

RESPONSIBLE CARE

ANNUAL REPORT 1999

MERCK
E. MERCK (INDIA) LIMITED

THIRTY-THIRD ANNUAL REPORT AND STATEMENT OF ACCOUNTS 1999

Board of Directors

S. N. Talwar

Chairman

HG. Brötz

Managing Director

H. C. H. Bhabha

S. M. Gupte

W. Hönn

Vijay Kumar

G. V. S. Rayudu

E. Reiber

R. L. Shenoy

Director & Company Secretary

Auditors

A. F. Ferguson & Co.

Bankers

Canara Bank

Union Bank of India

Deutsche Bank AG

Citibank N. A.

HDFC Bank Ltd.

ANZ Grindlays Bank Ltd.

ICICI Bank Ltd.

Legal Advisors

Crawford Bayley & Co.

Report  Junction.com

Registered Office

Shiv Sagar Estate 'A'

Dr. Annie Besant Road

Worli, Mumbai 400 018

Factories

Plot Nos. 1 & 1A

MIDC Estate

Taloja, (Maharashtra)

Plot No. 11/1,

Usgaon (Goa)

Registrar & Transfer Agents

Messrs Sharepro Services

Investor Relations Centre at:

912, Raheja Centre

Free Press Journal Road

Nariman Point

Mumbai 400 021

Processing Centre at:

Satam Estate, 3rd Floor

Above Bank of Baroda

Cardinal Gracious Road

Chakala, Andheri (East)

Mumbai 400 099

Financial Highlights - 1990-99

		1990	1991	1992	1993	1994	1995	1996	1997	1998	Change	1999
PROFIT & LOSS ACCOUNT SUMMARY											+/- in %	
Turnover	Rs. mio	841.2	960.2	1,196.4	1,214.8	1,516.0	1,762.7	2,054.6	2,221.3	2,591.2	7.3%	2,779.6
Other Income	"	20.8	18.8	28.5	34.8	39.6	45.3	36.0	41.4	61.0	6.6%	65.0
		862.0	979.0	1,224.9	1,249.6	1,555.6	1,808.0	2,090.6	2,262.7	2,652.2	7.3%	2,844.6
Costs & Expenses												
Materials consumed	"	471.8	546.3	659.1	645.3	760.7	918.2	1,088.4	1,081.6	1,339.4	7.2%	1,435.6
Personnel cost	"	101.9	112.9	140.2	166.6	221.8	227.3	258.7	308.7	359.5	33.4%	479.5
Interest	"	58.8	89.6	128.8	96.9	61.9	71.1	65.0	52.0	47.2	-29.2%	33.4
Other Expenses	"	191.0	232.7	250.7	255.6	319.2	344.5	388.0	473.9	480.7	10.1%	529.4
Depreciation	"	15.5	19.5	28.4	29.6	29.1	34.8	40.8	47.9	69.1	20.0%	82.9
		839.0	1,001.0	1,207.2	1,194.0	1,392.7	1,595.9	1,840.9	1,964.1	2,295.9	11.5%	2,560.8
Profit Before Taxation	"	23.0	-22.0	17.7	55.6	162.9	212.1	249.7	298.6	356.3	-20.3%	283.8
Provision for Taxation	"	3.6	-8.0	0.7	9.0	75.7	78.4	86.2	103.8	86.4	18.6%	102.5
Profit after taxation	"	19.4	-14.0	17.0	46.6	87.2	133.7	163.5	194.8	269.9	-32.8%	181.3
BALANCE SHEET SUMMARY												
Assets Employed												
Fixed Assets (Gross)	Rs. mio	300.0	511.9	530.3	526.6	545.7	605.4	703.3	762.2	980.3	3.8%	1,017.5
Fixed Assets (Net)	"	300.7	426.6	417.1	384.8	385.2	423.8	479.2	600.6	644.9	1.3%	653.4
Investments	"	9.2	9.2	9.2	9.2	0.1	*	*	*	—	—	—
Current Assets (Net)	"	223.7	246.9	414.4	274.1	390.8	473.7	445.7	496.5	493.5	5.6%	521.2
Total Assets	"	533.6	682.7	840.7	668.1	776.1	897.5	924.9	1,097.1	1,138.4	3.2%	1,174.6
Financed by												
Share Capital	Rs. mio	59.4	89.1	163.3	168.6	168.6	168.6	168.6	168.6	168.6	—	168.6
Reserves and Surplus	"	85.3	34.0	46.5	180.8	234.4	330.9	444.4	579.9	781.2	13.1%	883.3
Shareholders' Funds	"	144.7	123.1	209.8	349.4	403.0	499.5	613.0	748.5	949.8	10.7%	1,051.9
Borrowings	"	388.9	559.6	630.9	318.7	373.1	398.0	311.9	348.6	188.6	-34.9%	122.7
Total Liabilities	"	533.6	682.7	840.7	668.1	776.1	897.5	924.9	1,097.1	1,138.4	3.2%	1,174.6
OTHER INVESTOR INFORMATION												
Earnings per share	Rs.	3.3	-1.6	1.9	2.8	5.2	7.9	9.7	11.6	16.0	-32.5%	10.8
Dividend	%	20.0	10.0	5.0	15.0	20.0	22.0	27.0	32.0	37.0	13.5%	42.0
Book value per share	Rs.	24.4	13.8	15.2	20.7	23.9	29.6	36.4	44.4	56.3	10.8%	62.4
Market value of share	High Rs.	95	170	240	185	300	225	230	253	398	136.2%	940
	Low Rs.	65	58	87	78	150	141	117	155	177	109.6%	371
No. of Shareholders		20,130	21,440	23,463	26,731	28,431	29,607	28,738	28,238	27,362	-9.1%	24,863
No. of Employees		1,854	1,991	2,098	2,004	1,848	1,735	1,762	1,744	1,708	-8.7%	1,559

