

Pledging Shares: What's at Stake

The value of shares pledged by promoters of NSE-listed companies almost doubled in a year. Lijee Philip reports.

TO PLEDGE OR NOT TO PLEDGE

It's a popular tool to raise funds for strategic projects and create value for the stakeholders. But an ISB study shows a decline in firm value, higher crash risk and under investment in innovation by firms where promoters of family firms pledge their shares.

In cos, such as Zee Entertainment, Reliance ADA Group and Café Coffee Day owners have lost control after pledging shares

However, some business groups such as Asian Paints, Apollo Hospitals, Granules India and Laurus Labs benefitted significantly from judicious use of pledging by the family promoters

High pledge levels are typically not considered a good sign by the investors as a downturn in the market price can lead to invocation and change in management

₹2 lakh cr Value of shares pledged by 642 promoters in Sep 2020

₹3.86 lakh cr Value of shares pledged by 736 promoters in Sep 2021

SHARE OF PLEDGED HOLDINGS RISING

100%: 25 cos

90%: 67 cos

More than 50%: 149 cos

Over the last year, some promoters have reduced their pledging levels as stock prices rose, reducing the number of shares promoters need to put up as collateral

THE DEGREE OF PLEDGING IN NSE LISTED COMPANIES

- Number of NSE-listed companies with shares pledged by promoters
- Avg % shares pledged by promoters



Companies in which 100% of promoter stake is pledged

AJR Infra & Tolling, Ankit Metal & Power, Arshiya , Bajaj Hindusthan Sugar, CLC Industries, Diamond Power Infrastructure, DQ Entertainment, Eastern Silk, Flexituff Ventures, Future Lifestyle Fashions, Future Supply Chain Solutions, GTL Infrastructure, IL&FS Investment Managers , IL&FS Transportation, Impex Ferro Tech, Jagran Prakashan , JMT Auto, Mcdowell Holdings, MSP Steel, Nectar Lifesciences, Rajshree Sugars , Rohit Ferro-Tech, S.A.L Steel, STI India, Visa Steel

Top 10 companies by value of pledged shares

Vedanta, Ruchi Soya , Hindustan Zinc, Indus Towers, Adani Ports, Asian Paints, Macrotech, Adani Transmission, JSW Steel, Jindal Steel & Power

Source: Thomas Schmidheiny Centre for Family Enterprise at ISB, Primeinfobase.com



KIRAN MAZUMDAR-SHAW CHAIRPERSON, BIOCON

For a promoter in a financial

challenge, pledging is a quick currency.

However pledging is a serious contractual obligation and should not be taken lightly. If the promoter fails to honour it, then he should be prepared to face the consequences too.



PRANAV HALDEA MD, PRIME DATABASE

Pledging is a quick and efficient way of raising money because of which it is often used by promoters. There are, of course, risks associated with high levels of pledging, the most extreme of which is loss of control of the company.



SATYANARAYANA CHAVA FOUNDER & CEO, LAURUS LABS

Whether pledging goes up slightly or goes down, the bottom line is that it is a valid tool to raise funds in India. So if used responsibly, pledging is a perfectly legal, legitimate and easy tool to raise funds.

