

Hoechst Marion Roussel Limited

43RD ANNUAL REPORT
1998-99

Innovative drugs create value for patients. This, in turn, becomes value created for employees and shareholders.



When a smile defines customer value.

Hoechst ■

Hoechst Marion Roussel Limited**BOARD OF DIRECTORS**

Dr. Vijay Mallya
Chairman

Mr. D. Bhadury
Managing Director

COMPANY SECRETARY

Mr. K. Subramani

AUDITORS

M/s. P.C. Hansotia & Co.

SOLICITORS

M/s. Crawford Bayley & Co.

BANKERS

ANZ Grindlays Bank
Bank of America
Banque Nationale de Paris
Citibank N.A.
Credit Agricole Indosuez
Deutsche Bank
Hongkong & Shanghai Banking
Corpn. Limited
Nepal Grindlays Bank Limited
State Bank of India

Mr. N. Aleco

Mr. M. Dunoyer

Mr. S.R. Gupte

Mr. F.X. Roger

Mr. K.W. Schmidl

Mr. P.N. Venugopalan

Mr. J.M. Volat

Mr. S. Chattopadhyay
(Alternate to Mr. K.W. Schmidl)

Mr. Bashir Ahmed
(Alternate to Mr. M. Dunoyer)

Mr. Ramesh Subrahmanian
(Alternate to Mr. F.X. Roger)

Mr. S.C. Ghoge
(Alternate to Mr. J.M. Volat
from 04.01.99)

REGD. OFFICE & HEAD OFFICE

Hoechst House,
193, Backbay Reclamation,
Nariman Point,
Mumbai 400 021.

FACTORIES

Lal Bahadur Shastri Marg,
Post Box No. 7755,
Mulund, Mumbai 400 080.

3501-15, 6310, B-14, GIDC Estate,
Ankleshwar 393 002.

GDDIDC, Plot No. L-121,
Phase III, Verna Industrial Estate,
Verna, Goa 403 722.

REGISTRARS & TRANSFER AGENTS

MCS Limited, Sri Venkatesh Bhavan,
Plot No. 27, Road No. 11,
M.I.D.C. Area,
Andheri (East), Mumbai 400 093.

43RD ANNUAL GENERAL MEETING

Date : Monday, July 12, 1999
Time : 3.00 p.m.
Venue : Y. B. Chavan Centre - Auditorium,
Gen. J. Bhosale Marg, Nariman Point,
Mumbai 400 021

Overview

MOVING UP THE VALUE CURVE

Quickening the Pace

For a corporation, the journey to optimum performance inevitably involves having clear vision, the ability to shift gears effortlessly and the wisdom to accelerate at the right stretches.

Hoechst Marion Roussel last year shifted gears from being a volume-driven company to a value-driven one. The launch of six innovative products not only updated and invigorated its portfolio but also created distinct value for patients.

In 1999, the metamorphosis continues, only at an accelerated pace. Consider the launch of Amaryl, the oral anti-diabetic that scores over other sulfonylurea drugs by lowering the risk of hypoglycaemia and hyperinsulinaemia and by vastly improving dosage compliance. Similarly, backed by its strong global R&D base, HMR plans to move up the value curve from the current human insulin (Insuman) to the delivery systems and insulin analogue in future.

New introductions. Added value.

AMARYL

The launch of Amaryl (anti-diabetic) will help HMR consolidate its position in the Rs.150 crore Indian oral anti-diabetics market. Owing to its unique mechanism of action, Amaryl has been proved to have a lower risk of hypoglycaemia (a slowdown of mental and physical activities due to lowering of blood sugar level). Amaryl leads to better control of blood sugar with less release of insulin and an improved glucose transport and glucose utilization within the cells.

Adding value to a patient's life is part of our mission at HMR. Through the Hoechst Diabetic Care the Company pursues maximising customer value. Apart from active involvement in Diabetes Detection Drives in various part of the country, the Company encourages education of the patient through diabetologists and consulting physicians. This, we believe, helps the diabetics lead a better life.

