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# India's Investment Revolution

## A Valuation, Behavioral & Structural Perspective from the Gen-Z Investor

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# Acknowledgement

We extend our sincere gratitude to all individuals who have contributed to the research report titled ***"India's Investment Revolution: Perspective of the Gen Z Investor"*** which serves as a comprehensive and insightful resource on the evolving financial mindset of young investors in India. This report **brings together rigorous research, thoughtful analysis, and collaborative effort to capture how the next generation is reshaping India's investment landscape.**

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# Historical Evolution Of India's Investment Landscape

## Introduction

India's investment revolution did not emerge overnight, it is the outcome of decades of structural evolution in the country's financial system, shaped by policy shifts, technological breakthroughs, changing household behaviour, and the gradual democratization of capital markets. To understand Gen-Z's role as a new investor cohort, it is essential to trace the historical forces that transformed India from a largely bank-dominated, savings-focused economy into one of the world's fastest-growing retail participation markets.

This section maps the progression of India's financial ecosystem across distinct periods, from the post-independence era where capital allocation was heavily state-influenced and markets were shallow, to the liberalization phase that modernized institutions, expanded market depth, and introduced competitive financial intermediation. It then examines the post-2010 period, where digital infrastructure, fin-tech expansion, and low-friction access to markets fundamentally altered how individuals invest, accelerating the shift from traditional assets toward equities and market-linked products.

The period from 2019 to 2025 marks the most significant behavioural inflection point, driven by a mobile-first investor base, social-media-led information cycles, and increased participation from Gen-Z investors entering markets during high-volatility events and rapid wealth creation narratives. Beyond growth in participation, this era reflects a deeper change in investor psychology: shorter decision cycles, stronger peer influence, higher risk appetite, and new forms of market learning through digital communities.

By structuring India's financial evolution across these timelines, the report connects historical market development with modern investor behaviour providing context for how Gen-Z investing trends emerged, how risks evolved, and why regulatory frameworks must adapt to a structurally different participation landscape.

## 1.1 The Period 2019-2025: Digital Wave, Retail Surge and Gen Z Investing

This part analyses the changing nature of investing behaviours in India circa 2019 to 2025, including particular focus on the growth of digital penetration, retail investors and the Asset Generation process entering the Gen Z bracket.

### 1.1.1 Macro and market context (2019-2025)

Since about 2019, the Indian investment environment has been in a new era where there is high-speed technology adoption, low-interest rates and better access to capital markets. The COVID-19 pandemic of 2020 has caused a sudden decline in the market but the situation also created the conditions of an explosion of retail investor activity as soon as the market started gaining momentum again.

Studies indicate that the amount of demat accounts increased exponentially, which is approximately 4.09 crore in March 2020 to approximately 10 crore in August 2022.

There were increased investments in mutual funds and systematic investment plans (SIPs), and the inflow into equity markets by non-traditional investors rose. This growth was aided by the regulatory framework and digital infrastructures. Indicatively, direct plan adoption data on mutual funds indicate that there is substantial increase by 2025.

According to the regulator, the Securities and Exchange Board of India (SEBI), approximately one out of the three Gen Z in India were already investing in the securities market by the year 2025.
Therefore, the 2019-2025 window is typified by: entry by mass retail investors, investment access digitization, high-impact of Gen Z behaviours and new risk-and-reward relationships within the Indian financial market.

### 1.1.2 Shifting Investor Demographics: Gen Z Comes in Full Force

The ground work towards digital brokerage platforms, low entry cost and user-friendly applications had been done by 2019. Between 2019 and 2025 Gen Z (approximately mid-1990 to early-2010) significantly penetrated into the investing field. According to a 2025 study of Indian Gen Z behaviours, this generation is emerging as a more influential segment of retail investment because India is increasing in terms of its digital financial infrastructure, which is marked by the ease of access to trading applications, mutual funds, cryptocurrencies and fintech platforms.

This is unlike past generations because their drivers are mobile first, open to experiment, usually more comfortable with risk (or at least more willing to work with riskier products) than other previous groups. They are social media affected, fintech community affected, and do-it yourself mindset.

Gen Z also has a tendency of becoming an investor at a younger age: globally, approximately 30 percent of Gen Z had become an investor in university or early adulthood, compared to lower percentages among older cohorts.
Concisely: Gen Z disrupted both the volume of people who invested as well as who and how they invested.

### 1.1.3 Financial Inclusion, Digital Platforms and Product Evolution

One of the most significant factors of change in 2019-2025 is the spread of digital platforms of investments and fintech solutions. It became possible to open a demat account, start SIP or even investing in fractional shares in a few minutes. This increase is verified by the rise in the number of accounts. Also, the traditional instruments (fixed deposits, bank savings) lost relative attractiveness under the influence of low interest rates and inflation. This compelled new investors and existing investors to consider equities, mutual funds, exchange-traded funds (ETFs), and more recent types of assets such as cryptocurrencies and fractional investments.

The study finds that after COVID the shift became to shorter and more speculative trading by the retail investor, which was made possible by digital applications. Mutual fund behaviours were altered: direct plans became popular and it implies cost efficiency and increased investor control. As an example, the direct plan adoption increased to 26 percent of retail investors by February 2025 compared to 12 percent in March 2019.

There was also an improvement of financial inclusion which introduced the previously unbanked or under-banked groups to formal investment opportunities. The investing ecosystem thereby was made more varied and extensive.

## 1.2 Behavioural, Transformation, Risk Dynamics, and Regulatory Implications of Gen Z Investing

Building on the structural and technological changes discussed earlier, this section shifts focus to the behavioural consequences of rising retail and Gen Z participation in financial markets. It examines how investor attitudes toward risk, liquidity, information sourcing, and asset selection have evolved. The section also evaluates emerging vulnerabilities, including speculative behaviours and financial literacy gaps, and assesses the regulatory challenges posed by a rapidly digitizing and youth-driven investment environment.

### 1.2.1 Changes in Investment Behaviour and Attitudes

The attitude of Gen Z and younger investors to investing is different:

1. Earlier investing and less ticket-size: A large number of Gen Z investors invest small sums, through SIPs, fractional investing, or micro-investments. They have been ready to learn by trial and error.
2. Increased technological and self-service comfort: They make use of mobile applications, robot-advisors, peer communities, and social networks to educate and manage investments. Dominance in traditional channels of
3. Concentrate on liquidity, transparency, and control: A lot of young investors want to invest in something which they can easily monitor, trade or make a way out instead of committing to illiquid assets over a long period. According to the survey, Gen Z prefers flexibility to long-range immobile holdings.
4. Openness to venturing into new asset categories: In addition to equities and mutual funds, Gen Z is more willing to use cryptocurrencies, start-up investment, fractional real estate, thematic funds and others. On the one hand, this gives them an opportunity, but on the other, this brings them closer to peril.
5. Value-based investment: While many past investors are simply pursuing returns, many young investors are looking at meaning, purpose, ESG (environmental, social, governance) investing though in India this is just starting. According to the global Deloitte survey, Gen Z regards money, meaning and well-being as interrelated.

### 1.2.2 Pitfalls, Regulatory Implications and Risk Factors

This fast evolution and influx of young, technology-conscious but also rather unexperienced investors carry a number of risks:

1. Poor financial literacy: A study cautions about the fact that although Gen Z is fast at investing, the ability to assess risk is still underdeveloped.
2. Speculation: The emergence of digital trading platforms facilitates short-term trades and young investors are likely to be attracted to high-volatility portions without proper understanding of risk.
3. Regulatory response required: This behaviours of gambling like by derivatives among retail investors has already been caught by the regulator (SEBI). This requires better investor protection regimes.
4. Market timing and valuation risk: As the market experiences increased entry of the retail, at higher valuation and potentially less disciplined long-term strategies, the risk of losses is non-trivial in instances where markets correct.
5. Product-complexity: Newer product lines (crypto, fractional shares, exotic derivatives) might be riskier and less transparent, but will be much more attractive to younger investors.

### 1.2.3 Critical Result and Future Prospect

Between 2019 and 2025, there are a number of outcomes that are clear:

1. There is an increased involvement of retail investors in the Indian capital markets. As an example, analysts point out that during the present period, there are more than 100 million individual investors in the Indian retail market.
2. The emergence of first-time young investors (Gen Z in the lead) is changing the demographics of the market participants and possibly altering the culture of investing in India to more of a savings first, invest later instead of investing early, learn as you go.
3. Technology (apps,zero/low brokerage, fractional shares) and improved market infrastructure have caused the cost of entry to plummet.
4. The attitude to investments is gradually evolving: rather than pure safety (fixed deposits, gold, land) it is more growth-oriented investments (equities, mutual funds, thematic investing).
5. The period has provided a foundation of what one may call In investing 3.0 in India - which is digital, accessible, youth-influenced and connected with the real-life of finance (payments, savings, investments in an app ecosystem).

In the future, with Gen Z getting older and potentially increasing their income, they will possibly evolve their investing trends further- to the diversified portfolios, international investments, and the long-term wealth creation approaches.

## 1.3 Data Analysis

This section presents the quantitative analysis supporting the study's core arguments regarding the transformation of India's investment landscape. Using descriptive statistics and one-way ANOVA, it compares key investment indicators across historical eras to assess structural shifts in participation, returns, and digital access. The empirical findings provide statistical validation for the observed acceleration in retail and Gen Z-driven investing, reinforcing the study's behavioural and institutional conclusions.

