

India Equity Strategy

Higher stipulated threshold for public shareholding to cap performance

- Government raises threshold for public shareholding in listed companies:** The Indian government today amended the Securities Contracts (Regulation) Rules, making it mandatory for listed companies to have a minimum public holding of 25%.
- At current market prices, the policy would entail selling down of equities aggregating US\$32bn:** Of this, at least US\$13B will have to be raised over the next 12 months, given the stipulation of at least a 5% increase in public shareholding every year to get to the target.
- State-owned companies to dominate equity offerings.** In terms of promoter groups: a) the government of India will have to raise the lion's share, US\$27bn, b) followed by the Indian private sector at US\$4 bn. c) Multinational companies will have to raise a nominal US\$600 m to comply. *We would not be surprised to see some of the MNCs to take the companies private and de-list.*
- Supply overhang to check performance:** We estimate the current equity issuance pipeline for the next 12 months at about US\$35 bn. Of which govt. divestments are expected to account for about US\$10 bn. During the past, equity issuances in India have averaged about 2% of outstanding market cap every year. The change in regulation, coupled with the capital intensive phase that the Indian economy is in, implies that over the medium term equity issuances as a percentage of outstanding market cap could average 3-5%.
- Global risk appetite becomes even more important:** The amount to be raised this year is not daunting in comparison to peer group markets over the last decade. Global risk appetite will, however, have to be supportive, given India's over-dependence on external capital.

India

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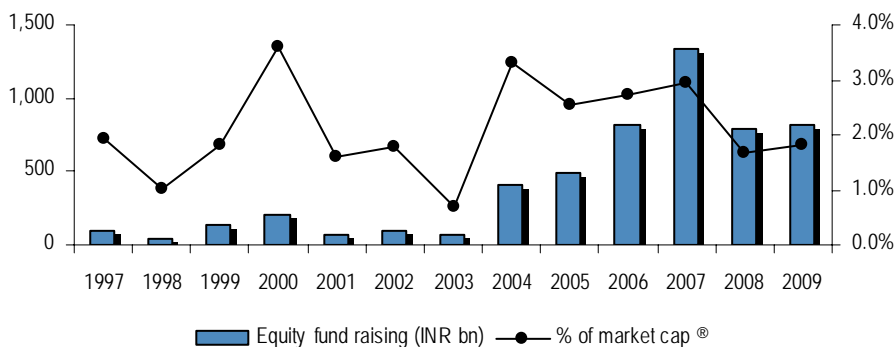
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India - Equity fund raising as % of market cap



Source: CMIE, J.P. Morgan.

See page 6 for analyst certification and important disclosures, including non-US analyst disclosures.

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Increased threshold for public shareholding in listed companies

Following up on the announcement in the last Budget, the Government today amended the Securities Contracts (Regulation) Rules, **making it mandatory for listed companies to have a minimum public holding of 25%.**

The amendment to the Act reads as follows:

- The minimum threshold level of public holding will be 25% for all listed companies.
- **Existing listed companies having less than 25% public holding have to reach the minimum 25% level by an annual addition of not less than 5% to public holding.**
- For new listing, if the post issue capital of the company calculated at offer price is more than Rs4000 crore, the company may be allowed to go public with 10% public shareholding and comply with the 25% public shareholding requirement by increasing its public shareholding by at least 5% per annum.
- For companies whose draft offer document is pending with the Securities and Exchange Board of India on or before these amendments are required to comply with 25% public shareholding requirement by increasing its public shareholding by at least 5% per annum, irrespective of the amount of post issue capital of the company calculated at offer price.
- A company may increase its public shareholding by less than 5% in a year if such increase brings its public shareholding to the level of 25% in that year.
- The requirement for continuous listing will be the same as the conditions for initial listing.
- Every listed company shall maintain public shareholding of at least 25%. If the public shareholding in a listed company falls below 25% at any time, such company shall bring the public shareholding to 25% within a maximum period of 12 months from the date of such fall.

Policy implication on Indian equities

We present below a sort of the broad based BSE 500 index which indicates that the following companies have a public holding of less than 25% and will have to comply with the change in regulation over the next few years.

Key highlights:

- 1) At current market prices, equity aggregating US\$32 bn will have to be sold down to achieve the norms stipulated.
- 2) Of this, at least US\$13 bn will have to be raised over the next 12 months (given the stipulation of at least a 5% increase every year to get to the target).
- 3) In terms of promoter groups:
 - The Government of India will have to raise the lion's share US\$27 bn,
 - Followed by the Indian private sector at US\$4 bn.
 - Multinational companies will have to raise a nominal US\$600 m to comply. We would not be surprised to see some of them take the companies private and to de-list.

Table 1: State-owned companies with less than 25% public share holding

Company	Total Promoters Holding (%)	Current Market Capitalization (INR mn)	Amt to be FPO ed (INR mn)
MMTC	99.3	1,579,265	384,235
NMDC	90.0	1,173,551	176,033
NTPC	84.5	1,679,188	159,523
Hind.Copper	99.6	460,945	113,346
S A I L	85.8	915,297	99,035
Power Grid Corpn	86.4	464,445	52,761
Neyveli Lignite	93.6	251,824	46,739
Power Fin. Corpn.	89.8	314,948	46,549
NHPC Ltd	86.4	376,403	42,759
Natl. Aluminium	87.2	263,555	32,022
I O C L	78.9	667,686	26,173
Engineers India	90.4	137,943	21,243
M R P L	88.6	130,503	17,722
HMT	98.9	59,725	14,262
Natl.Fertilizer	97.6	51,805	11,729
Oil India	78.4	269,436	9,269
R C F	92.5	45,377	7,941
Indian Bank	80.0	94,163	4,708
S T C	91.0	26,502	4,246
S C I	80.1	69,806	3,574
Central Bank	80.2	63,207	3,293
United Bank (I)	84.2	25,900	2,383
Bharat Electron	75.9	145,460	1,251
Dredging Corpn.	78.6	16,864	600
Bank of Maharastra	76.8	23,894	423
		Total	1,281,397
		Total (US\$ mn)	27,264

Source: CMIE, J.P. Morgan.

