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RISING RETAIL PARTICIPATION IN STOCK MARKET: IS IT THE BEGINNING OF A LONG TERM BEHAVIOURAL CHANGE?

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Household savings are the major contributors to the overall savings in India. Of the household savings, a significant portion, around 41% is in financial savings. With the onset of pandemic and subsequent lockdown, household financial savings had initially showed a significant jump in Q1 FY21, and then a sharp moderation in Q2 FY21. However, the data shows that currency in circulation again increased in Q3 and Q4 FY21. Furthermore, the markets have progressively improved with Sensex increasing from 28,265 at the beginning of Apr'20 to above 52,000 now. This has led to increased investment in stocks and mutual funds in H2 FY21 and this higher retail participation in stock markets may become more of a self-fulfilling prophecy.

The number of individual investors in the market has increased by a whopping 142 lakh in FY21, with 122.5 lakh new accounts at CDSL and 19.7 lakh in NSDL. Furthermore, another 44.7 lakh retails investor accounts have been added during the two months of this fiscal. Also, the share of individual investors in total turnover on stock exchange has risen to 45% from 39% in Mar'20, as shown by NSE data.

Within retail, maximum allocation has been to financials, followed by consumer staples, energy and IT. Globally, there has been significant increase in the market capitalization in stock markets across the world in the last one year. However, in India it has been higher than other major countries. The market capitalization of Sensex has increased by 1.8 times its value one year ago. However, sector-wise 1-year return in Indian stock markets indicates that IT and Materials have performed better and IT. **This clearly indicates the movement in Indian stock markets is increasingly being clearly interlinked with a supposed infrastructure power play in coming days!** There is also a renewed interest in healthcare stocks and of course financial stocks with stories of Indian financial ecosystem being effectively acting as a conduit of large liquidity finding investment avenues.

Lower rate in other saving avenues amidst the low interest rate regime has led to greater interest by individuals in the stock market. Another reason could be the significant increase in global liquidity. Additionally, the pandemic which has resulted in people spending more time in their homes might also be another reason for individuals' tilt towards the stock market trading. However, it is yet to be seen if this increasing retail participation is transitory or the beginning of long term behavioural change? Additionally, the rise in stock market without significant development in real economy may raise issue of financial stability which as per our financial stability index shows modest improvement in Apr'21, but lower than the peak witnessed in Dec'20. However, it is expected to have declined in May'21.

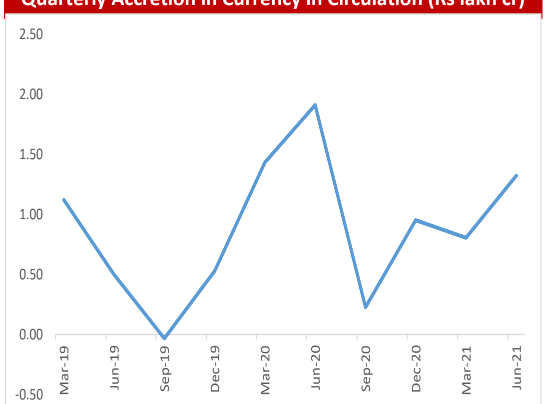
Increasing retail participation if it becomes the norm could also enable a larger resource pool for financing India's infrastructural requirements. **For example, the share of savings in shares and debentures to total household financial savings at 3.4% in FY20 is likely to increase in FY21 to 4.8%-5.0% of total HH financial saving, (or 0.7% of GDP from 0.4% of GDP in FY20), which is still much lower than 36.5% in the US**, indicating the significant upside to household participation in equity investment.

On a separate note, if we consider this to increase further to 1% of GDP and further even if half of this can be tapped and channelized into infrastructure spending, then it can cover around 24% of the IBER (other than Railways) of the Government in FY22. Other option for financing infrastructure that is also being explored is the InvIT (Infrastructure Investment Trusts). Government owned Financial Institutions like PFC, REC etc. are setting up InvITs and providing equity capital for new projects. These are all positive developments in the long term financing story of India!

