

DCM-ESCORTS

Sharing Losses

LAST week-end the seesaw battle being waged by Swraj Paul to take over Escorts and DCM slowed to a less suspenseful motion when the London-based industrialist suffered a series of setbacks. The first and predictable one came when Escorts' Board of Directors refused on June 9 to register 4,62,377 shares lodged by Paul's brokers Harish Bhasin and Bharat Bhushan. At the company's Annual General Meeting the same day, a poll demanded by seven Paul lobbyists on two resolutions—a move designed to see which way the financial institutions as majority shareholders would swing—backfired when the voting went overwhelmingly in favour of Escorts' management.

Then, soon after the Finance Ministry ordered the Reserve Bank of India (RBI) to inquire into Paul's massive equity purchases in the two companies, the bank threw on another damper when it ordered Paul's bankers, Punjab National Bank (PNB) not to release to the brokers a sum of Rs 1.07 crore remitted by the tycoon's Caparo Group.

Between March and early June, however, PNB had already released over Rs 11 crore of Paul's remittances to the brokers to pay for Escorts' disputed 4.62 lakh shares and 1.2 million shares of DCM.

Close Call: The RBI's pre-emptive strike nearly caused a crisis on the Delhi Stock Exchange (DSE) because the blocked funds were meant to pay for one lakh Escorts shares and 85,000 DCM shares received by Harish Bhasin against earlier transactions. Bhasin—who is also president of the DSE—staved off blacklisting only by mobilising local resources. But there were grave doubts about whether Bhasin had violated rules by indulging in forward deals, and by paying for non-resident purchases with local funds. "Before people accuse me they should first wash their own houses," retorted Bhasin. "What is resident or non-resident for me? I have to pay for the shares in rupees in any case, and I did so."

At fortnight's end Paul's brokers were claiming total purchases of 9.75 lakh Escorts shares (representing 7.5 per cent of total sha-

reholding) and 1.2 million DCM shares (representing 13 per cent of total shareholding). But another potential slip-up by invaders surfaced. The Government's Portfolio Investment Scheme stipulates that all non-resident investments ought to be routed through a bank; when a bank deputes a broker to purchase shares it is expected to submit daily reports of all transactions to the RBI. In Paul's case, the PNB had failed to observe this rule. Paul's spokesmen sought to put this down to a technical error, but a senior DCM official retorted by saying: "The law does not recognise grey areas. It sees misdemeanours in black and white."

Stock market sources, however, said that Paul's brokers might in fact have benefited from the RBI inquiry and the stoppage of Paul's June 13 remittance. The two factors contributed to a dramatic crash in the two scrips on June 20, with DCM plunging from a high of Rs 105.50 to Rs 70, and Escorts from a high of Rs 82 to Rs 65. Reports indicated that Paul's brokers took advantage of the slump to pay for large chunks of previously contracted shares. The market swung upward again the next day, and suspicions of deeper game were reinforced when RBI Governor Manmohan Singh was summoned urgently by Union Finance Minister Pranab

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THE GROWING RURAL MARKET IN INDIA

This, in turn, helps develop a cadre of people who would be better tuned to the needs, aspirations and opportunities outside the mainstream of India's urban life. Another aspect is that rural development remains a neglected sector and the involvement of companies like HLL enables the induction of scarce managerial inputs.

HLL with its near-century experience in marketing has an intimate knowledge of its consumers both in urban and rural India. Its international connections have been of great significance in meeting the needs of consumers in many countries around the world. Today its sound technological base and innovations particularly born of agriculture related scientific research make HLL all set to meet emerging new needs of the farming community. The company is also moving to the undeveloped rural hinterland with new investments. Its IRD programme in Etah district has brought to the company's people a ring-side view of the countryside and the immense potential that India's villages offer for business. Without doubt, all this spells new opportunities. But they represent tremendous challenges as well.

CONCLUSIONS

At a time when one hears of sectoral recession, lack of entrepreneurial opportunities and, in general, about risks and regulations that restrict growth, the slow but steady development

of a widening cash economy in the major part of this country is an opportunity which certainly deserves more attention.

The growth of economic activity in rural India is attended by per capita numbers and unending debates about the poverty line. These are real and cannot be wished away. But in a democratic society uniform growth would be an elusive goal. If one set aside for a moment the socio-political aspects and instead analysed the socio-economic realities, then the dispersal of industrial investment, Plan expenditure, marketing of agricultural and other products into rural India represents an important aspect of a possible approach for ensuring a measure of uniform economic spread.

In this analysis, one must recognise the role of communications and encourage rather than inhibit this, as is attempted from time to time. Rural communications must not only carry messages for services. Communication is an expensive and difficult task. This cannot be denied. At the same time, to ignore it would be imprudent. This has been forcefully demonstrated in the successful Green Revolution, and to an extent, in ushering in the message of family planning by the Government. It must now encourage the industrial and service sectors to divert a major part of their activity and attention to the rural market and accelerate economic mobility.

