Shareholding Pattern in India- by Venkateswaran R *

> "I will tell you how to become rich. Close the doors. Be fearful when others are greedy. Be greedy when others are fearful."
>
> **- Warren Buffet**

I. Introduction

The investors form the backbone of any economy. It is the investors who supply the much needed scarce resources to the users of resources, viz., the government(s) and the corporate sector. By promoting the investment activity, the investors contribute to the generation of national income, prosperity of the society and higher standard of living of the citizens. The society at large, the authorities having the mandate, the market participants/intermediaries who help in the flow of funds and the users of funds, therefore, have a duty to create and sustain the interests and the confidence of the investors in the markets and the systems, so that there is an uninterrupted and increasing flow of funds for investment.

An investor has a large variety of options to choose from. It can be investments in physical assets, such as real estate, gold, commodities, livestock, etc. It may be investments in financial assets, such as securities (including units of mutual funds), fixed deposits with banks, small savings instruments available with post offices, insurance/provident/ pension funds, etc. The choice depends on the amount proposed to be invested, the intended duration of the investment, the investment goals sought to be achieved and the protection and grievance redressal mechanisms available. The choice also depends on the importance attached to the investment objectives, viz., safety, return and liquidity. An investor likes the investment to be absolutely safe, while generating handsome returns and providing high liquidity.

Over the decades, several reforms were initiated to broadbase the shareholding in the Indian companies and, thereby, to facilitate wealth creation, wealth management and wealth sharing, prominent among them being the establishment and empowerment of regulatory bodies, the requirement of minimum public offer by a company for getting listed on a recognized stock exchange, the prescription of a minimum public float for continuous listing, the evolution of the mutual fund industry, the emergence of banks, financial institutions and insurance companies as prominent investors and market players, the opening up of the Indian securities market to foreign institutional investors, the launch of the New Pension System (NPS), the spread of the equity cult among the masses, the Indian diaspora reposing faith in the Indian economy and, thereby, exhibiting home-country bias, better corporate governance practices and the development of world-class market microstructure in the securities market.

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The Preamble to the SEBI Act, 1992 states that the Securities and Exchange Board of India (SEBI) has been established *to protect the interests of investors in securities* and to promote the development of, and to regulate, the securities market. The efficacy of the investor protection mechanisms as well as the reforms ushered in by SEBI and other authorities is reflected in the number of investors in the securities market, while the nature and scale of the systems is determined by the number of investors.

In this context, the Paper has examined the shareholding pattern in the listed domestic companies. It is structured as follows. Followed by this introductory section, section II describes the data and methodology used. Section III presents the findings. Section IV concludes.

II. Data and Methodology

As per Clause 35 of the Listing Agreement (Clause 35), the listed domestic companies are required to file with the stock exchange the shareholding pattern on a quarterly basis within 21 days from the end of each quarter. There are two broad categories of shareholders prescribed by Clause 35: (i) the promoters; and (ii) the public. There are two main sub-categories under the promoters: (i) Indian; and (ii) foreign. The public shareholding has also been sub-classified into mainly two categories: (i) institutions; and (ii) non-institutions. Mutual funds (MFs)/UTI, financial institutions (FIs)/banks, central/state government(s), venture capital funds (VCFs), insurance companies (ICs), foreign institutional investors (FIIs) and foreign venture capital investors (FVCIs) fall under the category of institutions, while bodies corporate and individuals have been put under the category named non-institutions.

The details on shareholding pattern for 3,289 listed domestic companies for the quarter ended March 31, 2010 were obtained from BSE Ltd. For arriving at the market value of the investments, the closing prices on March 31, 2010 at BSE Ltd. for the respective company's equity shares have been taken. In case the equity shares of a company were not traded on that particular day, the closing price of that company's equity shares on the earlier traded day is taken. The market capitalization of these 3,289 companies accounted for 99.22% of the total BSE full market capitalization as on March 31, 2010.

The Paper also includes the data compiled from the World Federation of Exchanges on share ownership profile and equity investor population for a few countries, viz., Australia, Brazil, China, Denmark, Israel, Japan, Korea, Sweden, Taiwan and Thailand.

