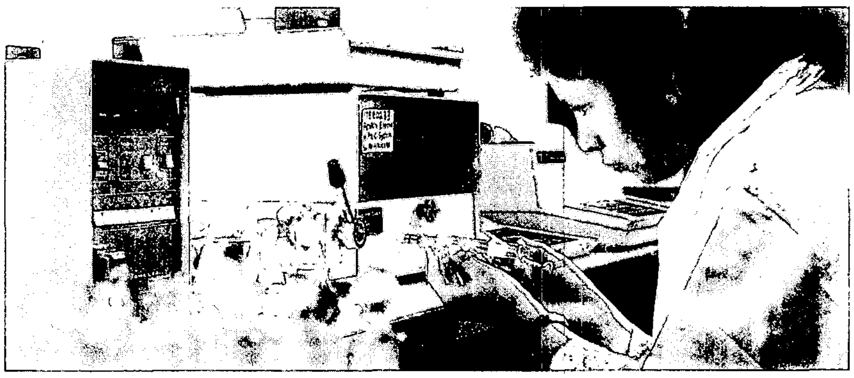
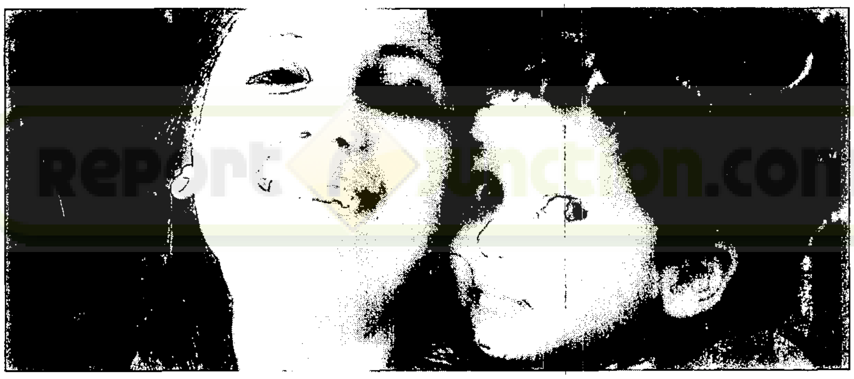
Challenges in Healthcare





Glaxo India Limited

Annual Report Year ended 31st December 1997

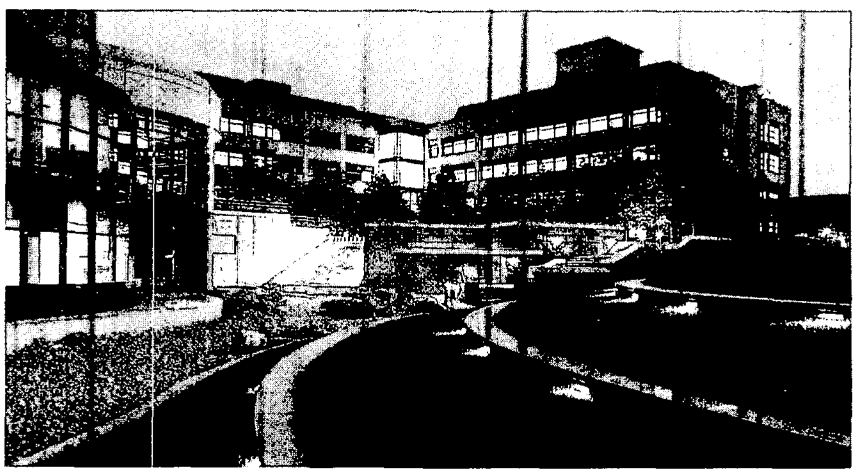
Towards healthcare frontiers

Our Mission

Glaxo and Wellcome in India are committed to fighting disease with safe and effective medicines and exceeding their customers' expectations in terms of Quality, Service, Value and Safety through constant innovation.

In order to deliver on this mission, effective planning of resources is vital. The ongoing MRP II (Manufacturing Resource Planning) initiative integrates all the processes in the business that affect the supply chain.

Sir Richard Sykes, Chairman, Glaxo Wellcome plc.



