

Strategy

September 27, 2023

Who is right?

CYTD23 has seen a sharp increase in sell-downs by promoters (majority shareholders) and PE/VC investors compared to the previous years. However, the sell-down is quite concentrated in the case of promoter sales but broad-based across sectors in the case of PE investors. The selling by promoters largely reflects strategic compulsions (debt management), while by the PE reflects tactical (price) considerations. Domestic investors have absorbed the bulk of the sell-downs.

High promoter selling in 2023

Our analysis of bulk/block deal data shows that 2023 has seen the highest promoter selling in the past six years. Promoters offloaded almost Rs870 bn (~US\$10 bn) of equities (see Exhibit 1). However, we would note Adani Group promoters sold a whopping Rs370 bn, which is almost 40% of overall promoter selling in 2023 (see Exhibit 2). Automobiles and components, capital goods, electric utilities, IT services and transportation sectors have seen the bulk of the promoter selling so far this year, while insurance and IT services accounted for a large portion of promoter selling over 2018-23 (see Exhibit 3).

Promoters have sold for various reasons

We would attribute only a small portion of promoter sales to bullish equity market conditions. A large portion of the sales by promoters pertains to holding companies of promoters raising cash to manage 'high' purported debt in promoter holding companies (Adani Group companies, VEDL). Another meaningful portion is due to the exit of one of the promoters from a company (HDFC Life, CIE India) for strategic reasons (portfolio rationalization).

A sharp increase in PE-VC exits; OFS dominate IPOs

We note that offer-for-sale amounts have been significantly higher than fresh capital issuance amounts over 2018-23. Exhibit 4 gives the breakdown of the IPO offering between fresh capital and offer for sale (OFS). PE/VC investors have made exits through both the primary (IPOs) and secondary (block deals) market routes. The trend of PE exits has accelerated in 2023 (see Exhibit 5) as PEs have used buoyant secondary market conditions to sell their holdings (full or part) to institutional (foreign and domestic) and retail investors.

Promoter stake sale absorbed by domestic investors

As a result of promoter sell-downs, (1) promoter holding in the BSE-200 Index has declined to 48.8% in the Jun-23 quarter (latest available data) from 50.3% in the Dec-22 quarter, while (2) the combined holding of domestic investors (MF + BFI + retail) has increased by 90 bps to 23.5% at the end of the Jun-23 quarter (see Exhibit 6). The holding of FPIs has increased by a modest 26 bps to 21.7% over the same period, while the holding of others (AIFs, PMS fall under this category) has increased 31 bps to 6%. The change in the ownership patterns of companies with large promoter and PE sell-downs is quite interesting (see Exhibit 7).

Key estimates summary

	2023	2024E	2025E
Nifty estimates			
Earnings growth (%)	11.1	15.4	12.6
Nifty EPS (Rs)	813	952	1,076
Nifty P/E (X)	24.3	20.7	18.3
Macro data			
Real GDP (%)	7.2	6.2	6.3
Avg CPI inflation (%)	6.7	5.5	4.5

Source: CEIC, Kotak Institutional Equities estimates

Quick Numbers

Promoter selling in CYTD23 at 2X of 2022 levels; 40% from Adani Group companies

Promoter shareholding down 148 bps but MF + BFI + retail shareholding up 90 bps over December 2022 and June 2023 quarter (BSE-200 Index basis)

Share of primary fund-raise in IPOs down to 30% in FY2018-22, 29% in 8MCY23

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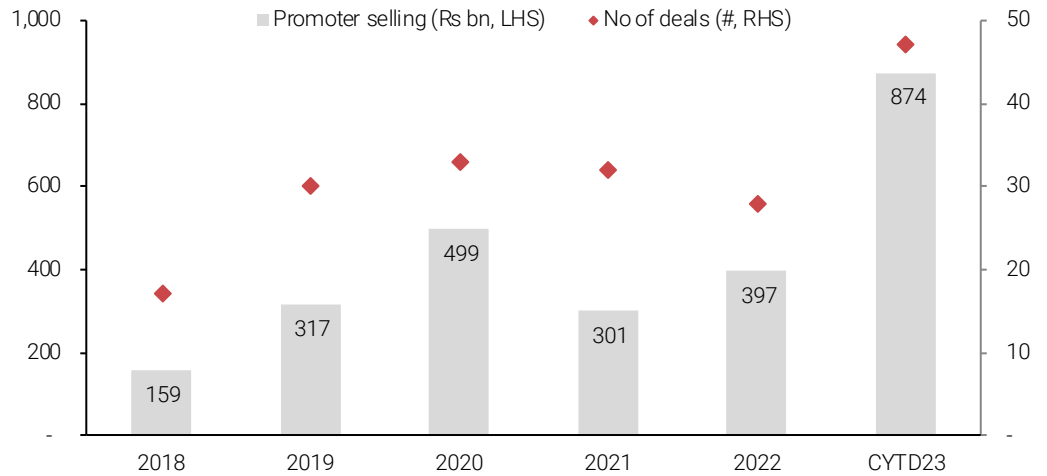
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Promoters sold US\$10 bn of stake so far in 2023

