

Analysis of Indian Listed Companies Non-Compliant with Minimum Public Shareholding Norms

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In June 2010, the SCRR Rules were amended to the effect that all public companies, listed or proposed to be listed, shall mandatorily be required to have at least 25% public shareholding (with the exception of PSUs which needed to have at least 10% public shareholding). Existing listed companies with public shareholding less than 25% were given three years to comply with the minimum public shareholding limit i.e. by June 2013 and PSUs were given time until August 2013. As the deadline for compliance approaches, promoters of Indian listed companies have been clamoring to offload their excess shareholding through various routes to comply with the revised norms prior to June 2013.

SEBI had allowed companies to take either one of the routes (viz., follow-on offering, offer for sale by promoters (OFS), institutional placement program (IPP), bonus/rights issue excluding the promoters) to comply with these requirements. Any company that wanted to take any other route than those prescribed by SEBI had to take the regulator's permission before doing so.

More than 25 of the large/mid cap listed companies have already complied with the revised norms in the last one year. Given the run-up in stock prices towards end of last year and relative ease of use of the OFS process compared to other prescribed methods, most companies opted for the OFS route for complying with the SEBI norms, prominent among them were companies such as Reliance Power, Adani Power, Jaiprakash Power Ventures, DB Corp, NTPC, NMDC and Oil India. However, a few companies such as Godrej Properties and Godrej Industries opted for the IPP route. Gammon Infra opted for the bonus issue route given very low excess promoter shareholding whereas Wipro opted for the restructuring/demerger route post permission from SEBI. The more creative ones like Gokaldas Exports and Gillette India have tried to prune their excess shareholding by reclassifying their existing promoters as non promoters, which of course SEBI has objected to. However, the Gillette case is still subjudice as on date. Many companies have also opted for a combination of these routes to comply with the revised requirements.

However, based on shareholding pattern as of December 31, 2012, our analysis of the top 500 companies of the BSE500 index suggests that there are 40 companies yet to be compliant with the minimum public shareholding norms. Out of this there around 8 are public sector units and 32 are private companies. Out of the 32 private companies, 5 of them are companies that got listed with a post issue capital of more than Rs 4,000 crores and hence have three years post listing to adhere to the revised norms. 10 of these companies are listed subsidiaries of MNC firms.

The total value of stocks that need to be diluted by all the remaining companies prior to August 2013 amounts to approximately Rs 17,494 crores, out of which Rs 13,210 crores need to be offloaded by promoters of private companies (including Rs 3,246 crores by listed subsidiaries of MNC companies) and the remaining Rs 4,284 crores need to be offloaded by public sector units.

List of companies which need to comply with minimum public shareholding requirements:

Name	Mkt Cap (Rs. Crs.)	Promoter Holding (%)	Offer Size (Rs. Crs.)	Date to Comply
Private Sector Companies				
Wipro	110,576	78.29	3,638	Jun-13
DLF	47,011	78.58	1,683	Jun-13
Adani Ports and Special Economic Zone	29,220	77.50	730	Jun-13
Adani Enterprises	24,553	77.23	548	Jun-13
Sun TV Network	16,883	77.00	338	Jun-13
JSW Energy	9,775	76.72	168	Jun-13
Tata Communications	6,508	76.15	75	Jun-13
Jaypee Infratech	6,111	83.27	505	Jun-13
Jet Airways India	4,376	80.00	219	Jun-13
Fortis Healthcare	4,040	81.48	262	Jun-13
Essar Ports	3,765	80.30	200	Jun-13
Bombay Rayon Fashions	3,265	93.15	593	Jun-13
OMAXE	2,602	89.14	368	Jun-13
Mahindra Holidays & Resorts India	2,328	82.69	179	Jun-13
Puravankara Projects	2,145	89.96	321	Jun-13
Tata Teleservices Maharashtra	1,727	77.72	47	Jun-13
BGR Energy Systems	1,496	81.13	92	Jun-13
Listed MNC Subsidiaries				
Oracle Financial Services Software	24,712	80.31	1,312	Jun-13
Berger Paints India	6,685	75.54	36	Jun-13
Gillette India	6,468	88.76	890	Jun-13
3M India	4,174	76.00	42	Jun-13
BOC India	2,482	89.48	359	Jun-13
AstraZeneca Pharma India	1,958	90.00	294	Jun-13
Novartis India	1,863	76.42	26	Jun-13
Fresenius Kabi Oncology	1,858	81.00	111	Jun-13
Thomas Cook India	1,056	87.10	128	Jun-13
Timken India	946	80.02	47	Jun-13
Public Sector Companies				
MMTC	30,515	99.33	2,847	Aug-13
Neyveli Lignite Corp	11,912	93.56	424	Aug-13
Hindustan Copper	10,524	94.01	422	Aug-13
National Fertilizers	2,990	97.64	228	Aug-13
State Bank of Mysore	2,734	92.33	64	Aug-13
HMT	2,543	98.88	226	Aug-13
Rashtriya Chemicals & Fertilizers	2,427	92.50	61	Aug-13
State Trading Corp Of India /The	1,197	91.02	12	Aug-13
Total Private Sector Companies Size to comply by June 2013 (Rs. Crs.)			13,210	
Total Public Sector Companies Size to comply by Aug 2013 (Rs. Crs.)			4,284	
Total Size to comply by Aug 2013 (Rs. Crs.)			17,494	

