

## INSTITUTIONAL UNDERWRITING IN INDIA

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ALTHOUGH underwriting of capital issues in India started as early as 1912<sup>1</sup> but before 1955 cases of underwriting occurred only sporadically. Most of the underwriting in early days pertained to issues of companies floated by the well-known managing agents and probably little difference would have occurred had these issues not been underwritten. There was no institution which made a regular business of underwriting. Underwriting was done on an *ad hoc* basis by different institutions as a side business to their main functions. The underwriters were mainly reputed financiers and share-brokers. Their activities in this sphere, however, were more pronounced during periods of stock market boom than at other times. Apart from these, other institutions which occasionally stepped into underwriting operations included banks, investment trusts, insurance companies and Managing Agents. A detailed study<sup>2</sup> of 40 issues underwritten during 1946 reveals that nearly half the issues were underwritten by share-brokers, five by banks, four by investment trusts, three by Managing Agents, two by Vendors and four jointly by these different agencies; thus the stock-brokers constituted the most important agency.

It is against this background that the Shroff Committee found a "major lacuna in the structure of the capital market in India."<sup>3</sup> Since then, the structure of the Indian Capital Market has been greatly strengthened by the setting up of a large number of specialized finance/development corporations. The purpose of this paper is to assess their role in the underwriting of capital issues in India since the beginning of the Second Five Year Plan and indicate, in the light of this analysis, how this can be made more effective.

Although the Industrial Finance Corporation (IFC) was the first institution to be set-up as early as 1948, the Industrial Credit and

<sup>1</sup> M/s Batliwala and Karani, a firm of share-brokers of Bombay underwrote the first issue made by the Central India Spinning and Weaving Co. Ltd.

<sup>2</sup> Cirvante, V.R., *The Indian Capital Market*, Bombay, 1956, pp. 80-81.

<sup>3</sup> Report of the Committee on Finance for the Private Sector in India, Bombay, 1954, p. 94.