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Corporate Information

Registered Office:

7-1-77/E/1/303, Divi Towers
Dharam Karan Road, Ameerpet
Hyderabad – 500 016
Tel: 91-40-2373 1318, 2373 1760/61
Fax: 91-40-2373 3242
e-mail: mail@divislaboratories.com
URL: www.divislaboratories.com

Manufacturing Facilities:

Choutuppal Unit

Lingojigudem Village, Choutuppal Mandal
Nalgonda Dist. (A.P.) Pin 508 252

100% Export Oriented Unit - Chippada

Chippada Village,
Bheemunipatnam Mandal,
Visakhapatnam Dist. (A.P.) Pin 531 162

Divi's Pharma SEZ

Chippada Village,
Bheemunipatnam Mandal,
Visakhapatnam Dist. (A.P.) Pin 531 162

DSN SEZ Unit

Chippada Village,
Bheemunipatnam Mandal,
Visakhapatnam Dist. (A.P.) Pin 531 162

R & D Centers:

1. B-34, Industrial Estate
Sanathnagar, Hyderabad. Pin 500 018
2. Lingojigudem Village
Choutuppal Mandal
Nalgonda Dist (A.P.) 508 252
3. Chippada Village
Bheemunipatnam Mandal
Visakhapatnam Dist. (A.P.) Pin 531 162

Subsidiaries:

Divis Laboratories (USA) Inc.
New Jersey, USA.

Divi's Laboratories Europe AG
Basel, Switzerland.

Registrar & Share Transfer Agent:

Karvy Computershare Private Limited
Plot No.17-24, Vittal Rao Nagar,
Madhapur, HYDERABAD – 500 081

Chief Financial Officer:

L. KISHOREBABU

Company Secretary:

P.V. LAKSHMI RAJANI

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 Limited
Bank of Nova Scotia

Shares listed at:

National Stock Exchange of India Limited
Bombay Stock Exchange Limited

The Past Decade

(Rs. in Lakhs)

| | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 |
|--------------------------------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|----------------|
| SALES (NET) | 18799 | 20705 | 24652 | 30283 | 34738 | 38111 | 72442 | 103318 | 119056 | 92928 |
| Sales Growth % | 23% | 10% | 19% | 23% | 15% | 10% | 90% | 43% | 15% | (22%) |
| OTHER INCOME | 938 | 1320 | 1320 | 1445 | 1715 | 1062 | 1361 | 1361 | 2301 | 3070 |
| TOTAL INCOME (Rs. In Lakhs) | 19737 | 22025 | 25972 | 31728 | 36452 | 39174 | 73803 | 104680 | 121357 | 95998 |
| Total Income Growth % | 23% | 12% | 18% | 22% | 15% | 7% | 88% | 42% | 16% | (21%) |
| Profit before Interest Depreciation and Tax (PBDIT) | 4239 | 5507 | 8123 | 11857 | 12168 | 12731 | 25961 | 43051 | 51339 | 44255 |
| Finance Charges | 1003 | 705 | 445 | 336 | 430 | 558 | 1057 | 1018 | 723 | 276 |
| Depreciation | 729 | 795 | 887 | 1324 | 1507 | 1482 | 2233 | 3565 | 4782 | 5145 |
| Profit before tax (PBT) | 2753 | 4231 | 6933 | 10196 | 10231 | 10691 | 22670 | 38469 | 45834 | 38834 |
| Profit before tax (PBT) Growth % | 69% | 54% | 64% | 47% | 0.34% | 4% | 112% | 70% | 19% | (15%) |
| Provision for Taxation | 125 | 573 | 1442 | 2912 | 3628 | 3644 | 3496 | 3113 | 3389 | 4414 |
| Profit After Tax (PAT) | 2628 | 3657 | 5490 | 7284 | 6603 | 7047 | 19175 | 35356 | 42446 | 34420 |
| Profit After Tax (PAT) Growth % | 63% | 39% | 50% | 33% | (9%) | 7% | 172% | 84% | 20% | (19%) |
| Equity Dividend (%) | 35% | 50% | 60% | 80% | 80% | 100% | 100% | 200% | 300% | 300% |
| Dividend and Tax thereon payout | 404 | 577 | 769 | 1157 | 1169 | 1462 | 1472 | 3021 | 4558 | 9246 |
| Equity Share Capital | 1155 | 1155 | 1282 | 1282 | 1282 | 1282 | 1291 | 1291 | 1295 | 2643 |
| Reserves & Surplus | 8144 | 9511 | 15510 | 21638 | 27084 | 32800 | 52913 | 86107 | 124884 | 151565 |
| Net Worth | 8620 | 10666 | 16792 | 22920 | 28366 | 34082 | 54205 | 87399 | 126179 | 154208 |
| Net Worth growth % | 33% | 24% | 57% | 36% | 24% | 20% | 59% | 61% | 44% | 22% |
| Gross Fixed Assets | 12355 | 13132 | 19005 | 22360 | 25380 | 30186 | 49067 | 64193 | 78249 | 83265 |
| Net Fixed Assets | 9547 | 9587 | 14593 | 16632 | 18154 | 21477 | 38119 | 49687 | 58967 | 58967 |
| Total Assets | 18611 | 20516 | 29252 | 38342 | 37478 | 51916 | 72553 | 100136 | 136299 | 162683 |
| KEY INDICATORS | | | | | | | | | | |
| Earnings per share (face value of Rs.2/-each) | 4.55 | 6.33 | 8.57 | 11.37 | 10.30 | 11.00 | 29.91 | 54.77 | 65.59 | 26.40* |
| Cash Earnings Per Share (face value of Rs.2/-each) | 5.81 | 7.71 | 9.95 | 13.43 | 12.65 | 13.31 | 33.39 | 60.29 | 72.98 | 29.94* |
| Gross Turnover Per share (face value of Rs.2/-each) | 34.18 | 38.14 | 40.52 | 49.50 | 56.87 | 61.12 | 115.12 | 162.15 | 187.40 | 72.65* |
| Book Value per share (face value of Rs.2/-each) | 14.93 | 18.47 | 26.20 | 35.76 | 44.26 | 53.17 | 84.55 | 135.38 | 194.85 | 116.70* |
| Total Debt to Equity | 0.38 | 0.22 | 0.06 | 0.29 | 0.23 | 0.44 | 0.28 | 0.10 | 0.04 | 0.02 |
| PBDIT / Gross Turnover % | 23% | 26% | 32% | 37% | 33% | 33% | 35% | 41% | 42% | 46% |
| Net Profit Margin % | 14% | 18% | 22% | 24% | 19% | 18% | 26% | 34% | 35% | 37% |
| Return On Net Worth % | 30% | 34% | 33% | 32% | 23% | 21% | 35% | 40% | 34% | 22% |

* Post Bonus Issue

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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. The management of Divi's Laboratories accepts responsibility for the integrity and objectivity of these financial statements as well as for various estimates and judgments used therein. 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

According to IMS Health estimates, the global pharmaceutical market in 2010 will grow 4-6% on a constant-dollar basis, exceeding \$825 billion, driven by stronger near-term growth in the US market. Global market sales are to grow at a 4-7% compound annual growth rate through 2013, factoring in the impact of the global macro economy, the changing mix of innovative and mature products, and increasing healthcare access and funding on market demand. The global market is expected to exceed \$975 billion by 2013.

To the now-familiar factors impeding market growth such as patent expirations, a slowdown in innovative product launches, and hurdles imposed by payers on market access and acceptance, there is a new element of economic downturn that overlay the pharma market - according to IMS. 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 pharmaceutical industry is not recession-proof, but it is insulated to a greater extent than other industries where spending is more discretionary.

The big pharma 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 the active ingredient.

