



## A STUDY ON RAISE OF RETAIL INVESTOR IN INDIAN STOCK MARKET

**Shruthi<sup>1</sup>, Dr. P Suvarchala Devi<sup>2</sup>**

MBA 2<sup>ND</sup> Year, Malla Reddy Engineering College for Women, Maisammaguda, Hyderabad  
HOD, Associate Professor, Department of MBA, Malla Reddy Engineering College for  
Women's, Maisammaguda,

[chitharidivya07@gmail.com](mailto:chitharidivya07@gmail.com), [Hyderabad-suvvimrecw@gmail.com](mailto:Hyderabad-suvvimrecw@gmail.com)

### Abstract

In March 2020, the Indian stock market experienced a significant downturn due to the COVID-19 pandemic. In the aftermath of this market crash, there has been a sharp increase in the number of Demat accounts in India, growing from 10 crore from August 2022 to 16.2 crore as of June 2024. This dramatic rise has shifted the market dynamics, with retail investors now accounting for 52% of daily transactions, overtaking the dominance previously held by Foreign Institutional Investors (FIIs) and Domestic Institutional Investors (DIIs). According to Economic Survey 2023-24, retail investors' share in the equity cash segment turnover was at 35.9% in 2023-24 (FY24). The number of demat accounts with both the depositories rose to 1,514 lakh in FY24 from 1,145 lakh in FY23

This surge in retail participation allows individual investors to directly engage in wealth creation through capital markets, moving away from traditional bank deposits. Instead of depositing funds in banks, which would then lend to corporate at higher interest rates, retail investors now invest directly in companies via equity, mutual funds, and other instruments, earning returns through dividends and capital gains. This shift redirects savings from less productive assets like gold to more productive investments, enhancing capital formation and fostering economic growth.

While traditional savings methods such as fixed deposits, Public Provident Fund (PPF), and National Savings Certificates (NSC) offer guaranteed returns with minimal risk, equity investments come with higher risk but the potential for significantly higher returns. The increased willingness of investors to accept these risks is driven by the higher returns offered by the stock market compared to fixed-income options.

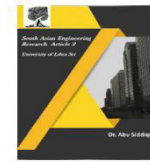
This study explores the factors driving the rise in retail investments, including investor awareness, objectives, and the types of investments preferred by retail investors in Telangana. The research is based on primary data collected through a structured questionnaire completed by 200 respondents from Hyderabad.

**Key words:** Investors, Stock market, FIIS, DIIs. Demat Account. Mutual Funds.

### Introduction

Saving and investing are crucial for achieving both short-term and long-term financial goals, significantly impacting an

individual's financial well-being. Historically, prior to the 1990s, individuals primarily invested in fixed deposits and other secure investment options, which



offered attractive interest rates. However, since the 1990s, the returns on these traditional, low-risk investments have diminished, prompting investors to explore alternative opportunities that promise higher returns.

With the advent of globalization and industrialization, there has been a notable shift in investment behavior. Individuals are increasingly taking responsibility for their financial planning, and the culture of saving and investing has become more ingrained in Indian society. According to SEBI regulations, a retail individual investor is defined as someone who applies for or bids on securities valued at no more than Rs. 2,00,000 in an IPO or holds shares worth less than Rs. 2,00,000 in the stock market. Over 9.5 crore retail investors directly own nearly 10 percent of the stock market through as many as 2,500 listed companies, said the latest Economic Survey, translating into Rs 36 lakh crore worth of shareholder wealth as of March 2024

Unlike equity markets, there is no such monetary limit to define a retail investor in commodities.

Retail investors engage in buying and selling equity shares, commodity contracts, and mutual funds through brokerage firms or investment accounts. To hold financial securities in digital form and trade in the stock market, investors need a Demat account. A Demat account (short for Dematerialized account) functions similarly to a bank account but for storing securities electronically. Additionally, a trading account linked to the Demat account is required for executing transactions.

Traditionally, brokerage firms charged high fees for transactions, and the process of opening Demat and trading accounts was often complex and cumbersome. However, in the past 4-5 years, the market has seen a rise in discount brokerage firms that have revolutionized retail investing. These firms offer significantly lower brokerage fees and have simplified the account-opening process through E-KYC (Electronic Know Your Customer) procedures, eliminating the need for physical visits or documentation. Discount broker provides low-cost trades, online account management, research tools, and educational resources. It is extremely beneficial for investors who keep track of their investments by themselves. As a result, more than 50% of Indian retail investors now utilize discount brokerage services, according to a report by the National Stock Exchange.

