ON THE BASIC NATURE OF THE INVESTMENT COMPANY IN INDIA

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INTRODUCTION

THIS article aims at proving that Indian zaibatsu-like groups of companies are controlled by the leading family members of the respective groups *through holding companies.*

The "holding company" is defined as a company that is wholly or almost wholly owned by the leading individual in a business group (zaibatsu, to use the Japanese term) or by his family, holding at the same time the most substantial part of the shares of the group companies and having the apex position among them. It takes the key position in the pyramidal structure of the zaibatsu.

It is a well-known fact that each of the Japanese zaibatsu in the period before the end of the Second World War used to have an apex company, known as the holding company. It is reported that similar holding companies at present play a key role as the apex companies in other Asian countries.[1] It could be presumed that in the case of India, also, holding companies of some sort are playing a vital role in the ownership and control of the company groups, which in India sometimes consist of more than a hundred or even more than two hundred companies. Studies on Indian zaibatsu, however, have so far rarely referred to such holding companies.

There are understandable reasons why due attention to the holding companies at the apex of company groups has not been paid in the case of India. Firstly, holding companies as such typically do not appear on the surface to exist there. No zaibatsu openly claims to have a holding company system except for the Amalgamation Group of Madras. Even in the case of the Tata Group, in which Tata Sons Pvt. Ltd. and Investment Corporation of India Ltd. appear to be playing the role of holding companies, these companies are claimed and also considered by the general public to be mere "investment companies." Secondly, as is well known, the managing agency system had been playing a vital role in the control of large companies by members of single families. And the man-

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[1] For the case of the Philippine zaibatsu, see [3, Chap. 3]. The holding company as such is prohibited today in Japan.

aging agents or the managing agency companies were rightly understood to be playing the role of the apex companies of the respective groups. But after Independence, the government of India began to apply strict regulations to this system and finally abolished it in April 1970. Thus, today it might appear that there are no longer any apex bodies which control the company groups.

Of course one might try to insist that the managing agency system still survives in the forms of sole sales agencies, consulting companies, the practice of appointing managing directors in formerly agent-managed companies from among the respective former agents, etc., and that such managerial arrangements are so predominant as to retain the same controlling power. But it is relevant here to raise a more basic question: what is the source of the capacity for the masters of the zaibatsu to make such arrangements, or, in other words, why are the arrangements in favor of the masters not challenged by others, particularly by other shareholders? The answer is simple: The masters of the groups retain, directly and indirectly, sufficient amounts of shares with voting rights in each of the companies under their control. We will seek to demonstrate that the so-called investment companies in India are in fact playing a role similar to that of holding companies.

I. ON DR. HAZARI'S STUDY

Dr. R. K. Hazari's very important study on the ownership of the shares of the companies of twenty Indian zaibatsu gives us a clue to the problem [2]. As against the common belief that the "managing agency" was the most crucial organization through which the zaibatsu setup was built, Dr. Hazari pointed out that the managing agency system did not cover all the companies of the groups, and that inter-corporate investments were the most important and basic method through which the authority of the groups retained the controlling power over them.[2] Particularly relevant are the following findings by Dr. Hazari regarding the ownership of the "controlling interests."[3]

(1) The controlling interests as a whole held, as of 1958, 85.3 per cent of the total of issued ordinary shares of the finance companies, while the corresponding figure in the case of the industrial companies was 39.4 per cent, that for banking and insurance companies 37.0 per cent, and that for service companies 70.9 per cent. Thus it was established that the finance companies, which consisted of investment companies and managing agents, were most closely owned by the controlling interests.

[2] In spite of the findings by Hazari, many subsequent studies on zaibatsu in India have been based on the criteria of the "managing agency" in attempting to determine whether a given company belongs to one or another group. For example, see Ghosh [1, pp. M. 57–63]. This scholar and the scholar of the similar name, Mr. Aurobindo Ghose, are different persons.

[3] The "controlling interests" consists, in Hazari's definition, of those individuals who are the masters of the zaibatsu, the trusts, and various companies such as finance, industrial, service, and banking firms that are tied by close bonds of ownership to the zaibatsu. The shares held by these controlling interests are called "controlling blocks."

