# A Whole New World Of Possibilities

Annual Report 2011

# Our Pharmaceutical Business

## Merck Serono Division

### Product Portfolio

Pedimune
Helps boost immunity
Evion
Tolflex
Zovia
Candistat
Livogen
Lodoz
Minimize Dose, Maximize Life
Olmighty AM
Neurobion
Polybion LC
Met-Neurobion
Concor
Carbophage
The Original Metformin
Ecobion
Pre & Probiotics
Immuno-booster for Recurrent RTIs
Immubron
Rebuilds Immunity, Restores Quality of Life.
Starvog 0.3

### Therapeutic Areas

Pain Management
Diabetes
Vitamins
Cardiology
Hematinics
Immunity
General Healthcare
Nutritional Supplements
Probiotics
Dermatology

## Merck Consumer Health Care Division


Cover page coated with Iriodin® pearl lustre pigments manufactured by Merck

# Merck Limited
## Forty-fifth Annual Report and Statement of Accounts 2011

### *Board of Directors*

Mr. S. N. Talwar
*Chairman*

Dr. M. Dziki
*Managing Director*

Mr. T. Kneen

Mr. H. C. H. Bhabha

Mr. E. A. Kshirsagar

Mr. P. H. Pimplikar

Mr. K. Shivkumar
*(up-to 24.05.2011)*

Mr. R. L. Shenoy

### *Auditors*

B S R & Co.

### *Bankers*

Canara Bank
Deutsche Bank AG
ICICI Bank Limited
HDFC Bank Limited

### *Legal Advisors*

Crawford Bayley & Co.
Talwar Thakore & Associates

### *Company Secretary*

Mr. H. U. Shenoy

### *Contents*



### *Registered Office*

Shiv Sagar Estate 'A'
Dr. Annie Besant Road
Worli, Mumbai-400 018

### *Plant Location*

Plot No. 11/1
Usgaon, Ponda-403 407
Goa

### *Registrar & Share Transfer Agents*

Sharepro Services (India) Pvt. Ltd.
13AB, Samhita Warehousing Complex
2nd Floor, Sakinaka Telephone Exchange Lane
Andheri-Kurla Road, Sakinaka
Mumbai-400 072

# Notice of Annual General Meeting

NOTICE is hereby given that the Forty-fifth 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 Monday, April 9, 2012 at 3.00 p.m. to transact the following business:

**AS ORDINARY BUSINESS:**

1. To receive and adopt the audited Profit and Loss Account for the year ended December 31, 2011, the Balance Sheet as on that date and the Reports of the Board of Directors and Auditors.
2. To appoint a Director in place of Mr. R. L. Shenoy, who retires by rotation and being eligible, offers himself for reappointment.
3. To appoint a Director in place of Mr. S. N. Talwar, who retires by rotation and being eligible, offers himself for reappointment.
4. 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:**

5. 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 said Act, the reappointment of Dr. Marek Dziki as Managing Director of the Company from June 16, 2011 to July 31, 2012 on the terms and conditions as set out in the agreement dated April 25, 2011 entered into between the Company and Dr. Dziki be and it is hereby approved".

6. 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 said Act, the reappointment of Mr. R.L. Shenoy as Whole-time Director of the Company from December 27, 2011 to December 26, 2012 on the terms and conditions as set out in the agreement dated December 26, 2011 entered into between the Company and Mr. Shenoy be and it is hereby approved".

**By Order of the Board of Directors**

**H. U. Shenoy**
Company Secretary

Mumbai, February 28, 2012

*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.**

   The instrument appointing Proxies in order to be effective must be received at the registered office of the Company not less than 48 hours before the meeting.

2. The relevant Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956, in respect of the Special Business at Item Nos. 5 and 6 of the Notice is annexed.

3. The Register of Members and the Share Transfer Books of the Company will remain closed from March 29, 2012 to April 9, 2012 (both days inclusive).

4. In terms of Sections 205A and 205C of the Companies Act, 1956, the 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 Companies Act, 1956, 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 December 31, 2004 or any subsequent years are requested to send their claims directly to the Company or to M/s. Sharepro Services (India) Private Ltd. (hereinafter referred to as Sharepro Services). The Company has been sending reminders to the concerned members to claim their dividend amounts from the Company.

5. Members are requested to notify any change of address and bank details to their Depository Participants in respect of their holdings in electronic form and in respect of shares held in physical form to the secretarial department at the registered office of the Company or to Sharepro Services.

6. 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.

7. In terms of Section 109A of the Companies Act, 1956, members are entitled to make nomination 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, to the secretarial department at the registered office of the Company or to Sharepro Services.

# Notice of Annual General Meeting

8. A brief profile of the Directors retiring by rotation and eligible for reappointment/appointed since the last Annual General Meeting is given in the annexure to this Notice.

**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 well in advance to ensure that such requests reach the Company at least seven days before the date of Annual General Meeting, 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 5:**

The Board of Directors of the Company at its meeting held on April 25, 2011 reappointed Dr. Marek Dziki as Managing Director from June 16, 2011 to July 31, 2012 subject to the approval of the members at the forthcoming Annual General Meeting.

The material terms of the agreement dated April 25, 2011 entered into between the Company and Dr. Dziki are as under:

I. Period: from June 16, 2011 to July 31, 2012.

II. Dr. Dziki shall be in charge of the management of the Company.

III. The total remuneration payable to Dr. Dziki shall be as follows:

(i) For the period of appointment as stated above, the aggregate remuneration payable to Dr. Dziki by way of salary and commission shall be a maximum of Rs. 20.00 mio. (Rupees twenty million) 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, read with Schedule XIII of the Companies Act, 1956.

(ii) Perquisites: In addition, remuneration would comprise of furnished accommodation or house rent allowance in lieu thereof, gas, electricity, water, furnishings, domestic assistance, use of car with driver, telephone at residence, medical reimbursement, leave travel concessions for self and family, club fees, medical and personal accident insurance paid in accordance with the Rules of the Company etc. such perquisites being restricted to Rs. 20.00 mio (Rupees twenty million) 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 read with Schedule XIII of the Companies Act. For the purpose of calculating the above ceiling, perquisites shall be evaluated as per Income Tax Rules, wherever applicable.

(iii) In addition, Dr. Dziki shall be entitled to:

(a) The Company's contribution to Provident Fund and Superannuation Fund not exceeding 27% of the salary.

(b) Gratuity payment, and

(c) Encashment of earned/privilege leave in accordance with the Rules of the Company.

IV. Reimbursement of expenses incurred on behalf of the Company.

V. The agreement may be terminated by either party by giving to the other party six months' notice in writing.

VI. Confidentiality Clause.

VII. If at any time, Dr. Dziki, Managing Director is disqualified/ceased to be Director of the Company, for any cause whatsoever, he shall vacate office of Managing Director of the Company.

The agreement entered into by the Company with Dr. Dziki is open to inspection by members at the registered office of the Company between 2 p.m. and 4 p.m. on all working days except Saturdays, Sundays and Public Holidays, up to and including the day of the Annual General Meeting.

The Directors consider the services of Dr. Dziki useful to the Company and recommend his reappointment as Managing Director of the Company.

Except Dr. Dziki, no other Director is interested in the Resolution.

**Item 6:**

The Board of Directors of the Company at its meeting held on November 1, 2011 reappointed Mr. R.L. Shenoy as Whole-time Director of the Company for a period of one year from December 27, 2011 subject to the approval of the members at the forthcoming Annual General Meeting.

The material terms of the agreement dated December, 26, 2011 entered into between the Company and Mr Shenoy are as under:

I. Period: One year from December 27, 2011.

# Notice of Annual General Meeting

II. Mr. Shenoy shall be in-charge of Finance, Legal, Taxation and Secretarial functions of the Company.

III. The total remuneration payable to Mr. Shenoy shall be as follows:

(i) For the period of appointment as stated above, the aggregate remuneration payable to Mr. Shenoy by way of salary and commission shall be a maximum of Rs. 10.00 mio (Rupees ten million) 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, read with Schedule XIII of the Companies Act, 1956.

(ii) Perquisites: In addition, remuneration would comprise of furnished accommodation or house rent allowance in lieu thereof, gas, electricity, water, furnishings, domestic assistance, use of car with driver, telephone at residence, medical reimbursement, leave travel concessions for self and family, club fees, medical and personal accident insurance paid in accordance with the Rules of the Company, etc. such perquisites being restricted to Rs. 6.00 mio (Rupees six million) 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 read with Schedule XIII of the Companies Act. For the purpose of calculating the above ceiling, perquisites shall be evaluated as per Income Tax Rules, wherever applicable.

(iii) In addition, Mr. Shenoy shall be entitled to:

(a) The Company's contribution to Provident Fund and Superannuation Fund not exceeding 27% of the salary.

(b) Gratuity payment, and

(c) Encashment of earned/privilege leave in accordance with the Rules of the Company.

IV. Reimbursement of expenses incurred on behalf of the Company.

V. The agreement may be terminated by either party by giving to the other party six months' notice in writing.

VI. Confidentiality Clause.

VII. If at any time, Mr. Shenoy, Whole-time Director, is disqualified/ceased to be Director of the Company, for any cause whatsoever, he shall vacate office of Whole-time Director of the Company.

The agreement entered into by the Company with Mr. Shenoy is open to inspection by members at the registered office of the Company between 2 p.m. and 4 p.m. on all working days except Saturdays, Sundays and Public Holidays, up to and including the day of the Annual General Meeting.

The Directors consider the services of Mr. Shenoy useful to the Company and recommend his reappointment as Whole-time Director of the Company.

Except Mr. Shenoy, no other Director is interested in the Resolution.

**By Order of the Board of Directors**

**H. U. Shenoy**
Company Secretary

Mumbai, February 28, 2012

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

# Notice of Annual General Meeting

## Annexure to the Notice of Annual General Meeting

**BRIEF PROFILE OF DIRECTORS SEEKING REAPPOINTMENT AND DIRECTORS APPOINTED SINCE THE LAST ANNUAL GENERAL MEETING:**

| Particulars | Mr. R. L. Shenoy | Mr. S. N. Talwar | Dr. Marek Dziki |
|---|---|---|---|
| Date of birth & Age | 16/01/1948<br>64 years | 21/11/1937<br>74 years | 01/02/1963<br>49 years |
| Appointed on | 27/12/1988 | 17/01/1984 | 01/08/2006 |
| Qualifications | B.Com., LL.M., A.C.A., ACS, A.I.C.W.A., C.A.IIB. | B.Com., LL.B., Solicitor | M.D., MBA, Ph.D. |
| Expertise in specific areas | Finance, Legal, Taxation, Secretarial and Commercial functions | Corporate Laws, Corporate Taxation, International issue of securities, Foreign Exchange Laws & Commercial Documentation | Since 1992, the year of joining Merck Group, Dr. Dziki has held senior positions in Merck Group, the last being Head of Strategic innovation at the headquarters in Darmstadt, Germany. |
| Directorships held in Public Limited and Private Limited Companies | None | PZ Cussons India Pvt. Ltd., FCI OEN Connectors Ltd., Transwarranty Finance Ltd., Armstrong World Industries (India) Pvt. Ltd., Sidham Finance & Investments Pvt. Ltd., Biocon Ltd., Birla Sun Life Insurance Co. Ltd., Birla Sun Life Trustee Co. Pvt. Ltd., Blue Star Ltd., Blue Star Infotech Ltd., Chowgule & Company Pvt. Ltd., Chougule Ports & Infrastructure Pvt. Ltd., Decagon Investments Pvt. Ltd., ELANTAS Beck India Ltd., Epitome Global Services Pvt. Ltd., Esab India Ltd., Greaves Cotton Ltd., India Value Fund Trustee Company Pvt. Ltd., IVF Trustee Company Pvt. Ltd., IVF (Mauritius) PCC, IVF (Mauritius) Ltd., Indium III (Mauritius) Holding Ltd., Indium III (Mauritius) Ltd., Indium IV (Mauritius) Holding Ltd., Indium IV (Mauritius) Ltd., John Fowler (India) Pvt. Ltd., Larsen & Toubro Ltd., MF Global (India) Pvt. Ltd., Morgan Stanley India Capital Pvt. Ltd., Rediffusion-Dentsu, Young & Rubicam Pvt. Ltd., Sandvik Asia Ltd., Shrenuj & Co. Ltd., Samson Maritime Ltd., Snowcem Paints Pvt. Ltd., Sonata Software Ltd., Swiss Re Shared Services (India) Pvt. Ltd., TTK Healthcare TPA Pvt. Ltd., Warner Bros Pictures (India) Pvt. Ltd., Rhodia Specialty Chemicals India Ltd., Garware-Wall Ropes Ltd., Johnson & Johnson Ltd., Uhde India Pvt. Ltd. | Merck Specialities Private Limited. |
| Memberships/ Chairmanships of Committees in Public Limited Companies | None | Biocon Ltd., Birla Sun Life Trustee Co. Pvt. Ltd., Blue Star Ltd., Blue Star Infotech Ltd., ELANTAS Beck India Ltd., FCI OEN Connectors Ltd., Greaves Cotton Ltd., Morgan Stanley India Capital Pvt. Ltd., Sandvik Asia Ltd. | None |
| Shareholding in the Company | 807 | 5,914 | Nil |

# Directors' Report

The Directors have the pleasure in presenting the Forty-fifth Annual Report and Audited Accounts of the Company for the year ended December 31, 2011.

## FINANCIAL HIGHLIGHTS:

| | | (Rs. mio.) |
|---|---|---|
| | **2011** | 2010 |
| **TURNOVER** | **5,575.7** | 5,090.8 |
| **OTHER INCOME** | **488.8** | 433.7 |
| Profit before Interest, Depreciation and Taxation and Impairment Loss/(reversal) | **892.8** | 1,171.6 |
| Interest | **0.2** | 0.7 |
| Depreciation | **79.5** | 71.0 |
| Impairment Loss/(reversal) | **(142.8)** | 142.8 |
| **PROFIT BEFORE TAXATION** | **955.9** | 957.1 |
| Provision for Taxation (net) | **319.1** | 325.3 |
| **PROFIT AFTER TAXATION** | **636.8** | 631.8 |
| Profit & Loss Account brought forward | **36.3** | 1,306.5 |
| **PROFIT AVAILABLE FOR APPROPRIATION** | **673.1** | 1,938.3 |
| **APPROPRIATIONS:** | | |
| Transfer to General Reserve | **–** | 63.2 |
| Interim Dividend Paid | **–** | 1,576.9 |
| Dividend Tax on Interim Dividend | **–** | 261.9 |
| Balance carried to the Balance Sheet | **673.1** | 36.3 |

## OPERATIONS:

The operational working of the Company, in detail, is discussed in the Management Discussion and Analysis Report forming part of this Report. The turnover of the Company showed an increase of 9.5% over the turnover achieved in the previous year. As against Rs. 5,090.8 mio. achieved in the year 2010, the turnover of the Company in 2011 was Rs. 5,575.7 mio. While the Pharmaceuticals segment showed an increase in the turnover of 7.2%, the Chemicals segment showed an increase of 15.4% compared to the respective turnover of the segments in the preceding year.

The Profit After Tax for the year under review was Rs. 636.8 mio. as against Rs. 631.8 mio. in 2010, showing a marginal increase of 0.8%.

The F.O.B. value of exports of the Company during the year 2011 was Rs. 538.9 mio. as against Rs. 468.8 mio. achieved in the preceding year.

The Company had debited in the previous year Rs. 142.8 mio. to the profit and loss account towards the impairment loss on the assets used for the manufacture of Oxynex at its Goa plant. Though the Company had curtailed production of Oxynex during the year under review, the plant was utilized to manufacture Vitamin E for part of the year. Taking into account the approved utilization of the Oxynex plant and its value in use, an amount of Rs. 142.8 mio. debited to profit and loss account in the previous year was reversed and credited to profit and loss account.

## SHARE CAPITAL:

Share capital audit as per the directives of the Securities and Exchange Board of India is being conducted on a quarterly basis by K.G. Saraf & Company, Practicing Company Secretaries. The share capital audit reports are duly forwarded to the Bombay Stock Exchange and National Stock Exchange of India Limited where the equity shares of the Company are listed.

## DIVIDEND:

In view of significantly large dividend of 950% (Rs. 95/- per share) paid during the year 2010 and to conserve the resources, the Directors have not recommended any dividend for the year ended December 31, 2011.

## FIXED DEPOSITS:

The Company has not accepted any public deposits from the public or the members during the year 2011.

## DIRECTORS' RESPONSIBILITY STATEMENT:

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

(a) in the preparation of the annual accounts, the applicable Accounting Standards/Rules 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 December 31, 2011 and the profit for the year ended on that date;

(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 detecting and preventing fraud and other irregularities and;

(d) the annual accounts have been prepared on a going concern basis.

## DIRECTORS:

During the year, Dr. Marek Dziki was reappointed as Managing Director of the Company for a period up to July 31, 2012. The Board also reappointed

# Directors' Report

Mr. R. L. Shenoy as Whole-time Director for a further period of one year up-to December 26, 2012. Both the appointments are subject to the approval of the members at the ensuing Annual General Meeting.

Mr. K. Shivkumar resigned as Director effective May 24, 2011. The Board places on record its sincere appreciation for the valuable contributions and guidance rendered by Mr. Shivkumar during his tenure as a Director of the Company.

**AUDITORS:**

M/s. B S R & Co., Chartered Accountants, retire as Auditors of the Company at the conclusion of the ensuing Annual General Meeting and have confirmed their eligibility and willingness to accept the office of the Auditors for the year 2012, if reappointed. The Audit Committee of the Board recommends the reappointment of M/s. B S R & Co. as Statutory Auditors for the year 2012.

**COST AUDIT:**

Pursuant to Section 233B of the Companies Act, 1956, the Central Government has prescribed cost audit of the accounts maintained by the Company concerning its bulk drugs and formulations divisions. To conduct the cost audit of these divisions, M/s. Sanghvi Randeria & Associates have been appointed as Cost Auditors of the Company for the year 2012, subject to the approval of the Central Government.

**PERSONNEL:**

As on December 31, 2011, the total number of employees on the payroll was 1,257. Industrial relations with the employees at various levels continue to be cordial.

The particulars of employees, as required under Section 217(2A) read with the Companies (Particulars of Employees) Rules, 1975, form part of this Report. However, pursuant to the provisions of Section 219(1)(b)(iv) of the Companies Act, 1956, the Report and Accounts are being sent to the members excluding the statement of particulars of employees. Any member interested in obtaining a copy of the said statement may seek it from the Company Secretary.

**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:**

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

**On behalf of the Board of Directors**

**S. N. Talwar**
Chairman

Mumbai, February 28, 2012

# 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.

**(A) CONSERVATION OF ENERGY – GOA PLANT**

**(a) Energy conservation measures taken:**

1. Energy audit conducted through reputed external Energy audit firm.
2. All utility equipments operationally controlled as per production plans.
3. Replaced 16 nos. conventional street lights fixtures with energy efficient Light Emitting Diodes (LED) type fixtures.
4. Installed Variable Frequency Drives (VFD) with pressure transmitter for the chilled water circulation pump catering to Oxynex & QC buildings.
5. Installed the VFDs with temperature transmitters for the cooling fan of cooling towers.
6. Trimmed the impellor of chilled water circulation pump of central utility to achieve the required flow & pressure resulting in energy saving.
7. Replaced 250 TR screw chiller in place of vapour absorption chiller in softgel plant.
8. Replaced new fire grating to the solid fuel fired boiler to improve the combustion in the boiler.
9. Steam generation done to the maximum extent by solid fuel fired boiler.
10. Regular maintenance is done to steam condensate traps & safety valves to avoid leakages. Replaced faulty steam traps.
11. Appropriate Diesel Generators (DGs) loading done in second & third shift & one DG is isolated reducing the fuel consumption.
12. Water meters are installed in each plant to track consumption.
13. Compressed air meters are installed in each plant to track consumption.
14. For Briquette fired boiler cashew shell cake is used throughout the year as it is cheap and available in Goa & with high calorific values as compared to briquettes.

**(b) Additional Investments & Proposals, if any, being implemented for reduction of consumption of energy:**

1. Investment done in additional 200 KVAR X 2 nos. capacitor banks to improve the power factor.
2. Investment done in energy efficient screw air compressor in place of conventional reciprocating air compressor.
3. Investment done in water meters, energy meters and compressed air meters for monitoring & control.
4. Investment done in LED street light fixtures, boiler grates, VFDs for pumps & Cooling Towers (CT) fans.
5. Investment done in replacing old compressed air header with higher size.

**Approximate investment Rs. 7.4 mio.**

**(c) Impact of measures taken at (a) & (b) above:**

1. Specific electrical power consumption with respect to production reduced from 8.52 kw to 7.99 kw per ton of production.
2. Specific boiler fuel (solid fuel) consumption with respect to production reduced from 3.16 kg. to 1.87 kg. per ton of production.
3. Other Fuel consumption like Furnace oil, Light Diesel Oil (LDO), Diesel etc. with respect to production reduced from 0.22 ltr. to 0.14 ltr. per ton of production.
4. Reduction in manufacturing costs, increased safety and environmental friendly process.

