Around Calcutta Markets

Active Stock and,New Issue Markets

1955 .should not have been a good year for stock markets. But it turned out to he a good one Performance bettered, promise, mainly because of the effects of deficit financing.

By all recognised criteria, the national economy expanded. Industrial and agricultural production improved. National income was higher. Improvement in savings teas partly reflected in the prosperity of hank' and insurance companies. Industrial wages did not improve. Industrial raw material prices were relatively lower.

So. production costs were favourable. These bash economic factors were reflected in near-boom conditions in stock markets for most part of the year.

IN retrospect, it would seem that higher deficit financing had the intended effect. Yet, when the year began, apprehensions were widely entertained that the outlook was none too bright. Consider, first, the controversy relating to the .second Plan. Throughout 1954. equities were buoyant in anticipation of a bolder second Plan. As the Plan-frame was published, the boldness of the Plan was not questioned But its attitude to the organised private sector had a temporary disturbing effect on stock markets.

Plan-frame and the Market

That the publication of the Plan-frame had an *adverse effect* on stock markets was not as surprising as the temporary duration of this adverse influence. Price movements in the last twelve months would seem to indicate that investors are not. and rightly, as much worried about the controversy relating to the role and importance of private or public sectors as about the total magnitude of the second Plan. Under the second Plan, both national income and the ratio of national income directed to investment are assumed to increase. It is this basic assumption that explains continued activity in stock and new issue markets in 1955.

Plan-frames bias against the organised private sector of industry was not the only adverse influence on stock markets. From the beginning of 1955, stock markets were under the threat of a higher level of taxation as a sequel to the expected suggestions of the Taxation Enquiry Commission. TEC did suggest higher taxation. It did recommend taxation as an instrument to restrain con' sumption. These suggestions were reflected in the original budget proposals. But as these proposals were modified later, stock markets reach' ed the conclusion that New Delhi was hesitant to carry out policies recommended by committees and experts appointed by the Government.

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Foreign Concerns Change Hands

Here, it may not be out of place to discuss the related developments in the new issue market and similar other events. 1954-55 witnessed, in Calcutta particularly, a second instalment of liquidation of foreign investments. In this article, the obverse side of this process, cornering of shares and transfer of managerial or proprietary rights in companies owned and managed by foreign nationals, is more relevant. Transfer of ownership of companies to Indian hands was partly a reflection of mounting money incomes and. in part, of the optimistic outlook of Indian investors which did not seem to be shared by foreign investors.

Indian capitalists concentrated their attention mainly on plantation and light engineering industries. There was a scramble for acquiring ownership of tea companies because of the 1954-55 boom in the tea industry. After the first quarter of 1955, it became evident that Indian capitalists had acquired control of tea companies at inflated levels. This movement died down. But the move to control light engineering Industries which ante-dated the cornering of shares in tea companies, still continues. Since the middle of 1953 investors have been optimistic about the prospects for light engineering industries in the context of a bolder second Plan. The spurt in Engineering shares, which began more than twenty-four months ago. persists.

Why So Many Transfers''

Why, it, may be asked, were Indian investors anxious to acquire control in tea and light engineering industries? Some of the reasons are supplied in the preceding paragraph. But, in the retrospect of developments since Independence, it would be unwise to emphasise only those reasons. Transfer of ownership of industry to Indian hands is an inevitable consequence of political freedom. Immediately after Independence, jute companies were acquired. Tea, engineering and coal are the other three major industries on this side of India. So, as deficit financing made its influence felt on money incomes, Indian investors started acquiring tea and light engineering industries. They left the coal industry alone because of gloomy prospects.

There is nothing wrong with this trend except that for the second time, the foreign holders have succeeded in liquidating their investments at inflated prices. This raises the old controversy about the wisdom of allowing such indiscriminate transfers from non-Indian to Indian hands. But the development in Calcutta during 1954-55 had another origin. It was hastened and aggravated by company legislation. Incidentally, introduction of legislation aimed at restricting the rights of managing agents was one other reason why 1955 should have been a bad year for stock markets. But equities aid not suffer partly because of cornering activities to gain control of the companies concerned.

Many New Issues

1955 was an active year : or the the new issue market. Many companies raised fresh capital. Some others issued bonus or right shares. As the latter led to appreciable improvements in the equities concerned, *or* as some companies issued bonus or right shares at a premium, this development had also some of the characteristics of the new issue market. In 1955, the new issue market proper witnessed two different kinds of activity. Many foreign companies were encouraged to Moat rupee capital. Increasing participation of Indian capital in foreign ventures within the country is the main objective of this development. It is a welcome trend. But subsequent events would seem to raise doubts about the wisdom of the Government in permitting these issues at only small premia or at no premium. This aspect of the problem is discussed later.

