SHARE CAPITAL

In this section our intention is to dissect and analyse the share capital component of the capital structure of the different steel companies in both Public and Private Sector. Although the term Share Capital is used here which should include capital raised by the issue of different classes of shares we shall also mention the movements in the balance of reserves and surplus which is a part of equity shareholders' funds. The detailed discussion on the policy matter relating to retention of earnings will, however, be taken up in a subsequent chapter.

We may first analyse the growth in the share capital of Public Sector Steel Companies following their formation, takeover, expansion and restructuring in different phases. Then we may take up the analysis of the share capital of Private Sector Companies. Discussion relating to the relative contribution of Preference Share Capital and Capitalised profits will be relevant for private sector only.

Public Sector:

Prior to the formation of Steel Authority of India Ltd. in 1972, the individual steel manufacturing companies in public sector were grouped into i) Hindustan Steel Ltd. and ii) Bokaro Steel Ltd. H.S.L. had three steel manufacturing
units at Durgapur, Bhilai and Rourkela in West Bengal, Madhya Pradesh and Orissa respectively. The issued and subscribed share capital of H.S.L. in the year 1970-71 and 71-72 consisted of 59,43,700 equity shares of Rs.1000/- each fully paid up while the authorised capital consisted of 6,000,000 shares of 1000 Rs. each. As on 31.3.72 the Reserves & Surplus of H.S.L amounted to Rs.3,466,773.

The share capital of Bokaro Steel Ltd.also included only one kind of equity share of Rs.1000/- each. The authorised, issued and subscribed capital of B.S.L comprised of 50,00,000 equity shares of Rs.1000 each fully paid up and the reserves and surplus amounted to Rs.2,41,130.

During the year 1972-73 all the steel manufacturing companies under public sector came to be the subsidiaries of Steel Authority of India Ltd. which came into existence as a holding company. S.A.I.L started with share capital comprising of only equity shares. In the year 72-73 its issued and subscribed capital consisted of 1,29,44,135 equity shares of Rs.1000 each fully paid up out of which 1,29,38,135 shares were allotted as fully paid up against transfer of shares of subsidiary and other companies.

The share capital of Hindustan Steel Ltd. in 1972-73 included 61,08,500 equity shares of Rs.1000 each issued, subscribed and fully paid up against an authorised capital of 700
crores. Out of these shares 60,83,395 equity shares were held by Steel Authority of India Ltd. the holding company. The retained profit (Reserves & Surplus) of HSL at the end of this year amounted to Rs.3,174,573.

Bokaro Steel Ltd. this year built up its share capital with 60,00,000 equity shares of 1000 each fully paid up while the amount of its reserves & surplus remained same as that of previous year.

During 1973-74 HSL issued 127300 new equity shares of 1000 each and its ordinary share capital amounted to 62,358 lakhs of rupees consisting of 6235800 equity shares only.

Bokaro Steel Ltd. underwent no change in its structure of share capital this year either in form or in amount. Reserves & surplus also remained the same as before.

A new steel manufacturing company, Salem Steel Ltd., came into existence this year in the state of Tamilnadu. The share capital of this company comprised of 31,653 equity shares of Rs.1000 each fully paid up out of which 31,652 shares were held by S.A.I.L.

In the year 1974-75 the share capital of H.S.L was again increased the number of equity shares rising to 66,42,200. All these shares were held by S.A.I.L and its nominee. The amount
of reserves & surplus this year registered an almost 100% increase and it became Rs. 62.93 lakhs from Rs. 31.74 lakhs of the previous year.

This year, the share capital of Bokaro Steel Ltd. had no change either in form or in amount. Of course the amount of authorised capital was increased to Rs. 85,000 lakhs from 60,000 lakhs. Reserves also remained stagnant.

Salem Steel Ltd. this year (74-75) issued 36,000 new equity shares of 1000 each which raised the total number of equity shares issued & subscribed, to 67,653 all of which were held by S.A.I.L and its nominee.

During the year 1975-76 also H.S.L gained a steady increase in the issue of equity shares which pushed the amount of equity capital to 72,792 lakhs of rupees comprising of 7279200 equity shares of Rs. 1000 each fully paid up. There was no change in the form of shares. Reserves and surplus also gained an increase of Rs. 3.79 lakhs over that of previous year.

