From the Chair

The United Commercial Bank Limited

Statement of the Chairman. Mr G D Birla

The following is the summary of the Statement of Mr G D Birla, Chairman, The United Commercial Bank Limited, to the Members at the Twentyfirst Annual General Meeting of the Bank held on April 8, 1964:

PRESENTING the Balance Sheet as at and Profit & Loss Account for the year ended 31st December 1963 for consideration and adoption by the Shareholders of the United Commercial Bank Ltd., at the Annual General Meeting. Mr. G. D. Birla, Chairman, referred to the resignation of Mr. P. D. Himatsingka who had been a Director of the Bank almost since its inception in order to devote more time to his duties and work as a Member of Parliament and to the decision of Mr, R. L. Nopany not to seek reappointment in order to retire from all active business and acknowledged the very valuable guidance and counsel given by them in the affairs of the Bank. He welcomed Mr. M, P. Birla who was taken up as a Director in place of Mr. Himatsingka and hoped that the Bank would greatly benefit by Mr. M. P. Birla's vast experience of industry and trade.

Referring to the changes that had taken place in the general management of the Bank Mr. Birla acknowledged the very valuable contribution to the progress of the Bank made by Mr. S. T. Sadasivan, who relinquished his office as General Manager on 31st March, 1964 and referred to the widespread tribute paid to his outstanding services in the field of banking, commerce and industry. He said that the appointment of Mr. S. T. Sadasivan as a Director would enable the Bank to have the advantage of his long and rich experience in the field of banking and his intimate knowledge of the Bank's working and its special problems. He added that Mr. R. B. Shah, who succeeded Mr. S. T. Sadasivan as General Manager, was no stranger to the Bank and that Mr. Shah's contribution to the development of the Bank has been great. He said that he had every confidence that Mr. Shah would ably guide the Bank's affairs with vigour and care and make it possible for the Bank to achieve still greater progress and growth.

Bank's Working

On the question of Branch expansion programme Mr. Birla said that the Bank's programme to open more branches continued unabated and that the Bank had opened as many as 18 new branches some of them in unbanked centres. To the total number of 177 branches on 31st December, 1963, four more branches had already been added during the first quarter of the current year and 43 new offices would be opened by 31st July. 1965. Mr. Birla then referred to arrangements for special training at the Bank's own Training Centre started in 1951 and facilities for training in banking and industrial finance afforded by the Reserve Bank of India which were being continuously utilised to enable the staff to be more useful in meeting the needs of the growing variety and volume of business. He thanked all the members of the staff for the good work done by them during the past year.

Mr. Birla said that the Bank's deposits which had crossed Rs. 100 crore mark in 1962 showed further augmentation during 1963 to Rs. 120.98 crores. Rise in deposits during 1963 was Rs 15.24 crores as against Rs. 6.84 crores in previous year and said that the percentage, of increase in 1963 was 14.4 as compared to the percentage increase of 10.7 for scheduled Banks. This rise was all the more heartening as during the year the deposits of Rs. 2.40 crores of Burma offices had passed out of the Bank's control consequent upon the nationalisation of Banks in Burma.

Mr. Birla said that the Bank's quick assets consisting of cash on hand and with banks and money at call and short notice and unencumbered Government securities totalled Rs. 48.71 crores and formed 40.3% of Deposits. He mentioned that it has always been the policy of the Bank to keep high liquidity. Referring to the rise from Rs. 71.08 crores to Rs. 85.95 crores in the Bank's advances and Bills portfolio Mr. Birla said that the Bank has been providing credit facilities not only to large-scale industries but also to small-scale industries in a great way. He mentioned that the Bank had obtained refinance of Rs. 2.10 crores from the Refinance Corporation for Industry Ltd., for medium term credit facilities extended to industries. Referring to the credit facilities granted by Bank Mr. Birla said: "Of late, an impression has been created that the commercial banks cater largely to the credit requirements of big business. I must say that this impression is erroneous. Speaking for our Bank, J would like to mention that out of about 10,400 borrowers as many as 3,700 borrowers have been sanctioned limits of Rs. 10.000 or less, 4,500 borrowers have limits between Rs. 10,000/. and Rs. 1,00,000/-, 1,500 borrowers have limits between Rs. 1,00,000 and Rs. 5,00,000 and only about 700 borrowers have limits of over Rs. 5,00,000. A very large number of borrowers in the first three categories are those engaged in small-scale industries."

