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Exploring the Potential of Unlisted Shares: An Analysis of Performance and Shareholding Patterns in the Indian Market

Shravani Gambhire, Prerna Telge, Sneha Soundararaj, Neha Sahu
Universal Business School, Karjat, Raigad, Maharashtra

Abstract- This study explores the untapped potential of unlisted shares as an investment avenue, conducting a thorough analysis of their performance within a closed market environment. Focused on thirty-three diverse unlisted Indian companies across sectors like Banks & NBFC, manufacturing, IT, and insurance, the research utilizes a stratified random sampling approach. Secondary data from annual reports and company records supplement primary data collected through interviews. The analysis reveals sector-specific trends, emphasizing the strong performance of manufacturing and insurance while highlighting challenges in the banking, financial, and IT sectors. The study underscores significant public shareholding in the unregulated market, indicating its accessibility to retail investors. Despite liquidity challenges and information disparities, the unlisted market presents alternative investment opportunities for those strategically navigating its dynamics. In conclusion, the research not only provides insights for diversification-seeking investors but also raises awareness among policymakers about the unlisted market's role in the broader investment landscape, emphasizing the need for informed decision-making in a volatile yet potentially lucrative market.

Index Terms- Internal stakeholders, firm performance, Indian economy, Stock Market

I. INTRODUCTION

Investment landscapes have evolved, extending beyond traditional listed securities to include unlisted shares—a distinctive arena with unique dynamics and challenges. This research embarks on a comprehensive exploration of the unlisted market, unravelling its performance and growth prospects year-to-year.

In contrast to the transparency of listed shares, unlisted securities operate in a closed environment, requiring an in-depth analysis of market behaviour, sectoral variations, and the impact of public participation. With the primary goal of understanding the nuances of this unregulated market, the study examines stock price variations, public versus promoter shareholding, and the comparative earnings of unlisted shares against their listed counterparts.

As the global investment landscape evolves, the unlisted market garners attention for its potential and challenges. By delving into this uncharted territory, the research aims to provide valuable insights for investors, policymakers, and financial analysts, offering a nuanced perspective on growth prospects and contributions to the broader investment ecosystem.

II. LITERATURE REVIEW

As per Masoud (2013) the stock market is divided into two segments: the organized segment, where trading takes place in an orderly manner under the guidance of laws and regulations, and the unorganized segment, which is the unlisted sector and involves over-the-counter transactions conducted over telephone lines. Because of the capital market, funds can be transferred directly from savers to consumers, accepting greater risk than if they were passed through intermediaries, and as a result, expecting higher returns.

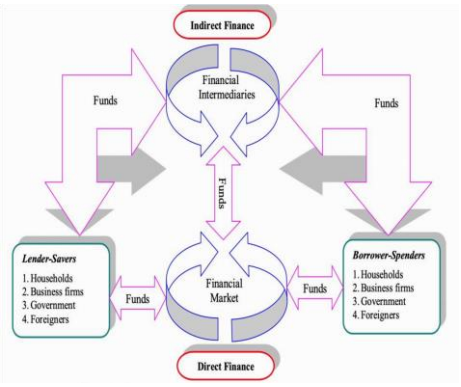

Figure 1: Fund flow in the financial system

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Investor sentiment will change dramatically when a market climate is extreme; the process will be somewhat infected. Result: The normal, sane, and balanced state of the market as a whole will be impacted by a sizable number of seriously afflicted investors says Chen (2020). The investor's attitude also influences how much is bought and sold, which contributes to the market's ongoing imbalance and shifts.

One of the crucial metrics utilized outside of fundamental analysis to determine a stock's intrinsic value is the P/E ratio, including its special forms. Many investors employ this crucial signal. Gottwald (2012) also suggests that modifying several fundamental analytical models will allow the research to proceed towards the valuation of the company.

As to Jegadeesh, et al. (2009) private equity yields are greater than yields on traditional asset classes, according to numerous researches. The growth of the GDP and credit spread are positively correlated with private equity funds.

Ms. Jayachitra S and Dr Venkatraman M's (2015) study analyses the impact of disinvestment on 12 Central Public Sector Enterprises (CPSEs) in the Indian manufacturing sector, emphasizing the Bombay Stock Exchange (BSE). The findings reveal that unlisted CPSEs demonstrate superior financial and operational performance compared to their listed counterparts, highlighting a knowledge gap in the PSU sector regarding disinvestment processes and historical context.