* Less than Rs. 50,000/-

Notice of Annual General Meeting

NOTICE is hereby given that the Thirty-third Annual General Meeting of the Members of E.Merck (India) Limited will be held at Amar Gian Grover Auditorium, Lala Lajpat Rai Memorial Trust, Lala Lajpat Rai Marg, Haji Ali, Mumbai 400 034 on Monday, 27th March, 2000 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, 1999, 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. R.L. Shenoy 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.

By Order of the Board of Directors

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

Mumbai, 18th February, 2000

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 14th March, 2000 to 27th March, 2000 (both days inclusive) for the purpose of payment of dividend.
3. Payment of dividend as recommended by the Directors, if approved at the Meeting, will be made on or after 18th April, 2000 to those Members whose names appear on Company's Register of Members on 27th March,

2000. Members who have opened a Depository Account with a Depository Participant of NSDL / CDSL may have given the Bank Account details to be used for printing on dividend warrants. If you want to receive the dividend in an account other than the one specified while opening the Depository Account, you may change the Bank Account details with your Depository Participant to enable smooth processing of dividend warrants and to ensure that there will be no fraudulent encashment of dividend warrants.

4. Members are requested to intimate to the Registrar and Transfer Agents viz., Sharepro Services, Mumbai, before 13th March, 2000, changes, if any, in their registered address.
5. For the convenience of Members, an 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.
5. Members are requested to encash the dividend warrants immediately on receipt, as dividends remaining unclaimed for seven years are now required to be transferred to the "Investor Education and Protection Fund" to be established by the Central Government under the amended provisions of the Companies Act, 1956. You shall not be able to claim any unpaid dividend from the said fund or the Company thereafter.

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-third Annual Report and Audited Accounts for the year ended 31st December, 1999.