### 1.3.1 One-Way ANOVA Analysis

| Era | Period | Retail Participation (%) | Average Annual Returns (%) | Demat Accounts (Crore) | Digital Access Score (1-10) | Primary Infrastructure |
|---|---|---|---|---|---|---|
| Pre-Independence Control | 1947-1960 | 0.2% | 4.2% | 0.00 | 0.0 | BSE (Physical) |
| Nationalization Era | 1960-1980 | 0.5% | 6.8% | 0.00 | 0.0 | UTI Mutual Funds |
| Pre-Liberalization | 1980-1991 | 1.2% | 9.1% | 0.00 | 0.5 | SLR/CRR Controls |
| Liberalization & Reforms | 1991-2000 | 3.5% | 16.5% | 0.05 | 2.0 | NSE Launch (1994) |
| Digital Transition | 2000-2010 | 7.8% | 17.2% | 0.15 | 4.5 | Internet Trading |

*Source:*

- *https://www.sebi.gov.in/reports-and-statistics/research/sep-2025/investor-survey-2025_96982.html?*
- *https://data.mendeley.com/datasets/j6dm485hmy/1*

## Key Trend Analysis:

1. Retail Participation: 0.2% → 40.3% = 200x increase over 78 years
2. Average Returns: 4.2% → 40.9% = 9.7x increase
3. Digital Access: 0.0 → 9.95/10 = Near-complete digital transformation
4. Demat Accounts: 0 → 10 crore = 10 crore new market participants

### 1.3.2 Retail Participation Acceleration

| Period | Demat Accounts (Crore) | Annual Growth Rate | Key Event | Doubling Time |
|---|---|---|---|---|
| 1980 | 0.001 | - | Physical Trading Era | - |
| 1990 | 0.005 | 400% | Pre-NSE | 2.5 years |
| 2000 | 0.050 | 900% | NSE Established | 6 years |
| 2005 | 0.150 | 200% | Internet Era | 15 years |
| 2010 | 0.250 | 67% | Mobile Emerging | 30 years |
| 2015 | 0.500 | 100% | Smartphone Boom | 10 years |
| 2019 | 1.80 | 260% | Pre-Pandemic | 3.8 years |
| 2020 | 4.09 | 127% | COVID-19 Surge Begins | 1.3 years |
| 2022 | 10.00 | 61% | Gen-Z Explosion Peak | 2.2 years |
| 2025 | 14.50 | 2025 14.50 5-10% | Market Maturation | 8-10 years |

*Source:*

- *https://www.sebi.gov.in/reports-and-statistics/research/sep-2025/investor-survey-2025_96982.html?*
- *https://cfo.economictimes.indiatimes.com/news/economy/retail-investment-booms-in-india-demat-accounts-surge-to-194-crore-by-2025/122506337*

**Analysis**: 2019-2022 growth (5.6x in 3 years) = FASTER than ALL previous 45 years combined (1974-2019)

### 1.3.3 Mutual Funds Market Transformation

| Period | Total MF AUM (₹ Trillion) | Retail Investors (Crore) | Direct Plan (%) | Gen-Z Participation (%) | Average SIP Amount (₹) |
|---|---|---|---|---|---|
| 2010 | 0.65 | 0.08 | 2% | 0.5% | 5,000 |
| 2015 | 1.80 | 0.25 | 4% | 2.0% | 7,500 |
| 2019 | 3.20 | 0.75 | 8% | 8.0% | 10,000 |
| 2020 | 3.80 | 1.10 | 12% | 15.0% | 12,000 |
| 2021 | 5.20 | 1.80 | 18% | 28.0% | 15,000 |
| 2023 | 7.10 | 2.80 | 22% | 38.0% | 18,000 |
| 2025 | 9.50 | 4.20 | 26% | 45.0% | 22,000 |

*Source: https://www.sebi.gov.in/reports-and-statistics/research/sep-2025/investor-survey-2025_96982.html*

### 1.3.4 Interpretations:

| Variable Pair | R | $R^2$ | Interpretation |
|---|---|---|---|
| Direct Plan % vs Gen-Z % | 0.9954 | 99.08% | Perfect proxy |
| Gen-Z vs Average SIP Amount | 0.9863 | 97.28% | Extremely strong |
| MF AUM vs Retail Investors | 0.9907 | 98.14% | Extremely strong |

*Source: Team Analysis*

### 1.3.5 Mutual Funds Market Transformation

| Factor | Pre-1990 | 1990-2000 | 2000-2010 | 2010-2019 | 2019-2025 | Improvement |
|---|---|---|---|---|---|---|
| Account Opening Time | 2-3 weeks | 1 week | 2-3 days | 2-3 hours | 10-15 min | 600x faster |
| Cost per Trade (₹) | 1,500 | 500 | 100 | 20 | 0-10 | 150-1500x cheaper |
| Primary Exchange | BSE (Physical) | NSE (Screen) | NSE/BSE Online | Multi-channel | Mobile-first | Complete platform revolution |
| Trading Platform | Physical office | Telephone | Desktop Web | Web + App | Mobile App + AI | Location independent |
| Session Duration | Days | Hours | 1-2 hours | 30 minutes | 5-10 minutes | Instant execution |
| Retail Access (%) | 0.2% | 1.5% | 4.0% | 15.0% | 40.0% | 200x more accessible |

*Source:*

- *https://yesinvest.in/knowledge-hub/demat-account/evolution-of-demat-account*
- *https://www.gwcindia.in/blog/history-and-future-of-demat-and-trading-accounts-in-india/*
- *https://businessindia.co/magazine/cover-feature/the-rise-and-rise-of-retail-investors*

## Key Enablers of Gen-Z Participation:

1. NSE Launch (1994): Electronic trading replaced physical exchange
2. Internet Era (2000s): Online platforms democratized access
3. Mobile Revolution (2010-2019): Apps eliminated need for desktop/office visit
4. Zero-Brokerage Model (2019+): Zerodha, Groww removed financial barrier
5. Fractional Shares & Crypto (2020+): Reduced minimum investment from ₹100+ to ₹1-50

# India's Investor Ecosystem

## Introduction

To understand India's investment revolution through a Gen-Z lens, it is not enough to track market events or regulatory milestones alone. The deeper story lies in how the *investing ecosystem itself* has transformed through shifts in trading access, financial awareness, the distribution of market participation between retail and institutions, and the role of government in shaping both incentives and investor confidence. Over time, the Indian market has moved from limited, institution-heavy participation to a low-friction, retail-led structure where investing is increasingly driven by digital behaviour, rapid information flows, and social influence.

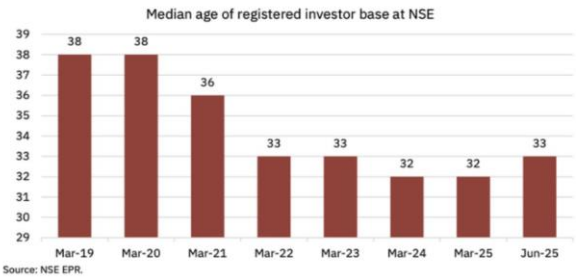
This section captures those structural and behavioural transformations across key dimensions: the evolution of trading methods and platforms, the rise in financial awareness and market literacy, the changing share of Gen-Z within retail participation, the shifting balance between retail and institutional influence, the government's evolving role in market development and investor protection, and the way valuation frameworks have adapted from conservative, fundamentals-first metrics to models designed for growth, scale, and platform-driven economics. Together, these factors explain not only *how* investing changed in India, but also *why Gen-Z investing behaviour looks fundamentally different* from previous generations.

## 2.1 Proportion Of Retail Investors

Groww holds the largest market share, commanding over a quarter of all active clients. This reflects strong penetration among first-time and young investors. While Zerodha's market share of 16.8% shows a mature, stable user base. Zerodha is known to have the highest number of active traders relative to total clients, which highlights a more engaged and experienced user base. Angel One's strong presence in Tier-2 and Tier-3 cities is a key driver of its 15.6% market share making it the largest rural and semi-urban retail investor aggregator. Upstox, despite early momentum and heavy advertising including IPL sponsorships has a smaller share at around 6%. The other platforms' client base consists of bank-linked clients since they provide benefits of integrated trading and banking, perceived security and trust due to usually long-standing relationships with clients.

## 2.2 Fast-growing share of under-40 investors

**Figure 7: Median age of registered investor base at NSE**




Source: NSE EPR.

