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## Reducing Promoter Holding To 65% Will Increase Depth

**What should investors do with stocks where the promoter holdings are greater than 65%?**

Decrease in stake of promoter to 65% will increase the liquidity and increase the float of a company. Each company should be individually judged on business, business environment, financials and valuations before deciding whether to hold the stock or not.

**What is your take on the recent announcement made in the budget on promoter holdings?**

Increase in public holding helps in increasing transparency and increased participation of the public. The announcement of reducing the promoter stake to 65% will help in increasing the market depth. Out of 1800 stocks where trading happens regularly, only 500 companies' average turnover is mere ₹1 cr and only 220 companies have daily turnover of ₹10 cr.

**What are the positives (outcome) of such a move?**

The positive outcome will be that liquidity of stocks will increase and there will be greater participation of the public in the business of a company. This will also increase transparency in the activities of the company. In the process of reducing

such stakes, the company will come in with rights/bonus issue or preferential allotment, OFS, etc which all will be coming in as a one-time short term reward to the common shareholders.

**How have companies performed whenever the promoters have had to reduce their stakes in the company?**

In year 2010, when the ruling of promoters' shareholding to be reduced to 75% came in, many companies got themselves delisted (especially the MNCs who get dividend income from Indian subsidiaries and who would not want to reduce their shareholding in the company). On the one side, there is greater amount of confidence in a company where the promoter's holding is more as it depicts that the promoter's skin is in the business. On the other, as public holding goes up, it will increase the market depth and businesses will have greater transparency due to increased public participation.

**What are you advising your clients on those stocks that are affected by the announcement?**

We advise our clients to hold on to the good quality shares. This move has to be analysed on a case-to-case basis and the decisions have to be taken on individual stocks.

extend this sale over a period of 3 to 5 years, it will be extremely difficult for these banks to find investors. There will be tremendous pressure on the stock prices of PSU banks going ahead.

PSU Banks	Promoter Holding	Returns (%) Since Budget Announcement
IDBI Bank	97.46	-2.78
United Bank of India	96.83	-5.19
Corporation Bank	93.49	-2.82
Uco Bank	93.29	-5.61
Indian Overseas Bank	92.52	-4.32
Bank of Maharashtra	92.49	-4.22
Andhra Bank	90.85	-4.2

\*Promoter holding data is for March quarter

### MNC Stocks

Several MNC stocks are expected to be affected by the recent announcement in the budget. Out of 30 stocks in the Nifty

MNC index, there are almost 14 stocks that have promoter shareholding of more than 65 per cent. The average returns of these 14 stocks with higher promoter holdings since the budget announcement has been negative 2.54 per cent. This is when the Nifty MNC index is down by 2.1 per cent and Sensex is down by 1.96 per cent in one week from the date of announcement.

There is wide speculation in the markets that some of the MNCs may opt to delist themselves rather than dilute their stake by a further 10 per cent. While the possibility of MNC delisting cannot be ruled out entirely, this probability in our view is low.