

High pledging hits firms' values in Q4

Among those with highest pledged shares, IL&FS Transportation's m-cap fell 38.6%; four companies saw erosion of over 25%

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Majority of the firms with high pledging saw up to a third of their value wiped out in the three months ended December 2018, in a few cases. Pledging is a process by which shareholders can raise capital against their stake in a listed company. Details of such pledges are required to be periodically disclosed.

IL&FS Transportation Networks was the company with the highest proportion of pledged shares (71.92 per cent). Its market capitalisation was down 38.6 per cent. Four companies saw at least 25 per cent of their market capitalisation wiped out, and another seven saw over a tenth of their value eroded.

The analysis excluded companies which had a market capitalisation of less than ₹500 crore as of the end of the September quarter. Eighteen of the top thirty companies with the highest shares pledged ended with negative returns for the quarter. Sixteen of the Sensex companies ended with negative returns in comparison.

An Edelweiss Securities India Alternative Research report on pledged shares highlighted the chance of issues plaguing such firms; due to liquidity concerns following the IL&FS (Infrastructure Leasing & Financial Services)

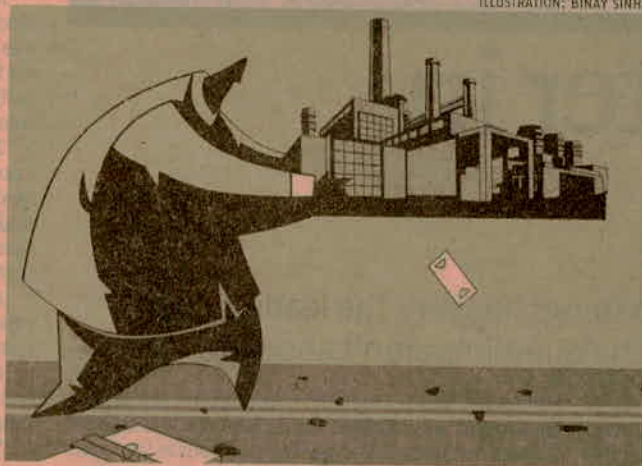


ILLUSTRATION: BINAY SINHA

TOPPING THE LENDER'S LEAGUE Entity in whose favour pledge has been created

Rank	Entity
1	J.P. Morgan
2	YES Bank
3	IndusInd Bank
4	Axis Finance
5	Aditya Birla Finance

Note: League table of entities in whose favour pledge created, by value of pledge transactions created. Period considered is September quarter.
Source: Prime Database Group (nseinfobase.com)

issue around the September quarter.

"Companies where pledges are high and market sentiments have dragged the share prices down are bound to witness higher volatility," said the October 26 report authored by analysts Yogesh Radke, Sriram Velayudhan and Abhilash Pagaria.

As a group, the market capitalisation of these companies has marginally underperformed the S&P BSE Sensex. The market capitalisation of

the companies under consideration are down 2.1 per cent, shows an analysis of data from stock exchanges and corporate data tracker Capitaline. The Sensex is down 0.4 per cent in comparison.

The fall in pledged share companies was cushioned by the returns of certain companies including DB Realty. The company had 44.57 of its shares pledged as of September 2018. The market capitalisation of the firm rose 32.5 per cent in the December quarter. Four other firms

with high pledging also ended with double-digit returns, helping the performance of the pledged-share group as a whole.

The bottom of the pledging pack in terms of returns had liquidity issues in recent times.

The top loser is part of the IL&FS group. The group has been under pressure after defaulting on its loans earlier in the year. The infrastructure lending conglomerate has been facing cash flow problems even as it wrestled with over ₹90,000 crore in debt. Shares are often pledged when promoters have liquidity issues, though this may not always be the case.

Lending against shares has come from a number of financial institutions. JP Morgan, YES Bank, IndusInd Bank, Axis Finance and Aditya Birla Finance are the top five entities in whose favour pledges have been created, according to a league table from Prime Database.

The total value of pledged shares in the September quarter was ₹2.38 trillion. This works out to 8.23 per cent of the total market capitalisation of the companies under consideration. This is higher than the 7.49 per cent in the previous quarter. And it is also higher than the 7.96 per cent seen in the quarter before that.

A total of 74 firms had over 50 per cent of their shares pledged. The number of companies with more than 25 per cent pledged shares was 228.