Bokaro Steel Ltd after a spell of three years incorporated a minor change in its share capital in respect of the number of shares. This year (75-76) 4231 new shares were allotted as fully paid up, pursuant to a contract without payment being received in cash. The net effect of this issue was an increase of Rs. 4231000 in the amount of equity share
capital of the company.

During the year ended 31.3.76 Salem Steel Ltd increased the amount of its share capital to Rs.965.53 lakhs excluding share money pending allotment of Rs.87.01 lakhs.

Restructuring of Hindustan Steel Ltd was under serious consideration of the Govt. of India for long. Ultimately in the year ended 31.3.77 the Govt. decision regarding the restructuring of H.S.L came to light. According to this Govt. decision Bhilai Steel Plant, Rourkela Steel Plant and Alloy Steel Plant at Durgapur were converted into three separate and independent companies as fully owned subsidiaries of S.A.I.L. Of course Durgapur Steel Plant was to continue as a part of H.S.L.

During the year 1976-77 H.S.L made a further issue of 9,19,300 equity shares to finance its capital project and township expansion programme. The issued subscribed and paid up share capital of the company as on 31.3.77 stood as Rs. 819.85 crores.

Bhilai Ispat Ltd. (formerly Bhilai Steel Ltd.) started with an authorised capital of Rs.500 crores comprising of 50,00,000 equity shares of 1000 each. Issued and subscribed capital amounted to Rs.41.68 lakhs consisting of 4168 shares of Rs.1000 each fully paid.
Rourkela Ispat Ltd. (formerly Rourkela Steel Ltd) began with an authorised capital of Rs. 300 crores. The issued and subscribed capital of this company was Rs. 41.68 lakhs, composed of 4168 equity shares of Rs. 1000 each fully paid up.

Durgapur Misra Ispat Ltd. had an authorised capital of Rs. 100 crores and issued & subscribed capital of Rs. 6.67 lakhs consisting of 1664 equity shares of Rs. 1000 each fully paid up.

Bokaro Steel Ltd. had an accretion of Rs. 9.85 lakhs in the paid up capital during the year 1976-77. Against an authorised capital of Rs. 85,000 lakhs the paid up capital of this company amounted to Rs. 60,052.16 lakhs comprising of 6005216 equity shares of Rs. 1000 each fully paid up. This includes issue of 5216 shares (fully paid up) pursuant to a contract without payment being received in cash. Reserves & surplus amounted to Rs. 2.41 lakhs which included only capital reserve during this year.

Salem Steel Ltd. raised its paid up capital by Rs. 213 lakhs during the year by a fresh issue of 21300 equity shares of Rs. 1000 each. As a result the subscribed capital of S.S.L came to Rs. 1178.53 lakhs (1,17,853 shares of Rs. 1000 each) excluding share money pending allotment of Rs. 74.01 lakhs.
During the next financial year (1977-78) H.S.L. again raised its paid up capital by Rs.123.03 crores, drawn from SAIL to finance its capital project and township expansion. Thus the issued subscribed and paid up capital as at 31st April 1978 stood at Rs.942.8841 crores comprising of 94.28, 841 shares of Rs.1000 each fully paid up. Reserves & surplus this year rose to Rs.1733.05 lakhs from Rs.1271.76 lakhs in the previous year. This consisted of a capital reserve of Rs.104.02 lakhs and an investment allowance reserve of Rs.1629.03 lakhs.

The paid up capital of Bhilai Ispat Ltd., Rourkela Ispat Ltd. and Durgapur Mishra Ispat Ltd. remained the same as that of the previous year as no new share was issued during the year under review.

The paid up capital of Bokaro Steel Ltd. was increased by Rs.10.37 lakhs during the year 1977-78. The paid up capital as on 30.4.78 amounted to Rs.600.6253 crores against an authorised capital of Rs.1200 crores. All the 60,06, 253 shares of Rs.1000 each were held by SAIL and its nominee. Reserves & surplus of the company (B.S.L) rose to Rs. 5.38 lakhs during the year.

