CHAPTER II

EQUITY PRICE MOVEMENTS IN INDIAN INDUSTRIES

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2.2 AGRICULTURAL AND ALLIED INDUSTRIES

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2.4 TEXTILES

2.5 CHEMICALS AND PRODUCTS

2.6 METALS AND PRODUCTS

2.7 PROCESSING AND MANUFACTURING

2.8 MISCELLANEOUS

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2.1 INTRODUCTION

Price movements of equity shares, to a large extent, are dependent upon the prevailing investment climate along with the factors influencing the performance of an individual company. Factors such as alternative investment opportunities, monetary, fiscal and other government policies, trends in the volume of capital, international factors and various economic indicators determine the investment climate and consequently have an impact on share prices. Generally, individual share prices tend to rise and fall with the market. Rarely equity prices of individual companies move against the broad market trend.

One of the useful tools to study and analyse the market behaviour is share price index. This chapter aims to study the trend of equity prices using Reserve Bank of India indices for equity prices both industrywise and all industries together.
2.2 AGRICULTURAL AND ALLIED INDUSTRIES

<table>
<thead>
<tr>
<th>Year</th>
<th>Equity price Index</th>
<th>Percentage of change over the previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1976</td>
<td>125.6</td>
<td>-</td>
</tr>
<tr>
<td>1977</td>
<td>165.5</td>
<td>31.77</td>
</tr>
<tr>
<td>1978</td>
<td>222.8</td>
<td>34.62</td>
</tr>
<tr>
<td>1979</td>
<td>237.5</td>
<td>6.60</td>
</tr>
<tr>
<td>1980</td>
<td>256.8</td>
<td>8.13</td>
</tr>
<tr>
<td>1981</td>
<td>231.6</td>
<td>-9.81</td>
</tr>
<tr>
<td>1982</td>
<td>197.7</td>
<td>-14.64</td>
</tr>
<tr>
<td>1983</td>
<td>261.8</td>
<td>32.42</td>
</tr>
<tr>
<td>1984</td>
<td>389.0</td>
<td>48.59</td>
</tr>
<tr>
<td>1985</td>
<td>674.6</td>
<td>73.42</td>
</tr>
</tbody>
</table>

The above table gives the RBI indices for equity share prices in respect of agricultural and allied industries. The indices show an increasing trend over all the years except in 1981 and 1982. The decline during these two years was due to the general depression in the economy. Apart from this, the dividends declared by the companies on an average were on the declining trend for these two years especially in plantation industry.
(Appendix II Table 1). During 1977 and 1978, the increases over previous years were around 32% and 35% respectively due to good agricultural out turn as a result of timely onset of monsoon in many parts of the country. This coupled with the unprecedented boom in export prices of tea and coffee and liberal import policy made the plantation companies to boost up their earnings which took the equity prices up. This bullish trend was also aided by bonus issue by many companies and total decontrol of sugar in 1978. But the increases during 1979 and 1980 were only 6.6% and 8.13% mainly due to impending powercut in many states as a result of energy crisis which brought down the corporate earnings.

The year 1980 turned out to be a bad year for Jute industry with a fall in the value of shares. Market was also dampened by reports regarding takeover of Sugar Mills. The declining trend in 1982 was revived in 1983 showing an increase of 32.42% as a result of encouraging corporate news and favourable rainfall. This was further aided by various government measures to revive the industries in general. During 1984 and 1985, the uptrend was very high indicating an increase of about 49% and 73%. This unusually high increases during these years were due to the unprecedented momentum in boom conditions followed by an unchecked speculative spiralling. The upswing in share
prices was more pronounced in plantation group as the earnings as well as dividends paid by these companies were the highest during these two years.

