

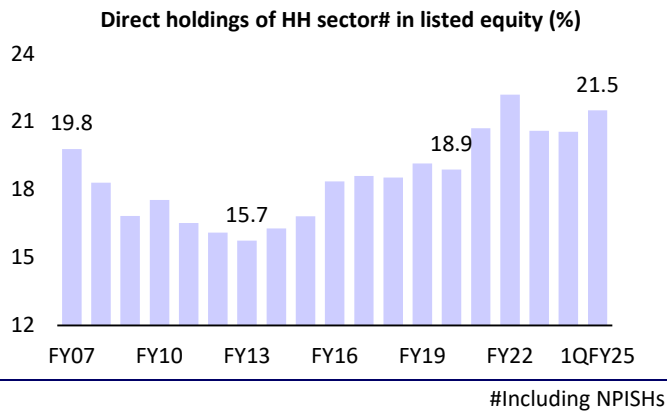
## Growing significance of stock market in household financial assets

### Indian households not conservative

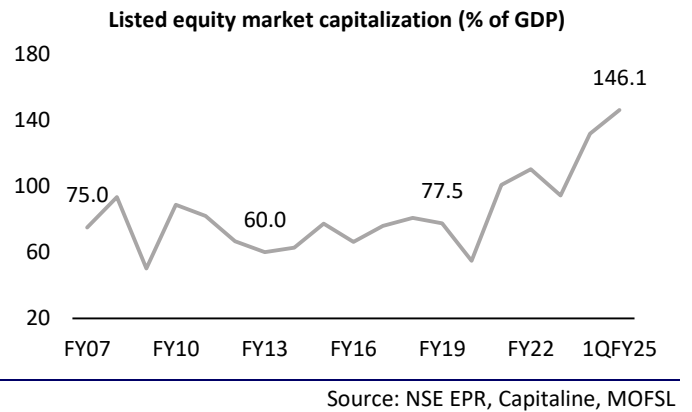
- It is widely believed that the household sector in India is highly conservative regarding its exposure in the capital market. This belief, however, does not hold water. The [RBI](#) recently released its first-ever quarterly estimates of the household financial balance sheet from 1QFY12 to 4QFY23. We [replicated](#) the RBI's methodology and achieved 96-97% accuracy in our result. We, therefore, extended these estimates to 1QFY25 based on some assumptions. One of the key developments has been the rising prominence of the equity market in household gross financial assets (HHGFA) during the past few years, particularly since the onset of the pandemic. We discuss these trends and more in this report.
- Our estimates indicate that the household sector, which includes individuals and non-profit institutions serving households (NPISHs), directly owned 21.5% of India's listed equity market in 1QFY25 (*Exhibit 1*). This ownership has remained within a very narrow range of 21-22% since the beginning of CY21, following a more stable period between 18% and 20% prior to that, and between 16% and 17% during CY11 to mid-CY16.
- Notwithstanding the stable share of the household sector in listed equities, which has experienced occasional step-ups, the impressive surge in equity market capitalization over the past year has propelled the market value of HHGFA. India's equity market capitalization jumped more than 50% YoY to INR441t as of 1QFY25 (i.e., quarter-ending Jun'24), while the holdings of the household sector surged to INR95t in 1QFY25 (*Exhibits 2 and 3*) from INR60t (or 20.6%) in 1QFY24.
- Is this participation level of the retail sector in the listed equity market low? Barring the US, the household sector owns between 11% and 18% of the listed equity market in other major economies, which is lower than 21-22% share in India (*Exhibit 4*). The share, notably, is much higher at ~40% in the US though. Further, the share of the household sector in the listed equity market has increased in the post-pandemic period in India, Germany (DE), and the US, while it has declined only in Canada (CA), with a largely stable share in other economies.
- Direct exposure to listed equities, however, constitutes only a portion of the total exposure of the household sector. Mutual funds (MFs, or investment funds) also play a very important role, and thus, we combined both direct and indirect exposure (through MFs) to determine the total exposure of the household sector to the securities market.
- The total size (or the asset under management, AUM) of India's mutual fund industry reached INR61.2t as of Jun'24, up 38% from a year ago. The household sector (including high net worth individuals and retail) owned about 63% of the MFs AUM, up from 55% in Dec'19 and 50% in 2014-15 (*Exhibits 5 and 6*). Within this, equity instruments accounted for about 70%, while non-equity constituted the remaining 30% (almost the same as in Dec'19 but much lower than ~50% a decade ago).
- If we combine the direct and indirect exposure of the household sector, referred to as equity & investment funds (E&IFs), it amounted to INR134t (USD1.6t) or 44% of GDP in 1QFY25 (*Exhibit 7*). This figure is again comparable to the 30-55% range observed in most advanced economies covered in our study. However, it is less than half of >100% of GDP in CA and ~161% of GDP in the US (*Exhibit 8*).
- Further, the share of E&IFs increased to 28% of GFAs of households in India in 1QFY25, compared to 17% at the end of CY19 (*Exhibit 9*). Although this figure is lower than 43% in the US and 33% in CA, it is notably higher than the share of E&IFs in household GFAs\* in other advanced economies such as the UK, DE, France, Japan and Australia (*Exhibit 10*).
- Overall, there is no doubt that the role of the equity market in household financial balance sheet and financial net worth has increased significantly in the post-pandemic period, particularly over the past 4-5 quarters. This trend may contribute to the growing wealth effect within the household sector. However, the declining level of household savings (flow, annual data) and the usual concentration of financial wealth among a specific group (i.e., the top of the pyramid) suggest that further research and more granular data are necessary. Further, one must think twice before calling the Indian household sector conservative in terms of its exposure to the equity markets.