**(d) Total energy consumption and energy consumption per unit of production as per Form A, are given below:**

## FORM A

FORM FOR DISCLOSURE OF PARTICULARS WITH RESPECT TO CONSERVATION OF ENERGY

**Power and Fuel Consumption at Goa Factory**

| Sr. No. | | Description | Goa Factory Current Year 2011 | Goa Factory Previous Year 2010 |
|---|---|---|---|---|
| 1. | **ELECTRICITY** | | | |
| | (a) | Purchased Units ('000 KWH) | **12,188.40** | 10,708.62 |
| | | Total Amount (Rs. Mio.) | **48.81** | 43.11 |
| | | Rate/Unit (Rs.) | **4.01** | 4.03 |
| | (b) | Own Generation | | |
| | | Through Diesel Generator Units ('000 KWH) | **278.18** | 195.02 |
| | | Units/Litre of Diesel Oil | **2.70** | 2.90 |
| | | Cost/Unit (Rs.) | **15.50** | 12.97 |
| | | Total Cost (Rs. Mio.) | **4.31** | 2.53 |
| 2. | **BOILER FUELS** | | | |
| | (a) | **FURNACE OIL** | | |
| | | Quantity (Kilo Litre) | **95.12** | 197.13 |
| | | Total Amount (Rs. Mio.) | **4.14** | 6.45 |
| | | Average Rate (Rs./Kilo Litre) | **43,523.96** | 32,719.53 |
| | (b) | **SOLID FUELS** | | |
| | | Quantity (Tons) | **2,848.58** | 3,434.89 |
| | | Total Amount (Rs. Mio.) | **11.91** | 12.62 |
| | | Average Rate (Rs./Ton) | **4,181.03** | 3,674.10 |

# Annexure to the Directors' Report

**Consumption per unit of production**

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

**(B) TECHNOLOGY ABSORPTION**

**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 Research has been carried out by Company:**

   **Pharma**

   The Pharma R & D center at Shirwane, Nerul, Navi Mumbai, is recognized by the Department of Scientific and Industrial Research. The R & D activities are carried out in various areas like pharmaceuticals, vitamin premixes, cosmetics and packaging development.

   The research center is privileged to have access to the latest technologies developed by Merck KGaA, Germany.

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

   Evaluation of alternate raw materials meeting the regulatory requirements for improving the productivity is carried out continuously. With the view to achieve cost effectiveness, constant efforts are made to develop and improve existing processes by simplification and modification.

   Continuous efforts are made to make product more user friendly, more profitable and have better patient compliance.

2. **Benefits derived as a results of above R & D:**

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

   **Products launched in year 2011 are:**

   1. Ostonate tablets – reduced size – Calcium + Vitamin D3 tablets; size, shape modified to improve patient compliance and improve product profitability.
   2. Nasivion moist child spray pack – combination of Oxymetazoline and Xylitol for the first time in India in spray form.
   3. Evion Q 100 Capsules – combination of Vitamin E and Coenzyme Q 10.
   4. Tolflex SR 450 mg tablets – sustained release tablets of Tolperisone to improve patient compliance.
   5. Starvog 0.2 mg/0.3 mg MD – Voglibose mouth dissolving tablets of 0.2 mg/0.3 mg to improve patient compliance.
   6. Neurobion plus injection – multi-vitamin.
   7. Zovia 50 mg tablets – Tapentadol tablets 50 mg.
   8. Zovia 75 mg tablets – Tapentadol tablets 75 mg.
   9. Seven Seas Original Cod Liver oil capsules 300 mg.

3. **Future Plan of Action:**

   Launch of the following products is planned tentatively:

   1. Evion lotion
   2. Nasivion vaporub cream
   3. Met-Neurobion P capsules
   4. Carbophage range - 4 products
   5. Olmighty range - 5 products
   6. Vitamin D3 granules
   7. Clomiphene citrate tablets

   Continuous efforts will be made to improvise profitability of products by developing products internally which are subsequently launched. Several such products will be under consideration for development in year 2012.

# Annexure to the Directors' Report

Efforts will be made to develop innovative, commercially viable processes, know-how for various dosage forms and also for improving shelf life, stability, quality, convenience and meeting regulatory compliances.

4. **Expenditure on R & D:**

| | (Rs. mio.) |
|---|---|
| Capital | 2.9 |
| Recurring | 31.0 |
| Total | 33.9 |
| Total R & D expenditure as a percentage of total turnover | 0.6 |

## (b) TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION

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

The R & D center carries out developmental activities in various areas such as import substitution for raw materials, batch cycle time reduction and also line extensions of some of the existing products.

Apart from in-house capabilities, external consultancies are hired for some specific projects, if required.

The R & D center also, under guidance of Merck KGaA, Germany, makes endeavors to be up to 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 yield and cost efficiency.

3. **In case of imported technology (imported during the last five financial years):**

Information regarding:

(i) Technology imported

(ii) Year of import

(iii) Has Technology been fully absorbed

(iv) If not fully absorbed, areas where this has not taken place, reasons therefore and future plans of action.

The Company has not imported any technology in the last five years.

However, 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. 1,706.0 mio. (which includes import of raw materials to the extent of Rs. 640.4 mio.) while the foreign exchange earned was Rs. 571.5 mio., the details of which have been stated under item Nos. (iii) to (vi) of Schedule 26 annexed to the financial statements.

The total exports during the year amounted to Rs. 538.9 mio. made up of Chemicals Rs. 383.3 mio. and Pharmaceuticals Rs. 155.6 mio. Both the Pharmaceuticals and Chemicals segments will make efforts to exploit the opportunities that exist in the neighbouring and other regions of the world to expand the Company's presence in those locations.

**On behalf of the Board of Directors**

**S. N. Talwar**
Chairman

Mumbai, February 28, 2012

# Annexure to the Directors' Report

## Corporate Governance

(Report on Corporate Governance pursuant to Clause 49 of the Listing Agreements entered into with the Stock Exchanges)

### Company's philosophy on Code of Governance:

Merck Limited is committed to following best global corporate governance practices in all its pursuits. The guiding principle for the Company always has been to achieve shareholders satisfaction and maximize shareholders value by following best corporate governance norms in true letter and spirit. The Company aims at achieving this objective by ensuring transparency in its functioning by truthful and complete communication to all its stakeholders and by inculcating a culture of ethical business conduct in all its operations.

### Board of Directors (Board):

The present strength of the Board is seven Directors. The Board comprises of three Executive Directors including the Managing Director. There are four Non-Executive Directors, of which three Directors including the Chairman are Independent Directors.

None of the Directors on the Board is a member on more than ten committees as per the requirements of Clause 49 of the Listing Agreements. Necessary disclosures have been made by the Directors in this regard.

The details of composition of the Board and summary of other Directorships and Board Committee memberships of each of the Directors as on December 31, 2011 are as follows:

| Name of the Director | *No. of Directorships | *No. of committee memberships$ | *No. of committee chairmanships |
|---|---|---|---|
| Mr. S.N. Talwar 1 | 41** | 7 | 3 |
| Mr. H.C.H. Bhabha 1 | 8** | 1 | – |
| Mr. E.A. Kshirsagar 1 | 11** | 8 | 5 |
| Mr. T. Kneen 2 | – | – | – |
| Dr. M. Dziki 3 | 1** | – | – |
| Mr. R.L. Shenoy 3 | – | – | – |
| Mr. K. Shivkumar 3 # | – | – | – |
| Mr P.H. Pimplikar 3 | 1** | – | – |

* excluding Directorship and committee membership/chairmanship of Merck Ltd.
$ includes committee chairmanships
1 Non-Executive Independent Director
2 Non-Executive Director
3 Executive Director
# Resigned from the Board with effect from 24th May, 2011
** Includes Directorships in Private Ltd. and Foreign Companies

### Meetings and Attendance:

The meetings of the Board are scheduled well in advance. The Board meets at least once in a quarter *inter alia* to review the performance of the Company. Each time, a detailed agenda is prepared in consultation with the Chairman and the Managing Director.

During the year 2011, four Board meetings were held on February 8, 2011, April 25, 2011, July 26, 2011 and November 1, 2011.

Attendance at the Board meetings and at the Annual General Meeting (AGM) held during the year 2011:

| Name of the Director | Board meetings held during the year | No. of Board meetings attended | Attendance at the AGM (29.03.2011) |
|---|---|---|---|
| Mr. S.N. Talwar | 4 | 4 | Yes |
| Mr. H.C.H. Bhabha | 4 | 4 | No |
| Mr. E.A. Kshirsagar | 4 | 4 | Yes |
| Mr. T. Kneen | 4 | – | No |
| Dr. M. Dziki | 4 | 4 | Yes |
| Mr. R.L. Shenoy | 4 | 4 | Yes |
| Mr. K. Shivkumar* | 4 | 2 | Yes |
| Mr P.H. Pimplikar | 4 | 4 | Yes |

*Mr. K. Shivkumar ceased to be a Director on the Board with effect from May 24, 2011.

### 1. Audit Committee:

The Audit Committee comprises of:

Mr. S.N. Talwar – Chairman

Mr. H.C.H. Bhabha

Mr. E.A. Kshirsagar

Dr. M. Dziki – Managing Director

The Audit Committee held four meetings on February 8, 2011, April 25, 2011, July 26, 2011 and November 1, 2011. Attendance at the Audit Committee meetings held during the year 2011:

| Name of the Director | Category of Director | No. of committee meetings | No. of committee meetings attended |
|---|---|---|---|
| 1. Mr. S.N. Talwar – Chairman | Non-Executive – Independent | 4 | 4 |
| 2. Mr. H.C.H. Bhabha | Non-Executive – Independent | 4 | 4 |
| 3. Mr. E.A. Kshirsagar | Non-Executive – Independent | 4 | 4 |
| 4. Dr. M. Dziki – Managing Director | Executive | 4 | 4 |

The Audit Committee meetings are also attended by Director – Finance, Internal Auditors, Statutory Auditors and Cost Auditors as invitees. The business and operational heads are also invited to the meetings, as and when their presence is required. The Company Secretary acts as the Secretary of the Audit Committee.

The Committee relies on the expertise and knowledge of the management, Internal Auditors and independent Statutory Auditors in carrying out its responsibilities. It also uses external expertise, if required. Management is responsible for the preparation, presentation and integrity of the Company's financial reporting principles. Management is also responsible for internal control over financial reporting and all procedures are designed to ensure compliance with Accounting Standards, applicable laws and regulations as well as for objectively reviewing and evaluating the adequacy, effectiveness and quality of the Company's system of internal control.

M/s. B S R & Co., Chartered Accountants, are the Company's independent Statutory Auditors. They are responsible for performing an independent audit of the financial statements and expressing an opinion on the conformity of those financial statements with accounting principles generally accepted in India.

The committee functions according to the applicable provisions of the Companies Act, 1956 and other applicable statutes and the requirements under the Listing Agreements entered into with the Stock Exchanges.

**The Scope of the Audit Committee includes –**

(a) Reviewing the quarterly financial results and annual financial statements before submission to the Board, focusing primarily on:
   - Any changes in accounting policies and practices and reasons for the change;
   - Major accounting entries involving estimates based on exercise of judgment by management;
   - Significant adjustments arising out of audit findings;
   - The going concern assumption;
   - Compliance with Accounting Standards;
   - Analysis of the effects of alternative generally accepted accounting principles on the financial statements;
   - Compliance with listing and other legal requirements concerning financial statements;
   - Any related party transactions i.e. transactions of the Company of a material nature with the management, their subsidiaries or relatives etc., or any related party transaction that may have a potential conflict with the interests of the Company at large or may not be in the normal course of business;
   - Review of annual Management Discussion and Analysis of financial condition and results of operations and the Directors' Responsibility Statement;
   - Overseeing the Company's financial reporting process and the disclosure of its financial information, including earnings and press release, to ensure that the financial statements are correct, sufficient and credible;
   - Disclosures made under the CEO and CFO certification to the Board.

(b) Reviewing with the management, Statutory Auditors and Internal Auditors, adequacy of internal control systems and recommending improvements to the management.

(c) Recommending the appointment/removal of the Statutory Auditors, fixing audit fees, non-audit fees, evaluating Auditors' performance, qualifications and independence.

(d) Reviewing the adequacy of internal audit function, coverage and frequency of internal audit, appointment, removal, performance and terms of remuneration of Internal Auditors.

(e) Discussing with the Internal Auditors and senior management, significant internal audit findings and follow-up thereon.

(f) Reviewing the findings of any internal investigation by the Internal Auditors into matters involving suspected fraud or irregularity or a failure of internal control system of a material nature and report the matter to the Board.

(g) Discussing with the Statutory Auditors before the audit commences, the nature and scope of audit as well as conduct post-audit discussions to ascertain any area of concern.

(h) Reviewing the Company's financial and risk management policies.

(i) Reviewing the effectiveness of the system for monitoring compliance with laws and regulations.

The minutes of the Audit Committee meetings form part of the Board papers circulated for the Board meetings. In addition, the Chairman of the Audit Committee briefs the Board about the significant discussions at the Audit Committee meetings.

**2. Code of Conduct:**

The Board has laid down a Code of Conduct for all Directors and senior management staff of the Company. The Code of Conduct of the Company is also posted on the website of the Company, www.merck.co.in. All Directors and members of the senior management, which include Company executives who report directly to the Managing Director and Executive Directors, have affirmed their compliance with the said Code. A declaration signed by the Managing Director to this effect is appended at the end of this Report. Employees of the Company also affirm compliance with the Code of Conduct which is applicable for all the employees.

**3. CEO/CFO Certificate:**

A Certificate from the Managing Director and Director - Finance on the integrity of the financial statements and other matters of the Company for the financial year ended December 31, 2011, was placed before the Board at its meeting held on February 28, 2012.

# Annexure to the Directors' Report

**4. Risk Management:**

Merck has established an effective risk assessment and minimization procedure which is reviewed by the Board periodically. There is a structure in place to identify and mitigate various identifiable risks faced by the Company from time to time. At the meetings of the Board, these risks are reviewed and new risks are identified. After assessment, controls are put in place with specific responsibility of the concerned officer of the Company.

**5. Remuneration Committee:**

The Board has not constituted a Remuneration Committee during the year. All matters relating to review and approval of compensation payable to the Executive and Non-Executive Directors are considered by the Board within the overall limits approved by the members.

**Remuneration of Executive Directors:**

The details of remuneration paid/payable to the Executive Directors for the year 2011 are given below:

| Name of the Director | Salary | *Commission | Company's contribution to Funds ** | Perquisites and allowances | Total |
|---|---|---|---|---|---|
| | Rs. | Rs. | Rs. | Rs. | Rs. |
| Dr. M. Dziki | 9,444,298 | 3,816,311 | 2,227,074 | 13,682,990 | 29,170,673 |
| Mr. R.L. Shenoy | 5,405,739 | 3,140,000 | 1,091,250 | 1,090,210 | 10,727,199 |
| Mr. K. Shivkumar# | 3,567,140 | 331,000 | 250,646 | 2,317,372 | 6,466,158 |
| Mr. P.H. Pimplikar | 3,962,004 | 2,907,500 | 531,250 | 1,033,018 | 8,433,772 |

* Commission includes provision made in the financial statements, for payment to be made in 2012.

** Aggregate of the Company's contribution to Superannuation Fund and Provident Fund.

\# Mr. Shivkumar resigned from the Board and ceased to be whole-time Director with effect from 24th May, 2011.

NOTES:

a. The agreement with each of the Executive Directors is for a period of five years except in case of Dr. Marek Dziki – Managing Director, who has been reappointed for a period upto July 31, 2012 and Mr. R.L. Shenoy has been reappointed for a further period of one year with effect from December 27, 2011. Either party can terminate the agreement by giving six months' notice in writing.

b. Commission paid is based on certain pre-agreed performance parameters such as sales, profit and achievement of certain financial and operational indicators.

c. The Company at present does not have a scheme for grant of Stock Options to the Directors or Employees.

d. The above figures do not include charge for gratuity and leave encashment for the following reasons:
The Company's liability in respect of gratuity and leave encashment has been valued by an Actuary and the employee-wise breakup of the same is not available.

**Remuneration of Non-Executive Directors:**

The details of remuneration paid/payable to Non-Executive Directors for the year 2011 are given below:

| Name of the Director | Sitting fees (Rs.) | Commission (Rs.)* |
|---|---|---|
| Mr. S.N. Talwar | 320,000 | 750,000 |
| Mr. H.C.H. Bhabha | 340,000 | 500,000 |
| Mr. E.A. Kshirsagar | 160,000 | 500,000 |

* Provision made in the financial statements to be paid in 2012.

**Criteria for payment of remuneration to the Non-Executive Directors:**

The remuneration to Non-Executive Directors comprises of sitting fees and variable commission. The criteria for payment of remuneration are time spent by the Non-Executive Directors at the Audit Committee and Board meetings, and advice given by these Directors to the management from time to time on strategic matters, etc. even outside the Board meetings.

**6. Shareholders'/Investors' Grievance Committee:**

The Shareholders'/Investors' Grievance Committee of the Board comprises of:

Mr. H.C.H. Bhabha – Chairman

Mr. R.L. Shenoy

Mr. P.H. Pimplikar

The committee held one meeting on November 1, 2011.

Mr. H.U. Shenoy, Company Secretary, is designated as Compliance Officer of the Company.

At present, there are no pending legal cases wherein adverse claims are made against the Company. However, there are eight pending legal cases in which name of the Company is included only to facilitate execution of the court order. A statement of the various complaints received and cleared by the Company during the last two years is given below:

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | Received | Cleared | Received | Cleared |
| 1. Non-receipt of share certificates duly transferred | 1 | 1 | – | – |
| 2. Non-receipt of dividend warrants | 5 | 5 | 1 | 1 |
| 3. Miscellaneous | – | – | – | – |
| 4. Letters from SEBI/ Stock Exchanges and Department of Corporate Affairs | – | – | - | - |

**7. General Body meetings of last three years:**

| Year | Venue | Day and Date | Time |
|---|---|---|---|
| 2008 | The Royal Room, 3rd floor Sunville Banquets Dr. Annie Besant Road Worli, Mumbai 400 018 | Monday 20.04.2009 | 3.00 p.m. |
| 2009 | Amar Gian Grover Auditorium Lala Lajpat Rai Marg Haji Ali Mumbai 400 034 | Wednesday 29.03.2010 | 3.00 p.m. |
| 2010 | Amar Gian Grover Auditorium Lala Lajpat Rai Marg Haji Ali Mumbai 400 034 | Tuesday 29.03.2011 | 3.00 p.m. |

All the Resolutions moved at the last Annual General Meeting were passed by show of hands by the requisite majority of members attending the meeting. The following Special Resolutions were passed at the previous three Annual General Meetings:

# Annexure to the Directors' Report

| AGM held on | Whether Special Resolution passed | Summary |
|---|---|---|
| 20.04.2009 | Yes | Appointment of Amar Al Din Company Limited as Sole Selling Agent of the Company. Appointment of Solyman Services (UK) Ltd. as Sole Selling Agent of the Company. |
| 29.03.2010 | No | |
| 29.03.2011 | No | |

During the year 2011, no postal ballot voting process was carried out.

**8. Disclosures:**

There are no materially significant related party transactions, which have potential conflict with the interests of the Company, at large.

The Audit Committee was briefed of the related party transactions undertaken by the Company in the ordinary course of business, material individual transactions which were not in the normal course of business and material individual transactions with related parties or others, which were not at arm's length basis together with management's justification for the same.

The management is required to make disclosure to the Board relating to all material financial and commercial transactions stating that they do not have personal interest that could result in a conflict with the interests of the Company, at large.

In the preparation of financial statements, the Company follows Accounting Standards/Rules prescribed in the Companies (Accounting Standards) Rules, 2006, issued by the central government, in consultation with the National Advisory Committee on Accounting Standards, to the extent applicable. The Company has not adopted a treatment different from that prescribed in the Accounting Standards.

**9. Compliances:**

The Company has complied with all the requirements including the provisions of Clause 49 of the Listing Agreements entered into with the Stock Exchanges as well as regulations and guidelines of the Securities and Exchange Board of India (SEBI). Consequently, no penalties were imposed or strictures passed against your Company by SEBI, Stock Exchanges or statutory authorities. The Company has complied with and adopted the mandatory requirements of the Corporate Governance Code. However, it has not adopted the following non-mandatory requirements of the Code which the Board may consider adopting in due course of time:

(i) Maintenance of the Chairman's office and tenure of Independent Directors.

(ii) Setting up of Remuneration Committee.

(iii) Communication of half yearly results to each household of members – the Company publishes its results in leading newspapers and also posts the same on the Company's website.

(iv) Training of Directors – All the Directors have expertise in their areas of specialization.

(v) Mechanism for evaluating Non-Executive Directors.

(vi) Whistle Blower Policy.

The Company has set up a Speak-up Line as initiated globally by Merck KGaA, Company's principal shareholders, wherein an employee can air his/her grievance either through a dedicated website or telephone directly without disclosing his/her identity.

**10. Financial Information to the members:**

The quarterly financial results were announced within 45 days from the close of the respective quarter. However, in case of the last quarter, the quarterly results and the annual results were announced within 60 days from the close of the quarter. The results are published in leading newspapers. The financial results, press releases and other major events/developments concerning the Company are also posted on the Company's website: www.merck.co.in.