Company infrastructure

Divi operates from its Headquarters and Registered Office at Hyderabad. The company has three multi-purpose manufacturing facilities with a total reactor capacity of 4000 cu.m., and all support infrastructure like Utilities, environment management and safety systems.

- The 1st Facility at village Lingojigudem, Choutuppal Mandal, Nalgonda district, about 60 KM from Hyderabad.
- The 2nd Facility is a 100% Export Oriented Unit at village Chippada, Bheemunipatnam Mandal, Visakhapatnam Dist. about 30 KM from the port city of Visakhapatnam on the east coast.
- The 3rd facility is an SEZ Unit at village Chippada, Bheemunipatnam Mandal, Visakhapatnam Dist.

The company has 4 Research Centers with the well defined functional focus on custom synthesis, contract research for MNC companies as also future generics involving processes like route design, route selection, establishing gram scale process and structural confirmation, process optimization, impurity profile, pilot studies, pre-validation batches, validation of process and transfer of technology to Plant, review efficiency of processes and ongoing process.

The company has constantly been augmenting capacities to cater to increasing business needs. Our Divi's Research Centre (DRC) at Sanathnagar, Hyderabad has become operational at its new multi-storey facility with a state-of-the-art instrumentation and the augmented capabilities would handle growing needs for research. We have also added Microwave assisted organic synthesis Lab.

Internal Control systems

The Company maintains a system of well established policies and procedures for internal control of operations and activities, and these are continually reviewed for effectiveness. The internal control system is supported by qualified personnel and a continuous program of internal audit. The prime objective of such audits is to test the adequacy and effectiveness of all internal control systems laid down by the management and to suggest improvements. 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 and ensure compliance to policies, plans and statutory requirements.

Divi encourages and recognizes improvements in work practices. The internal control system of the company is also reviewed by the Audit Committee periodically. The Management duly considers and takes appropriate action on the recommendations made by the statutory auditors, internal auditors and the independent Audit Committee.

Risks and Concerns

Divi lays emphasis on risk management and has an enterprise-wide approach to risk management, which lays emphasis on identifying and managing key operational and strategic risks. Through this approach, the company strives to identify opportunities that enhance organisational values while managing or mitigating risks that can adversely impact its future performance. The risk management framework entails regular review of risk status and risk exposure by designated senior management committees.

Divi is engaged in manufacture of generic APIs, custom synthesis of active ingredients for innovator companies and other specialty chemicals like peptides and nutraceuticals. From the very inception of manufacturing operations, the company committed itself to respecting intellectual property and playing a complementary role to its innovator customers thus ensuring a consistent business in custom synthesis. Similarly, the company plays a non-conflict role with its generic customers. The company constantly reviews its policies and procedures to adhere to conformity to the various regulatory approvals for its manufacturing facilities, its commitment to IPR. The company is very selective in its product portfolio with a focus on export markets within

Management Discussion And Analysis

the domain of its capabilities and does not transgress in unrelated expansions, diversification or acquisitions.

The company constantly works on assessment of various risks affecting its business, taking appropriate measures and reviewing them from time to time to de-risk itself from foreign exchange and various other business risks. The company's current and fixed assets as well as products are adequately insured against various risks. The company's risk management and control procedures involve prioritization and continuing assessment of these risks and devise appropriate controls, evaluating and reviewing the control mechanism and redesigning it from time to time in the light of its effectiveness.

Tax Structures under EOU and SEZ schemes

Divi's Laboratories has an EOU Unit as well as an SEZ Unit at vill Chippada, Bheemunipatnam, Visakhapatnam Dist in the state of Andhra Pradesh

Under the applicable Income-tax regulations as of 31st March, 2010, the EOU Unit will have income-tax exemption for 100% of export profits upto the 31st March, 2011.

