

Hawkins Cookers Limited
Fifty-second Annual General Meeting
August 6, 2012

Getting Through Hard Times

Speech of the Chairman
Mr. Brahm Vasudeva

1. Every individual, every family, every company, from time to time, goes through hard times. The hard times may be self-inflicted or imposed by external circumstances. In my experience and to my way of thinking, it hardly matters whether the hard times are the result of a fault of character or whether they are a result of the forces of history or an Act of God. What matters is how the individual or the company deals with the hard times. Whether one is overwhelmed by the misfortune or whether one survives and emerges stronger from the experience, to a great extent, depends upon how one deals with the hard times.

2. In my association with Hawkins since 1968 when I had the privilege of joining this Company started by my father, in the last 44 years, I can remember at least four times when we as a Company went through serious hard times. The first was when, in 1971, the then Finance Minister, Mr. Y. B. Chavan, imposed excise duty on pressure cookers @ 20%. Up till that time, pressure cookers had never had any excise duty. In a matter of weeks, we formed the All India Pressure Cooker Industries Association and wrote to every single Member of Parliament a two-page letter giving the facts on how the said duty would affect the common man and the national economy. Within a month of our writing the letter, in the debate on the Finance Bill in the Lok Sabha, nine MPs, cutting across party lines and including Shri. H. M. Patel and Shri. Atal Behari Vajpayee, spoke on the floor of the House quoting facts and figures from our letter and requesting the Finance Minister to withdraw the duty on pressure cookers. The Finance Minister finally agreed to reduce the duty on pressure cookers from 20% to 10%. While doing so, Mr. Chavan said: "It is, really speaking, in deference to the wishes of the housewives of the country as a whole."

3. The second occasion of a hard time that I recall was in 1978. George Fernandes was the Minister of Industry in the Janata Party government headed by Morarji Desai as Prime Minister. In respect of the approximately 700 items which were reserved for the small-scale sector, which included pressure cookers, Fernandes sought to prohibit the expansion of existing or former small-scale units beyond the limit of investment in plant and machinery set for small-scale industry. This move would have limited our production to 1.5 lakh pressure cookers per annum. Perturbed by this nonsensical and illegal policy, we met half a dozen senior bureaucrats and found that the policy was being driven by a fanatical Minister of Industry. We then met George Fernandes, failed to convince him and met Morarji Desai. Though we convinced the Prime Minister of the correctness of our viewpoint, we received a two-page letter, signed by the Prime Minister of India, the first page of which agreed with our views and the second page of which reaffirmed the restrictive policy on production of items reserved for the small-scale sector. We then decided to take the

matter to the Supreme Court mainly on the ground that it was an infringement of our Fundamental Rights. In 1979, the day before the matter was scheduled to be heard in the Supreme Court, the Ministry of Industry issued a notification “de-reserving” pressure cookers from amongst the approximately 700 items reserved for the small-scale sector. For the 33 years since then, we have had no legal restriction on our ability to expand our capacity to produce pressure cookers.

4. The third occasion that I can remember of our company going through a hard time was a period covering three financial years ending with March 2003. Of the five different sales channels that we market our products through, dealer sales is the largest. In the year 2000, we found that dealer sales started collapsing most mysteriously. Our brands were strong, consumer demand for our products was growing but dealer sales were declining. During this period, we went into numerous internal huddles and seminars involving all levels of management from salesman to Chairman to discover the cause and the solution for the collapse of sales. After a year of intense discussion and analysis, we came to the conclusion that the cause of the sales collapse was loss-leading by major wholesalers on whom we had become increasingly dependent. The wholesalers were under-cutting the prices of our products in order to attract customers for the sale of other products being sold by them. In the process, they were losing interest in our brands. Once we had understood what was happening in the market, we devised our New Sales Policy by which we reduced our dependence on wholesalers and increased our efforts to deal with a larger number of retailers all over the country directly. In order to comprehend the extent of the problem and the effectiveness of our solution, consider the index of dealer sales for nine financial years:

Year	Dealer Sales Index
1997-98	100
1998-99	110
1999-2000	118
2000-01	113
2001-02	89
2002-03	72
2003-04	94
2004-05	97
2005-06	120
Now, five years later, in 2011-12	247

5. And that brings us to the fourth and last item on this list of hard times faced by Hawkins. In our Directors' Report, we stated: "In 2011-12, demand for our products was well in excess of the supply. Supply was hindered by deteriorated labour relations in our Jaunpur Factory and an order of the Punjab Pollution Control Board (PPCB), dated October 13, 2011, instructing our Hoshiarpur Factory to cease operations in view of their allegation that it was producing effluents with pollutants beyond permissible limits." I would like to give you an update on each of these two fronts.

