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Ownership Patterns of Indian Pharmaceutical and it Sector: An Analysis

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ABSTRACT

The paper aims to study the ownership patterns prevailing in IT and Pharmaceutical sector. The study is carried out for past 10 years from 2010-2019. The study is undertaken for all the listed companies in Pharmaceutical and IT sector. Hence ownership patterns of 213 listed companies in Pharmaceutical sector and 303 companies in IT sector are reviewed. A total of 3922 data points have been studied. The paper first studies industry wise trend and later it focuses on shareholder wise trend of the chosen sectors. The ownership pattern reveals that IT sector is dominated by Public shareholding and Pharmaceutical sector is dominated by promoter shareholding. These patterns have an impact on the corporate governance practices followed in the organisations.

Keywords: Pharmaceutical sector, IT sector, Ownership Patterns, Shareholding pattern.

I. INTRODUCTION

Indian Economy is a growing economy. India is expected to be one of the top three economic powers in the world in next 10-15 years. (I) There are a wide range of opportunities available to the investors in India due to the continual growth in the economy. Recently share market has witnessed fluctuations due to unrest in other Asian Countries and expectation of a demand slowdown in India. Hence, shareholders have become cautious in trading and are in a

wait and watch situation. Indian capital markets have grown tremendously and are subject to

economic downturn and slowdowns. The recent decrease in stock market have been due to changes in oil prices, PSU banks NPA disclosures and no stimulus announced for the corporates in the Union Budget.

Investors in India have a wide opportunity to invest due to opening up of the economy. Hence, there is a need for the companies to be transparent so that the investors are well informed about how their investments are utilised. Corporate governance plays a major role as it is aimed at having transparency and creating shareholder value. Directors who are the agents of the shareholders are expected to work in the best interest of the organisation and the shareholders. Jensen et al. (1976) found that lack of corporate governance practices, conflict of interest and functions or roles can cause the executives to proceed through their self-interest instead of shareholder's interest. There have been cases like SUN Pharmaceutical (2019) on promoters pledging shares for a deal in related party transaction with Suraksha. This has led to decrease in the market price per share of Sun Pharmaceutical. . Even in case of Infosys shareholders had raised concerns that executives are involved in the acquisition of PANAYA (2017) at a price higher than the valuation and insider trading which reflected bad corporate governance . Hence, such practices have an impact on the share prices.

Issues related to corporate governance impact the organisation, hence there is a need to understand how the organisation maintains transparency with its shareholders. Ownership patterns reflect the shareholding pattern of a company. Shareholders are the ones who take decisions related to appointment of Directors in an Annual General Meeting. These decisions provide a strategic direction to an organisation.

SEBI in its regulation 31 of SEBI (Listing Obligations and Disclosure requirements) Regulations, 2015 have given a format to the companies for dividing the shareholders in the following categories:

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- Promoter and Promoter Group:
  - Domestic Promoters:

Individuals, Government, Corporate bodies,

Financial Institutions/ Banks.

Foreign Promoters:

Individuals(NRI/ Foreigners), Corporate Bodies,

Institutions, Qualified Institutional Investors.

- Public Shareholding:
  - Institutions:

Mutual Funds, Financial Institutions/ Banks, Alternate Investment funds,

Government, Venture Capital Funds, Insurance companies, Provident Funds,

FIIS, Foreign Venture Capital Investors, Qualified Institutional Investors,

- Non Institutions:

Corporate Bodies, Individuals, Foreign Companies, NRIs, Director.

- Non Promoter, Non Public:
  - Custodians, Employee Benefit Trust.

Source: NSE Premier India Mart.

II. LITERATURE REVIEW

Past literature on ownership pattern has revealed that there is negative relation between variables of Corporate governance like CEO Chair, ROA and Tobins Q(Aksita Arora,2012).

Hence few variables on corporate governance and financial performance of companies have a negative relation. Ownership pattern and corporate governance studies reveal that CEO duality has a positive impact on ownership pattern and financial leverage has a negative impact on ownership pattern (Daman jeet Sing et. Al. 2018) .

