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Tracking Promoter Pledging: What's at Stake?

Quick Comment: As per the SEBI regulations initiated in Mar-09, promoters/founders of companies are required to disclose the amount of stock they have pledged.

The following are our observations on the last disclosures made as on QE Dec-10:

What's at Stake?: Thus far, 634 companies have disclosed pledges on their holdings for the Dec-10 quarter versus 794 companies in the previous quarter (highest ever since companies started reporting the pledging data). The stocks of these companies account for 25% of India's current market cap.

As at the end of Dec-10, the total value of pledged stocks was US\$36.8 billion (for the companies that have reported so far) versus US\$39.7 billion in Sep-10. They accounted for 10.7% of their market cap (lowest level since Mar-09) versus 11.2% at the end of Sep-10 and the peak of 13% at the end of Mar-09. This pledged value is about 2.5% of the current market cap.

Assuming 50% margin, the bank credit to these promoters at US\$18.4 billion is 2.2% of outstanding bank credit.

At the sector level, Utilities followed by Technology and Industrials have the biggest pledging by promoter while Materials followed by Consumer Discretionary have the most widespread pledging by promoter.

Sectoral Distribution of Promoter Holding

MSCI Sectors	No. of cos	Total value of stock pledged (US\$m)	Share in total Pledge Value	MCap (US\$m)	Value of Pledged As a % of market cap
Consumer Discretionary	137	3,739	10%	47,867	7.8%
Consumer Staples	64	2,834	8%	25,292	11.2%
Energy	6	1,115	3%	7,214	15.5%
Financials	49	4,478	12%	33,226	13.5%
Health Care	35	1,728	5%	27,540	6.3%
Industrials	106	6,078	17%	75,886	8.0%
Information Technology	65	6,205	17%	56,093	11.1%
Materials	149	3,860	10%	35,951	10.7%
Telecoms	10	421	1%	3,547	11.9%
Utilities	12	6,376	17%	31,644	20.2%
Total	633	36,833	100%	344,259	10.7%

Source: Capitaline, Morgan Stanley Research

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Forty-four companies from our Morgan Stanley coverage universe companies have reported pledges (totaling US\$21 billion).

Please note that certain sectors like Utilities have higher promoter pledging due to the requirement of providing collateral security to banks and financial institutions for availing loans.

Please see detailed tables on stock-wise and sector-wise top pledging on pages 3, 4 and 5.

More companies could report the pledging data over the coming days and we shall update accordingly.

Exhibit 1

Sectorwise Trends in Pledging (# of companies)

MSCI Sectors	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10
Consumer Discretionary	178	192	186	185	137
Consumer Staples	63	63	68	70	64
Energy	8	8	8	9	6
Financials	48	51	54	59	49
Health Care	48	48	50	48	35
Industrials	119	121	121	118	106
Information Technology	74	78	77	74	65
Materials	188	190	188	204	149
Telecoms	12	13	12	13	10
Utilities	11	13	14	14	12
Total	749	777	778	794	633

Source: Capitaline, Morgan Stanley Research

Exhibit 2

Sectorwise Trends in Pledging (US\$ mn)

MSCI Sectors	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10
Consumer Discretionary	3,059	3,375	4,125	4,687	3,738
Consumer Staples	2,030	2,154	2,408	2,755	2,834
Energy	889	1,065	1,121	1,189	1,115
Financials	2,629	3,296	4,749	5,614	4,478
Health Care	1,675	2,036	2,015	2,185	1,728
Industrials	5,808	5,511	4,994	6,121	6,078
Information Technology	4,017	4,333	4,207	5,256	6,205
Materials	4,989	5,292	3,513	4,079	3,860
Telecoms	898	600	473	550	421
Utilities	4,261	7,040	7,148	7,253	6,376
Total	30,256	34,703	34,754	39,688	36,832

Source: Capitaline, Morgan Stanley Research

Exhibit 3

Share as % of Total Pledged

MSCI Sectors	Dec-09	Mar-10	Jun-10	Sep-10	Dec-10
Consumer Discretionary	10%	10%	12%	12%	10%
Consumer Staples	7%	6%	7%	7%	8%
Energy	3%	3%	3%	3%	3%
Financials	9%	9%	14%	14%	12%
Health Care	6%	6%	6%	6%	5%
Industrials	19%	16%	14%	15%	17%
Information Technology	13%	12%	12%	13%	17%
Materials	16%	15%	10%	10%	10%
Telecoms	3%	2%	1%	1%	1%
Utilities	14%	20%	21%	18%	17%
Total	100%	100%	100%	100%	100%

