

**Role of Corporate Securities in Household Saving
and Private Corporate Sector Financing during
Eighties - Some Empirical Observations**

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Introduction

Of many significant changes, that took place in Indian economy during the eighties, the role and place of corporate securities as investment medium in household saving and the developments relating to new issues market deserve special attention because of these having potentials to have considerable impact on household saving and financing of private corporate sector. This article is an attempt to assess broadly the role and place of corporate securities as investment medium in household saving and financing of private corporate sector. The article has two parts. The *first* part besides presenting in brief, the economic background in which the various changes took place, discuss the role and place of shares and debentures as investment medium in household saving during eighties. The *second* part discusses the role and place of new issues in private corporate sector financing during eighties. To assess the relative significance and role of corporate securities during eighties, the observed trends in resource mobilisation by private corporate sector through various securities (equity shares, preference shares and debentures) and comparison thereof with the trends in private corporate sector financing by other important sources - All India Financial Institutions (AIFIs) are presented. This part also includes a few concluding observations. Limitations of the data and observations based thereon are the following: The data (source: Reserve Bank of India) relating to promotion of investment in shares and debentures in household saving in financial assets for years 1983-84, 1984-85, 1985-86, 1986-87, 1987-88 and 1988-89 include the investment in shares/debentures of Credit/non-Credit societies also (Table-2). It means that the data for these years represent a higher figure than the actual proportion at investment in shares and debentures of private corporate sector, otherwise for other years, it is assumed that investment in share and debentures means the investment in shares and debentures issued by various companies of private corporate sector.

PART - I: ROLE AND PLACE OF SHARES AND DEBENTURES

Of the various developments and trends observed in Indian economy during recent past and more particularly during the eighties, 'economic liberalisation' encompassed wide ranging measures, some of the important ones being delicensing of a number of industries; throwing open to the private sector a number of industries reserved for the public sector; open to the private sector a number of industries reserved for the public sector; the lowering of personal and corporate tax rates; raising of the interest rate of convertible debentures of companies; raising the asset limit for applicability of Monopolies and Restrictive Trade Practices Act (MRTP Act); bringing in more items under Open General Licence (OGL); liberal approach in regard to foreign collaborations; allowing scope for dominant undertakings to go in for diversification projects. Significant changes were noted in various policies relating to industrial development as well as overall economic development. The 'liberalisation' also included special incentives for private enterprises by

way of reduction in direct taxes and tax free high yielding instruments without any financial limit on individual subscription.¹

One of the results of the liberalisation can be stated as the increased demand for funds on the part of private corporate sector. This increased demand was not matched by adequate internal resources. The Reserve Bank's company finance studies reveal that the proportion of the private corporate sector's internal sources to its total resources of funds has been declining over the years². The sharp increase in the number of public limited companies in private corporate sector can also be viewed in the context of the company law provisions that allow public limited companies to raise money from public. During 1980-1990 period an increase of 132 per cent in the number of public limited companies was registered as compared to an increase of only 38 per cent during the decade 1970-80³.

During the eighties, private corporate sector was encouraged by policy planners to draw a larger proportion of raising levels of household sector's savings by way of company securities.⁴ Also worth mentioning are the suggestions and recommendations made by an important international financial institution, the World Bank during the eighties to encourage new issues market as alternative source of finance for Indian Private Corporate Sector. Measures like increase in the interest rates on convertible debentures was encouraged by the World Bank.⁵

With liberalisation and increased demand for funds on the part of private corporate sector, investment in shares and debentures became middle class phenomenon⁶. Tax and

1. Rao, V.K.R.V. "India Since Independence - Retrospect and Prospect" Selected Readings course material for Management Development Programme on Industrial Policy, Planning and Development, Indian Institute of Public Administration(13-18 February, 1989) New Delhi, p. 8.

Also see: Ojha, P.D. 'Capital Markets' - Emerging trends' Reserve Bank of India Bulletin, Bombay, January 1988, p.17.

2. Ojha, P.D. "Investors and the Capital Market" RBI Bulletin, Bombay, December 1987, p.1139.

3. This calculation is based on the information provided in Company News and Notes, New Delhi, November 1990, p.46 and March 1990, p.11.

4. Planning Commission, Report of the Study Group of Financing at Private Corporate Sector in the Sixth Five Year Plan, 1982, p.87.

