THE ECONOMIC TIMES

7 MAR, 2013, 06.00AM IST, REENA ZACHARIAH & RAJESH MASCARENHAS,ET BUREAU

Illiquid stocks may move to hourly call auction system; shift will hit 1,800 stocks

MUMBAI: Stocks like ITDC, the hotel chain in which the Tata Group holds a sizeable stake, Pilani Investment, the investment arm of BK Birla Group, Westlife Development, which houses McDonald's India franchisee, among others, may be taken out of the normal trading counter in stock exchanges, with a new regulatory rule kicking in from next month.

In a move to curb share price manipulation, capital market regulator Sebi will shift illiquid stocks from the normal trading platform to 'call auctions' — a system where deals happen on an hourly session. According to an ET analysis, this will impact 1,800 stocks out of around 5,100 listed companies. Compared to the continuous order matching system in the normal market, in call auction orders are aggregated every hour, of which 45 minutes will be for order entry, modification and cancellation, 8 minutes for order-matching and trade confirmation and the remaining 7 minutes will be a buffer period for closing the current session and facilitating the transition to next session.

For unexecuted transactions, fresh orders have to be placed in the next one-hour session. Such short trading sessions, extending for an hour, will be held throughout the day.

Moving at a Snail's Pace

	CURRENT MCAP (₹ CR)	3M DAILY AVG VOLUME	3M DAILY AVG TRADES
ITDC	11,258	113	12
Rupa & Co	1,312	2,459	59
Asian Star Company	1,121	16	3
Pilani Investment	1,083	184	19
Bannari Amman Sugars	1,031	979	66
Shree Ram Urban	458	1,582	24
Citurgia Biochemicals	418	122	8
Kirloskar Brothers	397	851	14
Asian Hotels (North)	290	1,290	68
Orissa Sponge Iron	276	173	6

The new rule is likely to impact 50% of the stocks traded on BSE and it remains to be seen how this mechanism will benefit the small investor or improve liquidity in the stocks," said Mehul Savla, director, Ripple-Wave Equity Advisors. "If the objective is to curb price manipulation, it could be achieved through strengthening surveillance rather than penalising a large section of the market," he said.

Other stocks that could be impacted by the new rule include Shree Ram Urban InfrastructureBSE -5.97 %, Wadia Group company Citurgia BiochemicalsBSE 2.06 %, Jagatjit IndustriesBSE 0.00 % — the maker of Aristocrat whiskey, Sahara One Media and EntertainmentBSE 1.01 %, Orissa SpongeBSE -3.15 %and Shapoor Mistrymanaged Forbes & Company.

"Illiquid stocks could become more illiquid and retail investors may not get easy exit," said Ashok Bakliwal, president, Bombay Shareholders Association, adding that "brokers may not entertain these stocks as the call auction will increase workload."

Some of the stocks, which may be classified as illiquid, have fluctuated wildly. For instance, ITDC, which runs the Ashok chain of hotels, rose 1098% to Rs 1,313 in the past one year with an average daily volume of 70 on BSE. Likewise, Westlife DevelopmentBSE 1.99 % stock surged 1700% to Rs 120 during the same period.

"The introduction of call auction for illiquid stocks would further reduce the liquidity in these counters as un-matched trading orders will be terminated at the end of each session," Rikesh Parikh, VP-markets strategy and equities at Motilal Oswal Financial ServicesBSE 2.05 % said.

In February, the regulator said that a scrip, irrespective of whether it is trading in the normal market or under trade for trade settlement (where shares are not delivered), will be classified as illiquid if the average daily trading volume is less than 10,000 shares in a quarter and if the average daily number of trades is less than 50 in a quarter.

But, a few in the market think the call auction mechanism may work well for illiquid stocks. "Call auction is better as it aggregates orders at one particular point of time and matches the order, the method becomes more realistic as there is less scope for speculation," said V Nagappan, secretary, Associated Chamber of Capital Markets.