



Annual Report

2005



## MAJOR PHARMA PRODUCTS IN MERCK THERAPEUTIC RANGE



Cover page picture - Iridin Pearlescent Pigments From Merck - adding aesthetic value to objects of our daily life.

Coated with Iridin<sup>®</sup> pearl lustre pigments manufactured by Merck

# Merck Limited

## Thirty Ninth Annual Report and Statement of Accounts 2005

<i>Board of Directors</i>	<i>Auditors</i>	<i>Bankers</i>	<i>Legal Advisors</i>
· Mr. S. N. Talwar · <i>Chairman</i>	· BSR & Co.	· Canara Bank	· Crawford Bayley & Co.
· Dr. H. Mauer · <i>Managing Director</i>		· Union Bank of India	
· Dr. J. Sombroek		· Deutsche Bank AG	
· Mr. W. W. Zywoitek · <i>(from 6-1-2006)</i>		· Citibank N.A.	
· Prof. Dr. T. Schreckenbach · <i>(upto 6-1-2006)</i>		· Standard Chartered Bank	
· Mr. H. C. H. Bhabha		· ICICI Bank Limited	
· Dr. S. M. Gupte		· HDFC Bank Limited	
· Mr. V. D. Narkar			
· Mr. G. V. S. Rayudu			
· Mr. R. L. Shenoy			
<i>Executive Committee:</i>			
· Dr. H. Mauer · <i>Managing Director</i>		<i>Contents</i>	<i>Page No.</i>
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<i>Registered Office</i>	<i>Plant Location</i>	<i>R &amp; T Agents</i>	
· Shiv Sagar Estate 'A'	· Plot No. 11/1	· Sharepro Services (India) Pvt. Ltd.	
· Dr. Annie Besant Road	· Usgaon, Ponda 403 407	· 912, Raheja Centre	
· Worli, Mumbai 400 018	· Goa	· Free Press Journal Marg	
		· Nariman Point	
		· Mumbai 400 021	

# Notice of Annual General Meeting

NOTICE is hereby given that the Thirty Ninth Annual General Meeting of the Members of Merck Limited will be held at Amar Gian Grover Auditorium, Lala Lajpat Rai Marg, Haji Ali, Mumbai - 400 034 on Thursday, 27th April, 2006 at 11.00 a.m. to transact the following business:

## ORDINARY BUSINESS:

1. To receive and adopt the audited Profit and Loss Account for the year ended 31st December, 2005, the Balance Sheet as on that date and the Reports of the Board of Directors and Auditors.
2. To declare a dividend for the year 2005.
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 Dr. S. M. Gupte 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.

## SPECIAL BUSINESS:

6. 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 294 AA and other applicable provisions, if any, of the Companies Act, 1956, and subject to the approval of the Central Government, the Company hereby accords consent to the appointment of Merck (Pty.) Ltd., South Africa as the Sole Selling Agent of the Company for the sale and distribution of the Company's Pharmaceutical Products, Drug Intermediates and Vitamins in Kenya, Zambia, Tanzania and Mozambique for a period of 5 years with effect from date of the approval of the Central Government, on a commission of 5% on F.O.B. value of exports and subject to other terms and conditions set out in the draft agreement to be entered into between the Company and the Sole Selling Agent, placed before this Meeting and initialed by the Chairman for the purpose of identification;

RESOLVED FURTHER THAT the Board of Directors of the Company be and it is hereby authorised to agree to such modifications, if any, as the Central Government may require which are acceptable to the Board of Directors and the Sole Selling Agent”.

By Order of the Board of Directors

H. U. Shenoy  
Company Secretary

Mumbai, 27th January, 2006

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 INSTEAD OF HIMSELF, ONLY ON A POLL, AND A PROXY NEED NOT BE A MEMBER.

Proxies in order to be effective, must be deposited with the Company at the Registered Office of the Company not less than 48 hours before the commencement of the Meeting.

2. The relevant Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956, (the Act) in respect of Special Business at item No. 6 of the Notice is annexed.
3. The Register of Members and the Share Transfer Books of the Company will be closed from Saturday 15th April, 2006 to Thursday 27th April, 2006 (both days inclusive).
4. Pursuant to Sections 205A and 205C of the Act, dividend which remains unclaimed for a period of seven years from the date of transfer to the Unpaid Dividend Account, is required to be transferred to the Investor Education and Protection Fund established by the Central Government. According to the relevant provisions of the Act, no claims shall lie against the said Fund or the Company for the amount of dividend so transferred to the said Fund. Members who have not encashed the dividend warrant(s) so far for the year ended 31st December, 1998 or any subsequent years, are requested to send their claims directly to the Company or to Sharepro Services (India) Pvt. Ltd., the Company's Registrars and Transfer Agents (the R&T Agents). The Company has been sending reminders to the concerned Members to claim their dividend.