Ashish Gupta, Graeme Newell, Deepak Bajaj, Satya Mandal's (2018) study examines risk factors in Indian non-listed real estate funds. The research focuses on economic and social consequences, utilizing eight case studies over an eight-year period to identify that foreign investors prioritize expertise, and their presence may not always lead to improved financial performance. The study highlights the nuanced impact of Foreign Direct Investment (FDI) from emerging economies on job preservation and local economic benefits, emphasizing a qualitative approach with a concentration on unlisted companies.

Chittenden (1996) says that access to capital markets does affect the financial structure of small firms. The firm owner has to choose between funding the activities of the company all alone or incurring heavy costs for market floatation. From the point of view of economic development, the unlisted small firms will be curtailing their growth due to lack of financial resources

In Palepu & Healy's (2013) study it was understood that valuing unlisted companies posed more challenges compared to their listed counterparts, particularly due to regulatory disparities between the two sectors. Various valuation models found were evaluated, and those deemed suitable for the unlisted sector were selected for further analysis. Determining the value of a business serves various purposes, including raising capital, facilitating buying and selling transactions, and responding to unexpected offers from potential buyers. Business owners must comprehend the valuation process, as well as identify the key drivers of value. This knowledge is especially valuable when evaluating acquisitions, forming joint ventures, making strategic investments, or exploring new business opportunities.

Bhaskar Chimwal, Varadraj Bapat, and Sarthak Gaurav's (2021) study on investors' preferences and factors influencing investment in the Indian stock market likely delves into existing research on investor behaviour, market dynamics, and industry-specific factors. It may explore studies related to investment decision-making, risk perception, market volatility, and the role of regulatory frameworks in shaping investor sentiment within the Indian stock market. Additionally, the review may cover relevant literature on sector-specific considerations influencing investment choices.

Josée St-Pierre and Moujib Bahri's (2006) study on the use of accounting beta as an overall risk indicator for unlisted companies likely includes a literature review covering prior research on risk measurement in unlisted firms. It may explore existing methodologies, challenges, and the applicability of accounting beta in assessing the overall risk profile. The review may also touch upon the implications for decision making and financial management in unlisted businesses.

Objective

This research aims to comprehensively analyze the performance and growth prospects of unlisted shares in comparison to their listed counterparts. Scrutinizing factors such as annual stock price variations, public participation, and sectoral dynamics, the study seeks to provide a nuanced understanding of the unregulated market. Utilizing a representative sample from diverse sectors and employing comparative earnings analysis, the research aims to offer actionable insights for investors and policymakers navigating the unique landscape of unlisted shares.

III. RESEARCH METHODOLOGY

The research begins by identifying the most traded shares in the unlisted market, which are then categorized into various sectors including Banks & NBFC, financial services, manufacturing, IT companies, insurance, capital goods, and miscellaneous. The prices of these shares are recorded for both March 2022 and March 2023 from a maintained database.

The distribution of shares between the public and promoters as of March 31, 2022, is documented and analyzed. March 31, 2022, is chosen as the reference date due to the unavailability of data for March 31, 2023. The sample design for this study involves selecting unlisted companies registered in India as the sample unit. The study encompasses the entire geographical

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expanse of India, without any specific regional limitation. Over a one-year duration, a total of thirty-three unlisted companies from diverse sectors are included in the sample. The sampling method employed is stratified random sampling, which focuses on selecting the most frequently traded shares within each sector for inclusion in the study.

IV. DATA SOURCES

1. Primary Data
Primary data refers to information collected first-hand by the researcher through methods such as interviews, questionnaires, and observations. In this study, primary data was gathered through interviews to select the most traded shares.

2. Secondary Data
Secondary data includes information obtained from already published sources such as government agencies, libraries, and company records. It may also involve analyzing data collected first-hand by others. For this research, secondary data was sourced from annual reports, company websites, and official records.

3. Data Collection Methods/Tools
Microsoft Excel and Google Spreadsheets were the primary tools utilized for data collection and analysis.

4. Specific Data Sources
Data was primarily sourced from company records maintained in Microsoft Excel, annual reports for the years 2022 and 2023, and official company websites. Additionally, the Capitaline database was consulted to verify dividend payments.

Hypothesis
The research aims to test the hypothesis that the analysis of different sectors in the unlisted market provides growth prospects on an annualized yield basis.

