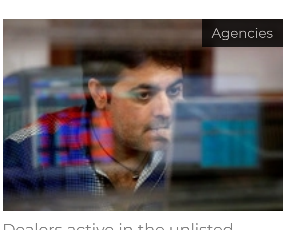
Feedback

Grey market excited after lock-in period for unlisted shares halved

Synopsis
The Securities and Exchange Board of India (Sebi) has approved a proposal to cut by half the lock-in period for the existing shareholders of the company in initial public offerings (IPO).



Dealers active in the unlisted market have welcomed the move, and said it would bring a positive change in the industry.

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New Delhi: The market for trading in unlisted shares and pre-IPO deals is exuberant following the **Sebi** move to cut the lock-in period for existing shareholders in IPOs by half.

Dealers active in the unlisted market have welcomed the move, and said it would bring a positive change in the industry.

The **Securities and Exchange Board** of India (Sebi) has approved a proposal to cut by half the lock-in period for the existing shareholders of the company in initial public offerings (IPO).

The markets regulator has reduced the lock-in period for minimum promoter contribution of 20 per cent in the IPO to 18 months from the current three years. For pre-issue capital held by non-promoters, the lock-in period has been halved to six months from the existing one year.

Umesh Paliwal, Co-founder, **UnlistedZone**, said many investors used to see the one-year lock-in after IPO as a key risk to their investment. "The move is likely to increase the volume and number of participants in the market in coming days," he said.

"This is an excellent move by regulators in the interest of Investors. This move will ensure true price discovery of stock prices with more **liquidity** and transparency," said Amit Jain, chief Strategist, Ashika Group.

However, investors should not miscalculate the tax implication of the pre-IPO equity after the update, as only the lock-in period has changed and the tax implication remains the same as earlier.

Navneet Dugar, Principal Advisor of Zemis Advisors, said it would give investors the option for early exit, but they will have to pay short-term capital gain tax in such cases.

"Investors will have to calculate their **tax liability**, once they decide to sell their stake in the company," he said.

If one sells a stake after the completion of six months of the mandatory lock-in period from the date of share allotment, s/he will be charged with short-term capital gain tax. The gains (profit) will be added to the income of the holder and charged accordingly on the basis total income.

However, if the equity shares are held for more than a year after listing, the gains would be subject to long-term capital gain tax, as per existing rules. The holding period will be calculated from the day of listing of the stock.

The pre-IPO shares will be taxed either as short-term capital gains (if held for less than 24 months) at the rate of 30% (excluding surcharge and education cess) or long-term capital gains at the rate of 10% or 20% if held for more than two years (excluding surcharge and cess, but with indexation benefits)," said **Ravi S Raghavan**, Partner, Tax and Private Client Group, Majmudar & Partners.

"You don't have to pay GST or securities transactions tax on pre-IPO shares," he said.

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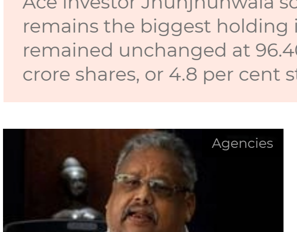
NEXT STORY

Rakesh Jhunjhunwala trimming his stake in Titan, but brokerages see long growth runway for it

By Chiranjivi Chakraborty, ETMarkets.com • Last Updated: Aug 10, 2021, 01:54 PM IST

Synopsis
Ace investor Jhunjhunwala sold 22.50 lakh shares of Titan in the June quarter. Yet, it remains the biggest holding in his portfolio. His wife Rekha Jhunjhunwala's stake remained unchanged at 96.40 lakh shares, or 1.09 per cent. Together, they held 4.26 crore shares, or 4.8 per cent stake, in Titan at the end of the June quarter.



In the June quarter, Titan reported a 74.5 per cent jump in revenues despite the impact of the second wave on operations across the country.

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MUMBAI: Big Bull **Rakesh Jhunjhunwala** cut his stake in the watch-to-jewellery maker **Titan** for the third consecutive quarter during April-June. But domestic brokerages are upbeat on the company, and feel it is poised to carry on with its swift recovery from the adverse hit caused from the second wave of the Covid-19 pandemic in the remainder of 2021-22. They are betting on high wedding demand and the new government rule for compulsory hallmarking of jewellery.

Ace investor Jhunjhunwala sold 22.50 lakh shares of Titan in the June quarter. Yet, it remains the biggest holding in his portfolio. His wife **Rekha Jhunjhunwala**'s stake remained unchanged at 96.40 lakh shares, or 1.09 per cent. Together, they held 4.26 crore shares, or 4.8 per cent stake, in Titan at the end of the June quarter.

In the June quarter, Titan reported a 74.5 per cent jump in revenues despite the impact of the second wave on operations across the country. The company did benefit from the liberal nature of the localised lockdowns in the quarter, which allowed a meaningful number of stores to remain open.

Brokerage Kotak Institutional Equities has raised its price target for the stock by 14 per cent to Rs 1,860 and retained an 'add' rating, as it sees upside in margins of the jewellery business and high growth in eyewear and Caratlane operations.

"These omni-channel businesses do not contribute much to earnings at present but have significant growth and decent market cap potential in the medium term," **Kotak Equities** said in a note.

Brokerage firm Motilal Oswal Financial Services retained a 'buy' call on the stock with a price target of Rs 2,065 as it believes expensive valuations of the stock are the result of the long growth runway the company has to offer.

"We continue to believe Titan can claw back some of the lost demand in 1QFY22. The recovery in Jun-Jul was strong. Underlying demand remains robust, led by a decline in gold prices and strong wedding demand," Motilal Oswal Financial Services said.

Further, analysts expect market share gains for the company to continue going ahead, because of recent government regulation of mandatory hallmarking of gold jewellery in the country. The move that was implemented from June is expected to further pressure the unorganised players, which may lead to a shift of market towards organised players.

ICICI Securities said mandatory hallmarking will provide an opportunity to design-oriented jewelry brands to charge higher brand premium and drive premiumisation efforts in the sector. Given Titan's market leadership, the company could be at the forefront of the change.

At more than 60 times two-year forward earnings, Titan's valuations are expensive even for the optimist on the Street, but some analysts suggest the company deserves premium valuations due to its growth potential, brand pedigree and scope for further market share gains.

Brokerage firm HDFC Securities, which has a 'sell' rating on the stock, raised its price target by 7 per cent to Rs 1,500 as it sees less downside potential after a resilient June quarter earnings performance from the **Tata Group** firm.

Shares of the company are up 19 per cent in the past six months, outperforming the Nifty50, despite the impact of the second wave. Analysts believe this outperformance may sustain contrary to what stock's valuations may suggest.

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