Unclaimed dividend for years prior to 1998 has already been transferred to the Investor Education and Protection Fund referred to above.

5. Members are requested to notify immediately any change of address to their Depository Participants (DPs) in respect of their holdings in electronic form and to the Secretarial Department at the Registered Office of the Company or to the R&T Agents in respect of their holdings in physical form.
6. In order to provide protection against fraudulent encashment of dividend warrants, Members are requested to furnish, if not done so, their Bank account number, name and address of the Bank Branch, quoting their folio numbers to the Secretarial Department at the Registered Office of the Company or to the R&T Agents.
7. Members holding shares in demat form may please note that the Company will be mandatorily printing on the dividend warrants as advised by the Securities and Exchange Board of India, the Members' bank account details as furnished by their respective DPs to the Company. Members holding shares in demat form must therefore, give



# Notice of Annual General Meeting

instructions regarding their bank account details directly to their DPs. The Company will not entertain any direct request from such Members for deletion of/change in their bank account details. Further, instructions given by Members for shares held in physical mode would not be automatically applicable to the dividend paid on shares held in demat form.

8. In respect of Members who have given mandate for payment of dividend through Electronic Clearing Services (ECS), the dividend will be paid through ECS.
9. Members are informed that in case of joint holders attending the Meeting, only such joint holder who is higher in the order of names will be entitled to vote.
10. In terms of Section 109A of the Act, Members are entitled to make nominations in respect of shares held by them in physical form. Members desirous of making nominations are requested to send their requests in Form 2B in duplicate (which will be made available on request) to the Secretarial Department at the Registered Office of the Company or to the R&T Agents.
11. A brief profile of the Directors appointed and retiring by rotation and eligible for re-appointment, as required by Clause 49 of the Listing Agreements signed by the Company with the Stock Exchanges, is given in the Report on Corporate Governance.

## 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.
3. Members who hold shares in dematerialized form are requested to bring their Client ID and DP ID numbers for easy identification of attendance at the Meeting.
4. 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.

## EXPLANATORY STATEMENT:

Pursuant to Section 173(2) of the Companies Act, 1956.

### ITEM 6:

To improve upon the export business in East African countries, the Directors, subject to the approval of Members, the Central Government and such other authorities as may be required, have appointed Merck (Pty.) Ltd., South Africa as the Sole Selling Agent of the Company for the sale and distribution of Pharmaceutical Products, Drug Intermediates and Vitamins in Kenya, Zambia, Tanzania and Mozambique on terms and conditions including rate of commission and the duration mentioned in the draft agreement to be entered into between the Company and Merck (Pty.) Ltd., South Africa. The Agreement with the Sole Selling Agent also provides for termination by either party by giving to the other three months' notice.

The Directors seek your approval under Section 294AA of the Companies Act, 1956, to the appointment of Merck (Pty.) Ltd., South Africa as the Sole Selling Agent in Kenya, Zambia, Tanzania, and Mozambique. The approval of the Central Government will be sought in due course.

A copy of the draft agreement to be entered into between the Company and Merck (Pty.) Ltd., South Africa is open to inspection by the Members at the Registered Office of the Company between 2.00 p.m. and 4.00 p.m. on all working days upto the date of the Annual General Meeting.

None of the Directors is interested in the Resolution.

By Order of the Board of Directors

H. U. Shenoy  
Company Secretary

Mumbai, 27th January, 2006

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

## Directors' Report

Your Directors have pleasure in presenting their Report on the business and operations of your Company along with the Accounts for the year ended 31st December, 2005.

