The Imperial Tobacco Company of India Limited

Speech by the Chairman, Mr. F. A. Collett, at the Fiftyfirst Annual General Meeting of the Company on 25th September 1962

Board of Directors

Mr. E. G. Willis retired from the Board on 31st March this year. He originally came to India in 1934 and has been on the Board since 1956, bringing a particular knowledge of the leaf tobacco growing side of the business He leaves behind many friends both inside and outside the Company, and we wish him a. long and happy well earned retirement in England.

Mr. W. K. Foster was appointed to the Board on 1st October 1961 with particular responsibility for our marketing problems. Mr. Foster has been in the tobacco business all his working life, most of it in Asia. He came to India in 1959 and we have already begun to de rive benefit from his experience.

Accounts

When I addressed you a year ago I told you that your Board did nor feel justified in increasing selling prices to cover the additional duties imposed by the Finance Act of 1961.

In deciding price policy, it is necessary to strike a balance between the reasonable profitability of the business on the one hand, and the rights and purchasing power of the consumer on the other. Ours is essentially an industry de pending on volume, and it is usually sound business to accept a relatively small unit profit for the sake of maintaining a large and increasing volume of sales. The cigarette consumer, particularly in the middle and lower economic ranges, has always shown considerable reluctance to increase his outlay per unit of cigarettes; and in the face of frequent tax Increases over the years he has seemed often willing to do without rather than pay more, or at least to have recourse to even cheaper forms of smoking.

The policy of restraint I referred to last year would itself have involved some decrease in the Company's nett profits but we did not at that time envisage that the Finance Minister in his 1962/63 Budget would retroactively increase corporate taxation to 50%, This has reduced the Company's profits by a further Rs, *IB* lakhs.

The overall effect of the increase in Customs and Excise Duties and the increase in Corporation Tax has been to reduce the Company's nett profit after tax from last year's figure of Rs, 188 lakhs to Rs. 146 lakhs. In the 1962/63 Budget the Finance Minister imposed still further increases in Excise Duties on tobacco products, estimated to yield him a further Rs. 5 crores per annum. These factors, combined with the normal increases in costs, have swung the balance strongly in favour of a price increase and in April this year your Board felt compelled to increase the selling prices of a number of its leading brands.

You will have seen from the Directors' Report that despite the reduction in nett profits by Rs. 42 lakhs, they recommend maintaining the total dividend at last year's level. This will involve reducing the appropriation to reserves to a figure below that which we normally consider prudent. We feel justified in making this recommendation because the increased prices are ex^ pected' to restore profits to a more reasonable level. Although there was an initial drop in consumption Immediately after the price increase, there are already some signs of recovery in total demand, and we are confident that, unless unforeseen circumstances arise, profits in the current year will be sufficient to enable the Board to maintain the divident at the same rate and to appropriate an adequate sum to reserves.

Production and Productivity

It has been my practice in previous years to enlarge on a particular aspect of your Company's business, and this year, in which the cigarette factories and the printting factory in Madras have achieved record outputs, it seems appropriate to give special mention to our Production Department.

This department works under certain particular difficulties Your Company was one of the first to embark on large-scale manufacture in this country, and consequently most of the factories were designed and built a good many years ago. The cigarette industry is at presem on the list of those for which major expansion is not allowed. For some years foreign exchange difficulties have restricted the importation of modern machinery, and partly in consequence of this and partly due to the employment situation in India at large, the labour density in our factories is unduly high by international standards,

Nevertheless, over the years we have been able to achieve a fair degree of streamlining and modernisation, one aspect of which is depicted in the photograph in the Annual Report of the Bangalore factory as it is today. In consequence of this our factories are all. without exception, producing more cigarettes today than their original designers could have deemed possible. There is still room for further progress as and when the opportunity arises to acquire fully up to-date machines

When the pressure on factories is for maximum volume, it Is necessary to pay particular attention to ensuring that the quality of the product does not suffer. This Is partly a matter of technique, and we are constantly revising our manufacturing processes in the light of modern developments, either evolved by our own experimentation or borrowed from overseas sources (and in this connection I might mention the valuable technical assistance which we continue to receive from our associates in the United Kingdom). Our own Research Department has played no small part in the development and improvement of indigenous raw materials required in the industry.

New ideas need to be widely understood if they are to be efficiently implemented and to this end we run a regular series of courses and conferences for all levels of management. These courses are complemented by frequent visits by senior members of the Head Office management to the branches. We also send selected members of management overseas for training, when availability of foreign exchange permits, to enable them to widen their knowledge and measure their performance against world standards.

At the same time we have been able to intensify the training of the clerical and factory workers themselves, on whose efforts the quality of our products ultimately depends. This training not only makes the day-to-day jobs more interesting to those who do them but is increasingly making it possible for us to bridge the gap between ordinary workers and management and to fill at least junior management posts from the clerk's desk or the factory floor.

I think it is widely recognised that our working conditions and labour amenities are second to none and I can report another year of generally cordial relations with our unions. I should, however, perhaps mention one rather disturbing tendency. This is the trend to a multiplicity of unions within a single factory, based usually on political affiliations, with consequent internal rivalry between them. 1 do not wish to question the right of workers to belong to the union of their choice, but there is no doubt that this disharmony on the union side can complicate negotiations between the Company and the workers and cause unfortunate delays in the settlement of outstanding differences of opinion.

I am glad to be able to report that our Productivity Payment scheme, now adopted in all our factories, is causing increasing awareness among labour that better work, and improved productivity, are reflected in the pay packet and are ultimately to the advantage of the worker, the manager and the shareholder alike.

I indicated earlier that the Production Department was hampered to some extent, in its task of extracting the optimum output from its existing establishments, by inability at the present time to acquire all the machines it would like to install It is not always fully understood that it is in (the interest, not only of all concerned in our industry, but also of all concerned in the prosperity of the country at large, that existing assets should be utilised to the maximum and kept up-to-date and that resources of manpower should also be so utilised. As consumption in India grows, so must productivity per man-hour increase also, and this colls both for progressive management and for a progressive attitude of mind on the part of the men who work the machines.

Prospects

I said last year that I considered that, provided the various items of increased cost did not outstrip the gains from increased productivity, we might look forward to the future with moderate optimism. I think you will agree that, insofar as the commercial operation of your Qompany is concerned, that somewhat cautious prophecy has been justified. Our volume of sales has increased considerably, but so has taxation and the cost of many materials which we use. The tobacco trade in India is increasingly competitive but on the whole We are holding our own. I have already discussed the reasons which led us to increase prices, and these price increases have, of course, militated against the steady increase in sales volume to which We look to counteract the ever-growing pressures on profit margins provided by rising costs on the one hand and vigorous competition on the other.

Nevertheless, as I have already indicated, I am confident that, taking all foreseeable factors into account, we shall be able to maintain our present rate of dividend during the current year after making adequate appropriations to reserves.