

# **DIVI'S LABORATORIES LIMITED**

## **CHAIRMAN'S SPEECH**

19<sup>th</sup> Annual General Meeting, 17<sup>th</sup> August, 2009

---

---

Ladies and Gentlemen,

Good Morning. I extend a hearty welcome to you all, to this 19<sup>th</sup> Annual General Meeting of the Company.

The Directors' Report and the Audited Accounts for the year 2008-09 have already been circulated, and with your permission I take them as read.

I am glad to report that the performance of your company in the year 2008-09 has been satisfactory, despite the economic slowdown which started off in the advanced countries with a consequent effect on other countries as well.

### **Operations for the year 2008-09**

It is now my pleasure to present our company's financial results for the year. Some of the highlights are:

- Achieved a total income of Rs.1214 crores during the year as against Rs. 1047 crores during the previous year, reflecting a growth of 16%.
- Profit before Tax of Rs.458 crores as against Rs. 385 crores during the last year.

- Tax provision of Rs.34 crores for the year as against Rs.31 crores during the previous year.
- Profit after Tax (PAT) for the year of Rs.424 crores as against Rs. 354 crores during the previous year.

The year has seen very high fluctuations in foreign currencies. Due to the substantial export business that it has, the company has hedged some of its exposure and also undertaken some foreign exchange derivative transactions. There was a net loss of Rs.31 crores during the year on account of forex fluctuation losses on these treasury operations including the Mark-to-market losses on the outstanding derivative contracts as against a net loss of Rs. 10 crores during last year.

We have fully provided for all foreign currency translation losses as well as MTM losses on forex forward contracts, short or long term and have not exercised the option available in respect of exchange difference on long term monetary items under clause 46 of Accounting Standard -11 notified by the Ministry of Company Affairs under the Companies Accounting Standards (Amendment) Rules, 2009.

### **Taxation of profits of EOU/SEZ**

As you all know, the company has three manufacturing facilities, Unit-1 near Hyderabad, EOU and SEZ Units near Visakhapatnam. In the recent budget, the Government has extended the income-tax exemption for export profits from the EOU Units upto 31<sup>st</sup> March, 2011. Our Divi's Pharma SEZ notified under the Special Economic

Zone Act, 2005 is eligible for income-tax exemption under Section 10AA of the Income-tax Act, 1961 at 100% of export profits for the first five years of commercial operations, 50% for the succeeding five years and thereafter for a further period of 5 years for an amount not exceeding 50% of its export profits subject to certain conditions prescribed.

However, there is an anomaly in the drafting of Section 10AA(7) of the Income-tax Act and the wording and interpretation of the section is restricting the quantum of exemption and created a discrimination between companies having Units in SEZs as well as outside vis-à-vis companies having Units only or exclusively in SEZ. The industry has represented the matter to the Government and several statements were made in the press as well as in the parliament by the Government that it has been decided to remove this anomaly. Although the Union Budget for 2009-10 adopted by the Parliament has removed the anomaly by amendment to the Income-tax Act, but it has been made only prospective that is effective 1<sup>st</sup> April, 2009 – thus denying the benefit of 100% exemption of export profits for the previous financial years to companies like us.

### **Operations of Quarter ending 30<sup>th</sup> June, 2009**

While the various industry associations and bodies have again represented on the anomaly of SEZ taxation to the Government, we had to provide for the shortfall of tax provision for the previous years in our accounts for the first quarter ended 30<sup>th</sup> June, 2009 in view of this amendment by Parliament.

The impact of the ongoing economic slowdown and financial crisis in the developed markets has forced our customers work on lean operations and destocking of inventories across their supply chains. This has resulted in lower sales for your company during the current year. Internationally, the effect of slowdown on pharma business during the current quarter is also seen on several of our peers or competitors.

### **Industry outlook**

The last year has seen unprecedented global economic slowdown with its effect on almost all markets be it commodities, crude, financial or currency. This has resulted in serious turmoil across the globe with varying severity across industry segments.

Although pharmaceutical and healthcare sector is considered a defensive sector – nevertheless appears to have been impacted, albeit lesser than other sectors. Traditionally, the big pharmas used to focus on regulated markets in developed countries like US, Europe, Japan for increasing their business. The recent trend is that these big pharmas are looking at emerging markets like India, China. To achieve this, the big pharmas are either acquiring or getting into strategic relationships with Indian companies for developing business in emerging markets.

As part of their efforts to conserve resources in the current economic situation, many of our customers have been undertaking lean inventory management and destocking inventories across all their supply chains covering their plants, warehouses, distributors, stockists as well as suppliers.

Primary demand still remains intact and the long term outlook for the custom synthesis business is robust and expected to grow. The MNCs are continuing to sell or shut-down their manufacturing facilities, which confirms their continuing strategy for outsourcing their API needs. In the immediate and near term, though there is a slowdown in our sales due to the customers tightening their working capital cycles, the long-term outlook looks positive.

Our R&D and manufacturing teams have been constantly striving towards achieving continuous improvements, minimizing wastes, optimizing processes in order to stay competitive. We also lay a great stress on sustainability of scarce resources and have been installing large reverse osmosis plants, energy efficient equipments and best manufacturing practices.

During the year, we have submitted 5 Drug Master Files taking the total number of DMFs filed to 37 and we have Certificate of Suitability with European Directorate for 10 products. There are a number of small molecules coming out of patent giving opportunity to generic API players.

Ladies and Gentlemen, I take this opportunity to express my sincere thanks to all of you for reposing trust and confidence in the Management of the company. I also appreciate and place on record the valuable contribution made by the employees of the company. Your directors also acknowledge the continued support extended by our customers, suppliers, banks and various Government Bodies and Statutory Authorities.

With warm regards,

Dr. Murali K. Divi

***Divi's Laboratories Limited***

Divi Towers, 7-1-77/E/1/303, Dharam Karan Road,

Ameerpet, Hyderabad - 500 016., A.P. INDIA

Tel: +91-40-2373 1318, 2373 1760/61, Fax: +91-40-2373 3242,

E-mail: [mail@aldivislaboratories.com](mailto:mail@aldivislaboratories.com).

Website: [www.divislaboratories.com](http://www.divislaboratories.com)