

Government announces new shareholding norm

The Government of India on Friday (4th June, 2010) made it mandatory for listed companies to raise public shareholding to a **minimum of 25%** in phases, a move which could bring in a flurry of public offerings from state-owned and private companies and suck liquidity from secondary markets. In a surprise move, the finance ministry said in a statement, that the Securities Contract (Regulation) Rules have been amended forcing listed companies to raise public shareholding by a **minimum 5 percentage points every year until it reaches the 25% limit**. For new listing, if the post-issue capital of the company calculated at offer price is more than Rs. 40 billion (Rs. 4000 crore), the company may be allowed to go public with 10% public shareholding and comply with the 25% public shareholding requirement by increasing its public shareholding by at least 5% per annum. The move by the Government is in line with practices followed in developed economies globally. While the London Stock Exchange requires 25% minimum public holding, the Singapore and Hong Kong Stock Exchanges also stipulate public share holding between 12% and 25%.

New norms - a move to pick up disinvestment process

The new norms would help government's disinvestment process as the new norms would speed up disinvestment in state-owned companies like **MMTC Ltd, State Trading Corporation of India Ltd, Steel Authority of India Ltd, Engineers India Ltd and PowerGrid Corporation of India Ltd**. Government has set a target of Rs 400 billion from disinvestment in 2010-11, as part of efforts to cut its fiscal deficit to 5.5% from 6.6% in 2009-10. The higher-than-expected earnings from 3G spectrum auction and planned stake sales could also ease the pressure on borrowing and reduce fiscal deficit to lower the budget target.

Fear of Liquidity squeeze in the secondary markets

While a flood of public offerings would help the government and some industrialists, we fear liquidity squeeze in the secondary market and lower valuation of shares. There won't be enough liquidity in secondary market to absorb so many issues. Share valuations of many may also be affected. Some big private companies like **DLF Ltd, Wipro Ltd, Godrej Industries Ltd and Essar Shipping Ltd** may have to sell shares within 12 months.

The finance ministry, however, justified the new rules saying a dispersed shareholding structure was essential for sustenance of a continuous market for listed securities to provide liquidity to investors and to discover fair prices. Over the long run, higher public float is an obvious bonus for investors who will not just get a wider choice of stocks to invest in, but can

also hope for better price discovery in the market. Companies with inflated valuations will now correct to more realistic levels.

On the flip side, there are still some questions that need to be answered. The government's statement was silent on what consequences will companies face if they fail to meet these requirements and also on when these rules take effect, as selling stakes in uncertain market conditions could give jitters to corporates.

BSE 500 Companies with Promoter Holding >75%			
Company	Promoter Shareholding %	Company	Promoter Shareholding %
Hind.Copper	99.59	Kwality Dairy	83.70
MMTC	99.33	Mahindra Holiday	83.09
HMT	98.88	Ackruti City	82.49
Natl.Fertilizer	97.64	BGR Energy Sys.	81.31
Neyveli Lignite	93.56	Oracle Fin.Serv.	80.47
R C F	92.50	Central Bank	80.21
S T C	91.02	Mundra Port	80.17
Engineers India	90.40	S C I	80.12
Fres.Kabi Onco.	90.00	Indian Bank	80.00
NMDC	90.00	Jet Airways	79.99
Puravankar.Proj.	89.96	Wipro	79.52
Power Fin.Corp.	89.78	Godrej Inds.	79.10
BOC India	89.48	I O C L	78.92
Omaxe	89.14	DLF	78.64
Alfa Laval (I)	88.77	Dredging Corp.	78.56
Gillette India	88.73	Oil India	78.43
M R P L	88.58	Tata Tele. Mah.	77.73
IVRCL Assets	88.07	Thomas Cook (I)	77.27
JP Power Ven.	87.70	Nirma	77.17
Natl. Aluminium	87.15	Sun TV Network	77.00
NHPC Ltd	86.36	Bank of Maha	76.77
Power Grid Corp	86.36	JSW Energy	76.72
D B Corp	86.35	Fortis Health.	76.47
S A I L	85.82	Novartis India	76.42
Reliance Power	84.78	Tata Comm	76.15
NTPC	84.50	3M India	76.00
United Bank (I)	84.20	Gammon Infra.	75.98
Godrej Propert.	83.79	Bharat Electron	75.86
Atlas Copco (I)	83.77	Berger Paints	75.59
Essar Shipping	83.71	IL&FS Transport	75.09

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