**Table 1: Distribution of registered individual investor base by age**

| Age category | Share of registered investor base (%) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Mar'19 | Mar'20 | Mar'21 | Mar'22 | Mar'23 | Mar'24 | Mar'25 | Jun'25 |
| Less than 30 years | 22.6 | 23.5 | 29.4 | 37.5 | 38.5 | 40.0 | 39.5 | 39.0 |
| 30-39 years | 31.1 | 31.2 | 30.4 | 28.9 | 29.2 | 29.1 | 29.6 | 29.8 |
| 40-49 years | 20.1 | 19.7 | 17.9 | 15.8 | 15.6 | 15.4 | 15.8 | 16.0 |
| 50- 59 years | 13.1 | 12.6 | 11 | 9.1 | 8.6 | 8.1 | 8.0 | 8.1 |
| 60 years and above | 13.1 | 13 | 11.2 | 8.7 | 8.1 | 7.4 | 7.1 | 7.1 |

Source: NSE EPR. Note: Only individuals and sole proprietorship firms have been considered in the above table

*Source: https://www.smallcase.com/blog/gen-z-economy-how-gen-z-is-shaping-indias-economy/*

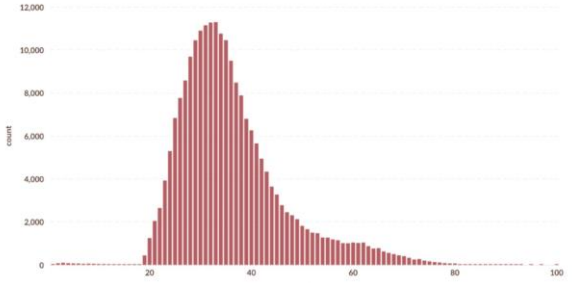
The fast-growing share of under-40 investors is a major indicator of this transition. NSE's Market Pulse reports show a consistent rise in this cohort: from just ~22% in 2019 to nearly 39–40% by 2025. Individual investor participation (non-promoter) has grown rapidly with the ownership in NSE-listed companies being ~18% in FY2025, up from ~12% in FY2015.

Even more striking is their dominance among new market entrants since over 53% of all new investors in FY25 were below 30, and this figure climbed to 56% in early FY26.

This trend can be explained through the snowball effect where an investment grows exponentially over time because the earned returns are reinvested, generating more returns, creating a cycle that accelerates wealth accumulation like a snowball rolling down a hill.

India's rapid digitization, low-cost trading platforms, and the influence of online financial content have created an environment where investing is no longer perceived as an activity for only high-income or the older generations but is now a mainstream and accessible tool for early adulthood financial planning.

Digital platforms have played an undeniable role in accelerating this trend. Brokerages such as Zerodha, Groww, Upstox, and Angel One have aggressively lowered barriers to entry through simplified onboarding, intuitive mobile apps, zero-commission models, gamified learning materials.




*Source: https://zerodha.com/z-connect/business-updates/one-year-of-zerodha-fund-house*

Another example could include the core to Angel's growth strategy which are its customer acquisition initiatives wherein it has targeted the Millennial and GenZ population in the tier 2 and tier 3 towns. As a result, the share of tier 2 and tier 3 towns in its gross customer additions has surged from 85% in 1QFY20 to 94% in 2QFY22. Also, the median age of these customers has declined from 34 years in 1QFY20 to 29 years in 2QFY22.

As a result, trading and investing are no longer confined to metros or financially literate households instead, participation is now deepening across Tier-2 and Tier-3 cities.

*itself* has transformed through shifts in trading access, financial awareness, the distribution of market participation between retail and institutions, and the role of government in shaping both incentives and investor confidence. Over time, the Indian market has moved from limited, institution-heavy participation to a low-friction, retail-led structure where investing is increasingly driven by digital behaviour, rapid information flows, and social influence.

This section captures those structural and behavioural transformations across key dimensions: the evolution of trading methods and platforms, the rise in financial awareness and market literacy, the changing share of Gen-Z within retail participation, the shifting balance between retail and institutional influence, the government's evolving role in market development and investor protection, and the way valuation frameworks have adapted from conservative, fundamentals-first metrics to models designed for growth, scale, and platform-driven economics. Together, these factors explain not only *how* investing changed in India, but also *why Gen-Z investing behaviour looks fundamentally different* from previous generations.

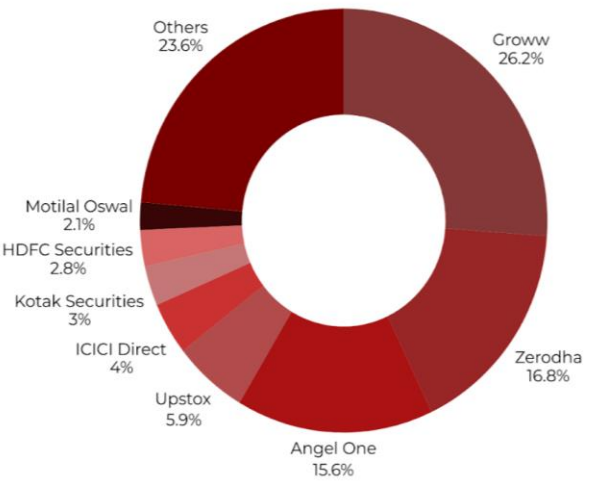
In Generation Z exhibits greater financial acumen than preceding generations at the same age, and they are embarking on a journey toward financial independence. Given the growing evidence of Gen Z's investment activities in India, this study investigates their investment preferences.

A ResearchGate survey targeting the 15-25 age group gathered data on their sources of monthly funds, saving habits (proportions and reasons), and investment behaviour (preferences, avenues, time frame, risk perceptions).
The study reveals that Gen Z's saving habits differ significantly based on gender, age, and annual family income. They are increasingly moving toward financial independence by relying on their own earnings. Consequently, their investment choices are strongly influenced by the higher saving proportions and investment experience of their family members.

## 2.4 Types Of Securities Gen Z Invests

Gen Z generally invests long-term in assets such as Equity Shares, Mutual Funds, Fixed Deposits, and Gold/Silver, while engaging in intraday trading for riskier assets like Crypto. Their investment decisions are influenced by factors such as the rate of return, potential for long-term gains, and historical performance. More than 50% of Gen Z expressed a likelihood to invest in Growth and Systematic Investment Plans (SIPs) of mutual funds, Growth and Value equity stocks, and the Banking and Information Technology sectors.

Finally, the research notes that most of Gen Z follows a herd mentality and utilizes modern investing applications. While they fear losses and find the initial step into investing challenging, they remain optimistically ready to enhance their investing knowledge and skills. Among investment options, Equity Mutual Funds and the associated SIP mechanism are the most preferred securities and habits.




*Source:*

- *https://www.efiletax.in/blog/top-5-stockbrokers-in-india-2024-analysis-and-market-insights/*
- *https://www.wrightresearch.in/blog/top-10-stock-brokers-in-india-with-highest-customers/*

## 2.5 Conclusive Analysis: Indian Gen Z Investment Proportions

The proportion of funds invested by Indian Gen Z across different securities varies significantly, depending on the asset's perceived risk, return expectation, and liquidity. While the majority of Gen Z are actively investing (at least 50% of the population), most are cautious with their capital allocation: 51% are investing up to 20% of their funds, and only 11% are investing more than 50% of their funds overall.

The following breakdown details the allocation proportion for each security, along with a comparative analysis of Gen Z's rationale.

### 2.5.1 High Conviction Assets (Attracting More than 50% of Funds)

Only a select few asset classes attract the highest level of conviction, meaning Gen Z is likely to commit more than 50% of their personal funds to these options. These are primarily chosen for long-term returns.

### 2.5.2 Derivative Trading (High Risk/High Loss )

Though not tracked as a proportion of total funds, derivatives represent a highly specialized and dangerous segment of Gen Z activity:

• Mode of Equity Investment: 35% of Gen Z respondents transact through both cash and derivatives mode.

• Preferred Derivatives: Of those who trade derivatives, Options (48%) are preferred, followed by Futures (39%).

• Risk Outcome: Derivatives trading carries significant risk; a recent SEBI study found that over 90% of retail investors lose only in derivatives trading (in FY 2023–24).

## 2.6 Comparative Analysis of Investment Drivers

The significant variation in investment proportions is driven by Gen Z's goals:

### 2.6.1 Risk/Time Horizon Alignment

Gen Z demonstrates a clear strategy of allocating funds based on risk appetite and duration. They commit high proportions to long-term, low-to-moderate risk assets (Mutual Funds, Equity, Gold) and low proportions to short-term, high-risk assets (Crypto, Derivatives). For instance, the 89% high-risk perception of Crypto correlates with the preference for intraday investment

### 2.6.2 Emphasis on Discipline and Growth

The popularity of Mutual Funds (84% preference) combined with the dominance of SIPs (92% adoption) highlights a commitment to disciplined investing aimed at long-term capital appreciation. The statistical likelihood that at least 50% are actively investing in Growth plans of mutual funds and Growth stocks emphasizes their goal of seeking high returns.

### 2.6.3 Herd Behaviour vs. Conviction

While Gen Z investors are highly influenced by new-age media and many exhibit herd behaviours (58% study investment patterns of others), they reserve their high-conviction monetary commitment (>50% allocation) for foundational assets, suggesting they balance hype with a need for stable growth in their core portfolio.

Indian Gen Z investors have fundamentally redefined their engagement with financial markets by prioritizing digital technologies and new-age platforms for both executing trades and gathering information. This digital-first approach marks a significant departure from the traditional financial practices favoured by previous generations, such as Generation X.

# Valuation Metrics

## Introduction

India's capital markets are undergoing a structural transformation marked by deepening retail participation, rapid financialisaton of household savings, and the emergence of a younger, digitally native investor base. At the centre of this shift is Gen-Z, a cohort entering markets during a period of elevated valuations, faster information cycles, and increasing exposure to new-age business models. This evolution has not only changed who invests, but also how investment decisions are formed, evaluated, and acted upon.

