SHAREHOLDING PATTERN ANALYSIS & EFFECTS ON STOCK PRICE

Mayank Gurnani
MBA Student, Gujarat National Law University, Gandhinagar, India,
Email - Mayank0693@gmail.com

Abstract: *The Indian Economy, one of the emerging markets of the world, today has a record rate of return which is substantially better when compared to the markets of developed western economies. Thus Indian equity markets today are attracting investors from around the world to take advantage of India's growth story. Doing a proper research of the stock price helps investors to time the security of listed company. Security research provides information on the current and future prospects of stock price. Research report is generally prepared by analyst of entities like investment banks, consultancies or private research firms, whose reputation influences investors' behaviour significantly. Analysts make predictions on earnings (earnings forecasts), forecast long-term stock prices trends (stock recommendations) and try to anticipate future stock prices (target prices). There are various techniques and tools available to analysts for predictions amongst them are Fundamental Analysis, Technical analysis, and Efficient Market Hypothesis. Each of these techniques has its own advantages and limitations. While a great amount of research has been done to understand the effect of macro and micro variables on stock returns but the effect of Share holding pattern over stock prices remains unexplored. This research note talks about analysis of Share Holding Pattern on the stock price. Analysis of share holding pattern is part of the technical analysis. For the purpose of the research note two sectors i.e. IT and Pharmaceutical is taken in account. Through this study we will concluded how significant role SHP plays in predicting share price.*

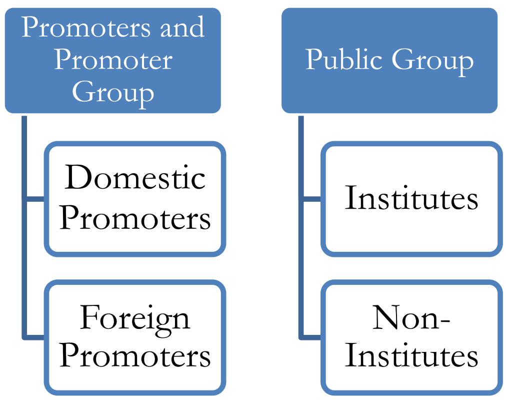
Key Words: *Shareholding Pattern, Promoter's Holding, Foreign Institutional Investors, Retail Investors and Stock price.*

1. INTRODUCTION:

There are various method aimed to value of the underlying company. These method takes into account the intrinsic value of the share keeping in mind the macro and micro conditions along with the company's financial condition and management performance. Purchasing a stock buying the ownership in companies' profit. There's one item which companies has to mandatorily disclose with quarterly regularity and is worth more than a passing glimpse. It's not sales or profits, but shareholding patterns. And here are the reason why one should look at it. Shareholding pattern depicts the detailed ownership of that company. Most importantly many a times, shareholding pattern indicates future stock price movement. Shareholding pattern shows how the total number of shares equity outstanding in the company is divided between various owners (individuals and institutions). It shows how the ownership split among the entities that make up its owners. Section 93 of the Companies Act, 2013, mandates that every listed companies shall file with the Registrar with respect to change in the number of shares held by promoters and top ten shareholders of such company, within fifteen days of such change.[1]

Shareholding Pattern shows a list of promoter entities, public owning more than 1% and another list of public owning more than 5% of the company's shares. It also includes detailed list of locked-in shares and encumbered / pledged shares.

Figure 1: Types of Shareholders:



1 https://www.caclubindia.com/articles/a-re-look-on-the-section-93-of-the-companies-act-2013-21159.asp

I. **Promoters and Promoter Group –** Promoters are those who incorporated the company. They can be either domestic or foreign. Relatives of promoters owning shares also come under promoter group.

a. **Domestic Promoters:**
   - i. Individuals
   - ii. Government Bodies
   - iii. Corporate Bodies
   - iv. Financial Institutes/Banks

b. **Foreign Promoters:**
   - i. Individuals (NRI/Foreigners)
   - ii. Corporate Bodies
   - iii. Institutions
   - iv. Qualified Foreign Investors

