Around Bombay Markets

Technical Correction Is under Way

Thursday, Morning

EQUITY prices last week drifted lower on light but persistent bull liquidation. Not many shares were able to improve upon their previous week's highs and very few counters were able to show net gains over the week. Losses were widespread, though small. Vyapar's equity share index which had touched a high of 149.96 on 3rd May eased gradually to 146.71 on 16th May and at its Wednesday's closing of 147.49, the index showed a net loss of 0.24 over the week. Wednesday's low of 146.71 was the lowest point since 27th April. The volume of business, which had never been really heavy even when the market was moving up, was generally on the low side during the week. Having failed to attract outside public support on the rise, professional speculators are inclined to reduce their bull positions. As before, interest remains confined to selected issues. Business in non-cleared securities also was somewhat restricted last week and prices were barely steady.

Dalai Street's recent trading pattern suggests that the upward trend in equity prices has been halted for the time being. How long the market might take to regain sufficient strength in order to be able to climb to a new peak, is difficult to say. But considering the preceding sharp upswing and also the importance of the resistance area from which the market is beating a retreat, the process of technical adjustment could be a difficult and long-drawn-out affair. It is not unlikely that with the turn in sentiment following the setback in prices, Dalai Street might feel it necessary to do some re-thinking on the near-distant outlook for equities particularly when the political situation is far from **happy.**

The not-infrequent exchange of **notes** between New Delhi and Peking on the border situation **underlines the** steady deterioration **in the relations** between the two countries **and** implications of defending **the** huge northern border **can** scarcely be exaggerated. Indo-Pakistani relations are once again beginning to cause considerable anxiety. And as for the additional taxation proposed by Shri Morarji Desai, financial experts have never shared the stock market's verdict on the implications of these measures. If the stock market's optimism had been based on the hope that Shri Desai would concede the demands made by the business community in regard to concessions in corporation tax and cloth excise duty, the optimism is likely to prove misplaced. All that the Finance Minister might concede is some relief in excise duty on mercerised cloth. Uptil now, the stock market has virtually ignored the warning sounded by the chairman of various cotton mills that the industry would not be able to repeat its 1961 performance because of the substantially higher prices of raw cotton. And the position would be much worse with the imposition of the extra excise duties. Unless the spokesmen of the textile industry have been painting too gloomy a picture, bulls will find it extremely difficult to mark up textile shares. The exporting mills might, however, be able to fare well if the export incentives are further liberalised as is generally expected. The outlook for Steels depends largely on the Government's decision on retention prices.

Oilseeds

Slump in Groundnuts

GROUNDNUTS made news last week because of the further sharp break in prices. The May contract which had declined from Rs 221.87 to Rs 212 (per 250 kgs) in the preceding week was sold down to around Rs 200 in kerb dealings on 15th May which takes it very close to the season's low of Rs 195,37. The July contract which had touched a high of Rs 229.50 on 3rd May was marked down to Rs 204. Wednesday's closings were, however, higher at Rs 203.62 for May and Rs 210.12 for July. Heavy anxious bull liquidation, bear pressure, lack of fresh support and options — all these combined to produce the recent perpendicular fall in groundnut futures. The initial selling was probably touched off by the increased flow of summer crop in the south — estimates about this crop range between 2 lakh tons and 2.5 lakh tons against a normal 50,000 tons — and the approach of the monsoon. The decline in prices brought about a marked change in market psychology and it unearthed huge weak bull positions. The week-end rally is essentially technical.

H P S Quota

The preceding fall being very steep — the steepest decline for several months — a technical correction had become due but sentiment was also influenced by the release of a further export quota for 20,000 tons of groundnut H P S and by reports that the State Trading Corporation proposed to step up its exports of groundnut oil and cake. The bullish implications of the H P S quota can be easily exaggerated. For one thing, there already exists a sizable balance of 6,000 to 8,000 tons out of the previous export quota. Besides, this is the off-season for selling H P S abroad. January to March is about the best period for the export of H P S and since the new quota is valid up to the end of December, one cannot be too sure that this quota along with the outstanding balance will be fully utilised. The latest overseas quotations for H P S groundnut arc mentioned at £ 86 for Bold and £ 89 for Java quality. Fresh business will become possible only after the new crop arrives in the market.