Many Indian company have also raised fresh capital or issued right or bonus shares. This move started by the middle of 1953. It gathered momentum in 1954-55. *As* the move preceded the Plan-frame's proposal to halt expansion of the organised consumption goods industries, It is clear that the trend originated from a dnsirp to raise finance *to* implement expansion projects in anticipation of*:* the gradual improvement in the *economy.* Continuation of this trend in an aggravated form even alter the release of the Plan-frame would seem to suggest, that some consumption goods industries wanted to forestall the limitations proposed in the Plan-frame. No further capital investment may be allowed in these industries in the second Plan period but full utilisation of idle capacity will not be debarred. Restriction on expansion is not being proposed for all consumer goods industries With the recent increase in capital or some paper, light engineering industries and some other consumer goods industries, the organised private sector will have ample scope for expansion in the .second plan period through utilisation of newly-Installed capacity.

Motives Behind Bonus Shares

Sonic such motive may have accentuated the new issue boom in 1955. But some of the incidental developments require emphasis. There seems to be another subtle motive behind issue of bonus or right, shares. Existing: shareholders reap the maximum benefit out of *such* issues. These issues mean and imply higher dividend disbursements to the shareholders concerned. Capital gains ensue. This raises the problem of a capital gains tax. But there are reasons for suspicion that some companies have issued bonus or right shares to neutralise the threat of nationalisation. Experience .suggests that the Government's policy is to pay full market value in the event of nationalisation. It. does not. require much imagination to realise that bonus or right issues invariably inflate the share values concerned. In this context, it is of interest to note that New Delhi has reportedly, issued a directive that bonus shares can be issued subject to the condition that no dividend should be. declared on such shares

Stage Over active

From the stock market angle, an implication of the active new issue market may be noted. In anticipation of bonus or right issues, many speculative Investors buy the shared con earned from the stock market to unload these, when equity values concerned appreciate. "Stags" specialise in this form of activity. In 1955, "stags" were overactive. "Stags" are creatures of stock market booms, But "stags" have a, pronounced incapacity to realise when they should withdraw from the market. Consequences of this occupational infirmity become apparent when they fail to pass on their holdings to genuine Investors. This invariably happens at the end of a boom. That is why the sharp set-back in Tata Ordinary and in ACC, on reports that the Government is unwilling to permit these companies to issue new shares except at substantial premia. is an ominous development.

New Market Leaders 'Emerge

Against this wider background, some of the peculiar developments on the Calcutta Stock Exchange may be noted, 1955 witnessed the eclipse of all the former market leaders with the simultaneous emergence of new popular counters. Coal shares lost their popularity many years ago. From the second quarter of 1955, the slump in Tea. shares started as auction prices began to decline. In the last quarter of 1954, the fall in Jute shares started. Jute shares still continue to be friendless.

Despite the lower trend in the former market leaders, the Calcutta Stock Exchange succeeded in maintaining activity at a high level. Paper shares were active, throughout the year. Emergence of some new paper manufacturing concerns and expansion of some of the existing concerns vindicated the investors' faith in Paper shares. Demand lor Paper shares started in early 1954. It still continues. Engineering and Miscellaneous shares traced a similar price trend. Improvement in these latter groups of shares was, to some extent, due to cornering activities.

While the strength in Paper. Miscellaneous and Engineering shares sustained activity on the Calcutta Stock Exchange, the spurt in speculative shares, including Indian Iron, pushed equity prices to unduly high levels. As was to be expected, the set-back in Indian Iron in the last two months caused a recession in equities in general as the year ended. Indian Iron started falling as it became evident even to the most con-' firmed "bull" that the Company would not issue bonus *or* right shares. As the first month of *the* New Year approaches its end, stock markets remain hesitant at the lower level, This pause in stock market activity is immediately due to psychological effects of opposition to the proposed roerganisation of States and to the antics of "stags" in Tata Ordinary and ACC.

What of the future'.' Recent behaviour of stock markets would seem to indicate that investors are not over-worried about the conflict between the private and the public sectors. Investors seem to take it for granted that even the proposed limitation on consumer goods industries will leave enough scope, to these for raising output. Recent developments are encouraging. Investment targets for the private sector have been raised. New Delhi's attitude to nationalisation is now less stiff, as is indicated by the latest concession to the private sector of the coal industry, which will enable private collieries to expand output considerably.

On the fiscal and monetary fronts, the position is reassuring. Latest developments would .seem to indicate that New Delhi proposes to finance the second plan initially through larger deficit financing, Reports emanating from New Delhi indicate that the volume of deficit financing would be highest in the first year of the .second Plan, and It will gradually decrease as the years pass. As a corollary to this, the market concludes that the Government endorses the Finance Minister's earlier assurrance that taxation will not be raised appreciably in the first two years of the second Plan.

There is more than one implication of this procedure of financing the second Plan. One is that the Government has accepted the argument that, in the current phase of India's under-developed economy, encouraging incomes and savings through initial inflation is worth taking the risk. So far as stock markets are concerned, such a policy means that the flow of .surplus funds available for investment in equities will continue to be encouraging. As long as this expected flow remains satisfactory, equities should reach higher levels in 1056, despite the Government's policy, as reflected in recent directives to stock exchange authorities, to prevent a run-away boom In stock markets.