HISTORY AND PRESENT POSITION

OF

THE STOCK MARKET IN INDIA

THE STOCK EXCHANGE
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by

K. R. P. SHROFF

I—ORIGIN OF THE STOCK MARKET

1. *The Amsterdam Beurs—World's Oldest Stock Exchange.*—The stock market provides a market place for the purchase and sale of securities evidencing the ownership of business property or of a public or business debt. The origin of the stock market therefore goes back to the time when securities representing title to property or promises to pay were first issued and made transferable from one person to another. The Forums of Rome and Pompeii were, it is said, embryonic Stock Exchanges. However, the Amsterdam Beurs is the world's oldest Stock Exchange in the form known to us today and there is still extant a list of stocks dealt in there as far back as 1585. For almost two centuries, the Amsterdam Beurs was also the world's premier Stock Exchange. That was natural, for Holland then led the other countries in commerce and finance and was far ahead of them in its general economic development.

2. *The London Stock Exchange.*—As the Dutch supremacy in trade and commerce passed to Great Britain in the course of the eighteenth century, London became Amsterdam's successor. Stock Exchange dealings, which had started in London in or about 1675, expanded rapidly after 1694 when the Bank of England was specially chartered for raising Government loans. The stock in trade of those early days included lottery, seamen's and tontine tickets, and among the securities dealt in were the Bank of England stock, the stock of the East India, Hudson's Bay and other proprietors' Companies, as well as Government loans, popularly known as the *Funds*, which were the mainstay of stock exchange business. The London Stock Exchange was formally organised on the 15th of July, 1773. The industrial revolution placed it in a position of undisputed leadership for a century and a half thereafter, during which period it served as a model to Stock Exchanges in all other parts of the world. The London Stock Exchange is still one of the greatest institutions of its type and without a parallel in the scope of its listings and dealings in international securities.

3. *The New York Stock Exchange and others.*—After the First World War, the economic development of the United States surpassed that of the United Kingdom. The New York Stock Exchange, which had been established a century before, expanded fast and

finally outrivalled the London Stock Exchange in size and activity. In less advanced countries, the trend was in the same direction. Banks and Stock Exchanges were at first unknown, but circumstances soon made it necessary for them to organise monetary and credit institutions of their own. At present, therefore, there is scarcely any country of note outside the communist area which does not have at least one Stock Exchange, and the relative importance of the Stock Exchanges which a country has is now generally regarded as a reliable index of its national progress and economic development.

II—1800–1865

4. *The Stock Market in India—Early beginnings.*—The earliest records of security dealings in India are meagre and obscure. The East India Company was the dominant institution in those days and business in its loan securities used to be transacted towards the close of the eighteenth century. By 1830's there was a perceptible increase in the volume of business, not only in loans but also in corporate stocks and shares. In Bombay, business passed in the shares of banks like "the Commercial Bank, the Chartered Mercantile Bank, the Chartered Bank, the Agra Bank, the Oriental Bank and last, though not the least, the old Bank of Bombay", and among other prominent shares were those of Cotton Presses. In Calcutta, the *Englishman* reported in 1836 the quotations of 4%, 5% and 6% Loans of the East India Company as well as of the shares of the Bank of Bengal for which there were buyers at Rs. 5,000 premium and sellers at a premium of Rs. 7,500. The trading list was broader in 1839 and Calcutta newspapers then gave quotations of banks like the Union Bank and the Agra Bank and of business ventures like the Bengal Bonded Warehouse, the Docking Company and the Steam Tug Company. Brokers then were not a numerous community and in Bombay "between 1840 and 1850 there were half a dozen brokers recognised by the banks and merchants". In 1850, the Companies Act introducing limited liability was enacted and with it commenced the era of modern joint stock enterprise in India.

5. *Stockbrokers' Rise to Power under Premchand Roychand.*—From 1850 to 1865, the history of brokers and their rise to power in Bombay is the history of Premchand Roychand. The 1850's witnessed a rapid development of commercial enterprise. The extension of railways and introduction of telegraphs and the gradual improvement in the system of communications promoted internal trade and commerce; at the same time, the demand for European manufactures increased in this country and was accompanied by the growth of a corresponding demand in Europe for our exports. Stockbrokers shared in this general progress. "The *hoondee* business was most prosperous and so was that of brokerage". Brokerage business attracted many men into the field and by 1860 the number of brokers increased to 60. Their acknowledged leader was the legendary Premchand Roychand who had entered the trade in 1850. He was the first broker who could speak and write English. Within six or seven years, he nearly monopolised the broking business in shares, stocks, bullion and partly exchange and gathered all the strings in his hands. Not only shares but also "all the best gilt-edged securities of those days gave him splendid opportunity for the display of that brilliant financial

strategy which crowned him as the Napolean of Finance and he was acclaimed as such by myriads of his countrymen ". Although Premchand Roychand remained a broker all his life, in the 1860's he directed his financial genius to other pursuits and manifold activities. He led captive the imagination of Indians and Europeans alike and all the enterprises were either promoted by him or promoted through his goodwill and help. He " floated banks and financial institutions by the dozen, land and sea reclamations and trading and other Companies of diverse kinds with the rapidity of the prophet's gourd ". Premchand Roychand wielded the sceptre of kings. The Bank of Bombay Commission put it on record in its Report that the old Bank of Bombay was practically his. It was the same with the Asiatic Bank and a host of other institutions. The story of the boom that followed his activities was indeed " a marvellous history more fascinating in its incidents than many a tale of Arabian Nights. The unconscious maker of that history was primarily Premchand Roychand himself . . . . His was the master mind in finance which wrought those marvellous miracles on the Stock Exchange ".

6. *Share Mania of 1860–65.*—In 1860–61, the American Civil War broke out and totally stopped the supply of cotton from the United States to Europe. The resulting cotton famine led to a large and unlimited demand on India, and India really meant the Bombay Presidency where alone the largest stocks were available. In four years, exports fully doubled themselves from 5,66,000 bales to 11,18,000 bales. As the Civil War progressed, the price of cotton kept rising till it reached *27d.* per pound against *3d.* to *5d.* quoted before 1863. The large exports of cotton were paid for in bullion which poured into Bombay from Liverpool in the shape of silver and gold. As shown in Table I, the total import of bullion amounted to Rs. 85 crores between 1861–62 and

TABLE I

Import of Gold and Silver

Year	India Crores of Rs.	Bombay Crores of Rs.
1861–62	17·73	9·48
1862–63	19·63	13·98
1863–64	18·97	16·13
1864–65	28·49	12·19
Total ...	84·82	51·78

1864–65. Out of this, Bombay alone absorbed Rs. 52 crores, giving an average of Rs. 13 crores per annum. The import of all this bullion was in addition to the wealth of the City and served as fresh capital for a number of new ventures. As observed by the Bank of Bombay Commission in its Report—

" The great and sudden wealth produced by the price of cotton shortly after the commencement of the American War, coupled with the want of legitimate means of investment, was at this time producing its natural result in the development of excessive speculation . . . From this period everyone in Bombay appears to have become wild with the spirit of speculation. Companies were started for every imaginable purpose—banks and financial associations, land reclamation, trading, cotton cleaning, pressing and spinning, hotel companies, shipping and steamer companies and companies for making bricks and tiles."

Between 1863–65, the capital drawn into these new ventures was nearly Rs. 30 crores and the premia they fetched in the market amounted to nearly Rs. 38 crores. As Table II reveals, more than 125 concerns were involved and in not a few cases the premia exceeded the paid-up capital. The first vital spark of the speculation which eventually burst

TABLE II

New Company Flotations, 1863–65

No.	Kind of Company	Paid-up Capital Crores of Rs.	Market Premia Crores of Rs.
25	Banks	13·64	10·94
69	Financial Associations	6·22	4·42
7	Land Reclamation Cos.	8·34	17·56
30*	Miscellaneous Cos.	1·56	5·00
131		29·76	37·92

* Approximate.

out into a huge conflagration was kindled by the Asiatic Banking Corporation. Originally named the Bombay Joint Stock Bank, it was established in 1863 with a capital of Rs. 50 lakhs which was doubled within a year when a charter was obtained. Its shares were rigged up to a premium of 65 per cent in a few short months and it was the fore-runner of 94 other monetary institutions which came into existence on its heels. It was also in 1863 that the charter of the old Bank of Bombay was amended and its capital doubled from Rs. 52 lakhs to Rs. 104 lakhs. At the same time, the ban on the Bank prohibiting it from making advances on personal security was removed and permission to advance on Government securities was enlarged to cover securities of "other public companies in India". This new freedom was fully exploited. Premchand Roychand dominated the Bank and under his influence the Bank advanced on a variety of supposed substantial securities with a highly fictitious value. The reckless lending policy of the Bank of Bombay was in a large measure imitated by others and it was in a considerable degree responsible for the speculation that followed. From 1861 to the beginning of 1865, there was nothing however wild that was floated whose shares did not command a premium. The Back Bay Reclamation share with Rs. 5,000 paid-up was at Rs. 50,000 premium, the Port Canning share with Rs. 1,000 paid-up was at Rs. 11,000 premium, while the Mazgaon Land share was at Rs. 9,000 premium and the Elphinstone Land share at more than

500 per cent premium. Some of the banks and financial associations reached a premium of 50 per cent to 100 per cent without being tested by returns. The Asiatic Bank share of Rs. 200 was quoted at Rs. 460 in August 1864 and the Bank of Bombay share with Rs. 500 paid-up reached a maximum price of Rs. 2,850. It was said that "man and woman, master and servant, employer and employee, banker and merchant, trader and artisan, rich and poor, of all races and creeds, officials in high position included, were deeply busy from day to day in the art of commuting bits of paper, variously called 'allotments', 'scrips' and 'shares' into gold and silver". The madness which seized the people at large was indescribable. The people only woke up when the end of the American Civil War came. Then, all rushed to sell their securities but there were no buyers and the entire wealth received during the Civil War was represented by a huge mass of unsaleable paper. The fatal day was reached on the 1st of July, 1865, when hundreds of time bargains matured which no one was in a position to fulfil. A disastrous slump followed and it so completely overwhelmed the City that the Bank of Bombay share which had previously touched Rs. 2,850 could only be sold at Rs. 87 and the Back Bay Reclamation share at not more than Rs. 1,750 against its peak price of Rs. 50,000, while a share of the solid Elphinstone Company could only be sold at Rs. 450, of Colaba at Rs. 975, Mazgaon at Rs. 515 and Frere Land at Rs. 115. Like the South Sea Bubble and the Tulip Mania of the eighteenth century in Europe, the Share Mania of 1861–65 caused widespread desolation, and Premchand Roychand and his broker friends were "anthematized". A large number of Companies failed and there were few left solvent in Bombay. A special legislation, being Act XXVIII of 1865, had to be enacted to deal with the mass failures swiftly and expeditiously. The liquidation went on till 1872. The depression was long and severe, but the Share Mania had certain lasting effects. The expansion of liquid capital and the establishment of a regular market in securities were its direct results and they helped to make Bombay what it is today—"the chief centre of the money and capital markets" and "the financial capital of India".

III—1866–1900

7. *Foundation of the Stock Exchange in Bombay.*—During the Share Mania of 1861–65, the number of brokers greatly increased and they became possessed of great influence, authority and wealth. Between 1840 and 1850, only half a dozen brokers had sufficed for the limited business that then existed and their meeting place was under the wide-spreading *banyan* trees in front of the Town Hall at the Cotton Green where the Elphinstone or Horniman Circle is now situate. Brokers continued to meet there till 1855 by which time their number had increased between 30 and 40. After 1855, brokers made their market place again under the shade of some *banyan* trees, between the old Fort Walls and the old Mercantile Bank, on the open site now facing the Central Bank of India Head Office Building at the junction of Medows Street and Mahatma Gandhi Road. By 1860, the number of brokers was about 60 and during the exciting period of the American Civil War their number increased to about 200 to 250. Brokers were then a privileged class, created as much noise as they pleased and obstructed without let or hindrance the streets, the shops and the lower premises of banks. Bank managers

went to their rooms through a serried rank of brokers, bowing to them right and left, and the police had only *salams* for them. The end of the American Civil War brought disillusionment and many failures and the brokers decreased in number and prosperity. Bank managers all of a sudden discovered that they were a nuisance to their customers and ordered the *hamals* to clear their steps, and the police drove them from pillar to post. They had to shift from place to place, and wherever they went, through sheer habit they overflowed into the streets, till in 1874, in a street that is now appropriately called *Dalal Street* after their name, they found a place where they could conveniently assemble, and on the place where they so assembled stood once the office of *The Advocate of India*. It was in those troublous times between 1868 and 1875 that brokers organised an informal association, and finally, as recited in the Indenture constituting the Articles of Association of the Exchange, " on or about ninth day of July one thousand eight hundred and seventy-five a few native brokers doing brokerage business in shares and stocks resolved upon forming in Bombay an association for protecting the character, status and interest of native share and stock brokers and of providing a hall or building for the use of the members of such Association ". At a meeting held in the Brokers' Hall on the 5th day of February, 1887, it was resolved to execute a formal Deed of Association, constitute the First Managing Committee and appoint the first Trustees. Accordingly, an Indenture was executed on the 3rd day of December, 1887, constituting the Articles of Association of the Exchange and the Stock Exchange was thus formally established in Bombay " as a Society to be called the Native Share and Stock Brokers' Association ". The Association is now also known alternatively as " The Stock Exchange ". The word " Native " in the original title which still survives marked no distinction from a parallel foreign association, for none existed. It was a sign of exclusiveness and pride, and Article II of the Articles of Association specifically declared " that no other persons except natives of India shall be admitted as members of the said Association ". The Articles of Association so adopted by the Exchange form, with modifications and amendments, the basis of its government to this day. When the Exchange was constituted in 1875, the entrance fee for new members was Re. 1 and there were 318 members on the list. The number of members increased to 333 in 1896, 362 in 1916 and 478 in 1920, and the entrance fee was raised to Rs. 5 in 1877, Rs. 1,000 in 1896, Rs. 2,500 in 1916 and Rs. 48,000 in 1920. At present, there are 504 members and they have the right of nomination, that is, they are entitled to transfer their right of membership with the approval of the Governing Board. The value of the right of nomination—called a " seat " on the London and New York Stock Exchanges and locally known as a " card "—has fluctuated according to the ebb and flow of market activity. The price was Rs. 1,800 in 1910 before the First World War, Rs. 48,111 in 1920 during the post First World War Boom, Rs. 6,700 in 1932 during the Great World Depression, Rs. 64,000 in 1946 during the post Second World War Boom and Rs. 14,000 in 1954 during the slump that followed the War Boom, while in the current boom period the value is in the neighbourhood of Rs. 32,000.

8. *Consolidation of the Stock Exchange at Bombay.*—The organisation of the Stock Exchange at Bombay coincided with the recovery from the seven-year depression following

the Share Mania of 1861–65. The enterprises promoted by the first generation of brokers, although they ruined the shareholders, were grand conceptions of genius before their time, the fulfilment of which we only see today. Awaking from these grand dreams, the capitalists and the Bombay brokers steadily promoted after 1872 only those enterprises which were useful and remunerative, such as mills, presses and mining companies. A new departure in commerce and industry was thus taken, credit was restored and prosperity came back to Bombay with the firm establishment of the cotton industry, the building of new docks and the extension of railway facilities for transport of goods. The Stock Exchange played an important part in these new developments. The object of forming an association with fixed rules for conduct and settlement of business was "to facilitate the negotiation of the sale and purchase of joint stock securities promoted throughout the Presidency of Bombay. In this the Association entirely succeeded. Outside it, no securities could be negotiated, purchased or sold." In those days, "it was very difficult to float a public Company and secure large amounts of capital subscribed. It must be mentioned to the credit of the brokers that they always tried their best to popularise the new issues to enable the Companies to secure the necessary capital." The Stock Exchange thus channelled the flow of investment into stocks, shares and gilt-edged securities and materially helped Government and trade and industry. As the Exchange grew in size, so did its accommodation. The premises taken in 1874 in Dalal Street on a rent of Rs. 130 per month were given up when what is now known as the Stock Exchange Old Building situate at Dalal Street was acquired for Rs. 97,000 in 1895. In the central court-yard of these premises and in what is now the Brokers' Hall flourished two sturdy *peepal* trees, which still survive. The Brokers' Hall was thrown open on the 18th of January, 1899, by Mr. James M. Maclean, M.P., previously an editor of the *Bombay Gazette*, and in the course of his inaugural address he declared :

> "A Bombay native broker is a very useful member of the society, whose virtues are not sufficiently recognised, although his faults are emblazoned forth. With rare exceptions, he is honest to the backbone and pays up for his own misfortunes or the defaults of his customers to the last pie . . . . Without doubt this is the largest Rupee Paper Market in India, whether as regards the volume of business or the extent of the fluctuations. The Bombay Port Trust and the Bombay Municipality are under a debt of gratitude to them for raising their credit to enable them to borrow at the lowest rates obtaining in India, next to Government Paper. India being the original home of options, a native broker would give a few points to the brokers of the other nations in the manipulations of puts and calls . . . . A native broker has borne a considerable share in the building of the present Bombay . . . . A portion of the prosperity of Bombay is owing to the mill industry and in its every stride forward the brokers have a considerable share."

The Exchange was at last comfortably housed, though for a time a crowd of dealers in Government Securities preferred to remain outside. In the years that followed, the stature and influence of the Exchange continued to increase, and after the First World War, the adjoining Old Building which had changed hands for Rs. 73,000 in 1913 was bought in 1920 at Rs. 10,30,000 to enlarge the trading hall for transacting the increasing volume of business. In 1928, the premises were further extended by acquiring from the Bombay Municipal Corporation for Rs. 5 lakhs the adjoining plot of land abutting on Apollo Street and flanked by Dalal Street and Hamam Street. A new building was constructed on the site at the cost of another Rs. 5 lakhs and it was thrown open for public use on the 1st of December, 1930. The Exchange continues to expand and the process of extension, adaptation and renovation of its premises is not yet over. Lately, the surrounding property has been absorbed and the entire Stock Exchange properties are proposed to be rebuilt to provide for the constant growth of the institution. All the while, the two *peepal* trees on the Stock Exchange premises stand silent witness. The trees shed their leaves every autumn and the foliage is green again in spring, a perennial symbol of the cyclical fluctuations so characteristic of the Stock Exchange.

9. *Foundation of the Ahmedabad Share and Stock Brokers' Association.*—The cotton textile industry which established the primacy of Bombay also contributed to the development of Ahmedabad as the next important city in the Bombay Presidency. After 1880, a number of mills were set up in Ahmedabad and it rapidly forged ahead. Soon the need arose for trading in the shares of those units which were incorporated as joint stock companies. The businessmen of Ahmedabad had inherited a tradition for dealings in stocks and shares. Many of them had actively participated in the Share Mania of 1861–65 in Bombay and in fact a number of Bombay brokers hailed from Ahmedabad and neighbouring places where they had their homes and where their families resided. Accordingly, as new cotton textile mills were floated, Ahmedabad brokers canvassed subscriptions for the capital issues of those new Companies, and in return were remunerated by commission in the Managing Agency shares of the Companies. The volume of business steadily grew, till in 1894 the brokers formed themselves into an Association under the name and style of "The Ahmedabad Share and Stock Brokers' Association". The Exchange was organised as a voluntary non-profit-making association with a Trust Deed and a Deed of Association on the same lines as the Stock Exchange in Bombay. It followed the Bombay rules and practices and not a few of the members and their relatives were members of the Bombay Exchange. This close correspondence has been maintained ever since. The Ahmedabad market concentrated its business in the shares of local textile mills and of the Managing Agency Houses controlling those Companies. After the First World War, a substantial increase in its trading volume led the Exchange to hire a building in the Manekchowk area where the members used to congregate and trade under the open sky. Business continued to expand and the Exchange thereupon purchased a nearby property and constructed its own Building in the 1920's at a cost of Rs. 3,60,000. In 1950, it again acquired another adjoining property for Rs. 70,000. The process of expansion continues. At present, out of its 461 members, only about 160 are active, but the indications are that the Exchange will grow in size and importance as Ahmedabad is now the capital city of the new Gujarat State.

IV—1901–1913

10. *Beginnings of the Swadeshi Movement.*—In the beginning of the 20th century, the industrial revolution was on the way in this country. Its first outposts had already been planted in the middle of the 19th century. There was then a revolution in transport and means of communications with the building up of a network of railways, roads and telegraphs. A new form of industry was also established in the Plantations operated by the tea, coffee and indigo Estates. Then followed two of the most important industries in India—the cotton mill industry in Bombay financed by Indian capital and enterprise and the jute industry in Bengal dominated by the Europeans. The industrial revolution thereafter spread to the mining and other miscellaneous industries such as coal, manganese, gold and mica, rice mills, oil mills and the rest. The opening years of the 20th century saw the birth of the *swadeshi* movement. The institution of the Indian Industrial Conference in 1905 in association with the Indian National Congress was the first definite sign of an alliance between economic and political discontent. The *swadeshi* movement let loose a great wave of industrial enthusiasm in the country and an important stage in industrial advance under Indian enterprise was reached with the inauguration of the Tata Iron & Steel Co., Ltd., in 1907. These developments were portents of the industrial progress to come and of the part to be played by the Stock Exchanges.

