Dalal Street at New Low

Thursday, Morning

DALAL STREET last week moved into new low ground with several shares touching new low levels for many years. The crisis of confidence has deepened with the further fall in equity prices. But for the fairly encouraging corporate news during the week, the announcement of cement decontrol from next year and possibility of early decontrol of sugar, the performance of the stock market could have been much worse. The stock market bull has been completely frustrated by the persistent deterioration in the economy and political uncertainties. The Deputy Chairman of the Planning Commission, who, not long ago, had accused the business community of propagating a sense of gloom and frustration, himself painted a very grim picture of the economic prospect at the recent meeting of ;he Informal Consultative Committee of Parliament for Planning Commission. He spoke of mounting defence expenditure, non-availability of non-project aid from the U S, lower industrial output, setback in agricultural production and fall in Government revenues. President Radhakrishnan and Prime Minister Shasiri warned the nation against the possibility of a concerted attack by China and Pakistan. Reports for power cut have been on the increase. Response to the gold bonds, remittance scheme and defence loans has so far. been extremely disappointing and if the Government is unable to mobilise sufficient funds through these measures, resources will naturally have to be raised through heavy additional taxation.

Cotton Mill shares were the worst sufferers, with India United Mills. Indore Malwa and Kohinoor striking new lows for the past six years. Selling in Textile shares has been provoked by the steady deterioration in the industry's position which is reflected in a record low production of cloth and yarn in October. Rayon shares fared only slightly better. Steels, Dyes and Chemicals were also distinctly subdued. Sugar shares were a little quiet. Only Cement shares recorded modest gains because of the increase in cement prices from the beginning of next year under the decontrol scheme. Premier Construction were another bright spot on substantial informed buying. Cash shares were depressed due to lack of support.

COTTON

Prices Recede

COTTON prices have come down by about Rs 25 to Rs 50 per candy from their highest levels during the past fortnight or so. This brings all varieties of cotton within the statutory ceilings. Lest one gets the impression that cotton prices have suffered some serious decline, it is necessary to point out that ceiling prices for the current: season are Rs 75 to Rs 100 per candy higher than in the previous season. The recent setback a prices is not due to any upward revision of the crop estimates; few observers [dace the crop at mure than 52 lakh bales which means that cotton will continue to be in short supply this season, unless, of course, the gap between milt consumption and indigenous supply is made good through imports the outlook for which can by no means be regarded as very promising.

Prices have cased because while new crop arrivals are gradually picking up, mill buying continues to be restricted. The fall in prices has been more pronounced in the case of Punjab cottons, especially Bengal Deshi, because the cop movement in the Punjab is getting into full swing which is quite normal for this time of the year. Apart from the fact that cotton prices have been pushed to their all-time highest, growers as well as merchants seem rectant to hold large stock of cotton with them because of the financial stringency and political uncertainly. Few people would like to take the risk of carrying large stocks of cotton because of the uneasy truce between India and Pakistan,

Despite forecasts of a substantially smaller crop, market sentiment has recently been affected by the heavy decline in the mill output of both cloth and yarn during October. Cloth and yarn production at 377 million yards and 154 million lbs respectively is the lowest for a very long time. Apparently. the cotton mill industry seems convinced that: reduced production is the only answer to the problem posed by heavy accumulation of stocks with mills. In any case cloth production is bound to be adversely affected by the reduced availability of cotton in the 1965-66 season.

The turnover in the spot market continued to be on the low side. It is not merely that mills arc reluctant to purchase more than their bare minimum requirements in view of the scute financial stringency which has been aggravated by the piling up of huge stocks of cloth and yarn; but traders too are in no mood to extend their commitments because they are experiencing considerable difficulties in realising their dues from mills. Export business has been almost at a standstill for the past fortnight or so because Japan, the main buyer of Indian Deshi, has been purchasing its requirements from Pakistan which has been quoting' 1 d to I J d lower than India for its Deshi cotton. Sales registered up 1o November 8 this season total 53,0^7 bales. Virtual absence of overseas demand has adversely affected Bengal Deshi prices recently. Cotton futures which had been sticky around Rs 909 for several weeks have declined to around Rs 902 in sympathy with the easier tendency in the spot seclioh..

OILSEEDS

Prices React

OILSEEDS and oil prices have registercd an all-round sizable setback from their previous week's record high levels. Groundnut oil ready has come down from Rs 37.50 to Rs 34.25, linseed oil from Rs 32 to Rs 30.50 and castor oil (Commercial) from Rs 24.25 to Rs 22.25 all per 10 kilograms. Groundnut ready is down by about Rs 9 a quintal and linseed by about Rs 5. Oilseeds futures have also moved down eastorseed April from Rs 112 to Rs 106 and linseed April from Rs 130 to Rs 125.50 (per quintal).

No market can keep rising indefinitely without occasional setbacks caused by corrective profit-taking. It is quite normal for speculators and traders to book their profits when the market has moved too far in any direction. Considering the fantastic rise in vegetable oil prices over the past four or live weeks, technical considerations alone could have produced a setback of the order that took place last week. But apart from technical considerations, increased flow of new crop groundnut arrivals, mostly from the south, and reports of beneficial rains in north India imparted an easier feeling to the market.