II. **Public Group –** Share holders other than promoters constitute public shareholding pattern. FIIs, DIIs, banks, money managers, mutual funds, insurance companies, individuals, etc. come under this group.

a. **Institutions:**
   - i. Mutual Funds
   - ii. Financial Institutions/Banks
   - iii. Government
   - iv. Venture Capital Funds
   - v. Insurance Companies
   - vi. Foreign Institutional Investors (FIIs)
   - vii. Foreign Venture Capital Investors
   - viii. Qualified Foreign Investors

b. **Non Institutions:**
   - i. Corporate Bodies
   - ii. Individuals
   - iii. Others such as Trusts
   - iv. Clearing Members, NRIs, etc.
   - v. Custodians (in case of foreign depository receipts)

2. LITERATURE REVIEW:

Invalid source specified.**:** In this paper author has tried to explain the long term investment in stock using intrinsic values is not alone enough. With advent of technology, machine learning can also help investor to predict the future price of the stock.

Invalid source specified.**:** In this paper authors have explained how the stock market prediction is to be done by news articles. This paper is focused on Daily prediction of a stock price and a system which provides relatively high return on investment.

Invalid source specified.**:** This paper explains Efficient Market Hypothesis as popular theory of stock prediction but it not much useful in recent times. It also talks about how non quantifiable data such as financial news articles about a company and predicting its future stock trend with news sentiment classification.

3. METHODOLOGY:

RESEARCH DESIGN	DESCRIPTIVE
SOURCES OF DATA	SECONDARY DATA
DATA COLLECTION AND ANALYSIS TOOLS	PAST PAPER, ONLINE REPORTS, E-PAPER ARTICLES AND WEBSITES & BLOGS

4. ANALYSIS: UNDERSTANDING OF SHAREHOLDING PATTERN

While looking into the shareholding pattern of a given company, the two important categories of shareholders need to be carefully analyzed i.e. the promoter's holding and the FIIs holding in the company. The rise in promoter stake does not always indicates a sign of confidence. Further, it is required to see whether fresh funds have come in. If fresh fund have been received, then where will it be invested. Answers to these underlying questions would help investors to determine whether jump in promoter stake is beneficial to the company. The rise in FIIs stake is a good sign – It shows their bullishness on the stock. However, at the same time, the flip side of huge FII holding is that when they off load their holding, the stock price will be subject to high volatility.

i. **Promoters Shareholding –** Promoters are the founders (or initial investors) of the company. Promoter holding is the total number of shares held by the promoters and the promoters group out of the total outstanding shares of the company. Security Exchange Board of India, watchdog of security market, recently introduced a regulation by limiting the promoter's holding to maximum of 75% of the total shareholding and public holding to minimum 25%. Generally, promoter's movements are followed to predict the future outcome of the company. If promoters their stake it is comprehended that they have high confidence in the business and May get the positive results but it not always the case.

Let me take an example. **Everonn Ltd** saw rise in the promoter's holding from 42% in September Quarter 2011 to 55% in December Quarter of same year, but the outcome was decrease in stock price. So investing solely on this basis can leave investor disappointed. Often promoter simply buy more stake to boost the stock price. Therefore, it does not at all mean that buying always is associated with good prospect and expected profit. However, most of the time increase in stake is followed by the upside movement of the company.

Now, let's flip the situation where the promoter holding very less or they are selling their stake. Lower stake means low confidence in the company which can be interpreted that the promoters are not optimistic about the future prospect of company. Like it happened in case of **Satyam Computers**.

