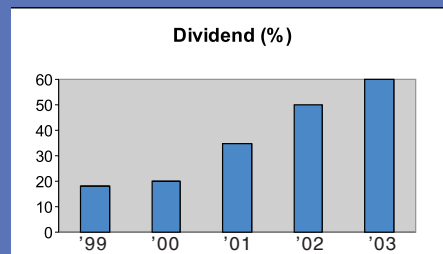
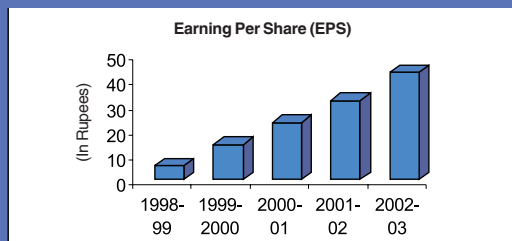
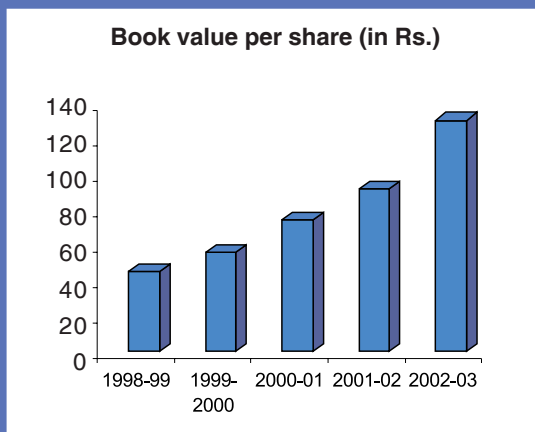
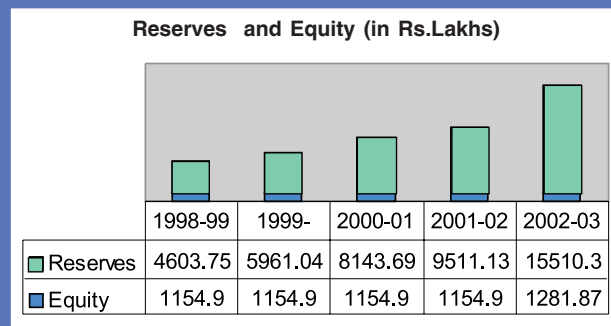
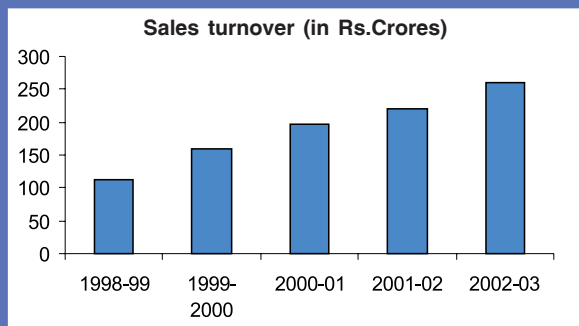


KEY PERFORMANCE INDICATORS



Board of Directors



Mr. Murali K. Divi
Chairman & Managing Director



Mr. N.V.Ramana
Executive Director



Mr. Madhusudana Rao Divi
Director (Projects)



Dr. P. Gundu Rao
Director (R&D)



Mr. Kiran S. Divi
Director (Business Development)



Dr. K. Satyanarayana



Mr. G. Venkata Rao



Prof. C. Ayyanna



Dr. G. Suresh Kumar



Mr. S. Vasudev
IDBI Nominee

Mr. L. Kishore Babu
General Manager (Finance)

Mr. P. Sudershan
Company Secretary

Auditors:
M/s. P.V.R.K. Nageswara Rao & Co.,
Chartered Accountants
109, Metro Residency
6-3-1247, Rajbhavan Road
Hyderabad – 500 082.

Bankers:
State Bank of Hyderabad
State Bank of India
The Lakshmi Vilas Bank Ltd.

Registered Office:
7-1-77/E/1/303, Divi Towers,
Dharam Karan Road,
Ameerpet, Hyderabad – 500 016.
Tel: 91-40-23731318 / 760 / 761
Fax: 91-40-23733242
E-mail: divis@hd1.vsnl.net.in
www.divislaboratories.com

Factory:
Unit I (Choutuppal)
Lingojigudem village, Choutuppal Mandal
Nalgonda District (A.P.) - 508 252
Unit II (Chippada)
Chippada village, Bheemunipatnam Mandal,
Visakhapatnam District (A.P.) - 531 162.

R & D Centers:
I. C-26, Industrial Estate,
Sanathnagar, Hyderabad - 500 018.
II. Lingojigudem Village, Choutuppal Mandal
Nalgonda District (A.P.) - 508 252.
III. Chippada Village,
Bheemunipatnam Mandal
Visakhapatnam District (A.P.) - 531 162.

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Summary of Results for the past 5 Financial years

(Rs. In Lakhs)

PARTICULARS	FINANCIAL YEARS ENDED ON				
	31.03.1999	31.03.2000	31.03.2001	31.03.2002	31.03.2003
INCOME					
Sales	10659.65	15270.43	18798.89	20705.00	24651.97
Other income	491.32	768.18	938.37	1320.03	1320.10
TOTAL INCOME	11150.97	16038.61	19737.26	22025.03	25972.07
Profit before Interest, Depreciation and Tax (EBDIT)	2261.43	3235.08	4485.12	5730.49	8264.33
Finance charges	1123.98	1009.89	1002.99	704.59	444.94
Depreciation	502.81	597.02	729.37	795.31	886.73
Profit before tax (PBT)	634.64	1628.17	2752.76	4230.59	6932.66
Taxation	6.17	12.41	124.67	573.31	1442.32
Profit after tax (PAT)	628.47	1615.76	2628.09	3657.28	5490.34
Equity Dividend	18%	20%	35%	50%	60%
Dividend payout	207.88	230.98	404.22	577.45	769.12
Equity Share Capital	1154.90	1154.90	1154.90	1154.90	1281.87
Reserves & Surplus	4603.75	5961.04	8143.69	9511.13	15510.31
Net Worth	5219.67	6499.80	8620.19	10666.03	16792.18
Gross Fixed Assets	8993.88	10883.68	12354.81	13131.59	19004.98
Net Fixed Assets	7507.20	8805.05	9546.86	9586.63	14592.55
Total Assets	13121.56	15488.98	18610.85	20515.59	29251.75
KEY INDICATORS					
Earnings Per Share (Rs.)	5.44	13.99	22.76	31.67	47.16*
Cash Earnings Per Share - Rs	9.80	19.16	29.07	38.55	49.75
Gross Turnover Per share - Rs.	96.55	138.87	170.90	190.71	202.61
Book Value per share- Rs.	45.20	56.28	74.64	92.35	131.00
Debt : Equity Ratio	0.82	0.64	0.38	0.22	0.06
EBDIT / Gross Turnover %	20.28	20.17	22.72	26.02	31.82
Net Profit Margin %	5.90	10.58	13.98	17.66	22.27
RONW %	12.04	24.86	30.49	34.29	32.70
<i>*Weighted average</i>					

DIRECTORS' REPORT

Dear Shareholders,

Your Directors have pleasure in placing before you the Thirteenth Annual Report of the Company together with the Audited Accounts for the year ended 31st March 2003.

FINANCIAL RESULTS

	<i>(Rs. in Lakhs)</i>	
	<u>2002-03</u>	<u>2001-02</u>
Sales	24651.97	20705.00
Other income	1320.10	1320.03
Total Income	25972.07	22025.03
PBDIT	8264.33	5730.49
Finance Charges	444.94	704.59
Depreciation	886.73	795.31
Profit before tax	6932.66	4230.59
Provision for tax	1222.65	665.30
Deferred Tax Liability	219.67	(91.99)
Profit after tax	5490.34	3657.28
Profit brought forward from previous year	4594.03	3726.59
Deferred Tax liability upto 31.03.2001	—	(1653.49)
Total available for Appropriation	10084.37	5730.38
Appropriations		
Proposed Dividend	769.12	577.45
Corporate Dividend Tax	98.54	58.90
General Reserve	600.00	500.00
Balance carried to Balance Sheet	8616.71	4594.03
Earnings per Share (EPS)		
a) Basic/Diluted – (Weighted Average)	47.16	31.67
b) Absolute	42.83	31.67

DIVIDEND

The Board of directors, at its meeting held on 22nd May, 2003, recommended a dividend of Rs.6/- per equity share of Rs.10/- each for the year 2002-03. The dividend would be paid to the members on approval at the ensuing Annual General Meeting.

PERFORMANCE REVIEW

During the year, your Company has achieved a turnover of Rs.24651.97 lakhs reflecting a growth of 19.06% over the previous year. Other Income during the year remained flat at Rs.1320.10 lakhs. Profit after Tax (PAT) grew significantly

by 50.12% to Rs.5490.34 lakhs from Rs. 3657.28 lakhs during the previous year. EPS, in absolute terms, increased to Rs.42.83 per share as against Rs. 31.67 last year.

OPERATIONAL REVIEW

The Company has introduced 11 new products during the year of which 1 has been added in Generics, 7 in Custom Synthesis and 3 in Peptide Building blocks, and reagents. In addition to increased level of operations at the existing facility at Choutuppal (Unit - I), this year also saw operations from the Chippada Unit (Unit - II) which commenced commercial production from 1st March, 2003.

Exports constituted 91% of total turnover in tune with the trend ever since your Company commenced manufacturing operations. Advanced markets comprising Europe and America account for 64% of Company's business. The Company could achieve decent growth in profitability on account of good spread of business between Generics to regulated markets, custom synthesis, carotenoids, peptide building blocks etc.

INITIAL PUBLIC OFFER (IPO) OF EQUITY

During February-March, 2003, your Company has successfully completed its Initial Public Offer of equity shares which received overwhelming response from investors. The Public Offer comprised of Offer for sale of 1935011 equity shares by Offerors and fresh issue of 1269673 equity shares by the Company. The IPO has been organised through 100% book building mechanism.

Despite challenging market conditions, we gather ours was the most successful IPO in the country for nearly 3 years. Overall, the Issue was subscribed by over 15 times with every investor segment oversubscribed many times. A floor price of Rs.130 was fixed on the recommendation of the Lead Managers to the Issue. The Company has received bids in the IPO ranging from Rs.130 to Rs.162 with a majority bids at a price of Rs.140. The Company has fixed the Issue price at Rs.140 per share as recommended by the Lead Managers.

We understand that the IPO of your Company was the first IPO to be priced above the floor price in the last 30 months. The Company's equity shares are listed for trading on the Hyderabad Stock Exchange, National Stock exchange and the Stock Exchange, Mumbai from 12th March, 2003.

As per the SEBI's Guidelines, the entire pre-issue equity capital had to be locked-in for a period of one year from the date of allotment/transfer in the IPO i.e., from 5th March, 2003 to 4th March, 2004. Stickers have been sent to all the members holding pre-issue equity shares in physical form for affixing on the share certificates.

...DIRECTORS' REPORT

INCREASE IN SHARE CAPITAL

The Company has issued 1269673 Equity shares of Rs.10/- each in the IPO in order to meet the minimum Public Offer requirement. As a result, the paid-up Equity Capital has increased by Rs.126.97 lakhs to Rs.1281.87 lakhs.

NEW PROJECT AT CHIPPADA NEAR VISAKHAPATNAM

As part of its plans to increase manufacturing capacity, your Company has set up its second Manufacturing Facility (Unit – II) during the year at village Chippada under Bheemunipatnam Mandal, Visakhapatnam District (AP). As you are aware, the Company has acquired a developed Site of around 315 acres with ready infrastructure from M/s. Birla Periclase, a unit of M/s. Indian Rayon & Industries Limited. Your Company had acquired these Assets on 'as-is-where-is condition' at a cost of Rs.1240.20 lakhs.

Total capital expenditure incurred for setting up the Unit - II came to Rs.4527.98 lakhs including Pre-operative expenses of Rs.304.91 lakhs as compared to the projected estimate of Rs.4022.46 lakhs for the Project. Increase in the capex is due to installation of an additional production line besides increase in trial run expenses.

Unit - II commenced operations from 1st March, 2003. All the required statutory clearances for establishing and operating the Plant have been obtained. Unit – II is also a multi-purpose manufacturing facility similar to Unit – I and would be initially utilized for producing intermediates to debottleneck Unit-I as well as launch new APIs for open market and new generics for advanced markets. The Company is also preparing for obtaining US-FDA clearance and European CoS to export products from Unit-II also to advanced markets. The second Site, besides increasing the manufacturing capacity, would also provide comfort to the Company's MNC customers of an alternate plant site and assured source of supply, which these big pharma companies strategically locate in their own businesses.

We are also glad to report that we have received the following certifications for Unit – II:

ISO-9001 for Quality systems

ISO-14001 for Environment Management Systems, and

OHSAS-18001 for Safety and Occupational Health Systems

CAPEX AT CHOUTUPPAL UNIT

During the year, your Company has also invested an amount of Rs.1372.35 lakhs towards capital expenditure at its Unit - I at Choutuppal near Hyderabad. During the year, Pilot Plant has been expanded in order to augment custom synthesis operations besides enhancement of capacity aimed at increasing production of Naproxen. A new QC

Building is being added to provide for the increased demand for instrumentation. A Distillation and solvent recovery system was added to recover solvents to reduce costs and also meet environmental requirements. In order to modernize the waste water treatment plant and enhance its capabilities, a reverse-osmosis unit (RO Unit) and a forced evaporation unit were added during the year.

RESEARCH AND DEVELOPMENT

Your Company now has four R&D groups working at various locations:

DRC – Hyderabad Located at Sanathnagar, Hyderabad with a focus and thrust on custom synthesis, contract research for big pharma companies, Route design, Route selection, establishing gram scale process and structural confirmation.

Plant R&D – Unit I This R&D group for process development and scale up is located at Unit-I. This team takes gram scale technologies from DRC or from customers and goes through various stages of process development, process optimization, impurity profile, pilot studies, pre-validation batches, validation of process and transfer of technology to Plant. The team also reviews efficiency of processes each month and gives process support where required.

DRC – Vizag This new R&D group is established during the year at Unit – II on the similar lines as DRC-Hyderabad and has a team of 30 scientists. This would enable the Company to look at the emerging opportunities and substantially enhances the capacity to take up several projects simultaneously.

Plant R&D – Unit II This second process development and scale up team is located at Unit-II and undertakes similar work as Plant R&D at Unit-I.

TAXATION

Your Company has provided for Income-tax of Rs.1222.65 lakhs including adjustment of Rs.2.65 lakhs relating to earlier years. Increase in Income-tax provision is accentuated by the phased withdrawal of income-tax exemption for export benefits. An amount of Rs.219.67 lakhs was provided towards Deferred Tax Liability for the year as required under Accounting Standard AS-22 relating to "Accounting for Taxes on Income".

FINANCE

During the year, your Company has drawn the balance of Rs.590 lakhs from Rs.1000 lakhs of Corporate Loan sanctioned by UTI Bank Ltd. Your Company has also availed a disbursement of Rs.100 lakhs from the Rupee Term Loan of Rs.1500 lakhs sanctioned from UTI Bank for part-financing the Project at Visakhapatnam. Total outstanding loans from

...DIRECTORS' REPORT

UTI Bank were pre-paid during March, 2003 from out of internal accruals. Your Company has been regular in payments of interest and other obligations with the Financial Institutions/Banks.

FUTURE OUTLOOK

The Company is engaged in developing processes and custom synthesis of several APIs and intermediate compounds for the big pharma companies for their discovery products that are under various phases of development i.e., Phase I, Phase II or Phase III or are ready for commercial launch. Through its strict adherence to cGMP, compliance to patent regulations, quality standards and on-time deliveries, the Company has been able to further strengthen its relationship with some of the leading big pharma companies.

The thrust of the Company is on custom synthesis, contract manufacturing for the big pharma companies and is aiming to increase business in this area in the next few years. The Company uniquely offers right from gram scale upto multi-ton lots for compounds under development, compounds still under patent and late life cycle products.

The large generic houses in US are focusing on sourcing their future generic APIs from independent API manufacturers who can play a complementary role and not a competing role thus making Divi's the preferred supplier. A new R&D centre (DRC-Vizag) has been established to augment research capabilities. Total number of DMFs filed with US-FDA are nine. Four APIs have Certificate of Suitability from Europe.

The Company is a significant player in the world market in each of the generic products in which it is present. With the filing of DMF for Naproxen and the subsequent FDA inspection, the Company is working towards additional growth of business in this product. The Company is strategically positioned in CIS Lactum which is the penultimate stage for Diltiazem and expects a continuing business. Dextromethorphan Hbr offers some more potential for increase in business. In the Imaging Agents, Iopamidol is more or less steady and has potential to grow.