Shareholders need a good return in the form of dividends and firm performance. It was found that board composition, shareholding pattern and disclosure norms followed by corporates have a positive and significant impact on profitability of the firms (Dr. Virendra Khanna, 2016).

A similar study conducted by Soufilgil et. Al. (2016) reveals that concentrated capital has a significant impact and positive relationship with the performance of the companies measured in terms of ROA .

Firms with good quality of corporate governance are more attractive to potential

shareholders. High attractiveness of shares creates share price premiums, hence reduces

ownership concentration (Themistocles Lazar ides, 2009).

Thus past literature has revealed a relation between ownership patterns, firm performance and corporate governance. Hence it is imperative to understand the impact of ownership pattern of Indian Listed companies.

III. METHODOLOGY AND SAMPLING

Indian stock market consists of many companies belonging to various industries. For the study only Indian Pharmaceutical and IT sector have been chosen. These sectors are amongst the top 2 sectors contributing towards employment. [II] These sectors have shown a steady growth and are poised to grow at a good rate in

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the near future. There are 258 listed companies in pharmaceutical sector and 372 listed companies in IT sector . After refining the data in excel only 213 companies in Pharmaceutical sector and 303 companies from IT sector have been chosen for the study. The companies were excluded from the study mainly due to non-availability of data for the period selected and missing information for a particular year. For exploring and examining the ownership pattern the shareholding pattern and listed companies have been taken from ACE Equity Database. This database is helpful in extracting financial information.

The research is exploratory in nature as it explores the pattern of ownership prevailing in these 2 sectors. For examining the pattern of ownership promoter holding, public shareholding and non-promoter non-public have been chosen.

VARIABLES UNDER STUDY

For the purpose of examining the ownership pattern variables like Promoter Holding, Institutional Holding, Non-Institutional holding and Non-Promoter Non- Public have been chosen. The study is carried out for all the companies listed in Pharmaceutical and IT sector. The study examines the ownership pattern and the pattern has depicted for the past 10 years,

2010-2019.

Descriptive statistics on the variables shows following:

Table 1

Pharmaceutical Industry

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Promoters	1668	0	100	48.42	18.523
Institutions	1664	0	57	5.96	10.763
NonInstitutions	1668	0	100	45.12	21.533
NonPromoterPublic	1668	0	53	.45	3.358
Valid N (listwise)	1664				

Table 1 shows that maximum ownership is of Promoter Shareholding, followed by Public shareholding (Non Institutions), Institutions and Non-Promoter NonPublic. Hence Pharmaceutical industry is Promoter dominated.

Table 2

IT Industry

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
PromoterHolding	2254	.00	100.00	38.8624	23.38986
Institutions	2254	.00	67.86	4.9748	10.78700
NonInstitutions	2254	.00	100.00	55.3876	25.21131
NonPromoterPublic	2254	.00	72.76	.7324	5.47250
Valid N (listwise)	2254				

It is evident from table 2 that in IT industry majority shareholding is of Non Institutions (Public) followed by promoter shareholding, Institutions and Non-Promoter Non-Public. Hence, IT industry is dominated by public shareholding i.e. non institutions shareholding.

IV. INDUSTRY WISE OWNERSHIP PATTERNS

1. **Pharmaceutical industry:** In Pharmaceutical and Drugs Industry a total of 213 companies have been considered for revealing the shareholding pattern. For different years the ownership patterns is as following:

(Figures in Percentages)

Table 3

Shareholding Pattern	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Promoter and Promoter Group	46.13	45.72	47.75	46.53	49.05	49.08	49.72	50.68	51.75	50.90
Institutional Investors	8.14	8.36	8.37	8.24	9.66	8.91	8.74	8.14	7.59	8.61
Non Institutional Investors	47.76	47.50	45.91	47.28	44.07	45.10	44.69	43.57	43.19	43.07
Non Promoter Non Public	0.64	1.81	0.93	0.87	0.76	0.58	0.13	2.74	1.21	2.35

(Author's calculation)

