

ANNUAL REPORT



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MERCK

E. MERCK (INDIA) LIMITED



Cover : Represents E. Merck (India) Limited's active involvement in chemical business dealing in Reagents, Fine Chemicals, Pigments, Analytical instruments, Chromatography, Mobile Analysis Kits, Liquid Handling Products and Diagnostics. E. Merck (India) Limited are local partners for Merck Germany, BDH U.K., EM Science USA, Prolabo France, Brand Germany, Exmire Japan, WTW Germany, Dade Behring USA, Vital Scientific Netherland.

Coated with Iridin® pearl lustre pigments manufactured by Merck.

THIRTY-SECOND ANNUAL REPORT AND STATEMENT OF ACCOUNTS 1998

<i>Board of Directors</i>	<i>Auditors</i>	<i>Bankers</i>	<i>Legal Advisors</i>
S. N. Talwar <i>Chairman</i>	A. F. Ferguson & Co.	Canara Bank	Crawford Bayley & Co.
HG. Brötz <i>Managing Director</i>		Union Bank of India	
H. C. H. Bhabha		Deutsche Bank AG	
J. C. D'Lima		Citibank N. A.	
S. M. Gupte		Societe Generale	
W. Hönn		HDFC Bank Ltd.	
Vijay Kumar		ANZ Grindlays Bank Ltd.	
G. V. S. Rayudu			
E. Reiber			
R. L. Shenoy <i>Director & Company Secretary</i>			

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<i>Registered Office</i>	<i>Factories</i>
Shiv Sagar Estate 'A'	Plot Nos. 1 & 1A.
Dr. Annie Besant Road	MIDC Estate
Worli, Mumbai 400 018	Taloja, (Maharashtra)
	Plot No. 11/1,
	Usgaon (Goa)

Registrar & Transfer Agents

M/s Sharepro Services

<i>Investor Relation Centre at:</i>	<i>Processing Centre at:</i>
912, Raheja Centre	Satam Estate, 3rd Floor
Free Press Journal Road	Above Bank of Baroda
Nariman Point	Cardinal Gracious Road
Mumbai 400 021	Chakala, Andheri (East)
	Mumbai 400 099

Financial Highlights - 1994-98

		1994	1995	1996	1997	Change +/- in %	1998
Operating Results							
Turnover & Other Income	Rs. in mio	1,555.6	1,808.0	2,090.6	2,262.7	17.2	2,652.2
Material Cost	"	760.7	918.2	1,088.4	1,081.6	23.8	1,339.4
Personnel Cost	"	221.8	227.3	258.7	308.7	16.5	359.5
Interest	"	61.9	71.1	65.0	52.0	-9.2	47.2
Other Expenses	"	319.2	344.5	388.0	473.9	1.5	480.7
Depreciation	"	29.1	34.8	40.8	47.9	44.3	69.1
Profit before Taxation	"	162.9	212.1	249.7	298.6	19.3	356.3
Profit after Taxation	"	87.2	133.7	163.5	194.8	38.6	269.9
Retained Earnings	"	53.5	96.6	113.5	135.5	48.6	201.3
Earnings per Share	Rs.	5.17	7.93	9.70	11.56	38.5	16.01
Dividend	%	20	22	27	32	15.6	37
Book Value of Share	Rs.	23.90	29.63	36.36	44.39	26.9	56.33
Financial Summary							
Assets Employed							
Fixed Assets (Gross)	Rs. in mio	545.7	605.4	703.3	762.2	28.6	980.3
Fixed Assets (Net)	"	385.2	423.8	479.2	600.6	7.4	644.9
Investments	"	0.1	*	*	*	-	-
Current Assets (Net)	"	390.8	473.7	445.7	496.5	-0.2	495.4
TOTAL ASSETS	"	776.1	897.5	924.9	1,097.1	3.9	1,140.3
Financed By							
Share Capital	Rs. in mio	168.6	168.6	168.6	168.6	-	168.6
Reserves & Surplus	"	234.4	330.9	444.4	579.9	34.7	781.2
Shareholders' Funds	"	403.0	499.5	613.0	748.5	26.9	949.8
Borrowings	"	373.1	398.0	311.9	348.6	-45.4	190.5
TOTAL LIABILITIES	"	776.1	897.5	924.9	1,097.1	3.9	1,140.3
Debt: Equity							
Debt: Equity		0.48:1	0.36:1	0.24:1	0.26:1	-26.9	0.19:1
Number of Shareholders		28,431	29,607	28,738	28,238	-3.1	27,362
Number of Employees		1,848	1,735	1,762	1,744	-2.1	1,708

