



Chairman's Speech

Ladies and Gentlemen,

Good Morning. I extend a hearty welcome to you all, to this 25th Annual General Meeting of the Company.

The Annual Report along with the Audited Financial Statements and Directors' Report for the year 2014-15 has already been circulated to all the shareholders. With your consent, I consider them as read.

I would like to take this opportunity to review our performance during the financial year 2014-15 and share with you some perspectives on our growth strategy.

Industry & Economic outlook

Global spending on medicines is forecast to reach nearly US\$ 1.3 trillion by 2018, an increase of about 30% over 2013. This year, developed markets are seeing strong growth due to fewer patent expiries, the launch of innovative medicines and price increases. While these markets will moderate as cost-containment measures further limit price levels, rising volumes will continue to contribute to overall market growth.

Since the growth is expected to be robust in the development and launch of new chemical entities, your company will participate in the growth of this business. And as there is a lot of growth in the generic space, your company, with its cost effective positioning, is well equipped to play a significant role in this part of pharma business as well. As the market is seeing a good growth in nutraceuticals for wellness, supplementation, food aesthetics and fortification, the company will benefit by its presence.

Operations for the year

It is now my pleasure to brief you on Company's performance for the year :

- ↑ Total Revenues for the year increased by 20% to Rs. 3127 crores.
- ↑ PBDIT for the year increased by 9% at Rs. 1205 crores.
- ↑ Profit before Tax (PBT) for the year increased by 6% to Rs. 1067 crores.
- ↑ Profit after Tax (PAT) for the year increased by 7% to Rs.847 crores.
- ↑ Earnings Per Share of Rs.2/- each works out to Rs. 63.82 for the year as against Rs. 59.65 last year.
- ↑ Your Board recommends a dividend of Rs.20 per equity share of Rs.2 each (i.e., 1000%) same as last year.

Operations of Quarter ending 30th June, 2015

During the first quarter of the financial year 2015-16, we have achieved a total income of Rs.809 crores, reflecting a growth of 26% and a Profit after Tax amounting to Rs.243 crores, a growth of 45% over the corresponding quarter of last year. Forex translation gain for the quarter amounted to Rs. 21 crores.

Regulatory Filings

Divi has a total of 39 drug master files (DMFs) with US-FDA and 197 EDMFs and 19 CoS (Certificates of Suitability) with various European Union authorities. Divi has filed a total of 11 patents for generic products. All the manufacturing sites have been successfully inspected several times by US-FDA. The Company has received several awards for its export performance, quality and R&D efforts and has been recognized as a "Premier Trading House" by Director General of Foreign Trade, Ministry of Commerce, Government of India. It has also received certifications for ISO-9001, ISO-9002, ISO-14001, OHSAS-18001, WHO-GMP, and European Certificate of Suitability (CoS) for both of its Units.

25 years of journey

Your company will be completing 25 years in its journey of striving towards leadership in chemistry by October, 2015. Divi's Laboratories Limited was incorporated on October 12, 1990 in the name of Divi's Research Centre Private Limited, as an R&D and consultancy organization for development of commercial processes for Active Pharmaceutical Ingredients ("API") and intermediates.

Over the last 25 years, we strived and grew from strength to strength and

- From about 11 scientists in the year 1990, we now have 300+ scientists in R&D across 4 development centres.
- We started in 1995 with 50 reactors in 3 production blocks on a green-field site near Hyderabad with a modest initial investment of Rs.71 crores including a loan component of about Rs.39 crores. We now have over 1100 reactors in 32 production blocks with a total reactor volume of over 8000 cubic metres across two manufacturing sites. You are aware that, as of end March, 2015, your company has aggregate gross fixed assets, including the capital work-in-progress of about Rs.2200 crores.
- What started as a simple process development and manufacturing enterprise with just 3 products in 1995, has over the last 25 years, transformed into speciality ingredients manufacturing enterprise with about 150 products, comparable to international standards and complying with cGMP standards, deploying green chemistry and having best EHS systems.
- We started with just about 200 employees in 1995 and we now have a pool of about 10,000 trained and dedicated employees and workers. Key employees who started with me since 1990/1995 have continued with the company, contributed to the growth of the company and have also grown themselves with the company.

