Improved Sentiment

Thursday, Evening

FOR the first time in many weeks, Dalal Street presented a somewhat livelier appearance last week. The volume of business was by no means large but there were some indications of a broadening of interest, more particularly in the long-neglected cash section. Equities recorded widespread gains which were quite marked in certain scrips. The performance of cash shares was in some ways more impressive than that of the speculative counters, though the improvement in most cases was due to bear covering and scarcity of offerings rather than to any signincanfrcvival of fresh bull support. Dalai Street's recent performance, though by no means decisive, suggests that it is likely to edge its way further up unless there is some unexpected development in the political situation.

There has come about a noticeable change in the mood of the market. The feeling seems to be gradually gaining ground that in order to meet the grim economic challenge posed by Pakistani aggression and the menacing posture assumed by China, New Delhi is now trying to be more practical than before. The stock market is not altogether unjustified in taking such a view. The Deputy Chairman of the Planning Commission has recently spoken about pushing back of social welfare programme in order to rush through with priority plans. The Planning Commission has suggested that no new industrial projects should be taken up in 1966-67 unless they are related to defence production and essential civil supplies; completion of existing projects is to be given priority. The Prime Minister has stated that he is against imposition of new taxes to meet increased defence and development expenditure. Market sentiment has also been aided by the British Government's reported decision to resume full economic aid . and restore normal flow of commerci'd supplies of defence equipment. which, it is hoped, will have a favourable impact on the U S attitude in regard to economic aid to India.

Reports that the stock exchange authorities are trying to make a joint plea to the Government for the removal of margins and other suitable relief in order to revive activity in the market have also had a steadying effect on sentiment, The belief is also gaining ground that the Government is likely to reduce the Bank Rate with a view to improving business psychology.

Improved sentiment and technical considerations should aid the process of recovery in equity prices that is now underway, But the market cannot be expected to have an easy going. The political situation continues to be uncertain and the power cut in certain States will also adversely affect industrial production. No less disturbing is the continuing pull on prices as a result of poor kharif harvests and the none-too-promising outlook for the rabi crops. The difficult foreign exchange position, restricted supplies of imported raw materials, rising trend in commodity prices, power shortage—all these factors have obscured the economic outlook. .

OILSEEDS

Disturbing Trends

ON Wednesday November 3, groundnut oil shot up from Rs 34 (o Rs 35 per 10 kilograms and groundnut (Khandesh variety) rose from Rs 162 to Rs 166 per quintal. These prices arc a record high not only for this time of the season but they are also all-time highs. While Wednesday's spurt could be attributed to the Gujarat Government's decision to continue the existing ban on the export of groundnut and groundnut oil outside the State, record high prices so very early in the season reflect essentially fears of a serious reduction in the total availability of vegetable oils during the 1965-66 season because of the failure of the groundnut crop and the unpromising outlook for rabi crops, namely rapeseed, mustardseed, linseed and castorseed. The groundnut crop is estimated to be 30 to 40 per cent smaller than in the previous season. Rabi sowings have been considerably affected by the failure of September rains and the continuing dry spell during October in most of the oilseeds producing areas. Reduced sowings apart, the outturn of the rabi oilseeds crops will depend very largely on the winter rains. It is extremely difficult to say how the weather will oblige the rabi crops.

Since it seems extremely unlikely that the shortfall in groundnut production and a possible decline in the output of other oilseeds will be made good through imports under P L 480, the upward trend in oilseeds prices is likely to get accelerated in course of time as the season progresses. There is a real danger that prices might get out of control unless the authorities take effective measures to deal with the situation, It would be foolish to think that the Forward Markets Commission can keep prices under check through the system of penal margins, which can at best bring about a decline in speculative business. There is little that the Commission can do to ease the situation when prices soar due to serious physical shortages.

