



Who benefits? - Shareholding norms revised

SUPPLY OVERHANG OR OPPORTUNITY TO PARTNER WITH CONFIDENT PROMOTERS?

The Government has amended The Securities Contracts (Regulation) Rules: a) The minimum threshold level of public holding will be 25% for all listed companies, b) Existing listed companies with <25% public holding have to reach the minimum 25% level by an annual addition of not less than 5% to public holding.

This would mean an **incremental supply of paper worth ~USD 29 bn** (incl MMTC of USD 7.3 bn) **over 3-5 years** (5.4% increase in BSE 500 market float), which could act as an overhang. If this is done as 5% p.a., this approx translates to \$ 12 bn/ 8.5bn / 8.8 bn in FY 11/ 12/ balance years respectively (fine print: penalties for non-compliance not spelt out clearly yet).

However, companies with robust fundamentals but low institutional holding due to **low float** could be **potential winners**. Note that companies that have **already announced equity issuances** have **stock prices that already factor-in** such dilution and may not now be affected as much as the others. Additionally, there would be **MNCs** that are now forced to decide between raising public holding vs **de-listing** at luscious prices for investors.

PSUs, recent listings in Realty and Power, and MNCs are the key impacted:

An analysis of the BSE 500 companies indicate that the largest share of supply would come from PSUs such as NPTC, MMTC, NMDC etc. followed by the recent Realty and Power listings such as DLF, Rel Power etc. We have tried to classify these companies in four silos based on the potential impact on stock prices:

- ❑ **Supply overhang:** Cos with a large market capitalization, widely held, and potential supply of greater than USD 500 mn. This includes cos such as NTPC, NMDC, SAIL, PFC, Wipro, NHPC, Rel Power, IOC, and NALCO. Also, potential supply greater than 20%+ of existing free float includes Wipro, Mundra, Indian Bank, Central Bank, Essar Shipping, Jet, DB Corp, Mahindra Holidays, Godrej Prop, BGR Energy, etc.
- ❑ **Low float companies:** Cos with low float and hence under-owned. An increase in supply will lead to price discovery. This includes cos such as MMTC, Hindustan Copper, Neyveli Lignite, Engineers India, STC etc.
- ❑ **De-listing candidates:** Largely MNCs, which may be inclined to de-list rather than dilute are Oracle, 3M, Alfa Laval, Atlas Copco, Berger, Gillette
- ❑ **Announced fund raising/ disinvestment/ outstanding convertibles:** We believe that the stock prices for companies that have already announced dilution or issued convertibles would be relatively unaffected. Such companies include PGCIL and SCI
- ❑ **Other cos, that are likely to comply through a marginal dilution (<5%):** Cos such as DLF, JSW Energy, Sun TV, BEL, Tata Comm, Novartis

For valuations of key companies impacted please refer pg 2 and for details of shareholding refer pg 3.