TAVANIC

Tavanic (levofloxacin) is a broad spectrum antibiotic mainly for the treatment of respiratory tract infection, with additional approved indications for the treatment of skin and soft tissue infections and complicated urinary tract infections. The compound is 100 percent bioavailable both by oral and intravenous administration and does not show any significant metabolism and is excreted naturally.

A host of other innovative products are set to follow: Tavanic (anti-infective - an advance in the side effect profile of quinolones) and another important addition, Cardace-H (combination of Ramipril with hydrochlorothiazide with improved efficacy in reducing BP). Also, in preventive care, Hoechst Marion Roussel Limited will be launching paediatric vaccines like Vaxcem Hib and Morupar (for MMR).

Having rationalised the product portfolio to be in step with the global one, the Company is leveraging the following strengths, to boost shareholder value to higher levels in the new millennium:

- Being resource intensive, portfolio shift calls for support from successful products like Daonil, Avil, Soframycin and Combiflam.

Levofloxacin is manufactured in three formulations: 250 mg film tablet, 500mg film tablet and 500mg intravenous solution (100ml). Since non-compliance in disease management is the most important issue, which normally leads to resistance patterns and inappropriate medication, TAVANIC will be the first once a day quinolone in the management of respiratory tract infections with 100% compliance.

HIB VACCINE

Haemophilus Influenza type B (HIB), is a bacteria that causes severe infection like meningitis, pneumonia, epiglottitis, septicemia and septic arthritis.

In India, Hib meningitis is associated with 20% mortality. Children less than 5 years of age are at risk of developing Hib infections. It has been found that 38-50% of the survivors of Hib meningitis develop residual damage like deafness and mental retardation.

The introduction of this vaccine in the other countries, shows a clear decline of Hib incidence. Considering the disease implication of Hib, this vaccine is gaining acceptance with the pediatricians to protect children from Hib disease. Our introduction of Hib vaccine coupled with well-established vaccine distribution infrastructure of HMR, would definitely contribute to reducing the Hib incidence in India.

MMR VACCINE

MMR is one of the vaccines recommended by the Indian Academy of Paediatrics (IAP) in the primary immunization

Reviving Exports

HMR's export performance was largely hampered by the crises in Russia and Ukraine in 1998. Perseverance and well-nurtured relationships with the trade helped a revival of its business: upto 50% of normal levels since early 1999. Besides, business with Ukraine has also resumed since this February.

This was also the year when HMR made entry into the large Insulin tender market via the Debt-Rupee route through India. HMR did business of Rs. 76 mio in May 1998.

- Building competence through the knowledge of different facets of managing customer relationship in achieving this portfolio shift. Hence our focus on therapeutic groups such as anti-infectives, cardiovasculars, anti-diabetics and vaccines.
- Extend the benefit of global research to the Indian populace, thereby strengthening the hands of the medical profession in combating disease and suffering.

series to protect children of 15-18 months from mumps, measles and rubella. The MMR vaccine from Chiron is globally used and has a good safety and efficacy profile.

CARDACE H

Cardace H is an important addition of Cardace, an ACE inhibitor launched successfully 5 years ago in India. Each tablet of Cardace H 2.5 will contain 2.5 mg of ramipril & 12.5 mg of a well-known diuretic hydrochlorothiazide. This product will be positioned specifically for hypertension which will help us in increasing our share in this large and growing market segment.

Cardace H will provide value addition in terms of:

- Improved efficacy - Greater reduction in BP than with either mono component
- Excellent tolerability - Lower doses of mono components minimising the risks of side effects, and improving the quality of life.
- Effective in a once daily dose, improving patient compliance.

