

# Private banks' pledged shares on the rise

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YES Bank recently saw a sharp extended decline because of its exposure to shares of CG Power and Industrial Solutions. It held 12.8 per cent stake in the company following invocation of pledged shares in May. The fall came after it revealed improper accounting in an exchange disclosure last week. However, YES Bank is not the only one with exposure to pledged shares.

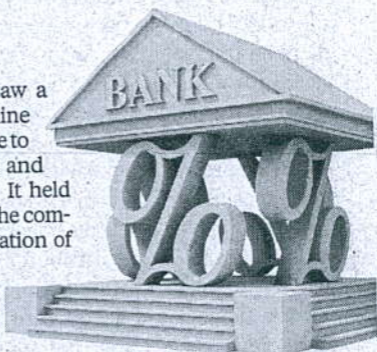
An analysis of pledged shares data from corporate tracker NSE Infobase shows that the total pledged shares exposure to private sector banks has risen by a third since January. This coincides with a period of tight liquidity and underperforming equity markets, especially since the Union Budget in July. The total value of pledged shares with banks was ₹18,340.3 crore on January 1, 2019. This has risen 33.3 per cent to ₹24,449.2 crore as of August 23.

"Given that the markets have stayed pretty much at the levels that they were at the beginning of the year, more than an increase in pledging by promoters, I attribute this primarily to mutual funds reducing their exposure and banks filling that gap," said Pranav Haldea, managing director of capital market tracker PRIME Database, which runs nseinfobase.com.

Abhimanyu Sofat, head of research, IIFL Securities, said that promoters have been trying to deleverage in the last three or four months, even as the cost of borrowing has remained high through the pledged shares route — going even to the high teens.

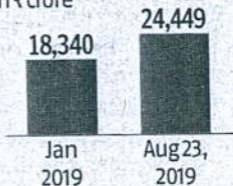
"Lenders are also asking for more collateral, which could reflect in higher amount of shares pledged by value for the same amount of borrowing," he said.

The Nifty500 index, an indicator of how the broad markets have fared, is down 4.4 per cent since the beginning of the year. Many individ-



## PRIVATE SECTOR BANKS' EXPOSURE

■ in ₹ crore



Note: Based on filings by companies/promoters Source: nseinfobase.com

ual stocks have fallen more. This would indicate that the exposure is not only because of a possible rise in the value of shares against which they have lent.

Firms pledge their shares as security with banks when borrowing money. Increased pledging is often seen as a sign of liquidity issues with promoter groups. Banks invoke the pledge on shortfalls, and often end up with a significant stake in the company.

Private banks aren't the only lenders against pledged shares. A total of 830 firms have pledged shares worth ₹1.88 trillion, according to latest BSE data. The value of pledged shares in January was not lower. This suggests there has been a shift away from earlier lenders, and that private banks have chosen to take on a greater share.

A March 2019 note *Covering the pledge* by CRISIL added that invocation of pledge also has its own issues. For example, there has been at least one instance of a legal challenge that prevented a lender from exercising rights. This affects lenders' ability to effectively protect their rights and recover their capital.