

Changing times. Changing strategies.

2016-17

34TH ANNUAL REPORT | NATCO PHARMA LIMITED

FORWARD-LOOKING STATEMENT

In this Annual Report, we have disclosed forward-looking information to enable investors to comprehend our prospects and take investment decisions. This report and other statements - written and oral - that we periodically make contain forward-looking statements that set out anticipated results based on the management's plans and assumptions. We have tried, wherever possible, to identify such statements by using words such as 'anticipate', 'estimate', 'expects', 'projects', 'intends', 'plans', 'believes', and words of similar substance in connection with any discussion of future performance. We cannot guarantee that these forward-looking statements will be realised, although we believe we have been prudent in our assumptions. The achievements of results are subject to risks, uncertainties and even inaccurate assumptions. Should known or unknown risks or uncertainties materialise, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Readers should keep this in mind. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future events or otherwise.

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Growth over prior year

Revenue

91% Y-o-Y

Profit after tax

209% Y-o-Y

EBITDA

147% Y-o-Y



In a volatile and uncertain world with a new wave of protectionism, businesses need to constantly recalibrate their strategies to survive headwinds and thrive. The pressure of change is perhaps more pronounced in the global pharmaceutical sector, where the regulatory landscape, competition, channel consolidations, emerging patient needs and technological breakthroughs drive industry players to think afresh.

Over the preceding few years, we at NATCO have accelerated our pace of progress, despite the challenges. We continue to develop effective technologies to help improve the accessibility of medicines across geographies. The trend continued into the financial year just concluded.

During the financial year 2016-17, we were the first player to launch the generic version of Oseltamivir, a viral flu medicine, in the US market. Our oncology and hepatitis C portfolio products gained further strength in the Indian market.

During the year, we observed that the industry environment in most developed countries was turning towards uncertain times with higher barriers for entry. We decided to intensify our strategic focus and resource allocation towards India and other emerging economies where we can lead in many therapeutic segments while staying on course with our US strategy. This shift in focus, we believe, is critical for our long-term sustainability.

As we continue to create solutions that enable people to afford medicines and lead healthier lives, we are excited to have achieved robust financial results in FY 2016-17. However, our objective is to drive performance in all the markets in which we operate.

We are building a more agile and innovation-driven enterprise, with an aggressive growth approach, which can respond faster to changing consumer demand and market dynamics. At the same time, we remain committed to our core principles and values to make specialty medicines accessible and affordable to all.

**Change is inevitable,
change is the only
constant.**

**We are transforming to
ensure sustainability in
a changing world.**

KEY PERFORMANCE METRICS, FY 2016-17

Revenue

₹ **20,789** million

EBITDA

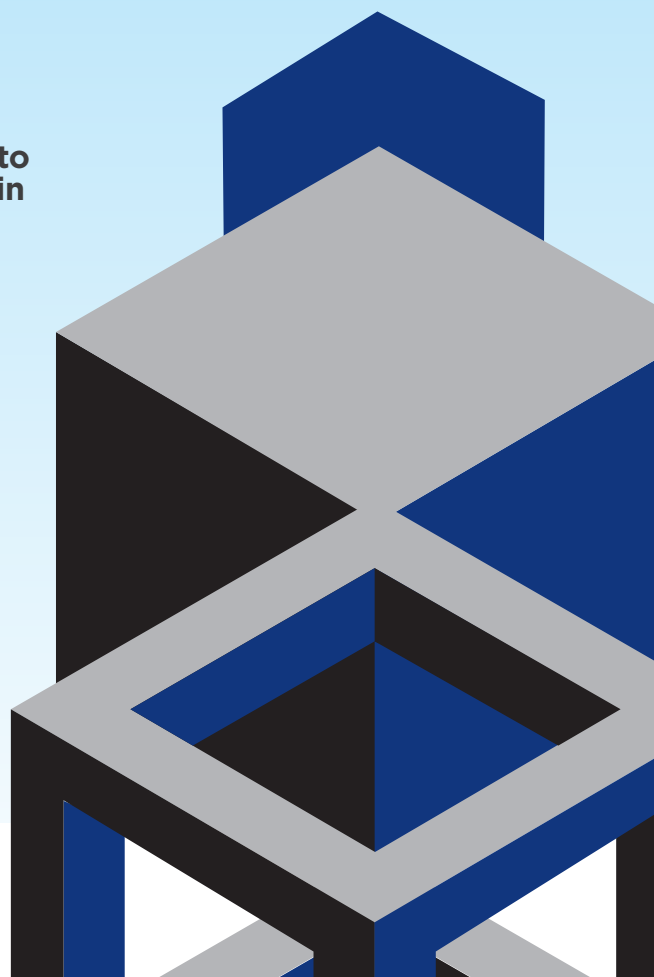
₹ **6,973** million

PAT, after minority interest

₹ **4,860** million

Net Worth

₹ **16,493** million



POWERHOUSE OF POSSIBILITIES

NATCO Pharma (NATCO) is an India-based vertically integrated pharmaceutical company with an experienced management team and presence in multiple speciality therapeutic segments.

We have developed an innate ability to deliver molecules, which are complex and hard to manufacture. Over the years, we have constantly innovated and manufactured speciality medicines and niche pharmaceutical products.



185

**Indian Patents Filed
83 Indian Patents
Granted**

189

**International Patents
Filed 133 International
Patents Granted**





We are driven by the commitment to improve patient care with our nuclei of focus on innovation and differentiation. Our products are now available to patients across geographies at affordable prices. With an emphasis on innovation ingrained in our DNA, our product range is constantly expanded through tenacity in selective research programmes.

Currently, the business reaches over 40 countries and employs over 4,000 employees globally. We have seven manufacturing facilities spread across India with dedicated modern research laboratories. With the right mix of focus, perseverance and courage to challenge the status quo, we have contributed to the global pharma industry through our distinctive Finished Dosage Formulations (FDF) and Active Pharmaceutical Ingredients (APIs).

Our pioneering solutions in the domestic generic oncology segment have made us the market leader amongst all Indian

companies. We have taken our promise further and launched impactful formulations, such as, generic Sofosbuvir and its combination drugs in India and generic Oseltamivir in the USA. These successes have further elevated our brand to market prominence across new segments.

Our promising journey is testimony of our aggressive strategy with careful risk mitigation steps. Further, we have renewed our focus by introducing Cardiology and Diabetology (CnD) division to offer differentiated products in India.

Operating in an evolving industry scenario, we are also strategically repositioning ourselves to explore many opportunities of organic growth and at the same time fortifying our manufacturing capabilities to reinforce our impact. At NATCO, we are constantly driven by our mission to 'make specialty medicines accessible to all'.

43

ANDAs Filed

37

DMFs Filed

40+ Countries

Products Marketed

2

**Well-equipped
Research Centres**

7

**Approved
Manufacturing Facilities**

BUSINESS OVERVIEW



API

- STRATEGICALLY IMPORTANT DIVISION
- 37 DMFS FILED IN THE US
- 20+ PRODUCTS UNDER DEVELOPMENT
- VERTICALLY INTEGRATED FOR MOST FDF PRODUCTS
- EXPORTS FOCUSED ON EUROPE AND EMERGING MARKETS
- TOTAL REVENUE: ₹ 1,838 MILLION

DOMESTIC FORMULATIONS

- LEADING PLAYER IN INDIA'S ONCOLOGY SEGMENT WITH 28 ACTIVE BRANDS
- WINNING BRANDS: GEFTINAT, ERLONAT, VEENAT, SORAFENAT AND BORTENAT
- MARKET LEADERS ACROSS HEPATITIS C CLASS OF MEDICINES
- NEW BEGINNING IN THE CARDIOLOGY AND DIABETOLOGY SEGMENT
- 350+ SPECIALIST SALES FORCE
- 500+ DISTRIBUTORS
- TOTAL REVENUE: ₹ 8,810 MILLION**

**INCLUDING THIRD PARTY SALES

INTERNATIONAL FORMULATIONS

- PORTFOLIO OF NICHE AND COMPLEX PRODUCTS FOR THE US MARKET
- 43 NICHE ANDA FILINGS IN THE US, INCLUDING 20 PARA IV FILINGS
- 22 APPROVED ANDAS (INCL. TENTATIVE)
- EMERGING PRESENCE IN ASIA, EUROPE AND DEVELOPING MARKETS
- TOTAL REVENUE: ₹ 8,370 MILLION*

*INCLUDING PROFIT SHARING INCOME

ALL DATA AS ON MARCH 31ST, 2017

A GLOBAL MINDSET

NATCO GLOBAL

NATCOfarma do Brasil

Natcofarma do Brasil, a step down subsidiary of Natco India, commenced operations in 2011.

It operates under three business entities - Pharmaceuticals, OTC and Distribution services.

The Pharmaceutical division undertakes registration and importation of pharmaceuticals.

Backed by a strong portfolio of Oncology products we expect to file niche products in the year 2017 along with a value speciality-driven product pipeline for strong non-retail participation in local tenders and major tenders like PDP to follow for the years to come.



NATCO Pharma Canada

Natco Pharma Canada Inc., a wholly owned subsidiary was incorporated in the year 2012. Headquartered in Toronto supported by a strong local team comprising of QA, RA and Sales force.

We have a total of 15 product approvals (including in-licensed products). We are the first company to launch the first generic version of Oseltamivir capsules in the year 2016. Driven by a pipeline of new products we expect to file several speciality products in the year 2017.



MAPS NOT TO SCALE

NATCO Pharma Asia

Headquartered in Singapore, the subsidiary is involved in the registration and direct sales of NATCO's products in the Singapore market.

- Received approvals from Health Sciences Authority (HSA) for five niche products
- Products targeted for breast cancer, blood cancer and supportive care in cancer treatment
- Five of our other niche Oncology products are under review by HSA



NATCO Pharma Australia

Incorporated in September 2014, the subsidiary is involved in the registration and out-licensing of NATCO's products in the markets of Australia and New Zealand.

- Two of our key Oncology products are under review by the Therapeutic Goods Administration (TGA)



MAPS NOT TO SCALE

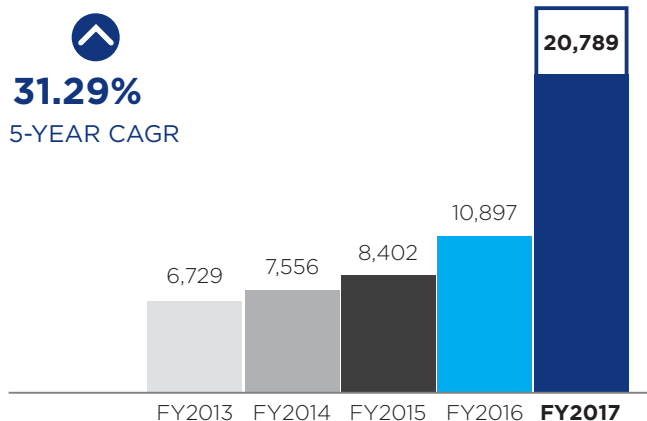
* ALL DATA AS ON MAR 31, 2017

KEY PERFORMANCE INDICATORS - PAST FIVE-YEAR VIEW

PROFIT AND LOSS METRICS

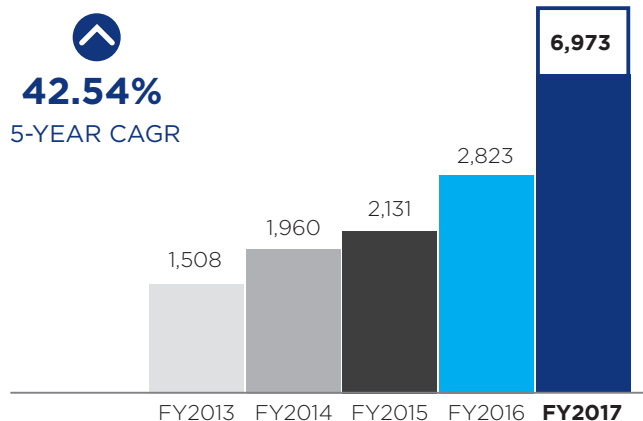
Total Revenue

₹ Million



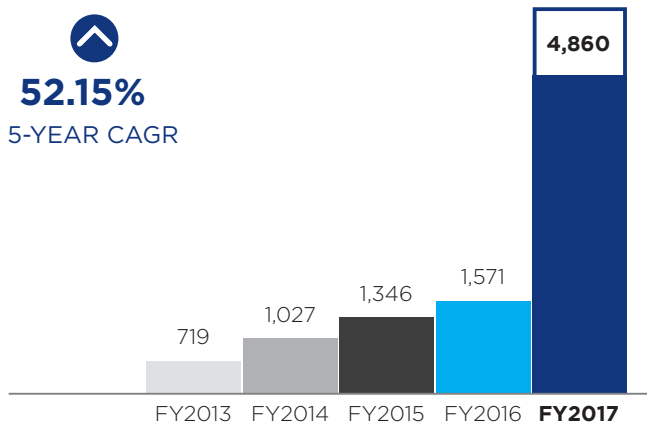
EBITDA

₹ Million



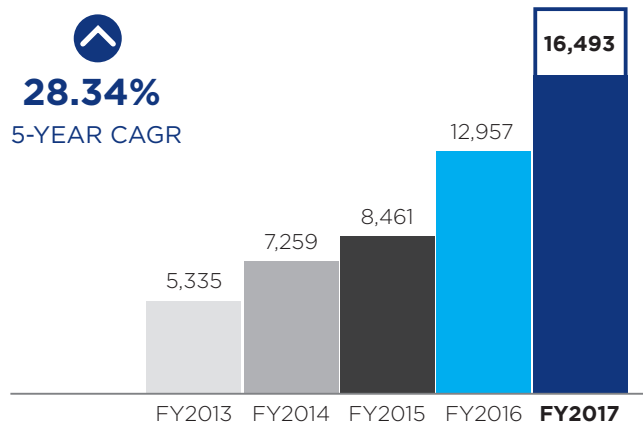
PAT

₹ Million



Net Worth

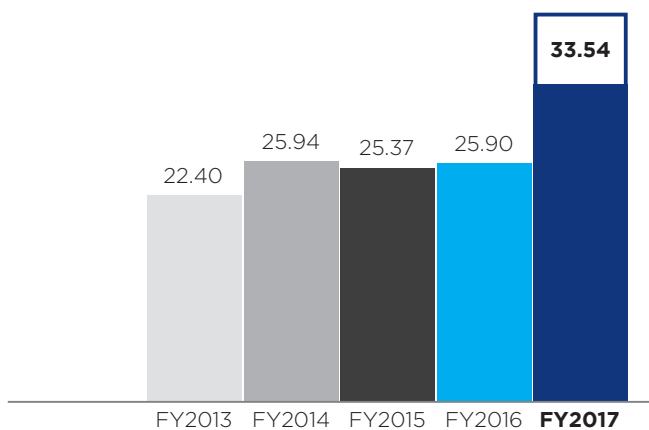
₹ Million



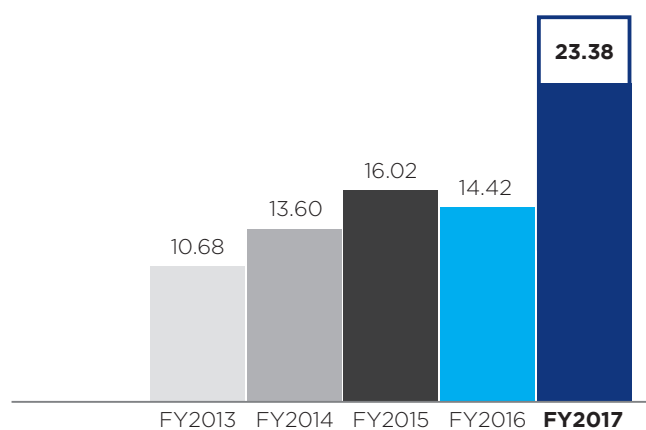
NOTE: DATA PERTAINING TO FY2013, FY2014, FY2015 AS PER IGAAP; FY2016, FY2017 AS PER IND-AS

