

Business Standard

Pledging of shares continues despite rise in stock markets

In spite of stock markets rising significantly from their 2009 lows, pledging of shares by promoters of companies has not gone down much.

The activity was at its peak in June 2009 and had gone down by 0.9 percentage points since then, according to an analysis by foreign brokerage CLSA.

The aggregate pledging of shares stood at 7 per cent at the end of December 2009, down from 7.9 percent in June 2009. The BSE Sensex rose 21 per cent during the period.

Experts said with business confidence returning and the capex cycle in full flow, promoters were resorting to pledging of shares to meet their need for funds.

Some of the companies in which the number of shares pledged has increased since June last year are low-cost carrier SpiceJet, textile company Alok Industries and real estate company Parsvnath Developers. Promoters of Ispat Industries and Jaypee Power Ventures have pledged 95 per cent and 94.9 percent of their equity, respectively. Other companies which have high promoter leverage include United Spirits, Bilcare, Cranes Software, Ansal Properties, Wockhardt and Elder Pharma.

"This shows that in spite of liquidity being available, a number of promoters are finding it difficult to raise funds. Although it is a much easier route for raising money, it gives negative signals to shareholders. There are a number of promoters in mid- and small-cap space who need funds but are unable to raise money because of their creditworthiness or other issues", said Ambarish Baliga, vice-president, Karvy Stock Broking.

In 2009, the Securities and Exchange Board of India had asked promoters of listed companies to disclose if they had pledged shares with lenders/custodians. This was after the alleged fraud at Satyam Computers (now Mahindra Satyam). In Satyam's case, lenders sold shares pledged by promoter Ramalinga Raju in the market, leading to pressure on the company's stock, leading to revelation about falsification of the company's accounts.

In 2009, the promoter of Great Offshore, Vijay Sheth, had to pledge shares to Bharati Shipyard. He finally sold his entire stake to the ship-maker. In 2008, lenders sold shares pledged by promoters of Orchid Chemicals and Pharmaceuticals in the open market. A part of the shares was bought by Ranbaxy Laboratories.

Companies in sectors facing liquidity crunch top the list of pledgers. These include textiles and real estate, besides power, where large investments are taking place.

"Although things have eased a bit, problems persist for companies in real estate and textile sectors. A number of promoters do not have enough money to finish projects. Hence, pledging of shares remains the only option," said an analyst who did not wish to be named.

The problem arises when margin calls are triggered due to falling stock prices, causing lenders to sell the pledged shares. Although there are no liquidation risks currently as stock prices have been rising, there are companies which have had to pledge more shares due to falling stock prices. These include Suzlon, Bartronics, ICSA and Advanta.

"Promoters become more active and take additional leverage when the markets rise and they look to expand. Real estate and textile sectors have traditionally been stressed in terms of funding," said CJ George, managing director, Geojit BNP Paribas Securities.

Experts say this is one of the reasons why promoter funding business has been bustling with activity. According to rough estimates, loan against shares are available at 12-18 per cent for large companies and at a much higher rate for small and lesser known firms.