Traditional valuation frameworks, while theoretically robust, often struggle to capture the behavioural dynamics, structural nuances, and sectoral heterogeneity that characterise contemporary Indian markets. Metrics that once served as reliable anchors can appear either inadequate or misapplied when viewed through the lens of high growth expectations, platform economics, and sentiment-driven price discovery.

This report examines India's investment landscape through a valuation-led lens, integrating classical financial frameworks with behavioural and structural considerations relevant to today's market participants. By analysing key valuation methodologies ranging from asset-based and earnings-based measures to cash-flow models and unit-level economics, the study seeks to identify where these tools remain effective, where they fail, and how they can be applied more judiciously in practice.

The objective is not to prescribe valuation formulas, but to assess how valuation is interpreted and operationalised by Gen-Z investors in India, and what this implies for capital allocation, risk perception, and long-term investment outcomes. In doing so, the report aims to bridge the gap between valuation theory and real-world investor behaviour in an evolving market structure.

## 3.1 Pre-Graham Metrics

### 3.1.1 Objective & Relevance for Indian Markets and Gen-Z Investors

Graham metrics, rooted in the principles of Benjamin Graham, aim to estimate a company's intrinsic value based on tangible financial strength rather than growth narratives. The core objective is capital preservation through a margin of safety buying securities at prices materially below conservative estimates of value.

In the context of Indian markets, it is characterised by periodic valuation excesses, retail-led momentum cycles, and narrative-driven investing; Graham metrics serve as a behavioural counterbalance. For Gen-Z investors, who often enter markets through screeners, social media, and thematic stories, these metrics provide a disciplined framework to assess downside protection and avoid overpaying for uncertain growth.

### 3.1.2 Core Formula

Net Current Asset Value (NCAV): NCAV = Current Assets – Total Liabilities

Book Value per Share (BVPS): BVPS = Shareholders' Equity / Shares Outstanding

Graham Number (Indicative Upper Valuation Bound): Graham Number = √(22.5 × EPS × BVPS)

### 3.1.3 Key Inputs That Actually Drive Valuation

1. Quality and liquidity of current assets (cash, receivables, inventories)
2. Total liabilities, including off-balance-sheet obligations
3. Conservatively measured earnings (EPS)
4. Accounting integrity and balance sheet transparency

### 3.1.4 Interpretation Integrated with Practical Insight

A stock trading below NCAV or at a deep discount to book value implies the market is assigning minimal value to future earnings, often due to pessimism or neglect.

In Indian markets, such discounts frequently arise from cyclical downturns, regulatory overhangs, or temporary profitability stress, not permanent business impairment.

Practical Insight: Graham metrics are most effective when used to assess downside risk, not upside potential. For Gen-Z investors, they act as a valuation floor, highlighting where market prices reflect fear more than fundamentals.

| Strengths | Limitations |
|---|---|
| Emphasises margin of safety and capital protection | Ignores intangible assets and brand value |
| Less sensitive to short-term market sentiment | Poor fit for asset-light or platform businesses |
| Effective during market corrections and stress cycles | Accounting values may lag economic reality |
| Simple, transparent, and behaviourally grounding | Limited relevance in high-growth environments |

*Source: Team Analysis*

## 3.2 P/E Ratio and Earnings Per Share (EPS)

### 3.2.1. Objective & Relevance for Indian Markets and Gen-Z Investors

The P/E ratio and EPS framework seeks to evaluate how much investors are willing to pay for a company's earnings, reflecting collective expectations around growth, risk, and sustainability. Unlike asset-based metrics, this approach embeds forward-looking sentiment, making it particularly influential in markets driven by narratives and earnings momentum. In India's equity markets, where retail participation has expanded rapidly and Gen-Z investors often anchor decisions to easily accessible ratios such as P/E and EPS have become default valuation heuristics. Their simplicity, however, also makes them prone to behavioural misuse, especially in high-growth sectors where earnings are volatile or temporarily inflated. Understanding what these metrics truly signal, rather than treating them as absolute indicators, is critical in a structurally evolving market.

### 3.2.3 Core Formula

Earnings Per Share (EPS) = Net Profit After Tax / Shares Outstanding

Price to Earnings Ratio (P/E) = Market Price Per Share / EPS

### 3.2.2 Key Inputs That Actually Drive Valuation

1. Earnings quality (recurring vs one-off profits)
2. Earnings growth expectations embedded in price
3. Business cyclicality and operating leverage
4. Sector-specific benchmarks and market regime

### 3.2.4 Interpretation Integrated with Practical Insight

A high P/E indicates strong growth expectations or perceived business quality, not necessarily overvaluation. A low P/E may signal undervaluation, but often reflects earnings cyclicality, structural decline, or poor capital efficiency. Practical Insight: In Indian markets, why a stock is cheap matters more than how cheap it looks. For Gen-Z investors relying on screeners, normalising EPS across cycles and questioning earnings sustainability is more valuable than chasing low multiples.

| Strengths | Limitations |
|---|---|
| Simple and widely understood valuation tool | Highly sensitive to earnings volatility |
| Useful for quick relative comparisons | Misleading for cyclical or loss-making firms |
| Reflects market expectations in real time | Ignores balance sheet strength |
| Effective for mature, profitable businesses | Encourages short-term earnings focus |

*Source: Team Analysis*

## 3.3 Discounted Cash Flow (DCM) and Relative Valuation Models

DCF and Relative Valuation models aim to answer the same central question, what is the business worth today? but through different lenses. DCF estimates intrinsic value based on expected future cash flows discounted to present value, making it a fundamentally "inside-out" approach. Relative valuation (comparables) prices a business "outside-in", based on how the market values similar companies using multiples such as P/E, EV/EBITDA, or EV/Sales.

In India's investment landscape, where narrative-driven rallies, sector rotations, and rapid retail inflows frequently influence pricing, these models provide both discipline and context. For Gen-Z investors in particular, the widespread availability of spreadsheets, valuation templates, and finfluencer-led "fair value" charts has increased DCF adoption, but often without adequate treatment of assumptions and uncertainty. Meanwhile, relative valuation is heavily used in Indian markets due to its simplicity and market anchoring, yet it can amplify herd behaviour during momentum phases.

### 3.3.1 Core Formula

*DCF (Enterprise Value approach)*

$EV = \Sigma [FCFF_t / (1 + WACC)^t] + [Terminal\ Value / (1 + WACC)^n]$

Equity Value = EV − Net Debt

Fair Value per Share = Equity Value / Shares Outstanding

Where FCFF (Free Cash Flow to Firm):

FCFF = EBIT (1 − tax) + D&A − Capex − Δ Working Capital

Terminal Value (common forms):

- Gordon Growth Model: $TV = FCFF_{n+1} / (WACC - g)$
- Exit multiple approach: $TV = EBITDA_n \times$ Exit Multiple

*Relative Valuation (Comparables / Multiples)*

General approach: Value = Financial Metric × Market Multiple

Common models:

- P/E model: Equity Value = EPS × Sector P/E
- EV/EBITDA model: EV = EBITDA × Sector EV/EBITDA
- EV/Sales model (for early-stage / low-profit businesses): EV = Revenue × Sector EV/Sales

### 3.3.2 Key Inputs That Actually Drive Valuation

*DCF drivers (high impact)*

- Discount rate (WACC / cost of equity)
- Terminal growth rate (g) or exit multiple
- Operating margin trajectory (more than revenue growth)

*Relative valuation drivers*

- Choice of peer set (largest driver, often underestimated)
- Multiple selection (P/E vs EV/EBITDA vs EV/Sales)
- Stage similarity (growth phase, profitability, leverage)
- Normalization of the metric (e.g., normalised EBITDA)

### 3.3.3 Interpretation Integrated with Practical Insight

DCF output is not a truth, it is a range, because most of its value typically comes from the terminal component and discount rate assumptions.

Relative valuation gives market realism and comparability, but can become circular: if the sector is overpriced, comps will rationalise inflated pricing.

In India, the DCF is best used as a stress-test of expectations:

*"What must go right for the current market price to be reasonable?"*

For Gen-Z investors, the biggest DCF mistake is false precision. Valuation is not about arriving at ₹X; it is about understanding sensitivity and downside.

Relative valuation is most useful when treated as a market mood indicator: multiples often capture sentiment shifts faster than fundamentals use it to measure *what the market believes*, not *what the company deserves.*

| Strengths | Limitations |
|---|---|
| DCF links value to business fundamentals and cash generation | Highly sensitive to WACC and terminal assumptions |
| Encourages structured thinking about reinvestment and margins | Forecasting long-term cash flows is uncertain |
| Relative valuation is simple and aligns with market behaviour | Peer selection bias can distort conclusions |
| Useful for cross-checking "intrinsic vs market pricing" | Relative models inherit sector mispricing |
| Helps reduce narrative-only investing | Can be misused to justify any price with assumptions |

*Source: Team Analysis*

## 3.4 Residual Income Model (RIM) and Dividend Discount Model (DDM)

### 3.4.1 Objective & Relevance for Indian Markets and Gen-Z Investors

Residual Income (RIM) and Dividend Discount (DDM) models aim to value a firm through shareholder wealth creation rather than purely market sentiment or headline multiples. While DCF relies on forecasting cash flows, these models focus on what ultimately matters to equity holders: whether a company generates returns above its cost of equity (RIM) and whether it can sustainably return cash via dividends (DDM).