FINANCIAL HIGHLIGHTS :

	(Rs. mio)	
	1999	1998
SALES	2779.6	2591.2
OTHER INCOME	65.0	61.0
PROFIT BEFORE INTEREST, DEPRECIATION, EXTRA-ORDINARY ITEMS AND TAXATION	514.7	524.0
Interest	33.4	47.2
Depreciation	82.9	69.1
Voluntary Retirement Scheme Payments	114.6	23.9
Provision for Gratuity	—	27.5
Provision for Taxation	102.5	86.4
PROFIT AFTER TAX	181.3	269.9
Profit & Loss Account Balance brought forward	87.2	60.2
PROFIT AVAILABLE FOR APPROPRIATION	268.5	330.1
Proposed Dividend	70.8	62.4
Tax on Proposed Dividend	8.4	6.2
Transfer to General Reserve	126.2	174.3
Balance carried to the Balance Sheet	63.1	87.2

DIVIDEND :

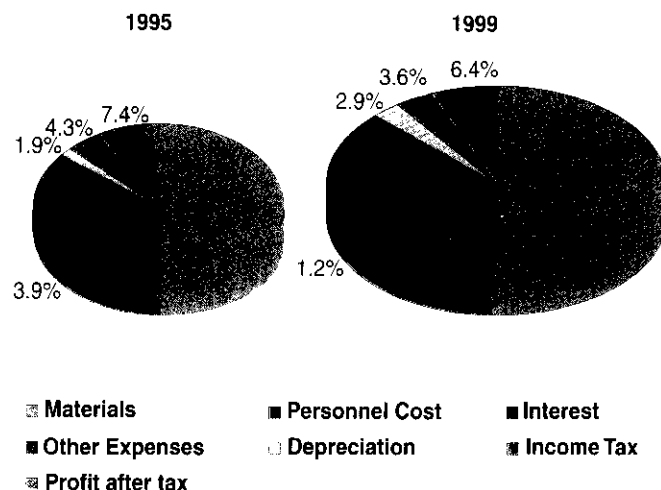
Despite the lower profit after tax than achieved last year, the Directors are pleased to recommend for your consideration payment of dividend at Rs. 4.20 per share, for the year ended 31st December, 1999. The recommended rate is higher by 13.5% over the rate of dividend paid last year.

OPERATIONS :

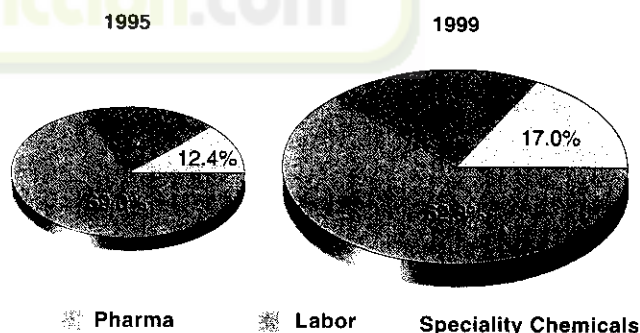
The turnover of the Company for the year 1999 at Rs. 2779.6 mio reflects a growth of 7.3% over the turnover achieved last year.

In line with the sluggish turnover in Pharma industry, the turnover of the Pharma

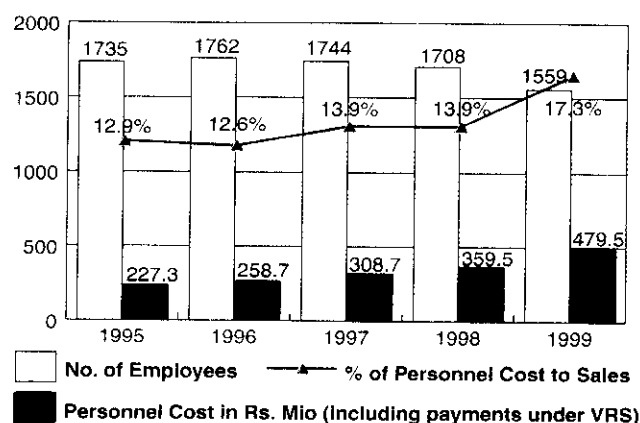
How the Revenue is spent ?



Sales Composition



Employee Information



division was lower than that projected by the Company. While the Company has a strong presence in the Vitamin segment, efforts are being made in the last few years to consolidate the non-Vitamin therapeutic areas such as cardiology, cardio-protective nutrients, topical anti inflammatory and dermatological. During the year the Company introduced Emadine and Emadine AT for controlling hyper-tension, Maxepa, a nutrition related cardiac drug, Cadvion for vascular metabolic function, Exflam gel, an anti inflammatory cream and Evion moisturising cream for skin nourishment.

