Around Bombay Markets

Obscure Outlook for Equities

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Fiscal concessions alone will not be able to restore confidence in the investment market. Equities have been drifting lower even though the corporate news has been fairly encouraging. This is because investible funds are being more remuneratively employed outside the stock market.

Cotton production continues to lag far behind the Plan targets and the industry's growing requirements. What needs to be done to step up production is simple enough. The question is how to get things done; the problem is essentially organisational.

Despite fairly comfortable supply, it is difficult to predict the trend of oilseeds prices. This is because a great deal depends on the Government's unpredictable export policy.

CHRI J R D TATA stated at the recent meeting of the Central Advisory Council that during the last 40 years he had never known an occasion or period in which "there was such universal gloom, despondency and uncertainty about the future" as at present. And he added "I am convinced that the crisis of confidence in which we find ourselves today—this complete stagnation in the market, the virtual impossibility of raising funds—will not improve unless there is a change in the Government's approach to the taxation and fiscal policies." Shri Tata's speech has been described by many as an unusually frank appraisal of the situation but this seems to be a typical illustration of what the Finance Minister Krishnamachari had in mind when he pointed out in his speech while inaugurating the Industrial Development Bank of India on July 3, 1964, that "they (industrialists) protest, sometimes loudly, in the hope of impressing the Government but they only succeed in scaring away the investors." No one will deny that the Indian economy is under a heavy strain and that the industry's performance leaves much to be desired. And it will also be readily conceded that the capital market is not in good shape. But the data regarding capital issues in 1964 and corporate sales and profits do not bear out the alarming views expressed by Shri Tata. The amount of capital raised by the industry in 1964 was an all-time record and so were the corporate sales and profits. According to a study by the *Economic Times* new capital issues by large and medium sized companies amounted to Rs 90 crores in 1964 against Rs 54.5 crores in 1963, Rs 73.9 crores in 1962 and Rs 59.6 crores in 1961. Initial issues through prospectus (shares only) amounted to Rs 62.2 crores in 1964, right issues totalled Rs 20.2 crores and debentures Rs 7.6 crores According to smother study by the *Economic Times* the total sales of 51 giant companies in the private sector amounted to Rs 1092.1 crores in 1963-64, showing an increase of 13 per cent over the previous year's figure of Rs 966.4 crores. The gross prufit increased by 14.4 per cent from Rs 119.5 crores to Rs 136.7 crores. The profitability rates (gross profit expressed as percentage of total capital employed) was also higher, though only slightly from 10.8 per cent to 11.4 per cent. The profit after tax increased from Rs 54.14 crores to Rs 62.33 crores, recording an increase of 15.1 per cent. Retained profits rose by 25 per cent from Rs 19.80 crores to Rs 24.75 crores. Out of the 51 companies, 31 made higher dividend payments and only 6 units pruned their dividends.

While the corporate news was, by and large, fairly encouraging, the stock market had a very difficult time last year. The market had its ups and downs but no decisive trend emerged at any stage. The market managed to keep above its 1963 low but it was never able to push through that year's high. And over the year, the Reserve Bank of India's All-India index for variable dividend securities moved down from 172.2 to 163.5 and the regional index for Bombay came down from 180.5 to 174.6. The decline occured despite substantial institutional support both by the Life Insurance Corporation and the Unit Trust But it is not just the decline in equity prices which has been worrying the stock exchange community. Far more disturbing is the tremendous shrinkage in the volume of business. Throughout last year, activity was almost entirely professional, with less than a dozen shares in the forward list accounting for the bulk of business. Outside participation remained virtually absent throughout the year. Investment activity too was at an extremely low ebb and the L I C and the Unit Trust figured as the only major buyers. The public response to new issues was very poor though industry was able to raise a record amount because of increased underwriting activity. Rarely has the stock-broking community been known to have experienced such a difficult time as it did last year and many stock-brokers seem to be seriously considering of talcing to a different vocation. There has been a tremendous increase in the number of companies listed on the stock exchange, the figure having gone up from 275 at the end of 1960 to 464 at the end of 1964. But this has not led to any increase in the total volume of business put through the exchange. Out of the 464 companies, only 74 have their shares on the forward list, the corresponding figure for 1960 being 67.