III. Shareholding Pattern in India

Table I and Chart I present the shareholding pattern in India as on March 31, 2010. The listed domestic companies in India are closely held. The promoters and promoter groups owned the majority of the total issued share capital of the listed domestic companies. While they accounted for 54.46% of the total number of shares issued, the market value of their holding amounted to 56.35% of the total equity market capitalization. Only a few of the listed domestic companies had foreign promoters. As a result, the share of the foreign promoters and promoter groups stood only at 5.78% of the total number of shares issued and 7.63% of the total equity market capitalization.

Chart II presents the break-up of the shareholding of the promoters and promoter groups. Foreign promoters/ promoter groups accounted for only 10.62% of the total number of shares issued and 13.53% of the total equity market capitalization accounted for by all the promoters/promoter groups. One reason for the high level of promoter shareholding is the significantly large holding by the Government of India (in the name of Her Excellency the President of India) in the public sector undertakings (PSUs).

The total public shareholding in listed domestic companies was about 41% (41.73% of the total number of shares issued and 41.10% of the total equity market capitalization). Institutions accounted for only 16.43% of the total number of shares issued. But, in terms of total equity market capitalization, they accounted for 25.02%. On the other hand, non-institutions under the public shareholding category held 25.30% of the total number of shares issued and 16.09% of the total equity market capitalization.

Though there are several types of institutions, quite a few only are very dominant investors. The foreign institutional investors, the insurance companies, the mutual funds/UTI and the financial institutions/banks accounted for 8.50%, 2.91%, 2.62% and 1.84% respectively of the total number of shares issued. Foreign venture capital investors and venture capital funds accounted for 0.12% and 0.01% respectively of the total number of shares issued. In terms of the total equity market capitalization, the shareholdings of the foreign institutional investors, the insurance companies, the mutual funds/UTI and the financial institutions/banks amounted to 13.64%, 5.00%, 3.84% and 1.78% respectively. Foreign venture capital investors and venture capital funds accounted for 0.03% and 0.01% respectively of the total equity market capitalization. Other institutions, not falling under the types mentioned so far, accounted for 0.43% of the total number of shares issued and 0.72% the total equity market capitalization. Thus, the foreign institutional investors, the insurance companies and the mutual funds/UTI rank in that order among the institutional investors.

The promoters/promoter groups of listed domestic companies may not trade at all or trade infrequently in the equity shares of their companies. The public, both institutions and non-institutions, on the other hand, trade more frequently and, thus, churn their portfolios. It is, therefore, apt to also compare the shareholding of each type of institution to the total free float market capitalization (shareholding without controlling/strategic interest), the total public shareholding and the total shareholding of all institutions. Table II presents the shareholding (in value terms) of the foreign institutional investors, the insurance companies, the mutual funds/UTI and the financial institutions/banks relative to the total free float market capitalization, the total public shareholding and the total shareholding of all institutions.

The foreign institutional investors held 32.11% of the total free float market capitalization, 33.18% of the total public shareholding and 54.52% of the total institutional holding. The insurance companies accounted for 11.78%, 12.17% and 20.00% respectively of the total free float market capitalization, the total public shareholding and the total institutional holding. The shareholding of the mutual funds amounted to 9.05%, 9.35% and 15.37% respectively of the total free float market capitalization, the total public shareholding and the total institutional holding.

The financial institutions/banks accounted for 4.20%, 4.34% and 7.13% respectively of the total free float market capitalization, the total public shareholding and the total institutional holding. Thus, the foreign institutional investors now occupy a preeminent position among the institutional investors and the insurance companies and the mutual funds/UTI, put together, cannot match their financial muscle/clout.

Among the non-institutions under the public shareholding category, bodies corporate held 6.96% of the total number of shares issued and 4.57% of the total equity market capitalization. The shareholding of the Indian households, or the retail individual investors, accounted for a paltry 8.66% of the total equity market capitalization and 14.90% of the total number of shares issued. Among the Indian households, those holding nominal share capital upto Rs. 1,00,000/- were the dominant, accounting for 70.99% of the total number of shares and 78.97% of the total equity market capitalization of all the households. Chart III presents the break-up of the shareholding of the Indian households.

The investments by the Indian households in the equity securities, debt securities and units of mutual funds are relatively very low. Table III presents the distribution of shareholding among domestic investors and foreign investors in select countries. It is evident that in all the other countries, developed markets as well as comparable emerging markets, the households allocated a larger share of their financial saving to the instruments traded in the securities markets and, thereby, held a larger share in the equity share capital of the listed domestic companies. In fact, the low level of shareholding of the Indian households is partly on account of the fewer number of investors, the stagnant growth of the investor population and smart exits/profit bookings during the course of a year-long market rally.