11. *Foundation of the Calcutta Stock Exchange Association.*—The Stock Exchanges at Bombay and Ahmedabad were well set up as properly organised associations at the commencement of the 20th century, but the Calcutta Stock Exchange was not so constituted. At that time, the only large organised industries on a stable footing were the cotton mill industry of Western India, the jute industry of Bengal and the coal and mining industry in Bihar, Orissa and Bengal. What the cotton textile industry was to Bombay in the West, the jute industry was to Calcutta in the East. Jute mills were beginning to spring up on the banks of the Hooghly when Bombay was in the grip of the Share Mania in 1861–65. These were also boom years in Calcutta, and in 1864 there were some 91 joint stock companies in which business was being done. Of these, the largest group was teas consisting of 38 Companies. The coal section was represented by Bengal, Beerbhoom, East Indian, Equitable and another Company, while the miscellaneous group included several steam tug Companies. Jute mills attained an important place in the trading list in the following years and in the 1870's there was a sharp boom in jute shares. The boom in jute shares was followed by a boom in tea shares in the 1880's and 1890's. As the century drew to a close, the 4% Government Paper (converted into 3½% Government Paper in 1901) was an important market leader in Calcutta and the major industrial groups were teas, jutes and coals. Among miscellaneous shares, India Generals were one of the most popular and had a large following in the market. A few years after the turn of the century, there was a coal boom in Calcutta, and between 1904 and 1908, coal shares staged a remarkable rise. Burrakur which was quoted at Rs. 85 in 1902 jumped up to Rs. 540 in 1908, Bengal Nagpur from Rs. 22 to Rs. 104, Raneegunge from Rs. 11½ to Rs. 43½, Gopalichuck from Rs. 6 to Rs. 21½ and New Beerbhoom and Reliance Coal from Rs. 167 and Rs. 160 to the equivalent of Rs. 615 and

Rs. 500 respectively. Dazzled by the running rise in prices, many persons who had never held or dealt in shares before were attracted to the Stock Exchange as moths to a candle. Hectic buying all round raised prices to the roof and built up a vulnerable position. At last, the boom broke in 1908 and a severe depression followed. Many new entrants, who had taken to share business during the boom, were strangers to the market and its traditions and devoid of all knowledge of its customs and usages. Many of them were a menace to themselves and to the general public and the trade. The crisis that followed the boom provoked endless differences and disputes among these brokers and ultimately led to a communal riot in May 1908. It was then realised that an organised body was necessary for the mutual protection and safety of the brokers and the trade. And so it was that on the 15th of June, 1908, an association was formed by some leading brokers under the name and style of " The Calcutta Stock Exchange Association ".

12. *Consolidation of the Calcutta Stock Exchange.*—When the Calcutta Stock Exchange was founded, it was housed in a new building at New China Bazar Street (later on known as Royal Exchange Place) where accommodation on a twenty years' lease was taken on a monthly rent of Rs. 1,080 *plus* half share of the municipal rates and taxes. These premises were close to the previous venue where stock brokers carried on business under the shade of a *Neem* tree on the site where now stand the buildings of the Chartered Bank of India. As the end of the lease drew near, the Association acquired in 1926, on a lease of 99 years, a plot at the corner of Lyons Range and Royal Exchange Place. This plot was purchased outright in 1933, but before that, in 1928 a five-storeyed building was constructed to provide larger trading accommodation and to meet the needs of members whose number was greatly enlarged in 1920. When the Calcutta Stock Exchange Association was constituted in 1908, the number of founder-members was about 150 as compared to about 50 Indian and 4 or 5 European brokers who traded towards the close of the 19th century. On the 7th of June, 1923, the Association was incorporated as a limited liability company with an authorised capital of Rs. 3 lakhs consisting of 300 shares of Rs. 1,000 each and its membership was then 210. The membership was reconstituted in 1958 when each of the Rs. 1,000 share was split up into four shares of Rs. 250 each and 1,112 such shares were issued to individual members of partnership firms. The number of individual members was 544 in 1959, 596 in 1960 and 620 in 1961. The Exchange had however to undergo much stress and strain before its membership so increased. Shortly after its formation in 1908, the severe trade depression that followed on the heels of the coal boom took a heavy toll. Many stockbrokers sustained serious losses and abandoned the trade, while some others defaulted and were expelled. Financial difficulties were then so acute that in the early part of 1910 the Association seriously considered whether it should not wind up its affairs. These difficulties were however surmounted because it was recognised that the Calcutta Stock Exchange performed a most useful function as the principal market in Bengal and Eastern India for stocks, shares and securities. Even when the Exchange was founded, it had on its list shares of as many as 236 companies, among whom 10 were railways, 19 banks, 26 jute

mills, 69 coal companies, 81 tea companies and 31 miscellaneous companies. This gave wide coverage which has more than doubled in the succeeding years and the Calcutta Stock Exchange Association has thus helped in no small measure to make Calcutta what it is today—" the industrial capital of India ".

13. *Bank Failures in 1913.*—On the eve of the First World War, the stock market in India consisted of the three Stock Exchanges at Bombay, Calcutta and Ahmedabad, and they were affected in varying degrees by the failures of Indian Banks in 1913. The repercussions were the most serious in Bombay where many of the Banks were located and had large dealings in the market. The failure of the Credit Bank of India and the Indian Specie Bank precipitated the default of a member who had a big holding of Petit Mill shares. The market price of these shares, which had previously touched Rs. 3,200, slumped heavily, and apprehending a crisis, the Board of the Bombay Exchange persuaded its members who had sold the shares at about Rs. 3,200 to repurchase them at Rs. 2,600 when the ruling price was only Rs. 2,000. The shares so repurchased by members at Rs. 2,600 were sold by them in the market at Rs. 1,800 to Rs. 2,000. The brokers suffered the resulting heavy losses in the interests of the trade and the public. In some instances, constituents rebought at Rs. 2,600, but barring the Central Bank of India, Ltd., no other Bank so rebought and brokers had to bear the full burden of the loss. The brokers did their duty well and thereby maintained the high standards of commercial morality for which the Indian stock market is so well-known.

V—1914–1921

14. *The First World War Boom.*—A year after the bank failures, the First World War broke out in 1914 and the Stock Exchanges at Bombay, Calcutta and Ahmedabad had to be closed for a while, which happened in all the countries of the world. Commerce and industry were not only in efflux at that time but also greatly demoralised and investments were little thought of owing to popular pessimism. But as Europe ceased to produce any manufactured articles except those required for the prosecution of the war, the import of manufactures into India stopped almost completely and a boom ensued in all industrial enterprises. Simultaneously, a demand sprang up not only for foodstuffs and raw materials but also for cotton and jute goods and the like. Pessimism soon gave way to optimism. Mills, factories and workshops worked round the clock, fabulous profits were earned and large dividends were declared. Cotton and jute textiles, steel, sugar, paper and flour mills and all companies generally enjoyed phenomenal prosperity. Wealth accumulated and the volume of money increased, and owing to Government control, those who previously dealt in bullion, seeds, rice, wheat, sugar and the rest diverted their activities to the stock market. The Stock Exchanges " soon became the centre of attraction for all. Tradesmen, professional men and even the clerks and peons in the offices distracted their attention from their legitimate avocations of life and played out their moneys on the Stock Exchange with a view to get rich quickly ". In the result,

the stock market boomed and share prices shot up to the sky. Table III covering some selected scrips quoted on the Bombay and Calcutta Stock Exchanges illustrates this headlong rise between 1914 and 1921, when the share price index (1914=100) raced upwards from 100 to 295.

TABLE III

First World War and Post-war Boom and Slump

Name of Security	1913–14	1920	1923–24	% Rise in 1920 over 1913–14	% Fall in 1923–24 over 1920	Year (July)	Share Price Index (July 1914=100)
Bombay :							
Century ...	190	1,525	515	702	62	1914	100
Crescent ...	77	800	285	939	64	1915	100
Tata Steel Ord. ...	77	195	30	153	85	1916	127
Tata Steel Defd. .	123	1,100	105	794	90	1917	151
Katni Defd. ...	145	1,750	300	1,106	83	1918	184
B. B. Petrol ...	2	27	4	1,250	98	...	...
Bombay Steam ...	181	530	110	193	79	1919	206
Bombay Flour ...	900	3,500	1,200	288	66	1920	296
Central Bank ...	16	46	27	586	41	1921	295
Calcutta :							
Hooghly Jute ...	7	166	40	2,271	76	1922	253
Kamarhatty Jute .	113	1,200	355	961	70	1923	169
Dunbar Cotton ...	10	765	121	7,550	84	...	...
Indian Iron ...	...	71	31	...	56	...	...
Burrakur Coal ...	9	54	28	473	49	...	...
Equitable Coal ...	21	49	16	127	68	...	...
Titaghur Paper ...	50	530	2	960	100	...	...
Champaran Sugar	60	226	19	276	92	...	...
Hooghly Flour ...	10	47	24	363	49	...	...

15. *Post-war New Issues Boom and Depression.*—The end of the war saw a further remarkable outburst of activity, particularly in new issues. Speaking at the Annual General Meeting of the Bank of Bombay in 1920, the Chairman sounded a note of warning and observed :

"New Companies are being registered on a greater scale than ever, 906 were registered during the year with an authorised capital of Rs. 274 crores compared to 291 Companies the previous year with a capital of Rs. 21 crores. Where new capital has been invited to extend industries already established on a profitable basis the public are justified in responding fully to the invitation, but some new Companies are now being promoted which have very little prospect of ever becoming successful. Japan has lately provided an object lesson of a sharp reaction following a period of unexampled prosperity."

Despite such warnings, investors rushed into every new venture that was floated and they were led to go in for those shares at high premia by the adventurers and the so-called promoters of joint stock companies. The agents and Directors of many of the new companies were well-known men of commerce and industry. The public had implicit faith in them and in the high order of their business ability and so rushed in to apply for the shares of their companies. Those who did not succeed in getting any allotment purchased them from the underwriters or syndicates at a big premium in the hope of securing large profits in the future. The prices of the shares of a number of newly floated companies were marked up to a fictitious premium and Table IV shows what the position was in Bombay. The shares of the Tata Bank were at Rs. 90 premium when only Rs. 15 were

TABLE IV

Post-war New Issues Boom and Slump

NAME	Paid-up per Share Rs.	Highest premium per Share in 1919–20 Rs.	Discount recorded in 1923 Rs.
Tata Oil Mills	100	575	......
New India Assurance	25	75	8½
Jupiter Insurance	15	29	9
Tata Industrial Bank	22½	90	10
Scindia Steam	30	60	22

paid-up per share and there were no reserves. The Tata Oil Mills share of the face value of Rs. 100 was quoted at Rs. 575 premium even before the erection of the machinery for the working of the Mills. Shares of several other new companies floated during the boom period also reached fabulous and absurd levels. For example, in Calcutta, a number of coal companies came into being early in the 1920's and the prices of their shares soared up to the sky. Numerous other companies for every conceivable object rose up like mushrooms. The paid-up capital of joint stock companies tripled from Rs. 80 crores in 1913–14 to Rs. 277 crores in 1923–24. Shares of such new companies were more or less underwritten by the speculative promoters or their friends and were seldom allotted. They allotted the shares to themselves and sold them to the public at a high premium. To safeguard and protect the interests of the public, the Bombay Exchange decided in 1919 to prohibit business in the shares of new companies unless prior permission was granted by the Board. In 1920, the Exchange adopted a set of listing requirements for regulating the admission of the shares of new companies to dealings and one of these regulations specifically provided that at least 33 per cent of the issued capital should be offered for public subscription and allotted fairly and unconditionally. These protective measures were however of little avail. The public was in a frenzy to invest in the shares of all new companies in the hope of making big fortunes in the twinkling of an eye. The boom therefore fed on itself. Those who had until then kept aloof from the stock market and those who had previously never dealt in shares of any description began to buy shares of new companies. In those circumstances, company promoters flourished and investors over-reached themselves. In the slump of 1921 that followed, a large number of newly floated companies found it difficult even to commence business. On account of the *swadeshi* feeling, the existing companies, especially textile mills, continued to sell their products at reasonably remunerative prices. Even they finally succumbed to the influx of imports from Europe and Japan and the fierce foreign competition. Demand fell, commodity prices declined, industrial unrest intensified, profits dwindled and a large number of companies was forced into liquidation. In the event, share prices slumped to the bottom as indicated in Table III and the share price index (1914=100) plunged downwards from 295 in 1921 to 253 in 1922 and to 169 in 1923. The boom collapsed suddenly and for many that boom was in reality their nemesis. However, as in 1861–65, the war and post-war boom produced certain permanent results : it greatly expanded the liquid capital market, broadened the base of joint stock enterprise, widened public interest in shareholdings and materially enlarged the scope and operations of the Stock Exchanges in India.

16. *Ephemeral New Stock Exchanges*.—The roaring trade in stocks and shares during the war and post-war boom led to the formation of rival Stock Exchanges in Bombay and Ahmedabad. A new limited company was formed and incorporated in Bombay under the name and style of the Bombay Stock Exchange, Ltd., in December 1917 and an unincorporated body called the Gujarat Share and Stock Exchange was established in Ahmedabad in 1920. The Bombay Stock Exchange, Ltd., had on its Managing Committee a number of well-known industrialists and businessmen like Sir Purshottamdas Thakurdas, Sir Chunilal V. Mehta, Sir Ibrahim Rahimtoolla, Shri Rameshwardas Birla and others—men of high reputation but not conversant with the working of Stock Exchanges. They claimed that they would introduce reforms in matters in which, it was said, the existing Stock Exchange in Bombay was deficient, " but they found the same impracticable and were unable to move an inch further and they had to close their doors within three years ". As Shri Bhulabhai Desai commented in his Minority Report of the Stock Exchange Enquiry Committee of 1923, " For some time past no business is being transacted on the new Exchange and it is now practically a dead institution. The figures relating to the business of the Association point to the same conclusion ". An attempt was made to revive the Bombay Stock Exchange, Ltd., in 1922 but it failed. After the passing of the Bombay Securities Contracts Act in 1925, it made a last-ditch effort to obtain official recognition under the Act, but Government refused. Thereafter

it went into liquidation and wound up its affairs. The fact was that, in spite of highly influential persons, the new Exchange did not command the confidence of the public which continued to support the existing Association. Apart from Bombay and Ahmedabad, a new Stock Exchange was also organised in Madras under the name and style of "The Madras Stock Exchange" on the 6th of April, 1920, and in Northern India also Lala Harikishan Lal and others attempted to establish a registered Stock Exchange in the 1920's but did not succeed. The Madras Stock Exchange had 100 members on its rolls when it started and dealt chiefly in mill shares. However, when the boom faded, followed by company failures and a sharp fall in prices in 1921–22, the Madras Stock Exchange became moribund for want of business. By 1923, the number of its members stood reduced from 100 to 3 and so it went out of existence.

VI—1922–1927

17. *Corners.*—After the war and post-war boom, corners afflicted the Stock Exchange in Bombay like a rash of measles. Corners in the market, once a rare occurrence, became rare no longer. Before 1918, there had been a corner in Sun Mill shares in 1896 and in Petit Mill shares in 1910 and again in 1913. After 1918, corners followed on the heels of each other in quick succession. Beginning with Standard Mill shares in 1918, Katni Cement Deferred and Madhowji Mill shares in 1919 and Fazulbhoy Mill and Currimbhoy Mill shares in 1921, they burst in full spate in 1922. The shares of Finlay, Nagpur, Swadeshi, Currim, David and Broacha Mills were all attempted to be cornered at one time or another in the course of a single year. Kohinoor Mill shares were cornered twice in 1923, and a stray attempt was made on New Great shares in 1924. Thereafter, on account of large losses suffered and change in outlook, corners died a natural death, and since then no corner has occurred up to now.

18. *The Atlay Stock Exchange Enquiry Committee.*—Most of the corners of the 1920's did not succeed and this provoked hostility from interested quarters. Their propaganda combined with public criticism led to the appointment of the Atlay Stock Exchange Enquiry Committee in 1923. The appointment of the Committee on the 14th of September, 1923, was the riposte of Lord Lloyd, the then Governor of Bombay, to the outright rejection by the Exchange of the only reform proposed by him as a solvent of all evils and complaints. That one reform he suggested was the formation of a Committee of Appeal or Control, consisting of a member or two of the Exchange and other outside representatives, to supervise the management of the Association. On the 6th of August, 1923, the Bombay Exchange bluntly refused "any sort of control of or interference from outsiders who would not be conversant with the working of the Stock Exchange or who might during times of boom abuse their position on the Exchange and rob wealthy investors and grind down the poor, as was done by well-known persons during the last boom". The Minority Report of Shri Bhulabhai Desai vindicated the position of the Stock Exchange in regard to corners, and in turn was vindicated by facts and subsequent events. The Minority Report held it "proved by the evidence recorded before us (and there is no evidence to the contrary) that the majority, if not all, of the

corners in recent times were entirely due to capitalist interests attempting to squeeze the members of the Association or their unwary clients ", and he expressed the view—which later turned out correct—that " within a short time one will hear as little of corners in the Bombay market as of the ruinous speculation which reigned in the boom period ". On the second main question that there should be constituted a controlling authority on which the various commercial associations of Bombay should be represented, both the Majority and Minority Reports were unanimous that the suggestion was not feasible, as it would be difficult to find men of the requisite skill and experience. The only other major recommendation of the Atlay Committee was in the matter of Stock Exchange Rules and Regulations. Before 1924, the chief weakness of the Bombay Exchange was in the chaotic condition of its Rules. The Atlay Committee remedied the defect by codifying the Rules, Bye-laws and Regulations and it was a reform of lasting value.

19. *Offer of Government Charter to the Stock Exchange at Bombay.*—In its Report, the Atlay Stock Exchange Enquiry Committee had stressed and emphasised the necessity of the Stock Exchange framing and maintaining a systematic and settled body of Rules and Regulations in the interests of the general investing public and of the trade itself. In pursuance of that strong recommendation, the Government of Bombay offered a Charter to the Bombay Exchange on the 21st of July, 1925. The Charter did not visualise any direct control of the Exchange ; what Government sought to do thereby was to assume authority to control the rule-making power of the Stock Exchange and in return to grant it by Charter a monopoly of organised trading in securities. The President and the other two representatives who had carried on negotiations with Government urged the Exchange to accept the Charter, but the Exchange, fearing official tyranny in matters of free monetary trade, turned down the offer on the 25th of August, 1925. It was a grievous mistake. A reluctant Government initiated a special legislation and the second thought of members of the Bombay Exchange that the Charter should be accepted came all too late.

20. *The Bombay Securities Contracts Control Act, 1925.*—A special legislation for controlling Stock Exchanges was enacted for the first time in India when the Bombay Securities Contracts Control Act, 1925, was passed by the Bombay Legislative Assembly on the 29th of October, 1925. It came into force in Bombay from the 1st of January, 1926. The Act empowered Government to grant recognition to a Stock Exchange and to withdraw such recognition. It also provided that the Rules of a recognised Stock Exchange could only be made or amended subject to prior Government approval. The Bombay Exchange applied for recognition under the Act and submitted a complete set of Rules and Regulations for Government approval. The Exchange was duly granted statutory recognition and its Rules were sanctioned by Government on the 14th of May, 1927. The Ahmedabad Share and Stock Brokers' Association was recognised under the Act on the 1st of May, 1939, and before sanction its rules were remodelled on those of the Bombay Exchange. The Bombay Securities Contracts Control Act remained in force till the Securities Contracts (Regulation) Act, 1956, enacted by the Central Government came into operation on the 21st of February, 1957. However, the Bombay Act proved

ineffective in regulating security trading, and Government control thereunder was nominal, amounting to practical non-interference. The Act defined the term "ready delivery contract" as meaning one for the performance of which no time was specified and which had to be performed within a reasonable time. This definition was found to be vague and ambiguous. The Act was also defective in its principal provision that contracts for purchase and sale of securities, other than those for ready delivery, would be void in law if not entered into through or between members of recognised Stock Exchanges in accordance with the Rules sanctioned by Government. If the Act was to be effective, such contracts should have been declared not only void but also illegal, as it is permissible in law for agents to claim on void contracts on the basis of indemnity ; and further, a specific short period of time should have been prescribed for performance of ready delivery contracts. These defects were rectified in a Bill for replacing the Bombay Securities Contracts Control Act that was drafted in 1939. It aimed at uniform control of all forward markets in Bombay, but before it could be introduced in the legislature, the Congress Government then in office resigned. The Bill was revived in 1947, but with certain misconceived alterations, and it was passed into an Act in that year. The Bombay Forward Contracts Control Act, 1947, as it is called, was applied to cotton, bullion and seeds. Its operation was not extended to stocks and shares because of objections raised by the Bombay Exchange. Subsequently, under the new Constitution of India which came into force in 1950, futures markets and Stock Exchanges became an exclusively Union subject and appropriate Central legislation, based largely on the original principles of the Bombay Forward Contracts Control Act, 1947, was enacted in due course for commodity markets in 1952 and for Stock Exchanges in 1956.