The £ 1.2 billion Medicines Research Centre at Stevenage, UK.

Board of Directors

Chairman
T. Thomas

Managing Director
H. R. Khusrokhan

Directors
J. D. Coombe
M. B. Kapadia
S. S. Marathe
A. J. Mehew
G. K. Nair
V. Narayanan
P. V. Nayak
D. S. Parekh
T. Ray (upto 31.12.1997)
A. T. H. Wong

MD	✓	BKC	
CS	✓	DPY	
RO	✓	DIV	✓
TRA	N/A	AC	✓
AGM	✓	SH	✓
YE	✓		

Registered Office
Dr. Annie Besant Road
Mumbai 400 025
Telephone: 493 3871
Fax: 022-4935358
Website http: // www.glaxowellcome.co.in.

Bankers
Hongkong and Shanghai Banking Corporation
State Bank of India
Bank of India
Citibank N. A.
ANZ Grindlays Bank
Standard Chartered Bank

Auditors
Lovelock & Lewes

Solicitors
Crawford Bayley & Co.
Gagrat & Co.

Corporate Management

Managing Director
H. R. Khusrokhan

Executive Directors
P. V. Nayak
— Corporate Personnel & Administration
— Legal & Corporate Communications
— Agrivet Farm Care
— Qualigens Fine Chemicals

M. B. Kapadia
— Finance
— Information Technology
— Company Secretary

G. K. Nair
— Technical : Bulk Drugs & Formulations

Executive Vice-Presidents
M. B. Kurdekar
— Commercial
— Exports

V. V. S. Kashyap
— Pharmaceuticals Marketing & Sales

Factories
Dr. Annie Besant Road, Worli
2nd Pokhran Road, Thane
Ambad, Nashik
GIDC Estate, Ankleshwar

Contents

At a Glance

RESULTS	1997 Rs. Lakhs	1996 Rs. Lakhs
NET SALES	696,01	645,01
PROFIT BEFORE TAX	86,62	86,18
TAX	30,96	36,50
NET PROFIT AFTER TAX (Before Exceptional Items)	55,66	49,68
EXCEPTIONAL ITEMS (Net of Tax)	14,47	1,78
NET PROFIT	41,19	47,90
DIVIDENDS	23,91	23,91
TAX ON DISTRIBUTED PROFIT	3,89	—
RETAINED EARNINGS	13,39	23,99
YEAR-END POSITION		
FIXED ASSETS — Gross	211,67	193,95
— Net	91,95	86,51
CURRENT AND OTHER ASSETS — Net	229,26	196,46
CAPITAL	59,78	59,78
RESERVES	210,07	196,68
BORROWINGS	51,36	26,51

Distribution of Equity Shares

As at 21st March 1998 **Holdings of**	Number of Shareholders	%	Shares held	%
Upto 25	15,682	15.0	2,24,160	0.4
26 to 50	14,716	14.1	6,70,963	1.1
51 to 100	30,634	29.5	24,97,948	4.2
101 to 500	40,487	38.8	75,79,321	12.7
501 to 1,000	2,025	1.9	13,95,042	2.3
1,001 to 10,000	710	0.7	13,36,920	2.2
10,001 and above	78	—	4,60,70,646	77.1
	1,04,332	100.0	5,97,75,000	100.0
Held by				
Glaxo Group	1	—	3,04,85,250	51.0
Unit Trust of India	1	—	19,35,604	3.2
Life Insurance Corporation of India	1	—	29,56,369	4.9
General Insurance Corporation and its Subsidiaries	5	—	30,50,532	5.1
Mutual Funds	23	—	18,27,024	3.1
Nationalised Banks	14	—	51,274	0.1
Foreign Institutional Investors	54	—	53,09,211	8.9
Other Companies	721	0.7	7,00,694	1.2
Individuals	1,03,512	99.3	1,34,59,042	22.5
	1,04,332	100.0	5,97,75,000	100.0

Directors' Report

The Directors have pleasure in submitting their Report for the year ended 31st December 1997.

1. Results & Dividend

The results for the year ended 31st December 1997 are given below.