The equity shares of listed domestic companies held by custodians and against which depository receipts have been issued accounted for 3.81% of the total number of shares issued and 2.55% of the total equity market capitalization.

IV. Conclusions

The shareholding pattern in India is indeed broadbased. The promoter shareholding in India is higher than that in many other countries. Consequently, the public shareholding is lower, though it is more than 41%. With soaring equity share prices, compliance with the Securities Contracts (Regulation) (Amendment) Rules, 2010 (providing for uniform requirement of 25% public shareholding for initial and continuous listing), disinvestments announced by the Government of India and implementation of the recommendations of SEBI's Takeover Regulations Advisory Committee (TRAC), the promoter shareholding is expected to decline.

The institutions have been the predominant among the non-promoters. The foreign institutional investors have demonstrated to the institutional investors at home and to the world at large what an emerging economic power house called India, with robust regulatory environment, more favourable regulatory regime and fewer investment restrictions, can offer to institutional investors and, thereby, to their constituents.

The leading domestic institutions, viz., insurance companies, mutual funds, financial institutions and banks must promote financial literacy and financial inclusion, side by side, aim to mobilize a greater share of the household sector saving, develop well-equipped research desks and implement scientific risk management practices.

The impact of the current global financial crisis on the Indian equity and foreign exchange markets was severe. However, except for a stray case, the financial sector emerged unscathed. The exposure of the financial institutions/banks to the equity market has been low on account of regulatory stipulations and direct equity exposure has also been small. The Committee on Financial Sector Assessment (CFSA), constituted by the Government of India in consultation with the Reserve Bank of India (RBI), attributed the banking sector's resilience to the overall improvement in areas of capital adequacy, asset quality, earnings and efficiency indicators. The equity shock also did not significantly impact the solvency ratios of the insurance companies. The high levels of volatility did not affect the smooth functioning of the stock markets and the settlement of trades. Rather, it brought to the fore the resilience of the market infrastructure and its arrangements for risk management. All these underscored the robust regulatory environment within which the equity market has been operating in India. The domestic institutions should implement the lessons learnt from the global financial crisis while increasing their capital market exposures. At the same time, the domestic institutions should have an active interest/a greater say in the governance of the companies in which they have invested.

The pension fund managers, under the NPS, have already made their debut on the domestic bourses. With the implementation of the reforms in social security, both pension funds and provident funds will become prominent domestic institutional investors.

From a regulatory perspective, the fact that the listed domestic companies are disclosing the required information at the stipulated time intervals is a hearty sign. SEBI can rightfully take pride in that. But, there is a need for the stock exchanges to create awareness among the listed domestic companies about the format specified by the Clause 35 so as to ensure better disclosure, greater transparency and uniformity.

There is an urgent need to make an all-out effort to create investor awareness and to promote financial literacy and financial inclusion, side by side. Of late, SEBI has been following a two-pronged strategy in this regard. On the one hand, SEBI has been emphasizing the different risks inherent in many of the securities (which call for different levels of risk tolerance among the investors) and advising the investors to make informed (long term) investment decisions. On the other hand, SEBI is leading the initiatives to promote financial inclusion in the Indian securities market (for instance, the call to the depositories to introduce 'no-frills' demat accounts). The business potential, if the investor population in India grows to the levels seen in developed markets as well as comparable emerging markets, should prompt every other person in the Indian economy to more than match the SEBI's move.

Last, but not the least, the listed domestic companies must benchmark their governance practices to the global standards and codes.