The share capital of Salem Steel Ltd. (paid up) stood at Rs.1837.53 lakhs comprising of 183753 equity shares of Rs.1000 each against an authorised capital of Rs.100 crores.
In the history of public sector steel companies in India the financial year 1978-79 deserves special mention. With effect from 1st May 1978 when Public Sector Iron & Steel Companies Restructuring and Miscellaneous Provisions Act came into force, all the public sector steel manufacturing companies e.g. i) H.S.L., ii) Bokaro Steel., iii) Salem Steel., iv) Bhilai Ispat., v) Rourkela Ispat and vi) Durgapur Misra Ispat Ltd. which were subsidiaries of SAIL and also Indian Iron & Steel Co. Ltd., stood dissolved and integrated with SAIL as its various divisions. Therefore from the year ended 31.3.79 an analysis of the share capital of SAIL alone may be made instead of an analysis of the share capital of different individual units.

Authorised share capital of SAIL has been increased from Rs.2000 crores to Rs.2500 crores during the year 78-79. Issued subscribed and paid up share capital amounted to Rs.222802.14 lakhs comprising of 2,22,80,214 equity shares of Rs.1000 each. Reserves & surplus of the company (SAIL) this year amounted as high as Rs.8,344.87 lakhs including capital reserve of Rs.226.10 lakhs, Investment allowance reserve of Rs.3811.79 lakhs and surplus in P & L a/c of Rs.4306.98 lakhs.

During the year ended 31.3.80 SAIL issued 20,61,057 new equity shares and the paid up capital of the company amounted to Rs.2,43,412.71 lakhs consisting of 2,43,41,271 equity shares of Rs.1000 each. After the close of the year the autho-
rised capital was raised to Rs.3,000 crores. Reserves & surplus of the company reached a record height this year. It amounted to Rs.11,905.57 lakhs which comprised of capital reserve of Rs. 589.95 lakhs, development rebate reserve of Rs. 26.44 lakhs. Investment allowance reserve of Rs.6147.53 lakhs and Rs. 5141.65 lakhs surplus in profit and loss account.

Private Sector:

Let us now turn to the private sector. An analysis of the share-holders' capital in private sector implies mainly the dissection of the share capital of Tata Iron & Steel Co. Ltd. and partly of Indian Iron & Steel Co. Ltd. (before Govt. take over).

Share Capital of Tata Iron & Steel Co. Ltd. comprised of preference shares and equity shares. At the end of the year 1970-71 authorised share capital of TISCO consisted of :-

i) 50,000 6% cumulative preference shares of Rs. 100 each
ii) 7,00,000 7 1/2% cumulative preference shares of Rs. 150 each
iii) 3,75,000 7 1/2% cumulative 'A' 2nd " shares of Rs. 100 each
iv) 51,70,000 equity shares of Rs.75 each, including 14,69,722 Bonus equity shares issued in the year 1967 in the proportion of 2:5.

The total paid up capital during the year amounted to
Rs. 49,98,22,325 which includes 6% preference shares of Rs. 75,00,000, 7½% 2nd preference shares of Rs. 693,81,900, 7½% 'A' 2nd preference shares of Rs. 371,38,400 and equity shares of Rs. 3858,02,025. These figures of share-holders capital continued for the next five years. No structural change took place upto the year 75-76. But in the year 1976-77 two important changes were brought in the capital structure of TISCO. (a) The face value of equity shares was raised from Rs. 75 to Rs. 100 and (b) Authorised capital in respect of equity shares was raised from 51,70,000 to 60,00,000. This picture of the capital structure, so far as share holders' capital is concerned continued upto 31.3.80. When the structure of share capital of TISCO (subscribed and paid up) was as under :-

\[
\begin{array}{lcc}
\text{Rs. (lakhs)} & \\
50,000 & 6\% \text{ cum. pref. shares of Rs. 150 each} &= 75 \\
693819 & 7\frac{1}{2}\% \text{ cum. 2nd pref. shares of Rs. 100 each} &= 694 \\
371384 & 7\frac{1}{2}\% \ 'A' \text{ 2nd pref. shares of Rs. 100 each} &= 371 \\
5144027 & \text{ordinary shares of Rs. 100 each} &= 5144 \\
\text{Total} &= 6284 \\
\end{array}
\]

