Seminar on Capital Markets — Problems and Prospects, 4th February, 1988
35th Meeting of the Presidents of the Stock Exchanges in India, 5th February, 1988
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THE STOCK EXCHANGE
BOMBAY

Seminar on
Capital Markets — Problems and Prospects

4TH FEBRUARY, 1988
BOMBAY

35th Meeting of the Standing Committee
of the Presidents of the Stock Exchanges in India

5TH FEBRUARY, 1988
BOMBAY
TRADING RING SHOWING ELECTRONIC BOARDS OF PTI STOCKSCAN SERVICE DISPLAYING SHARE PRICES
The Governing Board of The Stock Exchange, Bombay in session
'For verily (the true nature) of "right action" should be known; also (that) of "forbidden (or unlawful) action" and of "inaction"; imponderable is the nature (path) of action.'

Periods of activity create man. This creative period depends upon what type of activity we venture upon. Activities can be of two types, constructive or destructive. Constructive activities which contribute towards the evolution of the individual are termed here as Karma. Destructive activities are those that are totally condemned by the Sastras, because they tend to devote the individual and those are termed in our text books as Vi-Karma. The constructive activities (Karma) can be of three kinds: Vitya — constant duties, Naimittika — special duties on special occasions and Kamya — work purposeful and self-determined for winning a desirable result or reward.

This is a theory of self-development which says that life is but a name for continuous activities. It is therefore necessary that a true seeker who is trying to live a diligent life, contributing to his material progress and to his spiritual self-development, must know this triple classification of life, considered as a bundle of activities. But for an ordinary man it is not easy to distinguish the one from the other, and to readily and successfully classify all his activities under these three headings, because “The nature of Karma is imponderable.” In this statement lies the secret suggestion that an action is to be evaluated not merely on its face value but after a sincere consideration of the motive working behind it. If the motive or desire, or intention of one is pure and constructive, then the action too is noble and meritorious for that particular individual. Since in this evaluation of actions the individual factor is so very predominant, one must agree with the imponderability of the nature of Karma.
Dear Shri Kampani,

The Prime Minister is happy to know that a Seminar is being held on the occasion of the annual meeting of the Standing Committee of the Presidents of recognised Stock Exchanges of India, being hosted by the Bombay Stock Exchange in February 1988. He sends his good wishes for the success of the Seminar and the meeting.

Yours sincerely,

(Pulok Chatterji)
MESSAGE

I am glad to know that the 35th meeting of the Standing Committee of the Presidents of recognised Stock Exchanges in India is being held in Bombay on the 4th & 5th February, 1988. I am confident that the deliberations in the meeting would cover important areas such as measures for further development and modernisation of the stock market, fair trading practices and investor protection.

A growing and healthy stock market is essential for the growth of the private corporate sector. The stock market in the country has been playing an important role in the mobilisation of financial resources for industry. In this context, the Stock Exchanges should take urgent steps for extending their services to the investors in the semi-urban and rural areas with a view to mobilising the savings of the community for productive investments.

I send my best wishes for the success of the meeting of the Standing Committee of the Presidents of Stock Exchanges.

(NARAYAN DATT TIWARI)
MESSAGE

It gives me great pleasure to note that Bombay Stock Exchange are hosting the forthcoming meeting of the Standing Committee of the Presidents of recognised Stock Exchanges of India as also a National Seminar on matters concerning the capital market in the country.

Stock Exchanges form an integral part of the capital market and are instrumental in mobilising resources for the corporate sector. The Meeting and the Seminar will no doubt address themselves to the problems associated with the capital market which are being faced as part of the search for strategies to meet them. I would commend that the occasion be used fruitfully for exchange of notes among participants in a common endeavour to extending the horizon of capital market beyond the city elite to rural and semi-urban areas, improvement in the service efficiency of the components of the capital market and thus fulfil the role expected of them.

My best wishes for the success of the Seminar and the proceedings.

(Janardhana Poojary)
MESSAGE

The 35th meeting of the Standing Committee of the Presidents of recognised Stock Exchanges in India being held in Bombay would provide an opportunity for discussions in vital issues relating to the stock market. I am confident that the focus of the discussions would be directed on development of a well-regulated and strong secondary market in securities.

There is an urgent need to modernise trading operations in the Stock Exchanges in order to cope with the growing volume of business in securities. The Stock Exchanges should also take measures for developing an integrated market at the national level. The members of the Exchanges should provide better services to the investors in order to maintain their confidence in the stock market.

I wish the Conference of Presidents of Stock Exchanges all success.

(B.K. Gadhvi)
MESSAGE

I am glad to know that Bombay Stock Exchange is hosting the annual meeting of the Standing Committee of the Presidents of recognised Stock Exchanges of Indian to be preceded by a Seminar on February 4, 1988. With the participation of leading industrialists, prominent merchant bankers and others, the seminar will certainly elicit a good response and will go a long way in identifying the problems of capital market. I send my compliments to the participants and the organisers and wish the event all success.

(S.B. Chavan)
MESSAGES

I am glad to learn that the Bombay Stock Exchange is hosting the 35th meeting of the Standing Committee of the President of Stock Exchanges in India on the 4th and 5th February, 1988. The Stock Exchanges have an increasingly important role to play in our economy in the year to come.

2. The guiding principle of Stock Exchanges should be not only the amount of profits but also and essentially investor protection. The Stock Exchanges should function efficiently using modern information technology in order to provide services to the growing class of investors.

3. I am sure that the Conference would make practical and useful recommendations for improvements in the working of the Exchanges.

4. I wish the Conference all success.

(S Venkitaramanan)
Finance Secretary
Ministry of Finance, New Delhi

The 35th meeting of the Standing Committee of Presidents of Stock Exchanges in India being held in Bombay from 4th to 6th February, 1988 is an important occasion for deliberations concerning the future development of the stock market.

2. There has been a remarkable growth of the stock market in the country in the recent past. The number of investors in industrial securities has also been increasing. These have created new challenges relating to regulation of trading, smooth functioning of the stock market, better services to the investing public and modernisation of trading practices and settlements. I am confident that these and other topical issues would be discussed in detail in the meeting, constructive ideas would emerge and the Stock Exchanges would take effective follow-up action on decisions taken in the meeting.

3. I send my best wishes for the success of the Conference.

(P. G. Mankad)
Joint Secretary (Inv.) & Controller of Capital Issues
Ministry of Finance, New Delhi
MESSAGES

I am extremely happy to learn that Bombay Stock Exchange is hosting a Seminar on the eve of the 35th meeting of the Standing Committee of the Presidents of recognised Stock Exchanges.

2. An active and buoyant capital market is the sine-qua-non of the investment climate. It is in the interest of all concerned — the champions of industry, merchant bankers, bankers, financial institutions, the Government, the Stock Exchanges with their members and the investing public that the primary and the secondary markets expand on healthy lines. Seminars, such as these, are occasions where the experience of the past could be related to the expectations of the future.

3. I am sure that satisfying answers to open ended questions like improvements in trading practices at the Stock Exchanges, investor guidance/satisfaction and potential for tapping the even growing capital market in both rural and urban facets would emerge at the Seminar. I am privileged to send my best wishes for the success of the Seminar.

(P.R. Bindhu Madhavan)
Director (Inv.)
Ministry of Finance, New Delhi

The Stock Exchanges have been playing an increasingly important role in the growth and development of industry in the private sector. The recent years have also witnessed a substantial increase in the number of listed companies, greater reliance on the market by the corporate sector for raising resources and a remarkable increase in investor population.

2. An active and healthy stock market is essential for maintaining the confidence of the investing public in making investments in industrial securities and for enabling the corporate sector to mobilise savings of the community for productive investments. It would, therefore, be appropriate for the 35th meeting of the Standing Committee of Presidents of Stock Exchanges in India being held in Bombay on 4th and 5th February, 1988 to discuss in detail issues relating to investor protection, modernisation of trading practices, procedures and settlement, and strengthening of infrastructure in Stock Exchanges.

I send my best wishes for the success of the Conference.

(Paul Joseph)
Joint Director (Stock Exchanges)
Ministry of Finance, New Delhi
THE STOCK EXCHANGE, BOMBAY

Date : Thursday, the 4th February, 1988
Venue : Ball Room, Taj Mahal Hotel, Apollo Bunder, Bombay 400 039
Time : 9.00 A.M. to 5.30 P.M.

PROGRAMME

Seminar on "Capital Markets - Problems and Prospects"

9.00 A.M.  Delegate Registration
9.30 A.M. to 10.30 A.M.  1. Welcome Speech by the President of the Stock Exchange Shri Mahendra N. Kampani
                        2. Lighting of Deepmala by the Chief Guest to mark the Inaugural Ceremony
                        3. Key Note address and release of souvenir by the Chief Guest
                        4. Vote of thanks by the Vice-President, Shri G. B. Desai

10.30 A.M. to 11.00 A.M.  TEA BREAK
11.00 A.M. to 01.30 P.M.  FIRST TECHNICAL SESSION :-

Subject : Primary Market
Chairman : Shri S. S. Nadkarni
           Chairman & Mg. Director, Industrial Development Bank of India

Faculty :

1. Shri H. T. Parakh
   Chairman, Housing Development Finance Corporation Ltd.
   Stock Market - yesterday, today, and tomorrow

2. Shri S. A. Dave
   Executive Director, Industrial Development Bank of India
   Role of the proposed National Securities Board

3. Shri N. J. Jhaveri
   Dy. Managing Director, The Industrial Credit & Investment Corp. of India Ltd.
   Introduction of new corporate instruments to widen the base of the primary market

4. Shri Nimesh N. Kampani
   Managing Director, J. M. Financial & Investment Consultancy Services Pvt. Ltd.
   Marketing Issues, Rural mobilisation and Broker Underwriters' Role
5. Shri Arun Agarwal  
   Managing Director,  
   Mas Services Pvt. Ltd.  
   Post Issue formalities

6. Shri Bhagirath Merchant  
   Chairman,  
   Parnab Financial Consultants Pvt. Ltd.  
   Mobilisation of resources from NRIs

7. Shri Bhupendra C. Dalal  
   Vice-Chairman &  
   Mgr. Director,  
   Champaklal Investment & Financial Consultancy Ltd.  
   Broker Underwriting - Evaluation & Performance

8. Question - Answer session

01.30 P.M. to 02.30 P.M.

LUNCH BREAK

02.30 P.M. to 05.30 P.M.

SECOND TECHNICAL SESSION

Subject : Secondary Market
Chairman : Shri M. J. Pherwani  
   Chairman,  
   Unit Trust of India

Faculty :

1. Shri Mahendra N. Kampani  
   President,  
   The Stock Exchange, Bombay  
   Development of Secondary Market - 3 tier Market

2. Shri M. R. Mayya  
   Executive Director,  
   The Stock Exchange, Bombay.  
   Regulation of the market and investor protection

3. Shri Ram Piparaiya  
   Managing Director,  
   Ardhik Investment Consultants Pvt. Ltd.  
   Stock Analysis and Portfolio Management

4. Shri Philip Thomas  
   Chairman,  
   Stock Holding Corporation of India Limited.  
   Need for Stock Holding Corporation

5. Shri P. G. Ruiya  
   Director,  
   The Stock Exchange, Bombay  
   Free Trading in specified shares with special reference to liquidity

6. Shri Shirish Dave  
   Member,  
   The Stock Exchange, Bombay  
   Perception of a stock broker

7. Shri Vallabhb Bhansali  
   Director,  
   Enam Financial Consultants Pvt. Ltd.  
   Not only Investor Education

8. Question - Answer session

05.30 P.M.

Vote of thanks by Shri Upendra M. Dalal  
   Director, The Stock Exchange, Bombay
INAUGURATION OF PTI STOCKSCAN SERVICE BY SHRI P.G. MANKAD, CONTROLLER OF CAPITAL ISSUES, AT THE STOCK EXCHANGE, BOMBAY-11TH AUGUST, 1987:

SHRI R.N. MALHOTRA
THE STOCK EXCHANGE, BOMBAY
PAST, PRESENT AND FUTURE

The Bombay Stock Exchange originally conceived under the shade of giant banyan trees and subsequently born in a public thoroughfare has a very interesting and romantic history packed with thrilling episodes. Here, fortunes were made or marred in a twinkling of an eye, and the tears of joys and happiness were mingled with those of sorrows and miseries.

In the early days of trading, the Bombay stock market or "Green" was situated in front of the Town Hall where Horniman Circle is now situated. Owing to increase in the volume of trade, it was moved to Colaba in 1844. As early as in 1840, there were about six brokers who did business of dealing in securities of Banks and Presses. The chief among them was Seth Premchand Roychand, "the Napoleon of Finance". He was the first broker who could speak and write English. The 1850's witnessed a rapid development of commercial enterprises. The extension of railways and introduction of telegraphs and the gradual improvement in the system of communications promoted internal trade and commerce. Brokerage business attracted many men into the field and by 1860, the number of brokers increased to 60. Premchand Roychand, their acknowledged leader, displayed brilliant financial strategy and 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 brought those marvellous miracles on the Stock Exchange". The place where brokers congregated and transacted business was called "Share Market". At this distance of time, it is difficult to fix the site where business was done. There was an alternative place for these brokers and that was the verandah of the Mercantile Bank in Medows Street.

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. As the civil war progressed, the price of cotton kept rising. The large exports of cotton were paid for by bullion which poured into Bombay from Liverpool in the shape of silver and gold. The import of 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 .......... All 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 American Civil War came to an end in 1865. Then all rushed to sell their securities but there were no buyers and the entire wealth received during the civil war was
represented by huge mass of unsaleable paper.

The fatal day was reached on the 1st of July, 1865 the "Black Day" when hundreds of "time bargains" had matured but which buyers and purchasers alike failed to honour. The lawyers of the day were busy on that eventful date tendering the shares here, there and everywhere. It was an ominous day altogether and as if to add to the dismal gloom wrought by the financial crisis. Nature herself had assumed a most mournful garb. The sky remained overcast and murky, it being the monsoon. Wherever one turned there were to be noticed anxious eyes, almost all wet with the tears of distress and woe which threatened all Bombay. It was a day when there hung a kind of pall over the fair city, the beautiful Bombay of gold and silver erewhile the city "par excellence".

The depression was long and severe, but the Share Mania had certain lasting effects. That feverish speculation attracted a large number of persons to become sharebrokers and increased their number to 250. The expansion of liquid capital and the establishment of regular market in securities were its direct result and they helped to make Bombay what it is today - "The chief centre of money" and "The financial capital of India". Thus the war and cotton brought about the existence of the Share Bazar in Bombay. This was its romantic origin, for as money poured in, with it came the establishments and the rise in Industry in India, new companies, banks, etc. were formed and thus came the evolution of shares of all kinds.

FORMING AN ASSOCIATION

In a street that is now appropriately called Dalal Street after their name, these brokers found a place where they could conveniently assemble. "On or about 9th July, 1875, 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 stockbrokers and of providing a hall or building for the use of the members of such Association". The Association hired a trading hall in Dalal Street in the building known as the Advocate of India building. An Indenture was executed on the 3rd 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 as "The Stock Exchange". The word "Native" in the original title was a sign of exclusiveness and pride and the Articles of Association specifically declared that "no other persons except natives of India shall be admitted as members of the said Association". 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 . . . . . . . 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, therefore, 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 accelerated the flow of investment into stocks, shares and gilt-edged securities and materially helped the Government, trade and industry. The premises taken in 1874 in Dalal Street on rent were given up and the Stock Exchange old building situated at Dalal Street was acquired. The Brokers' Hall was thrown open on 18th January, 1899 by Mr. James M. Maclean, M.P. In 1928, the premises were further extended by acquiring from the Bombay Municipal Corporation the adjoining plot of land abutting on Apollo Street and flanked by Dalal Street and Hamam Street. All the while the two peepal trees on the Stock
Exchange premises stood silent witness. The trees shed their leaves every autumn and the foliage is green again in spring, a perennial symbol of cyclical fluctuations so characteristic of the Stock Exchange.

THE FIRST WORLD WAR BOOM

The first world war broke out in 1914 and the companies 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 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.

After the war and post war boom, corners in the market, once a rare occurrence, became rare no longer. Some of the reputed mills' shares were attempted to be cornered. In view of cornering of shares which made several people suffer very heavily, there was a good deal of agitation suggesting an enquiry into the method of the Exchange and its working which ultimately moved the Government to appoint the Aitay Stock Exchange Enquiry Committee in 1923. The Committee could not find anything wrong with the Exchange but of course they had made some criticism on the fixing of maximum and minimum prices and other similar actions of the Board. They revised the Rules, Bye-laws and Regulations as a measure of reform of lasting value.

GOVERNMENT CONTROL OVER STOCK EXCHANGES

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 29th October, 1925. The Act empowered the Government to grant recognition to a Stock Exchange and to withdraw such recognition. The Stock Exchange, Bombay was duly granted recognition under this Act on the 14th May, 1927. The Act remained in force till the Securities Contracts (Regulation) Act, 1956 enacted by the Central Government came into operation on 21st February, 1957.

WORLD ECONOMIC DEPRESSION

By 1927, economic conditions were more stable. Share prices kept on moving upwards till they reached a high plateau in 1929. It was on that year the Wall Street boom hit the top. In June 1929, there were ruinous strikes in the cotton textile industries in Bombay and on their heels came the Wall Street crash in September 1929. A world economic depression followed. There was a severe depression in India. 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.

In 1935-36, the Bombay Stock Exchange had submitted to the Government for approval the listing requirements to be observed by a company before its shares could be admitted to dealings on the Stock Exchange. On 24th November, 1936, the Morison Stock Exchange Enquiry Committee was appointed to enquire into the working of the Exchange and renewing its Rules and Regulations including those of listing. The Bombay Stock Exchange revised its Rules on the lines suggested by the Morison Committee and submitted them to the Government for approval. These Rules were sanctioned on 31st May, 1938 and they form the basis of the present Rules, Bye-laws and Regulations.
THE SECOND WORLD WAR BOOM

The second world war touched off a brief sharp boom which was followed by a slump. The war time boom brought unprecedented prosperity and mushroom growth of Stock Exchanges. But they suffered almost a total collapse in the aftermath of depression.

GOVERNMENT LEGISLATION

The Stock Exchanges and futures markets became exclusively a Central subject under the new Constitution of India which came into force on the 26th January, 1950. The Securities Contracts (Regulation) Bill, 1954, prepared on the lines of the draft recommended by the Gorwala Committee, which was introduced in the Lok Sabha on 24th December, 1954, became the Securities Contracts (Regulation) Act, 1956. Under the Act, the Government promulgated the Securities Contracts (Regulation) Rules, 1957 for carrying into effect the objects of the legislation. The Rules are statutory and they constitute a code of standardised regulations uniformly applicable to all the recognised Stock Exchanges. The Stock Exchange, Bombay was duly granted permanent recognition under the Contract Act on the 31st August, 1957. A high powered 12-member Committee under the Chairmanship of Mr. G. S. Patel, former Chairman of Unit Trust of India, was set up by the Government on 17th May, 1984 to make a comprehensive review of the functioning of the Stock Exchanges and make recommendations. In the light of the recommendations made by the Committee in their interim and final reports, the Government issued several guidelines and directives to the Stock Exchanges relating to matters such as bringing down the cost of public issue of securities, listing the securities on the Stock Exchanges, creation of a Customers' Protection Fund and insurance cover for members of Stock Exchanges.

PRESENT POSITION

The Stock Exchange, Bombay is at present housed in Phiroze Jeejeebhoy Towers, a huge, massive building with 28 storeys and 8000 square feet. This building, construction of which started in 1973, was completed in 1983. The building is today the pride of Bombay.

The Stock Exchange, at present has 515 members and 1,694 authorised assistants. As on the 31st December, 1987, 3,579 stock issues of 2,075 companies were listed on the Exchange. The total capital of all listed stock issues was around Rs.10,000 crores. The market value of the listed equity capital was around Rs.17,000 crores.

70% of the equity shares are presently traded as "specified shares" in which the facility of carry-forward from one settlement period of 14 days to another is permitted subject to an overall period of 90 days from the date of the contract. These had a market capitalisation of Rs.8,728 crores as on the 31st December, 1987.

As on the 31st December, 1987, the capital listed on the Exchange was estimated to account for about 70 per cent of the capital listed all over the country while in terms of overall market capitalisation, the share of the Exchange was estimated to be about 80 per cent.

The Exchange has a highly active secondary market. The turnover (aggregate of purchase or of sale) increased from Rs.2,401 crores in 1983 to Rs.13,596 crores in 1986 although in 1987 it declined to Rs.8,741 crores, mainly due to restrictions imposed to moderate the decline in prices. The Exchange accounts for about two-thirds of the business in the country.
The Exchange has completely computerised processing of trade data for settlement and monitoring purposes. In addition to an ICIM-2904 computer system in operation at the Exchange from 1st April 1983, the Exchange bought an ICIM-6000 computer system on the 31st March, 1987 to cope up with the increased work arising out of a progressively growing turnover on the Exchange.

RESEARCH AND PUBLICATIONS

The Research and Statistics Department of The Stock Exchange publishes The Stock Exchange Official Directory under the aegis of The Stock Exchange Foundation. This 18-volume compendium published on a weekly update basis gives a ten-year financial analysis of the performance of about 2,500 companies on an all-India basis. The directory has created a place of its own amongst the investors and researchers alike as an authoritative reference work on the Indian corporate sector.

In addition, several publications are brought out by the Research and Statistics Department which have been found useful by the stockbrokers, investors, corporate sector, researchers and others. These include:

1. Stock Exchange Bye-Laws, Rules & Regulations
2. Listing Guidelines
3. Capital Issues Control
4. Stock Exchange Quotations - All India
5. Address of Companies
6. Present Position of the Stock Market in India
7. History, Regulation & Organisation of the Stock Market in India
8. The Securities Contracts (Regulation) Act, 1956 and The Securities Contracts (Regulation) Rules, 1957
9. Members List - Addresses with Phone Nos.
10. Computerised Procedure of Settlement of Transactions on the Exchange
11. Bonds & Debentures
12. Stock Exchange Sensitive Index

The Stock Exchange Sensitive Index was developed by this Department during 1985 with 1978-79 as the base year. This index known as The BSE Sensitive Index has found increasing acceptance as the barometer of the movement of stock prices in the country.

REFERENCE SERVICES

The Stock Exchange Library is named after its first President, the late Seth Choonial Motilal. It is being developed as a specialised library on capital markets. Besides, the library reference facilities are also provided to the researchers and investors by making available to them information or documents such as stock prices in Bombay and other Exchanges, annual reports of companies, etc. These services are being increasingly availed of by the investors and researchers.

INVESTORS’ SERVICES - CUSTOMERS’ PROTECTION FUND

Default by a stockbroker results in losses for his clients for no fault of theirs. In order to redress such losses of the clients, the Exchange established a Customers’ Protection Fund in October, 1986. Each client of a defaulting member will be com-
pensated for his losses in respect of his genuine investment claims from his Fund to a maximum limit of Rs.10,000. The Fund has at present about Rs.3 lakhs in its credit.

INVESTORS’ SERVICES CELL

The Exchange had earlier a Complaints Cell to look after the grievances of investors. With the growth of the shareholding population, there has been an enormous increase in the number of complaints received by the Exchange. The Complaints Cell was, therefore, strengthened and also renamed as Investors’ Services Cell to demonstrate clearly the nature of services rendered by the cell. Complaints from investors either against a company or a stockbroker are promptly attended to by this cell. About 2,000 such complaints are being handled by this cell every month.

PTI STOCKSCAN SERVICE

A gigantic step was taken by this Exchange in August 1987 when the Stock Exchanges of the country were linked up for instant display of share prices and other related informations through the PTI Stockscan Service. Not only prices of the local shares but also those of the shares traded at the Calcutta, Delhi, Madras and Ahmedabad Stock Exchanges are displayed through large electronic boards installed in the trading floors of the Exchanges. Instant information relating to price movements of about 260 shares which will be progressively raised to 1,000 shares are displayed on these boards. The information will not only be available at these five Stock Exchanges but also at other major centers of the country which need not necessarily be centers having recognised Stock Exchanges. The PTI Stockscan Service is a forerunner of the national Market System the country will ultimately have.

ODD LOT SCHEME

In a major bid to solve the perennial problem of weeding out odd lots, the Exchange appointed, on the 1st September, 1987, 16 members as authorised odd lot dealers with stipulated norms for their operations. A separate trading session has also been arranged every Saturday beginning from January 1988 to facilitate odd lot dealings amongst members themselves.

BOND MARKET

Although the debentures and bonds have a total market capitalisation of about Rs.7,000 crores, there is hardly any secondary market. With a view to developing an active secondary market in debentures and bonds, a portion of the trading ring of the Exchange has been earmarked specially for trading in debentures and bonds from the beginning of this year and all the dealers in these instruments have been directed to operate from this special place. The response to the scheme is quite encouraging.

