AROUND BOMBAY MARKETS

Equities Drift Lower

Thursday, Morning

DALAL STREET continues to have a difficult time. All the ground gained after the cease-fire agreement has been lost and the market is back again around its year's lowest level. All this has come about despite massive purchases of the leading speculative counters by the Life Insurance Corporation a few -weeks ago. Excepting National Rayon which suffered mainly on account of heavy bull unloading, the setback in equity prices last week was due more to lack of support than to any important selling, The turnover continued to be extremely restricted and good corporate news had virtually no effect on the market, Tata Chemicals were unable to forge ahead despite the company's impressive performance and a two per cent rise in the dividend.

The stock market's current mood of despondency cannot be explained merely in terms of the uneasy peace following frequent violation of cease-fire by Pakistani forces. The market is realising that intensified defence effort - will call for additional taxation thereby causing further strains on the economy and that larger utilisation of scarce foreign exchange resources by defence-oriented industries will aggravate the shortages of imported raw materials for several industries which are of considerable importance from the stock market's angle. Continuing financial stringency and the prevailing structure of interest rates are the other important factors which will make it very difficult for the stock market to stage a big recovery in the foreseeable future. And even if equity prices did recover appreciably, there seems little hope of any significant improvement in turnover on which depends the prosperity of the stock exchange community.

COTTON

The Dry Spell Tells

EXTREMELY inadequate rains in September and the continuing dry spell in the first week of October in almost all the important cotton growing tracts have led to a drastic change in the outlook for the 1965*66 crop. Very few observers now expect the crop to exceed 60 lakh bales; the general view is that the crop will be around 57/58 lakh bales and even this estimate will need to be revised if the current dry spell persists for another fortnight or so. Cotton production in the last year of the Third Plan therefore will be far too short of the taiget of 70 lakh bales. How long the authorities will continue to blame the weather for the shortfall in production is anybody's guess. It might be mentioned here that the production target for cotton for the Second Plan had been originally fixed at 65 lakh bales.

Cotton production has miserably failed 40 keep pace with increase in spindleage which itself has been running behind the Plan target, thereby perpetuating the imbalance between supply and demand and pushing cotton prices to new high levels year after year. In view of the smaller carryover, poor crop and uncertain prospects about importing sufficient cotton to make good the shortfall in indigenous supply, it is scarcely surprising that cotton futures continue to seek new high levels week after week; on October 5 the hedge contract was bid up to Rs 909.75. The cotton bull is not the least perturbed by the accumulation of huge stocks of cloth and yarn with mills and the continuing slack conditions in the cotton piecegoods market despite the festival season. His argument is simple; mills will have to compete for the limited supplies of cotton. The industry's profit margin might be affected but cotton prices will keep high. Thanks to the upward revision of ceiling prices by Rs 75 to Rs 100 a candy for the new season, the cotton trade might be able to pull on for some time without any serious encroachment on its freedom. But if the weather does not oblige during the next fortnight or so and crop estimates have to be revised down further, the authorities might be compelled to announce various measures with a view to holding prices within the revised ceilings. Of course, nobody takes the control measures very seriously, not even the authorities themselves, It is common knowledge that the cotton control order has always been honoured more in breach than in observance.

Only the futures market presented a somewhat lively appearance. The turnover in the spot section continued to be extremely restricted. Mills are having a rather difficult time because of the acute financial stringency aggravated by the accumulation of large stocks. The special credit facility provided by the Reserve Bank to relieve the textile mills in distress is too meagre To make much difference to the industry. The current indications about off-take of cloth and yarn do not hold out the hope of any material reduction in stocks, unless, of course, production is curtailed. Consumer off-take seems to have been affected considerably by the continuing political uncertainty. Needless to add that any improvement in the textile news is bound to boost cotton prices still higher.

