An Emperical Study on Promoters Shares Pledging and its Effect on Stock Returns

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ABSTRACT

Pledging of shares works in a similar manner, i.e., instead of a house, shares of a listed company are pledged. Anybody who owns shares of a public company can pledge the same and obtain a loan. However, investors need to take notice of the same when promoters of the company are pledging their holdings. Pledging of shares is one of the options that the promoters of companies use to secure loans to meet working capital requirement, personal needs and fund other ventures or acquisitions. In case promoters fail to make up for the difference, lenders can sell the shares in the open market to recover the money. Hence, to understand effect of promoters shares pledging on share price Study is being undertaken.

KEY WORDS: PROMOTERS, PLEDGING, SHARE PRICES, RETURNS.

INTRODUCTION

A promoter is a “person who acting alone or in conjunction with other persons directly or indirectly, takes the initiative in founding or organizing the business enterprise.” (SEBI, Substantial Acquisition of shares & Takeover Regulation 1997). Promoters are the shareholders who holds majority stake of the entities. “A promoter is the one, who undertakes to form a company with reference to a given object and sets it going and takes the necessary steps to accomplish that purpose.” (Justice C.J. Cokburn). Promoters as a majority stakeholders and has control over the affairs of the company to manage the funds for business operations. A company may needs funds for its regular operations as well as other activities like venturing new business or even for meeting personal requirement of the promoters.

There are various reasons for which share can be pledged. When the shares are pledged to a bank or with any institution as a collateral, the value of debt is depends on its prevailing share price in the market. As per the RBI regulations, a loan to value (LTV) ratio of 50% is to be maintained at all times when lending based on the stock pledge. In any situation this ratio has to be maintained by the company. Since the loan is being extended against the value of block of the shares, and the market value of the shares keep fluctuating, therefore, in case the market value of these pledged shares came down below the minimum collateral value agreed upon share pledge agreement can trigger a margin call.

Margin call occurs when share pledged with the lender falls below the collateral value. Under such situation, the company would need to furnish more collateral, cash or more shares as collateral. If company fails to cover up short fall, the lenders could be forced to invoke the pledged shares. Pledged invocation is a process where lenders have right to sell the shares which are pledged with them in the open market. Invocation of pledged shares can be due to violation of any other provision of share Pledge Agreement. Any type of invocation, in turn can put a risk on the prices of shares as there is more supply than demand for invoked shares and the

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share prices starts falling. Such action can worsen the situation in the bear market.

In recent past years, the Indian capital markets have experienced these situations where lender off load the pledged shares to meet margin requirement. In 2019, out of 4,092 companies, promoters of 705 pledged their shares to raise loans. Of these, promoters of about 286 listed companies have pledged more than 50 per cent of their shares. Of these, 44 companies have already seen more than 50 per cent erosion in value.

Procedure for promoters share pledging

1. Initiate a pledge request When promoters wants to pledge their share as a collateral, they have to initiate a request for pledging shares using the trading terminal.
2. Confirmation by NSDL/CDSL Once the request is received from the trading terminal, the trading terminal sends the request to NSDL/CDSL for confirmation.
3. Authentication by NSDL/CDSL NSDL/CDSL authenticates the request using email/mobile authentication for PAN/BOID. Once approved, the collateral margin is available for trading to the promoters. Promoters can also submit Margin Pledge Request Form signed by all holders.

Motives Behind Promoter's Pledge: In the current environment, Banks are going for largely collateral backed lending and while it is getting tough to raise funds without any collateral. Therefore, a lot of promoters are resorting to pledging of shares to raise funds, as shares are treated as asset. It is inevitable to understand the underlying motives of promoters pledging. As it describes the intention of the promoters for raising money. From the empirical study, it is found that the promoters generally pledge their shares for the following purposes. Shares treated as a security by the lenders to provide loan. The Promoters of company pledge their shares as a collateral for debt and raise fund for various purpose.

Such raised money by pledging of the shares are used when company wants to convert their share warrants of the company into its shares. A stock warrant, issued directly by the company, grants the holder the right to purchase a company's shares at a specific price and a specific date. A promoter interested in buying the shares by exercising warrants might decide to pledge the existing shares to raise funds.