VII—1927–1935

21. *Wall Street Boom and Crash and World Economic Depression.*—By 1927 when the Bombay Exchange was recognised under the Bombay Securities Contracts Control Act, the stock market in India had emerged from the depression following the post-war boom and slump. Economic conditions were more stable and industries had recovered. Cotton and jute textile mill shares in particular were well placed and they continued to improve their position from year to year. Share prices therefore kept on moving upwards, partly in sympathy with the world trends, till they reached a high plateau in 1929. It was in that year that the hectic Wall Street boom hit the top. In Bombay, steel shares witnessed a meteoric rise. Tata Steel Ordinarys shot up from Rs. 8 in 1924–25 to Rs. 88 in 1929 and Tata Steel Deferreds from Rs. 26 to Rs. 320, while cotton mill shares and others showed sustained strength. Similarly, in Calcutta, coal, paper and jute shares surged upwards over the years. Table V records the climax of the boom in 1929 for some selected shares quoted in Bombay and Calcutta. In June 1929, there were ruinous strikes in the cotton textile industry in Bombay and on their heels came the Wall Street crash in September 1929. A world economic depression followed. The United Kingdom abandoned the gold standard in September 1931 and the Japanese continued dumping their cotton piecegoods on the world markets on a mass scale. There was a severe depression in India, as in all other parts of the world. The year 1932 was

also a year of political strife and turmoil, in India involving constant interruption of business activity. In the depth of such a depression, when trade was bad, industry in difficulties, and economic and political conditions were most uncertain, the stock market suffered a widespread lack of confidence. Everyone was a seller, and since there were no buyers, prices of many securities fell rapidly. Table V shows the heavy slump in rates with the share price index (1927–28=100) touching the bottom at 58·1 in June 1932 after a continuous fall from its peak of 101·2 in September 1929. The collapse was the worst in Wall Street, and only a little less so on the London and other Stock Exchanges. The world was in the throes of the Great Economic Depression.

TABLE V

1929 Boom and Great World Depression

Name of Security	1924–25	1929	1931–32	% Rise in 1929 over 1924–25	% Fall in 1931–32 over 1929
Bombay :					
Century ...	300	410	173	37	58
Kohinoor ...	160	213	87	33	59
Tata Steel Ord.	8	88	19	994	79
Tata Steel Defd.	26	320	245	1,091	23
Bombay Steam ...	50	288	153	476	47
Bank of India ...	68	105	73	53	31
Calcutta :					
Hooghly Jute ...	37	63	46	66	25
Kamarhatty Jute	404	644	287	59	55
Dunbar Cotton	121	240	63	98	74
Indian Iron ...	14	17	1	20	89
Equitable Coal ...	9	31	18	233	42
Bengal Paper ...	10	49	36	390	27

Period	Share Price Index (1927–28=100)
1927 :	
April ...	93·8
November ...	107·4
1928 :	
June ...	100·5
1929 :	
June ...	96·3
September ...	101·2
1930 :	
February ...	93·2
April ...	95·6
December ...	75·0
1931 :	
March ...	76·1
August ...	58·5
November ...	65·6
1932 :	
June ...	58·1
December ...	69·6
1933 :	
January ...	76·3
September ...	86·9

22. *Failure of Currimbhoy Ebrahim & Sons.*—The World Economic Depression was at its worst in 1931–32. Conditions were improving by 1933 when, in September, an extraordinary situation was created in Bombay by the unexpected failure of the well-established managing agency house of Messrs. Currimbhoy Ebrahim & Sons, Ltd. There were large dealings on the Bombay Exchange in six different Companies under their agency, namely, Fazalbhoy, Indore Malwa, Pearl, Bleaching, Pabaney and Crescent Mills. The firm was reported to be in financial difficulties on the 18th of September, 1933, and between that date and the 25th of September when its failure was announced, the prices of

Fazalbhoy Mill shares dropped from Rs. 272 to Rs. 130, of Indore Malwa from Rs. 312 to Rs. 250, of Pearl from Rs. 158 to Rs. 70, of Bleaching from Rs. 171 to Rs. 115, of Pabaney from Rs. 85 to Rs. 35 and of Crescent Mills from Rs. 44 to Rs. 29. All the six mills ultimately went into liquidation and the market value of their shares dwindled to nothing almost overnight. The investors and the Stock Exchange were victims of a fraud practised by the managing agents who had manipulated the accounts of the Companies and removed lakhs of Rupees belonging to the shareholders. There was however no cancellation of contracts on the Exchange and the principle of inviolability of bargains was maintained. The settlement was facilitated by the Bombay Exchange setting up a special fund of Rs. 3 lakhs to which all active members, whether directly involved or not, voluntarily contributed. This fund was utilised for meeting the liabilities of those members who were in difficulties so that bona fide investors who had sold their holdings on the Exchange through them did not have to suffer. The high traditions of morality and probity prevailing in the stock market were thus fully reaffirmed.

23. *End of Forward Trading in Government Securities.*—Two years after the Currimbhoy crisis, the Italo-Abyssinian War broke out and it threatened the peace of Europe. As Government credit was likely to be affected, dealings for the Account in Government Securities were suspended in Bombay from the 13th of September, 1935, after consulting the Reserve Bank of India and the Imperial Bank of India. That marked for all time the end of forward trading in Government Securities, which had provided from the early days of the 19th century counters like the 4% and $3\frac{1}{2}\%$ Government Paper for time bargains and speculative transactions. It was a significant departure. Prior to 1935, gilt-edged securities had a full-fledged auction market with a number of active brokers and dealers transacting business on a large scale from day to day. After the suspension of time bargains and the radical war-time change in conditions, there has been a metamorphosis and auction trading has been replaced by an over-the-counter market. Banks holding large gilt-edged investments for reasons of liquidity, which used to operate every day, have now become seasonal operators. Over two hundred Life Insurance Companies which were daily seeking suitable gilt-edged investments have disappeared since 1956 and their place has been taken by the monolithic Life Insurance Corporation which has introduced an element of immobility in the gilt-edged market. The large, jostling, pushing crowd of security brokers, dealers and jobbers which, till 1935, thronged the trading ring and overflowed into Dalal Street as it transacted from day to day a huge volume of business running into many crores of Rupees has gradually shrunk till it has almost thinned out of existence, and the gilt-edged market which was once so liquid, broad and active is now but a shadow of its former self.

VIII—1936–1939

24. *The Morison Stock Exchange Enquiry Committee.*—In August 1935 and April and September 1936, the Bombay Exchange had submitted to Government for approval several important amendments to its Rules including those relating to the listing requirements to be observed by a company before its shares could be admitted to dealings on

the Exchange. These listing regulations were largely modelled on those of the London Stock Exchange, but the Bombay Chamber of Commerce strongly objected to them and declared that no self-respecting company would comply with such requirements. In view of this powerful opposition, the Government of Bombay was unable to make up its mind and that was the immediate occasion for the appointment of the Morison Stock Exchange Enquiry Committee on the 24th of November, 1936. Commenting on this, the Bombay Exchange observed in its official representation to the Committee that not only was the Bombay Chamber of Commerce, on its own admission, not in a position to express its opinion in favour of or against any proposed amendment without " expert advice and guidance ", but " Government also seems to be equally short of experts who could finally form a judgment on the propriety of any change in Rules without an enquiry being instituted into the affairs of the Association by outside experts "—which was what the Committee was asked to conduct. The Morison Committee presented its Report to Government on the 6th of March, 1937. Government itself reserved its views on the Committee's recommendations on such subjects as margins, rule-making power, definition of ready delivery contracts and the like. As regards the rest, the Committee approved most of the amendments, including those relating to the listing regulations, proposed by the Association and completed the work of the Atlay Committee by further codifying the Rules and Regulations of the Exchange. The Bombay Exchange thoroughly revised its Rules on the lines suggested by the Morison Committee and submitted them in due course for Government approval. These Rules were sanctioned on the 31st of May, 1938, and they form the basis of the present Rules, Bye-laws and Regulations which have been uniformly adopted by all the Stock Exchanges recognised by the Central Government under the Securities Contracts (Regulation) Act, 1956.

25. *Steel Boom of 1937.*—The Morison Stock Exchange Enquiry Committee conducted its inquiry in 1937 and it was in that year that a steel boom developed in all parts of the world. The Great Depression which engulfed so many countries in the 1930's was over in 1932 and from 1933 economic conditions had been steadily improving. The subsequent devaluation of the currencies of the gold block countries and their alignment with the Pound Sterling and American Dollar helped the process of recovery. World trade rapidly swelled to the 1927 level, commodity prices moved up, industrial profits improved and the cotton textile, coal, tea, sugar and other industries produced good results. In particular, the iron and steel industry enjoyed exceptional prosperity the world over because of the newly started armaments race and the heavy demand for steel. The price of steel products soared upwards and the price of steel shares followed the rise. Boom conditions prevailed in London and New York and also on the Stock Exchanges in India. Table VI traces the boom which reached its peak in 1937 and the recession that followed. The Calcutta Stock Exchange especially witnessed hectic activity in steel shares " beyond anything known in the annals of that market ". Indian Iron shares that were quoted below par at Rs. 9 in June 1936 shot up to Rs. 30 by January 1937 and hit the top at Rs. 80 on the 6th of April, 1937. There was over-optimism and over-extension of positions and prices dropped abruptly at the end of the month on news of

a sudden large shrinkage of values on the London and New York Stock Exchanges. The price declined further to Rs. 21 during the year. Over the same period, in anticipation of high dividends, the Tata Steel Ordinary and Deferred shares staged a handsome rise in Bombay to Rs. 455 and Rs. 2,290 and then slumped backwards to Rs. 198 and Rs. 795 respectively. This was reflected in the share price index (1927–28=100) which from an average of 110 in 1935 and 1936 rose sharply to 129 in September 1937 and then slipped downward to 106 in 1938. The recession which followed the steel boom curtailed the volume of business and for a time the stock market idled away on a nominal turnover within a narrow price range till the approaching outbreak of the Second World War transformed the scene.

TABLE VI

Stock Market Boom, 1937

NAME OF SECURITY	Market Rates (Rs.)				Period	Share Price Index (1927–28=100)
	1933	1935	1937	1938		
Bombay:						
Kohinoor	117	234	384	244	1931	67·6
Tata Steel Ord. ...	16	158	433	205		
Tata Steel Defd. ...	133	730	2,290	840	1932	64·4
Scindia	7	19	31	17	1933	83·1
Bombay Burmah ...	304	478	811	465	1934	100·2
Shivrajpur	14	43	73	32	1935	110·4
Tata Oil	15	24	46	21	1936	110·8
Calcutta:						
Equitable Coal	14	41	45	33	1937 Sept.	128·7
Burrakur Coal	9	16	20	11	1938	106·4
Howrah Jute	36	67	70	34		
Indian Iron*	3	9	80	20		
Dunbar Cotton	93	142	198	139	1939 Aug.	98·5
Titaghur Paper	14	25	28	12	Dec.	130·7

* Also quoted in Bombay.

26. *Foundation of the Madras Stock Exchange, Ltd.*—The improvement in business conditions and in stock market activity in 1935 was marked by growing public interest in stocks, shares and securities. In South India, there was a rapid increase in the number of textile mills and many new plantation companies were floated. To cater to this expanding trade in plantation and mill shares, a Stock Exchange was organised in Madras on the 4th of September, 1937, under the name and style of the " Madras Stock Exchange Association (Private) Ltd." Long before that, some business in stocks and shares was apparently transacted in Madras by a broker or two after the First World War and a Stock Exchange was formed in 1920 only to go out of existence in 1923. In the beginning of 1927, there were two broker firms, one European and the other Indian, and a Bombay firm opened a branch in Madras in that year. Less than a dozen transactions were

done by these brokers and reported in the press. In the next quinquennium, a few more brokers joined the trade, and though there was no organised exchange, they helped in the flotation of many electricity companies, textile mills and planting and industrial concerns. Up to 1933–34, stock and share business was almost entirely in the hands of two or three European firms and two Indian firms and their daily business was mostly confined to gilt-edged securities and South Indian plantations, the principal interest being in London shares. With the establishment of trunk telephone facilities in 1933, business gradually broadened as South Indian investors became interested in stocks and shares quoted on the Bombay Exchange and Bombay and Calcutta investors developed interest in Madras scrips. A few more Indian firms were started in 1935 by former assistants or constituents of English firms. Business continued to develop, and when the Madras Stock Exchange was established in 1937, it had 5 members and 84 companies on its list of officially quoted securities. Since then, with the rapid industrialisation of Madras and the neighbouring States, the Exchange has expanded in membership and in the scope of its activities. It was reorganised as a new company limited by guarantee under the name and style of the Madras Stock Exchange, Ltd., on the 29th of April, 1957, and in May 1961 it acquired a building of its own at a cost of Rs. 2,10,000. The Madras Stock Exchange now has 35 members on its rolls. Its activities are steadily expanding and 268 Companies covering all types of industries, including banks and insurance companies, are on its trading list.

27. *Rival Stock Exchanges.*—Apart from the Madras Stock Exchange, rival Stock Exchanges were set up in Bombay and Calcutta in 1937 and 1938 respectively. The steel boom in 1937 stimulated considerable interest in Calcutta, and as prices soared up and the volume of business increased, a number of new entrants invaded the field with a view to exploiting the favourable opportunity and making a fortune for themselves. Accordingly, another Stock Exchange under the name and style of the Bengal Share and Stock Exchange, Ltd., was organised in Calcutta in 1937 with the object of doing forward business in stocks and shares on a monthly settlement basis. Very much for the same reasons, and for the second time in the history of Bombay, a new Stock Exchange limited by guarantee was started in February 1938 under the name and style of Indian Stock Exchange, Ltd. It had an influential Board of Directors consisting of well-known businessmen and industrialists like Sir Choonilal B. Mehta, Sir Behram Karanjia and others. Most of them were ineligible for membership of the existing Stock Exchange because its Rules, sanctioned by Government, prohibited members from engaging themselves as principals or employees in any business other than that of stocks and shares. The object of the promoters of the new Exchange therefore was to force themselves into the stock exchange trade by the back-door through the medium of a new association. Apart from these industrialists and businessmen who also wished to become stock brokers and dealers, the membership of the Indian Stock Exchange, Ltd., was drawn at different stages from the speculative elements which had been driven out from the bullion, cotton, seeds and other forward markets after they came under Government control. The new Exchange had a feverish existence. It functioned sporadically, and whenever it did,

its interest was restricted to two or three highly speculative scrips. The Exchange failed to win public support, and its repeated applications for recognition under the Bombay Securities Contracts Control Act were refused by the Government of Bombay. The Government of India also rejected its application for recognition when the Securities Contracts (Regulation) Act came into force in 1957, but in view of the principle of unitary control, twenty-five of its members were then admitted to the membership of the Bombay Exchange on concessional terms. Since then, the Indian Stock Exchange, Ltd., has ceased to function and is now in a moribund condition. Over and above the two new Exchanges in Calcutta and Bombay, the Lahore Stock Exchange was formed in Lahore in 1934. It had a brief career and merged with the Punjab Stock Exchange, Ltd., which was incorporated in 1936. There were thus eight Stock Exchanges in India, two each in Bombay, Calcutta and Ahmedabad and one each in Madras and Lahore, when the Second World War broke out in 1939.

IX—1939-1949

28. *The Second World War Boom.*—The Second World War broke out on the 3rd of September, 1939, and touched off a brief sharp boom. Recollections of the First World War fostered expectations of inflationary finance, large profits and bumper dividends, and by January 1940 prices of industrial shares recorded a feverish advance of 75 per cent to 100 per cent. The unexpected imposition of the Excess Profits Tax on the 27th of January, 1940, precipitated a sudden decline in values, which was accentuated when alarming war news and fears of imminent defeat of the Allies caused a panic in May. Sentiment was demoralised, and the Calcutta Stock Exchange therefore closed its doors, while forward trading was suspended in Bombay. Confidence revived by July when the Calcutta Stock Exchange reopened and by stages forward dealings were resumed in Bombay. Trading conditions returned to normal by January 1941 and prices rapidly moved up to the end of the year when Japan launched its surprise offensive. Share values then collapsed and fell lower and lower. It was a crisis of confidence. Minimum prices for shares were fixed by the different Stock Exchanges and the Government of India also fixed minimum prices for gilt-edged securities on the 2nd of March, 1942. The market touched its bottom in April 1942 and by then the substantial war-time gain in values recorded by many shares was completely wiped out. Thereafter, on the launching of the Civil Disobedience Movement by the Congress, the internal politics of the country entered into a turbulent phase, and business in the stock market came to a standstill. The situation changed radically in 1943. The Allies were on the road to victory and India was fully mobilised as a supply base. Mills, factories and workshops were running day and night. Prosperity was rapidly increasing, large sterling balances ultimately amounting to Rs. 400 crores were accumulated, inflationary finance expanded, money became cheaper and paper wealth multiplied. The elements of inflation and low interest rates constantly pulled share prices upwards, and in the context of controls in other directions, their influence was exceedingly powerful. By September 1945, buoyant corporation results, rising prices, falling interest rates and a favourable phase in general activity inevitably produced an optimistic market mood. The Demonetisation

Ordinance of January 1946 momentarily checked the rising tempo, but the abolition of the Excess Profits Tax and reduction in super-tax rates in the 1946 Budget, followed by the conversion of the 3½% Non-terminable Loan and expected reduction in the Bank Rate, unleashed a fresh spate of buying and hectic activity. Optimism degenerated into over-optimism and emotional forces were sucked into the price spiral. The cumulative excitement rapidly concentrated into a raging milling whirlpool and the vortex reached its climax in the spectacular market boom of September 1946. This boom was backed by rising industrial activity which carried production to a level formerly unattained, and it was underpinned by such powerful factors as extreme scarcities, unlimited Government expenditure, plethora of funds and low rates of interest. Table VII portrays the boom.

TABLE VII

Second Great World War and Post-war Boom and Slump

Period	Share Price Index (1927–28=100)	Period	Share Price Index (1927–28=100)	Period	Share Price Index (1927–28=100)
1939 :		1944 :		1947 :	
January ...	100	July ...	203·6	April ...	217·7
August ...	98·5	1945 :		May ...	215·2
December ...	130·7	July ...	217·0	June ...	200·3
		December ...	232·4	July ...	197·9
1940 :		1946 :		August ...	189·7
January ...	120·9	January ...	238·6	September ...	182·4
August ...	109·5	February ...	236·7	October ...	178·5
1941 :		March ...	249·7	November ...	176·5
March ...	123·8	April ...	259·8	December ...	192·4
April ...	118·2	May ...	267·3	1948 :	
October ...	138·8	June ...	280·9	January ...	192·2
November ...	151·6	July ...	303·8	February ...	181·7
December ...	132·1	August ...	314·9	July ...	164·9
1942 :		September ...	382·0	December ...	157·9
April ...	119·1	October ...	265·5	1949 :	
November ...	149·2	November ...	264·6	January ...	156·7
December ...	143·7	December ...	252·6	April ...	145·8
1943 :		1947 :		July ...	131·1
January ...	152·7	January ...	236·3	August ...	138·2
June ...	174·8	February ...	239·3	December ...	144·1
		March ...	235·6		

Name of Security	Market Rates (Rs.)							
	1939	1941	1942	1943	1945	1946	1947	1949
Bombay:								
Century Spg.	191	531	346	968	955	1,300	850	200
Kohinoor	202	628	399	984	702	1,159	524	236
Tata Steel Ord. ...	205	416	285	408	447	542	392	282
Tata Steel Defd. ...	840	2,278	1,525	2,030	2,399	3,018	2,147	1,473
Associated Cements ...	103	149	149	239	250	275	165	130
Tata Oil	36	72	37	102	85	114	90	51
Scindia Steam	16	29	17	39	43	60	27	13
Bank of India	118	150	122	227	233	302	209	171
Imperial Bank	1,309	1,633	1,509	2,000	2,448	3,100	2,115	1,683
New India Assurance ...	29	60	38	88	99	125	70	52
Calcutta:								
Burrakur Coal	11	16	13	26	49	66	22	9
Equitable Coal	30	41	34	51	80	102	42	34
Kamarhatty Jute ...	439	596	434	585	992	1,325	662	140
Howrah Jute	48	58	50	65	102	144	76	24
Indian Iron*	20	38	21	38	44	62	40	23
Titaghur Paper	11	23	5	28	30	55	37	4
Bengal Paper	66	161	129	220	265	378	186	29
Dunbar Cotton	119	298	216	332	456	720	234	145
Champaran Sugar ...	11	15	14	39	49	53	37	18
Bengal Potteries ...	5	12	11	25	31	56	5 x.r.	2

* Also quoted in Bombay.

