EQUITY SIP IN INDIAN STOCK MARKET - SWOT ANALYSIS

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Abstract : SIP is playing a very important role in Mutual Fund Industry. One can also buy shares, index exchange traded funds and gold exchange traded funds periodically in similar way – using the service called 'Equity SIP' or 'Stock-SIP' provided by many stock broking companies. This system of participating in stock markethelps investors in dispersing their investments over a period. Thus, it has become imperious to study the strengths and weakness of the Indian Equity market. This paper focused attention on the opportunities, challenges and growth of an Equity SIP, which has paved a new way for the investors to own the equity shares through SIP.

Keywords: Challenges, Equity SIP, Opportunities, Strength.

I. INTRODUCTION

"ESIP makes the investment process more disciplined by taking out speculative component out of the investment process" "ESIP allows investors who aren't connected to the markets on a regular basis, to invest in the market in a disciplined manner without having to worry about timing the market." The investors can invest in Equity SIP daily, weekly or monthly. The investor does stock selection and register for the ESIP and rest of the process is taken care by the broker. This facility is broker-specific and most of the brokers offer it. For example, some brokers will restrict to top 100 stocks by market capitalization or stocks that appear in index such as BSE 100. Some brokers will offer larger universe of stocks beyond top 100 stocks. Generally, one will be able to pick from stocks with a fair amount of volumes. However micro-cap stocks with not much liquidity are not offered under ESIP. Brokers prescribe minimum amount of money one need to invest under ESIP – say Rs 2000.

Process of ESIP

Once the investor selects the stocks to invest,if the stock price goes up quickly then one has to invest more amount of money in each installment to buy. It can further modify to suit one's needs and can change the investments pattern. If the investor is facing crisis then he should not to forget to pause the ESIP else, he can also cancel their ESIP. In simple, one has to keep the necessary amount of money in the bank account.

If one is interested to invest in stocks for long term by purchasing multiple stocks at regular intervals, ESIP can be a good solution, but it has its own limitations. If an investor buys the wrong stocks, he will not make money. This option will be better for stock pickers. The challenge is to identify the stocks, which have upward direction. No investor earns all profits he must diversify.

Features of SIP

For Long-term wealth creation through equity market, one need discipline and long-term time horizon, which are inherent features of SIP. The following features of SIP makes it fit for equity market.

1. It is simple and disciplined approach towards investment
2. The Investment is possible with small sum of money invested regularly to accumulate wealth
3. It is based on the concept of Rupee Cost Averaging
4. It is Flexible in terms of Amount or Quantity
5. Investment can be done in Flexible intervals like Daily/ weekly/ Fortnightly/ Monthly basis

Benefits of SIP

As common investor does not have enough time and resources, SIP proves to be a viable option for them. Listed below are the important benefits of this instrument.

1. Reduces Risk because of Rupee Cost Averaging
2. SIP can be started with very small amount of money
3. Timing the market is not necessary
4. Long term financial goal can be aligned with SIP
5. Disciplined approach towards Investment helps in controlling the emotions

Objectives of the Study

- To study the concept of ESIP
- To study the growth and challenges of Equity SIP.
- To suggest the future prospects of ESIP in India.

Research Methodology

The study is descriptive in nature. This study is carried out with the help of secondary data collected from books, articles in journals, and the data published by the SEBI, NSE & Money control.com

Equity SIP: SWOT Analysis

By reviewing the strengths, weaknesses, opportunities and threats, an individual investor will have a clear picture on where to invest their money, and to shift gears along with the market trends.

Strengths

Stocks with good fundamentals considered one of the best investment avenues. Selection of stocks and decision of the right price to enter is an integral part of equity investment and this is the step where most of the investors falter. Equity Systematic Investment Plan is an instrument, which helps in avoiding the risk of market trends and facilitatewealth creation in a disciplined manner by averaging cost of the investments. Small savings create the big corpus for future.

Weaknesses

The weakness of ESIP are high risk, costs like brokerage, transaction related taxes to be incurred, no security or guarantee of returns. A high expenditure and risk ratio is a weakness even if it pays for an active management currently beating the market with its returns.Size can be a weakness as well. Risk may be a weakness for some investors looking for a smaller beta or standard deviation.

Opportunities

Systematic Investment Plan allows us to figure a portfolio with small investments at regular intervals by reducing the market risk. One can selectamong Quantity based and Amount based SIPs in Stocks, Mutual Funds, ETFs and Gold etc.