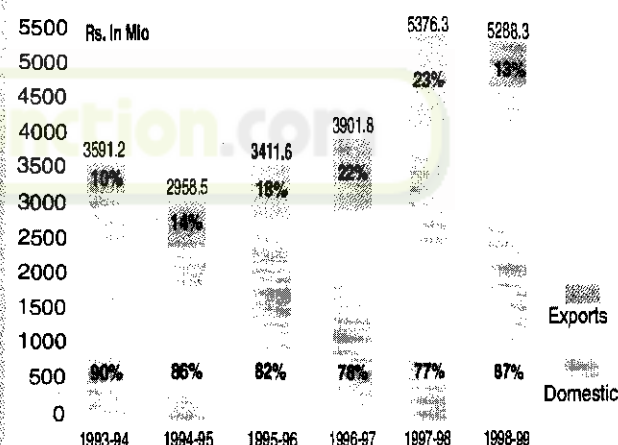
HMR will conduct medical symposia for doctors on the management of cardiovascular disorders, including hypertension. Since hypertension often remains undetected in many patients, we plan to organise hypertension detection drives to assist in the early diagnosis of this disease.

HMR launched Semi Daonil and Tarivid IV in Sri Lanka during the year and is all set to launch Allegra, Cefrom, Tarivid 400 there during the coming year. Business with Bangladesh was uneven owing to restructuring activities there but was expected to stabilise in the second half of 1999. Also more bulk drugs will be channeled through India in 1999.

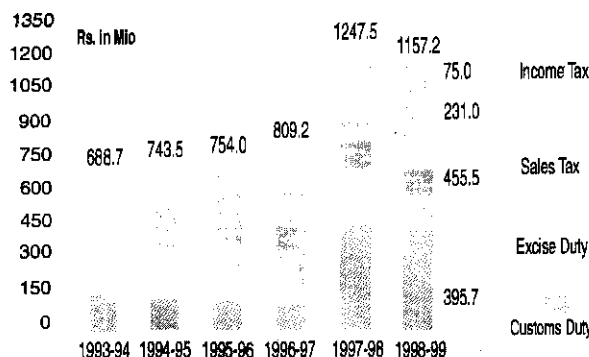
HMR now looks forward to increasing its sourcing activities by adding Articaïne to the Lasamide and Tolbutamide business in 1999.

HMR believes its mission extends beyond merely introducing new drugs. It is committed to maximising customer value through efforts at improving the quality of life (*see accompanying box*).

SALES



CONTRIBUTION TO THE NATIONAL EXCHEQUER



In 1998-99 our contribution was Rs. 1157.2 Mio., equivalent to 22% of total sales

Financial Summary

Hoechst Marion Roussel Limited

for last 10 years

Rs. in Million

	89-90	90-91	91-92	92-93	93-94	94-95	95-96	96-97	97-98***	98-99
I. SALES, PROFIT & DIVIDEND										
Sales(Gross)	2624.3	2700.6	2662.9	2922.8	3591.2	2958.5	3411.6	3901.8	5376.3	5288.3
Profit before Interest & Tax(PBIT)	230.5	231.7	194.4	215.3	384.1	343.2	390.1	457.8	601.1	423.2
Profit before Tax(PBT)	107.0	79.2	51.3	53.1	228.5	282.8	285.4	351.1	472.5	279.2
Profit after Tax(PAT)	90.5	66.7	51.3	29.9	94.5	169.8	171.7	211.2	336.9	204.3
Dividend(Amount)	19.2	19.2	19.2	19.2	24.7	69.1	80.6	92.1	92.1	103.6
Rate %	20	20	20	20	25	30	35	40	40	45

**II. SHARE CAPITAL
& CAPITAL EMPLOYED**

Share Capital	95.8	95.8	95.8	95.8	115.2	230.3	230.3	230.3	230.3	230.3
Shareholders' Funds #	656.4	1163.2	1177.1	1172.7	1367.4	1304.9	1344.5	1437.4	1717.4	1775.7
Capital Employed #	1717.4	2396.0	2329.0	2532.3	2755.3	2678.0	2825.6	3034.3	3967.4	3748.0
Represented by:										
Fixed Assets (Gross)										
& Investments #	1112.0	1796.8	1857.4	1985.4	2177.6	2133.2	2262.0	2480.2	2865.9	2685.9
Net Current & Other Assets	605.4	599.2	471.6	546.9	577.7	544.8	563.6	554.1	1101.5	1062.1