To create a security for promoters personal loans or loans taken by their other business ventures. Also to pay the third party liabilities or to float new businesses not related to the existing ones. When company needs funds for purchasing further shares of the same company from the secondary market. When the promoter feels that the share price of the company is undervalued and is confident about the prospects of the company, he might decide to buy more shares from the secondary market. The promoter might then decide to raise necessary funds by pledging his holdings. However, pledging of shares

for the purpose of buying shares from secondary market looks to be totally unreasonable and gives a smelling of the bad intentions of the promoters.

Investor must know the reasons behind the pledging. If the share pledge is for the purpose of strengthening the position of the company or consolidation of the holding of such promoters then pledging of such shares is not a big concern for the investors. But if the motives behind share pledge to buy own shares in the secondary market and for personal need then it may imply an ulterior motive or speculative intentions of the promoters to jack up the price artificially.

Pledging of shares has many implications. As long as the share prices of the company are increasing, a high promoter pledge does not pose any risk to the investor. However in a falling market, if the lender resorts to invoking (selling) the shares, the excess supply will further push down the stock price, accelerating the investor's loss. Funds raised by share pledging usually tend to carry higher interest rates and indicates the promoter's inability to raise funds at cheaper rates. Servicing the interest will eat into the margins of the company and might affect future financial performance.

Research indicates that companies whose promoters have pledged for the first time tend to manipulate earnings upward, at least during the first year of the pledge. In extreme situations, promoters might also lose control of their company when pledged shares are sold in the open market. As per recent SEBI circular, promoters of all listed companies to disclose reasons for pledging of shares. If the number of shares pledged 50% or more than that of their holding in the company. Also, to make disclosure if the total shares pledged by promoters exceed 20% of the company's equity capital.

Also, in order to bring more transparency regarding reasons for encumbrance, particularly when significant shareholding by promoters along with persons acting in concert (PACs) is encumbered, it has been decided to prescribe additional disclosure requirement.

Risks Involved In Promoters Share Pledging

1. **Higher volatility in Stock Prices:** If a company has a high percentage of promoter's shares, then it usually witnesses high volatility in the market price of its shares. When a company availed a loan by offering promoters shares as collateral, and for any external situation forces the market to crash and stock price falls, the lender immediately initiate margin call to make up for the difference in price. While this would help the bank recover its losses, it might trigger a selling spree due to panic. Hence, the stock price would be highly volatile, and calculating its valuation can be difficult.
2. **Skewed Management Decisions:** If a company has a high percentage of promoter's shares, then it might find it difficult to sustain profits since the borrowed funds are at a high cost. Hence, the companies may experiences pressure on future earnings. This is

because at the time of default, lenders have a right of selling stocks, which results in a drop in ownership stake of controlling owners and more likely to affect firms' decision making.

3. **Possible Loss of Control of the Company:** There can be cases where the promoters lose the management control of the company. Let's say that the promoters owned a 65% stake in the company and pledged half of it for a loan. If the company fails to repay and the lender decides to sell the pledged shares in the open market, then the promoters will be left with only a 35% stake in the company. Risking losing control over the company.
4. **Possible Value Trap for Value Investors:** Value investors try to look for stocks that are undervalued as compared to their intrinsic value. Many companies with a high percentage of promoter's shares being pledged trade lower making them attractive to value investors. However, as an investor, it is important to understand that such stocks don't add a lot of value. While the interest outgo is usually in double-digits, the growth rates are much lower, and hence, even if the share prices seem undervalued, these stocks don't add much value to the portfolio.

Need for Study: The study is being undertaken to understand prevalence of pledging of shares by promoters and its impact thereof on the stock prices over a period of few years as compared to the performance of Indian stock market. Also, to understand the promoter's motives behind and risk involved with share pledging.

Review of Literature: Wang Y.C., 2015, under stock pledging, promoters give their stake of shares as collateral to avail loan. Commercial banks and nonbanking financial institutions are generally act as a lender. When promoters pledged their shares, regulators are concerned with situations where share pledging is on high stock prices and then engage in riskier operations for higher returns to boost security prices which are given as collateral. On disparity, when the promoters do not pay loan and exit, situation become more severe and lead to company's bad performance. This accelerates to fall in stock prices and minority shareholders would suffer.

