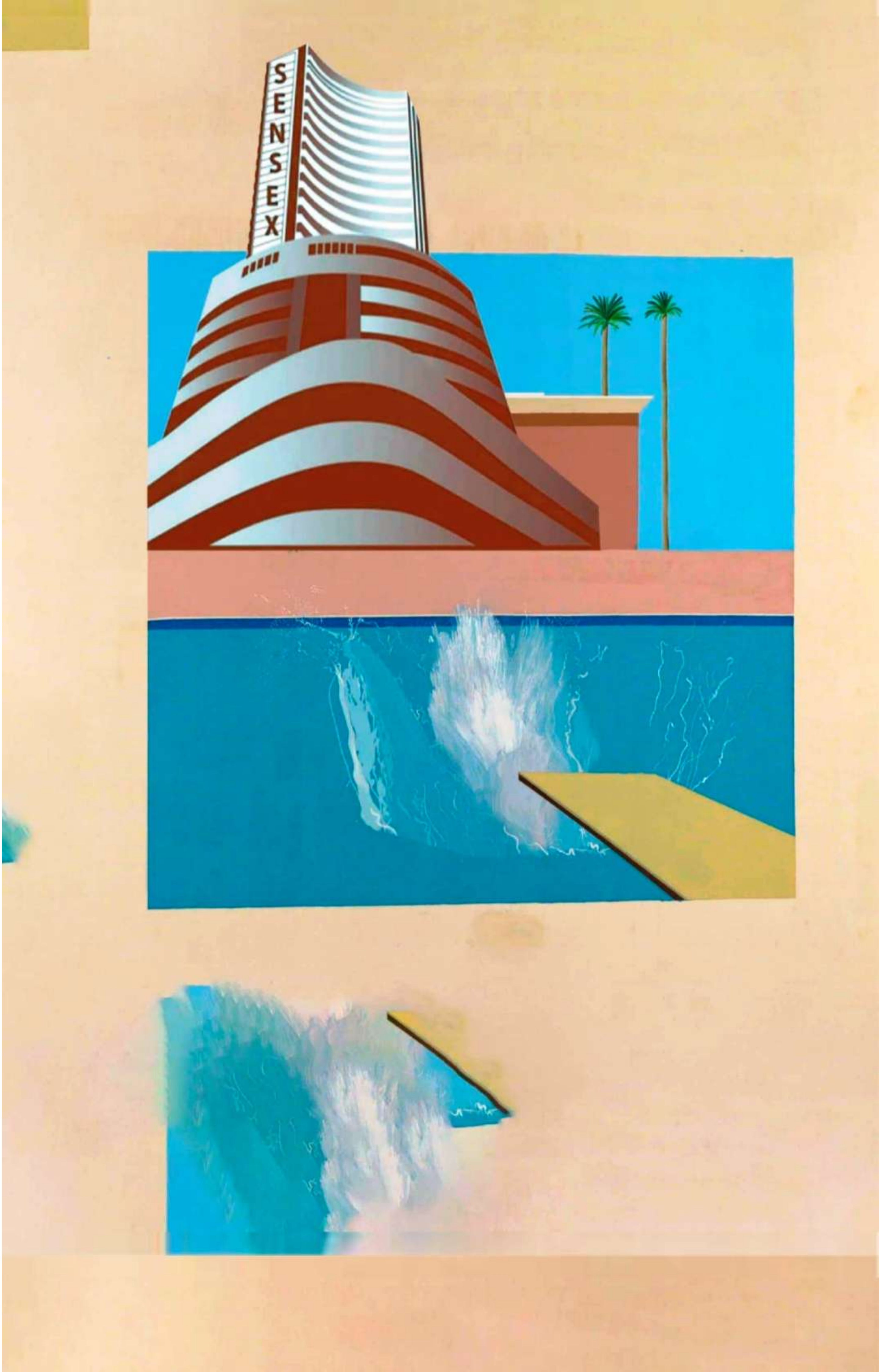
