

Business Standard

Pledged shares face the brunt

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Promoters of companies who have pledged their shares to raise funds from banks will be asked to top up with more shares if the carnage in the market continues, warn analysts.

The recent fall in stock prices has accentuated the misery of promoters of highly leveraged companies. Though the BSE Sensex gained 290 points today, many of these companies continue to languish.

A declining stock market lowers the value of the collateral and if the promoter has to shore it up the stock moves downwards. If, on the other hand, the margin is not provided, lenders can sell the shares in the market, pushing down their value.

Investors are thus shunning these companies.

"We can see several promoters being pressed to shore up their pledges, which will contribute to the downward movement in share prices," said DR Dogra, CEO and MD of Care Ratings.

"We need limits on the extent to which such shares can be pledged purely from the point of view of stock market stability," he added.

Some highly leveraged companies like those of the Jaypee group are selling assets to retire their debt but investors are not impressed. Since January, Jaiprakash Power's shares are down by half and Jaypee Infratech's shares are down by 40 per cent. The Jaypee group's promoters have pledged almost 95 per cent of their stake and do not have more shares to pledge.

Lanco, GMR, Bajaj Hindusthan and Suzlon are in the same boat.

Promoters pledging shares to raise funds has become common. The number of

IN THE FIRING LINE

Price on BSE in ₹

Name	% Pledged (Promoter stake)	Aug 25	% change YTD	% change Aug 21
Bajaj Hindusthan	100.00	11.90	-36.87	-15.96
India Cements	76.22	69.40	-18.74	-15.93
JP Power Venture	95.16	5.64	-53.23	-14.67
IL&FS Transport	98.17	89.95	-52.18	-13.38
Essar Ports	99.72	83.75	-19.08	-13.03
Unitech	86.47	5.97	-64.04	-12.72
KSK Energy Ven.	96.88	33.75	-50.94	-12.22
IVRCL	100.00	8.85	-46.00	-11.32
Suzlon Energy	98.56	21.90	48.98	-10.43
Alok Inds	99.76	6.08	-39.68	-10.32
ABG Shipyard	95.11	132.65	-42.48	-10.25
GMR Infra.	83.88	11.24	-32.98	-10.22
Jaypee Infratec.	93.30	12.87	-40.00	-8.72
Lanco Infratech	93.56	2.81	-53.63	-6.95
D B Realty	84.64	54.45	-22.27	-5.71
Pipavav Defence	100.00	55.80	38.63	-5.18
Future Retail	73.86	105.45	0.48	-4.53
Rattanindia Power	96.05	6.50	-34.74	-4.13
Videocon Inds.	83.08	138.94	-13.51	1.19

*Data prepared on June '15 Shareholding

Source: Capitaline

Compiled by BS Research Bureau

companies having their shares pledged as well as their value is rising.

This may not be a concern in normal times but it is in a volatile market. Besides, the corporate sector has not seen a demand recovery. "When we combine the two, it creates a situation that causes concern," said Dogra.