Notwithstanding shortages, it should be possible to check the rising trend in prices if the Government: really means business. The action to be taken will naturally depend on what view' the authorities take of the ftriee situation. Vanspati industry being the single largest consumer of edible oils, especially groundnut oil, strict control over vanaspati prices is essential in order to keep oil prices under check. Vanaspati prices must be pegged at some reasonable level for a fairly long period of time. That is about the only way of discouraging vanaspati manufacturing, from paying almost any price for the raw material. Vanaspati should be packed in suitable containers and its supply should be rationed along with other foodgrains. The existing policy which links vanaspati prices with groundnut oil provides no check on manufacturers' paving higher and higher prices for oil. Restrictions on the inter-Stare movement of goods must be removed in order to ensure a more equitable distribution of the available supplies throughout the country. It is very unfair—to say the least -that the Gujarat Government should be permitted to ban the export of groundnut and ground nut oil when its internal consumption docs not exceed 2 lakh tonnes of groundnut seed as against its estimated production of 7 lakh tonnes this season. The disparity of about Rs 1.000 per tonne in groundnut oil prices in Ahmedabad/Rajkot and Bombay looks fantastic. The absence of any restriction on the movement of vanaspati outside the State provides a huge windfall gain to the few vanaspati manufacturing units situated in the Stale. One really wonders whether the policy in regard to the movement of groundnut and groundnut oil is intended primarily to benefit vanaspati manucturers within the Slate. Strict, action also needs to he taken to discourage holding and hoarding of stocks at all levels — including the co-operative societies and farmers. This is possible only when heavy penalties are imposed on chose found guilty of holding stocks in excess of their requirements for more than a specific period of time. Really speaking, it should be possible to control prices almost at any level provided the administration is honest and efficient.

Linseed, castor and cottonseed futures touched new high levels last week. Unseed April were bid up to Rs 127.50, castor April to Rs 107.50 and cottonseed January to Rs 71. The week-end quotations were only a little lower. Bulls continue to dominate the market, margins notwithstanding. The Forward Markets Commission has prescribed very heavy margins in the event of prices rising still higher. The margins are so heavy that only operators with huge financial resources can afford to take a position in the market. Speculative activity has shrunk considerably as a result of the margins but it cannot be said to have had any significant impact on prices, unless, of course, it is argued that prices would have risen still higher but for these margins. It is indeed time that '.he Government decided to ban forward trading in commodity markets which only helps to aggravate bullish trends

COTTON

Crop Estimates Down

ESTIMATES about the 1965-66 cotton crop have been revised further down. Not many observes now expect the crop to exceed 55/36 lakh bales and there are quite a few who place the crop as low as 50/51 lakh bales. Even on the basis of on timistic estimates, the supply position of cotton will present a very difficult problem for the industry. While there has been quite a considerable expansion in spindleage in recent years, cotton production in 1965 66 will be about the lowest. The gap between the industry's requirements and indigenous supply will be too wide to be made good through imports. With the foreign exchange situation being what it is, the supply position would become very critical if the country is unable to secure sufficient cotton under P L 180. Anticipated shortage has already pushed cotton prices to the revised ceiling prices for the new season and a few varieties are said to be commanding small premiums. The shortage of cotton will naturally affect the production of cotton textiles next year. The textile industry might take some comfort from the idea that the likely decline in cloth production will help solve the problem of stock accumulation, but: the industry cannot: escape the impact of higher cotton prices and reduced capacity working.

It is encouraging to hear that the trade has expressed its earnest intention to observe self-discipline and refrain from putting through business at above the ceiling prices. One can only hope that the trade's performance this season will be better. The Indian Cotton Mills' Federation too had devised a code of self-discipline last season but it was unable to implement the scheme for long. What amuses one most is that the Government should fail to enforce its price control order every time prices tend to move beyond the ceillings.

Apart from the unfortunate downward revision of crop estimates, there have been no significant market developments to report. Business in ready continues to be extremely restricted and the state of affairs in -the futures market is much worse. The daily turnover in futures is very often less than a thousand bales and the hedge contract continues to hold firm fractionally below the margin level of Rs 910. It does not really pay to bull cotton futures around Rs 910 when one has to put up a big deposit of Rs 100 per bale.

MONEY AND BANKING

Comfortable Conditions Prevail

COMFORTABLE conditions prevailed in the Bombay short-term money market during the week to November 4. Demand for funds was more or less the same as in the previous week but supply was strengthened due to the return flow of funds from Calcutta. The previous two weeks had witnessed an increase in the flow of funds to Calcutta to meet the demand arising due to the festive season. This is but a temporary phase as the busy season is to start soon and the rates of interest will more higher. The rate as on Thursday evening was placed at 4½ per cent.

