# India's Growth Story and Retail Investors' Participation : The Inclusive Agenda

**_Dipti Neelakantan_**
*Group Chief Operating Officer*
*JM Financial Consultants Pvt.Ltd.*

The growth train is chugging along, with the Indian economy consistently growing at a robust rate, having a positive spillover on the capital markets. Is it time for all the general class passengers to hop in and enjoy the ride, or shall it remain the privilege of only the erudite Institutional first class occupants? Two questions need to be answered in this regard. Firstly, the extent to which the economy will drive the capital markets. Whether India can be isolated from the global tremors which keep arising intermittently, shaking market confidence. Secondly, whether a convincing 'India story' alone will be sufficient to encourage the retail investors to join the party.

India's growth is for real. All numerical pointers forecast sustained growth (GDP grew at 7.4% in FY10 and expected to grow at 8% and 9% in FY11 and FY12 respectively). Industry has shown tremendous performance last fiscal (IIP grew at 10.8% in FY10, 17.6% in April 2010). Corporate financial results have surpassed market expectations. Consensus is, India along with China will be the growth driver of the world economy. Investors world over are vying to get a pie of India's growth phenomena. Although world economies are still recovering from the crisis, India is on its toes, up about and moving ahead. The political stability and bold reformist stance add confidence and a spring in every step. This is good news, and does add an iota of positive sentiment to prevail in the investors' mind. However Indian capital markets are largely driven by global liquidity, which in turn is affected by the course global economies take. At the moment volatility prevails because of the uncertainty over the European Credit Default risk. But a calamity somewhere springs investment opportunity elsewhere. And so, India becomes important in the eyes of the investor community at large.

Now when we talk about the retail investors' perspective, we see a stark contrast. The retail investors have literally kept themselves aloof from investing in public issues, as can be seen from the poor retail participation in the recent equity issuances:-

**Public Issues : IPOS & FPOS - In Last Six Months**

| S.No. | Company | Issue Month/Year | Issue size (Rs Crs) | Times Subscribed | |
|---|---|---|---|---|---|
| | | | | Retail | Overall |
| 1 | Cox & Kings (India) Ltd. | Nov 2009 | 610 | 0.92 | 5.62 |
| 2 | JSW Energy Ltd. | Dec 2009 | 2,700 | 0.36 | 1.55 |
| 3 | Godrej Properties Ltd. | Dec 2009 | 469 | 0.36 | 3.56 |
| 4 | D B Realty Ltd. | Jan 2010 | 1,500 | 0.35 | 2.63 |
| 5 | NTPC Ltd. | Feb 2010 | 8,282 | 0.14 | 1.22 |
| 6 | Hathway Cable & Datacom Ltd. | Feb 2010 | 666 | 0.22 | 1.51 |
| 7 | Rural Electrification Corp.Ltd. | Feb 2010 | 3,530 | 0.22 | 3.47 |
| 8 | NMDC Ltd. | Mar 2010 | 9,930 | 0.21 | 1.24 |
| 9 | IL&FS Transportation Networks Ltd. | Mar 2010 | 700 | 4.75 | 29.44 |
| 10 | Nitesh Estates Ltd. | Apr 2010 | 405 | 0.33 | 1.27 |
| 11 | Jaypee Infratech Ltd. | Apr 2010 | 2,262 | 0.53 | 1.19 |
| 12 | SJVN Ltd. | Apr 2010 | 1,063 | 2.97 | 6.24 |

Note: Issues with a size greater than Rs 400 Crs have been considered above
Source : PRIME Database

Either they lack faith in the capital markets despite a growing economy or else there are other potent factors which are diluting the economic growth from directly translating into stock returns. Both are true. Company affairs shrouded in mystery and repeated instances of scams and frauds have eroded investors' interest. Though Corporate Governance is improving gradually, but surely, lack of prompt and decisive actions against the culprits do little to consolidate investors' faith. Also, Indian markets are largely sentiment driven and any squeeze on global liquidity leaves it gasping. However, with a growing economy we can expect that in due course, the increasing role of Domestic Institutional investors may possibly weaken this correlation and dependence on FII flows to certain extent.

India's savings rate of 35% is one of the highest in the world. However less than 3% of it is invested in capital markets. In terms of penetration less than 1% of India's population invest in equities as against 50-55% in the developed economies (Interest rate is virtually zero in developed countries, which prompts investors to actively invest in equities. In India retail investors look for safer investment options such as FDs and Bonds which offer reasonable rate of interest). Even the distribution is skewed with 90% transactions through stock exchanges confined to just 10 cities and about 100 companies. Thus there remains huge potential to motivate the retail investors base from other parts of the country to invest and channelise the savings to the benefit of retail shareholders.

A wide investor base is always in the interest of capital markets. It helps check price volatility. A number of steps have been taken in the recent past to elicit greater retail participation in IPOs directly or indirectly through Mutual Funds. ASBA (Application Supported by Blocked Amount) facility saves interest on the amount of application by blocking the amount in the investors account without actually transferring it, till the allocation is made. The ban on entry load for all Mutual Fund schemes is another welcome step to enable retail investors to reap the benefit of aggregation and professional management. SEBI mandating 'IPO grading' also gives guidance to investors for investment. The recent amendment in SCRR mandating 25% public shareholding in all listed companies is also another step, in the right direction. However, a lot remains to be done and *can* be done to fill in the gap.

