



UNIT - 2, Chippada, VIZAG.

DIPT'S LABORATORIES LIMITED
12th ANNUAL REPORT
2001-2002

Bay of Bengal

ETP

Jetty



**Quality Excellence
Award 2001**

from
Indian Drug Manufacturers'
Association

Admn. Block

UNIT - 2.

Evaporation
Pond

Warehouse

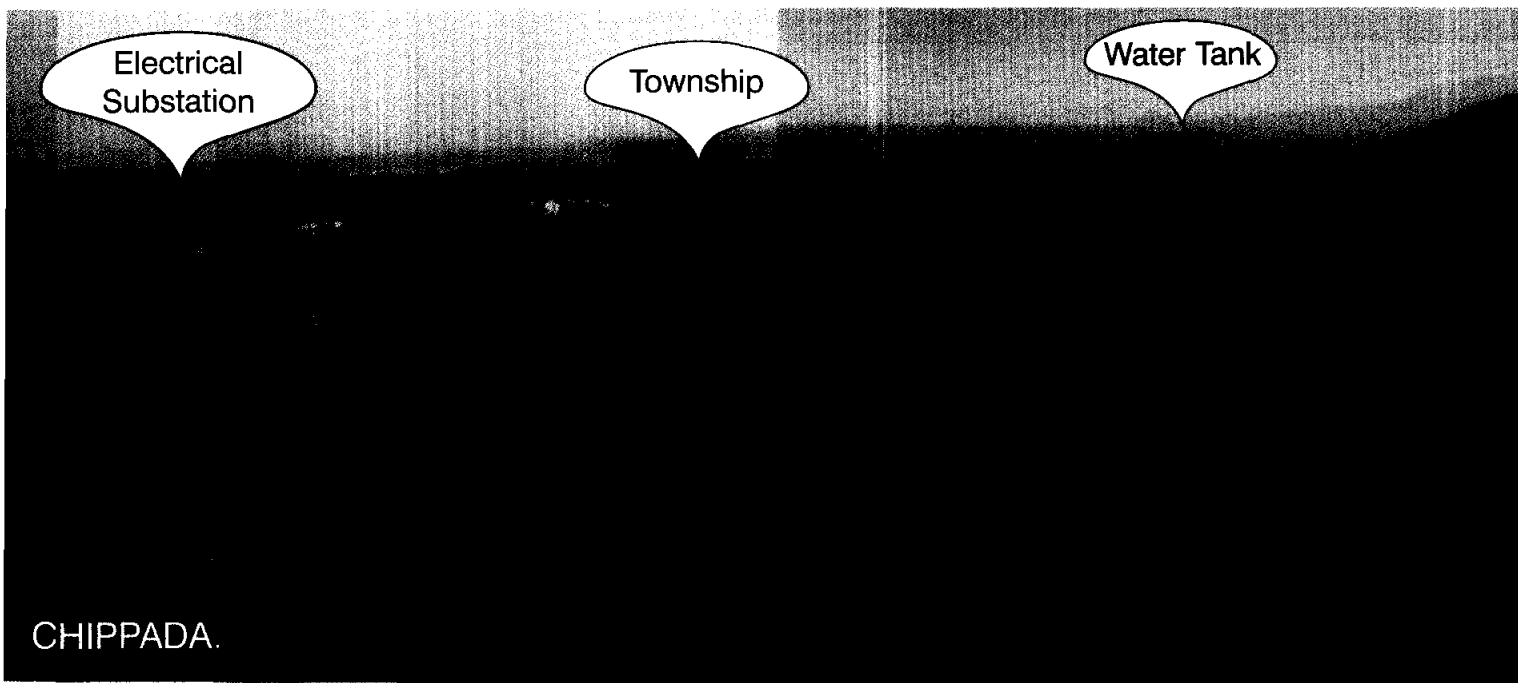
QC & R&D



Electrical
Substation

Township

Water Tank



CHIPPADA.

