

# ANNUAL REPORT 1997



**MERCK**

## Financial Highlights — 1993-97

		1993	1994	1995	1996	Change +/- in %	1997
<b>OPERATING RESULTS</b>							
Turnover & Other Income	Rs. in mio	1,249.6	1,555.6	1,808.0	2,090.6	+8.2	2,262.2
Materials Cost	"	645.3	760.7	918.2	1,088.3	-0.6	1,081.6
Personnel Cost	"	166.6	221.8	227.3	258.7	+19.3	308.7
Interest	"	96.9	61.9	71.1	65.0	-20.0	52.0
Other Expenses	"	255.6	319.2	344.5	388.0	+22.0	473.4
Depreciation	"	29.6	29.1	34.8	40.8	+17.4	47.9
Profit/(Loss) Before Taxation	"	55.6	162.9	212.1	249.8	+19.5	298.6
Profit/(Loss) After Taxation	"	46.6	87.2	133.7	163.5	+19.1	194.8
Retained Earnings	"	23.0	53.5	96.6	113.5	+19.4	135.5
Earnings per Share Rs.		2.76	5.17	7.93	9.70	+19.2	11.56
Dividend (%)		15@	20	22	27	+18.5	32
Book Value of Share Rs.		20.73	23.90	29.63	36.36	+22.1	44.39
<b>FINANCIAL SUMMARY</b>							
<b>Assets Employed</b>							
Fixed Assets (Gross)	Rs. in mio	526.6	545.7	605.4	703.3	+8.4	762.2
Fixed Assets (Net)	"	384.8	385.2	423.8	479.2	+25.3	600.6
Investments	"	9.2	0.1	*	*	-	*
Current Assets (Net)	"	274.1	390.8	473.7	445.7	+11.4	496.5
<b>TOTAL ASSETS</b>	"	668.1	776.1	897.5	924.9	+18.6	1097.1
<b>Financed By</b>							
Share Capital	Rs. in mio	168.6	168.6	168.6	168.6	-	168.6
Reserves & Surplus	"	180.8	234.4	330.9	444.4	+30.5	579.9
Shareholders' Funds	"	349.4	403.0	499.5	613.0	+22.1	748.5
Borrowings	"	318.7	373.1	398.0	311.9	+11.8	348.6
<b>TOTAL LIABILITIES</b>	"	668.1	776.1	897.5	924.9	+18.6	1097.1
Debt : Equity		0.60:1	0.48:1	0.36:1	0.24:1	+8.3	0.26:1
Number of Shareholders		26731	28431	29607	28738	-1.7	28238
Number of Employees		2004	1848	1735	1762	-1.0	1744

@ After conversion of debentures and preferential allotment of shares

\* Less than Rs. 50,000/-

Cover : Soft Gelatin capsules at Goa plant

## Thirty-first Annual Report and Statement of Accounts 1997

MD	✓		BKC	✓
CS	✓		DPY	✓
RO	✓		DIV	✓
TRA	✓		AC	✓
AGM	✓	✓	SHI	✓
YE	✓	✓		✓

### Board of Directors

S. N. Talwar *Chairman*  
 H. G. Brötz *Managing Director*  
 H. C. H. Bhabha  
 J. C. D'Lima  
 S. M. Gupte  
 W. Hönn  
 Vijay Kumar  
 G. V. S. Rayudu  
 E. Reiber  
 R. L. Shenoy

### Company Secretary

R. L. Shenoy

### Auditors

A. F. Ferguson & Co.

### Bankers

Union Bank of India  
 Canara Bank  
 Deutsche Bank AG  
 Citibank N. A.  
 Societe Generale  
 Credit Lyonnais  
 HDFC Bank Ltd.

### Legal Advisers

Crawford Bayley & Co.