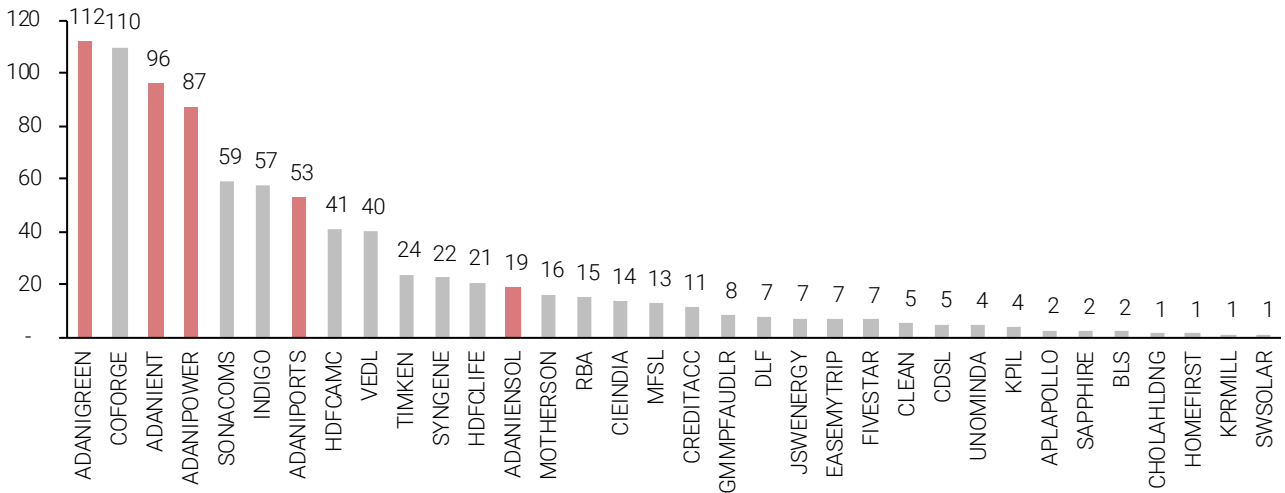
Exhibit 1: Promoter selling through bulk/block deals in NSE-500 stocks, calendar year-ends, 2018-23



Source: Prime Database, Kotak Institutional Equities

Promoters of Adani Group account for 40% of promoter selling seen so far in CYTD23

Exhibit 2: Promoter selling through bulk/block deals in NSE-500 stocks, calendar year-ends, 2023 (Rs bn)



Source: Prime Database, Kotak Institutional Equities

Automobile & components, capital goods, electric utilities, IT services and transportation sectors witnessed significant selling by promoters in CYTD23