While technical considerations could produce a sizable rally the recovery is unlikely to be sustained for long in face of the comfortable supply position and approaching monsoon. The current season is expected to end with a fairly large carryover and only bulls will feel uneasy at the prospect of a further decline in prices. The fall in groundnut oil prices is welcome, not merely on account of the relief it provides to the ordinary consumer but because lower prices will reduce the disparity between Indian and foreign prices and thereby improve prospects of export business in groundnut oil. Of course it is extremely unlikely that Indian prices will come down anywhere near world parity in the foreseeable future, Export of groundnut oil will need to be subsidised in one form or the other.

Linseeds Steady

The sharp break in groundnut futures had an unsettling effect on the generally trading sentiment. Even so, linseeds managed to record a small net gain over the week. After being marked down to Rs 37, linseed June recovered to close at Rs 37.75 against Rs 37,11 (per 50 kgs) a week ago. The September contract which had been marked down from Rs 38.19 to Rs 37.62 was up again at Rs 38.50 at the week-end. The firm tendency in linseed was attributed to North Indian support induced mainly by the strengths in rapeseed prices. Castor futures were affected by the pronounced weakness in groundnut but the decline was not heavy. After improving from Rs 166.25 to Rs 169.50 early in the week, castor June moved down to Rs 163 but rallied again to Rs 165.50. The relative steadiness in castorseed was -attributed to the growing belief that the Government would adopt a more helpful policy for exporting castor oil. Of course already there are no impediments to the export of castor oil. The disparity between Indian and foreign prices of castor oil has .seldom been more than £ 2 per ton and it is difficult to expect a straight parity when export is freely allowed, particularly when heavy speculation goes on in castor futures. Exporters did not report castor oil last week. The U K quotations were placed around £ 115 for Commercial and £ 120 for B S S. Scarcely any business was mentioned in linseed cake which was quoted around £ 36 per ton. Expectations of a marked revival of U K buying in groundnut extractions after the withdrawal of the strike notice by dock workers did not seem to have materialised. The U K buyers continued to hold off the market, presumably because of the sharp fall in Indian groundnut prices, Though prices quoted by the U K buyers were only slightly lower than in the preceding, actual business was limited.

Cotton

Futures Decline

COTTON futures last week suffered a sharp decline. The March contract which had been bid up to Rs 734,75 on 9th May was sold down to Ra 716.75 on the 16th and at its Wednesday's closing of Rs 719.25, the contract showed a net loss of Ra 14.50 per 3 quintals over the week. Nearly all the decline occured in just two sessions; the contract fell from Rs 732 to Rs 721.75 on 14th May and it eased further to Rs 716.75 on the

16th. What caused this sharp decline ? Surely, not the weather news. It is too early to blame the weather for anything. Farmers are still awaiting the showers before they can take to sowing. It also seems unlikely that speculators have taken their cue from Shri Manubhai's assurances that the Government is doing its best to secure adequate supplies of cotton because, notwithstanding all the efforts that have so far been made, the outlook for imparts is still far from encouraging. The selling which produced last week's fall would appear to have been based on the argument that the March 1963 'contract had started off at a price which offered little scope for further quick rise. Hence it was good to trade 'for a fall. This may not appear good logic but speculators do not always, base their transactions on very sound reasoning. Quilte often they merely engineer fluctuations and nobody need blame them for this. In fact, there is not much sense in granting permission to trade in the nn\ crop contract so early in the vear. Speculation at this stage must be a pure gamble. Until the outbreak of the monsoon, fluctuations in cotton futures will be guided mainly by the whims of big professional operators.

