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# The rise of small-town investors in Indian equity markets

**Synopsis**
Undoubtedly, small towns are playing a crucial role in the socioeconomic transformation.

The wave of change in today's Indian equity market can mainly be attributed to the higher education levels, availability of information and investment tools at everyone's fingertips and investible surplus.

**By Vikram Limaye**

India is truly a melting pot of cultures, convictions and customs – the investment implications of which are as vital as the sociological standpoints. Traditionally, metropolitan cities have been the topmost contributors to the equities market. Over the last three to five years, however, an increasing number of retail investors, particularly from tier-2 and tier-3 cities have been actively contributing to India's growth story, reflecting the booming interest in equities among all socioeconomic strata.

Undoubtedly, small towns are playing a crucial role in the socioeconomic transformation. Improving investor education via enhanced availability of information on digital modes and growing awareness amongst the general public, a sizeable fragment of small towners has now begun to diversify their investments to newer financial asset classes from traditional, conventional fixed savings avenues. On the backdrop of investor maturity in established metros, the entry of small-town investors is all the more pivotal for driving growth.

The increasing demand for accessibility to multiple investment avenues, like trading member networks, mutual funds and exchangetraded funds (ETFs), demonstrates just that. Undeniably, the availability of disruptive tech-driven investment tools has fueled this growth. Moreover, the passive involvement of over 17 crore subscribers through the Employees' Provident Fund Organisation (EPFO) has churned over Rs 75,000 crore worth of funds into the equity ecosystem – exemplifying how the country's investment landscape is witnessing a transformation.

**Charting the journey so far**

At the National Stock Exchange, a diverse set of participants are registered for varied product suite.

Currently, the total number of participants stands at 2.78 crore, around 97.5 per cent of who fall into the bracket of individual investors.

Historically, the number of individual investors has been increasing at a 10-year **CAGR** of 11%.

In terms of value, individual investors account for about 38 per centof **equity market** volumes. Over the last decade, we have recorded a significant spike in the number of new registrations and charted an exhilarating journey - from 17 lak new investors in FY09 to 28 lakh new investors in FY19.

The promising involvement of retail investors in equities, through direct and indirect routes (channels like provident funds, mutual funds and insurance companies) is also mirrored in the increase in actual investments of investors/asse under management of fund managers.

**Understanding the geographical diversity**

Notably, it is not just metropolitan cities that are adding in new investors into the ecosystem. Emerging regions are recording remarkable progress too.

Interestingly, western India recorded a slight decline in FY19 despite accounting for a crucial 34 per cent of new registrations, while the other regions exhibited consistent growth. Eastern India accounts for a relatively smaller piece of the pie, whereas north India and south India are quickly catching up with the leading west zone, home to the key trading hubs of Maharashtra and Gujarat.

In absolute numbers, the top five states that lead the new registrations are – UP, Bihar, Punjab, Kerala and Madhya Pradesh.

During FY19, Mumbai, Delhi, Kolkata and Bengaluru were the main drivers of new registrations, with the financial capital accounting for the lion's share.

However, the next 10 cities are not too far behind, with hitherto less involved Rajkot, Vadodara, Lucknow and Nagpur recording a high volume of new investor registrations. Cities ranked beyond 10 accounted for around 68 per cent of new investor registrations in FY19. Cities ranked beyond 100 accounted for about 43 per cent of new investor registrations in FY19.

At **NSE**, we believe this inclusion augments the next phase of growth, in the ability of our capital markets to support corporates for their capital raising efforts.

**Deciphering the distance between cash equities and equity derivatives**

New investor registrations have increased by around 56 lakhs in last 2 years and the registered investor base has crossed 2.8 crore in this fiscal. While cash market has witnessed a participation by more than 77 lakh investors in last fiscal, the number of participants in derivatives very low with participation of less than 5 per centof the registered investors.

**Analysing behavioural trends of the individual investor**

Our analysis of individual investor participation trends, to understand longevity, reveals that at the moment, the participation from existing and new investors has attained a healthy ratio and is expected to gain momentum going forward. For instance, around 25.1 lakh investors trading in cash equities have been registered for trading for more than 10 years, and this category accounted for about 44 per cent of the turnover from individual investors, in FY19. Among equity derivatives, about 55 per cent of individual investors have been registered with the NSE for more than five years and account for 77 per cent of the turnover.

**Coming together is the beginning**

With growth spreading its wings over a larger number of cities, the number of new registrations has been soaring, bolstered by Indians' willingness to diversify their investments into newer asset classes.

The wave of change in today's Indian equity market can mainly be attributed to the higher education levels, availability of information and investment tools at everyone's fingertips and investible surplus.

With over 2.78 crore investors directly registered with the Exchanges, about 17 crore EPFO subscribers and over eight crore folios handled by asset management companies, Indians are now bullish on ushering a strong, economic growth in the country.

(Author is MD of National Stock Exchange of India)

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