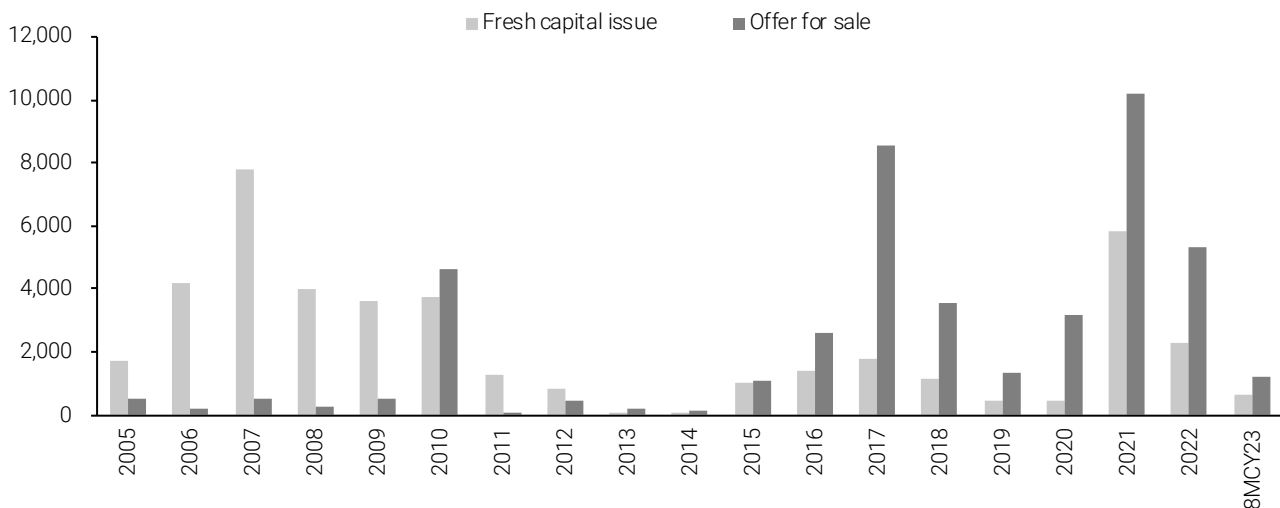
Exhibit 3: Promoter stake sale through bulk/block deals across sectors in NSE-500 Index, calendar year-ends, 2018-23 (Rs bn)

	2018	2019	2020	2021	2022	2023	2018-23
Automobiles & Components	1	18	—	3	57	117	197
Banks	—	6	176	—	3	—	185
Building Products	—	3	—	—	—	—	3
Capital Goods	4	2	—	5	18	109	138
Commercial & Professional Services	—	—	—	4	—	2	6
Consumer Durables & Apparel	10	8	6	1	20	1	46
Consumer Staples	—	7	19	—	—	—	26
Diversified Financials	—	—	13	83	27	66	189
Electric Utilities	—	—	—	51	—	225	276
Fertilizers & Agricultural Chemicals	—	—	8	—	—	—	8
Gas Utilities	—	—	51	—	—	—	51
Health Care Services	—	7	4	31	125	—	167
Hotels & Restaurants	—	5	3	—	10	24	42
Insurance	2	90	111	76	29	33	341
Internet Software & Services	—	—	—	—	1	—	1
IT Services	91	8	9	36	26	110	280
Media	8	43	4	2	—	—	58
Metals & Mining	—	—	—	7	—	42	49
Pharmaceuticals	6	—	—	—	37	22	65
Real Estate	—	12	8	—	—	7	27
Retailing	6	6	—	—	—	—	12
Specialty Chemicals	—	—	—	—	9	5	14
Telecommunication Services	—	101	84	—	14	—	199
Transportation	30	—	2	1	20	110	164
Total	159	317	499	301	397	874	2,546

Source: Prime Database, Kotak Institutional Equities

Shift in primary issuance versus OFS in IPOs

Exhibit 4: Value of fresh capital raised and offer for sale (OFS) in IPOs in India, calendar year-ends, 2005-23 (US\$ mn)



Source: Prime Database, Kotak Institutional Equities

Many PE/VC investor have chosen to sell significant stake in the last one year

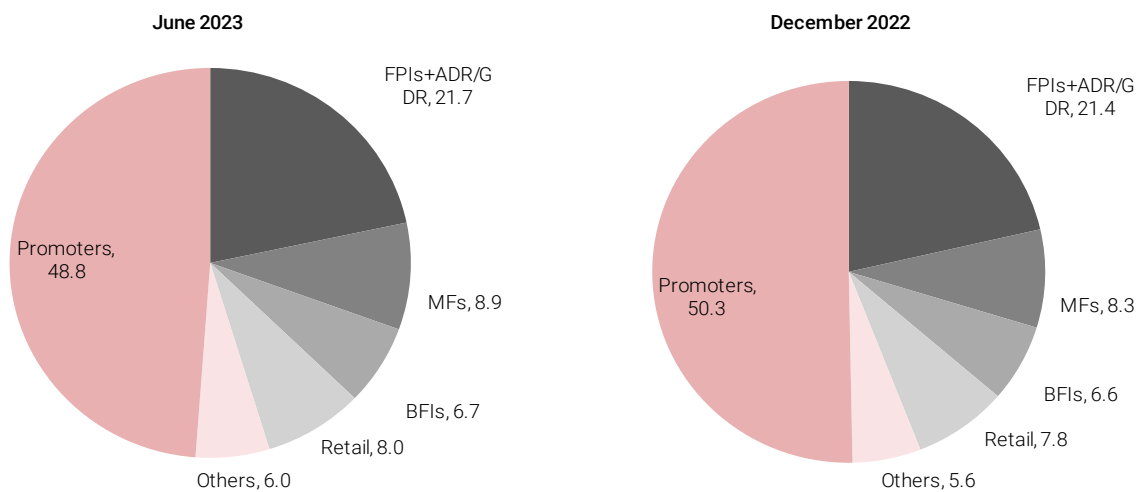
Exhibit 5: Major PE/VC deals in secondary market in 2023 (Rs bn)