2.3 FOOD STUFFS INDUSTRIES

<table>
<thead>
<tr>
<th>Year</th>
<th>Equity price Index</th>
<th>Percentage of change over the previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1976</td>
<td>68.8</td>
<td>-</td>
</tr>
<tr>
<td>1977</td>
<td>64.4</td>
<td>-6.40</td>
</tr>
<tr>
<td>1978</td>
<td>76.9</td>
<td>19.41</td>
</tr>
<tr>
<td>1979</td>
<td>93.4</td>
<td>21.46</td>
</tr>
<tr>
<td>1980</td>
<td>111.0</td>
<td>18.84</td>
</tr>
<tr>
<td>1981</td>
<td>133.0</td>
<td>19.82</td>
</tr>
<tr>
<td>1982</td>
<td>142.6</td>
<td>7.22</td>
</tr>
<tr>
<td>1983</td>
<td>171.6</td>
<td>20.34</td>
</tr>
<tr>
<td>1984</td>
<td>201.1</td>
<td>17.19</td>
</tr>
<tr>
<td>1985</td>
<td>278.1</td>
<td>38.29</td>
</tr>
</tbody>
</table>

The equity price indices of Food Stuffs industry as given by the above table show a uniform increase of around 20% every year except in 1977, 1982 and 1985. During 1977, the index declined by 6.4% from the previous year's level.
inspite of reports of overall increase in food grains production. Factors such as payment of compulsory bonus of 8.33% irrespective of profits and unfavourable corporate news had a sobering effect on the market which in turn hammered the index down. Reports of widespread rains and good monsoon along with the encouraging corporate news for the following four years 1978 to 1981 made the index to go up steadily by about 20% every year. The increase in 1982 was brought down to 7.22% from 19.8% in 1981. The factors contributing to such decrease were the unsatisfactory earnings and dividends and the general decline in production due to shortage of rainfall. In the following year itself, the equity prices recovered following the favourable corporate news and the general improvement in the economic conditions. The same uptrend continued in 1984 also. As a result of exceptionally high inflationary conditions prevailed during 1985, the equity prices registered a high increase of 38.29%. Other contributing factors for such increase were various government measures like reduction in corporate tax, sectoral concessions in export, import and excise duties.
### TABLE 2.3 EQUITY PRICE MOVEMENTS IN TEXTILE INDUSTRIES 1976-85

<table>
<thead>
<tr>
<th>Year</th>
<th>Equity price Index</th>
<th>Percentage of change over the previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1976</td>
<td>108.6</td>
<td>-</td>
</tr>
<tr>
<td>1977</td>
<td>107.4</td>
<td>-1.10</td>
</tr>
<tr>
<td>1978</td>
<td>122.4</td>
<td>13.97</td>
</tr>
<tr>
<td>1979</td>
<td>153.3</td>
<td>25.25</td>
</tr>
<tr>
<td>1980</td>
<td>166.6</td>
<td>8.68</td>
</tr>
<tr>
<td>1981</td>
<td>180.2</td>
<td>8.16</td>
</tr>
<tr>
<td>1982</td>
<td>161.2</td>
<td>-10.54</td>
</tr>
<tr>
<td>1983</td>
<td>170.6</td>
<td>5.83</td>
</tr>
<tr>
<td>1984</td>
<td>159.3</td>
<td>-6.62</td>
</tr>
<tr>
<td>1985</td>
<td>209.9</td>
<td>31.76</td>
</tr>
</tbody>
</table>

The indices from the above table in respect of Textiles present a mixed trend. There was a decline during 1977 from 1976 in spite of the announcement of package of incentives to revive the textile industry by the government. The setback in prices during 1976 was due to the report of a lock out at the Rayon Plant of Century Mills and fear of government action under MISA.
and related rules. Not only this was continued during 1977 but there was also a decline in the earnings and dividends paid by the textile companies on an average. Considerable reduction in the net worth of these companies was also another contributing factor (Appendix II Table 2). But there was a noteworthy improvement in the working and profitability of cotton mills in the following year due to the new textile policy removing the obligation on mills to produce controlled cloth. As a result, both textile and rayon scrips registered good gains with the index going up by about 40%.