Discount brokers have introduced user-friendly mobile applications that simplify investing for everyday individuals. These apps are designed to be intuitive and accessible, making it easier for users to navigate and manage their investments. Returns in the stock market are inherently linked to the level of risk an investor is willing to take and their understanding of market dynamics. Many retail investors may lack the latest information and technical expertise required for optimal stock market participation. To address this gap, mutual fund companies offer a solution by managing investments on behalf of their clients. In a mutual fund, professional fund managers pool together funds from various investors and invest them in a diversified portfolio of securities. Each investor holds units of the mutual fund, which represent a share of the total



holdings. The income and gains from these investments are distributed proportionally among the investors after deducting certain expenses. The mutual fund industry is regulated by SEBI (Securities and Exchange Board of India), and various banks have established mutual funds to meet their customers' diverse investment needs.

This study includes a broad spectrum of retail investors who have invested in different financial options, encompassing both direct equity investments and mutual funds.

### **The study aims to achieve the following objectives:**

- To investigate the reasons behind the recent increase in retail investors in the Indian stock market.
- To identify the various goals set by retail investors and their anticipated rates of return.
- To analyze the age and occupation demographics of retail investors.
- To determine the preferred types of investments among retail investors.
- To assess the level of awareness among retail investors in Telangana.

### **Review of Literature**

Shelly Shrivastava (2022) explored the financial and non-financial factors that influence retail investors' decisions regarding equity investments. Her study highlights that the process by which retail investors evaluate investment opportunities and their risk tolerance is closely linked to factors such as age, gender, income, and occupation. As retail investors become

better educated, the factors affecting their decision-making have garnered increasing attention from listed companies and market participants.

Prasanna Kumar Baral (2021) examined the significance and benefits of mutual funds for investors with limited time and understanding of the stock market. Baral also addressed the limitations and risks associated with mutual funds, emphasizing the importance of gaining proper knowledge about risk and return before making investment decisions. The research provided a detailed discussion on various mutual fund terms and types.

Mamtha D (2019) discussed the role of derivatives in the Indian stock market, focusing on how they contribute to risk management for retail investors. The study aimed to understand different investment styles, levels of exposure, and attitudes toward derivatives among retail investors.

Mane Nagnath Adinath (2019) analyzed Initial Public Offerings (IPOs) and conducted a trend analysis of the Indian stock market concerning IPOs. The research noted that many Indian unicorns have recently launched their IPOs, attracting significant retail investment. The study also examined the components of successful IPOs and the factors leading to IPO failures.

### **Research Methodology**

This study employs a descriptive research approach and is based on a survey conducted in Hyderabad (Telangana). The research involved collecting responses from retail investors across various age groups and occupations. A total of 200

investors were surveyed, with respondents informed about the study's objectives and assured of the confidentiality of their responses.

### Tools & Techniques

From the 300 questionnaires distributed, 200 were returned fully completed. These responses were analyzed based on several dimensions relevant to the study. The dimensions considered include:

- The primary objectives for which investments were made.
- The preferred types of investments among respondents.
- The influence of the investor's occupation on their investment decisions.
- The criteria used by investors to make investment decisions.

**Precautions taken for Data Collection:** The researcher adhered to

ethical standards throughout the data collection process. Only participants who willingly agreed to participate were interviewed or asked to complete the questionnaire. Confidentiality was assured, ensuring that individual identities would not be disclosed. Respondents were also given the option to skip questions related to personal or sensitive investment details. A rapport was established and maintained with participants to ensure a smooth data collection process. Efforts were made to include a diverse range of investors from various age groups and occupations. Participants were encouraged to provide honest and accurate responses.