V. DATA INTERPRETATION & ANALYSIS

1. Performance of the Shares
The analysis focused on the most traded shares in unlisted markets, emphasizing the annual yield they offer investors. Selection criteria for these unlisted shares involved a combination of interviews and data sourced from companies specializing in the unlisted space. To categorize these shares, the companies' primary operations were identified using information obtained from their websites and annual reports.
Shares were then organized into various industries based on the sectors in which the companies primarily operate. The selection of industries was determined by the concentration of shares within each sector. Specifically, each sector considered consisted of at least three shares and a maximum of five shares. The identified industries for research encompassed Banks and Nonbanking Financial Companies (NBFCs), Manufacturing, Financial Services, Insurance, Information Technology (IT) companies, Capital Goods, and Miscellaneous. The resulting list of selected shares was distributed among these sectors to facilitate a comprehensive analysis.

INDUSTRY	BANKS & NBFC	INSURANCE	FINANCIAL SERVICES	MANUFACTURING
SHARE 1	FINCARE SMALL FINANCE BANK LTD	GO DIGIT GENERAL INSURANCE	HDFC SECURITIES LTD	ASSAM CARBON PRODUCTS LTD
SHARE 2	CAPITAL SMALL FINANCE BANK LTD	HDFC ERGO GENERAL INSURANCE CO. LTD.	ORBIS FINANCIAL CORPORATION LTD	AXLES INDIA LTD
SHARE 3	FINCARE BUSINESS SERVICES LTD	SHRIRAM LIFE INSURANCE CO LTD	HDB FINANCIAL SERVICES LTD	HIRA FERRO ALLOYS LTD
SHARE 4	HERO FINCORP LTD	CARE HEALTH INSURANCE LTD (RELIGARE)	INOX LEASING AND FINANCE LTD.	MIL INDUSTRIES LTD
SHARE 5	PNB FINANCE AND INDUSTRIES LTD.	RELIANCE GENERAL INSURANCE CO. LTD.	FINCARE BUSINESS SERVICES LTD	STUDDS ACCESSORIES LIMITED

INDUSTRY	IT COMPANIES	CAPITAL GOODS	MISCELLANEOUS
SHARE 1	CAPGEMINI TECHNOLOGY SERVICES INDIA LTD (PATNI,IGATE)	SIGNIFY INNOVATIONS INDIA LTD (FORMERLY PHILIPS LIGHTINGS)	CHENNAI SUPER KINGS LIMITED (CSK)
SHARE 2	FINO PAYTECH LTD	STERLITE POWER TRANSMISSION LTD	DALMIA BHARAT REFRACTOPIES LTD
SHARE 3	HEXAWARE TECHNOLOGIES LTD	FRICK INDIA LTD	IXIGO (LE TRAVENUES TECHNOLOGY LTD)
SHARE 4	TATA TECHNOLOGIES LIMITED	-	MERINO INDUSTRIES LIMITED
SHARE 5	ESDS	-	NATIONAL STOCK EXCHANGE LTD (NSE)

Figure 2: Industry wise selected scripts

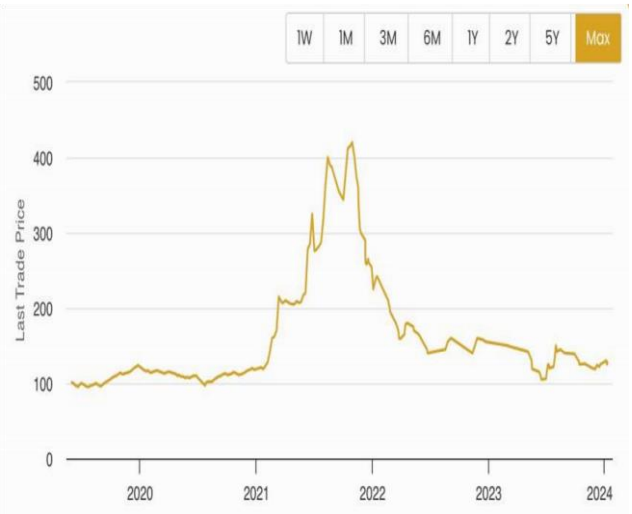

Figure 3: The prices on the selected dates were collected and tabulated Change iin stock prices of Fino Paytech Ltd.

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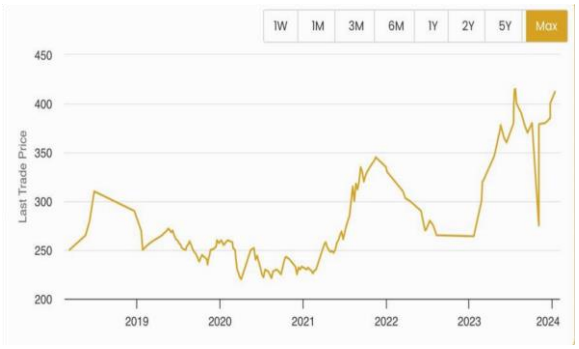

Figure 4: Change in stock prices of Capital Small Finance Bank Ltd.