Paradhasaradhi Madasu, 2019, in Journal of Management, "promoters Share Pledging: An Emerging Concern for Indian Stock Market Regulator," The paper focused on a topic which looks very simple on the face of it but has a lot of implications for both retail and institutional investors. The paper aimed to bring out the conceptual framework and risks involved in share pledges by insiders (especially promoters). In the present day scenario, the article gains currency by the fact that high degree of promoters shares being offered as collateral and the consequent fall in market prices would lead to fatal consequences.

Prasanjit Paul, 2017, in his book titled, "How to avoid loss and earn consistently in the stock market" mentioned that pledging of shares put the unnecessary risk on the stock prices. Pledging of shares is the last option to raise

the fund. It means that no else is ready to provide loan because either the company is in a bad business whose future prospect is not bright or the company has high debt and might be under financial constraint, hence pledging remains the only option left. It is always better to avoid stocks with high promoter pledging as it may impact on companies earning and thus affect the share prices.

Yogesh Chauhan, 2014, in his doctoral study titled as "Stock pledging and firm risk- Evidence from India," concludes that, stock pledging exacerbates firm-risk and fosters lower-risk capital investments, and consequently, favours lower-risk capital investments and adversely impacts firm value and longer-term performance. Results substantially support all three hypotheses, finding that controlling owner share pledging not only increases basic business risk, but also, margin call risk and combined personal leverage and corporate risk, negatively impact subsequent firm performance.

Increasing levels of share pledging are associated with under investment in more risky, but potentially more profitable capital project that, in turn, reduces firm future performance. Pledged shares must maintain margin requirement, where initial debt proceeds are generally between 50 to 70 percent of share value, and the remainder serves as excess lender collateral. Thus, adverse market or individual firm situations, margin calls are possible.

The promoter pledges data of 2019 is further interesting and provides lot of insights. Kant (2019) in his news article, quotes that the promoters have raised the number of shares pledged with their lenders as collateral for borrowing by 23 percent on a year-on-year (YoY) basis. At the end of the December 2018 quarter, promoters of BSE 500 companies had pledged 15.7 billion equity shares, against around 12.8 billion equity shares at the end of the December 2017 quarter. In rupee terms, promoter-owned shares worth nearly Rs 2 trillion were pledged at the end of the December 2018 quarter, up 2.6 percent on a YOY basis.

(Keerthi Sanagasetti, Business Line, March 23, 2020). The selling has been broad-based but companies with high levels of shares pledged by promoters become especially vulnerable when share prices plunge. It is routine for promoters to raise a loan against the shares owned by them for personal needs or to infuse funds into the business. During steep market declines, as the value of the pledged shares drops, the lenders may be forced to sell these shares to maintain the loan to value (LTV). This drags these stocks still lower, with knock-on effects on the market. Most investors try to avoid stocks where the company's promoters have pledged shares significantly.

This is because investors mostly view high proportion of pledged promoter shares as indicative of the company's debt position, even though the shares may have been pledged for various other reasons, including for personal

loans of promoters,” (Chandan Taparia, Technical and Derivatives Analyst, Motilal Oswal Financial Services). Similarly, when markets crash, these shares bear the brunt of selling and, hence, suffer deeper losses. Many times recovery in share prices for such stocks would be slow, unless the percentage of shares pledged is drastically lowered by the promoter. Due diligence to be done by investors when there is increasing trend in shares pledged by the promoter. Else investors will have to face rude shocks, during sell-offs.

Singh, 2018, Promoters pledging of shares even though legal, has its share of risk involved. If promoters of debt- burdened listed entities also go in for creating equity-backed bonds than the risk would increase. On January 27, 2006, Securities and Exchange Commission (SEC) published a document recognizing that the share pledges of the CEO of WorldCom may have led to the fall of the company and solicited public feedback on regulating share pledges by promoters.

RBI Annual Report, The Purchase of stocks with low price earnings multiples results in greater appreciation along with higher income Nicholson, which was also supported by R.French , Studies of Brief ,and Block ,] states that price to book ratio is the price paid for book value. Peasnell [37] states that financial indicators based on accounting information are sufficient in order to determine the value for shareholders According to the RBI Annual Report, 1995-1996, it is very clear that Mumbai Stock Exchange sensitive Index and the lagged net investment by Foreign Institutional Investors are significant and positively correlated.