Table I: Shareholding Pattern in India as on March 31, 2010 (% of Total)

	Number of Shares	Market Capitalisation
I. Promoter and Promoter Group		
1. Indian	48.68	48.72
2. Foreign	5.78	7.63
Total Promoter Shareholding	54.46	56.35
II. Public Shareholding		
1. Institutions		
(i) Mutual Funds / UTI	2.62	3.84
(ii) Financial Institutions / Banks	1.84	1.78
(iii) Venture Capital Funds	0.01	0.01
(iv) Insurance Companies	2.91	5.00
(v) Foreign Institutional Investors	8.50	13.64
(vi) Foreign Venture Capital Investors	0.12	0.03
(vii) Any Other	0.43	0.72
Sub Total (Institutions)	16.43	25.02
2. Non-Institutions		
(i) Bodies Corporate	6.96	4.57
(ii) Individual shareholders holding:		
(a) Nominal share capital up to Rs. 1 lakh	10.58	6.84
(b) Nominal share capital in excess of Rs. 1 lakh	4.32	1.82
(iii) Any Other	3.44	2.86
Sub Total (Non-Institutions)	25.30	16.09
Total Public Shareholding	41.73	41.10
III. Total	**96.19**	**97.45**
IV. Shares Representing Depository Receipts	**3.81**	**2.55**
V. Grand Total	**100.00**	**100.00**

Table II: Shareholding of Select Institutions				
	Holdings as a Percentage of			
	Equity Market Capitalisation	Free Float Market Capitalisation	Public Share-holding	Institutional Holding
Foreign Institutional Investors	13.64	32.11	33.18	54.52
Insurance Companies	5.00	11.78	12.17	20.00
Mutual Funds / UTI	3.84	9.05	9.35	15.37
Financial Institutions / Banks	1.78	4.20	4.34	7.13

Table III: Distribution of Shareholding among Domestic Investors and Foreign Investors in Select Coutries							
		Percentage Share of Households in		Percentage Share of Domestic Investors in		Percentage Share of Foreign Investors in	
Country	As on/at	Number of Shares	Market Capitali-sation	Number of Shares	Market Capitalisa-tion	Number of Shares	Market Capi-talisation
India	March 31, 2010	14.90	8.66	81.79	76.15	18.21	23.85
Austra-lia	2004	-	22.00	-	60.00	-	40.00
Brazil*	2002	-	20.90	-	74.00	-	26.00
China	2003	-	33.59	-	97.28	-	2.72
Den-mark	Quarter III, 2003	-	18.25	-	73.07	-	26.93
Israel	September 30, 2003	-	34.00	-	90.50	-	9.50
Japan	March 31, 2004	22.70**	20.50	80.30**	78.20	19.70**	21.80
Korea	March 30, 2004	45.70	20.80	83.30	60.00	16.80	40.10
Sweden	June-02	-	16.90	-	66.30	-	33.70
Taiwan	2002	50.70	-	88.67	-	11.33	-
Thailand	2003	32.39	23.30	75.14	70.43	24.86	29.57
Note: *: Share in Total Trading Volume; **: Pertains to 2003.							
Data on Domestic Investors include Households presented separately.							
Source: Author for India and the World Federation of Exchanges for other countries							