HOUSEHOLD SECTOR IS MAJOR CONTRIBUTOR IN SAVINGS

- Savings pattern in India shows that household sector is the chief contributor to national savings. In FY20, total gross savings stood at Rs 63.85 lakh crore of which household sector's total savings were Rs 39.90 lakh crore, i.e. 62.5% of the overall savings. Furthermore, households have a substantial 59% savings in the form of physical assets and the rest 41% is held as financial savings.
- With the onset of pandemic and subsequent lockdown, household financial savings showed a significant jump in Q1 FY21, and then a sharp moderation in Q2 FY21. However, the data shows that currency in circulation again increased in Q3 and Q4 FY21 with incremental amount of Rs 80,501 crore and Rs 95,181 crore respectively compared to Rs 17,225 crore in Q1. Furthermore, the markets have progressively improved with Sensex increased from 28,265 at the beginning of Apr'20 to above 52,000 now. This has led to increased investment in stocks and mutual funds in H2 FY21.

Quarterly Accretion in Currency in Circulation (Rs lakh cr)



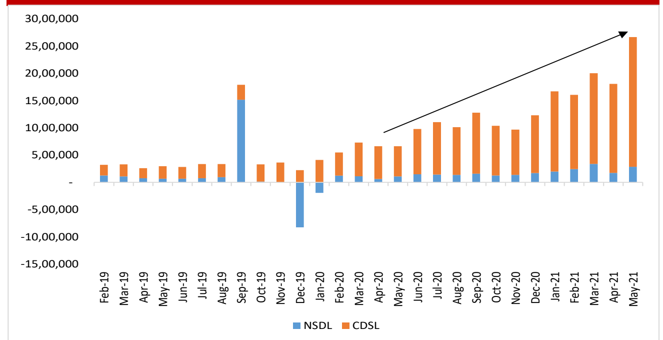
Source: SBI Research

- This higher retail participation in stock markets may become an established norm going forward. This would only imply an even economy agnostic movement of stock markets.

INCREASING RETAIL PARTICIPATION IN THE MARKET

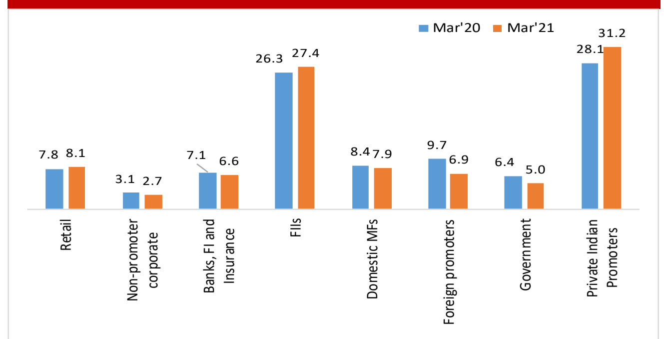
- Over the past year, there has been a significant increase in retail participation in the Indian markets, aided by huge market rally. The number of individual investors in the market has increased by a whopping 142 lakh in FY21, with 122.5 lakh new accounts at CDSL and 19.7 lakh in NSDL. Furthermore, another 44.7 lakh retails investors have been added during the two months of this fiscal.
- Furthermore, the share of demat value of equity securities held by individuals has increased from 31.9% in Mar'20 to around 36.6% in May'21 for CDSL and from 13.6% in Mar'20 to 15.8% in May'21 for NSDL. When we look at the client-wise participation in capital market at NSE, the share of retail has risen to 45% in May'21 from 39% in Mar'20, while that of DII and FII has declined to 7% (from 10% in Mar'20) and 10% (from 15% in Mar'20) respectively during the same period. However, ownership pattern of NIFTY-50 shows only a modest increase in retail share to 8.1% in Mar'21 from 7.8% in Mar'20. Furthermore, the total retail participation (individuals holding demat account) as a % of total adult population is only around 7.3%. Within retail, maximum allocation has been to financials, followed by consumer staples, energy and IT.
- Additionally, even though the mutual fund industry is facing higher redemptions owing to buoyant stock market, SIP investment in mutual funds which has been moderating since Jun'20 jumped to a record investment of Rs 9,182 crore in Mar'21.
- Declining saving avenues amidst the low interest rate regime has led to greater interest by individuals in the stock market. With key repo rate at 4%, the FD rates vary from 2.9% to 5.4 for different tenures (SBI FD rate). Even the current small savings rate are low, varying from 7.6% on Sukanya Samriddhi Yojana Account Scheme, 7.4% on Senior Citizen Savings Scheme, 7.1% on Public Provident Fund, and 6.8% on National Savings Certificate. Another reason could be the significant increase in global liquidity. This is reflected in the FII inflows in FY21, with total amounting to $36.18 billion. Additionally, the pandemic which has resulted in people spending more time in their homes might also be another reason for their tilt towards the stock market trading.
- However, it is yet to ben seen if this increasing retail participation is transitory or the beginning of long term behavioural change? There is also an issue of financial stability which has arisen recently as the stock market has boomed with real economy suffering. Our financial stability index has improved modestly to 116.2 in Apr'21 from 115.4 in Mar'21.

