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LOAN AGAINST LISTED EQUITY SHARES IN INDIA: A SMART FINANCIAL STRATEGY

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WHAT IS A LOAN AGAINST LISTED EQUITY SHARES?

A loan against listed equity shares is a secured loan where an investor pledges their equity shares listed on recognized stock exchanges (like NSE and BSE in India) as collateral to secure a loan. This type of loan provides an avenue for investors to unlock the value of their shareholdings without liquidating them, thereby maintaining their investment portfolio while accessing funds.



ADVANTAGES OF LOAN AGAINST LISTED EQUITY SHARES





1. Quick Access to Funds:

One of the primary benefits of this loan is the rapid access to liquidity. Since the shares are already listed and valued, the processing time for such loans is typically shorter compared to other forms of loans.

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2. Retention of Ownership:

Borrowers retain ownership of their shares and continue to benefit from dividends and potential capital appreciation, unlike selling the shares outright.





3. Lower Interest Rates:

Secured loans generally come with lower interest rates compared to unsecured loans like personal loans or credit card debt. The interest rates for loans against equity shares can range from 9% to 15% per annum, which is relatively lower than many other credit options.

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4. Flexible Repayment Options:

Lenders often provide flexible repayment terms. Borrowers can choose from various options such as EMIs (Equated Monthly Installments) or bullet payments, depending on their financial situation.





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5. Loan Amount Based on Share Value:

The loan amount is directly linked to the market value of the pledged shares. Typically, lenders offer 50% to 75% of the market value of the shares as the loan amount, ensuring a substantial credit line for the borrower.

ELIGIBILITY CRITERIA

To be eligible for a loan against listed equity shares, borrowers typically need to meet the following criteria:





Ownership of Listed Shares:

The shares must be listed on recognized stock exchanges and owned by the borrower.



Minimum Shareholding Value:

Some lenders may have a minimum shareholding value requirement, usually starting from INR 1 lakh and above.



KYC Compliance:

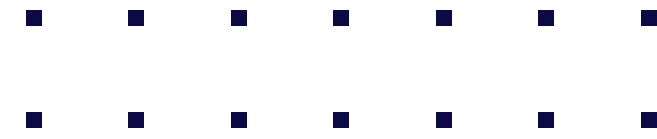
Borrowers must comply with KYC (Know Your Customer) norms, providing necessary identification and address proofs.



Creditworthiness:

While the primary collateral is the equity shares, lenders may also assess the borrower's overall creditworthiness.

INTEREST RATES AND CHARGES



The interest rates on loans against listed equity shares are generally competitive due to the secured nature of the loan. As mentioned earlier, they typically range from 9% to 15% per annum. Additionally, borrowers might encounter the following charges:



1. Processing Fee

A one-time fee, usually between 0.25% to 1% of the loan amount.

2. Demat Charges:

Fees related to the dematerialization of shares, if applicable.

3. Penal Interest:

Applicable for delayed payments.

4. Renewal Charges:

If the loan is renewed after the tenure.



COMPARING WITH OTHER FORMS OF LOANS

- Personal Loans:

Personal loans are unsecured and come with higher interest rates (typically 12% to 24% per annum) and stringent credit score requirements. They also have less flexible repayment options compared to loans against shares.

- Gold Loans:

Similar to loans against shares, gold loans are secured but require the physical transfer of gold, which some investors might find inconvenient. Interest rates on gold loans are often comparable but can be higher than loans against equity shares.





- Home Equity Loans:

These loans use real estate as collateral and generally offer lower interest rates. However, they involve longer processing times and higher loan amounts, making them less suitable for quick, small-scale funding needs.

CONCLUSION

A loan against listed equity shares offers a strategic financial solution for investors needing liquidity while preserving their investment portfolios. With competitive interest rates, flexible repayment options, and the ability to retain ownership and benefits of the pledged shares, this form of loan stands out as a compelling choice. By understanding the eligibility criteria and comparing it with other loan options, investors can make informed decisions to effectively manage their financial needs.

For those holding substantial equity shares, leveraging this financial tool can provide both immediate liquidity and long-term financial stability, making it an attractive option in the diverse landscape of personal finance.

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