5. The World Bank, India - Structural Change and Development Perspectives - Vol. I, Washington D.C., April 1985, pp.6-9.

Also see, the World Bank, World Development Report, 1987, Washington, D.C., p.122.

6. Max Weber listed the following occupational and other groups in the middle classes: (i) entrepreneurs, (ii) executives and managers, (iii) intelligentsia, (iv) men from liberal professions, (v) small businessmen, (vi) skilled and semi-skilled workers.

See: Weber, Max, Social Economic Organisation, p. 390, Cited by Chhibbar, Y.P., From Caste to Caste - A Study of the Indian Middle Classes, New Delhi, 1968, p.14-15.

According to a Study (1990) conducted by the Centre for Monitoring the Indian Economy, Bombay, the middle class in India is the top 20 per cent of the population. It's share in the national income is nearly 50 per cent. Half of this population is living in urban areas, mainly in the metropolitan cities. According to a Survey (1990) undertaken by the National Council for Applied Economic Research, New Delhi, the Indian Middle class is between 150 and 200

other benefits associated with the investment in corporate securities attracted the salaried middle class and non-resident Indian investors.⁷ Recent survey on Indian Shareowners by L.C. Gupta highlights that the most outstanding development in the Indian share market during the eighties is that shareownership has become a middle class phenomenon. It was earlier largely confined to the wealthy classes. In 1990, nearly 40 per cent of the educated middle and upper class households were holding shares/debentures. Indian shareowning households are now predominantly (to the extent of 75 per cent) composed of middle class households with income in the range of Rs. 2,500-10,000 per month (See Table -1). There were, it was estimated around 38 lakhs shareowning households and about 90-95 lakhs shareowning individuals in 1990. The number of debentureowning households was about 29 lakhs, of whom only about 2 lakhs hold no shares. The bulk of debenture holders were also shareowners. Two-thirds of the shareowners were such, who entered the share market for the first time after 1980 only.⁸

Table - 1

Percentage Distribution of Shareowning Households by Income Class

Income-level (Rs. per month)	Total sample households		Shareowning households	
	No.	Per cent	No.	Percent
1	2	3	4	5
Below 2500	1152	193.8	363	11.9
2500-4999	2374	40.8	1135	37.2
5000-9999	1756	30.2	1129	37.0
10,000	540	9.3	426	14.0
All categories	5822	100.0	3053	100.0

Source: Gupta, L.C. Indian Shareowners - A survey - Society for Capital Market Research and Development, Delhi, 1991, p.30

million strong and is growing at the rate of 20 per cent per annum.

See: PTI Corporate Trends 'Lubricating the Consumer Boom'. Economic Times, New Delhi, April 17, 1991.

7. Also see: Indian Investment Centre, Liberalisation of policy in industrial licensing, foreign investment and investment by NRI's, New Delhi, August, 1989.

8. Gupta, L.C., Indian Shareowners - A survey, Society for Capital Market Research and Development, Delhi 1991. Pp. XXII-XXVI.

With increase in saving (gross) in financial assets as percentage to Gross National Product, investment in shares and debentures also increased over a period of time (1970-71 to 1988-89) (Table-2). Comparison between the two-(a) household saving (Gross) in financial assets percentage to Gross National Product, and (b) the investment in shares and debentures as percentage to households saving (Gross) in financial assets in eighties (1980-81 to 1988-89) speaks for a very fluctuating trend in investment in shares and debentures. The comparison suggests that the trend of investment in shares and debentures was far from being stably progressive as compared to the trend observed in the household saving (Gross) in financial assets.

Table - 2
Composition of Household Savings (at Current Prices)