Special Economic Zone (SEZ) Units are governed by the SEZ Act, 2005 under which income-tax exemption of 100% of export profits is available for a period of 5 years from the date of commercial operations, and of 50% of export profits for the next 5 years. A further 50% of export profits are exempted for the next 5 years, subject to the Unit meeting certain conditions. Government has reaffirmed its commitment to the tax structure of the SEZs by the amendment to the Section 10AA(7) of the Income-tax Act, 1961 in the Finance Act of 2010.

Regulatory Filings/Approvals

Divi has triple Certifications ISO-9001 (Quality Systems), ISO-14001 (Environment Management Systems) and OHSAS-18001 (Occupational Health and Safety systems) for its manufacturing facilities and adheres to cGMP and standard operating practices in its manufacturing/operating activities and these certifications are renewed from time to time. All the manufacturing sites have been inspected by US-FDA. During the year, Unit-2 had another successful inspection by the US-FDA.

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.

Business distribution

Divi's product portfolio comprises of two broad segments i) Generic APIs (active pharma ingredients and Nutraceuticals) and ii) Custom Synthesis of APIs, intermediates and specialty ingredients for innovator pharma giants. Custom synthesis also includes peptide building blocks (protected amino acids).

Business has been growing decently across both these segments and is broadly equally distributed. Among Divi's well distributed products range, the largest product accounts for 18% of sales and the top 5 products contributed around 55% of revenues. The top 5 customers stand at 49% of its revenues.

The company operates predominantly in export markets and has a broad product portfolio under generics and custom synthesis. The company has a substantial exposure to foreign exchange risk due to its exports. 91% of turnover of the company comprises exports and about 39% of its raw material consumption is also met from imports.

Performance and Operations Review

Analysis of profitability for the current and the last financial years is given hereunder:

(Rs. in Crores)

| Particulars | 2009-10 | 2008-09 | Growth% |
|--------------------------|---------|---------|---------|
| Net Sales | 929.28 | 1190.56 | (22%) |
| Other operating income | 17.37 | 12.93 | |
| Other income | 13.33 | 10.08 | |
| Total Income | 959.98 | 1213.57 | (21%) |
| Expenditure | 517.43 | 700.18 | |
| PBDIT | 442.55 | 513.39 | (14%) |
| Finance charges | 2.76 | 7.23 | |
| Depreciation | 51.45 | 47.82 | |
| Profit before tax (PBT) | 388.34 | 458.34 | (15%) |
| Provision for tax : | | | |
| Current Tax | 31.20 | 29.59 | |
| MAT Credit Entitlements | 9.60 | (3.19) | |
| Deferred Tax Liability | 3.34 | 7.27 | |
| Fringe Benefit Tax | - | 0.22 | |
| Profit after tax (PAT) | 344.20 | 424.45 | (19%) |
| Earnings per Share (EPS) | | | |
| a) Basic | 26.40 | 32.79 | |
| b) Diluted | 26.35 | 32.46 | |

During the year, Divi achieved a turnover of Rs. 929 crores as against Rs. 1191 crores during the previous year resulting in a degrowth of 22%. Exports constituted 91% of total turnover as against 93% during the last year. Profit after Tax (PAT) for the year amounted to Rs.344 crores as against Rs. 424 crores during the last year.

The last couple of years have seen unprecedented global economic slowdown with its effect on almost all markets be it commodities, crude, financial or currency. This 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 fourth quarter already reflecting this trend.

During the year, Divi has added 7 products to its product portfolio of which 2 are generic APIs and intermediates and 5 are custom synthesis APIs and intermediates.

Your company continues to work towards optimizing the capacities created at its multi-purpose manufacturing facilities and also adding additional capacities aimed at the promising business opportunities available to it in its domain of capability in line with its strategy to work with innovators playing a complementary role and non-compete model with its generic customers.