Referring to the Profit & Loss Account Mr. Birla said that there had been an increase of nearly Rs. 81 lakhs in the earnings on account of increased volume of business in all fields of activity and the employment of larger volume of funds. Of this increase approximately Rs. 38 lakhs was paid as interest on deposits and borrowings and about Rs. 27 lakhs was taken up by salaries and allowances and provident fund. He mentioned that in spite of the opening of a number of new offices the amounts spent on rent, taxes, insurance and lighting, stationery, printing and advertisement, and other expenditure showed fractional increases. Though the allocation to Reserve Fund was lees by Rs 11 lakhs after providing Rs. 2.50 lakhs more than the last year for bonus to staff the Directors have been able to maintain dividend of 12% less tax on the increased share capital. The amount of prorata dividend paid last year on the increased capital was only Rs. 56,000 whereas this year the dividend on the increased capital amounted to Rs. 9.60 lakhs.

Bonus Shares

Mr. Birla made a reference to the Directors' proposal on the desirability of capitalising a sum of Rs. 20 lakhs out of the sum of Rs. 40 lakhs standing to the credit of the Share Premium Account and mentioned that an application had been made to the Controller of Capita! Issues for his consent to issue 40,000 "A" Shares of Rs. 50 each as fully paid bonus shares. Mr. Birla stated that a final decision on the course of action to be taken on the question of issue of bonus shares would be taken after knowing the outcome of this year's Budget proposals. Referring to the ownership of the Bank's shares Mr. Birla said: "You would be interested to know that the ownership of our shares is widely distributed. Out of the total number of 6241 shareholders on 31st December, 1963, 4,895 shareholders owned 50 shares or less, 680 shareholders owned between 51 and 100 shares and only 666 shareholders owned over 100 shares."

After reviewing the business of the Bank Mr. Birla surveyed the general economic situation in the country. He said that the year 1963 was similar in several respects to 1958. Both witnessed a decline in the rate of growth of industrial production, a fall in the production of foodgrains and a setback in the growth of employment. He said that unlike 1958 the year 1963 was under the shadow of the Chinese agression and consequently the "defence and development" Budget of the Union Government which provided for heavy expenditure and raising of revenues for sustaining the defence effort by the imposition of a wide range of new taxes particularly the Super Profits Tax. He contended that as a consequence of 1963-64 Budget the economic situation deteriorated as evidenced by the drop in the stock market prices and new capital issues.

Quoting the figures of capital issues he said that the amount came down from Rs. 73.8 crores in 1962 to Rs. 54.6 crores in 1963. In 1963 itself in the first quarter the capital issues amounted to Rs. 17.1 crores as against Rs. 25.6 crores during the corresponding quarter of the previous year. In the July-September quarter the capital issues went down to as low as Rs. 7.2 crores as by that time the full impact of the budgetary proposals on the market was felt. He attributed the spurt in the capital issues during the first quarter of 1964 to the issue of capital by companies who could no longer wait as they had already made commitments and gone ahead with their projects and felt that the market was regaining confidence. He added that the response from the public to these issues was however, disappointing and except in the case of a few well-known companies, the underwriters had to take up a major portion to fulfil their obligations. He referred the stagnation in the capital market as a reflection of the significant fall in the prices of industrial securities, the index price for which fell to as low a level as 160.6 in August 1963 compared to 179.5 — the average for the whole year.

He said that apart from the unsatisfactory capital market the agricultural production had also slowed down. The foodgrains production which stood at 79.8 million tons in 1961-62 declined to 76.2 million tons in 1963-64 revealing the fact that as far as agricultural production was concerned the country had gone back to the year 1958-59.