III. DEPRECIATION FOR THE YEAR

	34.7	52.9	69.9	81.4	88.6	74.5	93.2	107.4	131.0	110.1
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IV. RETURN

On Sales (PBT) %	4.1	2.9	1.9	1.8	6.4	9.6	8.4	9.0	8.8	5.3
On Capital Employed (PBIT) %	13.4	9.7	8.3	8.5	13.9	12.8	13.8	15.1	15.2	11.3
On Shareholders' Funds (PAT) %	13.8	5.7	4.4	2.5	6.9	13.0	12.8	14.7	19.6	11.5
Per Share (PAT) Rs.	94.49	69.67	5.36**	3.12	9.56@	7.37@@	7.45	9.17	13.94	8.86
Personnel Cost	230.6	247.0	290.4	335.2	472.1	477.4	504.4	476.3	644.4	516.6
No. of Employees	2965	3061	3104	3115	3077	2365	2066	1900	2158	1491

Includes revaluation of fixed assets since 1986

*** After consolidation of Accounts due to merger of Roussel India Limited

** On Equity Shares of Rs. 10/- each from 1991-92 onwards

@ On weighted average capital

@@ On enhanced equity share after Bonus Issue

Your Directors have pleasure in presenting the Audited Accounts of your Company for the Forty-third financial year ended 31st March 1999.

Financial Results

	Rs. Million	Rs. Million
The working of your Company for the financial year under review after making provision for depreciation of Rs. 110 million resulted in a profit of		279.3
Less: Provision for Taxation		75.0
		<hr/> 204.3
Add : Balance brought forward		501.4
		<hr/> 705.7
Which your Directors have appropriated as follows :-		
To Proposed Dividend	103.6	
To Tax on proposed Dividend	11.4	
To Transfer to Debenture Redemption Reserve	56.2	
To General Reserve	35.0	206.2
	<hr/>	<hr/>
Balance carried to Balance Sheet		499.5

Your Directors recommend payment of dividend @ 45%, on the Equity Shares of the Company, to the Members whose names appear on the Register of Members on 12th July 1999.

Profitability

Your Company's profit before extraordinary items and taxation has shown a sharp decline from Rs. 497.6 million to Rs. 212.8 million. This has been mainly due to a steep fall in exports (which contribute significantly to your Company's profits) from Rs. 1213 million in 1997-98 to Rs. 688 million in 1998-99. This decline in exports has been due to the economic crisis in Russia and the Ukraine. Your Company's approach was to keep stocks and debtors under control which has since helped your Company in significantly cutting losses.

Other reasons for the decline in profits were the increased cost of imported raw materials due to adverse exchange rates, imposition of Special Additional Duty, decline in 'Other Income', increased marketing support for new product launches and reduced margins on one of your Company's major products RABIPUR.

Hoechst Marion Roussel Limited

Sales

Sales for the year ended 31st March 1999 amounted to Rs. 5288 million as against Rs. 5376 million in the previous year. The overall decline of 1.6% was mainly due to a sharp 43% drop in exports.

Your Company's sales in the domestic market grew by 10%. The main highlights were the launch of two new products. ALLEGRA (fexofenadine) has had an excellent acceptance by the medical profession as a truly non-sedating anti-allergic. Within 5 months of the launch, it is already the third largest brand in its category. CEFROM (fourth generation Cephalosporin - Cefpirome) has shown good progression in sales from August 1998 onwards.

Amongst the new products launched in the previous year, prescription trends of FRISIUM indicate increased neurologist support as a "first add on" anti-epileptic. TARGOCID has, however, shown slow progress. The product has now been re-positioned in life-threatening staphyococcal infections and is expected to do better.