(2) The percentage distribution of the controlling blocks owned by each of the controlling interests was as follows. In the case of the industrial companies, 47.6 per cent of the controlling blocks were held by finance companies, while 26.1 per cent were held by individuals and by trusts, and 21.3 per cent by industrial companies. In the case of the finance companies, also, the individuals' and trusts' percentage share was less than the shares for the corporate forms of the controlling interests. Namely, individuals and trusts held 42.5 per cent while the rest were held by corporate forms, among which "finance companies" held the dominant position (49.4 per cent). In the case of the banking and insurance companies, the individuals and trusts, finance companies, and industrial companies held 28.8 per cent, 28.4 per cent, and 23.3 per cent, respectively. In the case of the service companies, their shares were 32.7 per cent, 45.2 per cent, and 17.9 per cent respectively [2, pp. 318–19].

These figures may be reinterpreted for the purpose of this article. We should pay special attention to the peculiar position of the finance companies which Dr. Hazari indicates. The fact that the individual controlling interests, which in fact correspond to the real masters of the zaibatsu, are especially dominant in the case of the finance companies may be interpreted as showing that the finance companies tend to be very closely linked with the power of the zaibatsu. This fact as well as the fact that the percentage figure of the controlling block in the total shares is the highest in the case of the finance companies and the fact that the companies other than the finance companies are owned to a great extent by the latter seem to suggest that the finance companies may be presumed to be playing the role of holding companies.

The datum indicating that the finance companies appeared to be owned predominantly by finance companies may at first sight be somewhat puzzling. This should not be interpreted in terms of "control" but in terms of "mutual alliance" amongst sister companies.[4]

While the finance companies consists of managing agents and investment companies, the former is much less important than the latter as shareholders. The greatest part of the shares held by the finance companies corresponds, as a matter of fact, to those held by the so-called investment companies [2, pp. 353–56]. Hence, our hypothesis can be proved only through a more detailed analysis of the "investment companies."

II. THE BASIC NATURE OF THE INVESTMENT COMPANIES

An investment company is, properly defined, a company that collects idle funds from among the wide public, invests them in what it considers to be the most remunerative securities—disposing of the less remunerative ones from time to time—and earns not only dividends but also capital gains. But the so-called investment companies in India are of a different character, as will be seen from the following analyses.

[4] For a somewhat more detailed analysis of this alliance aspect, see [6, pp. 51–56].

(1) Quantitative Position of the "Investment Companies"

As of 1960–61 there were 542 investment companies with total paid-up capital of Rs. 400 million [7, p. 1217]. Their shares within the total corporate private sector were 2.2 per cent in terms of number of companies and 3 per cent in terms of the paid-up capital.

(2) Resources Pattern

According to a 1969 study by Dr. R. M. Srivastava, nearly two-thirds of the funds were owned funds and two-thirds of the remainder represented long-term borrowing from managing agents and the directors of the respective companies [10, p. 970]. Thus they were not primarily collecting money from the wide public.

(3) Utilization of Resources

According to a study by Dr. M. Y. Khan, about 90 per cent of the funds invested in securities were for ordinary shares of companies [7, p. 1221]. This could be interpreted as having one of the following two alternative meanings: (a) the "investment companies" are very actively engaged in securities' transaction because the ordinary share is that kind of share which gives the greatest chance for quick capital gains; (b) the "investment companies" use their funds largely for the purpose of controlling the companies whose shares they hold, for ordinary shares are in general the only shares that carry voting rights.

A perusal of the annual reports of the various investment companies leads us to the conclusion that they transact share dealings only very infrequently. This point will be discussed later.

Table I summarizes the major items of income and expenditure of twenty-seven important investment companies whose shares are quoted in the stock exchanges. It does not show that they, except for one company, are active in share dealings. On the other hand, income from dividends and interests is very conspicuous.

From the above brief survey over the workings of the investment companies, we may conclude that they do not function in general as investment companies properly speaking, and that there is every possibility that they function as holding companies.

Let us confine ourselves now to investment companies belonging to zaibatsu-like business groups.

(4) Relative Weight of the Zaibatsu in Investment Companies

A study by Dr. Srivastava [9, p. 839] shows that out of his 81 sample investment companies, all of which are public limited companies, no less than 71 companies belonged to one or another of the 75 zaibatsu which are listed in the *Report of the Monopolies Inquiry Commission* [5, pp. 373–414]. According to Dr. Khan, there were 56 "genuine investment companies" in India, which are defined as those whose income is earned mostly, i.e., to the extent of 75 per cent or more, from the investment in securities. Forty-three companies out of them belonged to 14 zaibatsu, whose shares among the 56 companies in terms of paid-up capital and investments were 88 per cent and 92 per cent, respectively, as of 1964–65.[5]

In particular, the investment companies of the largest zaibatsu enjoy the lion's share. Out of Dr. Khan's 56 "genuine investment companies," 34 belonged to the following 6 zaibatsu: the Birlas, Tatas, Bangurs, Dalmia Sahu Jains, Bird Heilgers, and Andrew Yules. Their combined weight was 77 per cent among the 56 companies in terms of paid-up capital. It should be remembered that the 6 topmost zaibatsu listed in the *Report of the Monopolies Inquiry Commission,* i.e., the Tatas, Birlas, Martin Burns, Bangurs, ACC, and Thapars, held no more than 18 per cent of the total paid-up capital of the corporate private sector, excepting banking [5, pp. 119–20, 122].

