

12.42 hrs.

## UNIT TRUST OF INDIA (AMENDMENT) BILL

[English]

MR. DEPUTY-SPEAKER : The House will now take up the Unit Trust of India (Amendment) Bill. As this is the first sitting of the House in this Session and in view of the intervening holidays, the Speaker, as a special case, allowed amendments for which notice have been given by the following Members up to 11.00 hours today to be moved :

1. Shri C. Madhav Reddi.
2. Shri Mool Chand Daga.
3. Shri E.A. Reddy.

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI JANARDHANA POOJARY) : I beg to move :

“That the Bill further to Amend the Unit Trust of India Act, 1963, be taken into consideration.”

As the hon. Members are aware, the Unit Trust of India was established in the Public sector as a Corporation on February 1, 1964 under the Unit Trust of India Act, 1963. The main objective of the Trust are to encourage saving and investment and to provide participation to the unit holders in the income, profits and gain accruing to the Trust from the acquisition, holding, management and disposal of securities. During the last 21 years of its operation, the Trust has achieved considerable growth in its size and area of activities. The gross sales under all the schemes of the Trust increased from Rs. 19 crores in 1964-65 to Rs. 756 crores during the year ended 30th June, 1985. Similarly, the investible resources of the Trust under all the schemes increased from Rs. 25 crores in 1964-65 to Rs. 2,210 crores in 1984-85. The number of units holding accounts under all the schemes also recorded a substantial growth from 1.31 lakhs in 1964-65 to 17 lakhs in 1984-85, of these, small unit holders with investment of Rs. 10,000 and below

account for about 87%. The investment in Units provides complete safety, easy encashability and high returns to the unit-holders. The small investor can thus invest in units without any risk or loss of capital. The Trust has also been able to give higher returns to the Unit-holders by stopping up the dividend on its main scheme, namely, Unit Scheme, 1964, from 6.1% in 1964-65 to 14.25% in 1984-85.

The growth in the investible resources of the Trust since 1980-81 has been substantial. From Rs. 523 crores in 1980-81, the investible resources went up to Rs. 1,261 crores in 1983-84 and have further increased to Rs. 2,210 crores in 1984-85. In the context of the growth of the Trust, the existing investment outlets available to the Trust have been felt to be somewhat narrow and restrictive. It has also been felt that the Unit Trust of India should now grow into a multi-dimensional financial institution by diversifying its role. Both these objectives are sought to be achieved through the proposed amendments.

4. The proposed amendment Bill seeks to widen the definition of “securities” under Section 2 (i) of the Unit Trust of India Act, in order to provide larger investment outlets to the Trust. The Bill would also enable the Trust to take up new activities such as :

- (A) Granting of loans directly which under the present Act is not feasible. This will simplify the procedure of advancing loan in consortium finance also;
- (B) Accepting, discounting or re-discounting Bills of Exchange;
- (C) Leasing finance;
- (D) Acquiring and selling immovable property and financing housing sector; and
- (E) Providing merchant banking and investment advisory services;
- (F) Issuing Units in certain designated foreign currencies and to counsel non-residents in invest-

[Shri Janardhana Poojary]

ments and to act as a trustee for portfolio management of investments of persons resident outside India.

These and other consequential amendments which are incorporated in the Bill would enable the Trust to effectively deploy its growing investable resources and become an important financial institution in the years to come.

5. UTI, as one of the premier financial investment institutions has a good track record of the performance. The gross income of the trust has increased from Rs. 1.53 crores in 1965 to Rs. 257.05 crores in 1985. The gross income in 1965 represents an increase of 80% over the previous year's income of Rs. 143 crores in 1984-85. UTI is also a financially well managed and strong institution with reserves and provisions standing at Rs. 298.47 crores as on 30th June, 1985. This represents an increase of 98.9% over the previous year's level of Rs. 150 crores. Further, the services provided to the Unit holders are prompt and efficient. The dividend is declared on the last day of the financial year and the despatch of dividend warrants begins within two weeks thereafter. UTI has also initiated steps to popularise Units in the rural areas and among special groups such as defence personnel. It is the intention of the Government that this unique institution should be further strengthened and enabled to take a number of new activities.

MR. DEPUTY SPEAKER : Motion moved :

"That the Bill further to amend and Unit Trust of India Act, 1963, be taken into consideration"

SHRI C. MADHAV REDDI (Adilabad) :  
Sir, I rise to oppose this Bill. Ordinarily, this Bill should have received the support from all sections of this House. But, unfortunately, there are certain Sections, certain Clauses in the Bill, which do not deserve to be supported.

