Press Release Archives

February 18, 2000

Press reports regarding Tata Tea Limited

The press today had reports on Tata Tea Limited planning a $ 75 million ADR issue to buy tea companies abroad.

The Exchange in order to verify the accuracy or otherwise of the information reported in the press and to inform the market place so that the interest of the investors is safeguarded had written to the officials of the company.

Tata Tea Limited has vide their letter dated February 18, 2000 stated " We would like to clarify that this report is not strictly correct and the factual position is as follows: 1. Our company had indicated some months ago through the notice of our Annual General Meeting, our intention to make a GDR issue of upto US$100 million for the purpose of acquiring a 100% share of the Tetley Group of the UK and we had accordingly taken our shareholders approval at the Annual General Meeting held on 17th September 1999. 2. Our negotiations for the acquisition of the Tetley Group are in progress and, if successful, will be suitably announced at that stage. In the meanwhile, we had applied to the Government of India for obtaining their approval for making the GDR issue as and when required and we have now received the FIPB approval for making a GDR issue of US$75 million which was the amount which we had applied for. We have yet to obtain the approval of the Reserve Bank of India in the connection.

As and when we are in a position to proceed with the GDR issue, we shall notify the Stock Exchanges as required."

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Indian securities market is going through a major transformation

Indian securities market is going through a major transformation in terms of micro-structure, market practices and volumes, often driven by the market forces as well as policy initiatives. With a view to recording the transformation and assessing its impact on market efficiency and transparency, the National Stock Exchange of India Limited, the catalyst for much of the transformation, brings out an annual review of the securities market, only of its kind in the country. This issue of the review presents developments in terms of policies, regulations and working of the market, during the last year and suggests an agenda for future.

The Publication reviews the reforms undertaken during the 1990s and the regulatory framework governing the securities market and their impact on the securities market in terms of important performance parameters. The issues requiring attention and what more needs to be done have also been indicated. It emerges that all the segments of the market have benefited from the reforms. The securities market and the institutions have experienced growth and diversification during the 1990s. Some of the weaknesses that still persist today would be overcome with the extension of screen based trading system to all segments of the market, speedy dematerialisation of securities, and introduction of trading in derivatives of securities – all these are in different stages of implementation. The weaknesses requiring attention relate to frequent and accurate disclosure of price sensitive information to enable investors to take appropriate investment decisions, improvement in the governance of stock exchanges and clearing houses, enabling participants to carry out transactions in the market, both primary and secondary, with ease and minimum cost, and modernisation of the market.

It emerges that the decade of the 1990s has witnessed the emergence of the securities market as a major source of finance for the industry. The corporate sector is increasingly depending on external sources for meeting its funding requirements. Within the external sources there appears to be increasing preference for direct financing (equity and debt) to indirect financing (bank loan). According to RBI studies (RBI Bulletins, June and October 1999), the external sources continued to have major share with 65% and 67 % of the total funds raised by the public limited companies during 1996-97 and 1997-98 respectively. Borrowings constituted 67% and 69 % of external funds raised during the said period.

Though there was a major shift in the savings pattern of the household sector (HHS) from physical assets to financial assets and within financial assets, from bank deposits to securities, since the early 1970s the trend got reversed in the recent past due to high real interest rates, prolonged subdued conditions in the secondary market, lack of confidence by the issuers in the outcome of issue process as well as of investors in the credibility of the issuers and the systems and dismal performance of mutual funds. The financial savings of the HHS in securities (shares, debentures, public sector bonds and Units of UTI and other mutual funds) is estimated to have gone down from 23% in 1991-92 to less than 3% in 1998-99.

The primary market appears to have dried up since 1995-96 due to inter play of demand and supply side forces. In real terms, the amount raised by non-government public companies during 1998-99 is 50% less than the amount raised a decade back in 1988-89. Many investors who were lured into the market during 1992-94 seem to be adopting a cautious approach because of their frustration with some of the issuers and intermediaries associated with the securities market. Although they have not completely withdrawn from the market, they are looking for quality issues, the availability of which declined due to stricter eligibility criteria for public issues stipulated by SEBI and the general slowdown in the economic activity. Simultaneously, issuers have shifted focus to other avenues for raising resources like private placement where compliance is less strict. The public issues market, however, seems to be looking up in the recent past. The buoyancy in the stock market, particularly infotech scrips, in the last few months has helped in the revival of primary market. During April-December 1999, an amount of Rs. 5723 crore has already been raised through public and rights issues.

