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Business Standard

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Promoters tightened grip with stake hikes in 500 firms during March panic

Experts say they may have seen sharp correction caused by Covid-19 as an opportunity to consolidate holdings and send a signal to the market on their companies' intrinsic value even as stock prices crashed

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Sachin P Mampatta | Mumbai
Last Updated at July 4, 2020 01:41 IST

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Many promoters would be required to pay as much as 43 per cent tax on dividends for dividends declared in the new financial year

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Promoters used the opportunity, provided by the market slump in the March quarter, to increase stake

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in companies they own. Over a million of the close to 2,500 firms analysed showed such a trend.

They may have looked to consolidate holdings in order to send a signal to the market on the entity's intrinsic value, despite share prices crashing, according to experts.

Business Standard looked at 2,476 firms for which shareholding data was available. A total of 510 saw an increase in promoter stake vis-à-vis the December quarter. This was higher than the trend in previous quarters.

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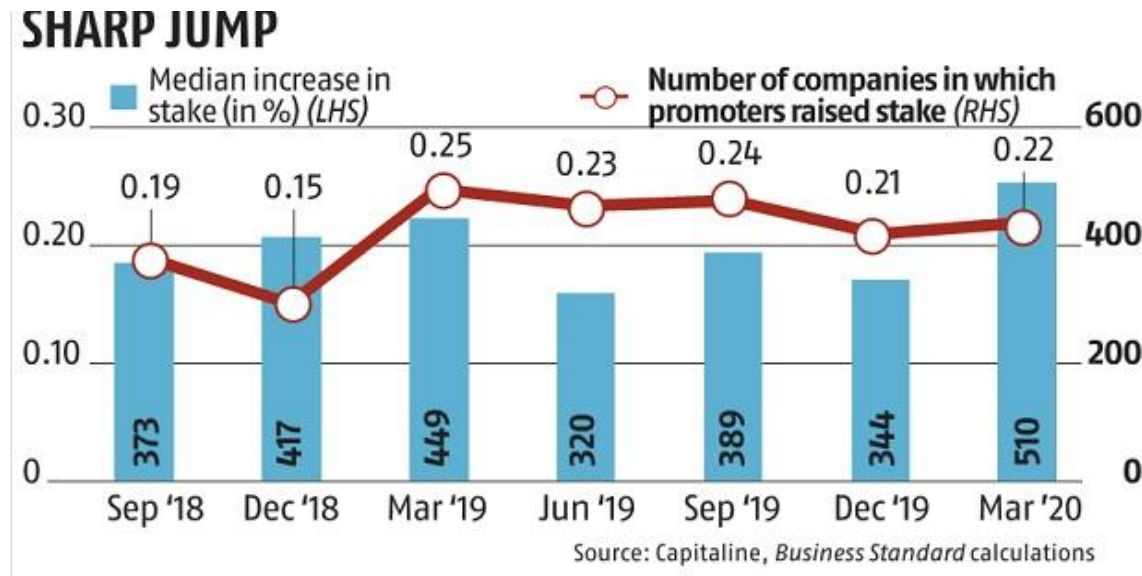
Mehul Savla, director at RippleWave Equity (a boutique investment bank), said promoters could have been sitting on additional liquidity because of interim dividends. The higher tax on dividends had caused firms to pay out dividends ahead of the new regime coming into effect in April.

Many promoters were required to pay as much as 43 per cent tax on dividends declared in the new

financial year. This led to a flurry of interim dividends to keep up with the deadline.

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chart

Those flush with cash used the drop in share prices to raise stake, but the scenario has changed. With share prices heading north again, the case for increasing stake is less

compelling than it was in March, added Savla. "You might actually see...lower activity."

The Sensex dropped 37.9 per cent to a low of 25,639 in March, compared to a December-end level of 41,254. The BSE MidCap and BSE SmallCap also showed similar declines. All three indices have since recovered. The Sensex has risen 40.5 per cent since then, and closed at 36,021 on Friday.

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Pranav Haldea, MD of PRIME Database, noted that promoter stake has been on the decline since a decade, driven primarily by the minimum public shareholding requirement and greater participation by both foreign and domestic institutional investors.

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The government, which is the promoter of listed public sector entities, has been steadily divesting stake in various firms. The March quarter correction marked a departure from that secular trend. "Promoters used the correction to accumulate shares and also send a signal on the companies' intrinsic value," he said.

Data on insiders' trading activity, tracked by Haldea, suggests that the trend has now changed. A surge in the benchmark indices after March may have compelled many to cash in on some gains or to take advantage of higher valuations to sell stake and raise capital.

"They have been selling more than buying in the June quarter," he noted.

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