

Promoter pledging spikes in debt-laden group companies

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Companies with high promoter pledging see drop in stock prices

Company	As % of promoter		Share price change (%)	
	Dec-end	March-end	March quarter	year-to-date
Emami	71.58	89.24	-45.1	-34.10
Future Retail	57.77	80.29	-77.0	-79.50
Jindal Steel	65.58	74.80	-51.0	-41.07
Adani Ports	36.41	58.25	-31.3	-15.97
JSW Energy	37.18	53.85	-38.5	-41.78

* Promoters of Future Retail had pledged 90% of their stake as on May 13, 2020

Source: Shareholding disclosures, share prices from exchanges

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The companies of debt-laden business groups saw a spike of 10-20 percentage points in promoter pledging in the March quarter, even as the overall value of shares pledged declined amid the market sell-off.

According to an analysis of the data from Capitaline, the value of promoter pledged shares declined 25 per cent from ₹2.05 trillion at the end of the December quarter to ₹1.54 trillion at March-end.

However, the value of promoter pledged shares as a share of BSE market-cap increased from 1.32 per cent at the end of Q3 to 1.37 per cent as of March 31.

"The fall in share prices led to some margin calls getting triggered. This typically leads to topping up of collateral by pledging more shares or paying out the obligations," said Pranav Haldea, managing director at PRIME Database.

Companies with high promoter pledging also saw a sharp fall in their stock prices. Shares of Future Retail are down 77 per cent year-to-date (YTD). Pledging as a share of promoter equity was up 80 per cent in the March quarter, from 57.77 per cent (in the previous quarter), in Future Retail. According to a CARE Ratings report on May 13, promoter pledge has increased to 90 per cent due to the steep fall in its stock price.

Market experts say firms with high pledging have seen sharp selling. "Conservative investors are quick to exit

companies where there are high levels of pledging. Investors are warier of companies where along with pledging, there is high leverage," said G Chokkalingam, managing director of Equinomics Research and Advisory.

Emami, where promoter pledging has increased by 17.66 percentage points to 89.24 per cent, saw its shares declining 34.1 per cent in YTD.

For JSW Energy, the pledging (as a share of promoter equity)

increased by 16.67 percentage points, and shares were down 41.78 per cent YTD. For Jindal Steel and Power, the pledging went up by 9.22 percentage points, while stock slid 41 per cent in YTD.

Among others, Adani Ports' stock has corrected 16 per cent YTD; pledging has risen by 21.84 percentage points.

Analysts say that sectors such as power, construction and metals, which have been most exposed to cyclical risks, are likely to see a higher proportion of promoter holding getting pledged in the coming days, given the slowdown in economic activities.

However, market participants add that some of the stressed promoters may be able to delay margin call if lenders are given the confidence that payments will be made in full.

"Lenders could delay selling the pledged shares as recovery from such selling is likely to be less with shares already at beaten-down prices," said a fund manager.

According to an analysis of the data from Capitaline, the value of promoter pledged shares declined 25 per cent from over ₹2 trillion at the end of the December quarter to ₹1.54 trillion as of March 31