



# Divi's Laboratories Limited

CIN: L24110TG1990PLC011854  
Divi Towers, 1-72/23(P)/DIVIS/303,  
Cyber Hills, Gachibowli, Hyderabad - 500 032, INDIA  
Tel: +91-40-2378 6300, Fax: +91-40-2376 6460  
E-mail: mail@divislabs.com, Website: www.divislabs.com

## Chairman's Speech

28<sup>th</sup> Annual General Meeting, 10<sup>th</sup> September, 2018

### Ladies and Gentlemen,

Good Morning to you all. It gives me great pleasure to welcome you to this 28th Annual General Meeting of **DIVI'S LABORATORIES**.

Global pharmaceutical industry is forecast to be stable and growing. With affordability increasing for medicare, the pharma industry has a greater role to meet the increasing requirement of medicines for the health of people, especially the needs of seniors and super seniors to stay well and capable as long as possible.

While there is a debate on customer consolidation and pricing pressure in certain advanced markets for pharma dosages, we strongly believe that, with the focused product portfolio of active ingredients for pharma industry, long relationship with its customers and playing a complementary and non-conflicting role, your company would be a supplier of choice to our customers. With our capabilities in process chemistry and cost-effective manufacture, we endeavor that we continue to manage our business while we constantly monitor efficiency and competitive conditions.

We have had disruption on regulatory front during the year and this has impacted our operations.

You are aware that, after the last inspection by US-FDA in November, 2016, our company's Unit-II at Visakhapatnam was again inspected by the US-FDA during September 2017. This inspection was for full cGMP and verification of all Corrective Actions proposed against the previous Inspection observations. All previous observations were confirmed as completed and resolved. As reported in the Annual Report, we engaged external regulatory consultants and subject matter experts and implemented appropriate remediation measures to address the deficiencies observed by FDA and comply with the cGMP requirements. US-FDA has since issued Establishment Inspection Report (EIR) as a closure of the audit.

I am glad to report to you that we could successfully clear all the FDA issues during the year for Unit-II, after receipt of warning letter in April, 2017. This was possible with the untiring hard work of our employees in QC, Regulatory Affairs and Manufacturing, besides our Senior Management - with the expert advice of our Consultants and support of our customers. I appreciate the well co-ordinated efforts of employees of the company for this important task.

While the events on regulatory decisions have led to volatility in the stock price, we thank one and all who stood by us and believed in us - and I think we did our part, as fast as possible, to remediate the situation and put efforts to bring normalcy back to compliances and the business of the company.

Unit-II was also inspected by HPRA of Ireland and JAZMP of Slovenia during July-August, 2017; by PMDA, Japan during October 2017 and by TGA, Australia and Health Canada during November, 2017. These inspections concluded successfully with no critical observations.

Our Unit-I at Choutuppal, Telangana State has also been inspected by the US-FDA during May 2018. This was a general cGMP inspection and the inspection concluded without any 483 observations.

A predominant part of our business is to the advanced and regulated markets, and it is imperative that the company continually incorporates evolving changes in regulatory environment in its Compliance Mechanism for sustainable business of the company. In this regard, the company has taken up several initiatives to augment its QC and Regulatory Affairs teams, taken up upgradation of infrastructure and has also established a robust system that continually strives to keep itself abreast of the evolving regulatory requirements - incorporating the same in our processes and training our staff.

### OPERATIONS FOR THE YEAR

While the Annual Report gives a comprehensive update on your company's performance, I would like to mention the salient features of business during the year under review.

During the year, our :

- ◆ Total Revenues for the year decreased by 5% to Rs. 3950 crores.
- ◆ Profit after Tax (PAT) for the year was Rs. 870 crores.

As I already mentioned, Import Alert by US-FDA in March, 2017 and the subsequent events affected the operations of the company resulting in lower level of operations, margins and consequent higher expenses for remediation of deficiencies and resolving the issues relating to the FDA inspection. Tax provision has been higher during the year due to higher sales from the DTA Unit and lower tax exemption availed from SEZ Units.

Your Board still maintained and recommended a dividend of Rs. 10 per equity share of Rs. 2 each (i.e., 500%) as last year.