On 14th October, 1999, the Government issued a notification banning the production, sale and distribution of fixed dose combination of Vitamin B1, B6, B12 effective 1st January, 2001. The combination is being presently manufactured and sold by the Company under the trade mark 'Neurobion'. The Company has already taken certain strategic steps to maintain its turnover and profitability.

On account of the failure of negotiations with Seven Seas Limited, U.K., the Company will not benefit from the trademark and technical know-how of Seven Seas Limited.

The non-Pharma divisions i.e. Reagents, Diagnostics, Bulk Drugs and Pigments, have performed well both in terms of turnover and profitability. Several new products were introduced in the Reagents and Diagnostics divisions.

On account of the extra-ordinary expenditure incurred on compensation and gratuity paid to the employees who left the Company under the Voluntary Retirement Scheme, the profit before tax was less at Rs. 283.8 mio as against Rs. 356.3 mio achieved last year.

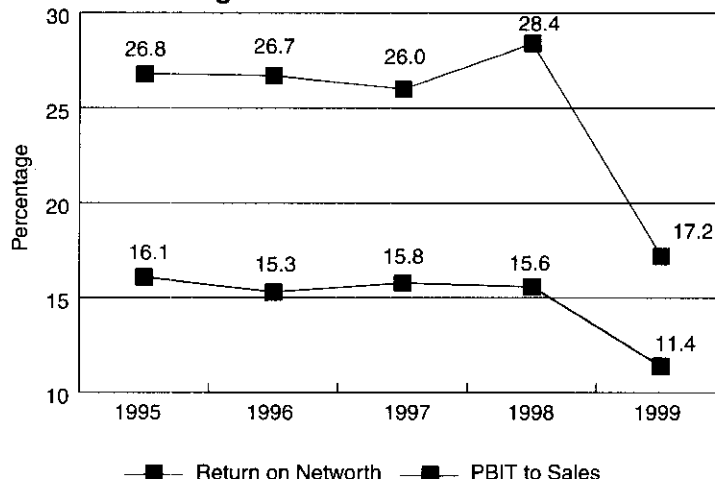
The borrowing of the Company as also the cost of borrowing has been continually on the decline. This has contributed to the improvement in profit of the Company. As on the date of the Balance Sheet, there are no long term secured loans outstanding and due from the Company.

ACCOUNTS :

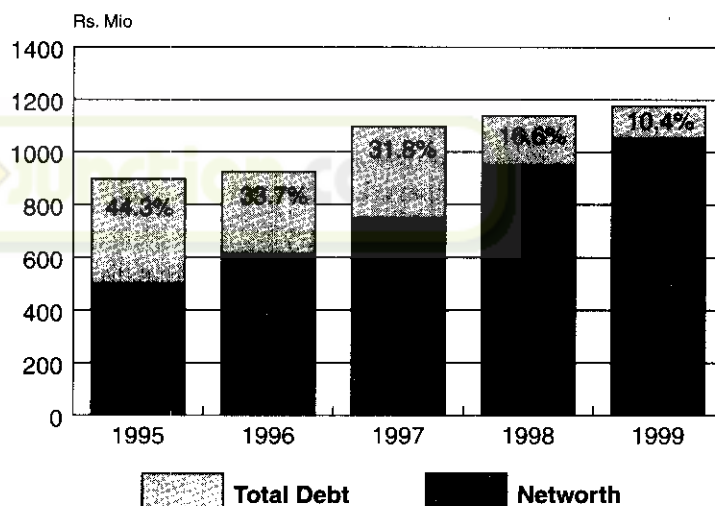
The Directors confirm that :

- in the preparation of annual accounts, the applicable accounting standards

Percentage Performance to Network and Sales



Total Debt to Network Ratio



Balance Sheet

Rs. Mio

	Assets		Liabilities	
Loans/Advances	8.9	20.1	237.9	353.9
Cash/Bank				
Sundry Debtors				
Inventories	424.8	373.8		
Fixed Assets			169.6	168.6
	1995	1999	1995	1999
			Provisions	
			Current Liabilities	
			Loan Funds	
			Reserves	
			Share Capital	

have been followed along with proper explanation relating to material departures;

- b) the accounting policies have been consistently applied and reasonable and prudent judgement and estimates have been made so as to give a true and fair view of the state of affairs of the Company as at 31st December, 1999 and the Profit and Loss of the Company for that period;
- c) proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 has been taken for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- d) the annual accounts have been prepared on a going concern basis.

