Are savers becoming more market savvy?

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One of the major developments taking place in the period post covid is a shift in savings of households from traditional instruments like bank deposits to market related avenues. Is this a good thing from the point of view of the economy?

There has been a big push given to the capital market by SEBI which has led to a fairly balanced growth in all segments of the market. While the IPO segment has moved in accordance with the requirements of companies, there has been steady growth when it comes to the corporate debt market as well as the mutual funds piece. And right on top is the secondary market as represented by the NIFTY and SENSEX which have witnessed new heights being attained over time.

More recently the decision taken by global houses like JP Morgan and Bloomberg to include Indian bonds in their bond indices has provided another fillip to this segment which in turn will make the Gsec market more buoyant. Once the government securities market sees traction there is always a tendency for the corporate bond market too to witness positive percolatory effects. This will provide a push to the debt schemes of mutual funds. Against this environment, bank deposits will have to compete with these alternative avenues of savings and investment as individual savers have become progressively more clairvoyant when it comes to deploying their funds.

The table below gives incremental deposits, incremental AUM of mutual funds, IPO issuances and debt issuances since 2019-20.

Flow of investible funds

Rs crore	Change in AUM	Change in Deposits	Debt issuances	Equity issuances
2018-19	2,43,627	11,47,721	6,67,673	2,07,967
2019-20	-1,53,460	9,93,722	7,04,996	2,78,889
2020-21	9,16,561	15,46,020	9,20,072	2,56,930
2021-22	6,13,919	13,51,801	7,64,923	2,44,973
2022-23	1,85,348	15,78,601	9,66,706	1,41,462
2023-24	13,98,164	24,31,312	11,46,498	1,93,466

Source: CMIE

The table highlights some important facets of the markets. The first is that in general there has been a tendency for all the 4 segments to witness an increasing trend, which is important for a growing economy. Second, in case of equity there has been some bit of stagnation in the region of Rs 2-3 lakh crore. Admittedly, the amount raised in the market would be dependent on the plans of companies. The investment rate in India has been muted during this period and restricted more to the infra based sectors. Equity issuances are used for a variety of reasons of which investment is one followed by debt repayment or even acquisitions. Hence it is not the case of companies raising funds only when the secondary markets are buoyant; though upbeat stock indices do help to command higher premium. Further, after the dilution of the euphoria following the start-up boom which did not quite deliver the desires results there was some slowdown in the last couple of years.

Third, the debt market issuances have been growing steadily and crossed the Rs 10 lakh crore mark in FY24. Given that 2/3 or more of the issuances are by NBFCs, it may be expected that the growing economy will witness a larger role for them given their advantage in last mile connectivity which in turn will keep this box ticking. This impacts savings as households invest directly in higher rated bonds as well as debt/income schemes and hybrid schemes of mutual funds.

Fourth, mutual funds have witnessed a bit of volatility but have peaked in terms of net addition to the assets under management in FY24 with the amount being around Rs 14 lakh crore. This is also a phase associated with booming stock markets. As long as the markets are robust, the interest would be stable here.

Banks in particular will be facing competition from all these segments. As can be seen in the table deposits have witnessed a sharp increase in FY24. The challenge is to retain deposit customers. The structure of interest rates does put certain boundaries here as they get linked with the policy repo rate. As the rate hike cycle has definitely ended and there is only talk of the RBI lowering the repo rate in future, deposit holders in general can assume that their returns have also peaked for the time being. There would of course be variations across tenures for certain periods of time. But for sure until the next rate hike cycle begins, this would be the barrier.

Against this constraint, the deposits would be driven by what happens in the capital market. The IPO season so far in FY25 has been robust with a number of issuances going through successfully. The epithet of the fastest growing economy has caught on well in the market and while companies have delivered good profit growth, the reflection in the

stock market has been magnified. This has also caused more companies to raise funds which have invariably listed at a premium. There are several other IPOs lined up and hence the opportunities for investment will continue to be there for investors. The thumb rule appears to be that most of these issuances would list at a premium!