**On behalf of the Board of Directors**

**S. N. Talwar**

Mumbai, February 28, 2012 Chairman

# Annexure to the Directors' Report

## General Shareholder Information

**Annual General Meeting:**

The Forty-fifth Annual General Meeting of the members will be held on Monday, April 9, 2012 at 3.00 p.m.

**Venue** – Amar Gian Grover Auditorium,
Lala Lajpat Rai Marg,
Haji Ali,
Mumbai-400 034.

**Agenda** – **Ordinary Business:** Adoption of Accounts, Appointment of Directors retiring by rotation and Appointment of Auditors.

**Special Business:** (a) reappointment of Dr. Marek Dziki as Managing Director

(b) reappointment of Mr. R.L. Shenoy as Whole-time Director

**Company's financial year:**

January 1, to December 31,

**Calendar of Financial Results — 2012:**

| | | |
|---|---|---|
| (i) | First Quarter Results | – April 2012 |
| (ii) | Second Quarter Results | – July 2012 |
| (iii) | Third Quarter Results | – October 2012 |
| (iv) | Results for the year ending December 31, 2012 | – February 2013 |

**Book Closure:**

The Company's Register of Members and Share Transfer Books will remain closed from March 29, 2012 to April 9, 2012 (both days inclusive).

**Listing on Stock Exchanges:**

The Bombay Stock Exchange (BSE) is the Regional Stock Exchange of the Company. The shares are also listed on the National Stock Exchange of India Limited (NSE).

The Stock Codes for the Company's equity shares are as follows:

NSE : MERCK

BSE : 500126

The ISIN number for the Company's equity shares in demat mode – INE 199A01012.

Volume of shares traded on:

NSE : 1,343,379

BSE : 929,519

Listing fee for the year 2011-2012 has been paid to the Stock Exchanges.

**Share price (Rs.) on NSE – 2011:**

| | *Jan* | *Feb* | *Mar* | *Apr* | *May* | *June* |
|---|---|---|---|---|---|---|
| High | 762.00 | 663.00 | 612.75 | 681.40 | 638.50 | 646.95 |
| Low | 650.01 | 570.00 | 551.05 | 595.00 | 582.35 | 569.15 |

| | *July* | *Aug* | *Sept* | *Oct* | *Nov* | *Dec* |
|---|---|---|---|---|---|---|
| High | 730.90 | 703.00 | 675.00 | 662.40 | 669.90 | 643.00 |
| Low | 627.25 | 612.35 | 618.00 | 600.00 | 595.00 | 585.20 |

**Closing share price as on December 31, 2011 : Rs. 598.05**

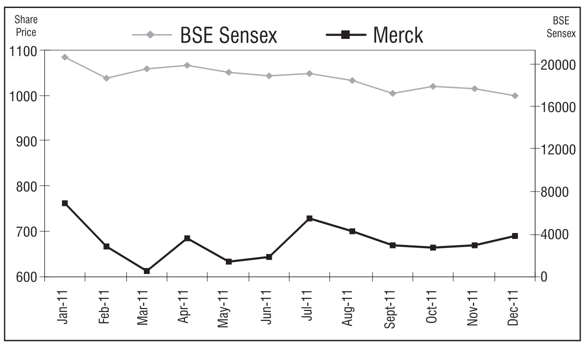
**Share price (Rs.) on BSE – 2011:**

| | *Jan* | *Feb* | *Mar* | *Apr* | *May* | *June* |
|---|---|---|---|---|---|---|
| High | 760.00 | 667.90 | 612.00 | 685.00 | 633.80 | 643.90 |
| Low | 650.00 | 570.00 | 553.00 | 596.00 | 580.00 | 589.00 |

| | *July* | *Aug* | *Sept* | *Oct* | *Nov* | *Dec* |
|---|---|---|---|---|---|---|
| High | 728.80 | 700.00 | 670.00 | 664.95 | 670.00 | 690.25 |
| Low | 626.20 | 616.00 | 618.60 | 611.05 | 594.00 | 581.90 |

Closing share price as on December 31, 2011 : Rs. 595.30

**Share price (in Rs.) in comparison with BSE Sensex (2011):**




**Name and Address of the Registrar and Share Transfer Agents:**

**Sharepro Services (India) Private Ltd.**
13 AB, Samhita Warehousing Complex
2nd Floor, Sakinaka Telephone Exchange Lane
Andheri-Kurla Road, Sakinaka
Mumbai-400 072
Phone: 022-67720300/022-67720314

**Transfer System:**

Transfer of shares held in physical mode is processed by Sharepro Services and approved by the Share Transfer Committee. Transfer of shares is effected and share certificates are dispatched within a period of 30 days from the date of receipt of relevant documents, provided they are complete in all respects.

During the year, the Share Transfer Committee of the Company met at fortnightly intervals for approval of share transfers and other related matters.

# Annexure to the Directors' Report

Total number of shares transferred during the last two calendar years was as follows:

| Particulars | 2011 | 2010 |
|---|---|---|
| Number of transfers | 56 | 84 |
| Number of shares processed | 4,810 | 6,662 |

The average time for processing of share transfers including dispatch of share certificates was less than 21 days, if the relevant documents were complete in all respects. The time taken to process dematerialization of shares was 15 days.

As on December 31, 2011, no request for transfer of shares was pending.

**Dematerialization of shares:**

The Company has entered into agreements with NSDL and CDSL for dematerialization of shares. As on December 31, 2011, a total of 16,096,780 shares of the Company which forms 97.0% of the paid-up share capital of the Company stands dematerialized.

**Distribution of shareholding as on December 31, 2011:**

| Range | No. of Shareholders | % to total | No. of shares held | % to total |
|---|---|---|---|---|
| 1 – 500 | 26,413 | 96.71 | 2,190,973 | 13.20 |
| 501 – 1,000 | 492 | 1.80 | 366,412 | 2.21 |
| 1,001 – 5,000 | 319 | 1.16 | 657,183 | 3.96 |
| 5,001 – 10,000 | 40 | 0.15 | 291,925 | 1.75 |
| 10,001 and above | 49 | 0.18 | 13,092,889 | 78.88 |
| Total | 27,313 | 100.00 | 16,599,382 | 100.00 |

**Shareholders' profile as on December 31, 2011:**

| Category of Shareholders | No. of Shares | % to Total |
|---|---|---|
| Promoters/Foreign Collaborators | 8,599,224 | 51.80 |
| Banks/Financial Institutions | 1,629 | 0.01 |
| Foreign Institutional Investors | 777,466 | 4.68 |
| Insurance Companies | 1,948,978 | 11.74 |
| Mutual Funds | 817,790 | 4.93 |
| Domestic Companies (incl. Trusts, Partnerships Firms) | 521,148 | 3.14 |
| Non-Resident Indians | 88,419 | 0.53 |
| Directors & Relatives | 208,664 | 1.26 |
| Others | 3,636,064 | 21.91 |
| Total | 16,599,382 | 100.00 |

**Shares held by Non-Executive Directors of the Company as on December 31, 2011:**

Mr. S.N. Talwar : 5,914
Mr. H.C.H. Bhabha : 42,763
Mr. E.A. Kshirsagar : –

**Insider Trading Regulations:**

Mr. H.U. Shenoy, Company Secretary, is the Compliance Officer of the Company under the "Merck Directors and Designated Employees Code of Conduct for Prevention of Insider Trading". He is responsible for the adherence of the Code by the Company and its designated employees. The Company also adheres to the disclosure practices for prevention of insider trading as specified in the SEBI (Prohibition of Insider Trading) Regulations, 1992.

**Plant Location:**

No. 11/1 Usgaon
Ponda, Goa-403 407
Phone : 0832-6614101

**Investor Relations Department:**

For the convenience of the Investors, transfer requests and other related issues are also handled in the Secretarial department at the registered office.
**Email: investorgrievances@merckgroup.com**

**Address of the Registered Office:**

Shiv Sagar Estate 'A'
Dr. Annie Besant Road
Worli, Mumbai-400 018

**Contact Person:**

Mr. H.U. Shenoy, Company Secretary
Phone : 022-66609492/66609000
Fax : 022-24950307
Email : hu.shenoy@merckgroup.com

**On behalf of the Board of Directors**

**S. N. Talwar**
Mumbai, February 28, 2012 Chairman

# Annexure to the Directors' Report

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**DECLARATION BY MANAGING DIRECTOR OF COMPLIANCE WITH THE CODE OF CONDUCT POLICY**

As provided under Clause 49 of the Listing Agreements with the Stock Exchanges, the Board members and the senior management personnel have affirmed compliance with the Code of Conduct for the period ended December 31, 2011.

For Merck Limited

Mumbai
February 28, 2012

**Dr. M. Dziki**
Managing Director

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**CERTIFICATE OF COMPLIANCE WITH THE CORPORATE GOVERNANCE REQUIREMENTS UNDER CLAUSE 49 OF THE LISTING AGREEMENT**

To the Members of Merck Limited

We have examined the compliance of conditions of Corporate Governance by Merck Limited ("the Company") for the year ended on December 31, 2011, as stipulated in Clause 49 of the Listing Agreements entered into by the Company with Stock Exchanges.

The compliance of conditions of Corporate Governance is the responsibility of the Management. Our examination was limited to procedures and implementation thereof adopted by the Company for ensuring the compliance of the conditions of Corporate Governance. It is neither an audit nor an expression of opinion on the financial statements of the Company.

In our opinion, and to the best of our information and according to the explanations given to us, we certify that the Company has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreements.

We state that such compliance is neither an assurance as to the future viability of the Company nor the efficiency or effectiveness with which the Management has conducted the affairs of the Company.

**For B S R & Co.**
Chartered Accountants
Firm's Registration No.: 101248W

**Bhavesh Dhupelia**
Partner
Membership No. 042070

Mumbai
28th February, 2012

# Annexure to the Directors' Report

## Management Discussion and Analysis Report

The Indian economy according to the advance estimates of the central statistical office will expand at 6.9%, the slowest pace in the last 9 years barring the crisis year 2008-09, owing to a slow-down in manufacturing, contraction in mining and deceleration in farm output over the last year's base. While agricultural growth could be less than 2.5% as against 7% registered last year, the industrial sector might grow at 3.8% as against the growth registered last year of 7.2%. The new year with favourable global economic indicators and also good signs with the increased amount of Foreign Direct Investment flow should bring hopes for revival of the growth momentum. Inflation which was spiralling last year has shown a downward trend and is under control.

The Pharmaceuticals segment is the Company's main segment and accounts for nearly 70% of the revenue, while the Company's Chemicals segment accounts for the balance 30%. Both the segments are subjected to various regulatory controls and monitoring. The working of both the segments is influenced by regulatory restrictions, most important of them being the pharmaceuticals pricing legislation which for decades has been the main hurdle in improving the working results of the Company. The Company also faced during the year, heavy burden on account of higher input costs caused by higher inflation and adverse foreign exchange fluctuations and also regulatory hassles on registration and licensing of products. The following table gives, in brief, the financial indicators on the Company's working in the backdrop of many challenges and difficulties.

| Key Indicators | 2011 | 2010 |
|---|---|---|
| Turnover (Rs. mio.) | **5,575.7** | 5,090.8 |
| Profit After Tax (Rs. mio.) | **636.8** | 631.8 |
| Profit After Tax to Turnover (%) | **11.4** | 12.4 |
| Sales to Fixed Assets employed (ratio) | **7.7** | 9.9 |
| Current Assets (ratio) | **4.6** | 4.2 |
| Return on capital employed (%) | **15.5** | 18.2 |
| Book value of shares (Rs.) | **247.0** | 208.7 |

As you are aware, last year the Company debited the impairment loss relating to the Oxynex plant assets, arising on account of the lower projected cash flows and realization, caused by the projected fall in demand for the product. In the current year, due to the initiatives taken by the management, the plant was put to alternative use, thereby improving the cash flows. With such improvement on projected cash flow, the impairment loss debited last year was reversed.

The profit after tax during the year under review of Rs. 636.8 mio. was impacted by higher input costs, overheads on promotion and personnel costs.

The performance of the two business segments, in brief, is given below:

**Pharmaceuticals Segment:** The segment has two business divisions i.e. Merck Serono and Consumer Health Care. The performance of the divisions is given below:

***Merck Serono***

Merck Serono with a registered turnover of Rs. 3,442.6 mio. accounting for 62% of the Company's turnover is the largest division in the Company. It grew by 5% over the previous year, with the bulk of the sales from Vitamin-based formulations, which have been in the market for many decades. Legacy brands like *Neurobion, Polybion, Evion* and *Livogen* are well entrenched. The Company continues to derive equity from these brands through various line extensions introduced over the years. *Livogen*, an iron supplement, the number 1 prescribed haematinic in India *(Source: CMARK '11)*, grew by approximately 20% in 2011.

The Cardiometabolic segment which houses *Carbophage* – a Metformin and an original discovery from the Merck Group registered a growth of 70%. *Concor*, a beta-blocker which has been doing very well grew by 29% in 2011.

The new products and line extensions introduced over the past couple of years, have continued to perform well – noteworthy among them being brands like *Neurobion Plus, Ostopolybion, Tolflex, Ostonate, Ecobion, Met-Neurobion P capsules* and *Livogen injection*.

The robust field team of Merck Serono works with doctors across regions, both in urban and rural areas. This helps in penetrating the market, thereby sustaining the growth of mature brands as well as in introducing new products.

In 2012, with an objective to augment further growth, the business has been reorganised to enable greater customer focus. Creating newer markets in rural areas, focusing on Women's Health and re-energising our legacy brands are the core areas. A special task force has also been created to focus on new product introductions. With these measures, the division aims to reach newer growth prospects and scale greater heights.

***Consumer Health Care Division:*** The turnover of the division for the year 2011 was Rs. 452.1 mio. as against the turnover of Rs. 348.8 mio. achieved in 2010, registering a good growth of 30%.

# Annexure to the Directors' Report

This division specializes in Over The Counter (OTC) pharmaceutical products and focuses on its core global health themes – **(a)** Cold & Cough, **(b)** Every Day Health Protection, **(c)** Women's & Children's Health **(d)** Mobility. The division is growing on the strength of well known brands and the long standing trust, the consumers place in them with respect to their quality and efficacy.

In the largest therapeutic segment of the division, Cold & Cough, its iconic brand, *Nasivion*, the division's first advertised brand, has grown in 2011 by 38% over last year and has also got the distinction of being the No. 1 Doctor prescribed brand in its segment. The division also deals with other categories such as Oral Rehydration Salt, Skin care etc. The brands *Electrobion* and *Evion Cream* are doing well in the market for a long time.

The year 2011 also saw the homecoming of its heritage brand Seven Seas Cod-liver oil which is being successfully integrated in the portfolio. The division will be able to participate in the largest OTC segment of Vitamin Mineral Supplements (VMS).

With these two strategic brands the division aims to build a robust business and continue its efforts to create Umbrella Brands for leveraging potential of the larger sub-categories of Cough Cold Allergy (CCA) & VMS. The division is committed to creating a robust pipeline of new products, which will be developed through the efforts of both local and global R & D for larger participation in its health themes.

***Pharma Exports:*** Exports in the Pharma segment contribute about 5% to the total Pharma turnover. Since the Merck Group is present in most countries around the world, there was little scope to expand the Pharma exports business. Despite these challenges, with the team's keen business acumen and expertise, the export turnover grew by 13% over the previous year. The major export markets for the Company are Sri Lanka, Nepal and Myanmar. Substantial progress has been made in exports to African and Middle Eastern countries in the last few years. The Company now exports its pharmaceutical formulations to Lebanon, Kenya, Tanzania and Zambia as well.

***Production:*** The Pharmaceuticals products of both the divisions are manufactured partly at the in-house manufacturing facility at Goa and through outsourced units. Proper care and supervision is exercised on the outsourced units to ensure the quality and efficacy of the products. The production capacity at Goa is fully utilized.

**Chemicals Segment:** The Chemicals segment grew in terms of turnover by 15.4% in 2011. The turnover of the segment in 2011 was Rs. 1,681.0 mio. as against Rs. 1,457.1 mio. achieved in 2010. The Chemicals segment is operating through two divisions: i.e. Pharm Chem Solutions and Performance Materials.

***Pharm Chem Solutions:*** The Pharm Chem Solutions division offers wide range of traded products and a few bulk drugs mostly manufactured in the in-house manufacturing facility of the Company located in Goa. The traded products of the division mainly are falling in the category of Excipients for Pharmaceutical Formulation and Process Chemicals for the BioPharm Industry. The main bulk drugs which are manufactured at Goa are Vitamin E, Thiamine DiSulphide (TDS) and Guaiazulene. While Guaiazulene and TDS production is exported fully, Vitamin E is marketed predominantly in the local market. Vitamin E is also being exported to Pakistan for the last few years.

While the demand for Vitamin E has been growing, the Company has been exploring strategies to increase the production capacity. Thus in 2011, the Company got the Export Oriented Unit status of the Oxynex plant cancelled. This step enabled it to start manufacturing Vitamin E at the Oxynex plant, thus supplementing the output of the Vitamin plant and utilizing the capacity rendered idle by the fall in the demand for Oxynex.

For 2012, in view of the substantial escalation in the demand for Oxynex, it may become necessary for the division to augment the capacity of the existing plant manufacturing Vitamin E.

On account of the expansion of the plant manufacturing TDS last year, the production capacity has gone up by 35% The plant is operating at full capacity. The plant for the manufacture of Guaiazulene set up in the year 1991 has been meeting the requirements of the export market in Japan.

With the excellent marketing drive which has been reflected in the results of 2011, the year 2012 should be a good year in terms of turnover and profitability for the division.

***Performance Materials:*** The Performance Materials division consists of two business lines i.e. Pigments and Cosmetics actives. This division recorded a growth of 7% over the previous year. The Pigments business was affected in the year 2011 mainly on account of the fall in the automotive coatings caused by the declining production in the automotive industry. Also, the competition from the local manufacturers as well as the international companies impacted the performance of the division. The division is making efforts to improve on the turnover and at the same time exploring the avenues for newer uses of the products in various spheres of the industrial activities.

The division also deals with the Cosmetics actives product, Oxynex. The plant to manufacture Oxynex was set up in 2009. In the year 2010, because of the fall in the demand for the product and consequent reduced cash flow, the plant was impaired by an amount of Rs. 142.8 mio.

# Annexure to the Directors' Report

In the year 2011, this plant was used for part of the year, to manufacture Vitamin E. As per the current trends, the demand for the product is increasing which may improve the working of the Oxynex plant.

**Internal Controls:** The Company has an adequate system of internal controls which ensures that its assets are protected against loss of unauthorized use and improper handling. The Company has also adequate standard operating processes which are built in its operations to ensure the proper controls in the day to day operating transactions. To supplement and also to monitor the internal controls system, the Company has engaged the services of a reputed internal audit firm which is empowered by the Audit Committee to assess the adequacy and the compliance of the internal control systems and statutory requirements etc. M/s. Aneja Associates conducts the internal audit on the basis of the areas of audit and schedule finalized by the Audit Committee. The internal audit reports are submitted to the Audit Committee, which on the basis of the discussions on the audit reports at the meetings, directs the control measures to be followed by the Company from time to time.

**Risk Management:** Every conscious business decision is based on weighing the associated risks and opportunities. Risk management in Merck is supported by a uniform system structured by the headquarters. Risk management activities are aimed at identifying risks at an early stage and evaluating, controlling and managing them. At every Board Meeting the risk situation is reported to the Executive Board and Independent Directors and in special cases on an ad-hoc basis. Some of the risks and concerns which the Company currently faces are the following:

***Business Related Risks:***

(a) Potential negative developments like fall in the demand, recession, non-availability of the raw materials, higher attrition rate, are some of the risks associated with the Company's working. Further, the dependence on a few products for the growth as in the case of the Pharmaceuticals division where the Vitamin-based formulations still constitute a huge proportion of the turnover of the segment is continuing to be a major concern. The Company, however, has been handling these concerns strategically.

(b) Inflationary trends: One of the important concerns which impacted most of the industries last year was the spiralling prices of the inputs and overheads caused by inflation. While the input costs and overheads were rising, unfortunately, prices of most of our products could not be increased mainly on account of the government regulation on Pharma pricing and to an extent because of competition. The Company is making efforts to counter these challenges by reduction of costs and also by launching products where the pricing is not controlled by the government.

(c) Foreign Exchange Fluctuations: The Company is heavily dependent upon the imports from the European and the South East Asian countries. Also, the exports to these regions are increasing. The adverse foreign exchange rate changes can impact the working results as well as the planned results of the Company. The Company's principals are offering from time to time advice on this concern.

***Legal Risks:*** The Company's business is a regulated one and is governed by various statutes of the government. Changes in the statutes and the compliance of the same are both time consuming and sometimes difficult. While in the case of Pharmaceuticals business, pricing norms set by the government and FDA related legislation are to be adhered to, in the case of Chemicals business, the registration processes of certain imports create lot of hassles, delay and loss of business.

***Third Party Dependence:*** The Company has outsourced most of the distribution and production activities to third parties who over the years have been closely associated with the Company. In such a scenario, there may be situations where because of the disagreement on the contractual terms and conditions between the parties, the outsourced activities may be stopped leading to business interruption. Besides, third parties have access to Company's assets and the internationally accepted business process knowledge which can be misused by them. The Company is making efforts through internal controls and proper supervision to avoid any such adverse happenings.