Figure 1: Shareholding pattern in Pharmaceutical Industry

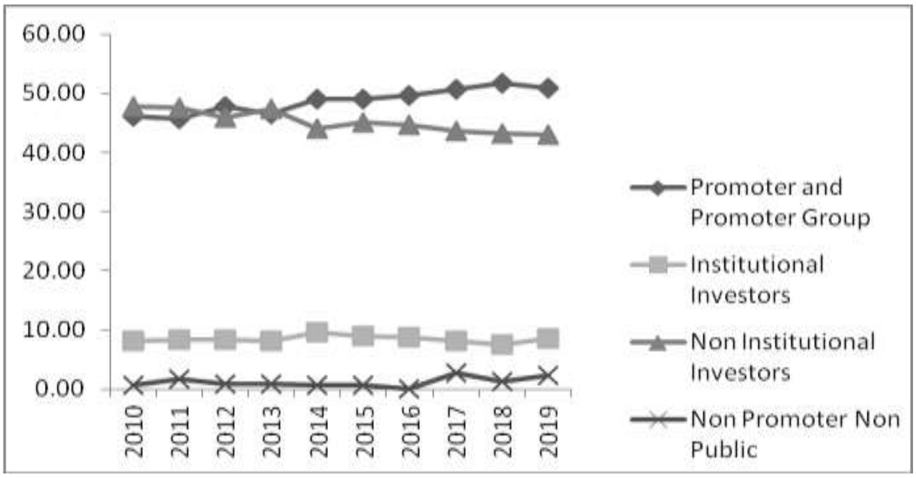


Figure 1 reveals that majority of ownership in pharmaceutical companies if of Non-Institutional investors and promoters are at 2nd position between 2010 to 2013.This trend changes from 2014 where promoter ownership has increased and Non Institutional ownership has decreased. A very minor proportion of shareholding is held by Custodians and Depository Receipts (Non Promoter Non Public).

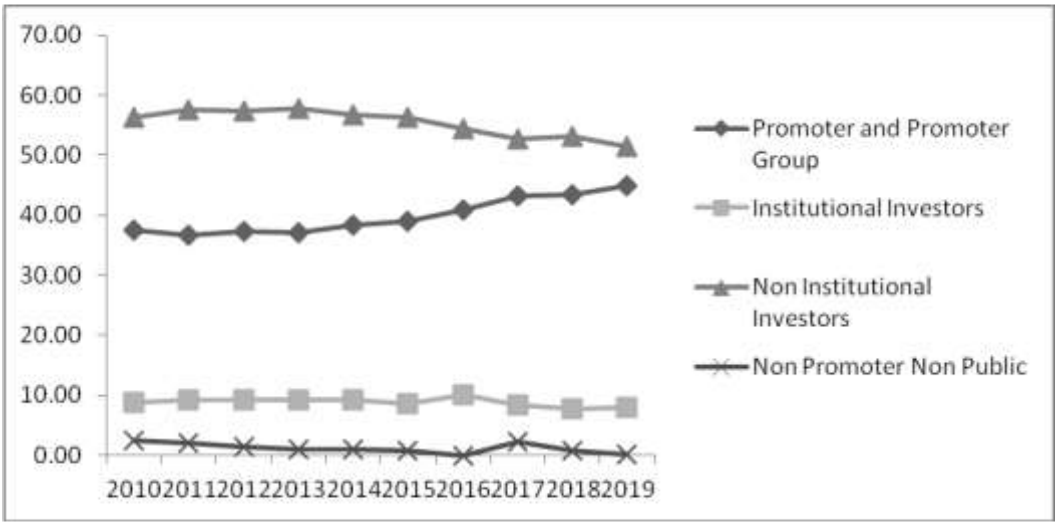
2. IT Industry: In IT industry 303 listed companies are considered for carrying out this analysis for the years 2010-2019. The following table reveals the trend in IT industry

(Figures in Percentages)

Table 4

Shareholding Pattern	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Promoter and Promoter Group	37.52	36.72	37.23	37.16	38.30	39.02	40.83	43.20	43.53	44.93
Institutional Investors	8.84	9.18	9.19	9.27	9.15	8.66	9.98	8.40	7.66	8.04
Non Institutional Investors	56.38	57.64	57.37	57.72	56.74	56.39	54.34	52.76	53.14	51.52
Non Promoter Non Public	2.37	2.11	1.41	0.89	0.99	0.81	0.00	2.24	0.83	0.21

Figure 2: Shareholding Pattern in IT industry



(Author's calculation)

From table 4 it can be seen that majority of shares in IT industry are owned by Non- institutional shareholders but this trend is decreasing from 2014-19 and whereas promoter holding is increasing for the same period. The average shareholding in Institutional investors category has remained same at approximately 8%. The average shareholding pattern in Non-promoter Non-public category is decreasing continuously.