Street investors perceive investment in stocks akin to gambling. A very large part of the trading done in exchanges is day trading. In any mature market this is the situation. This goes against the propagation of an investor cult through which retail investors can reap sustained gains. The need of the hour is to develop systems and vigilance which will swoop down promptly on market malpractices and bring the culprits to book. The law must be stringent enough to act as a strong deterrent. Corporate governance norms must not only be spelt in letter but must be followed in spirit to its finality. The transition holiday for Corporate Governance norms should be over by now and strict compliance must be ensured to make transparency the order of the day. Protection of shareholders' interest and prompt shareholder grievance redressal must be given primary importance. Only such bold measures can restore the trust of investors. Lack of transparency brought down the gigantic American economy, which underlines its importance.

Another important issue is that of *access* or *reach*. The distribution network of financial products is concentrated in few urban centres. Population in mid-sized towns and semi-urban centres can be tapped further by expanding the reach and ensuring easy access to financial advice. All market intermediaries including banks can be brought into the loop to create synergy and ultimately benefit the capital markets. Just as inter-bank use of ATMs have positively impacted financial reach, alliance between various market participants will overcome infrastructural constraints and lead to optimal use of resources and greater reach to every nook and corner of the country.

Financial literacy/ Investor Education and awareness is of utmost importance to address the fears of retail investors. Fear of the unknown leads to skepticism and lack of participation or participation without due knowledge leads to losses and in turn, to the investor moving away from the market. Knowledge gives power to take informed investment decisions. Investors should be made aware of the various risks associated with investment in equities and should be educated on how to select fundamentally strong companies. Basic education on finance and investment should be given at high school level to all. Because money concerns everyone, whether a doctor, an engineer, an artist or an HR professional. Financial education only lessens the apprehension and enables the investor to take calculated risks. Basic finance knowledge also facilitates non-financial people to connect with the finance professionals who advice them on various investment options, without being lured to invest blindly in any instrument. Training must be imparted by both public and private market participants and agencies through seminars, workshops, lectures, journals, handbooks, pamphlets, illustrations, demonstrations, investor camps in key centres, nationwide programmes with a focus on ethical selling practices by financial services companies. Investors must also be educated not to fall into the trap of 'get rich quick' kind of bogus investment schemes. They must also be made aware of their rights and the legal recourse they can take in various situations. Only an informed and empowered investor can be an investor for long term who sustains the balance in the market.

In addition, high net-worth non-resident Indians (NRIs) should be targeted by facilitating account opening and introducing reforms to simplify profit repatriation. NRI investible assets are expected to grow at a healthy rate of 14 percent annually between 2010 and 2014. Currently, high net-worth NRIs invest approximately 7 percent of their total assets in Indian equities and mutual funds, a low amount considering that resident high networth individuals invest more than 20 percent of their assets in this way.

Policies and processes are effective only when they are simple and easy to comprehend and follow. The basic requirement of opening a Demat account itself is cumbersome and the cost high. Today after the IT revolution mobile 'SIM' cards are available in every street shop. Such should be the diffusion of financial services too. Every employer must encourage their employees to open a Demat account. This will also lead to enthusiastic participation in public issues by employees, who otherwise do not want to go through the rigours of opening an account by themselves. Financial Institutions can set up camps to facilitate opening of Demat accounts akin to the ones Government sets up for issuing voter-ID cards. The Unique Identification Card, which is soon to become a reality, can act as an effective basis ('*Aadhar*' as it is aptly named) for customer verification and adhering to KYC norms. It can be used as a single basis to integrate all financial services being availed by a customer and make life simple and easy for him. There is also a need to simplify the voluminous offer document so that even lay investors are able to gauge the basics and make sense out of it. Too much of technicality makes it devoid of easy comprehension. Though Rules must be dynamic, changes must not be made too frequently which may confound the investors. The key ethos of 'simplicity' and 'stability' must pervade all policies and processes.

Pricing the issue right determines the extent of retail investors' interest or indifference. Pricing the issue wrong is akin to killing the 'goose which lays golden egg'. Also there is a need to reduce the cost per trade: brokerage, commission, taxes which are significantly higher in India than in developed markets. This will boost the retail investors participation to a great extent.

Today, financial media has become a powerful economic agent which is used not only to channelize facts, opinions, analysis but is sometimes misused to build an aura around mediocrity. The need of the hour is to abstain from any kind of biased or partial reporting. Instead media must continue to unravel the aspects hitherto hidden from the public eye about corporations, market participants and must help in empowering the investors by building a healthy investment environment. It must become the voice of people without one. For this self-censorship and responsible reporting should become the norm.

Steps can be taken towards Product Innovation (Investment product across different asset-classes such as Bonds, Debt instruments, interest rate futures, equity and SME). There is also a need for increased indirect investor participation through mutual funds and long-term retirement products such as the New Pension Scheme 2009, because retail investors usually prefer safe investments. Also, keeping public issues open for a couple of days for retail investors after the close of Institutional Book would give them an added cue from the institutional demand and thus boost their participation in strong stories.

Technology has pervaded all aspects of life like never before. India has around 550 Million mobile subscribers and 80 million internet users base currently. Contrast these numbers with the 17 Million Demat accounts and we can see that there is a huge potential to leverage technology for enhanced penetration of capital markets. Use of mobile as an interface with capital markets is a revolution in the waiting.

Every single step, taken in the right direction, in right earnest, will go a long way in improving efficiency, ensuring soundness and stability of the capital markets. It will breed confidence among the retail investors who will shed all inhibitions, empowered, educated and informed that they will be. The train to prosperity is not only the privilege of the classes but also of the masses. The Government's 'Inclusive Growth' agenda entails that 'Revival of the weakest rather than survival of the fittest' should become the norm. Retail investors are nearing extinction akin to endangered species. It's time we wake up and do everything possible to resurrect this important segment's faith and participation. Only then can we thoroughly enjoy the ride to prosperity.