Capital Expenditure

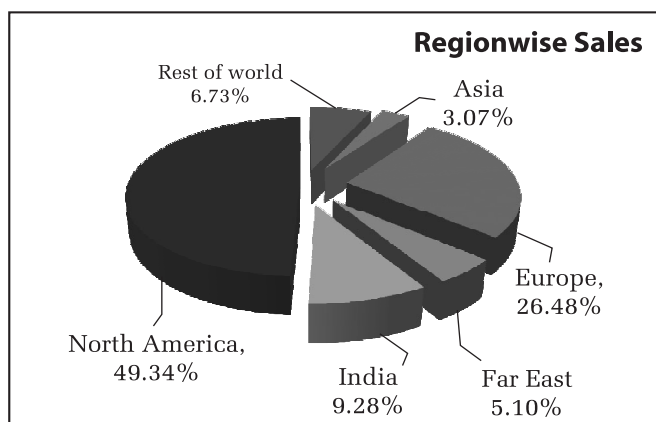
During the year, your company has spent an amount of Rs.54.24 crores on capital expenditure towards enhancing production capacities, a new incineration system, and other augmented utilities requirements at our DTA, EOU and SEZ Units.

The company is in the process of setting up a new SEZ Unit at its Divi's Pharma SEZ with an investment of Rs.200 crores for creating additional capacities for the new opportunities in generic as well as custom synthesis segment as it visualizes existing capacities nearing full utilization towards the end of next financial year. This Project is expecting to be completed by the end of 2010-11.

Exports

Exports constituted around 91% of gross sales during the year as against 93% in the previous year. Exports to advanced markets comprising Europe and America accounted for 76% of business.

| Particulars Region | 2009-2010 | | 2008-2009 | |
|-----------------------|---------------------------|-------------|---------------------------|-------------|
| | Sales Rs. in Crores | % Shares | Sales Rs. in Crores | % Shares |
| Asia | 28.66 | 3.07% | 20.51 | 1.7% |
| Europe | 247.58 | 26.48% | 372.25 | 31.1% |
| Far East | 47.72 | 5.10% | 50.80 | 4.2% |
| India | 86.82 | 9.28% | 84.72 | 7.1% |
| North America | 461.31 | 49.34% | 609.08 | 50.8% |
| Rest of the World | 62.93 | 6.73% | 61.46 | 5.1% |
| Total | 935.02 | 100.0% | 1198.82 | 100.0% |

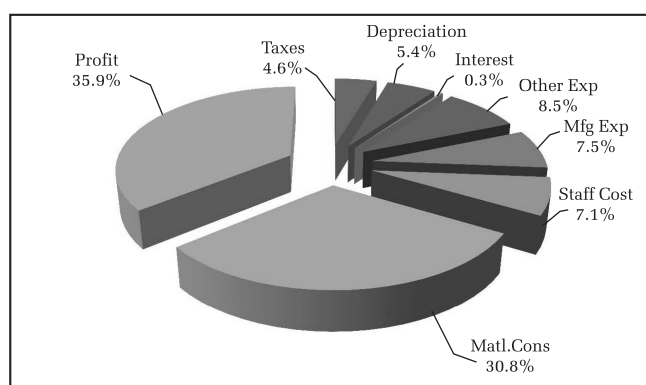


Other Income

Other Income mainly comprised of Dividend income on investments, Contract Research fee, Export benefits besides miscellaneous income. Other Income for the year amounted to Rs.30.70 crores, as against Rs. 23.01 crores in the previous year.

We earned a dividend income of Rs.11.38 crores on our investments in liquid funds Income as against a dividend income of Rs.8.11 crores during last year. Income on contract research accounted for Rs.6.12 crores during the year as against Rs. 2.35 crores during the last year. Income on export benefits for the year came to Rs. 2.18 crores as against Rs. 2.25 crores during the last year. Miscellaneous Income during the year amounted to Rs.5.27 crores as against Rs. 8.25 crores during last year. We also had a gain on forex fluctuations aggregating to Rs.3.60 crores included in Other Income for the year as against a loss of Rs.30.75 crores last year included in Other Expenses. This represents translation gains/losses on the outstanding balances as also the MTM gains/losses on the outstanding forex derivative contracts.

