



## PHARMACEUTICALS EXPORT PROMOTION COUNCIL

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### **Three MNCs need to dilute stakes to comply with 25% public float rule in pharma sector**

Direct link to the News/Story:-

<http://www.pharmabiz.com/article/detnews.asp?articleid=55926&sectionid=>

Only three pharmaceutical companies in India namely AstraZeneca Pharma, Fresenius Kabi Oncology and Novartis India will have to dilute their holdings in favour of public to comply with government's order of maintaining 25 per cent public float. All other pharma companies' promoters holding worked out to below 75 per cent as at the end of March 2010.

The promoters of Cadila Healthcare are holding shares worth 74.79 per cent, which is below 75 per cent and its public shareholding worked out to 25.21 per cent. Wockhardt's promoters are holding stake of 73.64 per cent and that of Torrent Pharma 71.50 per cent. The promoters of AstraZeneca Pharma and Fresenius Kahbi are holding 90 per cent stake respectively and they have to dilute around 15 per cent stake as per the new rule.

Novartis promoters are holding 76.42 per cent. The promoters of remaining nine MNCs are holding in the range of 51 per cent to 71 per cent. Thus the shareholding pattern of Indian pharmaceutical companies is not going to change significantly with the recent order.

The changes in shareholding pattern is likely to impact more the public sector undertakings (PSUs) and MNCs' from other sectors where promoters holding is very large. The dilution of stake will put pressure on valuation, dividend payment strategy and return on equity in long term. These companies will have to re-work their strategy to maintain shareholders confidence intact. However, this will help new investors to tap blue cheap companies at relatively lower price in the coming years. The move is likely to improve liquidity in the market with fair prices. It is interesting to know how the MNCs are going to adopt their strategies.

All the listed companies with a public float of less than 25 per cent will have to compulsorily raise their public shareholding by a minimum of 5 per cent every year till it reaches 25 per cent. If the promoters dilute their stake, the amount raised should be invested properly to get higher returns. Even the new companies entering capital market, with large private equity investment and those promoters who pledged their shares to raise high cost funds, will have to offload shares to public. Thus the higher promoter stake companies will experience impact immediately with the change in rule.

According to CRISIL estimates a significant capital of Rs 1.6 lakh crore will be raised from the primary market on account of 25 per cent holding rule. CRISIL hopes that the proposed move would significantly increase liquidity in the equity markets, thereby making fair price discovery more robust and also enhance investor participation.

According to analysts, the Government move to increase liquidity in the market through minimum public float of 25 per cent will further put pressure on price movements as the companies will have to off load shares in the market relatively at lower price. With volatile movement, problem in European countries, disinvestment by public sector undertaking and increasing number of companies entering capital market, it will be difficult for the existing companies to raise issue price.