Popular Belief

Most observers are inclined to toe Shri JRD Tata's line and blame the fiscal and monetary policies of the Government for the unprecedented crisis of confidence in the investment market. The common belief is that inflation and taxation have between them made mincemeat to people's livings and that the 7½ per cent dividend tax and the capital gains tax on bonus shares have killed the cult of equity. The annuity deposit scheme is said to have deprived the middle and upper-middle class people of all their surplus funds, which, if left in their hands, would have been invested in shares. These explanations have a measure of substance in them but they fail to convince. To take up the dividend tax and the tax on capital gains on bonus shares, excepting those issued out of the share premium reserve, in real terms, the incidence of these taxes *is* negligible; their impact is mostly of a psychological nature which can be easily exaggerated. As for taxation, while it is true that taxes reduce the surplus of funds left with those who are taxed, it does not just follow that this leads to a reduction in the aggregate savings of the community. How the aggregate savings of the community, as distinguished from individual savings, might be affected by a scheme of taxation depends on a number of factors, a great deal depending on how resources mobilised through taxes are employed. Inflation and the high level of taxation notwithstanding, there is little reason to believe that the aggregate supply of investjble funds with the. community in private hands has been declining. Money incomes generated through the development plans have not been simply spent away; nor can one say with any certainty that taxation designed 10 promote a socialist society has resulted in reduction in inequality of incomes and wealth.

If the slock market has grown very anaemic with turnover dwindling to a mere trickle of what it used to be, and the capital market is in an awfully bad shape, it is not because there is not enough money available for investment. The money is there, and perhaps in great abundance, but it is not flowing to the stock market. This is mainly because funds can be employed far more remunerativeiy outside the stock market. Despite the heavy decline in equity prices over the past few years, the average yield available from equities is still no more than 6 to 7 per cent. Few people arc inclined to employ their funds on that basis when the return available for other sources is so much higher. Asset values of almost every description have been rising; only the investment in equities has been depreciating.

Fiscal Relief Wont Do

The cult of equity cannot be revived merely by the abolition of the dividend tax or the capital gains tax or even the annuity deposit scheme. It is difficult to visualise possible changes *in* fiscal policy which alone can bring about a revival of confidence in the investment market. This is not to suggest that the fiscal policy should not be suitably modified in order to improve the climate for investment. But that alone will not do. The question is not merely of offering inducements to invest in equities; the main problem and a for more difficult, one is how to restrict the scope for the employment of funds in commodities, real estate and other less desirable lines of activity.

The stock market is sick because the country's economic health has been steadily deteriorating. That the economy is under very heavy strain is evident from the growing inflationary pressures, difficult food situation, large unutilised capacity in industry and rapidly deteriorating foreign exchange position. The present situation has developed not because there has been something radically wrong with the Government's fiscal and monetary policies but mainly because agricultural and industrial production, more particularly agricultural, has failed to keep pace with the growing requirements of the country when population has been growing very fast. Revision of fiscal and monetary policies cannot by itself bring about a rise *in* agricultural and industrial output. This is not to suggest that fiscal policy has no bearing on industrial growth. But the real problem is that of organisation and efficient and honest administration. Fiscal relief in the forthcoming Budget could surely provide some stimulus to the stock market but the market will still find it difficult to push its way up in a big way unless there are clear indications of an improvement in the health of the economy.

Cotton

Promising Start

NEVER have cotton prices been pushed to such high levels as they were in November and December this season and that too when the basic supply position could by no means be regarded as uncomfortable. Prices shot: through the statutory ceiling quite early in November and very soon unofficial premiums ranged from Rs25 to Rs 125 per candy. It all happened because of the Government's policy of drift and inaction. It is really amazing how the authorities entrusted with the administration of price control cap allow the control to be reduced to a complete farce and still get away with it without being called upon to explain their conduct and suffer for it.