EBITDA Margin

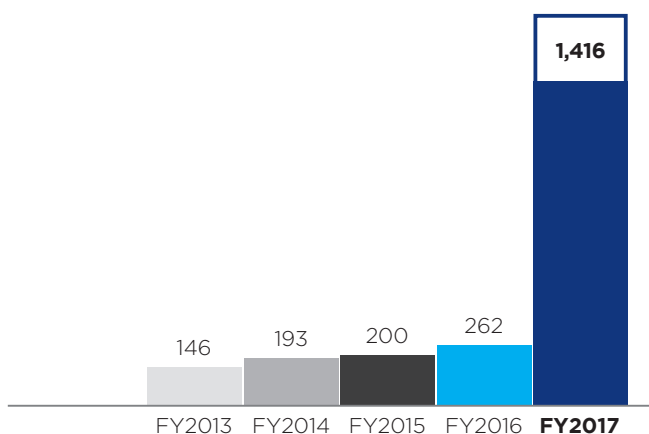
%

**Net Margin**

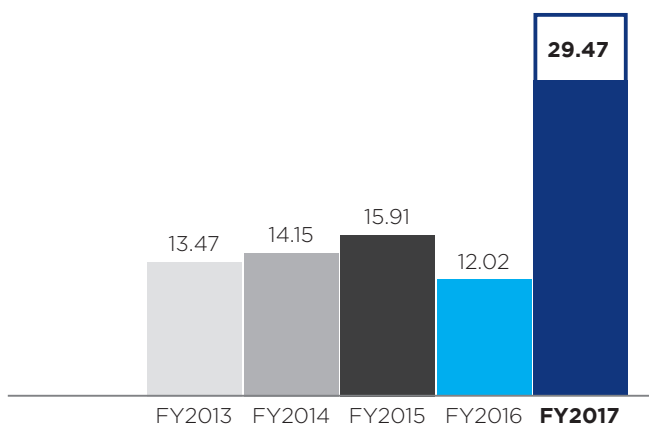
%

**Dividend Payout**

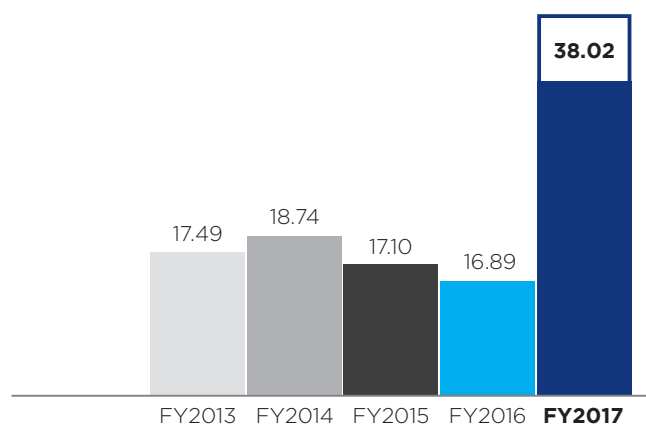
₹ Million

**BALANCE SHEET METRICS****RONW**

%

**ROCE**

%



RONW: RETURN ON NET WORTH

ROCE: RETURN ON CAPITAL EMPLOYED

NOTE: DATA PERTAINING TO FY2013, FY2014, FY2015 AS PER IGAAP; FY2016, FY2017 AS PER IND-AS

MESSAGE FROM MANAGEMENT



V. C. Nannapaneni
Chairman and Managing Director

Dear Shareholders,

In the financial year 2016-17, the global economy witnessed significant geo-political headwinds, which further intensified the volatility across major markets.

The pharma industry witnessed many impediments during the course of the fiscal year, such as pricing pressures on the domestic front, intense competition in the US market, higher regulatory requirements, etc. that impacted the sector's sales. However, owing to our unique business

model that caters to innovation in speciality and niche product needs of patients across select therapy areas and the strength of our local marketing & distribution network and global partnerships, your Company continued to make good progress. Despite challenges, NATCO delivered encouraging results during the year.

Year of momentum

Over the preceding few years, we had been steadily growing and carefully investing in the development of niche products.



We are pleased to report that our operating performance significantly improved across all our businesses and there was continued progress in the late and early stage R&D pipeline. On every important front, we have performed well.

It was during this financial year particularly, NATCO ramped up by monetising on years of effort through the launch of first generic version of Oseltamivir Capsules – in the United States and through strong growth in our domestic formulation portfolio. As we noticed higher competition in the global markets of US and Europe, we de-risked by expanding further in India including the launch of a new division in Cardio & Diabetic therapy segment.

[Changing Times. Changing Strategies.](#)



Rajeev Nannapaneni
Vice Chairman and CEO

Our combination strategy of predictable base business growth with a deep pipeline and a more unpredictable timing on potential blockbusters or markets has paid-off well for your Company. We saw an accelerated growth during the financial year due to Hepatitis C product growth in India and blockbuster launch of generic Oseltamivir in the USA.

In formulations, new product sales have shown very good momentum and has improved total sales revenue significantly. The successful execution of

key products during the year, highlights the inherent strength of our processes, and capabilities of our team. These introductions have fortified our position strategically in the formulations business.

We are pleased to report that our operating performance significantly improved across all our businesses and there was continued progress in the late and early stage R&D pipeline. On every important front, we have performed well. Your Company registered a PAT of



As we observed the industry environment and the strong headwinds in the US market, we have decided to shift our strategic focus on consolidating our strengths across core markets in India and emerging markets as we continue to stay on course on the US potential.

‘Changing Times. Changing Strategies’.

₹ 4,860 million, an increase of 209%, compared to the previous financial year. Most importantly, our total revenue outperformed expectations and surpassed ₹ 20,000 million for the first time ever.

Shifting Gears

As we observed the industry environment and the strong headwinds in the US market, we have decided to shift our strategic focus on consolidating our strengths across core markets in India and emerging markets as we continue to stay on course on the

US potential. This was important as part of our de-risking strategy.

During the year, we launched a new vertical - Cardiology and Diabetology (CnD) in support of the India growth plan. We are foraying into this segment with a clear objective to align it with our brand promise of offering well-focused niche products to consumers. We at NATCO are encouraged by the growth opportunities the segment has to offer for specialised molecules.

We are a trusted name in the minds of many oncologists and healthcare providers in India. Our differentiated products and the first-mover advantage for most of our launches, has propelled us to a strong position in the Indian market. We continue to focus on this segment with full due diligence.

Our product launches in the Hepatitis C basket have helped us gain leading share of the market in India. Owing to this, our consolidated revenue in FY 2016-17 from Hepatitis C products was around ₹ 5,130 million, as opposed to ₹ 3,412 million in FY 2015-16.

Driven by science

Our business is driven by the scientific expertise of our R&D team and it forms the pillar of our product development capabilities. With 6.0-8.0% of your Company's turnover being invested towards R&D each year, our strategy focuses on consolidating the

Our Strategic Approach

- EXPAND OUR OPERATING FOOTPRINT IN INDIA
- MAKE SIGNIFICANT AND SUSTAINED R&D INVESTMENT
- MANUFACTURE PRODUCTS WITH THE HIGHEST QUALITY AND RELIABILITY
- ESTABLISH OUR SUBSIDIARIES AS CORNERSTONES FOR NATCO
- MANAGE OUR COST STRUCTURE TO GROW EARNINGS
- USE CAPITAL PRUDENTLY, MAINTAIN A STRONG BALANCE SHEET, AND RETURN SIGNIFICANT CAPITAL TO STOCKHOLDERS
- STRENGTHEN COMMUNITY ENGAGEMENTS AND WORK TOWARDS SOCIAL OUTCOMES THAT IMPACT OUR STAKEHOLDERS POSITIVELY

core strengths of research and development. We have made significant additions in analytical and manufacturing capabilities during the year, as we try to hone and supplement our skills.

Going forward, our R&D team will focus on building competencies that minimise the risk for product development and build solutions that fortify our competitive advantages. Such a strategy will entail greater emphasis on API and Formulation research integration and building complementing competencies. We plan to widen our focus on research and development and hopefully, continue to differentiate with nicheness.

Looking Ahead

As the US business landscape is facing challenges in the form of higher regulatory requirements unfavourable pricing environment, intense competition and threat of new entrants, we aim to drive our long-term sustainability by enhancing our business opportunities on pharmerging markets and India.

As India's economic prosperity improves, drug affordability and penetration of healthcare products and facilities will witness a boom. According to IMS Health and AIOCD AWACS, the industry's revenue is expected to grow by 10-12% CAGR over the next few years. We are cognisant of the immense growth opportunity that the domestic market can offer

Our business is driven by the scientific expertise of our R&D team and it forms the pillar of our product development capabilities.

us to build a stronger financial profile. Hence, in FY 2017-18, we will invest in building our domestic capacities that can support our business ambitions across geographies.

With a renewed focus, we will be looking at building a stronger product portfolio and expansion of capacities across all our manufacturing facilities. Your Company will continue to use capital prudently and optimise debt levels to maintain a strong balance sheet. FY 2017-18 will mark our journey into a wider spectrum of possibilities.

Your Company has the diversity and mix of skills, experience and knowledge required to reach our goals successfully. As we continue to add value through innovation and optimise our resources, we remain committed to our goal of bridging unmet healthcare needs and providing medicines that address both accessibility and affordability.

Delivering on stakeholder expectations

We are grateful to our colleagues for their tireless efforts in making Your Company a powerhouse of promise and possibilities. The

overriding objective of our teams is to help create a successful business enterprise of tomorrow; and to make that possible in the most engaging and enduring way.

6.0-8.0%
of your Company's
turnover is being invested
towards R&D each year.

We believe that our success helps create a large positive social impact. NATCO Trust, a Corporate Social Responsibility wing of Natco Pharma Limited, is committed to building a better society with various programmes in Health, Education and Livelihood. By developing innovative pharmaceutical products across therapeutic segments, we directly benefit patients and consumers. Our Patient Assistance Programme through NATREACH enables access to our products for the underprivileged. By delivering profitable and sustainable business performance, we generate value and returns for all our stakeholders.

We are grateful to all our stakeholders for helping us stay ahead of the curve in an industry that is transforming rapidly and demands a quick build-up of agility and acumen. With enhanced focus on innovation, strategy, execution and talent development, we are now better organised to serve healthcare needs than ever before across geographies.

V. C. Nannapaneni
Chairman and Managing Director

Rajeev Nannapaneni
Vice Chairman and CEO

ROBUST MODEL FOR VALUE CREATION

We continue to pursue profitable growth across global markets, accelerating access of affordable medicines for people worldwide. We are committed to sustainable growth through fostering relationships with clients globally.



Innovation

We recognise that innovation is our key driver to success, which needs consistent investment in R&D.



Develop and Innovate

We are constantly developing new product portfolio to address changing patient needs. Our R&D expenditure has grown at a CAGR of 44% over the last three years.

In 2016-17, the R&D expenses as a percentage of sales was 6.0%.



Patient Benefits

Our targeted therapy products provide unique solutions for unmet medical needs, many of them being first of its kind, which benefit patients across our markets.

Seamless Execution

Our focus is on commercially viable product development, continuous process improvement and better capacity utilisation.

Meticulous planning and monitoring ensure seamless execution.

Team

We recognise that having an experienced, diverse, talented and highly motivated workforce ensures consistent growth.

Deep understanding and openness

We focus on developing a deep understanding of the requirements of our customers, markets and health authorities across geographies.

Manufacture and maintain Quality

We are committed to maintaining robust quality standards in our manufacturing facilities. Our facilities comply with WHO cGMP standards; and three of them are compliant with USFDA standards. We have built capabilities to manufacture complex products.

Capabilities

We retain/hire proficient personnel and continuously invest in their training and development, and reward their performance.

Relationships

We have built lasting relationships across our markets by providing customised solutions to stakeholders, which enable us to achieve our growth objectives.

Creating Brand Equity

Enhanced reliability of our products with consistent and seamless delivery is creating a strong brand equity for our diverse product portfolio in different geographies.

Sustainable Business

Driving business growth through efficient team performance. By conducting our business well and performing responsibly, we are benefiting our employees and communities.

Ensuring Growth

Strong relationships across the market have enabled us to continuously maintain our growth momentum.

Change is the only constant

IN STEP WITH INDIA ADVANTAGE

Despite global challenges, India's economy continues to maintain steady growth. The country's \$ 2.2 trillion economy makes it the seventh largest in the world in terms of nominal GDP and the third largest in PPP terms.

At NATCO, our achievements are spread across two key therapeutic segments - oncology and gastroenterology, in the Indian market. With the recent foray into Cardio and Diabetic segment, we will continue to drive our growth in India, based on our innate understanding of the market dynamics and strong focus on innovation.

Oncology

At NATCO, we hold a leading market share in the oncology segment amongst Indian companies. Over the years, backed by our strong R&D capabilities, we have been able to launch many targeted therapy drugs. Gradually, we established ourselves as market leaders in the segment. The domestic oncology division deals with haemato-oncology and solid tumour products. In FY 2016-17, the oncology segment grew by

about 27%, contributing ₹ 3,224 million of sales revenue.