Distribution of Income :



Material costs :

Raw material consumption for the year accounted to Rs. 395.21 crores as against Rs. 542.65 crores for the previous year. Raw material consumption varies from product to product. Manufacture of an active pharma ingredient or intermediate involves stage-wise production processing of the product through it chemistry to the specifications under the standard operating practices complying to cGMP conditions.

(Inc)/Decrease in stocks is represented by: (Rs. in Crores)

| Particulars | 2009-10 | 2008-09 |
|--------------------------------|---------|---------|
| Closing Stocks of: | | |
| Work-in-Process | 300.52 | 163.49 |
| Finished Goods (net of excise) | 56.13 | 94.08 |
| Less: Stock out of trial runs: | | |
| Work-in-Process | - | 2.06 |
| Finished Goods | - | 3.04 |
| Less : Opening Stock of: | | |
| Work-in-Process | 163.49 | 96.93 |
| Finished Goods | 94.08 | 57.00 |
| Excise duty adjustments | 0.16 | 0.55 |
| (Inc.)/Dec in stocks | (99.24) | (99.09) |

Management Discussion And Analysis

Material consumption net of increase/decrease in stocks is about 31% during the year as compared to 37% during the last year, variation being the result of product mix as each product will have a different material consumption.

Manufacturing Expenses

Manufacturing expenses comprising of Power and Fuel, Repairs to Plant and stores consumption came to Rs.71.74 crores for the year as against Rs. 78.72 crores for the last year. Manufacturing expenses have been broadly in line with the level of operations and these expenses account for about 7 to 8% of turnover.

Employee Costs

Staff costs for the year have amounted to Rs.68.46 crores as against Rs. 61.92 crores during the last year. Increase in salaries is on account of the induction of additional staff at the manufacturing facilities besides revision in remuneration of employees. Salaries, including ESOP expense, accounted for about 7% of total income.

Other Expenses

Other Expenses for the year have been lower at Rs. 81.26 crores as against Rs. 115.98 crores incurred during the previous year. Major components of Other Expenses include Freight and handling, Managerial Remuneration and R&D expenses.

Expenses last year included a net loss of Rs.30.75 crores on account of foreign exchange fluctuations on all outstandings including the MTM losses on outstanding forex derivative contracts. However, this year there was a gain of Rs. 3.60 crores on this account – included under Other Income.

Managerial remuneration for the year has been lower at Rs.26.70 crores as against Rs.30.83 crores last year as the commission expense to the Directors has been lower due to the lower profits this year. We also have discarded some deplete assets and have taken a charge of Rs.2.59 crores on this account.

Other Expenses for the year account for 8.5% of total income as against to 9.6% during the last year.

Finance charges

Interest and Finance charges during the year amounted to Rs. 2.76 crores as against Rs. 7.23 crores during the previous year. As the company has generated significant cash surpluses, utilization of working capital has been minimal.

Profits before Depreciation, Interest and Taxes (EBITA)

Due to the lower level of operations, EBITA for the year has degrown by about 14% to Rs. 442.55 crores as against Rs. 513.39 crores during the previous year.

Depreciation

Depreciation charge for the current year came to Rs. 51.45 crores as compared to Rs. 47.82 crores during the last year.

During the year, addition to Fixed Assets accounted to Rs.54.24 crores as against Rs. 140.77 crores in the previous year.

Taxation

For the current year, our tax liability came to Rs.40.80 crores including the utilization a MAT credit of Rs.9.60 crores.

For the last year, the Tax provision amounted to Rs.29.80 crores of which the company was eligible for a MAT Credit entitlement of Rs.3.19 crores. There was also income-tax adjustment of earlier years amounting to Rs.0.20 crores during the last financial year.

The company has three manufacturing facilities, Unit-1 near Hyderabad, EOU and SEZ Units near Visakhapatnam. Our EOU and SEZ Units are eligible for 100% tax exemption from export profits for the year.