The 1964-65 season beginning with September (why the cotton season is made to commence from September is hard to appreciate) started wifn a record carryover of 26.19 lakh bales consisting of 23.54 lakh bales of Indian cotton and 2.65 lakh bales of foreign cotton. Weather conditions were almost ideal throughout September and it was widely thought that the new cotton crop could be anything between 64 lakh bales and 67 lakh bales — a new record — as against 61.50 lakh bales in the previous season. Prices eased under the influence of improved prospective supply, with some of the varieties (old cotton) quoted Rs 50 . to Rs 120 per candy lower than the highest prices recorded during the 1963-64 season. The restrictions on the buying of cotton by mills were done away with and the export of Bengal Deshi was made altogether free. The trade felt that atleast for once it will be able to enjoy complete freedom of operation. Some thought that if the crop turned out to he as large as was widely anticipated, it might become possible to make a beginning with the building up of a buffer stock.

The Turn

But soon the situation began to undergo a change because of the un timely and also excessive rains in certain cotton growing tracts, particularly in the Punjab. The crop was also reported to have been damaged by pests and disease in certain districts of Maharashtra. It all occurred during October- usually the most critical period for the cotton crop. Crop estimates began to be revised downward gradually and at one time the crop was talked down to around 55/56 lakh bales — that was some time in December. By about the e*nd* of October, cotton prices had recovered all their earlier losses following forecasts of a bumper crop. And very soon prices moved beyond the ceilings.

No doubt, weather conditions during October left much to be desired and the crop had also been affected by pests at a few places. But the revision of crop estimates was influenced as much by ideas of possible damage to the crop as by the extraordinarily slow pace of arrivals which in tutn was due partly to the delayed movement of the crop but largely to the unwillingness on the part of farmers, cooperative societies and merchants to part with their stocks. Cotton prices simply soared. The rise in cotton prices was however, not an isolated phenomenon. Prices of several other commodities such as foodgrains and oilseeds were pushed to fantastic levels; acute inflationary psychology had seized commodity markets and speculators exploited this psychology *to* the* utmost

Cotton prices had pierced the ceilings early in November and the unofficial premiums rose week by week with the increase in speculative tendencies. But the authorities seemed virtually unconcerned about the fast deterioration in the price situation. The Government took no effective measures such as compulsory survey, restrictions on mill purchases 'and en holding of stocks in excess of specified limits, increase in margins of advances against cotton and requisitioning, to contain pricse within the statutory ceilings. All that it did was to assure the industry that it was making arrangements for importing 9.5 lakh bales from abroad during the season. The industry complained about soaring prices but for a time its agitation was directed more towards securing an upward revision of cloth price multipliers in order to accommodate the rise in cotton prices than awards keeping cotton prices under check. In fact, the industry even suggested to the Government in November that ceilings on cotton prices should be removed as price control was in any case ineffective. It: was only towards the *end* of November when the industry found itself unable to prevail upon the Government to revise cloth unces thai it pressed for official intervention to check the rise in cotton prices. Completely unmindful of its responsibility to make available to the in dustry cotton at the ceiling prices—that is what price control really implies--(the responsibility had become all the greater following the introduction of partial statutory control over cloth production and prices), the Government continued to be a silent witness to the open violation of the cotton control order. And it was only during the latter part of December that it. thought of introducing compulsory survey and fixed definite dates for ginning and pressing of cotton in certain tracts.