Strategic steps

During FY 2016-17, we further increased our efforts in the oncology segment with strong emphasis on brand building, patient support programs and customer relationship management. As part of our wider strategy, we launched India's first generic Bone Marrow Transplant (BMT) product, Thiotepa, as we

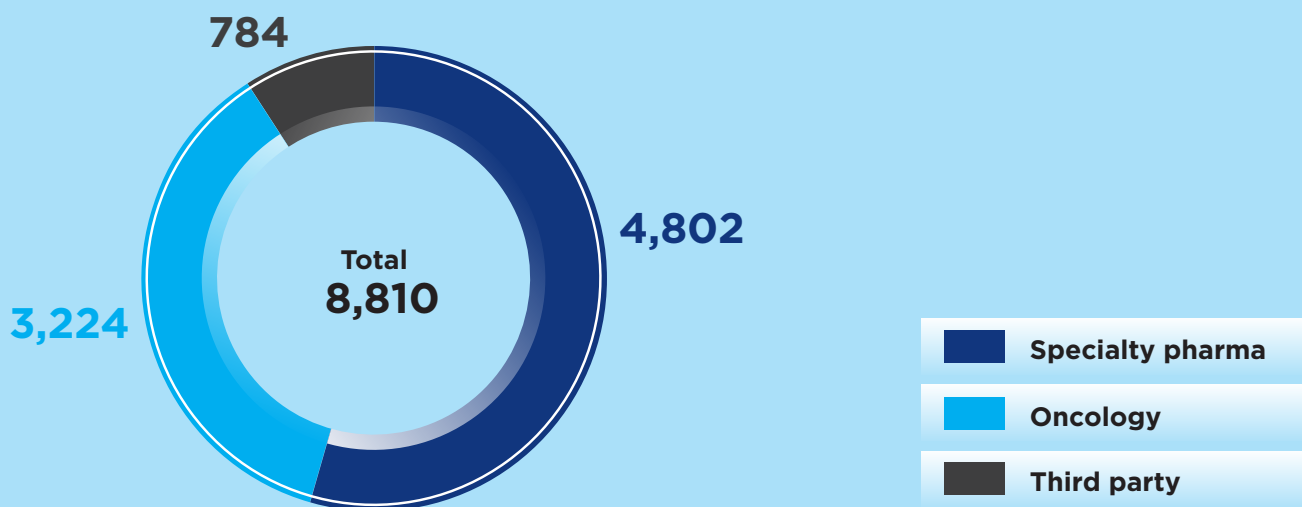
intend to build a full fledged BMT portfolio.

Pharma Specialties

Our pharma specialties division deals with products related to Gastroenterology, Orthopaedics and Critical Care. The orthopaedics range covers all the important bisphosphonates, including the oral and injectable drugs. This year our gastroenterology range continued growth of the Chronic Hepatitis C portfolio of drugs,

Domestic Sales Revenue Break-up

₹ Million



- TOP DOMESTIC BRANDS REGISTERING CUMULATIVE GROWTH OF 20%
- INDUSTRY GROWING BY 13-15%
- TOTAL SALES FROM DOMESTIC: ₹ 8,810 MILLION

which has brought a paradigm shift towards an affordable treatment to people at large. In FY 2016-17, the segment witnessed 96% growth, contributing around ₹4802 million to the total sales revenue from domestic business.

Strategic steps

During the year, the Company intensified its focus on both Hepatitis C & B portfolio of drugs. Several awareness programmes were conducted through camps across the country for Hepatitis C. Specific training sessions were conducted for consulting physicians by hepatologists, so as to upgrade their expertise for Hepatitis C disease thereby reaching a wider patient base.

Cardiology and Diabetology (CnD)

With sustained value creation as the primary goal, we at NATCO invest in long-term growth opportunities. Over the years, our core strategy was to consolidate and fortify our product portfolio across Oncology and Specialty Pharma.

Strategic steps

In January 2017, we transformed our segmental focus and launched a new vertical - Cardiology and Diabetology (CnD). Cardiology is the second largest therapy segment and diabetology is the fourth largest therapy segment in India. We believe that our entry into the segment with well-focused niche products will create a reasonable presence. We are aiming to pick specialised and unique products to act as a key differentiator in the cluttered market space.

Growth drivers during the year:

- Focus on brand building & affordable pricing
- Creating more awareness amongst medical fraternities

and consulting physicians, so as to reach a wider patient base

- Reliability as a strong domestic generic oncology company striving to bring products for unmet needs

FY 2017-18 India strategy

- Our product pipeline for India will focus on unique first time launches
- Target to launch 10+ products across all three domestic business verticals
- Invest further in product development and technical capabilities
- Expand manufacturing capacity and add new capabilities

India Launches, FY2016-17

8 PRODUCT LAUNCHES

Change is the only constant

FORTIFYING OUR GLOBAL REACH



NATCO's journey to enter the US and other key global markets started only about a decade ago. It was a carefully crafted plan to bring niche products across these markets. We have fostered partnerships in the US and fortified product portfolio since then to ensure palpable international presence.

Similarly, we have expanded our reach to several pharmerging markets in the last five years. We believe, this geographical de-risking is important to ensure a sustainable business in the long run.

USA & Europe

Through a comprehensive partnership approach model, we at NATCO have been dedicated to providing access to medicines for the US patients. We have fostered partnerships in the US and fortified our product portfolio with 43 ANDA filings which include 20 Para IV filings with the USFDA. Historically, our business has focused on building the US product portfolio, which includes high-barrier-to-entry products that are difficult to formulate, difficult to manufacture or may face complex legal and regulatory challenges.

During the fiscal year, this strategy paid us handsome dividends, as we

received final approval on ANDA for generic versions of Oseltamivir oral capsules from the USFDA. The launch of generic Oseltamivir and the subsequent sales in the US market contributed substantially to the revenue and profit growth.

In Europe, the Company had good success with sales of generic Imatinib formulation product during the year.

The Company continues to carefully select products of value for launch in this region

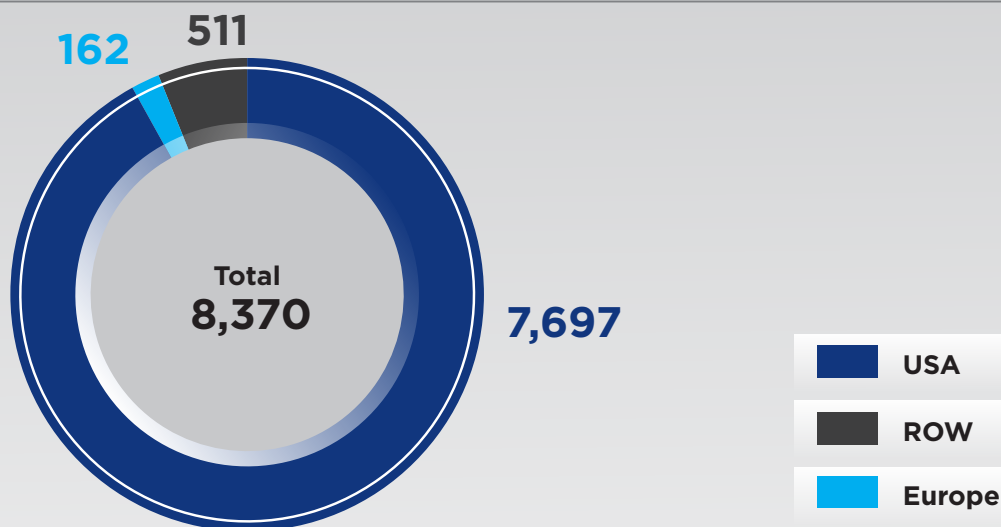
Strategic steps

It has been a tough business environment in the US during the year. We observed that the



FY 2016-17 Formulation exports

₹ Million



products which could have been niche earlier are turning out to be common. We needed to up the ante.

The Company has begun investing more carefully than before on selected products and platforms that matter. During the year, we invested more on people and technological initiatives that, we believe, would continue to differentiate us from the mainstream. We also continued to re-emphasise with a conscious effort to balance between organic development and outsourcing or partnership strategy to ensure right time to market.

For Europe, the Company has limited its market penetration to only a select few products of reasonable value through its marketing partners.

Rest of the World (RoW) & Subsidiaries

NATCO's presence in RoW markets consists of products in the Hepatitis C and anti-cancer

formulation products. We have forayed into some of the key markets such as Canada, Vietnam, Mongolia, Myanmar, Venezuela and several other Asian countries. Our reach into the RoW markets is done through following key channels - our subsidiaries; direct collaboration with local partners in a geography; global partners/distributors for a wider reach into several smaller geographies. In FY 2016-17, formulation exports to RoW markets contributed ₹ 511 million in revenue. The subsidiaries generated a total revenue of ₹ 628 million. Amongst our subsidiaries, Canada was profitable mainly due to generic oseltamivir launch.

Strategic steps

In FY 2016-17, we further focused on our growth with the Hepatitis C generic and extended the launch to more countries across the globe. We especially focused on capturing small niche markets across Southeast Asia to drive more value. Most importantly, at the core of our strategy we took

steps to strengthen our business through subsidiaries.

FY 2017-18 global strategy:

- Focus more deeply into niche molecules for the US market
- Expand the base product pipeline of India and USA, into other RoW markets
- Establish our subsidiaries as cornerstones for NATCO global reach and focus to develop them
- More emphasis on regulatory filing in the RoW markets.

Approvals

USA: 6 ANDAS

ROW: 25 PRODUCT APPROVALS ACROSS 14 COUNTRIES

SUBSIDIARY: 2 APPROVALS IN CANADA

Change is the only constant

STRENGTHENING INNOVATION & INTEGRATION



At NATCO, we differentiate ourselves in the R&D function in many creative ways. The development of new molecules and novel technologies lead to many cost-effective medicines and therapeutic options. Development and manufacture of Active Pharmaceutical Ingredients (API) is also a key strategic business element for the Company. This backward integration to the formulations business is important for sustainable growth of the Company.

Research and Development(R&D)

In the technology driven pharmaceutical industry, continuous improvement is key to sustainability and Natco Pharma believes in this ideology. The Research and Development teams at Natco Pharma differentiate themselves through innovative, cost effective processes with robust plant-transferable technologies.

Product selection is the first key in the 'Development Chain' as Research & Development takes ample support from the Business Development division in screening and sieving projects leading to the right product selection. Parameters like product



FY 2016-17

Filings

4 DMFs

5 ANDAs

mix synergy, plant compatibility, technological complexity, analytical technology feasibility are some technical parameters used in this process.

Our R&D scientists with years of expertise in diverse fields have become multifunctional and multi-skilled enabling the Company to evolve into a dynamic entity. Our scientists have also developed certain types of flexibility over the years and can adapt and quickly respond to changes due to market dynamics.

The global regulatory environment is undergoing a series of changes, emphasising on Research and Development based Quality by Design. Natco Pharma is well positioned to meet market challenges.

Strategic steps

In FY 2016-17, we focused our energies on 'redefining niche-ness'. As the pharma market experienced dynamic pricing models with intense competition, we continued to identify and build products that have multiple technological barriers. As a core function within the Company, our R&D experts are fortifying our competitive advantages by creating a portfolio of complex generics and difficult-to-develop and manufacture products.

API

This is a strategically important business developing APIs primarily for captive consumption of its FDF portfolio. As on 31 March 2017, this business division had a portfolio of 37 US DMFs with over 10 products under development.

API development focuses predominantly on complex molecules for the USA and India markets which could be vertically integrated into Formulations. APIs are also exported into key markets, such as, Europe, Canada, Latin America, etc.

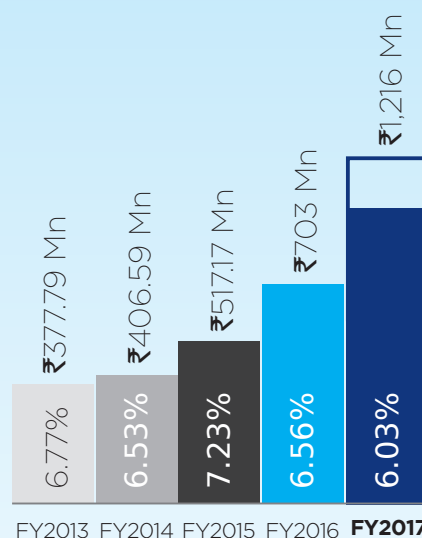
- Focusing on Analytical Technologies & Analytical Research and Development
- The core R&D strategy will be to expand the product pipeline with unique differentiated products
- Significant capacity expansion plans underway augmented by new capabilities
- Focused approach to market API to new markets

₹ **1,838** million
API Revenue
FY 2016-17

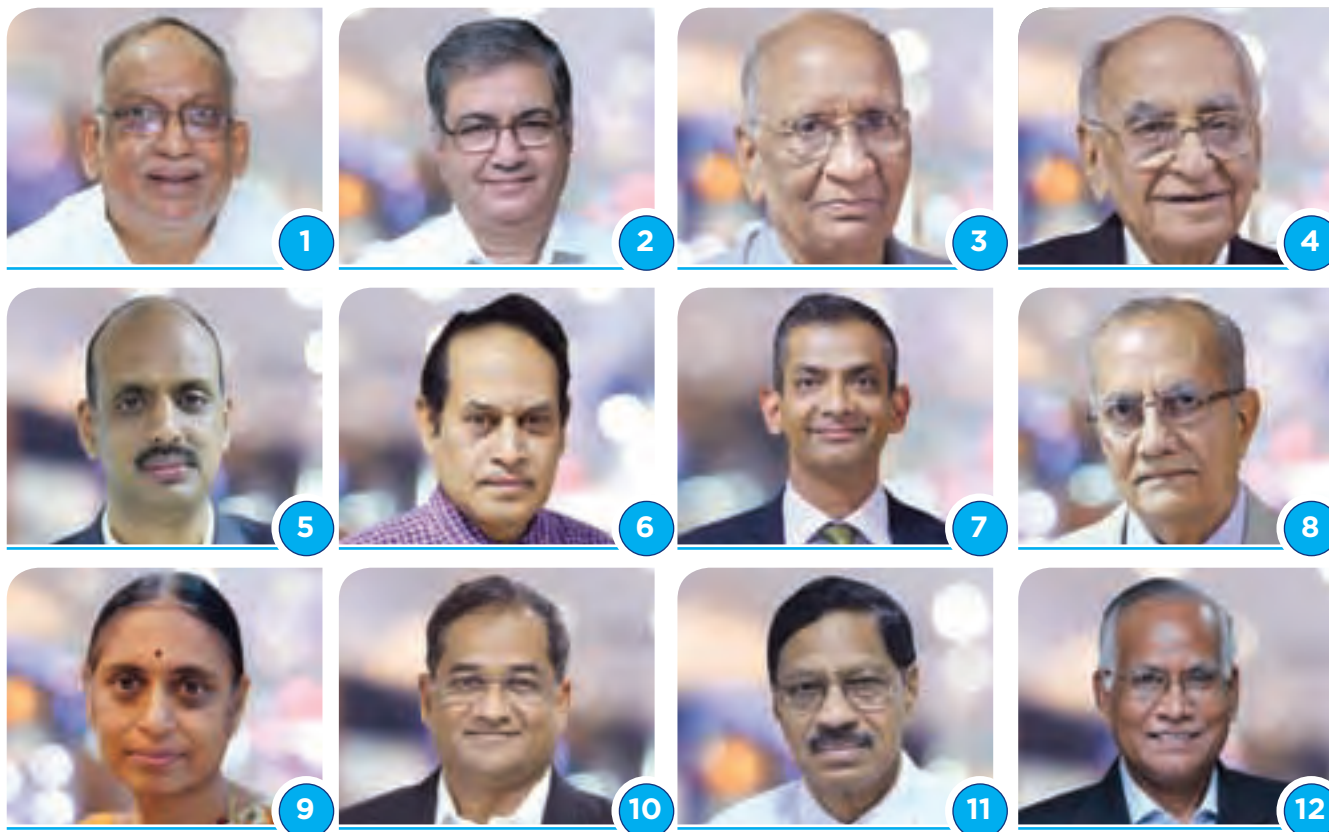
FY 2017-18 strategy:

- Emphasise on API and Formulation research integration
- Focus on differentiating further on technologies and chemistry
- Complementing competencies by collaborating with experts
- Recognise multiple technological barriers to maintain lead

R&D spend against standalone revenue



BOARD OF DIRECTORS



1 Mr. V.C. Nannapaneni

Chairman & Managing Director

Mr. V.C. Nannapaneni has over 48 years of experience in the Pharmaceutical Industry. He has worked in the US for more than a decade in various Pharmaceutical companies. He holds Bachelors and Masters Degree in Pharmacy from Andhra University, India. In addition to this he also holds a Masters degree in Pharmaceutical Administration from the Brooklyn College of Pharmacy, USA. Currently, along with general management he also oversees the New Drug Discovery programme of the Company.