\*Our analysis is restricted to the listed equity market, and thus, the unlisted equity exposure is excluded from all nations to make it comparable. Unlisted equity can form a substantial portion of HHGFAs; however, there is data available for the Indian economy.

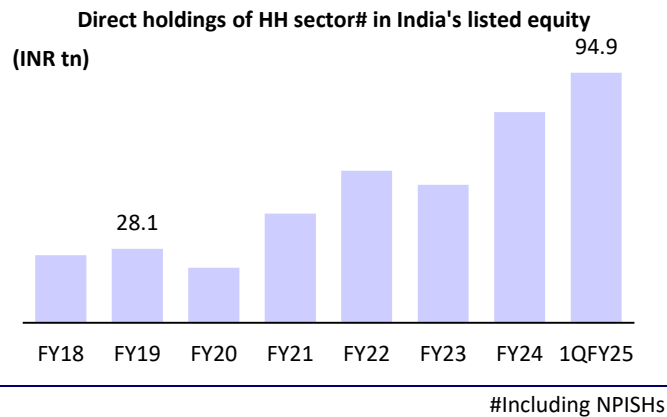
**Exhibit 1: Household sector owns 21-22% of India's listed equity market**



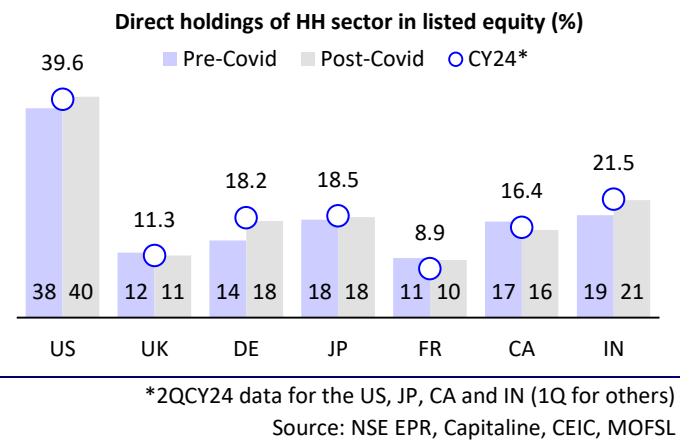
**Exhibit 2: India's equity market has surged in the past one year...**



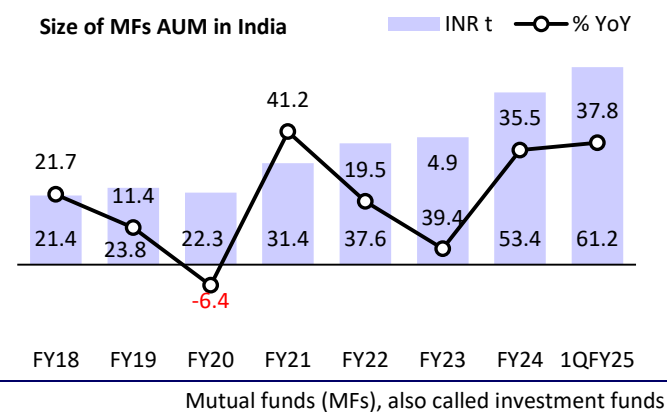
**Exhibit 3: ...due to which household sector's equity holdings have also increased rapidly**



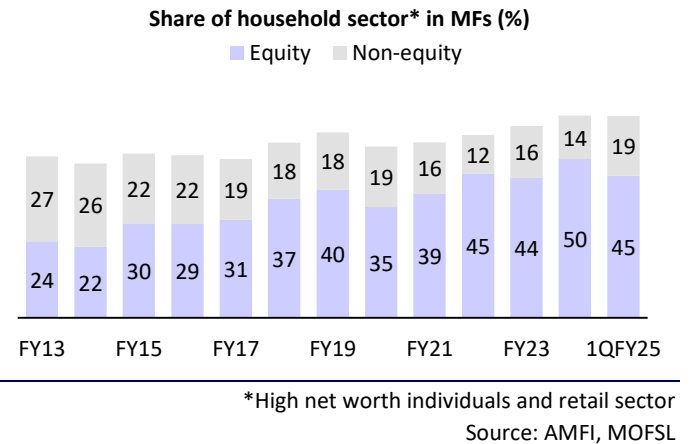
**Exhibit 4: A comparison of the share of household sector in listed equity markets in a few major economies**