### Registered Office

Shiv Sagar Estate 'A'  
 Dr. Annie Besant Road  
 Worli, Mumbai 400 018  
 Telephone : 4964855

### Factories

Plot Nos. 1 & 1A, MIDC Estate  
 Taloja, Taluka Panvel  
 Dist. Raigad (Maharashtra)  
 Telephone : 7412251-57

Plot No. 11/1, Marvasado  
 Usgaon (Goa)  
 Telephone : 0834-344230

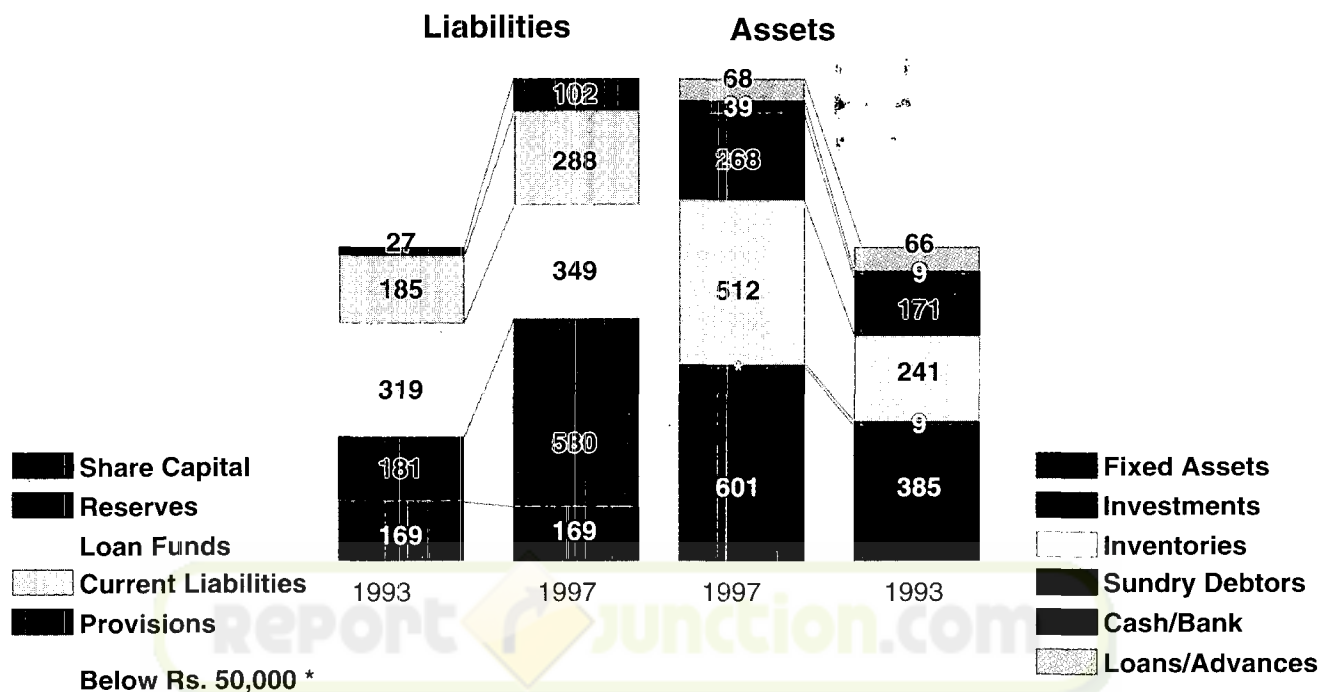
### Registrar & Transfer Agents

M/s. Sharepro Services  
*Investor Relation Centre at :*  
 912, Raheja Centre  
 Free Press Journal Road  
 Nariman Point  
 Mumbai 400 021  
 Telephone : 2825163/2354668