Objective of the Study

- To Understand motives behind the share pledging by promoters.
- To evaluate the risks involved in promoters share pledging.
- To study, if highest percentage of promoters share pledging impact the stock prices.

RESEARCH METHODOLOGY

Research Design: The study is based on secondary data. The relevant data are collected from different books, newspaper articles, management journals and also the data collected from Moneycontrol, CNBC, NSE India, BSE India, Trendlyne, and Screener sites and also the disclosures made by the companies as per legal compliance. The referred period of study is 3 years from January 2017 till December 2019 taking 2016 as a base year. The study covers three sectors where share pledging is high. The referred sectors are Electronic utilities sector, Iron & steel sector and construction & engineering. The data are presented in a tabular form along with column and bar charts to facilitate the study. Column charts are used in study to show the data change over a period of time and illustrating the comparison. Percentage wise pledged shares and stock price on annual (2019) and average basis (2017 – 2019) is also used to evaluate the performance with stock market.

Scope of the study: The study deals with analyzing and comparing the stock performance with sensx over a period of three year and companies’ promoters pledged data. It is the share value performance of the listed Companies. The study has outlined the areas that are to be covered in-order to bring out the actual share value performance of given sectors. For this purpose, three sectors with five companies which are listed in the BSE have been selected to find out the actual share value performance. These companies were selected due to its presence in the BSE for a prolonged period. Also the sectors selected for the study where promoters share pledging is high.

Sample Selection: Electronic utilities, iron & steel and construction & engineering sectors from listed BSE companies has been chosen for the study keeping in mind higher percentage of promoter shares pledged data and companies’ shares prices with Sensex return. The study covers companies stock prices in comparison with sensx for the period of three years starting from 2017 to 2019. It is based on secondary data collected from the various financial websites such as BSE, NSE, Trendlyne, Moneycontrol, etc and the company’s website.

Data Collection and Analysis: For data collection and analysis, five companies in each sector have been identified and detailed analysis is done below in two tables and four charts for each sector. The tables capture share prices over the years, promoters share pledged percentage data and YOY percentage share price return along with sensx return. The charts capture increase or decrease in percentage pledged data, recent year & three years average return in comparison with sensx return.

Electric Utility Sector

Rattan India Power Ltd.
Jaiprakash Power Ventures Ltd.
KSK Energy Ventures Ltd.
Reliance Infrastructure
Reliance Power

Table 1 exhibits details shares price of each company at the beginning of each year. Year 2016 share price is taken as base for calculation of year on year percentage return of stock prices.

Table 2 exhibits details of increase / decrease in promoters share pledged of each company at the beginning of each year. Year 2016 pledged percentage is taken as base for calculation of year on year percentage return of stock prices.

The above chart exhibits the companies return with Sensex performance for year 2019-20. In the comparison of companies share price with sensx it is observed that, all companies showing negative return as compare to sensx. Despite sensx was positive, the companies return was negative.

The above chart exhibits the average three years stock return for all five companies. Only Jaiprakash power gave positive return with sensx. Though it underperformed

the sensx. All other companies gave average negative return as compare to average sensx return. Ksk energy venture showed highest negative return (56.25%) as compare to other companies.

Table 1. Share Prices and YOY Return in Percentage

Company Name	Electric Utilities							
	Share Prices				YOY Share Price Return			
	2016-17	2017-18	2018-19	2019-20	2017-18	2018-19	2019-20	3 Yr Avg
Sensex					27.90%	5.90%	14.38%	16.06%
Rattan India Power Ltd.	6.90	8.05	3.45	1.85	16.67%	-57.14%	-46.38%	-28.95%
Jaiprakash Power Ventures Ltd.	3.85	9.20	2.05	1.55	138.96%	-77.72%	-24.39%	12.28%
KSK Energy Ventures Ltd.	15.35	12.85	1.55	0.55	-16.29%	-87.94%	-64.52%	-56.25%
Reliance Infrastructure	467.20	553.00	305.00	29.48	18.36%	-44.85%	-90.33%	-38.94%
Relaince Power	40.40	50.25	28.65	3.50	24.38%	-42.99%	-87.78%	-35.46%

(Sources BSE, NSE and Trendlyne reports)