This uptrend in profitability continued in 1979 with improved performance of the industry. Both earnings and dividends paid were more than in 1978. These made the index to go up by 25%. But the increase was brought down by stringent anti-inflationary measures, formulation of new pricing policy for cloth produced by large mills, mounting stocks of cloth with textile mills in and around Bombay and impending power cut in many States. In spite of these, the price index registered an increase of about 9% in 1980 as the dividends paid by the companies were maintained. The increase during 1981 was only 8% following a decline in earnings and dividends paid in that year. In general, textiles were in a poor condition during 1981. The tight liquidity position and prolonged textile strike
in Bombay brought down the earnings of many textile mills in 1982. Though the dividends were maintained, the price index declined by 10.54% over the previous year. The following hike in import duty on polyester filament yarn and polyester staple fibre to protect the domestic producers increased the earnings in 1983. Better tone in equities was aided by government's decision to establish a Central Advisory Council for textile industry. But this favourable position turned out to be adverse due to frequent power cuts which brought down the earnings and this resulted in a decrease of index by 6.62% in 1984. The index had gone up sharply by about 32% during 1985 which was due to the unprecedented boom conditions in the economy in general and new dynamic textile policy. This was further accentuated by increase in the earnings and net worth of the textile companies.
### TABLE 2.4 EQUITY PRICE MOVEMENTS IN CHEMICALS AND PRODUCTS INDUSTRIES 1976-85

<table>
<thead>
<tr>
<th>Year</th>
<th>Equity price Index</th>
<th>Percentage of change over the previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1976</td>
<td>132.8</td>
<td>-</td>
</tr>
<tr>
<td>1977</td>
<td>144.8</td>
<td>9.04</td>
</tr>
<tr>
<td>1978</td>
<td>161.2</td>
<td>11.33</td>
</tr>
<tr>
<td>1979</td>
<td>170.3</td>
<td>5.65</td>
</tr>
<tr>
<td>1980</td>
<td>174.5</td>
<td>2.47</td>
</tr>
<tr>
<td>1981</td>
<td>182.6</td>
<td>4.64</td>
</tr>
<tr>
<td>1982</td>
<td>165.7</td>
<td>-9.26</td>
</tr>
<tr>
<td>1983</td>
<td>181.7</td>
<td>9.66</td>
</tr>
<tr>
<td>1984</td>
<td>202.1</td>
<td>11.23</td>
</tr>
<tr>
<td>1985</td>
<td>382.7</td>
<td>89.36</td>
</tr>
</tbody>
</table>

An increasing trend of equity price indices in respect of Chemicals is evident from the above table except during 1982. The decrease in the equity prices of Chemicals and fertilisers as indicated by the decline in the index was as a result of additional excise duty on fertilisers and decrease in dividends paid compared to 1981 (Appendix II Table 3). During 1977, many companies announced the issue of bonus shares. Along with this, increase in dividends
made the index to go up by 9% over the previous year. This bullish trend was further aided by liberal drug policy and further increase in dividends during 1978. There were also prospects of increase in sales and earnings of the industry in general. All these forces took the index up by 11%. In 1979, in spite of the improved performance of heavy chemicals, acute coal shortage which added to the existing power cuts in many parts of the country and decline in dividends paid by majority of the companies made the index to advance by only 6%. This increase was still reduced to 2% in 1980 as a result of further decline in dividends because of decreased profits. Impending power cut and 10% fall in the capacity utilisation were the reasons for the decline in profits.

Following a hike in administered prices of fertilisers, both earnings and dividends increased during 1981. As a result, the uptrend in equity prices improved showing an increase by 5%. But this slight improvement proved to be short lived and there was again a decline in the index by about 9%. Dyes and Chemicals, being one of the allied industries of textiles, was adversely affected by the poor position of the textile industry. Thus the affected performance of Dyes and Chemicals coupled with the imposition of additional excise duty on fertilisers were the factors responsible for such a decline. There was a
considerable improvement in the following year due to the improved performance of the companies which reflected in the increase of earnings and dividends paid and the reports that the prices of nearly 75% of the bulk drugs and formulations would be freed from Government control. This uptrend continued in 1984 and 1985 also registering an increase of about 11% and 89%. The exceptionally dizzy heights reached during 1985 was due to uncontrollable boom conditions prevailed during major part of the year coupled with high earnings and dividends.