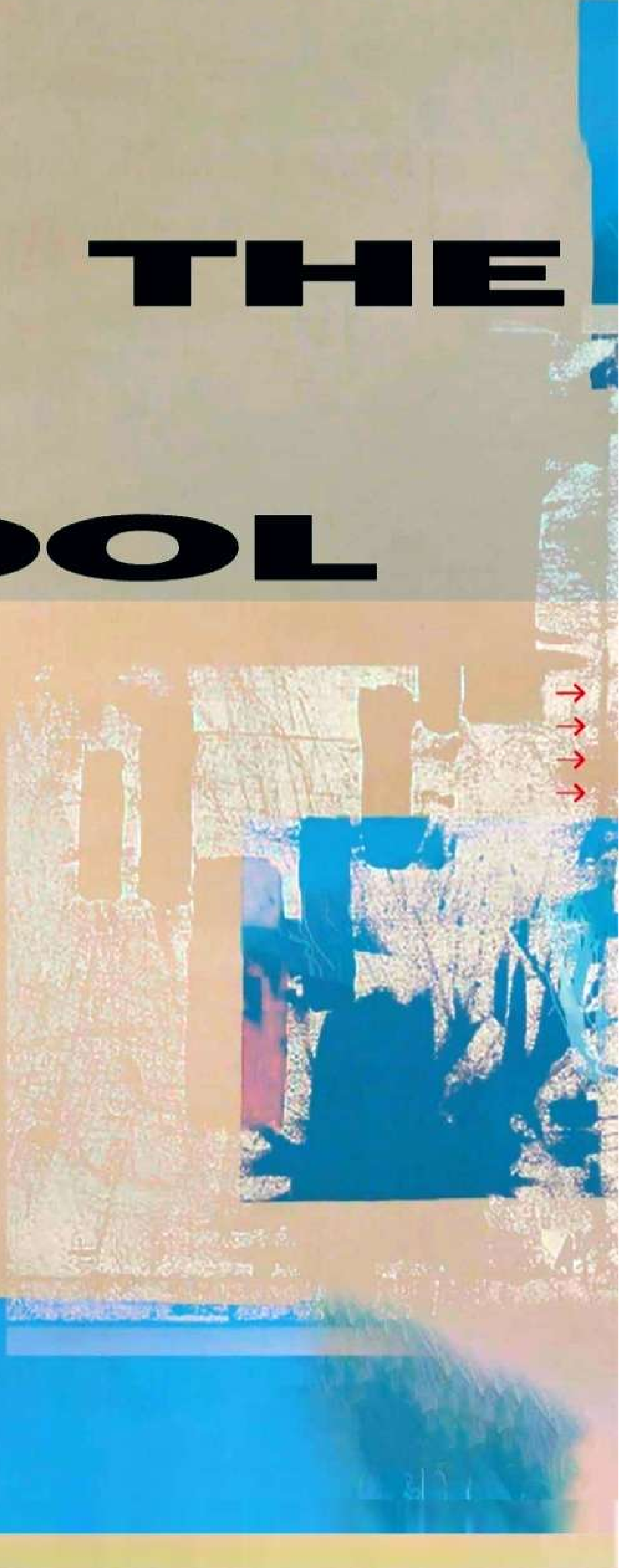

