

DIVI'S LABORATORIES LIMITED
CHAIRMAN'S SPEECH
20th Annual General Meeting, 13th August, 2010

Ladies and Gentlemen,

Good Morning. I extend a hearty welcome to you all, to this 20th Annual General Meeting of the Company.

The Directors' Report and the Audited Accounts for the year 2009-10 have already been circulated, and with your permission I take them as read.

We meet today on the eve of a landmark in the history of your Company completed 20 years since incorporation in 1990. We draw considerable satisfaction that we have achieved quite a lot during these years and we look to the future with the same conviction as we carried these years.

I am glad to report that the performance of your company in the year 2009-10 has been satisfactory, despite the destocking of inventories by our customers.

Industry & Economic outlook

The last couple of years have seen unprecedented economic turmoil worldwide. In terms of the developed markets, the pharmaceutical industry is not recession-proof, but it is insulated to a greater extent than other industries where spending is more discretionary. There is a clear correlation between demand for medicines and key macroeconomic variables such as GDP, consumer spending and government expenditures and the worldwide financial crisis will likely contribute to record-low sales growth during the year 2010. The big pharmas have been working on strategies like M&A, OTC growth, consumer products and focusing on emerging markets and to this end, are increasing their dependence on cost efficient sources for active ingredients which are in tune with your company's business objectives. This augurs well for companies like us who benefit from more outsourcing opportunities from the big pharmas abroad.

Operations for the year 2009-10

The global economic slowdown has resulted in serious turmoil across the globe with varying severity in different countries or regions. We have, in our last report, reported that, as part of their efforts to conserve resources in the current economic situation, many of our customers have been undertaking lean inventory management and destocking inventories across all their supply chains covering their plants, warehouses, distributors, stockists as well as suppliers. This trend of inventory rationalization continued during the year as well.

This has resulted in lower sales for your company during the year although there is no decrease in the primary demand for the dosage forms of APIs being sold by us.

The company now visualizes inventory rationalization is more or less completed by its customers and expects normalization of business across its markets going forward with the results of the last quarter of the year under review already reflecting this trend.

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

- Achieved a total income of Rs. 960 crores during the year as against Rs. 1214 crores during the previous year.
- Profit before Tax of Rs. 388 crores as against Rs. 458 crores during the last year.
- Tax provision of Rs.44 crores for the year as against Rs.34 crores during the previous year.
- Profit after Tax (PAT) for the year of Rs. 344 crores as against Rs. 424 crores during the previous year.

During the year, your company spent an amount of Rs.54.24 crores on capital expenditure towards enhancing production capacities, a new incineration system, and other augmented utility requirements at our DTA, EOU and SEZ Units.

We are in the process of implementing up a new SEZ Unit at Visakhapatnam with an investment of Rs.200 crores for creating additional capacities for the new opportunities in generic as well as custom synthesis segment as we visualize existing capacities nearing full utilization towards the end of next financial year. This Project is expected to be completed by the end of financial year 2010-11.

Regulatory Filings

As at the end of the year, Divi has a total of 38 drug master files (DMFs) with US-FDA and Certificate of Suitability with European Directorate for 10 products. It also has dossiers for 20 products with other countries. Compliance to all the international regulatory requirements is given top priority and the management team is fully geared for this.

New Opportunities

We are visualising several new opportunities for further investments as the global economic situation improves. As you may be already aware, we are very firm in deploying our investments in the areas where we have expertise.

Some targets like anti-cancers, steroids, prostaglandins etc., are generally considered toxic but in small doses they are useful medicines because of their high potency. These are also of high value. Manufacture of such high potency APIs requires special

facilities and training of scientists to overcome hazards to the persons and environment. There are also few manufacturers in this niche area both in India and abroad, who have built capabilities for manufacture of High Potency APIs. It is reported that by 2012, the high-potency drug market alone will reach 80 billion dollars worldwide. Annual growth rate of 8.4% is predicted upto 2015 by Newport forecasts.

Divi's has already made a beginning by developing a process and dedicated facility for manufacturing a highly potent prostaglandin analogue used in glaucoma. We also have a process and facility ready for manufacture of a highly potent anti-cancer drug. The facilities include sophisticated and dedicated laboratory, pilot plant and manufacturing areas and specially trained chemists and engineers.

Bonus Issue

During the year, your company has allotted bonus shares in the proportion of ONE equity share for every ONE equity share held, with the approval of the members by capitalizing a part of the reserves.

The company's reserves as on 31st March, 2010 amounted to Rs.1516 crores. We also have an accumulated cash surplus of Rs.441 crores generated from our accruals over the last 2 years despite modest investments in capacities.

Operations of Quarter ending 30th June, 2010

In line with our visualization of normalization of business, we have achieved a total income of Rs.265 crores and a net profit of Rs.86 crores for the Q1 of the year 2010-11. Going forward, the business is expected to accelerate further.

Conclusion

Ladies and Gentlemen, I take this opportunity to express my sincere thanks to all the shareholders for their continued trust and confidence in the Management of the company. I acknowledge the critical role played by the employees in contributing towards the growth of the Company's business. Your directors also acknowledge the continued support extended by our customers, suppliers, banks and various Government Bodies and Statutory Authorities.

With warm regards,

Dr. Murali K. Divi

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