2.6 METALS AND PRODUCTS INDUSTRIES

<table>
<thead>
<tr>
<th>Year</th>
<th>Equity price Index</th>
<th>Percentage of change over the previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1976</td>
<td>84.7</td>
<td>-</td>
</tr>
<tr>
<td>1977</td>
<td>89.7</td>
<td>5.90</td>
</tr>
<tr>
<td>1978</td>
<td>107.3</td>
<td>19.62</td>
</tr>
<tr>
<td>1979</td>
<td>126.2</td>
<td>17.61</td>
</tr>
<tr>
<td>1980</td>
<td>140.7</td>
<td>11.49</td>
</tr>
<tr>
<td>1981</td>
<td>221.0</td>
<td>57.07</td>
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<tr>
<td>1982</td>
<td>241.4</td>
<td>9.23</td>
</tr>
<tr>
<td>1983</td>
<td>230.9</td>
<td>-4.35</td>
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<tr>
<td>1984</td>
<td>244.9</td>
<td>6.06</td>
</tr>
<tr>
<td>1985</td>
<td>345.3</td>
<td>41.00</td>
</tr>
</tbody>
</table>
Equity price indices, as given by the above table, show an increasing trend in general except for the year 1983. Initially, the increase was only 5.9%. Though there was improvement in domestic offtake of steel and overall increase in industrial output, power cuts and reports of labour unrest dampened the market. During 1978, the index rose by 20% mainly due to the increased demand for cables as a result of rural electrification and power transmission. With the revival of textile industry, the market for textile machinery improved. Automobile units stepped up production due to increased demand for passenger cars and commercial vehicles. These factors, along with the reduction in import duty on a number of essential items and Government's decision to increase the prices of saleable steel gave a fillip to the bull market. Apart from these, the dividends paid were comparatively more than that in 1977 (Appendix II Table 4). Thus, during 1979 also this uptrend continued showing an increase in the index by about 18%. This increase was less than that in 1978 because of the difficulties faced by the industry due to shortage of key inputs like steel.

This increase was still reduced to 12% during 1980 because of 10% fall in the utilisation of capacities in aluminium sheets industry. This, along with energy crisis in general brought down the profitability of many
companies. The improvement in power position in most states followed by increase in capacity utilisation of many companies resulted in large profits and higher dividends. With the revision of the bonus guidelines, many companies announced the issue of bonus shares. All these were the main forces behind the pick up in trend during 1981 when the index moved up by 57%. But there was no remarkable increase in equity prices in the next year. The increase in index was only 9% due to a decline in dividends paid by the industry on an average. The equity prices registered a decrease in 1983 with a decline in the index by 4.35%. In spite of the decision by the Government to reduce steel imports, cut in excise and customs duty on certain automobile spare parts and increase in earnings and dividends paid, fear of imports due to budget deficits made the market to be cautious. But the favourable changes in Government policies made the index to go up by 6% in 1984, followed by an increase of 41% in 1985 which was not only due to the increase in earnings and dividends paid but also the result of unprecedented boom conditions prevailed in the economy in general.
2.7 PROCESSING AND MANUFACTURING INDUSTRIES