Deal month	Company	Deal amount	
		(Rs bn)	Sellers
Sep-23	Restaurant Brands Asia	15.0	Everstone Capital Management
Sep-23	L&T Finance Holdings	9.1	Bain Capital Private Equity
Sep-23	Bikaji Foods International	1.6	Lighthouse Fund
Sep-23	Five-Star Business Finance	18.6	TPG Capital India Matrix Partners India Norwest Venture Partners
Sep-23	Sula Vineyards	5.1	Verinvest Asia Pte
Aug-23	Medplus Health Services	12.1	Warburg Pincus Premjiinvest
Aug-23	Zomato	9.5	Softbank
Aug-23	Zomato	2.9	Apoletto Asia
Aug-23	Zomato	11.2	Tiger Global
Aug-23	Amber Enterprises India	3.5	ADV Partners
Aug-23	SJS Enterprises	5.5	Everstone Capital Management
Aug-23	Bikaji Foods International	1.7	Lighthouse Fund
Jul-23	Sansera Engineering	6.3	The Rohatyn Group
Jul-23	One 97 Communications	24.6	Softbank
Jun-23	Bharti Airtel Ltd	16.5	Lion Meadow Investment
Jun-23	Kalyan Jewellers India	7.3	Highdell Investment
Jun-23	Axis Bank	21.8	Bain Capital Private Equity Integral Investments
Jun-23	Go Fashions	6.2	Sequoia Capital India Investments
May-23	PB Fintech	5.6	Tencent
May-23	One 97 Communications	9.8	Softbank
May-23	Coforge	8.9	Baring Private Equity Asia
Mar-23	Campus Activewear Ltd.	8.1	TPG Growth III
Mar-23	Delhivery	1.8	Tiger Global
Mar-23	Home First Finance Co.(India) Ltd.	4.7	Bessemer India Capital Holdings
Feb-23	Delhivery	4.1	Tiger Global
Feb-23	One 97 Communications	14.1	Alibaba Morgan Stanley Investment Management
Jan-23	Shriram Finance	10.2	Apax Partners
Jan-23	One 97 Communications	10.3	Alibaba

Source: Prime Database, Private Circle, BSE, NSE, Media articles, Kotak Institutional Equities

Significant chunk of promoter selling has been bought by domestic investors

Exhibit 6: Shareholding pattern of BSE-200 Index for December 2022 and June 2023



Source: BSE, NSE, Prime Database, Kotak Institutional Equities

MFs bought major stake when promoter sold

Exhibit 7: Shareholding pattern of companies with large promoter and PE/VC sell-downs (%)