EXPORTS :

The exports during the year amounted to Rs. 139.3 mio as against Rs. 132.7 mio achieved in the previous year.

DEBENTURES :

The Directors confirm that the Company has repaid the amounts raised by way of debentures and as on date there are no debentures outstanding in the Company's books.

FIXED DEPOSITS :

The total amount of Fixed Deposits as on 31st December, 1999 was Rs. 6.4 mio. The Company has refunded all the deposits that matured and were claimed by the depositors. Deposits amounting to Rs. 0.75 mio due for repayment were unclaimed as on 31st December, 1999. A sum of Rs. 0.25 mio has since been claimed and paid.

DIRECTORS :

Mr. R.L.Shenoy and Mr.Vijay Kumar retire at the forthcoming Annual General Meeting and are eligible for re-appointment.

AUDITORS :

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

COST AUDIT :

Messrs 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 continued to be cordial and harmonious throughout the year.

The Company entered into two long term settlements revising the terms and conditions of employment with the Field Staff and Employees' Union at Taloja during the year. The settlements are effective April, 1999 and January, 1999 in respect of Field Staff Union and the Employees' Union at Taloja respectively.

The information as per Section 217(2A) of the Companies Act, 1956, read with Companies (Particulars of Employees) Rules, 1975 and 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.

The particulars relating to conservation of energy and technology absorption have been given in the annexures to the Report.

The Company has been making efforts to improve exports to earn valuable foreign exchange. Apart from export promotion through sole selling agents, the Company's marketing executives undertake visits abroad to tap new export markets. The Company's soft gelatin encapsulation Plant at Goa has been certified by Therapeutic Goods Administration, Australia. The certificate should further help the Company to explore the possibilities of export of soft gelatin capsules to South East Asian Countries and Europe.

During the year, foreign exchange outgo was to the extent of Rs. 593.2 mio (which includes import of raw materials to the extent of Rs. 281.6 mio) while foreign exchange earned was Rs. 159.2 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, 18th February, 2000

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 the Board of Directors) Rules, 1988 forming part of the Directors' Report for the year ended 31st December, 1999.

1. CONSERVATION OF ENERGY - TALOJA FACTORY

a) Energy Conservation Measures taken :

- i) Replacement of two Air Handling Units.
- ii) Replacement of old Chilled Water piping for Pharma Air Conditioning System thereby increasing Chilled Water circulation and the Air Conditioning effect.
- iii) Installed dedicated Electric Lighting Circuit along with ON/OFF switches at both Entrance/Exit of Pharma utility floor for Operation of lighting (100 nos. tube lights) as and when required.
- iv) Installed ECOFLOW Devices (2 Nos.) on Boiler Fuel Line which works on the principle of 'IONIZATION BY MAGNETIC INDUCTION'. In detail the ECOFLOW device ionizes the fuel by directing a specific and powerful static Magnetic Field right into the fuel supply line. With this process, the fuel ability to combine with oxygen improves and greater energy is released from the fuel.
- v) Rectified the leakages of Compressed Air System to conserve power.

- vi) Regular checking of steam traps and replacement of faulty steam traps.

b) Impact of measures taken :

There has been reduction in consumption of power and furnace oil.

2. CONSERVATION OF ENERGY - GOA FACTORY :

a) Energy Conservation Measures taken :

- i) Conducted detailed Energy Audit by Messrs Tata Energy Research Institute, Bangalore and energy conservation measures were taken as per their recommendations.
- ii) Replacement of thermal insulation of steam piping to reduce radiation losses.
- iii) Regular checking of steam traps and replacement of faulty steam traps.
- iv) Improved performance of 110 TR. refrigeration plant by inserting spirals in evaporator tubes.
- v) Rectified the leakages of Compressed Air System to conserve power.
- vi) Connected treated effluent water to vacuum pumps of Vitamin E plant to reduce the raw water consumption.
- vii) Started pumping back the drain water of Ampoule washing machines to cooling towers to avoid water wastage.

b) Impact of measures taken :

There has been considerable reduction in consumption of power, furnace oil and water.

