

# Penny Stock Movement in the Indian Stock Market Post-2021

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## **Abstract**

This study examines the trends, dynamics, and factors influencing the movement of penny stocks in the Indian stock market post-2021 i.e. post Covid 19. Through detailed analysis, the paper seeks to identify patterns and the impact of various macroeconomic indicators, regulatory changes, and investor behaviour on the price movements of penny stocks.

## **Introduction**

The COVID-19 pandemic had a profound impact on global financial markets, and the Indian stock market was no exception. With widespread market volatility and economic uncertainty, retail investors began flocking to penny stocks in search of high returns. Penny stocks are defined as shares trading at low prices and market capitalization, have garnered significant attention from retail investors. Penny stocks are low-priced stocks, often trading below ₹10, with small market capitalizations. They are usually characterized by low liquidity, high volatility, and limited information. The primary attraction for investors for penny stocks lies in their low cost, that may lead to significant percentage gains even with small absolute price increases. According to Bhabra and Pettway (2003), penny stocks tend to have a high risk-return profile due to their speculative nature. The Indian stock market has seen an inflow of new investors, technological advancements in trading platforms and increased financial literacy. This paper explores the movements of these stocks, the reasons behind their volatility, and their appeal to retail investors. This assignment explores the trends, factors, and dynamics of penny stock movements in India after the onset of the COVID-19 pandemic. Penny stock movements suggest a high degree of volatility and susceptibility to market manipulation (Aggarwal & Rivoli, 1990).

## **Factors Contributed to Penny Stock Movement Post-COVID-19**

### **1. Recovery of Global economy and positive Market Sentiment**

The economic recovery post-COVID-19 and subsequent GDP growth happened in India positively impacted investor sentiment. Retail investors were more optimistic about small-cap and micro-cap stocks benefiting from the economic turnaround.

### **2. High Retail Participation**

During the time of Covid 19 there was a large number of new Demat accounts opened in Indian stock market, may be because of low cost of entry due to stock market crash during Covid 19. As per Securities and Exchange Board of India (SEBI), report 2023 the number of active retail investors grew by over 50% from 2020 to 2023 (SEBI, 2023). Data from the National Stock Exchange (NSE) also shows the number

of retail investors surged by over 50% between 2021 and 2023. More than 70% of new accounts opened during this period opened by millennials and Gen Z investors

Period	New Demat Accounts Opened (Million)	Retail Turnover Share (%)
Pre-COVID (2019)	4.9 (Per year)	39%
2020	7.7	45%
2021	14.2	54%
2022	13.5	58%
2023	8.1	60%

### 3. Large Price Surge

Penny stocks experienced extreme price movements, after covid 19 with several stocks seeing gains of over 300% within short time frames. This price surge was mainly due to involvement of speculators. Investment in penny stock gives massive gains to the investors so a lot of investors are attracted towards penny stocks.

We can take the example of, stocks like Brightcom Group and TTML saw sharp rallies in 2021 and 2022, largely attributed to retail buying frenzy and online trading communities (Times of India, 2022).

#### Price Movements of Selected Penny Stocks (2020–2023)

Stock Name	March 2020 Price (₹)	Dec 2021 Price (₹)	June 2023 Price (₹)	% Change (2020-2023)
Brightcom Group	2.5	38.0	15.0	+500%
Alok Industries	3.1	31.0	11.5	+270%
Urja Global	1.8	15.0	8.0	+344%

### 4. Entry of new Online Trading Platforms

The entry of new trading apps like Zerodha and Upstox made it easier for retail investors to access the stock market with less cost, contributing to the surge in penny stock trading volumes. Because of the entry of new brokers, old brokerage houses also allowed trading of stocks with less commission, this positively added more investors in the Indian stock market.

### 5. Influence of Social Media and Online Forums

All over the world, usage of social media and online forums surged during covid 19. This played a significant role in the popularity of penny stocks. Retail investors relied on “stock tips” and speculative posts, that leads to excessive buying, which inflated the stock prices.

A sentiment analysis of online discussions during this period shows a predominantly positive outlook on penny stocks, with frequent mentions of “multibagger potential” and “low risk, high reward” (Barber & Odean, 2021).

## 6. Speculative Trading Behaviour

Prices of Penny stocks are influenced by speculative trading behavior, where investors seek quick profits based on short-term price movements rather than fundamental analysis. This behavior was exacerbated by the "fear of missing out" (FOMO) during the post-pandemic market rally.

### Draw backs of Investing in Penny Stocks

#### 1. Limited Transparency

Financial disclosure of penny stocks is always limited so it will become difficult for investors to assess their true value. So true financial position of penny stocks not disclosed, so decision of making of investors is very difficult.

#### 2. Possibility of Market Manipulation

Due to their low price per share, penny stocks are highly susceptible to market manipulation. Where there is a chance of promoters artificially inflate the stock price before selling their holdings, are common.

#### 3. High price Volatility

The price of penny stocks can be highly volatile even in day to trading, leading to significant losses for investors. Institutional participation in penny stocks is limited. The lack of institutional participation often means that small buy or sell orders can have a large impact on the price.

A statistical analysis of penny stock performance shows a very high degree of volatility and disproportionate that is the main feature of this sector.

**Price Trends:** A detailed analysis of 100 prominent penny stocks from 2021 to 2024 shows that over 60 per cent of penny stocks experienced price swings of more than 100% within a single quarter. Stocks like Avance Technologies and Filatex Fashions recorded gains exceeding 500% in short periods, later they experienced sharp corrections.

**Volume Trends:** Trading volumes for penny stocks have increased significantly post 2021. For instance, the average daily trading volume of Avance Technologies in 2023 was 15 million shares, a 200% increase from its pre-pandemic levels. The reason for surge in volume is mainly attributed to speculative buying by retail investors, driven by market rumours and online promotions.

Stock Name	Sector	Peak Price	Volume(daily)	Price Change
Avance Technologies	Technology	1.50	15 million	+650%
Filatex Fashions	Textiles	5.20	12 million	+300%, then -70%
Johnson Pharmacare	Pharma	2.50	8 million	+500%
Greencrest Financial	Finance	1.20	5 million	+350%
BCL Enterprises	Finance	2.00	10 million	+400%, then -60%

The above table shows that high price price change happened in penny stocks post 2021 and high volume of daily trade happened in the stocks

## Conclusion

The penny stock market experienced a volatile boom-bust cycle after COVID-19, driven largely by retail speculation and macroeconomic factors. The movement of penny stocks in the Indian market post-COVID-

19 reflects a combination of increased retail participation, speculative trading, and macroeconomic factors. While these stocks offer the allure of high returns, they come with substantial risks, including market manipulation and high volatility. Investors must exercise caution, conduct thorough research, and be aware of the risks before investing in penny stocks. More Regulatory measures required in curbing manipulative practices in penny stocks but the sector remains highly volatile. Investors in stock market are advised to conduct due diligence and remain cautious if they are engaging with penny stocks.

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