The Company has increased its business in peptides and several new products are being developed which look promising. This segment should continue growing.

With the thrust on each of the areas of its focus, your Company hopes to achieve decent growth of business and profitability in the future.

DIRECTORS

Dr. G. Suresh Kumar and Mr. Kiran S. Divi retire by rotation at this Annual General Meeting and are eligible for reappointment.

DIRECTORS' RESPONSIBILITY STATEMENT

As required under Section 217 (2AA) of the Companies Act, 1956, Directors of your Company hereby state and confirm that:

- a) In the preparation of the annual accounts, the applicable accounting standards had been followed along with proper explanation relating to material departures, if any;
- b) They have selected such accounting policies and applied them consistently and made judgements and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at 31st March 2003 and its profit for the year ended on that date;
- c) They have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Companies Act, 1956 and for preventing and detecting fraud and other irregularities.
- d) they have prepared the annual accounts on a going concern basis.

AUDITORS

The Auditors, M/s. PVRK Nageswara Rao & Co., Chartered Accountants, Hyderabad retire at the ensuing Annual General Meeting and, being eligible, offer themselves for reappointment.

CORPORATE GOVERNANCE, MANAGEMENT DISCUSSION AND ANALYSIS

A separate report on Corporate Governance and Management Discussion & Analysis is included as a part of the Annual Report.

RELATED PARTY TRANSACTIONS

As a matter of policy, your Company carries out transactions with related parties on an arms-length basis. Statement of these transactions is given in the Annexure to Notes to Accounts attached in compliance of Accounting Standard No.AS-18.

FIXED DEPOSITS

The Company did not accept any fixed deposits from the public or shareholders during the year under review.

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

Particulars required under Section 217 (1) (e) of the Companies Act, 1956 read with Rule 2 of the Companies

...DIRECTORS' REPORT

(Disclosure of Particulars in the Report of Board of Directors) Rules, 1988 is given in the annexure to this report.

CERTIFICATIONS / AWARDS

Your Company has received the following Certifications/ Awards during the year:

- **Silver Award in the 'Bulk Drugs' category for Quality Excellence for the year 2002 from Indian Drug Manufacturers Association**
- **ISO-9001, ISO-14001 and OHSAS-18001 Certifications for Unit - II.**

HUMAN RESOURCES

Your Company continues to have cordial and harmonious relationship with the employees.

Particulars of employees required to be furnished under Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 are given in the Annexure attached and forms part of the Report.

ACKNOWLEDGEMENTS

Your Directors gratefully acknowledge the continued assistance and co-operation extended by Government authorities, financial institutions and banks to the Company. Your Directors also place on record their deep appreciation for the unstinted dedication and hard work put in by the employees of the Company. Your Directors also sincerely acknowledge the confidence and faith reposed by the shareholders in the Company.

For and on behalf of the Board

Hyderabad
21st June, 2003

Murali K. Divi
Chairman & Managing Director

ANNEXURE TO THE DIRECTORS' REPORT

Information pursuant to Section 217(1)(e) of the Companies Act 1956 read with the Companies (Disclosure of Particulars in the Report of Board of Directors) Rules, 1988.

FORM - A

Form for disclosure of particulars with respect to Conservation of Energy

A. CONSERVATION OF ENERGY

Power and Fuel consumption

1. Electricity

	<u>2002-03</u>	<u>2001-02</u>
(a) Purchases:		
Units	20239316	16460317
Total Amount Rs.	74251595	65917183
Rate/Unit Rs.	3.67	4.00
(b) Own generation:		
Through diesel generator:		
Units	2033055	3091397
Units per Lt. of diesel	3.37	3.24
Cost/Unit Rs.	5.71	5.46
2. Coal (D/C grade)		
Quantity (Kgs)	15238070	12355775
Total Cost Rs.	30715848	25323605
Average rate Rs.	2.02	2.05

Figures for the year 2002-03 include consumption for the Chippada Unit which commenced commercial operations from 1st March, 2003.

B. CONSUMPTION PER UNIT OF PRODUCTION

Products	} Since the Company manufactures different types of bulk drugs and drug intermediates, it is not practicable to give consumption per unit of production.
Electricity (Units)	
Coal (D/C Grade)	
Others (Specify)	

FORM - B

Form for disclosure of particulars with respect to technology absorption

RESEARCH AND DEVELOPMENT (R&D)

1. Specific areas in which R&D is carried out by the Company	:	Process development for Bulk fine Chemicals and intermediates.
2. Benefits derived as a result of the above R&D	:	Developed import substitution products and products having considerable export potential.
3. Future plan of action	:	To develop processes for newer products and intermediates.
4. Expenditure on R&D		
		<u>2002-03</u> Rs.
		<u>2001-02</u> Rs.
a) Capital		9411469
b) Revenue		59286945
c) Total		68698414
d) Total R&D Expenditure as a percentage of Sales		2.79%
		2.58%

TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION

1. Efforts in brief, made towards technology absorption and adaptation.	:	No technology absorption is involved. The Company has its own R&D Centres which have been developing and improving processes for manufacture of bulk drugs and drug intermediates.
2. Benefits derived as a result of the above efforts	:	Processes for several new products have been developed. Process optimisation has been achieved in Production, which resulted in lower cost of production and substantial exports.
3. Information regarding import of technology during the last 5 years.	:	There is no import of technology.

...ANNEXURE TO THE DIRECTORS' REPORT

FORM - C

Foreign Exchange earnings and outgo

	<u>2002-03</u>	<u>2001-02</u>		<u>2002-03</u>	<u>2001-02</u>
	Rs.	Rs.		Rs.	Rs.
(a) Foreign Exchange earnings:					
i) FOB Value of Exports	2200928875	1816349470			
ii) Contract Research Fee	8193760	5551678			
(b) Foreign Exchange outgo:					
i) Remittance in Foreign Currency:					
Dividend (Net of Tax)	—	357850			
ii) CIF value of imports:					
Raw Materials	595890617	340004013			
Capital Goods	20383282	5895220			
Spares	1491085	1214912			
iii) Expenditure in Foreign Currency towards:					
Memberships and Subscriptions				73669	87843
Books and Periodicals				362471	242500
Traveling Expenses				4060190	3104422
Laboratory Chemicals				363226	1435688
Consultancy Charges				3068415	389278
Sales Commission				8244472	2850068
Foreign Bank Charges				1668338	1264456
Finance Charges				3739314	6398941
Others				1277337	582263

ANNEXURE TO DIRECTORS' REPORT

Information pursuant to Section 217 (2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975

Name	Age (yrs)	Qualification	Designation	Date of commencement of employment	Experience (yrs)	Gross remuneration ¹ (Rs.lakhs)	Last employment
Mr. Murali K. Divi	52	M. Pharm.	Chairman & Managing Director	10.10.1994	28	243.86	Managing Director, Cheminor Drugs Ltd.

Note:1. Remuneration includes salary, allowances, Company contribution to Provident Fund, Commission and perquisites

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW

The financial statements have been prepared in compliance with the requirements of the Companies Act, 1956 and Generally Accepted Accounting Principles (GAAP) in India. These estimates and judgments relating to the financial statements have been made on a prudent and reasonable basis, in order that the statements reflect, in a true and fair manner, the state of affairs and profits for the year. This report may also contain certain statements that the Company believes are or may be considered to be 'forward looking statements' which are subject to certain risks and uncertainties.

INDUSTRY AND STRUCTURE

Of the estimated US \$ 397 billion of business of the global pharma industry, the Active Pharma Ingredients (API) business accounts for about 5 to 7% which is between US \$ 20 to 28 billion. This includes out-sourcing (custom synthesis), in-house manufacture and manufacture of Generics. The Company mainly focuses on custom synthesis of APIs and intermediates and manufacture of generic APIs.

COMPANY INFRASTRUCTURE

Your Company operates from its Headquarters and Registered Office at Hyderabad. The Company has two manufacturing facilities:

- Unit - I at village Lingojugudem, Choutuppal Mandal, Nalgonda district, about 60 KM from Hyderabad on a 300 acre site with a reactor capacity of 1000 cu.m., full cGMP, successful FDA inspection for the entire facility and triple ISO certification.
- Unit - II at village Chippada, Bheemunipatnam Mandal, Visakhapatnam Dist. about 30 KM from the Port City of Visakhapatnam on the east coast, commissioned on a 315-acre site with a reactor capacity of 300 cu.m., and full cGMP and triple ISO Certification. Unit - II went into commercial operations from 1st March, 2003.

The Company operates from four of its Research Centers. Broad functional focus of each of these research centres has been given in the Directors' Report.

INTERNAL CONTROL SYSTEMS

The Company has an effective internal control system in place and this is continually reviewed for effectiveness and is augmented by written policies and guidelines, careful selection of qualified personnel and a strong programme of internal audit. We believe that the Company's overall system of internal control is adequate given the size and nature of operations and effective implementation of internal control self assessment procedures.

The internal control system of the Company is also reviewed by the Audit Committee of the Board periodically, and

suggestions and recommendations of the Committee are carried out.

OPPORTUNITIES AND THREATS

With the onset of full compliance to patent regime required to be in place in India from 2005, there will be a more conducive atmosphere for out-sourcing by big pharma companies which will, in turn, result in major opportunities for Indian pharma companies committed to Intellectual Property Rights (IPR) and playing a complementary role to the innovators.

The Company has three leverages in order to counter competition from its peers in Europe and US:

- Creation of equivalent plant capacity at a much lower cost
- Operating the infrastructure at competitive costs compared to Europe and US.
- Being able to develop processes in the R&D using highly skilled professionals at competitive costs and speed.

The European and U.S. competitors may have a natural advantage due to proximity to customers. With its customer-centric communication, frequent travel by the senior management, and gearing of transportation logistics of high value goods, the Company matches itself with its peers.

RISKS AND CONCERNS

The Company operates predominantly in export markets and has a broad product portfolio under Generics and custom synthesis. The Company currently manufactures around 69 products. From the very inception of manufacturing operations, the Company committed itself to respecting intellectual property and does not violate patents. With the various regulatory approvals for its manufacturing facilities, its commitment to IPR and diverse product portfolio, the Company has a unique de-risked business model and is also strongly positioned for the emerging opportunities post 2005 under the new patent era. In order to cater to additional capacity requirement, the Company has demonstrated its capability to set up and commission its Unit – II within a period of 8 months.

The Company has systematised manufacturing operations by deploying Standard Operating Procedures, current Good Manufacturing Practices (cGMP) and by establishing systems conforming to ISO and OHSAS Certifications.

The Company's Current and Fixed Assets are adequately insured against various risks. The Company constantly strives to adequately protect itself from various business risks and concerns and takes appropriate measures to address the same.

...MANAGEMENT DISCUSSION AND ANALYSIS

IMPLEMENTATION OF UNIT - II

As part of its plans for setting up a second manufacturing facility, the Company has acquired a site admeasuring 314.855 acre along with ready infrastructure from M/s. Birla Pericase, a unit of Indian Rayon & Industries Limited at a cost of Rs.1240.20 Lakhs.

The Company has invested a total amount of Rs. 4527.98 lakhs on the Unit - II which has been financed partly from internal accruals and partly from the proceeds of the Initial Public Offer of equity shares by the Company. The Project has gone into commercial operations from 1st March, 2003 and has contributed to business for a month during the FY2003.

This second site at Visakhapatnam, besides expanding the manufacturing capacity for API and intermediates, would also provide comfort to the Company's MNC customers of an alternate plant site and assured source of supply in case of any eventuality at one of the sites. This facility, on commissioning, would be similar to the present one and would be initially utilized for manufacturing intermediates. After obtaining all necessary approvals, within a 2-3 year timeframe, the Company plans to produce APIs for advanced/regulated market at this facility. We are very glad to report that we have recently obtained ISO-9001, ISO-14001 and ISO-18001 Certifications for Unit - II.

CAPEX AT UNIT - I NEAR HYDERABAD

During the year, an amount of Rs.1372.35 lakhs was incurred on capital expenditure at its Unit - I at Choutuppal near Hyderabad towards increasing the following infrastructure:

- Pilot Plant has been expanded in order to augment custom synthesis operations.
- Enhancement of capacity aimed at increasing production of Naproxen.
- Additional instruments were added to QC.
- A new QC Building is being added to provide for the increased demand for instrumentation.
- A new Distillation and solvent recovery system was added to recover solvents, to reduce costs and also meet environmental requirements.
- In order to modernize the waste water treatment plant and enhance its capabilities, a reverse-osmosis unit (RO Unit) and a forced evaporation unit were added during the year.

OPERATIONAL PERFORMANCE

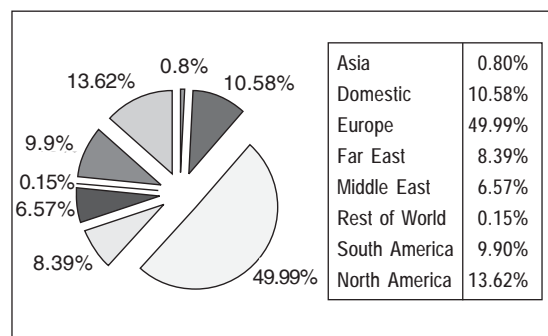
Analysis of profitability is given hereunder:

(Rs. in Lakhs)

	2002-03	2001-02
Net Sales	24651.97	20705.00
Other income	1320.10	1320.03
Total Income	25972.07	22025.03
PBDIT	8264.33	5730.49
Finance charges	444.94	704.59
Depreciation	886.73	795.31
Profit before tax	6932.66	4230.59
Provision for tax	1222.65	665.30
Deferred Tax Liability	219.67	(91.99)
Profit after tax	5490.34	3657.28
Earnings per Share (EPS)		
a) Basic/Diluted – (Weighted Average) (Rs.)	47.16	31.67
b) Absolute (Rs.)	42.83	31.67
Dividend pay-out	14.00%	15.79%
Debt-Equity Ratio	0.06	0.22
Book Value (Rs.)	131	92

EXPORTS

Exports constituted 91% of turnover during the year as against 89% during the previous year. Exports to advanced markets in America and Europe during the year accounted to 64% as against 57% during last year.



...MANAGEMENT DISCUSSION AND ANALYSIS

SALES TURNOVER

Your Company manufactures around 69 products under 4 broad categories:

- i) Generic products such as Naproxen, Diltiazem, Dextromethorphan Hbr., Nabumetone, Iopamidol, Methyl Dopa, Phenylephrine and their intermediates.
- ii) APIs and Intermediates for MNC Pharma majors overseas.
- iii) Intermediates for peptide drugs (protected amino acids)
- iv) Carotenoids

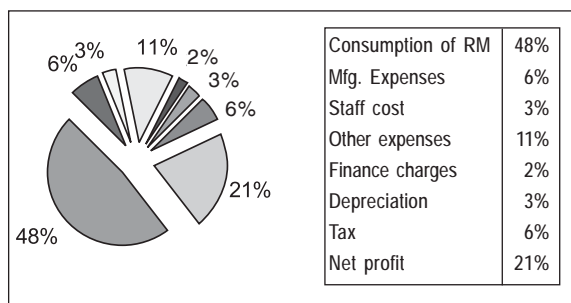
Your Company achieved a turnover of Rs. 24651.97 lakhs as compared to Rs. 20705.00 lakhs during the previous financial year, showing a growth rate of 19.06%.

OTHER INCOME

Other Income mainly comprised DEPB credits (based on sales) accrued to the Company under the Duty Entitlement Pass Book Scheme of the Government of India which essentially defrays the duties paid on raw materials for export production. Other Income for the year amounted to Rs.1320.10 lakhs as against Rs.1320.03 lakhs for the previous year. DEPB credits were lower at Rs.1093.41 lakhs during the year as against Rs.1210.32 lakhs. This was the result of reduction in DEPB rates by the Government of India consequent to lowering the peak rate of customs duties for import of inputs. As the exemption of Special Additional Duty was also removed for imports on DEPB credits, realizations on sale of such credits have also been lower. The Company would not be impacted by such lower DEPB rates as the input (raw material/spares) costs would also be lower with the lower import duties.

EXPENSES

The Company achieved cost efficiencies in terms of material consumption due to plant and process efficiencies and continuous R & D on the products, optimum product mix and overall control of overheads.



MATERIAL COSTS

Raw material consumption for the year was Rs.13105.06 lakhs net of inter-unit transfers as against Rs.10795.73 lakhs for the previous year. Closing Inventory of Raw materials

including Materials in transit at the year-end was Rs.2712.56 lakhs as against Rs.1564.80 lakhs. The increase is due to the stocking of raw materials for operations at the Company's 2nd Manufacturing facility at Chippada on commencement of commercial operations from 1st March, 2003.