Amongst the older products, launch of the line extension in respect of TARIVID 400 mg (an oral anti-infective) has stimulated the performance of the brand and penetrated the quinolone segment well. STREPTASE (a cardiovascular) continued its success further consolidating its dominant position in the thrombolytic market. RIFATER and RIFADIN INH (tuberculostatics) recorded excellent growth. The rabies vaccine, RABIPUR has also progressed satisfactorily attaining a market share of 70%.

DAONIL (an anti-diabetic) suffered on account of generic competition. The performance of CLAFORAN (a parenteral anti-infective) was eroded by your Company's inability to match generic pricing. RULIDE (an oral anti-infective) also under performed due to threats from a number of recently launched low-priced generics.

Manufacturing Operations

Capacities were utilised optimally to meet the market requirements.

At the new plant set up in Verna, Goa in the previous financial year, 700 million tablets of DAONIL were produced.

The extension work of the packing hall for pharma production was completed at Ankleshwar.

Working Capital Management

During the year under review, your Company instituted strong measures to strengthen the Balance Sheet, in particular to reduce working capital levels and to maintain debt levels. These efforts have borne good results.

Joint Venture with Chiron Corporation, U.S.A

Chiron Behring Vaccines Limited, a joint venture Company in which your Company holds 49%, commenced manufacturing operations in May 1998. It has done well in its first year of operations.

Directorate

In accordance with the Articles of Association of your Company, Mr. P. N. Venugopalan retires by rotation and is eligible for election.

Hoechst Marion Roussel Limited

Mr. K. W. Schmidl and Mr. F. X. Roger, who had been appointed as Directors of the Company in the casual vacancies caused by the resignations of Dr. F. L. Douglas and Mr. M. Moerler, hold office upto the Annual General Meeting. They are eligible for election.

Mr. S. C. Ghoge was appointed on 4th January 1999 as Alternate to Mr. J. M. Volat. Mr. Ghoge, being an employee of the Company, was appointed as Wholtime Director for a period of five years from 4th January 1999, subject to the approval of the Members of the Company.

Prospects for the Current Year

Your Company's holding Company, Hoechst AG and Rhone Poulenc S.A. of France have announced plans to merge and form a new Company to be called AVENTIS S.A. This will be the second largest life sciences Company in the world with a turnover of \$20 billion.

At present, no firm plans have been made for the manner in which your Company and Rhone Poulenc (India) Limited will integrate their operations in India.

Exports had been severely affected during the year ended 31st March 1999 due to the economic crisis in Russia and the Ukraine. The problems are expected to continue in 1999-2000 but revival to the extent of 50% of 1997 exports has already been achieved and incremental tender business is under negotiation for selected products.

In the current financial year, your Company's efforts will be directed towards consolidation of the new products and turnover development in respect of the older profitable products.

Your Company has launched AMARYL (an anti-diabetic) in the current financial year. TAVANIC (a quinolone anti-infective) will be launched during the year. MMR and HIB Vaccines will be imported and marketed by your Company.

Industrial Relations

Industrial Relations were satisfactory.

A fresh Charter of Demands has been received from the Union of Hoechst Employees at the Ankleshwar factory as the earlier settlement expired on 30th June 1998. Negotiations are in progress with the said Union.

During the year under review, a Voluntary Retirement Scheme was introduced. 479 employees availed of the Scheme.

Your Directors place on record their appreciation for the valuable contribution made by the employees of your Company.

Year 2000 (Y2K) Compliance

Your Company is in the process of achieving Y2K compliance and will be fully compliant for all its internal operations by June 1999.

Your Company is dependent upon suppliers of critical materials and services, and also public service providers like Power, Telecom, etc. Y2K compliance by these agencies is, therefore, critical to your Company's business. Your Company is maintaining a continuous and elaborate follow-up with these agencies as to the status of their Y2K compliance.

Your Company has contingency plans to minimise the risk of disruption to its operations due to Y2K non-compliance of providers of critical materials and services. These plans include identifying alternate sources, who have achieved Y2K compliance, for supply of materials and services.