V. SHAREHOLDER WISE PATTERN: Shareholder wise pattern has been calculated by counting the number of companies holding different percentage shares in different groups.

Table 5

SHAREHOLDER WISE PATTERN of PHARMACEUTICAL AND IT INDUSTRY

I. Pharmaceutical industry 1.Promoter Holding						
% Shares / Years	<5%	5-20%	20-35%	35-50%	>50%	Total
2010	50	10	36	50	67	213
2011	5	11	33	47	68	164
2012	2	10	31	44	78	165
2013	7	9	32	44	80	172
2014	4	6	28	39	84	161
2015	4	6	25	45	80	160
2016	2	6	22	42	85	157
2017	1	5	27	40	94	167
2018	1	6	25	40	102	174
2019	1	7	26	42	96	172
From the above table it is evident that majority of companies lies in the range of > 50% shareholding followed by 35-50% . Hence Pharmaceutical industry is dominated by promoter shareholding. In >50% shareholding it can be seen that count of companies in this range has increased from 85 to 94 to102 in 2018 which can be due to new companies being listed in the pharma industry.						

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2. Institutional Shareholding

% Shares / Years	<5%	5-20%	20-35%	35-50%	>50%	Total
2010	167	28	13	5	0	213
2011	69	30	11	4	1	115
2012	71	26	12	4	1	114
2013	77	25	11	5	1	119
2014	61	29	11	5	2	108
2015	65	33	9	6	0	113
2016	62	29	9	6	0	106
2017	75	30	11	6	1	123
2018	85	31	9	5	2	132
2019	79	27	10	10	0	126

Institutional shareholders are more prominent in the <5% category range. The count of companies have reduced from 167 in 2010 to 69 in 2011 and reduced till 2016 and then increased from 2017 onwards . This increase can be attributed to increase in total listed companies .There is less holding of Institutional ownership in this segment which can be due to the fact that pharma stocks are considered to be defensive stocks.

3.**Non Institutional Shareholding:**

% Shares Years	<5%	5-20%	20-35%	35-50%	>50%	Total
2010	1	19	30	39	75	164
2011	1	17	36	33	77	164
2012	1	17	32	49	67	166
2013	0	21	32	46	74	173
2014	0	23	34	47	58	162
2015	0	22	37	41	63	163
2016	0	23	35	40	61	159
2017	1	25	43	36	63	168
2018	1	22	49	37	62	171
2019	0	24	50	38	61	173

Non Institutional shareholding which is public shareholding is more prominent in the >50% shareholding range. The number of companies decreased and then remained in the same range of 60-65 for the period 2015-2019.Hence after promoter shareholding public shareholding is prominent in pharmaceutical sector.

4. **Non Promoter Non Public**

% Shares / Years	<5%	5-20%	20-35%	35-50%	>50%	Total
2010	73	1	1	0	0	75
2011	79	1	3	0	1	84
2012	152	2	2	0	1	157

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2013	151	2	2	1	0	156
2014	153	3	1	1	0	158
2015	151	2	2	0	0	155
2016	155	1	0	0	0	156
2017	5	1	0	0	0	6
2018	10	1	0	0	0	11
2019	5	1	0	0	0	6

Under this category the shares are held by the custodians, DRs and PACs. It can be seen that majority of companies lie in less than 5% shareholding as far as non-promoter non-public shareholding is concerned.

II. IT Industry

1. Promoter Shareholding

% Shares Years	<5%	5-20%	20-35%	35-50%	>50%	Total
2010	16	49	55	36	80	236
2011	17	51	50	43	73	234
2012	16	52	45	45	76	234
2013	19	53	38	45	78	233
2014	16	47	36	48	75	222
2015	18	45	35	46	79	223
2016	13	38	31	45	77	204
2017	10	33	36	46	85	210
2018	12	31	36	43	89	211
2019	4	28	32	52	84	200

IT industry witnesses a mix of promoter shareholding companies with companies being in the category of >50% shareholding to 20-35% followed by 5-20% and 35-50% Very less companies have promoter shareholding in <5% category.