No authentic data relating to the private limited investment companies are available in this connection. However, suffice it to point out that the huge investment companies in private limited company form such as the Tata Sons Pvt. Ltd. and Mafaltal Gagalbhai Pvt. Ltd. are owned by the large zaibatsu.

(5) Extent of Investments within the Same Group of Companies

The investment companies belonging to zaibatsu may be noted to invest most of their funds in shares of those companies belonging to their own groups. According to the Dr. Khan's study [7, p. 1222], the above-mentioned "genuine investment companies" belonging to 14 zaibatsu put 67 per cent of their total investments into their own groups. This percentage appears somewhat low, and is influenced by the exceptionally low percentage of only 30 per cent shown for the Tatas' investment companies. The remaining investment companies are seen to put 83 per cent of their investments into their own groups. If the Tata Sons Pvt. Ltd. were included in the study, the picture would have been different, as will be discussed later.

According to the Dr. Srivastava's study [9, p. 839], the 71 investment companies in his sample which belonged to zaibatsu put 91.3 per cent of their total investments into their own groups. Since corresponding figure for the year 1955–56 had been 88.1 per cent, an upward trend is indicated.

[5] See [7, p. 1219]. The following three comments on these figures might be necessary. (1) He writes that he classified the investment companies into groups in accordance with the group-wise company lists prepared by Hazari [2] and the Monopolies Inquiry Commission [5]. But if one checks his classification, it becomes clear that he failed to list several investment companies belonging to the Goenkas, Jaipurias, and R. K. Agalwalas, while very small groups such as the Advanis, Devkaran Nanjees, and B. R. Group were erroneously taken as belonging to the 75 groups. When these mistakes are corrected, the percentage figures are 93 per cent in terms of paid-up capital and 94 per cent in terms of amount of investments. (2) He included the Shapoorjees' investment company in the Tatas group. One may claim that this is also a mistake. But for the reasons mentioned later, his "mistake" in this regard is not a reason for criticism. (3) The figures for the Birlas' investment companies are lower than what they actually are. This might be because some important investment companies of the Birlas were missed, the reasons not being mentioned. In spite of these minor errors, avoidable or unavoidable, the figures shown by Dr. Khan are, needless to say, of the utmost value.

TABLE

INCOME AND EXPENDITURE OF IMPORTANT IN-

Names of Companies in Abbreviation	Year of Data	Income				
		Dividends and Interest	Profit on Sale or Redemption of Investment	Underwriting Commission and Brokerage	Agency Commission	Service Charges
1. IFC	1973	273	—	—	—	—
2. ICI	1974	6,219	—	19	—	387
3. ITI	1973	143	—	—	—	—
4. MIL	1974	134	1	—	—	—
5. NIA	1974	505	20	—	—	—
6. NCI	1974	86	7	—	—	—
7. PIC	1974	15,021	—	—	—	306
8. PAI	1973	24	—	—	—	—
9. SSD	1974	349	—	76	—	—
10. UCL	1973	312	54	—	—	—
11. AIA	1973	290	—	—	57	—
12. CIC	1972	761	—	3	—	—
13. CRI	1972	948	—	—	—	—
14. EIL	1972	941	116	—	—	—
15. GIC	1972	177	—	—	53	—
16. GIT	1973	24	—	—	—	—
17. GIL	1973	126	—	—	—	—
18. GPI	1972	185	—	—	—	—
19. GJI	1973	171	—	—	—	—
20. IPI	1972	211	6	—	—	—
21. IIT	1972	1,471	460	6	—	160
22. KTC	1972	410	—	—	116	—
23. NII	1970	420	—	1	—	—
24. OIC	1972	135	82	—	—	—
25. OII	1972	697	34	4	—	—
26. PIL	1969	104	0	—	—	—
27. SCC	1970	120	8	—	—	102
Total	—	30,257	788	109	226	955
Total (%)	—	90.3	2.4	0.3	0.7	2.9

Sources: *Stock Exchange Official Directory, Weekly Replacement Service* (Bombay Stock Exchange), Vol. 8, No. 11 (March 18, 1974) and Vol. 8, No. 49 (December 16, 1974) to be filed in Vol. 4, Sec. 14 (ii) and (iii) of the directory.