Work-in-Process at the year-end amounted to Rs.2289.83 lakhs and finished goods (net of duties) to Rs.1235.94 lakhs after considering stocks out of trial runs amounting to Rs.335.58 lakhs before commencement of commercial operations at Chippada facility. Work-in-Process and finished goods for the previous year were Rs.1694.34 lakhs and Rs.867.54 lakhs respectively. Slight increase in the levels of these stocks is also due to the commencement of commercial operations at Chippada facility.

FINANCE CHARGES

Interest and Finance charges have been lower at Rs.444.94 lakhs as against Rs.704.59 lakhs during the previous year as a result of:

- Repayment/pre-payment of term loans
- higher internal accruals and
- better working capital management.

PROFITS BEFORE DEPRECIATION, INTEREST AND TAXES (EBITA)

EBITA grew by 44% impressively to Rs.8264.33 lakhs as against Rs. 5730.49 lakhs during the previous year.

DEPRECIATION

Depreciation charge for the current year came to Rs.886.73 lakhs including charge as compared to Rs. 795.31 lakhs during the previous year. Depreciation for the year includes charge from the Chippada Unit amounting to Rs. 38.73 lakhs on going into commercial operations effective 1st March, 2003.

An amount of Rs.5900.33 lakhs has been added to Fixed Assets during the current year of which Rs.4527.98 lakhs is in respect of setting up the Chippada Unit and Rs.1372.35 lakhs towards normal capex at Choutuppall Unit.

TAXATION

Your Company had to provide for Income-tax of Rs.1222.65 lakhs for the current year as against Rs. 665.30 lakhs during the previous year. Increase in tax provision is on account of the phased withdrawal of the tax exemption for Export business under Section 80 HHC of the Income-tax Act.

Your Company has also provided for Deferred Tax Liability of Rs.219.67 lakhs against a deferred tax asset of Rs.91.99 lakhs during the previous year. Provision for the current year is due to the timing difference between income-tax depreciation for 2nd half of the year and depreciation charge in the books for one month of commercial operations during the year for the Chippada facility.

...MANAGEMENT DISCUSSION AND ANALYSIS

PROFIT AFTER TAX

Profit after Tax increased to Rs.5490.34 lakhs as compared to Rs. 3657.28 lakhs during the previous year, registering a growth of 50.12%. As the Company charged off R&D Expenditure amounting Rs.660.32 lakhs during the previous year consequent to a change in the Accounting Policy for treatment of R&D Expenditure, comparable growth of PAT would be 27.16%.

EARNINGS PER SHARE

EPS (in absolute terms) has grown by 35% to Rs.42.83 per share as compared to Rs. 31.67 per share during the previous year.

DIVIDEND

Your Board has recommended a dividend of Rs.6 per share for the year 2002-03 as against the dividend payment of Rs.5 per share during the previous year. As per the current Income-tax regulations, dividend receipts are exempt at the hands of the members. An amount of Rs.98.54 lakhs has been provided towards Corporate Dividend Tax during the year for the proposed dividend.

FINANCIAL CONDITION

i) Share Capital

During the FY 2003, Share capital has increased from Rs.1154.90 lakhs to Rs.1281.87 lakhs with the issue of 12.69 lakh fresh equity shares of Rs.10/- each in the Initial Public Offer of equity shares of the Company together with the Offer for sale by existing shareholders.

There was an accretion of Rs.126.97 lakhs to the Share Capital and of Rs.1650.57 lakhs to the Share Premium Account. Share issue expenses of Rs.274.06 lakhs incurred for the IPO have been adjusted to the share premium collected in the Issue.

ii) Share Issue Expenses

Share Issue Expenses in the IPO came to Rs.274.06 lakhs net of expenses borne by the selling shareholders who offered their equity holding in the Initial Public offer of the Company as per agreement with these shareholders. As a prudent policy, the entire Share Issue Expenses have been adjusted against the Share Premium Account during the year.

iii) Fixed Assets

Addition to Fixed Assets during the year amounted to Rs.5900.33 lakhs of which Rs. 4527.98 lakhs towards setting up of the 2nd manufacturing facility of the Company at Chippada near Vizag and the balance of Rs.1372.35 lakhs towards normal capex at the Company's 1st Manufacturing facility at Choutuppal near Hyderabad. Unallocated expenditure including trial run expenses amounting to Rs.304.91 lakhs incurred, in connection

with the Project at Chippada near Vizag, has been capitalized.

iv) Inventories

Major items of Inventories as of 31st March, 2003:

(Rs. in Lakhs)

	2002-03	2001-02
Raw Materials	2489.58	1410.00
Work-in-Process	2289.83	1694.34
Finished Goods	1557.48	1101.22

Increase in the levels of the Inventory is due to stocking at the recently commissioned manufacturing facility at Chippada (Vizag) and planning for the operations for FY2004.

v) Debtors

Debtors as of 31st March, 2003 amounted to Rs.5664.72 lakhs as against Rs.5205.23 lakhs during the previous year. The Company has provided for doubtful debts of Rs.20.16 lakhs and have charged off an amount of Rs.4.18 lakhs towards bad debts during the year.

vi) Loans and Advances

Loans and advances as of 31st March, 2003 amounted to Rs.1306.33 lakhs as against Rs.609.28 lakhs during the previous year. There has been an increase in Modvat Credits (Central Excise duty credits) by Rs.438.02 lakhs mainly on account of the modvat credits received on purchases for the Chippada (Vizag) Project. These credits would be available for utilization during the FY2004.

vii) Current Liabilities

Current Liabilities and provisions as of 31st March, 2003 amounted to Rs.6340.52 lakhs as against Rs.3770.52 lakhs during the previous year. Increase is due to:

- The balances outstanding on capital purchases for Vizag Project and
- Increased level of operations on commissioning the Vizag Project
- Provision of proposed dividend for the FY2003 while interim dividend was paid during the FY2002.

viii) Debt-Equity Ratio

Debt-equity ratio as of 31st March, 2003, based on the long-term debt, works out to 0.06 as against 0.22 during the previous year. The Company has pre-paid some of the Rupee Term Loans during FY2003.

...MANAGEMENT DISCUSSION AND ANALYSIS

RETURN ON CAPITAL EMPLOYED (ROCE)

(Rs. in Lakhs)

Particulars	2002-03	2001-02
Net Fixed Assets	15104.72	9753.35
Net Current Assets	6025.34	5430.21
Capital Employed	21130.06	15183.56
PBIT (excluding dividend and profit on sale of assets)	6608.47	4357.73
ROCE	31.28	28.70

COMMUNITY DEVELOPMENT ACTIVITIES

Your Company is proud to be associated with various community development activities in the villages around the Company's Manufacturing Facilities. Your Company contributed for the following community development programs either on its own or through voluntary / Government organizations.

- Drilling bore wells and providing drinking water
- Merit scholarships to Degree and Intermediate courses' students
- Supply of free note books in primary and upper primary schools
- Provision of additional teachers in schools
- Arranging additional classrooms & furniture in schools.
- Veterinary camps for cattle and sheep
- Eye camps and cataract operations for 150 under-privileged villagers
- Health check-up for School children
- Pulse polio immunization and family planning operations
- Desilting of canals / irrigation tanks and construction of check-dams
- Provided Book Binding machines under women welfare programmes
- Support in Janmabhoomi & Neeru-Meeru programs sponsored by Government of Andhra Pradesh.
- Planting saplings along the road in the villages.

CORPORATE GOVERNANCE

The Securities and Exchange Board of India (SEBI) has introduced a Code on Corporate Governance for implementation by Companies listed on the Stock Exchanges. Accordingly, the Stock Exchanges have formulated Clause 49 to the Listing Agreement and stipulated requirements on the said code. As a pro-active step, your Company has complied with the code on Corporate Governance last year itself even before launching its IPO and listing on Stock Exchanges. The Company's shares have been listed on the Stock Exchange, Mumbai (BSE), the National Stock Exchange Limited (NSE) and the Hyderabad Stock Exchange Limited (HSE) on March 12, 2003.

The importance of corporate governance has always been recognized by your Company and is manifest in its vision. In accordance with the Listing Agreement, a certificate from the Auditors of the Company for compliance of Corporate Governance by the Company during the financial year 2002-03 has been inserted elsewhere in this Annual Report. A report, in line with the requirement of the stock exchanges, on the practice followed by the Company and other voluntary compliances is given below:

1. Company's Philosophy on Corporate Governance

The Company's philosophy of business and adherence to corporate governance provides:

- Ensuring adequate control systems to enable the Board effectively discharge its responsibilities to all the stakeholders of the Company.
- Ensuring that the decision making process is fair and as transparent as possible, given the intricacies of its business.
- Ensuring fullest commitment of the Management and the Board to maximise shareholder value.

2. Board of Directors

a) Composition

The Board of Directors consists of ten directors, consisting of five each of Executive and Non-executive.

Mr. Murali K. Divi, the Promoter of the Company, is the Executive Chairman and Managing Director. The Board is classified broadly as follows:

Name of the Director	No. of other Directorships	Membership of Board Committees of other companies
I. Executive Promoter Director		
1. Mr. Murali K. Divi	2	—
II. Executive Non-promoter Directors		
2. Mr. N. V. Ramana	2	—
3. Mr. Madhusudana Rao Divi	—	—
4. Dr. P. Gundu Rao	—	—
5. Mr. Kiran S. Divi	1	—
III. Independent & Non-executive Directors		
6. Dr. K. Satyanarayana	—	—
7. Mr. S. Vasudev (IDBI Nominee)	1	2
8. Mr. G. Venkata Rao	2	—
9. Prof. C. Ayyanna	—	—
10. Dr. G. Suresh Kumar	—	—

None of the Directors is a Member of more than 10 Committees or acting as Chairman of more than 5 Committees across all Companies in which he is a Director.

b) Meetings of Board of Directors

During the financial year 2002-03 the Board of Directors met four times on the following dates:

17th June, 2002, 29th July, 2002, 22nd December, 2002 and 5th March, 2003.

Board Meeting held on 22nd December 2002 after a gap of more than 4 months from the previous meeting is in accordance with provisions of the Companies Act, 1956 and the provisions of Listing Agreement became applicable only w.e.f.12th March, 2003.

...CORPORATE GOVERNANCE

Name	No. of Meetings	No. of meetings attended	Attendance at the previous AGM
Mr. Murali K. Divi	4	4	Yes
Mr. N. V. Ramana	4	4	Yes
Mr. Madhusudhana Rao Divi	4	3	Yes
Dr. P. Gundu Rao	4	4	Yes
Mr. Kiran S. Divi	4	3	Yes
Dr. K. Satyanarayana	4	3	Yes
Mr. S. Vasudev (IDBI Nominee)	4	3	Yes
Mr. G. Venkata Rao	4	4	Yes
Prof. C. Ayyanna	4	4	Yes
Dr. G. Suresh Kumar	4	4	Yes

There has been no change in the composition of the Board of Directors since the last Annual General Meeting.

3. Committees of Board

a) Audit Committee

The Audit Committee which was constituted in March 2001, met four times on 17th June 2002, 29th July 2002, 22nd December 2002 and 5th March 2003 during the financial year 2002-03.

The Committee consists of Independent Directors and the attendance of each member of the Committee is given below:

Name	Designation	Committee meetings attended
Mr. G. Venkata Rao	Chairman	4
Mr. S. Vasudev	Member	3
Dr. G. Suresh Kumar	Member	4

The Company Secretary acts as Secretary to the Committee.

All the meetings of the Audit Committee were attended by the Executive Director, the General Manager (Finance) as invitees and the representatives of the Statutory Auditors of the Company attended as invitees for the relevant meetings.

Terms of reference of the Audit Committee include the following:

- To oversee the Company's financial information disclosure, review the adequacy of internal control systems.
- To hold periodic discussions with the Statutory Auditors of the Company concerning the accounts of the Company, internal control systems and observations of the Auditors.
- To review the un-audited financial statements before submission to the Board.
- To investigate into any matter in relation to items specified in Section 292A of the Companies Act, 1956 or as may be referred to it by the Board and for this purpose to seek any relevant information contained in the records of the Company and also seek external professional advice, if necessary.
- To have full access to information contained in the records of the Company.
- The recommendations of the Audit committee on any matter relating to financial management including the audit report shall be binding on the Board.
- To make recommendations to the Board on any matter relating to the financial management of the Company, including the Audit report.

b) Remuneration Committee

The Remuneration Committee was constituted in March 2001 by the Board of Directors. The Committee's objective is to evaluate compensation and other benefits for Executive Directors subject to the Board of Directors and Members approval.

The Committee consists of Independent Directors as given below:

Name	Designation
Dr. K. Satyanarayana	Chairman
Mr. S. Vasudev	Member
Prof. C. Ayyanna	Member

Since there was no revision of remuneration to Executive Directors, the Committee did not meet during the financial year 2002-03.

...CORPORATE GOVERNANCE

Details of remuneration to Directors

i. Executive Directors

(in Rs.)

Name	Salary	Perquisites	PF (Benefits)	Commission	Total
Mr. Murali K. Divi	2100000	290186	252000	21743984	24386170
Mr. N. V. Ramana	1800000	130521	216000	—	2146521
Mr. Madhusudana Rao Divi	1560000	96000	187200	—	1843200
Dr. P. Gundu Rao	1320000	396000	25200	—	1741200
Mr. Kiran S. Divi	1200000	—	144000	—	1344000
Total					31461091

ii. Non-executive Directors

Name	Sitting fees paid (Rs.)
Dr. K. Satyanarayana	6000
Mr. S. Vasudev (IDBI Nominee)	12000
Mr. G. Venkata Rao	20000
Prof. C. Ayyanna	8000
Dr. G. Suresh Kumar	20000
Total	66000

Sitting fee of Rs.2,000 is being paid to the Non Executive Directors for attending each meeting of Board and Committees

c) Shareholders / Investors' Grievance Committee

The Board has constituted a "Shareholders/Investors' Grievance Committee" comprising of the Executive Director, an Independent Non-executive Director and a Company Executive with the following terms of reference:

1. To approve transfer / transmission of shares
2. To demat / remat of shares
3. To review and ensure compliance of statutory provisions of the Companies Act.
4. To ensure all shareholders' queries, grievances and complaints are attended and redressed in an expeditious manner.

The Committee met 18 times during the financial year 2002-03 on the following dates:

10th April 2002, 11th May 2002, 30th May 2002, 14th June 2002, 17th June 2002, 4th July 2002, 15th July 2002, 29th July, 2002, 4th September 2002, 18th October 2002, 30th October 2002, 15th November 2002, 30th November 2002, 16th December 2002, 30th December 2002, 15th January 2003, 17th February 2003 and 5th March 2003

The constitution of the Committee and the attendance of each member of the Committee is given below:

Name	Designation	Committee meetings attended
Dr. G. Suresh Kumar	Chairman	18
Mr. N. V. Ramana	Member	18
Mr. L. Kishore Babu	Member	18

Mr. P. Sudershan, Company Secretary is Compliance Officer of the Company for attending to Complaints/Grievances of the Shareholders.

Complaints / Grievances received and attended

During the year under review, complaints received from investors were replied / resolved to the satisfaction of the investors.

...CORPORATE GOVERNANCE

Grievances resolved are as follows:

S.No	Description	Opening	Received	Total	Resolved	Balance
1.	Duplicate Dividend Warrants	0	57	57	57	0
2.	Change / correction on refund order	0	64	64	64	0
3.	Duplicate refund orders	0	10	10	10	0
4.	Correction of name on Share certificates	0	5	5	5	0
5.	Duplicate share certificates	0	3	3	3	0
6.	Deletion of joint name due to death	0	4	4	4	0
7.	Consolidation / split of Share certificates	0	3	3	3	0
8.	Non receipt of Share Certificates	0	5	5	5	0
	Total	0	151	151	151	0

4. General Body Meetings

Particulars of last three Annual General Meetings:

AGM	Year ended	Venue	Date	Time
12 th	31 st March 2002	Surana Udyog Auditorium, FAPCCI Premises, 11-6-841, Red Hills, Hyderabad – 500 004	29.07.2002	10.00 A.M.
11 th	31 st March 2001	- do -	27.08.2001	10.00 A.M.
10 th	31 st March 2000	-do-	10.08.2000	10.00 A.M.

No special resolutions were put through postal ballot last year. Presently, the Company does not have any proposal for postal ballot.

5. Disclosures on materially significant related party transactions

The Company does not have any related party transactions, which may have potential conflict with the interests of the Company. Other related party transactions have been reported at S. No. 15 of Notes to Accounts. The Register of Contracts containing transactions, in which directors are interested, is placed before the Board regularly.

6. Cases of non-compliance/penalties

There has been no instance of non-compliance by the Company on any matter related to capital markets during the last three years. Hence, the question of penalties or strictures being imposed by SEBI or the Stock Exchanges does not arise.