### FINANCIAL HIGHLIGHTS:

	(Rs. mio.)	
	2005	2004
<b>SALES</b>	<b>3,964.6</b>	<b>3,766.0</b>
<b>OTHER INCOME</b>	<b>183.7</b>	<b>138.2</b>
Profit before Interest, Depreciation and Taxation	1,250.3	1,173.7
Interest	0.2	1.9
Depreciation	77.5	86.0
<b>PROFIT BEFORE TAXATION</b>	<b>1,172.6</b>	<b>1,085.8</b>
Provision for Taxation (net)	384.7	375.9
<b>PROFIT AFTER TAX</b>	<b>787.9</b>	<b>709.9</b>
Profit and Loss Account Balance brought forward	627.9	265.6
<b>PROFIT AVAILABLE FOR APPROPRIATION</b>	<b>1,415.8</b>	<b>975.5</b>
<b>APPROPRIATIONS:</b>		
Transfer to General Reserve	225.5	157.0
Dividend (Proposed)	252.9	168.6
Dividend Tax	35.5	22.0
Balance carried to the Balance Sheet	901.9	627.9

### DIVIDEND:

The Directors recommend for the consideration of the Members, a dividend of Rs. 15/- per Equity Share for the year 2005, as against Rs. 10/- per Equity Share paid last year.

### OPERATIONS:

The Company recorded gross sales of Rs. 3,964.6 mio. as against Rs. 3,766.0 mio. for the year 2004, showing a growth of 5.3%. The turnover of Pharma division grew by 1% at Rs. 2,258.2 mio. as against Rs. 2,236.8 mio. for the year 2004. The Chemicals division recorded a turnover of Rs. 1,706.4 mio. as against Rs. 1,529.2 mio. achieved in the year 2004, showing a growth of 11.6%. The Profit before Tax showed a growth of 8.0% at Rs. 1,172.6 mio. as against last year's achievement of Rs. 1,085.8 mio.

### FINANCE:

The investments of the Company in various debt funds, capital gain bonds and term deposits with Banks as on the date of the Report aggregate to Rs. 2,310.0 mio.

### DIRECTORS' RESPONSIBILITY STATEMENT:

In accordance with Section 217(2AA) of the Companies Act, 1956, your Directors confirm that:

- in the preparation of the annual accounts, the applicable accounting standards have been followed along with proper explanation relating to material departures;
- the accounting policies have been consistently applied and reasonable and prudent judgment 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, 2005, and the Profit for the year ended on that date;
- 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 detecting and preventing fraud and other irregularities; and
- the annual accounts have been prepared on a going-concern basis.

### SALE OF LIFE SCIENCE & ANALYTICS EXCLUDING BULK DRUGS (LS&A) BUSINESS OF THE COMPANY:

The Board of Directors of the Company at its Meeting held on 6th January, 2006 decided to sell, subject to the approval of shareholders, the LS&A business to Merck Specialities Private Limited, a wholly owned subsidiary of Merck KGaA, Germany. The Company has already taken steps to seek the approval of the shareholders through the Postal Ballot process.

### MERCK INDIA CHARITABLE TRUST:

As was indicated in the last year's Report, Merck India Charitable Trust was formed by the Company, with the main object of rendering financial assistance to children from the poorer sections of the Society to pursue primary and secondary education. As in the previous year, the Company will contribute Rs. 10 mio as contribution for the year 2005 and necessary provision has already been made in the Accounts for the same.

### DIRECTORS:

Mr. R.L. Shenoy and Dr. S.M. Gupte will retire by rotation at the ensuing Annual General Meeting and being eligible, offer themselves for re-appointment. Mr. Walter W. Zywoitek of Merck KGaA was appointed on the Board under the provisions of Article 110 of the Articles of Association by Merck KGaA in place of Prof. Dr. T. Schreckenbach who ceased to be a Director of the Company with effect from 6th January, 2006. Your Directors place on record the valuable services rendered by Prof. Dr. Schreckenbach during his tenure as a Director of the Company.

### FIXED DEPOSITS:

During the year, the Company has not accepted any deposits. The fixed deposit holders have not claimed deposits aggregating to Rs. 0.2 mio. due for repayment as on the date of this Report. Barring these, the Company has refunded all the deposits claimed by the deposit holders as on 31st December, 2005 and as on the date of this Report.

## Directors' Report

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**AUDITORS:**

Messrs BSR & Co., Chartered Accountants retire as Statutory Auditors at the conclusion of the ensuing Annual General Meeting and are eligible for re-appointment. The Audit Committee of the Board recommends the re-appointment of Messrs BSR & Co., as Auditors for the year 2006. Messrs BSR & Co. have confirmed their eligibility and willingness to continue to act as Auditors of the Company for the current year, if appointed.

**COST AUDIT:**

Messrs S.S. Mani & Co., have been re-appointed to conduct the cost audit of the accounts maintained by the Company in respect of Bulk Drugs and Formulations, for the year 2006.