Table 2. Percentage share pledged data and percentage YOY return

Company Name	Electric Utilities							
	Pledged Data				YOY % Return			
	Pledged % 2016-17	Pledged % 2017-18	Pledged % 2018-19	Pledged % 2019-20	Stock Return % 2017-18	Stock Return % 2018-19	Stock Return % 2019-20	Average Return YoY % - 3 Years
Sensex					27.90%	5.90%	14.38%	16.06%
Rattan India Power Ltd.	98.72%	96.15%	96.08%	82.87%	16.67%	-57.14%	-46.38%	-28.95%
Jaiprakash Power Ventures Ltd.	83.30%	83.30%	86.87%	87.30%	138.96%	-77.72%	-24.39%	12.28%
KSK Energy Ventures Ltd.	95.21%	92.45%	90.27%	90.27%	-16.29%	-87.94%	-64.52%	-56.25%
Reliance Infrastructure	63.35%	66.06%	83.59%	85.69%	18.36%	-44.85%	-90.33%	-38.94%
Reliance Power	64.40%	70.13%	82.84%	76.83%	24.38%	-42.99%	-87.78%	-35.46%

(Sources: BSE/ NSE and Trendlyne websites)

Figure 1: Sensex Vs Stock Return for year 2019-20

(Source BSE/NSE and Trendlyne web sites)

Figure 2: Average Sensex versus average stock return for 3 years (2017-18 -2019-20)

(Source BSE/NSE and Trendlyne web sites)

Construction & engineering sector

Patel Engineering Ltd.
 Gayatri Projects Ltd.
 RPP Infra Projects Ltd.
 Hindustan Construction Co. Ltd.
 Gammon Infra Ltd.

Table 3 exhibits details shares price of each company at the beginning of each year. Year 2016 share price is taken as base for calculation of year on year percentage return of stock prices.

Table 4 exhibits details of increase / decrease in promoters share pledged of each company at the beginning of each

year. Year 2016 pledged percentage is taken as base for calculation of year on year percentage return of stock prices.

The above chart exhibits the companies return with Sensex performance for year 2019-20. In the comparison of companies share price with sensex it is observed that, all companies showing negative return as compare to sensex. Despite sensex was positive, the companies return was negative.

The above chart exhibits the average three years stock return for all five companies. All other companies gave average negative return as compare to average sensex return.

Table 3. Share Prices and YOY Return in Percentage

Company Name	Construction and Engineering							
	Share Prices				YOY Share Price Return			
	2016-17	2017-18	2018-19	2019-20	2017-18	2018-19	2019-20	3 Yr Avg
Sensex					27.90%	5.90%	14.38%	16.06%
Patel Engineering Ltd.	61.73	59.30	28.73	14.40	-3.94%	-51.55%	--49.88%	-35.12%
Gayatri Projects Ltd.	134.29	226.15	178.35	79.75	68.40%	-21.14%	-55.28%	-2.67%
RPP Infra Projects Ltd.	231.45	297.00	128.45	69.30	28.32%	-56.75%	-46.05%	-24.83%
Hindustan Construction Co. Ltd.	39.70	41.00	13.10	10.05	3.27%	-68.05%	-23.28%	-29.35%
Gammon Infra Ltd.	3.70	3.85	0.65	0.40	4.05%	-83.12%	-38.46%	-39.17%

(Sources: Bse/Nse and Trendlyne reports)

Table 4. Percentage share pledged data and percentage YOY return

Construction and Engineering								
Company Name	Pledged Data				YOY % Return			
	Pledged % 2016-17	Pledged % 2017-18	Pledged % 2018-19	Pledged % 2019-20	Stock Return % 2017-18	Stock Return % 2018-19	Stock Return % 2019-20	Average Return YoY % - 3 Years
Sensex					27.90%	5.90%	14.38%	16.06%
Patel Engineering Ltd.	0.00%	93.90%	93.29%	99.41%	-3.94%	-51.55%	-49.88%	-35.12%
Gayatri Projects Ltd.	94.53%	93.64%	93.64%	99.90%	68.40%	-21.14%	-55.28%	-2.67%
RPP Infra Projects Ltd.	51.47%	70.99%	79.70%	69.84%	28.32%	-56.75%	-46.05%	-24.83%
Hindustan Construction Co. Ltd.	71.42%	85.38%	91.76%	92.14%	3.27%	-68.05%	-23.28%	-29.35%
Gammon Infra Ltd.	95.93%	100.00%	100.00%	100.00%	4.05%	-83.12%	-38.46%	-39.17%

(Sources: Bse/Nse Trendlyne Reports)

Iron & steel sector

Rope & wire Ltd
 Visa Steel Ltd.
 Jindal Stainless Ltd.
 Jindal Steel (Hisar)
 ISMT Ltd.