2. Institutional Shareholding:

% Shares Years	<5%	5-20%	20-35%	35-50%	>50%	Total
2010	79	27	19	7	0	132
2011	77	23	22	8	0	130
2012	68	31	16	4	2	121
2013	78	25	13	8	2	126
2014	73	27	11	7	2	120
2015	77	28	10	5	3	123
2016	62	38	10	3	4	117
2017	82	37	5	2	7	133
2018	86	36	6	3	6	137
2019	84	32	9	4	5	134

Non I

Institutional Investors are dominant in <5% shareholding followed by 5-20%, 20-35% , 35-50% and lease being in the category of >50% shareholding. In this category the number of companies having <5% shareholding have been volatile which can be sue to shift from <5% to other category shareholding.

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3. 3. Non Institutional Shareholding:

% Shares / Years	<5%	5-20%	20-35%	35-50%	>50%	Total
2010	2	12	44	51	129	238
2011	1	12	43	46	137	239
2012	1	11	40	50	136	238
2013	1	12	42	49	133	237
2014	1	14	39	42	131	227
2015	1	13	42	46	126	228
2016	3	13	39	46	107	208
2017	1	15	43	49	106	214
2018	2	17	37	51	105	212
2019	2	14	44	47	101	208

Majority of the listed companies have been in >50% shareholding for Non-Institutional shareholders. IT means that IT industry is majorly owned by the public sector. The companies in the >50% shareholding have been increasing initially. Later from the year 2016 there is a decline in the companies having <50% public shareholding. There has been a shift to 35-50% shareholding and 20-35% shareholding in the years 2017 and 2018.

4. 4. Non Promoter Non Public:

% Shares / Years	<5%	5-20%	20-35%	35-50%	>50%	Total
2010	129	5	3	3	1	141
2011	150	5	2	2	2	161
2012	216	5	3	1	2	227
2013	212	3	3	0	1	219
2014	214	3	2	1	1	221
2015	211	3	2	0	1	217
2016	194	0	0	0	0	194
2017	8	1	0	0	0	9
2018	24	1	0	0	0	25
2019	11	0	0	0	0	11

Majority of companies have <5% shareholding in Non-Promoter Non Public category.The number of companies in this category has drastically reduced from 194 in 2016 to 8 companies in 2017. Thus the custodian shareholding is less in IT Industry.

VI. CONCLUSION

Ownership patterns pay an important role in an organisation. When the ownership is publicly held then investors expect the firms to be more transparent and work in the interest of the shareholders. The companies having dispersed ownership should follow proper corporate governance norms to be fair to the stakeholders of companies. Recently there was an article stating the whistle blower complaints registered by various stakeholders. The number of complaints increased to 4552 in 2019 as compared to 3514 in 2018 [7] stating the need for companies to have proper code of conduct.

Companies listed on stock exchanges are required to be more transparent. The ownership patterns impacts how corporate governance is directed in the company. As per the findings, Pharmaceutical companies are dominated by promoter shareholders followed by public shareholding. Companies having more than 50% shareholding by promoters have been increasing from 2010 to 2019 whereas companies having public (non institutional)shareholding with more than 50% stake increased initially but later on it shows a decreasing

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trend. There is less stake of Institutional investors and least stake of custodians. This is because the shares in pharmaceutical sector are cyclical in nature. Hence, there is less volatility in the shares of these sectors.

In IT sector there is public (non-institutional) shareholding that is dominating. The trend is that companies having more than 50% non institutional shareholding have increased from 2010 to 2019. Promoter shareholding in more than 50% category decreased till 2016 then it has increased but the number is less than public shareholding. Hence IT sector is more dominated by public shareholding.

The study can be further extended to other sectors listed on the stock exchange. A sector wise study can give a better view to understand the ownership patterns of listed companies. An analysis can also be made to understand whether corporate governance practices differ in promoter based companies and public companies.

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