* Less than Rs. 50,000/-

Notice of Annual General Meeting

NOTICE is hereby given that the Thirty-second 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 Friday, 9th April, 1999 at 3.00 p.m. to transact the following business:

1. To receive and adopt the audited Profit and Loss Account for the year ended 31st December, 1998, 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. S.N.Talwar who retires by rotation and being eligible, offers himself for re-appointment.
4. To appoint a Director in place of Mr. G.V.S. Rayudu 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.
6. Pursuant to Section 205A of the Companies Act, 1956, all unclaimed dividends upto the financial year ended 31st December, 1994 have been transferred to the General Revenue 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.
3. Payment of dividend as recommended by the Directors, if approved at the Meeting, will be made on 30th April, 1999 to those Members whose names appear on Company's Register of Members on 9th April, 1999.
4. Members are requested to intimate to the Registrar and Transfer Agents, Sharepro Services, Mumbai, before 25th March, 1999, changes, if any, in their registered address.
5. 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.

By Order of the Board of Directors

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

Mumbai, 22nd February, 1999

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

NOTES

1. 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.
2. The Register of Members will remain closed from 7th April, 1999 to 9th April,

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.

Directors' Report

Your Directors have pleasure in presenting the Thirty-second Annual Report and Audited Accounts for the year ended 31st December, 1998.

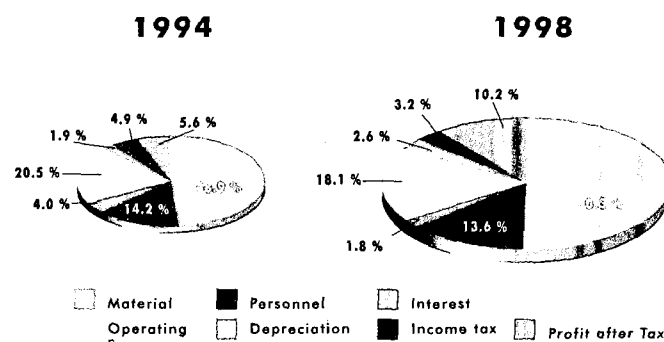
FINANCIAL HIGHLIGHTS

	(Rs. in mio.)	
	1998	1997
SALES	2,591.2	2,221.3
OTHER INCOME	61.0	41.4
PROFIT BEFORE INTEREST, DEPRECIATION, EXTRA-ORDINARY ITEMS AND TAXATION	524.0	426.3
Interest	47.2	52.0
Depreciation	69.1	47.9
Voluntary Retirement Scheme Payments	23.9	7.8
Provision for Gratuity	27.5	20.0
Provision for Taxation	86.4	103.8
PROFIT AFTER TAX	269.9	194.8
Transfer from Investment Allowance Reserve	—	1.2
Profit & Loss Balance brought forward	60.2	46.5
PROFIT AVAILABLE FOR APPROPRIATION	330.1	242.5
Transfer to Debenture Redemption Reserve	—	2.7
Proposed Dividend	62.4	53.9
Tax on Proposed Dividend	6.2	5.4
Transfer to General Reserve	174.3	120.3
Balance carried to the Balance Sheet	87.2	60.2

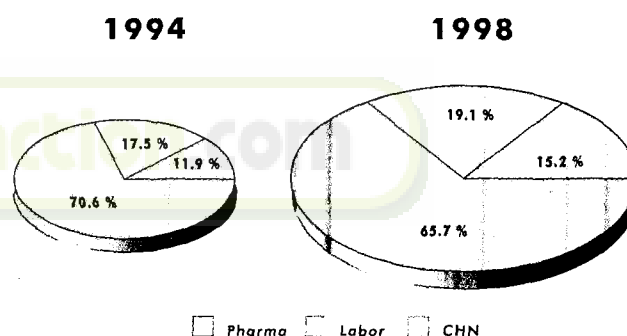
DIVIDEND :

The Directors are pleased to recommend for your consideration payment of dividend @ Rs. 3.70 per share, for the year ended 31st December, 1998. The recommended rate reflects an increase of 15.6% over the rate of dividend paid last year.