The Table shows that the share price index which stood at 109·5 in August 1940 reached its zenith at 382 in September 1946. Share prices, however, did not make the whole ascent by the lift; they mounted up by successive stages, with a landing at every stage except the last one in 1946—when they were catapulted up almost vertically to the mountain top. The story of this bold ascent is pinpointed by the market quotations for October 1945 and August 1946 in nearly all shares. During that period, for instance in Bombay, Tata Steel Deferreds rose from Rs. 2,110 to Rs. 3,640, Bombay Dyeings from Rs. 1,945 to Rs. 3,285, Bombay Burmahs from Rs. 552 to Rs. 920 and even Imperial Bank shares from Rs. 2,107 to Rs. 3,355. The Calcutta Stock Exchange had an equally stirring tale to tell of jute, coal and engineering shares. This was not an isolated phenomenon peculiar to the Indian Stock Exchanges. The New York Stock Exchange was on the crest of the second largest bull movement of the century and the London Stock Exchange, though bruised and battered by the war, was also in the throes of a vibrant boom. In India, as share prices neared the top in August, there were unmistakable suggestions of extreme instability accompanied by signs of the price curve running away. For many days, the index made sharp clean thrusts into new high ground, producing first a head and shoulders top, then a double head and shoulders top, and again a quadruple head and shoulders top, followed by the last dying gasp and the sharp run-up with the share price index poised at 382 in September 1946. The index ruled at this meredian point only for a summer's afternoon and was not there. After starting in a manner suggesting that no power on earth would stop it, the entire bull movement was arrested in mid-air as effectively as if some magician had waved his magic wand.

29. *The War and Post-war Take-over Bids and New Issues Boom.*—As the war-time boom progressed, share prices of one company or another occasionally ran up to giddy heights as open warfare raged between rival financial groups for the purpose of securing the controlling interest. The appearance of large financial empires built on enormous profits, and often honeycombed with inter-locking banking and insurance companies, was a notable war phenomenon. They steadily threw out their tentacles and acquired by negotiation, infiltration, or sheer brute force of money, large interests in the existing concerns. Managing agencies changed hands on a substantial scale and many big industrial and manufacturing units passed into their control. The times were also propitious for them and others to promote new ventures. On account of the heady boom, the stock market was the centre of attention for all the world and there was phenomenal prosperity. Companies were floated by the dozen and many new issues were pushed up to fantastic premiums by adventurous company promoters. There was nothing however wild that was floated which did not reach an inflated premium. As share prices advanced from 1943 to 1946–47, a progressively larger number of companies was registered year after year and the total amount of new issues sanctioned by the Controller of Capital Issues simultaneously increased. The position is summarised in Table VIII, which shows that the culminating point was reached in 1946–47 when the war boom touched its crest. In the period May 1943 to September 1945, consents to

TABLE VIII

Second World War and Post-war New Issues Boom

Year	Companies		Consents to New Issues of Capital (Crores Rs.)	All-India Index Number of Share Prices (1927–28=100)
	Number	Paid-up Capital (Crores Rs.)		
1939–40	11,372	304	......	111·7
1940–41	11,638	310	......	117·4
1941–42	......	......	......	129·0
1942–43	12,770	336	......	138·6
1943–44	13,689	354	93	182·2
1944–45	14,859	389	112	197·3
1945–46	17,343	424	165	220·8
1946–47	21,853	480	271	275·2
1947–48	......	......	163	191·9
1948–49	......	......	82	162·4
1949–50	......	......	21	139·6*

* For 9 months.

new capital issues amounted to Rs. 261 crores out of which Rs. 160 crores related to the industrial groups, and for the period October 1945 to March 1947, the corresponding figures were Rs. 380 crores and Rs. 225 crores respectively. Companies were floated for all kinds of activities and with objects covering everything under the sun. Aviation, automobile, engineering and chemical companies were all the rage, and insurance, finance, and investment companies were also fancied. Several companies were floated with absurdly inflated capital structures and a credulous public was invited to subscribe to their shares. The investment market was starved, and the moment an announcement of a new company appeared in the newspapers, there was a rush of applicants. The investor was gulled by the imposing facade and many new issues were heavily over-subscribed. Stagging of the most obnoxious variety was encouraged and practised, and street markets were created in which the new issues were manipulated to a premium long before the shares were allotted and in not a few cases even before the prospectus was issued. The promoters and their friends reaped rich harvests, and when the boom collapsed, the premiums vanished, prices dropped to a discount and the investing public was left " holding the baby ". In the slump that followed, not only did these investors lose their capital but also had to pay the uncalled liability on the partly paid up shares, as a number of companies closed their doors and went into liquidation.

30. *Post Second World War Slump.*—The post-war boom carried its own nemesis and ushered in a slump of disastrous dimensions which brought almost all to grief and drove not a few to the verge of ruin. As Table VII shows, when the share price index rose to its peak in September 1946, appearances flattered but to deceive. Immediately thereafter, the stock market plunged downward under the shattering impact of the Great Calcutta Killing and its aftermath of communal warfare, widespread labour unrest culminating in strikes and large wage increases, and dearer money and large scale imports. This pressure was irresistible and the top-heavy market found it impossible to effect a distribution of its load without a crash. The tall and narrow head and shoulders curve of the share price index attempted in vain to stand its ground. After a ragged falling off, it finally folded up from 382 in September 1946 to 266 in October 1946, leaving a breakaway gap of more than 100 points in less than a month. An avalanche of selling orders poured in as investors, dealers, speculators and market operators, like Macbeth's guests, stayed not upon the order of their going. The Calcutta Stock Exchange closed its doors in the face of mass liquidation by mushroom Banks which had made liberal advances against shares. Demoralisation set in and a decline in values equivalent to many months' progress was packed into as many weeks. Wall Street also fell a prey on the 4th of September, 1946, to a record-breaking slump, its worst for many years. Similarly, the London Stock Exchange witnessed a drastic recession of values. In India, the stock market continued to wage a losing battle against continued liquidation and forced distress selling. The Calcutta and Madras Stock Exchanges fixed floor prices in a desperate attempt at checking the fall in prices. These, however, were of no avail. In the Liaquat Ali Khan budget of 1947–48, crushing taxation was imposed in the form of a business profits tax, capital gains tax, increased corporation tax and steeply graded

super-tax. These budget proposals precipitated a headlong crash and all the Stock Exchanges in India had to suspend dealings for a while. The gradual disintegration of " the policy of gilt-edged uber alles ", the sharp drop in production, the mounting adverse balance of trade, and the political upheavels with their far-reaching repercussions on Government's economic policies as expressed in slogans of nationalisation, dividend limitation and the like—all these knocked off the props supporting the stock market in India. In the event, the share price index was lost and forlorn after 1946 and continued to roll down the slope year after year. The bear cycle remained in operation for full three years and the share price index touched its lowest depth at 131 in July 1949. The index then levelled off and came to a halt. The market there found its bottom. The war and post-war boom and slump had severe repercussions on the Bombay, Calcutta and Madras Stock Exchanges. Table IX shows how, in one broad sweep from August 1939

TABLE IX

Second World War and Post-war Boom and Slump in Stock Exchange Values

EXCHANGE	Market Value of Ordinary Shares	
	% Increase from August 1939 to July 1946	% Decrease from July 1946 to October 1948
Bombay	143·8	50·3
Calcutta	199·0	56·0
Madras	137·8	49·6

to July 1946, the cash market of Madras recorded an upthrust of values almost equal to the forward Bombay market and how Calcutta outstripped them both. The experience was the same for the subsequent period July 1946 to October 1948, when prices collapsed during the great debacle. The steep rise and alpine fall were however both part and parcel of a movement which seized the Stock Exchanges of almost all the leading countries in the world. The stock market in India was no exception.

31. *Mushroom Stock Exchanges.*—The war time boom brought unprecedented prosperity to the Stock Exchanges. On account of restrictive controls on cotton, bullion, seeds and other commodities, those dealing in them found in the stock market the only outlet for their activities. They were anxious to join the trade and their number was swelled by numerous others who saw in the expanding volume of business and swiftly rising prices an opportunity for accumulating large fortunes overnight. Many new associations were constituted for the purpose and the organisation of Stock Exchanges in all parts of the country assumed the proportions of a craze. In Ahmedabad where the Ahmedabad Share and Stock Brokers' Association recognised by Government and the Gujarat Share and Stock Exchange already existed, as many as four new Stock Exchanges were set up one after another. Two of them disappeared with equal speed, but the

Indian Share and General Exchange Association and the Bombay Share and Stock Brokers' Association established in 1943 managed to survive till 1957–58. In that year, some of their members as well as those of the Gujarat Share and Stock Exchange were absorbed on concessional terms by the Ahmedabad Share and Stock Brokers' Association which was the only Stock Exchange in Ahmedabad recognised by the Central Government under the Securities Contracts (Regulation) Act, 1956. In Lahore, which witnessed a great expansion of monetary incomes during the war, the Punjab Share and Stock Brokers' Association, Ltd., the Lahore Stock Exchange, Ltd., the Lahore Central Exchange, Ltd., and the All-India Stock Exchange, Ltd., were set up, and these were in addition to the Punjab Stock Exchange, Ltd., which was established in 1936. In Calcutta, over and above the existing Calcutta Stock Exchange Association, Ltd., and the Bengal Share and Stock Exchange Association, Ltd., a third Exchange called the Stock Exchange Association of Bengal, Ltd., was organised. In Delhi, two new Stock Exchanges, the Delhi Stock and Share Brokers' Association, Ltd., and the Delhi Stocks and Shares Exchange, Ltd., were floated and later, on the 25th of June 1947, amalgamated into the Delhi Stock Exchange Association, Ltd. Two more Stock Exchanges were also formed. The U.P. Stock Exchange, Ltd., was incorporated in Cawnpore in 1940 and the Nagpur Stock Exchange, Ltd., was organised in Nagpur. In Indian States, the Hyderabad Stock Exchange, Ltd., was incorporated in Hyderabad in 1944 as a company limited by guarantee and recognised under the Hyderabad Securities Contracts Control Act which was enacted in that year on the lines of the Bombay Securities Contracts Control Act of 1925. A small Stock Exchange also sprang up in Bangalore City in Mysore State. Most of these new Stock Exchanges had a membership ranging from 20 to 100 but the Bombay Share and Stock Brokers' Association had more than 715 members. Among members of these Exchanges were businessmen, lawyers, bankers and others, but active members were few and the volume of business not considerable. While some of the Exchanges claimed to be concerned exclusively with stock and share dealings only, others were more forthright in permitting their members to deal in other commodities like cotton, bullion or oilseeds. Most of these Exchanges carried on forward trading either openly or in the guise of cash or ready delivery transactions, and in the absence of any listing regulations, dealings were allowed in all and sundry shares which had a speculative appeal. This mushroom growth of Stock Exchanges fed on the war time boom and suffered almost a total eclipse in the aftermath of depression. The Exchanges in Lahore closed down during the holocaust which followed the partition of the country and later one of them migrated to Delhi where it was merged with the Delhi Stock Exchange. Most of the other Stock Exchanges withered away or languished till 1957 when they applied to the Central Government for recognition under the Securities Contracts (Regulation) Act, 1956. Only the old established Stock Exchanges in Bombay, Calcutta, Madras, Ahmedabad, Delhi, Hyderabad and Indore were recognised under the Act. Some of the members of the other Associations were required to be admitted by the recognised Stock Exchanges on a concessional basis, but acting on the principle of unitary control, all these pseudo Stock Exchanges were refused recognition by the Government of India and they have now ceased to function or to exist.

32. *Early Central Legislation—Defence of India Rule* 94-*C*.—The Securities Contracts (Regulation) Act which cleaned the Augean stables of the stock market in India was enacted by the Central Government in 1956. Prior to that, Central legislation was attempted during the Second World War when the Defence of India Rule 94-C was promulgated in 1943. Its professed object was "to counter speculative operations". As it was felt that there was an "increase in speculative activity", the Defence of India Rule prohibited Stock Exchanges from offering facilities for carry-over transactions and other than ready delivery transactions—ready delivery transactions being defined as those which had to be fulfilled by delivery and payment within seven days of the date of contract. The Rule which was issued by Government without in any way consulting the Stock Exchanges was mistaken in its purpose and defective in its operation. It established a one-way market in which *bona fide* sellers laboured under a handicap while speculative buyers were encouraged. It was not realised that, whereas buyers could always easily borrow moneys and remit funds by telegraphic transfers, the delay in transfer and registration of shares as well as postal and communication difficulties would disable sellers from forwarding scrips to their brokers within seven days of the date of sale. Paradoxically enough, therefore, Defence Rule 94-C penalised the *bona fide* sellers of shares and favoured the bulls whose activities were partly responsible for the speculative rise in prices. Not only was the market mechanism distorted in this manner by the Defence of India Rule 94-C, but also its ill-conceived ban on the provision of normal and necessary trade facilities had the effect of driving out stock and share business from the organised Stock Exchanges into the streets and mushroom markets. Price manipulation was practised without check or restraint in such street trading and kerb markets which were altogether outside the control of Government and beyond the purview of the recognised Stock Exchanges. It was therefore much more than a coincidence that, from October 1943 when Defence Rule 94-C came into force, share prices spurted up continuously till the culminating point was reached in the runaway speculative boom and burst of September 1946—the very month at the end of which the Defence of India Rule automatically lapsed. That the first experiment in the Central legislation should have produced results exactly opposite to those intended or expected was also a telling commentary on its utter inaptitude.

33. *Gorwala Committee on Stock Exchange Legislation*.—In view of its unfortunate experience of Defence of India Rule 94-C, Government proceeded with circumspection before introducing more permanent legislation. It took no official notice of what passed for a report on the regulation of the stock market in India that was presented in July 1947 by an inexperienced Economic Adviser to the Ministry of Finance. Instead, Government appointed in May 1948 a Departmental Committee to submit a report on suitable legislation for regulation of Stock Exchanges in India. The Departmental Committee submitted its report in August 1948, in the course of which it expressed the view that legislation for Stock Exchanges should be finalised only after holding a conference of the representatives of the Central Government, the State Governments concerned and the Reserve Bank as well as the Presidents or other representatives of the leading Stock Exchanges.

A year and a half later, the new Constitution of India came into force on the 26th of January 1950, and under Item 48 of the Union List " stock exchanges and futures markets " became exclusively a Central subject. In the following year, a draft Bill for Stock Exchange regulation was prepared by Government partly on the basis of the draft suggested by the Departmental Committee of 1948 but more broadly on the lines of the Forward Contracts (Regulation) Bill, 1950, for controlling commodity exchanges that was then pending before the Lok Sabha. The draft Stock Exchange Bill was referred by Government to an Expert Committee under the chairmanship of Shri A. D. Gorwala. The Committee on which the Bombay, Calcutta and Madras Stock Exchanges were represented by their Presidents submitted its Report on the 14th of July, 1951. An official Bill called the Securities Contracts (Regulation) Bill, 1954, prepared on the lines of the draft recommended by the Gorwala Committee was introduced in the Lok Sabha on the 24th of December, 1954. On the 28th of November, 1955, and 5th of December, 1955, the Bill was referred by the Lok Sabha and Rajya Sabha respectively to a Joint Committee which presented its Report on the 29th of February, 1956. The Bill as amended by the Joint Committee was passed with some amendments by the Lok Sabha on the 16th of July, 1956, and by the Rajya Sabha on the 6th of August, 1956. The Securities Contracts (Regulation) Act, 1956, as it is called, was assented to by the President and published in the Gazette of India on the 4th of September, 1956, and by a notification published in the Gazette of India on the 16th of February, 1957, the Act came into force throughout India on the 20th of February, 1957.

34. *The Securities Contracts (Regulation) Act,* 1956.—The Securities Contracts (Regulation) Act, 1956, permits only those Stock Exchanges which have been recognised by the Central Government to function in any State or area. The recognised Stock Exchanges are thus placed in a privileged position but at the same time the Act vests in Government wide powers of supervision and control. An Exchange is recognised only after Government is satisfied that its Rules and Bye-laws conform to the conditions prescribed for ensuring fair dealings and protection of investors. Government has also to be satisfied that it would be in the interest of the trade and the public interest to grant such recognition. The Rules relating in general to the constitution of the Exchange, the powers of management of the governing body and its constitution including the appointment thereon of not more than three Government nominees, the admission of members, the qualifications for membership, the expulsion, suspension and re-admission of members, the registration of partnerships and the appointment of authorised representatives and clerks must be duly approved by Government and these Rules can be amended, varied or rescinded only with the previous approval of Government. Likewise, the Bye-laws of the recognised Exchange providing in detail for the regulation and control of contracts in securities and for every aspect of the trading activities of members must also be sanctioned by Government and any amendments or modifications must be similarly approved. The Rules, Bye-laws and Regulations so sanctioned by Government at the time of recognition are now more or less uniform for all the Stock Exchanges, being modelled almost entirely on the Rules and Regulations in force on the Bombay Exchange for a number of years.

Government's authority, however, extends much further. It is empowered by the Act to make or amend *suo moto* any Rules or Bye-laws of a recognised Stock Exchange if it so considers desirable in the interest of the trade and in the public interest. The Act arms Government with even more drastic powers—the power to make inquiries into the affairs of a recognised Stock Exchange and its members, to supersede the governing body and take over the properties of a recognised Exchange, to suspend its business, and lastly to withdraw the recognition granted to an Exchange, should such steps be deemed indispensable in the interest of the trade and in the public interest. Government has thus complete control over the recognised Stock Exchanges. The recognised Stock Exchanges are the media through which Government regulation of the stock market is made effective. Where there are no Stock Exchanges, the Securities Contracts (Regulation) Act, 1956, empowers Government to licence dealers in securities and prescribe the conditions subject to which they carry on the business of dealing in securities. But the crux and centre of the Act is in its provision that, in any notified State or area, all contracts in securities (other than spot delivery contracts) which are not entered into through, with or between members of recognised Stock Exchanges shall be illegal and punishable with fine or imprisonment or both. Equally important is the provision that in any notified State or area all contracts in securities entered into in contravention of certain specified Bye-laws of a recognised Stock Exchange shall be void and unenforceable at law as respects the rights of the members of the recognised Stock Exchange who have entered into such contracts and also as respects the rights of any other persons who have knowingly participated in the transactions entailing such contravention. In order to prevent undesirable speculation, the Act further empowers Government to declare that no contract for the sale or purchase of specified securities shall be entered into in any notified State or area except to the extent and in the manner prescribed in the notification. Option business is also totally prohibited and all options in securities are made illegal under pain of fine and imprisonment. The Act contains other important provisions. It imposes certain restrictions on the right of the equitable holder of shares to recover dividend from the registered holder and confers on Government the authority to compel any public Company to have its shares listed on a recognised Stock Exchange by complying with such requirements as may be prescribed for the purpose. The statutory Securities Contracts (Regulation) Rules, 1957, promulgated under the Act formulate a code of standardised listing regulations to be observed by listed Companies. The Securities Contracts (Regulation) Act thus sets up a general framework of control which makes Government influence all-pervasive ; and, at the same time, as an *enabling* legislative measure, it provides Government with a flexible apparatus for the regulation of the stock market in India.

35. *Statutory Listing Regulations.*—The Securities Contracts (Regulation) Rules, 1957, made by Government under the Securities Contracts (Regulation) Act, 1956, prescribe the statutory listing requirements a Company must comply with before its shares can be dealt in on any recognised Stock Exchange. Prior to the enforcement of the Securities Contracts (Regulation) Act, the Stock Exchange at Bombay was the only one to have a comprehensive code of listing regulations. The Calcutta Stock Exchange had adopted

in 1943 certain rules governing the enlistment of shares, but prior to that any share in which transactions were reported in the market for three consecutive days could be added to the official list. The Bombay listing regulations, on the basis of which the present statutory provisions have been framed, had their genesis in the view of its responsibilities taken by the Bombay Exchange as early as in the beginning of this century. In May 1901, the Exchange reminded the Government of India that—

> "This Stock Exchange has always loyally helped the Government in the raising of their Rupee loans and the great part it plays in them was brought into prominence only last year when its refusal to accept at its monthly settlements the issue of $3\frac{1}{2}\%$ Paper of 1900–01 of another year would have sealed its fate and brought about a failure had not the Government at the last moment made the issue convertible into 1854–55 Paper at the option of the holders."

The authority wielded by the Bombay Exchange was such that on the 30th of September, 1905, the President of the Exchange took up cudgels with the Chairman of the Standing Committee of the Bombay Municipal Corporation and pointed out to him that—

> "The sale of the last two Municipal Loans by private contract is the reversal of and contrary to the practice that has hitherto obtained of inviting public tenders from them : and it is unfair to the ratepayers and against public policy . . . . Taken under whatever circumstances the sale of a public negotiable security by a private contract is bad and beyond good argument. It opens the door to jobbery and private influences."

The principles and policy thus laid down are now widely followed by Government and public authorities. They were first extended to the joint stock sector when, to safeguard and protect the interests of the public, the Board of the Bombay Exchange passed on the 18th of July, 1919, the following resolution :

> "The Board resolves this day that permission of the Board shall be taken before transacting business in the shares of a new company and till such permission is granted the business in the shares of such new companies shall not be transacted and the Board will take severe notice of any member transacting such business."

The scope was further enlarged when, on the 14th of July, 1920, the Bombay Exchange in its General Meeting adopted a code of listing regulations for regulating the admission of the shares of new companies to dealings on the Exchange. Some of these regulations were as follows :

"(a) Articles of Association shall contain the following provisions—

(i) That none of the funds of the Company shall be employed in the purchase of or in loans upon the security of its own share.

(ii) That the borrowing powers of the Committee are limited.

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(iii) That the non-forfeiture of dividend is secured.

(iv) That the common form of transfer shall be used.

(v) That fully paid shares shall be free from all lien.

