



Divi's Laboratories Limited

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Chairman's Speech

29th Annual General Meeting, 23rd August, 2019

Ladies and Gentlemen,

Good Morning to you all. It gives me great pleasure to welcome you to this 29th Annual General Meeting of DIVI'S LABORATORIES.

The Annual Report for the year ended 31st March, 2019 along with notice of the meeting, Board's Report and the audited financial statements of the Company have been circulated to you. With your permission, I take them as read.

GLOBAL ENVIRONMENT

Global spending on medicines reached \$ 1.2 trillion in 2018 growing by 4-5% annually; and by the year 2023, is expected to exceed \$ 1.5 trillion.

Global growth of medicine spending through 2023 will primarily be driven by developed markets and their adoption of a wave of newly launched innovative products. Growth will be driven by expanded access and use of medicines in pharmerging markets with demographic growth, affordability and government spending. Pharmerging market growth continues to derive primarily from increasing per capita use due to increasing urbanization and growing middle class, but some markets are seeing wider uptake of newer medicines as patients' ability to afford their share of costs improves with economic growth.

Recently, we are seeing bilateral trade issues between countries resulting in global and even domestic slowdown in some sectors. The Indian pharma industry is on a good growth path and is likely to be in the top 10 global markets in value terms by 2020. With strong domain skill sets, world-class manufacturing facilities and cost competitive structure, Indian pharma industry is well placed to cater to the global pharma requirements. However, the industry should ensure consistency of quality and cGMP protocols to comply with regulatory requirements of advanced countries like US and Europe.

OPERATIONS FOR THE YEAR

I would like to brief you on salient features of business during the year under review. During the year, our :

- Total Revenues, on a standalone basis, for the year increased by 28% to ₹ 5036 crores.
- Operating profit (PBDIT) for the year grew by 47% to ₹ 2006 crores as against an operating profit of ₹ 1363 crores last year.
- Profit before Tax (PBT) for the year amounted to ₹ 1833 crores as against a PBT of ₹ 1219 crores for the last year.
- Tax Provision for the current year amounted to ₹ 501 crores as against a tax provision of ₹ 350 crores for the last year.
- Profit after Tax (PAT) before Other Comprehensive Income for the year amounted to ₹1333 crores as against a PAT of ₹ 870 crores last year.
- Earnings Per Share of ₹ 2/- each works out to ₹ 50.20 for the year as against ₹ 32.76 last year.
- Out of the total revenue, 27% came from America, 46% from Europe, 12% from Asia, 12% from India and 3% from rest of the World.

Business for the year reflect normalized operations after successful closure of audits by US-FDA for Company's Unit-II at Visakhapatnam, Andhra Pradesh during the year 2017-18. I am also glad to report that our Unit-II has again been successfully inspected- by the US-FDA during June, 2019 without any observations.

Your company has put in place its Compliance Mechanism to adhere to the evolving regulatory requirements by engaging reputed consultants, augmented its infrastructure as also the QC/Regulatory Affairs teams who are periodically retrained so that they are updated with the latest regulations.

Your Directors are pleased to recommend a dividend of ₹ 16/- per equity share of ₹ 2/- each, i.e., 800% for the financial year ended 31st March 2019, subject to approval of members at this Annual General Meeting. The total dividend payout for the current year amounts to ₹ 512 crores (inclusive of tax of ₹ 87 crores) as against ₹320 crores in the previous year. Dividend payout (including dividend tax) as a percentage of profits is 38% as compared to 37% in the previous year.

OPERATIONS FOR QUARTER ENDING 30th JUNE, 2019

During the first quarter of the financial year 2019-20, we have achieved a total income of ₹ 1172 crores as against an income of ₹ 1044 crores for the corresponding quarter of last year. Profit after Tax for the current quarter amounted to ₹ 267 crores before Other Comprehensive Income, as against ₹ 266 crores for the corresponding previous quarter of last year. There was a forex loss for the current quarter of ₹ 6 crores as against a forex gain of ₹ 27 crores during the corresponding quarter of last year.

CURRENT ISSUES

In view of series of accidents in chemical plants in China and environment-related issues, there has been an impact of shortage of starting materials and raw materials for the pharmaceutical industry in India, Europe and rest of the world. Industry needs preparedness to meet the challenges of supply constraints of these starting materials as well as APIs.

- Several formulation companies are totally dependent on APIs and advanced intermediates from China. Due to non-availability of these materials, these formulation companies had disruption in operations and consequent erosion of profits.
- Several customers have been approaching us for support for supply of APIs.
- Divi is already backward integrated in many products like Naproxen, Dextromethorphan etc. Company has taken up backward integration programs for all its major products to reduce dependency on Chinese raw materials.
- While doing so, company has chalked out plans for building future chemistry blocks with efficient and modern technology with automation where required.
- These **future chemistry blocks** are being built at DCV-SEZ and DC-SEZ as best-in-class, and can face challenges of quality, environment, safety besides being cost competitive.
- While most of the companies in India and elsewhere are cash strapped and have significant debts, Divi is investing in its capex programs with its own cash surpluses.