Table 5 exhibits details shares price of each company at the beginning of each year. Year 2016 share price is taken as base for calculation of year on year percentage return of stock prices.

Table 6 exhibits details of increase / decrease in promoters share pledged of each company at the beginning of each

year. Year 2016 pledged percentage is taken as base for calculation of year on year percentage return of stock prices.

The above chart exhibits the companies return with Sensex performance for year 2019-20. In the comparison of companies share price with sensex it is observed that, all companies showing negative return as compare to sensex. Despite sensex was positive, the companies return was negative except for Jindal stainless ltd.

Figure 3: Sensex Vs Stock Return for year 2019-20

(Source BSE/NSE and Trendlyne web sites)

The above chart exhibits the average three years stock return for all five companies. All other companies gave average negative return as compare to average sensex return except Jindal stainless steel and Jindal steel (Hisar).

Findings and Interpretations: In the selected sectors, companies with the highest and increased pledging of promoter's shares, underperformed and gave negative returns to retail investors over the three years period despite sensex showed positive and upward trend.

Figure 4: Average Sensex versus average stock return for 3 years (2017-18 -2019-20)

(Source BSE/NSE and Trendlyne web sites)

Table 5. Share Prices and YOY Return in Percentage

Company Name	Iron Et Steel							
	Share Prices				YOY Share Price Return			
	2016-17	2017-18	2018-19	2019-20	2017-18	2018-19	2019-20	3 Yr Avg
Sensex					27.90%	5.90%	14.38%	16.06%
Bharat Wire Ropes Ltd	75.10	30.45	29.00	28.00	-59.45%	-4.76%	-3.45%	-22.55%
Visa Steel Ltd.	16.85	19.90	8.85	4.90	18.10%	-55.53%	-44.63%	-27.35%
Jindal Stainless Ltd.	37.65	104.30	34.20	38.65	177.03%	-67.21%	13.01%	40.94%
Jindal Hisar	89.55	225.80	92.30	75.65	152.15%	-59.12%	-18.04%	25.00%
ISMT LTD.	8.60	15.75	8.30	4.45	83.14%	-47.30%	-46.39%	-3.52%

(Sources Bse, Nse, Trendlyne Reports)

- Findings in electric utilities sector For the year 2019-20, all the companies under this sector underperformed the market and gave negative return compared to the market. Over the period of three years except Jaiprakash Power Ltd, all other companies' average stock prices gave negative return. However, Jaiprakash Power Ltd. gave lesser positive return than the sensex return.
- Finding in construction and engineering sector For the year 2019-20, all the companies under this sector underperformed and gave negative return compared to the market. Over the period of period of three years all the companies underperformed the market and gave negative share price return.
- Finding in iron and steel sector For the year 2019-20,

all the companies under this sector underperformed the market and gave negative return except Jindal stainless steel Ltd, which gave positive return but underperformed the sensex return. Over the three periods of time except Jindal stainless steel Ltd and Jindal steel (Hisar) Ltd, outperformed the market and all other companies underperformed the market.

- Interpretations
- Companies where promoters has pledged more than 50% of their total share holdings as of December 2020 has underperformed and gave negative share price return despite of positive return in Sensex.
- The negative pattern is observed in three year average share prices despite positive return in

Sensex. So it's clear that irrespective of the market condition stock prices with higher promoter stock pledging underperform over the years.

7. In some cases despite high and increasing promoter share pledging, it is observed that share prices have gone up and given positive share price returns to retail investor.

Limitations of the Study: The study is based on secondary data obtained from the published reports, articles and business websites and as such its finding depends entirely on the accuracy of such data, covers a period of three years based on availability of data. The present study

has taken electric utilities, construction and engineering and iron and steel sector. In each sector, five companies with highest pledging of shares by promoters is selected for three years (2017-18 and 19-20). The remaining Companies are excluded from the present study. So, it is very difficult to give complete picture about the impact of pledging on stock prices.