7. Means of Communication

- Quarterly, half-yearly and annual financial results of the Company will be communicated to the Stock Exchanges immediately after the same are considered by the Board and will be published in prominent English and Telugu newspapers. They would also be published on the Company's website viz. www.divislaboratories.com.

- As the Equity shares of the Company are listed with Stock Exchanges on 12.03.2003, the annual results for the year 2002-03 and the unaudited results for quarter ended 31.03.2003 have been published as per requirement of Listing Agreements in prominent English and vernacular newspapers. They are also displayed on the Company's website viz. www.divislaboratories.com
- Management Discussion and Analysis forms part of this Annual Report.

8. General Shareholder Information

1. Annual General Meeting

Date : 18-08-2003
Time : 10.00 A.M.

2. Venue : KLN Prasad Auditorium,
FAPCCI Premises,
11-6-841, Red Hills,
Hyderabad – 500 004

3. Financial Calendar : 1st April 2002 to 31st
March 2003

...CORPORATE GOVERNANCE

4. Book Closure date : 13.08.2003 to 16.08.2003

5. Dividend payment date : 23.08.2003

6. Listing on Stock Exchange(s) :

- a) The Hyderabad Stock Exchange Limited
6-3-654 Adjacent to Erramanjil Bus Stop
Somajiguda, Hyderabad – 500 082
- b) The Stock Exchange, Mumbai
1st Floor, New Trading Ring, Rotunda Bldg.,
P.J. Towers, Dalal Street, Fort
Mumbai – 400 001
- c) The National Stock Exchange Limited
Exchange Plaza, Bandra-Kurla Complex,
Bandra (East), Mumbai – 400 051

The Company has paid listing fees for 2003-04 to all the above Stock Exchanges.

7. Stock Code :

HSE : DLA

BSE : 532488

NSE : DIVISLAB

8. ISIN No. : INE 361B016

9. Market Price data

Period : 12 March 2003 to 31 March 2003

DATE	BSE		NSE	
	High	Low	High	Low
12.03.2003	180.50	154.00	183.90	155.00
31.03.2003	234.85	217.50	234.80	228.00

Comparison of BSE Sensex and NSE Nifty is not provided as the Equity Shares were listed only w.e.f. 12.03.2003.

10. Depository Registrar and Transfer Agent:

M/s. Karvy Consultants Limited
"Karvy House", Road No. 1,
Avenue 4, Banjara Hills,
Hyderabad – 500 034
Phone No. 040-23312454 / 23320751 / 752
Fax : 040-23311968
Email: karvyhyd@karvy.com

11. Unclaimed Dividend Amounts

In spite of reminders to members during the last year, the following dividend amounts continue to remain unclaimed as at 31st March, 2003:

Fin. Year	No. of warrants unclaimed	Amount of Dividend unclaimed Rs.
1995-96	51	62928
1996-97	98	148800
1998-99	133	177300
1999-2000	150	236000
2000-01	116	273350
2001-02	137	490500

Shareholders who did not encash their warrants or whose warrants were lost / misplaced, are advised to get in touch with the Company Secretary and obtain duplicate dividend warrants.

12. Pursuant to the provisions of Section 205 (A) of the Companies Act, 1956, dividend for the financial year ended 31st March 1996 and thereafter, which remain unclaimed for a period of 7 years will be transferred by the Company to the Investor Education and Protection Fund (IEPF) established by the Central Government pursuant to Section 205C of the Companies Act, 1956.

Information in respect of such unclaimed dividend when due for transfer to the said Fund is given below: -

Financial year ended	Date of declaration of dividend	Last date for claiming unpaid Dividend
31.03.1997	04.09.1997	03.09.2004
31.03.1999	16.07.1999	15.07.2006
31.03.2000	15.04.2000	14.04.2007
31.03.2001	04.06.2001	03.06.2008
31.03.2002	11.03.2002	10.03.2009

Shareholders who have not so far encashed the dividend warrant (s) are requested to seek issue of duplicate dividend warrant (s) by writing to the Company's Registrar and Transfer Agents, M/s. Karvy Consultants Limited immediately. **Shareholders are requested to note that no claims shall lie against the Company or the said Fund in respect of any amounts which were unclaimed and unpaid for a period of seven years from the dates that they first became due for payment and no payment shall be made in respect of any such claims.**

13. Share Transfer System

The Share Transfer Committee approves transfer of shares in physical mode. The Company provides facility of simultaneous transfer-cum-demat of shares.

The Company's Registrar transfers the shares within 30 days of receipt of request. Dematerialization is done within 20 days of receipt of request along with the shares through the Depository Participant of the shareholder.

...CORPORATE GOVERNANCE

The Share transfer committee / Grievance Committee generally meets once in a fortnight for approving share transfers and for attending to any grievances or complaints from members.

14. Distribution of shareholding as on 31.03.2003

Category	No. of Shareholders		No. of Shares	
	Total	% of shareholders	Total	% to Shares
1 – 5000	6234	84.79	1008647	7.87
5001-10000	647	8.80	589393	4.60
10000-20000	240	3.26	383768	2.99
20000-30000	78	1.06	201798	1.57
30001-40000	22	0.30	81950	0.64
40001-50000	29	0.39	140460	1.10
50001-100000	32	0.44	252554	1.97
100001 & above	70	0.96	10160130	79.26
Total	7352	100.00	12818700	100.00

15. Lock-in of pre-issue equity shares

As per the SEBI (Disclosure & Investor Protection) Guidelines 2000, the entire pre-issue equity of the Company (other than the equity shares offered for sale in the IPO by members) had to be locked-in for a period of one year from the date of allotment/transfer in the Initial Public Offer of equity shares of the Company. Hence, equity shares held by members which are part of pre-issue equity capital of the Company would not be transferred, pledged or hypothecated from 5th March, 2003 till 4th March, 2004.

Accordingly, lock-in stickers were sent to members holding equity shares in physical form and lock-in was also applied on the shares held by the members in demat form.

16. (i) Shareholding pattern as on March 31, 2003

Category	No. of shares	% to share capital
Indian Promoters	6902800	53.85
Foreign Investment Institutions	469252	3.66
Mutual Funds & UTI	1476590	11.52
Private Corporate Bodies	697247	5.44
NRIs / OCBs	222803	1.74
Indian Public	2560322	19.97
Others		
- Clearing Members	373736	2.92
- Directors	115950	0.92
Total	12818700	100.00

(ii) Holding profile as on March 31, 2003

Mode of Holding	No. of Holders	%	No. of shares	%
Demat	5614	76.36	3895278	30.39
Physical	1738	23.64	8923422	69.61
Total	7352	100.00	12818700	100.00

(iii) Dematerialization of shares and liquidity

The Company's shares have been mandated for compulsory trading in demat form. Valid demat requests received by the Company are confirmed within five working days of receipt of documents from the DP.

The Company's Depository Registrar promptly intimates the DP in the event of any deficiency and the shareholder is also kept abreast. The pending demat requests in the records of the Depositories, if any, are continually reviewed and appropriate action initiated.

The Company has confirmed 86 demat requests in respect of 2052411 equity shares during the year 2002-03.

The International Securities Identification Number (ISIN) allotted for the Company by NSDL and CDSL is **INE361 B 01016**. In case a member wants his shares to be dematerialized, he may send the shares along with the request through his depository participant (DP) to the Registrars, M/s. Karvy Consultants Limited.

As on March 31, 2003, 30.39% of the shares were in demat mode.

17. Plant Locations:

Unit I: Lingojugudem village, Choutuppal Mandal Nalgonda Dist. (A.P.) Pin 508 252

Unit II: Chippada village, Bheemunipatnam mandal, Visakhapatnam Dist. (A.P.) Pin 531 162

18. Address for correspondence:

The Company Secretary
Divi's Laboratories Limited
'Divi Towers', 7-1-77/E/1/303
Dharam Karan Road, Ameerpet
Hyderabad – 500 016, INDIA
Phone: 040-2373 1318, 760 / 761
Fax: 040-2373 3242
Email: divis@hd1.vsnl.net.in

...CORPORATE GOVERNANCE

CERTIFICATE

To
The Members of
DIVI'S LABORATORIES LIMITED

We have examined the compliance of the conditions of corporate governance by *DIVI'S LABORATORIES LIMITED*, for the year ended on 31st March, 2003, as stipulated in clause 49 of the Listing Agreements of the said Company with Stock Exchanges in India.

The compliance of the 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 the 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, the Company has complied with the conditions of Corporate Governance as stipulated in the above mentioned Listing Agreements.

We state that in respect of investor grievances received during the year ended 31st March, 2003, no investor grievances are pending against the Company as on 31.03.2003 as per the records maintained by the Company and Depository Registrar and Transfer Agents which are presented to the Shareholders / Investors Grievance Committee.

We further 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.

Hyderabad
21.06.03

For P.V.R.K. Nageswara Rao & Co.,
Chartered Accountants

P.V.R.K. Nageswara Rao
Partner

AUDITORS' REPORT

To
The Shareholders of
DIVI'S LABORATORIES LIMITED

We have audited the attached Balance Sheet of **DIVI'S LABORATORIES LIMITED** as at 31st March, 2003 and also the Profit and Loss Account for the year ended on that date annexed thereto and the Cash Flow Statement for the year ended on that date.

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.

1. As required by the Manufacturing And Other Companies (Auditors' Report) Order, 1988 issued by the Central Government of India in terms of Section 227(4-A) of the Companies Act, 1956, 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 purpose 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 these books.
- c. The Balance Sheet and Profit and Loss Account dealt with by this report are in agreement with the books of account.
- d. In our opinion, the Balance Sheet and the Profit and Loss Account dealt with by this report comply with the Accounting Standards referred in Section 211 (3C) of the Companies Act, 1956 to the extent applicable.
- e. On the basis of the written representations received from the directors, as on 31.03.2003, and taken on record by the Board of Directors, we report that none of the directors is disqualified as on 31 st March, 2003 from being appointed as director in terms of clause (g) of sub-section (1) of section 274 of the Companies Act, 1956.

In our opinion and to the best of our information and according to the explanations given to us, the said accounts read in conjunction with the notes and accounting policies thereon give the information as required by the Companies Act, 1956 in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

- i) in the case of Balance Sheet of the state of affairs of the Company as at 31st March, 2003;
- ii) in the case of Profit and Loss Account of the Profit for the year ended on that date; and
- iii) in the case of Cash Flow Statement, of the cash flows for the year ended on that date.

For P V R K NAGESWARA RAO & CO.,
Chartered Accountants

HYDERABAD P V R K NAGESWARA RAO
22.05.2003 Partner

ANNEXURE REFERRED TO IN PARAGRAPH 1 OF AUDITORS' REPORT OF EVEN DATE ON THE ACCOUNTS OF DIVI'S LABORATORIES LIMITED FOR THE YEAR ENDED 31ST MARCH 2003

- i) The Company has maintained proper records showing full particulars including quantitative details and situation of Fixed Assets. The Assets have been physically verified by the Management according to the phased programme designed to cover all assets on rotation basis. In respect of assets verified according to this programme which is considered reasonable, no material discrepancies were noticed on such verification. As regards capital works in-progress, the same will be verified by the management on completion of assets.

- ii) None of the fixed assets have been revalued during the year.
- iii) The stocks of finished goods, stores, spare parts and raw materials of the Company have been physically verified by the Management during the year at reasonable intervals except stocks lying with others which have been verified with reference to certificates and other relevant documents where available.
- iv) The procedures of physical verification of stocks followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.
- v) The discrepancies noticed on physical verification of

...AUDITORS' REPORT

- stocks as compared to book records, which in our opinion were not material, have been properly dealt with in the books of account.
- vi) In our opinion and as per the technical evaluations, which are as certified by the management and explanations given to us, the valuation of stocks is fair and proper in accordance with the normally accepted accounting principles and is on the same basis as in last year.
- vii) The Company has not taken any loans, secured or unsecured, from companies, firms or other parties listed in the register maintained under Section 301 and from the companies under the same management within the meaning of Section 370(1-B) of the Companies Act, 1956.
- viii) The Company has not granted any loans, secured or unsecured, to companies, firms or other parties listed in the register maintained under Section 301 and to the companies under the same management within the meaning of Section 370(1-B) of the Companies Act, 1956.
- ix) The Company has not given any loans and advances in the nature of loans to any body.
- x) In our opinion and according to the information and explanations given to us there are adequate internal control procedures commensurate with the size of the Company and the nature of its business with regard to purchase of stocks, raw materials, components, plant and machinery, equipment and other assets and for the sale of goods.
- xi) In our opinion and according to the information and explanations given to us, there were no transactions of purchase of goods and materials and sale of goods, materials and services, made in pursuance of contracts or arrangements entered in the register maintained under Section 301 of the Companies Act, 1956 and aggregating during the year to Rs.50,000/- or more in respect of each party.
- xii) It has been explained to us that unserviceable or damaged stocks have been determined and have been properly dealt with in the accounts of the Company.
- xiii) According to the information and explanations given to us, the Company has not accepted any deposits from the public covered by the provisions of Section 58-A of the Companies Act, 1956.
- xiv) As per the information and explanations given to us by the management, reasonable records have been maintained for sale and disposal of the realisable by-products and scrap where applicable and significant.
- xv) As per the information and explanations given to us by the management, the Company's internal control procedures together with the internal checks conducted by the management staff during the year can be considered as an internal audit system commensurate with the size and nature of its business.
- xvi) We have broadly reviewed without making a detailed examination of the records maintained by the Company pursuant to the order made by the Central Government for the maintenance of cost records under Section 209(1)(d) of the Companies Act, 1956 and are of the opinion that prima facie the prescribed records have been maintained, although the compilation of the information in the prescribed format for the year ended 31st March, 2003, is under progress.
- xvii) According to the records of the Company, the Company is generally regular in depositing the Provident Fund and Employees State Insurance dues with the appropriate authorities.
- xviii) According to the information and explanations given to us, there are no undisputed amounts payable in respect of income Tax, Wealth Tax, Sales Tax, Customs duty and Excise duty as on 31.03.2003 which are outstanding for a period of more than six months from the date they became payable.
- xix) According to the information and explanations given to us, no personal expenses of employees or directors have been charged to revenue account other than those payable under contractual obligations and in accordance with generally accepted business practice, nor have we been informed of such case by the management.
- xx) The Company is not a sick industrial Company within the meaning of clause (o) of sub-section (1) of Section 3 of the Sick Industrial Companies (Special Provisions) Act, 1985.