### TABLE 2.6 EQUITY PRICE MOVEMENTS IN PROCESSING AND MANUFACTURING INDUSTRIES 1976 - 85

<table>
<thead>
<tr>
<th>Year</th>
<th>Equity price Index</th>
<th>Percentage of Change over the previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1976</td>
<td>98.0</td>
<td>-</td>
</tr>
<tr>
<td>1977</td>
<td>92.5</td>
<td>-5.61</td>
</tr>
<tr>
<td>1978</td>
<td>111.3</td>
<td>20.32</td>
</tr>
<tr>
<td>1979</td>
<td>125.7</td>
<td>12.94</td>
</tr>
<tr>
<td>1980</td>
<td>131.3</td>
<td>4.46</td>
</tr>
<tr>
<td>1981</td>
<td>148.8</td>
<td>13.33</td>
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<tr>
<td>1982</td>
<td>152.9</td>
<td>2.76</td>
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<tr>
<td>1983</td>
<td>172.1</td>
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<td>1984</td>
<td>180.2</td>
<td>4.71</td>
</tr>
<tr>
<td>1985</td>
<td>197.9</td>
<td>9.82</td>
</tr>
</tbody>
</table>

Except for an initial fall, the equity price indices of Processing and Manufacturing industry show an increasing trend. With a decrease in the dividends paid during 1977 compared to 1976, the index declined by 5.6%. Apart from this, country wide shortage of power, reports of labour unrest and absence of institutional support also had a
sobering effect on the market. But there was a smart recovery in the equity prices during 1978 with an increase of around 20% as a result of increase in the earnings as well as dividends paid (Appendix II Table 5). The market was also aided by increased demand for cement due to a spurt in construction activity throughout the country, cash subsidy granted to Cement units and increase in the price of raw rubber. The increase in equity prices continued during 1979 also showing an advancement of around 13% over the previous year. But it was brought down to 4.46% in 1980 with an overall decrease in the earnings and dividends of the industry. Such decrease in earnings was because of energy crisis leading to 10% fall in the capacity utilisation of synthetic rubber and cement units. Following a considerable increase in both the earnings and dividends paid in 1981, the index rose by 13.33%. The increase in index was only 2.76% in 1982 as a result of decline in dividends in spite of increase in earnings. The market sentiment was also affected by the increase in excise duty on cement.

The liberalisation of cement prices and distribution policy along with an increase in dividends paid in general made the equity prices to move up in 1983 registering an increase in index by 12.56%. Both the earnings and dividends paid in respect of the industry declined during
1984 as a result of fast erosion into the profits due to mounting costs of cement units. The industry was further burdened with uneconomic levy prices. All these restricted the increase in equity prices and as a result, the index could move up only by 4.71%. But during 1985 the equity prices surged ahead with great speed as a result of unprecedented boom conditions. Further, reduction in the levy quota of cement by 5% gave a fillip to the equity prices taking up by about 10%.

2.8 MISCELLANEOUS INDUSTRIES

<table>
<thead>
<tr>
<th>Year</th>
<th>Equity price Index</th>
<th>Percentage of change over the previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1976</td>
<td>102.9</td>
<td></td>
</tr>
<tr>
<td>1977</td>
<td>99.9</td>
<td>-2.92</td>
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<tr>
<td>1978</td>
<td>99.6</td>
<td>-0.30</td>
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<tr>
<td>1979</td>
<td>113.5</td>
<td>13.96</td>
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<tr>
<td>1980</td>
<td>129.9</td>
<td>14.45</td>
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<td>1981</td>
<td>180.5</td>
<td>38.95</td>
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<tr>
<td>1982</td>
<td>149.5</td>
<td>-17.17</td>
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<tr>
<td>1983</td>
<td>160.0</td>
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<td>1984</td>
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<td>11.88</td>
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<tr>
<td>1985</td>
<td>212.8</td>
<td>18.88</td>
</tr>
</tbody>
</table>
The table in respect of miscellaneous industries shows a mixed trend of increase and decrease in prices over the period of study. Initial decline of 3% in 1977 from the index of 1976 was because of the overall decline in the earnings per share and the dividends paid (Appendix II Table 6). Market was also dampened as a result of fear of Government action under MISA and related rules. With the improvement in exports accompanied by a cut in imports leading to favourable balance of trade and introduction of a new scheme of excise relief for the tyre industry on a select basis, the market condition was improved. Moreover, earnings increased more than twice resulting in increased dividends in 1978. Still the prices of shares registered a decline by 0.3% due to tight monetary conditions. The satisfactory working results of the companies followed by increasing trend of dividends and bonus issue of equity shares by many reputed companies took the index up during the following two years by 14% on an average.