It looks as if it is an innocuous Bill

intended only to provide new channels of investment for the Unit Trust of India which has got lot of investible funds today at its disposal. I agree with the hon. Minister that during the last 21 years, the Unit Trust has grown enormously and it has accumulated lot of investible funds and today it is feeling suffocated because it has no avenues of investment. At the time when the original Bill was introduced, the Unit Trust of India Act was passed, certain restrictions were imposed on the channels of investment and I feel that these are the restrictions which should continue to guide the policies of investment of the Unit Trust of India. The framers of the Bill in those days, in their wisdom, thought that the Unit Trust of India should not become another broker. It should grow into a powerful financial institution capable of contributing to the industrial development of the country. One of the restrictions which was imposed in those days was contained in Section 19 that it should not enter into real Estate business, purchasing of land or any other property, selling of these lands and so on and so forth.

I feel that today we are opening the floodgates by amending section 19, rather by inserting a new section 19; we are opening the floodgates, by allowing the Unit Trust of India to invest funds in more lucrative channels, not necessarily developmental channels. Just now the Minister was enumerating these lucrative channels; he has said that they are going to invest in real estate, in construction business, even in bullions; then the funds are going to be invested in certain other items also such as purchasing of Bills, Hundis, etc. These are functions which had been assigned to banks and they are doing very well. These are functions which are necessary for providing working capital funds to industries, and these functions are being very ably discharged by the banking institutions; because they have branches everywhere, they can supervise the accounts of the clients and they can control the transactions very well. There is no need for an institution of this type, which is an all India Public Financial institution, to go into the day-to-day functioning of industries and finance funds as working

capital funds. I am aware that this institution is suffering from over-capitalisation. It has accumulated profits, it has accumulated investible funds. Because it has accumulated investible funds, you are now thinking of diverting these funds to non-productive channels. Can't we think of productive channels? It is a very typical example of our Indian economy where there are lot of contradictions.

While on the one hand we do not have funds to invest in major projects like the Visakhapatnam Steel Plant or the Aluminium Plant or any other major project — we are facing serious resource constraints; we are cutting our expenditure on these development projects on the other hand, here is a financial institution fully controlled by the Government which has enormous surplus funds which we do not want to invest for the development of the country. It is a contradiction. I am just reminded of the sugarcane prices: the sugarcane today is selling in the market at throwaway prices, but on the other hand the price of sugar is skyrocketing. These contradictions have to be removed. We have to see that an institution like the Unit Trust of India, which is a premier public financial institution like the IDBI or the ICICI, plays a more effective role in the development of the country, by helping industrialisation in this country.

Let us see the performance of U.T.I. In spite of clear instructions, clear directives, which were given by the framers of the Bill to the UTI, already several distortions have taken place. The UTI has; more or less, worked as a big broker, as a big brother of brokers. They have given lot of scope to the growth of big business which is controlled by the monopolists. It is no longer helping the small investors. But certainly it is mobilising the savings of the small investors. Just now the Minister has said that 87 per cent of the investment is coming from the small investors, the unit-holders. But where is the investment going? It has not gone to the small man; it has gone mainly to the big business. If the idea is only to make money, certainly you can make money in many ways. I am also

aware of the thinking of the Unit Trust of India Board. They want to go in for even call-money market.

Overnight, funds are required for which a very high rate of interest is available. In Bombay, if you have ten crores of rupees immediately to be invested, overnight you can get 1% or more i.e. Rs. 1 million straightaway just for investing funds for one night, for one day. This overnight call money market today is very lucrative. Certainly, you do not want these funds to go for investment like this, I know that these funds may go to the private sector, the funds may go to the inter-corporate overnight call money market.

Even then I feel that this is not a very desirable channel of investment and Clause-5 of this Bill does not deserve to be supported. Clause-5 does the main mischief. There are three important amendments which are being proposed in this Bill. One is Clause-5 which gives new channels of investment to the UTI and another is with regard to management of the investments by the overseas Indians. I have no objection to the later, certainly this is a desirable amendment, that should be accepted. The third amendment is with regard to the Unit Trust's claims to be managed. Enforcement of claims of the U.T.I. is also a very desirable amendment. But the objection is with regard to the main amendment because the memorandum of Objects and Reasons clearly says the principal object of the Bill is to widen the scope of the business which the Trust can transact to enable the Trust to effectively channelise the funds mobilised by it from the public into more productive investment. If the Finance Minister feels that purchasing lands, going in for Real Estate is really more productive investment, I have to be enlightened more on the new economic policy of this Government. Is it the new economic policy of the Government to see that you encourage the unproductive expenditure by the major financial institutions? Now Sir, what is a Unit Trust? It has been explained to us just now by the Minister that all small investors join together and purchase the units of the U.T.I. they cannot go and purchase the shares themselves. The Unit Trust acts as

[Shri C. Madhav Reddi]

a surrogate investor on behalf of the unit holders. That is the main thing. Today, unfortunately, we have not very many institutions of this type. Because we do not have such institutions today in our country, the chit funds have taken the lead. In England there are 300 unit trusts like this and they are mobilising the resources which go for the productive channels.

