

Benchmarks > Nifty LIVE 11,032.35 2.95 	NSE Gainer-Large Cap > Apollo Hospital 1,459.15 98.95 	Precious Metal > Gold (MCX) (Rs/10g.) 37,827.00 -336.00 	Stock Analysis, IPO, Mutual Funds, Bonds & More Market Watch
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Loans against shares now a pricier affair

BY SAIKAT DAS & RAJESH MASCARENHAS, ET BUREAU | UPDATED: AUG 15, 2019, 09.27 AM IST

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MUMBAI: Interest rates on loans against shares (LAS) have surged about 300 basis points in the past three months despite the RBI's soft rate regime as some high profile defaults have heightened the associated risk. Promoters of companies raise such loans for short tenors because they can't arrange other credit lines or to invest in other businesses. With mutual funds turning risk-averse and NBFCs struggling for liquidity, the hitherto lucrative segment has turned sour. A basis point is 0.01 percentage point.

The RBI has cut the repo, or benchmark, rate by 110 basis points in its past four monetary policy reviews. However, the interest rate on LAS, which was at 8- 12% three months ago, has gone up to 10-15%, depending on the profile of the company and promoters, said lenders.

"Interest on LAS has significantly surged in past three months as MFs who lend to firms against collateralised shares have turned risk-averse with plunging stock prices," said Vikrant Narang, CEO, structured finance, Ambit Capital.

Lenders Seeking More Cover

"Lenders are now demanding even more cover along with higher rates," said Narang of Ambit Capital.

The BSE MidCap and SmallCap indices have fallen 18% and 25%, respectively, in the past year amid a liquidity squeeze that has gripped NBFCs. That was sparked by the default by Infrastructure Leasing & Financial Services (IL&FS) in September last year. Dewan Housing Finance Corp Ltd (DHFL) has struggled to make repayments as has the [Essel Group](#), which was forced to reach a standstill agreement with some lenders after stocks crashed.

Several lenders that have given loans to small and mid-sized companies are sitting on losses as the market has fallen sharply in the past few weeks. [Yes Bank](#) recently invoked pledged shares in Cox & Kings, giving it a nearly 18.5% stake in the travel company. The private sector lender has also acquired stakes in Eveready, [Reliance Power](#), CG Power and several other companies after promoters failed to arrange funds following a crash in share prices.

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Not So Secure

Cost of loan against shares rises as stock prices plummet



Deep Dive	Cost Implications
18%: Drop in BSE MidCap index in 1 yr	Loans against shares usually for 6-24 months
25%: Fall in BSE SmallCap index during same period	Mostly used for working capital
₹1.86 Lakh Crore: Shares pledged by promoters as on August 13	Interest rate up at 10-15% , from 8-12%

The promoters of 830 listed companies had pledged shares worth Rs 1.86 lakh crore as of August 13. In about 80 companies, including Bajaj Hindusthan, Reliance Naval, IVRCL, Asian Hotels, [McLeod Russel](#) and Reliance Capital, promoters have pledged more than 90% of their holding.

Loans against shares are normally of tenors ranging from six to 24 months. As banks cannot lend more than Rs 20 lakh to a single entity under LAS, promoters raise funds from NBFCs by pledging their shares.

Interest rates have increased by 200-400 basis points versus a year ago, dealers said. The tight market liquidity has also fuelled this trend, according to dealers.

"Investors are demanding risk premium amid a volatile stock market," said Lakshmi Iyer, chief investment officer, debt, at Kotak Mutual Fund. "Many small or mid-size company promoter pledges are also rising, which in turn also stokes fears among investors and this has led to higher LAS rates."

Promoters of some large and midcap companies including Sterlite Technologies, Adani Ports, GMR Infra, Emami, Indiabulls Housing, Indiabulls Real Estate and Jubilant FoodWorks redeemed pledged shares recently amid liquidity stress and a drop in stock prices.

"Fund houses seem to be attracting regulatory attention on LAS due to collapse of some latest corporate deals," said Vikram Dalal, founder, Synergie Capital. "All investors are now seeking risk aversion with companies running for credit lines. This has made money costly for those mid to small size promoters who used to approach NBFCs to pledge their shares in order to raise funds for their business."

The Securities and Exchange Board of India (Sebi) said in June that detailed reasons will have to be provided for pledging more than 20% of the share capital or 50% of the promoter holding. There's also a closer watch on mutual funds' exposure to LAS schemes. The regulator also frowned upon the standstill agreements between Essel and mutual funds. They had agreed not to invoke pledged shares, giving the group time to sell assets and repay loans.

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