OILSEEDS

Stiffer Margins

EMBOLDENED by the downward revision of groundnut crop estimates because of the continuing dry spell in all the major producing areas, bulls had little difficulty in pushing up linseed and castor futures to new high levels last week. On October 5, linseed April contract was bid up to Rs 123 (per quintal) and castor April was marked up to Rs 104.75. Cottonseed January contract was quoted around Rs 63. Anticipating that it might be accused of being a silent spectator to the runaway vise in futures, the Forward Markets Lornmission decided on October 6 to tighten the margin rules by enhancing the rates of margin and reduction in the free limits. The linseed April contract will attract margin at the rate of Rs 60 per quintal when its price exceeds Rs 121.50 per quintal and the free limit allowed to members will stand reduced from 50 tonnes to 20 tonnes. Margin at the rate of Rs 20 per quintal will become payable in respect of castorseed April contract whenever its price exceeds Rs 101.25 per quintal, subject to a free limit of 50 tonnes.

Nobody need have any strong objection to the imposition of rigorous margins which tend to restrain speculative activity. Though rarely effective in deflecting the course of prices, margins, if effectively enforced by the market authorities, do help in safeguarding the solvency of the market. Of course, one can question the very utility of forward trading if the rate

of margin is made equivalent to the rate at which bank credit is available against spot goods.

Corrective profit-taking and the announcement of stiffer margins produced a moderate setback in prices at the week-end, with linseed April receding to Rs 120.50 and castor April to Rs 101.75. In spite of the fact that the steep rise in linseed and caster has been due to a considerable extent to strong bull manipulation, few observers seem inclined to expect any important setback in oilseeds prices because of unsatisfactory reports about the new groundnut crop. The crop is said to have been seriously affected by the prolonged dry spell. September rains have an important bearing on groundnut production and there has been a virtual failure of these rains this year. If groundnut and groundnut oil have been relatively subdued recently it is because of the satisfactory flow of the early maturing crop in Khandesh and Karnatak areas. Apart from the fact that the prevailing prices of groundnut oil are very high—spot oil is quoted around Rs 30 and December delivery is mentioned around Rs 28.80 per 10 kgs—financial stringency and political uncertainly seem to have induced farmers to rush with the marketing of their produce. All estimates point to a smaller groundnut crop than in the previous season. Some of the informed market men place the new crop to be 10 per cent down compared to the 1964-65 crop. If the crop turns out to be really that bad, edible oil prices can be expected to touch much higher levels than in the current year so far. There is no hope of making good the shortfall in domestic production through imports of edible oils from abroad.

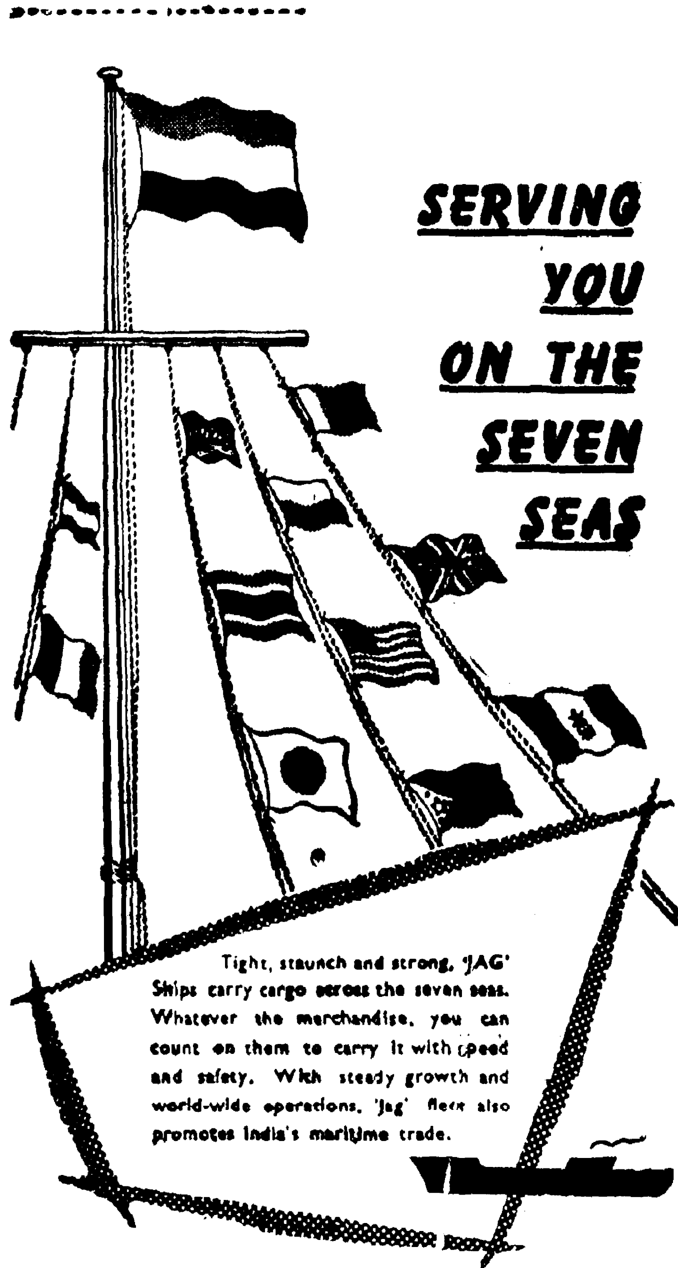
Export business in groundnut extractions has been seriously affected by the enforcement of the new policy with effect from October 1. Only manufacturers will henceforth be allowed to export groundnut extractions. But not all the manufacturers art fully conversant with the intricacies of export business; nor do they command the big resources at the disposal of many of the established shippers. Experienced ' observers are of the view that manufacturer-exporters will not be able to strike good bargains with the overseas buyers and unlike in the past, domestic prices will tend to rule below the world parity. Exports of groundnut extractions which have been establishing new records year after year are likely to show a substantial decline during the current fiscal year.

