STUDY NOTES · BASIC CONCEPT

What is a Share Pledge? Mention its importance

Indian Economy

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1. Meaning of Share Pledge

- Share pledge refers to a situation where a promoter or founder pledges his/her shares in a company as collateral to raise loans from banks or financial institutions
- It is a promoter-level financial decision, not a direct borrowing by the company
- The pledged shares remain with the promoter unless the loan is defaulted

2. Risks Associated with Share Pledging

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- Fall in share prices can trigger margin calls
- Lenders may resort to forced selling of pledged shares
- Leads to volatility in share prices and weakens investor confidence
- Raises concerns about the promoter's financial stability

3. Meaning of Promoter-Level Pledge Release

- Pledge release occurs when the promoter repays the loan in full
- All pledged shares are freed from collateral obligations
- Results in the promoter becoming debt-free at a personal level

4. Significance of Pledge Release for Startups and Emerging Companies

(a) Financial Management

- Eliminates promoter-level financial risk
- Improves capital discipline and long-term sustainability
- Reduces dependency on leveraged funding

(b) Corporate Governance

- Enhances transparency and accountability
- Strengthens trust among minority shareholders
- Signals adherence to global governance standards

(c) Investor and Market Confidence

- Lowers the risk of sudden share price crashes

- Makes the company more attractive to institutional and long-term investors
- Supports smoother IPO planning and future fundraising

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