(*b*) That a new company desirous of issuing the full number of authorised shares or a part thereof shall have invited applications from the public and shall have allotted them unconditionally atleast 33 per cent of the number of shares issued in equal proportion of any class or kind, vendors' shares not being considered to form a part of such public allotment for the purposes of these Rules. . . .

(*c*) That the prospectus has been advertised in the public press and that the subscription list has been kept open for atleast four days."

These regulations adopted by the Bombay Exchange in 1920 anticipated by about forty years the statutory provisions now contained in Rules 19 (2) (*a*) and 19 (2) (*b*) of the Securities Contracts (Regulation) Rules, 1957. Under those early 1920 listing regulations, the company had to agree, among other things, to sub-divide share certificates of large denominations into the lots required by the shareholders and to close its transfer books at such time only as might be convenient to the Exchange Gradually, the field of operations was steadily enlarged by the Bombay Exchange and more exacting listing requirements were passed for public safety. For example, 50 per cent of the issued capital, instead of 33 per cent, was required to be offered for public subscription to qualify a company for an official quotation—which corresponds to the 49 per cent offer now prescribed in Rule 19 (2) (*b*) of the Securities Contracts (Regulation) Rules, 1957. The growth of Stock Exchange control evoked much resentment and opposition from vested interests, but both the Atlay and Morison Stock Exchange Enquiry Committees approved of them and many of the requirements imposed in the past now form a part of the Company Law. For instance, the Bombay Exchange required of listed companies that the dividend and voting rights attached to different classes of shares should not be disproportionate ; that preference shareholders should be entitled to vote whenever their dividend was in arrears and that even otherwise they should have the right to vote on all resolutions affecting their rights, privileges and interests ; that directors should not borrow without the sanction of the shareholders any amount exceeding the capital *plus* the free reserves of the company ; that the managing agency commission should be based on the net and not the gross profits of the company ; that managing agents should not act as the selling agents of the company ; and so on. All these provisions are now embodied in the Companies Act. At present, in addition to statutory Rules 19 (2) (*a*) and 19 (2) (*b*) referred to above, listed companies are also required under the statutory listing regulations to enter into a comprehensive listing agreement, the main object of which is to ensure timely disclosure of all important information and adequate facilities for free negotiability and easy marketability of listed shares. For instance, companies are required to make satisfactory arrangements for sub-division, consolidation and transfer of shares ; to give notice of closure of transfer books sufficiently well in advance ; to notify dividends and furnish particulars of net profits and any proposed increase of capital immediately after a decision in that behalf is taken by the directors ; to forward copies of all reports, notices and circulars issued to the shareholders ; and so on. Listed companies are also invited to publish periodical interim statements of their working and earnings. They are required to send out two-way proxies to shareholders and debenture-holders in all cases where proposals other than of a purely routine nature are considered, such proxy forms being so worded that the shareholders or debenture-holders may either vote for or against each resolution. Listed companies have also to furnish to the Exchange on request such information as the Exchange may reasonably require. These listing regulations are applicable only to those companies which are officially quoted on the recognised Stock Exchanges. It is not obligatory in law that every public limited company should get itself enlisted on a recognised stock exchange. However, a company declaring in the Prospectus its intention to apply for an official quotation is bound under Section 73 of the Companies Act to make a listing application to the Stock Exchange concerned within the prescribed time and abide by the listing requirements in order to have its shares admitted to official dealings, failing which it has to refund the application moneys to those who have subscribed for the share capital. In addition, Government now has the power under Section 21 of the Securities Contracts (Regulation) Act, 1956, to compel a public limited company, when it is so necessary or expedient in the interest of the trade or the public interest, to comply with the prescribed listing requirements and obtain an official quotation on a recognised Stock Exchange. The object of the provision is to protect the interest of shareholders and broaden the list of quoted securities with a view to eliminating dealings in non-listed securities. The listing regulations of the recognised Stock Exchanges are now uniform and they are designed to encourage listed companies to establish sound and healthy practices which, as the Cohen and Jenkins Committees on English Company Law have pointed out, are of great importance to the investing public. This importance of listing regulations is being increasingly appreciated and it is acknowledged that " to a not insignificant extent, the stock exchanges in India have functioned as the watch-dogs of investors' interest ".

36. *Stock Market During the First Five-Year Plan Period.*—When the Stock Exchange legislation was on the anvil in the early 1950's, the market broke out of the dead centre of the postwar-slump and entered the decade of the first two Five-Year Plans. The story of this decade is briefly summed up in Table X which reflects the impact of the Plans on the stock market in India. A year and a half before the commencement of the First Five-Year Plan, the devaluation of the Rupee on the 19th of September, 1949, marked the end of the post-war depression. The recovery that followed coincided with new accents in Government policy at home. In the Budget for 1950–51, direct taxes were lowered, the business profit tax was abolished and the Dividend Limitation Act was allowed to lapse. The pseudo Fabian fallacies propounded in 1947, which had set the three-year bear cycle in motion, were thus officially repudiated. The outbreak of the Korean war then led to a boom which lifted share prices off their back. The share

price index (1938=100) which had bumped the floor at 110 in July 1949 gradually climbed up to its crest at 139 in May 1951. With the end of the Korean war, the world demand for raw and processed materials dropped precipitately, commodity prices collapsed and the balance of payments ran into a heavy deficit. These developments whipped the sheen off the Korean boom. At the same time, fiscal and monetary policies were tightened up, the Bank Rate was raised, there was a credit squeeze and the bond market was unpegged, bringing the era of cheap money to a drastic end. Disinflation rapidly set in, and there were fears of deflation as the general price index dropped from 458 in April 1951 to 367 in May 1952. Under the cumulative pressure of these forces, share prices declined and the index drifted downward from 139 in May 1951 to 104 in January 1953, where it idled away till September. The market was in the doldrums, but during these nine months the situation slowly stabilised. Then, with the growth of development

TABLE X

Stock Market during the First Two Five-Year Plans

PERIOD	Share Price Index (1938=100)	PERIOD	Share Price Index (1938=100)
1949 :		1956 :	
July ...	110	January ...	143
		October ...	143
		December ...	134
1950 :		1957 :	
July ...	119	March ...	127
August ...	126	April ...	122
		June ...	117
		December ...	111
1951 :		1958 :	
March ...	133	Janurary ...	110
May ...	139	February ...	110
July ...	132	March ...	110
1952 :		June ...	114
January ...	122	July ...	121
March ...	115	September ...	127
April ...	110	1959 :	
1953 :		January ...	121
January ...	104	December ...	141
September ...	104	1960 :	
1954 :		July ...	160
January ...	112	September ...	149
September ...	138	December ...	147
1955 :		1961 :	
May ...	129	March ...	158
December ...	149	June ...	161

Name of Security	Market Rates (Rs.)						
	1949	1951 May-June	1953 Jan.-Feb.	1955 Dec.	1957 Dec.	1958 Jan.-March	1961 June
Bombay :							
Century Spg.	200	386	244	528	379	373	740
Standard Mills	...	348	259	443	388	388	1,585
Tata Mill	41	57	44	55	38	36	71
Tata Steel Ord.	282	404	296	273	158	159	165
Associated Cements	130	175	167	234	149	140	169
Tata Chemicals	8	17	9	19	13	12	21
Bombay Burmah	270	609	358	664	516	501	667
Tata Oil	51	54	32	56	35	35	81
New India Assurance	52	54	40	50	48	40	64
Calcutta :							
Equitable Coal	34	58	39	37	24	24	33
Kamarhatty Jute	140	355	202	190	92	74	133
Howrah Jute	24	44	24	29	16	13	21
Indian Iron*	23	39	23	43	18	18	29
Bengal Paper	29	64	43	134	80	58	87
Dunbar Cotton	145	229	123	331	130	120	314†
Indian Aluminium	125	169	110	225	121†	120†	362†
Bengal Potteries	7	12	9	14	5	4	8

* Also quoted in Bombay. † Adjusted for Rs. 100 paid-up.

expenditure under the First Five-Year Plan and heavy budget deficits, the index gathered momentum and accelerated forward. Share prices thereafter continued to advance from month to month and drew an upward line against the background of an intrinsically sound economy geared to a steadily rising tempo of development expenditure. The index followed the rise and reached its peak at 149 as the First Five-Year Plan came to an end in December 1955. This upward movement formed a part of a broader trend. In Wall Street, a bull market over the same period eclipsed the 1929 boom, and on the London Stock Exchange share prices staged a remarkable rise. Evidently, the stock market boom in India and other countries reflected the growing strength and stability of the world economy.

37. *Stock Market during the Second Five-Year Plan Period.*—At the commencement of the Second Five-Year Plan, the economy of the country was under considerable strain as the rate of development tended to outpace the limit of available resources. The foreign exchange reserves were down to the minimum safety level because of heavy imports and a corresponding deficit in the balance of payments. At the same time, development spending under the Second Five-Year Plan and deficit financing on a large scale in the

public sector, combined with an equally rapid expansion of activity in the private sector stimulated an upward spiral of costs and prices and a steep rise in the cost of living. Torn between the conflicting demands of encouraging development and arresting inflation the economic policy of Government underwent a radical change. There was a rapid shift to the left and inflationary pressures were sought to be checked by a severely restrictive monetary and credit policy and crushing taxation, which smothered effective demand and curtailed employment, income and profits—all familiar symptoms of a recession. The nationalisation of life insurance companies on the 20th of January, 1956, was the first step, and it was followed by a series of fiscal and monetary measures, the brunt of which fell almost exclusively on investors. The normal tendency for the stock market to rise during a period of inflation was therefore reversed. The promulgation of the Ordinance for nationalisation of life insurance business, the suspension of clearings by Banks in Calcutta, the outbreak of violent disturbances in Bombay and elsewhere over the States Reorganisation Committee Report and fears of drastic taxation demoralised the stock market in the early months of the Second Five-Year Plan and dragged the share price index down from its peak of 149 in December 1955 to 143 in January 1956. The Calcutta Stock Exchange thereupon fixed minimum prices and suspended payment and trading for some time. The index was still at 143 in October 1956, when, in the next month, Shri T. T. Krishnamachari's surprise supplementary budget fell on the market as a thunderbolt. The increase in tax on dividends, the imposition of a capital gains tax at penal rates and the introduction of a scheme for compulsory deposit of joint stock company reserves upset market confidence and the share price index declined to 134 in December 1956. In the budget of May 1957, there were further increases in income-tax and corporation tax and in the tax on issue of bonus shares, and at the same time revolutionary new taxes like the Wealth Tax and Expenditure Tax were also introduced. The imposition of such severe taxes reduced the profitability of corporate enterprise, spread doubt and uncertainty about the future and undermined the confidence of investors, and the simultaneous shortfall in savings and paucity of funds led to continuous liquidation and disinvestment. As investment interest crumbled away, business and market turnover dwindled down to almost a half and equity prices lost almost a quarter of their value in alternating stages of a slow subsidence and a running slump. The result was a major investment depression which brought the share price index down to 110 in March 1958. At this point, the market changed direction and rallied forward. The trend was the same in other parts of the world. In Wall Street, a roaring bull market developed in full force and out-rivalled all previous booms. In London, the market chalked up its best gains in a generation and the yield on blue chip industrials was down to that on gilt-edged securities. No less remarkable was the resurgent rise in the Indian stock market. The Second Five-Year Plan, in terms of its achievement in agricultural and industrial production and rise in national income, let loose ultimately a new dynamic trend. This trend was one of growth and progress. It produced good corporate results, higher earnings, handsome dividend payments and a spate of right and bonus issues. It transformed, in effect, the entire economy of the country and by generating a state of confidence imparted continuous momentum to the stock market.

The share price index, which stood at the low point of 110 from January to March 1958, accelerated forward. It pierced and ultimately rent through the fag-end inertia of the bear cycle which had held the market for two years in a grip of vice. As the index gathered momentum, turnover responded and share prices boomed upward month after month. It was a spectacular revival. The uprush continued and share prices rolled forward on a broad front until they reached a high plateau at the end of the decade in the last year of the Second Five-Year Plan. At that point, the share price index topped the summit at 160 in July 1960, and regressed to 147 in December, only to move forward again to 158 in March 1961 when the Second Five-Year Plan came to an end.

38. *New Issue Activity During the First Two Five-Year Plans.*—The full extent of the growth and progress of the Indian stock market in 1950–60 was nowhere better reflected than in new issue activity which, especially in the Second Plan period, showed signs of great vitality and proved capable of absorbing large demands. The trend of new issues followed that of share prices, rising and falling with the fluctuations of the stock market. This relationship between the volume of new capital issues and stock market activity is apparent from Table XI which gives the amount sanctioned by the Controller of Capital

TABLE XI

New Issues by Public Limited Companies During the First Two Five-Year Plans

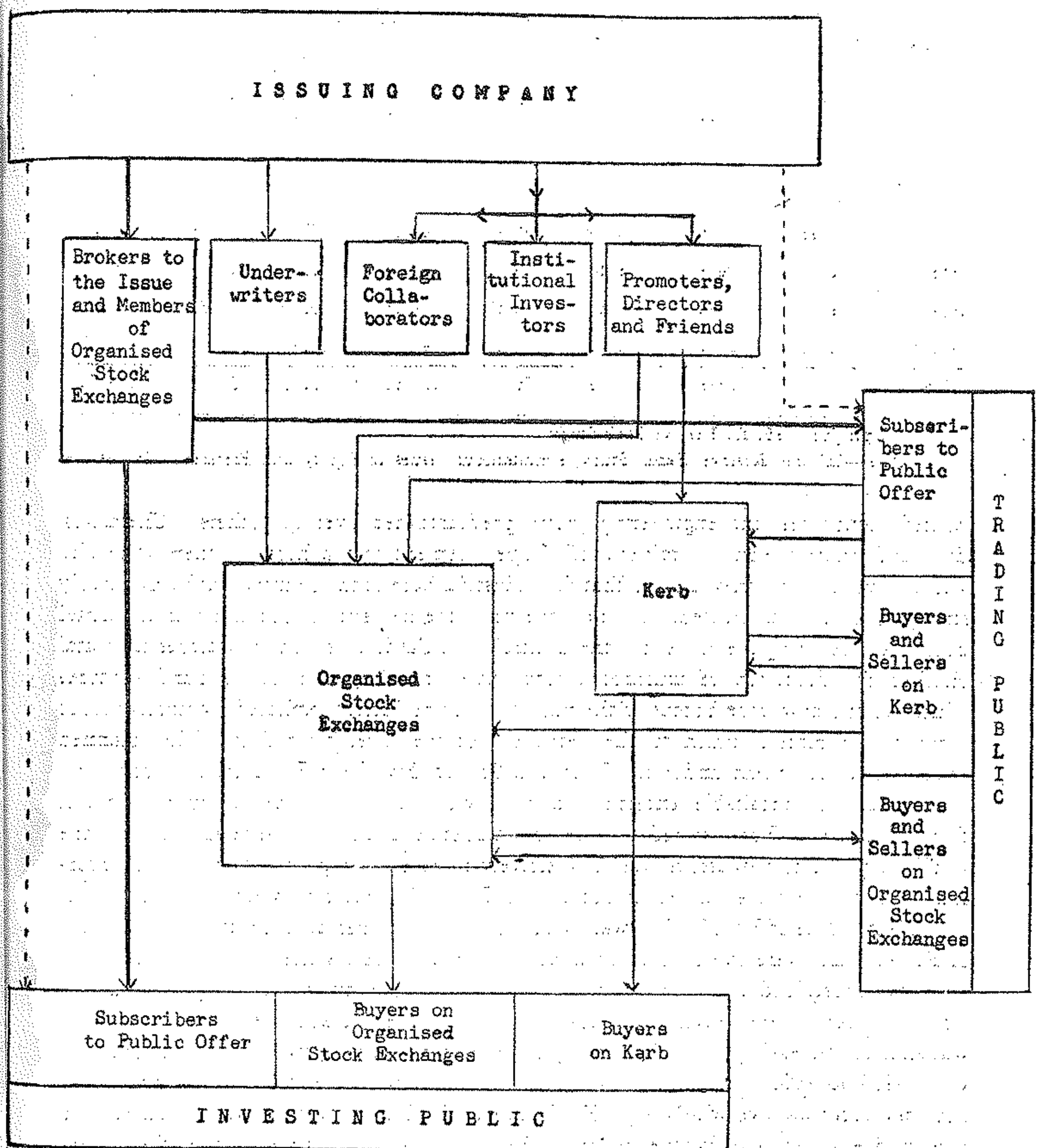
Year	Controller of Capital Issues		Share Price Index (1938=100)	Reserve Bank Study
	Amount Sanctioned (Crores Rs.)	Amount Paid-up * (Crores Rs.)		Amount Actually Raised (Crores Rs.)
1951	33·49	14·29	131	7·9
1952	19·62	12·08	111	4·7
1953	48·31	37·25	107	12·5
1954	80·72	50·82	125	33·2
1955	66·22	28·24	136	26·2
1956	96·92	52·70	141	45·1
1957	51·59	27·52	119	24·9
1958	55·35	30·37	117	25·9
1959	89·70	49·30	132	43·2
1960	101·84	16·71	149	32·1
1951–55	248·35	142·68	......	84·5
1956–60	395·50	176·59	......	171·1
1951–60	643·86	319·28	......	255·6

* Figures of amounts paid-up are shown against the years in respect of which consents for these issues were given and not against the year in which the amounts were actually raised.

Issues from time to time and the corresponding movements of the share price index. The stock market boom in 1959–60 with the share price index at its highest during the decade had its counterpart in the boom in new issues, with the amount of consents granted by the Controller of Capital Issues almost at its topmost point. The total amount of Rs. 97 crores sanctioned for public limited companies in 1956 was more than for any other year during the period of the First Five-Year Plan and the corresponding amount of Rs. 102 crores for 1960 was the highest since 1947. The annual average of Rs. 79 crores for consents given in 1956–60 was also noticeably higher than the average of Rs. 50 crores for 1951–55. Against these consents, the total capital actually paid-up was Rs. 319 crores or as much as Rs. 32 crores per annum on an average during the period of the First and Second Five-Year Plans. All these were pointers to a broadening of public interest in new issues, which was followed by an expansion of the new issue market to meet the increased demand. According to the data collected by the Reserve Bank of India pertaining to actual new capital raised from 1951–1960, new issue activity rapidly increased from Rs. 5 crores in 1952 to Rs. 45 crores in 1956 when it reached its crest. The movement then tapered off in 1957 and 1958 as the stock market slumped, but after that there was a sharp resurgence. The boom on the Stock Exchanges was accompanied by an equally strong boom in the new issue market. According to the Reserve Bank survey, new issues floated from January 1951 to June 1960 amounted to Rs. 256 crores, so that the annual average for the decade was at Rs. 26 crores. The new issues from 1951 to 1955 amounted to Rs. 85 crores, giving an annual average of Rs. 17 crores for the period of the First Five-Year Plan. The flotations from January 1956 to June 1960, covering approximately the Second Plan period, amounted to Rs. 171 crores, the annual average being Rs. 38 crores or more than twice as high as for the First Plan period. There was thus a significant expansion of the new issue market during the period of the Second Five-Year Plan.

39. *Initial New Issues Market During the First Two Five-Year Plans.*—One of the most remarkable aspects of the growth of new issue activity, particularly during the Second Five-Year Plan period, was its emphasis on initial issues by new Companies as compared to further issues of capital by existing companies. The agencies employed for distributing these new issues are shown in the Distribution Chart. As is brought out in Table XII, from 1956 to 1960, initial issues constituted on an average about 25 per cent or a quarter of the total capital raised, while further issues accounted for the remaining three quarters. No less striking was the increase in the proportion of initial issues to the total capital raised which progressed from 18 per cent in 1957 to 27 per cent in 1959 and 1960. According to the Reserve Bank survey, the proportion increased from 8 per cent in 1956 to 29 per cent in 1959, and to about 60 per cent or three-fifths of the total new issues made from January to June 1960. Simultaneously, the average size of initial issues increased steadily from Rs. 25 lakhs in 1956 to Rs. 1·6 crores in 1960. This indicated that new companies were being successfully floated in industries requiring big-sized units for technological reasons and that the faster rate of growth was accompanied by a widening of the industrial base. Among these newly

Distribution Chart for New Issues of Capital by Public Limited Companies



TABLE

Actual Capital Raised by Public Limited

YEAR	CONTROLLER OF CAPITAL ISSUES							
	Initial Issues		Further Issues		Total New Issue of Shares		Debentures	Total Amt. of Shares and Debentures (Cr. Rs.)
	Amount (Cr. Rs.)	% to Total	Amount (Cr. Rs.)	% to Total	Amount (Cr. Rs.)	% to Total	Amount (Cr. Rs.)	
1956 ...	...	...	...	...	...	...	...	...
1957 ...	7·95	17·6	57·09	82·4	45·04	100·0	9·28	54·32
1958 ...	6·57	24·9	19·31	74·1	26·38	100·0	12·39	38·77
1959 ...	9·42	27·4	24·64	72·6	34·06	100·0	9·39	43·45
1960 * ...	11·40	27·0	30·75	73·0	42·15	100·0	6·02	48·17
Total ...	35·34	23·9	112·29	76·1	147·63	100·0	37·08	184·71

* Upto June 1960 for Reserve Bank Study.