The paid up value of 5,144,027 ordinary shares has been enhanced from Rs. 75 to 100 Rs. in the year 76-77 by utilisation of Rs. 49,760 from share premium account and Rs. 12,85,50,915 from general reserve.
As we have already stated, retained profits/reserves are share holders' interest in the total capital employed and as such share holders' reserves are treated as share holders' capital. In the case of TISCO also share holders' reserves played an important role towards the development of its capital structure.

As on 31.3.71 reserves and surplus in TISCO amounted to Rs. 5032.62,000, which included capital reserve, sinking fund and redemption reserve, development rebate reserve and free reserve (general). The amount of reserves had a steady increase year after year and in the year ended 31.3.75 the amount rose to Rs. 7044,35,000. During the next year share holders' reserve again rose to a higher peak of Rs. 7798,45,000. But in the year 76-77 there was a fall in the amount of reserves & surplus which decreased to Rs. 7117,76,538. Again in the next year (1977-78) the amount of reserves & surplus increased to Rs. 73,60,33,035 while in the next year (1978-79) the figure was Rs. 80,26,96,843. During the last year of our study (1979-80) reserves reached the highest ever peak of Rs. 88.11 crores which included -

Debenture redemption reserve = Rs. 3.00 Crores
General reserves = Rs. 49.02 Crores
Investment allowance reserve = Rs. 18.90 Crores
Development rebate reserve = Rs. 15.09 Crores
Other reserves = Rs. 2.10 Crores
The Indian Iron & Steel Co. started its life as an integrated steel manufacturing unit in the private sector. Till 1972 it was owned & managed under private initiative. In July 1972 the management of the company was taken over by the Govt. of India in view of the continuous and sharp decline of the production of steel, the deterioration in the condition of the plant and equipment and its increasing financial difficulties. In the year 1976 as much as 57.33% of the equity capital and 57.37% of the preference capital were acquired by the Govt. of India by promulgating Indian Iron & Steel Co. (acquisition of shares) ordinance on payment of compensation to the old private share holders and thus from 1976 IISCO became a public sector steel company. From 1978 IISCO was merged with SAIL when all the shares (100%) of IISCO were transferred to SAIL and IISCO became a division of SAIL.

We therefore propose to analyse the share capital of IISCO as a unit under private sector upto 1975. Initially the share holders' capital of IISCO consisted of only one kind of equity share of Rs.100 each and the paid up value of the share capital as at the end of the year 1918 amounted to Rs. 288,03,200.

In the year 1925 the nominal value of the shares was reduced to Rs.50/- from Rs.100/-. After ten years (1935) these
Rs.50 shares were again subdivided into 5 shares of Rs.10 each. Next year the nominal value of the shares was reduced from Rs.10/- to Rs.7.50/-. Afterwards four shares of Rs.7.50 each were consolidated into one share of Rs.30 paid, and immediately subdivided into three shares of Rs.10/- each. In 1937, 419, 468 right equity shares of Rs.10 each were issued at a premium of Rs.15 per share in the proportion of 1:5. Since 1945, the paid up capital increased year after year by conversion of 2nd mortgage convertible debentures into equity shares. In the year 1950, 5% preference shares of Rs.100/- each were issued in addition to the existing equity shares. This year 1,50,000 Rights preference shares were issued at a premium of Rs.2/- per share in the proportion of 3 pref. shares : 50 equity shares.

Therefore since 1950 the share-holders' capital of IISCO comprised of both equity & preference shares. This year steel Corpn. of Bengal was merged with IISCO. Thereafter in respect of 1,19,954 pref. shares and 32,88,890 equity shares of Steel Corpn. of Bengal, equal number of preference shares and 26, 31,112 equity shares of Indian Iron were issued as per Iron & Steel Companies Amalgamation Ordinance 1952. For the first time, in the year 1954 20,73,483 Bonus equity shares were issued in proportion of 1:5. Again in the year 1967, 124,40,899 Bonus equity shares were issued in the proportion of 1:1. In the year 1975 just before coming under public sector the position of the capital structure of IISCO was as under :-
(i) 249,81,798 equity shares of Rs.10 each  = 2480,17,980
(ii) 269,954 pref. shares (5%) of Rs.100 each = 269,95,400

In 1976 when the Govt. of India acquired more than 57% shares of IISCO, it became a Company in the public sector.