In India this role has been given to the chit funds where crores of rupees are mobilised from the small people and not invested in the productive channels. That apart, today we have neglected this institution. But it grew by itself because of the inner dynamism that this type of investment has got in our economy. I am very happy about it. A time has come when we have to think very seriously to see that this institution becomes really dynamic institution, investing for the development of the country.

Now Sir, I am going to suggest the channels open to us for investment. The most important gap today in the industrial development of the country is the law of public contribution for development. The Minister will agree that after the buoyancy of the market this year the companies are able to get a lot of public subscriptions. As a matter of fact, the companies are getting over-subscriptions. Sometimes twice, thrice, several times and they have to return the capital to the public. But what are these companies? Many of these companies are the companies started by the big business.

13.00 hrs.

Many of these companies are successful companies which have already established a name in the market and...

MR. DEPUTY SPEAKER : Please conclude now.

SHRI C. MADHAV REDDI : I will take some more time, Sir. It is such an important Bill. There are not many members to speak.

MR. DEPUTY SPEAKER : You may take one or two minutes more and please conclude now.

SHRI C. MADHAV REDDI : I would like to be on my legs and continue.

MR. DEPUTY SPEAKER : Many members have given their names. Mr. Ayyapu Reddy from your Party has also given his name.

SHRI C. MADHAV REDDI : I was pointing out the serious gap in to-day's public financing...

MR. DEPUTY SPEAKER : As you want more time, we will now adjourn for lunch and meet at 2 p.m.

13.01 hrs.

*The Lok Sabha then Adjourned for Lunch till Fourteen of the Clock.*

*The Lok Sabha re-assembled after Lunch at Seven minutes past Fourteen of the Clock.*

[MR. DEPUTY-SPEAKER— in the Chair]

UNIT TRUST OF INDIA (AMENDMENT) BILL—Contd.

[English]

MR. DEPUTY-SPEAKER : Shri Madhava Reddi to continue his speech.

SHRI C. MADHAV REDDI (Adilabad) : Sir, I was talking about productive channels available in U.T.I. for investors and in this connection I was mentioning about the gap which today exists in the industrial finance, in the sense that the market is very buoyant, the companies are able to get subscriptions, rather they are being over-subscribed. But even then it is not all the companies which are being permitted to go to the market because for going to the market the main hurdle before the companies, particularly the medium companies, is that their public issue to be under-written by brokers, bankers, or by any all-India financial institutions. These companies do not have the image to enter

the market. The share market is closed for them. The people are prepared to subscribe to any good company, to any good project. Today if you go to the public, the public issue will be subscribed without any difficulty thanks to certain policies, concessions given to the tax-payers. But the main difficulty is that when you go to an investor, when you go to a broker or a bank to underwrite the equities, they refuse to underwrite the issues and unless the public issues are underwritten, you cannot go to the public. In this connection, I am reminded of a saying in Hindi: *Bhagwan to vandan dena chahata hai lekin pujari mandir men aane nahin deta hai*. I do not mean this poojari. The public is prepared to subscribe to the equity of any company. But unless the equities are under-written by brokers, U.T.I. or IDBI, these medium companies cannot go to the public. There is a good investment channel open today for the UTI to take up and this is going to help all the medium companies to go to the public and get enough subscriptions.

I think that you should seriously think of introducing this function; the UTI should become a very major under-writing institution for the public issues. This is a major channel which would be helpful for the development of the industries.

Coming to the other points that were raised by the Minister, the UTI has got enough capital today; Rs. 2200 crores of investible funds, and by the end of this year, it is expected that this will increase to about Rs. 3000 crores. When this level of investment is available for the development of the country, we should tap this source and utilise it for the productive purpose.

In this connection, I would like to point out that in the past, the UTI had been investing mostly in the lucrative ventures, the companies which have got very good name, where they can get good dividend and so on while I do not want the Government to make UTI a milch cow for its needs and go on using these funds, because Government needs are unlimited, but at the same time, I want that Government should not suffer because of lack of investment for major productive projects. I

feel that the UTI should be given a function of acting as a catalyst for the public sector, to tap more capital from the public. We have to think seriously giving permission to the Government companies, public sector institutions to go to public and for going to public, the UTI can play a very effective role.

