

# Promoter pledging declines to 2-year low of 11% in Dec

But value of pledged holding rises, buoyed by market rally

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The extent of pledged promoter holding fell to a two-year low of 11.2 per cent at the end of December 2020, according to data provided by primeinfobase.com. Analysts said rising markets drove the decline.

"As stock prices have risen over the last few quarters, promoters have been able to release some of the shares out of pledge as the value of pledge has gone up. Also, some promoters could have released some of the pledged shares by raising monies from other sources and repaying lenders," said Deepak Jasani, head-retail research, HDFC Securities.

Pranav Haldea, managing director, PRIME Database, said promoters can release a portion of the shares as the margin requirement comes down. "Since March, there has been a continuous decline in promoter pledging due to the rally in markets. If the market continues to rise, pledging levels will continue to come down."

Moreover, high pledge levels are typically not considered a good sign by investors, given that a downturn in market price could lead to invocation and change in management. Investors tend to be wary of a company that pledges its shares.

Of the 1,684 companies listed on the NSE, 448 had at least some shares pledged in December 2020, down from 470 in January 2020.

The value of pledged holdings, however, rose to ₹2.84 trillion, or 41 per cent, from the end of January 2020. This is the highest in two years. Analysts said the rise in stock prices has also led to a rise in the value of promoter pledges.

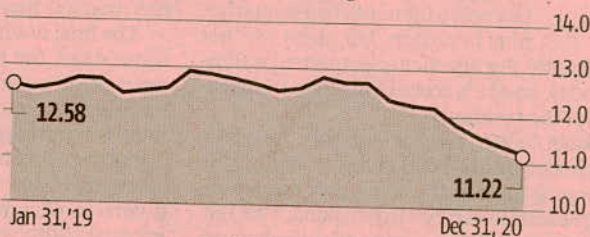
The Securities and Exchange Board of India's (Sebi's) tightening of regulations regarding promoter



ILLUSTRATION: BINAY SINHA

## PLEGGED SHARES IN NSE-LISTED COMPANIES

% of total pledged promoter holding



Source: primeinfobase.com

pledging has also helped reduce the decline in promoter pledging.

In 2019, Sebi mandated promoters to disclose detailed reasons for the encumbrance separately, if the pledge crossed 20 per cent of the company's total share capital or 50 per cent of total promoter holding.

"Between

2015-2018, mutual funds were very active in the promoter share pledging market. MF houses through their credit funds were investing heavily in papers backed by promoters' shares. However, their role has

reduced significantly after Sebi came out with stringent guidelines regarding their participation after corporate houses were unable to repay loans back in time," Haldea said.

At the end of December 2020, 26 firms had pledged 100 per cent of the promoter holding, 77 entities had over 90 per cent of the promoter

shareholding pledged, while 172 others had over 50 per cent pledged. Companies like GMR Infrastructure, CG Power, Deepak Fertilisers saw a rise in the number of shares pledged.

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