The Stock Exchange

No Lack Of Confidence

New Issues Absorbed

IF the stock exchange reflects the state of industry correctly, its working during the current year, as can he seen from the accompanying table, should give grounds for confidence. The major events which have influenced the psychology of the market as well as the national economy during the year were fears of a. world war as well as those of a war nearer home; the danger of a runaway price inflation following worldwide scarcity of raw materials on account of war preparations; and the subsequent " burst " in prices in jute, cotton, rubber, tin, oilseeds, cloth, etc. The year saw the spectre of famine looming large in the horizon at one time and then fade out, and the subsequent casing of the situation due to US grain loan and the prospects of a favourable monsoon. The credit structure in the country passed through a period of unparalleled strain when note expansion as well as advances were constantly rising but these difficulties have passed and conditions are rapidly returning to normal.

Taking all these factors into account, the behaviour of the investors, as reflected in the. movement of share prices, does not indicate their lack of confidence in the existing industries. A selection of leading shares in principal industries, viz., steel, textile, jute, cement, coal, paper, tea, sugar, bank, shipping, chemical and metal is reproduced below with the range of their price variations, opening and closing, highest and lowest, during 1951. Dividends on these shares have been shown and the return to the investor at current prices has also been worked out.

The striking feature about the stock exchange today is that first class industrials yield a return varying from 3 to 7 per cent, free of income-tax. This leaves out of account the yield on tea shares which is 7½ per cent because tea is less of an industry and more of agriculture. At the other extreme, chemicals and shipping are still in the doldrums, yielding no return, and the investor has to live on the hope that future will be brighter, A more normal return is around 5 per cent in steels, textiles, jutes, cedents, coal, paper and sugar. While yield on Tata Steel is around 5 per cent, that on Indian Iron and Bengal Steels is only 3 per cent. Traditionally, the yield on steel is high and the fact that return shown here is between 3 and 5 per cent would indicate the investors' faith in the future of the country's steel industry.

Textiles and Jutes both show a return of around 5 per cent, judging by the fact that in the first half of the year mills made large profits due to higher cloth prices but that in the second half-year, the trend of cotton textile prices as well as profits has been lower, the present yield reflects an air of confidence that these industries have a relatively assured place in the economy of the country.

The same is true of cement, paper and sugar, while the return on coal is higher at around 7 per cent he-cause a colliery being a wasting asset, the yield must allow for future depreciation of capital.

The industry being a gamble in rain always attracts the investor by a higher return around 7 per cent.

The first class banks shares are today on the basis of 4½ per cent

EQUITIES IN 1951

Companies	Jan. 2,'51	Jan. to June High	Jan. to June Low	Current Price	Dividend	Approx. yield % at present price (Tax Free)
Steels						
1. Tata Defd.	1900- 0	2167- 0	1865- 0	1920- 0	93-10- 5	4.87
2. Tata Ordy.	363- 0	401- 0	354- 0	355- 0	18- 0- 0	5.0
3. Indian Iron	33-10	39- 3	33-10	30- 4	1- 0- 0	3.3
4. Bengal Steel	24- 0	29- 9	23-10	21- 4	0-10- 0	3.0
Textiles						
1. Bombay Dyeing	1045- 0 (C.R. old shares)	532- 0	475- 0	435- 0	17- 8- 0	4.0
2. Buckingham	147- 0	167- 0	146- 0	147- 0	6- 0- 0	4.21
3. Century	285- 0	383- 0	285- 0	332- 0	18- 0- 0	5.45
4. Kohinoor	344- 0	398- 0	336- 0	330- 0	18- 0- 0	5.45
Jutes						
Howrah Jutes	36- 0	44- 0	35- 8	32- 4	1-12- 0	5.47
Cement						
A.C.C.	178- 0	179- 0	160- 0	181- 0	8- 8- 0	4.7
Sone Valley	7- 8	8-10	6-14	7- 2	0-3 1/5-0	3.0
Coal						
Bengal Coal	558- 0	649- 0	555- 0	570- 0	42- 8- 0	7.45
Burrakur Coal	14- 8	18- 2	14- 0	14-12	0-12- 0	5.0
Paper						
Titaghur Paper	30- 0	40- 4	29-10	36- 0	1-14- 0	5.2
Tea						
Bishvanath Tea	39-14	47-10	39- 8	40- 4	3- 8- 0	8.75
Sugar						
Belapur	285- 0	295- 0	259- 0	254- 0	12- 8- 0	4.9
Miscellaneous						
Imperial Bank (F.C.)	1985- 0	1957- 0	1895- 0	1865- 0	80- 0- 0	4.29
Scindia Steam	17- 0	19- 2	16- 8	14- 8	——	—
Tata Chemicals	16- 9	17- 6	14- 0	13- 9	——	—
Indian Copper	3- 9	4- 0	3- 0	2-14	0-1-4 4/5	3.0

as shown by the Imperial Bank of India, The return on equities is free of income-tax as companies pay tax direct and do not deduct it from dividend on ordinary capital. Allowing for this fact, while the comparable return on first class equities is around 6 per cent (taxable) the, yield on long dated Government loans is around 3½ per cent (taxable). The spread in the long-term rate between the yield on Government securities and industrials is 2½ per cent. A normal difference could probably be around 2 per cent but the uncertain outlook for the Government loans itself indicates that the return on long-term loan could show a rise over a period of time.