**PERSONNEL:**

Industrial Relations with the employees at various levels continue to be cordial. Negotiations with the Employees' Union at the Goa Plant in respect of Charter of Demands is continuing. The Company concluded the settlement which expired on 31st March, 2005, with the Field Staff Union during the year.

The information required to be included as per Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975 as amended, is set out in the Annexure forming part of this Report.

**CONSERVATION OF ENERGY, TECHNOLOGY ABSORPTION AND FOREIGN EXCHANGE EARNINGS AND OUTGO:**

The information pertaining to conservation of energy, technology absorption, foreign exchange earnings and outgo required to be disclosed as per 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, is given in the Annexure forming part of this Report.

**CORPORATE GOVERNANCE:**

A Report on the Corporate Governance Code along with a certificate from the Auditors of the Company regarding compliance of conditions of Corporate Governance as also the Management Discussion and Analysis Report, stipulated under Clause 49 of the Listing Agreements are annexed to this Report.

On behalf of the Board of Directors

S. N. Talwar  
Chairman

Mumbai, 27th January, 2006

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# Annexure to the Directors' Report

Information as per Section 217 (2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, and forming part of the Directors' Report for the year ended 31st December, 2005.

Name	Designation/ Nature of duties	Gross Remuneration (Rs.)	Qualifications	Experience (Years)	Date of commencement of employment	Age (Years)	Last Employment held
(A) Employed throughout the year:							
MR. BHATTACHARJEE A. R.	Director- Chemicals	36,57,894	B. Sc.	22	18/08/1985	43	Chemist- Kopran Chemicals
DR. GUPTA S. M.	Director- Pharma	55,87,614	M.D. (Bombay)	32	16/01/1978	54	Tutor in Medicine- K.E.M. Hospital
DR. MAUER H.	Managing Director	97,64,257	M.A., Ph.D. (Eco.)	36	01/07/2002	62	Managing Director - Merck S.p.A., Italy
MR. RAYUDU G. V. S.	Director- Technical, Information Technology and Personnel	55,53,342	B. Tech.	35	27/01/1982	58	Project Manager - Jainex Ltd.
MR. SHENOY R. L.	Director- Finance, Legal, Logistics and Commercial	54,96,816	B.Com., LL.M., A.C.A., ACS, A.I.C.W.A., C.A.IIB., M.B.I.M. (London)	33	18/08/1980	57	Asst. Secretary - Tata Electric Companies

(B) Employed for a part of the year: None

**Notes:**

- 1 All employments are contractual and terminable on either side. Other terms of employment are as per the Rules of the Company.
- 2 Gross Remuneration includes salary, allowances, commission, monetary value of perquisites, leave travel assistance and Company's contribution to provident & superannuation funds.
- 3 None of the employees is a relative of any Director of the Company.
- 4 Age, experience and qualifications reflect the position as on 31st December, 2005.

On behalf of the Board of Directors

S. N. Talwar  
Chairman

Mumbai, 27th January, 2006





# 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.

## (A) CONSERVATION OF ENERGY:

### GOA FACTORY

#### (a) Energy Conservation measures taken:

1. Briquette fired boiler using agro-based fuels such as cashew shell cake and wood installed.

2. Vapour absorption chiller restarted in Softgel plant from August, 2005 due to introduction of Briquette fired boiler.

#### (b) Impact of measures taken:

1. Furnace oil consumption replaced with agro-based solid fuels thereby improving the boiler efficiency.
2. HSD consumption reduced.
3. Power consumption reduced.

## FORM A

### FORM FOR DISCLOSURE OF PARTICULARS WITH RESPECT TO CONSERVATION OF ENERGY

#### Power and Fuel consumption at Goa Plant

Sr. No.	Description	Year 2005	Year 2004
1.	<b>ELECTRICITY</b>		
(a)	Purchased		
	Units (in '000 kwh)	6,669.50	5,509.32
	Total Amount (in Rs. mio.)	21.88	18.66
	Rate/Unit (in Rs.)	3.28	3.39
(b)	Own Generation		
	Through Diesel Generator		
	Units (in '000 kwh)	316.27	569.21
	Units/Ltr. of Diesel Oil	3.10	2.55
	Cost/Unit (in Rs.)	9.68	9.17
2.	<b>(a) FURNACE OIL</b>		
	Quantity (in K. Ltr.)	357.70	440.43
	Total Amount (in Rs. mio.)	6.15	6.56
	Average Rate (in Rs./K. Ltr.)	17,193	14,894
	<b>(b) BRIQUETTE (Cashew shell + Wood)</b>		
	Quantity (in Tons)	1,418.48	—
	Total Amount (in Rs. mio.)	2.16	—
	Average Rate (in Rs./Ton)	1,522.76	—