Assets	1970-71	1975-76	1980-81	1982-83	1983-84*	1984-85*	1985-86*	1986-87*	1987-88*	1988-89*
1	2	3	4	5	6	7	8	9	10	11
A. Saving (Gross in Financial Assets (Rs. crores)	2110	5067	12118	16097	18790	23549	25958	31346	35113	40516
% of Gross National Product	5.4	7.1	9.9	10.2	11.4	11.2	12.1	12.0	11.7	12.3
Composition (%)										
1. Currency	16.8	6.7	13.4	12.6	14.8	12.5	8.6	9.9	13.7	11.1
2. Bank Deposit [@]	35.7	41.8	45.8	41.4	42.5	41.8	40.3	42.1	36.8	40.4
3. Non-banking Deposits	3.2	2.6	3.1	5.4	5.4	4.1	5.6	6.1	5.7	4.9
4. Life Insurance Fund	9.8	8.3	7.6	7.7	7.3	6.6	7.0	6.7	7.4	7.0
5. Provident/Pension Funds	23.2	24.2	17.5	17.8	16.2	16.0	16.2	16.5	17.8	17.8
6. Claims Govt.+	5.0	17.8	5.9	7.7	10.5	13.2	13.5	9.9	10.1	11.2
7. Investment in Shares and Debentures	3.2	0.8	3.4	4.0	3.0	3.2	6.4	5.3	4.9	4.2
8. UTI units	0.7	0.3	0.2	0.7	1.2	2.4	2.3	3.0	3.1	3.0
9. Trade Debt (Net)	2.4	-2.5	3.1	2.7	-0.9	0.2	0.1	0.5	0.5	0.4
Total	100	100	100	100	100	100	100	100	100	100
B. Financial Liabilities (Rs. crores)	591	1069	3523	3531	5238	5733	6992	6726	7915	10228
C. Net Saving in Financial Assets (Rs. crores)	1519	3998	8595	12566	13552	17816	18966	24620	27198	30288
% of Net National Product	4.2	6.2	7.8	8.9	8.2	9.7	9.2	10.8	10.5	9.9
D. Personal Disposable Income (Rs. crores)	33062	60072	112904	142768	168920	187736	209227	233486	263505	-
E. (C) as % of (D)	4.6	6.7	7.6	8.8	8.0	9.5	9.1	10.5	10.3	-

Source: RBI Report on Currency and Finance, various issues.

Note: @ Includes deposits with co-operative non-credit societies. + Includes compulsory deposits.
* Includes investment in shares/debentures of credit/non-credit societies also. Figures from 1983-84 to 1987-88 are provisional and figures for 1988-89 are quick estimates.

The analysis reveals that during the period (1980-81 to 1988-89) investment in shares and debentures on an average formed 3.84 per cent part of total household savings in financial assets. During the same period investment in shares and debentures forming part in household savings in financial assets was highest in 1985-86 - 6.4 per cent (Table-2). With these trends in view, it can be stated that during eighties, despite a few significant changes, the role of shares and debentures as investment medium in household savings in financial assets was not that of major significance. In other words, the role of these corporate securities in household saving and investment activity during the period (1981-89) can also be termed as one of peripheral significance. However, in absolute terms, the amount raised by private corporate sector through the new issue of the securities registered sharp increase during the years of eighties. But at the same time investment in shares and debentures tended to form a very small part in the overall saving in financial assets. Bank deposits accounted for major part, more than one-third in savings in financial assets (Table-2). These trends seem to suggest a few serious implications.

It is evident, that with very small part of investment in financial assets going to shares and debentures a number of share booms became possible during eighties and the decade of eighties qualified to be called as the decade of capital market.⁹ One possible inference can be made from these trends that there exists a great scope for increase in the proportion of investment in shares and debentures in overall household saving in financial assets. This also implies the possibility of significant changes in overall composition of household saving in financial assets. One can foresee that any major change in the composition of household saving in financial assets would besides being very significant from monetary policy's point of view, also of lead to some serious changes in the inter-relations and roles of various components of financial sector i.e., banks, stock exchanges, financial institutions etc.

PART II: ROLE AND PLACE OF NEW ISSUES

The analysis cover the assistance granted All India Financial Institutions (AIFIs) that include three development banks -IDBI, IFCI, and ICICI, three investment institutions- LIC, GIC, and UTI, and IRBI. The trend in trend in sanctioned and disbursed assistance speaks for a constant increase during the eighties. In this light, the assistance by AIFIs can be termed as progressively stable source of finance for private corporate sector. But the same cannot be said about the new issues market as source of finance. Registering sharp fluctuation in terms of the amount raised in different years (1986-87 - Rs. 2565 crore; 1987-88- Rs.1774 crore and 1988-89 -Rs. 3153 crore) the new issue market proved to be highly volatile in nature. (Table 3 and 4).

⁹. Mayya, M.R. 'Securities Markets - Recent Trends', Economic Times, January 17, 1990.