	Year ended 31st December 1997 Rs. in Lakhs	Year ended 31st December 1996 Rs. in Lakhs
PROFIT BEFORE TAXATION	**86,62.71**	86,17.52
Less: Provision for Taxation	30,96.00	36,50.00
NET PROFIT AFTER TAX BEFORE EXCEPTIONAL ITEMS	**55,66.71**	49,67.52
Less: Payments / Provision for Voluntary Retirement Schemes and other retirement benefits (net of tax)	14,47.32	1,77.82
Net Profit	41,19.39	47,89.70
Add: Balance brought forward from the previous year	40,45.59	41,46.89
Amount available for disposal	81,64.98	89,36.59
APPROPRIATIONS :		
General Reserve	15,00.00	25,00.00
Equity Dividend	23,91.00	23,91.00
Distribution Tax on Dividend (including Rs.149.44 lakhs in respect of final dividend for 1996)	3,88.54	—
	42,79.54	48,91.00
Balance carried forward	38,85.44	40,45.59
	81,64.98	89,36.59

An Interim Dividend of 15% (Re.1.50 per share), was paid in January 1998 absorbing Rs.8.97 crores. The Directors recommend the payment of a Final Dividend of 25% (Rs.2.50 per share), which if approved by the shareholders at the Annual General Meeting, will absorb Rs.14.94 crores. The total Dividend for the year is, therefore, maintained at last year's level of 40%. The Distribution Tax borne by the Company on this year's dividend is Rs.2.39 crores.

2. Sales

Gross Sales for the year ended 31st December 1997 were Rs.757.85 crores as compared with Rs.699.95 crores for the previous year, registering a growth rate of 8.3% in a market which experienced a slowdown during the year.

3. Profits

Profit from Company operations before considering income from investments, profit on sale of investments and Voluntary Retirement Scheme costs, has shown a growth of nearly 7%. There were significant savings in the input costs of materials, labour and other conversion costs and better all round manufacturing yields and efficiencies. However, a greater spend on selling and other expenses was essential, as compared to the previous year, in order to achieve sales growth in a difficult market. In comparing profits for the year with those of the previous year, the following points have to be borne in mind:

(i) The benefits of Voluntary Retirement Schemes will be spread over a few years. However, in keeping with good accounting practice, the entire burden for VRS payments aggregating to Rs.22.3 crores (Rs.14.5 crores net of tax) has been charged against the profits of the current year. Benefits of these savings consequent upon the reduction in numbers have just started to flow and will be more apparent in 1998 and subsequent years.

(ii) The Company sold a significant portion of its investment portfolio to finance the advance payment for the acquisition of the Biddle Sawyer Group of Companies and to meet the costs of Voluntary Retirement Schemes. The investment income is therefore lower than last year by Rs.5.2 crores. On the other hand, the 1997 accounts do not include any revenues from the operations of the Biddle Sawyer Group of Companies or the savings from Voluntary Retirement Schemes mentioned in (i) above. These will commence to flow from 1998 onwards.

4. Finance

Capital expenditure of Rs.18.9 crores was incurred during the year mainly for the expansion of Betamethasone and Ranitidine formulation facilities at Nashik, for upgradation, maintenance and modernisation of the Company's factories and for acquisition of four South Mumbai apartments which were earlier tenanted.

As in the past, the Company's portfolio of investments, built up by deploying the proceeds from the sale of the Family Products business, yielded very good returns while ensuring safety of capital.

The Company continues to enjoy the highest rating from the Credit Rating Information Services of India Limited, of FAAA for its Fixed Deposit Scheme and P1+ for its Commercial Paper programme.

5. Operations

(i) Pharmaceuticals

The Pharmaceutical industry witnessed a slowdown in growth at around 10% as compared to the average of 16-17% witnessed over the past few years. Considerable effort was required to achieve sales growth at close to market levels. Despite this, the Company continues to enjoy a strong position in the industry as a whole as well as in several of the therapeutic segments in which it has a presence.