FORM - A

FORM FOR DISCLOSURE OF PARTICULARS WITH RESPECT TO CONSERVATION OF ENERGY

Power and fuel consumption 1999 at Taloja and Goa factories

Sr. No.	Description	Taloja Factory		Goa Factory	
		Current Year	Previous Year	Current Year	Previous Year
1.	ELECTRICITY				
a)	Purchased Units	2008.94	2432.29	6223.26	7015.38
	(in '000 kwh)				
	TOTAL AMOUNT (Rs. in mio)	9.667	10.652	21.146	20.572
	Rate / Unit (Rs.)	4.81	4.38	3.40	2.93
b)	Own Generation				
i)	Through Diesel Generator				
	Units (in '000 kwh)	133.90	162.52	685.04	410.66
	Units/Ltr. Of Diesel Oil	2.60	2.51	2.95	3.12
	Cost / Unit (Rs.)	4.66	4.30	3.99	3.51
ii)	Steam Turbine/Generator				
	Units	NIL	NIL	NIL	NIL
	Units/Ltr. Of Fuel Oil/Gas	NIL	NIL	NIL	NIL
	Cost/Unit (Rs./K.Ltr.)	NIL	NIL	NIL	NIL
2.	FURNACE OIL				
	Quantity (K. Ltr.)	212.873	344.311	843.657	878.299
	Total Amount (Rs. in mio)	1.631	2.216	7.307	6.114
	Average Rate (Rs./K.Ltr.)	7661.85	6436.00	8661.11	6961.18

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**

The Pharma R & D centre located at Taloja Plant is recognized by the Department of Scientific and Industrial Research. R & D activities are carried out in several areas like galenic development of new formulations, product improvement, process improvement and consumer convenience. The R & D centre is privileged to have access to the latest technologies developed by Merck KGaA.

An integrated approach in developing new products and packaging has resulted in optimum utilisation of resources, decrease of product development, lead time and development cost.

Chemical

The Chemical R & D centre is located at Goa and carries on process development of products of interest for the Merck group and process improvement for Vitamin E Acetate and Guaiazulene.

2. BENEFITS DERIVED AS A RESULT OF R & D**Pharma**

Eight new products were launched in the year 1999. The list of the products is as under:

Anti Inflammatory

1. Exflam Gel : Aqueous gel of Diclofenac 1%
2. Emflam Plus : Tablets of 400mg Ibuprofen & 500 mg Paracetamol.

Anti Malarials

3. Quinine Merck : 300 mg of Quinine Tablets Sulphate
4. Quinine Merck : 300 mg of Quinine Injection Sulphate Injection.

Nasal Drops

5. Nasivion – S : Nasal Drops of Saline Solution.

Cardiovascular

6. Maxepa : Soft gelatin Capsules of Omega – 3 Fatty Acids
7. Emadine : Amlodipine 2.5 mg Tablets

Dermatologicals

8. Evion Cream : Moisturiser cream having Vitamin E 1% in perfumed base.

Chemical

For the following three products, processes are developed.

1. Hair Protectants
2. Chlorphenesin
3. Allantoin

3. FUTURE PLAN OF ACTION**Pharma**

In the therapeutic segments, we are forecasting strong growth in anti-bacterial, cardiovascular, anti-diabetics and nutritional segments. Accordingly, we have geared up developmental activities in these segments. For packaging development, we will be incorporating bar-coding on major brands.

Chemical

Hair protectants and Allantoin are expected to be commercialised and exported to the Merck group in the year 2000.

4. EXPENDITURE ON R&D :

	Rs. mio
a. Capital	0.3
b. Recurring	6.4
c. Total	6.7
d. Total R & D Expenditure as a percentage of total turnover	0.24%