BOARD OF DIRECTORS**Divi's Laboratories Limited**

Sri MURALI K. DIVI

Chairman and Managing Director

Sri MADHUSUDANA RAO DIVI

Dr. P. GUNDU RAO

Sri N.V. RAMANA

Executive Director

Dr. K. SATYANARAYANA

Sri S. VASUDEV

IDBI Nominee

Sri G. VENKATA RAO

Prof. C. AYYANNA

Dr. G. SURESH KUMAR

Sri KIRAN S. DIVI

Sri L. KISHORE BABU
General Manager (Finance)Sri P. SUDERSHAN
Company Secretary**Auditors :**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.**Factory :****UNIT - 1**
Lingojigudem Village, Choutuppal Mandal,
Nalgonda Dist. (A.P)

Tel : 91-40-3731318, 3731760 / 61

Fax : 91-40-3733242

E-mail : divis@hd1.vsnl.net.in

Website : www.divislaboratories.com

UNIT - 2 (Proposed)Chippada Village, Bheemunipatnam Mandal,
Visakhapatnam Dist. (A.P.)**R&D Centres :**

- 1) C-26, Industrial Estate,
Sanathnagar, Hyderabad - 18.
- 2) Lingojigudem Village
Choutuppal Mandal
Nalgonda Dist. (A.P)

NOTICE**Divi's Laboratories Limited****NOTICE**

Notice is hereby given that the 12th Annual General Meeting of the Members of Divi's Laboratories Limited will be held at Surana Udyog Auditorium, FAPCCI premises, 11-6-841, Red Hills, Hyderabad – 500 004 on Monday, the 29th July 2002 at 10.00 A.M. to transact the following business.

ORDINARY BUSINESS :

1. To receive, consider and adopt the audited Balance Sheet as at 31st March 2002 and the Profit and Loss account for the year ended on that date and the reports of Directors and the Auditors thereon.
2. To confirm the interim dividend paid on equity shares as divided for the year ended 31st March 2002.
3. To appoint a Director in place of Sri Madhusudana Rao Divi who retires by rotation and being eligible offers himself for reappointment.
4. To appoint a Director in place of Sri G. Venkata Rao who retires by rotation and being eligible offers himself for reappointment.
5. To appoint a Director in place of Prof. C. Ayyanna who retires by rotation and being eligible offers himself for reappointment.
6. To appoint M/s. PVRK Nageswara Rao & Co., Chartered Accountants as Auditors of the Company for the period commencing from the conclusion of this meeting till the conclusion of the next Annual General Meeting and to fix their remuneration.

For and on behalf of the Board

Hyderabad **MURALI K. DIVI**
17th June, 2002 Chairman and Managing Director

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 be deposited at the Registered Office of the Company not less than forty – eight hours before the commencement of the meeting.
2. Members / proxies are requested to bring the attendance slips duly filled in for attending the meeting and to bring their copies of the Annual Report to the meeting as copies will not be distributed at the meeting.
3. The Company has appointed M/s. Karvy Consultants Limited, "Karvy House", Road No.1, Avenue 4, Banjara Hills, Hyderabad – 500 034 as the Registrar and Share Transfer Agents for physical transfer of shares. 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.
4. Unclaimed dividend for the year(s) 1995 – 96, 1996-97, 1998-99, 1999-2000, 2000-01 and 2001-02 are held in separate Bank accounts and shareholders who have not received the dividend / encashed the warrants are, advised to write to the Company with complete details.
5. 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.
6. Interim Dividend declared by the Board of Directors was paid to the members whose names appeared on the Company's Register of Members as on 15th March 2002. In respect of shares held in Electronic Form, the dividend was paid on the basis of beneficial ownership as on 15th March 2002 as furnished by the Depositories.

NOTICE



Divi's Laboratories Limited

ADDITIONAL INFORMATION :**Brief profile of Directors who are proposed for reappointment.****1. Sri Madhusudana Rao Divi**

Sri Madhusudana Rao Divi, has been on the Board of Directors since October 1994. Further, he was appointed as Whole-time Director (Projects) with effect from 1st July, 1997.

Sri Rao Divi looks after material procurement, project implementation, production planning and regulatory affairs. Sri Rao Divi is responsible for successfully implementing the new Projects under capital expenditure plans of the company, Plant up-gradation to comply with FDA requirements and overseeing logistics at Plant. Sri Rao Divi currently is overseeing the implementation of the new Project at Visakhapatnam.

Sri 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 large 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.

2. Sri G. Venkata Rao

Sri G. Venkata Rao has been on the Board of Directors since March 2001 and is also the Chairman of Audit Committee of the Company.

Sri G. Venkata Rao is a Graduate in Science from Andhra University, post-graduate in

Law from Osmania University and is a Fellow Member of the Institute of Chartered Accountants of India.

Sri Rao was associated with Canara Bank for about 30 years served at major branches in various Departments before moving to Canfin Homes, Bangalore as the Managing Director. During 1992-97, Sri Rao was the Chairman and Chief Executive of The Lakshmi Vilas Bank Ltd., a prominent developing bank in the private sector. Under Sri Rao's Chairmanship, the turnover and profitability of Lakshmi Vilas Bank grew substantially. Presently, Sri Rao is the Finance Director of Biological E. Limited Hyderabad.