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Table 1: Valuation

Note: # For banks EPS = BV; PE = PB; *Consensus numbers, as not covered by ENAM

Company name	CMP (INR)	EPS (INR)#		PE (x)#		Target Price (INR)	Upside (%)
		FY11e	FY12e	FY11e	FY12e		
NTPC Ltd	199	12	14	16	15	210	6
MMTC Ltd*	28,515	37	-	769	-	-	-
NMDC Ltd	263	16	19	17	14	250	(5)
Wipro Ltd	654	36	38	18	17	764	17
Indian Oil Corp Ltd	344	29	28	12	12	346	1
Steel Authority of India Ltd	193	17	17	11	12	211	9
DLF Ltd	264	13	17	21	16	354	34
Power Grid Corp of India Ltd	104	6	7	18	15	130	25
Hindustan Copper Ltd*	456	-	-	-	-	-	-
Reliance Power Ltd*	157	3	3	59	54	-	-
NHPC Ltd*	28	1	2	20	16	-	-
Power Finance Corp Ltd	293	137	160	2	2	337	15
Oil India Ltd*	1,268	124	134	10	9	-	-
National Aluminium Co Ltd	424	26	36	16	12	380	(10)
Mundra Port and Special Economic Zone Ltd	664	24	25	28	26	820	24
Neyveli Lignite Corp Ltd*	145	7	9	21	17	-	-
JSW Energy Ltd	120	7	15	16	8	148	24
Oracle Financial Sevices Software Ltd	2,197	125	136	18	16	2,726	24
Sun TV Network Ltd	396	16	19	25	21	457	16
Bharat Electronics Ltd	1,686	105	119	16	14	1,785	6
Mangalore Refinery & Petrochemicals Ltd*	68	4	5	16	14	-	-
Engineers India Ltd*	320	16	18	21	17	-	-
Indian Bank*	226	175	219	1	1	-	-
Tata Communications Ltd*	243	-9	-6	NA	NA	-	-
Shipping Corp of India Ltd*	161	9	10	17	17	-	-
Central Bank Of India*	148	146	178	1	1	-	-
Essar Shipping Ports & Logistics Ltd*	87	2	4	39	24	-	-
Gillette India Ltd*	1,642	-	-	-	-	-	-
HMT Ltd*	69	-	-	-	-	-	-
National Fertilizers Ltd*	106	-	-	-	-	-	-
BGR Energy Systems Ltd*	658	36	45	18	15	-	-
Godrej Industries Ltd*	146	-	-	-	-	-	-
Fortis Healthcare Ltd*	141	4	6	36	24	-	-
Rashtriya Chemicals & Fert*	78	4	5	18	17	-	-
Jet Airways India Ltd*	486	20	54	24	9	-	-
DB Corp Ltd	236	12	14	20	17	278	18
Mahindra Holidays & Resorts India Ltd*	471	17	23	28	20	-	-
Tata Teleservices Maharashtra Ltd*	20	-2	-2	NA	NA	-	-
Godrej Properties Ltd*	527	18	33	30	16	-	-
Ackruti City Ltd*	464	103	157	4	3	-	-
3M India Ltd*	2,606	-	-	-	-	-	-
Nirma Ltd*	181	-	-	-	-	-	-
JM Financial Ltd*	36	-	-	-	-	-	-
Bank Of Maharashtra*	60	61	75	1	1	-	-
Kwality Dairy India Ltd*	135	-	-	-	-	-	-
Alfa Laval India Ltd*	1,346	76	85	18	16	-	-
Atlas Copco India Ltd*	1,063	48	59	22	18	-	-
State Trading Corp India Ltd*	405	-	-	-	-	-	-
Berger Paints India Ltd*	69	4	5	16	14	-	-
Puravankara Projects Ltd*	104	7	10	14	11	-	-
IVRCL Assets & Holdings Ltd*	119	-	-	-	-	-	-
Fresenius Kabi Oncology Ltd*	136	-	-	-	-	-	-
Novartis India Ltd*	635	40	44	16	14	-	-
BOC India Ltd*	227	-	-	-	-	-	-
Gammon Infrastructure Projects Ltd*	26	0.2	0.2	130	130	-	-
OMAXE Ltd*	92	11	21	9	4	-	-
Dredging Corp Of India Ltd*	555	32	-	17	-	-	-
Thomas Cook India Ltd*	63	-	-	-	-	-	-