BOOSTS

Yet another significant measure evolved by the Exchange is the recent launching of the Bid and Offer Online System for Thinly - Traded Securities (BOOSTS) for developing liquidity in these securities. On the basis of the information provided by the members of the Exchange, bids and offers in marketable lots of about 3,000 infrequently traded securities would be captured and displayed by the system. It would also match bids and offers at the same rate. The system will usher in a new era in trading on the Stock Exchange.

FUTURE

The Stock Exchange, Bombay is today in the threshold of a bright and prosperous future. Several plans like installation of a big mainframe computer system with online facilities to the office of stockbrokers,
setting up a Training Institute to train stockbrokers, investors and professionals, evolution of a National Securities Index, conversion of the 18 volume Stock Exchange Official Directory into a 52 volume Directory, publication of handy booklets relating to all aspects of the stock market in Hindi, English and regional languages, etc. are some of the major projects on hand for immediate implementation.

The Exchange is also gearing itself up to meet its fast growing challenges emerging out of a steep rise in the quantum of capital that is being raised from the primary market and of a strident advance in the secondary market and a concomitant increase in the number of holders of industrial securities. The Exchange has already started construction of the second phase of its new building ad-measuring about 1.5 lakh square feet which will house a totally modern up to date trading ring and expects the same to be completed in about a couple of years. It would be the sincere endeavour of this Exchange to make itself a model one between Tokyo in the East and London in the West.
FOUNDER PRESIDENT
1887-1896

Shri Choonilal Motilal
PAST PRESIDENT
1896-1919

Sir Shapurji Broacha
Late Shri K.R.P. Shroff, President of the Bombay Stock Exchange from 1923 to 1966 had said, "The Stock Exchange is a necessary and indispensable part of the economic life of a country and constitutes to its progress and prosperity. In spite of its useful work, it is perhaps the only institution that is generally misunderstood by the public owing to ignorance in regard to its working."
Late Shri Pheroze Jeejeebhoy played a stellar role in moulding the Bombay Stock Exchange to its present status. He was a visionary and a man instrumental to develop the Indian stock markets in general and Bombay in particular in the independent India through his long association with Stock Exchange, Bombay, first as its Secretary and later as its Chairman. It was to commemorate his contribution that the present 28 storeyed Stock Exchange building was named after him.
PAST PRESIDENTS

Shri Dhirajlal Maganlal
1966-1970

Shri Laldas Jamnadas

Shri Jayant Amarchand
1973-1977

Shri Malthardas Samaldas Kothari
1977-1979

Shri V. D. Sonde
Executive Director 1980-1982

OTHER PAST PRESIDENTS

Sir Kikabhai Premchand
1920-1922

Shri N. P. Karani
1922

Shri Kantilal Ishwarlal
1966
THE STOCK EXCHANGE, BOMBAY

TRUSTEES

Shri Rasiklal Maneklal

Shri Jayant Amerchand

Shri Navinchandra Chhaganlal Kampani

Shri Ramdas Lallubhai
GOVERNING BOARD
(1987-88)

EXECUTIVE DIRECTOR
Shri M.R. Mayya

PRESIDENT
Shri Mahendra N. Kampani

VICE-PRESIDENT
Shri Govindbhai B. Desai

HON. TREASURER
Shri Hemendrakumar K. Shah
Members

Shri Kisan Ratilal Choksey

Shri Ramdas Lallubhai

Shri Kirtikumar Narbheram Parekh

Shri Brijmohan Sagarmal

Shri Ramniklal Nanalal Shah

Shri Purshottamdas G. Ruiya
GOVERNMENT NOMINEES

Dr. S.A. Dave

Shri P.R. Bindu Madhavan

Shri Paul Joseph

Dr. S.R.K. Rao

Shri S. Krishna Kumar
PUBLIC REPRESENTATIVES

Shri R.M. Bhandari

Shri D.R. Pendse

Shri R.K. Daruwala

INVITEES

Shri Jayant Amerchand

Shri Vasantlal K. Shah
THE STOCK EXCHANGE, BOMBAY
SENIOR MANAGEMENT ORGANISATION

M.R. Mayya
Executive Director

CENTRAL ADMINISTRATION & MARKETING REGULATION

A.J. Shah
Secretary
A.N. Shah
Deputy Secretary
J.J. Bhat
Deputy General Manager
S.N. Karaka
Manager (Secretarial)
M.D. Vyas
Manager (Market Operations)
N.N. Dubash
Manager (Arbitration & Listing)
A.M. Dixit
Manager (Personnel)
Smt. D.S. Shah
Deputy Manager (Accounts)
A.D. Turakhia
Deputy Manager (Listing)

RESEARCH, STATISTICS & DATA PROCESSING

R.R. Nair
General Manager
V. Shankar
Manager (Systems)
K.V.B.S. Rao
Manager (Research & Relations)
B.D. Sanghvi
Manager (Public Relations)

ESTATE MANAGEMENT
M.P. Shah
Project Engineer

SPECIAL APPOINTMENTS
J.D. Tripathi
Director, Training Institute
F.E. Katrak
Site Engineer
RECEPTION COMMITTEE

Chairman
Shri Upendra M. Dalal

Shri Pravinchandra H. Nanavati
Shri Kisan R. Choksey
Shri P.G. Ruiya
Shri Kirti N. Parekh
Shri Nailesh P. Dalal
Shri Jasmantlal Chhaganlal
Shri Mayank A. Khandwala
Shri Rajesh P. Ruia
Shri Mahendra Doshi
Shri Jayesh N. Shah
Shri S.S. Dave
Shri Ulhas H. Lahbhai
Shri Niranjan Nanavati
Shri Sushil A. Dalal
Shri Umesh Dharnidharka
Shri Ashok Chaudhary

SEMINAR COMMITTEE

Chairman
Shri Bhagirath B. Merchant

Shri Vipul Randari
Shri Arun P. Sheth
Shri Dinesh Valji
Shri Chandresh Kampani
Shri Paresh J. Khandwala
Shri Ajit Ambani
Shri Sunder Aiyer
Shri Mahesh Dalal
Shri Amit Dalal
Shri Hemant N. Kampani
RECOGNISED STOCK EXCHANGES IN INDIA

- Recognised on permanent basis
- Recognised on temporary basis

YEAR OF RECOGNITION INDICATED IN BRACKETS
BSE SENSITIVE INDEX NUMBER OF EQUITY PRICES
(1978-79 = 100)
MONTHLY AVERAGES
## APPROVALS FOR RAISING CAPITAL GRANTED DURING 1983-84/1986-87

(Rs. in Crores)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>I. Equities</td>
<td>205</td>
<td>319</td>
<td>319</td>
<td>798</td>
</tr>
<tr>
<td>II. Debentures</td>
<td>104</td>
<td>609</td>
<td>193</td>
<td>1,113</td>
</tr>
<tr>
<td>III. P.S. Bonds</td>
<td>—</td>
<td>—</td>
<td>—</td>
<td>—</td>
</tr>
<tr>
<td>IV. Sub.Total</td>
<td>309</td>
<td>928</td>
<td>512</td>
<td>1,911</td>
</tr>
<tr>
<td>(I+II+III)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>V. Bonus</td>
<td>150</td>
<td>95</td>
<td>200</td>
<td>92</td>
</tr>
<tr>
<td>VI. Grand Total</td>
<td>459</td>
<td>1,023</td>
<td>712</td>
<td>2,003</td>
</tr>
</tbody>
</table>

## ALL INDIA

CAPITAL RAISED FROM THE PRIMARY MARKET

1983-84 — 1986-87

<table>
<thead>
<tr>
<th>Total</th>
<th>1983-84 Amount</th>
<th>1984-85 Amount</th>
<th>1985-86 Amount</th>
<th>1986-87 Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>of which amount raised by Long-Term Lending Institutions was</td>
<td>865</td>
<td>1275</td>
<td>2439</td>
<td>4199</td>
</tr>
<tr>
<td>(138)</td>
<td>(85)</td>
<td>(261)</td>
<td>(240)</td>
<td></td>
</tr>
</tbody>
</table>
## GROWTH PATTERN OF LISTED STOCK

<table>
<thead>
<tr>
<th></th>
<th>AS AT 31ST DECEMBER</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of Listed Companies</td>
<td>1,125</td>
</tr>
<tr>
<td>No. of Stock Issues of Listed Companies</td>
<td>1,506</td>
</tr>
<tr>
<td>Paid-up Capital of Listed Companies (Cr. Rs.) (Equity &amp; Preference Shares only)</td>
<td>270</td>
</tr>
<tr>
<td>Market Value of Paid-up Capital of Listed Companies (Cr. Rs.) (Equity &amp; Preference Shares only)</td>
<td>971</td>
</tr>
</tbody>
</table>

## MARKET-WISE PATTERN OF LISTED STOCK

(as on 31.12.1986)

<table>
<thead>
<tr>
<th>Name of the Exchange</th>
<th>No. of Companies listed</th>
<th>No. of Stock Issues listed</th>
<th>Capital listed (Cr. Rs.)</th>
<th>Market Value of Capital (Cr. Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bombay</td>
<td>1,529</td>
<td>2,610</td>
<td>6,880</td>
<td>20,378</td>
</tr>
<tr>
<td>Calcutta</td>
<td>1,955</td>
<td>2,415</td>
<td>2,603</td>
<td>7,211</td>
</tr>
<tr>
<td>Delhi</td>
<td>1,282</td>
<td>1,730</td>
<td>3,329</td>
<td>11,162</td>
</tr>
<tr>
<td>Madras</td>
<td>451</td>
<td>741</td>
<td>2,178</td>
<td>7,114</td>
</tr>
<tr>
<td>Ahmedabad</td>
<td>309</td>
<td>592</td>
<td>2,068</td>
<td>8,308</td>
</tr>
<tr>
<td>Total including other Exchanges but excluding common</td>
<td>4,344</td>
<td>6,174</td>
<td>9,723</td>
<td>25,302</td>
</tr>
</tbody>
</table>
## VOLUME OF TURNOVER — 1987

(Amount Cr. Rs.)

<table>
<thead>
<tr>
<th>Month</th>
<th>Turnover in</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Specified</td>
<td>Non-specified</td>
<td></td>
<td>Total</td>
</tr>
<tr>
<td></td>
<td>shares</td>
<td>shares</td>
<td></td>
<td></td>
</tr>
<tr>
<td>January</td>
<td>881</td>
<td>103</td>
<td></td>
<td>984</td>
</tr>
<tr>
<td>February</td>
<td>371</td>
<td>130</td>
<td></td>
<td>501</td>
</tr>
<tr>
<td>March</td>
<td>1155</td>
<td>124</td>
<td></td>
<td>1279</td>
</tr>
<tr>
<td>April</td>
<td>389</td>
<td>77</td>
<td></td>
<td>466</td>
</tr>
<tr>
<td>May</td>
<td>814</td>
<td>107</td>
<td></td>
<td>921</td>
</tr>
<tr>
<td>June</td>
<td>1177</td>
<td>89</td>
<td></td>
<td>1266</td>
</tr>
<tr>
<td>July</td>
<td>463</td>
<td>108</td>
<td></td>
<td>571</td>
</tr>
<tr>
<td>August</td>
<td>292</td>
<td>269</td>
<td></td>
<td>561</td>
</tr>
<tr>
<td>September</td>
<td>530</td>
<td>125</td>
<td></td>
<td>655</td>
</tr>
<tr>
<td>October</td>
<td>203</td>
<td>60</td>
<td></td>
<td>263</td>
</tr>
<tr>
<td>November</td>
<td>459</td>
<td>138</td>
<td></td>
<td>597</td>
</tr>
<tr>
<td>December</td>
<td>579</td>
<td>97</td>
<td></td>
<td>676</td>
</tr>
<tr>
<td>Total</td>
<td>7313</td>
<td>1427</td>
<td></td>
<td>8740</td>
</tr>
<tr>
<td>Monthly average</td>
<td>609</td>
<td>119</td>
<td></td>
<td>728</td>
</tr>
</tbody>
</table>
## TOP TEN COMPANIES LISTED ON THE BOMBAY STOCK EXCHANGE BY VOLUME OF TURNOVER — 1987

<table>
<thead>
<tr>
<th>Name of Company</th>
<th>Volume of Trading (Purchase or Sale)</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. of Shares (Lakhs)</td>
<td>Value (Cr. Rs.)</td>
<td></td>
</tr>
<tr>
<td>1. Tata Steel</td>
<td>177.31</td>
<td>1,523.88</td>
<td></td>
</tr>
<tr>
<td>2. Colgate</td>
<td>153.71</td>
<td>497.51</td>
<td></td>
</tr>
<tr>
<td>3. Bajaj Auto</td>
<td>9.87</td>
<td>463.01</td>
<td></td>
</tr>
<tr>
<td>4. Bombay Dyeing</td>
<td>493.52</td>
<td>417.19</td>
<td></td>
</tr>
<tr>
<td>5. Tata Tea</td>
<td>357.70</td>
<td>375.12</td>
<td></td>
</tr>
<tr>
<td>6. Reliance</td>
<td>207.92</td>
<td>347.51</td>
<td></td>
</tr>
<tr>
<td>7. Eskayoff</td>
<td>158.53</td>
<td>276.17</td>
<td></td>
</tr>
<tr>
<td>8. Gujarat State Fertilizer</td>
<td>200.43</td>
<td>245.12</td>
<td></td>
</tr>
<tr>
<td>10. A.C.C.</td>
<td>90.4</td>
<td>161.25</td>
<td></td>
</tr>
<tr>
<td>Sr. No.</td>
<td>Name of the Company</td>
<td>Market value (in Cr. Rs.)</td>
<td></td>
</tr>
<tr>
<td>--------</td>
<td>-----------------------------------</td>
<td>--------------------------</td>
<td></td>
</tr>
<tr>
<td>1.</td>
<td>Tata Steel</td>
<td>1,011.61</td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Reliance Industries</td>
<td>728.98</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>Hindustan Lever</td>
<td>657.94</td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>Bajaj Auto</td>
<td>430.51</td>
<td></td>
</tr>
<tr>
<td>5.</td>
<td>Larsen &amp; Toubro</td>
<td>410.75</td>
<td></td>
</tr>
<tr>
<td>6.</td>
<td>Colgate Palmolive</td>
<td>306.54</td>
<td></td>
</tr>
<tr>
<td>7.</td>
<td>Gujarat Narmada</td>
<td>269.13</td>
<td></td>
</tr>
<tr>
<td>8.</td>
<td>Food Specialities</td>
<td>252.00</td>
<td></td>
</tr>
<tr>
<td>9.</td>
<td>Coal Tunes</td>
<td>252.00</td>
<td></td>
</tr>
<tr>
<td>10.</td>
<td>Gujarat State Fertilizer</td>
<td>237.08</td>
<td></td>
</tr>
</tbody>
</table>
# NEW CAPITAL ISSUES
BY NON-GOVERNMENT PUBLIC LIMITED COMPANIES

(Rs. Crores)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No. of Issues</td>
<td>Amount</td>
<td>No. of Issues</td>
<td>Amount</td>
<td>No. of Issues</td>
<td>Amount</td>
</tr>
<tr>
<td>1. Equity Shares</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Prospectus</td>
<td>303</td>
<td>277.04</td>
<td>533</td>
<td>245.48</td>
<td>695</td>
<td>337.48</td>
</tr>
<tr>
<td>b) Rights</td>
<td>54</td>
<td>28.17</td>
<td>37</td>
<td>13.17</td>
<td>39</td>
<td>44.12</td>
</tr>
<tr>
<td>2. Preference Shares</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Prospectus</td>
<td>2</td>
<td>0.37</td>
<td>4</td>
<td>0.58</td>
<td>2</td>
<td>0.50</td>
</tr>
<tr>
<td>b) Rights</td>
<td>5</td>
<td>2.76</td>
<td>8</td>
<td>2.34</td>
<td>7</td>
<td>1.71</td>
</tr>
<tr>
<td>3. Debentures</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>a) Prospectus</td>
<td>39</td>
<td>210.83</td>
<td>22</td>
<td>150.20</td>
<td>5</td>
<td>21.47</td>
</tr>
<tr>
<td>b) Rights</td>
<td>34</td>
<td>79.62</td>
<td>44</td>
<td>294.80</td>
<td>48</td>
<td>432.71</td>
</tr>
<tr>
<td>Total</td>
<td>435</td>
<td>598.42</td>
<td>644</td>
<td>705.99</td>
<td>794</td>
<td>837.49</td>
</tr>
<tr>
<td>a) Prospectus</td>
<td>345</td>
<td>490.26</td>
<td>559</td>
<td>397.44</td>
<td>705</td>
<td>360.16</td>
</tr>
<tr>
<td>b) Rights</td>
<td>90</td>
<td>108.16</td>
<td>85</td>
<td>308.55</td>
<td>89</td>
<td>477.33</td>
</tr>
</tbody>
</table>
WITH THE COMPLIMENTS
OF

TATA CHEMICALS LIMITED
Share Transfer Simplification Procedure
Through "Stock Holding Corporation"

M AHENDRA N. KAMPANI
President
The Stock Exchange, Bombay

The concept of a Stock Holding Corporation (SHC) has of late gained acceptance in India and financial institutions have already promoted a SHC to handle institutional purchase and sales of securities. The institutions have also signified their willingness to provide SHC services to individual investors.

The Bombay Stock Exchange also desires to set up a SHC in Bombay through its clearing house banker Bank of India. Likewise the Madras Stock Exchange has expressed their desire to set up a SHC.

In the initial stages, to promote the concept particularly in a large country like India, numerous SHC’s should be created which could ultimately merge and grow into a large SHC or become members of the principal SHC. The principal SHC would be the organisation who could carry out its functions efficiently maximizing use of computers and advanced communication techniques both in the present and the future.

The basic function of SHC is to immobilize share certificates by transferring them on behalf of its participants/members into its own name or in the name of its authorized nominee company, i.e. to say, to act like a depository for its shares. The SHC would hold such certificates for the beneficial ownership of the participants/members or the clients. On a sale or purchase of such deposited shares, if both buyer and seller are participants or represented through a participant, transfer of ownership would take place by computerized book entry i.e. crediting the sellers account and debiting the buyers with the relevant number of a company’s shares. Hence, one can visualize that a person can, if an SHC is effective, become the beneficial owner of a security within a few days instead of the few months it takes at present. The present system of share certificates,
transfer deeds involves a disproportional waste of time, money and manpower and valuable national resources.

To really understand the gravity of the situation, let us take the example of a transaction involving 100 Tata Steel. The seller would give instructions to the broker to sell. The broker on selling would send the contract note along with 20 transfer forms (one for each market lot of 5 share) to his client.

The broker would once again count the documents, complete the transfer forms in all respects, stamp them and send the documents to the company for transfer of ownership in his client’s name. The company would count the share certificates, inspect the transfer forms and after registering the shares in the name of the new owner send the share certificates back to the broker for delivery to his client. The broker would once again inspect and count the share certificates and send these to his client.

For one transaction, the share certificates and transfer forms are required to be inspected and counted at least eight times. Where clearing house facility is not available for handling deliveries of shares like in non-specified shares settlement, shares move from broker to broker by hand delivery through peons. The risk involved in this method of delivery also requires to be visualised. Besides this, every time share certificates change hands, documentation of receipt is necessary and audit trail has to be maintained. This also creates paper work and storage needs. The time taken between sale and delivery of certificates to the buyer can be as much as 1.1/2 months and the time taken for transfer could vary from a month of 3 months. So on an average, one could say that it takes 3 to 4 months to complete one transaction.

When one transaction takes so much time, one can well imagine how much time, a thousand transactions would take. The amount of time taken and effort involved for processing a few transactions is quite considerable. Once SHC is formed and starts functioning, on the same basis as the Depository Trust Company (DTC) in the U.S.A., all these procedures will be simplified and the time taken is much less.

Apart from the waste of time, money and effort as is evident from the above example, this also gives rise to the following:-
(1) Brokers specialize in forward transactions as they do not have the time and resources to handle many delivery transactions.

(2) Clients fearing that they will not be able to dispose of the shares as they do not know when the certificates will become available to them duly transferred in their own name wait till the very last minute before sending these for registration thereby placing a disproportionate load on the company's registrar services.

(3) The market, while the shares are sent for transfer, goes through a period of lack of liquidity in such shares.

Hence, in order to conserve national resources, SHC's have to be formed and popularized as soon as possible and it is in the national interest to do so.

All major stock markets in the world today have recourse to SHC's. The SHC's are known by various names and their set-ups vary. Functionally, all of them provide for safe custody of shares and transfer of ownership by book-entry, thereby reducing physical handling of share certificates.

The largest SHC, the Depository Trust Company, came into existence in 1973 to take over the business of other depositories like the Central Certificate Service etc. and to popularize the concept. The DTC, a co-operative owned by the financial industry serves as a national clearing house for the settlement of trades in corporate and municipal securities. DTC also renders securities custodian services to its participating banks and broker-dealers. During 1986, these participants delivered more than $8 trillion of securities through the depository's book-entry system, and securities in its custody exceeded $2.5 trillion at the year end.

The basic services provided by DTC for its participant, are as follow:-

* It accepts deposits of eligible securities for custody.
* It executes book-entry deliveries of securities in its custody through accounting entries recorded on its computer files.
* It records book-entry pledges of securities in its custody through similar accounting entries.
* It provides for withdrawals of securities from its custody on a routine or an urgent basis.

These core services allow a participant to deposit securities with DTC for safekeeping, deliver or pledge them conveniently to another party on the books of the depository, collect payment from the other party for securities delivered, and obtain certificates for customers who wish to hold them.

In Japan, the transfer of ownership by book-entry was commenced in 1971 by the Japan Securities' Clearing Corporation, a subsidiary of the exchange. In 1984, the Japan Securities Deposit Center (JSDC) was created by DIET. The JSDC works in close contact with the Tokyo Stock Exchange and has taken over the clearing operations as well as rationalized the clearing system.

In U.K. and Australia, a system of transfer by book-entry also exists and is known as 'TALISMAN'. The Stock Exchange issues a safe custody receipt and immobilizes the shares. The beneficial owner’s name is recorded in stock accounts within the stock exchange computer system. The investors broker is the via media for arranging for payment of dividends,
for arranging for payment of dividends, receipt of company reports and only he can arrange to sell the shares.

Although the various SHC's have different ownership patterns, these are formally regulated by the Governments through certain laws and bodies. The National Security Board, which will soon come into existence in India, could, just as the Securities and Exchange Commission regulates DTC, regulate the SHC's to be formed in India and pattern its functions on Indian conditions.

Whenever a new service organisation like a SHC is envisaged, questions arise and some of these questions with the relevant answers are given below:

Q. How will the SHC's be able to effectively service all the investors at the various stock exchanges?

A. Initially as many SHC's as there are stock exchange locations should be created. Where stock exchanges are located close to each other like Bombay and Pune, a branch of the Bombay SHC can be located at Pune to handle share certificates. The smaller SHC's must act as participants to the largest SHC or the principal SHC so that maximum immobilization of share certificates can be done at one or more central locations. All SHC's will need to hold some floating stock to service local demands for share certificates.

Q. Can you suggest a method by which the SHC will record movements in shares?

A. Every participant or large investor should open an account with the SHC. The SHC could issue a deposit/delivery book and a withdrawal/order book. The operation would be similar to that required for operating a bank account. Subsequently, more sophisticated methods shall evolve.

Q. When SHC's immobilize all share certificates, how will loans be given by banks to shareowners against the security of shares?

A. SHC's will record the lien on shares and such certification to banks should be considered adequate by the banker for granting a loan against shares. Such liens can only be withdrawn on the bank's informing the SHC that the debt has been repaid.

Q. As all dividends will be paid to the SHC or its nominee, how will the actual owner receive his dividend?

A. The SHC will receive a cheque in respect of the dividend payable to its participants and their clients. It will then issue individual cheques to the beneficial owners of the shares through the participants. It should be noted that the participants shall inform the SHC of the actual owner's name on deposit of or purchase of shares and the relevant code number allocated to them by the participant.

Q. Would a similar procedure be adopted by the SHC in respect of distribution of bonus and rights issues, proxy forms and annual reports?

A. Yes, the SHC will receive a certificate and allocate quantities to the beneficial owner's accounts. In case of rights, participant would receive a notice from the SHC and would be required to deposit the amount with the SHC. On payment of such monies to the company, the SHC would record the same in the participants account. The necessity of multiple certificates - one in the name of each individual holder would therefore be avoided. Similarly, annual reports and proxy forms would be
name of each individual holder would therefore be avoided. Similarly, annual reports and proxy forms would be sent to the participants for distribution. The SHC’s would also send the companies, name of the participants and their clients, along with the information of the shares held by them at periodic intervals or on demand or prior to book closure as the need may be.

Q. When companies find it difficult to service their investors today, can an SHC do better justice than the company itself?

A. Yes, it should be borne in mind that share certificates will, ultimately, not be required to be handled so that the load on the SHC, in effect, will be much less. Also, the SHC will be in a position to afford the best processing and communication equipment as also the services of specialists and professionals in this field. The growth of the SHC should be gradual and well thought out procedures as well as advice from large SHC’s like DTC should be sought and followed.