***Information Technology Risks:*** These relate to software related precautions like handling of data integrity, access rights, protection against virus and data protection. Merck security guidelines and processes applicable to the group are in place and their adherence is continuously monitored.

***Environmental and Safety Risks:*** The Company's plants both in-house and outsourced are prone to environmental and safety risks. While the Company is adhering to the local legislation on the environmental protection, such adherence is supplemented by the standards and rules framed by the Group and also the systematic audit conducted by the experts at intervals minimize the risks to people and the environment.

# Annexure to the Directors' Report

**Human Resource Initiatives:**

As on December 31, 2011, there were on the rolls, 1,257 employees, registering no change over the last year's employee strength, working in different areas of business operations. The industrial relations continue to be very cordial at various levels in the Company. In the year 2011, there was an employee engagement survey showing an upward progress almost in all areas of Company's operation including in Merck values. The survey results reconfirmed the earlier view of employees choosing Merck as an ideal place to work and build their career.

Being in an industry that is prone to high attrition, the Company's challenge in the year 2011 was to retain and motivate the talent pool with proper training and proper planning for their career growth. The Human Resource division took a slew of initiatives towards development of skills, employee recognition, channels of communication, succession planning process, to make Merck the best place to work with. In the year 2011, we partnered with a leading business school in Mumbai to start a program for on the job training leading to the award of an MBA degree to the employees. The Company has designed the employees' compensation system to attract and retain top quality talent and motivate higher level of performance. The compensation structure is designed keeping in mind the best practices of the industry to attract and retain the employees of high calibre and talent. The Performance Management System which has been designed keeping in mind the performance based pay, has been further improved with the support of the Human Resource department at the headquarters.

For the last few years, the Human Resource team has played an effective role in supporting the marketing and sales division as business partners.

**Outlook:**

While both the Pharmaceuticals and Chemicals divisions continue to strive to improve on the performance, the current economic and political indicators will have their impact on the working of the Company. With the management focussing on enhancing the shareholders values, I am sure in the coming year, your Company will continue to improve its performance.

**By Order of the Board of Directors**

**S. N. Talwar**
Chairman

Mumbai, February 28, 2012

## MERCK LIMITED

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

**Dear Member/s,**

## GREEN INITIATIVE

The Ministry of Corporate Affairs (MCA) has permitted paperless compliances by the Companies, vide its circulars No.17/2011 and No.18/2011 dated April 21, 2011 and April 29, 2011 respectively. MCA has clarified that services of documents on members by e-mail will constitute sufficient compliances with Section 53 of the Companies Act, 1956, provided the members are given an advance opportunity to register their e-mail address or changes, if any, therein with the Company.

Pursuant thereto, we once again invite members who have not registered their e-mail address to participate in the Green Initiative by registering their e-mail address with the Company for the purpose of service of documents viz. Annual Report, Notice of General Meetings, Notice of Postal Ballot, Intimation of ECS Credits, etc. by e-mail.

Let's be part of this 'Green Initiative'.

**For MERCK LIMITED**

**H. U. Shenoy**
Company Secretary

# Auditors' Report
# To the Members of Merck Limited

We have audited the attached Balance Sheet of Merck Limited ('the Company') as at 31 December 2011 and the related Profit and Loss Account and the Cash Flow Statement for the year ended on that date, annexed thereto. These financial statements are the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Auditing Standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

We report as follows:

1. As required by the Companies (Auditor's Report) Order, 2003 ('the Order') issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956 ('the Act'), we enclose in the Annexure, a statement on the matters specified in paragraphs 4 and 5 of the said Order.
2. Further to our comments in the Annexure referred to above, we report that:
   a. we have obtained all the information and explanations which, to the best of our knowledge and belief were necessary for the purposes of our audit;
   b. in our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;
   c. the Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this report are in agreement with the books of account;
   d. in our opinion, the Balance Sheet, the Profit and Loss Account and the Cash Flow Statement dealt with by this report comply with the Accounting Standards referred to in sub-section (3C) of Section 211 of the Act;
   e. on the basis of written representations received from the directors, as of 31 December 2011, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31 December 2011 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Act; and
   f. in our opinion, and to the best of our information and according to the explanations given to us, the said financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:
      (i) in case of the Balance Sheet, of the state of affairs of the Company as at 31 December 2011;
      (ii) in case of the Profit and Loss Account, of the profit of the Company for the year ended on that date; and
      (iii) in case of the Cash Flow Statement, of the cash flows of the Company for the year ended on that date.

**For B S R & Co.**
Chartered Accountants
Firm's Registration No. 101248W

**Bhavesh Dhupelia**
Partner
Membership No.: 042070

Mumbai
28 February 2012

# Annexure to the Auditors' Report – 31 December 2011

(Referred to in our report of even date)

(i) (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.

(b) The fixed assets have been physically verified by the Management during the year in line with its policy of verifying them annually. In our opinion, the periodicity of the physical verification of fixed assets is reasonable. According to the explanations given to us, the discrepancies noticed on physical verification of fixed assets were not material and these have been properly dealt with in the books of account.

(c) Fixed assets disposed off during the year were not substantial, and do not affect the going concern assumption.

(ii) (a) The inventory has been physically verified by the Management during the year. In our opinion, the frequency of such verification is reasonable.

(b) The procedures for physical verification of inventories followed by the Management are reasonable and adequate in relation to the size of the Company and the nature of its business.

(c) The Company is maintaining proper records of inventory. The discrepancies noticed on verification between the physical stocks and the book records were not material.

(iii) (a) The Company has granted loan to a company covered in the register maintained under Section 301 of the Act. The maximum amount outstanding during the year was Rs. 443 million and the year-end balance of such loans was Rs. 285 million. The Company has not granted any loans, secured or unsecured, to firms or other parties covered under Section 301 of the Act.

(b) In our opinion, the rate of interest and other terms and conditions on which loans have been granted to the aforesaid company listed in the register maintained under Section 301 of the Act are not, prima facie, prejudicial to the interests of the Company.

(c) In the case of loans granted to a company listed in the register maintained under Section 301, the borrower has been regular in repaying the principal amounts as stipulated and in the payment of interest.

(d) There is no overdue amount in excess of Rupees one lakh in respect of the loans granted to the company covered in the register maintained under Section 301 of the Act.

(e) The Company has not taken any loans, secured or unsecured, from companies, firms or other parties covered in the register maintained under Section 301 of the Act. Accordingly, paragraph 4(iii)(e), (f) and (g) of the Order is not applicable to the Company.

(iv) In our opinion and according to the information and explanations given to us, and having regard to the explanation that purchase of certain items of inventories are for the Company's specialised requirements and suitable alternative sources are not available to obtain comparable quotations and similarly sale of certain services are for the buyers' specialised requirements and suitable alternative sources are not available to obtain comparable quotations, there is an adequate internal control system commensurate with the size of the Company and the nature of its business with regard to purchase of inventories, fixed assets, sale of goods and services. We have not observed any major weakness in the internal control system during the course of the audit.

(v) (a) In our opinion and according to the information and explanations given to us, the particulars of contracts or arrangements referred to in Section 301 of the Act have been entered in the register required to be maintained under that section.

(b) In our opinion and according to the information and explanations given to us, the transactions made in pursuance of contracts and arrangements referred to in (a) above and exceeding the value of Rs. 5 lakh with any party during the year have been made at prices which are reasonable having regard to the prevailing market prices at the relevant time, except for purchase of inventories and sale of services of a special nature, for which suitable alternative sources are not available to obtain comparable quotations. However, in our opinion and on the basis of information and explanations provided, the same appear reasonable.

(vi) The Company has not accepted any deposits from the public during the year.

(vii) In our opinion, the Company has an internal audit system commensurate with the size and nature of its business.

(viii) We have broadly reviewed the books of account maintained by the Company pursuant to the rules prescribed by the Central Government for maintenance of cost records under Section 209(1)(d) of the Act and are of the opinion that, prima facie, the prescribed accounts and records have been made and maintained. However, we have not made a detailed examination of the records.

# Annexure to the Auditors' Report – 31 December 2011 (continued)

(ix) (a) According to the information and explanations given to us and on the basis of our examination of the records of the Company, amounts deducted/accrued in the books of account in respect of undisputed statutory dues including Provident Fund, Investor Education and Protection Fund, Employees' State Insurance, Income tax, Sales tax, Wealth tax, Service tax, Customs duty, Excise duty, and other material statutory dues have been generally regularly deposited during the year by the Company with the appropriate authorities. There are no arrears of undisputed statutory dues as at 31 December 2011 outstanding for a period of more than six months from the date they became payable.

(b) According to the information and explanations given to us, there are no dues of Wealth tax, Service tax and Cess which have not been deposited with appropriate authorities on account of any disputes.

According to the information and explanations given to us, the dues of Income tax, Sales tax, Customs duty and Excise duty, as listed in Appendix 1, have not been deposited by the Company on account of disputes.

(x) The Company does not have any accumulated losses at the end of the financial year and has not incurred cash losses in the financial year and in the immediately preceding financial year.

(xi) The Company did not have any outstanding dues to any financial institution, banks or debenture-holders during the year.

(xii) The Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities.

(xiii) In our opinion and according to the information and explanations given to us, the Company is not a chit fund or a nidhi/mutual benefit fund/society.

(xiv) According to the information and explanations given to us, the Company is not dealing or trading in shares, securities, debentures and other investments.

(xv) According to the information and explanations given to us, the Company has not given any guarantee for loans taken by others from banks or financial institutions.

(xvi) The Company did not have any term loans outstanding during the year.

(xvii) According to the information and explanations given to us and on an overall examination of the balance sheet of the Company, we are of the opinion that the funds raised on short-term basis have not been used for long term investment.

(xviii) The Company has not made any preferential allotment of shares during the year.

(xix) The Company did not have any outstanding debentures during the year.

(xx) The Company has not raised any money by public issues during the year.

(xxi) According to the information and explanations given to us, no fraud on or by the Company has been noticed or reported during the course of our audit.

**For B S R & Co.**
Chartered Accountants
Firm's Registration No. 101248W

**Bhavesh Dhupelia**
Partner
Membership No.: 042070

Mumbai
28 February 2012

# Annexure to the Auditors' Report – 31 December 2011 (continued)

## Appendix 1 as referred to in Paragraph ix(b) of the Annexure to the Auditors' Report

| Name of the statute | Nature of the dues | Amount (Rs million) | Period to which the amount relates | Forum where dispute is pending |
|---|---|---|---|---|
| Income Tax Act, 1961 | Tax and penalty | 1.2 | Assessment year 1986-87 | High Court |
| | | 36.2 | Assessment year 1998-99, 1999-00, 2001-02, 2002-03 and 2003-04 | Income Tax Appellate Tribunal |
| | | 9.2 | Assessment year 2004-05 | Income Tax Appellate Tribunal |
| | | 94.3 | Assessment year 2006-07 | Income Tax Appellate Tribunal |
| | | 370.5 | Assessment year 2007-08 | Income Tax Appellate Tribunal |
| | | 25.2 | Assessment year 2008-09 | Commissioner of Income Tax (Appeals) |
| Local State Sales Tax Acts and Central Sales Tax Act, 1956 | Tax and penalty | 0.3 | 1994-95, 1995-96, 1998-99 | Appellate Assistant Commissioner |
| | | 6.0 | 2001-02, 2003-04 | Deputy Commissioner (Appeals) |
| | | 1.0 | 2003-04, 2005-06 | Assistant Commissioner |
| | | 1.1 | 2005-06, 2006-07 | Deputy Commissioner |
| | | 5.5 | 2007-08 | Deputy Commissioner |
| | | 16.9 | 2008-09 | Joint Commissioner |
| Central Excise Act, 1944 | Duty and penalty | 0.1 | 1994-97, 2003-04 | Deputy Commissioner (Appeals) |
| | | 0.5 | 1998-99 | Joint Commissioner |
| | | 0.2 | 2005-06 | Commissioner (Appeals) |
| | | 4.8 | 1996-2006 | Customs Excise & Service tax Appellate Tribunal ("CESTAT") |
| | | 0.1 | 2007-09 | Assistant Commissioner |
| Customs Act, 1962 | Duty | 1.3 | 2006-07 | CESTAT |

# Balance Sheet as at 31 December 2011

Currency: Rupees million

| | Schedules | | 2011 | 2010 |
|---|---|---|---|---|
| **I. SOURCES OF FUNDS** | | | | |
| Shareholders' Funds | | | | |
| Share Capital | 2 | **166.0** | | 166.0 |
| Reserves and Surplus | 3 | **3,934.8** | | 3,298.2 |
| | | | **4,100.8** | 3,464.2 |
| **Deferred Tax Liability (Net)** | 4 | | **8.4** | – |
| **TOTAL** | | | **4,109.2** | 3,464.2 |
| **II. APPLICATION OF FUNDS** | | | | |
| Fixed Assets | 5 | | | |
| Gross Block | | **1,679.4** | | 1,536.0 |
| Less: Accumulated Depreciation/Amortisation/Impairment loss | | **964.4** | | 1,043.3 |
| Net Block | | **715.0** | | 492.7 |
| Capital Work-in-Progress including | | | | |
| Capital Advances (Rs. 5.8 million; 2010: Rs. 11.8 million) | | **10.2** | | 19.7 |
| | | | **725.2** | 512.4 |
| **Investments** | 6 | | **227.4** | 201.8 |
| **Deferred Tax Assets (Net)** | 7 | | **–** | 34.6 |
| **Current Assets, Loans and Advances** | | | | |
| Inventories | 8 | **1,130.9** | | 611.2 |
| Sundry Debtors | 9 | **622.3** | | 560.8 |
| Cash and Bank Balances | 10 | **1,132.8** | | 1,427.7 |
| Loans and Advances | 11 | **1,157.6** | | 951.3 |
| | | **4,043.6** | | 3,551.0 |
| **Less: Current Liabilities and Provisions** | | | | |
| Current Liabilities | 12 | **647.6** | | 609.8 |
| Provisions | 13 | **239.4** | | 225.8 |
| | | **887.0** | | 835.6 |
| **Net Current Assets** | | | **3,156.6** | 2,715.4 |
| **TOTAL** | | | **4,109.2** | 3,464.2 |
| **Significant Accounting Policies** | 1 | | | |
| **Schedules to the financial statements** | 18-36 | | | |

The Schedules referred to above form an integral part of the financial statements.

| | | | |
|---|---|---|---|
| As set out in our attached report of even date | | For and on behalf of the Board of Directors | |
| **For B S R & Co.**<br>Chartered Accountants<br>Firm Registration No. 101248W | | S. N. Talwar | Chairman |
| **Bhavesh Dhupelia**<br>Partner<br>Membership No.: 042070 | | M. Dziki | Managing Director |
| | | H. C. H. Bhabha<br>E. A. Kshirsagar<br>R. L. Shenoy<br>P. H. Pimplikar | Directors |
| Mumbai, 28 February, 2012 | H. U. Shenoy<br>Company Secretary | | |

# Profit and Loss Account for the year ended 31 December 2011

Currency: Rupees million

| | Schedules | | 2011 | 2010 |
|---|---|---|---|---|
| **INCOME** | | | | |
| Sales (Gross) | | **5,744.1** | | 5,234.8 |
| Less: Excise Duty | | **168.4** | | 144.0 |
| Sales (Net) | | | **5,575.7** | 5,090.8 |
| Other Income | 14 | | **488.8** | 433.7 |
| | | | **6,064.5** | 5,524.5 |
| **EXPENDITURE** | | | | |
| Materials Cost | 15 | | **2,427.8** | 2,078.7 |
| Personnel Expenses | 16 | | **812.7** | 684.6 |
| Operating and Other Expenses | 17 | | **1,931.2** | 1,589.6 |
| Depreciation/Amortisation | 5 | | **79.5** | 71.0 |
| Impairment loss (reversal)/charge | 5 | | **(142.8)** | 142.8 |
| Interest – Others | | | **0.2** | 0.7 |
| | | | **5,108.6** | 4,567.4 |
| **PROFIT BEFORE TAXATION** | | | **955.9** | 957.1 |
| Provision for taxes | | | | |
| Current Tax Expense | | | **(276.0)** | (381.1) |
| Deferred Tax (Charge)/Credit | | | **(43.1)** | 55.8 |
| **NET PROFIT AFTER TAXATION** | | | **636.8** | 631.8 |
| Add: Profit and Loss Balance Brought Forward | | | **36.3** | 1,306.5 |
| **PROFIT AVAILABLE FOR APPROPRIATION** | | | **673.1** | 1,938.3 |
| **APPROPRIATIONS:** | | | | |
| Interim Dividend | | | **–** | 1,576.9 |
| Tax on Interim Dividend | | | **–** | 261.9 |
| Transfer to General Reserve | | | **–** | 63.2 |
| Balance carried to the Balance Sheet | | | **673.1** | 36.3 |
| | | | **673.1** | 1,938.3 |
| Basic and Diluted Earnings per share of Face Value Rs. 10.00 (in Rs.): | 33 | | **38.4** | 38.1 |
| **Significant Accounting Policies** | 1 | | | |
| **Schedules to the financial statements** | 18–36 | | | |

The Schedules referred to above form an integral part of the financial statements.

As set out in our attached report of even date

**For B S R & Co.**
Chartered Accountants
Firm Registration No. 101248W

**Bhavesh Dhupelia**
Partner
Membership No.: 042070

Mumbai, 28 February, 2012

H. U. Shenoy
Company Secretary

For and on behalf of the Board of Directors

S. N. Talwar — Chairman

M. Dziki — Managing Director

H. C. H. Bhabha
E. A. Kshirsagar
R. L. Shenoy
P. H. Pimplikar
Directors

# Cash Flow Statement for the year ended 31 December 2011

Currency: Rupees million

| | | | 2011 | | 2010 |
|---|---|---|---|---|---|
| **A. Cash Flow from Operating Activities:** | | | | | |
| Net Profit before Tax | | | **955.9** | | 957.1 |
| Adjustments for: | | | | | |
| Depreciation/Amortisation | | **79.5** | | 71.0 | |
| Impairment loss (reversal)/charge | | **(142.8)** | | 142.8 | |
| Profit on Sale of Fixed Assets, Net | | **(0.4)** | | (0.5) | |
| Profit on Sale of Current Investments, Net | | ***** | | (1.1) | |
| Loss on decline in fair value of Current Investments | | **–** | | * | |
| Unrealised Exchange (Gains)/Losses | | **(3.8)** | | 1.4 | |
| Dividend received on Current Investments | | **(18.8)** | | (11.9) | |
| Interest Income | | **(145.6)** | | (190.2) | |
| Interest Expense | | **0.2** | | 0.7 | |
| Provision for Doubtful Debts and Advances | | **8.0** | | 6.7 | |
| Provision for Employee Benefits | | **19.8** | | 10.6 | |
| Provision for write down of Inventories | | **11.7** | **(192.2)** | (1.3) | 28.2 |
| Operating Profit before Working Capital Changes | | | **763.7** | | 985.3 |
| Adjustments for: | | | | | |
| (Increase) in Inventories | | **(531.4)** | | (25.0) | |
| (Increase) in Sundry Debtors | | **(64.6)** | | (132.0) | |
| (Increase) in Loans and Advances | | **(156.8)** | | (16.5) | |
| Increase in Current Liabilities and Provisions | | **30.4** | **(722.4)** | 228.4 | 54.9 |
| Cash generated from Operations | | | **41.3** | | 1,040.2 |
| Interest Received | | **8.0** | | 9.0 | |
| Interest Paid | | **(0.2)** | | (0.7) | |
| Direct Taxes Paid (Net of Refunds) | | **(304.5)** | **(296.7)** | (388.8) | (380.5) |
| Net Cash (used in)/generated from Operating Activities | (A) | | **(255.4)** | | 659.7 |
| **B. Cash Flow from Investing Activities:** | | | | | |
| Purchase of Fixed Assets (including addition to capital work in progress/advances) | | **(150.6)** | | (87.9) | |
| Sale of Fixed Assets | | **1.5** | | 2.5 | |
| Interest Income | | **138.4** | | 220.0 | |
| Dividend received on Current Investments | | **18.8** | | 11.9 | |
| Loan given (Net of repayment) | | **(21.8)** | | (443.0) | |
| Purchase of Investments | | **(5,667.6)** | | (9,542.2) | |
| Sale of Investments | | **5,642.0** | | 9,579.7 | |
| Investment in Fixed Deposits | | **(1,093.2)** | | (2,701.5) | |
| Fixed Deposits Matured | | **1,693.7** | | 4,724.5 | |
| Net Cash generated from Investing Activities | (B) | | **561.2** | | 1,764.0 |
| **C. Cash Flow from Financing Activities:** | | | | | |
| Buy back of shares (including premium and expenses) | | **(0.2)** | | (1.7) | |
| Dividend | | **–** | | (1,899.4) | |
| Dividend Tax | | **–** | | (318.3) | |
| Net Cash (used) in Financing Activities | (C) | | **(0.2)** | | (2,219.4) |
| Net Increase in Cash and Cash Equivalents | (A + B + C) | | **305.6** | | 204.3 |
| Cash and Cash Equivalents at the beginning of the year | | | **217.7** | | 13.4 |
| Cash and Cash Equivalents at the end of the year (refer note 2) | | | **523.3** | | 217.7 |

**NOTES TO THE CASH FLOW STATEMENT**

| | 2011 | 2010 |
|---|---|---|
| 1. Cash and Cash Equivalents includes (refer schedule 10) – Cash balance | **0.1** | 0.3 |
| - Bank balance in current accounts | **41.0** | 66.2 |
| - Bank balance in deposit accounts | **482.2** | 151.2 |
| | **523.3** | 217.7 |
| 2. Reconciliation of Cash and Cash Equivalents | | |
| Cash and Cash Equivalents | **1,132.8** | 1,427.7 |
| Less: Deposits with maturity greater than 3 months from balance sheet date | **(609.5)** | (1,210.0) |
| Cash and Cash Equivalents for the Cash Flow statement | **523.3** | 217.7 |

3. Unpaid Dividend of Rs. 15.0 million (2010: Rs. 17.6 million), included in Cash and Bank balances, are not available for use by the Company.
4. The Cash Flow Statement has been prepared under the indirect method as set out in Accounting Standard-3 on Cash Flow Statement prescribed in the Companies (Accounting Standard) Rules, 2006.