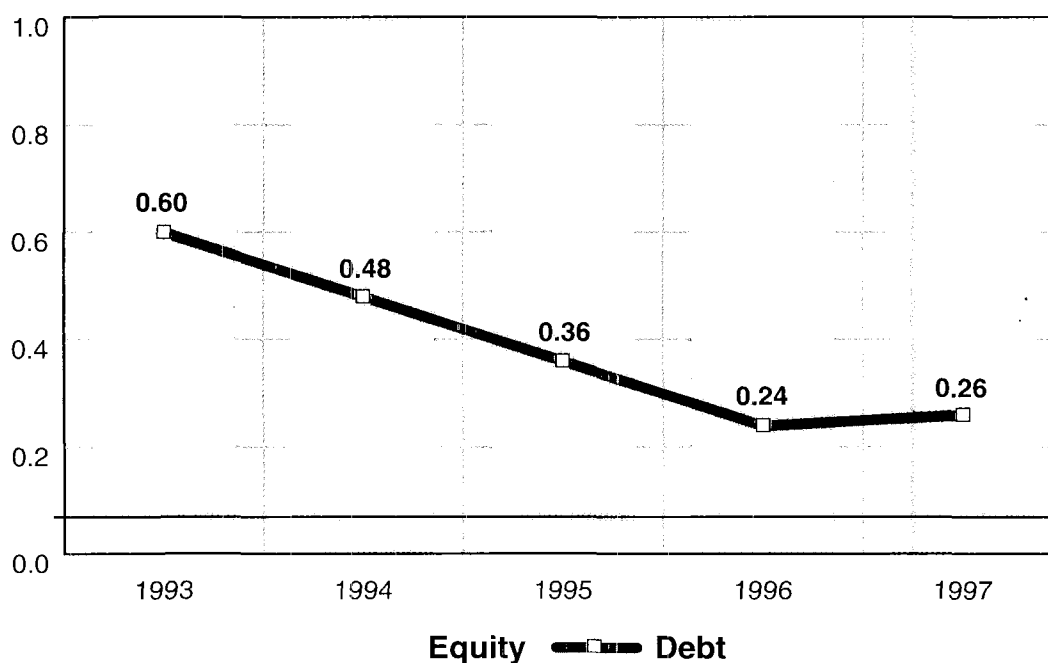
*Processing Centre at :*  
 Satam Estate, 3rd Floor  
 Above Bank of Baroda  
 Cardinal Gracious Road  
 Chakala, Andheri (East)  
 Mumbai 400 099  
 Telephone : 8215168/8215991



## Balance Sheet (Rs. Mio.)



## Debt-Equity Ratio : 1993-1997



## Notice of the Annual General Meeting

NOTICE is hereby given that the Thirty-first Annual General Meeting of the Members of E.Merck (India) Limited will be held at Patkar Hall, S.N.D.T. University, 1, Nathibai Thackersey Road, Mumbai – 400 020 on Tuesday, 9th June, 1998 at 2.30 p.m. to transact the following business :

1. To receive and adopt the audited Profit and Loss Account for the year ended 31st December, 1997, the Balance Sheet as on that date and the Reports of the Board of Directors and Auditors.
2. To declare a dividend.
3. To appoint a Director in place of Mr. Homi C.H. Bhabha who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Mr. Vijay Kumar who retires by rotation and being eligible, offers himself for re-appointment.
5. To appoint Auditors to hold office from the conclusion of this Meeting until the conclusion of the next Annual General Meeting of the Company and to fix their remuneration.

### AS SPECIAL BUSINESS :

6. To appoint Dr. S. M. Gupte as a Director of the Company.
7. To consider and, if thought fit, to pass, with or without modification, as an Ordinary Resolution, the following :

“RESOLVED THAT pursuant to the provisions of Sections 198, 269, 309 and other applicable provisions, if any, of the Companies Act, 1956, read with Schedule XIII of the Companies Act, 1956, approval of the Members, be and it is hereby accorded to the re-appointment of Mr. R. L. Shenoy, as Whole-time Director of the Company for a further period of 5 years with effect from 27th December, 1998, on the terms and conditions including remuneration as set out in the draft agreement, to be entered into by the Company with him, submitted to the Meeting, and initialled for the purposes of identification by the Chairman”.

8. To consider and, if thought fit, to pass, with or without modification, as an Ordinary Resolution, the following :

“RESOLVED THAT pursuant to the provisions of Sections 198, 269, 309 and other applicable provisions, if any, of the Companies Act, 1956, read with Schedule XIII of the Companies Act, 1956, approval of the Members, be and it is hereby accorded to the appointment of Dr. S.M. Gupte as Whole-time Director of the Company for a period of 5 years with effect from 12th December, 1997, on the terms and conditions including remuneration as set out in the draft agreement, to be entered into by the Company with him, submitted to the Meeting, and initialled for the purposes of identification by the Chairman”.

