets which is almost not significant. Some report in this paper we will talk about the participation of retail investors in Indian stock markets. In this paper we will talk about the participation of retail investors in Indian stock markets for the previous two financial years. Since these two years are crucial because of the reason of the pandemic COVID-19 crisis.

Keywords: Retail investors, Indian stock market, COVID-19, SEBI, Capital Market, Securities

INTRODUCTION

Any stock market of the world mainly comprises of 2 broad categories of investors, the first being institutional investors and the second being retail investors. In India it has always been came into different observations that the retail investors in India could not participate in the same scale as the institutional investors does. Especially the Indian stock market is heavily invested by domestic as well as foreign institutional investors. Institutional investment can be of two broad types the first is Domestic Institutional Investment (DII) and the second being Foreign Institutional Investment (FII). Domestic institutional investments are mainly occupied by the mutual fund houses. So, we can see that there is a definite bifurcation of institutional investment whereas the entire retail investment is composite as one. Many reports from many Indian and foreign research houses have at some or the other point claimed that the participation of retail investor is very low in Indian stock markets. According to a report, only 2% of entire pan cardholders India invest directly in Indian stock markets which is almost not significant. Bloomberg says only 1.5% people are investors in the share market. SEBI runs various financial inclusion and financial awareness programs throughout the country and as a regulator it frames various policies regarding this. In this paper we will talk about the participation of retail investors in Indian stock markets for the previous two financial years. Since these two years are crucial because of the reason of the pandemic COVID-19 crisis, therefore we will try to understand the inclination towards equity markets.

OBJECTIVES OF THE STUDY

The Objective of this paper is to study and elaborate the participation of retail investors in the Indian share market. It focuses on pointing out the rise in retail investors participation during and after the outbreak of corona virus in the early 2020.

RESEARCH METHODOLOGY

The paper follows a Descriptive Research Methodology. The facts and figures presented in the paper are compiled from Secondary sources and a conclusion has been drawn therefrom.

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REVIEW OF LITERATURE

[1] Arathy B, et.al (2014) This project aims at finding out the factors affecting investment decision on mutual funds and its preference over retail investors. This project also aims at finding about the factors that prevent the people to invest in mutual funds.

[2] Campbell, John Y, et.al (2012) Researcher says as investors spend more time in the market, they generally adopt style tilts and trading behaviours that are more consistent with the advice of financial economists. The researcher finds little evidence to support the view that investors are rationally learning about their investment skill.

[3] Sharma G., et.al. (2018) In this research, an attempt has been made to investigate various factors that affect the individual trading decision. Various factors are being explored from the literature and then with the help of factor analysis some of the most influential factors have been explored.

HOW IS A RETAIL INVESTOR DEFINED [4]?

As the name suggests, a retail investor is one who invest traditionally in a stock through a broker as a part of the general public. The law promulgated by the Securities and Exchange board of India defines retail investor as an investor who bids for securities for a value not more than ₹ 2 Lac and also not buys or hold more than ₹ 2 Lac in a stock.

On the other hand, it is worthwhile to know that in case of commodity market there is no such limit to define a retail investor. Retail investors purchase securities from their personal accounts and their trading amount is much lower in comparison to the fund houses and institutional investors. The purchasing power of retail investors is small and they also pay a relatively higher charges in terms of percentage. The primary motto of the Securities and Exchange board of India is to protect the interest of retail investor.

Whenever any public issue comes into the market then there is also another SEBI [5] guideline which says that at least 35% of the net offer must be allocated for the retail individual investors in a case when the company is making the public issue through voluntary book building process. In case of compulsory book building issue, the threshold is 10%. If the book building process is not followed and the securities are issued at a fixed price then minimum 50% must be offered to retail investors. The number of traded shares by individual retail investors is very few to impact the price of the stock.