### OPERATIONS OF QUARTER ENDING 30<sup>TH</sup> JUNE, 2018

During the first quarter of the financial year 2018-19, we have achieved a total income of Rs. 1044 crores as against an income of Rs. 851 crores for the corresponding quarter of last year and Profit after Tax for the current quarter amounting to Rs. 266 crores before Other Comprehensive Income, as against Rs. 177 crores for the corresponding previous quarter of last year. Forex gain for the current quarter amounted to Rs. 27 crores.

The current quarter reflects normalized operations after successful closure of audits by US-FDA for company's manufacturing sites, Unit-1 and Unit-2.

## CAPEX PROGRAMS

Pharma industry is facing a few challenges on supply constraints - as several Chinese manufacturing companies are closing their plants presumably due to environmental issues. This is resulting in supply-chain issues for some chemicals besides increase in prices. Your company is looking at alternatives to ensure continuing supply. Besides, it is also taking up backward integration for critical starting materials. This could also throw up interesting opportunities for any resultant end products - which the company is evaluating. Our Process Development and Process Support Centres continue to engage in developing efficient, environment compliant and cost competitive processes for our products.

There are opportunities for new products, patents of which may be expiring shortly. In order to capture such opportunities, the company has been looking at creation of capacities. A brownfield investment of Rs.400 crores at our SEZ at Visakhapatnam is being implemented and would be helpful.

Of the two new Production Buildings planned at Unit-1, one building has been commissioned and the second building will be commissioned towards second-half of the financial year 2018-19.

Besides these, other greenfield expansions considered by the company, as part of its de-risking program as also capacity creation, at Kakinada will take time as certain issues are still to be resolved to start the Project.

During the year, we have capitalized Plant, Property and Equipment (PPE) and Intangible Assets valuing Rs. 586 crores. In addition, an amount of Rs.120 crores spent on capex programs as of 31st March, 2018 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 comply with cGMP requirements. We have created an additional production line at our nutra facility which will help us handle different application forms simultaneously and to cater to increasing demand for these products.

## ENVIRONMENT, HEALTH AND SAFETY

Divi's strives in protecting Environment and Health & Safety of employees and the surrounding communities by continuous emphasis on implementing green chemistry principles, reduction of waste generation, conservation of energy and resources, upgrading to newer technologies, risk mitigating measures and safe management of processes. We have initiated Industrial Hygiene monitoring (Physical, Chemical and Biological) to ensure the effectiveness of engineering controls, introduced several types of Personal Protective Equipment for handling hazardous chemicals; restructured and strengthened the Hazard Evaluation by introducing several new equipment and processes. Your company created an extensive green belt in and around our manufacturing premises, thereby minimizing the impact of Company's operations on the environment.

## CSR INITIATIVES

Social Responsibility forms part of corporate self-regulation and is integrated into our business model. We undertake various Corporate Social Responsibility initiatives with the objective of inclusive growth and encourage a positive development of community through our activities on the environment, employees and all stakeholders.

Divi's has comprehensive approach incorporating individual health care, public health, sanitation, clean drinking water and hygienic environment for the communities around :

- ◆ Organized various health camps including free eye and dental check-up, pulse polio campaigns, ORT training, supplied medicines and augmented facilities at health centers;
- ◆ Constructed individual and community toilets, provided bins, trolleys and tricycles for waste collection;
- ◆ Installed 60 RO plants for safe drinking water to villages around our manufacturing sites.

Divi's believes that education and rural infrastructure is central for nations' growth and towards this initiative :

- ◆ Provided uniforms, books, desk benches, computer class rooms, digital class rooms, teaching aids, additional teachers, salaries to vidya volunteers, infrastructure facilities, scholarships to meritorious & underprivileged students;
- ◆ Supported the Mid-day Meal scheme by donation to Akshaya Patra Foundation for construction of centralized kitchen at Visakhapatnam with a capacity of preparing 30,000 meals per day;
- ◆ Provided financial, physical and material support to differently abled children;
- ◆ Organized various health camps in schools and supplying Horlicks energy sachets, to supplement nutrition, to 5411 students every day.
- ◆ Our CSR initiatives also include developing infrastructure facilities of rural areas, improving the lives of rural people through livelihood enhancement projects, animal welfare and dairy development.

## Conclusion

Ladies and Gentlemen, on behalf of the Board, I thank our customers, suppliers, partners, associates and the Governments for their support; and our employees for their sincere work and dedication. We thank our esteemed shareholders for their continued faith and trust reposed in the company.

**With warm regards**

***Dr. Murali K. Divi***

**Chairman & Managing Director**