9. To consider and, if thought fit, to pass, with or without modification, as a Special Resolution, the following :

“RESOLVED THAT pursuant to the provisions of Section 163 of the Companies Act, 1956, the Board of Directors of the Company be and it is hereby authorised to keep the Register of Members and Index, Register of Debentureholders and Index and copies of Annual Returns prepared under Sections 159 and 160 of the said Act, together with copies of certificates and documents required to be annexed thereto under Sections 160 and 161 of the said Act at the office of Sharepro Services, Satam Industrial Estate, 3rd Floor, Above Bank of Baroda, Cardinal Gracious Road, Chakala, Andheri (East), Mumbai – 400099, on and from 10th June, 1998 instead of at Mega Custodial Services Pvt. Ltd., Lentin Chambers, Dalal Street, Fort, Mumbai – 400 023”.

10. To consider and, if thought fit, to pass, with or without modification, as a Special Resolution, the following :

“RESOLVED THAT in supersession of the Resolution passed by the Members of the

Company at the Twenty-seventh Annual General Meeting held on 9th May, 1994, and pursuant to the provisions of Section 309 and other applicable provisions of the Companies Act, 1956, the Company do hereby approve of and consent to the continuance of payment and distribution thereof of a sum not exceeding one percent of the net profits of the Company computed in accordance with the provisions of Section 198 of the Companies Act, 1956, amongst the Directors of the Company (other than Managing Director and Whole-time Directors) in such amounts or proportions and in such manner as may be decided by the Board of Directors and such payments shall be made in respect of the profits for the year ending 31st December, 1998 and four succeeding years".

By Order of the Board of Directors

R. L. Shenoy  
Director &  
Company Secretary

Mumbai, 18th March, 1998.

Registered Office :  
Shiv Sagar Estate 'A'  
Dr. Annie Besant Road  
Worli, Mumbai 400 018

#### NOTES

1. The relative Explanatory Statement pursuant to Section 173 of the Companies Act, 1956, in respect of Item Nos. 6 to 10 of the Notice set out above is annexed.
2. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING IS ENTITLED TO APPOINT ONE OR MORE PROXIES TO ATTEND AND VOTE ON A POLL ONLY INSTEAD OF HIMSELF AND A PROXY NEED NOT BE A MEMBER.
3. The Register of Members will remain closed from

Thursday, 21st May, 1998 to Tuesday, 9th June, 1998 (both days inclusive) for the purpose of payment of dividend.

4. Payment of the dividend as recommended by the Directors, if approved at the Meeting, will be made on 30th June, 1998 to those Members whose names appear on Company's Register of Members on 9th June, 1998.
5. Members are requested to intimate to the Registrars and Transfer Agents, Sharepro Services, Mumbai, before Thursday, 21st May, 1998, changes, if any, in their registered address.
6. For the convenience of Members, Attendance Slip is annexed to the Proxy Form. Members are requested to fill in and affix their signatures at the space provided therein and hand over the Attendance Slip at the entrance of the place of Meeting. Proxy/Representative of a Member should mark on the Attendance Slip as "Proxy" or "Representative", as the case may be.
7. Pursuant to Section 205A of the Companies Act, 1956, all unclaimed dividends upto the financial year ended 31st December, 1993 have been transferred to the General Reserve Account of the Central Government. Members who have not encashed the dividend warrants for the said period are requested to claim the amount from the Registrar of Companies, Maharashtra.

#### REQUEST TO THE MEMBERS

1. Members desiring any relevant information on the accounts at the Annual General Meeting are requested to write to the Company at least seven days in advance, so as to enable the Company to keep the information ready.
2. As a measure of economy, copies of the Annual Report will not be distributed at the Annual General Meeting. Members are requested to bring their copies of the Annual Report to the Meeting.