Notes: 1. Out of the companies included in the section entitled "Investment & Finance Company" of the above-mentioned sources, only those companies that satisfy the following conditions were included in this table: (a) Income from dividends and interest, profit on sale or redemption of investments, underwriting commission and brokerage exceeds 50 per cent of the total income of the investment company. (b) The company belongs to the private sector.

2. The sum of figures do not always exactly add up to the "totals" due to rounding of the figures. "0" means a figure below 500 while "—" means nil.

3. The full names of the companies are as follow: 1. IFC—The Investment & Finance Co. Ltd. 2. ICI—The Investment Corp. of India Ltd. 3. ITI—

I
VESTMENT COMPANIES WITH QUOTED SHARES (Rs. 1,000)

		Expenditure				
Other	Total	Interest on Overdrafts and Loans	Debenture Interest	Loss on Sale or Redemption of Invest-ments	Total	Gross Profit
—	273	11	—	62	73	200
—	6,624	621	615	—	1,236	5,388
67	210	21	—	—	21	189
—	136	1	—	—	1	135
—	525	—	—	38	38	486
—	93	2	—	0	3	91
497	15,825	—	—	—	—	15,825
—	24	—	—	—	—	24
42	467	74	—	18	92	375
149	515	82	105	—	187	328
—	348	43	—	1,003	1,046	-699
43	806	49	—	192	240	566
—	948	21	—	—	21	927
—	1,057	35	—	—	35	1,022
—	229	—	—	149	149	81
—	24	1	—	60	60	-37
—	126	45	—	26	71	55
10	195	—	—	111	111	84
49	220	167	—	7	174	46
—	217	5	—	—	5	212
—	2,096	12	—	—	12	2,084
236	762	46	—	—	46	716
—	421	116	—	123	240	181
75	292	0	—	—	0	292
—	735	20	—	100	120	615
—	104	51	—	6	58	46
2	231	0	—	—	0	231
1,170	33,503	1,423	720	1,895	4,038	29,463
3.5	100.0	35.2	17.8	46.9	100.0	—

Investment Trust of India Ltd. 4. MIL—Mercury Investments Ltd. 5. NIA—Nenmeny Investments & Agencies Ltd. 6. NCI—New Commercial Investment & Trading Co. Ltd. 7. PIC—Pilani Investment Corp. Ltd. 8. PAI—The Poonmudi Agencies & Investments Ltd. 9. SSD—Swastik Safe Deposit & Investments Ltd. 10. UCL—Union Co. Ltd. 11. AIA—Anniversary Investments & Agencies Ltd. 12. CIC—Calcutta Investment Co. Ltd. 13. CRI—Clive Row Investment Holding Co. Ltd. 14. EIL—Eastern Investments Ltd. 15. GIC—Garuda Investments Co. Ltd. 16. GIT—The General Investment & Trust Co. Ltd. 17. GIL—Gielle Investments Ltd. 18. GPI—The Great Pyramid Investment Co. Ltd. 19. GJI—Gujarat Investment Trust Ltd. 20. IPI—The Industrial & Prudential Investment Co. Ltd. 21. IIT—Industrial Investment Trust Ltd. 22. KTC—The Kishore Trading Co. Ltd. 23. NII—New India Investment Corp. Ltd. 24. OIC—The Ondal Investments Co. Ltd. 25. OII—Oriental Industrial Investment Corp. Ltd. 26. PIL—Pearl Investment Co. Ltd. 27. SCC—Sendra Coal Co. Ltd.

III. RECENT TRENDS: A CASE STUDY

A. *Problems*

Dr. Srivastava, in a later essay, gives an interesting observation as follows:

> ...these institutions [i.e., Indian investment companies] have been increasingly relied upon [by] the big business houses during the recent years (when the government took firm steps to check concentration of economic power in few hands) with a view of retaining and strengthening their hold on Indian industries....As it is, they are hardly different from holding companies. [11, p. 64]

We shall through a case study try to prove that the investment companies have been functioning more and more as holding companies in recent times. A major focus of attention in this study is on the investment patterns of the Tatas' investment companies which were shown by Dr. Khan to be rather exceptional ones, as referred to before.