Table 2: Private sector companies with less than 25% public share holding

Company	Total Promoters Holding (%)	Current Market Capitalization (INR mn)	Amt to be FPO ed (INR mn)
Wipro	79.5	1,010,764	45,687
Reliance Power	84.8	391,997	38,337
JP Power Ven.	87.7	154,766	19,655
DLF	78.6	524,921	19,107
Mundra Port	80.2	297,906	15,402
D B Corp	86.4	45,686	5,185
Essar Shipping	83.7	56,027	4,880
JSW Energy	76.7	202,956	3,491
Puravankar.Proj.	90.0	22,821	3,414
Mahindra Holiday	83.1	42,098	3,406
Sun TV Network	77.0	164,785	3,296
Godrej Propert.	83.8	34,977	3,075
Akruti City	82.5	39,443	2,954
IVRCL Assets	88.1	21,811	2,851
BGR Energy Sys.	81.3	41,573	2,623
Kwality Dairy	83.7	29,338	2,552
Omaxe	89.2	16,437	2,326
Jet Airways	80.0	45,410	2,266
Godrej Inds.	79.1	50,371	2,065
Tinplate Co.	97.4	6,205	1,390
Tata Tele. Mah.	77.7	43,636	1,187
Tata Comm	76.2	76,907	884
Fortis Health.	76.5	51,503	757
Nirma	77.2	29,982	651
Thomas Cook (I)	77.3	14,410	329
Gammon Infra.	76.0	20,502	201
Berger Paints	75.6	20,452	121
IL&FS Transport	75.1	55,552	50
Total			188,091
Total (US\$ mn)			4,002

Source: CMIE, J. P. Morgan.

Table 3: Multi-national companies with less than 25% public share holding

Company	Total Promoters Holding (%)	Current Market Capitalization (INR mn)	Amt to be FPO ed (INR mn)
Oracle Fin.Serv.	80.5	181,582	9,933
Gillette India	88.7	51,223	7,033
Alfa Laval (I)	88.8	25,474	3,508
Fres.Kabi Onco.	90.0	21,230	3,185
BOC India	89.5	18,672	2,704
Atlas Copco (I)	83.8	23,981	2,103
Novartis India	76.4	19,160	272
3M India	76.0	26,511	268
Total			28,737
Total (US\$ mn)			611

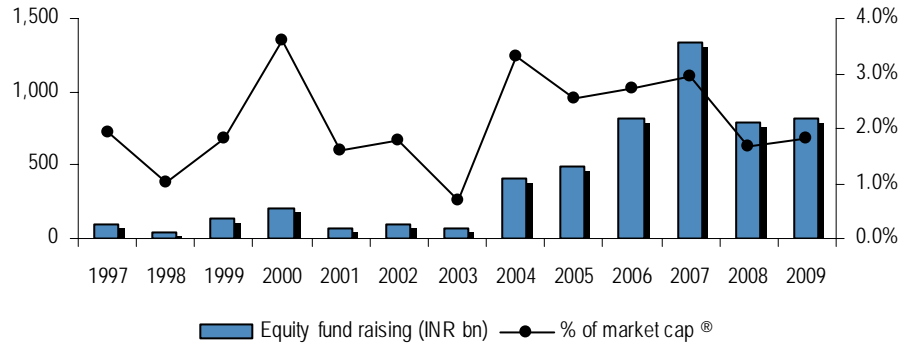
Source: CMIE, J.P. Morgan.

Supply overhang increases vulnerability to global factors

We estimate the current equity issuance pipeline for the next 12 months at about US\$35 bn. Of which Govt. divestments are expected to account for about US\$ 10 bn.

In the past, equity issuances in India have averaged about 2% of outstanding market cap every year.

Figure 1: India - Equity fund raising as % of market cap



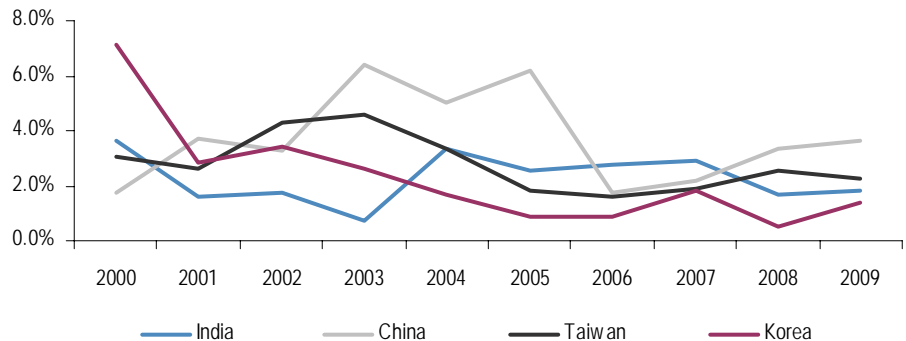
Source: CMIE, J.P. Morgan.

The change in regulation, coupled with the capital-intensive phase that the Indian economy is in, implies that over the medium term equity issuances as a percentage of outstanding market cap could average 3-5%.

The number by itself is not daunting in comparison to peer group markets over the last decade.

Global risk appetite will, however, have to be supportive, given India's dependence on external capital.

Figure 2: Equity fund raising as % of market cap - EM trend



Source: CMIE, J.P. Morgan.

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