I C M F Acts

These half-hearted measures failed to produce any impact on the market. Prices continued to rise and not enough cotton was forthcoming even at the higher prices. Several mills were threatened with closure owing to the acute shortage of cotton. It was only when the situation became desperate and the Government appeared to be still unwilling to take firm action to bring down prices that the Indian Cotton Mills' Federation formulated an 8-point plan aimed at securing cotton at: or below the ceiling prices through rigorous self-discipline. The scheme provided for strict supervision of all the purchases made by the member mills, restrictions on nolding of stocks, ready as well as forward, redistribution of stocks in excess of the specified limits among the needy mills and requisition of stocks from the mills as well as traders through the assistance of the Textile Commissioner. At the same time, the Federation also let it be known that it would be prepared to buy throughout the season any cotton offered to it at prices 5 per cent below the appropriate ceilings.

The Federation's scheme produced an immediate impact on the market. Farmers and traders who had long been sitting tight on their stocks in the hope that they could dictate prices as the Government was unwilling to take any action which might displease the agriculturists, were rudely shaken by the prospect of requisitioning and controlled mill buying under the Federation's scheme of rigorous self-restraint. Prices came down sharply. The unofficial premiums disappeared in a matter of two weeks; quite a few varieties which were hard to obtain in December even on paying exorbitant premiums were available at below the ceilings after about the middle of January. Soon, growers and traders were seen agitating for the marketing of their produce at the appropriate ceilings and representations were made *to* the State Governments — Maharashtra and Gujarat — t*o* persuade the Federation to remove curbs on mill buying.

The Federation's scheme has still to be fully implemented. Not a single bale of cotton is known to have been requisitioned so far. Even so, the situation obtaining in the cotton market has undergone a radical change which clearly indicates that the fantastic rise in cotton prices during November and December was not due to any real shortage of goods; the shortage had emerged simply due the withholding of supplies from the market, mostly by growers and cooperatives because not enough cotton had yet moved into the hands of the trade. And there is little doubt that holding of stocks had been encouraged by the policy of drift and inaction adopted by the Government. With an aticipated harvest of 59/60 lakh bales (earlier pessimistic forecasts reflected mainly the prevailing mood of the market), a carryover of about 26 lakh bales and a probable import of 9.5 lakh bales — this is what the Government has promised — the total supply of cotton should prove sufficient to meet the industry's increased requirements and the normal export needs and still leave a satisfactory carryover stock at the end of the season.

Far from being a matter of serious concern as suggested by the numerous representations made by farmers and traders in recent weeks, the decline in cotton prices is to be welcomed. The growers and traders need the stern reminder that the ceiling prices are the maximum that they can legitimately hope to obtain even under conditions of acute scarcity. The Government too must remember that it is only when prices decline to near the floor levels a situation which is not expected to arise in the foreseeable future — that it need entertain any representation from the growers. There is nothing to bother about the market when prices keep within the lower and upper limits fixed by the Government,

Production Disappoints

Far more disturbing than the complete failure to prevent prices from rising above the ceilings is the Government's dismal performance on the production front. Cotton production has continued to Jag miserably behind the Plan targets. The 1964-65 crop is estimated around 59/60 lakh bales and even on most optimistic reckoning it is not expected to exceed 61/62 lakh bales which is considerably short of the year's target of 66.38 lakh bales. Weather conditions this season could not be described as unsatisfactory, though they were by no means ideal. But in a country of India's size, it would perhaps be too much to expect ideal conditions in all the cotton growing areas. In any case, it is foolish to blame the weather all the time, year after year, for any shortfall in production. How serious is the shortfall will be evident from the fact that cotton production even in the fourth year *oi* the Third Plan is far behind the target of 65 lakh bales originally fixed for the Second Plan. Judging from the performance over the past few years, the Third Plan target of 70.65 lakh bales seems almost impossible of achievement. But 70 lakh bales is about the minimum that the country needs in order to be able to achieve the Plan target for cotton textiles without having to depend too heavily on imported cotton which is becoming increasingly difficult to secure because of the deteriorating foreign exchange