Deferred Tax

Divi has also provided for Deferred Tax Liability of Rs.3.34 crores for the year as against Rs. 7.27 crores during the previous year.

Profit after Tax

Profit after Tax for the year accounted for Rs.344.20 crores as against Rs.424.46 crores during the previous year resulting in a degrowth of 19% over last year.

Earnings Per Share

Earnings Per Share for the year works out to Rs.26.40 per share of Rs.2 each as against Rs. 32.79 last year on absolute basis and Rs.26.35 per share as against Rs. 32.46 last year on diluted basis.

Dividend

Your Board has recommended a dividend of Rs.6 per share of face value Rs.2 each or 300% for the year 2009-10. Dividend for the previous year was Rs.6 per share or 300%.

Outgo this year accounts for Rs.79.29 crores as against Rs.38.91 crores last year. Dividend pay-out for the year works out to 23% of profits earned as against 9% last year. An amount of Rs. 13.17 crores (Rs. 6.62 crores last year) has been provided during the year towards Corporate Dividend Tax.

Transfer to General Reserves

We propose to transfer an amount of Rs.53 crores to General Reserve for facilitating the dividend for the year and leaving a balance of Rs.1214.68 crores in the Profit and Loss Account.

During the year, an amount of Rs.12.97 crores has been utilized from out of Reserves for issue of bonus shares. Total Reserves of the company as at the end of the year amount to Rs.1516 crores as against Rs.1249 crores as of last year.

Secured Loans

Term Loans, availed at competitive terms, are being repaid as per the schedule. Utilisation of working capital loans has reduced substantially as cash flows generation has been significant.

As at the end of the year under review, we have a total Secured Debt of Rs.29.85 crores and an Unsecured loan (being sales-tax deferment) of Rs.3.00 crores. Debt-equity ratio as of 31st March, 2010 is at 0.02 while it was 0.04 during the last year.

Fixed Assets

During the year, an amount of Rs.54.24 crores has been added to the Fixed Assets. Deductions during the year

Management Discussion And Analysis

amounted to Rs.4.08 crores representing assets sold and assets discarded.

Inventories

(Rs. in Crores)

| Particulars | 2009-10 | 2008-09 |
|-------------------|---------------|---------|
| Raw Materials | 108.14 | 120.03 |
| Work-in-Process | 300.52 | 163.49 |
| Finished Goods | 56.13 | 94.08 |
| Stores and Spares | 14.78 | 18.31 |
| Total | 479.57 | 395.91 |

Increase in the levels of Raw Materials is due to the increased level of operations at the three manufacturing facilities, strategies of production on campaign basis and manufacture of new products. Increase in inventories is also accentuated by the process of destocking across all their supply chains by some of our large MNC customers who have been undertaking lean inventory management – as the off-take of the products has been lower. We have provided for the non/slow moving stocks.

Debtors

Debtors as of 31st March, 2010 amounted to Rs. 234.44 crores as against Rs. 283.50 crores during the previous year.

(Rs. in Crores)

| Particulars | 2009-10 | 2008-09 |
|----------------------------------|---------------|---------|
| Debtors < 6 months | 228.64 | 272.24 |
| Debtors over 6 months | 5.96 | 11.44 |
| Total Debtors | 234.59 | 283.68 |
| Less: Prov. for Doubt full Debts | 0.15 | 0.18 |
| Total | 234.44 | 283.50 |
| Average Debtor days | 92 | 87 |

Average debtors days have been higher due to the lower level of sales activity during the year. The company has provided for doubtful debts of Rs.0.02 crores and charged-off bad debts of Rs.0.01 crores during the year as against a write-off of bad debts amounting to Rs.1.44 crores last year.