There is a preference for raising resources in the primary market through debt instruments and private placement of debt has emerged as the major route for raising resources. The share of debt in total collection has been increasing consistently over the years and it was 99% in 1998-99. Private placements account for about 90% of total debt mobilisation in recent past. About Rs. 1,25,000 crore has been raised through private placement of debt during last four and half years. Increasing removal of shackles on institutional investments and deregulation of the economy drive growth of this segment. There are several inherent advantages for tapping private placement route for raising resources. While it is cost and time effective method of raising funds and can be structured to meet the needs of the entrepreneurs, it does not require detailed compliance with formalities as required in public or rights issues.

The gross borrowings of the Central Government and State Governments increased by about 57% in 1998-99 over 1997-98. The gross market borrowing amounted to Rs. 93,953 crore, including 364-day treasury bills of Rs. 10,200 crore. After meeting repayment liabilities of Rs. 14,803 crore, and redemption of 364-day treasury bills of Rs. 16,247 crore, net market borrowing was Rs. 62,903 crore for the year 1998-99. Twenty-five State Governments collectively raised Rs. 12,114 crore during 1998-99 as against Rs. 7,749 crore in the preceding year. The net borrowings amounted Rs. 10,700 crore after meeting repayment liabilities of Rs. 1,414 crore. The weighted average cost of its borrowing declined from 12.01% in 1997-98 to 11.86% in 1998-99. In view of bunching of redemption liabilities in the medium term, long term securities with maturities of 11, 12, 15 and 20 years were issued during 1998-99. During April-November 1999, only one fifth of dated securities has been issued for maturities less than 10 years as against 87% in 1998-99. As a result the weighted average maturity of dated securities increased to 7.71 years from 6.6 years in 1997-98.

The turnover ratio for the equity markets which reflects the volume of trading in relation to the size of the market, has been increasing rapidly thanks to advent of screen based trading system by the NSE. One-sided turnover on all stock exchanges exceeded Rs.1,000,000 crore during 1998-99. The turnover ratio for the year 1998-99 increased to 178, which is one of the best in the world. During the current year, the ratio is expected to exceed 200. Market capitalisation, though reduced during 1998-99 marginally, increased by 73% and exceeded Rs. 10, 00, 000 crore during April-December 1999.

The market remained subdued during 1998-99, though it witnessed a few bouts of volatility. The Nifty recorded a decline of 3.47 % during 1998-99 under the pressure of economic sanctions following detonation of nuclear device, continuing woes of East-Asian financial markets, volatility of Indian currency and financial health of US-64 scheme of UTI. The Union Budget of 1999 brought cheers to the market. Since then, the market has been on a roller coaster ride, but a distinct rising trend has emerged. The market is booming in the current financial year due to all-round positive perception about strength of the Government and also its commitment towards second generation reforms, improved macro-economic parameters and better corporate results. The turnover on NSE touched Rs. 6212 crore on 8th December 1999 when it was Rs. 4544 crore on BSE. During April-December 1999, the Sensex and the Nifty have firmed up by 34% and 37% respectively.

The aggregate turnover in central and state government dated securities including treasury bills through SGL transactions during 1998-99 reached a level of Rs. 2,27,228 crore, recording a 22% growth over Rs. 1,85,708 crore in the previous year. During first nine months of the current year, the turnover has reached Rs. 3,65,316 crore. Such increasing turnover reflects increasing deepening of the market. The share of Wholesale Debt Market of NSE in turnover of government securities increased from 42% in 1998-99 to 54% during April-December 1999.

During 1988-99 and during this year, the market witnessed rapid dematerialisation of securities, thanks to an element of compulsion through trading and settlement of securities. As many as 638 companies (issuers) have signed up with NSDL for providing depository services to their shareholders. These companies represent about 80% of the market capitalisation of the Indian market. The total market capitalisation of companies with NSDL increased from 2883 billion in March 1998 to 3966 billion in March 1999 and further to 6076 billion in December 1999. Total number of dematerialised shares increased from 1763 million in March 1998 to 7109 million in March 1999 and further to 12744 million in December 1999. About 13 billion shares valued at Rs. 3238 billion have been dematerialised so far. There are 112 Depository Participants providing services to investors from 1400 centres spread across 285 cites/towns in India.

Mutual Funds mobilized a gross amount of Rs. 33,628 crore during the first nine months of the current financial year 1999–2000 as against Rs 18,701 crore and Rs. 21,377 crore during the financial years 1997-98 and 1998- 99 respectively. After adjustment of repurchases and redemptions, there was net inflow of funds of Rs 3474 crore, Rs. 345 crore and Rs. 12027 crore respectively during 1997-98, 1998-99 and April-December 1999. UTI alone raised 74%, 62% and 29% of total resources mobilised during 1997-98, 1998-99 and April-December 1999. The share of open-ended schemes in total funds raised increased from 52% in 1997-98 to 67% in 1998-99 and further to 87% during April-December 1999.

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