SENSEX

WIDENING THE POOL

THERE HAS BEEN A JUMP IN INDIVIDUALS INVESTING DIRECTLY IN THE STOCK MARKETS, BUT MUMBAI AND AHMEDABAD STILL ACCOUNT FOR THE LION'S SHARE. THERE DEFINITELY IS SCOPE FOR IMPROVEMENT IN TERMS OF PENETRATION LEVELS ACROSS THE COUNTRY

BY **ASHISH RUKHAIYAR**

ILLUSTRATION BY **NILANJAN DAS**



THE NATIONAL STOCK Exchange (NSE) is the country's largest stock exchange in terms of market share, and, on average, sees trading of shares worth more than ₹1 lakh crore in the cash segment daily. There are more than 90 million registered investors on the bourse with the total number of client codes recently crossing 169 million. The number of client codes is higher as one investor can register with more than one brokerage firm.

More importantly, a jump in the number of registered investors, from 80 to 90 million, took just five months—much quicker than the previous 10 million increase that took eight months—even as the cumulative investor base has grown more than 3x in the last five years.

A similar trend can be seen on the BSE as well. Asia's oldest stock exchange, that traces its origins back to 1875, has more than 160 million registered investors with the number jumping by nearly 31% in the last one year, per data available on the BSE website.

This may seem to paint a rosy picture of investors increasingly looking at the well-regulated, transparent, and liquid arena of stock markets for investing their hard-earned money and that they may slowly but steadily be moving away from physical assets, like real estate and gold.

There is, however, a side to it that requires urgent attention of all capital market stakeholders including the regulator, stock exchanges, and brokerage firms.

Even as the number of equity market investors skyrockets, is the growth broad-based? Is there uniformity in the surge or is the growth concentrated in only a few cities and towns? Data suggests that while the surge is real, not all parts of the country are contributing to the growth. Specifically, some cities—typically metros—have a more vibrant investment culture and contribute more in terms of investments or the number of investors.

According to the FY23 annual report published by the Securities and Exchange Board of India (Sebi), the combined share of Mumbai and Ahmedabad in the total turnover of NSE rose to 79.2% in the fiscal, higher than the previous fiscal's count of 76.7%. Similarly, the BSE saw the share of the two cities rise to 62.9% in FY23, from 57.7% in FY22—with Mumbai contributing 39.7% and Ahmedabad accounting for 23.2%.

Mumbai corners a majority share as most of the institutional investors—foreign portfolio investors, insurance majors, financial institutions, banks, etc—are based in the financial capital and account for all the high-volume trades. However, even metropolitan cities like Delhi (4.6%), Chennai (5.1%), and Kolkata (0.9%) along with information technology hubs like Bengaluru (0.7%) and Hyderabad (2.4%) have a minuscule share in the cash segment turnover of the Indian stock market.

Incidentally, the share of towns and cities outside the Top 10 list saw a significant fall on the BSE with the combined share dropping to 30.3% in FY23 from 36% in FY22. Meanwhile, NSE was able to register a marginal uptick—6.9% in