Company	Shareholding pattern as of Dec-22						Shareholding pattern as of Jun-23						Difference					
	Promoters	FPIs	MFs	BFI	Retail	Other	Promoters	FPIs	MFs	BFI	Retail	Other	Promoters	FPIs	MFs	BFI	Retail	Other
Adani Energy Solutions	74.2	19.3	0.1	3.7	1.1	1.6	68.3	21.1	0.1	3.7	3.0	3.8	(5.9)	1.7	0.0	0.0	1.9	2.2
Adani Enterprises	72.6	18.9	1.2	4.3	2.1	0.9	67.7	22.9	1.2	4.3	3.4	0.6	(5.0)	4.0	(0.0)	0.0	1.3	(0.3)
Adani Green Energy	60.8	16.4	0.1	1.3	1.4	20.0	56.3	19.5	0.1	1.4	2.6	20.2	(4.5)	3.1	(0.0)	0.1	1.2	0.1
Adani Ports & Special Economic Zone	65.1	13.8	4.4	9.7	4.1	2.9	62.9	17.0	2.7	9.6	5.0	2.8	(2.2)	3.2	(1.8)	(0.1)	0.9	(0.0)
Adani Power	75.0	12.9	—	—	6.7	5.4	75.0	12.0	0.0	—	7.5	5.5	—	(0.9)	0.0	—	0.8	0.1
Apl Apollo Tubes	31.2	24.3	7.4	1.7	18.4	17.1	30.6	25.1	8.8	2.3	16.3	16.9	(0.5)	0.8	1.5	0.6	(2.2)	(0.1)
BLS International Services	74.4	8.2	—	—	12.3	5.1	71.7	8.5	0.0	—	12.4	7.4	(2.7)	0.3	0.0	—	0.1	2.3
Central Depository Services (India)	20.0	8.7	7.4	11.1	38.8	14.1	15.0	7.9	11.5	10.3	41.3	14.0	(5.0)	(0.7)	4.1	(0.8)	2.5	(0.1)
Cholamandalam Financial Holdings	48.6	11.5	25.7	0.6	9.0	4.6	48.4	11.3	25.7	0.9	9.1	4.5	(0.2)	(0.2)	0.0	0.3	0.1	(0.1)
CIE Automotive India	75.0	7.3	7.2	0.1	6.8	3.6	65.7	7.5	13.6	0.3	8.0	4.9	(9.3)	0.3	6.4	0.2	1.2	1.3
Clean Science & Technology	78.5	4.0	4.3	0.4	7.0	5.9	75.0	5.8	5.2	1.2	7.0	5.8	(3.5)	1.9	1.0	0.8	(0.0)	(0.1)
Coforge	40.0	21.3	19.9	6.5	8.7	3.6	26.6	24.8	27.7	9.0	8.1	3.8	(13.4)	3.5	7.8	2.5	(0.6)	0.2
DLF	75.0	14.8	3.7	1.3	4.3	0.9	75.0	15.3	3.4	1.3	4.1	1.0	—	0.5	(0.3)	(0.0)	(0.2)	0.0
Easy Trip Planners	74.9	2.3	0.6	2.2	12.9	7.0	71.3	2.5	0.1	2.4	15.6	8.1	(3.6)	0.2	(0.5)	0.2	2.6	1.1
Five-Star Business Finance	34.9	6.5	1.0	1.1	6.2	50.3	34.4	8.7	1.1	0.8	5.5	49.5	(0.5)	2.2	0.1	(0.3)	(0.8)	(0.8)
GMM Pfaudler	38.7	19.0	8.1	0.8	25.0	8.4	38.7	18.8	8.2	0.7	24.3	9.3	—	(0.2)	0.1	(0.1)	(0.7)	0.9
HDFC Asset Management Co	62.8	12.1	3.1	10.3	10.1	1.7	52.6	13.0	11.5	10.6	10.2	2.2	(10.2)	0.9	8.5	0.3	0.1	0.5
HDFC Life Insurance Co.	50.3	30.2	4.1	1.4	7.8	6.3	50.3	30.9	4.0	1.6	7.1	6.0	0.0	0.7	(0.0)	0.2	(0.7)	(0.3)
Home First Finance Co.(India)	33.5	9.4	3.9	0.6	9.2	43.4	30.2	17.6	8.0	0.4	10.2	33.7	(3.3)	8.2	4.0	(0.2)	1.0	(9.7)
Interglobe Aviation	71.9	17.8	6.2	1.6	1.3	1.2	67.8	19.8	8.8	1.2	1.2	1.3	(4.2)	2.0	2.5	(0.4)	(0.1)	0.1
JSW Energy	74.7	5.1	0.1	10.0	3.7	6.5	74.7	5.2	0.1	9.5	4.0	6.6	—	0.0	(0.0)	(0.5)	0.3	0.2
Kalpataru Projects International	51.5	5.5	34.9	1.9	4.8	1.3	41.1	8.2	39.0	2.3	6.5	3.0	(10.5)	2.6	4.1	0.4	1.7	1.6
KPR Mills	74.8	3.1	12.8	0.9	7.0	1.4	74.8	3.0	13.7	0.9	6.3	1.3	—	(0.1)	0.9	(0.0)	(0.7)	(0.1)
Max Financial Services	11.5	22.9	32.3	2.6	5.6	25.1	10.2	26.6	30.2	3.1	5.2	24.7	(1.3)	3.7	(2.1)	0.5	(0.4)	(0.3)
Restaurant Brands Asia	40.8	33.5	6.5	3.0	12.5	3.7	40.8	33.1	7.3	2.1	12.9	3.9	(0.0)	(0.5)	0.8	(0.9)	0.4	0.2
Samvardhana Motherson International	68.2	8.2	8.9	3.0	8.5	3.3	64.8	10.8	12.0	2.9	7.7	1.7	(3.4)	2.6	3.1	(0.1)	(0.7)	(1.5)
Sapphire Foods India	44.9	16.5	18.2	4.7	4.7	11.0	44.9	18.7	22.6	5.1	4.2	4.6	(0.0)	2.1	4.4	0.4	(0.5)	(6.4)
Sona BLW Precision Forgings	53.5	11.3	21.8	1.9	9.2	2.3	29.8	31.7	24.1	3.0	8.8	2.7	(23.8)	20.4	2.3	1.1	(0.4)	0.4
Sterling & Wilson Renewable Energy	72.7	3.5	4.7	—	14.8	4.2	69.0	4.3	5.5	—	16.4	4.8	(3.7)	0.7	0.8	—	1.7	0.6
Syngene International	64.9	16.9	5.0	0.3	8.6	4.4	54.8	23.2	8.6	0.9	8.1	4.5	(10.1)	6.3	3.6	0.5	(0.5)	0.1
Timken India	67.8	4.3	11.2	0.8	9.3	6.7	57.7	6.6	16.5	1.2	9.8	8.2	(10.1)	2.3	5.3	0.4	0.6	1.5
Uno Minda	70.1	8.9	13.4	0.9	5.1	1.6	70.1	6.5	15.9	1.3	5.1	1.2	(0.0)	(2.4)	2.5	0.3	(0.0)	(0.4)
Vedanta	69.7	7.9	1.2	9.8	8.6	2.8	68.1	7.5	0.3	9.7	10.3	4.2	(1.6)	(0.4)	(0.9)	(0.1)	1.7	1.4