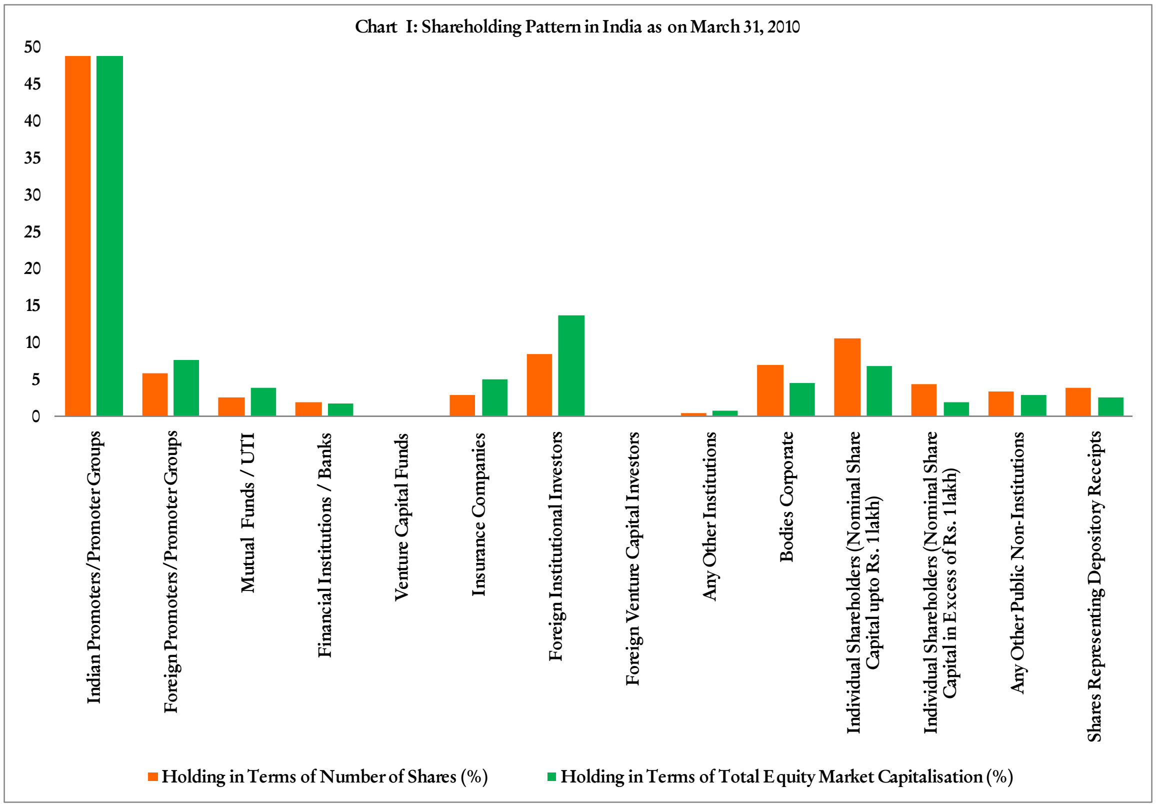


Chart I: Shareholding Pattern in India as on March 31, 2010
50
45
40
35
30
25
20
15
10
5
0
Indian Promoters/Promoter Groups
Foreign Promoters/Promoter Groups
Mutual Funds / UTI
Financial Institutions / Banks
Venture Capital Funds
Insurance Companies
Foreign Institutional Investors
Foreign Venture Capital Investors
Any Other Institutions
Bodies Corporate
Individual Shareholders (Nominal Share Capital upto Rs. 1lakh)
Individual Shareholders (Nominal Share Capital in Excess of Rs. 1lakh)
Any Other Public Non-Institutions
Shares Representing Depository Receipts
Holding in Terms of Number of Shares (%)
Holding in Terms of Total Equity Market Capitalisation (%)