3. Prof. C. Ayyanna

Prof. C. Ayyanna, has been on the Board of Directors since March 2001 and also Member of Remuneration Committee.

Prof. C. Ayyanna holds B.Tech. degree in Chemical Engineering from Andhra University in 1965 and Ph.D., from Indian Institute of Science, Bangalore and is a Fellow of the Institution of Engineers. He is Professor and Faculty Chairman, Dept. of Chemical Engineering and Senator of Andhra University.

Prof. Ayyanna has undertaken a lot of research work relating to chemical engineering and biotechnology and associated with about 114 technical papers and conducted several National seminars, summer/ winter programmes. He visited several Universities in USA under the Indo-US Scientists Exchange program and several countries in connection with the presentation of technical papers and training programmes. He is the key person responsible for initiating Biotechnology courses in Andhra University and is co-ordinator for several research schemes funded by various agencies.

DIRECTORS' REPORT**Divi's Laboratories Limited**

Dear shareholders,

Your Directors have pleasure in placing before you the Twelfth Annual Report of the Company together with the Audited Accounts for the year ended 31st March 2002.

FINANCIAL RESULTS

	2001-02	2000-01
	Rs.Lakhs	Rs.Lakhs
Sales	20705.00	18798.89
Other income	1320.03	938.37
Total Income	22025.03	19737.26
PBDIT	5730.49	4485.12
Finance charges	704.59	1002.99
Depreciation	795.31	729.37
Profit before tax	4230.59	2752.76
Provision for tax	665.30	124.67
Deferred Tax	(91.99)	0.00
Profit after tax	3657.28	2628.09
Profit brought forward from previous year	3726.59	2043.95
Deferred Tax liability upto 31.03.2001	1653.49	-
Appropriations		
Interim Dividend Corporate	577.45	404.22
Dividend Tax	58.90	41.23
General Reserve	500.00	500.00
Balance carried to Balance Sheet	4594.03	3726.59
Earnings per Share (EPS)	31.67	22.75

DIVIDEND

The Board of directors, at its meeting held on 11th March 2002, declared an interim dividend of Rs.5.00 per equity share of Rs.10/- each for the year 2001-02 and the same was paid during March, 2002. The Directors recommend confirmation of this interim dividend declared for the year 2001-02 as final dividend.

OPERATIONS

Your company has had yet another year of satisfactory performance. Disturbances during the last year on account of terrorist activities on World Trade Centre in USA did not have any significant effect on the operations of your company. During the year under review, your Company registered a growth of 11.60% in Total Income. Profit after Tax (PAT) grew impressively by 39.16% to Rs.3657.28 lakhs from Rs.2628.09 lakhs during the previous year. EPS increased from Rs.31.67 per share as against Rs.22.75 last year.

Exports constituted over 93% of total turnover in tune with the trend ever since your company commenced manufacturing operations. Advanced markets comprising Europe and America account for 69% of Company's business. The company could achieve decent growth in profitability on account of fruitful efforts to increase business in intermediates to value markets, process and plant efficiencies and control of costs.

NEW PROJECT AT VISAKHAPATNAM

Capacity at the existing manufacturing facility at Choutuppal near Hyderabad is nearing full utilisation. As part of its plans to increase its manufacturing capacity, your company is in the process of setting up a second Manufacturing Facility at village Chippada under Bheemunipatnam Mandal, Visakhapatnam District (AP). The company has acquired a fully developed Site of around 315 acres with ready infrastructure like Office Buildings, Hostel and Residential Quarters for staff, Warehouses, Workshops, QC Building, Canteen Building, 132KV Power line and Sub-stations, roads, drains and culverts, water storage tanks, fresh water pipeline from the nearest reservoir etc. from M/s. Birla Periclase, a unit of M/s. Indian Rayon & Industries Limited, which closed its operations. Your company has acquired the Assets on 'as-is-where-is condition' at a cost of Rs.1240.20 lakhs. The land and infrastructure came at an attractive valuation and would be quite useful for the proposed Manufacturing facility and would also save the company considerable time to set-up the facility and start up manufacturing operations.