For P V R K NAGESWARA RAO & CO.,
Chartered Accountants

HYDERABAD P V R K NAGESWARA RAO
22.05.2003 Partner

BALANCE SHEET AS AT 31ST MARCH, 2003

	Schedule No.	As At 31st March, 2003		As At 31st March, 2002	
		Rs.	Rs.	Rs.	Rs.
SOURCES OF FUNDS :					
SHARE HOLDERS' FUNDS :					
Share Capital	1	128187000		115490270	
Reserves and Surplus	2	1551031327		951113099	
			1679218327		1066603369
LOAN FUNDS :					
Secured Loans	3	412831371		435743689	
Unsecured Loans	4	20955020		16009304	
			433786391		451752993
TOTAL			2113004718		1518356362
APPLICATION OF FUNDS :					
FIXED ASSETS :					
Gross Block	5	1900497517		1313158604	
Less: Depreciation		441242041		354495900	
Net Block		1459255476		958662704	
Capital Work - in - Progress		14271966		—	
Unallocated Expenditure Pending Capitalisation	6	—		1918685	
Advances for Capital Works		36944294		14753364	
			1510471736		975334753
INVESTMENTS	7		249752		248184
NET CURRENT ASSETS :					
CURRENT ASSETS, LOANS AND ADVANCES					
Inventories	8	671178836		444831417	
Sundry Debtors	9	566472353		520522915	
Cash and Bank Balances	10	44918761		48442641	
Other Current Assets	11	1250059		1250915	
Loans And Advances	12	130632642		60928219	
		1414452651		1075976107	
LESS: CURRENT LIABILITIES AND PROVISIONS					
	13	634052031		377052441	
			780400620		698923666
DEFERRED TAX ASSET / (LIABILITY)	14		(178117390)		(156150241)
MISCELLANEOUS EXPENDITURE	15		—		—
TOTAL			2113004718		1518356362
ACCOUNTING POLICIES	22				
NOTES TO ACCOUNTS	23				
Per Our Report of Even Date					
For P.V.R.K. NAGESWARA RAO & CO., Chartered Accountants		MURALI K.DIVI Chairman and Managing Director		N.V. RAMANA Executive Director	
P.V.R.K. NAGESWARA RAO Partner		L. KISHOREBABU General Manager (Finance)		P. SUDERSHAN Company Secretary	
Hyderabad 22.05.2003					

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31ST MARCH, 2003

	Schedule No.	For the Year ended 31st March, 2003		For the Year ended 31st March, 2002	
		Rs.	Rs.	Rs.	Rs.
I. INCOME :					
Sales			2465197463		2070500181
Other Income	16		<u>132009409</u>		<u>132002684</u>
			<u>2597206872</u>		<u>2202502865</u>
II. EXPENDITURE :					
Materials Consumed	17		1247674544		1126808439
Manufacturing Expenses	18		167966019		150901317
Salaries, Wages and other					
Allowances to Staff	19		81121453		68817753
Other Expenses	20		274011729		282925847
Finance Charges	21		44493892		70458969
Depreciation			<u>88673570</u>		<u>79531054</u>
			<u>1903941207</u>		<u>1779443379</u>
			<u>693265665</u>		<u>423059486</u>
III. PROFIT FOR THE YEAR :					
Less : Provision for Taxation					
- Current Tax		122000000		66530000	
- Deferred Tax		21967149		(9198753)	
- Income-tax adjustments of earlier years		<u>264785</u>		—	
			<u>144231934</u>		<u>57331247</u>
			549033731		365728239
Add : Profit brought forward from last year		459403369		372659263	
Less: Deferred Tax Liability upto 31.03.2001		—		165348994	
			<u>459403369</u>		<u>207310269</u>
			1008437100		573038508
Less : Transfer to :					
Proposed/Interim Dividend		76912200		57745135	
Corporate Dividend Tax		9854376		5890004	
General Reserve		<u>60000000</u>		50000000	
			<u>146766576</u>		<u>113635139</u>
Balance Carried to Balance Sheet			<u>861670524</u>		<u>459403369</u>
IV. EARNINGS PER SHARE : BASIC /DILUTED					
			47.16		31.67
ACCOUNTING POLICIES	22				
NOTES TO ACCOUNTS	23				
Per Our Report of Even Date					
For P.V.R.K. NAGESWARA RAO & CO., <i>Chartered Accountants</i>		MURALI K.DIVI <i>Chairman and Managing Director</i>		N.V. RAMANA <i>Executive Director</i>	
P.V.R.K. NAGESWARA RAO <i>Partner</i>		L. KISHOREBABU <i>General Manager (Finance)</i>		P. SUDERSHAN <i>Company Secretary</i>	
Hyderabad 22.05.2003					

CASH FLOW STATEMENT FOR THE YEAR ENDED 31ST MARCH 2003

PARTICULARS	2002-03		2001-02	
	Rs.	Rs.	Rs.	Rs
I CASH FLOW FROM OPERATING ACTIVITIES:				
Net Profit Before Tax		693265665		423059486
Add/ (Less) : Adjustments for				
Depreciatiion	88673570		79531054	
Provision for Doubtful Debts	(1549112)		1681127	
Deferred R&D Expenditure written-off	—		66031721	
Tools written off	96840		71194	
Share issue expenses	—		3308455	
Interest paid	30319289		48127067	
Provision for decline in value of Investments	(1568)		81536	
Loss on sale of Assets	6694		5272176	
Dividends received	(11760)		(35280)	
Provision for Employees retirement benefits	2178160		2789700	
Wealth Tax	52240		15087	
Interest received	(2989125)		(2484761)	
Bad debts written off	418380		—	
Profit on sale of Current investments	(204081)		—	
		<u>116989527</u>		<u>204389076</u>
Operating Profit before working capital changes		810255192		627448562
Add / (Less) : Adjustments for Working Capital Changes :				
Trade and Other Receivables	(112193772)		(236650094)	
Inventories	(226444259)		59907620	
Trade Payables	143747501		(118785670)	
		<u>(194890530)</u>		<u>(295528144)</u>
Cash generated from operations		615364662		331920418
Less : Direct taxes paid		123865538		49651758
Net Cash flow from operating activities	(I)	<u>491499124</u>	(I)	<u>282268660</u>
II CASH FLOW / (USED) FROM INVESTING ACTIVITIES:				
Purchase of Fixed assets		(593877488)		(95730868)
Sale of Fixed assets		760000		145645
Dividend Received on Investments		11760		35280
Purchase of Current Investments		(131900000)		—
Sale of Current Investments		132104081		—
Net Cash used in Investing activities	(II)	<u>(592901647)</u>	(II)	<u>(95549943)</u>

...CASH FLOW STATEMENT

PARTICULARS	2002-03		2001-02	
	Rs.	Rs.	Rs.	Rs.
III CASH FLOW / (USED) FROM FINANCING ACTIVITIES:				
Proceeds from / (Repayments of) Unsecured Loans		4945716		(24289848)
Interest received		2989981		2598291
Proceeds from/ (Repayment of) Long Term Loans		(140005333)		(66342639)
Proceeds from/ (Repayment of) Short Term Loans		117093015		57846348
Interest Paid		(29853592)		(49422536)
Receipts from Initial Public issue		177754220		—
Corporate Dividend Tax paid (CDT)		—		(10013007)
Dividend Paid		—		(98166730)
Share Issue expenses incurred		(27406417)		—
Net Cash flow from Financing Activities	(III)	<u>105517590</u>	(III)	<u>(187790121)</u>
IV Net Increase / (Decrease) in cash and cash equivalents	(I+II+III)	4115067	(I+II+III)	(1071404)
V Cash and Cash Equivalents as at the beginning of the year		9335079		10406483
VI Cash and Cash Equivalents as at the end of the year		13450146		9335079
Note: CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR				
Cash and Bank Balances as per the Balance Sheet		44918761		48442641
Less : Deposits lodged towards Security Deposits, Margin Money against Bank Gurantees and other designated accounts dealt seperately.		<u>31468615</u>		<u>39107562</u>
		13450146		9335079
Note:				
1 The above cash flow statement has been prepared pursuant to Clause 32 of Listing Agreements with Stock Exchanges and under the indirect method set out in AS -3 issued by the Institute of Chartered Accountants of India.				
2 Significant Accounting Policies (Schedule 22) and other Notes to Accounts (Schedule 23) form an Integral part of the Cash flow Statement.				
3 Previous year figures have been regrouped / reclassified to confirm to current year classification.				
Per Our Report of Even Date				
For P.V.R.K. NAGESWARA RAO & CO., <i>Chartered Accountants</i>	MURALI K.DIVI <i>Chairman and Managing Director</i>		N.V. RAMANA <i>Executive Director</i>	
P.V.R.K. NAGESWARA RAO <i>Partner</i>	L. KISHOREBABU <i>General Manager (Finance)</i>		P. SUDERSHAN <i>Company Secretary</i>	
Hyderabad 22.05.2003				

SCHEDULES

	As At 31st March, 2003		As At 31st March, 2002	
	Rs.	Rs.	Rs.	Rs.
1 SHARE CAPITAL :				
<u>AUTHORISED :</u>				
1,50,00,000 Equity Shares of Rs. 10/- each		150000000		150000000
5,00,000 Redeemable Preference Shares of Rs.100/- each		50000000		50000000
		200000000		200000000
<u>ISSUED :</u>				
1,30,00,000 (Previous Year 1,25,00,000) Equity Shares of Rs.10/- each		130000000		125000000
<u>SUBSCRIBED AND PAID-UP:</u>				
1,28,18,700 (Previous Year 1,15,49,027) Equity shares of Rs.10/- each fully paid-up (Of the above 1,50,000 Equity Shares of Rs.10/- each have been allotted as Bonus Shares on Capitalisation of General Reserve)		128187000		115490270
2 RESERVES AND SURPLUS:				
<u>CAPITAL RESERVES :</u>				
Debenture Forfeiture Account		9000000		9000000
State Investment Subsidy		2000000		2000000
<u>Share Premium:</u>				
As per last account		277209730		277209730
Add: Additions				
Premium on equity shares allotted in IPO		165057490		—
Less: Deductions:		442267220		277209730
Share Issue Expenses for the IPO (Net) (Refer Note No. 7 of Schedule 23 Notes to Accounts)		27406417		—
		414860803		277209730
Debenture Premium Account		3000000		3000000
<u>GENERAL RESERVE:</u>				
As per Last Account		200500000		150500000
Add: Transferred from Profit and Loss Account		60000000		50000000
		260500000		200500000
PROFIT AND LOSS ACCOUNT(SURPLUS)		861670524		459403369
		1551031327		951113099

...SCHEDULES

	As At 31st March, 2003 Rs.	As At 31st March, 2002 Rs
3 SECURED LOANS:		
<u>TERM LOANS :</u>		
From Industrial Development Bank of India	25600000	80600000
From State Bank of India		
- Foreign Currency Loan	57276000	87948000
From IDBI Bank Ltd	—	13333333
From UTI Bank Ltd	—	41000000
(Secured by equitable mortgage of the specified immovable properties of the Company and further secured by first charge of all the movables (Save and except book-debts) including movable machinery, machinery spares, tools and accessories, present and future,subject to prior charge created and/or to be created in favour of the bankers on the stocks for working capital requirements and guaranteed by the Chairman and Managing Director of the Company)		
<u>WORKING CAPITAL LOANS:</u>		
From Banks	327643850	212138129
(Secured by Hypothecation of stocks,book-debts and further secured by second charge on specified fixed assets of the Company and guaranteed by the Chairman and Managing Director of the Company)		
<u>OTHER LOANS :</u>		
From Banks	2158322	—
From Others:		
(Secured by hypothecation of Vehicles acquired against the Loan - Net of Future Interest)	153199	724227
	<u>412831371</u>	<u>435743689</u>
4 UNSECURED LOANS:		
Interest Free Sales Tax Loan	<u>20955020</u>	<u>16009304</u>
	<u>20955020</u>	<u>16009304</u>
5 FIXED ASSETS:	ENCLOSED	
6 UNALLOCATED EXPENDITURE PENDING CAPITALISATION:	ENCLOSED	

...SCHEDULES

5 FIXED ASSETS

Sl No	Description	GROSS BLOCK			DEPRECIATION			NET BLOCK			
		Cost as at 01.04.2002	Additions	Deductions	Total Upto 31.03.2003	Upto 31.03.2002	For the Year	On Deductions	Total Upto 31.03.2003	As at 31.03.2003	As at 31.03.2002
		Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
1	LAND AND DEVELOPMENT	35818348	24760967	—	60579315	—	—	—	60579315	35818348	
2	BUILDINGS	279352045	200269924	—	479621969	38274434	8650593	—	432696942	241077611	
3	PLANT AND MACHINERY	910850948	324546610	—	1235397558	290745130	74188482	—	870463946	620105818	
4	LABORATORY EQUIPMENT	57132792	26495719	—	83628511	10516649	2821221	—	70290641	46616143	
5	FURNITURE AND FIXTURES	8511251	429927	—	8941178	4489766	561923	—	3889489	4021485	
6	DATA PROCESSING EQUIPMENTS	7719207	3230678	—	10949885	4004065	1028494	—	5917326	3715142	
7	VEHICLES	13774013	10299211	2694123	21379101	6465856	1422857	1927429	15417817	7308157	
TOTAL		1313158604	590033036	2694123	1900497517	354495900	88673570	1927429	1459255476	958662704	
PREVIOUS YEAR		1235481670	88954625	11277691	1313158604	280795206	79531054	5830360	354495900	954686464	

...SCHEDULES

	Upto	During the		Upto	
	31st March, 2002	Period		28th Febraury, 2003	
	Rs.	Rs.	Rs.	Rs.	Rs
6 UNALLOCATED EXPENDITURE					
<u>INCURRED PENDING CAPITALISATION:</u>					
Salaries, Wages and Other Allowances			10023196		10023196
Contribution to PF and ESI			439888		439888
Staff welfare expenses			1327546		1327546
Printing and Stationery			458602		458602
Travelling and Conveyance	41143		555582		596725
Communication expenses			212349		212349
Fee, Rates and Taxes	305000		208592		513592
Insurance			87826		87826
Legal and Professional charges	1219435		1091245		2310680
Repairs and Maintenance:					
- Buildings			12634		12634
- Machinery			1791528		1791528
- Other Assets			39124		39124
Vehicle Maintenance			301370		301370
General Expenses			2257296		2257296
Factory Upkeep			1280415		1280415
Environment Management Expenses			700960		700960
Carriage and Freight			3132474		3132474
Advertisement			3516		3516
Raw Materials Consumed			91733039		91733039
Stores consumed			3407795		3407795
Power and Fuel	353107		8342220		8695327
Finance charges			6651681		6651681
Depreciation			2823196		2823196
	<u>1918685</u>		<u>136882074</u>		<u>138800759</u>
Less:					
Sales		13872201		13872201	
Inter-Unit Transfers		60805500		60805500	
Stock out of Trial Runs		33557570		33557570	
Interest Earned					
(Net of Income-tax of Rs.9353/-)		16097		16097	
Miscellaneous Income		58425	108309793	58425	108309793
Total	<u>1918685</u>		<u>28572281</u>		<u>30490966</u>
Less: Expenditure capitalised by allocating to relevant Assets in the ratio of their direct costs					30490966
(Refer Note No: 6 of Schedule 23 Notes to Accounts)					<u><u>—</u></u>

...SCHEDULES

	As At 31st March, 2003		As At 31st March, 2002	
	Rs.	Rs.	Rs.	Rs.
7 INVESTMENTS:- AT COST				
A. <u>LONG - TERM</u> <u>NON-TRADE — QUOTED:</u>	MARKET VALUE		MARKET VALUE	
7840 Equity Shares of Rs.10/- each Fully paid up of Industrial Development Bank of India Less : Provision for Decline in Value of Investments	129752	637000	128184	637000
		507248		508816
(A)	129752	129752	128184	128184
B. <u>LONG - TERM</u> <u>NON-TRADE — UNQUOTED:</u>				
12000 Equity Shares of Rs.10/- each fully paid-up of Patancheru Enviro-Tech Ltd.,		120000		120000
(B)		120000		120000
C. <u>CURRENT INVESTMENTS</u> <u>NON-TRADE - UNQUOTED:</u>				
1 HSBC Mutual Fund Nil Units of HSBC Cash Fund - Dividend (1967555 Units purchased and sold during the year)		—		—
2 Templeton Mutual Fund Nil Units of Templeton India Treasury Management Fund (9993 Units purchased and sold during the year)		—		—
3 Kotak Mahindra Mutual Fund Nil Units of Kotak Mahindra Liquid Scheme - Growth (829586 Units purchased and sold during the year)		—		—
4 Prudential ICICI Mutual Fund Nil Units of Prudential ICICI - Liquid Plan - Dividend (1011647 Units purchased and sold during the year)		—		—
5 IL&FS Mutual Fund Nil Units of IL&FS Liquid Account - Growth (5528742 Units purchased and sold during the year)		—		—
Total: (A+B+C)		249752		248184
Aggregate Value of Quoted Investments		129752		128184
Aggregate Market Value of Quoted Investments		129752		128184
Aggregate Value of Unquoted Investments		120000		120000

...SCHEDULES

	As At 31st March, 2003		As At 31st March, 2002	
	Rs.	Rs.	Rs.	Rs.
8 INVENTORIES:				
Stock of Raw Materials		248958459		140999915
Stock of Stores and Spares		14838414		8628877
Stock of Work-in-Process		228983041		169433694
Stock of Finished Goods		155748089		110122453
Material in Transit		22297786		15480360
Tools and Spares		353047		166118
		<u>671178836</u>		<u>444831417</u>
9 SUNDRY DEBTORS:				
(Unsecured)				
Outstanding for a Period exceeding six months :				
Considered good		2544788		3058789
Considered doubtful		2015708		3564820
		4560496		6623609
Less: Provision for Doubtful Debts		2015708		3564820
		<u>2544788</u>		<u>3058789</u>
Others:				
Considered good		563927565		517464126
		<u>566472353</u>		<u>520522915</u>
10 CASH AND BANK BALANCES:				
Cash on Hand		4935880		2942620
Balance with Scheduled Banks :				
- In Current Accounts		9903144		13090927
- In Term Deposit Accounts		30079737		32409094
(Of the above, Rs.2000-(Previous year Rs.2000/-) has been pledged with Department of Commercial Taxes, Government of Andhra Pradesh and Rs.30077737 /- (Previous Year Rs.32407094/-) towards Margin on Letters of Credits and Guarantees issued by the Banks)				
		<u>44918761</u>		<u>48442641</u>
11 OTHER CURRENT ASSETS:				
Interest accrued on deposits.		1250059		1250915
		<u>1250059</u>		<u>1250915</u>
12 LOANS AND ADVANCES				
(Unsecured, considered good, recoverable in cash or in kind or for Value to be received)				
Deposits Recoverable		15010798		8342258
Advances to Suppliers		16306420		8982843
Advance for Expenses		827799		716829
Central Excise Duty		79167055		35364814
Prepaid Expenses		6458250		3188270
Other Advances and Recoverables		12862320		4333205
		<u>130632642</u>		<u>60928219</u>