### Results and Interpretations

Respondents provided insights into their investment goals, awareness of market conditions, preferred market segments, and investment holding periods. The findings are presented and analyzed through the following tables:

**Table 1: Main objective of investment**

S. No.	Main objective of investment	No respondents	of Percentage(%)
1	Diversification of investments	90	45
2	Get higher returns than FDs	78	39
3	Trading as a career	20	10
4	Learning and research	12	6
	Total	200	100

The data from Table 1 provides insights into the main objectives of investment among a sample of 200 respondents. Here's an interpretation of the results:

**1. Diversification of Investments (45%):**

The most common objective among respondents is diversification of investments, with 90 out of 200 respondents (45%) selecting this option. This indicates that nearly half of the respondents prioritize spreading their investments across different assets to manage risk and reduce potential losses. Diversification is a fundamental strategy for building a balanced investment portfolio.

**2. Get Higher Returns than Fixed Deposits (39%)**

The second most prevalent objective is to achieve returns higher than those offered by Fixed Deposits (FDs), with 78 respondents (39%) choosing this goal. This suggests that a significant portion of the sample is focused on finding investment opportunities that offer better returns compared to traditional, low-risk financial instruments like FDs.

**3. Trading as a Career (10%)**

A smaller segment of respondents, 20 out of 200

(10%), view trading as a career. This reflects a more niche interest in actively managing investments with the intention of making trading a professional pursuit. This group is likely more involved in market analysis and trading strategies.

**4. Learning and Research (6%)**

The least common objective is learning and research, with 12 respondents (6%) selecting this option. This indicates that while a smaller proportion of respondents are focused on gaining knowledge and conducting research, this is a secondary priority compared to other objectives like diversification and higher returns.

Overall, the data shows that the majority of respondents are either seeking to diversify their investments or to achieve higher returns than traditional savings methods, while a smaller portion is interested in making trading a career or focusing on learning and research. This distribution highlights a broad interest in managing and improving investment returns while indicating a smaller but significant interest in trading professionally and investing in personal knowledge.

**Table 2:** Preferred type of investment

S. No.	Preferred Type of investment	No. of respondents	percentage
1.	Equity	80	40
2.	Futures and derivatives	50	25
3.	Commodities	26	13
4.	Mutual funds	44	22
	Total	200	100



The data from Table 2 outlines the preferred types of investments among a sample of 200 respondents.

The most favored type of investment is equity, chosen by 80 out of 200 respondents (40%). This indicates a strong preference for investing in stocks and shares, reflecting an inclination towards growth potential and capital appreciation. Equity investments are generally associated with higher risk but also offer the potential for substantial returns, which aligns with the goal of achieving higher returns.

The second most preferred type is futures and derivatives, selected by 50 respondents (25%). This preference suggests that a significant portion of the sample is interested in advanced financial instruments that involve leveraging and hedging strategies. Futures and derivatives can offer high returns but come with increased complexity and risk.

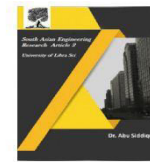
Mutual funds are the choice of 44 respondents (22%), indicating a substantial interest in investing in professionally managed portfolios. Mutual funds provide diversification and professional management, making them appealing for those who prefer a more hands-off approach compared to direct stock investments.

The least preferred type of investment is commodities, with 26 respondents (13%) selecting this option. Commodities like oil, gold, and agricultural products tend to be more volatile and are often used for diversification or as a hedge against inflation.

Overall, the results show a varied investment landscape, with equities leading, followed by a mix of advanced and managed investment options.

Table-3 Occupation of the Investor

S. No.	Occupation of investors	No. of respondents	Percentage(%)
1	Businessman/women	58	29
2	Retirees/pensioners	30	15
3	Government/private employees	60	30
4	Professional traders	12	6
5	Others	40	20
	Total	200	100



The data on the occupation of investors provides insights into the demographic distribution of the respondents.

The largest group of investors comprises government and private employees, with 60 out of 200 respondents (30%) falling into this category. This suggests that a significant portion of the investment community comes from stable, salaried professions.

The second largest group consists of businessmen and businesswomen, with 58 respondents (29%). This group is nearly as large as the government/private employees category and reflects individuals who likely have a more entrepreneurial approach to investments. Business owners may be interested in diversifying their portfolios beyond their business assets and might have a higher risk tolerance.

This category, which includes 40 respondents (20%), represents a diverse range of occupations not specified in the other categories. This could include self-

employed individuals, freelancers, or other roles. The relatively large proportion indicates a broad range of investment interests across various professions.