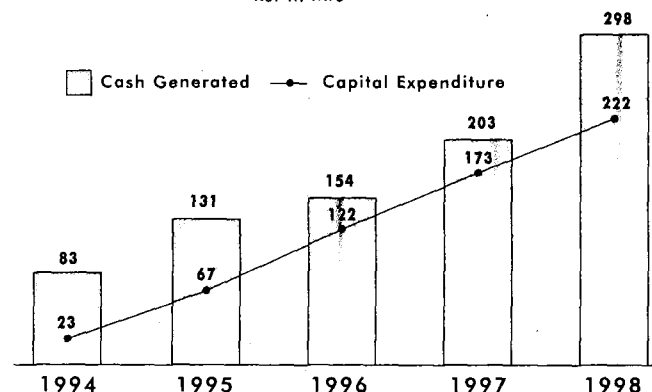
How the Revenue is spent?



Sales Composition



Cash Generated and Capital Expenditure
Rs. in Mio



FIXED DEPOSIT :

The total amount of Fixed Deposits as on 31st December, 1998 was Rs. 33.8 mio. The Company has refunded all the deposits that matured and claimed by the depositors. Deposits amounting to Rs. 0.8 mio. due for repayments were unclaimed as on 31st December, 1998. Since then, a sum of Rs. 0.17 mio. 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, 1999.

EMPLOYEES :

Industrial relations in the Company were cordial throughout the year.

The wage settlement with the Employees Union at Taloja Factory expired on 31st December, 1998 and with the Field Staff Union it will expire on 31st March, 1999.

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 is annexed and forms part of this Report.

**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 selling agents covering certain countries in the world. Besides, regular visits abroad are undertaken by our marketing executives with a view to expand this aspect of our activities.

During the year, the foreign exchange outgo was to the extent of Rs. 536 mio. (which includes import of raw materials to the extent of Rs. 265.6 mio.) while the foreign exchange earned was Rs. 147.7 mio., 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, 22nd February, 1999

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 forming part of the Directors' Report for the year ended 31st December, 1998.

1. CONSERVATION OF ENERGY

a) Energy Conservation measures taken:

- (i) Replacement of two Air Handling Units.
- (ii) Chemical additives are added in the Boiler feed water thereby reducing scale formation and increasing the heat transfer effect.
- (iii) Installed dedicated Capacitors for Refrigeration Plants, Air Compressors, Cooling Tower Pumps & Raw Water Transfer Pumps.

b) Impact of Measures taken:

There has been reduction in the consumption of furnace oil and water.

FORM-A

FORM FOR DISCLOSURE OF PARTICULARS WITH RESPECT TO CONSERVATION OF ENERGY

A-I Power and fuel consumption – Taloja factory

	Current Year	Previous Year
1. Electricity		
a) Purchased		
Units (in '000 kwh)	2432.29	2365.88
Total Amount (Rs. in mio.)	10.652	9.915
Rate/Unit (Rs.)	4.38	4.19
b) Own Generation		
i) Through Diesel Generator		
Units (in '000 kwh)	162.518	99.578
Units/Ltr. of Diesel oil	2.51	2.36
Cost/Unit (Rs.)	4.30	3.75
ii) Steam Turbine/Generator		
Units	NIL	NIL
Units/Ltr. of fuel oil/Gas	NIL	NIL
Cost/Unit	NIL	NIL

2. Furnace Oil

Quantity (K.Ltr.)	344.311	360.881
Total Amount (Rs. in mio.)	2.216	2.592
Average Rate (Rs./K.Ltr.)	6436.00	7182.42

