Non Resident Investment in Indian Companies— A Polemical Issue

By
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The Unresolved controversy

The contour feathers of the recent corporate history are stormed adequately by the controversial non-resident investment in the Indian corporate sector. The genuine idea behind such investment is to welcome much needed capital for setting up industries using advanced technology. The issue has touched the crescending heights when translated into action and the incredibly stupendous response by the non-residents for the Government's policy is the significant aftermath.

The lid of Pandora's box is open when Mr. Swaraj Paul, the overseas Indian tycoon has shown tremendous interest by stepping into the mainstream of the market by sumptuosly acquiring shares of two of the top seeded twenty (DCM AND ESCORTS) companies. The present mantle of management of these companies shivered in their shoes by the possible take-over bids. It is here a piquant triangle is formed where the Government, corporate giants and non-resident investors are the three corner points, and the future of the companies is locked in litigation.

The storm continues to brew even after the iron-clad panegyric guarantee and the subsequent ceiling imposed by the Government on non-resident investments. The looming rumpus in the corporate campus is still continuing even today about the take-over bids and it seems there is no paulo-post future.

Hue and cry

After having performed well in the fiercely competetive corporate jungle abroad, the expatriate Indian businessmen are on the corporate journey to the home country in order to augment their empire and add to their profits and wealth. The journey has been considered as a threat and having a contradistinction of mercilessly unloading the industrial robots, who have been so far enjoying the ivory-tower image and possibly dynastic control over the companies.

It is against the backdrop of this cataclysmic metamorphosis that took place in the latest corporate history, the role of financial institutions who are holding the major portion of the companies shares is to be seen.

Financial Institutions-A silent spectator ?

The real-power balance is the financial institutions, the country's biggest shareholders (holding over Rs. 750 crores i.e. twenty percent of the national total in all joint stock companies). So far these institutions are using their enormous power to bolster good management in corporate sector. In fact this is what is expected.

It need not be reiterated that the firms dig up the internal reservoir of funds occasionally, and whenever they find these funds inadequate, stem into the mainstream of the capital market. Apart from the existing companies, even the new companies cannot think of initiating their business operations without seeking the public to purchase shares. In this connection, public financial institutions are meant to fill the gaps temporarily and not permanently. It then becomes an enigmatic question as to why financial institutions continue to hold major shares in large industrial houses. If a financial institution holds shares inspite of shares having a good market value and evoking good public response, whether it be through the changes in Government policy (for instance non-resident investment introduction) or some other reasons, the reasons must be sound. But unfortunately there are no visible reasons behind such illogical actions of these institutions. It is, however, apprehended that the unloading of the large chunk of shares to small number of individuals might have a destabilizing effect on the so far well-managed companies. It is also contended that the financial institutions should be barred from selling sumptuos shares to any single buyer who is seeking control over the company. But these view points are entirely ethical in nature.

According to a survey carried out by the Financial Express correspondents long back, business opinion is strongly against the role of 'king maker' played by the financial institutions particularly as it leads to ousting the good managements. It is also the widely accepted view that financial institutions should revolve their funds with a view to promoting new ventures, expansions, modernization programmes rather than locking up their funds in company's shares for long time. Locking up the funds tantamounts to locking the opportunities.

Paradox of opinions

It is here that a paradox exists; i.e. between the 'king maker' role and 'revolving funds' by the financial institutions.

Public financial institutions should play an open and fair game and should have no hand in engineering take-overs or management changes of well-run units, is another side of opinions. It is a layman's conception that the financial institutions should offer their support to the take-over of sick units by the efficient ones. But a flabbergasting share specialist views such fair game as a futile expectation in the present corporate jungle. The issue has the essential characterestics of 'political games' devoid of savoury flavour.

As far as the support is concerned the fiinancial institutions are expected to support the well-managed companies and discourage take-over issues. This has been the general impression. But the unfortunate thing is that the financial institutions have no prescribed guidelines regarding this. In the absence of basic guidelines, the security analyst contends that the basic objective of the institutions is to dispose of the shares with profit. The fundamental idea behind this is to release funds for cycling-recycling process.

But from the point of view of the capital market, unloading of the shares is a heathy sign excepting the fear of take-over.

Professional profile

The seekers of take-over advance a strong viewpoint in support of their movement. They abuse the existing management by labelling it as a 'fuedalistic'. Mr. Swaraj Paul's basic idea is to replace non-effective fuedalism by the more effective 'professionalism'. Though this reasoning may be foggy, it has become the bone of contention. Professional management in Indian companies is more discussed than practiced.

The amalgam of these factors and their impact on the non-resident issue, in the surfeit of the changing capital market scenario requires exhuberent stretch of gearing and must be carefully analysed before it results in pandemonium. More essentially, the role of financial institutions must be properly spelled out to retain the 'goodwill' of these institutions and credentials.