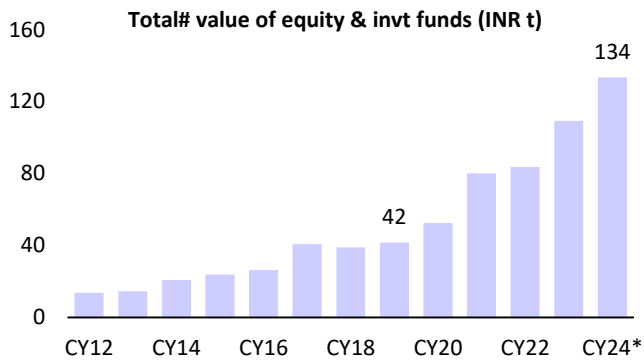
**Exhibit 5: India's MF AUM has also increased rapidly to INR61t as of Jun'24...**



**Exhibit 6: ...of which roughly ~63% has been held by the household sector**

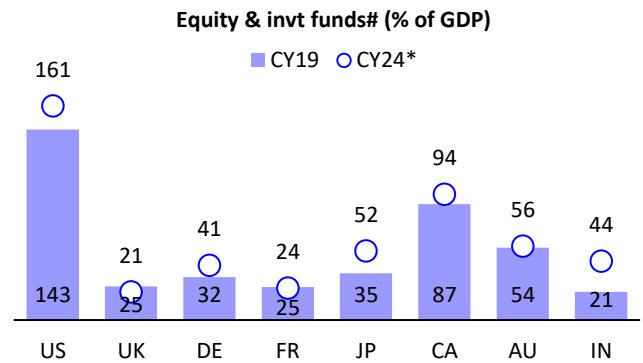


**Exhibit 7: Total# exposure of the household sector to the financial markets touched INR134t in 1QFY25...**



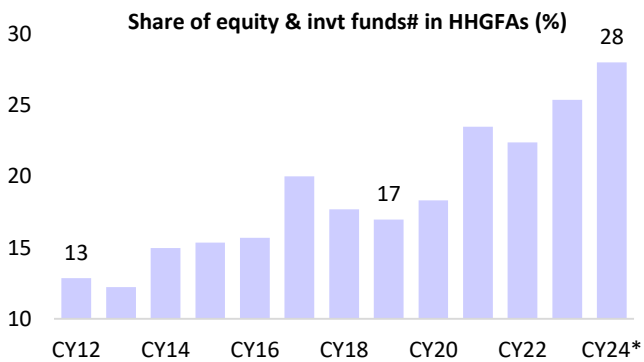
#Direct + Indirect ((MFs/investment funds)  
\*2QCY24

**Exhibit 8: ...equaling 44% of GDP, much lower than the US and CA but comparable to other nations**



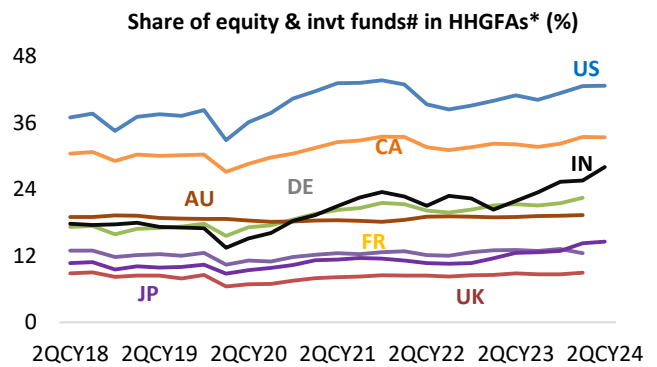
\*2Q data for the US, JP, CA, AU and IN (1Q for others)  
#Excluding unlisted and other equity to make it comparable  
Source: Various national sources, MOFSL

**Exhibit 9: The share of E&IFs has increased to 28% of HHGFAs as of 1QFY25...**



#Direct + Indirect (MFs/investment funds)  
\*As of 2QCY24 (1QFY25 or Jun'24)

**Exhibit 10: ...rising more rapidly in the post-pandemic period than other major economies**



#Direct + Indirect (MFs/investment funds)  
\*Excluding unlisted and other equity to make it comparable  
Source: Various national sources, MOFSL

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SELL	< - 10%
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Nainesh Rajani

Email: [nainesh.rajani@motilaloswal.com](mailto:nainesh.rajani@motilaloswal.com)

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