As set out in our attached report of even date

**For B S R & Co.**
Chartered Accountants
**Firm Registration No. 101248W**
**Bhavesh Dhupelia**
Partner
Membership No.: 042070

Mumbai, 28 February, 2012

H. U. Shenoy
Company Secretary

For and on behalf of the Board of Directors

S. N. Talwar — Chairman

M. Dziki — Managing Director

H. C. H. Bhabha
E. A. Kshirsagar
R. L. Shenoy
P. H. Pimplikar
} Directors

# Schedules to the Financial Statements

*for the year ended 31 December 2011* Currency: Rupees million

1. **SIGNIFICANT ACCOUNTING POLICIES**

(a) **Basis of preparation of financial statements:**

The financial statements have been prepared and presented under the historical cost convention, on the accrual basis of accounting and in accordance with the provisions of the Companies Act, 1956 and the accounting principles generally accepted in India and comply with the Accounting Standards prescribed in the Companies (Accounting Standards) Rules, 2006 issued by the central government, in consultation with the National Advisory Committee on Accounting Standards, to the extent applicable.

The financial statements are presented in millions of Indian Rupees and rounded off to one decimal unless otherwise stated. Figures below Rs. 50,000 are disclosed by '*'.

(b) **Use of estimates:**

The preparation of financial statements in conformity with Generally Accepted Accounting Principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, income and expenses and the disclosure of contingent liabilities on the date of financial statements. Management believes that the estimates made in the preparation of the financial statements are prudent and reasonable. Actual results could differ from those estimates. Any revision to accounting estimates is recognized prospectively in current and future periods.

(c) **Fixed assets and depreciation/amortisation:**

Fixed assets are stated at cost less accumulated depreciation/amortisation and impairment loss. Cost comprises of purchase price and any attributable costs such as duties, freight, borrowing costs, erection and commissioning expenses incurred in bringing the assets to its working condition for its intended use and are net of recoverable taxes as applicable.

The Company depreciates its fixed assets on Straight Line Method (SLM), based on the economic useful lives of assets as estimated by the management. Depreciation on additions is provided pro-rata from the month the assets are put to use. Depreciation on sale of assets is provided up to the prior month in which the assets are sold.

Depreciation on assets other than Trademarks and Software is provided at the rates and in the manner prescribed in Schedule XIV to the Companies Act, 1956, except in the following cases where the SLM rates used, are greater than the corresponding minimum rates prescribed in Schedule XIV to the Companies Act, 1956:

| Description | Depreciation rate % |
|---|---|
| Buildings and Flats | 6.67 |
| Plant and Machinery | 5.15, 11.31, 12.50, 20, 25, 33.33 |
| Furniture, Fixtures, Electrical Fittings and Office Equipment | 12, 33.33 |
| Vehicles | 20 |

Trademarks are amortised over an expected benefit period of 5 years.

Software comprising of System Software and Application Software is amortised on a SLM basis over an expected benefit period of 6 years and 3 years respectively.

Assets individually costing Rs. 0.005 million or less are fully depreciated in the year of acquisition.

(d) **Impairment of assets:**

In accordance with AS 28 on 'Impairment of assets' as prescribed in the Companies (Accounting Standards) Rules, 2006, the Company assesses at each balance sheet date, whether there is any indication that an asset may be impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. The recoverable amount of the assets (or where applicable that of the cash generating unit to which the asset belongs) is estimated as the higher of its net selling price and its value in use. An impairment loss is recognized whenever the carrying amount of an asset or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment loss is recognized in the profit and loss account or against revaluation surplus, where applicable.

If at the balance sheet date, there is an indication that a previously assessed impairment loss no longer exists, the recoverable amount is re-assessed and the asset is reflected at the recoverable amount subject to a maximum of the depreciated historical cost.

Value in use is the present value of estimated future cash flows expected to arise from the continuing use of the assets and from its disposal at the end of its useful life.

(e) **Operating lease:**

Lease rentals in respect of assets acquired under operating lease are charged off to the profit and loss account on a straight-line basis over the lease period.

(f) **Investments:**

Long term investments are stated at cost less provision, for diminution which is other than temporary in nature. Current Investments are stated at lower of cost or market value.

(g) **Inventories:**

Inventories are valued at lower of cost or net realisable value. Cost is arrived at using the moving weighted average method for raw materials and includes attributable factory overheads on the basis of absorption costing principle.

Samples included under inventories are valued at cost and charged to the profit and loss account on distribution.

(h) **Revenue recognition:**

Revenue from sale of goods is recognized on transfer of all significant risks and rewards of ownership to the customers, generally on dispatch of goods. Sales are stated net of trade discounts and sales returns and excludes value added tax/sales tax.

Revenue from services rendered is recognized as and when services are rendered and related costs are incurred, in accordance with the terms of the contractual agreement.

Indenting commission income is recognized when proof of shipment is received from the supplier.

Dividend income is recognized when the right to receive the dividend is unconditional.

Interest income is recognized on time proportion basis.

# Schedules to the Financial Statements

*for the year ended 31 December 2011* Currency: Rupees million

**(i) Employee benefits:**

***(a) Short-term employee benefits:***

All employee benefits payable wholly within twelve months of rendering the service are classified as short-term employee benefits. These benefits include compensated absences such as paid annual leave and sickness leave. The undiscounted amount of short-term employee benefits expected to be paid in exchange for the services rendered by employees is recognized during the year.

***(b) Post-employment benefits:***

*Defined Contribution Plans*

The Company's approved superannuation scheme is a defined contribution plan. The Company's contribution paid/payable under the scheme is recognized as expense in the profit and loss account during the year in which the employee renders the related service.

*Defined Benefit Plans*

The Company's provident fund, gratuity, leave wages and pension schemes are defined benefit plans.

The Company maintains gratuity fund with the Life Insurance Corporation of India, to which contributions are made on an annual basis. The present value of the obligation under such defined benefit plans is determined based on actuarial valuation at the balance sheet date using the Projected Unit Credit Method by an independent actuary, which recognizes each period of service as giving rise to additional unit of employee benefit entitlement and measures each unit separately to build up the final obligation.

The Company also makes specified monthly contributions towards employee provident fund to the Merck Employees Provident Fund Trust. The interest rate payable by the trust to the beneficiaries every year is being notified by the government. The Company has an obligation to make good the shortfall, if any, between the return from the investments of the trust and the interest payable at the notified rate.

The obligation is measured at the present value of the estimated future cash flows. The discount rates used for determining the present value of the obligation under defined benefit plans are based on the market yields on government securities as at the balance sheet date.

Actuarial gains and losses are recognized immediately in the profit and loss account.

***(c) Other Long-term employment benefits:***

Compensated absences which are not expected to occur within twelve months after the end of the period in which the employee renders the related services are recognized as a liability at the present value of the defined benefit obligation at the balance sheet date, using the Projected Unit Credit Method carried out by an independent actuary. The discount rates used for determining the present value of the obligation under defined benefit plan, are based on the market yields on government securities as at the balance sheet date.

Actuarial gains and losses are recognized immediately in the profit and loss account.

**(j) Foreign currency transactions:**

Transactions denominated in foreign currency are recorded at the exchange rates prevailing on the date of transactions. Exchange differences arising on foreign exchange transactions settled during the year are recognized in the profit and loss account of the year.

Monetary assets and liabilities in foreign currency, which are outstanding as at the year-end and not covered by forward contracts, are translated at the year-end at the closing exchange rate and the resultant exchange differences are recognized in the profit and loss account. Non-monetary foreign currency items are carried at cost.

In respect of forward exchange contracts, the difference between the forward rate and the exchange rate at the inception of the forward exchange contracts, is recognized as income/expense over the life of the contract. Exchange differences on forward exchange contracts are recognized as income/expense in the profit and loss account of the year.

**(k) Research and Development:**

Research and development expenditure of a revenue nature is written off in the year in which it is incurred.

**(l) Taxation:**

Income tax expense comprises current tax, deferred tax charge or credit.

The deferred tax charge or credit is recognized using enacted or substantially enacted rates at the balance sheet date. In the case of unabsorbed depreciation or carry forward losses, deferred tax assets are recognized only to the extent there is virtual certainty of realization of such assets. Other deferred tax assets are recognized only to the extent there is reasonable certainty of realization of income in future. Such assets are reviewed as at each balance sheet date to reassess realization.

**(m) Earnings per share (EPS):**

Basic EPS is computed by dividing the net profit for the year attributable to equity shareholders by the weighted average number of equity shares outstanding during the year. Diluted EPS is computed using the weighted average number of equity and diluted equity equivalent shares outstanding during the year, except where the results would be anti-dilutive.

**(n) Provisions and Contingent liabilities:**

The Company creates a provision when there is present obligation as a result of a past event that probably requires an outflow of resources and a reliable estimate can be made of the amount of the obligation. A disclosure for a contingent liability is made when there is a possible obligation or a present obligation that may, but probably may not, require an outflow of resources. When there is a possible obligation or a present obligation in respect of which the likelihood of outflow of resources is remote, no provision or disclosure is made. Loss contingencies arising from claims, litigations, assessments, fines, penalties etc. are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated.

# Schedules to the Financial Statements

*as at 31 December 2011* Currency: Rupees million

| | | | 2011 | 2010 |
|---|---|---|---|---|
| 2. | **SHARE CAPITAL** | | | |
| | **AUTHORISED** | | | |
| | 18,000,000 (2010: 18,000,000) Equity Shares of Rs. 10 each | | **180.0** | 180.0 |
| | **ISSUED, SUBSCRIBED AND PAID-UP** | | | |
| | 16,599,382 (2010: 16,599,382) Equity Shares of Rs. 10 each, fully paid-up | | **166.0** | 166.0 |
| | Out of the above<br>– 127,820 (2010: 127,820) Equity Shares of Rs. 10 each have been allotted as fully paid-up pursuant to a contract for consideration having been received otherwise than in cash.<br>– 5,370,000 (2010: 5,370,000) Equity Shares of Rs. 10 each have been allotted as fully paid-up Bonus Shares, by capitalising Rs. 38.3 million from General Reserve and Rs. 15.4 million from Securities Premium Account.<br>– 8,599,224 (2010: 8,599,224) Equity Shares of Rs. 10 each are held by Merck KGaA, Germany, through its subsidiaries. | | | |
| | | | **166.0** | 166.0 |
| 3. | **RESERVES AND SURPLUS** | | | |
| | Capital Reserve | | **2.6** | 2.6 |
| | Capital Redemption Reserve | | | |
| | Securities Premium Account | | **2.6** | 2.6 |
| | General Reserve | | **111.3** | 111.3 |
| | Balance brought forward | **3,145.4** | | 3,083.9 |
| | Less : Premium/Expenses paid on Buy-back of shares # | **0.2** | | 1.7 |
| | Add : Transfer from Profit and Loss Account | **–** | | 63.2 |
| | | | **3,145.2** | 3,145.4 |
| | # In respect of shares bought back, Rs. 0.2 million (2010: Rs. 1.7 million) have been adjusted against General Reserve. [Also refer Schedule 20] | | | |
| | Profit and Loss Account | | **673.1** | 36.3 |
| | | | **3,934.8** | 3,298.2 |
| 4. | **DEFERRED TAX LIABILITY (NET)** | | | |
| | Deferred Tax Liability included in the Balance Sheet comprises of: | | | |
| | Deferred Tax Liability: | | | |
| | Excess of Depreciation as per Income Tax Act, 1961, over Book Depreciation | | **66.2** | – |
| | | | **66.2** | – |
| | Deferred Tax Assets: | | | |
| | Provision for Doubtful Debts and Advances | | **13.2** | – |
| | Personnel and other related provisions | | **13.2** | – |
| | Provision for Sales Tax matters | | **18.3** | – |
| | Other Provisions | | **13.1** | – |
| | | | **57.8** | – |
| | | | **8.4** | – |

# Schedules to the Financial Statements

*as at 31 December 2011* Currency: Rupees million

## 5. FIXED ASSETS

| Description of Assets | GROSS BLOCK AT COST: As at 01.01.2011 | Additions | Deductions | As at 31.12.2011 | DEPRECIATION/AMORTISATION/IMPAIRMENT LOSS: As at 01.01.2011 | Depreciation/ Amortisation for the year | Impairment (reversal)/ charge for the year# | Deductions | As at 31.12.2011 | NET BLOCK: **As at 31.12.2011** | As at 31.12.2010 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Intangible Assets** | | | | | | | | | | | |
| Trademarks | 86.9 | – | – | 86.9 | 86.9 | – | – | – | 86.9 | – | – |
| Software | 41.1 | 1.6 | – | 42.7 | 38.2 | 2.1 | – | – | 40.3 | **2.4** | 2.9 |
| **Tangible Assets** | | | | | | | | | | | |
| Freehold Land | 5.0 | – | – | 5.0 | – | – | – | – | – | **5.0** | 5.0 |
| Buildings and Flats | 390.5 | 17.8 | – | 408.3 | 183.3 | 11.4 | (28.5) | – | 166.2 | **242.1** | 207.2 |
| Plant and Machinery | 858.9 | 103.3 | 12.7 | 949.5 | 639.1 | 49.3 | (95.0) | 12.2 | 581.2 | **368.3** | 219.8 |
| Furniture, Fixtures, Electrical Fittings and Office Equipment | 153.4 | 37.0 | 3.8 | 186.6 | 95.6 | 16.7 | (19.3) | 3.2 | 89.8 | **96.8** | 57.8 |
| Vehicles | 0.2 | 0.4 | 0.2 | 0.4 | 0.2 | * | – | 0.2 | * | **0.4** | – |
| Total | 1,536.0 | 160.1 | 16.7 | 1,679.4 | 1,043.3 | 79.5 | (142.8) | 15.6 | 964.4 | **715.0** | 492.7 |
| Previous Year | 1,482.9 | 80.3 | 27.2 | 1,536.0 | 854.7 | 71.0 | 142.8 | 25.2 | 1,043.3 | **492.7** | |

**Notes:**

Buildings and Flats includes cost of Shares in a Co-operative Society Rs. * (2010: Rs.*)

Plant and Machinery includes Research and Development equipments.

# Refer Schedule 21 for impairment adjustment.

## 6. INVESTMENTS

| | No. of Units | Face Value in Rs. | **2011** | 2010 |
|---|---|---|---|---|
| *Non-Trade, Current (Unquoted) :* | | | | |
| *In Mutual Funds :* | | | | |
| LIC NOMURA MF Liquid Fund (Formerly LICMF Liquid Fund) | 2,952,691 | 10 | **32.4** | – |
| | (6,102,819) | 10 | **–** | 67.0 |
| Canara Robeco Liquid Fund – Super Institutional | 53,517 | 1,000 | **53.8** | |
| | (2,918,756) | 10 | | 29.4 |
| SBI Premier Liquid Fund-Super Institutional | 14,079,108 | 10 | **141.2** | – |
| SBI Magnum Insta Cash Fund | (6,294,747) | 10 | **–** | 105.4 |
| | | | **227.4** | 201.8 |

(Figures in brackets indicate those of the Previous Year)

Refer Schedule 25 for details of Investments purchased and sold during the year.

The aggregate Book Value and Net Asset Value of Unquoted Investments are as follows:

| | **2011** | 2010 |
|---|---|---|
| Aggregate Book Value of Non-Trade, Current, Unquoted Investments | **227.4** | 201.8 |
| Aggregate Net Asset Value of Non-Trade, Current, Unquoted Investments | **227.4** | 201.8 |

# Schedules to the Financial Statements

*as at 31 December 2011* Currency: Rupees million

| | | 2011 | 2010 |
|---|---|---|---|
| **7. DEFERRED TAX ASSETS (NET)** | | | |
| Deferred Tax Asset included in the Balance Sheet comprises of: | | | |
| Deferred Tax Liability: | | | |
| Excess of Depreciation as per Income Tax Act, 1961 over book depreciation | | – | 15.1 |
| | | – | 15.1 |
| Deferred Tax Asset: | | | |
| Provision for Doubtful Debts and Advances | | – | 10.7 |
| Personnel and other related provisions | | – | 8.6 |
| Provision for Sales Tax matters | | – | 17.0 |
| Other Provisions | | – | 13.4 |
| | | – | 49.7 |
| | | – | 34.6 |
| **8. INVENTORIES** | | | |
| Stores and Spare Parts | | 4.5 | 4.5 |
| Stock-in-Trade: | | | |
| — Raw Materials | | 305.3 | 185.9 |
| — Packing Materials | | 57.9 | 57.1 |
| — Finished Goods [includes Stock of Samples (at cost) amounting to Rs. 21.3 million; (2010 : Rs. 17.2 million)] | | 689.8 | 305.6 |
| — Work in Process | | 73.4 | 58.1 |
| | | 1,130.9 | 611.2 |
| **9. SUNDRY DEBTORS** | | | |
| *(Unsecured)* | | | |
| Debts outstanding for a period exceeding six months | | | |
| considered good | | 20.9 | 11.3 |
| considered doubtful | | 37.0 | 29.0 |
| | | 57.9 | 40.3 |
| Other Debts | | | |
| considered good | | 601.4 | 549.5 |
| | | 659.3 | 589.8 |
| Less : Provision for Doubtful Debts | | 37.0 | 29.0 |
| | | 622.3 | 560.8 |
| Due from Companies under the same Management: | | | |
| Merck Specialities Private Limited | | 2.3 | 0.5 |
| Maximum amount outstanding during the year | | 25.4 | 33.9 |
| **10. CASH AND BANK BALANCES** | | | |
| Cash on hand | | 0.1 | 0.3 |
| Bank balances with Scheduled Banks: | | | |
| On Current Accounts | 41.0 | | 66.2 |
| On Deposit Accounts (Includes Rs. 1.3 million; 2010: Rs. 1.2 million against Bank Guarantee) | 1,091.7 | | 1,361.2 |
| | | 1,132.7 | 1,427.4 |
| | | 1,132.8 | 1,427.7 |

# Schedules to the Financial Statements

*as at 31 December 2011* Currency: Rupees million

| | | 2011 | 2010 |
|---|---|---|---|
| **11. LOANS AND ADVANCES** | | | |
| *(Unsecured)* | | | |
| Advances recoverable in cash or in kind or for value to be received | | | |
| considered good | 251.2 | | 164.7 |
| considered doubtful | 1.2 | | 1.2 |
| | 252.4 | | 165.9 |
| Less : Provision for Doubtful Advances | 1.2 | | 1.2 |
| | | 251.2 | 164.7 |
| Loans to Employees # | | 7.4 | 8.4 |
| Loans to Bodies Corporate ** | | 464.8 | 443.0 |
| Interest Receivable | | 34.2 | 35.0 |
| Income Tax Payments, less Provisions | | 276.7 | 248.2 |
| (Represents excess payment of Advance Tax over Provision for Taxation in certain Assessment Years) | | | |
| Prepaid Expenses | | 42.9 | 22.3 |
| Deposits | | | |
| considered good | 80.4 | | 29.7 |
| considered doubtful | 2.5 | | 2.5 |
| | 82.9 | | 32.2 |
| Less : Provision for Doubtful Deposits | 2.5 | | 2.5 |
| | | 80.4 | 29.7 |
| | | 1,157.6 | 951.3 |
| # Due from Director | | – | 1.4 |
| Maximum amount outstanding during the year | | 1.4 | 1.6 |
| ** Dues from Companies under the same Management: | | | |
| Merck Specialities Private Limited | | 284.8 | 445.6 |
| Millipore (India) Private Limited | | 180.0 | – |
| Maximum amount outstanding during the year | | | |
| Merck Specialities Private Limited | | 445.6 | 445.6 |
| Millipore (India) Private Limited | | 240.0 | |
| **12. CURRENT LIABILITIES** | | | |
| Acceptances | | 21.8 | 20.5 |
| Sundry Creditors: | | | |
| Dues to Micro, Small and Medium Enterprises (Refer Schedule 35) | 1.3 | | 0.9 |
| Others | 579.0 | | 541.6 |
| | | 580.3 | 542.5 |
| Other Liabilities | | 30.5 | 29.2 |
| Investor Education and Protection Fund shall be credited by the following amounts (not due as at the year end): | | | |
| Unpaid Dividend | | 15.0 | 17.6 |
| | | 647.6 | 609.8 |
| **13. PROVISIONS** | | | |
| Provision for Taxation less Payments | | 11.3 | 11.3 |
| (Represents excess of Provision for Taxation over Advance Tax payment in certain Assessment Years) | | | |
| Personnel and other related provisions (Refer Schedule 22) | | 115.1 | 125.5 |
| Provision for Leave Encashment | | 43.5 | 34.0 |
| Provision for Gratuity (Refer Schedule 23) | | 8.1 | 3.1 |
| Provision for Provident Fund (Refer Schedule 23) | | 5.3 | – |
| Provision for Sales Tax matters (Refer Schedule 22) | | 56.1 | 51.9 |
| | | 239.4 | 225.8 |