Range of Fluctuations

If this is the yield pattern on industrials, how have their prices moved during the year? The opening and the closing prices of most of the shares are so close that they show no major price trend at all and suggest relatively stable prices. Heavy fluctuations, however, were recorded during the earlier part of the year. Between January and June, Tata. Deferreds rose from Rs. 1,900 to Rs. 2,160 and later, even to Rs. 2,200. This was a rise of 15 per cent over the opening price. Two of the leading textiles, viz., Kohinoor and Century rose by 25 per cent but in the case of Kohinoor, the price at the closing slid back to the opening level.

Better working of the cement industry has resulted in improvement in the price of ACG from the lowest of Rs. 160 to Rs. 180, though this was also the, quotation at the beginning of the year.

Goals have moved narrowly, reflecting a stable outlook, while Titagarh Paper did better during the. year, due to rise in prices of paper.

The fact that Scindia Steams are now below Rs. 15 as against Rs. 17 at the opening of the year, indicates lack of public confidence in the shipping industry.

Tata Chemicals declined from Rs. 16 to Rs. 13 but even though no dividend has been paid, the current premium on the share is a measure of public confidence in the ultimate success of this concern.

New Capital

Among the significant developments in the stock market are the ready subscription of new capital for Rs. one crore by the Bank of India and the sale of part of the share capital by established British companies to the Indian public. The Metal Box Company of India and Rallis India Ltd. placed a sizeable part of their capital in India and the issues proved highly popular, suggesting that the investment market is ready to absorb new issues, provided the profitability of the companies is reasonably assured.

Another welcome feature was the grant by the Government of India of Rs. 2 crores in the form of 5 per cent taxable .Preference Capital to the Tata Locomotive Company and the rapid progress made by this concern in the manufacture of boilers, locomotives, etc. The form of close co-operation between Government and industry shown in this case can well be followed in others and the results would justify more of such practical collaboration.

From another angle, the recommendation of the Tariff Board that steel prices should be raised in order to allow enough profits to the industry to pay for replacement of capital, is another step forward, which will permit industry to build up its own reserves to finance expansion. It is well-known in the capital market that greater the internal resources of a concern or an industry, the greater is its ability to raise outside capital, either from its own shareholders or from the outside public.

Government and Industry —British Experience

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Qualitative Intervention

The preservation of stability and the improvement of living standards have been increasingly conceived in terms of full employment and greater equality of wealth, with all that these imply for the pattern as well as the volume of consumption. Counter-depression measures had already been decided upon in the Coalition Government's 1944 While paper on Employment Poller. The measures envisaged not only the planning of production levels but to some degree a qualitative intervention into the programmes of industry, that is to say, a form of intervention not only concerned with the volume of production but also the type of goods produced.

The case of overseas trading is well-known. Concentration on a particular export market to the exclusion of others and to the disadvantage of home consumption has again implied qualitative pressures and influences on industry. The same is not true to the same extent for the third objective. The need for defence has a qualitative effect only insofar as they withdraw certain resources in equipment, materials and labour from other types of production in a rather uneven way.

As early as 1944 Keynes had espoused a budgetary policy which would be the main instrument in bringing into effect the qualitative intervention for purposes of maintaining a level of demand and employment that would accord a rising standard of living. This policy which has now been accepted in principle in Britain and other countries, was concerned first and foremust with the volume- of demand and, secondly, with a horizontal division between demand for investment goods and demand for consumer goods. In fact, the volume, of gross investment in Britain has been as great as the resources which the country could stand unless an increase were to be offset by reductions in other types of expenditure. The volume of private consumption has been high or higher than could safely be allowed. The other variable — Government expenditure — has in practice been maintained at a high level.

Since private consumption could not be significantly reduced, planning policy, in order that the necessary concord of devices and decisions may be amiably achieved., has had to include not only a horizontal division between investment and consumption, but a series of vertical divisions between categories of eonsumption. For if the volume of consumption becomes rigid, the distribution of resources between the categories assumes a greater significance.

The numerous other decisions—wages, prices, profits, location of industry and the host of other factors are, all subjects of planning decisions. All have directly or indirectly their- effects on. the type of-goods