The table below gives an illustration of how the Sensex has moved over the last 5 years. The interesting aspect is that while the index fell in FY20 just when the covid virus struck, it scaled new heights in FY21 at a time when the economy registered negative growth. But this was also the time when savers moved aggressively into the market as was seen in terms of the growth in AUM of mutual funds. This was again witnessed in FY24 when the Sensex registered another peak level and the mutual funds AUM increased by the highest amount. This is indicative of how things would work out in future for the investments in mutual funds as the secondary market progresses.

Year	Returns
2018-19	17.3
2019-20	-23.8
2020-21	68.01
2021-22	18.3
2022-23	0.72
2023-24	24.85

The mutual funds industry has received more attention at the retail end as households seek higher returns on their savings. While the focus has been more on the equity schemes or hybrid schemes there is also some channeling of money to the debt funds. The former would always be attractive as there are tax benefits provided to the capital gains provided they are held for over a year. The debt schemes do not give such benefits but offer higher nominal returns depending on the schemes in which investment is made. Typically corporate bonds of the highest rating (AAA) offer a spread of 30-40 bps over the equivalent government security. This increases as the rating moves from AAA to AA and A bands. As mutual funds do invest in a diversified manner, the ultimate gain would tend to be still higher than that on bank deposits. Hence, this avenue will remain relatively attractive.

India remains a largely bank-oriented economy where credit is provided by this system. The capital market is more restrictive as the corporate bond market, though open to all virtually is one for higher rated companies. The junk bond market does not exist, and while it makes sense to have one in the country, it does appear the system is not prepared for the same. Banks will continue to be the mainstay for borrowing by most companies. The fact that lending is collateral based makes it possible to step down from the highest rated companies.

At the moment it is not certain if there will continue to be migration on a large scale from bank deposits to capital market instruments at the retail end. The regulators are seized of this issue and are running campaigns cautioning investors in different ways. In fact the action being taken against the category of ‘finfluencers’ is also important because there are decisions being taken based on such advice being provided. In fact, individuals are being constantly warned not to venture into the F & O section as it is meant for specialists only in the field.

The stock market story is built on the edifice that the Indian economy will continue to outperform other countries in the next decade or so and such exponential growth would necessarily be associated with higher investment and better corporate performance. This is what is getting reflected in stock prices which are forward looking. While this sounds logical and will hold good in the long run, there would be swings in the interim period. In the past, it has been noticed that there is a ‘herd’ mentality where investors flock to the market when there is a boom and withdraw at any time when there is a shock. Hence while the equity and mutual fund market is in tune with the long term story which can be a period of 5-10 years, there would be considerable volatility in the interim period. This is the major challenge for the financial system.

Presently the bank deposit is a favourite for people in the higher age groups where the focus is more on safety of capital where people are willing to take a lower return. However, for people in a middle age group which could be 25-40 years, the risk appetite is higher which means that there is a tendency to enter the market and look for higher returns. This is also the class which would reverse migrate to bank deposits as they become older and the risk taking appetite moderates.

However from the point of view of banks, garnering deposits will continue to be a challenge especially when the rate cycle is in the downward direction. These are cyclical patterns and it was seen that when inflation was low and the pressure to lower the repo rate was growing, deposit rates tended to move downwards. Also given that there is always a bias to offer lower lending rates to borrowers as the logic is that such a level leads to higher investment, the same is accomplished by lowering the deposits rates. It is these phases which cause migration of deposits to the markets.

The concern here is that as retail investors move to the market oriented instruments, there are even chances of losses being made as the stock market movement is never single-directional. And more importantly the stock market is a zero sum game where any gain made by someone is from money paid by another person. As long as things move in the upward direction, there would not be any concern as such. And normally it is the institutions which call the shots here which can cause swings.

Hence, the next few years will provide a clear picture of how things work out. Presently the markets are in an evolutionary phase where participation has increased as individuals become more market-conscious. A bullish economy for an extended period of time will enable the party to last for a longer time. Hence this is a critical time for banks to have strategies in place to garner deposits as the onus of lending will still be in their domain for an extended period of time. It may be necessary to provide value added services to deposit holders to ensure they do not shift their savings to the market, which looks very exciting by all standards.