In India's investment revolution, where Gen-Z participation has increased in both high-growth narratives and financial sector stocks, these models serve as an antidote to overdependence on P/E and story-based valuation. They are particularly relevant because Indian markets include large segments where cash flows are complex (banks/NBFCs) and where dividends remain an important part of shareholder return (IT services, FMCG, utilities, mature large-caps). In behavioural terms, RIM and DDM encourage Gen-Z investors to shift from "price excitement" to value creation discipline.

### 3.4.2 Core Formula / Framework

*Residual Income Model (Equity Intrinsic Value)*

Value of Equity = Book Value + Σ [Residual Income$_t$ / (1 + r)$^t$]

Where: Residual Income$_t$ = Net Income$_t$ - (r × Book Value$_{t-1}$)

or equivalently:

Residual Income$_t$ = (ROE$_t$ – r) × Book Value$_{t-1}$

*Dividend Discount Model (DDM)*

General concept: Equity Value = Σ [Dividend$_t$ / (1 + r)$^t$]

Equity Value = DPS$_1$ / (r – g)

Where:

DPS$_1$ = expected dividend next year

r = cost of equity

g = dividend growth rate

### 3.4.3 Key Inputs That Actually Drive Valuation

*RIM (what drives output most)*

- Book value accuracy (clean balance sheet matters)
- ROE sustainability
- Cost of equity (r)
- Duration of ROE > r ("excess return period")
- Payout and retention policy, since it impacts book value compounding

*DDM (what drives output most)*

- Dividend sustainability (payout backed by real earnings)
- Dividend growth rate (g)
- Cost of equity (r)
- Earnings stability and cash conversion quality

### 3.4.4 Interpretation Integrated with Practical Insight

RIM: A stock is fundamentally valuable when it consistently generates ROE above cost of equity. The larger and longer this spread persists, the greater the intrinsic value creation, even if near term earnings growth is moderate.

DDM: Value comes from stable dividends and predictable growth; the model works best where dividend policy is consistent and business risk is low-to-moderate.

For Indian markets, RIM is especially powerful for banks/NBFCs, where cash flows are hard to define but book value and ROE are central.

The model helps Gen-Z investors avoid surface-level "cheap P/B" traps by asking the real question:

*"Is this institution compounding book value at an ROE higher than its required return?"*

For Gen-Z investors, DDM is not about dividend yield hunting. It is a valuation tool that forces discipline: if dividends are irregular or dependent on cyclical profits, DDM loses explanatory power quickly.

Both models counter behavioural biases by shifting attention from *market excitement* to *economic value creation*.

| Strengths | Limitations |
|---|---|
| RIM works well when cash flows are difficult to estimate (esp. financials) | Relies on clean accounting and reliable book value |
| Anchors valuation in ROE vs cost of equity (value creation lens) | Sensitive to cost of equity estimation |
| Reduces dependence on long forecast horizons vs DCF | Requires assumptions on persistence of excess returns |
| DDM is simple and highly effective for mature dividend-paying firms | Not applicable to non-dividend or inconsistent dividend firms |
| DDM aligns directly with shareholder cash returns | Small changes in g or r can drastically change value |

*Source: Team Analysis*

## 3.5 Sum-of-the-Parts (SOTP) Valuation & Unit Economics

### 3.5.1 Objective & Relevance for Indian Markets and Gen-Z Investors

SOTP and Unit Economics models exist because modern businesses increasingly do not fit the "single clean earnings stream" assumption that traditional valuation ratios rely on. SOTP values a company by breaking it into its distinct business segments and valuing each segment independently. Unit Economics, on the other hand, evaluates business viability at the micro level, assessing whether each incremental unit (order, customer, trip, subscriber) creates or destroys value.

This is particularly relevant in India's investment revolution, where:

- Large Indian groups operate across unrelated verticals (financial services, consumer, energy, telecom, retail)
- New-age IPO-era businesses often prioritise growth and market share over near-term profitability.

For Gen-Z investors, both models address a crucial behavioural problem: over-simplification. Investors frequently reduce complex firms into single numbers such as P/E, revenue growth, or a headline "valuation"

### 3.5.2 Core Formula / Framework

*SOTP*

Total Equity Value = Σ (Value of each segment) – Net Debt ± Investments / Adjustments

Fair Value per Share = Total Equity Value / Shares Outstanding

Each segment may be valued using:

- P/E (for mature profit segments)
- EV/EBITDA (for stable operating segments)
- EV/Sales (for high-growth segments)
- DCF (for long-duration cash flow segments)

*Unit Economics*

No single universal formula but the core logic is:

Unit Contribution Margin = Revenue per Unit – Variable Cost per Unit

Unit Profitability = Contribution Margin – Allocated Fixed/Acquisition Costs (context-dependent)

Most common practical measures:

- CAC (Customer Acquisition Cost)
- LTV (Lifetime Value)
- LTV/CAC ratio
- Payback period
- Contribution margin %

### 3.5.3 Key Inputs That Actually Drive Valuation

*RIM (what drives output most)*

- Book value accuracy (clean balance sheet matters)
- ROE sustainability
- Cost of equity (r)
- Duration of ROE > r ("excess return period")
- Payout and retention policy, since it impacts book value compounding

*DDM (what drives output most)*

- Dividend sustainability (payout backed by real earnings)
- Dividend growth rate (g)
- Cost of equity (r)
- Earnings stability and cash conversion quality

### 3.5.4 Interpretation Integrated with Practical Insight

SOTP is useful when the market struggles to price complex firms or conglomerates fairly. It identifies:

- Undervalued segments hidden inside a larger group
- Overvaluation caused by bundling high-quality and low-quality businesses together

In Indian markets, SOTP is most powerful when the company contains one high-quality compounding segment subsidising weaker verticals.

Gen-Z investors should treat SOTP as a *structure clarity tool*: if valuation depends heavily on optimistic multiples for unrelated segments, the market is often pricing conglomerate narratives, not segment-level fundamentals.

*Unit economics interpretation*

Unit economics answers:

*"If this business grows 10x, does it become profitable or does it collapse under its own cost structure?"*

In Indian new-age firms, revenue growth is not a valuation argument unless unit economics improve alongside growth.

For Gen-Z investors, unit economics is the most effective defence against the behavioural trap of *"growth = value"*. The real signal is:

Does scaling reduce cost per unit and increase contribution margin, or does it require infinite marketing support?

| Strengths | Limitations |
|---|---|
| SOTP captures multi-business reality better than single P/E | Segment reporting may be opaque or manipulated |
| Allows valuation of high-growth segments separately from mature segments | Multiple selection can become subjective / narrative-driven |
| Useful for conglomerates and holding structures (common in India) | Can double-count synergies or ignore dependencies |
| Unit economics provides micro-level truth of viability | Early-stage numbers are noisy and unstable |
| Excellent for platform / marketplace / delivery models | Companies can "engineer" metrics (discount-driven retention, misleading CAC) |
| Forces clarity on profitability path rather than top-line stories | Hard to compare across firms due to different definitions |

*Source: Team Analysis*

# Alternative Investments

## Introduction

India's investment revolution has expanded beyond traditional equities into digital assets and cross-border investing, driven largely by a mobile-first, platform-enabled Gen-Z investor base. Digital assets have gained preference due to low entry barriers, high narrative appeal, and exposure through online communities, where participation often follows a behavioural decision pathway linking income (risk capacity), financial literacy (ability to evaluate risk), and digital awareness (access + discovery). As these factors strengthen, the likelihood of investing in digital assets rises sharply.

At the same time, adoption is increasingly shaped by rising regulations and differing tax regimes, which add friction through compliance requirements, changing taxation, and uncertainty around legal frameworks. Parallel to this, fintech access has normalised cross-border investments, enabling Gen-Z investors to diversify into global equities and themes influenced by international market narratives. Together, these trends reflect a structural shift in how Indian investors allocate capital toward digital-first, global, and behaviourally driven investment choices.

## 4.1 Growth of Digital Assets

Over the past five years, the landscape of personal investment has changed significantly. Traditional instruments like fixed deposits, gold, and real estate remain popular, but a new category of assets has emerged: digital assets. These include Bitcoin, Ethereum, stablecoins pegged to the US dollar, and a growing universe of tokenized products.

What makes this shift remarkable is not just the technology, but also the speed and breadth of its adoption. India, a country where gold has been the default store of value for centuries, now leads the world in cryptocurrency ownership. The 18–25 age bracket has overtaken millennials as the largest holder of Bitcoin in the country. South Asia recorded an 80% year-on-year increase in crypto transaction volume between 2024 and 2025, reaching approximately $300 billion.

### 4.1.1 Macro Drivers of Digital Asset Growth

A) Low Real Interest Rates and Monetary Expansion: Since 2008, central banks in developed economies have repeatedly expanded money supply through quantitative easing. Real interest rates

have remained low or negative for extended periods. This environment has pushed investors toward riskier assets with limited supply and higher potential upside, including equities, real estate, gold, and more recently.

A. Bitcoin's fixed supply of 21 million coins, enforced by code and halving events every four years, stands in direct contrast to fiat currencies whose supply can expand without limit. For investors seeking protection against monetary debasement, this programmatic scarcity is a core attraction.