Source: Prime Database, Kotak Institutional Equities

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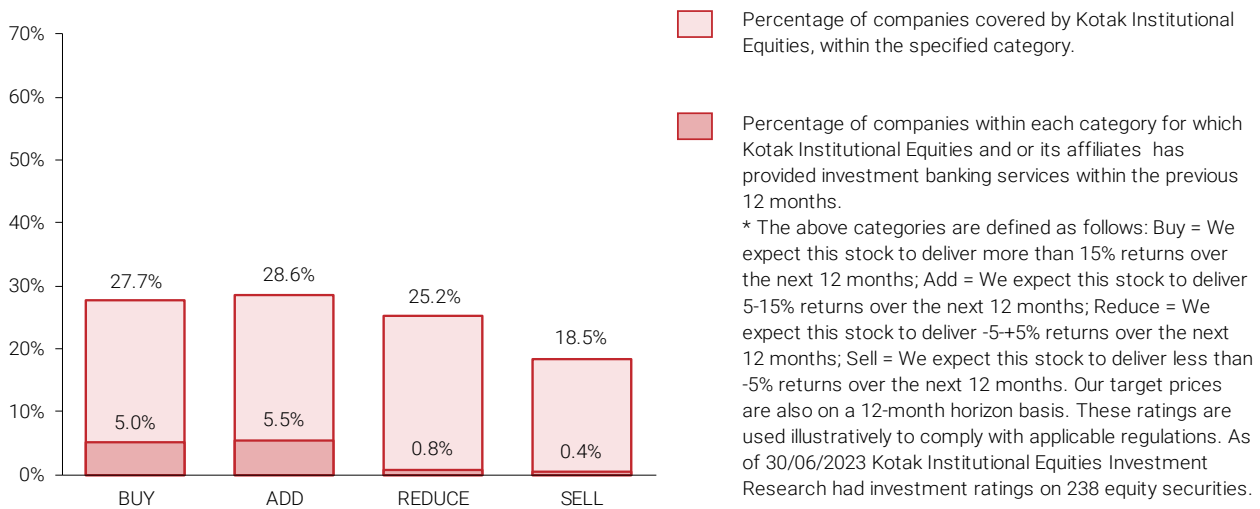
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