ANALYSIS OF THE ROLE OF UNIT TRUST OF INDIA IN INDUSTRIAL FINANCE IN INDIA IN THE PRE-LIBERALISATION ERA

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Abstract: This study has been undertaken to analyse the role of Unit Trust of India (UTI) in industrial finance in India in the pre-liberalisation era. For this purpose, the pattern of investment by UTI and its investment in corporate securities have been delved into. It is concluded that Unit Trust of India played a significant role in the pre-liberalisation era in the industrial finance scenario in India.

IndexTerms - Unit Trust of India, industrial finance, investment pattern, corporate securities

I. UNIT TRUST OF INDIA: THE EMERGENCE OF MUTUAL FUND IN INDIA

For the purpose of mobilisation of savings of the household sector, the principal surplus sector of the economy, no single institution or instrument is sufficient. The necessity for different types of institutions and instruments arise from the fact that different savers, having different economic and social backgrounds, have different types of needs, capabilities and constraints. But one thing is certain that every owner of surplus fund wants to maximise his return on investment taking the minimum risk. It is in this context that the mutual funds have emerged as the buffer between the gullible and vulnerable small savers and uncertain corporate securities market. Mutual funds, as professional bodies, take cognisance of the diverse needs and abilities of diverse savers and respond with different schemes.

The Unit Trust of India, created by an Act of 1963, introduced for the first time in India the system of mutual funds. It collected savings of innumerable savers by selling units of smaller denominations, offered under different schemes, and invested the funds so collected in new and old issues of securities of corporate sector. From the point of view of suppliers of funds, such investments minimise the risk of loss, as the loss from investments in one or a few companies are finally made good by the profits from investments in other companies. "The objective of unit trusts is to provide to the investors of small and moderate means the same advantage as enjoyed by large capitalists. This is sought to be ensured by diminishing the risk of investing in stocks by spreading or diversifying investments over a large number of different kinds of stocks. Unit trusts enable a small investor to hold a share in a share in large and diversified portfolio of assets which reduces the risks of investment." [1]

The UTI was a unique institution of its kind in the sense that it differed from the investment Trusts of United Kingdom or the Mutual Savings Banks of USA. The UTI was a trust at law, again, it was obliged to buy back the units whenever the investors wanted to sell them, whereas, an Investment Trust cannot buy back its shares. The investors who desire to get rid of such shares can sell them to those who want to buy. The Mutual Savings Banks, on the other, are savings banks which collect savings by way of demand and term deposits from the savers. Their basic function is the professional management of funds entrusted to them. Thus, the UTI, with its unique features, had been assigned the role of a mobiliser of savings of the society in a way that no other financial intermediary has yet been able to do.The Unit Trust of India Act 1963 was later repealed, paving way for the bifurcation of UTI into Specified Undertaking of Unit Trust of India (SUUTI) and UTI Mutual Fund (UTIMF).

II. THE INVESTMENT PATTERN OF UNIT TRUST OF INDIA

The pattern of investment of fund, as shown in Table 1, distinguished the UTI from all other financial intermediaries of the country in the sense that overwhelmingly the major portion to its investment found way into the private corporate sector. From Table 1 it transpires that in 1992 the share of private corporate sector in the total investment of the UTI was 72.1 per cent though in 1972 it was as high as 93.1 per cent, and in 1990 it was 55.3 per cent.

Along with the absolute changes in the share of private corporate sector in the total investment of UTI from time to time, there had also taken place significant changes in the relative shares of the different components of investment. For example, investment in equity shares of the corporate sector declined from 37.4 per cent in 1972 to 19.8 per cent in 1990 and then again rose to 27.3 per cent in 1992. The share of debentures during the period declined from 35.1 per cent to 24.8 per cent of the total investment of UTI. The preference shares were no longer a source of fund of any importance to the corporate sector; hence, as an item of investment to the UTI it did not command any significance, whatsoever. Thus, in spite of tremendous increase in the volume of investment of UTI during the period, investment in corporate securities, as percentage of total investment, declined considerably.

Table 1: Investment of the Unit Trust of India
(Figures not in brackets are in Rs. crore)

Type of Investment	30 June, 1972	30 June, 1980	30 June, 1990	30 June, 1992
1. Equity Shares	44.63 (37.4)	126.79 (27.2)	3494.6 (19.5)	834.0 (27.3)
2. Preference Shares	13.90 (11.7)	15.85 (3.4)	14.3 (0.2)	21.9 (0.1)
3. Debentures	41.89 (35.1)	112.30 (24.0)	3767.8 (21.3)	7586.0 (24.8)
4. Adv. Deposit against investment commitments	7.54 (6.3)	62.17 (13.3)	48.1 (0.3)	175.4 (0.6)
5. Special & fixed deposits	-	38.77 (8.3)	889.7 (5.0)	2418.3 (7.9)
6. Unsecured short-term deposits	-	-	283.1 (1.6)	752.4 (2.5)
7. Bridging finance	-	1.22 (0.3)	18.7 (0.1)	121.0 (0.4)
8. Application money for Shares & Deb.	3.09 (2.6)	0.63 (0.1)	12.9 (0.1)	12.5 (-)
9. Advance for deposits	0.03 (-)	0.08 (-)	0.1 (-)	-
10. Term loans	-	-	1230.0 (7.0)	2605.2 (8.5)
11. Deposits and other investments with Scheduled Banks	7.93 (6.7)	108.44 (23.2)	4572.3 (25.9)	3346.1 (11.0)
12. Government securities	0.25 (0.2)	0.79 (0.2)	3319.3 (18.8)	5172.0 (16.9)
Total Investment:	**119.26 (100.0)**	**467.04 (100.0)**	**17650.9 (100.0)**	**30550.8 (100.0)**