2 Mr. T.V. Rao

Director - Independent

Mr T.V. Rao is a Graduate in Commerce and Associate Member of Indian Institute of Bankers (CAIIB). In his career spanning over three decades, he has experience in general banking, corporate finance Mortgage backed securitisation and Treasury Management. He has headed the Treasuries of National Housing Bank, SIDBI and Exim Bank.

3 Mr. G.S. Murthy

Director - Independent

Mr. G.S. Murthy was the first Managing Director at Investor Services of India Ltd., Mumbai, promoted by IDBI, LIC, UTI, SBI CAPS etc. He was on the Board of several Companies as IDBI Nominee. After retirement, he provided services

as Legal Consultant at ESSAR Group of companies, Mumbai for about three years and as Senior Advisor for Government of Andhra Pradesh for about nine years for implementation of public enterprise reforms. Mr. Murthy's qualifications include LL.M., F.C.S. and C.A.I.I.B.

4 Dr B.S. Bajaj

Director - Independent

Dr. B.S. Bajaj has been a Director at NATCO since 2002. He was Chief Executive Officer at Anti Biotech production plant of IDPL and worked at Torrent Gujarat Biotech Ltd. He was on the Board at several companies and member of Scientific Advisory Committee of CSIR Laboratories. He is the Chairman at All India Biotech

Association, Southern Chapter and Vice Chairman of Export Promotion Forum at Biotechnology, Govt. of India. He is also member at Biotech Advisory Committee of Government of Andhra Pradesh and Member of the Project Management Committee (PMC) at the Biotechnology Incubation Centre Project.

5 Mr. Rajeev Nannapaneni

Vice Chairman & CEO

Mr. Rajeev Nannapaneni has worked at Merrill Lynch and Natco Systems LLC in USA. He joined the Company in the year 2000. He has wide experience and exposure in General Management, New Business/New Product Development in India and for International markets. He holds B.A. degree in Quantitative Economics and also B.A. in History from Tufts University, Boston, USA.

6 Dr. A.K.S. Bhujanga Rao

Director & President, R&D and Technical

Dr A.K.S. Bhujanga Rao has worked with IDPL, IDL, Reckitt and Colman, Vera Laboratories Ltd., and also worked as collaborative Research Fellow, University of Hull, UK and University of Texas, USA before joining NATCO. Dr. Rao has wide expertise in technology transfer to commercial scale, quality control, regulatory affairs and Patents. He has 30 publications to his credit and applied for 40 international patents. He holds a M.Sc. Chemistry degree with specialisation in Organic Chemistry from Andhra University, Visakhapatnam, India. Dr. Rao is awarded Ph.D. in Synthetic Organic Chemistry, Chemistry of 4 - and 5 - Nitroimidazoles from the Indian Institute of Science (IISc), Bangalore, India.

7 Mr. Vivek Chhachhi

Director - Non Executive & Non Independent

Mr. Vivek Chhachhi received a B.Sc. (Computer Science) from St. Stephen's College, University of Delhi (1991) and an MBA from the University of Jamnalal Bajaj Institute, Mumbai (1993). Mr. Vivek Chhachhi was a Director with Citi Venture Capital International (CVCI) and was with Citi's private equity business for 14 years. During his tenure with CVCI, Vivek worked to identify &

invest, manage and exit a large number of companies across a wide spectrum of industries

8 Mr D.G. Prasad

Director - Independent

Mr. D.G. Prasad is a qualified Chartered Accountant and had been a career banker for over 33 years. After being with Canara Bank for over 8 years, Mr. Prasad served Exim Bank of India for over 25 years having joined in 1983, in its formative phase. While being with Exim Bank, as a Chief General Manager, he was the head of Corporate Banking, Agri Business and SME Business Groups. He holds considerable expertise in trade finance, international finance, merchant banking, corporate strategies, mergers and acquisitions, loan syndications, international negotiations and cofinancing with multilateral agencies. He has been a guest faculty at business schools on international finance and marketing.

9 Dr. Leela Digumarti

Director - Independent

Dr. Leela Digumarti did her MBBS from Rangaraya Medical College, Kakinada, AP in the year 1983, Diploma in Obstetrics & Gynaecology (DGO) in the year 1986 and MD in Obstetrics & Gynaecology in the year 1987 both from Andhra Medical College, Visakhapatnam, AP. She also did Diplomate of the National Boards in Obstetrics & Gynaecological, National Board of Examinations, New Delhi in the year 1993 (DNB). She is a member of FRCOG (UK). She is presently Assistant Professor of Gynecological Oncology at Homi Bhabha Cancer Hospital & Research Centre, Visakhapatnam, Andhra Pradesh.

10 Mr. P.S.R.K. Prasad

Director & Executive VP, Corp Engineering Services

Mr. P.S.R.K. Prasad has done B.E. Mech. Engg. from Andhra University, Visakhapatnam in 1981. He worked with Ahmedabad Textile Industries Research Association, Coromandel Fertilizers Ltd., Stiles India Ltd., Tirupati, Saudi Ceramic Co., Riyadh, K.S.A. He is presently Executive Vice President - Corporate Engg. Services and looking after the General Administration, Engineering,

regulatory, training, environmental matters, safety, health, production and maintenance activities of the Company.

11 Dr. M.U.R. Naidu

Director - Independent

Dr. M. U. R. Naidu, Former Dean faculty of medicine and head of the department of Clinical pharmacology and therapeutic at Nizam's Institute of medical sciences Hyderabad, has completed his medical post-graduation MD, from Jabalpur medical college in 1977. He received advanced professional training in clinical pharmacology in UK, Germany and USA. Dr. Naidu had received WHO Fellowship for advanced training on ADR Monitoring, at Uppsala, Sweden.

He is a well known clinical pharmacologist with more than 40 years of teaching and research experience. His main area of interest is clinical research especially cardiovascular system and phase I clinical trial.

12 Dr. D. Linga Rao

Director & President, Technical Affairs,

Dr. D. Linga Rao has over 42 years of experience in the pharmaceutical industry and has been working with NATCO for over 24 years. He has vast experience in various departments like R & D, Quality Control, Quality Assurance and Regulatory. He has previously worked with Indian Drug & Pharmaceuticals Limited (IDPL) & Novochem Laboratories. His education background includes M.Sc. Applied Chemistry (Organic Chemistry) & Ph.D in Chemistry from JNTU, Hyderabad. In addition he had undergone training on Applications of High Performance Liquid Chromatography at Singapore.

OUR MANAGEMENT TEAM



Mr. V.C. Nannapaneni
Chairman & Managing Director



Mr. Rajeev Nannapaneni
Vice Chairman & CEO



CS Adinarayana M
Company Secretary & Vice
President - Legal & Corporate
Affairs



Mr. Appa Rao S.V.V.N.
Chief Financial Officer



Mr. Lakshminarayana A.
Vice President - HR & OD



Mr. Narayan Rao C.V.
Executive Vice President -
Supply-Chain /IT /OD



Mr. Rajesh Chebiyam
Vice President - Acquisitions,
Institutional Investor
Management & Corporate
Communications



Mr. Srivatsava K.
Vice President - Marketing
& Sales, Domestic



Mr. Subba Rao M.
Vice President - Global Generics

OUR R&D EXPERTS



From left to right

Dr. Durga Prasad K.

Vice President - R&D

Dr. Gopalakrishnan Vaidyanathan

Vice President - Analytical R&D

Dr. Pulla Reddy M.

Executive Vice President - R&D

Dr. Bhujanga Rao A.K.S.

Director & President
(R&D and Technical)

Dr. Satyanarayana K.

Vice President - R&D

Dr. Shankar Reddy B.

Vice President - R&D

Dr. Apte S.S.*

Vice President -
Formulation R&D

* Not in picture above

OUR MANUFACTURING AND REGULATORY TEAM



From left to right

Mr. Venkat Rao T.

Vice President -
Manufacturing

Mr. Prasad P.S.R.K.

Director & Executive VP -
Corp Engg Services

Dr. Linga Rao D.

Director & President -
Technical Affairs

Dr. Rami Reddy B.

Director - Formulations

Mr. Suresh Kamat

Vice President - Operations
(Visakhapatnam Unit)

Dr. Pavan Bhat

Executive Vice President -
Technical Operations

RISK MANAGEMENT

Risk

Regulatory risk	Business portfolio risk	Currency volatility risk	Geographical risk
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Nature of risk

An unfavourable facility inspection from any major regulatory body, leading to significant delay of product exports.	NATCO is exposed to the risk of depending on one or very few large products or therapy segments. This could have an impact on the financial viability of the Company.	Fluctuations in foreign currency could result in variations in margins for the Company.	Being excessively dependent on a single market could affect the sustainability in the long run.
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Control and Actions

The Company has rigorous training programmes for all employees in the manufacturing facilities & detailed internal processes and quality monitoring systems to ensure full compliance.	NATCO has a strong presence in oncology and gastro-hepatology segments in India. In order to further de-risk, the Company has expanded into Cardio & Diabetic segments as well recently. This strategy also helps to ensure that there is no single large product in any segment or geography that could significantly impact the Company's balance sheet.	The Company is naturally hedged (with exports and imports) providing a built-in de-risking against volatility in foreign currency.	The Company constantly attempts to balance its revenue exposure from different markets. Today, India and USA are the largest markets. As part of further de-risking, the Company has setup subsidiaries in several emerging markets such as Canada, Brazil, Singapore, etc. We believe, a periodic evaluation of the market conditions has helped us ensure minimum impact.
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Human Capital risk

Our success depends on our ability to retain and attract key qualified personnel.

The Company has a policy of providing excellent working environment for employees across all sections for better work-life balance. The compensation paid by the Company is comparable with industries of its class and size. The Company has formulated ESOP scheme to award and retain talent.

Health, Safety and Environment risk

Being in the business of healthcare, it is imperative for the Company to ensure 'no risk' in regards to health and safety of its stakeholder fraternity. Non-compliance of domestic and international regulations could lead to business disruptions.

The Company endeavours to achieve zero incidents and maintains full compliance with the laws and regulations that it is governed with. All its manufacturing facilities and R&D centres are complied with required regulatory laws, and are periodically audited.

Price control risk

The increased adoption of tender systems and other forms of price control in the market could reduce revenue/profit realisation for our products.

The Company generally keeps its product prices at competitive rates and historically has not faced challenges in its pricing due to price controls. We continue to evaluate pricing regularly and believe we are fairly de-risked.

Patent risk

The Company's inability to defend patent challenges, could prevent the Company from selling the products or result in financial liabilities.

The Company enters strategic partnerships for product launches with major distributors and renowned pharma companies, wherein the downside risks (legal costs) are shared. For domestic markets, the product litigation is minimal.

BUILDING A TALENT POOL

Our success is based, to a large extent, on the knowledge, skills, commitment and satisfaction of our people. We strive to create a working environment, where every person has the liberty to challenge the status quo, innovate and contribute to organisational performance.



Our corporate culture is built on integrity. We consistently develop our organisational structures according to the changing business environment and help our people to adapt. We have a wide range of initiatives and offerings to help managers lead their teams and enable employees to perform optimally in an evolving business environment.

We implement various career development initiatives throughout the year that help our people review their growth



curve over the years, and plan their future professional goals. We follow an integrated approach to link employee recognition, training and mentoring.

Our growing talent pool will enable us to sustain our leadership in a changing world.



OUR CORPORATE CULTURE
IS BUILT ON INTEGRITY.

EMPOWERING OUR COMMUNITIES

At NATCO, we are committed to building a better society, delivering sustainable development in all areas of our operations. We provide need-based interventions that empower and protect the rights of our diverse range of stakeholders, including local communities near our operational areas.

NATCO provides employment in a socially responsible manner, contributes towards raising the standard of living and assists communities with their needs and concerns. To help communities, we have developed our corporate social responsibility arm - NATCO Trust, which has widened its coverage in line with the need of integrated development.

The Trust was founded in 1995 and has been operating in the city and district of Hyderabad, as well as in various parts of the states of Telangana and Andhra Pradesh. During the last financial year, we have begun our commitment to locations across India and have started activities in Mumbai and Kolkata as well. The Trust's activities are spread across three areas: **Education, Health and Livelihood.**

Empowering through education

NATCO Trust has been working towards educating and empowering children from marginalised sections of society. The core goal is to provide them with equal opportunities of growth by building their confidence and skills. The Trust has a wide range of initiatives in place. Some of them are:

Bal Vikas Kendra

For young children from tribal communities, the Trust has established Bal Vikas Kendras

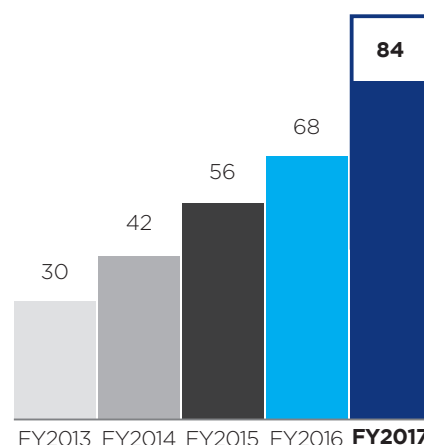
(BVKs). This initiative has helped students continue formal schooling with confidence and reduced the number of dropouts. Currently, around 70 children are being engaged by BVKs volunteers.

NATCO High School

The flagship project of NATCO Trust, the NATCO High School, was established in Rangapur village of Kothur Mandal in 1995. Children of Natco Pharma's employees and those from the surrounding 23 villages study in this school.