NOT EXACTLY BROAD-BASED

MUMBAI ACCOUNTED FOR 68% OF THE CASH SEGMENT TURNOVER ON NSE AND 40% ON BSE IN FY23

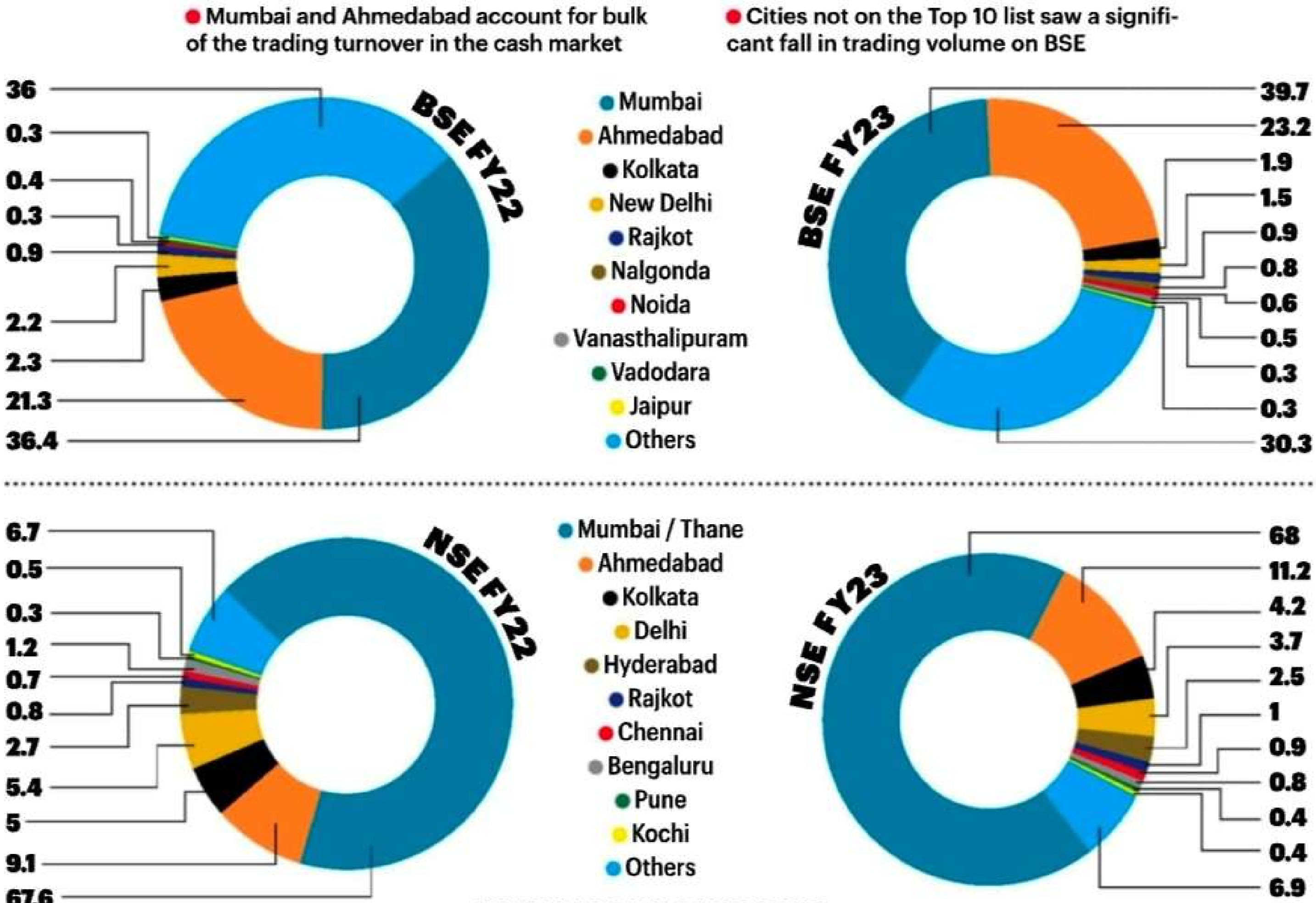
AHMEDABAD'S SHARE HAS ALSO BEEN PROGRESSIVELY RISING OVER THE YEARS

SHARE OF TOWNS OUTSIDE THE TOP 10 FELL IN FY23

ONLY FOUR STATES HAVE OVER 10 MILLION REGISTERED INVESTORS ON BSE

STATES LIKE MAHARASHTRA, UP, GUJARAT, AND RAJASTHAN STILL LEAD IN TERMS OF NEW INVESTOR ADDITION

SKEWED GROWTH



FIGURES ARE IN % **SOURCE** SEBI

FY23 from 6.7% in FY22.

"Geographical distribution of the turnover (based on broker terminal location) shows that more than 68% of NSE's turnover and around 40% of BSE's turnover in the cash segment was concentrated in Mumbai (including Thane) in 2022-23. The share of Ahmedabad has been progressively rising over the years, to 11.2% at NSE and 23.2% at BSE," stated the Sebi FY23 annual report. The annual report for FY24 is yet to be released.

Some of the other locations that feature in the list of the Top 10 cities in terms of share in the trading turnover include Rajkot, Noida, Vadodara, Jaipur, Pune, and Kochi.

The list of top contributors is not the same for NSE and BSE.

So, what exactly ails the system that only a few locations account for the bulk of investor flow? While market participants agree that the practice of equity investment is spreading across the country, they are of the opinion that a few locations have raced ahead.

Experts believe that the prime reason for the skewed growth has been the one-size-fits-all approach of most market participants and there has been no special focus on the diverse audience.

"Historically, these efforts tended to be broad and generic, focusing on basic concepts without much consideration for the user's context or experience level," says Tejas Khoday, Co-founder & CEO of FYERS, a new-age online trading and investment platform.

Investor awareness seminars earlier largely focused on topics like opening a demat account, trading in shares, and basic concepts of the stock market among other things, which failed to resonate with people from places that lacked the equity-investment culture.