# Schedules to the Financial Statements

*for the year ended 31 December 2011* Currency: Rupees million

| | 2011 | 2010 |
|---|---|---|
| **14. OTHER INCOME** | | |
| Interest on Deposits and Others | 137.6 | 181.2 |
| (Income tax deducted at source Rs. 13.4 million; 2010: Rs. 23.2 million) | | |
| Dividend received on Current Investments | 18.8 | 11.9 |
| Profit on sale of Current Investments (Net) | * | 1.1 |
| Interest on Delayed Payments from Customers | 8.0 | 9.0 |
| (Income tax deducted at source Rs. 0.1 million; 2010: Rs. 0.1 million) | | |
| Indenting Commission | 1.5 | 1.2 |
| Income from Other Services rendered | 201.3 | 137.6 |
| Service Tax Credit | 83.8 | 44.0 |
| Other Operating Income | 24.1 | 29.9 |
| Insurance Claims | 1.2 | 1.3 |
| Profit on Sale of Fixed Assets (Net) | 0.4 | 0.5 |
| Sundry Balances written back | — | 0.2 |
| Exchange Gain (Net) | — | 6.7 |
| Miscellaneous Income | 12.1 | 9.1 |
| | 488.8 | 433.7 |
| **15. MATERIALS COST** | | |
| Raw Materials consumed | 1,193.8 | 931.8 |
| Packing Materials consumed | 501.6 | 394.1 |
| Cost of Traded Products sold | 952.7 | 680.0 |
| (Increase)/Decrease in Inventories | (220.3) | 72.8 |
| | 2,427.8 | 2,078.7 |
| **16. PERSONNEL EXPENSES** | | |
| Salaries, Wages, Bonus and Allowances | 684.9 | 567.6 |
| Contribution to Provident Fund and Other Funds | 60.1 | 52.7 |
| Staff Welfare and Amenities | 67.7 | 64.3 |
| | 812.7 | 684.6 |
| **17. OPERATING AND OTHER EXPENSES** | | |
| Power and Fuel | 69.4 | 66.0 |
| Stores and Spare Parts consumed | 41.3 | 27.7 |
| Third Party Processing Charges | 240.7 | 174.1 |
| Excise Duty (Net) | 39.5 | 11.9 |
| (Represents excise duty paid on free replacements, samples, bonus issues and net excise duty impact on opening/closing stocks) | | |
| Repairs and Maintenance to: | | |
| Building | 5.0 | 5.5 |
| Plant and Machinery | 9.3 | 8.3 |
| Others | 46.6 | 26.9 |
| Rates and Taxes | 31.5 | 27.6 |
| Rent | 100.5 | 56.8 |
| Printing, Stationery, Postage, Telephone and Electricity Expenses | 39.3 | 34.6 |
| Legal and Professional Expenses | 197.1 | 134.4 |
| Directors' Fees | 0.8 | 0.7 |
| Travelling, Conveyance and Vehicle Expenses | 271.0 | 288.5 |
| Insurance | 7.8 | 7.6 |
| Research and Development Expenses (Schedule 32) | 28.3 | 20.5 |
| Donations | * | * |
| Packing, Forwarding and Freight | 130.7 | 107.4 |
| Clearing and Forwarding Agents Commission | 51.4 | 45.4 |
| Selling Agents Commission | 9.3 | 8.2 |
| Sales Promotion Expenses | 451.7 | 404.7 |
| Provision for Doubtful Debts/Advances (Net) | 8.0 | 6.7 |
| Bad Debts written off | 1.0 | * |
| Royalty | 103.5 | 98.7 |
| Loss on decline in fair value of Current Investments | — | * |
| Exchange Loss (Net) | 2.8 | — |
| Miscellaneous Expenses | 44.7 | 27.4 |
| | 1,931.2 | 1,589.6 |

# Schedules to the Financial Statements

*for the year ended 31 December 2011* Currency: Rupees million

## 18. CONTINGENT LIABILITIES

Summary of disputed statutory demands not accepted by the Company is given below:

| | 2011 | 2010 |
|---|---|---|
| Income tax | **708.2** | 673.9 |
| State and Central Sales tax, entry tax | **39.1** | 23.4 |
| Excise duty | **5.7** | 5.7 |
| Customs duty | **1.3** | 1.3 |
| | **754.3** | 704.3 |

## 19. CAPITAL COMMITMENTS

Estimated amount of contracts remaining to be executed on Capital Account (net of advance) and not provided for: Rs. 15.7 million (2010: Rs. 40.3 million).

## 20. SHARE BUY-BACK

The Company has, during the year, incurred expenses of Rs. 0.2 million (2010: Rs. 1.7 million), towards the buy-back of shares, in terms of the share buy-back scheme approved by the Board of Directors on 20th May, 2009.

## 21. IMPAIRMENT OF ASSETS

During the previous year, the Company had impaired one of its chemical plants on basis of determination of value in use of the plant, which the Company considers as the relevant Cash Generating Unit ('CGU') for purposes of impairment testing. This CGU is situated at the Company's production facility at Goa. Management recorded impairment of the CGU on account of significant reduction in the market demand of the product and no identified alternate use of the CGU at that date. The amount of impairment loss aggregating Rs. 142.8 million was debited to profit and loss account for the year ended 31 December 2010 and formed part of the Chemicals segment of the Company.

The Company has during the year ended 31 December 2011 identified alternate uses for the said CGU and has modified and put to use the chemical plant to manufacture alternate product. As at the year end, based on the approved utilization plan for the CGU, resultant value in use thereof warrants restoration of CGU's carrying value by reversing impairment loss recorded in previous year. Accordingly, the Company has reversed impairment loss of Rs. 142.8 million, crediting profit and loss account during the year and depreciation charge of Rs. 27.4 million has been recorded for the year.

## 22. DISCLOSURE RELATING TO PROVISIONS

**Personnel and other related provisions:**

The Company has made provisions for performance-based incentives which are expected to be paid in the subsequent financial year.

**Provisions in respect of sales tax matters:**

The Company has also made provisions for various sales tax/value added tax related matters, which will be settled on completion of the respective assessments.

Summary of the movement in the provisions is given below:

| | Opening Balance | Additions during the year | Utilizations | Reversals | Closing balance |
|---|---|---|---|---|---|
| Personnel and other related provisions | **125.5** | **110.7** | **103.8** | **17.3** | **115.1** |
| | (75.7) | (135.0) | (79.5) | (5.7) | (125.5) |
| Provisions in respect of sales tax matters | **51.9** | **4.2** | **–** | **–** | **56.1** |
| | (48.3) | (3.8) | (0.2) | – | (51.9) |
| Total | **177.4** | **114.9** | **103.8** | **17.3** | **171.2** |
| | (124.0) | (138.8) | (79.7) | (5.7) | (177.4) |

Figures in brackets indicate those of the Previous Year.

# Schedules to the Financial Statements

*for the year ended 31 December 2011* Currency: Rupees million

**23. EMPLOYEE BENEFITS**

(i) Effective 1 January 2007, the Company adopted Accounting Standard 15 (AS 15) (revised 2005) on "Employee Benefits" prescribed in Companies (Accounting Standards) Rules, 2006.

(ii) **Contribution to Provident and Superannuation Funds:**

Amount of Rs. 29.8 million (2010: Rs. 28.8 million) is recognized as an expense and included in "Personnel costs" (Refer Schedule 16) in the profit and loss account.

(iii) **Defined Benefit Plans:**

| | | Gratuity | |
|---|---|---|---|
| | | **2011** | 2010 |
| **1.** | **Change in Benefit Obligation** | | |
| | Liability at the beginning of the year | **111.8** | 96.1 |
| | Interest Cost | **7.9** | 6.6 |
| | Current Service Cost | **8.1** | 7.0 |
| | Benefit Paid | **(5.4)** | (6.5) |
| | Actuarial Loss on obligations | **5.3** | 8.6 |
| | ***Liability at the end of the year*** | ***127.7*** | ***111.8*** |
| **2.** | **Fair value of Plan Assets** | | |
| | Fair Value of Plan Assets at the beginning of the year | **108.7** | 98.9 |
| | Expected Return on Plan Assets | **9.8** | 9.0 |
| | Contributions | **6.9** | 7.5 |
| | Benefit Paid | **(5.4)** | (6.5) |
| | Actuarial (Loss) on Plan Assets | **(0.4)** | (0.2) |
| | ***Fair Value of Plan Assets at the end of the year*** | ***119.6*** | ***108.7*** |
| | ***Total Actuarial (Loss) to be Recognized*** | ***(5.7)*** | *(8.8)* |
| **3.** | **Actual Return on Plan Assets** | | |
| | Expected Return on Plan Assets | **9.8** | 9.0 |
| | Actuarial (Loss) on Plan Assets | **(0.4)** | (0.2) |
| | ***Actual Return on Plan Assets*** | ***9.4*** | ***8.8*** |
| **4.** | **Amount Recognized in the Balance Sheet** | | |
| | Liability at the end of the year | **(127.7)** | (111.8) |
| | Fair Value of Plan Assets at the end of the year | **119.6** | 108.7 |
| | ***(Liabilities) Recognized in the Balance Sheet*** | ***(8.1)*** | ***(3.1)*** |
| **5.** | **Expenses Recognized in the Income Statement** | | |
| | Current Service Cost | **8.1** | 7.0 |
| | Interest Cost | **7.9** | 6.6 |
| | Expected Return on Plan Assets | **(9.8)** | (9.0) |
| | Net Actuarial Loss to be Recognized | **5.7** | 8.8 |
| | ***Expense Recognized in the Income Statement*** | ***11.9*** | ***13.4*** |

# Schedules to the Financial Statements

*for the year ended 31 December 2011* Currency: Rupees million

(iii) **Defined Benefit Plans: (continued)**

| | | Gratuity | |
|---|---|---|---|
| | | **2011** | 2010 |
| **6.** | **Balance Sheet Reconciliation** | | |
| | Opening Net (Assets)/Liability | **3.1** | (2.8) |
| | Expense as above | **11.9** | 13.4 |
| | Employers Contribution | **(6.9)** | (7.5) |
| | ***Liabilities Recognized in Balance Sheet*** | ***8.1*** | ***3.1*** |

| | | | |
|---|---|---|---|
| **7.** | **Actuarial Assumptions : For the Year** | | |
| | Discount Rate Current | ***8.9%*** | *7.8%* |
| | Rate of Return on Plan Assets Current | ***9.5%*** | *9.0%* |
| | Salary Escalation Current | ***9.0%*** | *7.0%* |

Note: Employer's contribution includes payments made of Rs. 5.4 million (2010: Rs. 6.5 million) towards gratuity obligation by the Company directly to its past employees.

Estimate of future salary increases, considered in actuarial valuation, take account of inflation, seniority, increments and other relevant factors, such as supply and demand in the employment market.

(iv) **Experience adjustments:**

| | **2011** | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|
| Present value of defined benefit obligation | **127.7** | 111.8 | 96.1 | 99.1 | 77.5 |
| Fair value of the Plan Assets | **119.6** | 108.7 | 98.9 | 89.4 | 80.9 |
| (Deficit)/Surplus in the plan | **(8.1)** | (3.1) | 2.8 | (9.7) | 5.4 |
| Experience adjustments on: | | | | | |
| Plan Liabilities Loss/(Gain) | **4.1** | 8.6 | (10.3) | 16.3 | (3.5) |
| Plan Assets Loss/(Gain) | **(0.4)** | (0.2) | 0.9 | (0.2) | (0.8) |

(v) **Broad category of plan assets relating gratuity as a percentage of total plan assets:**

The Company's gratuity fund is managed by Life Insurance Corporation of India. The plan assets under the fund are deposited under approved securities.

(vi) **Compensated absences:**

Compensated absences are recognized when the employees render service that increase their entitlement to future compensated absence. Employees can carry forward and avail/encash leave as per the policy of the Company.

Compensated absences have been provided for, based on outstanding leave balance and the employees' gross pay.

The undiscounted amount of short term employee benefits of Rs. 8.1 million (2010: Rs. 6.2 million) is expected to be paid in the exchange for the services rendered by employees is recognized as an expense during the year.

(vii) **Provident Fund:**

The guidance issued by the Accounting Standard Board on implementing AS 15, Employee Benefits (revised 2005) states that provident fund set up by employer, which requires interest shortfall to be met by the employer, needs to be treated as defined benefit plan.

The Institute of Actuaries of India has, during the year ended 31 December 2011, issued the exposure draft guidance for measurement of provident fund liabilities on actuarial basis. Based on this guidance note, the actuary has provided an actuarial valuation of the provident fund liability of the Company as at 31 December 2011. In the absence of guidance for measurement of provident fund liabilities as at 31 December 2010, actuarial valuation for the earlier year(s) has not been carried out.

Based on the below mentioned assumptions, the Company has provided for Rs. 5.3 million on account of interest shortfall as at 31 December 2011.

The details of fund and plan asset position are:

| **Particulars** | **2011** |
|---|---|
| Present value of benefit obligation | **411.8** |
| Plan assets at period end, at fair value | **406.5** |
| Liability recognised in balance sheet | **5.3** |

Assumptions used in determining the present value obligation of interest rate guarantee under the Deterministic Approach:

| **Particulars** | **2011** |
|---|---|
| Discount rate | **8.3%** |
| Expected rate of return on assets | **8.5%** |

**24. LEASE ACCOUNTING**

The Company has entered into cancellable operating lease agreements for vehicles. The lease charges of Rs. 21.6 million (2010: Rs. 19.9 million) has been included under the head "Operating and Other Expenses" under Schedule "17" in the profit and loss account.

# Schedules to the Financial Statements

*for the year ended 31 December 2011* Currency: Rupees million

**25. DETAILS OF INVESTMENTS PURCHASED AND SOLD DURING THE YEAR**

| Name of the Fund | Purchase Units | Purchase Face Value (Rs.) | Cost Rs. Million | Sale Units |
|---|---|---|---|---|
| LIC NOMURA MF Liquid Fund | **17,722,566** | **10** | **194.6** | **17,722,566** |
| (Formerly LICMF Liquid Fund) | (477,613,776) | | (5,244.2) | (477,613,776) |
| SBI - Magnum Insta Cash Fund | **23,198,833** | **10** | **388.6** | **23,198,833** |
| | (40,277,419) | | (674.7) | (40,277,419) |
| Canara Robeco Liquid Fund - Super Institutional | **270,324** | **1000** | **271.8** | **270,324** |
| | (–) | | (–) | (–) |
| Canara Robeco Liquid Fund - Super Institutional | **63,594,160** | **10** | **639.4** | **63,594,160** |
| | (53,501,124) | | (538.0) | (53,501,124) |
| SBI Premier Liquid Fund - Super Institutional | **386,493,895** | **10** | **3,877.5** | **386,493,895** |
| | (–) | | (–) | (–) |
| LIC NOMURA MF Interval Fund - Series 1 | **10,065,578** | **10** | **100.7** | **10,065,578** |
| | (–) | | (–) | (–) |
| Canara Robeco Treasury Advantage Fund - Institutional | **–** | | **–** | **–** |
| | (2,862,988) | (10) | (35.5) | (2,862,988) |
| Birla Sun Life Cash Plus Institutional Premium | **–** | | **–** | **–** |
| | (62,998,945) | (10) | (631.2) | (62,998,945) |
| ICICI Prudential Liquid Super Institutional Plan | **–** | | **–** | **–** |
| | (3,499,710) | (100) | (350.1) | (3,499,710) |
| TATA Liquid Super High Investment Plan | **–** | | **–** | **–** |
| | (314,079) | (1,000) | (350.0) | (314,079) |
| LIC NOMURA MF Income Plus Fund | **–** | | **–** | **–** |
| (Formerly LICMF Income Plus Fund) | (117,056,727) | (10) | (1,170.7) | (117,056,727) |
| Reliance Liquidity Fund | **–** | | **–** | **–** |
| | (30,988,564) | (10) | (310.0) | (30,988,564) |
| SBI - SHF - Ultra Short Term Fund - Institutional | **–** | | **–** | **–** |
| | (10,182,721) | (10) | (102.7) | (10,182,721) |

(Figures in brackets indicate those of the Previous Year)

**26. SUPPLEMENTARY STATUTORY INFORMATION**

**(i) Remuneration to Directors:**

Managerial remuneration to Directors is summarized below:

| | 2011 | 2010 |
|---|---|---|
| Salaries | **22.4** | 22.6 |
| Commission # | **11.8** | 10.6 |
| Contribution to Provident Fund and other Funds | **4.2** | 4.1 |
| Perquisites or benefits in cash or in kind | **18.1** | 14.6 |
| Directors' fees | **0.8** | 0.7 |
| | **57.3** | 52.6 |

\# Commission for 2011 includes Rs. 1.9 million pertaining to 2010. Commission for 2010 is net of reversal of excess provision made in 2009 amounting to Rs. 1.3 million.

Contribution to Provident Fund and other Funds does not include actuarial charge for gratuity, leave encashment and provident fund, as employee-wise break-up is not available.

# Schedules to the Financial Statements

*for the year ended 31 December 2011* Currency: Rupees million

Computation of Net Profit in accordance with Section 309(5) read with Section 349 of the Companies Act, 1956 is summarized below:

| | 2011 | 2010 |
|---|---|---|
| Profit for the year before taxation as per the profit and loss account | **955.9** | 957.1 |
| *Add:* | | |
| Managerial remuneration | **57.3** | 52.6 |
| Profit on sale of fixed assets, net (as per Section 349) | **0.4** | 0.5 |
| | **1,013.6** | 1,010.2 |
| *Less:* | | |
| Profit on sale of fixed assets, net (as per profit and loss account) | **0.4** | 0.5 |
| Net profit | **1,013.2** | 1,009.7 |
| Commission to the Managing Director and the Whole-time Directors | **10.1** | 8.9 |
| Commission @ 1% of the net profit to Non-Whole-time Directors, restricted as decided by the Board of Directors | **1.7** | 1.7 |
| Total Commission to Directors | **11.8** | 10.6 |

**(ii) Remuneration to Auditors:**

| | 2011 | 2010 |
|---|---|---|
| Audit fees | **2.2** | 1.7 |
| Taxation matters | **0.2** | 0.8 |
| Other matters | **0.8** | 0.7 |
| Out of pocket expenses | **0.1** | 0.1 |
| Service Tax | **0.2** | 0.3 |
| | **3.5** | 3.6 |

**(iii) Expenditure in foreign currency:**

| | 2011 | 2010 |
|---|---|---|
| Royalty | **103.5** | 98.7 |
| Consultancy fees | **37.6** | 30.0 |
| Professional fees | **83.5** | 36.5 |
| Others (traveling, commission, etc.) | **50.9** | 42.1 |
| | **275.5** | 207.3 |
| Amounts disclosed above are on accrual basis | | |

**(iv) Value of Imports (On C.I.F. basis):**

| | 2011 | 2010 |
|---|---|---|
| Raw materials | **640.4** | 427.7 |
| Finished goods | **757.2** | 460.5 |
| Components, Stores and Spare Parts | **1.1** | 2.4 |
| Capital goods | **31.8** | 22.4 |
| | **1,430.5** | 913.0 |

**(v) Remittances in foreign currency on account of dividends:**

| | 2011 | 2010 |
|---|---|---|
| Amount of dividend: | | |
| Interim 2010 | **–** | 816.9 |
| Final 2009 | **–** | 150.5 |
| Number of Non-resident Shareholders: | | |
| Interim 2010 | **–** | 3 |
| Final 2009 | **–** | 3 |
| Number of Equity shares held by Non-resident Shareholders: | | |
| Interim 2010 | **–** | 8,599,224 |
| Final 2009 | **–** | 8,599,224 |

# Schedules to the Financial Statements

*for the year ended 31 December 2011* Currency: Rupees million

**(vi) Earnings in foreign exchange:**

| | 2011 | 2010 |
|---|---|---|
| Exports of goods on F.O.B. basis | **538.9** | 468.8 |
| Indenting commission | **1.5** | 1.2 |
| Others (Recoveries of SAP expenses, freight, insurance, etc.) | **31.1** | 41.9 |
| | **571.5** | 511.9 |

Amounts disclosed above are on accrual basis.