Note: Figures in brackets indicate percentage to total investment.
Source: UTI, *Annual Report*(Different years)and IDBI, *Report on Development Banking in India, 1991-92.*

However, the decline in the total share of private corporate sector in the financial support of the UTI was, to a certain extent, made good by extending term loans, unsecured short-term deposits and special deposits. It should be mentioned here that since April 1986, UTI had been authorised to grant term loans to the corporate sector.[2].Thus, in 1990, term loans to the corporate sector accounted for 7.0 per cent of the total investment of UTI and in 1992 it further increased to 8.5 per cent.

The investible fund of UTI during the period from 1965 to 1992 increased from Rs. 24.7 crore to Rs. 30550.8 crore. The share of corporate sector during the period increased from Rs. 20.8 crore to Rs. 15947.9 crore.

III. INVESTMENT IN CORPORATE SECURITIES

From Table 2, it is observed that from the beginning of its operation in 1965, corporate securities always constituted the principal avenue of investment of the UTI. In 1968, corporate securities accounted for as much as 95.3 per cent of total investment of fund by UTI. In course of time, however, the importance of corporate securities in the portfolio of investment of UTI declined and the all-time low was reached in 1991 when it accounted for only 40.6 per cent of the total investment. Again, among the corporate securities, other thanin the nineteen seventies, debentures always attracted greater amount of investible fund than the equity shares. Higher investment in equity shares in the nineteenseventies was attributable to the sudden spurt in the issue of shares following the dilution of foreign equity holding under the provisions of Foreign Exchange Regulation Act, 1973 and the policy of extending the control of the State over the private sector through the extension of institutional finance, which acquired a meaningful dimension in the nineteenseventies in the context of the recommendations of Dutt Committee on Industrial Licensing. The UTI, as an important public sector non-bank financial intermediary, acquired sizeable equity shares in a fairly large number of companies during the period.

"Its intervention in corporate control is an integral part of the overall policy of the Government of India of employing equity holdings of all public financial institutions for enlarging the role of state in management and control of the corporate industry." [3]

Table 2: Investment of the Unit Trust of India in corporate securities: 1965-1992

(Rs. crore)

As on 30th June	Equity Shares	Preference Shares	Debentures	Total	Total Investible Funds
1965	9.6 (38.7)	1.9 (7.8)	9.3 (37.8)	20.8 (84.2)	24.7
1968	18.69 (38.4)	7.75 (15.8)	19.92 (40.9)	46.36 (95.3)	48.7
1971	39.66 (37.7)	13.08 (12.4)	40.89 (38.9)	93.63 (89.1)	105.14
1976	91.55 (49.6)	16.21 (8.8)	55.80 (30.2)	163.56 (88.6)	184.57
1981	129.73 (24.9)	15.70 (3.0)	138.12 (26.4)	283.55 (54.2)	523.22
1986	370.66 (11.5)	10.41 (0.3)	1314.63 (40.9)	1695.70 (52.7)	3218.34
1991	4234.0 (19.8)	19.1 (0.1)	4430.9 (20.7)	8684.0 (40.6)	21376.5
1992	8340.0 (27.3)	21.9 (0.1)	7586.0 (24.8)	15947.9 (52.2)	30550.8

Note: Figures in brackets indicate percentage to total investible funds.
Source: UTI, *Annual Report* (Different years)and IDBI, *Report on Development Banking in India*, *1991-92.*

Equity capital is risk capital and development of corporate capital market calls for investment in equity shares. But, it appears that UTI considered its suppliers of fund, the unit holders, the most conservative section of the society and left the equity market mainly to those who are bold enough to take the risk of investment themselves without depending upon the intermediaries.

IV. CONCLUSION

The data and the facts observed, as above, lead us to the conclusion that Unit Trust of India played a significant role in the pre-liberalisation era in the industrial finance scenario in India. It is further concluded that the UTI was a trustee of funds reposed in it by that section of the society who could not take decision for investment themselves. For this section of the society, the UTI ensured reasonable return with security of investment. Overwhelmingly major portion of the investment of the UTI found way into the private corporate sector. Its investment strategy contributed in building and maintaining a balanced portfolio comprising both variable dividend and fixed income yielding securities.

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