Note.—In the Reserve Bank Study, simultaneous issues of Equity and Preference Shares and

floated companies, the engineering group predominated over all others. Chemicals, dyes and pharmaceuticals, mineral oil, paper, cement and a host of others were also widely favoured and they showed that the industrial base of the country was being rapidly strengthened and diversified. At the same time, the necessity of obtaining an industrial licence and securing the consent of the Controller of Capital Issues to new issues of capital checked the floatation of mushroom companies and formation of unsound ventures which, in the new issue booms of the past, were so recklessly exploited by unscrupulous company promoters, much to the detriment of the investing public. The planned economic development under the First and Second Five-Year Plans offered scope and opportunity for profitable enterprise and provided at least some safeguards against flagrant abuse. That inspired a sense of confidence in the new issue market and the public response to new issues was progressively more encouraging. In respect of information available for 44 issues amounting to Rs. 28·23 crores between 1957 and 1960, in 1957 one issue of Rs. 92 lakhs was oversubscribed six times, in 1958 two equity issues of Rs. 92 lakhs were oversubscribed almost twice, in 1959 six issues of Rs. 4·44 crores were oversubscribed almost five times, and in 1960 twenty-one new equity issues of Rs. 19·21 crores were heavily oversubscribed, on an average about eight times. There was thus an increasing and progressively stronger support for new equity issues over the years 1957 to 1960. Notwithstanding the spate of new issues, the public response in not a few cases was overwhelming. For instance, Hindustan Twyford was oversubscribed seventy-five times and Synthetics and Chemicals sixty-nine times, while there were

XII

Companies during the Second Five-Year Plan

Reserve Bank Study											
Initial Issues				Further Issues				Total			
No.	Amount (Cr. Rs.)	% to Total	Average Amount per Issue (Cr. Rs.)	No.	Amount (Cr. Rs.)	% to Total	Average Amount per Issue (Cr. Rs.)	No.	Amount (Cr. Rs.)	% to Total	Average Amount per Issue (Cr. Rs.)
10	3·5	8	0·35	54	41·6	92	0·77	64	45·1	100	0·70
5	0·4	2	0·08	53	24·4	98	0·46	58	24·9	100	0·43
9	6·0	24	0·68	47	19·8	76	0·42	56	25·9	100	0·46
14	12·5	29	0·89	71	30·6	71	0·43	85	43·2	100	0·51
12	18·9	59	1·58	39	13·2	41	0·34	51	32·1	100	0·63
50	41·5	24	0·83	264	129·7	76	0·49	314	171·1	100	0·54

Debentures have been treated as separate issues and not one issue.

numerous others which were oversubscribed to the extent of 15 to 50 times. Table XIII gives particulars of some equity issues which were so oversubscribed and it shows that the bulk of the oversubscription was in 1960. The spate of new issues and the overwhelming public response reflected the big new issues boom of the 1960's, which was more sustained and prolonged than at any time in the past. To an appreciable extent, the boom was based on a genuine investment demand and on the confidence of the public in the future of the economy under the Five-Year Plans. However, as had happened in new issue booms of the past, manipulation was rife and it was not an uncommon practice to stimulate activity and rising prices in order to unload the new issues on the investing public at fanciful premiums. The most astute and ingenious methods were frequently employed for the purpose. Before publishing the prospectus inviting public subscriptions, the promoters and their friends allotted to themselves a substantial part of the capital—not merely the minimum prescribed by Government but much more—, and in quite a few cases, were it not for the statutory Stock Exchange listing regulations, the public would have been offered even less than 49 per cent of the new issues. The amount so put on offer was necessarily small and it only served to whet the appetite of the large number of investors. A fictitious street market then sprung up in those shares, as those who were assured of a firm allotment began selling off at steadily increasing premiums. Misled by this premium, members of the public rushed in to subscribe for the limited number of shares on offer at par. Applications were made for a much larger number of shares than could be taken up, in anticipation of a small percentage allotment.

TABLE XIII

Oversubscribed Equity Issues of Non-Government, Non-Financial Public Limited Companies.

NAME OF COMPANY	Amount Offered Crores of Rs.	Amount Applied For Crores of Rs.	Number of Times Oversubscribed
1. Hindustan Twyford	0·14	10·79	75
2. Synthetics and Chemicals	1·65	99·63	69
3. Jayant Paper	0·13	6·38	49
4. Cellulose Products	0·10	3·77	38
5. Citric India	0·25	5·65	23
6. Adarsh Chemicals	0·12	2·57	21
7. Phillips Carbon Black	0·50	9·80	20
8. Colour Chem. (1959)	0·35	5·99	17
9. Escorts **	0·28	3·95	14
10. Isaac Holdens	0·29	3·59	12
11. Premier Tyres	0·44	3·72	8½
12. Hindustan Lever * (1957)	0·92	6·74	7⅓
13. Baroda Rayon (1959)	1·59	8·42	5⅓
14. Chase Bright Steel	0·15	0·80	5⅓
15. Automobile Products of India	0·17	0·67	4
16. United Dyestuff	0·24	0·84	3½
17. Zenith Steel Pipe	0·35	1·16	3⅓
18. Ultramarine Pigments	0·07	0·22	3⅛
19. Lakshmiratan Engineering **	0·31	0·95	3
20. Asian Cables	0·25	0·76	3
21. Indian Rayon (1959)	0·52	1·42	2¾
22. Seshasayee Paper	1·25	3·14	2½
23. T. Maneklal ** (1958)	0·02	0·05	2½
24. Rohit Pulp and Paper	0·12	0·29	2-2/5
25. General Tyres	0·40	0·94	2⅓
26. Mandya National Paper (1959)	0·40	0·85	2⅛
27. Khandelwal Ferro Alloys (1959)	0·35	0·74	2⅛
28. Ceat Tyres (1958)	0·40	0·72	1-4/5
29. Hindustan Wires	0·25	0·42	1⅔
30. Hindustan Aluminium	2·16	2·47	1⅛

Note.—Year of Issue given in brackets for all issues made before 1960.

* Offers for Sale.

** Further Issues of Capital through Prospectus.

There was also a considerable amount of stagging and as a result the issues were heavily oversubscribed by the time the lists closed. Again misguided by this state of affairs, impatient investors increased their demand for the new shares and premiums shot up. A flourishing street market was thus whipped into activity and it became the happy hunting ground of manipulators. Those who had the full quotas reserved for them unloaded their shares at extravagant premiums in an excited and wholly unregulated market long before the others came in the field. By the time the shares were allotted to the applicants, they vanished from the scene. Prices then plunged downwards and the premiums were not unoften heavily clipped when the stage was reached for the shares to be listed on the organised Stock Exchanges. Table XIV presents the relative data

TABLE XIV

Premiums on New Issues

NAME OF COMPANY	Face Value Rs.	Paid-up Value (on Enlistment Date) Rs.	Highest Kerb Premium per Share Rs.	Premium per Share on Enlistment Date Rs.	Enlistment Date
Baroda Rayon	100	50	32*	5·50	27– 1–1960
Laxmi Starch	100	100	60	39	2– 2–1960
New Standard Eng. (New) ...	100	50	20*	10	2– 3–1960
Chase Bright Steel	10	5	4	2·28	2– 6–1960
Phillips Carbon Black ...	10	5	16	13·52	7– 7–1960
Dalmia Iron and Steel ...	10	10	1·50	1·24	13– 7–1960
Adarsh Chemicals	100	50	56*	25	8– 8–1960
Selected Satgram Collieries ...	100	100	110	45	30– 8–1960
South India Viscose	100	100	90	62	28–11–1960
Jayant Paper	100	50	77*	1·50	21–12–1960
Isaac Holdens	10	5	5·25	3·76	24–12–1960
Synthetics and Chemicals ...	100	50	230*	61	5– 1–1961
Ultramarine and Pigments ...	100	50	10*	4	3– 2–1961
Citric India	100	50	40*	5	9– 2–1961

* On Rs. 25 paid-up.

in respect of several new issues made in 1960 and 1961. There are signs that the craze for new issues is abating. Investors are still willing to subscribe to new shares but they seem to have become more cautious and discriminating. Government's attitude also appears to have changed. Measures for curbing malpractices in new issues have been adopted, but the ultimate remedy lies in the exercise of commonsense and good judgment on the part of a vigilant investing public.

40. *Right Issues Market during the First Two Five-Year Plans.*—In addition to initial issues of capital by newly floated Companies, there were right issues of capital by existing Companies, which formed two-thirds to three-fourths of the total amount of new capital issued during the period of the First and Second Five-Year Plans. These right issues succeeded largely because of the facilities, direct and indirect, offered by an active stock market and the investment support it mobilised from all over the country. Table XV gives a comparative picture of how the Bombay, Calcutta and Madras Stock Exchanges provided a market place for right issues made by listed Companies from 1951 to 1960 covering the period of the first two Five-Year Plans. The Table shows that right issues

TABLE XV

Right Issues during the First Two Five-Year Plans

Year	Amount of Right Issues (Crores Rs.)			Amount of Right Issues Common to (Crores Rs.)		Total Amount of Right Issues Excluding Common (Crores Rs.)	Share Price Index (1938=100)
	Bombay	Calcutta	Madras	Bombay and Calcutta	Bombay and Madras		
1951	1·96	0·12	2·20	..	0·38	3·90	131
1952	2·37	1·12	1·67	...	0·35	4·81	111
1953	12·59	0·30	0·15	...	...	13·04	107
1954	7·01	0·43	0·82	...	0·15	8·11	125
1955	1·77	7·83	1·38	1·74	0·03	9·21	136
1956	25·43	5·63	5·28	1·18	3·20	31·96	141
1957	13·51	9·31	4·28	5·10	0·87	21·13	119
1958	16·11	1·35	3·02	1·43	2·06	16·99	117
1959	21·87	10·56	5·67	4·90	1·58	31·62	132
1960	7·60	11·63	5·11	3·84	0·96	19·54	149
First Plan: 1951–55 ...	25·70	9·80	6·22	1·74	0·91	39·07	...
Second Plan: 1956–60...	84·52	38·48	23·36	16·45	8·67	121·24	...
Total 1951-60 ...	110·22	48·28	29·58	18·19	9·58	160·31	...

amounted to Rs. 160 crores in all during the planning decade, out of which a sum of Rs. 121 crores or as much as three-fourths was raised between 1956 and 1960. This boom in right issues during the Second Five-Year Plan corresponded to the stock market boom which made it possible for existing Companies to undertake schemes of expansion, renovation and modernization. Out of the total right issues of Rs. 160 crores, Bombay absorbed Rs. 110 crores and Calcutta accounted for Rs. 48 crores of which Rs. 18 crores were common with Bombay, while Madras followed with Rs. 30 crores, the amount common with Bombay being Rs. 10 crores. During the decade, the stock market catered to some of the biggest issues ever made in the country. For instance, in 1956 the Tata Iron & Steel Co., Ltd., issued new equity capital of over Rs. 13 crores and in 1959 it raised further equity and preference capital amounting to more than Rs. 8 crores. Similarly, in 1956, the Associated Cement Cos., Ltd., issued equity capital of more than Rs. 7 crores. These issues were readily absorbed, and free market dealings in them directly resulted in a wider distribution of shareholdings in both these Companies. Between 1956 and 1960, the number of shareholders of the Tata Iron & Steel Co., Ltd., almost doubled from 37,500 to 70,000, and in the case of the Associated Cement Cos., Ltd., there was a 50 per cent increase from 30,300 to 44,600. Thus, during the First and Second Five-Year Plans, the Stock Exchanges played an indispensable part. They enabled existing joint stock enterprises to grow, expand and diversify their activities and at the same time made their ownership increasingly broad-based.

41. *New Issue Activity in Gilt-edged Securities during the Period of the First Two Five-Year Plans.*—The stock market mobilised savings and directed their flow not only into corporation shares and debentures which represent the private sector but also into gilt-edged securities which represent the public sector. During the period of the First and Second Five-Year Plans, there was a remarkable increase of Rs. 1,134 crores in the Rupee debt of the Central Government which stood at Rs. 2,272 crores in March, 1961, against Rs. 1,439 crores in 1950–51 and Rs. 1,510 crores in 1955–56. The total amount raised during the period of the First Five-Year Plan was only Rs. 71 crores compared to Rs. 1,063 crores in the Second Plan period. The position is summarised in Table XVI which also records the actual net absorption of Government loans by the public. The Table shows that the loans absorbed by the public during 1951–60 amounted to Rs. 748

TABLE XVI

New Issues and Absorption of Government Loans during the First Two Five-Year Plans

YEAR ENDING 31ST MARCH	Government of India Rupee Loans (Crores of Rs.)	Amount Raised During the Period (Crores of Rs.)	Net Absorption of Central and State Government Securities by the Public (Crores of Rs.)
1950–51	1,438·46	......	......
1951–52	1,402·10	—36·36	— 9·6
1952–53	1,403·58	1·48	+ 33·4
1953–54	1,366·05	— 37·53	+ 80·5
1954–55	1,474·91	108·86	+ 92·5
1955–56	1,509·61	34·70	+ 93·1
1956-57	1,588·45	78·84	+ 70·6
1957–58	1,701·25	112·80	+113·3
1958–59	2,183·80	482·55	+194·6
1959–60	2,442·11	258·31	+143·1
1960–61	2,572·21	130·10	— 63·7
First Plan : 1951–56	......	71·15	+289·9
Second Plan : 1956–61	......	1,062·60	+457·9
Total 1951–61	......	1,133·75	+747·8

Applications from the Public

Year	No. of Issues	Applications for							
		Rs. 500 and below				Rs. 501–1,000			
		No. of Applications received	% to Total	Nominal Value of Shares Applied for (Cr. Rs.)	% to Total	No. of Applications received	% to Total	Nominal Value of Shares Applied for (Cr. Rs.)	% to Total
1958 ...	1	641	86·3	0·05	20·8	68	9·2	0·07	29·2
1959 ...	4	99,064	69·5	4·80	32·1	26,152	18·3	2·61	17·4
1960 ...	15	3,21,304	60·2	15·91	11·9	85,132	15·9	8·51	6·4
1961* ...	2	7,849	71·0	0·39	26·2	1,521	13·7	0·15	10·1
Total ...	22	4,28,858	62·3	21·15	14·1	1,12,873	16·4	11·34	7·6

* Up to February 1961.

crores, out of which Rs. 458 crores were taken up during the period of the Second Five-Year Plan. Exclusive of PL 480 transactions which did not figure in the First Plan period, the net absorption of Government loans by the public during the Second Five-Year Plan period was in the neighbourhood of Rs. 325 crores, that is, Rs. 65 crores a year, as compared with Rs. 290 crores in the First Five-Year Plan period, for which the average works out at Rs. 58 crores a year. The gilt-edged section of the stock market materially assisted the Reserve Bank in performing the major function of floating and then facilitating the absorption of these new issues through appropriate open market operations. With the help of security brokers, the Reserve Bank was able to "groom" the market by buying and selling loans of appropriate maturities with a view to co-ordinating their yields with those proposed for the new issues. The gilt-edged section also helped the Reserve Bank to create the other necessary market conditions for floating the large new loans successfully. Apart from performing these functions, the gilt-edged market was instrumental in channelling the flow of investment into Government Securities by institutional investors like banks and insurance companies as well as by Provident Funds and public and charitable trusts. And lastly, to some extent, the gilt-edged market was also able to canvass subscriptions for new issues and mobilise support for existing Government loans from individual investors, who were however increasingly interested in investing their savings in stocks and shares of joint stock companies rather than in Government Securities.

XVII

for New Issues of Capital

Shares of the Nominal Value of

Rs. 1,001–5,000				Rs. 5,001 and above				Total			
No. of Applications received	% to Total	Nominal Value of Shares Applied for (Cr. Rs.)	% to Total	No. of Applications received	% to Total	Nominal Value of Shares Applied for (Cr. Rs.)	% to Total	No. of Applications received	% to Total	Nominal Value of Shares Applied for (Cr. Rs.)	% to Total
22	3·0	0·01	4·2	12	1·5	0·11	45·8	743	100·0	0·24	100·0
14,491	10·2	4·03	26·9	2,917	2·0	3·53	23·6	1,42,624	100·0	14·97	100·0
63,527	11·9	18·25	13·7	63,895	12·0	90·82	68·0	5,33,858	100·0	133·49	100·0
1,263	11·4	0·36	24·2	429	3·9	0·59	39·5	11,062	100·0	1·49	100·0
79,303	11·5	22·65	15·1	67,253	9·8	95·05	63·2	6,88,287	100·0	150·19	100·0

42. *Rise of Small and Middle-class Investors during the First Two Five-Year Plans.*—The rise of small and middle-class investors was one of the most exciting discoveries of the stock market during the period covered by the First and Second Five-Year Plans. Investment in stocks and shares was seen to be no longer the preserve of a small group of persons. It attracted the interest of a large number of small and middle-class individuals, particularly of the salary-earning and the managerial and executive class which is growing up to meet the demands of a developing economy. People in general were turning away from landed estates and bullion—the traditional modes of investment—and were more inclined to invest in equities, especially during the period covered by the Second Five-Year Plan. The boom in 1960's in the stock market and in new issues was partly the result of such participation by the public which was becoming more investment-minded. The interest of small and middle-class investors in stocks and shares is illustrated in Table XVII which sets out the data relating to the number and percentage of applicants for a small number of shares and the amount applied for by them as a percentage of the total amount applied for by all applicants in the case of several new issues made during 1958–61. The predominance of the small investors is apparent from the Table which shows that they constituted about 90 per cent of the total number of applicants. However, their share in the amount applied for was relatively smaller, being about 37 per cent of the total. Evidently, a major portion of these small applicants belonged to the middle-class. A survey recently carried out in 1961 by the National Council of Applied Economic

Research among the constituents of some important stockbrokers in Bombay, Calcutta and Madras showed that their constituents were drawn from a variety of occupational groups ranging from independent businessmen, Company executives, professionals like doctors, service personnel and retired individuals. The varied occupational pattern indicates a broadening of the investor group and a wider spread of the investment habit. It is clear from the interest of small investors in the stock market and in new issues of capital that investment in shares is no longer a monopoly of a small select group of wealthy persons. The middle-class, particularly salary-earners and the managerial and executive group which is fast growing in size and influence, appears to have become vitally interested in shares as a form of investment. Their willingness to invest their savings in existing and new issues of equity capital represents a powerful potential source of finance for productive investment. This change in investment habits is one of the most encouraging developments of recent times and the middle-class interest in new issues and share ownership must make for a broad-based investment market capable of steady growth.

XI—1961-62

43. *Present Organisation of the Stock Market in India—Seven Recognised Stock Exchanges.*—The stock market in India is more than a century old and it has functioned continuously as a capital market for stocks, shares and Government Securities through the medium of organised Stock Exchanges. At present, there are seven such Stock Exchanges in India recognised by Government under the Securities Contracts (Regulation) Act, 1956. They are at Bombay, Calcutta, Madras, Ahmedabad, Delhi, Hyderabad and Indore. The Bombay Exchange has been granted permanent recognition, and the others have been given, in the first instance, official recognition for a period of five years. The Stock Exchanges at Bombay, Ahmedabad and Indore are organised as voluntary non-profit-making associations, while the Calcutta and Delhi Stock Exchanges are registered as companies limited by shares and the Madras and Hyderabad Stock Exchanges are registered as companies limited by guarantee. The regulations governing the admission of members to all the recognised Stock Exchanges are however uniform in terms of the Securities Contracts (Regulation) Rules, 1957. These Rules provide *inter alia* that no person shall be eligible for membership if he be not twenty-one years of age, or if he be not an Indian citizen, or if he be engaged as a principal employee in any business other than that of securities. Firms and Companies are not eligible for membership, and individuals are ordinarily not deemed to be qualified unless they have had two years' market experience as authorised clerks or remisiers of a member. Each member, before admission, is required to furnish a security deposit, and is allowed to exercise only one vote. The Rules or Articles of Association defining the constitution of the recognised Stock Exchanges are approved by the Central Government so that there is a broad uniformity in the organisation of the recognised Stock Exchanges. In fact, the Madras Stock Exchange was re-constituted and the Calcutta and Madras Stock Exchanges had both to undergo a major re-organisation as a condition precedent to their recognition by the Government of India. The present position of all the recognised Stock Exchanges is reflected in Table XVIII. The Rules of the recognised Stock Exchanges do not prescribe any functional distinction

between members. However, as a matter of fact, there is on the Bombay Exchange, for instance, a fairly well-established specialisation into such categories as commission brokers, floor brokers, floor traders, *taravniwalas* akin to jobbers or specialists, dealers in non-Cleared Securities, odd-lot dealers, *budliwallas* or financiers, dealers in Government Securities, and arbitrageurs or dealers in *foreign* securities, that is, securities listed on other recognised Stock Exchanges. Such specialisation appears in varying degrees on the other Stock Exchanges also. The transactions entered into by the members of the recognised Stock Exchanges may be for "spot delivery", that is, for delivery and payment on the same day as the date of the contract or on the next day ; or for "hand delivery" or "cash delivery", that is, for delivery and payment within fifteen days of the date of the contract ; or for the *Clearing*, that is, for fortnightly Account and Settlement with *Budla* facilities, that is, facilities for continuation and carry-over. In one form or another, bargains of these types have always been transacted on the Stock Exchanges. For instance, during the last century, transactions of three different kinds were entered into on the Bombay Exchange : "One system was known as *Tran Kagalia* or three papers, consisting of the application form, the transfer deed and the share certificate. In the case of these transactions, the buyer had to pay cash against delivery of the documents on the same day or the next day after the bargain was struck. There was a second kind of transaction (known later as 'ready delivery') where the buyer had to pay against delivery, which would be available in about eight days' time from the date of the transaction. And the third one was for delivery and payment on the monthly settlement basis." Both the Bombay and Ahmedabad Stock Exchanges had from the first traditions of business on the basis of monthly settlements, which were converted into the present fortnightly Clearings in 1946, a few months before the Defence of India Rule 94-C ceased to be in force. The Stock Exchange at Bombay set up, as early as in 1921, a Clearing House for settling such transactions. Business for the fortnightly *Clearing* now takes place on all the recognised Stock Exchanges, the Clearing system having been introduced in Calcutta in 1944 and in Madras in 1958. Trading on the Stock Exchanges, whether for spot delivery, or for cash or hand delivery, or for the *Clearing* is governed by Bye-laws and Regulations which are now more or less uniform for all the recognised Stock Exchanges, being modelled almost entirely on the Rules and Regulations in force on the Bombay Exchange for a number of years. These Bye-laws and Regulations, which provide in detail for the regulation and control of contracts in securities and for every aspect of the trading activities of members, have been duly sanctioned by the Government of India in the case of each Exchange at the time of its recognition under the Securities Contracts (Regulation) Act, 1956, and they can be amended or modified only after obtaining prior Government approval.