Q. How long will it take an SHC to be really effective?

A. This depends upon the number of participants and their clients. The larger the number of participants, the more the immobilization of shares and the lower the cost of all services provided by the SHC. But as always, the success of any organisation will depend upon the confidence it can command. Hence, the integrity of the participants will have to be assured as well.

Q. Will the small investor stand to benefit by these services?

A. Yes, as a client of the participant, the small investor will have more protection.

The answers to the above questions indicate that the growth of SHC’s will not take place overnight but will have to regulated in a phased manner as the confidence of participants has to be enjoyed by the organisation. However, taking into account future growth in share volumes and market capitalization, the need for further investment in the equity of limited companies and the necessity to effectively service the investor, SHC’s are absolutely necessary for the prolonged growth of the capital markets as well as for the consequent industrialization which is required by India to achieve its objectives.
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A RAUNAQ ENTERPRISE
Recent Developments In Stock Exchange

M. R. MAYYA
Executive Director
The Stock Exchange, Bombay

The stock markets of the country have staged a strident advance since the beginning of the 80s. The quantum of capital raised from the new issues market has risen from a meagre annual average of about Rs.90 crores in the 70s to about Rs.4,200 crores in 1986-87. Despite the setback in the current year, about Rs.3,500 crores would be raised during the current year. The daily turnover in the secondary market has shot up from just about Rs.4 crores in all the markets about a decade ago to about Rs.100 crores in 1986-87, although in the current year, it is about Rs.60 crores. The number of shareholders has also risen sharply from just about a million to 10 million during this period, catapulting this country to the position of the third largest shareholding population nation next only to the United States of America and Japan who are currently nursing about 50 million and 22 million shareholders respectively. The number of recognised Stock Exchanges in the country has also increased from a stagnant figure of 8 till 1979 to 15 presently.

All these changes have come about not because of a sudden flow of dispassionate love towards industrial securities out of philanthropic approach but out of a cool calculation of returns from investment in these securities vis-a-vis alternate channels of investment. As against an overall negligible rise of just 2 per cent in the index number of ordinary shares over the 60s and of about 60 percent over the 70s, the rise since the beginning of 80s has been about 110 per cent while the rise in the index number of wholesale prices during these periods has been about 80 per cent, 100 per cent and 60 per cent respectively. Equities have thus proved to be more than a hedge against inflation in the 80s.

Despite the sharp growth in the activities of the stock markets, no serious attempt has so far been made to tap the semi-urban and rural areas whose annual saving are at present about Rs.16,000 crores. The four metropolitan cities of Bombay, Delhi, Calcutta and Madras ac-
shareholdings in the country out of which Bombay alone accounts for about 35 per cent. The shareholding population in semi-urban and rural areas is estimated to be not more than 6 per cent. Attempt to lure the investors from semi-urban and rural areas and also cities with a population upto 10 lakhs needs to be stepped up for acceleration of the flow of funds into equities.

Another rich bowl of funds is the non-resident Indians who are estimated to be nourishing over Rs.1,00,000 crores with an annual accretion of about Rs.25,000 crores. Despite the several concessions, the flow hitherto has hardly been about Rs.1,000 crores. Proper education and simplification of procedural formalities are rapidly called for to encourage the flow of these funds into the Indian markets.

In the larger interest of ensuring development of the corporate sector, it is necessary that flow of funds into industrial securities, particularly equities, does not receive any setback. For this purpose, it is absolutely essential to take all precautions against attempts to hammer down prices. Stock Exchange authorities and Financial Institutions have, therefore, to be ever vigilant and take appropriate action from time to time to ensure this. Stock Exchange authorities have numerous weapons like margins, prevention of further dealings, ban on speculative transactions, minimum prices, etc. all or some of which can usefully be deployed to achieve this objective. Financial Institutions who own over 30 per cent of equities can easily support the market by timely purchases in periods of recession. This is, however, not to say that stock prices should be jacked up artificially on a permanent basis.

Innovations are called for with regard to instruments in the primary market. The non-convertible debentures which till recently had proved to be attractive have started fading away. Preference shares have completely melted away from the market. Equities and convertible debentures are the only instruments presently available for mobilisation. There is a need to ensure that non-convertible debentures and preference shares are not allowed to vanish. Suitable changes in the terms of these instruments can be made to revive their allurement to the investors. The convertible cumulative preference share which was a non-starter can also be made a potent instrument for mobilisation of resources. Besides other instruments like zero coupon bonds, debentures on tap, warrants, mutual funds with private sector, etc. should be developed to ensure that the investor have a wider spectrum of choice for investment in industrial securities.

While new issues of unknown entrepreneurs without a track record get a lukewarm response, the public response to good issues by established houses continues to be excellent. On an average, equity issues were oversubscribed about seven times in 1984-85 and eight times in 1985-86 on the Bombay Stock Exchange with several of them being over-subscribed more than twenty times. Heavy over-subscription is a national waste and ways and means will have to be found out to prevent such a waste. Evolution of a tender system, restricting the number of centres for collection of application money and keeping the subscription list open for only one day could be some of the measures that could be considered in this behalf.

A major malady of the new issues market is the unofficial market where premium rates are rigged up by the promoters, underwriters, brokers and others interested in making the new issues a success. These premium rates not only disappear after the enlistment but the shares are either not traded at all or are quoted with a discount. The dealings in this market should, therefore, be curbed totally so that the gullible investing public do not
that the gullible investing public do not get misled. Alternatively, this market can be regulated after the prospectus of a company are filed with the Registrar of Companies on an "as and when issued basis" as in some of the developed countries of the world.

Innovations are called for in the secondary market too. The sharp increase in turnover has not generated the required liquidity. Out of the securities of about 5,000 companies listed on the stock markets, hardly 50 per cent of them get traded in a year. 122 shares in the specified group (in which contracts need not necessarily result in delivery as in the non-specified group; they can be offset by opposite contracts or carried forward from one settlement period of 14 days to another) in the four major Stock Exchanges of Bombay, Calcutta, Delhi and Ahmedabad account for 80 per cent of the trading and even out of this, about 25 shares account for 75 per cent of the turnover. In other words, 60 per cent of the turnover in the market is confined to about 25 shares.

The question of appointing specialists or market makers in all the listed securities who will always give a give-two quotation, as in some of the developed countries, merits serious consideration. Such specialists or market makers must be offered securities by the issuer on the same terms at which the offer is made to the public. They should also be given liberal financial support from commercial banks. Listing of a security on a Stock Exchange only then has a real meaning. It is heartening to observe in this connection that it has recently been decided by the Presidents of Stock Exchanges to insist on a sponsoring broker for a company with an issued capital of Rs.3 crores or more seeking enlistment on Stock Exchanges and more importantly for the sponsoring broker to act subsequently as a market maker. The translation of this decision into practice will be watched with interest.

There is a growing tendency for business to be concentrated in Bombay which today accounts for about 70 per cent of the turnover in the country. This is not conducive for around round development of the securities industry in the country. One possible way to arrest this concentration is to structure a national market through electronic devices on the lines of the National Market System in USA which has linked up all the seven leading Stock Exchanges in that country and which enables an investor sitting in one market buy at the cheapest possible price prevailing in any other market and sell at the nearest possible price ruling in any other market. While we may take a few years to structure such a market in the country, a beginning has already been made by linking up electronically all the major Stock Exchanges in the country for the purpose of simultaneous display of prices and other related information through the PTI Stockscan Scheme. This will not only lead to increased arbitrage business among different markets but also the development of mofussil markets as they are no longer be required to wait for Bombay quotations which set the pace of the stock market operations in the country. We should also plan to extend the pattern of trading in specified shares prevalent in major Stock Exchanges to minor Stock Exchanges also subject, of course, to proper checks and balances. This will naturally increase the liquidity in the minor Stock Exchanges.

Another major area that needs immediate attention is the odd lots which have proved to be a bug bear for the investors who normally receive 15% to 20% less than the prevailing market price for sale and have to pay 15% to 20% more than the ruling market price for purchase. The Bombay Stock Exchange has recently appointed 16 members of the Exchange as authorised dealers in odd lots but also set norms for their operations. The discount for the sale of odd lots cannot exceed 10% if the price of the share is
up to Rs. 40, 7 1/2% for shares of the price from Rs. 40 to Rs. 100, 5% for shares from Rs. 100 to Rs. 300 and 5% or less for shares above Rs. 300. A special trading session for one hour in a week has also been organised by the Exchange to facilitate trading among the members. The scheme has met with resounding success and deserves to be emulated by other Stock Exchanges.

While the above measures are no doubt welcome, companies should also appoint trustees who should buy these odd lots on a regular basis and give to the investors the net proceeds after deducting the expenses involved in consolidation and disposal. Companies Act, 1956 can also be amended to permit companies themselves to buy these shares, as in U.K. and U.S.A.

Insider trading is one of the menaces raging the Indian stock markets. While insider trading is prohibited in almost all the countries of the world, with strict penal provisions for violations, it is indeed sad to note that neither the Companies Act, 1956 nor the Securities Contracts (Regulation) Act, 1956 contains any punitive provisions against insider trading. The Government should hasten legislation in this regard, preferably by an ordinance.

Restrictions on the currency of the transfer deed to a period of two months or till the next book-closure, whichever is later, have acted as a hindrance to the spread of equity cult in the country, particularly into the semi-urban and rural areas and among the NRIs. The proposal contained in the Companies Amendment (Bill), 1987 to extend the period of two months to twelve months is welcome, but by itself. These restrictions need to be done away with to ensure free liquidity and transferability of shares. Besides attempts to immobilise movement of securities by establishment of Stock Holding Corporations on the lines of Depository Trust Corporations in the USA, should be made on a priority basis. Ultimately we should plan to journey towards a certificate/less society as is being planned by U.K. Late Mr. P.J. Jeejeebhoy, Chairman of the Bombay Stock Exchange, had submitted a blue print in this behalf way back in 1979. A High-Powered Committee may be appointed to exclusively look into these problems and come to an early conclusion from a totally objective angle sans inhibitions and shibboleths.

Confidence of investors can be sustained if only it is ensured that the securities they give to the stock brokers for sale and the money they deposit with the stock-brokers for purchase do not get willed away by their default. The Customers Protection Fund established by the Bombay Stock Exchange in October, 1986 guaranteeing to each investor an amount of Rs. 10,000 in respect of his genuine investment claims in case of a default by a member of the Exchange is a significant step towards this end. The amount of Rs. 10,000, however, needs to be raised to a much higher level, in fact, ultimately, to the total amount of claims.

All these and several other measures are called for if the Indian Stock Exchanges have really to prove to be citadels of shareholders’ democracy in this country.
The Changing Pattern
Of The Indian Capital Market

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The Indian capital market is going through a period of major institutional transformation. In the first half of the eighties, there was an outburst of new floatations of industrial and leasing companies as well as large modernisation and expansion of existing companies as they found that new capital could be readily raised. The runaway boom in the stock markets created a favourable climate which grew into a sense of euphoria among the investors as share prices rocketed skyhigh during 1982-85 and there was a virtual scramble for shares and securities from existing and new investors. New capital issues rose steadily each year to attain a Rs.5,000 crore mark in one year.

Inevitably and naturally an untenable situation had built up in the market. The next two years brought about a stock market collapse resulting in a 30% to 50% fall in share prices. The individual investor lost interest in the market after suffering severe beating, losing a lot of his capital. Institutional investors such as investment trusts, banks and institutions and above all the Unit Trust accumulated both sound and not so sound industrial securities at rising prices, equity as well as debentures. Development banks, having large investment portfolio, got a golden opportunity to disinvest profitably a good part of their old investments. However, at the same time, they also accumulated fresh portfolios of new issues of various quality.

MERCHAND BANKING

Much before this time, merchant banking firms had begun to be established, the first being the Grindlays Bank in early seventies. However, phenomenal growth of merchant banking took place in the mid-eighties along with the booming stock market. Institutions, banks and brokers took up merchant banking business, largely in the form of wholesale brokers and underwriters. They too have been affected by the downward course of the market and after bitter lesson are now passing a period of consolidation. In order to be merchant bankers or investment bankers in their true sense, they now need to turn from wholesale brokerage to provide expertise to companies on the cheapest and best way of raising capital and in regard to the complexities of corporate restructuring, mergers and take over of non-performing and other companies. None-the-less, Merchant Banking now constitutes one more step in the development of the capital market. It has come to stay and is a further step in institutionalisation of the new issues market.

LEASING

Another noticeable feature of this period
in the capital market was a proliferation of new leasing companies. Some of these have already gone down and some are learning business the hard way. None-the-less, another type of financial institution has been born to broaden the capital market by creation of a new instrument of lending without insisting on any margin, with borrowers hoping to repay principal and interest from annual income of the unit. Tax benefit to the leasing company and charging some what higher rate of interest would cover the greater risk involved in providing finance without any margin.

DEMAND FOR CAPITAL

On the demand side, one more significant development was the entry in a big way of the public sector enterprises in the open market by issue of large amounts of fixed interest bearing bonds on generous terms, taxable as well as tax free. Several of them were new units without past record of performance and in the infrastructure fields. These corporations are mainly in the fields of energy and telecommunication, promoted and equity owned by the Government but with borrowings from the public sector banks and other financing institutions. Volume of private savings are growing with heavy deficit financing while with stagnation in the private economy, banks and investors had surplus for investment in bonds and in public sector units. Thus, the Government owned industrial concerns borrowed large capital funds mostly from the Government owned banking and financial institutions. The resulting situation is an anomaly in that the Government is holding total equity in public sector corporations and depends a great deal on the market for heavy borrowing by tested and untested units. This is rather a curious pattern of the Government financing of public sector management. The burden of heavy debt by the infrastructure public units with low profitability potential in the context of poor return on the Government holding of equity capital is certainly not the sound or proper way of financing industry. The pattern of financing public sector units is thus lop-sided and not in the best interest of the Government. From the stock market point of view, this development has provided new instruments in the form of bonds of fixed interest bearing character which has broadened the bond market.

SUPPLY SIDE

While demand for capital by the corporate sector was thus in some way institutionalised as the first phase, the second phase of institutional financing from the supply angle is now taking place in the latter half of the eighties. New mutual funds and new large leasing companies, backed by banks and other institutions are being formed, providing competition to existing institutions. So also in the field of housing finance, especially with the creation of National Housing Bank. Expertise, which is the key to success, is to some extent available and more will be created on the jobs. These financial institutions are coming into existence at a time when the stock market is down and support from the general public for equity capital practically non-existent. Supply of capital for modernisation, and reorganisation of existing industries and as risk capital will be more easily and competitively available from alternative institutional agencies. From the long term point of view, this is a breakthrough for the economy which in the past complained that India was capital shy. In the short term, however, industrial outlook is uncertain as many established industries are losing and the number of sick units is on the increase. At the same time, however, new technology based companies and telecommunication units are making a fresh demand for capital. It is now possible to raise equity and bond capital in hundreds of crores as the events of the last few years have shown, thanks to the initiative of new entrepreneurs such as Reliance and old ones like TISCO, TELCO and other public sector units.
Judging by the rapid increase of deficit financing and large in-flow of external capital from the international capital market as foreign exchange loans, apart from NRI, supply of funds may well be in excess of demand, which may compel the monetary authorities to lower the current administered rates of interest to more realistic level, having regard to the real rate of interest.

The formation of the Rating Corporation on the U.S. pattern will also involve differential rates of interest on new bond issues according to the quality of issue as assessed by the new independent agency.

OPERATIONAL EFFECTS

New technologies of computerisation and telecommunication are also making big difference to the functioning of the brokerage houses, of the Stock Exchange and in the banking and financial institutions. The tedium of manual work is being reduced as technological upgradation takes place. The financial world as well as the industrial world are required, even compelled, to adopt new technology for their survival. Energy saving, production equipment and methods, computer designing, robotary, etc., all create their own demand for a specially trained labour force in place of the existing labour force, demanding a new training system and retraining of the existing labour. Unemployment is increasing while at the same time, there is shortage of manpower with specialised experience.

INTERNAL OPERATIONS

The Stock Market’s internal operations have also undergone some improvement due to enforcement of the margin system. This will be a restraining influence on heavy speculation. However, what is even more important is vigilance on the part of Stock Exchange authorities in regard to excessive long or short positions being built up by one or more operators in any company or group of companies which create instability. Stock Exchange authorities are vigilant but they need to enforce their authority with greater strictness through various penalties which they are in a position to impose. Trading by company management in their own shares should also be discouraged. Space for brokers is also a problem which will be overcome to some extent when the new building under construction will be ready. Some of the other operational difficulties of the brokers in regard to transfers etc. is being looked into separately by the authorities.

Through various committees, the Government is now better acquainted with the intricacies of stock market activities, but a too frequent intervention by the Government, based on daily fluctuations in the market is undesirable. In regard to prices of shares, there should not be any interference or intervention through the Government pressure on public investing institutions. This is undesirable and non-productive. The Government should not attempt to turn the tides because in the market itself, there are in-built force acting due to inherent conflicts between the bulls and bears pulling in opposite directions. This normally takes care of undue rise or fall in the market as a whole. The market should not be tampered with, in regard to prices by the Government orders but left to itself.

Thus, during the present decade, the capital market in general and the stock market in particular have developed tremendously. Its inherent internal strength and its broadened capacity is coming to be recognised internationally. The curbs imposed on movement of capital under Exchange Control Act is one single factor which is not allowing it to grow further internationally. A suitable revision and liberalisation of this Act is overdue.
Revival Of The Capital Market

R. S. BHATT
Former Chairman
Unit Trust of India

There is natural keenness on the part of the investing public, the Corporate Sector, new entrepreneurs and Government to see that the capital market both at the primary level and the secondary level is in good shape and becomes as active as it was in 1985-86 when the market mobilized fresh capital of the order of over Rs.4500 crores. The new issue market was very active and nearly Rs.900 crores were invested in equity shares, which really operates as a catalytic agent for the capital formation of a much greater amount. There were convertible and non-convertible issues, which giving a yield of 13 1/2 to 15 percent, predominated because Indian investors, especially in the middle income group, prefer a balanced portfolio, which brings in a good return in the form of interest income and capital appreciation on growth stocks. It was indeed highly creditable that the capital market was in a position to mobilise Rs.4500 crores in 1986. These funds came mainly from the house-hold sector because even the institutional investors like the Unit Trust of India and Life Insurance Corporation of India obtain a large part of their funds from the house-hold sector. This is evident from the fact that the house-hold sector contributes nearly 70 percent of the total pool of saving in the economy and finances the deficit of Government and the Corporate Sector. The rate of saving has been consistently going up and has now touched the figure of 23 percent of our gross national product. We are a thrifty people and conserve our resources.

The function of the Capital Market is to act as an institutional mechanism to channel funds from those who wish to lend to those who are in need of funds. The market in industrial securities operates to channel funds into productive activities. It is therefore most essential that the market continues to function as an efficient instrument for allocating resources for productive use.

GOOD INVESTMENT

At the root of the good investment climate lies the confidence of the investing public and entrepreneurs that their optimistic expectations would be fulfilled and they will get a good return on their invested capital and the companies in which funds have been invested will not only be managed efficiently but will earn good profits, expand and diversify their operations and be of long-term benefit to those who took the initial risk of investing their saving in these enterprises. This sentiment was buoyant in 1985-86 because the optimistic expectations of the investors were influenced by the liberalisation of government’s industrial and fiscal policies, growth in national income due to increasing agricultural output, new industrial projects coming up, industrial output showing upward trend and the
infrastructure was giving substantial support to industrial growth. The Corporate Sector's performance was good and profitable. Many companies raised their dividends and issued bonus shares.

In a bullish stock market there is always a strong speculative element, which pushes up prices before genuine investor are attracted to the market. The nominal prices of new issues are boosted up by a premium, speculators come out to buy market-makers and raise their prices; insider-traders seize the opportunity to book profits on their own holidays; and broker-operators do more of trading on their own than brokerage business for others. There are other factors which boosted up prices of the leading shares in the market. There is no doubt a number of finance and leading companies as well as mini-paper and mini-cement companies came into the market to raise capital because the market sentiment was favourable.

DEPRESSED MARKET

After the middle of 1987, the sentiment of the market has become depressed. There are reasons for the situation. Last year there were areas where rainfall was deficient but the output of foodgrains was not badly affected. This year, it appeared from July onwards that some areas in the country will be faced with a drought which will affect their agricultural outputs, including foodgrains and cash crops like oil-seeds, pulses, cotton, tobacco, and raw jute. Unfortunately the drought became widespread, affecting the output of foodgrains, oil-seeds, and pulses, which constitute staple items in the diet of the Indian population. This fact alone has made the short-term outlook dim because, it affects rural demand for a variety of goods, because farmers' income would naturally fall. Secondly demand for industrial goods would also suffer because a large segment of population would buy less of finished and consumer goods. This would affect the profitability of these industries. And this would result in reduced demand for capital goods. The two national industries, cotton textile manufacture and jute goods manufacture have acted as dampers for a long time. In my view, the short-term outlook is likely to continue to remain dim for at least till next June. After a period of bull market, there is always a correction and bearish trend appears. During this period speculators and investors come forward to sell and sentiment becomes depressed. In this phase many investors lose their capital and feel poorer for this loss in capital.

FUTURE OUTLOOK

We are however a large country. Our industrial structure is highly expanded and diversified. We produce all the consumer goods we need; we export light engineering goods which compete on factors of price and quantity. We have the largest railway network. Our commercial banks and financial institutions are as good as any in the world. I therefore think that the long-term outlook is positively bright. In order to restore the confidence among entrepreneurs and investors, a series of steps must be taken simultaneously. The initial filip to the economy must come from the Government in various fields. Though we have liberalised industrial policy, many of the unnecessary controls on licencing, registration, procedural approvals, and import of technology remain intact.

Adhoc changes in import duties and excise duties are made which affect the fortunes in different segments of the same industry like textiles. There is no long-term automobile policy. The Government should also deal in a fair and just manner towards the industry which consists of the public and private sector units. They both contribute to the national income and wealth. Secondly, we must learn to live within our means; this will mean sacrifice and austerity and hard
work for white collar workers and skilled and ordinary workmen. The Corporate Sector as a whole must manage itself efficiently and generate enough surplus to pay dividends and build up reserves for further productive use. This requires a very high measure of efficiency and integrity. I must stress in this context that the capital market develops a robust outlook only when the economy as a whole is performing well and the Corporate Sector in particular shows profitability and growth. It is no use lamenting over the fact that in the secondary market only hundred shares are actively traded. This is because the other industrial units are not performing efficiently and show little prospects of growth.

The third important factor which can contribute to the revival of the market is the attitude and performance of the whole complex which functions in the market. I have known that investors in some of the countries in South Asia look upon the Stock Market as a forum for speculation. They distrust the operations in the market so much that the market’s turnover in these countries has always been low. Fortunately, the capital market in India has grown over one century and is in a healthy state. I would therefore like to suggest three measures which should be taken simultaneously. First, the broker community must develop self-discipline and self-regulation. Integrity and business morality are qualities which can never be imposed by law or authorities. They must be developed from within in an individual and the group. I remember vividly that before the war there were leading broker firms who were disciplined, observed rules and regulations and were always fair and just to their clients. There is no reason why we cannot re-establish this code of conduct among the participants and members of the Stock Exchange. They must give up unfair practices and manipulative and insider trading. Second, the more self-regulation there is, the greater is the need to supervise that everybody observes the rules and is fair to the entire stock exchange community. Further the existing broker firms should not treat stock exchanges as closed shops. Just as in new Stock Exchanges, new members are enrolled, there should be equal opportunity for new members to be admitted in the old Stock Exchanges. All of them need to be trained and qualified. Computers are installed, tele-communications are laid and information on transactions is made available to all. Of these facilities the advantage should not be confined only to the brokers; it should go primarily to investors. Thirdly, Government must amend the Securities Contracts (Regulation) Act suitably and appoint a supervisory machinery with proper funding, staffing and enforcement authority so that those who regulate themselves would not like to deviate from the straight path of fair and just practices. I must add that even if the present rules and regulations are strictly observed, investors would feel that they will get a fair and just treatment from the operators and brokers in the Indian Stock Exchanges.
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The Stock Exchange and The Capital Market

PREM CHAND JAIN
President
The Delhi Stock Exchange Association Limited

The Stock Exchange is a key institution which plays an important role in the course of the issue and sale of various types of securities. This is an institution and a pivot around which every activity of the national capital market revolves. It is continuously engaged in the capital mobilisation process. The Stock Exchange provides opportunity to the fund users for the continuous trading in securities. Through the medium of Stock Exchange, the investors get an impetus and motivation to invest in securities without which they would not have a chance to liquidate their investment or adjust their portfolios. Had there been no institution of Stock Exchanges, many of the savers would have simply held on to their saving either in cash or in the banks. Another consequence of non-existence of Stock Exchanges would have been lower aggregate savings of the community. The Stock Exchange provides safety and liquidity to the investing public and generates a sense to save and put their money in securities instead of investing in small firms whose integrity and competence they would never judge themselves accurately.