Besides equity & preference shares the share holders' reserves also represent share holders interest in the total capital employed in IISCO. The amounts of share holders' reserves since the year ended 31.3.71 figured as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount (in '000 Rs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1971</td>
<td>4095,33</td>
</tr>
<tr>
<td>1972</td>
<td>3996,76</td>
</tr>
<tr>
<td>1973</td>
<td>3403,94</td>
</tr>
<tr>
<td>1974</td>
<td>3012,54</td>
</tr>
<tr>
<td>1975</td>
<td>3117,86</td>
</tr>
</tbody>
</table>

Relative Importance of Equity & Preference Capital:

Equity and Preference Capital have their own advantages and disadvantages. The merits of equity and preference shares also vary widely from company to company according to the special characteristics of their organisations and structure of capital. This is why some organisations lay more importance
on equity as a source of capital while preference capital plays a greater role in others. Even before the incorporation of SAIL, the public sector steel manufacturing companies with the exception of IISCO (during the period from 1975 when 57% of its share capital were acquired by the Govt. of India to 1978) were all floated by the Government and they had only one type of share issued e.g. Equity Share. Between 1975 and 1978, IISCO had 5% Preference Share Capital. For companies established from the outset by the Government there is no reason why Preference Shares are to be issued, no gearing advantage is to be gained, no dilution is feared. Whenever money is required new equity shares are issued to the Govt. and the fund obtained in the earliest possible way.

Preference capital, on the other hand, plays an important role in the capital structure of the private sector steel manufacturing companies. It holds a significant part of the total capital employed. That the private companies do not want to dilute their ownerships as well as voting rights may be one of the reasons behind their liking on preference capital.

The following table presents the amounts of capital employed and the relative contribution of equity and preference share capital for the two sectors. Here by capital employed we mean share-holders' capital (equity + preference), share holders' reserves and long-term loan capital.
### TABLE:

**Capital Employed : Equity and Preference Capital (Rs. Crores)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Public Sector (SAIL)</th>
<th>Private Sector (TISCO)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Capital Employed</td>
<td>Equity Capital</td>
</tr>
<tr>
<td></td>
<td>(Rs. Crores)</td>
<td>(Rs. Crores)</td>
</tr>
<tr>
<td>1972-73</td>
<td>1294.43</td>
<td>1294.41</td>
</tr>
<tr>
<td></td>
<td>(100.0)</td>
<td>(100.0)</td>
</tr>
<tr>
<td>1973-74</td>
<td>1451.74</td>
<td>1317.48</td>
</tr>
<tr>
<td></td>
<td>(90.0)</td>
<td>(80.0)</td>
</tr>
<tr>
<td>1974-75</td>
<td>1667.95</td>
<td>1346.15</td>
</tr>
<tr>
<td></td>
<td>(80.7)</td>
<td>(80.7)</td>
</tr>
<tr>
<td>1975-76</td>
<td>2024.80</td>
<td>1401.05</td>
</tr>
<tr>
<td></td>
<td>(69.0)</td>
<td>(69.0)</td>
</tr>
<tr>
<td>1976-77</td>
<td>2217.01</td>
<td>1557.14</td>
</tr>
<tr>
<td></td>
<td>(70.0)</td>
<td>(70.0)</td>
</tr>
<tr>
<td>1977-78</td>
<td>2452.47</td>
<td>1980.00</td>
</tr>
<tr>
<td></td>
<td>(80.7)</td>
<td>(80.7)</td>
</tr>
<tr>
<td>1978-79</td>
<td>3111.87</td>
<td>2228.00</td>
</tr>
<tr>
<td></td>
<td>(70.3)</td>
<td>(70.3)</td>
</tr>
<tr>
<td>1979-80</td>
<td>3687.07</td>
<td>2434.00</td>
</tr>
<tr>
<td></td>
<td>(66.0)</td>
<td>(66.0)</td>
</tr>
</tbody>
</table>