In regard to industrial production Mr. Birla said that although it appeared that an increase of 8.9% was maintained it was no improvement upon the rate of growth. He pointed out that there was a well-defined time-lag between the setting up of the capacity and the commencement of production which is usually about three years. The improvement in the output during 1963-64 was because of the fact that the foundation for additional capacity was laid three years earlier Production alone was no index of the progress of industrialisation; a more important indicator was the creation of new capacity. The setback in establishing of. new industrial units will be felt in production later.

On the subject of behaviour of prices during 1963 Mr. Birla referred to the Finance Minister's Budgel speech in which the latter had stated that the rise in the price level was the most disturbing feature. In the period between 2nd March, 1963 and 22nd February 1964, the general index of wholesale prices had risen from 126.3 to 138.6. This in itself would not have been a disturbing fact if the rise had been clearly due to circumstances beyond one's control and if it had been confined to one category of commodities. He summarised the behaviour of prices as follows: "the index number of food articles rose from 123.0 on 2nd March 1963 to 141.4 on 22nd February 1964; that for liquor and tobacco from 98.9 to 122.1; the index number for fuel, power, light and lubricants shot up from 125.9 to 139.6; the relevant figure for industrial raw materials rose form 135.3 to 144.4. The only semblance of some stability was under the category of manufactures, the index number in respect of which moved within a narrow range between 129.2 and 131.7." Mr. Birla said that prices could not be kept in check because production could not keep pace with demand; nor could supplies be augmented through imports for lack of foreign exchange.

On the question of stagnation in industry and agriculture Mr. Birla said: "Taking all these factors into account it becomes clear that the country can ill-afford the stagnation in growth that had set in and it had become apparent that steps had soon to be taken to reactivise the capital market and revive the sagging economy. With the reshuffle of the Union Cabinet on the implementation of the Kamaraj Plan the new Finance Minister. Mr. T. T. Krishnamachari, set before himself the task of restoring confidence in the future of Indian economy. The Finance Minister began well in word and deed and the general expectation of an attempt by Government to offer encouragement to expansion of industrial activity found expression in a large number of capital issues in the first quarter of 1964 to which reference has been made earlier."

Incentives & Investments

On the subject of incentives for savings and investments Mr. Birla referred to the utterances of the President of the Indian National Congress, the Deputy Chairman of the Planning Commission and the Finance Minister during the past few months wherein all the three had recognised that incentives to individuals and enterprise alone could accelerate production. They all acknowledged the important role which profit motive played in fostering enterprise. The Deputy Chairman of the Planning Commission for instance had stated that without a 10% return on capital the chances of maintaining the tempo of investment and growth would be slim.

After quoting from the Budget speech of the Finance Minister Mr. Birla said: "Having regard to such explicit expressions of belief *on* the need for increased production and for the provision of the means of expansion and of faith in the profit motive it has caused no little misgiving that the Finance Ministers actual budget proposals have fallen so greatly short of expectations. While there is a serious and even commendable effort by the Finance Minister to offer incentive to industry in the form of modification of the Super Profits Tax, rationalisation of inter-corporate taxation and other incentives he has whittled down these reliefs by such measures as the new dividend tax, tax on notional capital gains on bonus shares and steep increase in gift tax and Estate Duty and requirements of Annuity Deposits by individual tax pavers. It is difficult to see how in this new environment capital could be raised by the private sector for new enterprises. Unless there is incentive for individuals there is no meaning in offering incentive to industry. A healthy Stock Exchange with steadily appreciating values of the shares dealt thereon based on actual and potential growth of companies is absolutely essential if a steady growth in the number of new enterprises is to be maintained and I sincerely trust that the Finance Minister will have a second look at his budget proposals with a view to providing sufficient incentives to individuals."

Welcoming the setting up of the Development Bank and the Unit Trust Mr, Birla said that they would be helpful to industrial development. This however could not be considered as substitute for the free functioning of the capital market and for incentives to the small investor to invest his funds with the hope of reward in the form of appreciation of his investment over a period of years and for a fair running return. Healthy and active conditions in the Stock Exchanges would enable the Development Bank to resell any shares which it might be called upon to take up in fulfilment of its underwriting obligations and so release funds for new underwriting. Such conditions would also help Unit Trust in its investment operations.