To answer the above queries, we may define the capital market as a market which provides long-term capital to the industrial sector for various items of fixed capital expenditure under various heads such as land, plant and machinery, furniture, building etc., which are permanent in nature and used for production. In other words, capital market is the medium for mobilising the finance out of the saving of the community and making it available to the users, i.e., industry or business, for meeting their long-term requirements of funds. The long-term finance is thus raised through such a market which is termed as capital market.

The capital market is of two types, viz., primary capital market and the secondary capital market. The primary capital market is called market for new issues and the secondary capital market is called market for the existing securities. These two markets are discussed in brief hereunder.

THE PRIMARY CAPITAL MARKET (NEW ISSUES)

This market is concerned with the process of offering new issues of securities in the Stock Exchanges with the help of Brokers, Issue Houses and Merchant Bankers. The Stock Exchanges
also examine and approve certain documents such as draft Prospectus and Memorandum of Association and Articles of Association as a pre-requisite for going Public and finally granting listing facilities to the recently issued securities.

In simple words, it can be said that a primary market operation is the process of going to the public via the institution of Stock Exchanges. Funds can be raised from the market by the new companies as well as by existing companies for their expansion and diversification programmes. In both the cases, the Stock Exchange is very intimately related in the process of raising funds from the primary market.

THE SECONDARY MARKET
(EXISTING SECURITIES)

This secondary market is the market in existing securities which are traded in Stock Exchanges. After the securities are listed on a recognised Stock Exchange, these can be freely traded as per the bye-laws and regulations of the Stock Exchange concerned. The Stock Exchanges have regulated mechanism which provides liquidity to the securities listed thereon. This market operates through the Members of the Stock Exchange who carry out trading operations in the Trading Hall between fixed hours under the supervision and control of the Stock Exchange authorities.

HOW THE STOCK EXCHANGES HELP THE CAPITAL MARKET

The Stock Exchanges help in the formation of the capital on one side and then facilitate the process of transfer of ownership of securities from one person to another. It also helps the corporate sector to raise capital from the primary market by procuring subscription for the new issues through its Member Brokers. This way, the Stock Exchange establishes a relationship between the two markets, i.e., primary capital market and secondary capital market.

The Stock Exchange provides a number of services to the small investors in particular and the other investing public in general. Their grievances are handled properly and firmly. The Stock Exchange also provides information to the investors through its Members as to when and where to invest. This helps in mobilisation of funds from the small investor.

FUTURE PROSPECTS

Inspite of the drought conditions, the capital market will be healthy for the year 1988. The sentiment of the investors in the primary capital market is improving as is apparent from a number of new issues brought out recently.

The growth of Stock Market in India in the 20th century is unparalleled. The number of investors and listed securities has increased manifold. This is an indication as to how the institution of Stock Exchanges is helping the development of the capital market in our country. The volume of new issues has increased manifold over a period of five years and is expected to cross the limit of Rs.5000 crores annually at the end of 1988. Similarly, the volume of turnover in the Stock Exchanges has also increased considerably over a period of five years. Likewise, the secondary market is also showing improvement due to the following regulatory measures taken recently by the Government and the Stock Exchanges:-

(i) Establishment of Surveillance Squads to ensure fair trading practices in the market;

(ii) Installation of Stockscans in the Stock Exchanges of Bombay, Calcutta, Madras, Delhi and
and Ahmedabad to reduce arbitrages in the prices of various securities;

(iii) Imposing a number of limits on movement of prices;

(iv) Fixing uniform settlement periods;

(v) Regulating period of ‘carry-forward’;

(vi) Fixing of margins on volume of trading;

(vii) Computerisation of transactions;

(viii) Provision for corporate membership in the Stock Exchanges;

(ix) Broad-basing of professionalisation of membership;

(x) Computation of sensitivity Share Price Index; and

(xi) Proposed amendments in the Companies Act.

CONCLUSIONS

The process of marketing of securities which the Stock Exchanges undertake has significant implications for the individual savers or the investors and the users of funds and also for the nation as a whole. In view of the well-regulated procedures for effecting sale and transfer of securities, the role of the Stock Exchange is very important. In other words, the Stock Exchange facilitates (through the media of primary and secondary capital markets) the generation of savings and their channelling into multiple uses without violating the principles of free enterprise.

To conclude, the Stock Exchanges are engaged in the process of capital formation and investment and are ultimately contributing towards the well-being and prosperity of investor and national economic development.
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Perception of The Stock Market And The Present Trend

L. S. PRABHAKAR
President
Bangalore Stock Exchange Limited

The economic growth of democratic nations mainly depends upon the successful functioning of the free enterprise. This again is closely linked with an organised capital market of which, the Stock Exchanges form the backbone. Once the Stock Exchange is recognised under the Securities Contracts (Regulation) Act., it ceases to be a mere Association of Stock Brokers. It becomes a Public Utility Body and a great responsibility devolves upon it. Our Government has accepted the policy of mixed economy and has set apart exclusive fields of activity for the private sector and has set certain targets to be attained within the plan period. The members of the Exchange have been instrumental in channelising the savings of the community and provide perennial supply of capital resources towards industrial and commercial development of the nation.

STOCK EXCHANGE FUNCTIONS

The Stock Exchanges, which constitute a necessary adjunct to the corporate sector, discharge three vital functions in the orderly growth of capital formation.

First and foremost, they are the nexus between the savings and the investment of the community. Savings of the community are mobilised and channelled by Stock Exchanges for investment into those sectors and units which are favoured by the community at large on the basis of such criteria of good return, appreciation of capital etc.

The second important function discharged by the Stock Exchanges is that they provide a market place for purchase and sale of securities, thus enabling their free transferability through several successive stages from the original subscriber to the never ending stream of buyers who may be buying them today to sell them at a later date for a variety of considerations like meeting their own needs of liquidity, shuffling their investment portfolios, to gear to the ever changing market situations etc. This guarantees saleability to the one who has already invested, and surety of purchase to the other who desires to invest.

The third major function, closely related to the second, catered to by the Stock Exchanges is the process of continuous price formation. This ever changing demand and supply conditions result in a continuous revaluation of assets. The Stock Exchanges thus act as a barometer of the state of health of the nation’s economy, constantly measuring its progress or otherwise.

Apart from the private sector, the Stock Exchanges also serve the joint sector and the public sector by providing a forum for
few transferability of shares held by the public. The public sector has recognised the importance of the stock market and had raised a huge quantum of resources by the issue of bonds.

The Foreign Exchange Regulation Act, 1973 has a great relevance to the capital market in India. The capital market during 1972 was rather sluggish, but picked up during 1973 and except for the period from July 1974 till the end of 1975 due to the dividend restriction legislation, an upward trend was noticed in the market activity continuously. Then followed a march of 'FERA' issues. The leaders in the march were foreign tea companies. The fury of FERA avalanche seemed unabated. Every week witnessed more FERA companies entering the capital market and each issue got oversubscribed many times over. The FERA contributed greatly to the emergence of a lively capital market in the country.

As per the policy of the Government, the private sector should obtain their resources in the capital market and they have been successful in achieving their goal by collecting about Rs.3700 crores from the capital market.

There are 15 Stock Exchanges in India. At the end of 1985, the number of companies listed in the Stock Exchanges was about 4500 with a market capitalisation of about Rs.15,000 crores. The Government of India had in May, 1984 appointed a High Powered Committee under the Chairmanship of Sri G. S. Patel to undertake a comprehensive review of the functioning of the Stock Exchanges relating to cost of public issues, improvement of service to the investors, system of trading in securities, membership of Stock Exchanges, etc.

There has been interlinking of Stock Exchanges of Bombay, Delhi, Calcutta, Madras and Ahmedabad for electronic display of share prices and also computerisation of stock market activities.

MUTUAL FUNDS

Another important feature of the present trend in the capital markets is the emergence of mutual funds in a big way. The Unit Trust of India came out with a mutual fund in the form of Master Shares to the extent of Rs.100 crores. The SBI Capital Markets Limited have launched their Magnum Regular Income Scheme 1987 for Rs.100 crores. Canbank Financial Services have also entered the market for their mutual fund. All these mutual funds put together with their operations on a large scale will lead to wide spread activities in the capital markets. This ultimately will lead to much needed liquidity. However, a good deal depends upon the operations of these mutual funds which require skill, expertise, thorough knowledge and prompt execution. Let us hope that in the highly sensitive capital markets the mutual funds would conduct their affairs in a highly professionalised manner keeping in view the heavy responsibilities of building up healthy and buoyant capital markets.

It has been proposed by the Government to allow membership on the Stock Exchanges to corporate bodies and the subsidiaries of nationalised banks and financial institutions. The organised form of membership has been probably thought of with a view to streamlining the services to the investing public. But then again the actual performance would indicate how far such measure is well founded.

The semi-urban and rural sector is becoming quite resourceful and most of their resources are not tapped by the corporate sector. This may be due to limited operations of the stockbrokers which are normally confined to the metropolitan cities so far. The entry of mutual funds in a big way and the vast scope for going into the interior of the country, will help tap
the valuable resources for the trade and industry.

It is obvious that the economy of the country, structured as it is today, is likely to unfold, in the years to come, the three vital services viz., mobilisation of savings of the community into useful channels of investment, providing a focal point for purchase and sale of securities and the continuous evolution of prices will be usefully rendered by the Stock Exchanges.
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Revival Of Capital Market

PUSHKARLAL GHUDAWALA
President
Madhya Pradesh Stock Exchange

At present the capital market is passing through very difficult times. This is largely due to distortions in our economy.

This article is based on the premise that there is a dearth of wealth in the country, as is the case with investible funds. If proper steps are taken by the authorities and a few bold fiscal policies are sincerely implemented, considerable amount of investible funds could be generated. In this way many problems of capital markets can be solved.

After Shri Rajiv Gandhi assumed Prime Ministership of the country, a few bold steps were taken by the Government. This resulted in an unprecedented boom in the capital market. Industrial production increased to a considerable extent. Unfortunately, proper follow-up measures were not taken in subsequent years. This had an adverse impact on the economy of the country. The situation was further aggravated by political turmoil and worst drought conditions in 1987.

MEASURES TO BOOST INDIAN ECONOMY

In the first year of office, Shri Rajiv Gandhi rightly realised that the Government should not be dogmatic in its economic policies. Its main objective should be to increase revenue collections, even if it meant liberalisation of the economic policies. Secondly, the Govt.'s efforts to divert unaccounted money into productive channels of economy, through capital market, were also successful. In 1985 the Govt.'s performance in boosting the economy was really commendable. The Government reduced the rates of income-tax for individuals and joint stock companies. This resulted in a record revenue collections for the Central Government. Various steps taken by the Government to liberalise industrial policy also resulted in a considerable increase in industrial production but in 1986 and 1987 this trend was gradually reversed; this has landed us in deep economic crisis. If another cut of say 5 to 10 percent in the rates of income tax and corporate tax had been made, the revenue collections of the Government would have increased sharply and the budgetary deficit would not have gone up.

In the field of indirect taxes also reduction in excise duty resulted in higher revenue collections, as in the case of commercial vehicles. There are many more areas where right Government policies can bring about great changes in the economy. For example, if soyabean processing plants were allowed to import
soyabean seeds, this would have revived the soyabean industry. Many of the units would not have been forced to become sick. Major part of foreign exchange thus spent could have been recovered by exporting soy-a-meal. Again this was not done. Government preferred to import soyabean oil, at a much higher price. Therefore, it can be said that proper economic policies only can revive the stagnant economy of the country.

The year 1985-86 was the boom period for capital markets. Equity culture, which was hitherto confined to big cities only, spread to small towns and even to villages. The number of investors increased many times. If this trend should have continued for a further period of 5 to 10 years, we would have made great progress in boosting the economy. Not only the Government policies, but other factors caused virtual crash in share prices. Much harm has been done, the confidence of small investors has been shaken and if this trend is not reversed, future of the capital market will be bleak.

REVIVAL OF CAPITAL MARKET

I wish to make the following suggestions to revive the capital market, viz.,

(i) There should be strict check on unscrupulous promoters and broker-cum-publishers etc. who mis-guide the innocent investors to make quick money

(ii) The rates of personal taxations should be reduced, especially in case of salaried middle class people. The exemption limit should be raised from Rs.18,000/- to Rs.25,000/-. At present 100% rebate is given U/s.80(C) upto a limit of Rs.6,000/-. This should be raised to Rs.18,000/-. The revenue loss on this account will be insignificant. In later years it will result in higher revenue collections because there will be lesser tax evasion.

(iii) A cut of say 5% in corporate taxation will not only boost up the capital market, but will ultimately result in higher revenue collections.

(iv) The present limit of Rs.20,000/- under section 80 (CC) of the Income-tax Act should be raised to Rs.40,000/-. In the initial slab, Rs.5,000/- invested in new issues should be totally exempted from tax.

(v) At present, long term capital gains are exempted from tax if the net proceeds are invested in capital units and other prescribed securities, subject to certain restrictions. Ultimately, the Unit Trust invests part of the funds thus collected in the capital market. Better results can be achieved if some modification is made in this matter. For instance, if the assessee is allowed to invest 50% proceeds in the stocks and securities of his choice and 50% in the aforesaid securities (i.e. Capital Units etc.) a large amount of funds would be invested in new issues. This in its turn will result in lesser tax evasion.

Dollar is fast losing its value in international market. The danger of great depression of 30's is looming large on western economies. Indian capital market may have to face its repercussions. The Government of India, therefore, must act fast to avert any danger to capital markets.
Rejuvenating
Indian Stock Market

J. R. JOSHI
President
Pune Stock Exchange

For several decades, the Indian entrepreneur was able to procure a very small modicum of money from savers in India. During sixties, it was hardly Rs.50 crores per annum. As the value of rupee came down and prices went up, there was some increase in this figure. That was in the seventies. But it was in 1982 that there was a sudden spurt. Not only was the increase appreciable in as much as it crossed one thousand crores mark in 1982-83 but it also continued to rise every year thereafter until 1986. In 1987 there was a setback. In the first six months of 1987 the capital raised by new issues came down to Rs.1645 crores from the figure of Rs.4576 crores for the entire calendar year 1986. The capital issue consents during the five months from April 1987 to August 1987 are down to Rs.1710.21 crores for 274 issues as against Rs.2170.80 crores for 435 issues in the corresponding months of 1986.

For examining causes of this decline we shall study the positive aspects of earlier years when the consents of issues were mounting up. If we can identify features that obtained in those times it will help us to know how we can change the present disquieting climate. These steps brook no delay. The slide back must be halted and a positive tempo built up for 1988, 1989, 1990 and so on.

ATTRACTION ISSUES

The acceleration in capital market initially came when attractive issues were put on the market by existing successful companies - mostly what are known as FERA Companies. Support for issues of newly formed companies came much later. The aforesaid issues were attractive in the sense that the issue price was much below the market price and the expected return in terms of dividends was high, not only because of the rates of dividend already declared by these companies but also due to expectations of bonus shares. Investors do not go only by the past performance. They like to anticipate future results and their effect on the yield and market price before rushing to buy or subscribe to any issue. Investors reposed great confidence in the management of these companies. So the market began to boom.

The second reason was the compelling climate created by some enterprising managements by distributing bonus shares almost regularly every three years and by issuing convertible debentures and rights shares. This required all companies to follow suit and humour the investor. For this purpose they had to improve their performance and build up their general reserves and also undertake expansion and diversification projects in hand. A company which was not perform-
ing well or which was not enthusiastic about shareholder's needs could not get market support in equal measure.

Thirdly, the Government appeared happy about these developments. That also matters a lot for creating the right climate. Besides, they found that once the investment gathers momentum, people are prepared to put their money in public sector as well. So many public sector enterprises mopped up so much money from the public in 1985 and 1986. They will now also learn that once the climate becomes grey for private sector, the money would not be forthcoming for public sector either. This will be so because the common investor mostly does not go by logic.

Fourthly, when Government was happy about share bazaar's enthusiastic climate, pin pricks were not allowed to vitiate the atmosphere. Of course, good climate generates its bad corollaries. This happens all over the world. When the market booms, new issues of all and sundry get support. This is not a good thing to happen. Besides, the high prices become unjustifiable on pragmatic analysis. But if you become sensitive and interfere directly, the weather gets adversely affected and you have to face drought conditions in the capital market. It is not possible to find many investors in the primary capital market, if the secondary Stock Exchange market is looking down or is listless. Similarly, you cannot have money for the public sector alone when it is not forthcoming for the private sector or vice-versa. You can have saving without investment. And that is the danger for the economy.

TAXATION CURBS

Probably what happened was when share prices were soaring (often foolishly) and capital market was not just rosy, but a rose-garden, somebody higher up thought about applying brakes by giving a dose or two for, transferring savings that were going under that climate towards industrial investment into tax net of the government. That was unfortunate. At least for five years, capital issue consents should have been allowed liberally and the tax provisions left untouched. Even the U.S. economy could not continue to stay on top. Share prices plummeted. We shall know the reasons thereof after a decade of analysis (some attribute it today to silly computers going hay-wise or to U.S. budget deficit or high interest rates). The moral for India is that while keeping our economy isolated from the world (except for allowing our defence and industrial products and services to become competitive in quality and performance in the world), let us also keep our industrial climate in a state of sustained enthusiasm. Let the public sector share in it but not disturb it.

The second important deduction would be that tax raids and other measures to enforce compliance of taxation statutes does not affect the climate but increased or new levy by way of tax does. The minimum tax on companies meant "I don't care as I did in the past whether you expand your capacity or not"; the deduction of tax at source at a stiff rate out of professional income also was disturbing. These two proposals hit the companies as well as prominent investor class at one time. Thereby market enthusiasm began to wane. As a result, achievement of the Five Year Industrial Sector Plan itself is now in some trouble which is a misfortune for all of us in the country.

REJUVENATING STOCK MARKETS

What could be the remedy? Firstly, let the share market be allowed to return to stability and progress. Remove hurdles on transfer of shares. Allow bulls and bears sufficient freedom to operate, say, within a weekly percentage ceiling on movement of share prices. Allow carry over of transactions as well. This is not the time to interfere with operating rules.
Imposition and variation in rules saps cheer and enthusiasm. The investor becomes shy and does not come forward to put fresh money in new issues.

Secondly, allow existing companies to come out with issues on very attractive terms. Rights issue be permitted at such rates as the directors of the company propose. Bonus shares after every two years may be made permissible. Government's sanction on such issues be expedited, or even waived for say 1 for 2 or lower bonus rates if prescribed general reserve is available with the company.

New shares of new companies will have to be tackled separately. New issues of new companies in certain key industries can be given concessions. Section 80CC should be put on a more permanent footing. Investment Allowance and Development Rebate and such concessions once announced must be continued until we had enough of industrial development for the company. Even the thought of interfering with their operation should be banished from the mind. Let them be reintroduced.

Compliance of tax laws can be enforced with full might without tagging it with grant of licence or permission etc. for expansion of a company or its diversification. Keep the two ideas in water-tight compartments. As for individual taxation, we better proclaim on the floor of the Parliament the tax stability for next ten years, at least for income upto Rupees two lakhs per annum. The continuous dread of change must be removed. If we cannot have open budget and, I think it is too early for it, let us have standard budget.

Even in excise and other indirect taxes, let us unanimously resolve to make as few changes as possible except for reducing the classifications which had been a great bug bear. Let us move ahead. The VAT is ahead; Mod-Vat is semi-ahead. No VAT is any form is using reverse engine. Let us put it back in forward gear instead.

At least once every quarter let the Prime Minister and the Finance Minister both seek opportunities to announce that in a mixed economy we want private enterprise to stay and prosper even as the public sector will grow and maintain commanding heights. How do they do so? Firstly, the Finance Minister and the Prime Minister must meet people concerned and address Merchants' Chambers, University study Groups on economic matters, tax executives, Stock Exchange Members, Export Bodies, Import Bodies, Economic Congresses and so on. Let them make it known repeatedly that industrial growth is imperative for the nation and that the Government shall not give negative strokes until India's development has reached to the level of, say, the 25th country in the world from the top in terms of per capital income or per capita consumption of food, apparel, housing, education, etc. Let us concentrate on moving forward on the chosen path of the mixed economy, without hurting each other on political or other grounds.
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Brokers’ Role
In The Development
Of Capital Market

C. H. CHANGOIWALLA
Vice President
Calcutta Stock Exchange

Stock Exchange plays an important role in the development of the country by providing funds not only for the private sector but for the public sector industries as well. Stock Exchanges are required for healthy conventions in regard to the operations of the Exchange. Investors (small & medium) are hesitant and it is for the stockbrokers to broaden the capital market by bringing small investors for productive investment. This is possible only if the public at large are properly acquainted with the procedures of investing their savings in equities/debentures. Investment by public leads to wider dispersal of ownership of companies. With the industrial growth of the country, functions and responsibilities of the Stock Exchanges are also increased. Trends in stock markets are supposed to be clear indicators of industrial and economical growth of the country.

Government of India has taken many steps to strengthen the capital market, which includes, liberalisation of the industrial policies, partial lifting of controls over prices of some commodities, raising retention prices and delicensing of some items. These have resulted in boosting the capital market during 1985 & 1986. Policies of sanctioning 13.5% convertible debentures and 15% non-convertible debentures with a premium of 5% on redemption have helped in the development of the debentures market as well. Most of the established companies are issuing convertible debentures whereby not only the equity holders are benefited but companies are also getting long-term funds to a great extent. It is because of these steps the quantum of capital raised during a year has increased from about Rs.100 crores to about Rs.4,000 crores within a range of 10 years.

GAINING INVESTOR CONFIDENCE

In India, many changes are required to gain more confidence of small and medium investors and they are as follows:

(i) To safeguard the interest of the shareholders, new companies should be allowed to enter the capital market only after achieving break-even point. In the meantime, 2/3 years fully convertible debentures may be allowed to be issued in favour of the financial institutions who are financing the projects.

(ii) Unofficial premia should not be allowed to be quoted anywhere. At times, un-official premia are quoted by the management with the result that brokers and investors are trapped in their net. No trading should be allowed before enlistment.
(iii) Proper guidance should be given to the investing public, by issuing proper literature, and by advertisement through radio and T.V. They should be properly trained. Stock-brokering community has to play a bigger role in this respect, and that is by giving advice to their clientele, after proper study of the prospectus, balance sheets and present and future prospects of the companies. They should not give advice on the basis of market rumours. Unit Trust of India, Life Insurance Corporation and General Insurance Corporation, are the biggest equity/debenture holders in some companies and they should play a vital role in smooth functioning of the company and stop all malpractices.

(iv) In case of a change over, small shareholders should be given an opportunity to sell their holdings at a price at which the controlling interest has changed hands of the Stock Exchange.

(v) Insider trading by the management of a company or their associates should not be allowed and if any person is found guilty of the same, proper steps should be taken by the Stock Exchange authorities to penalise the company/persons concerned.

(vi) The Government should also make long-term policies so that companies can make long-term planning. We find that because of constant changes in Government policies, many industries are not able to achieve their targets, inspite of expansion and blocking of money by them.

To conclude, there is ample scope in India for Stock Exchanges and stock-brokering community to attract small and medium shareholders, but they should be properly and honestly guided and educated to understand the balance sheet, and trend in industries. However, in Indian economy the Government does play a vital role in the progress of industries.
Developing Capital Market
Need to Revive Investors' Confidence

S. N. AGARWAL
Executive Director
Magadh Stock Exchange Association
Patna

VAST POTENTIAL

The Indian Capital Market which was lying almost dormant, leaving corporate sector to depend heavily upon borrowings from financial and developmental institutions on stringent terms and conditions, got activated in the current decade. With the result, capital issues became an important source of corporate finance as is evident by the approvals granted by the Controller of Capital Issues.

Though, the resources raised from the capital market in recent years have increased with an exponential rate - from Rs.130 crore at the beginning of the decade to an estimated amount of Rs.5000 crores in 1987 - the total resources raised through capital issues hardly represent about six per cent of the total domestic savings in 1986. Even if we are able to increase this percentage to the level achieved by some of the western economies (ranging between 25 and 30 percent), the corporate sector, both private and public, would be able to raise between Rs.20,000 crore and Rs.25,000 crore from the market. The amount of resources to be tapped from the market may further be enhanced if the 'culture of equity' can be developed in rural and semi-urban areas as whatever resources the corporate sector has been able to tap from capital market, 35 per cent comes from Bombay, followed by other metro-

cities accounting for between five to ten per cent and rural and semi-urban areas (representing more than 70 per cent of the country's population) about 20 per cent. It may be noted that even a minor shift of percentage to invest in corporate securities by this segment will make a major difference in raising resources if the message of equity culture be properly carried to them.

