Adani's high leverage has come under lens, but other Indian firms not far behind

GEORGE MATHEW & HITESH VYAS
MUMBAI, FEBRUARY 9

THE ADANI conglomerate may be among the most leveraged groups in India, with promoters and investors pledging shares worth Rs 36,027 crore, but other companies are not far behind. Availing loans through share pledging — especially in a bullish market — is a common practice among promoters and major shareholders in Indian companies for multiple fund requirements, even though the market generally does not positively view high levels of pledged promoter shares.

SHARES PLEDGED BY ADANI GROUP FIRMS

Group firm	Shares pledged	Stake pledged
Adani Enterprises	2.80 crore	2.46%
Adani Ports	26.22 crore	12.14%
Adani Power	34.31 crore	8.90%
Adani Transmission	5.35 crore	4.80%
Adani Green Energy	4.57 crore	2.89%

VALUE OF SHARES PLEDGED (₹CR) Total: ₹36,027cr

Source: NSE *Value as on February 7*

The Adani group Monday made a prepayment of $1.114 billion (around Rs 9,215 crore) to release pledged shares in Adani Ports & Special Economic Zone Ltd, Adani Green Energy Ltd and Adani Transmission Ltd, still leaving over shares worth Rs 26,812 crore (based on the market price on February 7) in the pledged category. More than 2.80 crore shares of Adani Enterprises worth Rs 5,045 and 34.31 crore shares of Adani Power worth Rs 5,935 crore remained in the pledged category, according to data from the National Stock Exchange.

The promoters and other investors of various Jindal group companies have also pledged their shares. JSW Steel, controlled by Sajjan Jindal, has reported that 21.49 crore shares worth over Rs 15,353 crore are in the pledged category. Jindal Steel & Power, managed by Naveen Jindal, has 17.09 crore shares worth Rs 9,737 crore in the pledged category, according to NSE data.

The promoters and other major shareholders of the Tata group have pledged shares of as many as 14 group companies. TCS shares worth Rs 9,750 crore and Tata Steel shares worth Rs 3,879 crore are in the pledged category. Promoters and major shareholders of seven companies controlled by various Birla factions have also pledged their shares. Bajaj group promoters and major shareholders have pledged their share with Bajaj Finserv shares worth Rs 2,418 crore in the pledged category. In the case of Reliance Industries, the topper in market valuation, 5.44 crore shares worth Rs 12,539 crore are in the pledged category. Promoters of 4,455 firms have pledged their shares worth Rs 119,490 crore, according to stock exchange data.

On the pledged figures, an Adani group spokesperson said: "This is an incorrect calculation. Actual pledged loans were 1.9 bn ($1.9 billion). (Pledge coverage is 2.3x this number not the loan). You refer to pledge coverage. Now pledged loans are less than 1 bn ($1 billion)."

Banks and finance companies, however, offer funds with an average haircut of 50 per cent to manage the fluctuation in the share prices. This means if a promoter offers shares worth Rs 100 crore at the market price, he/she will likely get around Rs 50-60 crore from the lender. If the share price of the company crashes, the lender will ask for more shares to be pledging or ask him/her to prepay the loan through pledging.

"When the market price (of the pledged shares) falls, the bank gives a day's time to the borrower and asks either to top up the securities so that the margin (the difference between the amount lent and the market value of the shares pledged) remains the same as at the start of the contract, or else the bank will sell the shares. In order to ensure that their shares are not sold in the market, the Adani Group has prepaid $1.114 billion," said an analyst.

If the group fails to prepay the loans, their lenders will be forced to sell the shares, resulting in more selling pressure in the stocks of its listed companies, he said.

Brokers said the margin in such an arrangement can go as high as 70 per cent depending on the ratings of the company which is taking loans against its shares.

There have been cases of promoters rigging shares to inflate their value and squeeze out more money from lenders.

If the majority owner in a company has pledged a sizable chunk of his or her equity, it could trigger volatile price movement in a falling market. However, if a promoter pledges his stake and takes a loan, that doesn't mean he's facing any financial stress, according to a market source.

According to Pranav Haldea, Managing Director, Prime Database, the market generally does not see companies with high levels of pledged promoter shares in a positive light. "High pledge levels are typically not considered a good sign by the investors as a correction in the market price can potentially lead to the shares being invoked by the lenders and can result in a change in ownership/management," he said.

RBI Governor Shaktikanta Das said banks have robust appraisal mechanisms. When banks lend money, they do not lend on the basis of market capitalisation of that particular company. "Banks lend on basis of the fundamentals of that company," he had said.

According to a Kotak Securities report, shares of companies with high pledging of promoter holding tend to witness volatility. "Pledging of shares by promoters could pose a concern in both, falling or rising market scenarios, when large-scale pledging of promoter equity could pose concerns for retail investors' wealth," the RBI had said. Investors usually look at pledging of shares by promoters before buying stocks.

"Higher the pledging, greater could be the risk of volatility in the company's share price. This is because, as share prices fall, the overall value of the pledged collateral falls. This would put pressure on the promoter to produce more assets as collateral. Sometimes, the lender may also be forced to sell some of the shares to ensure that the loan does not turn into a bad loan," said the Kotak report.