Promoter shareholding is Satyam Computers was **10.70%,** while the total public shareholding was **89.30%** by the end of June 2008. It saw sharp decline in promoters shareholding to 2.70% and total public shareholding tolled to 97.30% by the end of 2008. This was followed by share price decreasing by 77.7% on January 7, 2009. In this case promoters were aware about the forged the accounts and with the exposure of forgery, shares would experience plunging. But always one cannot interpret that the offloading of shares as the negative thing. The reason behind this is that even promoters have the right to enjoy the profit of their company by selling their stake. It is not at all wrong in selling stake, and adding huge numbers on board, moreover promoters came in the business to earn return on the invested money because they have been working for it since 10-15-20 or even 50 years. For an example, promoters of **Page Industries** are reducing their stake during the last 2-3 years. Still the stock price appreciate more than **200%**.

ii. **Public Shareholding** – Shareholders other than promoters are known as public shareholders. Public shareholding pattern consists of institutional and non-institutional investors.

1. **Institutional Investors**: Institutional investors can be the pension funds, money managers, mutual funds, insurance companies, investment banks and commercial trusts. They buy large quantities of shares which in turns make impact on the stock market's movements. They do this by analyzing the stock through various techniques and tools. Hence, their movement is followed by retail/small investors.

2. **Foreign Institutional Investors**[2]: FIIs are the drivers of the market. They are considered as smart people investing their smart money. A higher FIIs stake is interpreted as positive and a lower FII stake means low confidence of FIIs in the company. If FIIs increase their stake it is considered positive as they invest funds only when they are totally optimistic and confident about the future of the company. Just like promoters, If FIIs sell their shares then it does not mean that the company is fundamentally weak. Their selling may be due to the economic or political changes, legal problems in their home country or it's just that they want to enjoy their profit. Whatever be the reason, if they offload huge quantities then a huge fall in stock price is witnessed**.**

3. **Domestic Institutional Investors:**[3] Domestic institutional investors are those institutional investors which take on investment in the same country they are settled in. Like said earlier money managers are knowledgeable and experienced who keep an eye on every activity of the stocks. So, they choose the company based on minute analysis and careful observations. Hence, if DIIs invest in any company, it is considered as a good sign. Buying and selling huge blocks of share causes fluctuations in share price. Many at times offloading is done due to various reasons like pressure by their clients, political uncertainty, economical constrains etc.

4. **Analysis of Institutional Investor movement:** So after analyzing the institutional investors' shareholding pattern, how should investor identify a stock which can become favorite among FII in near future? In such

[2] Https://Www.Paulasset.Com/Article
[3] *Id*

scenario share price is rises by 3-4 times or more within 1-2 years. Let us analyze with stock of **Ajanta Pharma,** it was at Rs-252 during December, 2012. At that time, the stock was not under portfolio of various analysts. This is was the reason because of which company didn't get enough lime light from institutional investors. With revised fundamentals, up surging financial numbers and better future prospects, the company attracted institutional investors. Since then FII have increased their stake to 3.81%, resulting an increase of around 184% on FII holdings.

Institutional Investors: Non institutional investors are those who carry their investments through a broker, bank, and real estate agent and so on. They are generally common people or organizations managing money on their own.

5. FINDINGS:

By observing and studying shareholding pattern of various categories of investors' can insights regarding the company's stock price.

HOW TO MAKE MOST BY ANALYZING THE SHP OF COMPANY?[4]