**27. INFORMATION RELATING TO CONSUMPTION OF RAW MATERIALS AND STORES**

**(a) Consumption of Raw Materials:**

| Particulars | Quantity | Value |
|---|---|---|
| Isophytol | **310.4 Tonnes** | **187.2** |
| | (269.3 Tonnes) | (143.7) |
| Vitamins | **310.4 Tonnes** | **281.8** |
| | (239.7 Tonnes) | (173.0) |
| Active Ingredients | **487.7 Tonnes** | **223.7** |
| | (384.2 Tonnes) | (186.9) |
| Organic Chemicals | **572.2 Tonnes** | **110.0** |
| | **727.7 Kilo Ltrs** | |
| | (588.4 Tonnes) | (121.3) |
| | (728.0 Kilo Ltrs) | |
| Inorganic Chemicals | **725.7 Tonnes** | **55.2** |
| | **259.0 Kilo Ltrs** | |
| | (703.5 Tonnes) | (55.1) |
| | (268.7 Kilo Ltrs) | |
| Others | | **335.9** |
| | | (251.8) |
| | | **1,193.8** |
| | | (931.8) |

**(b) Value of Imported and Indigenous Raw Materials Consumed:**

| | Value | Percentage to total consumption |
|---|---|---|
| Imported | **427.6** | **35.8** |
| | (376.2) | (40.4) |
| Indigenous | **766.2** | **64.2** |
| | (555.6) | (59.6) |
| | **1,193.8** | **100.0** |
| | (931.8) | (100.0) |

**(c) Value of Imported and Indigenous Stores Consumed:**

| | Value | Percentage to total consumption |
|---|---|---|
| Imported | **2.3** | **5.6** |
| | (1.5) | (5.4) |
| Indigenous | **39.0** | **94.4** |
| | (26.2) | (94.6) |
| | **41.3** | **100.0** |
| | (27.7) | (100.0) |

(Figures in brackets in (a) to (c) above indicate those of the Previous Year).

# Schedules to the Financial Statements

*for the year ended 31 December 2011* Currency: Rupees million

**28. INFORMATION RELATING TO TURNOVER, PRODUCTION, PURCHASE AND STOCKS**

**(A) Sales, capacities, production and inventories in relation to Manufacturing Activity:**

| | | | Class of Goods | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | Bulk Drugs | Reagents/ Chemicals | Injections/ Nasal Drops | Syrups/ Powders/ Ointments | Tablets/ Capsules | Total |
| | | | (Tonnes) | (Tonnes) | (Kilolitres) | (Tonnes) | (No. million) | (Rs. million) |
| (a) | Licensed Capacity | | See Note (e) | – | See Note (e) | See Note (e) | See Note (e) | |
| (b) | Installed Capacity @ | | **597.0** | **–** | **450.0** | | **400.0** | |
| | | | (595.0) | **–** | (443.0) | | (400.0) | |
| (c) | Actual Production | | **549.1** | **17.8** $ | **584.2** $ | **4,597.3** $ | **2,115.3** $ | |
| | | | (592.2) | (5.4)$ | (476.2)$ | (4,181.3)$ | (2,082.0)$ | |
| (d) | Opening stock of goods produced | | | | | | | |
| | (i) For sale | | **36.0** | **1.9** | **29.8** | **438.3** | **175.6** | |
| | | | (38.9) | (0.3) | (65.0) | (690.6) | (267.0) | |
| | Value | Rs. million | **39.6** | **0.1** | **18.2** | **42.8** | **56.2** | **156.9** |
| | | Rs. million | (51.5) | (–) | (49.0) | (67.0) | (93.2) | (260.7) |
| | (ii) For samples | | **–** | **–** | **3.1** | **30.3** | **8.3** | |
| | | | (–) | (–) | (4.5) | (38.5) | (10.6) | |
| | Value | Rs. million | **–** | **–** | **0.9** | **3.3** | **5.9** | **10.1** |
| | | Rs. million | (–) | (–) | (1.6) | (4.1) | (6.6) | (12.3) |
| (e) | Closing stock of goods produced | | | | | | | |
| | (i) For sale | | **17.7** | **0.5** | **136.7** | **752.5** | **317.1** | |
| | | | (36.0) | (1.9) | (29.8) | (438.3) | (175.6) | |
| | Value | Rs. million | **23.5** | * | **97.5** | **101.7** | **135.8** | **358.5** |
| | | Rs. million | (39.6) | (0.1) | (18.2) | (42.8) | (56.2) | (156.9) |
| | (ii) For samples | | **–** | **–** | **0.6** | **35.0** | **9.3** | |
| | | | (–) | (–) | (3.1) | (30.3) | (8.3) | |
| | Value | Rs. million | **–** | **–** | **0.7** | **5.0** | **7.8** | **13.5** |
| | | Rs. million | (–) | (–) | (0.9) | (3.3) | (5.9) | (10.1) |
| (f) | Turnover | | **517.1** | **19.1** | **452.2** | **3,866.4** | **1,844.5** | |
| | | | (373.2) | (3.8) | (485.3) | (4,033.2) | (2,047.4) | |
| | Value | Rs. million | **750.6** | **1.7** | **624.4** | **852.3** | **2,018.7** | **4,247.7** |
| | | Rs. million | (683.3) | (0.3) | (653.9) | (831.4) | (1,906.9) | (4,075.8) |

@ As certified by the management, on which auditors have placed reliance, being a technical matter.

$ Includes quantities manufactured by others on loan licences.

Figures in brackets indicate those of the Previous Year.

Notes:

(a) Production under “Bulk Drugs” includes items manufactured for captive consumption.

(b) Production includes promotional samples.

(c) “Reagents” is inclusive of repacked items.

(d) Opening and Closing Stocks and Turnover of Vitamins under “Bulk Drugs” include Vitamin derivatives.

(e) Under the liberalised policy of the Government vide Notification No. S-O-477 (E) dated 25 July 1991 and as amended vide Press Release Note No. 4 of 1994 series dated 25 October 1994, Bulk Drugs and Formulations included in above are exempted from licensing procedures under the Industries (Development and Regulation) Act, 1951.

(f) Installed capacities are on an annual basis as at year end.

(g) Quantities of closing stock of goods mentioned above are after adjustments of excess/shortage upon physical stockcounts, free samples, giveaways under the Company’s bonus schemes and write offs.

# Schedules to the Financial Statements

*for the year ended 31 December 2011* Currency: Rupees million

**28. INFORMATION RELATING TO TURNOVER, PRODUCTION, PURCHASE AND STOCKS (Continued)**

**(B) Sales, purchases and inventories in relation to Trading Activity:**

| | Units | Opening Stock | Purchases | Turnover | Closing Stock |
|---|---|---|---|---|---|
| (a) Tablets/Capsules | '000s | **19,251.2** | **66,563.9** | **53,576.1** | **20,824.3** |
| | '000s | (29,118.9) | (45,243.3) | (41,082.9) | (19,251.2) |
| | Rs. million | **29.2** | **98.0** | **192.4** | **36.7 #** |
| | Rs. million | (28.2) | (80.6) | (154.2) | (29.2)# |
| (b) Nasal Drops | Kilolitres | **11.8** | **77.7** | **58.7** | **12.9** |
| | Kilolitres | (0.7) | (51.7) | (31.9) | (11.8) |
| | Rs. million | **12.2** | **68.1** | **185.8** | **13.1 #** |
| | Rs. million | (0.5) | (40.9) | (73.3) | (12.2)# |
| (c) Reagents/Kits/ | '000s | **7.7** | **59.0** | **44.5** | **21.0** |
| Equipments/Pigments/ | '000s | (4.1) | (39.5) | (35.3) | (7.7) |
| Paper Rolls/Booklets | Rs. million | **95.6** | **948.3** | **924.2** | **264.0** |
| | Rs. million | (64.4) | (578.2) | (771.0) | (95.6) |
| (d) Syrups/Ointments | Tonnes | **3.4** | **24.3** | **13.0** | **7.5** |
| | Tonnes | (32.2) | (16.6) | (11.8) | (3.4) |
| | Rs. million | **1.6** | **13.4** | **20.8** | **4.0 #** |
| | Rs. million | (6.6) | (10.2) | (12.0) | (1.6)# |
| (e) Bulk Drugs | Tonnes | **–** | **2.0** | **2.0** | **–** |
| | Tonnes | (0.4) | (4.0) | (2.0) | (–) |
| | Rs. million | ***** | **4.1** | **4.8** | ***** |
| | Rs. million | (0.9) | (8.1) | (4.5) | (–) |
| | Rs. million | **138.6** | **1,131.9** | **1,328.0** | **317.8** |
| | Rs. million | (100.6) | (718.0) | (1,015.0) | (138.6) |

\# Includes value of samples Rs. 7.8 million (2010: Rs. 7.1 million).

Notes:
(a) Quantities of closing stock of goods mentioned above are after adjustments of excess/shortage upon physical stockcounts, free samples, giveaways under the Company's bonus schemes and write offs.
(b) Figures in brackets indicate those of the Previous Year.

**29. SEGMENT INFORMATION**

**Information About Primary Business Segments:**

| Particulars | 2011 | | | | 2010 | | | |
|---|---|---|---|---|---|---|---|---|
| | Pharmaceuticals | Chemicals | Eliminations | Total | Pharmaceuticals | Chemicals | Eliminations | Total |
| **REVENUE** | | | | | | | | |
| External Revenue | 3,894.7 | 1,706.6 | | 5,601.3 | 3,633.7 | 1,488.2 | | 5,121.9 |
| Inter-segment Revenue | – | 127.1 | (127.1) | – | – | 148.6 | (148.6) | – |
| Total Revenue (see Note d below) | 3,894.7 | 1,833.7 | (127.1) | 5,601.3 | 3,633.7 | 1,636.8 | (148.6) | 5,121.9 |
| **RESULT** | | | | | | | | |
| Segment Result before allocation of Corporate Expenses# | 551.1 | 429.8 | – | 980.9 | 640.4 | 269.0 | – | 909.4 |
| Less: Corporate Expenses | 150.0 | 39.2 | – | 189.2 | 117.8 | 37.0 | – | 154.8 |
| Net Segment Result | 401.1 | 390.6 | – | 791.7 | 522.6 | 232.0 | | 754.6 |
| Interest Expense | – | – | – | (0.2) | – | – | – | (0.7) |
| Other unallocated Income (Net) | – | – | – | 164.4 | – | – | – | 203.2 |
| Income Taxes | – | – | – | (319.1) | – | – | – | (325.3) |
| Net Profit | – | – | – | 636.8 | – | – | – | 631.8 |
| **OTHER INFORMATION** | – | – | – | | | | | |
| Segment Assets | 1,488.1 | 1,364.7 | – | 2,852.8 | 1,028.3 | 872.9 | – | 1,901.2 |
| Unallocated Corporate Assets | – | – | – | 2,143.4 | – | – | – | 2,398.6 |
| **Total Assets** | – | – | – | 4,996.2 | – | – | – | 4,299.8 |
| Segment Liabilities | 631.2 | 219.9 | | 851.1 | 629.7 | 173.2 | | 802.9 |
| Unallocated Corporate Liabilities | – | – | – | 44.3 | – | – | – | 32.7 |
| **Total Liabilities** | – | – | – | 895.4 | – | – | – | 835.6 |
| Capital Expenditure – Additions | 96.9 | 53.7 | – | 150.6 | 40.8 | 47.1 | – | 87.9 |
| Non-cash expenses other than Depreciation/ Amortisation/Impairment loss | 32.7 | 6.4 | – | 39.1 | 12.7 | 11.1 | – | 23.8 |
| Depreciation/Impairment/Reversal of Impairment# | 35.9 | (99.2) | – | (63.3) | 39.4 | 174.4 | – | 213.8 |

# Schedules to the Financial Statements

*for the year ended 31 December 2011* Currency: Rupees million

**Geographical Segments information**

| | 2011 | | | 2010 | | |
|---|---|---|---|---|---|---|
| | **Domestic** | **Export** | **Total** | Domestic | Export | Total |
| Revenue | **4,999.2** | **602.1** | **5,601.3** | 4,590.1 | 531.8 | 5,121.9 |
| Segment Asset | **2,739.5** | **113.3** | **2,852.8** | 1,830.1 | 71.1 | 1,901.2 |
| Capital Expenditure | **150.6** | **–** | **150.6** | 87.9 | – | 87.9 |

(a) **Business Segments:**

For Management reporting purposes, the Company is organised into two major operating segments - Pharmaceuticals and Chemicals. The segments are the basis on which the Company reports its primary segment information. The above segments have been identified taking into account the organisation structure as well as the differing risks and returns of these segments.

Pharmaceuticals business comprises of Ethicals used in the treatment of Cardiovascular and Metabolic diseases, Consumer Healthcare products and Vitamins-based formulations.

Chemicals business comprises Bulk drugs and Pigments. Segment Revenue relating to the Chemicals business segment includes income from services provided to customers of this segment.

(b) **Geographical Segments:**

In respect of secondary segments information, the Company has identified its geographical segments as (i) Domestic and (ii) Exports. The secondary segments information has been disclosed accordingly

(c) **Accounting policies:**

The accounting policies adopted for segment reporting are in line with the accounting policies adopted by the Company for the purpose of these financial statements, except in respect of inter-segment revenues, which have been accounted on the basis of prevailing market rates.

Segment assets include all operating assets used by a segment and consist principally of debtors, inventories and fixed assets, net of allowances and provisions which are reported as direct offsets in the Balance Sheet. While most such assets can be directly attributed to individual segments, the carrying amount of certain assets used jointly by two segments is allocated to the segments on a reasonable basis. Segment liabilities include all operating liabilities and consist principally of creditors and accrued liabilities. Segment assets and liabilities do not include current and deferred income taxes.

(d) **Revenue comprises of:**

| | **2011** | 2010 |
|---|---|---|
| Sales (Net) | **5,575.7** | 5,090.8 |
| Income from services rendered (included in Other Income) | **1.5** | 1.2 |
| Other Operating Income | **24.1** | 29.9 |
| | **5,601.3** | 5,121.9 |

\# Refer Schedule 21 for impairment adjustment

30. (a) **RELATED PARTY DISCLOSURES**

**Holding Company:**

Merck KGaA, Germany, through its subsidiaries listed below as Investing Associates holds 51.8% (2010 : 51.8%) of the equity share capital, as at 31 December 2011.

**Investing Associates:**

- Chemitra GmbH, Germany
- Emedia Export Company mbh, Germany
- Merck Internationale Beteiligungen GmbH, Germany

**Other related parties with whom transactions have taken place during the year:**

**Fellow Subsidiaries:**

- EMD Chemicals Inc., USA
- Merck & Cie., Switzerland
- Merck (Pvt.) Ltd., Pakistan
- Merck Chemicals (Shanghai) Co. Ltd., China
- Merck Consumer Health Care Holding GmbH, Germany
- Merck Inc., Philippines
- Merck KGaA & Co. Werk Spittal, Austria
- Merck Limited, Japan
- Merck Limited, South Korea

**Executive Directors:**

- Dr. M. Dziki (Managing Director)
- Mr. R.L. Shenoy
- Mr. K. Shivkumar (Resigned on 24 May 2011)
- Mr. P.H. Pimplikar

# Schedules to the Financial Statements

*for the year ended 31 December 2011* Currency: Rupees million

**Fellow Subsidiaries:**

- Merck Limited, Thailand
- Merck Patent GmbH, Germany
- Merck Pharmaceutical (HK) Ltd., Hong Kong
- Merck Pte. Ltd., Singapore
- Merck S.A., France
- Merck Santé S.A.S., France
- Merck Sdn Bhd, Malaysia
- Merck Serono S.A., Switzerland
- Merck Specialities Private Limited, India
- Merck Schuchardt, Germany
- Merck KGaA, Rep Office in Vietnam
- Millipore (India) Private Limited, India
- P.T. Merck Indonesia, Indonesia
- Seven Seas Limited, United Kingdom

**30. (b) SUMMARY OF RELATED PARTY TRANSACTIONS**

| | Transactions | Holding Company | Investing Associates | Fellow Subsidiaries | Executive Directors & Relatives | Total |
|---|---|---|---|---|---|---|
| 1. | Purchase of Goods | **592.4** | **–** | **240.4** | **–** | **832.8** |
| | | (354.6) | (–) | (148.5) | (–) | (503.1) |
| 2. | Purchase of Fixed assets | **–** | **–** | **1.1** | **–** | **1.1** |
| | | (–) | (–) | (7.0) | (–) | (7.0) |
| 3. | Sale of Goods | **22.5** | **–** | **350.7** | **–** | **373.2** |
| | | (28.7) | (–) | (298.5) | (–) | (327.2) |
| 4. | Services Received | **244.5** | **–** | **52.4** | **–** | **296.9** |
| | | (184.6) | (–) | (17.5) | (–) | (202.1) |
| 5. | Services Rendered | **7.9** | **–** | **205.3** | **–** | **213.2** |
| | | (6.7) | (–) | (135.0) | (–) | (141.7) |
| 6. | Reimbursement of Expenses | **13.8** | **–** | **5.4** | **–** | **19.2** |
| | | (3.9) | (–) | (14.5) | (–) | (18.4) |
| 7. | Advances Received | **13.5** | **–** | **5.5** | **–** | **19.0** |
| | | (6.9) | (–) | (1.3) | (–) | (8.2) |
| 8. | Loan Given | **–** | **–** | **524.0** | **–** | **524.0** |
| | | (–) | (–) | (521.4) | (1.6) | (523.0) |
| 9. | Loan Recovered | **–** | **–** | **502.2** | **1.4** | **503.6** |
| | | (–) | (–) | (78.4) | (0.2) | (78.6) |
| 10. | Interest Income on Loan | **–** | **–** | **26.9** | **–** | **26.9** |
| | | (–) | (–) | (2.6) | (0.1) | (2.7) |
| 11. | Dividend Paid | **–** | **–** | **–** | ***** | **–** |
| | | (–) | (816.9) | (–) | ( * ) | (816.9) |
| 12. | Remuneration | **–** | **–** | **–** | **54.8** | **54.8** |
| | | (–) | (–) | (–) | (50.1) | (50.1) |
| 13. | Balances Payable as at year-end | **49.6** | **–** | **19.0** | **–** | **68.6** |
| | | (30.2) | (–) | (16.9) | (–) | (47.1) |
| 14. | Balances Receivable as at year-end | **3.5** | **–** | **513.9** | **–** | **517.4** |
| | | (0.4) | (–) | (452.1) | (1.4) | (453.9) |

Figures in brackets indicate those of the Previous Year.
Remuneration does not include actuarial charge for gratuity, leave encashment and provident fund as employee-wise break-up is not available.

# Schedules to the Financial Statements

*for the year ended 31 December 2011* Currency: Rupees million

**30. (b) SUMMARY OF RELATED PARTY TRANSACTIONS (Continued)**

Out of the above items, transactions in excess of 10% of the total related party transactions are as under:

| | 2011 | 2010 |
|---|---|---|
| 1. Purchase of Goods | | |
| Merck KGaA, Germany | **592.4** | 354.6 |
| Merck & Cie KG, Switzerland | **71.6** | 38.1 |
| Merck Limited, Japan | **58.1** | 49.8 |
| Merck Chemicals (Shanghai) Co. Ltd., China | **65.8** | 30.0 |
| 2. Purchase of Capital Goods | | |
| Millipore (India) Pvt. Ltd., India | **1.1** | 7.0 |
| 3. Sale of Goods | | |
| Merck KGaA & Co. Werk Spittal, Austria | **131.5** | 97.2 |
| Merck Marker (Pvt.) Ltd., Pakistan | **80.6** | 52.9 |
| Merck Limited, Japan | **42.5** | 26.0 |
| EMD Chemicals Inc., USA | **75.9** | 99.6 |
| Merck KGaA, Germany | **22.5** | 28.7 |
| 4. Services Received | | |
| Merck KGaA, Germany | **244.5** | 184.6 |
| Merck Serono S.A., Switzerland | **24.6** | 0.8 |
| Merck Pte. Ltd., Singapore | **7.0** | 5.3 |
| 5. Services Rendered | | |
| Merck Specialities Private Limited, India | **188.1** | 126.3 |
| 6. Reimbursement of Expenses | | |
| Merck KGaA, Germany | **13.8** | 3.9 |
| Merck Pte. Ltd., Singapore | **2.8** | 0.2 |
| Merck Limited, Thailand | **1.1** | 0.7 |
| Merck Serono S.A., Switzerland | **0.1** | 7.6 |
| 7. Advances Received | | |
| Merck KGaA, Germany | **13.5** | 6.9 |
| Merck Pte. Ltd., Singapore | **4.8** | 1.3 |
| 8. Loan Given | | |
| Merck Specialities Private Limited, India | **284.0** | 521.4 |
| Millipore (India) Private Limited, India | **240.0** | – |
| 9. Loan Recovered | | |
| Merck Specialities Private Limited, India | **442.2** | 78.4 |
| Millipore (India) Private Limited, India | **60.0** | – |
| 10. Interest Income on Loan | | |
| Merck Specialities Private Limited, India | **25.2** | 2.6 |
| 11. Dividend Paid | | |
| Emedia Export Company mbh, Germany | **–** | 335.8 |
| Merck Internationale Beteiligungen GmbH, Germany | **–** | 293.6 |
| Chemitra GmbH, Germany | **–** | 187.5 |
| 12. Remuneration | | |
| Dr. M. Dziki | **29.2** | 25.1 |
| Mr. R.L. Shenoy | **10.7** | 10.6 |
| Mr. K. Shivkumar | **6.5** | 9.2 |
| Mr. P.H. Pimplikar | **8.4** | 5.2 |
| 13. Balances Payable | | |
| Merck KGaA, Germany | **49.6** | 30.2 |
| Millipore (India) Private Limited, India | **–** | 7.0 |
| 14. Balances Receivable | | |
| Merck Specialities Private Limited, India | **287.1** | 446.1 |
| Millipore (India) Private Limited, India | **180.0** | – |
| Merck KGaA, Germany | **3.5** | 0.4 |

**31. TAXATION**

Provision for current tax is based on the results for the year ended 31 December 2011 and is determined in accordance with the provisions of the Income Tax Act, 1961. The final tax liability will be determined on the basis of the operations for the year 1 April 2011 to 31 March 2012, being the tax year of the Company.