The remarkable strengths of the small Indian trader can be supplemented and channelised for more equitable distribution. HLL's experience in marketing and distribution has been greatly strengthened by innovations in technology and investments in the core sector. Its research discoveries of chemical compounds which boost agricultural productivity, and its investment for manufacturing inorganic fertilisers provide added impetus for deeper penetration of the hinterland. National surveys as well as research undertaken by the company confirm the view that population growth tends to overshadow progress being made and opportunities which are developing. However, they also clearly bring out the rapid developments taking place in many parts of rural India. We must now get out of the shadow of lopsided growth of the urban centres and carefully plan to service the increasing demands of non-urban India.

Lastly, I am aware that in delivering this speech I have touched the proverbial tip of a subject which is vast and more complex than can be encompassed in a single address. If however, even in a limited manner, this speech provides some interest for further investigations, it would have served its purpose.

NOTE: This does not purport to be a report of the proceedings of the Annual General Meeting.

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Paul: suffering setbacks



Bhasin: on a buying spree

Mukherjee to Delhi on June 24. When INDIA TODAY met Bhasin the following day he said: "We anticipate that the RBI will clear the blocked remittance within the next three or four days." That would result in a windfall profit for the brokers, because the two companies' shares would immediately shoot up in value.

Counter-offensive: In London, Paul was reported to be considering appealing against Escorts' refusal to register his purchases to either the Company Law Board or the courts. DCM meanwhile fired another salvo by announcing the early closure of its books—on June 29 instead of November—and also preponed its annual general meeting by six months. The hasty move was ostensibly to effect a change in the company's name from Delhi Cloth and General Mills Limited to DCM Limited, but it was clear that the company actually wanted Paul to show his hand by lodging the shares he had bought.

The brokers were therefore forced to marshal as many shares as possible in a very brief while. Said an angry Bhasin: "This is needless and frivolous expenditure at the shareholders' cost. DCM has not complied with a Finance Ministry directive asking for conversion of all equity shares of whatever denomination into standard face values of Rs 10 and Rs 100. The company's shares continue to have a par value of Rs 25, although the last date for conversion is December 31. Secondly, the company's convertible debentures will get converted on July 1, but such conversions will be in the old name because a nomenclature change takes time. So what is the use of the sudden closure of books except to provoke us?"

"Anything I say will only increase con-

fusion and controversy," said SBI Governor Manmohan Singh, declining to comment on questions raised about the legality of Paul transferring shares and about the reasons for the RBI stepping into the act. The Punjab National Bank was equally uncommunicative. So a host of technical questions raised by the rival parties—about the non-resident status of Swraj Paul's companies, whether Paul's share purchases had been completed (i.e. paid for and delivery taken) before May 2, when the 5 per cent ceiling on non-resident investment came into effect, —went begging for answers.

The biggest mystery concerned the vast sums that Swraj Paul had mobilised to mount his daring and adventurous stock market raid. Published figures about the financial status of his companies in Britain left little room for doubt that they did not have the wherewithal to finance a share market operation of this size: a good many of them had share capital that was counted in thousands of pounds, many were making losses, and in some cases their turnover was too small for them to even consider staking millions in any single and risky operation.

While the battleground shifted from the stock market ring to lawyers' chambers and closed-door meetings, Swraj Paul's brothers finally came into the open to try and clear public doubts about their operations—lobbying in Bombay, launching a campaign to meet the press, and in the process virtually dropping the so far consistent line that the

objective was not a takeover.

Contacted in London regarding the source of his funds, Paul suggested that banks had lent him the money. His brother Jit Paul in Calcutta chose to counter the question by asking: "If a customer pays a bill in my restaurant I don't ask him where he got his money from." Under existing laws the Government cannot investigate the sources of a non-resident's funds. Jit Paul and other

"family friends" are also reported to be preparing to buy large chunks of Escorts and DCM equity with local funds—an eventuality that will vastly beef up the Paul family's holdings in the besieged companies.

Broker Bhasin meanwhile waxed indignant about Escorts' refusal to register his purchases. "The sanctity of negotiable instruments is lost," he fumed, "and if this is allowed to stand the stock markets will suffer a severe jolt. It will be tantamount to negation of currency. I am within my rights to return all those shares as worthless

pieces of paper and demand my money back in full. If the stock market has to suddenly pay me Rs 12 crore do you know what will happen? There will be a tremendous crash." Faced with a fluid and unprecedented situation the Government has been singularly coy about spelling out its policy in unambiguous terms. It might have bitten off more than it can chew for the unanswered questions of last fortnight are only the tip of the iceberg.

—CHAITANYA KALBAG



**Manmohan Singh:
no comment**