#### Consumption per unit of production

	Standards (if any)	Current Year (1)	Previous Year (2)
Products (with details)	In view of the multi-facilities production systems, the Company is not in a position to give the information required as per this format for the current year as well as for the previous year from the records maintained by the Company in accordance with the provisions of the Companies Act, 1956.		
Unit			
Electricity			
Furnace Oil			
Coal			
Others			

## (B) TECHNOLOGY ABSORPTION:

### FORM B

#### FORM FOR DISCLOSURE OF PARTICULARS WITH RESPECT TO ABSORPTION OF TECHNOLOGY, RESEARCH AND DEVELOPMENT

#### a. RESEARCH & DEVELOPMENT (R & D):

1. SPECIFIC AREAS IN WHICH R & D HAS BEEN CARRIED OUT BY THE COMPANY:

##### Pharma

The Pharma R & D Centre at Shirwane, Navi Mumbai, is recognized by the Department of Scientific and Industrial Research (DSIR). The R & D activities are carried out in several areas like pharmaceuticals, vitamin premixes,

cosmetics and packaging development. The Research Centre is privileged to have access to the latest technologies developed by Merck KGaA, Germany.

Reduction in lead-time with better utilisation of resources has been achieved by an integrated approach in development of new processes and packing materials.

Evaluation of alternative raw materials meeting the regulatory requirements for improving the productivity is carried out continuously. With a view to achieve the cost effectiveness, constant efforts are made to develop new processes and improve the existing ones by simplifying/modifying those.

## Annexure to the Directors' Report

### 2. BENEFITS DERIVED AS A RESULT OF THE ABOVE R & D:

As a result of the continuous improvement and adaptation of technology, the Company was able to commercialise improved processes and yields, enhance quality and reduce costs. Line extensions for existing products and original formulations were developed by using the in-house R&D capabilities.

Measures were taken to optimise cost of packing materials.

### 3. FUTURE PLAN OF ACTION:

Following products are to be launched:

1. Cod polybion syrup
2. Pedimune - P
3. Osto Polybion syrup
4. Flexi joint capsules
5. Livogen drops
6. Concor AM 2.5 TABS
7. Concor AM 5 TABS.

Efforts will be made to develop innovative, commercially viable processes know-how for both active pharmaceutical ingredients and dosage forms and also for improving the shelf life/stability, quality, convenience, meeting regulatory compliances, continuous R&D initiatives.

### 4 EXPENDITURE ON R&D:

(Rs. mio.)

Capital	9.9
Recurring	6.2
Total	<u>16.1</u>
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 :

The R&D Centre carries out developmental activities in several areas such as import substitution for raw materials, batch cycle time reduction as also line extensions of some

existing products. Apart from the in-house capabilities, external consultancy was hired for certain specific projects.

The R & D Centre also under the guidance of Merck KGaA, Germany makes endeavours to be upto date with quality systems and current good manufacturing practices.

### 2. BENEFITS DERIVED AS A RESULT OF ABOVE EFFORTS :

Changes in processes as well as in packaging methods have resulted in launching of new products, improvement in yields and cost efficiency.

IN CASE OF IMPORTED TECHNOLOGY (IMPORTED DURING LAST 5 YEARS) 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, REASONS THEREFOR AND FUTURE ACTION PLAN

The Company has been receiving technical know-how relating to processes, products, quality, etc. from the collaborators, Merck KGaA, Germany, on an ongoing basis. The technical know-how and information are adapted and absorbed by the Company through continuous experimentation by its trained employees under the guidance of technical personnel from Merck KGaA, Germany.

### (C) FOREIGN EXCHANGE EARNINGS AND OUTGO :

During the year, foreign exchange outgo was Rs. 856.3 mio. (which includes import of raw materials to the extent of Rs. 233.6 mio.) while the foreign exchange earned was Rs. 188.0 mio. the details of which have been stated under item nos. (iii) to (vi) of Schedule 24 annexed to the Accounts.

The Company is exporting Pharmaceuticals, Reagents, Active Pharma ingredients to Sri Lanka, Myanmar, Nepal, Pakistan, France, Austria, Japan, Germany and East African countries. The Company has been exploring possibilities of increasing exports by widening the export network and products. The export turnover for the year was Rs. 152.4 mio. as against Rs. 125.1 mio. achieved in 2004.