Reports on Surge in Retail Investment

According to a report published in The Economic Times, the number of Demat accounts increased by 27% last year and stood at around 50 million by the end of 2020. It was also reported that during the pandemic time, the retail investors pulled out their money and funds from the mutual fund schemes and invested directly in Equity shares. Another reason for their investment directly into the equity shares was the availability of bluechip stocks at a very discounted price during the pandemic. So the potential investors saw an opportunity to make money and put their money into work.

Table 1. Report showing surge in retail investment.

Broker	Surge in Retail Investors
Zerodha	300% jump in new account opening
Motilal Oswal	100% rise in app download and 50% rise in trade
IIFL	100% rise in new account opening
Angel Broking	120% increase in client addition

According to the report by Association of mutual funds of India there was a change of 19% increment in the asset under management (AUM) under all the equity schemes for the year 2020 by the retail investors. The data shows that while the retail investors remained invested in equity funds in the year 2020, the institutions like banks and corporates pulled out their money from those equity funds. Another report published in The Mint says that the retail investment during the year ended 2020 was at 11-year high. The Securities and Exchange board of India, as reported by The Mint, says that the domestic investors open 3.4 million new Demat accounts in this September quarter of 2020. The shareholding of retail investors in about 1600 listed companies hit the 11-year high of 7.01% in the September quarter, which was 6.74% in the June quarter.

Figure 1. Fresh Milestone.

Source: The Economic Times, Sultana N. Retail Investment in Firms At 11-year High | Mint [Internet]. mint. mint; 2020 [cited 2022 Apr 13]. Available from: https://www.livemint.com/market/stock-market-news/retail-investment-in-firms-at-11-year-high-11604887062459.html

Factors Leading to the Surge in Retail Investment

The retail participation has increased in terms of Cash Average Daily Turnover. The increment has been more than 100% since Jan'20. The factors that have led to this insurgency can be explained as follows:

1. *Increased Awareness:* According to one of the leading brokers of India, Upstox, they have gained about 80% of its total customer base only during the pandemic and that also came mostly from Tier-2 and Tier-3 cities. Since the introduction of E-KYC and Aadhaar E-sign, almost all those stock brokers have adopted this methodology in India. This has made the work of investor as well as brokers very easy and through this a customer can open his Demat account very easily.
2. *Popularity of discount brokerage firms:* There are discount brokerage firms like Zerodha and Upstox who have contributed a lot and increasing the customer base and Demat account holders in stock market. The incentives and discounts provided by these brokerage firms have also played a major role in attracting are sizable retail investor towards investment directly into the share market.
3. *Crash of the market:* The market crashed during the month of March and April 2020 gave a huge opportunity into the hands of the investors. The Nifty and Sensex dropped by around 30% in just few trading sessions. For enjoying the short-term gains, many retail investors entered into the market and this led to a huge wave of new and 1st generation investors coming into the trading system.
4. *More free time and vacancy:* The outbreak of COVID-19 and lockdown put the working force into their houses and the money earners got so much of spare time. It is said that in order to grow faster than everyone else you have to make your money at work apart from yourself. So those people took apart of their savings and tried their hands in share trading so that they can put their money into work and gain through the opportunity.
5. *In search of alternative:* Retail investors saw decline in the interest rate provided by the traditional investments like fixed deposit and recurring deposit and their normal savings

account as well. In a search of some alternative source of income and in order to park their money for a better gain, the individuals turned to the stock market.

CONCLUSION

With the above facts and figures we can conclude that there is a strong increase in retail investor participation in the stock market; but keeping the mindset of the population into consideration, it will be worthwhile to see that whether this trend would continue further. It can be a chance that when the economy gets recovered the investor would move away to the traditional investment and fixed income assets. But this time the retail investors have participated in the generation of capital gains and it can be said that when the investor will see that they can generate higher incomes by having a little knowledge of availing opportunities, they will definitely remain a part of the stock market investment, if not directly then indirectly through mutual funds.

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