Source: Capitaline, Morgan Stanley Research

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Exhibit 4

Top 50: Pledging in Value Terms

	Shares Pledged (in mn)	% Paid-up Capital	Pledged value (US\$m)
TCS	222	11%	5788
Adani Power	858	39%	2498
Tata Motors	44	8%	1517
Unitech	869	33%	1287
Jaiprakash Power	1029	49%	1219
United Spirits	35	28%	1132
Jaypee Infratech	625	45%	1094
Tata Power Company	27	11%	821
Suzlon Energy	611	34%	746
Asian Paints	11	11%	679
Essar Oil	188	14%	606
Videocon Industries	122	40%	593
Pipavav Shipyard	298	45%	577
Indiabulls Power	809	40%	526
Sun TV Network	44	11%	513
GMR Infrastructure	484	12%	496
JSW Energy	216	13%	481
Fortis Healthcare	139	34%	457
Lanco Infratech	302	13%	428
Era Infra Engineering	83	46%	402
JSW Steel	15	7%	399
Parsvnath	248	57%	321
IRB Infrastructure	62	19%	314
Gujarat NRE Coke	179	35%	288
Religare Enterprises	27	19%	280
Bhushan Steel	26	12%	276
D B Realty	63	26%	276
Apollo Hospitals	25	20%	254
Gujarat Pipavav Port	182	43%	250
Ispat Industries	478	37%	250
Zee Entertainment	75	8%	246
Motherson Sumi	59	15%	240
Ackruti City	38	52%	214
Tata Teleservices	493	26%	214
Mahindra & Mahindra	12	2%	212
Omaxe	64	37%	212
Essar Shipping Ports	87	14%	211
Pantaloon Retail	23	11%	202
Dish TV India	126	12%	200
Plethico Pharma	24	71%	199
United Breweries	17	7%	195
Aurobindo Pharma	6	10%	176
S.Kumars Nation	90	34%	174
Tata Global	70	11%	170
KSK Energy	52	14%	157
Shiv-Vani Oil & Gas	18	38%	155
Shree Renuka	71	11%	155
Emami	17	11%	150
Sintex Industries	36	13%	148

Please note: Pantaloon Retail includes Pantaloon DVR.

Exhibit 5

Top 50: Pledging As a % of Paid-up Capital

	Shares Pledged (in mn)	Pledged value (US\$m)	% Paid-up Capital
India Cements Capital	19	4	86%
Plethico Pharma	24	199	71%
Saurashtra Cement	33	13	64%
Bodal Chemicals	62	44	62%
Duncans Industries	31	15	59%
Karur KCP	6	7	58%
Tata Coffee	11	121	57%
Parsvnath Developers	248	321	57%
Katare Spinning Mills	2	1	55%
Gem Spinners India	22	1	54%
Euro Ceramics	9	8	54%
Shah Alloys	11	4	53%
Financial Eyes	2	2	53%
Refinol Resins	2	1	53%
Ackruti City	38	214	52%
Millennium Beer	28	18	52%
Indo Zinc	2	2	51%
Shree Krishna Paper	5	2	51%
S.A.L Steel	43	8	51%
Arvind Products	41	7	50%
Gayatri Projects	6	40	50%
Jaiprakash Power	1029	1219	49%
Satra Properties	76	17	49%
Kashipur Sugar Mills	8	2	49%
Ganesh Housing	16	65	48%
Vishnu Chemicals	6	14	46%
Nandan Exim	210	12	46%
Era Infra Engineering	83	402	46%
Gujarat Carbon	6	0	46%
J K Cements	32	104	46%
Ansal Properties	72	98	45%
Tuticorin Alkali	7	2	45%
Jaypee Infratech	625	1094	45%
Pipavav Shipyard	298	577	45%
Vikash Metal & Power	16	6	45%
Shree Ram Urban Infra	9	36	44%
Surya Chakra Power	34	13	44%
Dharamsi Morarji	9	4	44%
Gujarat Pipavav Port	182	250	43%
BPL	21	15	43%
Shalimar Wires	3	2	42%
Sanghi Industries	93	53	42%
Vipul	50	20	42%
Gati	35	52	41%
Videocon Industries	122	593	40%
Hatsun Agro Product	14	39	40%
Indiabulls Power	809	526	40%
Bhuwalka Steel	2	2	40%
Adani Power	858	2498	39%

Source: Capitaline, Morgan Stanley Research

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Exhibit 6

Largest Sectorwise Pledges (in Value terms)