position. Yet when one thinks of the miserably low yield of about 110 lbs an acre in India as against some 235 lbs in the neighbouring Pakistan, not to talk of the high yield ranging from 450 lbs to 585 lbs in other countries like Egypt, U S A and USSR, there appears to be a tremendous scope for stepping up cotton production in the country. It is true that hardly 15 per cent of the area under cotton is irrigated and the rest is fed by the unpredictable rains, but there are several countries which have smaller irrigation facilities and still have a per acre yield twice or thrice that in India. What needs to be done to increase the per acre yield is sufficiently well-known. Increased irrigation facilities, larger supply of better quality seeds and fertilisers at prices within the reach of the farmer, improved methods of cultivation, pest control, etc — all these contribute to increased production. But the real problem is how to get things done. The lack of progress in the held of cotton production as in the case of most other agricultural commodities is due essentially to organisational defects in the administrative machinery. Not until the organisational defects are overcome, can one hope for any significant improvement in farm output;

Consumption of cotton is increasing every year with the increase in the spindleage and it is bound to increase further quite appreciably in view of the expansion of spindleage that has already been sanctioned and is likely to be sanctioned. With domestic supply of cotton failing to catch up with the growing requirements of the industry, the country is being obliged to spend large amounts of valuable foreign exchange on the import of cotton every year. Because of the chronic imbalance between supply and demand, cotton prices in India have been moving up and up year after year and the Government has been forced to raise the ceilings quite appreciably in recent years. Indian cotton which had for long been the cheapest in the world is today costlier by about Rs 150 to Rs 200 per candy than comparable foreign cotton. While the competitive position of the Indian textile industry in international markets has been steadily undermined because of the higher raw material costs, there is little evidence to suggest that higher prices have in any way helped to bring about an increase in the production. **of cotton.**

Oilseeds

Satisfactory Supply

EARLY in January mustard oil was quoted around Rs 4,800 (per tonne) in Delhi and still higher around Rs 6,500 in Calcutta; the quotation for linseed oil in Bombay was marked up to around Rs 3,050 and groundnut oil was quoted around Rs 2,450 — groundnut oil had, however, seen a much higher price of Rs 3,200 a few months earlier in September. There has been a substantial setback in prices over the past few weeks, with mustard oil down at Rs 2,600 and linseed oil at Rs 1,950. Groundnut oil was sold down to Rs 1,940 but the latest quotation is higher around Rs 2,150. During the same period castor oil Commercial has moved down from Rs 1,950 to Rs 1,750.

Never in the past had vegetable oil prices been pushed to such fantastic levels as they were recently and whai is more, prices rose despite prospects of a distinctly comfortable supply. The spurt in oilseeds prices was a tan of the general upsurge in commodity prices which took cotton and foodgrains prices to ridiculously high levels, with gram quoted around Rs 135. wheat at Rs 200 and 'Tur' Berar at Rs 120—all per quintal. These fantastic prices indicate complete failure on the pan of the Government to enforce discipline on markets; prices had been rigged up despite prospects of good harvests. The recent sharp break in prices clearly shows that the boom had been essentially speculative in nature.

Oilseeds prices in India have been rising year after year, reflecting chronic imbalance between supply and demand: supply has been persistently lagging behind demand which has been fast increasing with the rapid growth of population. The situation last year was complicated by heavy exports of groundnut oil through liberal export incentives. Exports of vanaspati and vegetable oils, excepting linseed oil and caster oil, have, however, been banned since July. The export policy for the current season has still to be made known.

The supply of edible oils this season is likely to show an appreciable improvement over the previous season. The mustardseed and rapeseed crop, which according to trade estimates yielded no more than 7 lakh tonnes (the official estimate placed the crop at 9.5 lakh tonnes) last season, is reckoned around 16.5 lakh tonnes—an all-time record—against a normal crop of about 13 lakh tonnes. The groundnut crop is also expected to set a new record around 55/56 lakh tonnes (in shells). The sesamum and linseed crops are also likely to show a satisfactory increase. The output of castor, however, is likely to be about the same. What is more, the supply is being augmented with the import of 75,000 tonnes of soyabean oil from the U S under PL 480 to be used entirely by the vanaspati industry. Further, arrangements have been made for the import of 50,000 tonnes of mutton tallow, under PL 480, to be used by the soap industry and this in turn will reduce the pressure on the demand for edible oils. Soap manufacturers have in the past been consuming large quantities of edible oils; the use of edible oils for making soap has been banned only recently.