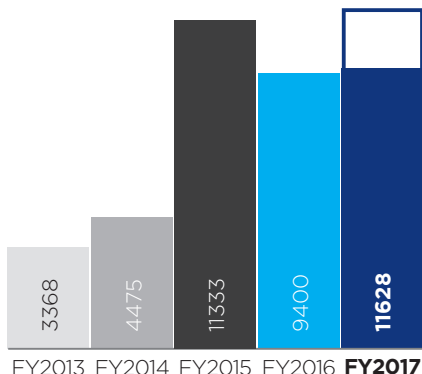
NATCO'S Contribution to Society

₹ Million



Education - beneficiaries reached

(in no)



NATCO High School

1992: 60 students, 6 teachers, 4 classrooms

2016: 1,513 students, 90 teachers, 60 classrooms

100% Pass Percentage of students in SSC exam over last 5 years



NATCO School of Learning

(NSL): Established in Gollamudipadu village, Guntur District in 2011, an English medium CBSE board school, with classes from Nursery - Grade X.

Govt. Primary School and Natco Govt. High School: In FY2016-17, the Trust has supported these

schools with 18 vidya volunteers, an academic coordinator and 6 sanitation staff in addition to the previous interventions. Additionally, after school tuition centres were started to help strengthen the children's fundamentals.

Sports for Development: We at Natco Trust, use sports for development as a medium to teach concepts like gender sensitisation, socio - emotional learning, children's rights which can be challenging to teach in a government school environment.

After school tuition centres: The Trust has trained volunteers in 25 centres across four locations to impart activity based learning. The learning is focused on providing strong fundamentals in Telugu and Mathematics among grade 1 to grade 5 children.

NATCO School of Learning

2011: 158 students, 15 teachers
2016: 608 students, 40 teachers

NATCO Government High School

2011: 934 students
2016: 2,080 students

Sports for Development

Reaching out to 2,124 children in 14 Govt. Schools through 8 Mentors

After school tuition centres

1,085 children from 25 centres, 24 villages, 34 vidya volunteers
Seats secured in Social welfare schools - 115

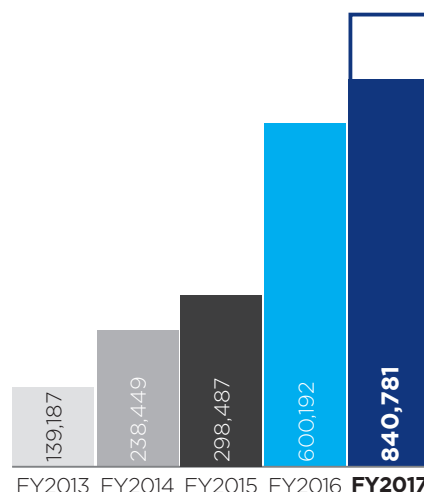
Progress through well-being

The NATCO Trust aims to improve the lives of those afflicted with 'multi-dimensional poverty'. These

people suffer from overlapping deprivations in healthcare and living standards. We strive to provide healthcare solutions, disseminate critical information and generate wide-spread awareness about healthcare practices to enhance the quality of lives in these communities.

Health - beneficiaries reached

(in no)



Natco Trust built a 2000 sq.ft., 15-bed Haematology Day Care Center at KEM Hospital in Mumbai.

Hospital Support

In rural areas, where access to medical facilities and doctors is severely limited, NATCO Trust is reaching out to enhance the well-being of people who need it the most. NATCO Trust provides

support to various hospitals in the form of infrastructural aid and assistance.



NATCO EYE CENTRE (Expected inauguration in 2017)

L V Prasad Eye Institute 'NATCO EYE CENTRE'

NATCO Group entered into a MoU with LV Prasad Eye Institute to develop a secondary level eye care facility at Kothur, Telangana. The Company provided 1.5 acres of land for constructing this facility along with a donation of ₹ 40 million to provide free treatment (including cataract surgeries).



Paediatric ward at Govt. General Hospital, Guntur

32-BED CHILDREN'S WARD AT GUNTUR GOVERNMENT HOSPITAL - SERVES 8 DISTRICTS OF AP & TELANGANA - UP TO 3,500 TO 4,000 CHILDREN CAN AVAIL MEDICAL CARE FROM THIS NATCO WARD.

Comprehensive Cancer Care Unit, Guntur

NATCO Trust is building a 55,000 sft., 100 bed comprehensive cancer care unit in Guntur, Andhra Pradesh that would have 20 chemotherapy bays and provide patients related diagnostics and treatment.

Patient Guidance & Counselling

We have placed 13 Counsellors across 8 Govt. Hospitals in Hyderabad to guide people suffering from various ailments, and help them avail health care services.

~ 790,430
Patients reached through Patient Guidance & Counselling in FY 2016-17

Other initiatives

NATCO Mobile Health Centres:

Our mobile health centres were launched in 2006 to provide primary health care facilities to every home in 31 villages surrounding the Company's manufacturing units. These centres are operational in Kothur and Nagarjunasagar programme areas, where 51% of households are registered with us.

Nutrition Centres:

The 29 Nutrition Centres in 22 villages have multiple areas of intervention primarily aimed at pregnant and lactating mothers.

160
Beneficiaries per centre reached through Nutrition Centres per year

These centres have achieved Institutional Deliveries at 94%, Birth planning among Antenatal women at 89%, Antenatal check-ups at 86.7% and TT injections among Antenatal at 98.8% Infant Mortality Rate @ 5/1,000 live births. These are located in Nalgonda, Mahbubnagar, Hyderabad and Guntur districts.

Health and Hygiene: Community managed safe drinking water and sanitation are the two projects undertaken under this initiative along with the Swachh Bharat Abhiyan. This initiative has been implemented in rural areas in Nalgonda, Mahbubnagar, Medak, Adilabad, Krishna and Guntur districts. Gollamudipadu, Guntur is now a 100% Open Defecation Free village, recognised by GoAP

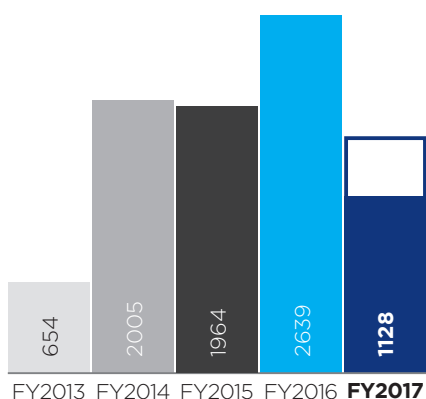
₹ 7 million
Contributed this year to build the Paediatric Gastroenterology Ward, ILDS, Kolkata

Improving livelihood through skill training



As an extension of its premise of providing education and

Livelihood - beneficiaries reached (in no)



the necessary guidance to students, to enable them to earn a living, NATCO Trust has set up the NATCO Vocational Training Centres (NVTC). Besides students finishing tenth grade, these centres provide vocational training to young men and women in rural areas so that they can earn an income, or get a job. The fields are pre-primary teacher training, stitching, cell phone repairs, beauty parlour management, driving and computer education.

These NVTCs are registered under the Skill Development Initiative Scheme as part of the Modular Employability Skills of the Ministry of Labour and Employment.

NATREACH

- Our flagship programme, NATREACH, is a patient assistance initiative started by NATCO to help the underprivileged and economically backward people
- NATREACH provides access to life-changing medical treatments
- About 2,000 patients per year, on average benefited through NATREACH over the last 5 years

MEDICINE	DISEASE TREATED
VEENAT	CHRONIC MYELOID LEUKEMIA
SORAFENAT	LIVER AND KIDNEY CANCER
PEMNAT	LUNG CANCER
GEFTINAT	LUNG CANCER
BORTENAT	MULTIPLE MYELOMA
ERLONAT	PANCREATIC CANCER
HEPCINAT AND ITS COMBINATIONS	HEPATITIS C

TESTIMONIALS

Venkat Reddy (Age: 45, Farmer from West Godavari), a CML patient who has been taking Veenat through Natreach for the last 6 years says, "I'm a cancer survivor only because of NATCO's generosity and am forever indebted to your Company."

Name Undisclosed (Age: 54, Hyderabad), has been leading a healthy life for the last 14 years since his CML diagnosis and says, "NATCO showed me that Cancer was not the end of my life, but is only a bend in my life."

NURTURING THE ENVIRONMENT

NATCO plays a proactive role in minimising pollution in all its units. Our Environmental Health & Safety(EHS) policy is stewarded by an in-house EHS organisational setup. In our journey towards sustainability, the EHS team benchmarks its status and sets new goals to achieve.



At NATCO, we are consistently working towards reducing the environmental impact of our business initiatives and find innovative product solutions that benefit the environment.

An efficient approach to raw materials and energy is now both an ecological and economic imperative at all our business units. Eco-efficient processes help reduce environmental impact and at the same time reduce associated costs. We have been

aggressively pursuing the use of renewable energy sources, in the past year, a small step towards reducing the carbon footprint.

In the last fiscal year, we have made substantial progress in terms of introducing renewable sources of energy across our facilities. Going forward, we intend to strengthen our sustainability goals further by ensuring that nearly 50% of total energy requirements are met through renewable sources.



Mekaguda Facility

In FY 2016-17, NATCO successfully installed a 1 MW solar power plant on-site at its Chemical Division, Mekaguda facility, using Solar PV panels. Additionally, a 1 MW solar power plant installation is planned for the calendar year 2017. In order to minimise operation costs, NATCO has combined in-house capabilities and Power Purchase Agreements (PPA) with renewable energy generators for effectively lowering energy costs. Today, over 25% of the energy needs for the Mekaguda facility are met through solar energy sources.

25%

energy needs of the Mekaguda facility are met through solar energy sources.



Chennai Facility

On the wind energy front, we installed a 2.1 MW power plant in Tamil Nadu for captive consumption in NATCO's Chemical Division II in Chennai. Currently, 80% of Chennai facility's power demand is met through this wind energy source. We have planned investments in additional wind energy sources to meet demands of our upcoming Vizag formulations facility.

80%

of Chennai facility's power demand is met through this wind energy source.

MANAGEMENT DISCUSSION & ANALYSIS



The world economy is well on its way towards recovery and global growth is expected to touch 3.5% in 2017 and 3.6% in 2018.

ECONOMIC OVERVIEW & OUTLOOK

Global economic activity has improved in 2017, with a steady momentum reflected in a wide range of variables, including Purchasing Managers' Index (PMI), industrial production, global trade and robust financial markets. Overall, the world economy is well on its way towards recovery and global growth is expected to touch 3.5% in 2017 and 3.6% in 2018. The IMF has projected an upward trend for the United States of America, mirroring the assumed fiscal policy easing and an uptick in business and consumer confidence. If this positivity persists, it will reinforce the cyclical momentum. Moreover, the prospects for Europe and Japan improved owing to cyclical recovery in global manufacturing and trade that commenced in the second half of 2016.

The reviving global economic landscape cannot be mentioned in isolation without discussing the downside risks, which include low productivity growth, high-income inequality, geo-political uncertainties and so on. Besides, the growing trend towards protectionism in the developed countries may hinder global trade and integration.

At the same time, the Emerging Markets and Developing Economies (EMDEs) account for a significant portion (over 60%) of global growth in output and consumption. The contribution of EMDEs in global economic activity almost doubled in the last two decades.

In FY 2016-17, the picture for EMDEs remained distinctly diverse. On one hand, China registered stronger than expected growth, supported by continued policy stimulus. On the other hand, some EMDEs like Argentina, Brazil and Turkey observed weaker than expected economic progress as they faced sharp contraction in tourism revenues. Russia's economy performed better than expected during the year, in part reflecting firmer oil prices.

For those EMDEs that rely heavily on energy or metal exports, lower commodity prices remain a key influencer for short- and medium-term scope. The slowdown of productivity growth in the last few years is also a medium-term challenge for many EMDEs. African economies encountered major challenges in the form of sharp declines in commodity pricing,

the Ebola epidemic, and severe drought in Eastern and Southern and African (ESA) countries. Besides, political turmoil and fuel shortages in some countries slowed economic progress in the continent. However, economic growth improved in the last quarter of 2016; The momentum is likely to continue into 2017.

Key factors defining global economy in FY 2016-17:



Indian Economy

India has emerged as one of the fastest growing economies in the world. Bold policy initiatives, coupled with higher disposable incomes - due to good monsoon and Seventh Central Pay Commission - have propelled India's consumer demand and enhanced the country's economic potential. In FY 2016-17, India witnessed two major policy reforms - demonetisation and passing of the bill for implementation of the Goods and Services Tax (GST).

Despite short-term hardships due to demonetisation, India is expected to record 7.6% GDP in FY 2017-18. The country has positioned itself as a vibrant emerging economy, and

attracted Foreign Direct Investment (FDI) worth \$ 60.1 billion in FY 2016-17 ((Source: The Ministry of Commerce and Industry, India).

Several initiatives by the government, such as Make in India, Digital India, Skill India, Start-Up India and so on are serving to empower the domestic manufacturing sector. Moreover, these initiatives are helping create appropriate infrastructure, and enhance digital literacy along with India's talent pool. Regardless of the challenges, India is poised for a long-term growth trajectory, powered by a stable economy and investments to improve infrastructure, manufacturing output and rural income. Additionally, robust private consumption, the trend of benign inflation and a consistent focus on institutional reforms across all sectors are improving India's macroeconomic parameters.

Key aspects of India's economy in FY 2016-17:

1. India's growth momentum is likely to accelerate in the second half of FY 2017-18, amid the rapid pace of ongoing re-monetisation and trickle-down impact of past policy reforms.
2. India's GDP growth rate is likely to touch 7.6% in FY 2017-18, driven by a rebound in consumption demand.
3. India's long-term growth will be driven by major factors: government reforms across all sectors of the economy; enhanced focus on rural income; low interest rates; benign inflation; favourable demographics (half of the population is below 35 years of age and an expanding addressable market size (India now has 50 large consumption hubs).

WHY GST IS A RADICAL STEP FORWARD ?

- Provides a uniform tax framework for indirect taxes
- Unifies fragmented Indian market under uniform taxation
- Enhances the ease of doing business with transparent taxation
- Removes cascading effects of taxes
- Saves government's cost in tax collection
- Diminishes raw material costs, thereby decreasing prices of associated goods
- Reduces corruption with unified taxation



India's GDP growth rate

2013-14	2014-15	2015-16	2016-17
6.9	7.3	7.6	7.1

Source: Crisil

GLOBAL PHARMACEUTICAL INDUSTRY

The global pharma industry is expected to witness encouraging growth in the coming years. Emerging and lower-income countries are likely to drive the rise in healthcare expenditures, with a potential for expansion of services in developed countries.