44. *Present Position of Recognised Stock Exchanges—An Organised Market for Stocks, Shares and Gilt-edged Securities.*—The recognised Stock Exchanges, operating under Rules, Bye-laws and Regulations duly approved by Government, constitute an organised market for securities issued by the Central and State Governments, public bodies and joint stock companies. They offer the most perfect type of market for two reasons. The stocks,

TABLE

Organisation of Recognised

NAME OF STOCK EXCHANGE	Year of Establishment	Type of Association	Date of Government Recognition	Period of Recognition
Bombay	1875	Voluntary non-profit-making association of persons.	31- 8-1957	Permanent
Calcutta	1908 (Incorporated in 1923)	Public Limited Company ...	10-10-1957	5 Years
Madras	1937 (Reorganised in 1957-58)	Company Limited by Guarantee.	15-10-1957	5 Years
Ahmedabad	1894	Voluntary non-profit-making association of persons.	16- 9-1957	5 Years
Delhi	1947	Public Limited Company ...	9-12-1957	5 Years
Hyderabad	1943	Company Limited by Guarantee.	29- 9-1957	5 Years
Indore (Madhya Pradesh) ...	1930	Voluntary non-profit-making association of persons.	24-12-1958	5 Years

shares and gilt-edged securities in which they deal involve little carrying cost and are imperishable and completely standardised. At the same time, there is active bidding, and in the case of shares two-way auction trading, so that purchases and sales are made in conditions of free competition. Bidders with purchase orders from all over the country compete with each other to buy the required stock at the lowest possible price. Similarly, sellers compete with each other to sell at the highest possible price. The bargains that are struck by members of the Exchange are therefore at the fairest price determined by the basic laws of supply and demand. In consequence, though gilt-edged securities represent ownership of public debt and shares of joint stock companies represent title to industrial property—mills and factories, plant, machinery and equipment—, they become the most liquid of assets and capable of being easily negotiated. Savings of investors flow into public loans and joint stock enterprise because of this ready marketability and unequalled facility for transfer of ownership of stocks, shares and securities provided by the recognised Stock Exchanges. As a result, over almost a hundred years during which the Stock Exchanges have existed in this country and through their medium, the Central and State Governments have raised crores of Rupees by floating public

XVIII

Stock Exchanges

(*January 1961*)

Entrance Fee/ Par Value of Share	Current Value of Share or of Membership Right or "Card"	Membership Security Deposit	Annual Subscription	No. of Members	No. of Active Members	No. of Authorised Assistants or Clerks	No. of Remisiers
Rs.	Rs.	Rs.	Rs.				
...	28,001	20,000	15	504	409	1,537	220
10,000	8,400	20,000	48	619	408	355	*Nil*
5,000	...	5,000 (10,000 per firm)	180	37	30	21	*Nil*
6,101	...	5,000	25	462	156	427	*Nil*
4,000	8,200	One Additional Share	*Nil*	105	94	55	*Nil*
2,571	...	3,000	64	57	8	*Nil*	*Nil*
1,001	...	3,000	10	*N.A.*	*N.A.*	*N.A.*	*N.A.*

loans ; Municipal Corporations, Improvement Trusts, Local Bodies and State Finance Corporations have obtained from the public their financial requirements ; and industry, trade and commerce—the backbone of a country's economy—have secured capital of crores of Rupees through issue of stocks, shares and debentures for financing their day-to-day activities, organising new ventures and completing projects of expansion, improvement and renovation. In this context, it may well be asked, what exactly is the present position of the recognised Stock Exchanges and how have they developed ? What is the amount of capital for which they provide a market place ? What is the nominal value of the gilt-edged securities quoted by them ? What are the other securities in which the stock market trades ? What is the growth pattern of the stock dealt in on the recognised Stock Exchanges and its market pattern ? What is the industrial pattern of the listed stock and the denomination pattern it has evolved ? And what is the ownership pattern—who are the owners of these stocks, shares and securities ? The answers to these questions define the present position and scope of operations of the recognised Stock Exchanges and determine their place and importance in the economic life of the country.

45. *Distribution Pattern of Gilt-edged Securities Listed on the Recognised Stock Exchanges.*— Gilt-edged Securities are those issued by the Central and State Governments, and by State Administrations, Municipalities, Improvement Trusts, Port Trusts and other public bodies. All these gilt-edged securities are officially listed on the recognised Stock Exchanges as soon as they are issued by the authorities concerned. Table XIX presents the distribution pattern of these listed gilt-edged securities. It has been estimated that

TABLE XIX

Distribution Pattern of Central Government, State Government and Local Authority Rupee Loans

	Central Government Loans *		State Government Loans		Total Central and State Government Loans 31-3-1961		Local Authority Loans 31-3-1958	
	Amount (Crores Rs.)	% to Total	Amount (Crores Rs.)	% to Total	Amount (Crores Rs.)	% to Total	Amount (Crores Rs.)	% to Total
Below 5 Years ...	851·0	37·7	89·7	17·0	940·7	33·8	10·0	13·4
5–10 Years ...	756·4	33·5	257·1	48·7	1,013·5	36·4	28·9	32·5
10–15 Years ...	196·6	8·7	74·3	14·1	270·9	9·7	15·0	16·9
Over 15 Years ...	193·9	8·6	107·0	20·2	300·9	10·8	33·1	37·2
Non-terminable ...	257·9	11·5	...	...	257·9	9·3	...	...
Total ...	2,255·8	100·0	528·1	100·0	2,783·9	100·0	89·0	100·0
% to Total ...	81·0		19·0		100·0			

* Includes Hyderabad Government Loans.

individual holdings of Government Securities represent about 5 to 6 per cent of the total outstanding Rupee debt. Compared to institutional investors, investment by individuals in gilt-edged securities of this magnitude cannot be said to be large. However, the stake of individuals in the gilt-edged market is not limited to the amount held by them in direct ownership. Banks, the Life Insurance Corporation, Provident Funds and Public and Private Charitable Trusts are all important holders of Government Securities to the extent of about 60 per cent or three-fifths of the total Rupee debt, so that anyone who has a bank account, or is a policy-holder, or a subscriber to a Provident Fund, or a beneficiary of a public or private Trust is basically involved in the ownership of gilt-edged securities. As of 1959, there were 33 lakh savings deposit accounts and 17 lakh time and demand deposit accounts with banks in India, making a total of more than half a crore of account-holders. The number of life policy-holders was even higher at more than three-quarters of a crore. As never before, therefore, an increasingly large number of persons is being more and more interested, directly or indirectly, in Government Securities. The number will grow as savings increase and development under the Five-Year Plans is financed by public borrowing on a more extensive scale. Hence the scope and influence of the gilt-edged market and its vital significance to the economic life of the country.

46. *Growth and Present Position of Stocks and Shares of Joint Stock Companies Listed on the Recognised Stock Exchanges.*—The growth and present position of stocks and shares of joint stock Companies listed on the recognised Stock Exchanges are reflected in Table XX and may be briefly summarised as under :

(*a*) *Number of Companies.*—While the total number of all non-Government Companies, public and private, increased by more than 50 per cent from 17,324 in 1946 to

TABLE XX

Growth Pattern of Listed Stock

	1946	1960	1961	% Increase in 1960 over 1946	% Increase in 1961 over 1946
1. Number of Government Companies	19	125	*N.A.*	363·0	...
2. Number of all Companies (except Government Companies) at work	17,324	26,796	*N.A.*	54·7	...
3. Number of Public Limited Companies	10,129	7,271	*N.A.*	—18·2	...
4. Number of Listed Companies	1,125	1,150	1,203	1·0	1·1
5. Listed Companies as Percentage of all Companies (except Government Companies)	6·5	4·3	*N.A.*	...	...
6. Listed Companies as Percentage of Public Ltd., Companies	11·0	15·8	*N.A.*	...	...
7. Number of Stock Issues of Listed Companies * ...	1,506	1,983	2,111	31·7	40·1
8. Number of Share Units issued by Listed * Companies (Lakhs)	1,565	3,776	4,264	141·3	172·5
9. Paid-up Capital of Government Companies (Crores Rs.)	17·0	468·0	*N.A.*	2,653·0	...
10. Paid-up Capital of all Companies (except Government Companies) (Crores Rs.)	417·0	1,125·0	*N.A.*	169·8	...
11. Paid-up Capital of Public Ltd., Companies (Crores Rs.)	306·0	786·0	*N.A.*	156·9	...
12. Paid-up Capital of Listed Companies (Crores Rs.) ...	270·4	611·0	674·8	127·0	149·5
13. Paid-up Capital of Listed Companies as Percentage of Paid-up Capital of all Companies (except Government Companies)	64·8	54·3	*N.A.*	...	...
14. Paid-up Capital of Listed Companies as Percentage of Paid-up Capital of Public Ltd., Companies ...	88·4	77·7	*N.A.*	...	...
15. Market Value of Paid-up Capital of Listed Companies.	971·0	*N.A.*	1,215·4	*N.A.*	25·2
16. Paid-up Capital per unit of Listed Companies ...	24	53	56	120·8	133·3
17. Market Value of Paid-up Capital per unit of Listed Companies	86	*N.A.*	101	*N.A.*	17·5

* Includes 154 debenture issues in the case of 1960 and 149 debenture issues in the case of 1961.

26,796 in 1960, the number of public limited Companies declined by 18 per cent from 10,129 to 7,271. The number of public limited Companies listed on the organised Stock Exchanges in 1946 was 1,125 or 11 per cent of the public limited Companies then existing. The number of listed Companies in 1960 was 1,150, that is, more or less the same as in 1946, but it represented about 16 per cent of the public limited Companies at work. In other words, in 1960, only one Company out of every six public limited Companies operating in the country was officially listed on the organised Stock Exchanges, as against one out of every nine in 1946.

(*b*) *Paid-up Capital.*—The total paid-up capital of all non-Government companies, public and private, was Rs. 417 crores in 1946 and Rs. 1,125 crores in 1960, that is, more than one and two-thirds as much as in 1946 and that of public limited companies was Rs. 786 crores in 1960 as against Rs. 306 crores in 1946, that is, one and a half times as much. The paid-up capital of listed companies in 1946 was Rs. 270 crores or 88 per cent of the paid-up capital of all public limited companies. The relative proportion was ten per cent lower at 78 per cent in 1960 when the total paid-up capital of listed companies was Rs. 611 crores.

(*c*) *Average Size.*—Over 1946–60, though the number of listed companies remained more or less unchanged, being 1,125 and 1,150 respectively, the value of their paid-up capital more than doubled from Rs. 270 crores to Rs. 611 crores. In 1946, therefore, the average listed capital per company was Rs. 24 lakhs and in 1960 it was more than twice as much at Rs. 53 lakhs, indicating that the old listed companies were rapidly growing bigger and/or that the new companies admitted to the list were of a considerably larger size than before. In fact, in 1960, there were only 300 companies each with a paid-up capital of Rs. 50 lakhs or more and only 1,000 companies each with a paid-up capital between Rs. 10 lakhs and Rs. 50 lakhs. These 1,300 companies represented a total paid-up capital of as much as Rs. 700 crores out of an aggregate paid-up capital of Rs. 786 crores of all the 7,271 public limited companies at work. Obviously, since the 1,150 listed companies had a paid-up capital of Rs. 611 crores in 1960, the great majority of them were of a medium or big size.

(*d*) *Number of Stock Issues and Share Units.*—As the average size of listed Companies expanded from 1946 to 1960, the total number of listed stock issues went up from 1,506 to 1,983, that is, by 32 per cent and the aggregate number of share units covered by these listed stocks increased by about one and a half times from about 16 crores in 1946 to 38 crores in 1960.

(*e*) *Market Value.*—The market value of listed stock recorded a corresponding rise from an estimated amount of Rs. 971 crores in 1946 to Rs. 1,215 crores in 1961, representing an appreciation of about 25 per cent.

The foregoing facts indicated a substantial increase in the public stake in listed stocks between 1946 and 1961.

47. *Development of Recognised Stock Exchanges and Market Pattern of Listed Stocks and Shares.*—The growth and development of the recognised Stock Exchanges from 1946

Table XXI

Development Pattern of Recognised Stock Exchanges

Year	Name of Stock Exchange	No. of Listed Companies	No. of Stock Issues Listed	Paid-up Value (Crores Rs.)				Market Value of Total Capital (Crores Rs.)	Average per Co. (Lakhs Rs.)		No. of Issues on the Cleared Securities List
				Equity	Pref.	Deb.	Total		Total Capital	Market Value of Capital	
1961 ...	Bombay ...	297	538	294·6	55·6	31·0	381·2	645·1	128	217	65
	Calcutta ...	576	924	235·7	54·7	35·4	325·8	548·1	57	95	12
	Madras ...	249	451	81·9	12·0	18·2	112·1	180·1	45	72	12
	Ahmedabad ...	96	208	67·9	15·7	...	83·6	214·5	87	223	9
	Delhi ...	103	198	68·3	15·9	0·6	84·8	126·9	82	123	4
	Hyderabad ...	19	27	59·6	3·5	0·2	63·3	121·1	333	638	...
	Indore ...	8	9	2·9	0·2	...	3·1	4·7	39	59	...
1960 ...	Bombay ...	275	479	259·2	47·2	33·2	339·6	...	123	...	67
	Calcutta ...	570	918	233·6	53·5	34·0	321·1	...	56	...	12
	Madras ...	246	446	71·8	10·9	10·9	100·6	...	41	...	12
	Ahmedabad ...	...	...	...	...	...	...	...	...	...	7
	Delhi ...	...	...	...	...	...	...	...	...	...	4
	Hyderabad ...	...	...	...	...	...	...	...	...	...	...
	Indore ...	...	...	...	...	...	...	...	...	...	...
1958 ...	Bombay ...	...	358	246·0	35·6	6·3	287·9	431·9	...	...	67
	Calcutta ...	...	848	236·0	35·6	16·1	287·7	...	...	...	13
	Madras ...	...	384	60·8	10·2	14·3	85·3	113·5	...	...	12
	Ahmedabad ...	...	162	35·4	13·1	...	48·5	...	...	...	14
	Delhi ...	...	...	...	...	...	...	...	...	...	...
	Hyderabad ...	...	28	10·8	3·7	...	14·5	13·8	...	...	...
	Indore ...	...	...	...	...	...	...	...	...	...	...
1946 ...	Bombay ...	197	271	...	...	...	123·3	...	63	...	28
	Calcutta ...	576	807	...	...	...	147·5	...	26	...	...
	Madras ...	192	298	...	...	...	40·6	...	21	...	...
	Ahmedabad ...	81	82	...	...	...	15·4	...	19	...	...
	Delhi ...	73	92	...	...	...	72·9	...	100	...	...
	Hyderabad ...	...	...	...	...	...	...	...	...	...	...
	Indore ...	...	...	...	...	...	...	...	...	...	...
% Increase in 1961 over 1946.	Bombay ...	50·8	98·5	...	...	...	209·2	...	103·2	...	132·1
	Calcutta ...	0	14·4	...	...	...	120·9	...	119·2	...	...
	Madras ...	29·7	51·3	...	...	...	176·1	...	114·3	...	...
	Ahmedabad ...	18·5	153·7	...	...	...	442·9	...	357·9	...	...
	Delhi ...	41·1	115·2	...	...	...	16·3	...	—18·0	...	...
	Hyderabad ...	...	...	...	...	...	...	...	...	...	...
	Indore ...	...	...	...	...	...	...	...	...	...	...

to 1961 is reflected in Table XXI, which also traces the market pattern of stocks listed on the Bombay, Calcutta, Madras, Ahmedabad, Delhi, Hyderabad and Indore (Madhya Pradesh) Stock Exchanges. The Table shows that over the years from 1946 onwards the number of listed Companies quoted in Bombay went up by 100 and the corresponding number of listed stocks by 267, representing an increase of about 50 per cent and 100 per cent respectively. The paid-up value of listed stock simultaneously increased by more than 200 per cent and the number of stock issues on the Cleared Securities List representing Companies of sufficient magnitude and public importance more than doubled from 28 to 65. In Calcutta, the number of listed Companies remained the same and the number of listed stocks increased by 117 or 14 per cent between 1946 and 1961, while the paid-up capital appreciated by about 120 per cent and 12 issues were included in the Cleared Securities List. The position of Madras was midway. The number of listed Companies and listed stock issues moved up by 57 and 153, representing an increase of about 30 per cent and 50 per cent respectively. The corresponding increase in the paid-up value of listed stock was about 175 per cent and like Calcutta 12 stock issues were placed on the Cleared Securities List. As of February 1961, therefore, in terms of paid-up capital of listed stock and its market value and in the number of important Companies on the Cleared Securities List, Bombay was followed by Calcutta, Madras, Ahmedabad and Delhi, whereas Bombay and Calcutta interchanged their places in regard to the total number of listed Companies and the total number of listed stock issues. As the number of Companies and the number of stock issues quoted in Calcutta was double that of Bombay while the total paid-up capital was less, the average size of Companies listed in Bombay was much larger at Rs. 1·28 crores than the size of Companies listed in Calcutta where the average was Rs. 57 lakhs. In the case of Madras, the number of listed Companies and listed stocks was not far behind Bombay, but the total paid-up value was less than a third, so that the average paid-up capital per Company was Rs. 45 lakhs. Accordingly, there was a larger number of big-sized Companies quoted in Bombay compared to the medium and small sized Companies quoted in Calcutta and Madras. Table XXII summarises the statistics of the ten biggest Companies in India that have been compiled for the year 1960–61 and published by *The Economic Times*. The Table shows that, on the basis of the paid-up capital, 9 of the 10 biggest Companies in India are quoted in Bombay, 4 in Calcutta and 2 each in Ahmedabad and Delhi ; that, on the basis of total net assets, 7 are quoted in Bombay, 5 in Calcutta, 2 in Delhi and 1 in Ahmedabad ; and that, on the basis of total gross sales, 7 are quoted in Bombay, 6 in Calcutta, 3 in Delhi and 1 in Ahmedabad.