Retirees and pensioners make up 30 out of 200 respondents (15%). This group might be focused on managing and growing their retirement savings, often with a preference for stability and income generation. Their investment choices may be influenced by the need to ensure a steady income stream during retirement.

The smallest group consists of professional traders, with 12 respondents (6%). This indicates that a niche segment of the sample is involved in trading as a primary occupation. Professional traders are likely to engage in frequent trading and may use sophisticated strategies and tools compared to other investors.

Overall, the occupation distribution indicates a varied investor profile with a strong presence of stable and entrepreneurial backgrounds.

Table 4: Basis of investment decisions

S. No.	Basis of investment decisions	No respondents	Percentage(%)
1.	Own market research	74	37
2.	Advice from SEBI registered broker	26	13
3.	Advice from friends/relatives/others	56	28
4.	No market research or advice	44	22
	Total	200	100

The data shows a diverse approach to investment decision-making among respondents:

- **Self-Research:** A considerable 37% conduct their own research, reflecting a proactive and informed approach to investing.
- **Professional Advice:** A smaller portion (13%) seeks advice from regulated professionals, indicating a lesser reliance on formal financial advisory services.
- **Informal Advice:** 28% rely on advice from personal connections, which can be a mix of helpful and potentially misleading information.
- **Lack of Research:** 22% invest without conducting research or seeking advice, suggesting a need for greater awareness and due diligence.

Overall, while many investors demonstrate a proactive approach through self-research, a significant portion still relies on informal advice or makes decisions with minimal knowledge. This distribution highlights the importance of both seeking professional advice and conducting thorough research to make well-informed investment decisions.

### Conclusion and Suggestion

- In the past, traditional investment avenues such as real estate, Fixed Deposits (FDs), and National Savings Certificates (NSCs) were popular due to their perceived safety and guaranteed returns. However, with current low interest rates on deposits and stagnant real estate prices, these options offer limited growth potential

- Consequently, many investors are shifting their focus towards the stock market to seek higher returns, resulting in a significant increase in retail investor participation.
- Young investors, in particular, are demonstrating a greater willingness to accept higher risks for the potential of substantial returns. This growing interest in the stock market is beneficial as it facilitates easier and more cost-effective capital funding for companies, which can stimulate economic growth.
- Despite this positive trend, the study revealed a concerning lack of market knowledge among many investors.
- Numerous individuals are making investment decisions based on informal advice from friends, relatives, or unqualified sources, often resulting in significant financial losses. This underscores the critical need for investors to enhance their understanding of market conditions and trends.

### Recommendations

- Investors should prioritize comprehensive research before making any investment decisions. Understanding market trends, financial health of companies, and broader economic conditions is crucial for informed decision-making.
- For those who lack the time or expertise to conduct their own research, consulting SEBI-registered brokerage firms is advisable. These professionals provide regulated and reliable investment advice, helping investors navigate the complexities of the stock market.

- Individuals, particularly those with demanding jobs or limited knowledge of the stock market, should consider investing in mutual funds. These funds are managed by experienced professionals who handle investment decisions and portfolio management. Mutual funds are designed to cater to investors seeking a balanced approach with potentially high returns.
- Many mutual funds offer annual returns ranging from 15-25%, which is significantly higher than traditional FDs and other low-risk options. Additionally, mutual funds are a strong choice for tax-saving investments, providing attractive returns while offering tax benefits.
- The rise of retail investors in the stock market is a positive development for the economy. Increased retail investment contributes to more efficient capital allocation, supports corporate funding, and fosters overall economic growth. As more individuals engage in informed investing, it enhances the stability and prosperity of the financial markets and the broader economy.

Overall the increasing number of retail investors is a healthy trend, it is essential for investors to make well-informed decisions through research or professional guidance.

### Limitations of the Study

- The study was limited by time constraints, which affected the depth and breadth of data collection and analysis.
- The respondents were exclusively from Hyderabad(Telangana), which may not fully represent the diverse

investment behaviors and preferences found in other cities. Including respondents from various locations could provide a more comprehensive view.

- The study involved a sample of 200 respondents. While this provides some insights, a larger sample size could have yielded more robust and generalizable findings.

These limitations suggest that the results may not fully capture the broader investment landscape and underscore the need for further research with a more diverse and extensive sample.

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