A-II Power and Fuel Consumption – Goa Factory

	Current Year	Previous Year
1. Electricity		
a) Purchased	7015.38	4155.96
Units (in '000 kwh)		
Total Amount (Rs. in mio.)	20.572	9.572
Rate/Unit (Rs.)	2.93	2.30
b) Own Generation		
i) Through Diesel Generator		
Units (in '000 kwh)	410.663	963.728
Units/Ltr. of Diesel oil	3.12	3.42
Cost/Unit (Rs.)	3.51	2.93
ii) Steam Turbine/Generator		
Units	NIL	NIL
Units/Ltr. of fuel oil/Gas	NIL	NIL
Cost/Unit	NIL	NIL

2. Furnace Oil

Quantity (K.Ltr.)	878.299	363.506
Total amount (Rs. in mio.)	6.114	2.787
Average Rate (Rs./K.Ltr.)	6961.18	7667.00

B. Consumption per unit of production

Standards (if any)	Current year (1)	Previous year (2)
Products	From the records and other books maintained by the Company, in accordance with the provisions of the Companies Act, 1956, the Company is not in a position to give the information required as per this format for the current year as well as the previous year	
Unit		
Electricity		
Furnace		
Coal		
Others		

FORM – B**FORM FOR DISCLOSURE OF PARTICULARS WITH RESPECT TO ABSORPTION OF TECHNOLOGY, RESEARCH AND DEVELOPMENT :****(A) RESEARCH AND DEVELOPMENT (R&D)**

- (1) Specific areas in which R & D has been carried out by the Company :

Pharma

R & D activities are pursued diligently to provide significant support to the expanding pharmaceutical business of the Company. Besides product, process and packaging development, it also includes analytical development.

Chemical

R & D activities in this area provide significant support to the expanding laboratory products business of the Company. Besides product, process development, it includes packaging development.

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

Formulation Development :

Eight Products were scaled-up to production level. These are in the range of anti-inflammatory, cardiovasculars, antibiotics and antimalarials. Also continuous cost reduction activity is undertaken.

Packaging Development :

In addition to improvement in quality and presentation, efforts were made to standardise pack designs of pharma products. Also, improvements in packaging was done for laboratory and diagnostics products.

Chemical Development :

Seventy products were scaled-up to production level. All these are from laboratory products range.

- (3) Future Plan of Action :

Pharma

New formulations will be developed in the range of vitamins, anti-inflammatory for treatment of osteoporosis and atherosclerosis included disorders such as hyperlipidemia.

Continuous efforts will be made to improve the stability and shelf life of existing products. For packaging development, emphasis will be on improvements of pack designs and elegance.

Chemical

Continuous efforts will be made to improve quality, manufacturing process of laboratory products. New products in the area of laboratory reagents and pH indicator papers will be developed.

(4) Expenditure on R & D	Rs. mio.
(a) Capital	0.7
(b) Recurring	4.4
(c) Total	5.1
(d) Total R & D expenditure as a percentage of total turnover	0.20%

B. TECHNOLOGY ABSORPTION, ADAPTION AND INNOVATION

1. Efforts in brief made towards technology absorption, adaption and innovation :

Continuous adaptive research & development of the products and the processes with the main objective of import substitution and cost reduction in an inflationary environment is carried out.

2. Benefits derived as a result of the above efforts e.g. product improvement, cost reduction, product development, import substitution, etc.

The changes in the processes as well as the packing methods have helped the Company in improving the marketing strategy as well as better realisations.

3. In case of imported technology (imported during the last 5 years reckoned from the beginning of the financial year), following information may be furnished.

(a) Technology imported, (b) Year of import, (c) Has technology been fully absorbed, (d) If not fully absorbed, areas where this has not taken place, reason therefor and future plans of action.

The Company's principals in Germany continue to extend from time to time technical know-how and information. Such technical know-how and information are adapted and absorbed by the Company through continuous experimentation by trained employees of the Company and also by deputing technical personnel to Germany on specific training assignments.