No one has studied the ownership of the investment companies since Dr. Hazari, who made it clear that they were, as of 1951 and 1958, tightly and directly owned by the masters of the groups or at least indirectly through other investment companies.[6] The corporate private sector has since then developed greatly in India in depth and width, resulting in a more widespread ownership of capital. Even the investment companies provide something of a case in point, as is certainly recognized when one compares lists of the shareholders of any investment company in the 1950s with lists of recent times.[7] But if the investment companies are basically functioning as holding companies, the fundamental patterns of shareholding may be expected to have been little changed.

B. *Method*

Along with the Tatas' investment companies, those of other zaibatsu, such as the Mafatlals, Mahindras, Walchands, and Shapoorjees, are to be taken up for comparison. They are very important zaibatsu whose headquarters are in Bombay like the Tatas. Among them the medium-sized Mahindras have no investment company as such, but the Mahindras & Mahindras Ltd., the Mahindras' core and a large manufacturing company, engages in the investment business and so is included in the present study. Thus the following companies are studied.
The Tatas:

1. Tata & Sons Pvt. Ltd. (to be abbreviated as Tata Sons)
2. Investment Corporation of India Ltd. (ICI)
3. Sasson J. David Ltd. (SJD)
4. Forbes Forbes Campbell & Co., Ltd. (FFC)

[6] See, [2]. Chapters on individual groups have detailed information regarding the group-wise shareholding pattern of the investment companies. But the shareholding pattern of each of the companies is not shown except for some important companies.

[7] The list of shareholders, and other documents such as annual reports of any company are open to the public at the Offices of the Registrars of Companies, Government of India.

The Mafatlals:

1. Mafatlal Gagalbhai Pvt. Ltd. (MG)
2. M. G. Investment & Industrial Corporation Ltd. (MGI)

The Mahindras:

Mahindra & Mahindra Ltd. (M&M)

The Walchands:

Walchands & Co. Pvt. Ltd. (W&C)

The Shapoorjees:

1. Sterling Investment Corporation Ltd. (SIC)
2. F. E. Dinshaw Ltd. (FED)

All of these companies are registered at the Bombay Office of the Registrar of Companies, Government of India. The annual reports of the respective companies are the sources for the basic data on their investment patterns, and the lists of shareholders for the patterns of the shareholdings, both of the materials being available at the Bombay Office.

For the study of the patterns of shareholdings, data for around April 1971 were taken, for they were the latest figures that the present writer could obtain when he had the chance of staying for a short while in Bombay.

For the study of the changing patterns of investments by the investment companies, data for April 1971 (or around that date) and for April 1968 were taken.

The government of India totally abolished the managing agency system in April 1970. The abolition of the system meant a loss for the masters of the zaibatsu in the sense that they lost a safe managerial control over the managed companies. In order to avoid sudden takeover by an unknown party, they might well be expected to have attempted to consolidate the ownership of the managed companies, particularly when their hold in terms of ownership over the managed companies was weak, as was the case with many of the Tatas' companies. Data for the year 1968 were taken up in order to study noteworthy changes, for this was the year when the total abolition of the managing agency system was proposed.

The securities held by the investment companies are to be divided into two types: those that are of companies of the same group; and those that are not. The group-wise list of companies given by so-called *ILPIC Report* [4, Appendices Vol. II, pp. 1–92] was used for this purpose with slight modifications in view of later developments.

For mere technical reasons, data on the Tata Sons for the later year were not obtainable. Hence some parts of the present study exclude the Tata Sons, and insofar as the latter are excluded, the study conforms to the research done by Dr. Khan or Dr. Srivastava, who excluded private limited investment companies.

C. *Results*

1. *Pattern of ownership of the investment companies*

Table II summarizes the number of ordinary shares issued, their face values, number of the shareholders, and patterns of ownership of the investment companies. Pattern A is one in which most of the issued ordinary shares are held by the masters and/or the trusts of the zaibatsu. Pattern B is one in which most of the shares are held by other investment companies. Pattern C is the one which

TABLE II
PATTERNS OF SHAREHOLDING IN INVESTMENT COMPANIES: CASE OF FIVE ZAIBATSU (1971)

Investment Companies	Number of Issued Shares	Face Value per Share (in Rs.)	Size (and Number) of Shareholders	Pattern of Shareholding
The Tatas				
Tata Sons	18,711	1,000	small (21)	A
ICI	187,243	100	medium (about 1,500)	C
SJD	10,000	1,000	small (6)	B
FFC	566,640	10	medium	B
The Mafatlals				
MG	202,100	100	small (13)	A
MGI	10,500	100	medium (over 500)	B
The Mahindras				
M&M	3,168,000	10	huge (about 7,000)	D
The Walchands				
W&C	3,000	1,000	small	A
The Shapoorjees				
SIC	7,600	1,000	small (8)	A
FED	6,444	750–1,000	small (15)	B

Notes: 1. Only ordinary shares were considered.
2. The figures of the Tata Sons relate to the end of 1967.
3. Size and number of the shareholders relate to the number of the entries in the shareholders' list. That is, when one holds shares in one's own name and other shares in common ownership with other person or persons, each ownership is counted separately.

is often observed in the case of the medium-sized public limited companies. Pattern D is typical of widely owned large-scale manufacturing companies.