On the question of availability of external funds for economic expansion Mr. Birla referred to his earlier statements in which he had stated that the aim should be to encourage foreign investments instead of foreign loans. He said: "It is a matter of satisfaction that in dealing with the problem of foreign exchange resources of the country Government policy shows signs of a shift towards attracting foreign capital rather than depending on external aid in the form of loans. I have also stated that for attracting foreign investments we must create a proper climate and I am happy to mention that the Government has streamlined the procedure for foreign collaboration and has in this years budget provided greater tax relief for foreign investors."

Monetary Policy

On the subject of the monetary policy for increasing economic growth Mr. Birla quoted from the "Economic Survey 1963-64", and referred to the steps taken by the Government of India for increasing production of cement and coal. He said that the increase in the price for additional production allowed to the cement industry and the raising of Development Rebate to 35 per cent from 20 per cent for the colliery industry were both instances of Government's attempt to give a spur to production in priority industries. He also referred to the decontrolling of prices of certain items of manufacture like chemicals, rayon and steel and the scheme announced by the Government for guaranteeing loans taken by the coal industry for availing of the World Bank's line of credit of 35 million.

He posed the question whether the monetary policy as implemented has been such as would subserve the end of increasing production. He felt that the raising of the Bank Kate at the beginning of 1963 was a necessary adjustment to bring it into alignment with other interest rates ruling at that time. He did not think that the large credit contraction during 1963 slack season was due to the Reserve Bank's raising of Bank Kate. Slackness in production was a more tenable explanation for reduction in demand for credit. He appreciated the action of the Reserve Bank of India in sanctioning liberal credit limits by modifying the multiple-tier Bank Rate system and reducing the penal rate of interest on borrowing from 6½ to 6 per cent and said that Banks were encouraged to feel that they could count upon the assistance from the Reserve Bank of India for extending themselves fully in providing credit for productive endeavours. On the measures taken in March 1964 by the Reserve Bank of India for tightening the credit once again Mr. Birla said: "Disillusionment was in store for the banks. Precisely during the week when the Reserve Bank's advances to Scheduled Banks touched their peak, a communique was issued tightening credit once again. Whereas Banks had, on the eve of the busy season been allowed to borrow upto 75 per cent of their Statutory Reserves at 4½ per cent and another 75 per cent of such reserves at 6 per cent the penal rate of interest on borrowings in excess of these limits with the special sanction of the Reserve Bank of India having been lowered to 6 per cent, the directive issued early in March was to the effect that the two tranches were each cut to 50 per cent and that, besides, any borrowings beyond that limit (permitted only under special circumstances) would bear a penal interest rate of 6½ per cent. One implication is that banks which had planned ahead to provide finance to industry on the basis of securing assistance from the Reserve Bank as and when necessary may now be compelled to cancel limits. Industry would not be unduly worried as much by dear money as by tight money i.e., scarcity of credit. For its smooth working and increasing tempo of production industry must be assured of availability of money at all times."

Pleading for the abolition of the multiple-tier bank rate Mr, Birla referred to his remarks made in his last year's statement and said: "If banks, even though for short periods, are required to pay 6½ per cent for their borrowings, at what minimum rate are they to fix their own lending rates? Furthermore, would the rates of interest on deposits as they exist to-day be found a sufficient inducement for mobilisation of resources? Yet again, can banks at all be expected to invest in Government Securities that could at best yield 3½ per cent to 4 per cent when on borrowing against the same securities they might have to pay interest at 6½ per cent?" He laid stress on the importance of the spread between lending rate and the borrowing rate and said that the various banking interest rates would need to be linked with bank rate itself; but this cannot be done unless the multiple-tier rate goes.

Stressing the importance of mobilisation of deposits Mr. Birla said that opening new branches in unbanked areas would no doubt help but primarily inducement held out to the owner of the money would be of utmost importance. If there were no signs of rationalisation of interest rates banks would be compelled to revise upward the rates of interest they pay on Deposits and also those charged on advances.