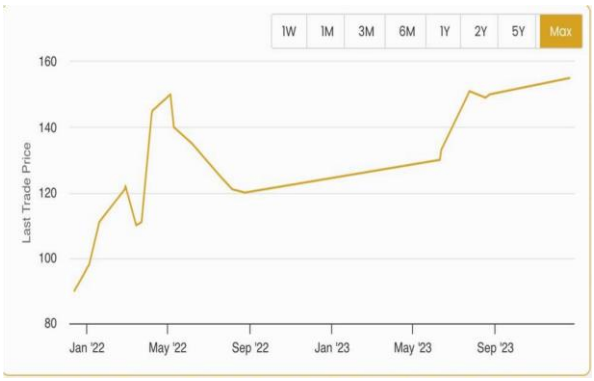

Figure 5: Change in stock prices of Hira Ferro Alloys Ltd.

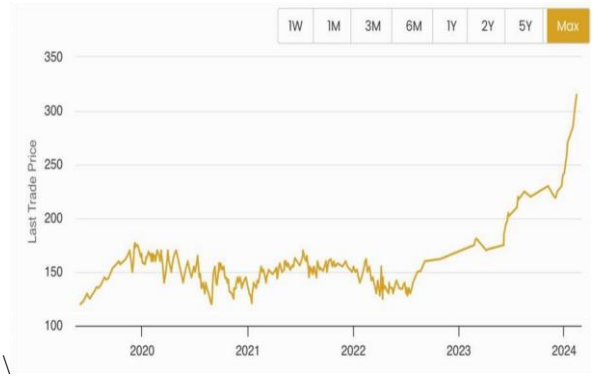

Figure 6: Change in stock prices of Axles India Ltd.

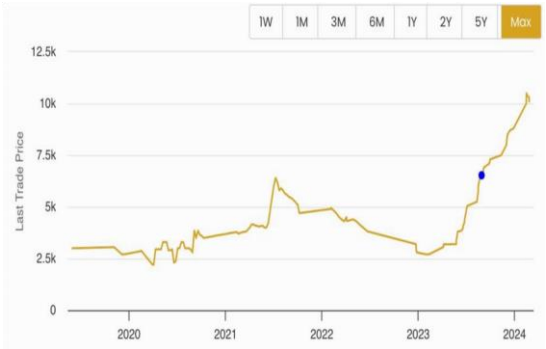

Figure 7: Change in stock prices of Hira Ferro Alloys Ltd.

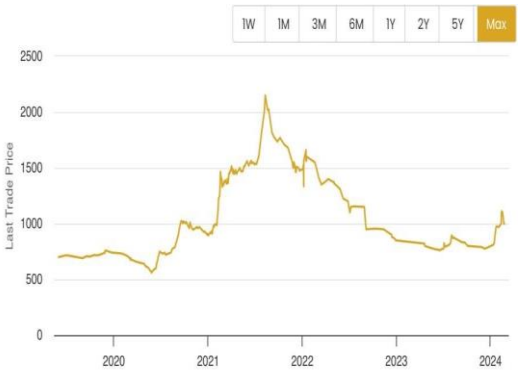

Figure 8: Change in stock prices of Studds Accessories Ltd.

The recorded data includes the share prices as of March 31, 2022, and March 31, 2023, for each share. Additionally, the corresponding dividends declared or paid during this period were documented. Notably, three out of the five companies in consideration distributed dividends to their shareholders.