Source: Bloomberg, ENAM Research

Table 2: Potential Dilution

Note: # For banks EPS = BV; PE = PB; *Consensus numbers, as not covered by ENAM

Company name	Market Cap (USD m)	Promoter Holding (%)	Free float (USD m)	Public Holding (%)	Dilution Expected (%)	Dilution Expected (USD m)	% increase in free float
NTPC Ltd	34,771	84.5	5,389	15.5	9.50	3,303	61
MMTC Ltd*	30,235	99.3	203	0.7	24.33	7,356	3,631
NMDC Ltd	22,113	90.0	2,211	10.0	15.00	3,317	150
Wipro Ltd	20,383	79.6	4,156	20.4	4.61	940	23
Indian Oil Corp Ltd	17,686	78.9	3,728	21.1	3.92	693	19
Steel Authority of India Ltd	16,914	85.8	2,398	14.2	10.82	1,830	76
DLF Ltd	9,499	78.6	2,029	21.4	3.64	346	17
Power Grid Corp of India Ltd	9,287	86.4	1,267	13.6	11.36	1,055	83
Hindustan Copper Ltd*	8,943	99.6	37	0.4	24.59	2,199	5,998
Reliance Power Ltd*	7,975	84.8	1,214	15.2	9.78	780	64
NHPC Ltd*	7,421	86.4	1,012	13.6	11.36	843	83
Power Finance Corp Ltd	7,140	89.8	730	10.2	14.78	1,055	145
Oil India Ltd*	6,465	78.4	1,395	21.6	3.43	222	16
National Aluminium Co Ltd	5,793	87.2	744	12.9	12.15	704	95
Mundra Port and Special Economic Zone Ltd	5,640	81.0	1,069	19.0	6.04	341	32
Neyveli Lignite Corp Ltd*	5,168	93.6	333	6.4	18.56	959	288
JSW Energy Ltd	4,167	76.7	970	23.3	1.72	72	7
Oracle Financial Sevices Software Ltd	3,908	80.5	763	19.5	5.47	214	28
Sun TV Network Ltd	3,305	77.0	760	23.0	2.00	66	9
Bharat Electronics Ltd	2,860	75.9	690	24.1	0.86	25	4
Mangalore Refinery & Petrochemicals Ltd*	2,545	88.6	291	11.4	13.57	345	119
Engineers India Ltd*	2,283	90.4	219	9.6	15.40	352	160
Indian Bank*	2,060	80.0	412	20.0	5.00	103	25
Tata Communications Ltd*	1,470	76.2	351	23.9	1.15	17	5
Shipping Corp of India Ltd*	1,441	80.1	287	19.9	5.12	74	26
Central Bank Of India*	1,265	80.2	250	19.8	5.20	66	26
Essar Shipping Ports & Logistics Ltd*	1,133	83.7	185	16.3	8.71	99	53
Gillette India Ltd*	1,135	88.7	128	11.3	13.73	156	122
HMT Ltd*	1,103	98.9	12	1.1	23.88	263	2,132
National Fertilizers Ltd*	1,099	97.6	26	2.4	22.64	249	959
BGR Energy Systems Ltd*	1,004	81.3	188	18.7	6.31	63	34
Godrej Industries Ltd*	989	79.1	207	20.9	4.10	41	20
Fortis Healthcare Ltd*	949	76.5	223	23.5	1.47	14	6
Rashtriya Chemicals & Fert*	917	92.5	69	7.5	17.50	161	233
Jet Airways India Ltd*	890	80.0	178	20.0	5.00	44	25
DB Corp Ltd	909	86.4	124	13.7	11.35	103	83
Mahindra Holidays & Resorts India Ltd*	841	83.1	142	16.9	8.09	68	48
Tata Teleservices Maharashtra Ltd*	817	77.7	182	22.3	2.72	22	12
Godrej Properties Ltd*	780	83.8	126	16.2	8.79	69	54
Ackruti City Ltd*	716	82.5	125	17.5	7.49	54	43
3M India Ltd*	623	76.0	149	24.0	1.00	6	4
Nirma Ltd*	611	77.2	139	22.8	2.17	13	10
JM Financial Ltd*	572	94.0	34	6.0	19.00	109	317
Bank Of Maharashtra*	551	76.8	128	23.2	1.77	10	8
Kwality Dairy India Ltd*	521	83.7	85	16.3	8.70	45	53
Alfa Laval India Ltd*	518	88.8	58	11.2	13.77	71	123
Atlas Copco India Ltd*	509	83.8	83	16.2	8.77	45	54
State Trading Corp India Ltd*	515	91.0	46	9.0	16.02	83	178
Berger Paints India Ltd*	503	75.6	123	24.4	0.59	3	2
Puravankara Projects Ltd*	471	90.0	47	10.0	14.96	70	149
IVRCL Assets & Holdings Ltd*	466	88.1	56	11.9	13.07	61	110
Fresenius Kabi Oncology Ltd*	455	90.0	46	10.0	15.00	68	150
Novartis India Ltd*	430	76.4	101	23.6	1.42	6	6
BOC India Ltd*	410	89.5	43	10.5	14.48	59	138
Gammon Infrastructure Projects Ltd*	398	76.0	96	24.0	0.98	4	4
OMAXE Ltd*	339	89.1	37	10.9	14.14	48	130
Dredging Corp Of India Ltd*	329	78.6	71	21.4	3.56	12	17
Thomas Cook India Ltd*	281	77.3	64	22.7	2.27	6	10

Source: Bloomberg, ENAM Research

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