The increase in 1981 was more than double compared to 1980 in spite of slight decline in the overall dividend rate. The various measures brought about by the Government in relation to the rate of interest on secured debentures and relaxation of debt equity norm were the reasons causing upward movement in the prices of scrips. Again the index came down by 17.17% in 1982 due to tight
liquidity position and decrease in dividends. But the demand for the scrips improved with the expansion of bank credit for vital sectors to meet the genuine requirements. This, along with the encouraging corporate news made the market conditions easy for the following three years. In 1985, the increase was about 19% compared to 1984 when it was only 11.88%. Favourable performance of the industry in general and heavy boom conditions during the year were responsible for such increase in prices.

2.9 ALL INDUSTRIES

<table>
<thead>
<tr>
<th>Year</th>
<th>Equity price Index</th>
<th>Percentage of change over the previous year</th>
</tr>
</thead>
<tbody>
<tr>
<td>1976</td>
<td>103.3</td>
<td>-</td>
</tr>
<tr>
<td>1977</td>
<td>106.3</td>
<td>2.90</td>
</tr>
<tr>
<td>1978</td>
<td>123.5</td>
<td>16.18</td>
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<tr>
<td>1979</td>
<td>141.3</td>
<td>14.41</td>
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<tr>
<td>1980</td>
<td>152.5</td>
<td>7.93</td>
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<tr>
<td>1981</td>
<td>187.1</td>
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<td>1982</td>
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<td>1983</td>
<td>192.5</td>
<td>5.08</td>
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<tr>
<td>1984</td>
<td>205.6</td>
<td>6.81</td>
</tr>
<tr>
<td>1985</td>
<td>306.9</td>
<td>49.27</td>
</tr>
</tbody>
</table>
The trend of equity price index in respect of all the industries together is on the increasing trend from 1976 to 1985 except in 1982. The initial increase was only by 2.90% because of the following conflicting factors - Continuation of dear money policy, sectoral dividend recession, growing labour unrest, country wide shortage of power and erosion in corporate profitability which outweighed comfortable food position, foreign exchange reserves and trade surplus. The index rose by 16.18% in 1978 due to the sectoral development resulting in increased earnings and dividends (Appendix II Table 7), lowering of interest rates on Fixed Deposits which increased the flow of funds into equities, tax relief for investment in equity shares, liberal import and export policy, Government attitude towards multinationals, timely onset of monsoon, etc. The increase was maintained in 1979 also with 14.41% over 1978 as a result of encouraging corporate news. But this was brought down to around 8% increase in 1980 as a result of impending power cut and power crisis, 10% fall in the capacity utilisation in key industries which made the earnings and dividends to come down.

Following the favourable changes in Government policies, reported bright prospects of approval of the loan to India by the IMF, improvement in infrastructure, the performance of most of the companies improved showing
large profits. This gave a fillip to the bull market and there was a smart rise in the index by about 23% in 1981 compared to 1980. But the market sentiment was dampened by tight liquidity position and increase in excise duty on certain items which made the index to drop by 2.08%. The equity prices registered a better tone in 1983 with 5.08% increase over 1982, following the Government's decision to grant customs and excise duty relief for fuel efficient cars, reduction in rate of interest for export credit, expansion of bank credit for vital sectors to meet genuine requirements. The increase in the profits reported and dividends declared by the companies also aided the market. The same tendency continued in 1984 also registering a rise in index by 6.81%.

In 1985, the rise in the prices of equity shares was unusually high showing an increase of 49.27%. Abolition of Compulsory Deposit Scheme as well as estate duty, raising of wealth tax exemption limit and abolition of interest rate tax increased the savings chasing investment avenues such as investment in equity shares. A reduction in the corporate tax, repeal of 20% advertisement disallowance, 20% reduction in duty on the import of project related equipment and sectoral concessions in import, export and excise duty made the corporate sector increase the earnings and dividends.
Further, foreign collaborations approved during 1985 totalled 227 as compared to 157 during 1984. All these factors along with the unprecedented boom conditions boosted the equity prices up to sky high levels in spite of rigorous restrictive measures to arrest the run away prices.