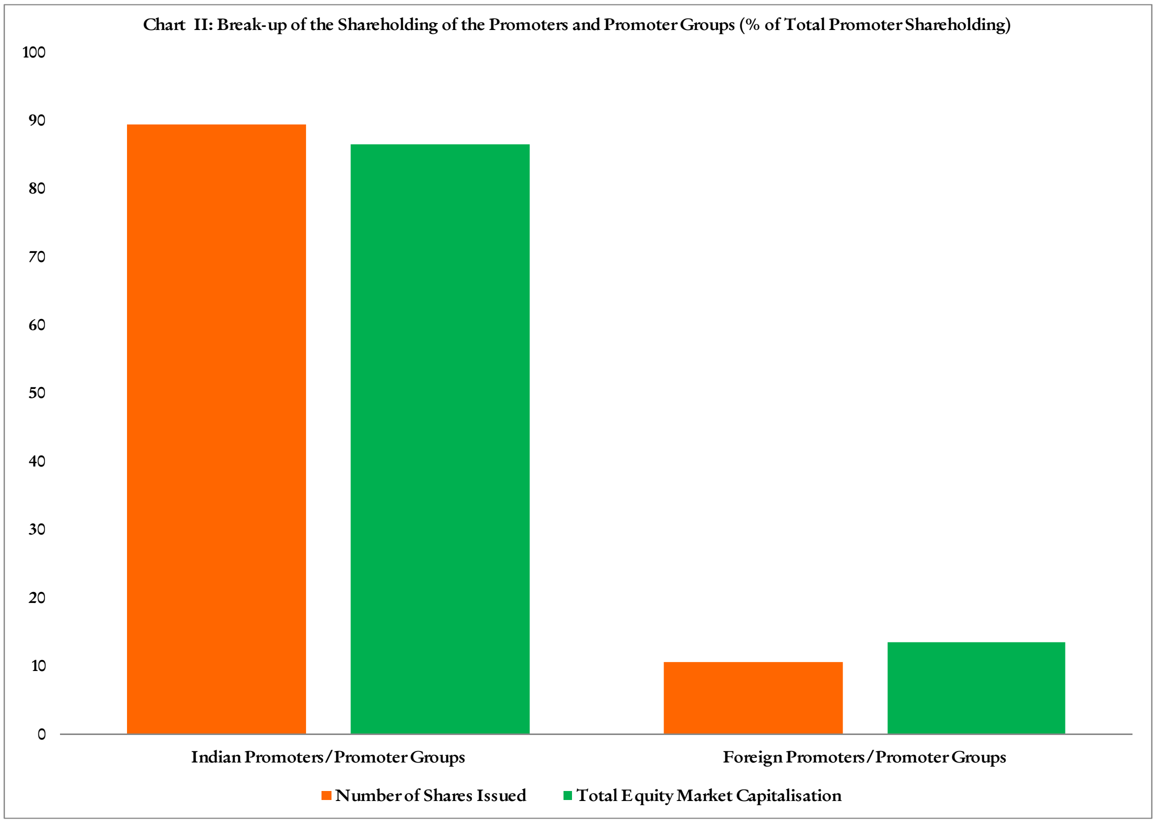
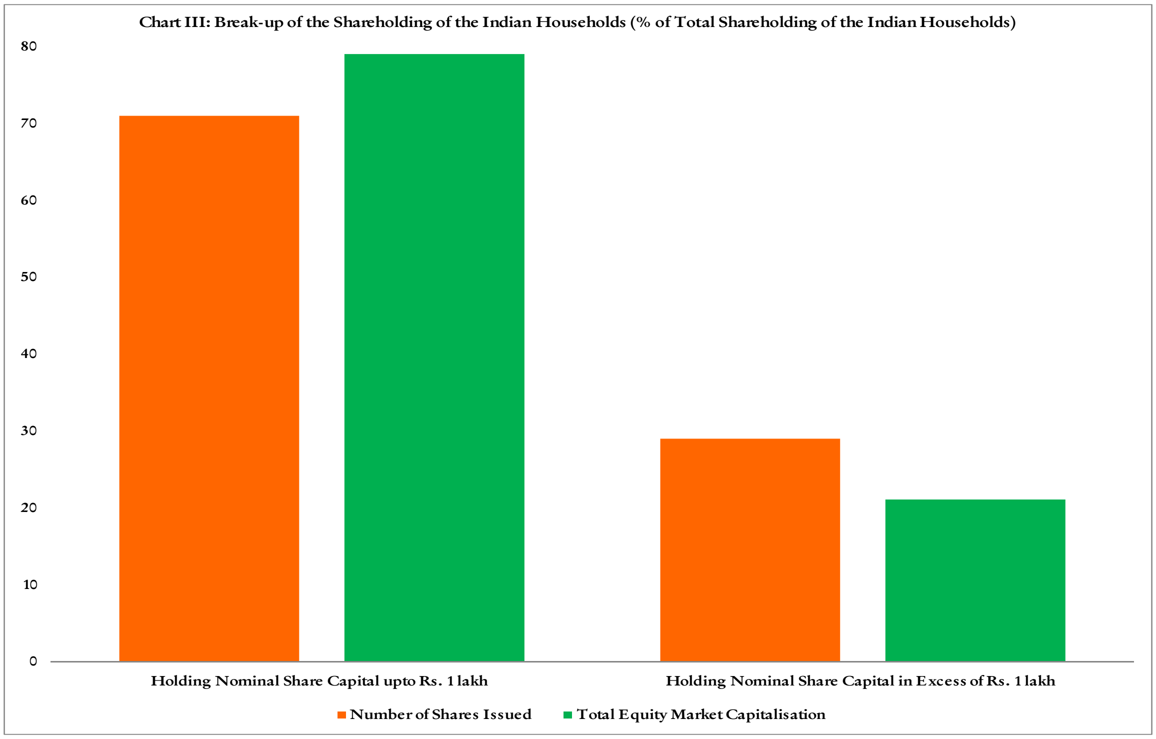


Chart II: Break-up of the Shareholding of the Promoters and Promoter Groups (% of Total Promoter Shareholding)
100
90
80
70
60
50
40
30
20
10
0
Indian Promoters/Promoter Groups
Foreign Promoters/Promoter Groups
Number of Shares Issued
Total Equity Market Capitalisation



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