The costs being incurred for achieving Y2K compliance are not likely to have any significant impact on the Company's financial position.

Hoechst Marion Roussel Limited

Conservation of Energy, Technology Absorption and Foreign Exchange Earnings and Outgo

Information pursuant to 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 Annexe to this Report.

Safety, Health and Environmental Protection

Your Company continued to improve its standards for environmental and employee health protection as well as preventing injuries to the employees at work.

Particulars of Employees

As required by the provisions of Section 217(2A) of the Companies Act, 1956, read with the Companies (Particulars of Employees) Rules, 1975, the names and other particulars of employees are set out in the annexe to the Directors' Report. However, as per the provisions of Section 219(1)(b)(iv) of the Companies Act, 1956, the Report and Accounts are being sent to all Members of the Company excluding the aforesaid information. Any Member interested in obtaining such information may write to the Company Secretary.

Fixed Deposits

As on 31st March 1999, 104 deposits amounting to Rs. 0.648 million were not claimed. Of these, 3 deposits amounting to Rs. 15,000 have since been claimed.

Cash Flow Statement

As required by Clause 32 of the Listing Agreement, a Cash Flow Statement is appended.

Auditors

M/s. P. C. Hansotia & Co., your Company's Auditors, are eligible for re-appointment and it is necessary to fix their remuneration.

By Authority of the Board

26th May 1999

DR. VIJAY MALLYA
CHAIRMAN

ANNEXE TO THE REPORT OF THE DIRECTORS

Hoechst Marion Roussel Limited

STATEMENT CONTAINING PARTICULARS PURSUANT TO THE COMPANIES (DISCLOSURE OF PARTICULARS IN THE REPORT OF BOARD OF DIRECTORS) RULES, 1988 FORMING PART OF THE REPORT OF THE DIRECTORS

A. CONSERVATION OF ENERGY

Energy conservation continues to be an ongoing process in your Company. Some of the measures undertaken during the year were :-

1. Optimisation of energies plant capacity in line with scale of manufacturing activities in Mulund.
2. Modification of compressed air system for Pharma Plant at Ankleshwar.
3. Providing energy saving devices for air conditioners/deep freezers at Ankleshwar.
4. Replacement of Halogen/MLL Lamp with energy efficient lamps at Ankleshwar.
5. Control of power consumption during peak hours by reorganising some production/support activities in Ankleshwar.
6. Selection of energy efficient plant and machinery for new plant at Goa.

Major proposals to be implemented for conservation of energy include :-

1. Condensate recovery system for Vapour Absorption Machines in Ankleshwar.
2. Replacement of existing high capacity chilled water circulation pumps with energy efficient, optimal capacity pumps in Ankleshwar.

REQUISITE DATA IN RESPECT OF ENERGY CONSUMPTION ARE GIVEN BELOW :

		Year ended 31.3.1999	Previous Year ended 31.3.1998	Reasons for Variation
A. POWER AND FUEL CONSUMPTION				
1. ELECTRICITY				
a) Purchased				
Unit	Million KWH	19.836	23.230	
Total Amount	Rs. Million	89.630	96.680	
Rate/Unit	Rs.	4.519	4.162	Increase in Tariff
B. Own Generation				
(i) Through Diesel Generation - Unit	Million KWH	2.669	4.128	
Units per litre of diesel oil	KWH	3.096	3.346	
Cost/Unit	Rs.	2.922	2.681	
(ii) Through Steam turbine/Generator		NIL	NIL	
2. COAL				
		NIL	NIL	
3. FURNACE OIL/LSHS				
QUANTITY	K.Lit.	2248	2680	
TOTAL AMOUNT	Rs.Million	14.721	17.256	
Average Rate	Rs	6549	6439	Increase in Rates
4. NATURAL GAS				
Quantity	M 3	1366859	1278820	
Total Amount	Rs. Million	8.153	7.013	
Average Rate	Rs.	5.965	5.484	Increase in rates