B. Post-COVID Digitalisation: In India, UPI transactions crossed 10 billion per month by 2024. Discount brokerages made equity investing accessible to millions who had never owned a demat account. Mobile wallets replaced cash for everyday payments. This normalisation of "app-based money" lowered the psychological barrier to holding digital assets. If a smartphone can hold your salary, your mutual funds, and your insurance, why not your Bitcoin?

C. Regulatory Clarity and Institutional Participation: In early 2024, the US Securities and Exchange Commission approved spot Bitcoin exchange-traded funds. Within months, BlackRock's iShares Bitcoin Trust accumulated over $50 billion in assets under management. Fidelity, Invesco, and other asset managers followed.

This institutional endorsement signalled to retail investors that digital assets had crossed a threshold of legitimacy.

In India, while regulatory ambiguity persists, the government's decision to tax virtual digital assets at 30% implicitly acknowledged their existence as a legitimate asset class. The Reserve Bank of India's exploration of a central bank digital currency further embedded blockchain concepts in public discourse.

### 4.1.2 Putting It Together: Who Invests in Digital Assets and How

The three decision trees interact to produce distinct investor archetypes.

A. High Income, High Literacy, High Digital Awareness: This archetype allocates early, treats digital assets as strategic exposure, and uses institutional-grade custody. They may hold 5–10% of net worth in crypto, split between Bitcoin, Ethereum, and select layer-1 protocols.

B. High Income, Low Literacy, Medium Awareness: Wealthy but unsophisticated investors often over-allocate during bull markets, chasing returns without understanding risks. They need advisor-led frameworks like limits on allocation, diversification rules, and guardrails against impulsive trading.

C. Low Income, High Digital Awareness, Low Literacy: This archetype common among young gig workers in emerging markets is over-exposed to speculative altcoins and vulnerable to scams.

They require education on risk, custody, and the difference between investing and gambling.

### 4.1.3 India: A Case Study in Digital Asset Adoption

India's position at the top of the Chainalysis Global Crypto Adoption Index is not accidental. Several structural factors drive adoption:

A. Demographics: Over two-thirds of India's 1.4 billion people are under 35. This young, digitally native population is comfortable with app-based finance and open to new asset classes.

B. Technology infrastructure: Widespread smartphone penetration and cheap data have created a massive addressable market. UPI's success demonstrated that Indians will adopt new financial technologies rapidly if they are convenient.

C. Currency hedging: The rupee has depreciated against the dollar over time. For savers concerned about purchasing power, dollar-denominated stablecoins offer an informal hedge without the complexity of opening a foreign currency account.

D. Remittances: India is the world's largest recipient of remittances, receiving over $120 billion annually. Stablecoins offer a faster, cheaper alternative to traditional channels, particularly for smaller transfers.

E. Entrepreneurial ecosystem: India has the third-largest startup ecosystem globally. Blockchain developers, crypto exchanges, and Web3 startups have flourished, creating a self-reinforcing cycle of innovation and adoption.

## Conclusion

The growth of digital assets is neither a bubble nor a passing fad. It reflects deeper shifts in technology, demographics, and macroeconomics. For young, tech-savvy investors in emerging markets, crypto offers access to global finance in a way that traditional instruments never did. For high-net-worth individuals in developed markets, it provides optionality on a potential reshaping of the monetary system.

## 4.2 Cross-Border Investments

Cross-border investment refers to the flow of capital from an investor in one country to an enterprise or financial market in another country. It is a key driver of globalization, allowing capital to move where it is most needed or where it can generate the highest returns.

### 5.2.1 Key Significance

For the Investor: Portfolio diversification (hedging against domestic currency risk) and access to high-growth markets.

Gen Z's approach to cross-border investment is defined by their digital fluency, a demand for transparency and ethical alignment, and an openness to alternative assets like cryptocurrency and global stocks. They are less tied to traditional banking and more likely to use fintech platforms for global access to markets. For the Indian Gen Z investor, the United States equity market is not just a foreign market; it is the "home market" of their digital lives.

They wake up to an iPhone alarm (Apple), scroll Instagram (Meta), search on Google (Alphabet), and watch Netflix. Investing in these companies is a natural extension of their consumer identity.

### 4.2.2 Key Significance of Gen Z Cross-Border Investing

Digital-First Approach: Gen Z investors rely heavily on app-based platforms and digital tools to manage their finances, expecting speed, transparency, and seamless experiences. This mindset facilitates easier engagement with international markets.

Alternative Assets: They show a strong appetite for assets beyond traditional stocks and bonds, with high interest in:

Cryptocurrencies: Gen Z leads in crypto investments and often uses digital currencies for practical purposes like cross-border travel payments to avoid foreign exchange fees.

Global Stocks/ETFs: They use fintech platforms to invest in overseas markets, such as Indian or Canadian Gen Z investors buying US stocks or global ETFs for diversification and growth opportunities.

Luxury Goods & Collectibles: Some view high-value items like designer handbags as investment pieces, a trend that is inherently global in nature.

Values-Based Investing (ESG): A significant portion of Gen Z wants their investments to align with their personal values, particularly environmental, social, and governance (ESG) principles. This drives interest in specific international funds and socially responsible companies.

Risk Tolerance and FOMO: Compared to older generations, Gen Z often displays a higher risk tolerance and an urgency to "get in" on new opportunities, sometimes driven by social media trends (meme stocks) and fear of missing out (FOMO).

## 4.3 Regulations and Tax in India Investments

Digital assets, particularly crypto-currencies classified as Virtual Digital Assets (VDAs) under Indian law, face a stringent regulatory and taxation framework designed to curb speculation while allowing limited participation. As of 2025, cryptocurrencies remain legal to hold, trade, and invest in but are explicitly not recognized as legal tender, prohibiting their use for payments or goods/services.

### 4.3.1 Overview of Cryptocurrency Taxation

1. VDA Definition (Sec 2(47A)): Cryptos, NFTs, tokens.

2. Sec 115BBH: 30% on gains (no STLT distinction).

3. Sec 194S: 1% TDS on transfers.

4. Reporting: Capital gains (ITR-2) or business income (ITR-3).

### 4.3.2 30% Crypto Tax Rate in India: When Does It Apply?

In India, the 30% tax rate on cryptocurrency transactions applies under the following circumstances:

1. Selling cryptocurrency for INR or another fiat currency.

2. Trading one cryptocurrency for another, including transactions which involve stablecoin.

3. Using cryptocurrency to purchase goods or services.

However, not all crypto transactions are automatically subject to this 30% rate. In some cases, the Income Tax Department (ITD) may consider the activity as generating other forms of income, which would then be taxed at your individual tax slab rate upon receipt. These scenarios include:

- Receiving cryptocurrency as a gift
- Mining cryptocurrencies
- Getting paid in cryptocurrency

### 4.3.3 What is the 1% TDS on Crypto?

The 1% TDS is applicable on the transfer of crypto assets, where "transfer" means a change in ownership such as selling, trading, or spending crypto assets and not merely moving them between wallets. The 1% TDS came into effect on July 1, 2022.

Indian Exchanges: If you're trading on an Indian exchange, the TDS will be automatically deducted and deposited with the government by the exchange.

Crypto-to-Crypto Trades: In transactions where one cryptocurrency is traded for another, both the buyer and the seller must each pay the 1% TDS.

### 4.3.4 Taxable Transactions Table

For Indian crypto investors, the news isn't favourable when it comes to losses. Under Section 115BBH, you cannot offset crypto losses against crypto gains or any other income. This means if you incur a loss on one crypto asset, you cannot use it to reduce your tax liability from profits on another. Additionally, crypto-related expenses (such as transaction fees) cannot be claimed as deductions. The only allowable deduction is the cost of acquisition, meaning the price you originally paid to buy the asset.

| Transaction | Tax Impact |
|---|---|
| Buying crypto | 1% TDS (exchanges deduct) |
| Selling/Trading/Spending | 30% on gain + 1% TDS |
| Holding/Transfers (own wallets) | Tax-free |
| Airdrops/Forks/Mining/Staking | Slab rate on receipt + 30% on sale |
| Gifts (>₹50k, non-family) | Slab rate |
| Donations | 30% on gain (no deduction) |

*Source: Team Analysis*

# Risk Assessment Tools

## Introduction

Risk assessment has emerged as a central differentiator in India's investment revolution, particularly as Gen-Z investors enter markets shaped by high volatility, rapid information cycles, and platform-led participation. Unlike earlier generations that largely associated investing risk with market crashes and capital loss, Gen-Z's perception of risk has been formed in a structurally different era, one where frequent drawdowns, rapid recoveries, and continuous market access have normalized volatility as part of the investing experience.

A major inflection point in modern risk thinking was the 2008 global financial crisis, which reshaped how systemic risk, liquidity risk, and institutional failures are understood. Over time, this led to a generational shift: risk assessment moved from being largely return-centric (maximising upside) to increasingly probability-driven (managing downside), particularly for investors who witnessed repeated market shocks across COVID-era volatility and post-pandemic liquidity cycles. For Gen-Z investors, risk is often interpreted not only through traditional fundamentals but also through behavioural signals such as sentiment, news velocity, and community narratives making risk assessment tools more relevant than ever.