The latest statement of affairs of the scheduled banks indicate a decline in the amount of credit advanced by banks during the week to October 22 from Rs 2,024.70 crores to Rs 2,017.85 crores. Deposits have declined by Rs 8.58 crores to Rs 2,802.86 crores and borrowings from the Reserve Bank have moved down from Rs 5.91 crores to Rs 3.22 crores. Balances with the Reserve Bank at Rs 96.14 crores shows a fall of Rs 5.44 crores. Cash in hand is lower by Rs 3.96 crores at Rs 66.89 crores. Investment in Government securities has risen by Rs 10.88 crores to Rs 864.85 crores. The credit-deposits ratio is lower at 71.99 per cent against 72.02 per cent during the previous week.

Notes in circulation declined by Rs 8.43 crores to Rs 2,612.40 crores during the week to October 29, according to the Statement of Affairs of the Reserve Bank of India. This contraction plus a small increase in total notes issued has been absorbed by the banking department. Rupee coins have increased slightly by Rs 9 lakhs to Rs 103.87 crores. Foreign securities increased by Rs 2 crores to Rs 72.63 crores but balances held abroad declined by Rs 45 lakhs to Rs 11.37 crores. Central Government deposits moved down by Rs 66.33 crores to Rs 56.85 crores while the State Government deposits increased by 3.45 crores to Rs 6.67 crores. Loans to governments at Rs 129.45 crores shows an increase of Rs 9.57 crores. Scheduled banks increased their borrowings slightly by Rs 18 lakhs to Rs 3.37 crores.

BUSINESS NOTES

Tata Chemicals

J R D TATA has strongly urged the Government to take timely action, through legislation or by other means, to protect the country's limited resources of chemical grade limestone and reserve them exclusively for the chemical industry. In his Chairman's statement circulated with the latest annual report of Tata Chemicals. Tata has pointed out that, as things stand today, the Ranavav deposits in Kathiawar constitute the largest and most important source in the country for the supply of this variety of limestone. The limestone used in the soda ash industry is of chemical grade which is of greater purity than that required for, say, the cement industry and is relatively scarce in comparison with the abundance of ordinary limestone. Limestone is the second main raw material in soda ash manufacture. The company's reserves are adequate for its present rate of production, but it will require larger sources of supply as and when the production of soda ash increases. It is intended to raise the rated capacity of the plant from the present 400 tonnes to 600 tonnes per day and thereafter to 1,000 tonnes per day.

During the year to June 1965, the company increased its production of soda ash by 10 per cent to 1.68 lakhs tonnes and that of dense soda ash by 29 per cent to 40,200 tonnes. The higher production was once again achieved in a year of severe drought when the two lakes, from which the factory draws its fish water requirements, were virtually dry. Sodium bicarbonate output was raised by well over a half to 10,400 tonnes, but the output of electrolytic caustic soda could be only maintained at the previous level of 4,000 tonnes. Benzene hexachloride production increased by over a third to 3,500 tonnes following a sharp rise in demand due to the Government's emphasis on crop protection programmes as also to substantial exports of formulated B H C to the U S S R. Output of salt at the Mithapur plant scaled a new peak at 3.04 lakh tonnes, but: at Okhamadhi the output of salt at 37,000 tonnes showed a setback. The company has been granted an industrial licence to expand production of benzene hexachloride from 3,600 tonnes to 5,100 tonnes per annum. A second application for further expansion to 9,000 tonnes per year is pending with the Government.

The stage of self-sustaining growth reached two years ago gathered further momentum and consequently thee was good improvement in the financial results for the year 1964-65. Sales reached a new record level of Rs 8,49 crores, representing an increase of 12 per cent over 1963-64 and 19 per cent over 1962-63. The operating profit registered an increase of Rs 50.58 lakhs over the previous -year. This increase was brought about by making the fullest use of existing production facilities in the year, when for almost the whole of the period the pre-decontrolled prices of soda ash and caustic soda were maintained in spite of the inflationary pressures bringing about significant increases in costs of materials and labour. Even though depreciation, taxes and interest charges were Rs 27.75 lakhs more, the disposable profit at Rs 92.21 lakhs was Rs 22.83 lakhs higher than in 1963-64. Equity dividend raised by 20 P to Rs 1.60 per share requires Rs 48.38 lakhs (Rs 42.33 lakhs). Earnings per ordinary share work out at Rs 2.91 and book value at Rs 15.52. The balance sheet as at end-Tune last shows gross block at Rs 10.86 crores and net block at Rs 6.43 crores.

Fertiliser Corporation

A NET profit of Rs-2.63 crores, the Trombay Fertiliser Faclory being brought to the commissioning stage, steady progress in the implementation of other projects and achievement of a