# Schedules to the Financial Statements

*for the year ended 31 December 2011* Currency: Rupees million

## 32. RESEARCH AND DEVELOPMENT

Research and Development Expenses incurred during the year and debited to the profit and loss account aggregate to Rs. 31.0 million (2010: Rs. 24.6 million).

Of the above, the composition of Rs. 28.3 million (2010: Rs. 20.5 million) disclosed as "Research and Development Expenses" in Schedule 17 is set out below:

| | 2011 | 2010 |
|---|---|---|
| Salaries, Wages, Bonus and Allowances | **8.1** | 7.2 |
| Contribution to Provident Fund and Other Funds | **0.3** | 0.3 |
| Contribution to Group Gratuity Scheme | * | * |
| Staff Welfare and Amenities | **0.2** | 0.6 |
| Stores and Spare Parts Consumed | **2.1** | 3.3 |
| Research Expenses | **13.1** | 5.7 |
| Others | **4.5** | 3.4 |
| | **28.3** | 20.5 |

The balance amount of Rs. 2.7 million (2010: Rs. 4.1 million) represents depreciation on fixed assets used for Research and Development purposes.

## 33. EARNINGS PER SHARE

| | | 2011 | 2010 |
|---|---|---|---|
| Profit after tax attributable to equity shareholders | A | **636.8** | 631.8 |
| Calculation of weighted average number of equity shares | | | |
| Number of equity shares at the beginning of the year | | **16,599,382** | 16,599,382 |
| Number of equity shares outstanding at the end of the year | | **16,599,382** | 16,599,382 |
| Weighted average number of equity shares outstanding during the year (based on date of buy-back of shares) | B | **16,599,382** | 16,599,382 |
| Basic and diluted earnings per share (Rs.) | A/B | **38.4** | 38.1 |
| Face value per share (Rs.) | | **10.0** | 10.0 |

## 34. UNHEDGED FOREIGN CURRENCY EXPOSURE

**The unhedged foreign currency exposure as on 31 December 2011 is given below:**

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | **(Foreign Currency)** | **(INR)** | (Foreign Currency) | (INR) |
| *Payables* | | | | |
| USD | **0.9** | **47.7** | 0.6 | 27.3 |
| EUR | **0.5** | **36.7** | 0.4 | 25.8 |
| GBP | * | **0.2** | * | 0.2 |
| CHF | **0.1** | **3.3** | 0.1 | 2.4 |
| SEK | * | **0.1** | * | 0.1 |
| | | **88.0** | | 55.8 |
| *Receivables* | | | | |
| USD | **1.6** | **85.8** | 1.1 | 50.1 |
| EUR | **0.2** | **10.5** | 0.1 | 4.8 |
| JPY | **14.8** | **9.9** | – | – |
| | | **106.2** | | 54.9 |

# Schedules to the Financial Statements

*for the year ended 31 December 2011* Currency: Rupees million

### 35. MICRO, SMALL AND MEDIUM ENTERPRISES

Under the Micro Small and Medium Enterprises Development Act, 2006, (MSMED) which came into force from October 2, 2006, certain disclosures are required to be made relating to transactions with Micro Small and Medium enterprises. On the basis of the information and records available with the Management, the following disclosures are made for the amounts due to the Micro Small and Medium enterprises, who have registered with the competent authorities:

| | **2011** | 2010 |
|---|---|---|
| Principal amount remaining unpaid to any supplier as at the year end | **1.3** | 0.9 |
| Interest due thereon | **–** | – |
| Amount of interest paid by the Company in terms of Section 16 of the MSMED, along with the amount of the payment made to the supplier beyond the appointed day during the accounting year | **–** | * |
| Amount of interest due and payable for the period of delay in making payment (which have been paid but beyond the appointed day during the year) but without adding the interest specified under the MSMED | ***** | – |
| Amount of interest accrued and remaining unpaid at the end of the accounting year | ***** | 0.1 |
| Amount of further interest remaining due and payable even in the succeeding years, for the purpose of disallowance as a deductible expenditure under Section 23 of the MSMED Act, 2006 | **–** | – |

### 36. TRANSFER PRICING

Transactions with overseas related parties are governed by transfer pricing regulations of the Indian Income-tax Act, 1961. The Company's international transactions with related parties are at arm's length as per the independent accountants report for the year ended 31 March 2011. Management believes that the Company's international transactions with related parties post March 2011 continue to be at arm's length and that the transfer pricing legislation will not have any impact on the financial statements, particularly on the amount of tax expense and that of provision for taxation.

As set out in our attached report of even date

**For B S R & Co.**
Chartered Accountants
Firm Registration No. 101248W

**Bhavesh Dhupelia**
Partner
Membership No.: 042070

Mumbai, 28 February, 2012

H. U. Shenoy
Company Secretary

Signatures to Schedules
For and on behalf of the Board of Directors

S. N. Talwar — Chairman

M. Dziki — Managing Director

H. C. H. Bhabha
E. A. Kshirsagar
R. L. Shenoy
P. H. Pimplikar
Directors

# Balance Sheet Abstract and Company's General Business Profile

| | | |
|---|---|---|
| I. | *Registration Details* | |
| | State Code | 11 |
| | Registration No. | L99999MH1967PLC013726 |
| | Balance Sheet Date | 31.12.2011 |
| II. | *Capital Raised during the Year (Amount in Rs. '000)* | |
| | Public Issue | NIL |
| | Rights Issue | NIL |
| | Bonus Issue | NIL |
| | Private Placement | NIL |
| III. | *Position of Mobilisation and Deployment of funds (Amount in Rs. '000)* | |
| | Total Liabilities | 4,996,195 |
| | Total Assets | 4,996,195 |
| | *Sources of Funds: (Amount in Rs. '000)* | |
| | Paid-Up Capital | 165,994 |
| | Reserves and Surplus | 3,934,760 |
| | Secured Loans | NIL |
| | Unsecured Loans | NIL |
| | Deferred Tax Liability | 8,412 |
| | *Application of Funds: (Amount in Rs. '000)* | |
| | Net Fixed Assets | 725,216 |
| | Investments | 227,400 |
| | Deferred Tax Assets | |
| | Net Current Assets | 3,156,550 |
| | Miscellaneous Expenditure | NIL |
| | Accumulated Losses | NIL |
| IV. | *Performance of the Company (Amount in Rs. '000)* | |
| | Turnover (Total Income) | 6,064,544 |
| | Total Expenditure | 5,108,636 |
| | Profit Before Tax | 955,908 |
| | Profit After Tax | 636,802 |
| | Earnings Per Share in Rs. | 38.4 |
| | Dividend Rate % | – |
| V. | *Generic Names of Three Principal Products/Services of the Company (as per Monetary terms)* | |
| | Item code No. (ITC Code) | 300450 90 |
| | Product Description | Vitamin B-Complex |
| | Item code No. (ITC Code) | 300450 90 |
| | Product Description | Vitamin B1+B2+B3+B5+B6+B12 |
| | Item code No. (ITC Code) | 300450 37 |
| | Product Description | Vitamin E |

For and on behalf of the Board of Directors

S. N. Talwar — Chairman

M. Dziki — Managing Director

H. C. H. Bhabha
E. A. Kshirsagar
R. L. Shenoy
P. H. Pimplikar
— Directors

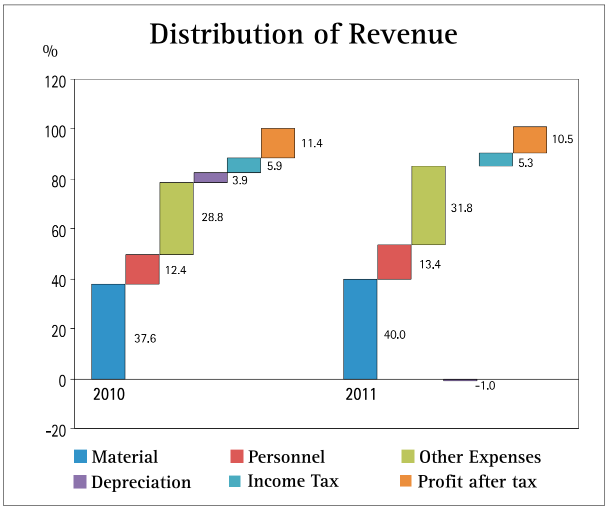
H. U. Shenoy
Company Secretary

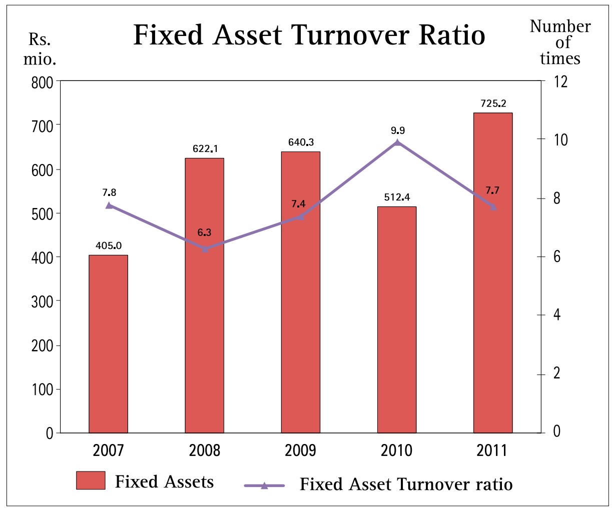
Mumbai, 28 February, 2012

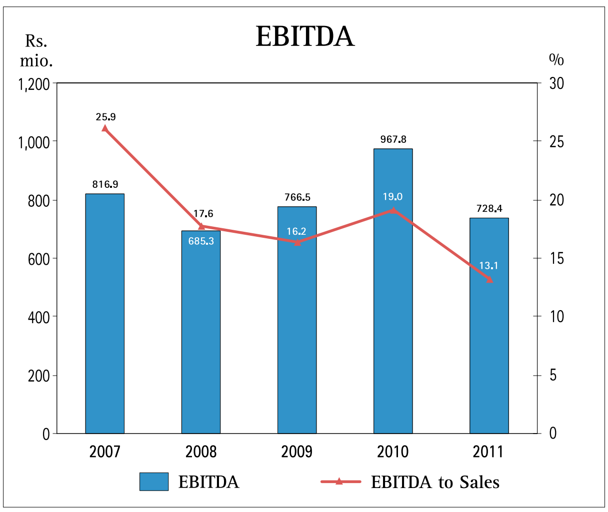
# Financial Highlights : 2002-2011

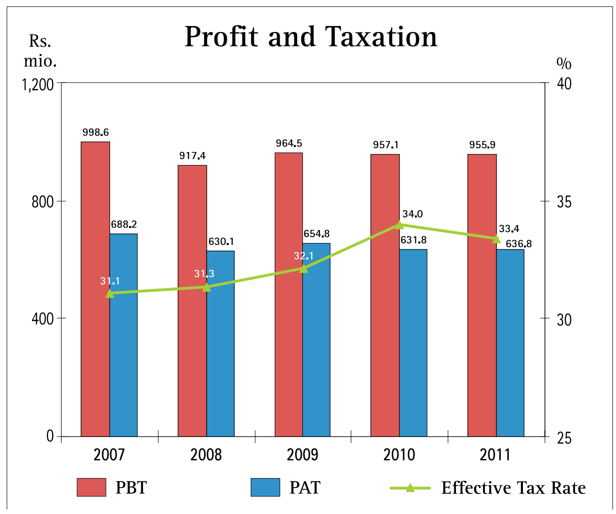
| | | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | Change +/- in % | 2011 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **PROFIT & LOSS ACCOUNT SUMMARY** | | | | | | | | | | | | |
| Turnover | Rs. Mio. | 3,466.9 | 3,641.7 | 3,766.0 | 3,964.6 | 3,294.9 | 3,148.3 | 3,894.6 | 4,731.1 | 5,090.8 | 9.5 | **5,575.7** |
| Other Income | " | 90.7 | 106.6 | 138.2 | 183.7 | 967.2 | 395.0 | 477.1 | 432.1 | 433.7 | 12.7 | **488.8** |
| | " | **3,557.6** | **3,748.3** | **3,904.2** | **4,148.3** | **4,262.1** | **3,543.3** | **4,371.7** | **5,163.2** | **5,524.5** | **9.8** | **6,064.5** |
| **Costs & Expenses** | | | | | | | | | | | | |
| Materials Cost | " | 1,686.8 | 1,760.7 | 1,722.1 | 1,797.1 | 1,393.2 | 1,264.9 | 1,599.9 | 2,060.9 | 2,078.7 | 16.8 | **2,427.8** |
| Personnel Expenses | " | 470.4 | 672.4 | 305.7 | 310.0 | 339.3 | 332.0 | 477.6 | 570.2 | 684.6 | 18.7 | **812.7** |
| Interest Expenses | " | 3.7 | 8.3 | 1.9 | 0.2 | 0.1 | 0.1 | 0.1 | 0.3 | 0.7 | -71.4 | **0.2** |
| Operating and Other Expenses | " | 689.4 | 619.6 | 702.7 | 790.9 | 768.1 | 881.8 | 1,319.4 | 1,492.2 | 1,589.6 | 21.5 | **1,931.2** |
| Depreciation/Impairment loss (reversal)/charge | " | 100.3 | 96.1 | 86.0 | 77.5 | 64.4 | 65.9 | 57.3 | 75.1 | 213.8 | -129.6 | **(63.3)** |
| | " | **2,950.6** | **3,157.1** | **2,818.4** | **2,975.7** | **2,565.1** | **2,544.7** | **3,454.3** | **4,198.7** | **4,567.4** | **11.8** | **5,108.6** |
| Profit Before Taxation | " | 607.0 | 591.2 | 1,085.8 | 1,172.6 | 1,697.0 | 998.6 | 917.4 | 964.5 | 957.1 | -0.1 | **955.9** |
| Provision for Taxation | " | 207.2 | 194.8 | 375.9 | 384.7 | 363.5 | 310.4 | 287.3 | 309.7 | 325.3 | -1.9 | **319.1** |
| Profit After Taxation | " | 399.8 | 396.4 | 709.9 | 787.9 | 1,333.5 | 688.2 | 630.1 | 654.8 | 631.8 | 0.8 | **636.8** |
| **BALANCE SHEET SUMMARY** | | | | | | | | | | | | |
| **Assets Employed** | | | | | | | | | | | | |
| Fixed Assets (Gross) | Rs. Mio. | 1,307.8 | 1,290.0 | 1,128.1 | 1,152.2 | 1,153.9 | 1,168.2 | 1,405.8 | 1,482.9 | 1,536.0 | 9.3 | **1,679.4** |
| Fixed Assets (Net) | " | 720.2 | 616.5 | 471.6 | 447.4 | 403.1 | 405.0 | 622.1 | 640.3 | 512.4 | 41.5 | **725.2** |
| Investments | " | 265.5 | 724.7 | 1,252.8 | 1,406.7 | 2,480.7 | 2,339.7 | 1,529.3 | 238.2 | 201.8 | 12.7 | **227.4** |
| Current Assets (Net) | " | 732.2 | 633.8 | 780.8 | 1,152.6 | 1,092.4 | 1,532.3 | 2,386.3 | 3,815.6 | 2,715.4 | 16.2 | **3,156.6** |
| Deferred Tax Assets (Net) | " | - | - | - | - | - | - | - | - | 34.6 | -100 | **–** |
| Miscellaneous Expenditure (to the extent not written off or adjusted) | " | 136.1 | - | - | - | - | - | - | - | - | **–** | **–** |
| | | **1,854.0** | **1,975.0** | **2,505.2** | **3,006.7** | **3,976.2** | **4,277.0** | **4,537.7** | **4,694.1** | **3,464.2** | **18.6** | **4,109.2** |
| **Financed by** | | | | | | | | | | | | |
| Share Capital | Rs. Mio. | 168.6 | 168.6 | 168.6 | 168.6 | 168.6 | 168.6 | 168.6 | 166.0 | 166.0 | **–** | **166.0** |
| Reserves and Surplus | " | 1,587.7 | 1,793.9 | 2,313.2 | 2,812.7 | 3,761.7 | 4,060.4 | 4,345.3 | 4,506.9 | 3,298.2 | 19.3 | **3,934.8** |
| Shareholders' Funds | " | 1,756.3 | 1,962.5 | 2,481.8 | 2,981.3 | 3,930.3 | 4,229.0 | 4,513.9 | 4,672.9 | 3,464.2 | 18.4 | **4,100.8** |
| Deferred Tax Liability (Net) | " | 97.7 | 12.5 | 23.4 | 25.4 | 45.9 | 48.0 | 23.8 | 21.2 | - | – | **8.4** |
| | " | **1,854.0** | **1,975.0** | **2,505.2** | **3,006.7** | **3,976.2** | **4,277.0** | **4,537.7** | **4,694.1** | **3,464.2** | **18.6** | **4,109.2** |
| **OTHER INVESTOR INFORMATION** | | | | | | | | | | | | |
| Earnings Per Share | Rs. | 23.7 | 23.5 | 42.1 | 46.7 | 79.1 | 40.8 | 37.4 | 39.0 | 38.1 | 0.8 | **38.4** |
| Dividend | % | 78.0 | 100.0 | 100.0 | 150.0 | 200.0 | 200.0 | 175.0 | 200.0 | 950.0 | -100 | **–** |
| Book Value Per Share | Rs. | 104.2 | 116.4 | 147.2 | 176.8 | 233.1 | 250.8 | 267.7 | 281.5 | 208.7 | 18.4 | **247.0** |
| Market Value of Share (BSE) | High Rs. | 370 | 460 | 598 | 590 | 639 | 500 | 460 | 634 | 1,006 | -24.5 | **760** |
| | Low Rs. | 221 | 215 | 301 | 375 | 425 | 372 | 260 | 293 | 566 | -2.3 | **553** |
| No. of Shareholders | | 26,692 | 25,487 | 25,304 | 25,235 | 24,805 | 25,718 | 26,096 | 24,083 | 27,284 | 0.1 | **27,313** |
| No. of Employees | | 1,337 | 950 | 927 | 952 | 860 | 922 | 1,072 | 1,245 | 1,257 | **–** | **1,257** |

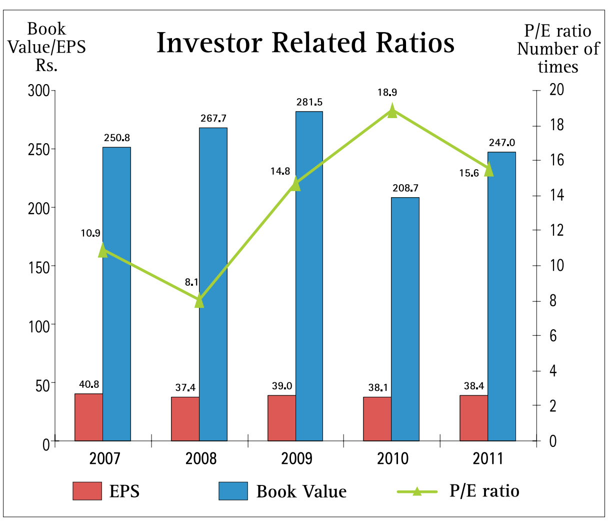
# PERFORMANCE INDICATORS

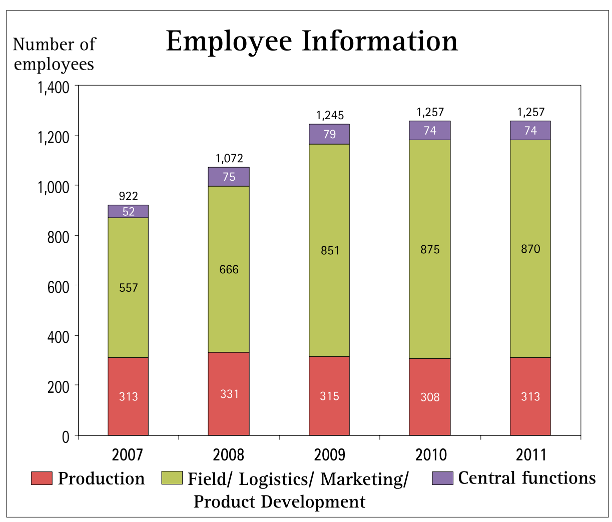


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