The Company introduced several new products during the year, some line extensions and some older molecules for which patents have now expired. In the anti-hypertensive segment, SINOPIL (Lacidipine) — a novel calcium channel blocker discovered by Glaxo Wellcome, Italy was launched during the year.

New initiatives such as Rural Marketing, Direct Marketing and setting-up of specialist teams are showing results and will continue to be strengthened in future to gain market share.

Chemical factories at Thane and Ankleshwar are being expanded to meet additional demand for local and export markets. Two new bulk drugs namely, Clobetasone and Clobetasol, have been successfully manufactured at Thane. Trial quantities of Ranitidine Base manufactured at Ankleshwar were exported for use in the Glaxo Wellcome group. The Ranitidine manufacturing facility at Ankleshwar will apply for US FDA certification in 1998. A three-way tie-up with M/s. Chemferm Industrial Pharmaceuticals of Netherlands and Max GB for Cephalexin manufacture will give access to superior technical know-how and assured supplies of 7ADCA. This arrangement is expected to substantially improve yields and reduce costs.

The R&D Centre at Thane has been augmented by the commissioning of a new Pharmacy R & D Unit, which is now approved by Glaxo Wellcome UK as a Centre for developing new products for the Asia Pacific Region. A number of new products have been developed for Glaxo Wellcome, Philippines.

During the year, your Company entered into an Agreement to acquire the entire share capital of the Biddle Sawyer Group of Companies (BSG), viz. Biddle Sawyer

Limited, Croydon Chemical Works Private Limited and Meghdoot Chemicals Private Limited. Upon receipt of the approval of the Central Government, the transaction was completed on 5th January 1998 and these three companies have become wholly-owned subsidiaries with effect from that date. BSG has good product lines which complement the Glaxo range in therapeutic segments like oncology, gynaecology, ophthalmology and diuretics. BSG also has a long relationship with Takeda, Japan's largest pharmaceutical company and Teva Pharmaceuticals of Israel, a leading generics manufacturer, which will give access to new products in future.

In July 1997, the Government reduced the price of the bulk drug Ranitidine from Rs.1,714/kg. to Rs.1,203/kg. The Company filed a Review Application, since the reduced price was lower than its cost of production. In the course of review it became apparent that the Company's costs had been totally disregarded, as also the costs of other large domestic manufacturers and that the Government had reduced that price on the basis of the costs of a single manufacturer, and that too, one who produces the bulk drug predominantly for export. Anticipating an imminent price fixation of formulations on the basis of this flawed bulk drug price, the Company sought the intervention of the Bombay High Court in December 1997 and obtained an ad interim stay. This stay was vacated in February 1998 since the Government at the end of January 1998, passed, post facto, an order purporting to dispose off the Company's pending review application. The Court has however permitted the Company to file a fresh writ petition now challenging the January 1998 order. The matter will be heard shortly.

(ii) Other Activities

With the introduction of new products and continued thrust in the field, the Agrivet Farm Care business grew by 22%. With our concentration on the cattle segment, we expect to continue to grow the business.

In a highly competitive market, the Qualigens Fine Chemicals business registered a growth of 25% with the diagnostics activity registering a very good growth. Our reputation for quality has ensured continued penetration in the laboratory chemicals field.

The growth in Export sales was 69% over the previous year.

The Company embarked on a project for implementing a Manufacturing Resource Planning (MRP) System for effective planning of resources through fully integrated computer systems. The Company has reviewed the effect that the Year 2000 will have on its essential computer systems and has drawn up plans to ensure that there will be no adverse effect on its operations and systems.

In May 1997, the Company launched a comprehensive Website on the Internet which is a means of sharing important information about the Company. The Website has a password protected area for the medical profession.

With a view to enable shareholders to hold and trade their shares in a dematerialised electronic form, your Company has, in December 1997, entered into an agreement with the National Securities Depository Limited (NSDL) and MCS Limited. MCS Limited will act as Transfer Agents of the Company for this limited purpose.