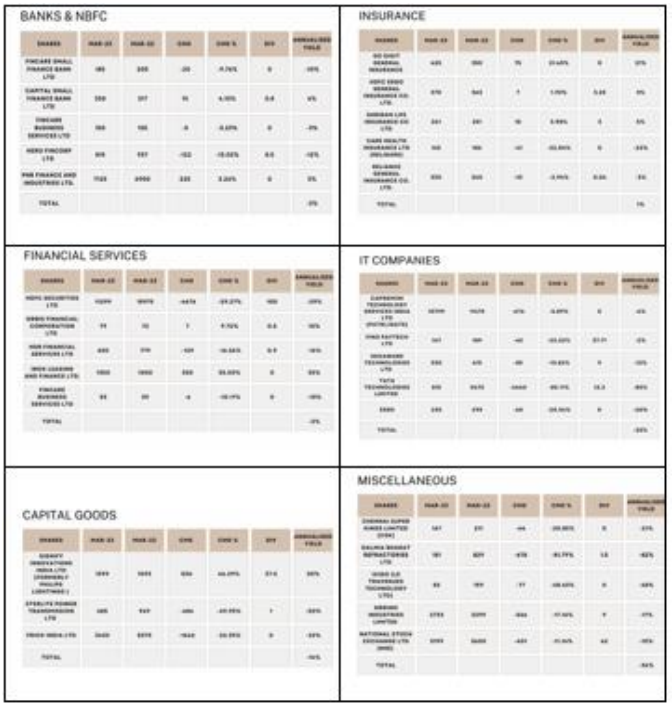

Figure 4: An assessment of stocks across different sectors in the unlisted market.

In our assessment, we've scrutinized five stocks within the Banking and NBFC sector, yielding an average annualized return of -3%. Most stocks in this sector are witnessing a downturn, notably Hero Fincorp Ltd., which has declined by approximately 13%. Investor interest in this sector has waned due to rising funding costs, uncertainty surrounding IPO plans, subpar asset quality, and liquidity issues. Major players like HDB Financial Services and Hero Fin Corp have received

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negative feedback as they struggle to adapt to narrower margins amidst increasing funding costs.

On the other hand, in the insurance sector, some stocks like HDFC Argo, Go Digit, and Shriram Life Insurance Co. have performed well, contributing to an average annualized return of 1%.

This positive trend is attributed to changing consumer perceptions post-pandemic, particularly towards health insurance. According to Invest India, the Indian insurance market is expected to reach $200 million by 2027, making this sector lucrative for investors.

Similarly, the financial sector has also experienced a negative average return of -2%, with stocks like HDFC Securities declining by about 30% since March 2022. The manufacturing sector stands out with mostly positive performances, notably Axles India Limited, which has delivered an annual return of 38% and witnessed a significant upward trajectory in its price by approximately 32%. Conversely, IT companies or tech-based firms have seen a decline in their value, with an average return of -25%, the highest among all sectors.

Despite global challenges, Nasscom forecasts the IT sector to grow by approximately 8.4% in FY 2023. Slow growth in FY 22 was attributed to concerns over global inflation due to geopolitical tensions and a weakening rupee (Bagchi, 2023). The capital goods sector plays a vital role in the economy, especially with government support evident in Budget 24. However, stocks in the unlisted market within this sector exhibit a negative average return of 11%.

The miscellaneous segment includes new tech firms and companies with diverse business models, offering investors much-needed portfolio diversification. Notably, NSE shares within this segment have performed admirably, yielding the highest dividend per share.

In the unlisted market, stocks witnessed a slump in 2022–23, with declines ranging from 25% to 60%, attributed to dwindling investor interest as newly listed IPO shares underperformed. Consequently, many unlisted companies have postponed their IPOs despite regulatory approvals. For instance, API Holding Limited, parent company of Pharm easy, saw its stock trade at Rs. 22 in March 2023, a 66% drop from its price a year prior, due to weak market conditions and valuation issues for tech-based firms (Mascarenhas, 2023)

2. Shareholding in the Unlisted Market

While the unlisted market lacks full regulation, it still offers numerous investment opportunities with potential for growth, dividend pay-outs, potential listing, and portfolio diversification benefits. We've conducted a study on the selected shares mentioned above to analyse the distribution of shares between promoters and the public. This study aims to understand the proportion of shares held by promoters compared to those held by the public.