GROWING DIVIDE

"Mumbai and Ahmedabad have had a head start in the equity culture in India. BSE, the oldest stock exchange in Asia was set up in 1875 in

Mumbai and the Ahmedabad stock exchange came up in 1894 [making it the second oldest stock exchange of India]," says V.K. Vijayakumar, Chief Investment Strategist at Geojit Financial Services. "So, these two cities had an exposure to equity culture even in the 19th century. They held on to this lead. Other regions also are catching up, but it is a fact that the pace is slow."

Indeed other regions are gaining ground, but data clearly shows that states with the maximum number of investors are still leading the race in terms of new additions as well. This assumes significance as the growth is coming on a high base. In the past one year, the states that saw the highest quantum of new investor additions on BSE were Maharashtra (6.2 million), Uttar Pradesh (5.6 million), Gujarat (3.1 million), Rajasthan (2.6 million), and West Bengal (2.4 million)—all the states already feature in the list of states with the highest number of registered investors.

In percentage terms, the highest jump has come from states and union territories like Ladakh, Mizoram, Dadra & Nagar Haveli, Lakshadweep, Arunachal Pradesh, Tripura, Jammu & Kashmir, Nagaland, Bihar, and Chhattisgarh. However, that's primarily because of the low base. While one may look at these data sets merely as a reflection of the geographical spread of investors, there is a larger issue that needs to be addressed urgently.

"The disparities in the growth in demat accounts and the stagnant geographical spread of investors underscores a crucial challenge in achieving financial inclusivity," says Khoday.

Incidentally, data from the two depositories—the National Securities Depository Limited (NSDL) and the Central Depository Services Limited (CDSL)—show that the total number of demat accounts in the country crossed the 150 million-mark in March.

"This situation points to significant barriers in accessibility and awareness, despite technological advancements... Overcoming these barriers is essential for tapping into the untapped potential of underrepresented regions, moving towards truly democratising investment in India," Khoday adds.

Interestingly, there is also a view that even though the geographical spread might appear skewed, one cannot ignore the fact that indirect investment through mutual funds is coming from all corners of the country. Hence, the real growth of investors cannot be said to be limited to only a few locations.

Data from the Association of Mutual Funds in India (Amfi) shows that there are currently 84 million systematic investment plan (SIP) accounts that are used by retail investors to invest in the stock market. And the last 12-18 months have seen record inflows through

THE BIGGEST AND THE SMALLEST

- Only four states have more than 10 million unique client codes (UCCs)
- Northeastern states and island territories still have very few investors

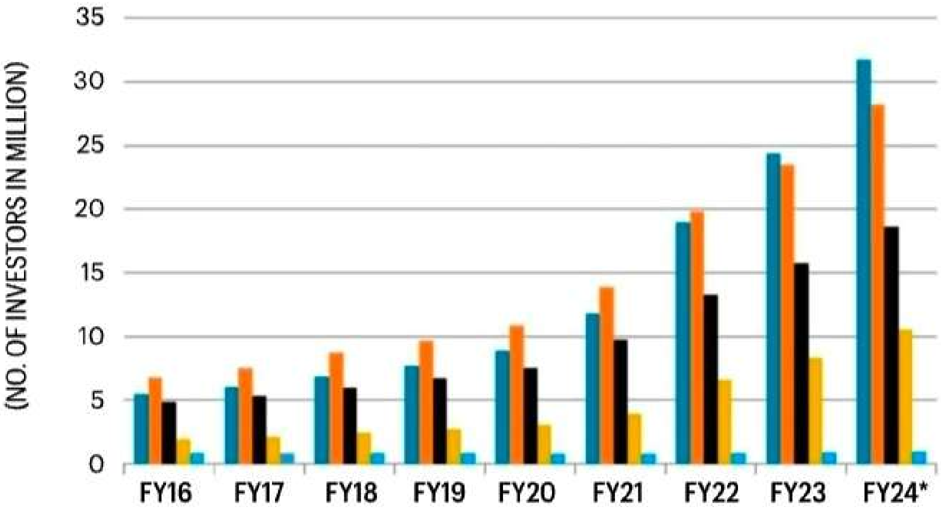
State	No. of UCCs	State/Region	No. of UCCs
Maharashtra	31,846,592	Dadra & Nagar Haveli	66,755
Uttar Pradesh	18,016,808	Nagaland	60,749
Gujarat	15,942,804	Arunachal Pradesh	58,157
Rajasthan	10,073,124	Sikkim	45,357
West Bengal	9,321,983	Daman & Diu	37,707
Karnataka	9,048,797	Andaman & Nicobar	32,690
Madhya Pradesh	8,775,444	Mizoram	25,113
Tamil Nadu	8,177,486	Lakshadweep	2,395
Delhi	7,662,973	Ladakh	1,506
Bihar	6,591,827	Army Post Office	238

