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From Tata Sons to small investors: Why pledges matter to all of us

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Stock Price

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The concept of pledge has always been a part and parcel of Indian society. [Pledging](#) of shares is also commonly used as a method of raising money by using shares held in a company as collateral for the loan.

However, recent attention drawn to pledging of shares by promoters of companies raises a question whether the general public knows about the implications of such a share pledge.



has argued that the public listing of Tata Sons IPO will ensure a fair price discovery and better tax efficiency, the real reason behind it seems to be the repayment of the loan by December 2025. In contrast, Tata Sons had shown [reluctance](#) to go public, fearing that an IPO would dilute their controlling influence over the group. To safeguard their private status, Tata Sons has even taken steps such as surrendering their NBFC license to avoid a [regulatory trigger](#) that could mandate a public listing.

Under any valid pledge, the property must be delivered to the pledgee as security for the debt - actually or constructively - transferring to the pledgee a special interest in the pledged asset, while the ownership right continues to be with the pledgor. When shares are pledged, the pledgor continues to enjoy all rights associated with an equity share like dividends, calling an extraordinary general meeting (EGM), etc. However, in case of default, the pledgee may retain the goods as collateral until the repayment, along with bringing a suit to recover debt or sell the pledged property after a reasonable notice to the pledgor.

As per recent data, promoters of nearly [1,500 listed companies](#) on the National Stock Exchange (NSE) have pledged their shares, whereas the value of promoter pledged shares in BSE Top 500 companies is around [Rs 1.63 trillion](#). The popularity of share pledge is driven due to the convenience for raising quick money, whether to fund business expansion or strategic opportunities, meet pressing business obligations or even personal investment diversification or debt raising. Its greatest advantage lies in the fact that it enables access to capital without diluting ownership or disturbing managerial control, making it an attractive tool of financing, especially for promoters and controlling shareholders.

Share pledging has broad implications for control and corporate stability, corporate governance, liquidity and market volatility, and risk amplification in companies. Excessive promoter pledging creates a tangible risk of change in control, with consequences that extend well beyond the borrower's balance sheet. Concentration of promoters holding nearly 50% of ownership in the top 500 listed companies, coupled with short-term collateralised financing through share pledging, creates an acute agency conflict that may tempt pledging of shares for non-*bona fide* reasons, like the personal interest of the promoter at the expense of the other stakeholders, including tunnelling of funds.

While share pledging is often a response to short-term liquidity needs, it can paradoxically expose shareholders to deeper illiquidity risk, especially in the case of closely held entities like Tata Sons. In closely held entities, the majority shareholder's control helps them to shape stringent share transfer restrictions to preserve ownership cohesion. Although pledging is a legitimate instrument for raising liquidity, the market often interprets it as a distress signal, triggering negative sentiment and unwarranted price volatility unrelated to the underlying



price crash, leading to a decline in the firm's value. It has been highlighted that share pledging by promoters or controlling shareholders has resulted in a significant negative impact on the wealth of the outsider shareholders. The public risk of elevated levels of share pledge includes impact on dividend flow and long-term growth through alteration of the controlling owner's incentives, making them more risk-averse, leading to minority exploitation, along with information asymmetry and insider trading vulnerabilities. Pledged shares often possess material non-public information about financing terms, margin call negotiation and lender's intentions - information that ordinary investors lack. This gap creates opportunities for insider trading, selective disclosure and market abuse, amplifying harm to retail investors and weakening market integrity.

Despite its acceptance as a legitimate means of raising finance, the pledging of shares is still stigmatised and perceived through a negative lens by investors and regulators alike. Regulatory bodies in India - like the Reserve Bank of India (RBI) and the Securities and Exchange Board of India (SEBI) - have regularly [shown concerns](#) regarding the pledging of shares.

The Tata-SP group's ongoing dispute underscores that share pledging has outgrown its character as a private arrangement between lender and borrower, carrying systematic implications for all stakeholders, including the general public. Even though regulatory oversight has strengthened in India, certain vulnerabilities in disclosure and oversight still remain. A starting point could be mandating pledge reporting by all shareholders and not just the promoter or person acting in concert (PAC), with compulsory disclosure on utilisation of money raised without any threshold. Transparent shares pledging backed by strong governance oversight could turn what is negatively perceived today into a responsible financing instrument, and not just a legitimate one.

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Tata Sons

Pledge of Shares