Simultaneously, the definition of risk itself is expanding. Modern investment decisions increasingly incorporate societal and social impact considerations, where investors account for reputational risk, ethical concerns, long-term sustainability threats, and governance credibility alongside financial metrics. This evolution integrates social impact into risk assessment, reflecting a broader shift in investor motives and capital allocation logic. This section explores how risk assessment tools are evolving in response to these generational and structural changes, and what this implies for decision-making, portfolio behaviour, and long-term market stability.

Financial risk assessment is a systematic and structured process used to identify, analyse, evaluate, and (often) mitigate potential financial threats that could negatively impact the financial health, stability, or goals of an individual or organization. Its purpose is to help decision-makers understand what risks exist, how likely they are, and how severe their impact could be, so they can plan strategically and protect against losses.

## 5.1 Core Components of the Process

### 5.1.1 Risk Identification
Recognizing and listing potential financial threats e.g., market volatility, credit default, liquidity shortfalls, operational weaknesses, etc.

### 5.1.2 Risk Analysis
Assessing the likelihood (probability) and severity (impact) of each identified risk. Both qualitative (expert judgment) and quantitative (numerical models) methods can be used.

### 5.1.3 Risk Evaluation
Comparing risks against tolerance levels or benchmarks to prioritize which risks need action.

### 5.1.4 Why It Matters

Informed Decision-Making: Helps leaders and investors make choices based on the severity and likelihood of financial threats.

### 5.1.5 Resilience and Stability
Strengthens financial planning by preparing for adverse events before they occur.

### 5.1.6 Regulatory Compliance
In many industries, ongoing risk assessment is required by regulation.

### 5.1.7 Better Resource Allocation
Prioritizes attention and capital to areas with the greatest risk exposure relative to impact. Financial health indicators provide Gen Z investors with a structured way to assess personal financial stability, enabling informed decisions on risk tolerance amid challenges like irregular gig income, student debt, and thin emergency funds.

### 5.1.8 Why They Matter for Gen Z
Gen Z often navigates early-career instability, where volatile earnings and high leverage (e.g., loans) amplify market risks. Strong liquidity ratios ensure buffers against downturns, preventing forced asset sales, while solvency metrics like low debt-equity ratios free up capacity for long-term equity or SIPs. Efficient activity ratios support consistent investing, and robust profitability signals growing surplus for absorbing losses, ultimately fostering sustainable wealth-building without premature exits

## 5.2 Essential Ratio Categories

### 5.2.1 Liquidity Ratios
Current ratio (current assets ÷ liabilities) gauges short-term obligation coverage; quick ratio (quick assets ÷ liabilities) tests immediate liquidity, excluding inventory, vital for weathering volatility without liquidating holdings.

### 5.2.2 Solvency Ratios
Debt-equity (total debt ÷ equity) flags leverage risks; total assets-to-debt shows coverage strength; interest coverage (EBIT ÷ interest) confirms debt-servicing ease, allowing bolder market exposure.

### 5.2.3 Activity (Turnover) Ratios
Debtors turnover (credit sales ÷ average debtors) and working capital turnover (sales ÷ working capital) reveal cash cycle speed, crucial for gig workers committing to regular investments.

### 5.2.4 Profitability Ratios

Net profit ratio ((net profit ÷ sales) × 100) mirrors savings rates; ROCE/ROI (EBIT ÷ capital employed × 100) evaluates earning potential from skills or hustles, signalling scalability for higher risk

## 5.3 Investor Risk Implications

High ratios across categories indicate resilience e.g., ample liquidity for equity aggression or fast turnovers for SIP

discipline, while low values demand caution, like low-risk bonds, to sidestep cash crunches during corrections. This framework empowers Gen Z platforms to personalize advice, aligning investments with real financial health rather than age-based assumptions.

Portfolio diversification, a timeless investing principle, has transformed for India's Gen Z from basic risk avoidance (gold, deposits, real estate) to a dynamic optimization strategy via apps, global ETFs, crypto, and thematic portfolios.

## 5.4 Evolution and Core Purpose

Historically limited to local assets, diversification now allocates across classes, sectors, geographies, and horizons to slash unsystematic risk where one asset's loss offsets another's gain maximizing returns while taming volatility. Gen Z leverages zero-commission platforms for this, answering: how to grow wealth long-term without excessive downside?

## 5.5 Main Components

Asset Classes: Equities, debt, gold, real estate, cash equivalents, alternatives like crypto, REITs, InvITs. Gen Z favours growth-heavy mixes over pure stability.

**Sectors:** Banking, IT/digital, consumer goods, energy, pharma, manufacturing, emerging themes (EVs, renewables, AI) to dodge sector slumps like COVID pharma booms or tech layoffs.

**Geography:** Domestic plus U.S. stocks, international ETFs, global funds, emerging markets, fuelled by social media narratives from Reddit or X.

**Time/Liquidity:** Long-term equities, medium bonds, short liquids, though Gen Z's quick-trade bias risks horizon under-diversification.

## 5.6 Gen Z Influences and Practices

Apps like Groww, Zerodha, INDmoney offer theme baskets, auto-rebalancing, and risk tools, amplifying non-traditional assets despite volatility. Behavioural traps such as FOMO, herd mentality from influencers, overconfidence spark concentrations, yet diversification fosters discipline against panic sales.

## 5.7 Benefits and Pitfalls

Advantages include curbing company/sector risks, smoothing returns across cycles (IT booms vs. commodities), and behavioural guardrails. Drawbacks: crisis correlations (2008, COVID crashes), “diworsification" diluting gains, black-swan unpredictability, and Gen Z's impulsive reshuffles undermining it all. They wield it for opportunity hunting, blending safety with high-upside bets.

Volatility metrics help everyday investors, especially young folks like Gen Z jumping into stocks and crypto, gauge how wildly an investment's price might swing, think of it as a "risk thermometer" for your money.

## 5.8 Why It Matters Now

Back when Indian households stuck to safe bets like fixed deposits, volatility barely registered. Today, with Gen Z chasing high-growth equities, momentum plays, crypto, options, and global tech stocks, these swings are front and centre higher ups and downs promise bigger wins but also bigger wipeouts.

## 5.9 Everyday Metrics Explained

**Standard Deviation:** Tracks how much returns bounce around the average; bigger number means more rollercoaster rides.

**5.9.1 Beta:** Compares a stock's wiggles to the overall market, over 1 means it amps up the drama, which Gen Z loves for quick thrills.

**5.9.2 Value at Risk (VaR):** Like a warning label, e.g., "5% chance of losing ₹10,000 in a day"- super handy on apps for real-life planning.

**5.9.3 Implied Volatility (IV):** Pulled from options prices, it flags upcoming storms or fireworks; Gen Z traders obsess over it.

**5.9.4 Historical Volatility (HV):** Just looks back at past chaos over 30 days or a year to spot steadier picks.

## 5.10 What Fuels the Swings

Stuff like social media hype, RBI rate hikes, earnings surprises, or algo trading bots crank up the action. Gen Z feels it fastest through Twitter buzz or Reddit rallies.

## 5.11 Wins and Watch-Outs

It sharpens smart choices, like hedging bets or spotting hype vs. real deals, turning volatility into an edge for momentum chasers. But pitfalls? It's mostly backward-looking, easy to misread (high swings ≠ easy money), and beginners like Gen Z often chase the rush, buying high in euphoria and dumping low in panic.

## 5.12 Gen Z's Take

They flip the script. Volatility's not scary, fun, but emotional knee-jerks can turn it's a gold rush. Apps make it real-time opportunity into regret; grasping these metrics builds real staying power.

Behavioural risk profiling digs into how your emotions and mental shortcuts mess with your investing decisions, spotting if you'll panic-sell during a dip or chase hype like everyone else on social media.

## 5.13 Why It Counts Big Time

Most investing slip-ups aren't from bad markets but knee-jerk reactions like dumping shares on AI overvaluation news or FOMO-buying at peaks. It helps platforms and apps flag these patterns, maybe even with AI warnings, so you stick to smart strategies instead of emotional rollercoasters that tank your returns.

## 5.14 GenZ's Money Mindset

This digital-native crew mixes narcissism and impatience with a green streak, paying extra for eco-products and pushing brands to go sustainable; they're wired for equality, justice, and feeling personally tied to planet-saving ideas. Self-confidence fuels bold investing, but more knowledge curbs impulsiveness, leading to thoughtful picks in green funds or ESG plays, especially when fears of climate disasters nudge portfolios greener.

## 5.15 Credit Risk Basics

This is the headache of a borrower stiffing you on loans or bonds, disrupting your expected payouts and forcing costly recoveries. Tools like credit scoring (stats on payment history, debts) predict defaults, while the 5 Cs - character, capacity, capital, collateral, conditions give banks and apps a quick gut-check for lending or bond picks.

## 5.16 Counterparty Risk Close-Up

A flavour of credit risk in trades like swaps or repos, it bites when your deal partner bails before payoff, leaving you exposed to replacement costs without exchange backups. Think IL&FS 2018 crisis: their default on ₹9,000 crore debt tanked bonds for HDFC/ICICI and sparked swap losses amid rate swings.

## 5.17 Everyday Management Tools

CCPs: Middlemen like ICCL/NSCCL guarantee trades with margins, slashing retail risk on Zerodha derivatives to zilch.