Table - 3

Trends in Private Corporate Sector Financing by AIFIs and New Issues Market

(Amount in Rs. Crore)

Years	Assistance Sanctioned by AIFIs (X)	Assistance Disbursed by AIFIs(Y)	Amount Raised from new issues (Z)	% Share of X in X + Z	% of Share of Y in Y + Z
1980-81	1675.40	1187.30	192.00*	89.72	86.08
1981-82	1852.10	1484.50	599.00	75.56	71.25
1982-83	2190.50	1636.80	706.00	75.63	69.87
1983-84	2429.30	1842.40	838.00	74.35	68.74
1984-85	3725.30	2289.20	1058.00	77.88	68.39
1985-86	4203.20	2903.00	1742.00	70.70	62.50
1986-87	4945.80	3463.10	2565.00	65.85	57.45
1987-88	5897.70	4276.70	1774.00	76.88	70.68
1988-89	8687.70	5414.30	3153.00	73.37	63.20
1989-90	10781.20	6291.60	5716.10	63.35	52.40
Total	46388.20	30778.90	18343.10	71.66	62.67

* This figure is for the calendar year 1980 used here as proxy for the figure for 1980-81.

Source: (i) IDBI, Report on Development Banking in India, for years 1980-81 to 1989-90. (ii) Reserve bank of India, Report on Currency and Finance, (various issues). (iii) Securities and Exchange Board of India, State of Capital Market 1989-90.

Table -3 reveals that despite sharp increase, over a period of time in absolute terms in the amount raised by new issues, the dominance during the eighties of AIFIs as a source of finance as compared to new issues market prevailed. The amount of assistance sanctioned by AIFIs to private corporate sector during the eighties is more than 2.5 times the amount raised by private corporate sector through new issues (Table 3 and 4). During the same period, the assistance sanctioned by AIFIs accounted for 71.66 per cent of the total resources available to private corporate sector through new issues and sanctioned assistance by AIFIs.¹⁰

¹⁰. Shareholding structure of the top companies of Indian private corporate sector also showed a substantial shareholding of various public sector institutions including AIFIs. A study by S.K. Goyal (1987) notes that out of the top 204 companies of the Indian private corporate sector (each with Rs. 10 crore assets/turnover in the case of as many as 98 companies, the stake of the Public Sector Financial Institutions was more than 25 per cent.

For details see: Goyal, S.K., Nature and Growth of the Indian Corporate Sector, Corporate Studies Group, IIPA, New Delhi, 1987.

According to an IDBI survey covering 575 companies in the portfolio of financial institutions, UTI, LIC, and GIC held 23.95 per cent of shares of private sector companies as

Table - 4

Plan-wise Trends in Private Corporate Sector Financing by AIFIs and New Issues Market

Plan Period	Amt. raised from New Issues (Rs.cr.)	Assis. Sanc. by AIFIs (Rs.cr.)	Total 1 + 2 (Rs.cr.)	% Share of 1 in 3	% Share of 2 in 3	Assis. Disburs. by AIFIs (Rs.cr.)	Total 1 + 6 (Rs.cr.)	% Share of 1 in 7	% Share of 6 in 7
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Fifth Plan (1974-75 to 78-79)	551.00	3000.72	3551.72	15.51	84.49	1856.50	2407.5	22.89	77.11
Sixth Plan (1980-81 to 84-85)	3393.00*	11872.67	15265.67	22.23	77.77	8444.18	11837.18	28.66	71.34
Seventh Plan (1985-86 to 89-90)	14950.10	34515.59	49465.69	30.22	69.78	22348.78	37298.88	40.08	59.92

* In this amount, the figure for calendar year 1980 is proxy for the figure for 1980-81.

Source: (i) IDBI, Report on Development banking in India, for years 1980-81 to 1989-90. (ii) Reserve Bank of India, Report on Currency and Finance, (various issues). (iii) Securities and Exchange Board of India, State of Capital Market 1989-90.

Second half of the eighties (1985-86 to 1989-90) - Seventh Plan period witnessed increasing significance of new issues market as compared to the earlier periods (Table-4). The share of amount raised through new issues in the total resources mobilised through new issues market and assistance sanctioned by AIFIs is 15.51 per cent, 22.33 per cent and 30.22 per cent respectively in Fifth Plan (1974-75 to 1978-79), Sixth Plan (1980-81 to 1984-85) and Seventh Plan (1985-86 to 1989-90).

These trends underline the increasing significance of new issues market as source of finance during eighties. This becomes more sharply evident, if we calculate the share of new issues in the total resources mobilised by private corporate sector through new issues and assistance disbursed by AIFIs, the share comes out to be 22.89 per cent, 28.66 per cent and 40.88 per cent respectively in Fifth Plan (1974-75 to 1978-79), Sixth Plan (1980-81 to 1984-85) and Seventh Plan (1985-86 to 1989-90).