6. Social Responsibility

The Social Responsibility Unit continued its Support Programmes on Preventive Health and Community Development during the year. These included the Shishukalyan Snehi Swayamsevak Sanstha's Education Sponsorship Scheme for needy girl students, health check-up of balwadi children and organising of the Shishu Snehi Sammelan, a get-together of the local community, which gives disadvantaged children a forum to express their vast creative potential.

In April 1997, a rural development project at Dhonbar village, Sinnar Taluka in Nashik District was initiated. The project "Gramin Arogya Vikas Sanstha" has been registered as a Trust and currently runs a health check-up and treatment programme for students of a residential ashram school, under the guidance of a trained social worker.

The Company participated in the healthcare section of the Trade Fair "Indo-British Partnership: Towards 2000" held in New Delhi in October 1997 to celebrate 50 years of Indian independence.

7. Employee Relations

After the signing of the long-term settlements at Worli and Thane factories in January 1997, a cordial working environment has prevailed. Working in other factories has also been peaceful and productive. 393 workmen retired from Worli and Thane under a Voluntary Retirement Scheme.

Long-term settlements were also signed with Medical Representatives in Pharmaceuticals and with Sales Representatives in the Veterinary and Fine Chemicals Divisions.

8. Management Development

Emphasis on Management Development continued during the year through in-company as well as external training programmes.

Management Trainees were recruited from premier institutes in India and abroad.

9. Directors

Mr. T. Ray resigned from the Board with effect from 31st December 1997 and his appointment as Whole-time Director has come to an end with effect from that date.

At the Board Meeting held on 21st August 1997, Mr. P.V. Nayak was re-appointed Whole-time Director for a period of 5 years with effect from 4th September 1997. Appropriate resolutions are being placed before the Members for their approval at the Annual General Meeting.

Mr. S.S. Marathe, Mr. D.S. Parekh and Mr. V. Narayanan retire by rotation and, being eligible, offer themselves for re-appointment.

10. Auditors' Report

The Auditors have made a reference in their report to the demand made on the Company for Rs.71.79 crores in respect of prices relating to Betamethasone bulk drugs and formulations therefrom, the under-provision for the accrued liability for gratuity and the Directors' remuneration being subject to the approval of the Members of the Company. The Company's position in this regard is explained in Notes 1, 4 and 13(a) of Schedule 18 to the Accounts.

11. Auditors

Shareholders are requested to re-appoint Lovelock & Lewes as the Auditors of the Company and all its branches and to fix their remuneration.

12. General

(i) The particulars relating to conservation of energy, technology absorption and foreign exchange earnings and outgo are annexed. The particulars of employees required to be furnished under Section 217(2A) of the Companies Act, 1956 are also annexed. Further, attached to the accounts of the Company are the Reports and Audited Accounts of Samgir Investments Limited and Glindia Investments Limited.

(ii) The Directors express their appreciation for the contribution made by the employees to the successful operations of the Company during the year.

On behalf of the Board of Directors

T. THOMAS
Chairman

Mumbai, 26th February 1998.

Annexure to the Directors' Report

Information under Section 217(1)(e) of the Companies Act, 1956 read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988, and forming part of the Directors' Report for the year ended 31st December 1997.

I. Conservation of Energy

1. Energy Conservation measures taken :

   It has been a constant endeavour of the Company to conserve energy, both in terms of thermal units consumed, as well as in rupee value by improving efficiencies. The Company has a structured, organised programme wherein a Task Force approach for each site has been adopted which meets regularly to review the performance and set out targets for the coming years. Annual inter-factory meetings are held to exchange ideas. Some of the major projects implemented during the year were installation of Magnetic Resonators on boiler fuel line, installation of Timer Control for lights, providing of temperature switches for Cooling Towers, providing of Photo cell based sensors for controlling water used for flushing of urinals, modifying the scrubber systems to derate the blower and pumps, relocating Cooling tower for Solvent Recovery Plant to generate huge savings on pumping energy and reducing solvent losses by recycling through a condensor, reducing time cycle and installation of additional vessel in Ranitidine plant, use of variable speed drives for raw water pumps, 100% utilisation of treated effluent water for gardening and dedicating a Cooling Tower for cooling water requirements of Liquid Manufacturing and various other encon projects.