- Starting with a modest turnover of just about Rs.50 lakhs and PBT of Rs.30 lakhs from a part of the facility started in 1995, your company made consistent progress and crossed several milestones and has now a turnover of Rs.3127 crores and a PBT of Rs.1067 crores.
- Over the years, the company has continually been developing and introducing products, augmenting capacities, upgrading its manufacturing processes and its infrastructure and utilities. During the year 2006, we have set up a pharma sector-specific SEZ as a developer at this site and our SEZ unit in this Pharma specific SEZ commenced commercial operations during the year 2006 itself. The company has also set up beadlet manufacturing facility at this SEZ Unit for the nutraceutical products, which makes various application forms of our nutra products marketed through our subsidiaries. In the year 2010, we have set up another unit called as "DSN-SEZ Unit" in the same SEZ developed by the company.
- The efforts and the strategies deployed over the last 25 years have resulted in your company being recognized globally by our customers and the pharma industry as a reputed manufacturer of complex ingredients, both in the generic as well as custom synthesis space. All through this journey, the focus has always been on reaching value markets with predominance in exports.
- This has also helped the company in being recognized by the investor community and our market capitalization moved from about Rs.13 crores in 2003 when we made a public offer, to about Rs.30,000 crores recently, benefiting over 30,000 shareholders, promoters as also the employees besides contributing to the Exchequer and the Society.
- An investor who put in Rs.1 lakh in the company's public offer in 2003 and holding his shares, with the split and bonus made, would have a value of about Rs.160 lakhs today, besides his getting yearly dividends.
- Your company is debt free and has a cash surplus of about Rs.1000 crores as on date, after investing significantly in additional capacities and infrastructure all these years.
- Conservative approach and consistent planning helped us have revenue reserves, mainly comprising retained earnings, of over Rs.3500 crores.

On the eve of 25 years of formation of the company, your Directors are pleased to recommend issue of bonus equity shares in the ratio of 1:1. Postal ballots have already been sent for your approval.

Proposal for a 3rd Manufacturing Site

As we visualize more business opportunities ahead, there is a need to create additional capacities as also channel this addition into a third site in order to de-risk our business. In this direction, we are looking at setting up a third Manufacturing facility near Kakinada 150 km, south of our Unit-II, at an estimated investment of Rs.500 crores. We have made an application to the Government of Andhra Pradesh for allotment of 500 acres of land for setting up a manufacturing facility for active ingredients, and our request is under active consideration of the Government. We expect formal allotment of land in the second half of this year, after which work would commence on this project.

CSR Initiatives

Divi's strongly believe that industrial and economic growth must also go concomitant with contribution to the society around in order to have an inclusive growth. From the very inception of its operations, Divi's has been taking up multiple programmes and developmental activities that benefited the communities or villages around the manufacturing sites in enhancing their quality of life and economic well-being.

During the current year, the company has made significant contribution towards promoting education, village development, supply of safe drinking water, sanitation, public health and support to differently abled children. This year, we have also helped about 80 visually challenged children with braille educational aids, funded teachers' salaries, provided musical instruments and other facilities, and this year 7 students have passed their 10th Class examination. Your company will be supporting these students for their further studies and helping them for employment. Your company's CSR initiatives during the year benefited over 74,000 people across 45 villages in the vicinity of our manufacturing facilities.

Cyclone Hudhud caused extensive damage to the city of Visakhapatnam and the neighbouring districts of Vizianagaram and Srikakulam of Andhra Pradesh.

Cyclone Hudhud has hit the Divi's facility at Vizag hard in many ways, but the spirit of surviving during adversity has enabled the company to stand tall and survive the ordeal. Amidst the losses, the desire to come good during crisis for the community around as imbibed in the policy of the company, has taken center stage and the relief work was immediately initiated. Divi's supplied food packets, milk powder packets, drinking water, clothes, blankets, medicines and conducted medical camps. Also quickly deployed our men, machinery and resources in clearance of cyclone affected roads, removal of trees, restoration of power supply lines and helping the needy. Divi has replanted 40 trees of 30-200 years age which were uprooted in Visakhapatnam and Vizianagaram Districts during HUD-HUD cyclone, with the assistance of Horticulture Specialists. These trees started blooming within a period of 6 months of re-plantation.

Conclusion

Ladies and Gentlemen, I take this opportunity to thank all our business associates, banks and various government and statutory authorities for their continuing support. I acknowledge and place on record the valuable contributions made by the employees at all levels. And, I also thank the distinguished members of our Board, for their valuable guidance. As always, I thank you, our shareholders, for your continued support and unwavering confidence in the company.

With warm regards

Dr. Murali K. Divi
Chairman & Managing Director

Divi's Laboratories Limited

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