Source: InGovern Research and Moneycontrol as of Mar 07, 2013; Constitutes companies from the BSE500 Index.

Note: Five companies (Bharti Infratel, L&T Finance Holdings, Oberoi Realty, Muthoot Finance and Bajaj Corp) that listed with post issue size of Rs. 4,000 Crores have been excluded from this list.

Many of the above mentioned private sector companies have committed to reduce their promoter shareholdings to comply with the SEBI guidelines prior to the deadline. Companies such as DLF, Adani Enterprises, Fortis Healthcare, Mahindra Holiday and Resorts India, Puravankara Projects, Berger Paints, Gillette India, AstraZeneca Pharma India and Timken India have already announced stake sale either through the OFS or IPP route and is expected to complete the same prior to the end of this quarter.

Some of these companies have also experienced high volatility in stock prices and a significant drop in stock prices in the past few months compared to movements in the overall index. Some of the listed MNC subsidiaries that chose to comply with the SEBI norms by reducing their stake through the OFS route instead of the delisting route were also affected significantly since the stock prices of these companies had shot up in the past on delisting expectations.

Some of the Stocks That Experienced Significant Volatility and Downward Stock Price Performance:

Company Name	Stock Price Performance		Stock Volatility	
	1 Month	3 Month	1 Month	3 Month
Public Sector Companies				
MMTC	-40.86%	-52.97%	28.05%	29.01%
Hindustan Copper	-10.47%	-24.82%	14.52%	16.11%
National Fertilizers	-11.66%	-23.24%	14.50%	16.92%
Rashtriya Chemicals & Fertilizers	-15.21%	-20.64%	9.19%	13.67%
Neyveli Lignite Corp	-14.20%	-14.46%	8.01%	12.55%
Listed MNC Subsidiaries				
AstraZeneca Pharma India	-41.59%	-48.15%	16.65%	21.19%
Timken India	-16.10%	-22.24%	9.43%	14.09%
Gillette India	-15.05%	-19.07%	8.20%	10.28%
Thomas Cook India	-10.95%	-18.54%	8.75%	11.28%
Novartis India	-9.25%	-15.07%	6.70%	7.98%
Private Sector Companies				
Adani Enterprises	-10.66%	-15.78%	13.22%	21.11%
Jaypee Infratech	-8.34%	-12.36%	15.29%	21.80%
Mahindra Holidays & Resorts India	-7.17%	-14.11%	8.05%	11.84%
Fortis Healthcare	-5.23%	-9.33%	6.92%	11.84%
BSE 500 Index	-3.54%	-3.64%	3.96%	5.48%

Source: InGovern Analysis

Compared to a drop of around 4% and volatility of around 6% in the overall index in the past three months, these stocks have fallen between 10%-50% and have experienced volatility of around 10% -30%. Investors should watch out for these stocks as well as other stocks in the list which are yet to announce any corporate actions to reduce their promoter shareholding prior to the deadline.