2. Additional investments and proposals being implemented for reduction of energy consumption :

   Some of the major projects envisaged for the coming years are installation of inverter drive for high rated motor, installation of energy efficient dehumidifier and conversion of –60 degree C brine unit to –20 degree C brine unit.

3. Impact of measures taken :

   The adoption of energy conservation measures indicated above have resulted in considerable savings and its awareness among employees.

4. Total energy consumption and energy consumption per unit of production :

		Year ended 31st December 1997	Year ended 31st December 1996
(A) Power and Fuel Consumption :			
1. Electricity			
(a) Purchased			
Units	Kwh	3,28,07,885	3,17,27,549
Total Amount	Rs.	12,98,00,979	10,50,07,061
Rate/Unit	Rs.	3.96	3.31
(b) Own Generation			
(i) Through Diesel Generator			
Units	Kwh	39,54,053	53,69,587
Units per ltr. of Diesel Oil	Kwh	2.95	3.23
Cost/Unit	Rs.	3.22	2.60
(ii) Through Steam Turbine/Generator		—	—
2. Furnace Oil and LSHS			
Quantity	KL	4,026	3,417
Total Amount	Rs.	2,83,64,940	2,27,93,980
Average Rate	Rs.	7,045	6,671
3. Others			
Natural Gas			
Quantity	NM^3	18,50,513	17,11,277
Total Cost	Rs.	93,61,941	74,09,829
Average Rate per Th NM^3	Rs.	5,059	4,329

(B) Consumption per unit of production :

	Year ended 31st December 1997		Year ended 31st December 1996	
	Chemicals (incl. Bulk Drugs) per tonne	Formulations per million packs	Chemicals (incl. Bulk Drugs) per tonne	Formulations per million packs
Electricity (Units)	20,929	1,16,128	12,500	97,207
Furnace Oil & LSHS (KL)	2.83	8.63	1.27	7.65
Natural Gas (Th NM^3)	10.76	—	11.11	—

N.B. There are no separate standards available for each category since the product range under each head shown above consists of various products with different consumption.

II. Research and Development and Technology Absorption

A. Research and Development (R&D)

(1) Specific areas in which R&D is carried on by the Company :

The Company has an R&D Centre which is approved by the Department of Scientific and Industrial Research. The Company carries out R&D in several areas including development of indigenous technologies for major drugs, process improvements, technology absorption and optimisation for basic drugs, process simplification / improvements of Glaxo Wellcome UK processes for cost effectiveness, improvements in yields, improved quality and eco friendly nature of processes. The Company is privileged to have access to the latest technologies developed by the Glaxo Wellcome Group. Our R&D Centre is doing supportive work to the Chemistry discovery group UK and also to the Reference Substances unit of Glaxo Wellcome UK.

(2) Benefits derived as a result of the above R&D:

R&D efforts have helped bring out an improvement in processes, product design and operating efficiencies. Significant process improvements have been made in Ranitidine, Cephalexin and Betamethasone production. Development work for further improving efficiency of the Betamethasone, Cephalexin and Ranitidine processes is continuing. R&D work has also resulted in improved productivity and stability of products, import substitution of high value materials such as solvents and key intermediates/reagents, elimination of use of certain hazardous chemicals and cost reduction. Process technologies developed in-house are being made available to units in the small scale sector to enable them to set up facilities conforming to high standards of GMP and quality. Several processes received from abroad have been successfully modified and commissioned locally.

(3) Future Plan of Action :

Emphasis will continue to be laid on the main areas set out above and particularly on the development of new technologies for Betamethasone, Clobetasone, Clobetasol, Cephalexin and Ranitidine.

(4) Expenditure on R&D :

	Rs. Lakhs
(i) Capital	48.64
(ii) Recurring	254.02
(iii) Total	302.66
(iv) Total R&D expenditure as a percentage of total turnover	0.4%

B. Technology Absorption, Adaptation and Innovation

(1) Efforts, in brief, made towards technology absorption, adaptation and innovation:

Several processes received from abroad have been adapted for local use. A few recent examples are :