EMERGING FEATURES

Before we examine the reasons as to why we have not been able to tap the vast potential, let us give a glance to the emerging features of Indian capital market:

i) UNPRECEDENTED BOOM

There has been an unprecedented boom in the capital market as is evident from the amount of approvals and the amount raised from the market. Such a boom has been noticed in eighties, in particular between 1985-1987.

ii) DEBENTURE DOMINATION

A progressive trend of debenture domination in the capital market has been noticed in the eighties. The share of debentures (including convertible) in the overall capital issue which was about 16 per cent in
1980-81 has crossed a level of 67 per cent last year. This indicates that the investors not only want to share the ownership right in the company but also prefer to get a regular return on investment.

iii) UNPRECEDENTED PREMIUM

While some of the issues could not be subscribed at par, the issues of some companies have been oversubscribed many times at an unprecedented premium of Rs.75 per share for a share of Rs.10.00 each. This indicates that investors are willing to invest in corporate securities once they have confidence in the group.

iv) QUANTUM OF SINGLE PUBLIC ISSUES

Investment in corporate securities has become so much popular among the investing public that single issues of corporate securities of the companies were more than the total approvals granted by the CCI in the year 1980-81. Issues in some cases were over subscribed many times.

v) EMERGENCE OF PUBLIC SECTOR BONDS

A remarkable feature of Indian capital market is the emergence of public sector bonds and mutual funds by the Unit Trust of India and State Bank of India. More banks and financial institutions are reported to be entering the market with separate schemes of mutual funds.

vi) DEVOLVEMENT OF UNDERWRITING LIABILITY

In contrast with the situation which existed in the year 1985, the year 1986 witnessed a heavy under-subscription of various public issues with the result, heavy liability devolved on underwriters to the issues. Instances were also noticed that underwriters could not honour their underwriting commitments and the companies were compelled to refund the money to the investing public. Also a number of offers were to be put off keeping in view the adverse trends in the capital market. The issues which did not receive enthusiastic support from investors were to be advertised over and over again and the closing dates were also deferred several times not only for new issues but also for rights issue of well known companies.

vii) POLICY LIBERALISATION

To make the public issues popular among the investing public as also to reduce the procedural requirements, the Government have been liberalising the regulatory framework as also providing various types of incentives to investing public. Various decisions like introduction of new instruments of corporate finance and reduction in the time gap between the two bonus issues from 36 months to 24 months are likely to help further in boosting the capital market.

viii) NON-AVAILABILITY OF SCRIPS IN SECONDARY MARKET

For most of the Blue Chips the stake of dominant share-holders, promoters and financial institutions accounts for almost 80 per cent of the equity of the company and this stock is not available to the public at large. Out of remaining 20 per cent, about 10 per cent holding is held by long term investors, thus, leaving hardly 10 per cent of the total equity for trading in the market.

ix) NO QUOTATION FOR MANY SCRIPS
ix) NO QUOTATION FOR MANY SCIRPS

A large quantum of the shares of new companies that went public in the years 1985 and 1986 are now not saleable in the market. As a result, the investor feels that once the public issue is over, the value of the share certificate in the Stock Exchange market in many cases is, perhaps, less than what it can fetch if such certificates are sold as waste paper in the market.

From the above it is revealed, that:

i) There is a tremendous investment potential in India;

ii) The corporate sector has not been able to tap the available resources despite full government support;

iii) Average investor has become very choosy;

iv) Once the investor is sure of the company’s performance, the public issue can be sold at any price;

v) Apart from capital appreciation on investment, investor also looks for regular return;

vi) Investor confidence gets shaken for investment in corporate securities once a feeling of non-availability of return and liquidity on investment is generated.

INVESTOR CONFIDENCE - A STUDY BY MAGADH STOCK EXCHANGE ASSOCIATION

With a view to finding out the various reasons for which the investors have lost confidence in corporate investment, a study by the Magadh Stock Exchange was conducted by mailing a questionnaire to about 150 investors representing urban, rural and semi-urban areas with the following objectives:

i) To find out the reasons for lack of confidence to invest in corporate securities; and

ii) impact on decision to invest in corporate securities.

The response from the investors could not be very encouraging and hence the study suffers from inadequacy of sample which can be termed as 'limitation of the study'. The study, however, reveals some interesting results which are indicated below:

i) Complaints of the investors have not been attended properly and instances are not rare when investors did not get even the acknowledgement of their letters. In some cases, since investors were already shareholders of the company they were to serve notice to the company concerned under section 257 of the Companies Act, 1956 at the time of the Annual General Meeting of the Company to seek solution for the problems.

ii) Non-availability of allotment letter/refund orders by the investors. In particular the refund orders are not received in some cases even though the company is approached for many times.

iii) Though the companies are supposed to pay interest at the rate of 15 per cent per annum on the balance amount for delayed period beyond 10 weeks yet such interest in practice has hardly been paid and to avoid payment of interest various justifications by the companies are offered.

iv) Though with the introduction of section 22A in the Securities Contracts (Regulation) Act, a company is supposed to register the transfer of
is supposed to register the transfer of securities within two months but in practice the securities are not returned to the investors, for many months which hampers them to come into the market.

v) Except metropolitan cities, the share transfer stamps are not available and from such places the investors send money for equivalent value of the stamps by money order and they receive a reply from the company suggesting them to send the desired amount by postal order and by the time the postal order is sent the companies' books are closed for payment of dividend, bonus, etc.

vi) Clause 21 of the listing agreement provides that the interest/dividend would be payable or collectable at par, commission, if any, to be borne by the company. But in practice many a times investors have to bear the bank charges.

vii) In many cases letters of offer for rights issue are not received by the investor in time and after writing repeatedly to the company, these are made available on the date the issue closes.

investors, the government has taken various steps which inter-alia include:

i) Making it obligatory to all listed companies to issue refund orders/allotment letters to the investors by registered post vide guideline No.F8/15/SE/86-B, dated June 3, 1986.

ii) Marking payment of interest @15 per cent per annum on balance amount for delayed period beyond 10 weeks from date of closure of subscription list.

iii) Advising all stock exchanges to open an investors' guidance and grievance cell to refer the matter to the concerned company.

iv) Advising the Institute of Company Secretaries of India to issue guidelines for the secretaries of the companies to tone up the efficiency of the secretarial and share departments of the companies.

v) Making provision in clause 21 of the Listing Agreement to make interest/dividend warrants payable/collectable at par with collection charges, if any, to be borne by the company.

IMPACT ON DECISION TO INVEST

Since one of the objects of the study was to know the impact on decision to invest in corporate securities, the opinion of the investors was sought as to what extent such problems were responsible for affecting their decision to invest in corporate securities. Almost all the respondents are of the opinion that gradually, because of such ill practices as they call, they are losing confidence for investment in corporate securities.

STEPS TAKEN BY THE GOVERNMENT

With a view to ensuring best service to the

PROBABLE SOLUTIONS

Despite all the steps taken including suspension of trading, of some companies by Bombay Stock Exchange to ensure better service to the investors, the problem has come to a stage where investor confidence has shaken. Before making an investment in corporate securities one thinks of various problems to be faced. This apart, non-availability of any return for many years and lack of liquidity for various scrips which have remained completely untraded in the secondary market are contributing factors.
While for some problems like non-availability of refund orders and interest/dividend warrants, postal delays or loss in transit could be one reason but the responsibility of corporate sector cannot be diluted when it is observed that refund orders have not been sent for, in some cases, one year and perhaps even more. It is significant to know that such problems have psychological impact on investment decisions.

Before we discuss the solution to the problem it may be mentioned here that the Government have constituted a working group headed by Shri R. N. Bansal, member, Company Law Board to streamline the share transfer system. Already, in the Companies Amendment Bill, 1987 it is proposed to enhance the validity of transfer deed from two months to twelve months. Once the findings of the working group and proposed amendments to the Companies Act are implemented, various problems of the investors relating to transfer of securities will automatically be solved.

For various problems of investors following suggestions merit consideration:

i) For non-availability of refund orders and non-payment of interest @ 15 per cent per annum for delayed period beyond 10 weeks of the closure of subscription list on the balance amount, it is suggested that the Directors in their Report under Section 217 of the Companies Act should disclose as on the date of Report the position as existing on that date with an annexure containing the names of investors who have not received the refund orders after verifying the Bank Account, and complaints received. The company should submit 6 monthly report to the principal stock exchange stating therein the names of the investors who have not received the refund from the company on the basis of complaints received and verification of Bank Account. The copy of such report be provided to all recognised stock exchanges. This may not require amendment to the Companies Act as it can be covered under section 217(1)(a). Only thing that may be required is to issue some guidelines from the Department of Company Affairs. For second suggestion, a guideline can be issued by the Stock Exchange Division of the Ministry of Finance. Once a discrepancy in the Statement of Directors' Report or the Half Yearly Statement submitted to Stock Exchange is detected, then strict action can be considered.

ii) Interest/dividend warrants should be made payable at par at all the branches of the designated bank instead of collectable at par in some cases. Though the existing provision in clause 21 of the listing agreement provides "collection charges, if any, being borne by the company" but in practice it is not possible to realise the collection charges from the company as the realisation expenses may be more than the collection charges.

iii) BUY BACK GUARANTEE

An average investor will be interested to invest in corporate securities only if he is ensured that the original principal amount can be realised without any trouble even if a return is not provided. Unless this is ensured by the corporate sector mere institutional support will not be able to win over the investor confidence which has badly suffered during the recent share market boom.
suffered during the recent share market boom.

Under the existing provisions of the Companies Act, buying back of their own shares by the company under Section 77 of the Companies Act is prohibited, perhaps to ensure that the proceeds from the sale of shares are invested fruitfully and not used to buy back shares. Moreover, company’s creditors treat the paid-up capital as security and once the companies start buying back their shares, their credit worthiness will fall.

For the need of massive investment to meet the requirement of corporate sector it is essential that an average investor plays a greater role for the development of capital market, and this can be achieved only when it is ensured that the original principal sum would be realised at least after 3 years because no one is prepared to listen to the failure of the promoters in ensuring a reasonable return on investment even after 3 years on the grounds “reasons beyond the control of management”. Hence, if investors are to be encouraged, the restrictive provisions of section 77 of the Companies Act must be relaxed and companies be allowed to buy back their shares after 3 years of the public issue. Though, buy-back price can not be more than the issue price it should not be more than 5 percent less than the issue price to ensure that investor would get at least 95 percent of the investment after three years. In case, it is felt that it would not be desirable to allow companies to buy back their shares, it should be made obligatory for financial institutions and merchant bankers to do the needful so that the investor confidence in corporate investment is revived once such a guarantee is given.

No doubt, there is tremendous scope for further development of capital market in India and any amount of resources can be raised through capital issues but not without assuring the investing public that:

i) they will be able to get their principal investment back at least after three years; and

ii) their genuine grievances would be looked after properly.

Otherwise once the public preference goes for investment in other sectors, it would be difficult to attract their choice for investment in corporate securities.
The Stock Exchanges
Indian Scenario

E. R. KRISHNAMURTI
Executive Director and Advisor (Retd.)
Madras Stock Exchange

The Indian Stock Exchanges, which have
a proud and hoary past, with a proven
record of achievements in the cause of
savings and investment for over a century
and a quarter have rendered yeomen ser-
vices for the development of Industries in
India, particularly after the attainment of
Independence in August 1947 and the
policy of planned economic development
adopted by the government. The indus-
trial development that the nation has
witnessed in the last four decades, is, no
small measure, due to the silent work and
solid contribution of these unostenta-
tious bodies. The substantial contribu-
tions of the Stock Exchanges in this
drama of dynamic development shall
deservingly be recorded in letters of Gold
- a well merited acknowledgement to
these service institutions.

GROWTH OF CORPORATE
SECTOR

The one single proof of this is seen in the
history and growth of the corporate sec-
tor, between 1946 and 1987 in the num-er of companies operating in India, the
number of companies listed on the Stock
Exchange, the overall quantum of the
subscribed and paid-up capital and the
market value of the listed corporate
securities.

The following Table reveals the compara-
tive figures and progress in industrial
development made in the last four
decades:

GROWTH OF JOINT STOCK COMPANIES IN INDIA

<table>
<thead>
<tr>
<th></th>
<th>1946</th>
<th>1985</th>
<th>1987 (Quick Estimate)</th>
</tr>
</thead>
</table>
| Total number of Com-
panies               | 17,324 | 1,17,302 | 1,21,000              |
| Number of Public Lim-
ited Companies       | 10,129 | 15,265 | 16,000                |
| Number of Listed Com-
panies               | 1,125 | 4,344  | 5,115                 |
| (1 out of 9)        | (1 out of 4) | (1 out of 3) |
| Paid-up capital of Public Limited Cos. | 306 | 9,733  | 11,000                |
| Paid-up capital of Listed Companies    | 270 | 6,076  | 6,800                 |
| Market Value of listed Companies       | 971 | 25,307 | 26,800                |
| (613 Debentures included)              |      |        |                       |
| Number of Stock Ex-
changes                   | 5    | 13     | 15                    |
The market value of Securities, Loans and Bonds issued by Government, Quasi-Government, Civic Bodies, Financial Institutions and Public sector units taken on the basis of the aggregate amounts issued will definitely constitute around Rs.45,000 crores. Therefore as of December 1987, the fifteen recognised Stock Exchanges in India, among themselves provide the mechanism of market trading for a total aggregate value of Corporate, Government and other listed securities to a value of some Rs.72,000 crores.

This is a phenomenal figure and compares favourably with any of the economic indicators such as

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross National Product</td>
<td>Rs. 1,85,000 crores</td>
</tr>
<tr>
<td>Money Supply</td>
<td>Rs. 1,52,488 crores</td>
</tr>
<tr>
<td>Bank Deposits</td>
<td>Rs. 1,11,000 crores</td>
</tr>
<tr>
<td>Bank Advances</td>
<td>Rs. 5,639 crores</td>
</tr>
<tr>
<td>National Savings</td>
<td>Rs. 28,000 crores</td>
</tr>
</tbody>
</table>

Even allowing a reduction of some 25% for multiple listing of companies which are quoted on more than one Stock Exchanges, the gigantic structure and growth of the Corporate sector from 1946 to 1987 is a tribute to the effective performance of the Stock Exchanges in India—an enviable record of achievement in size and magnitude.

The Stock Exchanges truly reflect and presage the state of the national economy as trustworthy barometers. In fact Stock Exchanges portray a projected picture of the economy as it is likely to emerge in the immediate future. When the Stock Exchanges portend the coming events and developments and warn us of future forebodings of the state of affairs, we are inclined to discount its prediction. The Stock Exchange acts and reacts to events national and international, to opinions and views of men and matters, industrial and agricultural outputs, and scores of developments in diverse fields of human endeavour, as it deals with national savings and investments and their changing values.

**REVIVAL OF CAPITAL MARKET**

The Government is quite aware that the revival of the capital market is an urgent necessity and of national importance, particularly now, in view of conditions prevailing in the primary and secondary markets. The euphoria of the era of expansion between mid-1980 and early-1986, has worn out completely giving place to disillusion and disappointment witnessed from mid-1986 onwards. There is a visible lack of interest and indifference in the psyche of investors. The Government, very rightly being engrossed with the efforts to find a solution to various problems such as natural calamities etc. has not been able to concentrate on any remedial measures in the economic, fiscal and monetary fields to revive the capital market. As if these troubles are not enough, the paucity of seasonal monsoon rains, on which the agricultural production of the nation and over 70% of the population sustains has caused concern and anxiety. Even the well meant liberation measures introduced by the Government in industrial licensing in the past few years, have unfortunately been the cause for creating economic imbalances. Indian industries, accustomed to operate all along on conditions of protection obtaining in a sheltered economy such as ours, are suddenly confronted with over capacity when beset with a demand recession.

This has affected the enterprise and initiative of even established corporate managements of existing companies with commendable performances and track
record in the past, not willing to enter the capital market for finding financial resources for fresh projects, expansion, modernisation or diversification. Some of the big names who made it bold to mobilise funds required through public issues during the boom conditions are now at their wit’s end to coax, cajole and woo investors to take up their offerings. The time for subscription to their public issues are extended and canvassing campaigns to enlist public support by mass mailing have failed to elicit much response.

WALL STREET CRASH

In the midst of such unsettling conditions affecting the capital market and the Stock Exchanges throughout 1987, has descended the big crash on the New York Stock Exchange, when on a single day on the 19th October, 1987, ominously called the ‘Black Monday’ stock prices tumbled down to a bottom level with a gapping drop of 508 points in Dow Jones Industrial averages i.e. 22.6%, reminding elders of the Great U.S. Crash of 1929. The impact of this sudden plummeting of stock prices in U.S. and the ramifications of its repercussions on the International Stock Exchanges in London, Tokyo, Berne, Hongkong, Singapore etc. have been nerve-wracking. The immediate cause for the avalanche of a catastrophic fall of stock prices in U.S. in a single day has been ascribed to the dwindling value of the dollar, the widening trade gap, the consequent balance of payments position and the yawning federal budgetary deficit confronting the U.S. Economists in U.S. have accused the Government of characterising it as living beyond its means. Though it has been claimed by Indian economic pundits and commercial columnists that the India Stock Exchanges are insulated from a direct impact of the fall in stock prices world over based on the argument that share prices had already dropped heavily between July 1986 and late 1987, conservative common sense and pragmatic prudence would behave us not to brush aside lightly these developments in international markets.

An appraisal of the present situation in India would show that basically similar parallel conditions as is obtaining presently in the U.S. Economy are prevailing on a much smaller scale in India. The rupee has been depreciating continuously, our foreign debt position is alarming, our trade balances are ever widening year after year and the budgetary gap is enlarging, despite a lot of expedient adjustments. Therefore, the Stock Exchanges in India should not be complacent and gloss over the situation obtaining in the international scene.

SET BACK TO STOCK EXCHANGES

The Stock Exchanges in India have suffered a severe set back with the volume of business in securities contracting to almost a trickle, the share prices have dropped down by anything between 25% to over 100% of even market leaders with the peak levels recorded in 1986. This has given an amount of concern. There is an unanimous view and thinking that the state of affairs of the Stock Exchanges should be set right and the capital market revived forthwith. There is no alternative solution than to revitalise the capital market and infuse confidence in the minds of investors for the building up of our economy. The long term resources in the public and the private sectors in a larger measure is dependent on the state of the capital market and health of the securities industry.

SUGGESTIONS FOR REVIVAL OF CAPITAL MARKET

The following suggestions merit serious considerations:

1. The Securities Contracts (Regulation) Act, 1956 has to be amended to encompass the entire regulations relating to and having a bearing on
all the aspects of activities concerning the Securities Industry, Stock Exchanges, Capital Issues, professional and specialised agencies associated with promotional work connected with public issue of securities like Merchant Bankers, Bankers to the Issue, Issue Managers, Advisors, Underwriters, Stockbrokers etc. to bring them under a single umbrella of discipline. In fact, the law relating to corporate management, particularly with reference to companies listed on the Stock Exchanges, should constitute a separate chapter in Securities Contracts (Regulation) Act, 1956, itself as investments of public funds are involved.

This would facilitate stricter supervision and control and ensure uniformity in administration.

2. The constitution of Stock Exchanges should be standardised as an association of persons, replacing the company model as prevalent now on many Stock Exchanges and the composition of the members of the Governing Boards of Stock Exchanges, should provide for representation from outside to give these institutions a public image and credibility with a view to subserving the public interest and the interest of the trade.

3. The setting-up of a Securities Industry Board has been accepted by the Government and a belated beginning has been made with the appointment of Dr. S. A. Dave, a knowledgeable and experienced administrator as Special Officer to work out the modalities and preliminaries. The earlier this Board is constituted and entrusted with all powers and authority to oversee, regulate and discipline all persons dealing in securities the better would be the functioning of the Stock Exchanges and operations in the Securities Industry, restoring the confidence of investors and also aiding the spread of equity cult.

The members of the Board should be drawn from persons having judicial and legal background, experience in administration of Stock Exchanges, knowledge of the mechanism of the capital market, acquaintance with fiscal and monetary matters and familiarity with development planning. The members should be full time administrators to implement and carry out Government policies, with unlimited authority and power to administer the Securities Contracts (Regulation) Act, without let or hindrance.

A Committee under the chairmanship of Mr. Abid Hussain has been appointed to go into the working and functioning of the capital market, with reference to the adequacy of existing institutions, type of securities, mobilisation and allocation of available resources, with a view to improving capital formation. The recommendations of this committee should also be taken into account. The present set of Bye-laws and Regulations governing trading in securities has to be replaced by a fresh code with greater authority and power for enforcement being vested in the Governing Boards. The trading practices, procedure for settlement of contracts, disciplining of members and clients in so far as market transactions in securities are concerned should be made uniform and standardised on all Stock Exchanges in India so that a national securities market is developed.

4. The spectacle of members of Stock Exchanges not submitting themselves to discipline and regulation by the Stock Exchange authorities should be met with severe penalty and punishment including suspension from trading. Very often members resort to defy the authority by not doing any business in the market
market officially whenever some measures to regulate trading in securities is initiated. The Rules, Bye-
laws and Regulations of Stock Exchange should provide for this. Boycott of trading and refraining from business
by members is an anti-social evil, as such intransigence deprives investment opportunity to a wide circle of the
investing public. Such behaviours enmasse or even by a section of members
should be dealt with by severe disciplinary action.

5. There is rampant speculative activity
in the Stock Exchanges, indulged in
by sub-brokers and authorised as-
sistants and employees of stock-
broker members with other members
on their own account, or on behalf of
the very same members for whom
they are working, in their in-
dividual capacities. This leads to
several unhealthy practices. No
member can trade with another
member's assistant for his own ac-
count. This Bye-law should strictly
be enforced and erring members
should be suspended from member-
ship.

6. Over trading and excessive specula-
tion by members on their own ac-
count or on behalf of clients are now
taking place because of a lax in the
existing Bye-laws and Regulations
and the lenience in the monitoring of
day to day operations of members
by the Stock Exchanges. This results in
frequent build-up of outstanding
market positions by members and
clients where neither the buyer is
willing to take delivery by payment
on the due dates nor the seller is
having the shares to complete
delivery carry-overs of such pur-
chases and sales by mere payment of
differences on a timeless basis from
settlement to settlement is now pos-
sible. Such speculative build-up
positions leads to frequent payment
and delivery crisis in the market. It
is understandable that a certain
amount of healthy speculation within
one's financial capability may be con-
ductive for liquidity in the market. But
certainly kite flying by trading in dif-
ferences through an archaic bid-ask sys-
tem of compensating through 'contango' and 'backwardation' do call
for a fresh thinking in the modus
operandi of the Stock Exchanges in
India. The ingenious methods and
devious ways in which speculative
business constituting as much as some
90% of the total volume of business
is a clever market mechanism to
obviate the regulations of option
trading prohibited under the Bye-laws
and Regulations. There is a parallel un-
official market functioning at
major centres which sway the official
quotations for select speculative
scrips. These unsocial activities
should be statutory declared as cog-
nizable offences and deterrent
punishment be meted out to off-
enders with imprisonment for a
minimum period of 6 months made
compulsory. All contracts whether in
specified shares or cash shares
shall be settled as per the
provisions of the Bye-laws and
Regulations on a time bound basis.

Carry over of transactions shall be
reported to the Stock Exchange and
should be monitored through a system
of original contract number and date
of the transactions being noted in the
carry over contracts.

7. Some of the malpractices now ob-
taining in the present operational set
up of Stock Exchanges such as the
following should be statutorily
prohibited and paralysed.
- Pure and simple speculation
- Insider Trading
- Illegal option business in securities
iv) Kerb trading outside the Stock Exchange premises

v) Manipulative operations of rigging up or depressing prices, distorting the normal trend of market mechanism should be banned and prohibited statutorily and enforced without fear or favour.

8. The monitoring of the activities of members and the vigilance and surveillance cell of the Stock Exchanges should be strengthened and vested with authority to discipline members and their clients. Strict codes of conduct should be prescribed and enforced for members, clients and even the operations of agencies doing promotional work with regard to issue of securities to the public.

9. In the area of new investments to cater to the needs of different classes of investors, the following are some obvious alternatives.

i) non-voting equity shares

ii) share warrants

iii) Bearer debentures

iv) Participating Debentures with floating rates of interest subject to a guaranteed minimum of 12.5% and maximum of 16%, the participating higher interest being linked to the quantum of equity dividend paid over and above 16%. This will assist in the creation of a secondary market for corporate debentures.

v) Deferred Shares

10. The mode of transferability of the ownership of shares should be simplified. Ownership and registration of shares should be totally revised and the responsibility entrusted to a Stock Holding Cor-

oration and a Depository Trust.

11. The cult of equity should be spread and carried to the semi-urban centres and rural areas by a concerted system of personal canvassing done by representatives of stockbrokers, growth fund, etc. An educational publicity programme should be undertaken by the Stock Exchanges including Cinema slides, Pamphlets and Brochures, carrying to the common man, the utility, advantage and returns on investment in industrial securities.

12. Financial Institutions like the Unit Trust of India, Growth Fund, State Bank Capital Market, Can Bank etc. should carry on open market operations of purchases and sales in equity shares on a continuous basis on the lines of what the Reserve Bank of India is doing for Government Securities. These funds are not expected to invest in high-yield-fixed-income securities with a view to rewarding the holders with adequate returns. These financial institutions should also be not more tools to bale out market difficulties periodically. They should neither be the arms of the Government or the Stock Exchanges but subserve the equity cult by constant market operations in accordance with dictates of professional management of huge resources at their disposal.