New retail investor accounts

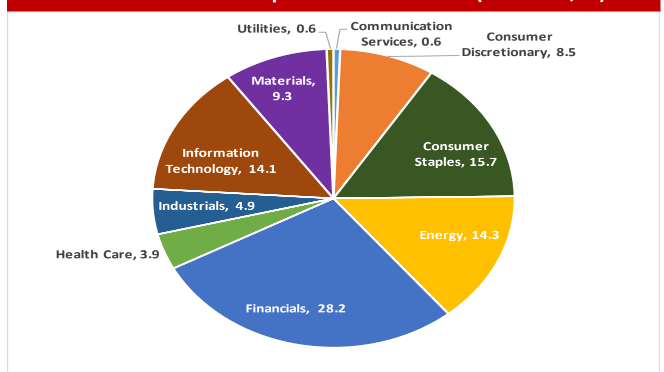


Source: SBI Research, CDSL, NSDL

NIFTY 50: Ownership Pattern of major stakeholders by total market cap (% share)



Sector wise ownership of Retail investors (NIFTY 50, %)



Source: SBI Research, NSE

- However, it is expected to have declined in May'21.
- Historical data of household financial savings show that saving in shares and debentures by households was 1.8% of GDP during 1990-95. However, during the global financial crisis, the investment in shares and debentures turned negative during FY10. If we look at the share of savings in shares and debentures to total household financial savings, it was 3.4% in FY20 and we believe in FY21, this share is likely to increase to 4.8%-5.0% of total HH financial saving, (or 0.7% of GDP from 0.4% of GDP in FY20). This is still much lower than 36.5% in the US.

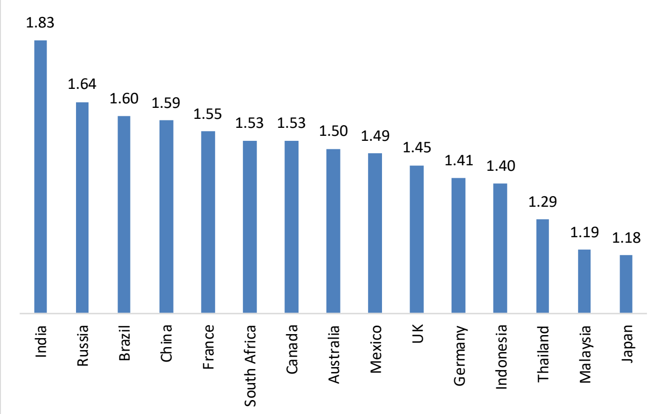
- If we consider the share to increase further to 1% of GDP in FY22, then it means Rs 2.2 lakh crore savings in debt and debentures is generated. If we look at the capital expenditure of the Government for FY22 of Rs 11.4 lakh crore, it includes Rs 5.5 lakh crore as budgetary support, Rs 1.1 lakh crore as IEBR of Railways and the rest Rs 4.7 lakh crore as other IEBR.
- Thus, even if half of the household financial savings in equity and debentures can be tapped and channelized into infrastructure spending, then it can cover around 24% of the IBER (other than Railways) of the Government.