Another point which I would like to mention is that the UTI activities are confined to the big cities, metropolitan centres like Bombay, Calcutta, Madras etc. A vast rural market is available where the UTI functioning is almost nil. I have seen the list of unit holders of various schemes and I find that ninety per cent of the unit holders are from the areas like Ahmedabad, Bombay and other such places. Even though the UTI has got branches at some places and they have got some agents, but they are not operating in the small areas, rural areas over the entire country. Something should be done to see that the UTI expands its operation and mobilises the funds from the small people.

In this connection, I would like to mention that recently, the Government of India in the Ministry of Finance, Reserve Bank and the IDBI reduced the debt-equity ratio for loaning the medium companies for their projects. Previously, the debt-equity ratio was 2:1, today, it has become  $1\frac{1}{2} : 1$ . In other words today because of the reduced debt-equity ratio, the promoters have to invest more than what they used to do. And this has been done because the Government thought that because of the tax concessions etc., the market is buoyant and it would be possible for the people to mobilise the resources from the public, but when we go to the public, we are not able to mobilise because our issues are not being under-written. It becomes therefore, very relevant that the UTI should play a very effective role as an under-writing agency in this country and give up the security-oriented policy of investment to-day where there is a risk, UTI is not prepared to go.

The UTI will invest where there is a hundred per cent security and that its investment is not going to get less than 14 or 15 per cent of dividend. Though I know

[Shri C. Madhav Reddi]

that UTI is giving dividends, the maximum is only about 14 per cent. In any case, even if you get more dividends, you are not going to give it to the unit holders. So, you should not think of only making more and more money by going to certain channels only and going into competition with the banking institutions in the country and investing in real estate business or construction business. The UTI should concentrate more on the productive channels of investment and it should use its capital as a catalyst for further mobilisation of funds from the public. That should be the important and dynamic role of the UTI.

It is on these grounds that I oppose this Clause 5, which is the main clause, and the main objective of the Bill. Because I am opposing this Clause 5, I am forced to oppose the entire Bill because Clause 5 is the main clause of the Bill. I have a motion before this House that the Bill may be referred to a Joint Select Committee because it is only there, we are going to examine the Bill thoroughly.

MR. DEPUTY SPEAKER : You have not given any motion.

SHRI C. MADHAV REDDI : I have given Sir, There is an amendment.

14.17 hrs.

### INTRODUCTION OF NEW MINISTERS

[English]

THE MINISTER OF PARLIAMEN-  
TARY AFFAIRS AND TOURISM (SHRI  
H.K.L. BHAGAT) : I have great pleasure  
in introducing to you and through you to  
the House, my colleagues who have been  
appointed as Ministers :

Shri Narayan Dutt Tiwari : The Minis-  
ter of Industry.

Shri M. Arunachalam : The Minister  
of State in the Department of Industrial  
Development.

14.18 hrs.

### UNIT TRUST OF INDIA (Amendment) Bill—contd.

[Translation]

Dr. G.S. RAJHANS (Jhunjharpur) :  
Mr. Deputy Speaker, Sir, just now one of  
our colleagues has spoken in detail about  
the unit trust. He has said that the unit  
trust is going to invest money in the non-  
productive items. I could not understand  
this point. I cannot understand how the  
construction industry could be non-produc-  
tive. The object of the Bill, as is given in  
the statement of Objects and Reasons, is  
as follows :

[English]

“The principal objective of the Bill is  
to widen the scope of the business  
which the Trust can transact to  
enable the Trust to effectively  
channelise the funds mobilised by it  
from the public into more productive  
investment outlets both in India and  
outside India. This would provide  
for a good and growing return to the  
unit holder and the Trust would  
realise its objective by optimum  
utilisation of opportunities for  
investment.”

[Translation]

It may invest in a leasing company or  
in the construction industry or in the real  
estate, but I think it is doing a good work.  
The transactions regarding real estate are  
not increasing in Delhi, they are increasing  
in the entire country. Any Government  
agency can purchase the real estate and  
sell it to the people at reasonable prices  
and our hon. colleague should not have  
any objection to it, although he may have  
his own ideas and his own objections. In  
my view, the Unit Trust is doing a commen-  
dable job. Very few public sector units in  
the country have shown such a good per-  
formance as the Units Trust has shown  
during the last 20 years. It is an example  
which shows that all the public sector units  
are not showing bad performance. The  
Unit Trust had sold units worth Rs. 750