Figures in parentheses indicate percentage to capital employed.
In the year of inception (1972-73) SAIL’s capital structure was formed with equity as the only constituent component. There was no loan fund. Subsequently, the proportion of equity capital in total capital employed showed a declining trend upto 1976-77. This was due to enhancement in the proportion of retained earnings and loan obtained from the Government and financial institutions. There was an upward trend of the equity proportion again in the following year ('77-78) which may be due to the repayment of a substantial portion of loan and/or fall in the amount of retained profit. In the years 78-79 & 79-80 the equity proportion had a fall again. The analysis preceding the table clearly showed that the public sector companies freely raised equity share capital whenever funds were required for expansion. Still there was an overall declining percentage of equity capital the reason being the accumulation of short-term loans and provisions as well as increasing use of borrowed funds. Of course the use of borrowed funds does not have much significance in case of this sector. Since both the equity capital and the loan capital come from the same source i.e. the Govt. of India either directly or through Govt. financial institutions or banks.

Private Sector, on the other hand, (TISCO) gives less importance to equity share capital. Nearly one third of the total capital employed is represented by equity or ordinary share capital in TISCO. The capital structure of private sector steel manufacturing company is characterised by the presence of preference share capital, the share of which in the
capital employed is not negligible. The portion represented by preference capital varies from 6% to 10% of the total capital employed.

Both in the case of public sector and private sector steel manufacturing companies we find that the ratio of equity capital to the total capital employed is gradually declining. This signifies the declining importance of equity capital in the capital structure of both the two units. During the ten years under study the share of equity in the capital employed came down from 100% to 66% in the case of SAIL and from 33% to 24% in case of TISCO. 76-77 and 77-78 are the two exceptional years when the ratio of equity capital to total capital showed an abrupt increase as compared with previous year though it was again on the wane from the following years. The reason is the enhancement of the face value of equity shares from Rs. 75 to Rs. 100 in the case of private sector (TISCO) and new issue of equity shares and repayment of loan in the case of public sector (SAIL). The ratio of preference capital to total capital employed of TISCO also marked a steady declining trend from the starting year of our study. The trend continued up to 77-78. The above analysis indicates that both the public sector and private sector steel manufacturing companies are trying to reduce the share of equity and preference capital in their capital structure and the gap is being filled increasingly by low cost internally generated fund (Retained
Bonuses Issues:

The rationale behind the issue of bonus shares by any company is the desire and also the necessity to conserve liquid resources which would otherwise be distributed in the form of dividend when there are steady accumulations of distributable profits. Bonus shares also do not disturb the existing balance of power, in the matter of control, exercised by the share-holders. In the case of public sector steel companies none of these factors will be found and thus the standard questionnaire sent to SAIL has got a negative answer so far as the question relating to bonus issue is concerned.

As regards private sector steel manufacturing companies like Tata Iron & Steel Company Ltd. and Indian Iron & Steel Company Ltd. (before its take over by the Govt. of India) we find from published sources that these companies issued bonus shares from time to time.

Let us start with TISCO. TISCO issued bonus equity shares for the first time in 1954. 642500 bonus shares were issued to the existing equity share holders at Rs. 75 each in proportion to 1:1 after conversion of 48,750 deferred shares into 2,92,500 equity shares in proportion of...
After a long period of five years TISCO again resorted to bonus issue to mark its golden jubilee in the year 1959. 5,11,628 bonus equity shares were issued in proportion to 1:5 though actually 5,11,524 shares were allotted in practice. Again in March 1967 TISCO issued a huge number of 14,69,722 bonus equity shares (of Rs.75 each) issued in proportion of 2:5.

Indian Iron & Steel Company issued bonus equity shares for the first time in the year 1959 when as much as 20,73,483 bonus shares were issued in proportion of 1:5. The next issue was made after eight years (in 1967). This year a fabulous number of 124,40,899 bonus shares were issued by IISCO in proportion of 1:1.