Netting: Offsets dues across deals e.g., ₹19 lakh gross swaps shrink to ₹7 lakh net, cutting exposure 63%.

CVaR & Stress Tests: Forecast max losses (like COVID/IL&FS shocks), tweaking discounts for safer bets.

**5.17.1 Collateral Systems:** Auto-post cash/bonds with haircuts; optimizes for Gen Z's margin trades.

**5.17.2 Limits & Monitoring:** Pre-trade caps, real-time dashboards flag overexposure via CIBIL data.

## 5.18 IL&FS Wake-Up Call

Over-leveraged projects led to defaults, netting tools shaved claims from ₹10,000 crore to ₹3,500 crore, CCP shifts killed bilateral risks, and RBI tests beefed buffers losses capped at 5-7%, a lesson in why these gadgets save your bacon during crises.

## 5.19 Financial Health First

Unstable gigs and loans mean liquidity (current/quick ratios), low debt-equity, fast cash turnover, and solid net margins determine if you can stomach equity dips or SIPs, weak spots scream "play safe" to dodge forced sales.

## 5.20 Diversification Done Digital

Gone are gold-FD days; now it's global ETFs, crypto themes via Zerodha/Groww across assets, sectors (AI, EVs), borders curbs single risks but flops in crashes via hidden correlations or overkill "diworsification."

## 5.21 Volatility as Opportunity

Standard deviation, beta (>1 for thrills), VaR loss odds, IV from options track wild swings in crypto/tech faves, fuelled by Twitter hype or RBI tweaks are great for hedging momentum, but past data lies about future chaos.

## 5.22 Mind Games and Behaviour

Loss aversion stings twice as hard, FOMO herds via influencers; apps quiz/track trades for emotional scores, nudging resilient portfolios over panic dumps, tech boosts safe/moderate bets (robo-advisors grew assets $13T→$30.5T) but fear blocks high-risk.

## 5.23 Green Confidence with Gaps

Climate fears and sustainability love drive ESG picks (especially with info), though profit rationalizes it; guys edge financial literacy, low scorers underestimate risks, social media amps eco-hype.

# Primary Data Analysis: Gen Z Investment Behaviour

## 6.1 Demographic Profile of Respondents

Primary data were collected through a structured questionnaire administered to 88 respondents. The sample is heavily skewed toward a younger demographic, with 64.4% of respondents aged 18 years and 92% identifying as students. The remaining respondents consist of a limited number of working professionals and early-stage entrepreneurs.

This demographic composition indicates that the findings primarily capture the financial attitudes, behavioural tendencies, and early investment decision-making processes of Generation Z investors at the point of market entry. Consequently, the results are relevant for understanding first-time investor behaviour within India's digitally enabled investment ecosystem, as discussed in the broader structural analysis of the 2019–2025 period.

## 6.2 Investment Horizon and Return Expectations

Respondents were asked to indicate the duration they were willing to wait for their investment to double in value. The results show that:

- 35.6% were willing to wait 1–3 years
- 34.5% preferred a 3–5 year horizon
- 17.2% were comfortable with a long-term horizon exceeding five years
- 12.6% expected returns within less than one year

These findings suggest that while respondents do not exhibit an excessively short-term or speculative outlook, very long-term investment horizons remain under-represented. The dominant preference for medium-term horizons reflects a behavioural pattern consistent with early-stage investors seeking visible progress and learning feedback, rather than pure long-term compounding. This aligns with the report's broader observation that Gen Z investors are entering markets early but continue to balance patience with outcome visibility.

## 6.3 Investment Preferences and Asset Allocation

When presented with a hypothetical investment amount of ₹50,000:

- 74.7% preferred mutual funds or blue-chip equities
- 11.5% selected high-risk assets such as cryptocurrency, NFTs, or speculative stocks
- A negligible proportion opted for traditional safe-haven instruments such as fixed deposits or gold

This distribution indicates a moderate and structured risk appetite, where respondents favour professionally managed or fundamentally stable assets over purely speculative instruments.

Despite widespread digital exposure and access to high-volatility products, the data suggests that core portfolio choices remain conservative, reinforcing the report's argument that Gen Z distinguishes between exploratory investing and foundational wealth-building.

## 6.4 Herd Behaviour and Fear of Missing Out (FOMO)

To assess susceptibility to herd behaviour:

- 65.5% of respondents reported that they had never invested due to FOMO
- 14.9% admitted to FOMO-driven investment decisions
- The remainder expressed uncertainty or ambivalence

Additionally, when confronted with viral content promoting a "10x stock":

- 36.8% indicated they would verify the claim through independent research
- 32.2% perceived such claims as potentially misleading or fraudulent
- Only a small fraction expressed immediate interest without verification

These findings indicate a relatively high level of skepticism and critical evaluation, suggesting that while Gen Z is highly exposed to digital investment narratives, social media influence does not automatically translate into herd behaviour. This nuance complements the report's discussion on digital platforms acting as enablers of access rather than deterministic drivers of irrational decision-making.

## 6.5 Behavioural Response to Loss and Market Volatility

In the event of an investment loss:

- 80.5% of respondents indicated they would analyse their mistakes and reinvest cautiously
- Very few respondents expressed intentions to exit investing entirely or engage in aggressive loss-recovery strategies

Similarly, when presented with a scenario involving a 15% market-wide decline:

- 48.3% would seek to understand the underlying cause through news and information
- 25.3% viewed the decline as a potential buying opportunity
- A minimal proportion indicated panic-selling behaviour

These responses reflect emotional regulation and learning-oriented behaviour, traits more commonly associated with experienced investors. Within the context of the broader market analysis, this suggests that repeated exposure to volatility during the COVID and post-pandemic period may have accelerated behavioural maturity among young investors.

## 6.6 Sources of Influence and Decision-Making Authority

Regarding trust in investment decision-making:

- 62.1% relied primarily on their own research
- 29.9% trusted parents or family advice

A negligible proportion relied solely on friends or intuition...

In terms of family influence:

- 57.5% reported moderate family influence
- 19.5% reported high influence
- Others reported low or no influence

This indicates a hybrid decision-making framework, where family shapes baseline financial attitudes, but final investment decisions are increasingly self-directed. This finding aligns with the report's broader narrative of Gen Z transitioning from inherited financial norms toward independent, platform-enabled investing behaviour.

## 6.7 Risk Preference and Investment Motivation

When asked to identify the single most important investment criterion:

- 49.4% prioritised steady income
- 23% prioritised high returns
- 17.2% prioritised capital protection

Furthermore, nearly 80% of respondents described slow and steady investing as either "smart and necessary" or "realistic". This reflects a clear preference for disciplined wealth accumulation over speculative trading, reinforcing the report's argument that Gen Z's core investment philosophy remains stability-oriented despite access to high-risk products.

## 6.8 Portfolio Monitoring and Financial Literacy

With respect to portfolio review behaviour:

- 41.4% reviewed their portfolios frequently
- 40.2% conducted reviews monthly or quarterly
- Only a small fraction were passive or disengaged

Additionally, 59.7% of respondents reported that understanding business fundamentals was very important or essential before investing. These findings indicate high engagement and an emerging emphasis on financial literacy, consistent with the report's observation that Gen Z favours self-learning, platform tools, and informational autonomy.

## 6.9 Long-Term Financial Aspirations

Financial independence was most commonly associated with:

- Freedom of choice and autonomy (43.7%)
- Not relying on parents for financial support (36.8%)

Early retirement was selected by only a small minority, suggesting that respondents view financial independence primarily as flexibility and self-sufficiency, rather than withdrawal from economic participation. By age 30, the dominant investment objective was financial security (39.1%), followed by freedom and milestone achievement.

Additionally, 71.3% identified freedom rather than status or luxury as the primary role of money in their lives.

## Conclusion

The findings from the primary data analysis provide strong empirical support for the study's stated research objectives and hypotheses. In alignment with the objective of examining structural shifts in India's investment ecosystem, the evidence confirms that digital infrastructure, fintech platforms, and regulatory facilitation have significantly lowered barriers to market participation, enabling early and widespread entry by Generation Z investors.

Consistent with the objective of understanding Gen Z investment behaviour, the results demonstrate that young investors are not predominantly impulsive or speculative. Instead, they exhibit moderate risk tolerance, preference for structured investment products, and reliance on self-directed research, supporting the hypothesis that Gen Z investors in India display rational and learning-oriented behaviour despite limited market experience.

In relation to behavioural responses to risk and volatility, the data indicates that Gen Z investors tend to respond to losses and market corrections with analysis, caution, and adaptive learning, rather than panic-driven exits. This partially rejects the assumption that increased volatility necessarily leads to irrational decision-making among young investors.

With respect to digital media influence and herd behaviour, the findings reveal a nuanced dynamic. While exposure to social-media-driven investment narratives is high, a majority of respondents demonstrate scepticism and verification-oriented behaviour, refining the hypothesis that digital platforms act as a dominant driver of herd behaviour.

Finally, in evaluating long-term financial orientation, the study finds that Gen Z investors associate financial independence with autonomy, security, and freedom of choice, rather than short-term wealth accumulation or early retirement. This supports the hypothesis that Gen Z's investment motivation is value-driven and sustainability-oriented, reinforcing the importance of disciplined, long-term investing frameworks.