Such open market operations will not only meet the existing shortage of available securities but also ensure liquidity acting as a cushion to smoothen out irrational price movements and fluctuations.

13. Investments in private sector corporate securities should be given all the concessions and facilities that are now extended to public sector bonds.
all the concessions and facilities that are now extended to public sector bonds.

14. Provident Fund and Gratuity Fund should be allowed to invest to the extent of some 20% of the amount in regular dividend paying corporate securities, the desirable qualifications being prescribed suitably to safeguard the interests of the beneficiaries of the Funds.

15. Unit Trusts should be allowed to be set up in the private sector with the same terms and conditions as are applicable to the Unit Trust of India.

16. Dividends on shares of joint stock companies should wholly be exempted from tax to serve as psychological boost factor to investors. This will ensure flow of investible funds into the capital market and enliven the level of share prices in the Stock Exchanges. Also such a concession would encourage non-resident Indians to invest in Indian companies both in the primary and secondary market. Such concession is at present available to the non-resident Indians wherever they are investing their savings. Further investment in share should not suffer from any wealth tax.

17. Deduction at source from interest and dividends act as a psychological irritant to investors. There is no big gain derived by the Government through this laborious and time consuming procedures. This investment inhibiting measure should be removed and tax collected alongwith annual incomed tax assessments. This will only be a mere postponement of accrual of revenue for a few months.

18. The deduction in respect of insurance premia and provident fund contributions under Section 80CC of the I.T. Act should be enlarged by raising the overall limit for the qualifying amount from Rs.40,000 to Rs.60,000.

19. Investment Allowance Scheme earlier available under section 32 of the Income-tax Act, 1961, should be revived instead of the Investment Deposit Scheme under the new Section 32 AB of the Income-tax Act, 1966. This scheme has several shortcomings in that it does not cover all manufacturing industries and also fails to take into account the period of gestation in industries and therefore less beneficial to new companies.

20. The tax on intercorporate dividend should be removed.

21. The income from UTI unit is eligible to a further extent of Rs.3,000 over and above the limit of Rs.7,000/- prescribed under Section 80-L. The same facility should be extended to income from investments in Stock Exchange securities to the extent of Rs.5,000/-. 

22. Under Section 80L of the Income Tax Act, 1961 dividend and interest income upto Rs.7,000 is deductible from individual incomes for purposes of tax. This limit should be increased to Rs.15,000/- to compel savers to invest in corporate securities.

The concession should be enlarged to cover interest from corporate securities as well.

23. The tax on book profits under the new Section 115-J of the Income tax Act should be withdrawn forthwith.

24. The deduction under Section 80C of
forthwith.

24. The deduction under Section 80C of the Income-tax Act, 1961 for investments in shares of new companies should be liberalised by enhancing the percentage of deduction from 50 to 100 per cent and also increasing the limit from Rs.20,000 to Rs.30,000. This concession should apply to all investments in any new company.

25. Capital gains realised on transactions in Stock Exchange securities should be eligible for tax exemption if the sale proceeds are reinvested in any listed Stock Exchange security.

The provisions of Section 54(E) of the Income-tax Act, 1961 relating to Capital gains should be liberalised.

Despite the sluggishness of the Capital Market as of now, taking into account the fact that industrial production in the first seven months of the year has touched an all time high of 13.6% compared to the same period in 1986, with many companies reporting better working results in 1987 as against 1986, with liberal credit facilities now being made available by banks against industrial securities, supplemented by imaginative support being given to shore-up equity prices in the financial institutions, with the fiscal and monetary policies on the anvil for alleviating the genuine difficulties confronting the core industries, with professional and dedicated management of the Stock Exchanges in the oiling ensuring investors in securities of fair dealings with safety, recoverability and return on their investments protected, the scenario I visualise for the Stock Exchanges is a heaven of positive progress to greater glory in the 1990s. I look forward to an era of prosperity and plenty and the nation marching towards a goal of economic millennium by the turn of the Century. Let us dedicate ourselves to the patriotic task of progress in a spirit of continued faith in Divinity, for the preservation of unity and integrity of the nation.
Evolution Of Stock Exchange In India

J. C. PANDYA
Advisor
Ahmedabad, Stock Exchange

During the tenure of the East India Company, quotations of bonds of some companies appeared in a Calcutta Daily. This led to the commencement of Stock Exchange system in Calcutta. But the Bombay Stock Exchange, known then as the Native Share & Stock Brokers Association, was the pioneer of an organised stock market in India. Bombay Stock Exchange and the Ahmedabad Stock Exchange have contributed magnificently for the establishment and development of textile industries at both the centres.

LEGISLATIVE MEASURES

During that time, there was no legislation to control the activities of Stock Exchanges. It was bilingual Bombay State which introduced legislation to control the activities of Stock Exchanges, known as "Securities Contract Control Act, 1925" (Bombay). After the "Atlay and Morrison Commission", the institution of paid President was introduced at the Bombay Stock Exchange and the honour of being the first, paid President went to late Shri K. R. P. Shroff. Since 1939, the Stock Exchange - Ahmedabad, also followed the same regulations under the Securities Contracts Control Act, 1925, (Bombay), except having a paid President.

After 1925, many debacles took place on various Stock Exchanges. The Gorwala Committee was formed to go into the details of working of Stock Exchanges and subsequently, Dr. P. J. Thomas was appointed to go through the working of various Stock Exchanges in India. It can be said that the Securities Contracts Regulation Act, 1956 is an outcome of two reports. Before that there was no Central Legislation to control the activities of the Stock Exchanges. It is also worth noting that, at Bombay and Ahmedabad, there were more than one Stock Exchange, which were not recognized by State Governments. On the operation of Securities Contracts Regulation Act, 1956 only one Stock Exchange in a city was recognized by the Government of India and persons qualifying themselves to be members of recognized Stock Exchanges were offered Membership by Bombay and Ahmedabad Stock Exchanges in 1957. It was the Bombay Stock Exchange which was permanently recognized in 1957. The rest of the Stock Exchanges were granted recognition for a period of 5 years initially and at the time of renewal, further new conditions were imposed.

In 1966, Mr. P. J. Jeejeebhoy was appointed as the paid Chairman of the Bombay Stock Exchange, as Mr. K. R. P. Shroff was in a depleted physical condition. Just like the Chairman of the Bombay Stock
Exchange, other Stock Exchanges were forced to appoint a paid President/Chairman or an Executive Director, who was not connected with the securities business. This condition created an uproar amongst the Stock Exchange fraternity, but finally, they yielded to the Government conditions and appointed Executive Directors at Ahmedabad, Calcutta, Delhi and Madras. At the time of renewal of recognition of Stock Exchanges, they were forced to appoint a public representative, who was a man of eminence but not connected with securities business. At present, Bombay has more than one public representative other than three Government nominees, and Ahmedabad has one public representative which is likely to be increased. In the year 1982, the Ahmedabad Stock Exchange was granted permanent recognition followed by Madras and Delhi Stock Exchanges. Calcutta was recognized on a permanent basis, a few months earlier to the Ahmedabad Stock Exchange. The Governing Board of Stock Exchanges today consists not only brokers, but also Government nominees and public representatives.

There was also a condition for renewal of recognition of Stock Exchanges and that was that 1/3rd of its elected members should retire by rotation every year. That was a unique step in the history of Stock Exchanges, and it is also one of the conditions for renewal of recognition of Stock Exchanges. The Presidents and Vice Presidents were to be nominated by the Government. All these steps were taken with a view to securing smooth functioning of the Stock Exchanges and to look after the interest of investors.

It was not compulsory on the part of a company to get its shares listed on any of the recognized Stock Exchanges, earlier to passing of Securities Contracts (Regulation) Act, 1956. Now, under Section 21 of this Act a Public Limited Company is required to enlist its shares on a Stock Exchange. The Government uses the listing requirement of companies with the Stock Exchanges for distribution of fruits of a planned economy. The promoters can normally reserve 40% of total paid up capital for themselves and associates, while 60% of paid up capital is to be offered to the public through Prospectus. It is also incumbent on companies, to keep its public issue open for subscription for a minimum of two days and receive applications at various centres. The basis of allotment of 60% offer to public is decided by the regional Stock Exchange and it should be unconditional and fair. In the Gujarat High Court, in Jolly Plastics case, the Ahmedabad Stock Exchange established the paramount right of Stock Exchanges to fix the basis of allotment unconditionally and fairly.

**INVESTOR CONFIDENCE**

The Stock Exchange is acknowledged as a powerful machine for mobilising private savings not only for the private sector but also for the public sector and the Government. Therefore, any debacle on Stock Exchanges creates anxiety to the Government and it intervenes to find out a solution. It may be a case of rise in prices or fall in prices. Interference by the Government of India like, ban on short sales in specified securities is also an indicator of prices. It is a barometer of the economy, and it requires careful handling.

Now a days, the yearly capital raised is about Rs.5000 crores per annum which two decades back was hardly few hundred crores per annum. It is gratifying to note, at this juncture, that almost in all public subscription, Bombay stands first. That is the huge contribution of the Bombay Stock Exchange, in providing public subscription, to private, public and the Government sector in raising funds. It is a premier Stock Exchange of the country, and having its own image, in international Stock Exchanges as well. I take this opportunity to wish bright future to the Stock Exchange - Bombay which is one of the major Stock Exchanges of the world.
"Capital Market - Poised For Growth"

L. K. PANDAY  
Member  
The Stock Exchange, Bombay

The capital market in India is more than a century old and has had a chequered career. The market has undergone a great transformation particularly since the 1980s. Not only the amounts raised have grown several fold in the last four years but also the number of investors multiplied vastly, and more importantly a new class of investors from the rural and semi-urban areas have been brought within the stream of corporate investments. This indeed augurs well as the private sector has been assigned a larger role in the current plan than the public sector and is expected to raise much larger quantum of resources from the capital market with lesser dependence on the banks and the financial institutions. Besides many of the public sector undertakings - railways, power utilities and industrial enterprises - are issuing bonds, offering attractive yields and tax benefits, for their funding requirements.

ROLE OF PRIVATE SECTOR

The market has become more broad-based with increasing diversity of financial instruments and vast increase in the quantum of capital raised. The main contributing factors are the high rate of savings and growing preference for financial assets, particularly corporate securities as witnessed by the response to public issues during 1980s. This has helped the private corporate sector and more recently even the public sector units, although to a lesser extent, to seek more finance directly from the capital market.

Apart from the spurt in the funds raised by the private sector, the spread of ownership is a welcome feature. It is estimated that there are currently over six million individual shareholders and around two million debenture holders on the Bombay Stock Exchange alone. While precise all-India figures are not available, and discounting for multiple ownership of individual holders of corporate securities now can safely be reckoned at over twelve million. In fact the Reliance Industries, the Company with the highest market capitalisation, has over 2 million investors.

The capital market is poised for sustained growth. However the near-blind support to new issues, on the allurement of high appreciation in a short period, as witnessed in 1984 and 1985 is unlikely to recur. The average investor is becoming more choosy and selective giving considerable weightage to the reputation of management. Industries having high growth potential and more particularly with modern technology, like automotive, electronic, petro-chemical, telecommunication and certain intermediates, will be increasingly favoured by the investors.
DOWNWARD TREND

The market sentiments has been depressed for some time. The downturn which started in February 1986 resulted in the Economic Times index dropping by over 30% from its peak level. This was due to several factors like political instability, demand recession faced by certain industries, poor performance by some market leaders and poor general sentiment.

Upward and downward swings in the stock market is a natural phenomenon. The downward adjustment after the almost 100% upsurge in 1985 was only to be expected.

Unfortunately even the levelheaded and sober investors got caught in the frenzy which was generated. What was worse a new class of investors came into the market for the first time with the expectation of making quick money. They were attracted by the attractive prospects painted by several promoters, backed by aggressive promotion by merchant banks. Unofficial dealings assumed alarming proportions with several issues being quoted at absurd premia even before the share forms were printed. The bubble burst followed by great disillusionment.

The capital market in India has matured. Unfortunately, the total infrastructure to support it has not been growing fast as it should. Hence, it is vital that the working of all the agencies involved be reorganised and strengthened to meet the increasing demands, the investors will make on the system. The task is urgent and can be done if we all move quickly in the right direction.
Measures to Revive
The Capital Market

H. P. RANlNA
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The depression in the stock markets has not only created a crisis of confidence amongst investors, but also seems to be vitiating the entire industrial climate of India. Issue of shares by new companies have been failing so disastrously that companies are not even able to collect 20% of the capital offered to the public. The target set for the private sector in the Seventh Five-Year Plan would definitely not be reached because mobilisation of at least Rs.30,000 crores would have to be undertaken to fulfil the target.

The fall in the stock market is primarily on account of investors’ dismay with the recent Government policies, like the proposed introduction of section 194-E, which was subsequently dropped by the Government. The critical situation in which the capital market is at present, calls for drastic action. I have ventured to make a few suggestions below which would certainly bring about a sea-change. These suggestions are made to restore confidence amongst investors and ensure substantial flow of funds immediately into the capital market so that the demand-supply balance is stabilised once again.

EXEMPTION OF DIVIDENDS

To boost the capital market, it is absolutely imperative that dividends on shares of public companies be made totally free of tax without any limit. This would provide a tremendous psychological stimulus to investors, and ensure funds flow into the capital market. No amount of institutional support from public financial institutions is going to assist in reviving the capital market. Almost Rs.250 crores have been invested by institutions in the last month, but it has not made any difference to the sagging market. This is primarily on account of the fact that the public is pulling out its funds from the capital market and, therefore, purchase by financial institutions is having no impact in arresting the fall in prices. The one and only way in which the market will revive is to make dividends tax-free so that the investing public finds it lucrative to enter the capital market once again and invest their savings in a profitable way.

As a result of the fall in the capital market, the unproductive sectors of economy are once again getting encouraging response and money is going into bullion, jewellery and speculative purchase of real estate. The productive sector comprising of industry is today being starved of funds and new issues of shares are failing, resulting in a total cessation of fresh industrial activity.
dustries which are consumer oriented having a low capital base and a short gestation period. On the other hand, India desperately needs capital intensive industries for which investment allowance can be the only fiscal stimulus. Therefore, the withdrawal of the investment allowance is a retrograde measure.

The Government has been claiming that the investment deposit scheme is only a substitute for the investment allowance. If that be so, what prevents the Government from giving the corporate tax payer the option to claim either the investment allowance or take the benefit of the investment deposit scheme. The reintroduction of the investment allowance would undoubtedly boost the stock markets in India and bring about a new surge of confidence amongst the investing public.

REDUCTION IN CUSTOMS DUTY ON PROJECT IMPORTS

The Government’s industrial policy hinges on more and more new projects being implemented in India. The Prime Minister, Mr. Rajiv Gandhi’s policy of having new industries in every district of India will only materialise when new industries and new projects are set up month after month. The recent hike in customs duty on project imports from 55% to 85% will spell the doom for many a new project. The effect of the hike has already been felt and several entrepreneurs are postponing implementations of new projects, with the cost having gone up substantially and the capital market being in the doldrums. Every new project is a goose that lays golden eggs. A new project would continuously yield revenue to the Government for an indefinite period of time.

Any sensible Government would, therefore, completely exempt new industries from the burden of customs duty so that the project cost is kept low and the company can reach the stage of profitability in the shortest possible time. In fact, in some progressive countries an excise duty exemption is also given during the initial three to five years of a new undertaking being set up. To charge import duty of 85% on new projects is like putting a baby in a straitjacket which would prevent it from growing and which would give it a permanent disadvantage. The present policy of the Government would only ensure that right from day one a new project would be permanently burdened with the initial load of customs duty, apart from the fact that the constant fall in the value of the rupee vis-a-vis other foreign currencies makes it virtually impossible for a new project to have the competitive edge over existing Indian companies. If competition is to be encouraged, new projects have to be exempt atleast from customs duty if not excise in the initial years. The Government’s justification for hiking the customs duty on the ground that it was meant to protect the indigenous capital goods industries is meaningless, when in most cases capital goods have to be imported as there are no comparable machineries available in India. If the intention is solely to impart a degree of protectionism to the indigenous industry, the import policy could be adjusted to suit the changing needs, but it certainly does not justify increasing the customs duty across the board and putting a permanent milestone round the necks of new entrepreneurs.

INVESTMENT BY FOREIGNERS WITHOUT VOTING RIGHTS

Foreign citizens and corporations should be allowed to purchase shares of Indian companies on the stock market under the Portfolio Investment Scheme on repatriable basis without any voting rights on the shares so purchased. This would ensure that foreign investible resources can flow into India purely for investment purposes without any risk of destabilising managements. The same restriction applicable to NRI’s, namely, sale not being permitted within a period of one year, should also be made applicable to foreign
investors so that speculative investment is avoided.

OTHER MEASURES

Both investors and brokers need to be given an unlimited facility for purchase of shares of companies as portfolio investments against the security of shares quoted on the stock exchange. Needless to add, the margin of 50% would be retained by the banks on the basis of the average price of shares prevailing during the preceding three months prior to the sanction of the overdraft facilities.

The Company Law may also be amended to permit companies to buy their own shares from the stock markets as it is permitted in the United States of America. Of course the limits on investment would be applicable as already provided under the Company Law. The purchase of shares by companies, would result in reduction of their capital. To that extent, their liability for servicing of capital would also be reduced.

CONCLUSION

To sum up, the following measures need to be implemented simultaneously in order to create the right impact on the investment climate and to give the much needed stimulus for reviving the sagging capital market:

1. Complete exemption of tax on dividends declared by companies listed on the stock exchanges.

2. Total scrapping of wealth-tax on value of shares of companies listed on the stock exchanges.

3. Inclusion of shares of public limited companies in the list of specified assets for the purpose of securing capital gains tax exemption under section 54-E.

4. Enhancement of limits under section 80-CC for investment of shares in new companies.

5. Allowing industries to claim either the investment allowance or the benefit of the Investment Deposit Scheme.

6. Abolition of minimum tax on book profits under section 115-J.

7. Abolition of customs duty on new projects.

8. Permitting foreign investors to buy shares on Indian stock exchanges without any voting rights.

9. Raising of overdraft limits by banks against security of shares of public limited companies.

10. Permitting public companies to buy their own shares from the market subject to certain restrictions.

The investing public is in a state of despair. No amount of support from financial institutions is going to revive the capital market. The only solution is to revive the confidence of the investing public to ensure that funds flow into the capital market in abundant measure so that excess of demand over supply will trigger an investment boom, as was experienced in 1985-86. It has to be emphasized even at the cost of repetition that unless the capital market revives and the confidence of the investing public is restored, the pace of industrialisation in India would be seriously affected for a long time to come. The economic future of India rests on the Prime Minister’s ability to take drastic remedial action immediately. India’s industrial credibility is at stake.
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Emerging Pattern
In Capital Market
Its Present And Future

DINESH J. MODY
Advocate
Supreme Court

NEW INVESTMENT HORIZON

Metamorphasis of the capital market and the Stock Exchange during the last 15 years is more rapid and radical than that of previous 50 years. This is evident from the growth in the listed companies, shareholders, capital raised, market capitalisation etc. No other market in the country is poised for a rapid growth as the capital market and, therefore, it is prudent to look into various aspects of the capital market.

The importance of Stock Exchange has increased in the recent past on account of substantial increase both in new issues of capital and market operations in the secondary market. The Stock Exchanges play an important role in the mobilisation of savings of the public for investment in industrial securities for financing new and expansion projects. At present, there is less than 1% of the population of our country from the class of investors in shares and debentures as compared to every 3rd man in the U.S.A. In 1990, this percentage will substantially improve to make at least one investor from every alternate family. No other market in the country is poised for a take off stage for such rapid and phenomenal growth as the capital market.

INVESTOR PROTECTION

Most of the new investors are unaware of the basic elementary knowledge of the share market operations. Some of them formulate and evolve certain type of selection devices to pick up the scrips. Sometimes tips for some of the shares which have never been traded during the last 5 to 10 years are circulated in the market with great enthusiasm and they do flourish. They look for the shares which have remained stagnant, and pick up the worst. It is unfortunate that a large number of investors come to the market looking out for such scrips and insist on investing their funds in low priced equities. In short, this is a dangerous trend for the new investors with little or no knowledge of the share market. In fact, they are the ones who are the most vulnerable to the volatile market operations, and they bear the brunt. Therefore, this new class of investors have to be protected by cautioning them against acting on wrong advice.

CHANGING PATTERN

The annual average capital raised by companies from the market between 1947 to 1970 was around Rs.50 crores; in 1980 it increased to Rs.120 crores, in 1984 it jumped to Rs.1000 crores and in 1985 it suddenly soared to Rs.2000 crores and is now almost on the verge of touching
Rs.3000 crores mark. The number of Stock Exchanges has increased from 8 to 14 during the last five years. Our capital market though small, has now extended to semi-urban areas and agriculturists, middle class investors and non-resident Indians. In recent years, several issues of more than Rs.50 crores have succeeded; number of shareholders has increased; new instruments were introduced. In the process, one finds post offices and banks to be totally out of tune with the growing needs of the capital market. They are yet to comprehend to the pressure on their utilities made by the private corporate sector and therefore, must prepare themselves with proper resources, additional working space, personnel etc. to cope with the increasing demand on their services.

PARADOXICAL PSYCHE OF INDIAN INVESTOR

Indian investors take far greater risk than his counter-part anywhere in the world. The Indian stock market is one of the few, where a totally new company can have successful public issue. The world wide norm is for the existing dividend paying companies, with a consistent and proven record of profitability to come out with public issue. Indian investor dares to take risk of applying to the new issues of a company which has not even put up a plant. The reason seems to be lack of well capitalised venture capital companies which can invest in project before they are proved and expect to make money when the project succeeds and the public issue is floated. On the other hand, the Indian investor is very conscious about the yield on equity. In recent boom, this yield consideration was given a go-by by new class of daring investors, but the traditional and conventional investor still calculates the rate of interest which one can get from the investment in shares at the present price level. Till recently, investment in equity shares yielded 4% to 5% interest at the current market level. In recent boom this yield at the current market price has fallen to 1% to 2% and in some cases, this yield has gone in decimal points. A traditional Indian investor would, therefore, consider the present price level as irrational and unreasonably high compared to the earnings (as reflected by high P-E ratios), though he is prepared to take risk in applying for shares in the public issues of the new companies who would start paying dividend only after 3 years. This is the paradox of Indian investor's psyche.

NEW INSTRUMENTS OF INVESTMENT

Industrial companies and the investment institutions now seek for new forms of investment to attract investors. In this search the capital market seems to have discovered an old form of debentures more appropriate and suitable to conditions now prevailing. Institutions such as UTI, LIC, GIC, are now becoming interested in investing in company debentures on a yield of between 12.50% and 15%, in the absence of better scrips. This is indeed a healthy development for both companies and the investors, capable of reviving debentures as a popular instrument, thereby broadening the capital market in a new and desirable direction. Investor will now have the option of making sound and safe investment, with a steady return for about 7 years compared to investing in company deposits which are unsecured and are of much shorter duration and yielding about the same rate of interest. He is likely to choose the former, because these debentures will be quoted on the Exchange and will be readily saleable, while the company deposits in comparison would not be as liquid nor as secured as the company debentures. Thus for the small investor, there will be available popular market security with safety and good steady return for a long period. The capital market must make available safety first investment as well as equity to meet the investment needs of different classes of investors. We have now reached a stage where an active debenture market may begin to grow. So far only the large in-
stitutions have taken these in their investment portfolio, and that too at the time of issue, to hold till maturity. This situation has to change where the small investor should also use this instrument for a significant portion of his portfolio. A few institutions by themselves cannot make a market. There should be a large number of investors, buying and selling to make an active market. Government policy should be directed to this end by lowering of stamp duties. There is presently a shortage of investible scrips in the market and institutional and industrial investors are hard put to locate good scrips for investment. We have depended too much on the equity market. This market can now be supplemented by good debenture issues. Many classes of investors, small and large, would welcome such a development.