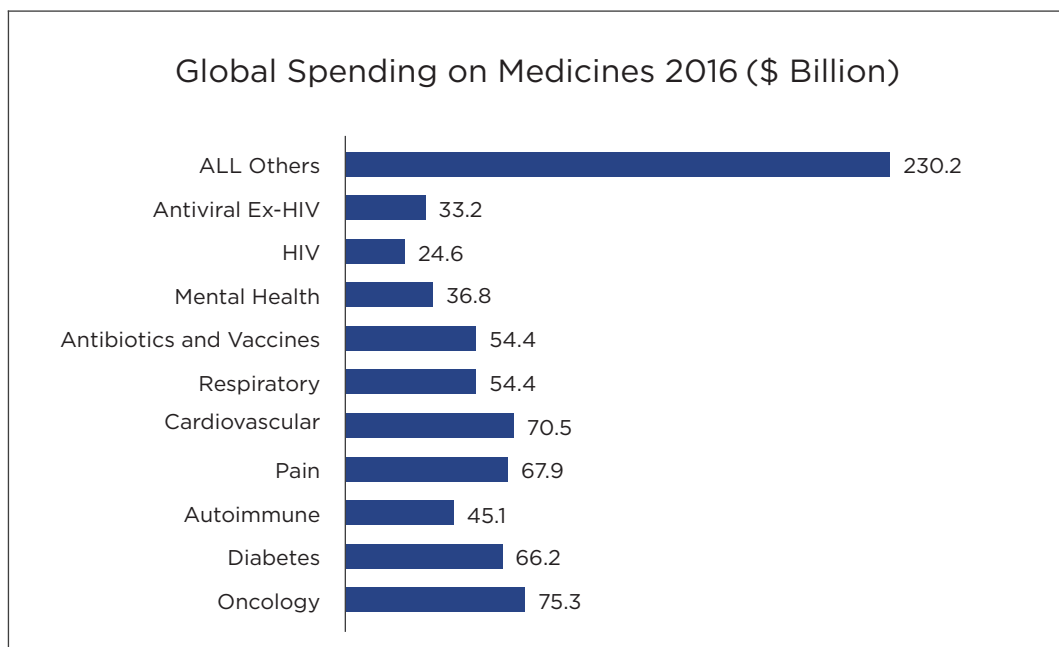
Global medicine spend is expected to reach nearly \$1.5 trillion (on an invoice price basis) by 2021, which is up by \$370 billion from the 2016 estimates (Source: Quintiles IMS Institute). Besides, overall medical device research and development spending is expected to grow at a CAGR of 4.3% from 2015 to 2020.

Major global healthcare drivers

- By 2020, 50% of global healthcare expenditures – about US\$ 4 trillion – will be spent on three leading causes of death: cardiovascular diseases, cancer and respiratory diseases
- Hepatitis C treatments alone accounted for 3% of the overall growth of 12% in 2015, and now is expected to grow modestly till 2021.

- Oncology, autoimmune and diabetes treatments will drive much of the growth in future
- HIV-AIDS continues to affect 36.9 million people worldwide, around 70% of whom are living in Sub-Saharan Africa. Moreover, the Zika virus and associated upsurge in microcephaly are major threats in Latin America
- Innovation in specialty medicines will continue lifting the share of global spending from 30% in 2016 to 35% in 2021.





Source: IMS Market Prognosis, Sept. 2016; Quintiles IMS Institute, Oct. 2016

GLOBAL MARKET REVIEW

Developed markets

Pharmaceutical spending in developed markets is estimated to rise from \$749 billion in 2016 to \$975-1,005 billion by 2021. Among developed markets, the US will remain the most important market and will be a key growth driver for the industry.

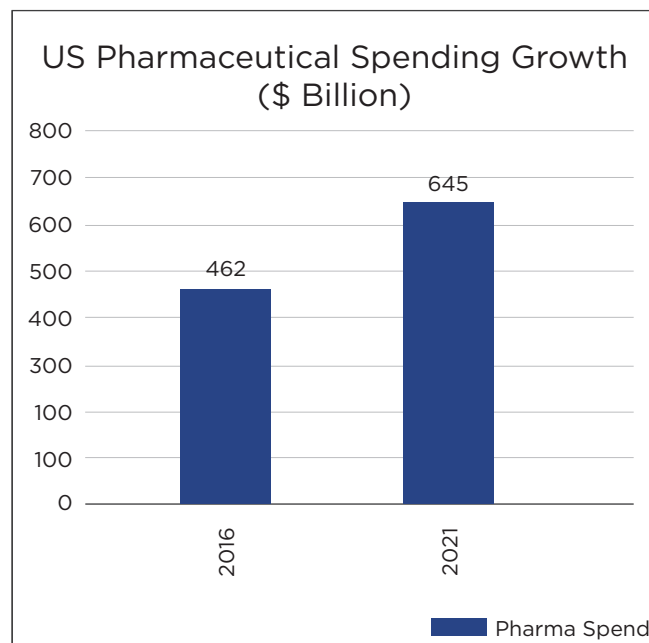
Developed markets pharmaceutical spending

USA

With a market size of \$462 billion in 2016, the US pharmaceutical market is expected to grow by 6-9% CAGR to \$645-675 billion in 2021. The US economy has one of the world's most supportive regulatory framework for development and commercialisation of innovative pharmaceuticals. Its key strengths include an intellectual property ecosystem that encourages and rewards innovation and a stringent regulatory architecture that ensures quality. At present, the market is registering a steady growth across biologics and generics.

The reduction in overall spending (as branded medicines lose exclusivity) is likely to reach \$143.5 billion in the next five years - more than 1.5 times the

impact as compared to the past five years. This includes the estimated impact of biosimilars, uncertainty based on multiple issues in litigation with originators, as well as regulatory, pricing and competitive dynamics.





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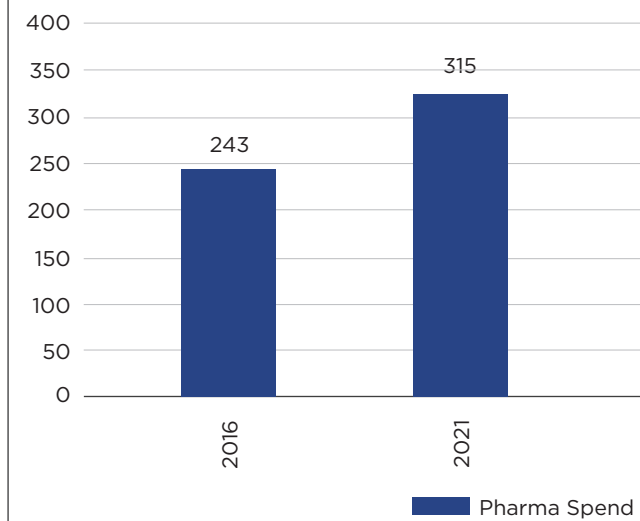
Pharmerging markets

The spending of pharmerging markets is expected to grow at 6.9% CAGR from \$243 billion in 2016 to \$315-345 billion by 2021. Amid uncertainties in the US market, the pharmerging markets have been bright spots in the pharma landscape. These are high-growth markets with robust macroeconomic drivers and have achieved steady growth, despite price controls and currency fluctuations. In the pharmerging markets, the growth opportunities in the branded generics segment ensure a sustainable and predictable revenue prospect over long periods.

The increase in public and private healthcare insurance is the primary growth driver for these markets. The governments of various pharmerging countries such as India have implemented several schemes that can be availed by patients to obtain free treatment for different diseases. Besides, public and private multinational firms in collaboration with various insurance companies



Pharmerging Markets Pharmaceutical Spending Growth (\$ Billion)



provide healthcare coverage to their employees as a part of Employee Welfare Schemes. This further encourages people to seek treatment for existing diseases.

Going forward, increased healthcare spending by governments of pharmerging countries is expected to bolster market growth. Moreover, governments and pharmaceutical companies in these regions are making huge investments to improve accessibility to healthcare services. Market growth in pharmerging countries is primarily driven by rising incomes, macroeconomic expansion, and government-supported policies and programmes.



Pharmerging markets spending is expected to grow at 6.9% CAGR from \$243 billion in 2016 to \$315-345 billion by 2021.

India

According to industry reports by IMS Health and AIOCD AWACS, India's pharma industry's revenue is expected to grow by 10-12% CAGR over the next few years. Besides, other reports predict that India is likely to become the third largest pharmaceuticals market



by 2020, in terms of incremental growth. The domestic industry contributes to 20% of global generics exports, making India the largest provider of generic medicines, globally. By 2020, the overall industry revenue is expected to reach \$45 billion.



The domestic industry contributes to 20% of global generics exports, making India the largest provider of generic medicines, globally.

India's growth drivers are built on the '4As' (accessibility, affordability, awareness and ailments). These include more hospitals in second-tier cities, rising per-capita income and greater insurance penetration, improving literacy rates and government health campaigns and increasing prevalence of non-communicable diseases due to lifestyle changes. These factors are expected to increase medicine penetration in the country, going forward.

The domestic generic drugs market accounts for around 70% of India's pharmaceutical industry, and is expected to reach \$27.9 billion by 2020.

The Government of India plans to establish a \$640 million venture capital fund to bolster drug discovery and strengthen pharmaceutical infrastructure. The Pharma Vision 2020 by the government's Department of Pharmaceuticals aims to make India a major hub for end-to-end drug discovery. Government expenditure on health in the country increased from \$14 billion in 2008 to \$53 billion in 2016 (Source: IBEF).

NATIONAL HEALTH POLICY, 2017

The New Health Policy introduced by the Government of India has been designed to bring assured equality in healthcare to all, especially the underprivileged sections of society. The key features of the policy are focused on prioritising the government's role in shaping health systems across all its scopes: investment in health, organisation and financing of healthcare services, access to technology, developing human resources and so on.

Moreover, the policy has proposed raising public expenditure to 2.5% of the GDP and ensuring the availability of two beds for every 1,000 people. Essential healthcare services such as free medication, free diagnostics and free emergency have been proposed for implementation in all public hospitals.

BUSINESS OVERVIEW

NATCO's philosophy has always been to improve affordability and access to medicines. Headquartered in Hyderabad, India, NATCO is an R&D-focused, vertically integrated, generic pharmaceutical drug company engaged in developing, manufacturing and marketing Finished Dosage Formulations (FDF) and Active Pharmaceutical Ingredients (API). NATCO's manufacturing plants are spread across India and certified by key regulatory authorities.



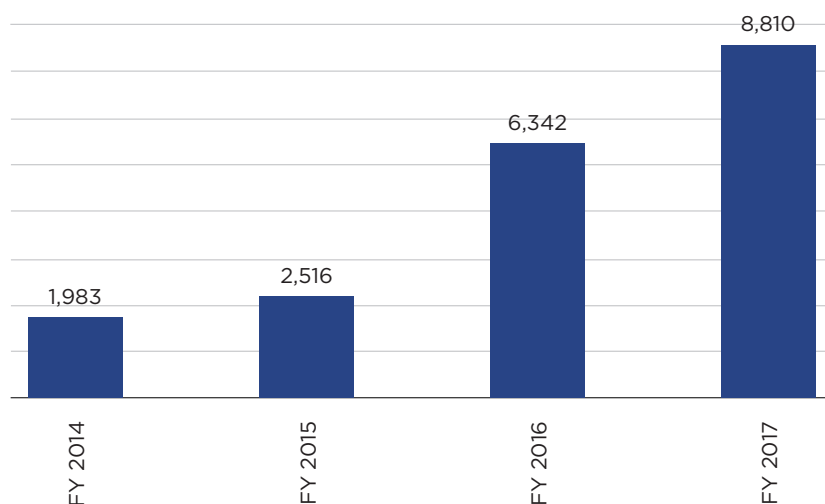
The Company markets and distributes products in over 40 countries, and sells FDF products in USA, India, Europe and rest of the world. NATCO's success stems from its research-led ability to identify and develop complex products in specialty therapeutic segments in a cost-effective manner.

Business segments

The Company's operations could be classified into three business segments, namely domestic formulations, international formulations and active pharmaceutical ingredients.

1. **Domestic Formulations:** NATCO is a leading player in the domestic Oncology and Gastro Hepatology segment with a portfolio of market leading brands. Its pioneering move into domestic oncology segment with introduction of affordable drugs, has led to its market leadership in the segment. It has expanded its oncology drug offerings over the years, which is backed by its quality and brand reputation. Recently, NATCO gained significant recognition in hepatology (sub-segment of gastroenterology) segment with the launch of HEPCINAT (NATCO's generic brand of Sofosbuvir) and its combinations. It is one of the first companies to launch generic Hep-C range of products. The Company has made its mark in a very short span of time by capturing over 60% of market share. The Company further expanded its domestic presence

Domestic Formulation Sales: Market Leading Growth (₹ Million)



with the launch of a new Cardiology and Diabetology Division, which focuses on niche molecules with high barrier to entry. Going forward, NATCO expects to launch 10+ products in the domestic market during FY 2017-2018.

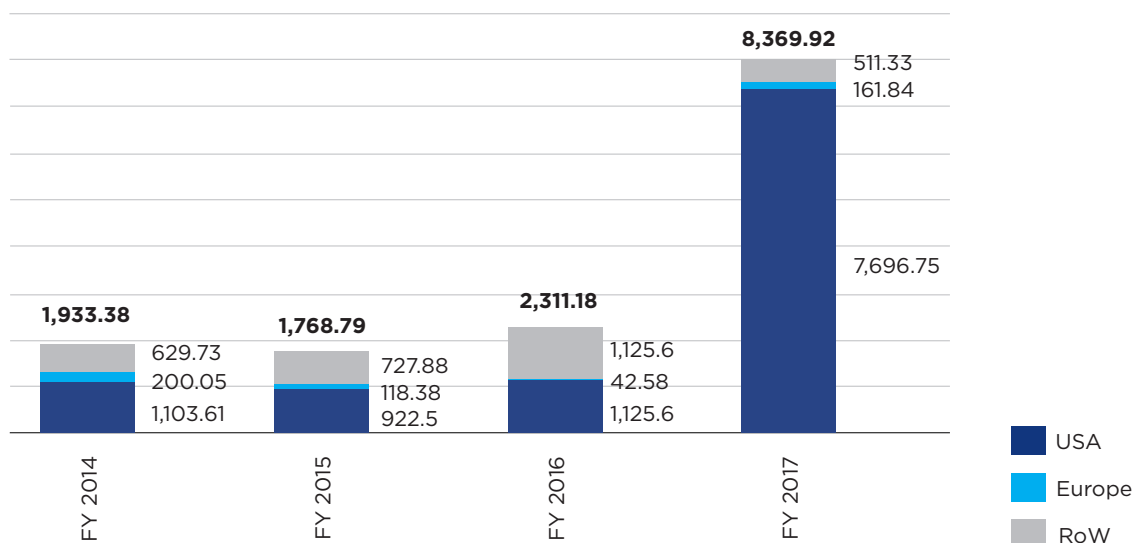
2. **International Formulations:** NATCO is also focused on complex generics for the US market and has adopted and successfully implemented partnership strategy for international formulations products. The Company has product specific partnerships with global generic players at different stages of a potential Abbreviated New Drug Application (ANDA) filing. Moreover, it has entered into de-risked arrangements with marketing partners; with the partner typically responsible for the litigation and regulatory process to secure the ANDA approval. Profit sharing arrangements with front-end partners ensure NATCO participates in the up-side. NATCO has had recent success with the launch of generic Oseltamivir capsules in partnership with Alvogen and Doxorubicin Liposomal Injection with Dr. Reddy's Laboratories Ltd.