- **I.** Rise or fall in promoters holding is to be studied by looking at two aspects. First what is purpose of promoters in raising or reducing their equity stakes and second, the methods promoters have adopted to increase or reduce their ownership.
- **II.** If the promoters are increasing their stake to pay off debts and strengthen their balance sheet. This is certainly positive for the shareholders.
- **III.** Companies that have gone for share buyback also see rise in promoter's stake. The core objective of a buyback is to create wealth, but it also increases promoter's equity stake at no additional cost. A rise in promoter's stake due to merges or buyback means little for investors in real terms.
- **IV.** Promoters of companies that have opted for rights issue are forced to step in and bail out the unsubscribed portion just in case the rights are undersubscribed. Here, there will be an unintentional rise in promoter's stake. Shareholders declining to subscribe to rights issue and promoters chipping to rescue the issue do not qualify to be positive development.
- **V.** A decline in promoter holding should also be analyzed in detail. Decline in promoter holding can be due to various factors such as issuing fresh share towards employee stock option, or it could be due to offloading/issuing of fresh shares to strategic/financial partners. These changes should be carefully studied.
- **VI.** Promoters offloading their holdings in the open market are a warning signal. Some dubious companies announce positive development periodically; promoters keep on offloading equity stake at the same time. It is well laid-out trap for investors.
- **VII.** If you see promoters increasing their stakes in successive quarters, you know that the financial performance is going to be good and the stock prices would possibly be higher. However, it's unusual to see promoters' holding increase on a regular basis. They usually step in to buy after a sharp market decline to shore up their holdings.
- **VIII.** A very high promoter holding is not a good sign. A diversified holding and a good presence of institutional investors indicates that promoters have little room to make and carry out random decisions that benefit them without gauging how it would affect earnings and other shareholders.
- **IX.** Very low stake of promoters is perceived as diminishing confidence of promoters. This results in rampant sell off which results in loss for investors.
- **X.** FII holdings in stocks are used as indicators in stock selections; stocks with high FII holdings are largely favored. However, such stocks could take a hit should the FIIs decide to sell their stake. Retail investors may perceive such selling off to be a lack of faith in the stock by the FII.
- **XI.** Holding by mutual funds and insurance companies is an indicator on how favored a stock is. Multiple funds holding the stock could be a sign of growth potential. Therefore, such high institutional holding may mean your investment is a tad safer since that company may then be more professionally run.
- **XII.** While looking at the shareholding pattern, figures for a single period is also unlikely to tell you much. Compare holding patterns with those of the previous quarters to check how holdings have changed.
- **XIII.** Along with holding patterns, companies also disclose the entities — other than the promoters — that hold more than 1 per cent in the share capital. Companies are also required to declare the promoters' shares that have been pledged as debt collateral.

6. CONCLUSION/SUMMARY:

[4] http://www.sharemarketschool.com/shareholding-pattern

Retail investors like many of us are large in numbers, even lakhs and crores constitutes a part of shareholding pattern. However, share prices don't get affected by transactions of retail investor because shares owned by them is very small when compared on the total shareholding. Investor need to pay more heed over the shareholding pattern. If in a stock where retail investors' shareholding is increasing while decreasing promoters/institutional shareholding. This may be early sign of stock price crash. Individuals have the least amount of knowledge and mostly carried with emotions. On the other side, institutional investors are the most knowledgeable (after the Promoters). So, you should be cautious if increasing individual shareholdings is resulted due to significant decrease in institutional holdings.

It is mandatory to analyze the shareholding pattern in-depth before any investment especially about promoters because it is rightly said a good management can uplift a bad company and a bad management can ruin a good company.

REFERENCES:

1. Bureau, B. (2011). Understanding Shareholding Pattern. *The Hindu Business Line*.
2. J, V. (2011). Shareholding Pattern – It Tells You A Lot. *Share Market School*.
3. Joshi, K., Bharathi, H., & Rao, J. *Stock Trend Prediction Using News Sentiment Analysis*.
4. Milosevic, N. (2016). Equity Forecast: Predicting Long Term Stock Price Movement Using Machine Learning. *Journal Of Economics Library*, *3*(2).
5. Parikh, V. (2012). What Is Shareholding Pattern. *Lets Learn Finance*. Retrieved From Http://Www.Letslearnfinance.Com/What-Is-Shareholding-Pattern.Html
6. Shareholding Pattern Analysis: Importance, Significance And Effects On Stock Price. (2018). *Paul Assets*. Retrieved From Https://Www.Paulasset.Com/Articles/Shareholding-Pattern/
7. Sharma, S. (2015). A Re-Look On The Section 93 Of The Companies, Act, 2013. *Ca Club India*.
8. *What Is Technical & Fundamental Analysis Of Share Market | Kotak Securities®*. (2018). *Kotaksecurities.Com*. Retrieved From Https://Www.Kotaksecurities.Com/Ksweb/Research/Investment-Knowledge-Bank/Stock-Market-Analysis