Amount based and Quantity based SIP

It's a type of SIP wherein a fixed amount is invested in aparticular share at pre-defined frequency.

Formula for calculation of Quantity isSIP Amount / Market price of the share.

Any fractional value will be ignored and order will be placed for the remaining quantity.

Quantity based SIP **-** It's a SIP type wherein a fixed quantity of shares of desired company is purchased at pre-defined frequency. The order value is calculated based on the prevailing market price of the scrip at the time of order execution.

Threats

Some type of funds change along with the economic news and few do better in a recession while others track well in boom times. Apart from these, if a fund is dependent on a manager, one has to be careful and have a second plan if the manager suddenly decides to leave. Once the investor has decided to go for SIP, the next step is the stock selection. Few stocks are best for the SIP mode of investing. The companies which have a good track record and stable and operate in profitable area with long term growth prospects should be selected for long term investment purpose.

EMERGINGCHALLENGES

1) *Lack of financial education andawareness*

   Financial literacy is one of the most fundamental factors hindering the growth of any financial products. Investors need to be made aware of their financial goals and the means to achieve the same. SEBI, NSE and BSE along with the Industry are making efforts for investor awareness campaign.

   The second critical issue for fund houses is to issue their products in smaller cities. Fund houses need infrastructure like branches, adequate number of relationship managers and sales service staff in these locations which helps to increase the sales volume from thesegeographies.

2) *Distributioncost*

   Cost of starting a distribution network in cities is quite high. It is the cost per transaction or the low sales volume that makes the pursuit economically unviable or at the least challenging. Although, additional TER can be levied to extend of inflows from these cities (up to 30 bps); entering these markets have a long maturity period and needs a huge capital investment for distributors.

3) *Cultural bias towards physicalassets*

   In the past few decades, the investors have increasingly relied on financial assets to invest their savings like mutual funds and Insurance when compared to the investment in equity sip.

4) *The Issue of FluctuatingReturns*

   Since it is a diversified investment solution, equity investment will not guarantee any return. If the market prices of shares and bonds fall,thenthevalueof shareswill come down however diversified portfolio is constructed.

Challenges of an under-penetrated market

The under-penetrated market in India, although revealing huge opportunities for market players to sell their products, and to hit into theopportunities up to their optimum potential level. Some of the basic challenges arise due to very low levels of awareness and financial literacy. In India people feel that gold and property are less risky investment opportunities when compared to investment in the capital as they are not aware of low risky products that they can invest in. A culture change is requiredto convince people to invest in the capitalmarkets.

FUTURE GUIDELINES

1) *Increase the distributionstrength*

   Compared to the insurance and mutual fund sector sales force and Distribution network of Equity is very low so the steps should be taken to increase the Distribution strength of Equity.

2) *Alternative distributionmodel*

The industry needs to discover an alternative mode of tied where the agent is tied to a particular institution. This model has worked greatly in some countries where it leans towards a closed architecture model, restricting the choice of the investor. The feasibility of its success in India needs to be measured. The online channel of distribution should also be used optimally to increase the strength of particular distribution model.

3) *Need to improve distributionnetworks*

In the current situation, the industry needs willingness from the asset management companies to increase their investment in the industry. The smaller asset management companies cannot invest more in the distribution channel. Training and educating the distributors can increase the amount of penetration into the Industry.

4) *New unit of distributors to take the industry forward*

The new unit of distributors such as postal agents, retired officials, schoolteachers etc will likely to increase the inflows from smaller towns and cities. This type of distributors will play an important role in mobilizing the savings of the smaller towns.

5) *Technologymix*

To overcome the operational challenges, measures need to be taken to improve the existing infrastructure and to increase the efficiency while increasing the scale of operations. This cannot be achieved without the sound technology mix. It is also a key factor to break down the underpenetrated markets.

CONCLUSION

The present study can be concluded by saying that all efforts now are matched towards attaining the objective of financial inclusion. Several components of such as initiative, like investor awareness, increasing the investor participation and product innovation, need to be bringing into line in order to fully establish the industry. The industry needs to give due emphasis on the above factors, for drawing out an efficient business and operating model and to decrease the inbuilt challenges that the industry is facing. But when the amendments to this key regulations are being analyzed in terms of impact on the business of the industry, it remains to be seen, how the pace and pattern of growth of the industry takes shape.

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