

Promoters' share pledging hits 7-year high, 5 stocks to consider



Promoters have pledged shares in as many as 517 of the 1,506 NSE-listed companies, up from 370 firms, six year ago. (Photo: Reuters)

The percentage of promoters holding pledged in NSE-listed companies hit a 7-year high in December quarter, according to Prime Database. Promoters have pledged shares in as many as 517 of the 1,506 NSE-listed companies, up from 370 firms six year ago. During these years, the percentage of total promoter holding pledged has gone up from about 27 per cent to 46 per cent, with the value of pledged shares rising to Rs 2.03 lakh crore.

There were 25 companies such as AGC Network, Bharati Defence & Infrastructure, Gokaldas Exports, IVRCL, JMT Auto, Subex and Tirupati Inks in which entire promoter holding was pledged as on December 31, 2015. Overall, there were 82 firms in which the percentage of promoter holding pledged increased from zero to 93 per cent till the end of the quarter ended December 31, 2015.

For a layman, promoters are the majority shareholder that manage day-to-day affairs of a company. When they need money, very often, promoters pledge all or some of their shares with lenders. It means that these shares are offered as collateral to banks in exchange for loans. This is one of the many sources of borrowing money, especially in a volatile market with tight liquidity conditions.

Nikhil Kamath, co-founder and director, Zerodha, said, "Pledging of shares is common in companies where promoter holding is high. While pledging shares, ownership is retained by promoters. In a rising interest rate scenario, promoters often use shares owned by them as collateral for loans. If the majority owner in your company has pledged a sizeable chunk of his or her equity, it could trigger a volatile price movement in a falling market."

The data shows that shares of companies with high pledging of promoter holding tend to witness volatility. Most companies in which promoters have pledged 100 per cent holding are trading in red since the beginning of 2016. Consider this: Shares of Paramount Communications slid 46.22 per cent on a year-to-date basis till April 7, whereas shares of IVRCL and Suryajyoti Spinning Mills tanked 44.97 per cent and 42 per cent during the same period.

On falling share price of pledged shares and management control, Vikas Gupta, CIO, ArthVeda Capital, said, "If the total value of pledged shares drop below some predetermined proportion of what the lending institution has lent to the company, the institution will either want the promoter to put up some more assets to safeguard the loan or in most cases will try to liquidate the pledged shares and recover its money. In this case, there is downward pressure on the price due to large volume coming into the market and someone might buy a large stake and try to garner control. The lending institution could also take control without selling shares in the open market. In both cases, the management control of the company could move from the current promoters."

After the recent correction in pledged stocks, Kamath of Zerodha is bullish on Reliance Capital, Cox & Kings, Future Retail, JSW Energy and Gati.

As on December 2015, promoters of Reliance Capital had pledged 33.49 per cent of their stake in the company. Similarly, COX & Kings (49.71 per cent), Future Retail (76.23 per cent), JSW Energy (47.10 per cent) and Gati (72.55 per cent).

Copyright © 2016 - The Indian Express Ltd. All Rights Reserved