The table shows that patterns A and B predominate. In fact, pattern B is almost the same as A because the shareholders in the case of pattern B are investment companies, which are characterized by pattern A. That is to say, firms of pattern B are indirectly but almost exclusively owned by the zaibatsu masters in the final analysis. One can conclude that the pattern of ownership of these companies has not changed basically from the time of the study by Dr. Hazari, and that the pattern of the shareholdings is typical of the holding company.

However, there *are* some companies which take the patterns D and C. The former is taken by the M&M, the latter by the ICI, as shown in the table. What are the implications?

In the case of the M&M, there are twenty-one persons with the family name Mahindra, all of whom do not necessarily belong to the master's family, and the total number of shares held by them amounts to only 130,000, which is only 4 per cent of the total shares issued. Excepting the Mahindras, there are only twelve shareholders who own more than 5,000 shares. Of these, ten are banks, insurance companies, and investment trusts, all belonging to the public sector. Their combined shares are 1,120,000, a third of the total shares. The remaining two shareholders are individuals and neither holds more than 8,000 shares. Such a pattern of ownership is typical of the large manufacturing and transport companies of India.[8]

It should be remembered that the M&M is a large manufacturing company, and this is the explanation as to why the company conforms to pattern D. But it should be added that it engages in investment activities of a type characteristic of the holding company, as will be shown later. It seems that small zaibatsu like the Mahindras use their core companies to serve also as holding companies.

As against the M&M, the shareholding pattern of the ICI of the Tatas is closer to pattern B though it at first may appear to be of pattern C. Though there are fairly many shareholders, they are very small shareholders. Those who own 200 shares or more number only eighty, which are only 5 per cent of the total number of the shareholders. But they own no less than 83 per cent of the total amount of the shares. A third of these shares are owned by ten public sector financial institutions. The remaining seventy are private sector shareholders.

These private sector shareholders should be regarded as most important because the public sector shareholders have been sleeping shareholders in the sense that they have cast no vote against the Tatas, the most prestigeous enterprise. It is noted that about two-thirds of the shares held by the private sector shareholders are held by two investment companies of the Tatas including Tata Sons, which own the predominant amount. Therefore we can conclude that the pattern of shareholding of the ICI is essentially pattern B.

From the above analyses, we conclude that the shareholding pattern of the so-called investment companies studied is virtually the same as that of holding companies.

In passing, it might not be out of context to point out a tendency, so to speak, of "community ties" among the shareholdings, noticeable when we look into the shareholders' lists. As is often pointed out, there is a tendency for the important posts to be given to men of the same community as the masters' own. This is also seen among the shareholders of those companies which are taken up by the present study. This is the case even with companies of patterns C and D not to speak of those of patterns A and B.

In the case of ICI, which takes pattern C, the Parsees, i.e., members of the Tatas' "community," seem, judging from their names, to amount to twenty-nine persons in addition to four Tatas among the sixty-two individual shareholders that own 200 or more shares each. In the case of M&M, which takes pattern D, the Punjabis, i.e., the Mahindras' community, appear more often in the list than in those of other large concerns like the Hindustan Motors, the Birlas' largest concern. In the case of the MGI of the Mafatlals, who are Gujaratis, very predominant are those shareholders whose addresses are Bombay or Ahmedabad, the centers of the Mafatlals' activities, and whose names appear to be Gujarati. On the contrary, there appears to be only one Parsee among the 500 shareholders of the company. This tendency is of course observed in the case of the Birlas' investment companies, in which the Marwaris are predominant shareholders.

[8] For the ownership of fifteen industrial companies belonging to the Birlas, see [6, p. 55].

