

Soaring stock prices help promoters trim pledges

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Several Indian promoters managed to slash the number of shares they had posted as collateral for loans as a soaring stock market inflated the value of their shareholdings.

Among members of the NSE's Nifty 500 index, the number of companies with pledged promoter shareholding dropped to 91 as of 31 March from 100 a year ago, according to data compiled by Prime Database. The number of companies with promoter pledges was at 101 in the December 2019 quarter, the highest in the past four years, the data showed.

"Rising stock prices result in a decline in share-pledge levels as promoters are able to release their pledged shares," said Pranav Haldea, managing director of Prime Database Group.

Shifting trend

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Adani Ports and SEZ, Crompton Greaves Consumers, Adani Transmission, Time Technoplast, and Laurus Labs saw a decline in promoter pledging, while IndusInd Bank, Aurobindo Pharma, Aster DM Healthcare, Wockhardt and Ashok Leyland saw a substantial increase in pledged promoter holdings as of 31 March. Dhanuka Agritech's promoters released their entire pledged holdings.

Even as the broader index saw a reduction in promoter

pledges, there was a marginal increase among members of the large-cap Nifty500 index.

According to data compiled by Prime Database, 12 Nifty 500 companies had pledged promoter shares as of 31 March, compared with 11 at the end of the previous fiscal.

While the overall number of companies with pledged shares has increased marginally, most of them have seen a fall in the percentage of pro-

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moter shares that were pledged.

The increase in the number was because of the addition of two Bajaj group companies to the Nifty50 index, analysts said.

"As far as Nifty companies are concerned, optically the number of companies with pledged shares has risen over the year from 11 to 12. However, UPL exited, and Bajaj Auto and Bajaj Finserv were added to the index. These two compa-

nies have a minuscule amount of pledged shares post-September 2020 quarter due to the technicality of the non-disposal undertaking offered in the court by the promoter post-inheritance. Going through the balance 10 companies, we find that except in the case of IndusInd Bank, all other companies have seen a reduction in the percentage of pledge," said Deepak Jasani, head of retail research at HDFC Securities.

Among Nifty-50 companies, Adani Ports and SEZ, Asian Paints, JSW Steel, Sun

Pharmaceuticals, Tata Consumer, Tata Motors, Tata Steel and Tata Consultancy Services saw a reduction in promoter pledges.

Companies in the Nifty-50 with more than 5% of pledged promoter holdings include Adani Ports and SEZ (16%), Asian Paints (9.4%), IndusInd Bank (36.4%), JSW Steel (17.7%) and Sun Pharmaceuti- cals (8.6%).

The reduction in promoter pledges also provides a respite for public shareholders since high promoter pledges can be a drawback when stock valuations decline.

The reduction is a respite for public shareholders as high promoter pledges can be a drawback when stock valuations decline

"As the share price keeps fluctuating, the value of the collateral also changes. When the value of shares pledged with a lender falls

below a certain level, it triggers a margin call, requiring the promoters to make up for the shortfall in the value of the collateral," said Vishal Wagh, research head at Bonanza Portfolio.

"When the margins are inadequate, lenders are forced to liquidate the shares, leading to a drop in share prices affecting all shareholders," he added.