## Explanatory Statement (Pursuant to Section 173 (2) of the Companies Act, 1956)

### ITEM NO. 6

Dr. Sunil M. Gupte was appointed as Additional Director of the Company. Under Article 114 of the Articles of Association of the Company, read with Section 260 of the Companies Act, 1956, Dr. S. M. Gupte holds office only upto the forthcoming Annual General Meeting.

Notice has been received from a Member under Section 257 of the Companies Act, 1956, together with the requisite deposit proposing Dr. Gupte as a candidate for the office of the Director. The Board recommends the appointment of Dr. Gupte to the office of the Director.

Except Dr. Gupte, none of the other directors is interested in the Resolution.

### ITEM NOS. 7 & 8

Mr. R. L. Shenoy was re-appointed as Whole-time Director with effect from 27th December, 1993 for a period of 5 years. His re-appointment will come to an end on 26th December, 1998. The Directors consider the services of Mr. R. L. Shenoy useful to the Company. It would be in the best interest of the Company to re-appoint Mr. R. L. Shenoy as the Whole-time Director in charge of Finance, Legal and Secretarial functions of the Company.

Dr. S. M. Gupte was appointed as the Whole-time Director of the Company for a period of 5 years from 12th December, 1997, in recognition of Dr. Gupte's contribution to the Company's growth over the years in Pharma Division. Members may be informed that Dr. S. M. Gupte, prior to his appointment as a Director was General Manager - Marketing & Sales (Pharma).

The draft agreement to be entered into between the Company and Mr. R. L. Shenoy, and the increased remuneration to be paid on re-appointment, is placed for the approval of the Members.

The draft agreement to be entered into between the Company and Dr. S. M. Gupte, and the increased remuneration to be paid on appointment, is placed for the approval of the Members.

A. The total remuneration payable to Mr. R. L. Shenoy and Dr. S. M. Gupte shall be

subject to the overall ceilings laid down in Sections 198 and 309 of the Companies Act, 1956.

- B. I a) For the Company's financial year 1998 and thereafter, the aggregate remuneration payable to Mr. R. L. Shenoy by way of salary and commission shall be a maximum of Rs. 12,50,000/- per annum, subject to such limits as may be fixed by the Board of Directors for each year or part thereof and shall be subject to the overall limits laid down in Sections 198 and 309 of the Companies Act, 1956, read with Schedule XIII of the Companies Act, 1956.

- b) For the Company's financial year 1997 and thereafter, the aggregate remuneration payable to Dr. S. M. Gupte by way of salary and commission shall be a maximum of Rs. 12,50,000/- per annum, subject to such limits as may be fixed by the Board of Directors for each year or part thereof and shall be subject to the overall limits laid down in Sections 198 and 309 of the Companies Act, 1956, read with Schedule XIII of the Companies Act, 1956.

- II Perquisites in addition to the above remuneration, would comprise of furnished accommodation or house rent allowance, children's education allowance, servants' allowance, leave travel concession, medical reimbursement, fees of clubs, personal accident insurance in accordance with the rules of the Company etc., such perquisites being restricted to Rs. 6,25,000/- per annum, to be fixed by the Board of Directors, for each year or part thereof and shall be subject to the overall limits laid down in Sections 198 and 309 of the Companies Act, 1956, read with Schedule XIII of the Companies Act, 1956.

III In addition, each of Mr. R. L. Shenoy and Dr. S. M. Gupte shall be entitled to the Company's contribution to Provident Fund and Superannuation Fund not exceeding 27% of the salary and Gratuity payment in accordance with the rules of the Company.

A copy of the draft agreement to be entered into by the Company with each of Mr. R. L. Shenoy and Dr. S. M. Gupte is open to inspection by Members at the Registered Office of the Company between 10.00 a.m. and 12.00 noon on all working days except Saturdays and Sundays.

Each of Mr. R. L. Shenoy and Dr. S. M. Gupte is interested in the Resolutions to the extent of his remuneration. No other Director is interested in these Resolutions.