These trends speak for an increasingly important role of corporate securities holders in financing private corporate sector. This, beside placing more responsibility on private corporate sector to service a larger investors base, placed also increased responsibility on one of the important components of the mechanism responsible for

on June 1986.

For details see: IDBI, Ownership Pattern of Shares and Debentures of the Companies, Bombay, October, 1989.

servicing investors i.e. institution of stock exchange. But business trends and other available evidences indicate that the performance of stock exchanges, particularly the major ones (Bombay, Delhi, Ahmedabad, Calcutta and Madras)¹¹ did not prove to be in correspondence with the increased level of responsibilities that resulted from important changes in new issues market.¹²

Besides poor level of liquidity in most securities, at times the functioning and business trends of stock exchanges tend to be influenced heavily by the forces detrimental to the interest of large number of those investors, who put their money in corporate securities. These forces include the speculative interests, that have little to do with saving or corporate financing activity. In other words, market influenced by these forces prove to be detrimental to the interests of healthy saving and corporate financing activity. Serious implications of the business activity dominated by the forces other than genuine investment interests were observed a number of times. Recent crash of stock exchanges is a case in point. Unrealistically high prices at one point at time and sudden crash thereafter indicate only the weaknesses of the functioning of the market.¹³

11. Five major stock exchanges - Bombay, Delhi, Calcutta, Madras and Ahmedabad account for nearly 80 per cent of total transactions with Bombay alone accounting for around 65 per cent.

12. For a recent appraisal of the business transactions taking place at the leader exchange - Bombay Stock Exchange, See: Report of the High Powered Study Group on Establishment of New Stock Exchange, June 30, 1991, p.11.

The report mentions that out of over 2,600 listed scrips on the Bombay Stock Exchange, the scrips of large companies have been serviced well with 80 per cent of trading concentrated in the "A" (specified) category, where carrying forward of transactions is allowed. Daily transactions are carried out in about 250-300 scrips, and weekly transactions in another 500-600 scrips, Bombay Stock Exchange has been unable to develop debt market, which is very important impetus for capital formation.

13. A number of experts, analysts were terming recent post budget (1992) stock market boom as one being very unusual, being caused by highly unrealistic share prices. See: Vijay, P.N. "On Red Alert" Economic Times, March 7, 1992 and "Belling the Bull" Economic Times, March 28, 1992.

Palat, Raghu "Will Stock Markets Remember 1987" Economic Times, March 8, 1992.

De, Manik "Analysts Expect Correction of Overheated Market", Economic Times, April 11, 1992.

Mehta, Anil "Budget reaffirms market expectations, says Dave " (an interview with Dr. S.A. Dave, Chairman, Unit Trust of India), Economic Times, March 3, 1992.

Agarwala, P.N. "Budget, 1992: Step in Right Direction", Economic Times, March 7, 1992.

Sen, Abhijit "What the Budget Means", Financial Express, March 7, 1992.

An important reason for the unrealistic prices was cited by many experts, as the excessive liquidity available in the market leading prices of the shares to such heights, which were not justified by the earnings potential and other fundamentals. But the measures to identify the source of unusually high liquidity available in the market were not taken by the stock exchange authorities. It is worth mentioning here that to identify such sources is well within the powers of stock exchange authorities. It may also be said that the early attempts to detect the sources of unusual liquidity in the market could have led to an earlier disclosure of the sources of the funds, that the brokers were diverting from the bank and pumping into the market.

These trends do not form a positive response to various significant developments that took place in new issues market during the eighties. In view of an expectedly more widened role of corporate security holders in financing private corporate sector in coming years, these trends can be said to have very serious implications on healthy saving and corporate financing activity. In other words, developments of eighties underline the need to improve the overall mechanism, of which stock exchange is a part, responsible to service the increasing population of corporate securities' holders. Efficiency of this mechanism should play an important role in serving better the investors' base, which can prove to be a consistent source of finance for private corporate sector. Recent happenings in capital market (like securities scam) only highlight that lack of an adequate framework to monitor the various developments that are determining the fate of our financial sector at large. A comprehensive examination of the role, expectations and need of increasing corporate security holders and evolving the suitable responses thereto at various levels (like new issues market, stock market, corporate sector etc.) should form the part of the attempts necessary to evolve this desirable framework.