Loans and Advances

Loans and advances as of 31st March, 2010 amounted to Rs. 104.06 crores as against Rs. 99.33 crores during the previous year. A major part of the loans comprise i) loans to subsidiaries amounting to Rs. 39.16 crores (Rs.35.69 crores), ii) Mat Credits of Rs.12.96 crores (Rs.22.56 crores) and iii) Prepaid Taxes of Rs.22.70 Crores (Rs.8.99 crores).

Investments

We have invested the short-term surpluses generated from operations in money market mutual funds. An amount of Rs. 441.28 crores was invested in liquid funds of SBI Mutual Fund as at the year-end as against an investment of Rs. 171.80 during the previous year.

In addition, we also have investments in the equity of our two 100% subsidiaries and in the equity of M/s. Patan Cheru Enviro-Tech Limited, a common effluent treatment company promoted by the Government of Andhra Pradesh.

Current Liabilities and provisions

Current Liabilities as of 31st March, 2010 amounted to Rs. 163.24 crores as against Rs. 161.60 crores during the previous year.

Provisions for the year amounted to Rs. 96.42 crores as against Rs. 48.91 crores during last year. Of this, dividend proposed for the year amounted to Rs.79.29 crores as against a dividend provision of Rs. 38.91 crores during last year.



Corporate Governance

1. COMPANY'S PHILOSOPHY ON CORPORATE GOVERNANCE

Corporate governance is the set of processes, customs, policies, laws, and institutions affecting the way a company is directed, administered or controlled. Corporate governance also includes the relationships among the many stakeholders involved and the goals for which the corporation is governed. It is a system of structuring, operating and controlling a company with a view to achieve long term strategic goals to satisfy shareholders, creditors, employees, customers and suppliers, and complying with the legal and regulatory requirements, apart from meeting environmental and local community needs. Key elements of good corporate governance principles include honesty, trust and integrity, openness, performance orientation, responsibility and accountability, mutual respect, and commitment to the organization. It further inspires and strengthens investor's confidence by ongoing commitment to overall growth of the Company.

Your Company adheres to the principles of corporate governance and commits itself to accountability and fiduciary duty in the implementation of guidelines and

mechanisms to ensure its corporate responsibility to the members and other stakeholders. In accordance with the clause 49 of the Listing Agreement, a report in line with the requirement of the stock exchanges, on the practices followed by the company and other voluntary compliances is given below:

2. BOARD OF DIRECTORS

The Board meets in executive session at least four times in a year at quarterly intervals and more frequently if deemed necessary, to transact its business. The Company Secretary, in consultation with the Chairman and Managing Director, will prepare the agenda for the meeting. Information and data that are more important to the Board's understanding of the business in general and related matters are tabled for discussion. The Agenda and relevant enclosures are distributed to the members of the Board sufficiently in advance of the meeting. The meetings of the Board of Directors are generally held at Company's Registered Office at Hyderabad, and are scheduled well in advance.

2.1 Composition

The Company has an Executive Chairman. The Board comprised of ten directors, five of whom are Executive and remaining are non-executive independent directors, which is in conformity with clause 49 of the listing agreement. The category of directors as on 31st March 2010 is as follows :

| Sl. No. | Name of the Director | Status / Designation | Category |
|---------|--------------------------|---------------------------------|------------------------------------|
| 1. | Dr Murali K. Divi | Chairman and Managing Director | Promoter and Executive Director |
| 2. | Sri N V Ramana | Executive Director | Executive Director |
| 3. | Sri Madhusudana Rao Divi | Director (Projects) | Executive Director |
| 4. | Dr P Gundu Rao | Director (R&D) | Executive Director |
| 5. | Sri Kiran S Divi | Director (Business Development) | Executive Director |
| 6. | Dr K Satyanarayana | Director | Non-executive Independent Director |
| 7. | Sri S Vasudev | Director | Non-executive Independent Director |
| 8. | Sri G Venkata Rao | Director | Non-executive Independent Director |
| 9. | Prof C Ayyanna | Director | Non-executive Independent Director |
| 10. | Dr G Suresh Kumar | Director | Non-executive Independent Director |