Estimation of HH savings in Equity & Debentres (Rs lakh crore)	
Savings in equity and debenture in FY21	1.3
as % of GDP	0.7%
Savings in equity and debenture in FY22	2.2
as % of GDP	1%
Capital Expenditure of Centre in FY22	11.4
Gross budgetary allocation	5.5
IEBR (railways)	1.1
Other IEBR	4.8
Half of Savings in debt & Equity in FY22 which can be chanellised towards infrastructure investment	1.1
as % of Other IEBR	23.5%
Source: SBI Research, Budget Documents	

STOCK MARKET WINNERS IN THE LAST 1 YEAR

- There has been significant increase in the market capitalization in stock markets across the world in the last one year. However, in India it has been higher than other major countries. The market capitalization of BSE Sensex has increased by 1.8 times its value one year ago. Russia had 1.6 times increase, followed by Brazil, China, France and South Africa.
- Sector wise analysis of Nifty-50 reveals that financial services are the clear winners with Rs 157 trillion increase in their market cap during the past one year. IT is another major sector whose market value has increased significantly, followed by oil and gas, consumer goods, automobiles, metals and pharma.
- Globally data for select countries stock markets show that financials account for larger share of the overall portfolio. Even IT stocks have greater share in the overall portfolio, particularly in case of Japanese Nikkei, US S&P 500 and India's Nifty 50.
- Furthermore, sector-wise 1-year return indicates that IT and Materials have performed better. This clearly indicates the movement in Indian stock markets is clearly interlinked with a supposed infrastructure power play in coming days!

Change in Market capitalisation in the last one year



Source: SBI Research, CEIC

Sector wise distribution of Portfolio Value for Select countries' stock market

Sectors	Japan	US S&P	Hong Kong	Brazil	UK	India
Communication Services	1.5%	5.0%	10.3%	1.3%	1.3%	1.9%
Consumer Discretionary	10.0%	12.7%	22.2%	9.6%	11.6%	11.0%
Consumer Staples	3.3%	8.4%	2.1%	10.8%	11.6%	
Energy	1.6%	5.1%	2.6%	13.0%	11.5%	13.7%
Financials	10.8%	15.0%	36.2%	25.4%	24.0%	38.1%
Health Care	17.3%	13.3%	5.5%	4.3%	4.5%	3.5%
Industrials	12.0%	19.9%	4.9%	7.5%	8.4%	9.0%
Information Technology	20.2%	19.2%	5.4%	1.4%	1.6%	16.2%
Materials	4.3%	1.4%	-	19.6%	8.4%	3.2%
Real Estate	2.9%	-	7.7%	0.9%	1.3%	2.6%
Utilities	5.8%	-	3.1%	6.2%	6.5%	-
Unclassified	10.4%	-	-	-	5.7%	0.8%

Source: SBI Research, Bloomberg, CEIC, NSE

Sector wise 1 Yr Total Return of stock market

Sectors	Japan	US S&P	Hong Kong	Brazil	UK	India
Communication Services	22.6%	29.8%	11.2%	-4.2%	35.4%	-1.5%
Consumer Discretionary	32.2%	32.4%	82.9%	15.3%	25.0%	44.5%
Consumer Staples	33.5%	26.6%	17.1%	47.3%	42.1%	
Energy	28.8%	32.7%	28.4%	76.0%	30.1%	39.2%
Financials	25.1%	65.1%	20.7%	59.8%	23.5%	83.7%
Health Care	30.9%	24.7%	56.6%	19.9%	45.6%	52.2%
Industrials	33.0%	37.3%	53.9%	51.0%	59.2%	87.0%
Information Technology	37.1%	28.2%	90.5%	97.6%	5.3%	100.3%
Materials	34.2%	73.2%	-	142.3%	46.5%	186.1%
Real Estate	16.3%	-	18.9%	19.1%	43.4%	33.3%
Utilities	60.1%	-	12.8%	27.7%	39.8%	-
Unclassified	32.6%	-	-	-	4.8%	107.4%

Source: SBI Research, Bloomberg, CEIC, NSE

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