THIRD MARKET

Transactions of purchase and sale of shares of the company which is yet to enter the capital market and get its shares listed on the Stock Exchange is illegal. Yet such transactions take place from time to time at various centres in the country. The Government and the Stock Exchange authorities have taken a very serious view of these transactions. Gradually, these transactions have become very few in Metropolitan cities where major Stock Exchanges are situated. There are frequent transactions in places like Ahmedabad, Rajkot, Jaipur, Bangalore etc. However, these transactions are on decline even in Ahmedabad and Bangalore. On account of very strict vigil maintained by the Government and the Stock Exchange authorities, such unofficial transactions, popularly known as "unofficial premia" are on decline. Till recently, respectable newspapers refrained from quoting unofficial premia. With the entry of a new popular weekly this year, this precaution and restraint were thrown to wind. Any participation direct or indirect in promotion of such unofficial transactions is not only illegal but also forms a part of the offence. Publication of unofficial premium would, therefore, amount to accessory to the said illegal activity. It is not the intention here to determine whether ban imposed on these transactions is proper or not. There is a view which maintains that genuine interplay of the market forces which determine the premium provides useful indication and guideline to the investors in selecting a new public issue and, therefore, it is in the interest of the investors to allow such transactions and develop independent market for this purpose on the same lines as that existing in London, under the name of Unlisted Securities Market (USM) since last six years. In London, such transactions are allowed officially in USM. There is a strong lobby even in India which strongly presses its case to open up such market and permit transactions prior to listing. On the other hand, there is equally a strong case in favour of imposing total ban on such transactions in the market for investors only. It is argued that these premia are notional and rigged up and manipulated by the interested parties which ultimately misguide the investors and do more harm than good. It is quite possible that if the premium market is legalised, there will be many more transactions, and manipulation to a great extent will be checked, and controlled. The experiment in London has proved to be successful. It is worthwhile trying in India also. From the point of view of the investors it is necessary to permit genuine healthy market for transactions of shares of the company which is about to enter the capital market. It is a popular demand and a very strong case is made out in support of this demand. Just by declaring such transactions as illegal, the demand for such unofficial transactions can not be extinguished, nor the flourishing market thereof can be stopped. However, regular publication of unofficial premium rates has disappeared from being published. It is, therefore, necessary that instead of turning deaf ears to this demand, the Government must invent ways and means to regulate such transactions. These transactions have come to
stay whether one likes them or not. It is rightly argued that such transactions have many more plus points. Against allowing such transactions, it is argued that unscrupulous management of a new issue would accelerate the prices of its share just prior to its public issue and thus induce the innocent investor to apply for those shares whose prices after the issue closes, will surely be quoted at a discount. Besides, an investor who buys shares of such new issues from the market at a high premium would ultimately repent for his bad decision. It is true that such danger does exist. And this danger can be reduced to a great extent if such transactions are officially permitted as the market forces will start working one against the other. Any manipulation of issue by management will be fought back by either independent market operators, who know the worth of the company, or by interplay of the market forces which will surely thwart out the efforts of such manipulators. On the other hand, the premium rates of the new issues will greatly help the investors to determine the worth of the issue. The premium rate is the reflection of collective wisdom and the market opinion about the issue is very important factor in determining the selection of an investment medium.

MARKET OPERATORS

Mechanisation, rationalisation and computerisation are needed for speedy disposal of the huge work load of the market. It is suggested that the Stock Exchange may provide terminal ends connected to its computer to all the share brokers at reasonable rate. It is also necessary that common standard programme and software system be evolved and followed by each firm of share brokers. The centralised book entry wise clearance of shares ought to be introduced. The present system of margin is working quite satisfactorily and it should, therefore, be properly updated and streamlined to make it permanent. Specific rules must be framed to regulate incidence of margin fairly and squarely, so that element of subjectivity is substantially eliminated. The market has come a long way from speculative age to the cash delivery era though it has been a painful process but after all it is this modern system of dealing on the Stock Exchange which has come to stay and each one of the share brokers will have to fit in this new emerging pattern of Stock Exchange operations, whether he likes it or not.

As the coming event cast their shadows, before, there are loud and clear indications of emerging new pattern in the capital market, and the most prominent ones are:

i) From floor trading to the computer screen.

ii) From forward trading to cash transactions

iii) From private investors to institutional investors.

iv) From secondary market to primary market.

v) From transfer form to transfer entry.

vi) From local investors to NRI investors.

vii) From family broking firms to professional corporate brokers and

viii) From urban investors to rural masses.

FROM FLOOR TRADING TO THE COMPUTER SCREEN

The proprietor of every share broking firm, small or big, visited the floor of the trading ring every day. But the present generation of brokers do not accept this traditional method of doing business. They feel and rightly so, that like any other business, share trading can be el-
other business, share trading can be effectively concluded over telephone, telex or computer. There are already indications in this direction. With the advent of fast telecommunication and use of computers, already major stock exchanges are closely connected. A stockscan has brought together the major stock exchanges of India. More and more computers are being installed in the offices of share brokers. Telex machines are almost common. It is already occupying the minds of the stock exchange authorities to provide computer terminals to each office of the active member of the stock exchange which would make it possible to put through the transactions of purchase and sale of share on these computer terminals with the member brokers. The pattern of trading that exists today in London Stock Exchange and Wall Street in U.S.A. will soon be adopted on the major stock exchanges in India. With increasing use of computer in London Stock Exchange the equity trading volume has gone up. Trading is done round the world and round the clock through satellites and computers. All the deals were put through on screens and not on the floors. The essential point about the changes in the dealing system is that it has ceased to be carried out face to face on the trading floor and is now conducted over telephones using information displayed on screens. The success of the new dealing system is indicated by the fact that the trading floor is virtually deserted. The effect on the quality of the market has been most favourable. It has become both cheaper and easier to deal in securities, particularly in large volume of shares. In a year's time, London stock exchange hopes to introduce a computerised automatic execution system for the transaction of smaller orders and they are working on a system of paperless transfer. In future, these sessions in major stock exchanges of the country will no more remain restricted to a few hours but they will continue throughout the day when most of the brokers of different stock exchanges with their varying timings of trading sessions are fully inter-connected. As soon as the trading session of one stock exchange gets over, trading session of other may commence business.

FROM FORWARD TRADING TO CASH TRANSACTIONS

With the recent trading restrictions, margin ceilings on turn over jobbing restriction on carry over business, compulsory delivery etc. there is a clear indication of the shifts of emphasis from forward section to cash section. Speculative activity will soon give place to cash business. Presently the senior brokers resist this shift of emphasis. However, they will soon fall in line with the new trading pattern.

FROM PRIVATE INVESTORS TO INSTITUTIONAL INVESTORS

On 23rd June, 1987 the market was so weak, when it hit the lowest index mark of the year, that it looked it will not stage recovery for a fairly long time, but it bounced back within less than 6 weeks with the massive support of financial institutional buying. Unit Trust with huge investible funds, LIC and G.I.C. were keen buyers. State Bank and Canara Bank have floated their mutual funds whose huge resources will find their way for investment in the market.

Other banks will soon follow the footsteps of these banks. Unit Trust is likely to collect further funds from U.S.A. in near future by floating a fund scheme over there. Consequently, the old speculators of yesteryears will be replaced by a group of financial institutions. They will control not only the secondary market but also the primary market. This is not enough but they shall also be called upon to play a very important delicate and sensitive role in turning the balance during any take-over bid and change in the management. Private investors are not yet organized and therefore they have no effective voice or action.
in the corporate scenario and till then the muscle of financial institutions is the only strength which will count and be reckoned with in influencing the market in toto.

FROM SECONDARY MARKET TO PRIMARY MARKET

The fears of speculative activity is now more witnessed in the primary market, particularly just prior to public issue of a particular company. The level of this speculative activity is even greater than witnessed in the secondary market. With the restrictions on trading the turnover in the secondary market is last dwindling, while the primary market and unofficial premium market can easily induce and entice away the sharp attention of operator. A new market for immature companies' securities which need to raise capital known as unlisted securities market (USM) or the "Third Market" has already been created in the London Stock Exchange. It is not a distant possibility hereto. When that happens, it will be the centre of attraction of both investors and speculators alike.

FROM TRANSFER FORM TO TRANSFER ENTRY

Future share investment will also depend on restructuring the procedure of share transfer. To cater to the needs of the growing investors, streamlining of procedures particularly that of transfer of shares is vitl. Dated transfer forms and transfer stamps are not available in sufficient quantities. Registrar of Companies has restricted facility to supply limited number of dated transfer forms which is far below the requirement. As far as the transfer stamps are concerned, the position during the year was still worse. The general stamp office in Bombay could not meet even one third requirement of the share brokers and the general public. As a result of the shortage of transfer form and transfer stamps, share brokers and investors in many cases could not submit transfer form and the share certificate to the company within time before the closure of the Register of Members. It is suggested that time has come for the Stock Exchange authorities and Government to consider the establishment of an organisation like "Stock Holding Corporation" similar to Depository Trust Company of the U.S.A. The present procedure is not only cumbersome but also outmoded. Several advanced countries have already done with the type of procedure for the purpose of transfer and set up specialised organisations to handle this work. Under the scheme of Stock Holding Corporation of U.S.A. (SHC) every investor will have an account with SHC. The shares purchased by him will be credited to his account and the shares sold by him will be debited to his account. SHC can be a statutory body with regional and area offices at all centres where there are recognised Stock Exchanges. Nationalised Banks, State Bank of India with its branches all over India, can act as SHC Agents. SHC will be the sole Central Depository of all securities acting as Agent simultaneously for all listed companies and investors, and investors' investment account with the SHC will be credited and debited from time to time with the shares he has bought and sold. No share certificate or Transfer Deed will be involved in such transactions of purchase and sale. The SHC will send the account holder periodical statement of account in the same manner as it is done by the banks at present. Such statement will be in the form of folio of Investment Register cum-Bank's safe custody receipt. Each listed company shall have to maintain an account with SHC under which account of each shareholder will be mentioned. The SHC can also handle the work of the shares allotted by newly floated companies to applicants by crediting such shares to their respective accounts. Simple book entries can replace allotment letters and share certificates which are being presently issued by the companies. Along with the setting of SHC a new "Stock Clearing Corporation" (SCC) can be set up which can hand-
le clearing work of the share brokers and financial institutions, which is presently handled by clearing houses of different Stock Exchanges.

FROM LOCAL INVESTORS TO NRI

Huge fund from NRI estimated at Rs. 12,000 crores are awaiting investment in the Indian capital market. Most of the companies are inclined to tap this easy source since the domestic counter-part has become dry. This phenomenon was evident in the latest major issue of Gujarat Heavy Chemicals Ltd (GHCL) where its non-resident issue was over subscribed while its domestic issue remained undersubscribed. The return and yield of investment in India is still high and attractive than in major foreign countries.

FROM FAMILY BROKING FIRMS TO PROFESSIONAL

It must be made very clear and widely emphasised that the activity of a sharebroker is a profession. Like in every other profession should have a central legislation like Share & Stock brokers Act laying down eligibility, minimum qualification, code of conduct and other related aspects of enrolment as a broker. It should have an independent regional council at every Stock Exchange level and Federal or All India Council at an apex level. Such an apex body must lay down rules and regulations about the conduct, behaviour and the working of the share brokers’ firms and regulate their inter-relationships. It may conduct written or oral examination of prospective applications desiring to enlist as members. It must lay down certain minimum requirements such as office premises, equipments, personnel, finance and other infrastructural resources. An outsider, till recently, would find it difficult to get an entry into this well knit group but now this set up is fast changing. This old structural or organisational pattern has received a severe blow with the latest Government proposal to allow limited companies, financial institutions and banks to enroll themselves as members of the stock exchange and to work as sharebrokers.

FROM URBAN INVESTORS TO RURAL ONES

Huge resources of rural population which presently flow to unproductive avenues of investment like bullion etc. will have to be channelised to the capital market for the development of industrial growth of the country. With the banks entering the sharebroking activity, they can effectively work as retail outlets and can easily reach the remotest areas to educate the rural masses and expose them to the investment culture and market various instruments of investment to them.
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BOMBAY - CALCUTTA - DELHI - MADRAS - BAREILLY
The Case For Forward Trading

M. B. PAI-DHUNGAT
Internal Auditor
SICOM

The recognised Stock Exchanges in India of which there are 15 at present, are playing an important role in the national economy by providing market for the purchase and sale of securities. The members of the Stock Exchanges have also helped in collecting and directing the flow of savings into the new issues. Over the past few years, the shareholding fraternity has increased to a great extent. These recognised Stock Exchanges operate under rules, bye-laws and regulations approved by the Government. The history of the stock market regulation in India has indeed been a chequered one. However, the entire approach to the problem of regulation has been not to hamper the legitimate functioning of the Stock Exchanges.

(i) For "spot delivery", i.e. for delivery and payment on the same day as the date of the contract or on the next day.

(ii) For "hand delivery", i.e. for delivery and payment within the time or on the date stipulated when entering into the bargain, which time or date shall not be more than fourteen days following the date of the contract.

(iii) For "special delivery", i.e. for delivery and payment within any time exceeding fourteen days following the date of the contract as may be stipulated when entering into the bargain and permitted by the Governing Board or the president.

In Bombay, bargains in equity shares are generally for 14 days settlement commencing from Friday and ending a fortnight later. Purchases and sales made on any date of the given period may be crossed out by subsequent sales and purchases made during the same period. All outstanding bargains at the end of the period have to be settled by delivery and payment on prescribed dates. The listed equity shares are classified into 2 groups 'Specified' and 'Non-specified'. Although there is ban on forward trading, an ingenious method 'Badla' is allowed in the specified shares and transactions are al-
genious method 'Badla' is allowed in the specified shares and transactions are allowed to be carried forward from one settlement to another. If we see the official quotation, we find that there are no transactions in some scrips in unspecified list for a number of days. The activity is more in specified shares and figures of shares dealt with are also published which indicate the volume in specified shares. Any comment on the need for forward trading may have to be preceded by briefly examining what is it that the investing public really wants or expects from the stock market. By and large, the investing public is interested in seeing that it gets the money for its shares when required for its needs. The public is also interested in seeing that there is no erosion in value of the shares due to wide fluctuations in the course of trading. The case for forward trading will depend on how far the interest of this investing public would be served.

FORWARD TRADING

Forward trading assumes the existence of two types of people, the 'Bulls' and the 'Bears'. The operations of these two broad sections of knowledgeable and interested people comprise those who think that the price will be above a particular level and those who think otherwise, help the genuine investor in 3 ways -

(i) by affording continuity,

(ii) by providing liquidity, and

(iii) by smoothening of the price curve.

It is no doubt that 'smoothness' which is so very essential to the genuine investor will be ensured only if speculation is within bounds. Forward trading gets bad name because in the Indian environment the speculator is not knowledgeable enough and indulges in unbridled speculation, I can do no better than to quote from the Report of the Gorwala Committee on this subject. "The man who has no knowledge but has money, and speculates is a gambler pure and simple. He is a menace to himself. The man who has not enough money, but has knowledge, and speculates is a prospective insolvent. He is a menace to the market. The man who has both knowledge and money but seeks to manoeuvre the market, instead of confining himself to the legitimate function of speculation is a menace to the market, the investor and the public at large. The man who has neither money nor knowledge, but still speculates is not only a menace but also a misfit. He ought never to have speculated".

With the growth of enlightened stock broking community and with the spread of equity cult, forward trading in shares may not be something to be avoided.
A Computerised System For Improving The Liquidity Of Thinly Traded Securities In The Bombay Stock Exchange

R. R. NAIR
General Manager
The Stock Exchange, Bombay.

As on 31st December, 1987, there were about 2,100 companies whose shares and/or debentures/bonds were officially listed on the Bombay Stock Exchange. These companies in all had around 3,600 securities listed of which 2,500 were equity issues, 300 were preference issues and 800 were debenture/bond issues. Of these, 70 equity issues were classified under the Specified List or 'A' group whereas the remaining 3,530 were classified under the 'B' group or popularly known as the Cash List.

The securities classified under the Specified List by the very nature of their selection are very active in the market. An equity issue is put on the Specified List mainly because of the size of the Company in terms of paid-up capital, a steady dividend record, a large number of shareholders without any undue concentration in the hands of a few and its fairly large market activity. The average monthly turnover of securities (purchase or sale) during 1987 in the Specified group amounted to approximately Rs.600 crores whereas the corresponding figure for non-specified securities during the same period amounted to only Rs.120 crores. By and large, even this turnover in cash scrips was accounted for by about 500/600 securities in the non-specified list, the bulk of the 3,530 securities in the cash group being very thinly traded or not traded at all.

A study conducted by the author on the liquidity of cash securities listed on the Bombay Stock Exchange during the period July-September 1985 revealed that the liquidity of cash shares in general was extremely poor. Though the period chosen was one of unprecedented boom in the Indian stock markets, it was observed that out of 1,551 equity issues in the Cash List as of 30th September, 1985, only 792 issues were traded during the period July-September 1985 comprising 50 trading days. A frequency distribution of these issues according to the number of days on which they were traded is given in Table I.

A further analysis of the activity of equity issues in the Cash List according to when they were last traded is given in Table II. According to the table, 792 scrips (51.1%) were traded at least once during July - September, 1985, 208 scrips (13.4%) were last traded during January - June, 1985, 139 scrips (9.0%) were last traded in 1984, 134 scrips (8.6%) were last traded in 1983 or earlier and the remaining 278 scrips (17.9%) were not at all traded since they were officially listed.
Table I

Frequency Distribution of 792 Equity Issues which were traded during Jul-Sep 85 according to activity.

<table>
<thead>
<tr>
<th>No. of days traded</th>
<th>No. of Issues</th>
<th>% to Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>All trading Days(50)</td>
<td>1</td>
<td>0.1</td>
</tr>
<tr>
<td>49 days</td>
<td>24</td>
<td>3.0</td>
</tr>
<tr>
<td>48 days</td>
<td>31</td>
<td>3.9</td>
</tr>
<tr>
<td>47 days</td>
<td>21</td>
<td>2.6</td>
</tr>
<tr>
<td>46 days</td>
<td>14</td>
<td>1.8</td>
</tr>
<tr>
<td>41 - 45 days</td>
<td>66</td>
<td>8.3</td>
</tr>
<tr>
<td>31 - 40 days</td>
<td>100</td>
<td>12.7</td>
</tr>
<tr>
<td>21 - 30 days</td>
<td>97</td>
<td>12.3</td>
</tr>
<tr>
<td>11 - 20 days</td>
<td>96</td>
<td>12.1</td>
</tr>
<tr>
<td>1 - 10 days</td>
<td>342</td>
<td>43.2</td>
</tr>
<tr>
<td>TOTAL</td>
<td>792</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Table II

Distribution of Equity Issues in the Cash List according to when they were last traded

(Sept - 1985)

<table>
<thead>
<tr>
<th>When last Traded</th>
<th>No. of Issues</th>
<th>% to Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Traded during Jul-Sep 1985</td>
<td>792</td>
<td>51.1</td>
</tr>
<tr>
<td>Traded during Jan-Jun 1985</td>
<td>208</td>
<td>13.4</td>
</tr>
<tr>
<td>Traded during 1984</td>
<td>139</td>
<td>9.0</td>
</tr>
<tr>
<td>Traded during 1983 or earlier</td>
<td>134</td>
<td>8.6</td>
</tr>
<tr>
<td>No trading since listing</td>
<td>278</td>
<td>17.9</td>
</tr>
<tr>
<td>TOTAL</td>
<td>1,551</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Though a period of two years has passed since the study was made, there appears to be no significant improvement in the liquidity of cash scrips in general. One of the reasons for the low level of activity in cash shares is the fact that the shares of many of these companies are very tightly held and that there is hardly any seller at any point of time. Some of these companies have got their shares officially listed before the present day stringent listing regulations came into force or they have presumably done so for enjoying the tax concessions and other privileges obtaining for a listed company. Once in a while, if a shareholder of such a company wants to dispose of his holdings through his broker, the broker finds that there are no takers in the market. If, by chance, he is able to get a buyer, he has no idea of what these shares are going to fetch.

In the Indian stock exchanges, the less active securities can be traded at present only through a jobber who specialises in these securities and who is supposed to give two-way quotations for such securities. One price quoted by him is the price at which he will sell the security and the other price is at which he is prepared to buy them. Generally it is noticed that in the case of relatively less active shares, the price difference between the two quoted rates is very large, often amounting to ±20% of the mean rate. Occasions are many where even a jobber is difficult to find in the case of some of the scrips and the brokers have to carry with them orders to purchase or sell such securities for months on end.

The Bombay Stock Exchange has of late devised many schemes to improve the liquidity of thinly traded securities, odd lots and debentures/bonds. A special odd lot session is held on every Saturday between 1 p.m. and 2 p.m. in the trading ring since the beginning of 1988 and the initial response has been very encouraging. A special enclosure has been erected in the trading ring where buyers and sellers in debentures/bonds can meet conveniently and put through their transactions.
The essentials of the computerised system of improving the liquidity of thinly traded securities are as follows. Out of the 3,530 scrips in the Cash List, about 600 have been identified as frequently traded scrips. The scheme is applicable only to the remaining 2,930 scrips which are identified as thinly traded securities. Brokers can submit bids and offers (specifying the quantities involved) to a special booth in the trading ring where two personal computers have been installed. The quantities have to be in multiples of the market lot of trading. A specimen form in which brokers are required to submit their bids and offers is as shown below:

### FORM FOR BIDS AND OFFERS IN THINLY TRADED SECURITIES

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Bid/Offer (B/O)</th>
<th>Security Code</th>
<th>Rate</th>
<th>Qty.</th>
<th>Ref. No. (to be given by Computer Centre)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>etc.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The forms will have to be submitted to the computer centre in duplicate any time during trading hours. The computer generates a reference number against each serial number and these numbers will be entered in the original and duplicate of the forms. The duplicate will be returned to the broker for his reference and filing.

The bids and offers thus received will be entered into the computer system. The system will match bids with corresponding offers or vice-versa. At any point of time, the bids and offers received with details of matching, if any, will be continuously displayed on the monitor screens, security-wise. It is proposed to have displays on large LED based display boards for better viewability in due course. Wherever rates are same in the case of bids and offers, matching will be done to the extent of the lower of the two quantities and the balance bid or offer will be displayed as unmatched at that point of time. Matching is also programmed to be done on the basis of first-come first-served basis. Brokers who have submitted bids and offers can look at the screens and find out for themselves the status at any point of time. As the number of bids and offers received will be quite large, the details of bids and offers, security-wise, will be displayed on a rolling basis on the screens. However, if a member is interested in knowing the details of bids and offers available in the system for a particular security at any point of time, provision has been made to interrupt the normal display sequence and display the bids and offers for the...
security he is interested in.

The bids and offers which are matched are removed from the system at the end of each day. Unmatched bids and offers will be kept live in the system for a period of fifteen calendar days and if no matching is possible till then, they are removed from the system. If the member wants to reintroduce the bid or offer into the system he can do so by submitting a fresh form for bids and offers. A broker is also given the option to change or cancel a bid or offer he has made earlier by submitting the details to the computer centre in a form, the format of which is given below.

FORM FOR CHANGE/CANCELLATION OF BIDS/OFFERS

<table>
<thead>
<tr>
<th>Broker Code</th>
<th>Broker Name</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Options: Change/Cancel

Date ____________________

Ref. No. of Original Bid/Offer ____________

Security Code ________________

(Fill the bottom portion only in case of revised bid/offer)

<table>
<thead>
<tr>
<th>Revised Transaction Type (B/O)</th>
<th>Revised Rate</th>
<th>Revised Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Broker's Signature & Stamp

At the end of each working day, each broker who has submitted bids/offers will be given a print-out showing the details of other bids and offers received in each of the securities in which he is interested and also details of his own bids and offers which have got matched during the day.

By making use of the system described above, a broker can submit bids/offers in thinly traded securities to the computer centre and go about doing his normal business in frequently traded securities. The computer in turn gets bids and offers from other brokers in these securities and by the display and matching process creates liquidity in these scrips. Even when bids and offers do not perfectly match, the display and print-outs will help the brokers concerned to alter the rates subsequently so that matching could result.

In the long-term, it is advisable that companies entering the capital market in future with issued capital of say Rs.3 crores and above should be statutorily compelled to nominate one or two principal brokers who would act as market makers in that scrip by giving two way quotations thereby ensuring liquidity in that scrip. The existing companies in the list where liquidity is poor due to heavy concentration of shareholders should be asked to widen their shareholding base either by issue of additional shares to the public or by offer for sale of existing shares to the public.
Training and Development

J. D. Tripathi
Director
Training Institute, The Stock Exchange
Bombay.

Training and development of human resources is a continuous process which has to be systematically and scientifically planned and organised to achieve optimum utilisation of manpower in an organisation. The question, therefore, arises, "Can we afford not to train?". Today, no organisation can afford to ignore the overall benefits of training, in various disciplines, to mankind. The concept of training revolves round the man who can learn and improve his performance in the office. Training helps to change attitudes, develop skills and acquire knowledge of the subjects taught. It makes a person efficient and effective member of the organisation.

Peter Drucker, a management expert, has said that all types of training is self-development and efforts must be made to focus on the needs of tomorrow. According to him, the philosophy of training is that we have no right to expect a particular performance from an employee unless we have shown him how to perform. If he fails to perform, it is our mistake in selecting him.

TRAINING NEEDS

Before a training course/programme is conducted, it is essential to identify training needs of the participants. If this is not done, a wrong person may attend the course and it will not benefit him. It will, therefore, be a loss to him and to the organisation. Training needs of an individual depends on his qualifications, experience, job description, his potential to develop and shoulder high responsibilities, future placement and the benefits he can derive by undergoing a particular training course/programme. In other words, care has to be taken to see that a right man is selected/sponsored for a right programme. And the programme has to be designed as per the training needs of individuals.

TRAINING METHODOLOGY

There are various methods of conducting training programmes. They are as follows:

1) Lecture method
2) Case method
3) Syndicate method
4) Business game
5) Role play
6) In basket exercise
7) Sensitivity training

The above training methods are used in various management programmes. Some of these can successfully be used in training of brokers, authorised clerks, mer-
chant bankers, investors and the staff of the Stock Exchanges.