...SCHEDULES

	As At 31st March, 2003		As At 31st March, 2002	
	Rs.	Rs.	Rs.	Rs.
13 CURRENT LIABILITIES AND PROVISIONS				
A. <u>Current Liabilities</u>				
Acceptances		79896389		—
<u>Creditors for Capital Works:</u>				
Small Scale Industrial Undertakings (Refer Note No.9 of Schedule 23- Notes to accounts)	1378213		190299	
Others	38395101		8883255	
		39773314		9073554
<u>Sundry Creditors :</u>				
Small Scale Industrial Undertakings (Refer Note No.9 of Schedule 23- Notes to accounts)	1738178		422329	
Others	398110850		333363081	
		399849028		333785410
Interest accrued but not due		508801		43104
<u>Investors Education and Protection Fund:</u>				
Unclaimed Dividend (Note: There is no amount due and outstanding to be credited to Investor Education and Protection Fund)		1388878		6698468
		521416410		349600536
B. <u>Provisions</u>				
Provision for Taxation (Net of Tax Paid)	25869045		27451905	
Proposed Dividend	76912200		—	
Corporate Dividend Tax	9854376		—	
		112635621		27451905
		634052031		377052441
14 DEFERRED TAX ASSET /(LIABILITY):				
Balance brought forward:		(156150241)		—
Additions during the year		—		(165348994)
		(156150241)		(165348994)
Add: Adjustments during the year (Refer Note No.18 of Schedule 23 Notes to Accounts)		(21967149)		9198753
		(178117390)		(156150241)
15 MISCELLANEOUS EXPENDITURE :				
(To the extent not written off or adjusted)				
<u>Deferred Research and Development Expenditure:</u>				
Balance brought forward	—		66031721	
Less : Amount written off during the year	—		66031721	
		—		—
<u>Share Issue Expenses:</u>				
Balance brought forward	—		1808455	
Add: Additions during the year	27406417		—	
	27406417		1808455	
Less : Amount written off during the year (Refer Note No.7 of Schedule 23 Notes to Accounts)	27406417		1808455	
		—		—

...SCHEDULES

	For the Year ended 31st March, 2003		For the Year ended 31st March, 2002	
	Rs.	Rs.	Rs.	Rs.
16 OTHER INCOME				
Dividend Received (Gross) (TDS Rs.1235/-)(Previous year -Nil)		11760		35280
Contract Research Fee		8193760		5551678
Interest Earned (Gross) (TDS Rs. 667477/-) (Previous year Rs.558350/-)		2989125		2484761
Export Benefits		109341048		121032217
Miscellaneous Income (includes profit on sale of investments of Rs.204081/-)		5322667		2898748
Provision for doubtful debts written back		1549112		—
Gain on Foreign Exchange Fluctuation		4600369		—
Provision for decline in value of Long Term Investments no longer required written back		1568		—
		<u>132009409</u>		<u>132002684</u>
17 MATERIALS CONSUMED				
A. RAW MATERIALS CONSUMED				
Opening Stock		140999915		156766505
Add: Purchases		1418737151		1064580636
		1559737066		1221347141
Less: Closing Stock	248958459		140999915	
Sales	272250		773990	
		<u>249230709</u>		141773905
(A)		<u>1310506357</u>		<u>1079573236</u>
B. STOCKS ACQUIRED OUT OF TRIAL RUNS:				
Stock of Work-in-Process		13907055		—
Stock of Finished Goods		19650515		—
(B)		<u>33557570</u>		—
C (INCREASE) /DECREASE IN STOCKS :				
Closing Stock of :				
Work-in-Progress		228983041		169433694
Finished Goods	155748089		110122453	
Less: Central Excise duty liability	32153759		23368159	
		<u>123594330</u>		86754294
		<u>352577371</u>		<u>256187988</u>
Opening Stock of:				
Work-in-Progress		169433694		195406296
Finished Goods	110122453		132959757	
Less: Central Excise duty liability	23368159		24942862	
		<u>86754294</u>		108016895
		<u>256187988</u>		<u>303423191</u>
(Increase) /Decrease in Stocks : (C)		<u>(96389383)</u>		47235203
MATERIALS CONSUMED: (A+B-C)		<u>1247674544</u>		<u>1126808439</u>
18 MANUFACTURING EXPENSES				
Stores Consumed		32180217		27018697
Conversion Charges		1888960		786490
Power and Fuel		133800002		123024936
Tools Written off		96840		71194
		<u>167966019</u>		<u>150901317</u>

...SCHEDULES

	For the Year ended 31st March, 2003		For the Year ended 31st March, 2002	
	Rs.	Rs.	Rs.	Rs.
19 SALARIES, WAGES AND OTHER ALLOWANCES TO STAFF				
Salaries, Wages, Bonus and Other Allowances		73423822		62838300
Contribution to PF and ESI		2297476		2199696
Workmen and Staff Welfare expenses		5400155		3779757
		<u>81121453</u>		<u>68817753</u>
20 OTHER EXPENSES				
Managerial Remuneration		31461091		23014153
Directors' Sitting Fees		66000		90000
Printing and Stationery		3888030		2673696
Rent		2023429		1465886
Communication Expenses		2752825		2317563
Fees,Rates and Taxes		6534618		5967509
Travelling and Conveyance		9198560		7814463
Insurance		8345877		6755873
Repairs and Maintenance:				
- Buildings	3819358		3327096	
- Machinery	39904415		35632605	
- Other Assets	470847		539764	
		<u>44194620</u>		<u>39499465</u>
Vehicle maintenance		2926243		2935994
Payment to Auditors		864350		687500
Professional and Consultancy Charges		3070207		1735938
Research and Development Expenses:				
- incurred during the year	59286945		46693485	
- deferred Expenditure written-off	—		66031721	
		<u>59286945</u>		<u>112725206</u>
Freight and Handling Charges		56546205		38961114
Advertisement		249896		76457
Discount		—		6500
Sales Commission		10695483		4507090
Donations		546600		40000
Electrical Service Line charges		1950000		—
Factory Upkeep		7505631		5841127
General Expenses		11760736		9737847
Environment Management Expenses		9719309		5087543
Loss on Sale of Assets		6694		5272176
Loss on Foreign Exchange fluctuations		—		625573
Provision for Doubtful Debts		—		1681127
Provision for decline in value of Investments		—		81536
Bad debts written-off		418380		16056
Extra-ordinary Items :				
Share Issue expenses written off		—		3308455
		<u>274011729</u>		<u>282925847</u>
21 FINANCE CHARGES				
Interest on Fixed Loans		15978268		29123870
Interest on Working Capital Loans		12708723		14540813
Interest to Others		1632298		4462384
Bank charges and commission		14174603		22331902
		<u>44493892</u>		<u>70458969</u>

ACCOUNTING POLICIES

22. ACCOUNTING POLICIES:

A. FIXED ASSETS AND DEPRECIATION

- i. Fixed assets are stated at cost of acquisition including freight, duties and installation expenses and expenditure during construction where applicable.
- ii. Depreciation on Fixed Assets is provided under Straight Line Method at the rates specified in Schedule XIV of the Companies Act, 1956.
- iii. Depreciation on Fixed Assets used for the project under construction is capitalized under Unallocated Expenditure.
- iv. Expenditure during the construction period of the project is capitalized by allocating to the Assets in the ratio of their direct costs.

B. RESEARCH AND DEVELOPMENT:

Revenue Expenditure incurred for Research and Development is written off in the same year. Capital expenditure on Research and Development is shown as additions to Fixed Assets.

C. INVESTMENTS:

Investments intended to be held for long term are treated as long-term investments and are valued at cost of acquisition. Provision for decline in value of Investments in the nature of permanent, if any, is made in the accounts.

D. INVENTORIES :

- i) Inventories are valued at lower of cost or net realisable value except in case of tools and spares. Cost is determined using average cost method. Tools and spares are valued on revaluation.
- ii) Stationery, Uniforms, Medical, Canteen and Books and Periodicals are charged off to the revenue at the time of purchase /payment.

E. EXCISE DUTY:

Excise Duty is not included in the sales but recorded separately and any excess payment thereof is treated as expense during the year. The value of closing stock of finished goods includes excise duty paid/payable on such stocks.

F. FOREIGN EXCHANGE TRANSACTIONS:

Transactions in Foreign Exchange, other than those covered by forward contracts are accounted for at the exchange rate prevailing on the date of transactions. Assets and liabilities other than those covered by forward contracts are revalued at the year-end rates. Realised Gains and Losses on foreign exchange transactions, other than those relating to fixed assets are recognised in the profit and loss account.

G. PROPOSED / INTERIM DIVIDEND:

Dividends, if any, as recommended by the directors are accounted in the books of account, pending approval at the Annual General Meeting.

H RETIREMENT BENEFITS:

i. GRATUITY:

Accruing liability towards Gratuity is provided on the basis of actuarial valuation made by an independent actuary.

...ACCOUNTING POLICIES

ii. PROVIDENT FUND:

The Company is contributing to the Employees Provident Fund maintained under the Employees Provident Fund scheme by the Central Government.

iii. LEAVE ENCASHMENT:

Actual liability towards earned leave encashment to employees at the year end is provided in the books of account.

I. TAXATION:

Tax expense is the aggregate of current year tax and deferred tax charged or credited to the Profit and Loss account for the year.

Current Year Tax:

The Provision for taxation is based on assessable profits of the Company as determined under the Income Tax Act, 1961. The Company also provides for such disallowances made on completion of assessment pending appeals, as considered appropriate depending on the merits of each case.

Deferred Tax:

Deferred Income Taxes are recognized for the future tax consequences attributable to timing differences between the financial statement determination of income and their recognition for tax purposes. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income using the tax rates and tax laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax assets are recognized and carried forward only to the extent that there is a reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised.

J. EXPORT BENEFITS:

Advance Licences and Special Import Entitlements received against exports made by the Company are accounted in the books on their utilisation/disposal. However, the value of unconditional customs duty credit granted against Exports under Duty Entitlement Pass Book Scheme is being provided in the Books of Account.

K. REVENUE RECOGNITION:

i. SALES:

Domestic and export sales are recognized on dispatch of goods from the Factory and Port respectively.

ii. Dividend on shares held by the Company is recognised when the right of the Company to receive the same is established and interest on deposits accounted on accrual basis.

L. SHARE ISSUE EXPENSES:

The Company has been following the policy of amortising the expenditure incurred in connection with Public Issue and listing of the Shares over a period of 5 years by charging the expenditure each year to Profit and Loss Account. During the year, the Company has changed its policy, as a prudent measure, whereby Share Issue Expenses are charged off against the Premium collected on Issue of shares as permissible under the provisions of the Companies Act, 1956.

M. ACCOUNTING CONVENTION:

The financial statements are prepared under historical cost convention and on accrual basis.

NOTES TO ACCOUNTS

23. NOTES TO ACCOUNTS

1. The figures are rounded off to the nearest rupee and previous year figures have been regrouped/re-arranged wherever necessary.

2. CONTINGENT LIABILITIES:

	<u>2002-03</u> Rs.	<u>2001-02</u> Rs.
i) On account of Letters of Credit and Bank Guarantees issued by the bankers.	276623192	250178223
ii) On account of Foreign bills discounted with banks	3332480	17858913
iii) On account of indemnity given to APIIC Ltd., and IFCI against the Loan sanctioned to Patancheru Enviro-Tech Limited to the proportionate amount of guarantee with reference to the shares held by the Company against loan and other outstandings payable by Patancheru Enviro-Tech Limited.	Not ascertainable	Not ascertainable
iv) On account of Bonds executed with Central Excise authorities for clearing goods meant for export without payment of duty	39342024	31098337
v) Central Excise Duty - Show cause notices contested by the Company.	4290452	4290452
vi) Claims against the Company not acknowledged as debts	856170	774570
vii) Income-Tax demand disputed by the Company	176630	1661958
viii) Customs duty demand disputed by the Company	—	121965
ix) Demands being contested by the Company	2247728	21933861

3. Estimated amount of contracts remaining to be executed on capital account and not provided for (Gross)

45854650 153644064

4. During the year the Company has made an Initial Public Offer of 3204684 Equity Shares of Rs.10/- each consisting of fresh issue of 1269673 equity shares by the Company and an Offer for Sale of 1935011 equity shares by some of the existing shareholders as 'Offerors' at a price of Rs.140 per share through 100% book building route as per the Prospectus dated 26-2-2003. The proceeds from the fresh issue of equity shares amounting to Rs.1777.54 lakhs have been utilized for meeting the share issue expenses and for replenishing the internal accruals utilized for the capital expenditure of the 2nd manufacturing unit set up at Chippada village, Bheemunipatnam Mandal, Visakhapatnam Dist in the state of Andhra Pradesh.

5. Land admeasuring 212.30 acres acquired under deeds of assignment and under possession of the Company at Chippada village, Bheemunipatnam Mandal, Visakhapatnam Dist. is yet to be registered in the name of the Company.

6. The Company has set up its 2nd manufacturing facility at Chippada village, Bheemunipatnam mandal, Visakhapatnam Dist. for manufacture of Active Pharma Ingredients and Intermediates. The Unit commenced commercial operations from 1st March, 2003. The total Unallocated Expenditure and Trial run expenses incurred on this Project aggregating to Rs.3,04,90,966 have been allocated to Buildings, Plant and Machinery and Electrical installations in the ratio of their direct costs.

7. Share Issue Expenses:

i. On account of the Initial Public Offer of equity shares of the Company at a price of Rs.140 per share of Rs.10/- each and for listing of its equity shares on the Stock Exchanges, the Company has incurred during the year an amount of Rs.27406417/- towards Share Issue Expenses (net of expenses recovered from Offerors as per agreed terms). The same has been set off against the balance in Share Premium account as permissible under the provisions of the Companies Act, 1956.

...NOTES TO ACCOUNTS

- ii. The Company had a pronounced policy of amortising the expenses incurred for issue of shares and listing on stock exchanges over a period of 5 years from the year in which the shares are issued or listed. However, the Company has written-off the expenditure incurred on this account during the year against the share premium account. Due to this change the profit for the year and the balance in profit and loss account as at the year end are higher by Rs.5481283/- and the balance in share premium account and deferred share issue expenses as at the year end are lower by Rs.21925134/-.
8. There are no specific claims on the Company from Small Scale Industrial suppliers under the "Interest on Delayed Payments to Small Scale & Ancillary Industrial Undertakings Act, 1993".
9. The names of Small Scale Industrial Undertakings to whom the Company owes a sum outstanding for more than 30 days are
- | | |
|--------------------------------------|-------------------------------|
| i) Calcutta Plastic Industries | vi) Sri Sairam Polymers |
| ii) Gorwara Chemical Industries | vii) Super Olefins Pvt. Ltd., |
| iii) GPC Flow Instruments Pvt. Ltd., | viii) Switch Gear Controls |
| iv) Polmon Process Controls | ix) Yen Plass Pvt. Ltd. |
| v) Shah enterprises | |

The above information and that given in Schedule 13 A- Current Liabilities regarding Small Scale Industrial Undertakings has been determined to the extent such parties have been identified on the basis of information available with the Company.

	<u>2002-03</u> Rs.	<u>2001-02</u> Rs.
10. Amounts paid / payable to Auditors:		
Audit fees	459000	367500
Tax Audit fees	157500	105000
For Company Law matters	193475	—
Certification charges	60375	105000
For Taxation matters	202250	92000
For Expenses (includes Rs.227600/- grouped in the share issue expenses)	19350	18000
Total	<u>1091950</u>	<u>687500</u>
11. Managerial Remuneration:		
Salaries and Allowances	7860000	7584597
Commission	21743984	13543074
Perquisites	1032707	1108932
Contribution to Provident Fund	824400	777550
Total	<u>31461091</u>	<u>23014153</u>
Note: Provision for Gratuity, Leave Encashment and benefits under Personal Accident Insurance Premium and Membership fees to clubs are not included in the above.		

...NOTES TO ACCOUNTS

12. Calculation of Commission:

Computation of Net Profit in accordance with Section 349 read with section 198 of the Companies Act, 1956 with relevant details of the calculation of commission payable by way of percentage of such Profits to Chairman and Managing Director for the year ending 31st March, 2003.