- The large capex of **about ₹ 1700 crores** will enhance not only the production capabilities of existing products as well as new products, but also can take challenge of competitive chemistry for the next several years.
- These programs will significantly strengthen the capabilities of the company and create sustainable staying power in the international markets.
- We have strengthened our QA / QC teams and upgraded the infrastructure and processes to ensure continuing compliance to the regulatory requirements.
- We have also strengthened our EHS department and are also creating state of the art environment management system with enhanced waste treatment capabilities.
- Company is also de-risking from any shortage of water resources due to drought etc., by investing in large desalination units.

CAPEX PROGRAMS

During the financial year 2018-19, we have capitalized Plant, Property and Equipment (PPE) and Intangible Assets valuing ₹ 262 crores. In addition, an amount of ₹ 492 crores spent on capex programs as of 31st March, 2019 is in Capital Work in Progress. Capital expenditure incurred at the existing Units is to enhance capacities as well as upgrading utilities and infrastructure.

In order to cater to the increasing opportunities in generic and big pharma business, the Company is taking up two brownfield projects with an aggregate investment of ₹1200 crores :

- An SEZ Unit at our Unit-2 near Visakhapatnam, Andhra Pradesh, named as DCV SEZ, with an investment of ₹ 600 crores.
- Another SEZ Project at our Unit-1 near Hyderabad, Telangana, named as DC-SEZ with an investment of ₹ 600 crores

Work has already commenced and the Projects are expected to be completed during 2020 barring unforeseen circumstances. The Company has also taken up debottlenecking programs at Unit-I as well as Unit-II by investing an aggregate amount of ₹ 300 crores - which would also create additional capacities for existing products. In addition, we have also taken up augmentation of waste treatment infrastructure at Unit-II at an estimated cost of ₹ 190 crores.

ENVIRONMENT, HEALTH AND SAFETY

Safe operations and environment compliant processes are of utmost priority for the company. We conduct our business in a sustainable and responsible manner by optimising our processes, conserving resources and taking all necessary steps to protect the environment. Our EHS Management team, along with the Production and Process Managers, constantly review all manufacturing processes and align our standard operating procedures aimed at safe and efficient handling by employees.

CSR INITIATIVES

At Divi's, we diligently follow our social responsibility efforts to strive to create a positive impact in the lives of people through our initiatives aimed at improving their quality of life.

While the Governments are making serious efforts towards improving the living standards of our people particularly in the rural areas, there remains a large section of the society struggling with very basic needs such as education and health. To supplement these efforts, Divi's Laboratories has been focussing on social initiatives by reaching out to deprived sections of society around its manufacturing sites. We continue to take long-term view of our business with a strong commitment to work for sustainable living along with creating economic value towards sustainable living and empowerment. I would highlight some of our CSR programs during the year :

- Took up several initiatives for promoting education in rural schools by providing uniforms, books, scholarships, digital class rooms, school infrastructure, support for mid-day meal programs organized health check-up camps at schools.
- We also supported free treatment to children born with cleft lip and palate deformities through expert team of doctors from Canada.
- Rural Health care is one of the biggest challenges faced by Governments in India, and over 70 percent of population live in rural areas with inadequate health facilities. To supplement the efforts of the Government, we also do our part to contribute to good health and well-being of the people around our manufacturing sites. Our contribution includes giving the resources and medical help to cure and prevent various health problems. On an on-going basis, we organize free eye and dental camps, ORT training and pulse polio campaigns, preventive camps Japanese Encephalitis and provide nutritious food to TB patients and created awareness on cervical cancer through cancer walk.
- Supported several rural infrastructure and livelihood enhancement programs during the year.
- For the past few years, we have been constantly supporting differently abled children through various initiatives. In schools for visually challenged children, we renovated dining hall, donated dining tables and assisted students to get admission for higher education. Through this initiative so far, 45 Visually Challenged students have completed SSC and joined in intermediate courses at Netravidyalaya, Hyderabad.
- We also supported an organisation involved in care, wellbeing and treatment of gifted children with born disabilities like autism spectrum disorders.
- At our skill development centre, we undertake a wide range of training programmes to enhance skills and competency of underprivileged people and help them secure income-generating opportunities. We offer free training courses in occupations like sewing machine operator, general duty assistant and hospitality. So far 273 youth from our nearby community were trained and have got placements in various locations.
- Our other initiatives include providing safe drinking water and swachh bharaat cleanliness drives at several villages around our manufacturing sites.
- On the eve of Independence day this year, Divi's have taken up planting 2 lakh trees in the villages nearby our manufacturing facilities involving our employees as well as the community of the villages.

CONCLUSION

Ladies and Gentlemen, on behalf of the Board, I would like to thank all our stakeholders - customers, vendors, business associates, banks and the Government Departments and Agencies for their continued support; as also our employees for their sincere work and dedication. We thank our esteemed shareholders for the continued faith and trust reposed in the company.

Thank you ladies and gentlemen for your kind attention.

Thank You

With warm regards,

Dr. Murali K. Divi
Chairman & Managing Director