The cotton supply position is so very tight that unless the Government makes arrangements for importing large quantities of cotton at an early date, the textile industry may be forced to curtail production. The discussions at the recent meeting of the Cotton Textiles Consultative Board indicated that the Board is seized of the situation and it is exploring the the possibility of importing cotton in exchange for the sale of surplus commodities like sugar, manganese and ferro-manganese. The current visit of the Sudanese cotton deligation has raised hopes that a way will be found for the exchange of Sudanese cotton with Indian cloth or some other commodities which the Sudan needs. Fortunately, the cotton crop in the Sudan is said to be a bumper one, around one million bales. But the shortage of cotton in India is so serious that it is unlikely to be made good except through large-scale imports of cotton from the U S.

Company Notes

Amar Dye-Chem

Hit by Liberalisation of Imports

THE changes in Government policy on imports, the abolition of the tariff on naphthols and fast bases and the reduction in prices of some of the items in order to meet the competition from low priced imports following the abolition of tariff have been mainly responsible for the decline in sales and profit of Amar Dye-Chem during the year 1961. It is with great difficulty that the Company has been able to push the sales to Rs 170.40 lakhs, against Rs 176.15 lakhs reached in 1960. The gross profit has declined from Rs 67.72 lakhs to Rs 64.08 lakhs, bringing down the ratio of profit to sales from 38.1 per cent to 37.6 per cent. Even so. the profit margin is very much higher than in many other industries. It is evidently on account of the huge profit margin that there is a keen demand for dyes and chemicals shares and these command a large premium in

The net profit at Rs 28.68 lakhs is lower by Rs 4.56 lakhs. The amount ploughed back to the various reserves has been reduced from Rs 35.78 lakhs to Rs 20.41 lakhs, after taking into account claims and excess provisions in respect of previous years. The dividend too has been pruned with the new shares issued during the year participating in a proportionate distribution. What is more, while the previous year's dividend was entitled to exemption from deduction of tax at source, as it was distributed entirely out of profits under Section 15C of the Income-tax Act. the dividend for 1961 is subject to deduction of tax.

In spite of the keen competition and raw material shortage, the company is going ahead with its plan? for putting additional plants already undertaken and for further expansion. The Ron acid plant is expected to go into commission by the end of the current year. Separate plants for fast red 'B' base and fast red GL base have been installed and put into commission. Similarly, separate plants for fast scarlet G base and fast red TR base are being put up and when completed, there would be ample plant facilities and the company would be in a position to show better results, provided, of course, raw materials become available in sufficient quantities.

Under the expansion programme, the plant for the manufacture of TPM dyes is expected to be ready by the beginning of 1963. The agreement of technical know-how for the first phase of the programme for the manufacture of intermediates for dyes has been finalised with A C N A of Montecatini. Arrangements for the second phase are under negotiation. The Company has finalised arrangements for technical know-how for the manufacture of Rota Naphthol project with A C N A subject to the approval of the Government. The plant for manufacture of pigment colours is expected to be ready by the end of the current year. The production of a few items of reactive dyes is likely to commence in 1963.

Guest, Keen, Williams

CONSIDERING the fact that production during 1961 was affected adversely by power cute and inadequate supplies of good quality billets for re-rolling and of matching materials for the engineering division. the financial results of Guest. Keen, Williams for the year are satisfactory. While sales have gone up by "nearly Rs 1 crore to Rs 10.66 crores. the gross profit has improved by Rs 22.53 lakhs to Rs 155.69 lakhs, raising the profit margin from 13.75 per cent to 1 1.63 per cent.

The net profit, after raising the depreciation and tax provisions at Rs 79.99 lakhs. shows an increase of only Rs 5.06 lakhs. It represents an earning of Rs 2 per share and provides an adequate cover to the dividend of Rs 1.40 per share on the entire increased capital as raised by the doubling of the capital during the year. The previous year's distribution of Rs 1.60 per share was made up of 80nP per share on the old capital and 80nP on the increased capital. While