6. In our Jaunpur Factory, since March 2011, fifteen rounds of negotiations have been held between management and the workers' representatives. The last eight of these negotiations have been held in conciliation before the Deputy Labour Commissioner, Varanasi. No settlement was reached and the Deputy Labour Commissioner closed the conciliation proceedings on July 25, 2012. On a parallel track, management had kept the general body of workmen in Jaunpur Factory informed about the offers for a settlement being made by management which were all rejected by the workers' representatives. As the long-winded process of negotiation with the workers' representatives led nowhere, many workmen approached management, in person and in writing, to express their desire to revoke the authority given to the workers' representatives to negotiate on their behalf and to arrive at a settlement directly with management. A copy of the Settlement proposed by management has been put up on the notice board in Jaunpur Factory on August 3, 2012. The process of workers signing the Settlement directly with management has started. Meanwhile, though there are still some sections of workmen trying to go slow, the factory as a whole is giving much better production than was the case a year ago. We are hopeful that the matter will be resolved shortly.

7. As regards our Hoshiarpur Factory, following the judgment of the Honourable High Court of Punjab and Haryana at Chandigarh delivered on April 16, 2012, the Company applied afresh on May 19, 2012, to PPCB for the required Consents. The Company received a show cause notice from PPCB dated July 2, 2012, which was replied by the Company on July 13, 2012. A personal hearing called by the Chief Environmental Engineer of PPCB has taken place on July 17, 2012. A record of the proceedings of the personal hearing issued by PPCB dated July 25, 2012, is being acted upon. The Environmental Engineer of PPCB has been directed by PPCB to visit our Hoshiarpur Factory immediately after August 15, 2012, to verify the facts and to submit a detailed report along with his recommendations. PPCB has declared that they shall decide the matter on merit based upon the report of the Environmental Engineer.

8. Meanwhile, the Company is continuing its operation in its Hoshiarpur factory on the same restricted basis as it has been producing for the last eight months. As a consequence, the results for June quarter 2012 are disappointing. Sales are ₹82.5 crores, up 10% over June quarter 2011; and net profit is ₹5.2 crores, which is 28% down. Net profit as a percentage of revenue has come down from 9.7% in June quarter 2011 to 6.3% in June quarter 2012.

9. I have no doubt that the impact of the restricted production at our Hoshiarpur Factory is the single biggest factor for the decline in our profits and profitability in June quarter 2012. Production in the Hoshiarpur Factory in June quarter 2012 was 255,000 pressure cookers, 21% less than the pressure cookers produced by this factory in the June quarter 2011. If you consider the production of our two other factories at Thane and Jaunpur in June quarter 2012, you will find that the production in those two factories taken together is 27% up over the production in June quarter 2011. Had we similarly produced 27% more pressure cookers in the Hoshiarpur Factory in the June quarter 2012 than what was produced by the factory in June quarter 2011, and the factory is quite capable of doing so as it stands today, the Company would have had an extra 154,000 pressure cookers to sell in June quarter 2012. Our pending orders as of the end of June quarter 2012 were 148,000 pressure cookers. With the said extra production from Hoshiarpur Factory, we would have been able to reduce the pressure cooker pending orders to about 10,000 units and increase the sales in June quarter 2012 by 138,000 units. This sales increase would have given us an extra revenue of about ₹18 crores and an estimated extra net profit of about ₹3 crores. On this analysis, our sales for June quarter 2012 would have been over ₹100 crores and our net profit would have been about ₹8.3 crores.

10. So, when we look back over the 44 years that I have been associated with Hawkins, we find that there are four episodes of hard times. It is interesting to note that three out of four of these hard times arose out of governmental action and only one out of the market. It is also interesting to know that even though the statistical average occurrence of hard times is once in eleven years, it is frequent enough to keep the leadership of Hawkins wide awake and far from complacent. Each time we survive a hard time, as a company we learn valuable lessons which go on to become part of the DNA of Hawkins. What are the main lessons we have learnt so far? I would like to mention four.

11. First. The need for Courage. Along with passion in their blood, the leadership needs to have ice water in their veins.

12. Second. If you are not going to act on the basis of fear and if you are not just going to do the expedient thing, you will have to work out your policy and strategy on the basis of your principles, your beliefs, your values. What is true? What is fair? What is legal? What is ethical? What is beneficial in the long haul? These are not easy questions to answer in difficult circumstances – but there is no way of avoiding them. In Hawkins, we don't know of any other way of managing our business.

13. Third. The need for Communication. Whether you deal with government or with customers, whether you deal with militant labour or a court of law – communicate, communicate, communicate. Spend time on internal consultations and on speaking and writing as clearly, as comprehensively and as concisely as you can. And then, do it again. Repeat as often as it is needed.

14. Finally, put in your best efforts and continue to do so no matter how bleak the outlook appears to be. Have faith in God. Seek His guidance and grace in prayer. Sleep well, enjoy your work, enjoy life. You, and the outcome of your efforts, are in the hands of God.