#### ITEM NO. 9

Since Mega Custodial Services have expressed their inability to continue as Company's Registrars & Transfer Agents, it was decided to engage the services of Sharepro Services to act as the Registrars and Transfer Agents of the Company with effect from 2nd April, 1998. With a view to enabling the Registrars to carry out their duties efficiently and expeditiously, it is proposed to keep the aforesaid Registers, Indexes, Returns and copies of other documents at their office at Satam Estate, 3rd Floor, Above Bank of Baroda, Cardinal Gracious Road, Chakala, Andheri (East), Mumbai - 400 099, instead of Mega Custodial Services Ltd. office at Lentin Chambers, 5th Floor, 36 Dalal Street, Fort, Mumbai - 400 023 with effect from 2nd April, 1998.

The Special Resolution at Item No.9 of the Notice is necessary having regard to the provisions of Section 163 of the Companies Act, 1956.

The Registers, Indexes, Returns and copies of other documents referred to in the Special Resolution shall be kept open to inspection by Members and other eligible persons between 10 a.m. and 12 noon on all working days except Saturdays and Sundays.

An advance copy of the Special Resolution set out in the accompanying notice will be delivered to the Registrar of Companies, Maharashtra, as required under Section 163 of the Companies Act, 1956.

None of the Directors is interested in the Resolution.

#### ITEM NO. 10

At the Annual General Meeting held on 9th May, 1994, the Members approved the payment of commission to non-Whole-time Directors in accordance with Section 198 of the Companies Act, 1956. Since the Company is benefited by the frequent visits as well as guidance of non-resident Directors, it is proposed that such payment should also be made to them. A Special Resolution at Item No.10 of the Notice seeks to give effect to such payment of commission to all non-Whole-time Directors including non-resident Directors.

All non-Whole-time Directors are interested in the Resolution.

**By Order of the Board of Directors**

**R. L. Shenoy**  
**Director &**  
**Company Secretary**

Mumbai, 18th March, 1998.

Registered Office :  
Shiv Sagar Estate 'A'  
Dr. Annie Besant Road  
Worli, Mumbai 400 018



## Directors' Report

Your Directors have pleasure in presenting the Thirty-first Annual Report and Audited Accounts for the year ended 31st December, 1997.

### FINANCIAL HIGHLIGHTS

	(Rs. in mio.)	
	1997	1996
<b>SALES</b>	<b>2,221.3</b>	<b>2,054.6</b>
<b>OTHER INCOME</b>	<b>40.9</b>	<b>36.0</b>
<b>PROFIT BEFORE INTEREST, DEPRECIATION, EXTRA-ORDINARY ITEMS AND TAXATION</b>	<b>426.3</b>	<b>373.0</b>
Interest	52.0	65.0
Depreciation	47.9	40.8
Voluntary Retirement Scheme Payments	7.8	11.9
Provision for Actuarial valuation of Gratuity	20.0	—
Provision for Leave Encashment of earlier years	—	5.6
Provision for Taxation	103.8	86.2
<b>PROFIT AFTER TAX</b>	<b>194.8</b>	<b>163.5</b>
Transfer from Investment Allowance Reserve	1.2	0.7
Profit & Loss balance brought forward	46.5	33.0
Transfer to Debenture Redemption Reserve	2.7	7.7
Proposed Dividend	53.9	45.5
Tax on Proposed Dividend	5.4	4.5
Transfer to General Reserve	120.3	93.0
Balance carried to the Balance Sheet	60.2	46.5

### DIVIDEND :

The Directors are pleased to recommend for your consideration payment of dividend @ Rs. 3.20 per share for the year ended 31st December, 1997, reflecting

an increase of 18.5% over the rate of dividend paid last year.

### OPERATIONS :

The turnover of the Company registered an increase of 8% from Rs. 2055 million to Rs. 2221 million. The profit before tax for the year 1997 was Rs. 299 million compared to Rs. 250 million earned in the year 1996. During the year, the Company made a provision for gratuity liability based on the actuarial valuation amounting to Rs. 20 million. The profit after tax has risen from Rs. 164 million to Rs. 195 million, thereby registering an increase of 19 %.

The strategic decisions on production planning, utilization of plants, sourcing of materials and effective funds utilization were the main factors for the satisfactory growth in profits despite the low growth in turnover.