Concluding Mr. Birla said: "I have not sought to be critical, but I have this year striven to emphasise that while every official pronouncement has unequivocally acknowledged both the need for production and the incentives that have to be provided for that purpose, we are still far away from the existence of such favourable economic conditions for an automatic and sustained effort for industrial growth. If, as is possible, the effect of the last Budget is to make the capital market shy, I am sure that the banking system, to the best of its ability and to the full extent of its capacity, will provide every kind of financial assistance for the furtherance of production though a limiting factor in this regard will be the higher liquidity requirements that become effective from next autumn under the Banking Companies Act, as amended in September, 1962. In conclusion, may I be permitted to express my hope that the Government will increasingly create a climate of incentives, so that we can go ahead speedily with the industrialisation of our country?"

Note : This does not purport to be a record of the proceedings at the Annual General Meeting.

Business Notes

Hindustan Lever

HINDUSTAN Lever sets up a new record every year for its sales turnover. In 1963, the turnover amounted to Rs 59.55 crores, showing a rise of Rs 5,70 crores or 10.6 per cent over 1962. Sales of soaps, detergents and toilet preparations expanded by Rs 3.46 crores or 13.9 per cent to Rs 28.31 crores; vanaspati, margarine and other food articles accounted for an increase of Rs 1.18 crores or 4.8 per cent to Rs 25.87 crores; while glycerine and other by-products contributed Rs 1.06 crores more or 24.5 per cent to reach Rs 5.37 crores. Exports recorded a substantial increase at Rs 5.12 crores, equivalent to two and a half times the 1962 figure of Rs 2.01 crores.

The larger turnover has not, however, resulted in a larger profit Pre-tax profit has declined by 9.6 per cent from Rs 4.77 crores to Rs 1.31 crores, reducing the profit margin from 8.8 per cent to 7.2 per cent. The lower profit is attributed to an increase in the cost of raw materials and to the price controls that existed during most of the year in two of the Company's major products, namely, washing soap and vanaspati. The Company had, however, the advantage of a lower tax allocation during the year, with the result that the net profit available for disposal was higher, The incidence of Income tax and Corporation tax for the year, estimated at Rs 2.26 crores, was less by Rs 16 lakhs than in 1962. The provision for surtax and dividend tax for 1963 required only Rs 56.50 lakhs as against Rs 70 lakhs earmarked in 1962 (though later on the liability was known to be only Rs 50 lakhs). Further, while the tax on new scrip issue and tax adjustments for the previous year aggregated to Rs 39.92 lakhs in 1962, tax adjustments amounted to only Rs 58,000 in 1963. These reduced allocations and absorptions in taxes resulted in raising the net disposable profit from Rs 1.95 crores to Rs 2.05 crores.

Earning per share has fractionally increased from Rs 1.75 to Rs 1.79 and the dividend has been stepped up from 12 per cent (Rs 1.20) to 14 per cent (Rs 1.40). This is how ever less than the rate of 17.6 per cent in 1961. Total dividends for the year will absorb Rs 115.41 lakhs as against Rs 98.92 lakhs in 1962. The balance of Rs 33.22 lakhs (Rs 43.72 lakhs) left over after all ad. justments and disposals, has been transferred to General Reserve which has got in all Rs 53.22 lakhs this year (including the excess provision of Rs 20 lakhs for SPT in 1962 now transferred to General Reserve).

Among the significant achieve-

Hindustan Lever — Progress During Last Three Years

(in lakhs of rupees)

	1961	1962	1963
Sales turnover	4992	5385	5955
Increase (per cent) over the previous year	8.2	7.9	10.6
Pre-tax profit	418	477	431
Increase (per cent)	-8.5	14	-9.6
Profit margin (per cent)	8.4	8.8	7.2
Taxation	193	292	283
Net profit after taxes and tax adjustments	226	145	148
Earnings per share (Rs)	2.74	1.75	1.79
Dividend per share (Rs)	1.76	1.20	1.40
Dividend (per cent)	17.6	12	14
Total dividend	145	99	115
Retained profit	81	46	33