2.10 RECENT TRENDS IN STOCK MARKETS

The stock markets at present are in the grip of bear operators with the precipitous decline of stock prices going on unchecked. This makes it hard to believe that they were booming in 1985 and 1986 when the stock prices were driven to dizzy heights by the bull operators. The slump in stock prices had a start with 'Operation Comet' - the income tax raid on brokers in October 1986 which gathered momentum with the presentation of the Union Budget for 1987-88. The market not only ignores the excellent working results of leading blue chips along with liberal bonus issues but also responds negatively.

After several months of continuous decline, the stock prices hit the bottom during June 1987 and the fall in prices appears to be unstoppable. Dilip Khandelwal, president of the Calcutta Stock Exchange feels that
'the market can't possibly sink any lower' Share market operators usually sense which way the sentiment is turning and then choose to be bulls or bears. In 1985 and most part of 1986, the markets were caught in an equally strong grip of bulls. Now, they are at the other extreme. It is not only because of a conspiracy of a few big operators who suddenly decided to play bear, but also because of so many other reasons.

The problems vary from industry to industry but there is a common thread - demand and supply are out of sync. A number of important industries had to face the grim consequences of over capacity, competition and hard sell which are the painful realities that the majority of industries are still to come to grip with. Synthetic textiles and Two wheelers are the hard hit industries. Other major industries also face an unsympathetic market place. There is a glut in the cement industries while Fertilisers suffer a setback on account of massive Stock build up. The demand projections of light vehicles turned

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out to be too optimistic. TV and Computer industries are undergoing a massive shake out. Thus, almost every major company has shown a dip in profitability in 1986.

Apart from the fundamental weaknesses in various segments of the industries and political uncertainty, the crisis of confidence among investors is mirrored by the market's poor shape which shows no sign of revival. "How sensitive are the Stock Markets today to politics was amply demonstrated when equities staged a sharp retreat on Dalal Street following rumours that V P Singh had resigned from the Congress Party and was engineering a split from within."13 The investing public is leaving the market with the doors wide open for others to follow. Having burnt their fingers, the small investors have totally lost confidence and are pulling out of the markets. They will come into the market only when they find a good opportunity.

The secondary market operations have undergone several far reaching developments in the recent months. One of them is the decision of the Government to permit banks to float mutual funds followed by a corresponding

13 Ibid P 48
amendment to the Banking Regulations Act. Under a Mutual Fund arrangement, investors pool their money in a fund which is invested and managed by professional fund managers. Yet another development is the Stock Exchange membership thrown open to corporate entities. The entry of corporate entities into stock broking business is expected to impart greater stability to the stock markets and qualitative improvement in servicing the investors as the corporate entities are more accountable than the individuals. Also, they have strong financial base and better access to borrowed funds and can provide continued support to equities and stabilise price levels. Recent experience also brings to the light that individual members can contribute little to arrest the declining prices. Thus, these measures are expected to go a long way in ensuring equity price stability and bringing the disenchanted small investors back to the equity cult.

2.11 SUMMARY

The industrywise analysis of equity price movements over the period of study presents a mixed trend. As the equity prices are subject to factors both internal and
external to an industry, the extent and the magnitude of their movement differ from industry to industry. In general, a steady increase in equity prices is observed in food stuffs industries except for an initial fall. Of all the industries, the equity prices of Chemicals and products move within a narrow range. For the rest of the industries, the prices move in an irregular fashion with a blend of uneven ebb and flow. A common feature noticed in respect of each industry is the undue price increase during 1985 because of heavy boom conditions. But now the stock markets experience a great slump. The government has taken many steps to improve the condition which are expected to ensure price stability.