In February 1998, the plant for the manufacture of soft gelatin capsules was commissioned at Usgaon, Goa, an industrially backward area. The Company will be entitled to tax benefit on the income derived from this plant as per the provisions of Income Tax Act, 1961.

### EXPORTS :

The exports during the year amounted to Rs. 127.9 million as against Rs. 96.4 million achieved in the previous year.

### DEBENTURES :

In August 1997, the Company had redeemed 14% Non-convertible Secured Debentures, (Series II) aggregating to Rs. 55 million. To finance the redemption of the above Debentures, the Company borrowed Rs. 55 million against 13.15% Non-convertible Debentures from Societe Generale.

In February 1998, the Company had redeemed one-third (second instalment) of the 16.5% Non-convertible Secured Debentures aggregating to Rs. 20 million held by Unit Trust of India. The present amount outstanding on the above mentioned Debentures is Rs. 6.67 million.

The Directors confirm that the funds raised through the issue of 5,50,000 14% Non-convertible Secured

Debentures of Rs. 100/- each to various Members and Deutsche Bank AG, 2,00,000 16.5% Non-convertible Secured Debentures of Rs. 100/- each held by Unit Trust of India and 5,50,000 13.15% Non-Convertible Debentures to be issued to Societe Generale, have been utilised for the purpose for which they were raised i.e. to augment the resources for working capital requirements, financing the projects and also for routine capital expenditure.

#### **DIRECTORS :**

Mr. Homi C.H. Bhabha and Mr. Vijay Kumar retire at the forthcoming Annual General Meeting and are eligible for re-appointment.

On 12th December, 1997, Dr. S. M. Gupte was appointed as an Additional Director of the Company. By virtue of his appointment as an Additional Director he is appointed as the Whole-time Director of the Company in-charge of Pharma operations.

#### **FIXED DEPOSIT :**

The total amount of Fixed Deposits as on 31st December, 1997 was Rs. 51.1 million. The Company has refunded all the Deposits that matured and claimed by the Depositors. Deposits amounting to Rs. 0.65 million due for repayment were unclaimed as on 31st December, 1997. Since then a sum of Rs. 0.3 million has been claimed and paid.

#### **AUDITORS :**

The Company's Auditors, M/s. A. F. Ferguson & Co. retire at the conclusion of the forthcoming Annual General Meeting and are eligible for re-appointment.

#### **COST AUDIT :**

M/s. S. S. Mani & Co. have been appointed to conduct the cost audit of the accounts maintained by the Company in respect of Bulk Drugs and Formulations, for the year ended 31st December, 1998.

#### **EMPLOYEES :**

Industrial relations with the employees have been cordial. The negotiation between the Company and the employees at Goa Factory for wage settlement is in progress and is likely to be concluded soon.

The settlement with the employees at Talaja Factory and Field Staff Union will expire on 31st December, 1998 and 31st March, 1999 respectively.

The information as per Section 217 (2A) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules, 1975 and under Section 217 (1) (e) of the said Act read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 forming part of this report is attached.

#### **ADDITIONAL INFORMATION REQUIRED UNDER THE COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS) RULES, 1988 :**

As required under Rule 2 of the Companies (Disclosure of particulars in the Report of Board of Directors) Rules, 1988, the particulars relating to conservation of energy and technology absorption have been given in the annexures to this Report.

Further, as required under Rule 2 of the Companies (Disclosure of particulars in the Report of Board of Directors) Rules, 1988, with regard to foreign exchange earnings and outgo, the Board wishes to state that the Company has an established network of sole selling agents covering certain countries in the world. Besides, regular visits abroad are undertaken by our marketing executives solely with a view to expand this aspect of our activities.

During the year, the foreign exchange outgo was to the extent of Rs. 382 million (which includes import of raw materials to the extent of Rs. 219.8 million) while the foreign exchange earned was Rs. 135 million, the details of which have been stated under Item Nos. 12 (d) and 14(i), (ii) and (iii) of the Notes annexed to the Accounts.

**On behalf of the Board of Directors**

**S. N. Talwar**  
**Chairman**

Mumbai, 18th March, 1998.