DIRECTORS' REPORT**Divi's Laboratories Limited**

We envisage an investment of around Rs. 42 crores on this Project and plan to finance the Project with *internal accruals and term loans from banks/institutions*. The proposed 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 the MNCs strategically locate in their own businesses. This facility, on commissioning, would be similar to the present one and would be initially utilized for producing intermediates to begin with. After obtaining all necessary approvals within a time-frame of 2-3 years, the company plans to produce APIs for advanced/regulated market at this facility also.

While the company has already gone through the public hearing and other related procedures and obtained Consent for Establishment (CFE) from AP Pollution Control Board, work is on hand for getting various other approvals for setting up the Plant and commencing production of Active Pharmaceutical Ingredients and intermediates at the new location.

RESEARCH AND DEVELOPMENT

Your Company has taken several measures in order to broaden the research into areas like carotenoids and coloring matter while maintaining the thrust on New Chemical Entities, peptides and nucleotides. The company continues to focus its R&D for effective research on the customers needs keeping in view of their future demands.

The company has hitherto been treating Expenditure on Research and Development as Deferred Revenue Expenditure and the same was being written off each year by reviewing its usage. As a matter of prudent policy, your company has decided to charge-off Expenditure incurred on R&D in the same year in which it is incurred. In line with the policy, balance of R&D Expenditure carried under Misc. Expenditure has totally been charged off to Revenue during the year.

DEFERRED TAX LIABILITY

Your company has provided for Deferred tax liability of Rs.1653.49 lakhs as on 31st March, 2001 and

complied with Accounting Standard AS-22 relating to "Accounting for Taxes on Income" which became mandatory from the current year. As a result of its policy to charge off R&D Expenditure to revenue, Deferred tax Liability for year under review is negative at Rs.91.99 lakhs.

CAPITAL EXPENDITURE

An amount of Rs.889.55 lakhs was incurred towards Capital Expenditure for creating additional capacities for Plant and Services, expansion of Pilot Plant and addition to Laboratory Instruments in order to cater to manufacture of new products.

FINANCE

During the year, your Company has obtained sanction for Corporate Loan of Rs.10 crores and availed disbursement of Rs. 4.10 crores from UTI Bank Limited, Hyderabad and repaid its short-term unsecured loans.

Your Company has been regular in payments of interest and loan installments with the Financial Institutions/Banks. The Company has also been regular in complying the terms and conditions in all respects with the Banks which provide working capital finance.

FUTURE OUTLOOK

With ISO-9001, ISO-14001 and OHSAS-18001 Certifications for its Plant, FDA approval for 6 of its products and its adherence to GATT/Intellectual Property Rights, your company has been able to continue strategic relationship with MNC Pharma giants and access value markets for its products. With the ongoing plans for establishing a second manufacturing facility near Visakhapatnam, your company is confident of growing from strength to strength adhering to strong ethics and value system based on our obligations as trustees of our customers, employees, shareholders and the society at large.

DIRECTORS

Sri Madhusudana Rao Divi, Sri G. Venkata Rao and Prof. C. Ayyanna retire by rotation at this Annual General Meeting and are eligible for reappointment.

DIRECTORS' REPORT**Divi's Laboratories Limited****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 2002 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 Company 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 Notes to Accounts in compliance with 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

Particulars required under Section 217 (1) (e) of the Companies Act, 1956 read with Rule 2 of the Companies (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 2001 from Indian Drug Manufacturers Association.
- Certificates of Approval for Occupational Health and Safety Management System (OHSAS-18001) from Bureau Veritas Quality International.
- "Best Management Award" by the Department of Labour, Government of Andhra Pradesh for adopting and maintaining good practices in employee and workmen welfare.

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 **MURALI K. DIVI**
17th June, 2002 Chairman and Managing Director

DIRECTORS' REPORT**Divi's Laboratories Limited****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>2001-02</u>	<u>2000-01</u>
	(a) Purchases:		
	Units	16460317	9521983
	Total Amount Rs.	65917183	40307360
	Rate/Unit Rs.	4.00	4.23
	(b) Own generation:		
	Through diesel Generator Units	3091397	9194428
	Units per Lt. of diesel	3.24	2.89
	Cost/Unit Rs.	5.46	4.97
2.	Coal (D/C grade)		
	Quantity (Kgs)	12355775	9939501
	Total Cost Rs.	25323605	18968075
	Average rate Rs.	2.05	1.91

B. CONSUMPTION PER UNIT OF PRODUCTION:

Products
Electricity (Units)
Coal (D/C Grade)
Others (Specify)

Since the Company manufactures different types of bulk drugs and drug intermediates, it is not practicable to give consumption per unit of production.