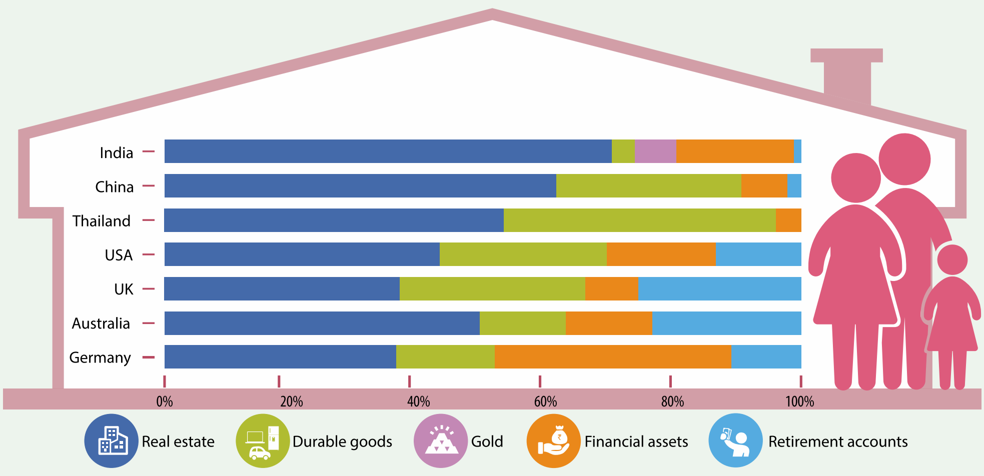
How our Investment Habits are changing

The balance sheet pattern of Indian households is unique compared to other countries. In India, household assets are skewed in favour of physical assets - 69% in real estate and 8% in gold. However, an economy's productive capacity is determined by aggregate stock of disposable income available for consumption purposes, which is relatively lower in India - as low as only 20% of wealth is concentrated in financial assets.

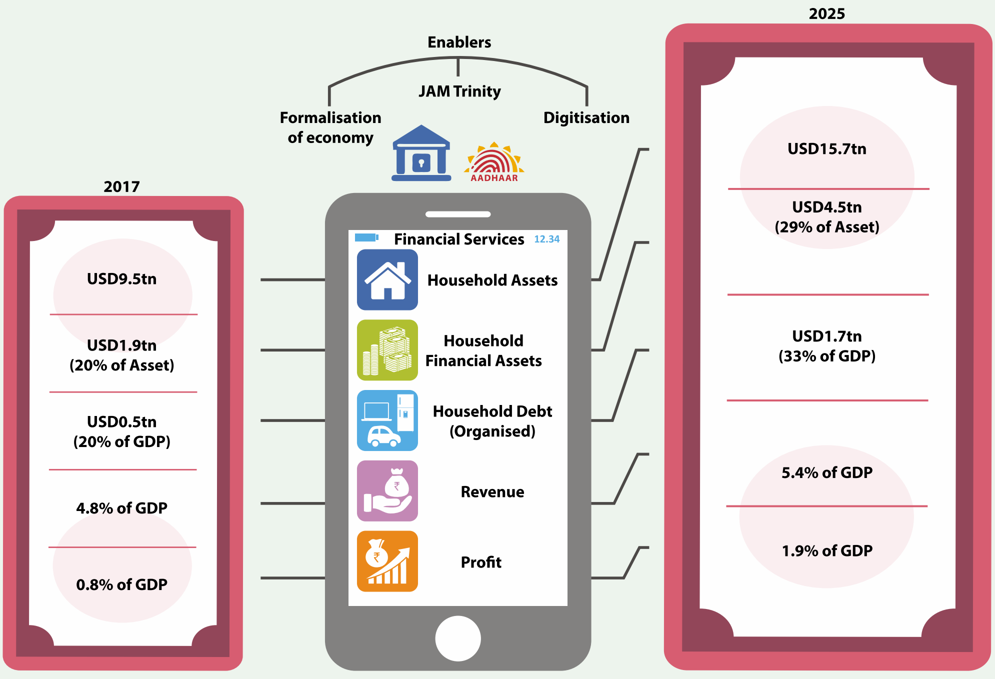
There is a sea change in how our investment habits have evolved in past couple of decades. Twenty years back, mutual fund was something to be flirted with after all modes or options for investing were exhausted. When we started earning, our parents told us to open a PPF account with the largest PSU bank. Nowadays when youngsters start earning, they open an SIP. But the Fun fact is - India's MF industry penetration is still amongst the lowest in the world. With the world allocating a large chunk to investments and retirement savings, it provides an opportunity for a long runway for the growth of financial products in India.



Source: Edelweiss Research

Financial sector revolution has just begun

Currently, in India, household debt is extremely low, and there is a lot of scope for it to rise. Government policies will only help it rise further. Massive drive towards financial inclusion – JAM trinity opening of accounts (Jan Dhan), credible identification mechanism (Aadhaar) and enabling transactions (mobile) – augurs well for the financial sector. This, along with a young population, is an indication of a big leverage cycle among households in India, something which was seen in the US in the 1980s.



Source: Edelweiss Research

A change is visible with Financialisation of savings

- Investors are gradually awakening to the power of investing and are open to exploring new avenues of investment.
- Regulators and organisations, on their part, are doing their bit to educate investors about financial investments.
- This will be leveraged with a strong sense of direction to promote financial products – mutual funds, insurance, etc.

And the change, though gradual, is gathering speed. Mutual funds are now a favoured avenue for investing in equity. This is amply reflected in the 50% jump in mutual fund folios over the past 3 years from 40mn to 60mn. Monthly SIP flows are now around INR60bn, an annual inflow of more than INR700bn. Moreover, higher market returns and stronger flows have markedly improved the domestic mutual funds market's CAGR over the past three years.

To conclude, financialisation and diversification of savings will be important themes that are likely to play out over the next ten years. Indian households will benefit immensely by reallocating assets in favour of financial markets rather than gold. For e.g. If households reallocate a quarter of their existing gold holdings to financial assets, on an average, they could earn an amount equivalent to 0.8% of their annual income per year (on an ongoing flow basis).

Start investing in Financial assets and benefit from financialisation and diversification of savings.