As on 31 March 2017, the Company has 43 niche ANDA filings including 20 Para IV filings in the US - with 22 approved ANDAs (one of them is yet to be launched). NATCO's US FDF product portfolio



is predominantly focused on high-barrier-to-entry products that are typically characterised by one or more of the following: intricate chemistry; challenging delivery mechanism; difficult or complex manufacturing process; or that face complex legal and regulatory challenges.

International Export Formulation Sales: Geography-wise (₹ Million)



Pipeline molecules that matter

Overview of Key Filings						
Key Brand	Molecule	Therapeutic Segment/ Indication	Dosage Form	Para IV	Para III	Market Size (\$ Million)
Pipeline	Copaxone 20&40 mg	Glatiramer 20&40 mg	Multiple Sclerosis	PFS	>	4,138.4
	Tamiflu	Oseltamivir Suspension	Influenza Infection	>		213.1
	Vidaza	Azacitidine	Myelodysplastic Syndrome	>	>	203.1
	Fosrenol	Lanthanum Carbonate	End Stage Renal Disease	>		119.0
	Revlimid*	Lenalidomide	Multiple Myeloma	>		4,416.9
	Tracleer*	Bosentan	Hypertension	>	>	367.5
	Nexavar*	Sorafenib	Liver, Kidney Cancer	>		330.7

* Represents REMS product, Market size estimated from respective Innovator's Annual Report

The Company has also expanded its presence in the Rest of the World (RoW) markets. It reaches the RoW markets mostly through joint ventures or supply agreements with select local players in that geography. NATCO is establishing new channels led by Hepatitis C product sales in these local markets.

In South American countries, especially in Venezuela and Brazil, poor macroeconomic conditions impacted potential sales for NATCO in FY 2016-17.

Besides, the Company operates through its subsidiaries in Brazil, Canada, Singapore and Australia. During the year, NATCO's Canadian subsidiary was profitably driven by robust sales of generic oseltamivir. The Company's other subsidiaries are aggressively working to prepare the stage for growth, moving forward.

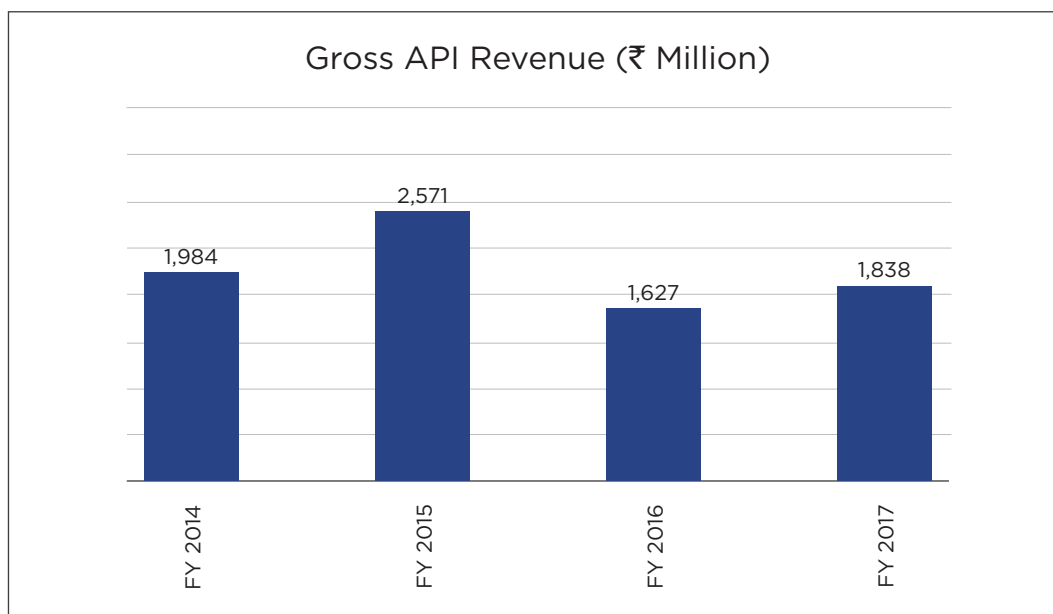
Overall, in spite of pockets of stress in different international markets, the Company's International Formulation division performed well during the year, steered by significant gains from generic oseltamivir in USA.

3. Active Pharmaceutical Ingredients (API): One of the Company's core strength is its in-house API development with vertical integration for key formulation products. NATCO develops APIs for captive consumption of its Finished Dosage Formulation (FDF) portfolio as well

as Third Party (TP) sales. The Company has a strategic advantage with backward integration for critical APIs and is focused on complex molecules in oncology and CNS segments. Other therapeutic areas of focus include anti-asthmatic, anti-depressant, anti-migraine, anti-osteoporosis and gastrointestinal disorders.

Successful new product launches, revival of baseline business and new projects are fueling the growth of NATCO's Third Party API business. Launch of Imatinib in EU by TP API customers was one of the key highlights of FY 2016-17. The API R&D expansion will help the Company broaden its API portfolio in the coming years and with manufacturing capacities at both locations (Mekaguda and Manali) set to double in the next 2 years, NATCO is looking at sustainable growth in TP API business. The Company is also making concerted business development efforts to expand customer base and penetrate into new markets. API exports are focused in the EU, Canada, Latin America and Southeast Asian markets. NATCO's selection process of new products is aligned with Global API trends and significant business growth is possible once operations are scaled up fully over the next 2 years.

As on 31 March, 2017, NATCO has a portfolio of 37 US DMFs with over 10 products under development.



FINANCIAL OVERVIEW

In FY 2016-17, NATCO's revenue from operations on a consolidated basis amounted to ₹ 20,789 million vis-à-vis ₹ 10,897 million in FY 2015-16, recording a 40% CAGR over the last three years.

The net profit after tax was recorded as ₹ 4,860 million compared to ₹ 1,571 million in the previous year. PAT has grown at a CAGR of 68% in the last three years.

EBITDA has grown at a CAGR of 53% over the last three years and was recorded at ₹ 6,973 million vis-à-vis ₹ 2,832 million in FY 2015-16.

Average return on equity was 29.5% in the current year compared to 12% in the previous year.

The Company's market capitalisation as on 31 March, 2017 stood at ₹ 148.02 billion.

No material changes and commitments occurred after the close of the year, till the date of this report, which could affect the financial position of the Company.

THREATS, RISKS, CONCERNS

Adverse assessment of a manufacturing facility by any key regulatory body has the potential to significantly change business prospects of any pharmaceutical company.

ENVIRONMENT, HEALTH & SAFETY

NATCO has always been committed to environmental care across the value chain. Thus, the Company integrates energy and environmental considerations across all its facilities by reducing carbon footprint and increasing renewable energy measures. NATCO - Mekaguda facility is accredited with ISO 14001-2004 Environment Management Systems (EMS) and OHSAS 18001-2007 Occupational Health and Safety Management Systems.

Besides, NATCO has also won the prestigious Golden Peacock award for Occupational Health and Safety in 2017 and 2014 and for Environmental Management in 2016.

BOARD'S REPORT

Dear Members,

Your Directors have pleasure in presenting the Thirty-Fourth Annual Report along with the audited financial accounts of your Company for the financial year ended March 31, 2017.

FINANCIAL HIGHLIGHTS (AS PER IND AS)

₹ in Millions, except share data

	Consolidated			Standalone		
	2017	2016	Growth	2017	2016	Growth
Total Revenues	20789	10897	91%	20160	10721	88%
EBITDA	6973	2823	147%	7052	2936	140%
Profit after tax	4860	1571	209%	4948	1765	180%
Dividend (including Dividend Distribution Tax)	1416	262	-	1416	262	-
Transfer to General Reserve	-	110	-	-	110	-
Earnings Per Share-Basic	27.78	9.14	-	28.27	10.17	-

BRIEF REVIEW OF THE FINANCIAL YEAR

Revenues from formulations segment was the key driver of growth during the fiscal year constituting over 87% of total net revenue on standalone basis. This was largely driven by continued growth of domestic formulations segments of hepatitis C & oncology drugs, as well as the launch of generic Oseltamivir in the US market. API constituted just under 9% of total net revenue on standalone basis.

ANDAs (1 yet to be launched); which have been filed in collaboration with global pharmaceutical companies.

As of Mar 31st, 2017, the Company filed 37 DMFs with the USFDA across therapeutic segments such as oncology, CNS, anti-asthmatic, anti-depressant, anti-migraine, anti-osteoporosis and gastrointestinal disorders and are currently working on several more DMFs to be filed in near future.

As of Mar 31st, 2017, the Company has 43 ANDA filings of which (i) 20 Para IV filings (ii) 22 approved

DIVIDEND:

The Board of Directors of your Company declared two interim dividends for the FY 2017, the details of which are as follows:

S. No.	Date of Board Meeting	Date of payment	Interim Dividend Declared per equity share of face value ₹ 2/- each	Dividend Payout (including DDT) (₹ in Millions)
1.	9th August 2016	31st August 2016	0.75	157.22
2.	14th February 2017	03rd March 2017	6.00	1,258.76
TOTAL			6.75	1,415.98

The Interim Dividend had been paid to all eligible shareholders and no further dividends are proposed/recommended by the Board. Accordingly your Directors recommend that the above two interim dividend amounts be treated as the final dividend of the Company for the Financial Year 2016-17. The Board adopted a Dividend Distribution Policy for the Company which is attached as "Annexure IX" to this Board's Report.

TRANSFER TO RESERVES

The Company has not transferred any amount to the general reserve during the current financial year.

SHARE CAPITAL

The paid-up share capital of your Company increased to ₹ 349 million in FY2017, due to allotment of 1,33,555 shares of face value ₹ 2 each to the eligible employees of the company under Employee Stock Option Scheme, 2015.

FIXED DEPOSITS

The Company has not accepted any deposits covered under Chapter V of the Companies Act, 2013. Accordingly no disclosure or reporting is required in respect of details relating to deposits covered under this Chapter

CHANGE IN THE NATURE OF BUSINESS, IF ANY

During the year, there was no change in the nature of business of the Company or any of its subsidiaries.

The Company has introduced a new segment, Cardiology and Diabetology (CnD) which will enhance our presence in India.

SUBSIDIARIES

The Company has five (5) international subsidiaries (excluding one (1) step down subsidiary) as on 31 March 2017. The consolidated financial statement of the Company and all its subsidiaries prepared under Indian Accounting Standards (Ind AS) specified under Section 133 of the Companies Act, 2013 form part of the annual report. Further, a statement containing the salient features of the financial statement of our subsidiaries in the prescribed Form AOC-1, is attached as "Annexure I" to the Board's Report. This statement also provides the details of the performance and financial position of each subsidiary. In accordance with Section 136 of the Companies Act, 2013, the

audited financial statements and related information of the subsidiaries, where applicable, will be available for inspection during regular business hours at the Company's registered office in Hyderabad, India.

PARTICULARS OF INVESTMENTS, LOANS & ADVANCES

The Company makes investments, loans and advances to its subsidiaries for their business purpose. Details of loans, investments and advances covered under Section 186 of the Companies Act, 2013, form part of the notes to the financial statements provided in this annual report.

CORPORATE GOVERNANCE AND ADDITIONAL SHAREHOLDERS INFORMATION

A detailed report on the corporate governance systems and practices of the Company is given under Corporate Governance Report which is part of this Annual Report. Similarly, other detailed information for shareholders is provided in the chapter Additional Shareholders' Information.

A certificate from CS P. Renuka, Company Secretary in Practice (C.P. No. 3460) on the compliance with the conditions of corporate governance is attached to this Annual Report.

MANAGEMENT DISCUSSION AND ANALYSIS

A detailed report on the Management Discussion and Analysis is provided as a separate chapter in the annual report.

BOARD OF DIRECTORS

In accordance with the provisions of the Companies Act, 2013, Mr. P. S. R. K. Prasad (DIN: 07011140), Director retires by rotation and being eligible offers himself for reappointment at the ensuing Annual General Meeting of the company.

Dr. B.S. Bajaj, who will be attaining 90 years of age this September and Dr.A.K.S.Bhujanga Rao who on superannuation requested the Company to relieve them as Directors. Accordingly, Board accepted their resignations.

BOARD EVALUATION

As per provisions of the Companies Act, 2013 and the Listing Regulations, an evaluation of the performance of the Board was undertaken.

The contribution and impact of individual Directors were reviewed through a peer evaluation on parameters such as level of engagement and participation, flow of information, independence of judgment, conflicts resolution and their contribution in enhancing the Board's overall effectiveness. The feedback obtained from the interventions was discussed in detail and, where required, independent and collective action points for improvement put in place.

APPOINTMENT OF DIRECTORS AND REMUNERATION POLICY

The assessment and appointment of members to the Board is based on a combination of criterion that includes ethics, personal and professional stature, domain expertise, gender diversity and specific qualification required for the position. The potential Board member is also assessed on the basis of independence criteria defined in Section 149(6) of the Companies Act, 2013 and SEBI (Listing Obligation and Disclosure Requirements) Regulations, 2015 ("Listing Regulations").

In accordance with Section 178(3) of the Companies Act, 2013, and on recommendations of Nomination and Remuneration Committee, the Board adopted a remuneration policy for Directors, Key Management Personnel (KMPs) and Senior Management which is attached as **"Annexure VIII"** to this Board's Report.

DECLARATION BY INDEPENDENT DIRECTORS

The Company has received necessary declaration from each independent Director under Section 149(7) of the Companies Act, 2013, that he/she meets criteria of Independence laid down in Section 149(6) of the Companies Act, 2013 and Regulation 16(1)(b) of the Listing Regulations.

NUMBER OF BOARD MEETINGS

The Board of Directors met four times during the FY 2017. Details of Board meetings are laid out in Corporate Governance Report, which forms a part of this Annual Report.

BUSINESS RISK MANAGEMENT

The Company has a risk management mechanism in place to manage uncertainties through identification, analysis assessment, implementing and monitoring to reduce the impact of risks to the business which is discussed in detail in the Management Discussion and Analysis section.