Consumer Discretionary	% Paid-up Capital	Pledged Value (\$m)	Industrials	% Paid-up Capital	Pledged Value (\$m)
Videocon Industries	40%	593	Tata Motors	8%	1517
Sun TV Network	11%	513	Suzlon Energy	34%	746
Zee Entertainment	8%	246	Pipavav Shipyard	45%	577
Motherson Sumi Systems	15%	240	Lanco Infratech	13%	428
Mahindra & Mahindra	2%	212	Era Infra Engineering	46%	402
Consumer Staples	% Paid-up Capital	Pledged Value (\$m)	Technology	% Paid-up Capital	Pledged Value (\$m)
United Spirits	28%	1132	TCS	11%	5788
United Breweries	7%	195	Core Projects & Tech	13%	90
Tata Global Beverages	11%	170	NIIT Technologies	25%	64
Shree Renuka Sugars	11%	155	KPIT Cummins	11%	27
Emami	11%	150	ICSA (India)	14%	22
Energy	% Paid-up Capital	Pledged Value (\$m)	Materials	% Paid-up Capital	Pledged Value (\$m)
Essar Oil	14%	606	Asian Paints	11%	679
Essar Shipping Ports	14%	211	JSW Steel	7%	399
Shiv-Vani Oil & Gas	38%	155	Gujarat NRE Coke	35%	288
Aban Offshore	16%	125	Bhushan Steel	12%	276
Dolphin Offshore	20%	17	Ispat Industries	37%	250
Financials	% Paid-up Capital	Pledged Value (\$m)	Telecoms	% Paid-up Capital	Pledged Value (\$m)
Unitech	33%	1287	Tata Teleservices	26%	214
Jaypee Infratech	45%	1094	Tata Communications	7%	114
Parsvnath Developers	57%	321	Tulip Telecom	10%	58
Religare Enterprises	19%	280	OnMobile Global	4%	17
D B Realty	26%	276	Gemini Communication	21%	12
Healthcare	% Paid-up Capital	Pledged Value (\$m)	Utilities	% Paid-up Capital	Pledged Value (\$m)
Fortis Healthcare	34%	457	Adani Power	39%	2498
Apollo Hospitals Enterprise	20%	254	Jaiprakash Power	49%	1219
Plethico Pharmaceuticals	71%	199	Tata Power	11%	821
Aurobindo Pharma	10%	176	Indiabulls Power	40%	526
Orchid Chemicals	25%	120	GMR Infrastructure	12%	496

Source: Capitaline, Morgan Stanley Research

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Exhibit 7

Largest Sectorwise Pledges (% Paid-up Capital)

Consumer Discretionary	% Paid-up Capital	Pledged Value (\$m)	Industrials	% Paid-up Capital	Pledged Value (\$m)
Gem Spinners India	54%	1	Euro Ceramics	54%	8
Arvind Products	50%	7	Gayatri Projects	50%	40
Shree Ram Urban Infra	44%	36	Era Infra Engineering	46%	402
BPL	43%	15	Pipavav Shipyard	45%	577
Videocon Industries	40%	593	Gujarat Pipavav Port	43%	250
Consumer Staples	% Paid-up Capital	Pledged Value (\$m)	Technology	% Paid-up Capital	Pledged Value (\$m)
Duncans Industries	59%	15	Shyam Telecom	28%	4
Tata Coffee	57%	121	Solix Technologies	28%	1
Millennium Beer	52%	18	MIC Electronics	27%	20
Kashipur Sugar Mills	49%	2	Samtel Color	25%	6
Hatsun Agro Product	40%	39	NIIT Technologies	25%	64
Energy	% Paid-up Capital	Pledged Value (\$m)	Materials	% Paid-up Capital	Pledged Value (\$m)
Shiv-Vani Oil & Gas	38%	155	Saurashtra Cement	64%	13
Dolphin Offshore	20%	17	Bodal Chemicals	62%	44
Aban Offshore	16%	125	Karur KCP Pack	58%	7
Essar Shipping Ports	14%	211	Katara Spinning Mills	55%	1
Essar Oil	14%	606	Shah Alloys	53%	4
Financials	% Paid-up Capital	Pledged Value (\$m)	Telecoms	% Paid-up Capital	Pledged Value (\$m)
India Cements Capital	86%	4	Tata Teleservices	26%	214
Parsvnath Developers	57%	321	Gemini Comm	21%	12
Financial Eyes (I)	53%	2	XL Energy	20%	3
Ackruti City	52%	214	Tulip Telecom	10%	58
Satra Properties	49%	17	Tata Comm	7%	114
Healthcare	% Paid-up Capital	Pledged Value (\$m)	Utilities	% Paid-up Capital	Pledged Value (\$m)
Plethico Pharmaceuticals	71%	199	Jaiprakash Power	49%	1219
Kerala Ayurveda	38%	7	Surya Chakra Power	44%	13
Fortis Healthcare	34%	457	Indiabulls Power	40%	526
Elder Pharmaceuticals	29%	49	Adani Power	39%	2498
Bilcare	28%	99	KSK Energy	14%	157

Source: Capitaline, Morgan Stanley Research

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