Around The Markets

Tata Steels

THREE weeks ago, it was hinted in these columns that the expected improvement in the earnings of the Tata Iron and Steel Company called for a spurt in Tata Steel shares. That expectation has been fulfilled, and Tata Steels have appreciably improved in the past three weeks as a result of the higher dividend declaration. Publication of the annual report during the current week has given a fresh impetus to Tata Steels, and the shares have not only recovered the ground lost a few days ago but have forged further ahead.

As detailed in the annual report, TISCO's profits for 1949-50 wen- higher than those of the previous year owing mainly to the following factors: "The production of saleable steel was higher by over 56,000 tons; 8,000 tons were despatched from stock in addition Co the year's output; from 1st May. 1949. retention prices were increased by about Rs, 18/- per ton on the average."

dpur Works

Besides higher retention prices, increased earnings of the Tata Steel Company are mainly clue to improved output. As pointed out in the annual report, but for the breakdown of the main drive motor of the blowing mill towards the end of January, 1950, production would have been still higher. The following table indicates the improvement in production during the year under review:

	1949-50	1948-49	Increase %
Coke	955,000	816,000	17.0
Pig Iron	1,031,000	917,000	12.4
Steel Ingots	1,005,000	904,000	11.2
Saleable Steel	727,000	671,000	8.3

It is a tribute to the management of Tata Iron and Steel Company that labour is given its due share of praise in the annual report. Higher production during 1949-50, it is admitted, was mainly due to a marked improvemen in the attitude of labour at Jamshedpur which was reflected both in increased production and better plant maintenance. Another factor responsible for higher output was the cumulative effect of the expenditure on repairs and replacements during the last few years,

Finances

During and since the year, the Company's finances have vastly improved. Both depreciation and reserve funds are now more ample. And, the management are confident that the Company's present financial reserves, together with the amounts which may be expected to be appropriated from profits each year for depreciation and reserves, will suffice to meet normal capital expenditure on replacement, improvements, etc. Doubts had been raised in some quarters whether Tata Iron and Steel Company would be able to finance normal replacements out of current earnings. Assurance on this point will be welcomed. Indeed, the recent spunt in Tata Steels is partly due to this assurance by the management.

What of capital expenditure? Such expenditure is estimated at Rs. 12 crores. It is an open secret that the Company have let it be known that the)' are prospective borrowers from the new issue market. It is also an open secret that such hints have not evoked any response from the new issue market. However, the revelation, contained in the annual report, that the Company arc negotiating with the Government for a long-term loan will quash periodic rumours that TISCO were exploring prospects of a debenture loan to be financed by foreign banking and/or insurance interests.

Prospects

Operations, earnings and dividend payments of the Company for 194.9-50 are encouraging. Prospects are not gloomy. Internal demand for steel continues unabated. As internal steel prices arc well below the prices of imported steel, TISCO have the assurance that improved production would have a ready market. More encouraging is the implication of negotiations between the Company and the Government for a long-term loan. Such loans have already been advanced to the two steel companies in Bengal. And, the fact that negotiations for a loan to TISCO are going on suggests that the Government may have abandoned their project for starting State-owned steel plants. That is the biggest immediate bull factor for steel shares.

Students of company finance would have felt more bullish about Tata Steels had the management been able to reveal a concrete proposal for conversion of Tata deferreds into ordinarys. This conversion affair has been in the air for some years. The Company want it, the Government accept the necessity of conversion, and it has the backing of the Tariff Board. Yet, technical market factors and the incredible greed of deferred shareholders have held up the scheme for too long. Reconstruction of the capital structure is needed not only for the healthy operation of Dalai Street, but also for the betterment of the Company. Informed students of company finance will welcome coercion, if persuasion fails, by the Government to implement the conversion scheme without delay.

The Week

Besides Tata Steels, cement and shipping shares have come to the fore during the week. Rise in shipping shares is partly due to the recent changes, now implemented, in the control and management of India's shipping industry and, ill part, a reflection of the grofwing, belief that the Korean war will give a fillip to coastal shipping traffic. Cement shares have been steadily moving up in the past few months on reports of de-control of cement. Like steel, the demand for cement is likely to expand for some,, years to come. There is a housing shortage; the Government are determine ed to speed up building activity. And, this is a bull factor for both steel and cement.