		2002-03 Amount Rs.
Profit as per Profit and Loss Account		693265665
Add:-Managerial Remuneration	31461091	
Directors sitting Fee	66000	
Loss on sale of Assets	6694	
	<u> </u>	<u>31533785</u>
PROFIT U/S 198 (1) of the Companies Act 1956		<u>724799450</u>
Commission @ 3 % of the above		<u>21743984</u>

13. Expenditure under the following heads of account include prior year expenses detailed below:

Particulars	2002-03 Rs.	2001-02 Rs.
Fees, Rates and Taxes	40200	823527
Carriage and Freight	14588	52633
Repairs and Maintenance	—	254495
Others	130587	19224
Total	<u>185375</u>	<u>1149879</u>

14. Segmental Reporting:

- (i) As the Company's business consists of one reportable business segment of manufacturing and sale of Bulk Drugs and Intermediates and consists of major revenue on account of exports out of India, no separate disclosures pertaining to attributable Revenues, Profits, Assets, Liabilities and Capital Employed are given.
- (ii) As part of Secondary reporting, revenues are attributed to geographical areas based on the location of the customers as detailed below:

Particulars	2002-03		2001-02	
	Revenue Rs.	%	Revenue Rs.	%
Exports	2238694567	90.81	1846160771	89.16
Domestic	226502896	9.19	224339410	10.84
Total	<u>2465197463</u>	<u>100.00</u>	<u>2070500181</u>	<u>100.00</u>

Note: The Company does not track its assets and liabilities by geographical area.

...NOTES TO ACCOUNTS

15. Transactions with Related Parties Pursuant To Accounting Standard - 18:

Name of the Party	Nature of Relationship	Nature of Transaction	2002-2003		2001-2002	
			Amount of Transaction	Amount Outstanding as at 31.3.03	Amount of Transaction	Amount Outstanding as at 31.3.02
			Rs.	Rs.	Rs.	Rs.
1 Murali K. Divi	Key Management Person	Remuneration	24386170	21865784	16176736	13543074
2 N.V. Ramana	Key Management Person	Remuneration	2146521	79922	2148630	—
3 Dr. P. Gundu Rao	Key Management Person	Remuneration	1741200	105700	1583040	—
4 D. Madhusudana Rao	Key Management Person	Remuneration	1843200	65200	1843200	—
5 Kiran S. Divi	Key Management Person	Remuneration Lease Rent	1344000 984540	44413 79910	863484 712818	51095
6 N. Laxmana Rao	Relative of a Key Management Person	Salary and Allowances	215280	16110	215280	—
7 D.Mallikarjuna Rao	Relative of a Key Management Person	Salary and Allowances	215280	19103	215280	—
8 Nilima Divi	Relative of a Key Management Person	Lease Rent	984540	79910	712818	51095
9 Swarnalatha Divi	Relative of a Key Management Person	Lease Rent	180000	13425	180000	12705
10 N.Chandrika Ramana	Relative of a Key Management Person	Lease Rent	96000	8000	96000	8000
11 D.Shanti Chandra	Relative of a Key Management Person	Lease Rent	96000	8000	96000	8000
12 Enmark Exim Private Limited	Company in which Key Management Person has substantial Interest	Sales Commission	422544	368305	374519	258450
13 Divis Pharmaceuticals Private Ltd	Company in which Key Management Person has substantial Interest	—	—	—	—	—
14 Divi's Bio-Tech Private Limited	Company in which Key Management Person has substantial Interest	—	—	—	—	—

...NOTES TO ACCOUNTS

16. Information on Leases as per Accounting Standard -19 on "Accounting for Leases":

- (i) The Company has operating lease for office premise, which is renewable on a periodical basis and cancelable at its option. Rental expenses for operating lease recognised in Profit and Loss account for the year is 1969080/- (Previous Year Rs.1425636/-).
- (ii) The Company has taken certain vehicles under finance lease under non-cancelable terms. The details of the leases are:

Particulars	2002-03 Rs.	<u>2001-02</u> Rs.
Nature of Asset	Vehicles	Vehicles
Present Value of the Lease as on 31.03.2003	2311521	682102
Total outstanding Minimum Lease payments	2316257	740823
- not later than one year	2316257	582888
- Later than one year and not later than five years	Nil	157935
- Later than five years	Nil	Nil

17. Earnings per Share (EPS): - The Numerators and denominators used to calculate Earnings Per Share:

Particulars	2002-03 Rs.	<u>2001-02</u> Rs.
Profit attributable to Equity Shareholders (A)	549033731	365728239
Basic/Weighted average number of Equity share		
Outstanding during the year (Nos.) (B)	11642948	11549027
Nominal Value of Equity Share (Rs.)	10/-	10/-
Earnings Per Share (A) / (B)	47.16	31.67

18. Deferred Tax Liability:

Movement of Provision for Deferred Tax for the year ended 31.03.2003 is as given below:

Particulars	(Liability) / Asset As at 01.04.2002 Rs.	(Charges) / Credit for the year Rs.	(Liability) / Asset As at 31.03.2003 Rs.
Timing Differences on account of:			
1. Depreciation on Assets	(160235674)	(33030935)	(193266609)
2. Expenses allowable on the basis of Payment	2588372	6173886	8762258
3. Others	1497061	4889900	6386961
TOTAL	(156150241)	(21967149)	(178117390)

...NOTES TO ACCOUNTS

19. Additional information as required under Part - II of schedule VI of the companies Act, 1956:

	2002-03		2001-02	
	Rs.		Rs	
i) Details of capacities and production:				
A. Registered capacity:				
Active Pharma				
Ingredients and Intermediates (Kgs)	N.A.		N.A.	
B. Installed capacity:				
Active Pharma				
Ingredients and Intermediates (Kgs)	1350000		900000	
(As certified by the Management, But not verified by the Auditors, being a technical matter)				
C. Actual production:				
Active Pharma Ingredients and Intermediates (Kgs)	1224380		817742	
ii) Opening and Closing Stock of Finished Goods:				
	Qty	Value	Qty	Value
	Kgs	Rs.	Kgs	Rs.
<u>Opening Stock:</u>				
Active Pharma Ingredients and Intermediates	43289	110122453	65187	132959757
<u>Stock out of Trial Runs:</u>				
Active Pharma				
Ingredients and Intermediates	78940	—	—	—
<u>Closing Stock:</u>				
Active Pharma				
Ingredients and Intermediates	137398	155748089	43289	110122453
iii) Details of Turnover:				
(Inclusive of samples)				
Active Pharma				
Ingredients and Intermediates	1070609	2465197463	839640	2070500181
Active Pharma				
Ingredients and Intermediates - Captive consumption	138602	—	—	—
	1209211	2465197463	839640	2070500181
iv) Details of Raw Materials Consumed:				
P-Anisaldehyde	758369	171043008	750715	194975089
Benzothiozole	598243	64377131	554757	51960915
Iodine	98452	60441803	23516	14797786
Methyl Chloro Acetate	825140	49424964	747920	39566443
Sodium Metoxide solution	78270	2460127	352790	9396096
Others		962759324		768876907
Total		1310506357		1079573236

...NOTES TO ACCOUNTS

	2002-03		2001-02	
	Value Rs.	%	Value Rs.	%
v) Value of Imported and Indigenous Raw Materials consumed and their percentage to total consumption:				
Imported	586098021	44.72	371434896	34.41
Indigenous	724408336	55.28	708138340	65.59
Total	<u>1310506357</u>	<u>100.00</u>	<u>1079573236</u>	<u>100.00</u>
vi) Expenditure in Foreign Currency Towards:		Amount		Amount
		Rs.		Rs.
Membership and Subscription		73669		87843
Books and Periodicals		362471		242500
Traveling Expenses		4060190		3104422
Lab Chemicals		363226		1435688
Consultancy charges		3068415		389278
Sales commission		8244472		2850068
Foreign Bank charges		1668338		1264456
Finance charges		3739314		6398941
Others		1277337		582263
vii) Earnings in Foreign Exchange:				
FOB Value of Exports		2200928875		1816349470
Contract Research Fee		8193760		5551678
viii) CIF Value of Imports:				
Raw Materials		595890617		340004013
Capital Equipment		20383282		5895220
Spares		1491085		1214912
ix) Remittances in Foreign Currency for Dividend:				
A. No. of Non-resident Shareholders		Nil		6
B. No. of Shares held(Equity shares of Rs. 10/- each)		Nil		42100
C. Dividend Remitted(Net of Tax Rs. Nil)		Nil		357850

20. The schedules referred to in the Balance sheet form an integral part of Accounts.

21. Additional information as required under Part – IV to Schedule VI of the Companies Act, 1956 is given in Annexure.

SIGNATURES TO SCHEDULES 1 TO 23

Signed on 22nd day of May, 2003 at Hyderabad.

Per our Report of even date

For P.V.R.K. NAGESWARA RAO & CO.,
Chartered Accountants

MURALI K.DIVI
Chairman and Managing Director

N.V. RAMANA
Executive Director

P.V.R.K. NAGESWARA RAO
Partner

L. KISHOREBABU
General Manager (Finance)

P. SUDERSHAN
Company Secretary

Additional information as required under Part-IV to Schedule VI of the Companies Act, 1956

i) Registration Details			
Registration No	:		01-11854
State Code	:		01
Balance Sheet Date	:		31.03.2003
			('Rs.'000)
ii) Capital raised during the year			
Public issue	:		12697
Rights issue	:		Nil
Bonus issue	:		Nil
Private Placement	:		Nil
iii) Position of Mobilisation and deployment of funds			
Total Liabilities	:		2113005
Total Assets	:		2113005
a) Sources of funds			
Paid-up capital	:		128187
Reserves and Surplus	:		1551031
Secured Loans	:		412832
Unsecured Loans	:		20955
b) Application of funds			
Net Fixed Assets	:		1510472
Investments	:		250
Net Current Assets	:		780401
Defered Tax Liability	:		(-)-178118
Misc Expenditure	:		Nil
Accumulated Losses	:		Nil
iv) Performance of Company			
Turnover	:		2597207
Total Expenditure	:		1903941
Profit/Loss before tax	:		693266
Profit/Loss after tax	:		549034
Earnings per share Rs.	:		47.16
Dividend (Rate %)	:		60.00
v) Generic names of three principal Products/services of Company (as per monetary terms)			
1. Item Code No.(ITC Code)	:		2909.00
Product Description	:		CIS(+)-Hydroxy Lactum
2. Item Code No.(ITC Code)	:		2902.00
Product Description	:		Dextromethorphan HBR
3. Item Code No.(ITC Code)	:		2942.00
Product Description	:		Iopamidol



Divi's Laboratories Limited

Regd. Office: Divi Towers, 7-1-77/E/1/303, Dharam Karan Road,
Ameerpet, Hyderabad – 500 016

NOTICE

Notice is hereby given that the Thirteenth Annual General Meeting of the Members of DIVI'S LABORATORIES LIMITED will be held on Monday, the 18th August, 2003 at 10.00 A.M. at KLN Prasad Auditorium, FAPCCI Premises, 11-6-841, Red Hills, Hyderabad – 500 004 to transact the following business:-

ORDINARY BUSINESS:

1. To consider and adopt the audited Balance Sheet as at 31st March 2003, the Profit and Loss account for the year ended on that date and the reports of Directors and the Auditors thereon.
2. To declare dividend on equity shares for the year ended 31st March 2003.
3. To appoint a Director in place of Dr. G. Suresh Kumar, who retires by rotation and being eligible, offers himself for reappointment.
4. To appoint a Director in place of Mr. Kiran S. Divi, who retires by rotation and being eligible, offers himself for reappointment.
5. To appoint M/s. P.V.R.K. Nageswara Rao & Co., Chartered Accountants as Auditors of the Company who shall hold office till the conclusion of the next Annual General Meeting and to fix their remuneration.

SPECIAL BUSINESS:

6. To consider and if thought fit, to pass with or without modification, the following resolution as an **Ordinary Resolution**:-

"RESOLVED THAT in accordance with the provisions of Sections 198, 309 and 310 read with Schedule XIII and all other applicable provisions of the Companies Act, 1956, or any amendment or modification thereof, consent be and is hereby accorded to the modification in the terms of the remuneration paid/payable to the Chairman and Managing Director, Mr. Murali K. Divi effective from 1st April 2003, as set out in the Explanatory Statement attached to the notice convening this meeting."

7. To consider and if thought fit, to pass with or without modification, the following resolution as an **Ordinary Resolution**:

"RESOLVED THAT in accordance with the provisions of Sections 198, 309 and 310, read with Schedule XIII and all other applicable provisions of the Companies Act 1956, or any amendment or modification thereof, consent be and is hereby accorded to the modification in the terms of the remuneration paid / payable to Mr. N. V. Ramana, Executive Director, effective from 1st April 2003, as set out in the Explanatory Statement attached to the notice convening this meeting."

8. To consider and if thought fit, to pass with or without modification, the following resolution as an **Ordinary Resolution**:

"RESOLVED THAT in accordance with the provisions of Sections 269 read with Schedule XIII and all other applicable provisions, of the Companies Act, 1956, Mr. Madhusudana Rao Divi be and is hereby re-appointed as Director (Projects) of the Company for a period of 3 years with effect from 22nd May 2003.

RESOLVED FURTHER THAT in accordance with the provisions of Sections 198, 309 and 310, read with Schedule XIII and all other applicable provisions of the Companies Act, 1956, or any amendment or modification thereof, consent be and is hereby accorded to the modification in the terms of the remuneration paid/payable to Mr. Madhusudana Rao Divi, Director (Projects), effective from 1st April 2003, as set out in the Explanatory Statement attached to the notice convening this meeting."

9. To consider and if thought fit, to pass with or without modification, the following resolution as an **Ordinary Resolution**:

"RESOLVED THAT in accordance with the provisions of Sections 198, 309 and 310 read with Schedule XIII and all other applicable provisions of the Companies Act 1956, or any amendment or modification thereof, consent be and is hereby accorded to the modification in the terms of the remuneration paid/payable to Mr. Kiran S. Divi, Director (Business Development), effective from 1st April 2003, as set out in the Explanatory Statement attached to the notice convening this meeting."

10. To consider and if thought fit, to pass with or without modification, the following resolution as a **Special Resolution**:

"RESOLVED THAT pursuant to Section 31 and all other applicable provisions, if any, of the Companies Act, 1956, the Articles of Association of the Company be and are hereby altered / amended by inserting / substituting the following clauses of the Articles of Association:

Substitution of Article 61 (b)

61(b). PURCHASE OF OWN SECURITIES

The Company shall have power, subject to the provisions of Sections 77A, 77AA and 77B and other applicable provisions of the Act, to purchase any of its own fully paid shares or other specified securities, whether or not they are redeemable and may make a payment out of its free reserves or securities premium account of

...NOTICE

the Company or proceeds of any shares or other specified securities or from such other sources as may be permitted by law on such terms, conditions and in such manner as may be prescribed by law from time to time in respect of such purchase provided that no buy back of any kind of shares or other specified securities shall be made out of the proceeds of an earlier issue of the same kind of shares or same kind of other specified securities.

In addition, the Board of Directors have power to pass a resolution to purchase the Company's own shares up to ten per cent of the total paid up equity capital and free reserves of the Company.

Insertion of Article 81 A**81 A. POSTAL BALLOT**

Notwithstanding anything contained in the Articles of Association of the Company, pursuant to Section 192A of the Companies Act, 1956, the Company do adopt the mode of passing a resolution by the members of the Company by means of a postal ballot and / or other ways as prescribed in the Companies (Passing of the Resolution by Postal Ballot) Rules, 2001 instead of transacting such business in a General Meeting of the Company;

Substitution of Article 154**154. DIVIDEND ENTITLEMENT**

Subject to the rights of persons, if any, entitled to shares with special rights as to dividend, all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is to be paid, but no amount paid up on a share in advance of calls shall be treated for the purposes of this Article as paid up on the share.

Substitution of Article 161**161. UNPAID / UNCLAIMED DIVIDEND**

1. Where final or interim dividend has been declared by the Company or the Board, as the case may be, has not been paid or the warrant in respect thereof has not been posted within 30 (thirty) days from the date of declaration to any shareholder entitled to the payment of the dividend, the Company shall, within 7 (seven) days from the date of expiry of the said period of thirty 30 (thirty)

days, transfer the total amount of dividend which remains unpaid or in relation to which no dividend warrant has been posted within the said period of 30 (thirty) days to a special account to be opened by the Company in that behalf in any scheduled bank to be called "Unpaid Dividend Account" of Divi's Laboratories Limited.