Sector	Promotor	Public	Sector	Promotor	Public
Banks & NBFC			**Insurance**		
Fincare Small Finance Bank Ltd	78.58	21.42	Go digit general insurance	84.9	15.1
Capital small finance Bank Ltd	55.66	44.34	HDFC Ergo general insurance Co. Ltd.	98.97	1.03
Fino PayTech Ltd.	89.59	10.41	Shriram Life Insurance Co ltd	97.56	2.44
Hero Fincorp Ltd	79.53	20.47	Care Health Insurance Ltd (Religare)	70.71	29.29
PNB Finance and Industries Ltd.	0	100	Reliance General Insurance Co. Ltd.	99.99	0.01
Financial Services			**Manufacturing**		
HDFC Securities Ltd	96.34	3.66	Assam Carbon Products Ltd	70.52	29.48
Orbis Financial Corporation Ltd	36.84	63.16	Axles India Ltd	96.66	3.34
HDB Financial Services Ltd	95.11	4.89	Hira Ferro Alloys Ltd	75.67	24.33
Inox Leasing and Finance Ltd.	96.9	3.1	Mil Industries Ltd	63.08	36.92
Fincare Business Services Ltd	0	100	Studds Accessories Limited	69.66	30.34
IT companies			**Capital goods**		
Capgemini Technology Services India Ltd	99.77	0.23	Signify Innovations India Ltd (Formerly Philips Lightings)	96.13	3.87
Fino Paytech Ltd	0	100	Sterlite Power Transmission Ltd	76.22	23.78
Hexaware Technologies Ltd	95.22	4.78	Frick India Ltd	63.94	36.06
Tata Technologies Limited	72.48	27.52			
ESDS	29.32	70.68			
Miscellaneous					
Chennai Super Kings Limited (CSK)	0	100			
Dalmia Bharat Refractories Ltd	64.83	35.17			
Ixigo (Le Travenues Technology Ltd)	0	100			
Merino Industries Limited	95.23	4.77			
National Stock Exchange Ltd (NSE)	0.01	99.99			

Figure 5: Shareholding bifurcation between pro motors and public as at 31st March 2023

The analysis reveals that among the thirty-three companies examined, twenty have a public shareholding exceeding 20% on their balance sheets. Additionally, five companies have over 60% of their shares held by the public, with the remaining portion held by the promoter group. This demonstrates the accessibility of the unlisted market for retail investors to invest and potentially gain returns. Despite being known for its illiquidity, the presence of more investors in this market could alleviate liquidity concerns to some extent. Moreover, these shares offer diversification benefits as they are less affected by fluctuations in other markets like the stock exchange.

3. A Formal Mechanism for the Unlisted Shares Would be a Gamechanger

In India, SEBI's reach is only on the listed shares they too should set up a private space for the shares to be listed companies. As SEBI Innovators Growth Platform facilitates the listing of companies into technology, a similar mechanism can be used for the private markets to enhance liquidity in the unlisted markets

A trading platform for the unlisted securities with SEBI as the regulator will significantly enhance the capital availability for companies at their growth stage and its regulation shall enhance the transparency (Sanghai, 2021).

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Globally there are instances of formal trade mechanisms for the unlisted shares and with the quantum of non-founder capital in India, a formal market could certainly be a game changer and open a new market segment for the investors. The NASDAQ's private market founded in 2014, provides such a mechanism for the shares to be traded before they are listed. It has a trading platform for the founders, private investors and employees. NASDAQ has certain prerequisite for such trading on its private markets.

V. CONCLUSIONS AND OBSERVATIONS

The research highlights significant volatility and negative annualized yields in several shares over the past year. However, some companies have paid substantial dividends, and the growth opportunities in these shares cannot be overlooked. The manufacturing and insurance sectors outperformed other sectors, while only a few stocks in the banking, financial, and IT sectors showed strong performance.

Unlike the regulated listed market, the unregulated nature of the unlisted market is characterized by a substantial public shareholding, providing retail investors with an alternative investment avenue through the over-the-counter market. The main challenge faced by this industry is liquidity, which can hinder investment flow into these sectors. Instances were noted where selected shares were not traded through chosen brokers due to a lack of demand. A significant challenge in the unlisted market is the lack of information parity, unlike the listed market governed by SEBI regulations and listing obligations. The information available through selected brokers may not always be consistent.

A major drawback of the unlisted market is that buyers often enter during periods of euphoria rather than with a focus on long-term growth prospects or diversification, leading to overvaluation of shares. Therefore, it is crucial to invest at the right price and in fundamentally strong companies for profitable investments.

Recommendation

Many investors now believe that a multi-asset portfolio offers the advantage of diversification to mitigate volatility caused by global macroeconomics, geopolitical events, and monetary policy decisions. This could increase investments and liquidity in the unlisted market, offering its diversification benefits. To maximize value in the unlisted market, it's essential to invest at the opportune time, avoiding overvaluation due to emotional investor sentiment.

This market appeals to investors interested in genuine growth and potential rather than short term gains through trading. Given the largely unregulated nature and irregular availability of financial information in the unlisted market compared to listed peers, investors are advised to conduct thorough due diligence on valuation and broker-provided prices. The unlisted market also serves as a viable alternative for investors seeking returns when stocks become more liquid after listing on the exchange.

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