48. *Industrial Pattern of Stocks and Shares Listed on the Recognised Stock Exchanges.*—The Companies listed on the recognised Stock Exchanges have covered every activity in the economic field and all kinds of industries. The industrial pattern of stocks is depicted in Table XXIII, from which it can be seen that, in terms of paid-up capital and total capital employed, engineering and metals head the list followed by cotton textiles, banking and insurance, electricity, cement and jute. From the point of view of numbers, cotton textiles stand first, and after them come tea, engineering and metals, coal and mining,

Table XXII

Ten Biggest Companies in India

Rank	Name of Company	(Crores Rs.)	Listed in
		Paid-up Capital	
1	Tata Iron and Steel Co., Ltd.	39·0	Bombay, Ahmedabad.
2	Associated Cement Cos., Ltd.	19·1	Bombay.
3	Imperial Tobacco Co. of India Ltd.	15·2	Calcutta.
4	Indian Iron and Steel Co., Ltd.	15·1	Bombay, Calcutta, Delhi.
5	Burmah-Shell Refineries Ltd.	13·8	Bombay, Calcutta.
6	Scindia Steam Navigation Co., Ltd.	11·3	Bombay.
7	Tata Engineering and Locomotive Co., Ltd.	10·0	Bombay.
8	Ahmedabad Electricity Co., Ltd.	8·8	Bombay, Ahmedabad.
9	Hindustan Motors Ltd.	8·2	Bombay, Calcutta, Delhi.
10	Tata Power Co., Ltd.	6·0	Bombay.
		Total Net Assets	
1	Tata Iron and Steel Co., Ltd.	164·1	Bombay, Ahmedabad.
2	Indian Iron and Steel Co., Ltd.	95·5	Bombay, Calcutta, Delhi.
3	Associated Cements Cos., Ltd.	45·8	Bombay.
4	Scindia Steam Navigation Co., Ltd.	45·1	Bombay.
5	Burmah-Shell Refineries Ltd.	39·3	Bombay, Calcutta.
6	Tata Engineering and Locomotive Co., Ltd.	37·0	Bombay.
7	Imperial Tobacco Co. of India Ltd.	28·5	Calcutta.
8	Delhi Cloth and General Mills Co., Ltd.	23·0	Delhi.
9	India Steamship Co., Ltd.	21·7	Calcutta.
10	Esso Standard Refining Co. of India Ltd.	20·3	Bombay, Calcutta.
		Total Gross Sales	
1	Tata Iron and Steel Co., Ltd.	79·1	Bombay, Ahmedabad.
2	Indian Iron and Steel Co., Ltd.	53·9	Bombay, Calcutta, Delhi.
3	Hindustan Lever Ltd.	46·1	Bombay, Calcutta, [Madras.
4	Imperial Tobacco Co. of India Ltd.	42·2	Calcutta.
5	Tata Engineering and Locomotive Co., Ltd.	37·6	Bombay.
6	Delhi Cloth and General Mills Co., Ltd.	35·9	Delhi
7	Esso Standard Refining Co. of India Ltd.	34·1	Bombay, Calcutta.
8	Dunlop Rubber Co. (India) Ltd.	30·5	Calcutta.
9	Hindustan Motors Ltd.	30·4	Bombay, Calcutta, Delhi.
10	Associated Cement Cos., Ltd.	27·6	Bombay.

sugar, banking and insurance, jute and electricity. Engineering and metals constitute by far the most important industrial group from all points of view, and as a group it is the most prominent in the regional industrial pattern of stocks listed on all the seven recognised Stock Exchanges. Next to engineering and metals, cotton textiles, cement, electricity, banking and insurance, shipping, paper, chemicals and sugar predominate in Bombay. In Calcutta, jute, cotton, paper, coal and mining and tea are prominent, whereas tea, coffee and rubber plantation shares are the most important in Madras.

TABLE

Over-all Industrial

INDUSTRY	No. of Cos.	Number of Stock Issues				Paid-up Capital (Crores Rs.)		
		Total	Equity	Pref.	Deb.	Equity	Pref.	Total
Plantation	230	328	231	80	17	21·17	1·96	23·13
Cotton	212	425	232	180	13	88·21	19·56	107·17
Coal and Mining	74	108	79	22	7	13·83	1·04	14·67
Sugar	64	119	75	35	9	18·42	4·27	22·69
Jute	57	131	61	52	18	19·22	7·50	27·22
Banking and Insurance ...	62	111	71	9	31	35·11	0·87	35·98
Engineering and Metals ...	87	163	105	52	6	105·60	28·34	133·94
Cement	20	41	25	14	2	34·72	3·13	37·85
Paper	25	50	28	20	2	14·18	5·12	19·30
Chemicals	37	6	41	23	2	22·44	3·55	25·99
Railways	13	16	12	2	2	3·03	0·29	3·32
Shipping	10	17	13	3	1	16·53	0·53	17·06
Electricity	46	89	49	23	17	27·75	3·66	31·41
Miscellaneous	236	449	283	143	22	137·63	36·80	174·43
Total ...	1,203	2,111	1,303	659	149	558·14	116·62	674·76

Ahmedabad has an important independent cotton textiles group, while the industrial distribution of stocks listed in Delhi, Hyderabad and Indore presents a mixed appearance.

49. *Denomination Pattern of Stocks and Shares Listed on the Recognised Stock Exchanges.*—The denomination pattern of the stocks, shares and debentures issued by companies listed on the recognised Stock Exchanges is recorded in Table XXIV. It shows that stock issues in denominations of Rs. 10 and Rs. 100 are the most popular for equity shares. Equity issues in units of Rs. 10 and Rs. 100 each cover respectively Rs. 219 crores and Rs. 201 crores, that is, in all Rs. 420 crores or about three-fourths of the total equity capital of listed companies. Region-wise, equity shares of Rs. 100 each predominate

XXIII

Pattern of Listed Stock

(*February 1961*)

Debenture Amount Outstanding (Crores Rs.)	Total Capital Employed (Crores Rs.)	Market Value of Capital (Crores Rs.)				Average per Company		
		Equity	Pref.	Deb.	Total	Share Capital (Lakhs Rs.)	Total Capital Employed (Lakhs Rs.)	Market Value of Total Capital Employed (Lakhs Rs.)
0·50	23·63	36·31	2·29	0·50	39·10	10	10	17
3·82	111·59	204·11	14·96	3·75	222·80	51	53	105
1·37	16·04	20·56	1·24	1·28	23·08	20	22	31
1·79	24·48	41·76	3·96	1·73	47·45	35	38	74
3·54	30·76	30·40	6·30	3·41	40·11	48	54	70
16·32	52·30	64·08	0·72	15·51	80·31	58	84	130
5·80	139·74	242·64	28·49	6·85	277·98	154	161	320
2·05	39·90	47·40	2·11	2·25	51·76	189	200	259
1·00	20·30	31·03	4·66	0·91	36·60	77	81	146
0·33	26·32	45·16	3·26	0·28	48·70	70	71	132
0·22	3·54	1·65	0·27	0·19	2·11	26	27	16
3·55	20·61	13·07	0·46	3·44	16·97	171	206	170
10·24	41·65	26·23	3·47	9·76	39·46	68	91	86
28·22	202·65	305·88	33·05	26·98	365·91	66	76	138
78·75	753·51	1,110·18	105·24	76·82	1,292·24	56	63	107

in Bombay and Ahmedabad and of Rs. 10 each in Calcutta, Madras and Delhi. For Preference shares, stock issues in denomination of Rs. 100 are by far the most important, accounting for Rs. 100 each or about 85 per cent of the total preference capital of listed companies. In contrast, debenture issues are in much larger denominations. Compared to 1946, though the number of Companies listed on the recognised Stock Exchanges has not substantially increased, the total number of share units issued by them has gone up from Rs. 14·8 crores to Rs. 40·2 crores in respect of equity shares and from Rs. 10·4 crores to Rs. 21·6 crores in respect of preference shares. This proliferation in the number of share units gives some indication of a broader dispersal

TABLE XXIV

Over-all Denomination Pattern of Listed Stock Issues

(*February 1961*)

DENOMINATION	EQUITY		PREFERENCE		DEBENTURES	
	No. of Stock Issues	No. of Units issued ('000)	No. of Stock Issues	No. of Units issued ('000)	No. of Stock Issues	No. of Units issued ('000)
Rs.						
1	25	1,81,49	...	...	...	...
2	41	2,53,19	1	69	...	...
5	46	3,14,47	11	12,47	...	...
10	594	21,84,88	116	84,67	...	...
25	30	57,81	14	5,89	...	...
50	63	50,40	40	5,50	...	...
75	1	36,71	...	...	...	...
100	367	2,00,58	448	1,00,60	54	18,76
250	17	1,63	6	14	...	...
500	11	31	3	13	29	1,24
1,000	10	90	5	17	56	3,03
5,000	...	...	...	...	4	28
Others	98	7,42,22	15	5,79	6*	*N.A.*
Total ...	1,303	40,24,59	659	2,16,05	1,49*	23,31*

* Denominations not known. The total units issued relate to 143 debenture stocks only.

of share ownership among the public and of the growth of interest on the part of small investors in shares and debentures dealt in on the recognised Stock Exchanges.

50. *Ownership Pattern of Joint Stock Companies Listed on the Recognised Stock Exchanges.*—There are signs that the ownership of joint stock enterprise is becoming increasingly broad-based. Very few Companies however publish the relevant statistics, but such information as is available points in that direction. For instance, the Tata Iron & Steel Co., Ltd., which is the biggest non-Government joint stock Company in India gives a class-wise distribution of its shareholders in the Annual Reports. Information on the same lines is included in the Annual Reports of the Tata Power Co., Ltd., the Tata Hydro-Electric Power Supply Co., Ltd., and the Andhra Valley Power Supply Co., Ltd., all of which are under the management of Tatas. The relative information is presented in Table XXV. The Table shows that individuals own about 70 per cent of the shares of the Tata Iron & Steel Co., Ltd., Banks own 10 per cent, other limited companies own 16 per cent and Trustee Companies, charitable trusts and similar

shareholders constituting the miscellaneous group own about 4 per cent. In the case of the electricity companies, individuals own about 65 per cent, banks 10 per cent, other limited companies 20 per cent and the miscellaneous group about 5 per cent. Since a portion of the holdings of banks and in the miscellaneous group must be in a nominee capacity on behalf of individual investors, it would seem that individuals own about 70 to 75 per cent or about three-quarters of the share capital and institutional investors own the remaining one quarter. Table XXV also shows how the number of shareholders has grown over the decade covering the period of the two Five-Year Plans. The Tata Iron & Steel Co., Ltd., has about 70,000 shareholders on its list at present in 1961, which means that the number has increased by two and a half times. The number of shareholders of the electricity companies has also gone up by 50 per cent. This appears to be a general trend as can be seen from Table XXVI which sets out the information regarding the shareholders of those companies in respect of whom data is available for earlier years. The Table shows that there has been a steady expansion in the shareholding interest, the increase varying from 20 per cent to 200 per cent. As a result, many listed companies now have a large number of shareholders. Table XXVII lists 20 such companies quoted on the Bombay Exchange, from which it appears that the ownership of listed stock is becoming more broad-based. The total number of bookstockholders of companies quoted on the Exchange is about a million and more than 90 per cent of these shareholders have small holdings of less than Rs. 10,000 in the companies in which they are interested. That is apparent from Table XXVIII which summarises the information available in respect of 243 companies with an equity capital of about Rs. 275 crores out of a total of 300 companies with a capital of about Rs. 305 crores listed on the Bombay Exchange in February 1961. There is an element of duplication involved in these statistics because stockholders frequently own shares in more than one Company. It is difficult to isolate this factor, but making allowances for the limitations to which the data is subject, it can nevertheless be inferred that the number of shareholders of listed companies on all the seven recognised Stock Exchanges taken together runs into many lakhs. It is also clear that this number is rapidly increasing in recent years. Though the stock is not evenly distributed, there is a greater dispersion of ownership than before. People are obviously becoming more stock-minded and the noticeable expansion in the number of shareholders has had the effect of broadening the investment market.

51. *Recognised Stock Exchanges—Functions and Scope of Operations as a Capital Market.*—The foregoing description of the joint stock pattern outlines the scope of the operations of the recognised Stock Exchanges in the national economy. The listed stocks cover four-fifths of the joint stock sector in which public limited liability companies are at work in this country. The shares of Government joint stock companies are not yet quoted on the recognised Stock Exchanges. A Government Committee recently considered whether 25 per cent of the capital of selected Government owned Companies should be offered for subscription to the general investing public, but no firm decision has yet been taken. In the meanwhile, there are suggestions for organising investment

TABLE

Class-wise Distribution of the

Name of Company	Individuals			Banks		
	No. of Holders	Nominal Value of Holding (Crores Rs.)	% to Total Nominal Value	No. of Holders	Nominal Value of Holding (Crores Rs.)	% to Total Nominal Value
1951–52 :						
Tata Iron and Steel Co. ...	27,936	6·74	64·43	60	1·05	10·02
Tata Power Co.	7,330	3·11	68·65	21	0·42	9·28
Tata Hydro-Electric Co. ...	7,657	1·87	69·33	20	0·23	8·54
Andhra Valley Power Supply Co.	3,345	1·81	69·15	21	0·39	14·84
1959–60 :						
Tata Iron and Steel Co. ...	54,393	21·76	70·88	47	2·99	9·76
Tata Power Co.	10,492	4·01	66·51	25	0·56	9·26
Tata Hydro-Electric Co. ...	10,466	2·14	65·00	21	0·27	8·27
Andhra Valley Power Supply Co.	5,153	2·18	61·83	23	0·41	11·61

corporations and units trusts which would direct the savings of the middle and low-income groups into productive investment. Such investment is no longer the monopoly of any particular class or of a small group of people. It attracts the interest of a large number of small and middle-class individuals. People in general are now more inclined to invest in shares and have shown a distinct preference for equities offering growth prospects and a remunerative return on capital invested. Those who accumulate savings do not necessarily or always invest them in new issues. Probably, a large proportion of savings goes in the first instance into purchase of securities already issued. However, to the extent the flow of savings into old securities releases old savings which are invested in new issues, it is the same as if the savings had been channelled into the new issue market. It is the function of the stock market to mobilise these savings and channel them either directly into new issues of capital or indirectly through acquisition of existing capital stocks, thereby accelerating the economic development of the country. The stock market in India has performed this important function of collecting and directing the flow of savings into investment. The recognised Stock Exchanges have played a further more direct part by participating in the preliminary distribution of new securities. In respect of new issues of capital offered through a prospectus and offers for sale of existing

XXV

Shareholders of some Listed Companies

Insurance, Investment and Industrial Companies			Miscellaneous			Total		
No. of Holders	Nominal Value of Holding (Crores Rs.)	% to Total Nominal Value	No. of Holders	Nominal Value of Holding (Crores Rs.)	% to Total Nominal Value	No. of Holders	Nominal Value of Holding (Crores Rs.)	% to Total Nominal Value
145	1·76	16·83	269	0·91	8·72	28,410	10·46	100·00
50	0·73	16·20	45	0·27	5·87	7,446	4·52	100·00
47	0·18	6·66	145	0·42	15·47	7,869	2·69	100·00
33	0·30	11·37	60	0·12	4·64	3,459	2·62	100·00
140	4·81	15·65	424	1·14	3·71	55,004	30·70	100·00
27	1·17	19·50	179	0·29	4·73	10,723	6·02	100·00
33	0·61	18·40	139	0·27	8·33	10,659	3·29	100·00
17	0·78	22·04	126	0·10	4·52	5,313	3·52	100·00

securities, the members of the recognised Stock Exchanges have frequently acted as underwriters and in almost all cases they have been the principal agents for canvassing subscriptions from investors spread all over the country. Again, in respect of further issues of capital by existing Companies, the recognised Stock Exchanges have provided a forum for trading in 'rights' and thereby they have enabled new investors to take up a part of the issue in place of the companies' shareholders. The stock market has further promoted large-scale preliminary distribution of new securities because it has assured negotiability through creation of a secondary market beyond the new issue stage. And finally, the recognised Stock Exchanges have served as the principal market for purchase and sale of securities after they are issued as they pass through many successive stages from the original subscriber to the point when they reach a more or less permanent resting place with the investor. In this manner the recognised Stock Exchanges have not only assisted in the primary distribution but also facilitated the absorption of new issues and provided a market place where secondary distribution and the seasoning of such issues have taken place. The recognised Stock Exchanges have thus performed the vital function of acting as an organised capital market for stocks, shares and Government securities. As the tempo of industrialisation increases and new issues of securities are made from

TABLE XXVI

Growth in the Number of Shareholders of Listed Companies

Name of Company	Number of Shareholders 1947	1952	1960	% Increase of 1960 over 1947	1952
Tata Iron and Steel	...	28,410	70,000	...	146
Associated Cements	22,450	25,415	44,067	96	73
Scindia Steam	24,700	31,000	39,432	60	27
Tata Chemicals	9,496	10,138	14,881	57	47
Voltas	...	3,937*	6,586	...	67*
Bombay Burma	...	6,959	8,873	...	28
Orissa Cement	...	3,556†	8,191	...	130†
Sirpur Paper	1,427	1,112	3,393	138	205
Belapur	2,725	...	3,920	44	...
Svadeshi Mills	2,135	2,690	3,693	73	37
Tata Mills	2,668	2,604	4,919	84	89
Tata Power	...	7,446	10,723	...	44
Tata Hydro	5,660	7,869	10,659	88	35
Andhra Valley Power	...	3,459	5,319	...	54
New India Assurance	10,800	...	13,694	27	...
Central Bank	20,400	23,263	24,707	21	6
Bank of India	...	8,549	10,154	...	19
Union Bank	6,180	6,040	8,056	30	33

* For the year 1957.

† For the year 1955.

year to year, the volume of outstanding securities and the volume of transactions will go on rising more or less simultaneously. The market mechanism will have to be adapted and improved in response to the growing demands. The mobilisation of the savings of the small man for investment in joint stock enterprise and the broader spread of share-ownership are factors which in the course of time are likely to exert a significant influence on the stock market in India. The recognised Stock Exchanges must therefore so organise themselves and develop their activities as to ensure reasonable service, safety and security to all those who utilise their facilities and, basically, they must continue to provide an

TABLE XXVII

Listed Companies with a Large Number of Shareholders

NAME OF COMPANY	Number of Shareholders
1. Tata Iron and Steel Co.	70,000
2. Associated Cement Cos.	44,000
3. Scindia Steam Navigation Co.	39,400
4. Synthetics and Chemicals	25,000–30,000
5. Phillips Carbon Black	
6. Baroda Rayon Corporation	
7. Ahmedabad Electricity	20,000–25,000
8. Central Bank	
9. Premier Automobiles	15,000–20,000
10. Burmah-Shell Refineries (Debentures) ...	
11. J. K. Cotton	
12. India United Mills	
13. Tata Engineering and Locomotive ...	10,000–15,000
14. Hindustan Lever	
15. Central Bank	
16. New India Assurance	
17. Tata Chemicals	
18. Issac Holdens (India)	
19. Tata Power Supply	
20. Bank of India	

orderly market, price continuity and free negotiability of shares and securities which are of vital significance if investment interest is to grow and expand throughout the country.

XII—CONCLUSION

52. The recognised Stock Exchanges that are functioning in this country are today, more than ever before, at the heart and centre of the new economic order that is being evolved. The history of the stock market in India that has been unfolded shows briefly how they have worked their way, at times under heavy stress and storm. The story reveals that, by and large, the recognised Stock Exchanges in India have faithfully mirrored the fundamental trends underlying the economic situation ; responded to the changes in the fiscal and monetary policies as exemplified, for instance, in inflationary finance

TABLE XXVIII

Distribution Pattern of Shareholders of Listed Companies

(February 1961)

Industry	No. of Companies	Total Capital (Crores Rs.)	Total No. of Shareholders	Shareholders with holdings of less than Rs. 10,000	
				Number	% to Total
Cotton Textiles	50	33·43	1,10,671	1,08,572	98·1
Other Textiles	10	15·41	60,170	59,335	98·6
Banks	11	29·15	93,127	89,480	96·0
Insurance	7	9·30	36,326	35,075	96·6
Electricity	13	22·63	58,343	55,794	95·5
Cement	12	36·95	90,936	87,175	95·8
Paper and Hardboards	11	9·92	27,160	26,462	97·5
Engineering and Metals ...	42	57·02	1,58,342	1,53,064	96·7
Chemicals, Dyes and Pharmaceuticals	15	12·22	77,136	76,574	99·2
Sugar	14	7·94	16,763	16,127	96·1
Plantation	7	1·33	6,105	5,959	97·6
Miscellaneous	51	38·72	1,75,222	1,72,393	98·4
Total ...	243	274·02	9,10,301	8,86,010	97·4

and alterations in the basic rate of interest ; reflected the changes in the dividend and profit earning capacity and measured the progress of corporate enterprise : and they have recorded the right trend of prices, and the apparent fluctuations have not been always artificial fluctuations caused by erratic market manipulations but the true fluctuations inherent in the economic conditions which it was the duty and the prime function of the recognised Stock Exchanges to reflect and to record. In performing these functions during a period extending over almost a century, the recognised Stock Exchanges have behaved as a sensitive barometer, reflecting faithfully the fundamental tendencies underlying national progress and measuring broadly its achievements and failures in the economic field. The recognised Stock Exchanges have thus been at the very heart of the system of Government borrowing and corporation finance. They have imparted to capital the prime qualities of transferability, free negotiability and continuous liquidity. Without their vital touch, savings which at present leaven the lump of the economic life of the country would have become a frozen mass, the financing and expansion of existing enterprise and development of new projects as conceived in the Five-Year Plans would have been rendered more difficult, and the size of efficient units would have had to be greatly reduced. The repercussions on banking credits, standards of living and the habits of the community would have been not inconsiderable, and Government and business finance might have been compelled into a new direction. Appearances notwithstanding, the recognised Stock Exchanges have not worked on the stray impulse of strange and uncertain whims and fancies. They have established a pattern through time, a design which is woven into the chequered economic fabric of the country. The pattern and design reveal that the recognised Stock Exchanges in India have, in effect, mirrored the trend of national economic progress. In that is their significance as a factor in the national economy.

53. This then is the century-old history of the Stock Exchanges in this country—a history which reveals a story of rise and fall, of weakness and strength, of failure and success welded together by a chain of continuous human effort and endeavour. There is no magic about laws, about rules, bye-laws and regulations. Those who desire and hope for achievement through elaborate legislation, so much in fashion today, cheat themselves into an idle delusion. Progress and achievement recognise no substitutes for hard and honest work, sound traditions, good ethics and a disciplined approach, best described together briefly by one word *character*. Legislation and authority may prove helpful or unhelpful by creating the right or the wrong environment, but ultimately, as the history of the stock market in India so well illustrates and exemplifies, it is the human material, the human mind and the human spirit which make and unmake the history of all human institutions, as indeed of all mankind.