2. Any money transferred to the unpaid dividend account of the Company in pursuance of clause (1) which remains unpaid or unclaimed for a period of 7 (seven) years from the date of such transfer shall be transferred by the Company to the Investor Education and Protection Fund established under Section 205C of the Companies Act, 1956.
3. The Company shall, when making any transfer under clause (2) to the Investor Education and Protection Fund, furnish with the concerned authority under the Investor Education and Protection Fund Rules, 2001, a statement in the prescribed form setting forth in respect of all sums included in such transfer the nature of the sums, the names and last known addresses of the person, entitled to receive the sum, the amount to which such person is entitled to and the nature of his claim thereto and such other particulars as maybe prescribed.
4. The Company shall be entitled to a receipt from any Bank as notified by the Central Government for any unclaimed / unpaid dividend money transferred by it to the Investor Education and Protection Fund of the Central Government and such receipt shall be effectual discharge of the Company in respect thereof.
5. No unclaimed dividend shall be forfeited by the Board of Directors till the claim thereto becomes barred by the law and the Company shall comply with all the provisions of the Sections 205, 205A, 205B and 205C, in respect of unclaimed and unpaid dividend.

For and on behalf of the Board of Directors

Hyderabad
21.06.2003

Murali K. Divi
Chairman & Managing Director

...NOTICE

NOTES

1. A MEMBER ENTITLED TO ATTEND AND VOTE AT THE MEETING, IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF AND SUCH PROXY NEED NOT BE A MEMBER OF THE COMPANY. THE INSTRUMENT APPOINTING PROXY SHOULD, HOWEVER, BE DEPOSITED AT THE REGISTERED OFFICE OF THE COMPANY NOT LESS THAN FORTY-EIGHT HOURS BEFORE THE COMMENCEMENT OF THE MEETING.
2. An Explanatory Statement pursuant to Section 173 (2) of the Companies Act, 1956, relating to the Special Business to be transacted at the meeting is annexed hereto.
3. Members / proxies are requested to fill the attendance slips duly filled in for attending the meeting and bring their copies of the Annual Report to the meeting.
4. 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.
5. Members who hold shares in dematerialized form are requested to write their Client ID and DP ID numbers and those who hold shares in physical form are requested to write their Folio Number in the attendance slip for attending the meeting.
6. Closure of register of Members and Dividend payment:
 - a) The Company has already notified closure of Register of Members and Transfer Books thereof from Wednesday, 13th August 2003 to Saturday, 16th August 2003 (both days inclusive) for determining the names of the Members eligible for dividend, if approved, on equity shares. In respect of shares held in Electronic form, the dividend will be paid on the basis of particulars of beneficial ownership furnished by the Depositories for this purpose.
 - b) The dividend on equity shares, as recommended by the Board of Directors, if declared at the Annual General Meeting, will be paid on or after 18th August 2003.
 - c) Members may please note that the Dividend Warrants are payable at par at the designated branches of the Bank printed on reverse of the Dividend Warrant for an initial period of 3 months only. Thereafter, the Dividend Warrant on revalidation is payable only at limited centers / branches. The members are, therefore, advised to encash Dividend Warrants within the initial validity period.

7. Electronics Clearing Service (ECS) Facility

With respect to payment of dividend, the Company provides the facility of ECS to all shareholders, holding shares in electronic and physical forms, residing in the following cities:

Agra, Ahmedabad, Amritsar, Bangalore, Bhopal, Bhubaneshwar, Chandigarh, Chennai, Coimbatore, Cochin, Delhi, Eluru, Guntur, Guwahati, Hyderabad, Indore, Jaipur, Kanpur, Kolhapur, Kolkata, Lucknow, Ludhiana, Madurai, Mangalore, Mumbai, Nagpur, Panaji, Patna, Pune, Rajkot, Surat, Thiruvananthapuram, Tirupati, Vadodara, Vijaywada, and Visakhapatnam

Shareholders holding shares in the physical form who wish to avail ECS facility, may authorise the Company with their ECS mandate in the prescribed form, which can be downloaded from the Company's website www.divislaboratories.com under the section 'Financials' or can be obtained from the Registrar and Transfer Agents, M/s. Karvy Consultants Limited. Requests for payment of dividend through ECS for the year 2002-2003 should be lodged with M/s. Karvy Consultants Limited on or before 7th August 2003.

8. Bank particulars

- a) In order to provide protection against fraudulent encashment of the warrant, shareholders holding shares in physical form are requested to intimate the Company under the signature of sole / first joint holder, the following information to be incorporated on the Dividend Warrants:
 - (i) Name of the Sole / First joint holder and the Folio Number.
 - (ii) Particulars of Bank account, viz.,:
 - (a) Name of the Bank
 - (b) Name of the Branch
 - (c) Complete address of the Bank with Pin Code Number
 - (d) Account type, whether Savings (SB) or Current account (CA)
 - (e) Bank Account Number allotted by the Bank
- b) Shareholders holding shares in electronic form may kindly note that their Bank account details as furnished by their Depositories to the Company will be printed on their Dividend Warrants as per the applicable regulations of the Depositories and the Company will not entertain any direct request from

...NOTICE

such shareholders for deletion of / change in such Bank details. Further, instructions, if any, already given by them in respect of shares held in physical form will not be automatically applicable to shares held in the electronic mode. **Shareholders who wish to change such Bank account details are therefore requested to advise their Depository Participants about such change, with complete details of Bank Account.**

9. Non-Resident Indian Shareholders are requested to inform M/s. Karvy Consultants Limited immediately of:
 - a) the change in the Residential status on return to India for permanent settlement.
 - b) the particulars of the Bank Account maintained in India with complete name, branch, account type, account number and address of the Bank, if not furnished earlier.
10. Corporate Members intending to depute their authorized representatives are requested to send a duly certified copy of the Board resolution authorizing their representatives to attend and vote at the Annual General Meeting.
11. Consequent upon the introduction of Section 109A of the Companies Act, 1956, shareholders are entitled to make nomination in respect of shares held by them in physical form. Shareholders desirous of making nominations are requested to send their requests in Form 2B (which will be made available on request) to the Registrar and Share Transfer Agent M/s. Karvy Consultants Limited.
12. M/s. Karvy Consultants Limited, "Karvy House", Road No. 1, Avenue 4, Banjara Hills, Hyderabad – 500 034 acts as the Company's Registrar and Share Transfer Agent for physical transfer of shares and all correspondence may be addressed directly to them. In respect of shares held in Electronic form, shareholders may send requests or correspond through their respective Depository Participants.
13. Members desiring to seek any information on the annual accounts are requested to write to the company at an early date to enable compilation of information.
14. **Reappointment of Directors**
The information pertaining to the Directors proposed to be appointed is furnished below in terms of Clause 49 of the Listing Agreement with the Stock Exchanges:

i) Dr. G. Suresh Kumar

Dr. G. Suresh Kumar has been on the Board of Directors since March 2001 and is also the Chairman of Shareholders / Investors Committee of the Company.

Dr. Suresh Kumar is a Consulting Surgeon and holds an MBBS degree from Gandhi Medical College, Hyderabad and M.S. (General Surgery) from Gulbarga University, Karnataka. Dr. Suresh Kumar has worked as a Medical Officer with the Ministry of Health, Government of Algeria between 1978 and 1983. He is a practicing Consultant Surgeon at Hyderabad.

ii) Mr. Kiran S. Divi

Mr. Kiran S. Divi is a Bachelor of Pharmacy from College of Pharmacy, Manipal. He was involved in understanding the markets in USA in respect of active ingredients and intermediates for about two years before joining the Board. Mr. Kiran Divi is Director (Business Development) and supports the efforts of export marketing development by Mr. Murali K. Divi and Mr. N.V. Ramana.

iii) Mr. Madhusudana Rao Divi

Mr. Madhusudana Rao Divi is a post-graduate in Structural Engineering from Mysore University. He started his career as a Senior Engineer with M/s. Howe India and had executed several offshore construction contracts such as Vizag Outer Harbour Project. In 1975, he joined M/s. Towell Construction Company and has executed defence and civil construction contracts in Saudi Arabia, Iraq and Kuwait. Between 1990-1996, he was Executive Director of Sadah General Trading and Contracting Co., Kuwait and implemented several off-shore and on-shore construction projects. Mr. Rao Divi is the Director (Projects) and in charge of material procurement, project implementation, production planning and regulatory affairs.

EXPLANATORY STATEMENT UNDER SECTION 173 (2) OF THE COMPANIES ACT, 1956

Item No. 6

The Board of Directors of your Company ('the Board') at its meeting held on 21st June 2003, on the recommendation of the Remuneration Committee, revised the terms of remuneration paid or payable to the Chairman and Managing Director of the Company, Mr. Murali K. Divi in the following manner:

1. Salary:

Salary of Rs.3,00,000 per month in the scale of Rs.300000-300000-360000.

- 2. Perquisites:** In addition to the aforesaid salary, the Chairman and Managing Director shall be entitled to Perquisites as given below:

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Perquisites like furnished accommodation or house rent allowance in lieu thereof, together with reimbursement of expenses for gas, electricity, water, re-imbusement of medical expenses and leave travel concession for self and his family including dependents, club fees, premiums towards personal accident insurance and medi-claim and all other payments in the nature of perquisites and allowances as agreed by the Board of Directors, from time to time, subject, however, that the aggregate monetary value of the perquisites in any year shall not exceed 40% of his salary, for the purpose of which limit perquisites shall be evaluated as per Income Tax Rules, wherever applicable and in absence of any such Rule, perquisites shall be evaluated at actual cost.

However, the following shall not be included in the aforesaid perquisites limit.

- a) The Company's contribution towards pension scheme or superannuation fund together with provident fund not exceeding 25% of the salary wherein contribution towards provident fund shall not exceed 12% of the salary.
- b) Gratuity payable as per the Rules of the Company and encashment of leave at the end of the tenure will not be included in the computation of the ceiling on perquisites to the extent the same are not taxable under the Income-tax Act.
- c) Use of company car for official purposes and telephone at residence (including payment for local calls and long distance official calls).
- d) Encashment of unavailed leave as per the rules of the company at the time of retirement/cessation of service.

3. Commission

Mr. Murali K. Divi shall be entitled to commission @ 3% on the Net Profits of the Company computed in the manner laid down in Section 309 (5) of the Companies Act, 1956 in addition to salary and perquisites / benefits as mentioned above.

4. Aggregate remuneration

The aggregate of remuneration, commission and perquisites / benefits including contribution towards provident fund, superannuation fund, annuity fund, gratuity fund, payable to all whole time directors of the Company taken together shall not exceed 10% of profits of the Company calculated in accordance with the provisions of sections 198 and 309 of the Companies Act, 1956."

Mr. Murali K. Divi is interested in the resolution as the same relates to the variation in the remuneration. Mr. Madhusudana Rao Divi and Mr. Kiran S. Divi being relatives of Mr. Murali K. Divi are deemed to be interested in the resolution

The Board of Directors recommends the resolution for Members' approval.

Item Nos. 7 to 9

The Board of Directors of your Company ('the Board') in its meeting held on 22nd May 2003 re-appointed Mr. Madhusudhana Rao Divi as Director (Projects) for a period of 3 years w.e.f. 22.05.2003.

In addition, the Board at its meeting held on 21st June 2003, on the recommendation of the Remuneration Committee, revised the terms of remuneration paid or payable to Mr. N. V. Ramana, Executive Director, Mr. Madhusudana Rao Divi, Director (Projects) and Mr. Kiran. S. Divi, Director (Business Development) in the following manner.

1. Salary:

Name	Designation	Pay Scale
Mr. N.V.Ramana	Executive Director	Rs.250000-25000-300000
Mr. Madhusudana Rao Divi	Director (Projects)	Rs.200000-20000-240000
Mr. Kiran.S.Divi	Director (Business Development)	Rs.125000-12000-149000

2. Perquisites-

In addition to the aforesaid salary, the above Directors shall be entitled to Perquisites as given below:

- I. Perquisites like furnished accommodation or house rent allowance in lieu thereof, together with reimbursement of expenses for gas, electricity, water, re-imbusement of medical expenses and leave travel concession for self and his family including dependents, club fees, premiums towards personal accident insurance and medi-claim and all other payments in the nature of perquisites and allowances as agreed by the Board of Directors, from time to time, subject, however, that the aggregate monetary value of the perquisites in any year shall not exceed 40% of his salary, for the purpose of which limit perquisites shall be evaluated as per Income Tax Rules, wherever applicable and in absence of any such Rule, perquisites shall be evaluated at actual cost.

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However, the following shall not be included in the aforesaid perquisites limit.

- a. The Company's contribution towards pension scheme or superannuation fund together with provident fund not exceeding 25% of the salary wherein contribution towards provident fund shall not exceed 12% of the salary.
- b. Gratuity payable as per the Rules of the Company and encashment of leave at the end of the tenure will not be included in the computation of the ceiling on perquisites to the extent the same are not taxable under the Income-tax Act.
- c. Use of company car for official purposes and telephone at residence (including payment for local calls and long distance official calls)
- d. Encashment of unavailed leave as per the rules of the company at the time of retirement/cessation of service

3. Aggregate remuneration

The aggregate of remuneration and perquisites / benefits including contribution towards provident fund, superannuation fund, annuity fund, gratuity fund, payable to all whole time directors of the Company taken together shall not exceed 10% of profits of the Company calculated in accordance with the provisions of sections 198 and 309 of the Companies Act, 1956."

Mr. N.V.Ramana, Mr. Madhusudana Rao Divi and Mr. Kiran S. Divi are interested in their respective resolutions as the same relates to the variation in the remuneration of their appointments.

Mr. Murali K. Divi being related to Mr. Madhusudana Rao Divi and Mr. Kiran S. Divi is deemed to be interested in Item Nos.8 and 9.

The Board of Directors recommends the resolutions for Members' approval.

Item No. 10**Substitution of Article 61(b)**

An amendment was made to the Companies Act, 1956, permitting a company to purchase its own shares or other specified securities pursuant to Sections 77A, 77AA and 77B of the Companies Act, 1956. However, the Board of Directors have power to buy-back up to 10% of the total paid up equity capital and free reserves of the Company. Hence it is proposed to amend the Articles of Association as stated in the Resolution to facilitate the Company in buying back its own securities at any future date.

Insertion of Article 81A after Article 81

The Central Government has notified the Companies (Passing of the Resolution by Postal Ballot) Rules, 2001 under Section 192A of the Companies Act, 1956. According to the said Rules, the Company has to pass certain resolutions only by the postal ballot. Necessary provision has been made in the Articles of Association of the Company by inserting Article 81A after Article 81.

Alteration of Article 154

In view of the Depositories Act, 1996 and SEBI's directive to trade the share in dematerialized form, the payment of Dividend for the full year has to be made to all the shareholders as on a record date or book closure, as the case may be.

In line with the above, the Article is proposed to be amended.

Alteration of Article 161

In line with the Investor Education and Protection Fund Rules, 2001, the Article is proposed to be amended as stated in the resolution.

None of the Directors of the Company is in any way concerned or interested in this resolution.

The Board of Directors recommends the resolution for Members' approval.

For and on behalf of the Board of Directors

Hyderabad
21.06.2003

Murali K. Divi
Chairman & Managing Director



Divi's Laboratories Limited

Regd. Office: Divi Towers, 7-1-77/E/1/303, Dharam Karan Road,
Ameerpet, Hyderabad – 500 016

PROXY FORM

13th ANNUAL GENERAL MEETING

Regd. Folio No. _____

*Demat A/c No. _____

DP ID. No. _____

I / We _____

of _____ in the district of _____ being a member / members of the Company hereby appoint _____ of _____ or failing him / her of _____ in the district of _____ as my / our Proxy to vote for me / us on my / our behalf at the 13th Annual General Meeting of the Company to be held at KLN Prasad Auditorium, FAPCCI Premises, 11-6-841, Red Hills, Hyderabad – 500 004 on Monday, the 18th August, 2003 at 10.00 A.M. and at any adjournment (s) thereof.

Signed this _____ day of _____ 2003



Signature _____

Note: This form, in order to be valid and effective, should be duly stamped, completed and signed and must be deposited at the Registered Office of the Company, not less than 48 hours before the commencement of the meeting.

* Those who hold shares in demat form must quote their Demat A/c No. and Depository Participant (DP) ID. No.



Divi's Laboratories Limited

Regd. Office: Divi Towers, 7-1-77/E/1/303, Dharam Karan Road,
Ameerpet, Hyderabad – 500 016

ATTENDANCE SLIP

13th ANNUAL GENERAL MEETING

Regd. Folio No. _____

*Demat A/c No. _____

DP ID. No. _____

No. of shares held _____

I certify that I am a Member / Proxy for the Member of the Company.

I hereby record my presence at the 13th Annual General Meeting of the Company at KLN Prasad Auditorium, FAPCCI Premises, 11-6-841, Red Hills, Hyderabad – 500 004 on Monday, the 18th August, 2003 at 10.00 A.M.

Member's / Proxy's Name in
BLOCK Letters

Signature of Member / Proxy

Note: Please fill up this attendance slip and hand it over at the entrance of the meeting hall. Members are requested to bring their copy of the Annual report to the Meeting.

* Those who hold shares in demat form must quote their Demat A/c No. and Depository Participant (DP) ID No.