

Monitor companies with higher pledge

Here are stocks with higher percentage of pledged shares among NSE 500 companies

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Pledging of shares by promoters per se does not necessarily indicate a red flag. But there were instances of share prices of companies such as Zee group, Reliance ADAG group and Apollo Hospitals dipping in the stock market in 2019, on concerns pertaining to pledged shares.

This becomes prominent especially in the adverse event of correction in the stock market when the value of the shares pledged as collateral comes down.

The lender in such cases will ask the promoter to bring in more collateral to maintain the loan-to-collateral value. This is known as a margin call. If the promoter fails to meet the margin call, the lender usually

invokes the pledge, sells the pledged shares in the market and realises the money.

If multiple lenders invoke promoter pledges at the same time, it can trigger big stock price falls as it floods the market with supply of shares. This can become a self fulfilling prophecy with the stock price correction due to sale of pledged shares triggering more margin calls.

Thus, it is important to take note of entities with higher percentage of pledged shares by the promoters. Investors must try to ascertain reasons for which shares are pledged - ie whether it is pledged as additional collateral for loans taken by the company, or for loans taken at the promoter level.

Pledging for loans taken at the promoter level or as primary collat-

erals are at higher risk of getting invoked quickly in case of margin calls not being met. In this series, we attempt to find out few of the companies with higher percentage of pledged shares out of the NSE 500 companies.

The findings

Welcome news, first. The data from primeinfobase.com reveals that out of NSE 500 companies, those with pledged promoter shares have come down from 90 as on September 30, 2020 to 82 as on August 31, 2021. This could be on the back of deleveraging by the promoters/companies.

As on August 31, 2021, companies whose pledging of shares as a percentage of promoter holding was more than 50 per cent include - Vedanta (99.99 per cent), CG Power & Industrial Solutions (95.8 per cent), Suzlon Energy (88.54 per cent), Jindal Stainless (Hisar) (87.07 per cent), Jindal Stainless (86.64 per cent), GMR

Infrastructure (68.25 per cent), Sterling & Wilson Solar (60.89 per cent), Max Financial Services (54.98 per cent), Future Retail (50.4 per cent).

Interestingly, except Future Retail, the share prices of these companies have gone up by 60 per cent to 400 per cent in the last one year. Despite this, surprisingly, the share of pledging of shares by most of these companies have remained the same or increased in the said period.

In case of Vedanta, the intention of pledging shares by promoters was to acquire shares in the open offer conducted in March 2021. The promoters also planned to use the remaining proceeds to service debt of certain entities of the promoter group. Further, as per the company, they have pledged the shares to raise loans to provide Covid-19 relief for the nation.

While Jindal Stainless's pledged shares were higher, the company claims that the some shares are

A few of the companies with high share of promoter pledging

Promoter shares encumbered as a percentage of total promoter holding (%)

Company name	Sep-20	Dec-20	Mar-21	Jun-21	Aug-21*
Vedanta	99.9	99.9	99.9	99.9	99.9
CG Power & Industrial Solutions	0.0	95.9	95.8	95.8	95.8
Suzlon Energy	88.5	88.5	88.5	88.5	88.5
Jindal Stainless (Hisar)	87.7	87.7	87.7	87.1	87.1
Jindal Stainless	82.5	82.5	86.6	86.6	86.6
GMR Infrastructure	73.6	69.9	72.8	74.9	68.2
Sterling & Wilson Solar	48.2	49.4	53.7	53.7	60.9
Max Financial Services	90.3	87.2	84.5	62.2	55.0
Future Retail	69.1	64.8	52.0	50.4	50.4
Indusind Bank	0.0	0.0	36.4	45.5	45.5

*The percentage is calculated using updated share pledge details as on August 31, 2021 and promoters shareholding as on June 30, 2021

Source: primeinfobase.com

offered only as a collateral / secondary security. As there is no loan raised against the above-mentioned shares (IAS) and therefore there is no linkage between the pledged shares and their market value. Accordingly, there is no requirement

of maintaining any margin, as per the company.

While the reason for GMR Infrastructure's pledging of shares has been cited as refinancing the existing debt of the company, repayment of existing loans and make invest-

ments in group or associate companies.

Suzlon Energy has had a strong pick-up in the operational performance in the last one year. One of the promoters has further pledged their shares in the company for raising capital from financial lenders to support cash flow requirements of the promoter group.

Meanwhile, a promoter of Max Financial Services sold the pledged shares to reduce debt at the personal level. While pledges shares of Future Retail stocks were invoked by one of the lenders in order to secure the debentures issued by its group companies Future Capital Investment and Future Corporate Resources.

To conclude, as mentioned above, high percentage of pledged shares is not a case for you to get cautious on the company, but warrants monitoring and ascertaining the purposes for which pledges have been created.