Price Outlook

Despite prospects of improved supply one cannot be too sure that: edible oils will be much cheaper this season than in the previous season. This is partly because it is difficult to assess demand which continues to grow at a rapid pace. The consumption of edible oils in India is miserably low. Eve a *on* the basis of bare minimum requirements, the Third Plan target for the five major oilseeds had been fixed at 98.2 lakh tonnes. But production during 1964-65 under ideal weather conditions is unlikely to exceed 80/82 lakh tonnes. Discouraged by the disappointing performance during the current Plan, the target for the Fourth Plan has been fixed at no mure than 100 lakh tonnes. Considering the steady growth of population and the low level of per capita consumption, demand will always continue to exert a pull on prices of edible oils unless production can be stepped up very appreciably. How the oilseeds market will behave during the current season will depend to a very large extent on the Government's export policy. Though the export of vanaspati and groundnut oil in moderate quantity should not make any real difference to the supply for the domestic market, chances are that exports will have a far reaching effect *on* the general market psychology and the speculator will not miss the opportunity to exploit the situation. Past experience holds out little hope that: the authorities will be able to keep speculative tendencies under control. Speculative activity is no longer confined to futures markets;

it is even more rampant in the spot markets, goods being very tightly held, perhaps with the help of unaccounted money, not only by traders but also by farmers and cooperative societies. In view of the marked deterioration in the country's foreign exchange position, the need for a larger export effort can scarcely be over-emphasised. But it is also true that prices of essential commodities like oilseeds have reached such high levels that if they were to seek still higher levels they are bound to lead to mass discontent which could easily disturb political atmosphere in the country.

Some Suggestions

If the Government decides to permit exports of edible oils because of the deteriorating foreign exchange position, it must at the same time be prepared to deal with the price situation firmly. Notwithstanding the continuing imbalance, between supply and demand, there seems little doubt that the authorities have never made any serious and determined etlort to hold the price-line; there have, of course, been many pious resolutions for keeping prices under check. If the Government really means business, the least it can do is to fix vanaspati prices for a minimum period of six months after carefully considering all the relevant factors. Vanaspati prices should be so fixed that the industry rinds it unremunerativc to purchase groundnut oil at a price higher than what is considered to be a reasonable price from the view-point of the common man. Export incentives should be suitably modified so that exports become possible only if prices keep below certain reasonable limits. One cannot expect prices to be stabilised at some particular level if the export incentives make it possible for exporters to purchase oil at substantially higher prices. This is plain commonsense and yet the authorities have never been able to grasp this fact fully. Quite often export incentives have had the effect of pushing up internal prices and at the same time resulted in a decline in overseas quotations for Indian oils. Holding of stocks in excess of specified limits, both by traders and vanaspati manufacturers, should be prohibited. The State Trading Corporation should be asked not to make an unduly large profit on the import of copra so that a healthy relationship is re-established between the prices of groundnut oil and coconut oil. It is only since the STC took over the import of copra some five years ago and started charging exorbitant profit on its sale to the trade that coconut oil began to be quoted substantially higher than groundnut oil—the premium ranging up to Rs 1,400 per tonne. In the past coconut oil used to be quoted lower than groundnut oil by about Rs 50 per tonne.

Price relationship between various oilseeds and between oilseeds and other agricultural commodities like cotton and foodgrains seems to have been seriously distorted over the past few years. In the absence of any reliable cost studies, it is difficult to assess the correct relationship between prices of different commodities. But since the profitability of raising a crop has an important bearing on its production, it is to be hoped that the Agricultural Price Commission will attend to this problem at the earliest.