TABLE III

AN ILLUSTRATIVE PORTION OF THE LIST OF THE INVESTMENTS BY ICI IN QUOTED SHARES (1968 AND 1971)

Company Issuing Quoted Share (Anonyms)	As of 1968			As of 1971		
	Face Value per Share (Rs.)	Number of the Share that the ICI Holds	Total Book Value of the Shares (Rs.)	Face Value per Share (Rs.)	Number of the Shares that the ICI Holds	Total Book Value of the Shares (Rs.)
A & Co. Ltd.	100	1,000	100,000	100	2,000	200,000
B & Co. Ltd.	100	4,871	582,460	100	6,819	777,261
C & Co. Ltd.	125	107	4,748	—	—	—
D & Co. Ltd.	10	1,500	41,918	—	—	—
E & Co. Ltd.	100	2,200	281,457	100	2,200	281,457
F & Co. Ltd.	100	3,522	484,262	100	3,700	462,463
G & Co. Ltd.	100	1,000	100,000	100	1,000	100,000
H & Co. Ltd.	10	10,000	110,929	10	9,000	99,810
I & Co. Ltd.	100	10,700	1,070,000	10	10,200	1,020,000
J & Co. Ltd.	100	2,540	283,592	100	3,258	368,505

Source: *Annual Reports of the ICI.*

Note: This table is a reproduction of the first portion of the long list showing the details of the investment made by ICI in the quoted shares of various companies. The reason why the names of the company here remain anonymous is that the reproduction in full details of any data taken from the files at the Offices of Registrars of Companies is not legally permitted.

2. *Composition of investments by the investment companies*

The other part of our study relates to the composition of the investments made by the investment companies. The source of the data used here are the lists of securities held by the investment companies. To begin with, we find two simple facts by looking at these lists. Firstly, investments in ordinary shares are conspicuous in all the companies taken up in the present study. In case of the Tata Sons, 99.9 per cent of the total amount of investments in all types of securities was in ordinary shares at the end of 1967. In case of the other nine companies, the corresponding percentages are between 78 per cent and 100 per cent.

Secondly, the details of the investments hardly change from year to year. Even in the case of ICI, which is engaged in the most active investment activities among them, composition of the investments showed more continuity than change, as will be seen from Table III.

Table IV shows the summarized data on investments. The columns J and K show the relative weight, within total investments, of investments in one's own group of companies. During the few years' interval studied, all of the Tatas' investment companies increased their relative weights in this regard, the average for the three companies rising from 40 per cent to 51 per cent. The columns B, C, F, and G also show a relevant trend. While the total number of investments fell from 453 to 404, the number of investments into Tatas' own group companies rose from 91 to 97. This implies that the companies divested themselves of non-group investments and that they tended to consolidate the ownership of shares within their own groups.

The above-mentioned change in relative weight from 40 per cent as of 1968 to 51 per cent as of 1971 can be taken as a steady trend when we consider the figure of 30 per cent as of 1964–65 given in Dr. Khan's study (quoted earlier) on the comparable public limited investment companies of the Tatas.

As against the Tatas, the three zaibatsu of the Mafatlals, Mahindras, and Walchands seem to have maintained at all times a very high weight of group investments. No further explanation is necessary in this respect except that the respective weights were so high in 1968 already that there was little or no room to raise them further.

A unique trend is seen in the case of the Shapoorjees where the relative weight of in-group investment declined steeply from 78 per cent to 54 per cent. But there is a specific reason behind it. A huge company W. H. Brady & Co., Ltd. and several companies under its control were taken over by the Morarkas at some time during the period of the present study. Therefore whatever investments in W. H. Brady & Co., Ltd. and its sister concerns that remained at the end of the period were calculated in the above statistics as non-group investments. At the same time, the Shapoorjees' investment companies increased their shareholdings in two of the Tatas' important companies by Rs. 3.5 million. These shareholdings are also calculated in the above statistics as non-group investments. However, it should be noted that the Shapoorjees are a sattellite of the Tatas in view of the close business connections between them and the huge shareholding by the former of the latter's most important company, Tata Sons.[9]

This fact in turn leads us to the necessity of viewing the above figures of the relative weights of the Tatas' group investments as indicating less than the real position.

The Tata Sons, on which data for 1971 were not obtainable as mentioned earlier, had huge investments, namely, a little over the total amount of the investments of the other three investment companies. Out of its ninety-one investments at the end of 1967, fifty-five were in-group investments. Their weight was no less than 88 per cent in terms of amount. If this is taken into consideration, the average weight of the in-group investments by all four of the investments companies of the Tatas is 64.6 per cent instead of the 40 per cent as shown in Table IV. Supposing that the weight of the in-group investments by Tata Sons did not increase (an unlikely possibility), the weight of the in-group investments as of 1971 is worked out at 69.9 per cent.