Trading sentiment last week was also believed to have been affected by persistent talks that the Forward Markets Commission was seriously considering the imposition of heavy margins on non-transferable specific delivery contracts in groundnut oil with a view to containing the volume of speculative business in these contracts. Whether or not margin can check the rising trend in prices is a very moot point. But it can certainly have a good restraining effect on the volume of business. It is rather intriguing why the Commission should go about consulting the associations entrusted with the conduct of trading in non-transferable specific delivery contracts in groundnut, oil in regard to the action it intends to take when it has already imposed penal margins in the hedge 'contracts in pastor, linseed and cottonseed. Being the major edible oil, groundnut oil should really have been the first to attract the Commission's attention. It is really amazing how the Commission has tolerated a rise of Rs 11 per 10 kilograms in groundnut oil in a matter of some five weeks and not taken any action whatsoever, especially when it had prescribed penal margins for hedge contracts in the far less important oilseeds—castor, Unseed and cottonseed.

The Forward Markets Commission decision to impose a margin of Rs 100 per quintal in castor futures when its price goes beyond Rs 112 and a 100 per cent margin in cottonseed futures when the contract is quoted at Rs 75 —which is its current rate—makes virtual nonsense of the facility of hedge trading. Instead of calling for such margins, why does the Commission not prohibit completely futures trading in these commodities. All facilities for speculative buying must be stopped when the commodities concerned are in acute short supply. And as for trading in non-transferable specific delivery contracts, the least that the Commission can do is to impose severe penalties on those found guilty of not being able to observe the terms of the tontract. To allow parties to settle their contracts without effecting actual delivery of goods is to undermine the very sanctity of the non-transferable specific delivery contract.

The week's review of the oilseeds market will not seem complete without a mention of the further increase in vanaspati prices and of the Gujarat Government's decision to extend the ban on the export of groundnut and its products excluding oilcake to cover cottonseed. The ban on the export of groundnut and groundnut oil has sen ously affected the working of the solvent extraction plants. It is difficult for these plants to operate unless they can find a ready and profitable market for the solvent extracted oil the export of which is also banned. As for the further increase in vanaspati prices ranging from Rs 200 to Rs 270 per tonne by the manufacturers— the second rise in November—it is a strange irony that the increase in vanaspati prices should have been announced in a week which has registered a decline of nearly Rs 300 per tonne in the price of groundnut oil. The price of vanaspati would be revised downward in December provided groundnut oil prices keep lower. But the question is whether under the present conditions of short supply the poor consumer will also reap the benefit of cheaper prices. The policy of revising prices too often must be discouraged and if prices are to be revised then the manufacturers should be compelled to stamp prices and the date of manufacture on the containers so that the consumer can know the correct price of vanaspati. This will bring into light traders who continue to withhold the goods from the market in the hope of realising higher and higher prices from consigners.

BUSINESS NOTES

Indian Aluminium

SATISFACTORY progress is being made by Indian Aluminium in implementing its expansion projects. The main equipment at the new foil rolling mill at Kalwa has been erected. The construction work at Alupuram for further expansion of the smelter capacity to 15,850 tonnes per annum and for the installation of a 5,000-tonne per annum Properzi rod casting mill is going ahead. It is intended to start up these new facilities early next year. Necessary steps are also being taken for the early implementation of the West Coast project.

According to an interim report from the company, the financial results of the first half of 1965 show sales at Rs 74.4 million compared to Rs 713 million during the same period in 1964 and Rs 148.4 million during the whole of the past year and the Pre tax profits of Rs 24.8 million compare with Rs 29.9 million and Rs 49 million. respectively. The provision for development rebate this year is substantially higher at Rs four million, as against only Rs 0.4 million during the corresponding period of last year consequent on the start-up of new production facilities at the Alupuram smelter and the Kalwa foil mill. With the tax liability estimated at Rs 10.3 million (Rs 12 million), net earnings stand at Rs 10.5 million, against Rs 10.6 million.

The results would have been still better but for the critical power supply situation in Kerala owing to which operations at the Alupuram smelter was once again seriously affected. A partial supply of electric power was made available to the new smelter from the middle of February last; the full contracted supply of 12,500 kilowatts was delivered only six months later. There were severe and repeated power cuts in June and July. The production loss attributable to these power cuts during the first half-year is estimated at 1,260 tonnes of aluminium metal. Alupuram now has a total metal-producing capacity of 10.850 tonnes.

Hindustan Aluminium

A Rs 21-crore expansion aimed at raising capacity to 60,000 tonnes has been undertaken by Hindustan Aluminium. It is stated that on completion of this programme towards the end of the next year, the company will be the largest manufacturer of aluminium in India. Nearly Rs 5 crores have already been spent on this Programme, and arrangements have been made for a long-term dollar loan equivalent to Rs 6.53 crores from the Export-Import Bank, Washington. The company will soon enter the capital market with a public issue of Rs 1.5 crores in 9.3 per cent preference shares of Rs 100 each. The entire issue is underwritten, one half by L I C and the other half by some other financial institutions and two firms of share brokers. After the proposed issue, the issued capital of the company will be raised to Rs 10 crores.

Meanwhile, the company has reported satisfactory progress in its working during the current year. The production in the first eight months of this year is placed at around 15,560 tonnes compared to 22,880 tonnes in the whole of 1964, The sales in the first half of 1965 amounted to about 11,779 tonnes valued at about Rs 4.5 crores, on which the gross profit is estimated at around Rs 2 crores. During 1964, the company sold 26,849 tonnes valued at Rs 11.12 crores and