MONEY AND BANKING

Call Rate Steady

CONDITIONS were more or less unchanged in the Bombay short term money market during the week to October 6. Demand slackened slightly, but supply was also lower than in the previous week due to some withdrawals to meet upcountry demand. Interest rates hovered around 7 per cent with little or no change.

Aggregate deposits of scheduled banks during the week to September 24 increased from Rs 2787.17 crores to Rs 2787.60. A year ago deposits stood at Rs 2521.39 crores. Bank credit rose by Rs 16.17 crores to Rs 2014.81 crores against Rs 1703,03 crores a year ago. Cash in hand with the scheduled banks was slightly lower by Rs 2 lakhs at Rs 64.93 crones. Balances held with the Reserve Bank, however, improved by Rs 5.90 crores to Rs 107.62 crores. Borrowings from the Reserve Bank fell from Rs 16.53 crores to Rs 8.68 crores. Money at call and short notice was better by Rs 3.53 crores at Rs 64.64 crores. Investment in government secu-



rities at Rs 842.07 crores showed a rise of Rs 12.24 crores.

Notes in circulation during the week to October 1 advanced sharply from Rs 2562.71 crores to Rs 2616.24 crores according to the Statement of Affairs of the Reserve Bank. Rupee coins were slightly lower by Rs 69 lakhs at Rs 104.40 crores. Rupee securities improved by Rs 20 crores to Rs 2307.44 crores. Deposits of the Central Government were better by Rs 30.81 crores at Rs 124.24 crores while State Governments' deposits declined from Rs 11.06 crores to Rs 6.30 crores. Scheduled banks' deposits improved by Rs 6 crores to Rs 110.24 crores. Foreign securities were unchanged at Rs 70.63 crores but balances held abroad declined by Rs 4.20 crores to Rs 8.58 crores. Advances to governments were slightly lower by Rs 30 lakhs at Rs 82.21 crores. Advances to scheduled banks increased by Rs 7.10 crores to Rs 16.04 crores. Investments declined substantially from Rs 174.27 crores to Rs 147.74 crores.

BUSINESS NOTES

Tata Hydel Group

THE existing licences of the three companies belonging to the Tata hydro-electric Group, namely, Tata Power, Andhra Valley and Tata Hydro, are due to expire in 1980. Taking a long-term view, the management has thought it prudent to plan well in advance diversification of activities so that shareholders' interests are safeguarded in the event of premature nationalisation or non-renewal of licences. As a first step in this direction, it has been decided to make an investment of Rs 15 lakhs by all three companies in the share capital of Tata-Merlin and Gerin, a company being formed by the Tata Group of companies in collaboration with Merlin and Gerin of France for the manufacture of high-tension switchgear in India. This company will be in the market shortly with an equity capital of Rs 80 lakhs. Besides, possibilities are being investigated for future diversification in other ventures allied to the electric companies' work, such as manufacture and sale of electrical and electronic equipment Meanwhile, the Tata-Ebasco, consulting engineering enterprise, undertaken by the Tata electric companies in partnership with Ebasco Services of the U S, has continued to prosper. There is good scope for securing business in the engineering consultations field both from the public and private sectors.