Thus, it became clear that the Tatas' investment companies invest their funds mostly in their own group companies and that they did so increasingly during the period of the present study. As a whole they ceased to be an investment

[9] In this respect Dr. Ajit Roy's argument [8] that the Shapoorjees and the Wadias have close connection is interesting. As a matter of fact the former had during the early 1970s nearly 40 per cent of the shares of the Nowrosji Wadia & Sons Pvt. Ltd., which is the Wadias' "investment company."

TABLE

RATIO OF IN-GROUP TO TOTAL INVESTMENTS:

Names of Investment Companies (A)	As of around April 1968			
	Total Number of Investments (B)	Number of In-Group Investments (C)	Total Amount of Investments (Rs. 1,000) (D)	Amount of In-Group Investments (Rs. 1,000) (E)
The Tatas				
ICI	328	52	54,226	19,872
SJD	113	32	16,642	8,471
FFC	12	7	1,201	776
Total	453	91	72,069	29,119
The Mafatlals				
MG	73	19	54,501	49,692
MGI	3	2	1,150	1,100
Total	76	21	55,651	50,792
The Mahindras				
M&M	23	16	21,185	20,248
The Walchands				
W&C	27	16	11,693	10,184
The Shapoorjees				
SIC	36	12	9,154	7,385
FED	64	8	7,742	5,754
Total	100	20	16,896	13,139
Grand total	679	164	177,494	123,482
(Same excluding the Shapoorjees)	579	144	160,598	110,343

Notes: 1. The figures relate to all kinds of securities.
2. Number of investments is of a gross nature because some entities, governmental or nongovernmental, issue several kinds of securities. Supposing, for example, that an investment company holds three kinds of securities issued by a company, the number of investments is counted as three.
3. The criteria for classifying the investments into in-group and non-group

company as such already before the abolition of the managing agency system and today act as a holding company.

CONCLUSION

All of the above data given by Dr. Khan, Dr. Srivastava and the present writer regarding the amount of investments are taken from the annual reports of the companies. It must be remembered here that the value of each investment shown in the annual report is the book value, i.e., the amount of the payment made when the securities were obtained. In other words, various investments were summed up by way of taking the purchase price per share as arithmetic weight for each investment. The use of this weighting is much preferable to the face value per share, for the latter never represents the actual value of the investment.

IV

CASE OF FIVE ZAIBATSU (1968 AND 1971)

As of around April 1971				Ratio of the Total In-Group to Total Investments	
Total Number of Investments (F)	Number of In-Group Investments (G)	Total Amount of Investments (Rs. 1,000) (H)	Amount of In-Group Investments (Rs. 1,000) (I)	In 1968 (E/D) (%) (J)	In 1971 (I/H) (%) (K)
300	53	58,675	22,122	37	38
92	35	19,829	16,688	51	84
12	9	3,577	3,157	64	88
404	97	82,081	41,967	40	51
42	15	47,693	44,859	91	94
3	2	1,325	1,275	91	96
45	17	49,018	46,134	91	94
23	16	24,568	22,727	95	91
29	16	10,547	9,025	87	86
33	9	11,536	8,349	81	72
71	5	5,366	1,336	74	25
104	14	16,902	9,685	78	54
605	160	183,116	129,538	70	71
501	146	166,216	119,853	69	72

investments were derived from the group-wise list of companies listed in the *ILPIC Report* [4], but with some minor modifications due to later changes. The "second-tier" companies listed in the report which are not under the exclusive control of a given group were treated as being "non-group" in making this table. The Tatas have many "second-tier" companies.

The current market values of the shares would provide the most ideal weighting, but it is not technically possible to use this method because the values of unquoted shares are not at all available.

The book value is a historical value. It has an inherent bias in that the share obtained earlier is valued less than the share obtained later because the price of the share usually goes up as time passes, representing the growing net worth of the company. It should be noted in this connection that the percentage share of the group investments in the total investments is likely to indicate less than the real position because the group investments tend to be the older ones.

All the foregoing analyses firmly support the thesis that the investment companies of India in fact typically function as holding companies. They are holding companies in the disguise of "investment companies."

However, regarding the question of whether or to what extent the hierarchy of the Indian zaibatsu assumes today pyramidal shape, two additional studies are necessary: firstly, research concerning the investment companies of the Calcutta-based zaibatsu such as the Birlas and Bangurs, and secondly a revision of Hazari's data of the 1950s regarding the shareholders of large enterprises. A preliminary survey by the present author [6] with regard to the above two points suggests the pyramidal structure.

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