DATA AS OF APRIL 10 **SOURCE** BSE

MARKET PLAYERS BELIEVE THAT INTERMEDIARIES NEED TO ADOPT A MORE LOCALISED APPROACH TO ENHANCE THE LEVEL OF PARTICIPATION

ALL INDIA PRESENCE

- North India continues to have the highest number of registered investors at nearly 32 million
- The total registered investor base rose from 80 million to 90 million in just five months



● NORTH ● WEST ● SOUTH ● EAST ● OTHERS

NOTE OTHERS INCLUDE ARMY PERSONNEL AND INVESTORS FOR WHOM STATE MAPPING IS UNAVAILABLE, *DATA AS OF FEBRUARY 2024

SOURCE NSE

SIPs with March registering a net inflow of ₹19,271 crore—the second consecutive month of net inflows of over ₹19,000 crore.

In FY24, nearly ₹2 lakh crore came to the stock markets through SIP flows, a growth from the ₹1.56 lakh crore in FY23. "This suggests that awareness and participation in equity investments are not as limited as direct participation figures might imply. However, it also highlights the importance of continuing to develop and promote financial products that can bridge the gap between potential investors and the markets, making investment more inclusive and reflective of the entire country's potential," says Khoday.

Putting it in a similar context, Vijayakumar says that the real test of participation in equity investing is not the trading volume, but the growth of the assets under management (AUM) of the mutual fund industry, particularly of SIPs. "Monthly SIPs touched ₹19,187 crore in February this year and is on a steady uptrend. This is the healthiest part of equity investment in India now. Of course, a lot more has to be done to promote it in the rural areas across states," he says.

BRIDGING THE GAP

Market participants believe that intermediaries need to adopt a more localised approach to enhance the penetration level.

"This includes developing platforms and educational materials that are accessible and relevant to people in different linguistic and cultural contexts. Moreover, there should be an emphasis on creating partnerships with local communities and institutions to foster trust and awareness. By leveraging technology to offer tailored financial education and services, and by ensuring that people in underserved areas have the tools and knowledge to participate, we can truly democratise access to investment opportunities," says Khoday.

Incidentally, Sebi data shows that FY23 saw a total of 283 investor awareness programmes organised by investor associations and 883 more programmes were conducted by the so-called Securities Market Trainers or SMARTs, who are spread across 22 states and union territories covering 102 districts. Sebi had launched the SMART programme in 2020 with a view to enhancing investor education and awareness.

Meanwhile, Vijayakumar believes that while financial literacy has improved, some initiatives that were doing a good job of getting investors from Tier II, III or IV towns have been discontinued. "Some initiatives like the B30 scheme were good. But Sebi stopped it when they found that it was misused by distributors," says Vijayakumar.

The way ahead seems to be by focussing on enhancing the digital infrastructure and ensuring that tools encouraging equity investment culture are made available across the hinterland of the country while at the same time focussing on financial literacy programmes. "Programmes should aim to simplify investing for a wider audience, making it more approachable and understandable. Overcoming these barriers is essential for tapping into the untapped potential of underrepresented regions," says Khoday.

Progress has been made in universalising investor reach but there is much ground yet to be covered. With the right focus, tools, and strategy, the Indian capital market can ensure that it is the broadest and deepest in terms of retail investor participation. BT

@ashishrukhaiyar