N H Tata, Chairman of the Group says in his annual statement, circulated to shareholders, that, in spite of the rise in prices, additional cost of spares increased import duties and larger contributions towards dearness allowance, the companies expect to obviate the need for an increase in rates in the Tata-Koyna area by effecting improvements in their operations. Tata looks to the future with sober optimism for better returns to shareholders, He adds that the Group has undertaken a detailed study regarding development of load and availability of power, and preliminary investigations have indicated that there is likelihood of considerable shortage during 1967-68 and 1968-69. It is proposed to approach the Maharashtra Government for approval for increasing the Group's generating capacity.

Each of the three companies are paying total dividends of 12 per cent for the year to March 1965, against 10 per cent paid in the preceding year. Among these, both Tata Power and Andhra Valley have recorded further fair rises in revenue earnings from power supply from Rs 7.93 crores *to* Rs 8.66 crores in the case of former and from Rs 4.53 crores to over Rs five crores in the case of the latter. While Tata Power's equity earnings have looked up slightly from Rs 1.19 crores to Rs 1.21 crores, those of Andhra Valley have slipped from Rs 60.96 lakhs to Rs 58.82 lakhs. Tata Hydro's income from power supply is only a shade better at Rs 3.44 crores (Rs 3.43 crores) and equity earnings slightly lower at Rs 45.86 lakhs (Rs 45.99 lakhs).

The enhanced dividend distribution has lowered the cover in each case but it is still adequately protected by earnings. For the year 1965-66 the permissible reasonable return will be eight per cent of the capital base, against 6.5 per cent for 1964-65, since the Bank Rate at the beginning, of this year was six per cent. The increase in the reasonable return provides a measure of stability to the companies' operations. It is expected that by installation of more modern equipment and improvement in the working efficiency, the companies can earn the full reasonable return this year also.

Shipping Corporation

CHIPPING Corporation of India, a Government of India undertaking has achieved a fast rate of expansion of its fleet during the last few years. As against 20 ships owned some 3½ years ago, it now has 32 ships. In this period, the increase in fleet in terms of gross registered tons has been from 1,45,224 to 2,82,491 and investment from Rs 24.24 crores to Rs 40.29 crores. The expansion of the fleet would be even faster in the next few years, SCI having already placed firm orders for 21 vessels, totalling about 2,26,500 gross registered tons. The Corporation has fully hooked the building capacity of Hindustan Shipyard till 1969, and the placing of more shipbuilding orders is under active consideration. Negotiations are now in progress to build two modern air-conditioned passenger-cum-cargo liners either in Japan or the UK to replace the two old vessels. It has also been decided to acquire at least 16 more dry cargo vessels, and the acquisition of more tanker tonnage and trampers is being considered. By the end of 1966, the fleet would be no less than 45 vessels of a CRT of half a million tons, and it is estimated that it would increase in 1969 to as many as 70 vessels of a GRT of over 7,50,000 tons.

The Corporation's Chairman R L Gupta, has pleaded for a fast and balanced development of the Indian merchant fleet which is important rot only from the economic point of view but also from the point of view of the country's defence. In his speech at the Corporation's annual meeting, Gupta said that on present indications the foreign trade of India during the Fourth Plan period would be of the order of Rs 13,000 crores, and that Indian shipping has to gear itself up to undertake to carry its rightful share of upto 50 per cent of the total shipments of exports and imports. The country must find the necessary foreign exchange for acquiring suitable mercantile tonnage from foreign countries, because he says, all types of vessels acquired would be able to earn or save foreign exchange sufficient to pay back their purchase price within a period of eight years or less. Gupta has also called for a speedy development of ports and their mechanisation, expansion of shipbuilding and ship-repairing facilities within the country and increasing the training facilities for navigational officers and marine engineers.