**TYPE OF TRAINING PROGRAMMES**

There are in-house programmes conducted by various organisations for their executives and staff members. Some of them are sponsored to participate in outside programmes conducted by educational institutions, management associations, productivity councils and other related bodies catering to their specific needs. The programmes range from one day seminars to Certificate, Diploma and Degree courses, both short term and long term, offered by various agencies, colleges and universities. Some of the institutes conduct tests and examinations while others impart training only.

**TRAINING FACULTY**

Selection of the right training faculty is most important for successful running of the programme. A right faculty in teaching is one who knows his subject well and who can deliver lectures fluently, imparting knowledge of the subject taught. He should be able to keep his students interested in his lectures. An anecdote may be cited here. A professor on finding a peacefully slumbering boy in his class, requests the boy sitting next to him to wake him up. Pat came the reply, “Sorry Sir, you put him to sleep, you only wake him up.”

**TRAINING OF BROKERS AND INVESTORS**

The Stock Exchange, Bombay is shortly introducing a short term certificate course on ‘Stock Exchange Practices’ for its broker members. The subjects of the course are: 1) Stock Exchange Practices 2) Stock Exchange Rules and Government Legislation 3) Security Analysis and Portfolio Management 4) Indian Financial Systems and Services and 5) Computers and office administration. The main objective of the course is to train brokers in understanding Portfolio and Investment Management of securities so as to enable them to render useful advice to investors and to raise their professional image in public.

Other courses related to Stock Exchange activities, both short term and long term, would be introduced for brokers, investors, authorised clerks and office staff gradually. The subjects would be taught by both internal as well as external expert faculty.

Some of the topics in the courses would be: Functions of Stock Exchanges, types of securities for investment, investment analysis, Stock Exchange operations, portfolio of a small investor, stock price theories, risk and return analysis, bull and bear markets, inflation, recession, primary and secondary markets, financial institutions and commercial banks, taxation aspects, Government regulations for Stock Exchange etc.

**BENEFITS OF TRAINING**

Training helps employers and employees to acquire skills and improve their all round performance in the office. They learn to be more analytical in their approach to problem solving and decision making. A trained person is an asset to his organisation. Training benefits brokers in developing a scientific approach in evaluation of stocks and shares, rendering better service to investors, efficient management of their offices and in developing their professional image. Learning the concepts of Time Management and office productivity would equip them in meeting future challenges with confidence.

Training is universal and it has to be imparted to everyone in the organisation. If only a few individuals are trained - and not all - the training gap between the haves and have-nots will widen. This may result in non-implementation of new
ideas emanating from training courses and programmes. A study conducted by a management consultancy firm in the U.S.A. showed that many managers attend the courses, absorb the knowledge they offer and return to their jobs to carry on as they did before they attended. In case of management education, Professor Revans has said that it has become one of the fashionable activities of the age.

EVALUATION OF TRAINING

In order to know whether a particular training course has been successful or not, there has to be evaluation. A questionnaire is normally issued, after the training is over, to all the individuals who have undergone training to give their comments and assessment about the training course. Questions are normally related to the contents i.e. the syllabus, course material, faculty, duration of training, lecture/session timings, venue and their suggestions for improvement of the course so that when the next course is scheduled, the suggestions if they are practical, are incorporated in that and it will then become more effective and beneficial to participants.

Evaluation of students of the courses offered by the university and other educational institutions is carried out by holding tests, viva voce, examinations and assigning project work to them. Where there are no tests and examinations as in the case of seminars and short term training programmes, active participation by individuals is the only criterion by which they can be judged. But this evaluation method needs information about participants' background i.e., their qualifications, experience, and job description in order to assess them. Individual participation for evaluation would be possible if the group is small or by Syndicate Method where a group of 6 or 7 is formed from a larger group and discussion of a case, i.e. a live situation of a Company, is taken up.

In the ultimate analysis, the training courses which will be organised and offered by the Training Institute of the Stock Exchange, Bombay, will be beneficial to the brokers, investors and authorised clerks as various aspects discussed above will be taken into consideration before the commencement of the courses. So in the Stock Exchange phraseology, "Why not invest in training? you will get more returns with less risk."
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Telex : 0178 217 Phone: 38371
Transfer And BookClosure-
some Aspects

ANIL N. SHAH
Deputy Secretary
The Stock Exchange, Bombay

The limitation of time on the currency of an instrument of transfer i.e. insertion of sections 108(1-A) to (1-D) was brought in the statute effective from the 1st April, 1966 following the recommendations of the Vivian Bose Inquiry Commission which observed certain undesirable and unethical practices followed by companies in manipulating their accounts, etc. Though the said provisions have outlived their necessity and desirability they continue to remain as part and parcel of the Companies Act, 1956 and in turn has been a matter of great hardship to the investors.

Section 82 of the Companies Act, 1956 lays down that "the shares or other interest of any member in a company shall be movable property, transferable in the manner provided by the Articles of the company". Hence it is necessary to provide in the articles the manner in which transfers are to be effected. Apart from the procedure laid down in the articles, it is necessary to observe the provisions of Section 108 of the Act.

Section 108 (1) of the Act provides that a company shall not register a transfer of shares in or debentures of a company unless a proper instrument of transfer duly stamped and executed by or on behalf of the transferor and by or on behalf of the transferee is delivered to the company along with share/debenture certificates.

Section 108 (1-A) of the Act requires that every instrument of transfer of shares shall be in such form as may be prescribed, and shall be date-stamped i.e., it shall be presented to the prescribed authority before any entry is made therein. Further, the validity period of the instrument of transfer in case of shares dealt in or quoted on a recognised Stock Exchange is restricted to the first closure of the Register of Members of the company, for the first time after the date of such presentation to the prescribed authority or within two months from the date of such presentation which ever of the two be later.

Rule 5-A of The Companies (Central Government's) General Rules and Forms, 1956 has prescribed Form No.7B pursuant to Section 108 (1-A) of the Act as the Share Transfer Form.

It should be noted that the provisions of Section 108 (1-A) to (1-D) of the Act are applicable to instrument of transfer of shares and as mentioned above, Form No.7B has been specified as "Share Transfer Form". Thus an instrument of transfer of debentures/bonds need not be presented to the prescribed authority for
the purpose of date-stamping nor need it be in Form No.7B. However by virtue of practice, convenience, and convention, the share transfer form is invariably used as instrument of transfer for transfer of debentures/bonds.

As there appears to be some misconceptions as regards the validity of the instrument of transfer, vis-a-vis the date of stamping and the period of closure of the Register of members the following illustrations would be helpful in clarifying the matter viz.

(i) The instrument of transfer has been date-stamped by the prescribed authority on the 4th February, 1987 and the Company has not closed its Register of Members thereafter, then it could be delivered to the Company at any time before the date of closure of Register of members of the Company for the first time after the 4th February, 1987.

(ii) The instrument of transfer has been date-stamped by the prescribed authority on the 4th February, 1987 and the last closure of the Register of Members of the Company was on the same date i.e. 4th February, 1987. Then under no circumstances could it be delivered to the Company before the date of closure and 4th February, 1987 could not be considered as the date of first closure after the 4th February, 1987. As such, the instrument of transfer would be valid and should be accepted by the Company if delivered before the date of the next closure of the Register of Members of the Company.

(iii) The last closure of the register of Members of the Company was from the 29th January, 1987, to the 6th February, 1987 and the instrument of transfer has been date-stamped by the prescribed authority on the 4th February, 1987. Then it could be delivered to the Company at any time before the date of closure of the Register of Members of the Company for the first time after the 4th February, 1987, because closure is deemed to be effective from the 29th January, 1987 and the period of closure is irrelevant.

It should be noted that fixing of a Record Date without the actual closure of the Register of Members is not deemed to be closure of the Register of Members and does not affect the validity of the instrument of transfer under Section 108 (1-A) of the Act.

As would be observed from the above discussion the words used in Section 108 (1-A) (b) are "every instrument of transfer be delivered to the Company". Thus what the section contemplates is delivery to the Company within the prescribed time limit, irrespective of the date of posting. Quite often documents are posted in time, but on account of postal delays, they are received by the company after the commencements of the closure of the Register of Members. To mitigate this hardship it has been reported that the Working Group on simplification of share transfer system has recommended an amendment to the said section to provide for acceptance of documents in case they are posted before the commencement of closure of Register of Members and received by the company after such commencement but before the end of the closure period.

Section 108 (1-C) (B) states that the provisions of Section 108 (1-A) and 108 (1-B) regarding endorsement by the prescribed authority on instrument of transfers are not applicable to transfer deeds relating to shares deposited with the State Bank of India, any schedule bank etc. by way of security for repayment of loan or advance etc. and such instrument of transfer is valid if delivered to the company within a period of two months from the date of release by the
to the company within a period of two months from the date of release by the bank as stamped or endorsed by the bank. Thus the instrument of transfer deposited with a bank, etc. for the purpose of a loan or advance need not be date-stamped at all and such deeds are valid for a period of two months from the date of release by the bank.

One point worth mentioning at this stage is that an instrument of transfer presented to the prescribed authority can be utilised at any time before the date of closure of the Register of Members of the Company for the first time thereafter and, so long as this requirement is fulfilled, date-stamping has no relevance to the date of allotment of shares or issue of letter of allotment/share certificate or to the date from which the company started transferring shares or from the date on which the shares were registered in the name of the transferee.

Section 108 (1-D) of the Act is an enabling provision that empowers the Central Government to extend the validity period of the instrument of transfer mentioned in sections 108(1-A) to (1-C) by such time as it may deem fit to avoid hardship in any case. The power to extend time under section 108 (1-D) was earlier delegated to the various Regional Directors of the Company Law Board and presently it is with the Registrar of Companies, of the various regions under whose jurisdiction, the Registered Office of the Company is situate.

However, the present form for applying for extension of time for validity of the instrument of transfer and the procedure involved is rather cumbersome and time consuming. It is reported that the Working Group has suggested a revised form for application for extension of time which is simple and also provides that payment of fees on application may be made in cash. It has also recommended that the question of delegation of the power to extend, hitherto with the Government, may be granted to Stock Exchanges.

To summarise the discussion, what is needed and expected is an open and receptive mind to the problems and hurdles faced by the investing community on account of procedural delays and technical errors, and a general awareness for those who deal with transfers and related matters.
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BHANU SANGHVI
Manager, Public Relations
The Stock Exchange, Bombay

The biggest hurdle in the spread of the equity cult in India is our cumbersome and time-consuming share transfer system. No purchaser of any equity shares can become its owner or shareholder in the company till his name is entered into the Register of the members of the company, and for this purpose, both the seller in whose name the securities stand and the purchaser have to execute jointly an instrument called Transfer Deed and lodge the same with the company within a certain period of time. According to section 108 of the Companies Act, 1956, such Share Transfer Deed must be date stamped by the prescribed authority. Subsection 1A of section 108 further lays down that such Transfer Deed along with underlying scrips must be delivered to the company at any time before the date on which the Register of Members is closed or within two months (or within twelve months after the Companies Amendment Bill, 1987 comes into effect) of the date stamped on it. As it happens, companies have to close their Register of Members not just once a year but a number of times during any given year for the payment of the interim and final dividends and for the allocation of rights or bonus shares or any such other purpose from time to time. Thus in actual practice, the life span of the Share Transfer Deed becomes too short. There are a number of other reasons such as difference in the signature etc., which also can render Transfer Deed defective and invalid.

DEFFECTIVE SHARE TRANSFER DEEDS

There are heaps and bounds of such time-barred and defective Share Transfer Deeds in the offices of the stock brokers in almost all Stock Exchanges in India. It is estimated that around Rs. 100 crores worth of share certificates have turned virtually ownerless due to defective Transfer Deeds accompanying them. However, the actual figure could be even much more.

Fortunately, nobody has suggested so far to curb the free negotiability of the Government Loans and securities also with such compulsory registration formalities, otherwise it would have created havoc with banks and public financial institutions.

It is understood that the R.N. Bansal Working Group constituted by the Finance Ministry to examine various aspects of the share transfer procedure has done a commendable job in attempting to simplify the existing system, but nothing definite can be said till the group's recommendations become fully known. Meanwhile, experts are pinning
their hopes on the Scripless Trading and Ownership Transfer System which is likely to come to India in the near future.

**Scripless Trading and Transfer System**

The Scripless Trading and Transfer System has its origin in the American Depository Receipts which were developed in the late 1920s to enable US citizens to trade in non-US securities avoiding the risks, delays and high cost of dealing abroad. International trading in securities was not popular in those days due to the differences between US and foreign law and corporate practices. ADRs helped US citizens to invest abroad easily and also enabled non-US companies to raise capital in the USA.

ADRs are in fact negotiable receipts in certificate form which represent a class of underlying securities in a non-US company. ADRs are being freely traded not only on US Stock Exchanges but also abroad, particularly on the London Stock Exchange which has fully internationalised its operations after the Big Bang. ADR's have proved a big hit with average investors as million dollars worth business is being reported everyday. Canada has adopted similar system for her national stock and securities with the establishment of the Canadian Depository for Securities Ltd. in 1970. Singapore Stock Exchange is also likely to introduce scripless system for the Main Board from current year which is expected to cut down paper work considerably and enhance productivity of the trading system.

In the scripless system or the Depository Trust Receipts system participants or the subscribers transfer their securities in the name of the Depository Trust which become the actual shareholder in the company for all practical purposes. The Trust holds securities as a nominee of the real owners. A small fee is charged and a number of facilities offered. Dividends, whether interim or final, entitlements for rights issues, allotment of bonus issues and such other benefits are collected by the Trust and passed on to the participants. Participants are also being provided with proxy nominations, so that they can attend Annual General Meetings and Extra Ordinary General Meetings like any other shareholder to exercise their rights. Since Depository Trust Receipts are fully negotiable and transferable by endorsement, they could be freely traded just like the underlying securities minus usual legal transfer procedure. DTRs could be even listed on the Stock Exchanges like Government Loans and public sector bonds. In a rare event, when a participant wishes to withdraw physically his so deposited Stock or Share Certificates he can do it easily by getting his DTR cancelled by the Trust.

**Stock Holding Corporation**

Late Shri Phiroze Jeejeebhoy was the ardent advocate of introducing scripless society in India. He gave it a name of Stock Holding Corporation system. He favoured an early establishment by Government of India of a statutory corporation to be called 'The Central Stock Holding Corporation of India'. The corporation was to be the sole central depository of securities with a wide network of regional and area offices all over India with public sector banks acting as the authorised agents of the corporation at places where there was no direct office of CSHC. As per his vision, the proposed CSHC was to function just as a bank, where securities could be deposited with pay-in-slip and ownership of the securities could be transferred by issuing a Delivery Order on the CSHC and account could be maintained by ledger and pass book entries.

Although Shri Jeejeebhoy's dream of abolishing the actual printing and distribution of the share Certificates to the shareholders could not materialise, slowly things have started to move in this
direction. A number of Stock Holding Corporations will start operating in India, to introduce if not the scripless society, at least scripless trading and transfer system in our country. The first to arrive on the scene will be The Stock Holding Corporation of India Ltd. under the Chairmanship of Shri Phillip Thomas. SHCI has been sponsored by 7 leading public financial institutions, viz. UTI, ICICI, IDBI, GIC, LIC, IFC and IRCI for intra institutional transactions. The Tata Consultancy Service has carried out an excellent Organisation and Systems study as a prelude to setting up of the Stock Holding Corporation of India. According to the present indications, the whole concept will be implemented in 3 phases. During phase I, which has commenced from January, 1988, each one of the sponsoring public financial institutions will move their securities one by one to SHCI for safe custody. It is said that SHCI will provide scrip custodian service at much lower cost than the current scale of fees charged by the commercial banks. SHCI will also start purchase and sale of securities on behalf of the institutions as their agent.

In phase II, proposed to begin from 1991, the SHCI may enlarge its institutional membership to include other investment institutions, large investors as well as a number of companies listed on the Stock Exchange. In phase III hopefully to start from 1995, SHCI’s doors could be thrown open for common investors and public at large will be able take benefit of its services.

The Stock Exchange, Bombay has already entrusted the formation of a Stock Holding Corporation to the Bank of India which is handling the Clearing House operation of the Stock Exchange since early 30s. The Stock Exchange SHC will be run exclusively for the benefit of member-brokers only with its activities remaining confined to scrips in specified section. It will start functioning as soon as the problem of housing a suitable computer in the Stock Exchange premises is solved.
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Investors’ Irrationality And The Stock Market

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“A man is a rational animal”. This is an underlying concept whereupon the whole edifice of human socio-psychological studies is based. This axiom finds it expression in the stock markets in “Efficient Markets Theory” which in essence means that since investors as an universe are involved in rational decision making, it is difficult/impossible for an individual or a group to consistently outperform the market.

However, in reality it is often found that the stock market players are not always the cool and rational players that they are supposed to be. There is an inherent tendency to overreact to the good or bad news and accentuation of such a reaction is more in case of bad news. Psychologists also believe that in a depressed state or environment a human being becomes more irrational and emotional in his decision making. That is why empirically it has been found that the buoyancy is built up on a longer period whereas the markets go bust in a very short span of time. The latest such happening occurred on “black Monday” on October 19, 1987 when the over pessimistic operator hammered the Dow Jones Index down by 508 points wiping out 500 billion dollars in paper value on a single day on the New York Stock Exchange.

In India also, a similar thing happened in June 1974 when the promulgation of an ordinance restricting dividend payment by companies led to a sharp fall in market levels.

DECISION MAKING BY INVESTOR

Why there is such an over-reaction especially in the stock markets when investment decisions are supposed to be made rationally? An answer to this question is to be found in the sub-conscious image of the stock market that an investor always carries. It is not merely to ensure capital growth and adequate returns that an investor is drawn to the stock market but with an added dream of beating the market one day. A stock market investor is psychologically closer to a gambler or a race goer who has a strong belief and conviction that he has the fool proof system to outplay the organization, while in reality the odds are always against the operator to consistently outperform.

This streak of irrational aspirations lead the stock market investor to go in search of “hot tips”, to be guided by the unofficial premium in the new issues markets or play on the strengths of his intuitions or even early morning dreams. Dalal street precincts abound with the stories of how an operator guided by a dream of his wife made millions in a scrip ‘A’ or how another operator who could not correctly
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Investment Analysis: Practical Considerations

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INTRODUCTION

Access to information, skill to analyse and understand and the ability to execute plans are three considerations in the area of investment planning. Much of the frustration of investing in securities could be diminished if the investor improves himself in the above mentioned directions. In today's atmosphere, where millions of investors have burnt their fingers by investing in overnight-fliers, the problem of careful selection of securities assumes significant dimension. In the coming days, selection methods and training in investment counselling will gain popularity due to the multiplicity of instruments and the growing number of listed companies.

PRESENT INVESTMENT PATTERN

Until recently, investors in general rushed for investment in the primary market by scrutinising (i) the names of eminent persons in the board of management; (ii) the merchant bankers to the issue (foreign banks command premium), (iii) glossy prospectus claiming heights, and (iv) the fancy names of the companies. Investment through the secondary market was carried on the basis of intuition and advices by friends, relatives and sometimes brokers; and, in terms of behaviour, it was (and continues to be) mainly through the emotions of the market. The emphasis here is that, investment is hardly considered as a delicate subject which should be approached much more systematically and scientifically. Such being the case, consultants, professionals or otherwise qualified persons to guide the investors were not making their presence felt. But, the boom of 1985-86 has reversed the scene. Today's investor comes to the market with some knowledge, mostly acquired from investment magazines and shows some interest in portfolio analysis and portfolio managers.

STEPS IN INVESTMENT DECISIONS

Physical and financial assets compete for one's savings. Present situation warrants that everyone should first aim to get a house for his own. After providing for roof, investment in insurance, and tax saving measures, can be considered. Over and above the family requirements, provision for own house and insurance, if a person can save, he should be the potential candidate for stock market. Some may disagree with this point. It is not that persons without house/real estate or adequate insurance should not enter stock market; but the emphasis is on the nature of the stock market investment, pitfalls that are not clearly understood by the common man and the consequences
of such thoughtless investment in the stock market.

After providing for the basis needs including, education, house, maintenance of the family, etc., the decision of the household can be analysed by:

i) savings limit

ii) return, time and risk specification

iii) appraisal of alternative instruments

iv) portfolio selection and

v) portfolio revision

Such a logical step seems to be a difficult proposition to follow in the beginning. But, it is time that, before taking crucial decisions, investors chart out these points and then act accordingly. Mind trained in this way, is definitely superior and tends to err less frequently.

Every individual has some ceiling on his saving capacity. The Indian economy as a whole saves roughly around 20-22% of GNP. There may be deviations from this figure in case of individuals. This must be assessed net of taxes, provision for housing, insurance, provident fund, etc. The net figure is available for stock market investment. Academicians refer to this as the savings constraint imposed by the budget constraint.

The second step is to specify the amount of return needed and the time which it should be realised. The latter will decide about the position-long-term investor or a short-term investor. Obviously, the time element introduces risk and the investor must specify the risk constraint also. That is, he must be explicit in specifying the fluctuation in income due to investment in risky assets, which he can bear. Statisticians and academicians, normally measure risk by the standard deviation of the return and the reward by the average return.

Third step is to study the array of financial assets available in the market and relate them to his personal preferences in terms of time, risk and reward. The Indian financial system offers the following instruments at present.

| Deposits | Companies and banks |
| Debentures & Bonds | State, Central, Guaranteed and Public Sector Units. |
| Equity Shares | Public Limited Companies |
| Mutual Funds Shares | Magnum, Canstock, Canshare and Master Shares. |

Apart from these, insurance policies, NSC, PPF etc. are the other financial assets evolved due to various needs of the society. Of these, debentures, bonds, insurance, NSC and PPF are somewhat longer term investments opted by the investing class either due to cushioning of risk due to death, etc. or due to safety preferences and tax benefits. Naturally, these investments yield lower rate of return. Unsecured deposits of the companies yield slightly higher return due to the associated risk of default by the firms. Mutual funds are new instruments to the Indian investor and at present they are mainly preferred for their tax benefits and not due to their returns. Equity shares are the instruments with highest risk and consequently investors expect higher return. But, everyone knows that this investment can yield anything from negative to very high rate of return depending upon the underlying firms' performance and dividend distribution policies.

Investors who follow these steps carefully find difficulties in proceeding further with two important questions - the composition of equities and fixed income securities and the equity shares to be invested in.

In fact, the answer to these two questions solve much of the frustration of investing
in the stock market, i.e. the exercise when followed carefully, assures the investor, a return which will minimise the underlying risk. This branch of science known as security analysis and portfolio management, is not given adequate importance by the investing public.

Security analysis provides methods to evaluate the underlying equity shares in terms of risk, reward, growth, etc. either through fundamental analysis or through technical analysis. Having scanned the securities for their underlying qualities, portfolio management techniques use these inputs for the selection of portfolio mix for the individual investor for his risk preferences (safety vs. return) and budget constraints. Portfolio analysis answers the question of how much to invest in each security, finding the bargain securities, aggressive and passive securities. It is suggested that either investors learn at least the relevant areas of this science or seek the guidance of a portfolio manager. The BSE authorities are trying to solve this lacuna by (i) introducing professionals as member brokers, (ii) computerisation of the market operations, and (iii) commencing various training programmes in the near future. All these efforts are bound to replace the present market based on sentiments, rumours and emotions by a market based on systematic and scientific price determination.

PORTFOLIO REVISION

The efforts of portfolio construction yield results only if subsequent revision takes place. Note that, the initial portfolio was constructed based on an environment which may or may not hold true after a lapse of time. For instance, consider a portfolio constructed during January. During March-April, ex-budget, the economic scenario changes and the investor must be quick enough to shuffle the portfolio. Portfolio revision techniques such as constant-rupee plan, constant and variable ratio plans and rupee cost averaging are available in theory which an investor can make use of.

DATA BASE, PROCESSING & COST

Above arguments assume the availability of timely information and the ability to process the information through computers/calculators, etc. Information on companies are available through annual reports, official directories of the stock exchanges, economic, financial and investment journals and dailies. General Economic Analysis is a prerequisite for the investor to judge his decisions. Interest and mastery over this area is an art that can be acquired over a period of time only. Processing of information involves cost. It is therefore, suggested that published data in this regard be used and judged personally. Alternatively, one can make use of professional services, which at present seem to be exorbitantly priced. In the near future, when the professional services are available on a competitive basis, this cost is expected to come down.

CONCLUSION

The stock exchange activities which attracted the NRI for their surplus funds, soon may extend to the unexploited rural and semi-urban Indian investors. These new class of investors have very little knowledge of the stock market investment. Continuous success to tap their resources from the competing assets such as gold, real estate, etc., in future depends upon the initial image which the stock market will be carrying with it - casino or a genuine investment market. This depends upon the efforts of the stock exchange authorities to (i) introduce various instruments blending different risk-return compositions, (ii) appoint professionally qualified persons (iii) spread the "investment" message through stock market to the growing number of investors by reducing the "myth" of speculation, and (iv) being various training programmes to the concerned participants.
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