The analysis of financial statement of business enterprise gives diagnostic indicators. Researcher being outside, external analyst obviously has no access to internal data. Therefore, inside view of the organization cannot be characterized in the study.

Table 6. Percentage share pledged data and percentage YOY return

Iron & Steel								
Company Name	Pledged Data				YOY % Return			Average Return YoY % - 3 Years
	Pledged % 2016-17	Pledged % 2017-18	Pledged % 2018-19	Pledged % 2019-20	Stock Return % 2017-18	Stock Return % 2018-19	Stock Return % 2019-20	
Sensex					27.90%	5.90%	14.38%	16.06%
Bharat Wire Ropes Ltd.	0.00%	0.00%	41.47%	70.22%	-59.45%	-4.76%	-3.45%	-22.55%
Visa Steel Ltd.	100.00%	100.00%	100.00%	100.00%	18.10%	-55.53%	-44.63%	-27.35%
Jindal Stainless Ltd.	37.27%	91.35%	85.77%	82.48%	177.03%	-67.21%	13.01%	40.94%
Jindal Hisar	66.09%	87.70%	87.70%	87.70%	152.15%	-59.12%	-18.04%	25.00%
ISMT Ltd.	72.77%	72.77%	72.77%	90.94%	83.14%	-47.30%	-46.39%	-3.52%

(Sources Bse, Nse, Trendlyne Reports)

Figure 5: Sensex Vs Stock Return for year 2019-20

(Source BSE/NSE and Trendlyne web sites)

Figure 6: Average Sensex versus average stock return for 3 years (2017-18 -2019-20)

(Sources Bse/Nse and Trendlyne reports)

Future Scope: The limitations of the present study give scope for the future research. Future research can be carried out by considering more sectors and companies. if data collection is of more study period and companies' conclusion may differs. Future research can be carried out to find share price by considering the revocation of pledged shares to evaluate the impact of the promoters pledging on their stock prices. However going forward due to change in nature of companies and changes in government regulations for more transparency, promoter share pledging may not have that much of negative impact on share price.

CONCLUSION

Promoter uses share pledging as method capital raising which can be used for expansion, working capital or personal requirements. Pledging of promoters share become extremely risky with highest percentage. It may erode earning of company which in turn will result in negative performance of the company. Market analyst view of highest promoter share pledging as negative attribute of the company and stay away from buying/ selling of company share.

Companies share prices underperform in stock market where promoter share pledging is very high even though the sensex shows upward trend and share prices of the other companies in the same sector perform better. For a retail shareholder, a high amount of promoter share pledging with bad financials could lead to the banks or financial institutions to dump company shares in open market to recover its dues. This would result in very negative effect on the stock price resulting in a huge loss to the retail shareholder.

Recommendation

1. The first objective explains the motives behind the share pledging. In many cases promoters motive is not clear and create ambiguity about the company. The companies with strong management teams can use the funds raised by pledging of the shares to expand the company's operations and boost its revenue. There is no rule of the thumb that a fundamentally strong company with less of promoter's shares pledging shouldn't be considered as a problem. However, retail investor must assess company's cash flow before making any investment decisions.
2. The second objective give understanding about the risk associated with promoter share pledging. Apart from negative impact on share prices it increases volatility in the market, skewed management decisions and a value trap for investors.
3. The final objective on the analysis is that highest promoter share pledging impact the share prices of the company. For all the three sectors chosen for study, companies underperformed the market and gave negative share price return. However, in two cases, the highest promoter pledging of shares gave positive share price return. Retail investor must do detailed study of the company financials along with promoter share pledging.
4. The Indian economy is setting to rise up. The pledging of promoter's shares is not necessarily bad. Even if a company has a high percentage of promoter's shares being pledged, if its operating cash flow is constantly increasing and the company has good prospects, it can be worth investing in for retail investors.
5. It is advised that retail investor must be watchful and need to regularly track increase & decrease in promoter share pledging year on year and promoters motive behind share pledging. As in most of the cases companies gave negative year on year return and underperform though market trend was positive.

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