INTERNAL FINANCIAL CONTROL

The Company has laid down certain guidelines, processes and structure, which enables implementation of appropriate internal financial controls across the organisation. Such internal financial controls encompass policies and procedures adopted by the Company for ensuring the orderly and efficient conduct of business, including adherence to its policies, safeguarding of its assets, prevention and detection of frauds and errors, the accuracy and completeness of accounting records and the timely preparation of reliable financial information. These include control processes both on manual and IT applications including the ERP application wherein the transactions are approved and recorded. Appropriate review and control mechanisms are built in place to ensure that such control systems are adequate and are operating effectively. Because of the inherent limitations of internal financial controls, including the possibility of collusion or improper management override of controls, material misstatements in financial reporting due to error or fraud may occur and not be detected. The evaluation of the internal financial controls are subject to the risk that the internal financial control may become inadequate because of changes in conditions, or that the compliance with the policies or procedures may deteriorate. The Company has, in all material respects, adequate internal financial controls over financial reporting and such internal financial controls over financial reporting were operating effectively as at 31 March 2017, as stated in the Guidance Note on Audit of Internal Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India.

The Statutory Auditors of the Company has audited the IFC over Financial Reporting and their Audit Report is annexed to the Independent Auditors' Report under Standalone Financial Statements and Consolidated Financial Statements.

INSURANCE

The Company's plant, property, equipments and stocks are adequately insured against major risks. The Company also has appropriate liability insurance covers particularly for product liability and clinical trials. The Company has also taken Directors' and Officers' Liability Policy to provide coverage against the liabilities arising on them.

DIRECTORS RESPONSIBILITY STATEMENT

In terms of Section 134(3)(c) of the Companies Act, 2013 in relation to financial statements of the company

for the year ended 31st March 2017, the board of directors state that:-

- a) The applicable accounting standards have been followed in preparation of the financial statements and there are no material departures from the said standards.
- b) Reasonable and prudent accounting policies have been used in preparation of the financial statements and that they have been consistently applied and that reasonable and prudent judgments and estimates have been made in respect of items not concluded by the year end, so as to give a true and fair view of the state of affairs of the company as at 31st March, 2017 and of the profit for the year ended on that date.
- c) Proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 2013 for safeguarding the assets of the company and for preventing and detecting fraud and other irregularities.
- d) The financial statements have been prepared on a going concern basis.
- e) Proper internal financial controls were in place and were adequate and operating effectively; proper systems to ensure compliance with the provisions of applicable laws were in place and were adequate and operating effectively.

RELATED PARTY TRANSACTIONS

In accordance with Section 134(3)(h) of the Companies Act, 2013 and Rule 8(2) of the Companies (Accounts) Rules, 2014, the particulars of contract or arrangement entered into by the Company with related parties referred to in Section 188(1) in Form AOC-2 is attached as "Annexure II" to this Board's Report.

The details of related party disclosures form part of the notes to the financial statements provided in this Annual Report.

VIGIL MECHANISM / WHISTLE BLOWER POLICY

The Company has an Ombudsperson policy (Whistle-Blower/Vigil mechanism) to report concerns. Under this policy, provisions have been made to safeguard persons who use this mechanism from victimization. An

Audit Committee member is the Chief Ombudsperson. The policy also provides access to the Chairperson of the Audit Committee under certain circumstances. The details of the procedures are also available on the website of the Company www.natcopharma.co.in.

AUDITORS

Statutory Auditors

The shareholders at their 31st Annual General Meeting (AGM) held on 27 September 2014, approved the re-appointment of M/s. Walker Chandiok & Co LLP, Chartered Accountants (Firm Registration No.: 001076N), as statutory auditors of the Company, to hold office from the conclusion of the 31st AGM up to the conclusion of the 36th AGM to be held for the year 2018-2019. In terms of first proviso of Section 139 of the Companies Act, 2013, the appointment of the auditors is subject to ratification by the shareholders at every subsequent AGM.

Accordingly, the appointment of M/s. Walker Chandiok & Co LLP Chartered Accountants, as statutory auditors of the Company from the conclusion of the 34th AGM till the conclusion of the 35th AGM, is put forward to the shareholders in the ensuing AGM for their ratification.

Secretarial Auditor

Pursuant to Section 204 of the Companies Act, 2013 and the Companies (Appointment & Remuneration of Managerial Personnel) Rules, 2014, CS Balachandra Sunku (CP No. 12745) a, practicing Company Secretary conducted the secretarial audit of the Company for FY 2017. The Secretarial Audit Report in form No. MR-3 is attached as "Annexure III" to this Board's Report.

The Board has re-appointed CS Balachandra Sunku, a Practicing Company Secretary, as secretarial auditor of the Company for FY 2018.

Cost Auditors

Pursuant to Section 148 of the Companies Act, 2013 read with the Companies (Audit and Auditors) Rules, 2014 and the Companies (Cost Records and Audit) Amendment Rules, 2014, the Company maintains the cost audit records in respect of its pharmaceutical business. The Board has, on the recommendation of the Audit Committee, appointed M/s. S.S. Zanwar & Associates (Firm Registration No.:100283) as cost auditors of the Company for FY 2017. The provisions also require that the remuneration of the cost auditors be ratified by the shareholders and accordingly the same is put forward to the shareholders in the ensuing AGM for their ratification. The cost audit report for

the FY 2017 will be filed with the Central Government within the stipulated timeline and the relevant cost audit reports for FY 2016 were filed within the due date to the Central Government.

SIGNIFICANT AND MATERIAL ORDERS PASSED BY THE COURTS / REGULATORS

During FY2017, there were no significant and/or material orders, passed by any Court or Regulator or Tribunal, which may impact the going concern status or the Company's operations in future.

CORPORATE SOCIAL RESPONSIBILITY INITIATIVES

The Board formulated a Corporate Social Responsibility (CSR) Policy which is in full force and operation and is subject to monitoring by the CSR Committee of Directors from time to time.

The details about the CSR initiatives taken during the FY 2017 are discussed in a separate chapter "Empowering our Communities" which forms a part of this Annual Report.

The Annual Report on CSR activities of the Company is attached as "Annexure IV" to this Board's Report.

TRANSFER OF UNPAID AND UNCLAIMED AMOUNTS TO INVESTOR EDUCATION AND PROTECTION FUND

Pursuant to the provisions of Section 124(5) of the Companies Act, 2013, the declared dividends, which remained unpaid or unclaimed for a period of seven years, have been transferred by the Company to the Investor Education and Protection Fund (IEPF) established by the Central Government pursuant to Section 125 of the said Act the details of which are updated in the Company's website "www.natcopharma.co.in".

EMPLOYEES STOCK OPTION SCHEME

Details pertaining to the Employee Stock Option Schemes is disclosed in the Corporate Governance Report which forms a part of this Annual Report.

CREDIT RATING

ICRA has upgraded their rating for various banking facilities from AA- to AA enabling your company to avail facilities from banks at attractive rates indicating a very strong degree of safety for timely payment of financial obligations.

PARTICULARS OF EMPLOYEES

Disclosures pertaining to remuneration and other details as required under Section 197(12) of the Companies Act, 2013, read with Rule 5(1), 5(2) & 5(3) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 are attached as "Annexure V" to this Board's Report.

CONSERVATION OF ENERGY, RESEARCH AND DEVELOPMENT, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO

The particulars as prescribed under Section 134(3) (m) of the Companies Act, 2013, read with Rule 8(3) of the Companies (Accounts) Rules, 2014 are attached as "Annexure VI".

EXTRACT OF THE ANNUAL RETURN

The details forming part of the extract of the annual return for the FY 2017 in Form MGT-9 is attached as "Annexure VII" to this Board's Report.

ACKNOWLEDGEMENT

Your Directors place on record their sincere appreciation for the significant contribution made by our employees through their dedication, hard work and commitment, as also for the trust reposed on us by the medical fraternity and patients. We also acknowledge the support extended to us by the analysts, bankers, government agencies, media, customers, suppliers, shareholders and investors at large. We look forward to continued support in our endeavour to help people lead healthier lives.

For and on behalf of the Board of Directors

V.C.Nannapaneni

Chairman and Managing Director

Place: Hyderabad

Date: 07.08.2017

ANNEXURE-I

FORM NO. AOC-1

(Pursuant to first proviso to sub-section (3) of Section 129 read with Rule 5 of Companies (Accounts) Rules, 2014)

Statement containing salient features of the financial statement of subsidiaries:

	NATCO Pharma INC	NATCO Pharma (Canada) Inc.	Time cap Overseas Limited	NATCO Farma Do Brasil	NATCO Pharma Asia PTE LTD	NATCO Pharma Australia PTY LTD
Share Capital	42	142	737	568	43	18
Reserves & Surplus	216	-48	-35	-383	-45	-40
Total Assets	278	251	36	294	2	0
Total Liabilities	20	157	0	109	5	22
Investments	NIL	NIL	666	NIL	NIL	NIL
Turnover	-	359	-	269	NIL	NIL
Profit before taxation	5	57	-1	-112	-16	-29
Provision for taxation	1	NIL	NIL	NIL	NIL	NIL
Profit after taxation	3	57	-1	-112	-16	-29
Proposed Dividend	NIL	NIL	NIL	NIL	NIL	NIL
Report Currency	USD	CAD	USD	BRL	SGD	AUD
Closing exchange rate	64.72	48.55	64.72	20.55	46.31	49.47
Average exchange rate	66.97	51.02	66.97	20.32	48.39	50.39
% of Shareholding	100.00	99.71	89.43	86.91	100.00	93.76

For and on behalf of the Board of Directors

V.C.Nannapaneni

Chairman and Managing Director

Place: Hyderabad

Date: 07.08.2017

ANNEXURE II

Form No. AOC – 2 (pursuant to Clause (h) of Sub-Section (3) of section 134 of the Act and Rule 8(2) of the companies (Accounts) Rules, 2014)

Disclosure of particular of contracts/arrangements entered into by the Company with related parties referred to in sub-section (1) of section 188 of the Companies Act, 2013 including certain arm's length transactions under third proviso thereto.

- There are no contracts/arrangements/transactions entered into by the Company with related parties referred to in sub-section (1) of Section 188 of the Companies Act, 2013 which are not at arm's length basis.
- The following are the contracts/arrangements/transactions entered into by the Company with related parties referred to in sub-section (1) of Section 188 of the Companies Act, 2013 which are at arm's length basis.

Sl. No.	Name(s) of the related party and nature of relationship	Nature of Contract / arrangements / transaction	Duration of the contracts / arrangements/ transactions	Salient terms of the contracts or arrangements or transactions including the value, if any:	Date(s) of approval by the Board if any:	Amount paid as advances, if any:
1.	Mr. V.C. Nannapaneni, Chairman & Managing Director	Renewal of Lease Agreement	2 years	To locate western India Marketing Office and accommodation to Senior Executives visiting Mumbai - Rent payable - ₹ 21,00,000/- p.a.	14/02/2017	Nil
2.	Mr. Rajeev Nannapaneni, Vice Chairman & CEO	Renewal of Lease Agreement	2 years	To locate Chennai Marketing Office and Guest House- Rent payable - ₹ 12,00,000/-p.a.	14/02/2017	Nil
3.	Mr. Rajeev Nannapaneni, Vice Chairman & CEO	Renewal of Lease Agreement	2 years	To locate Chemical Division, Chennai office Rent payable - ₹ 1,20,000/-p.a.	14/02/2017	Nil
4.	M/s. Time Cap Pharma Labs Ltd Shareholding of Mr. V. C. Nannapaneni	Renewal of Lease Agreement	2 years	To locate Delhi Office and Guest House- Rent payable- ₹ 21,00,000/-p.a.	14/02/2017	Nil
5.	M/s. Time Cap Pharma Labs Ltd Shareholding of Mr. V. C. Nannapaneni	Renewal of Lease Agreement	2 years	To locate godown at Kothur, Rangareddy Dist. - Rent payable - ₹ 12,00,000/-p.a.	14/02/2017	Nil
6.	M/s. Time Cap Pharma Labs Ltd Shareholding Of Mr. V. C. Nannapaneni	Renewal of Lease Agreement	2 years	To locate Company's Solar Panel Production at Kothur, Rangareddy Dist. Rent payable - ₹ 12,00,000/-p.a.	14/02/2017	Nil
7.	M/s. Time Cap Pharma Labs Ltd. Shareholding of Mr. V.C.Nannapaneni	Lease Agreement	2 years	To locate Time Cap's C & F office at Sanathnagar	14/02/2017	Nil
8.	M/s. Time Cap Pharma Labs Ltd. Shareholding of Mr. V.C.Nannapaneni	Commissioning and expenses reimbursement	1 year	Rent receivable - ₹ 2,40,000/- p.a. To pay commission and reimburse expenses related to C&f services provided by M/s. Time Cap Pharma Labs Ltd.	14/02/2017	Nil
9.	M/s. Time Cap Pharma Labs Ltd. Shareholding of Mr. V.C.Nannapaneni	Purchase of raw-materials	1 year	To purchase raw material from Time Cap Pharma Labs Ltd.	14/02/2017	Nil
10.	Natco Pharma (Canada) Inc.	Sales	1 year	To sell finished goods to Natco Pharma (Canada) Inc.	14/02/2017	Nil
11.	Natco Pharma Asia Pte Ltd. Subsidiary	Sales	1 year	To sell finished goods to Natco Pharma Asia Pte Ltd.	14/02/2017	Nil
12.	Natco Farma Do Brasil Step-down Subsidiary	Commission	1 year	Export Commission	14/02/2017	Nil

For and on behalf of the Board of Directors

V.C.Nannapaneni
Chairman and Managing Director

Place: Hyderabad
Date: 07.08.2017

ANNEXURE III

Form MR-3

SECRETARIAL AUDIT REPORT

(For the financial year ended 31st March, 2017)

[Pursuant to Section 204(1) of the Companies Act, 2013 and Rule No. 9 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014]

To
The Members
Natco Pharma Limited

I have conducted the secretarial audit of the compliance of applicable statutory provisions and the adherence to good corporate practices by **Natco Pharma Limited** (hereinafter called the Company). Secretarial Audit was conducted in a manner that provided us a reasonable basis for evaluating the corporate conducts/statutory compliances and expressing my opinion thereon.

Based on my verification of the books, papers, minute books, forms and returns filed and other records maintained by the Company and also the information provided by the Company, its officers, agents and authorised representatives during the conduct of secretarial audit, I hereby report that in my opinion, the Company has, during the audit period covering the financial year ended on 31st March 2017, complied with the statutory provisions listed hereunder and also that the Company has proper Board processes and compliance-mechanism in place to the extent, in the manner and subject to the reporting made hereinafter:

I have examined the books, papers, minute books, forms and returns filed and other records maintained by the Company for the financial year ended on 31st March 2017 according to the provisions of:

- (i). The Companies Act, 2013 (the Act) and the Rules made thereunder;
- (ii). The Securities Contracts (Regulation) Act, 1956 ('SCRA') and the Rules made thereunder;
- (iii). The Depositories Act, 1996 and the Regulations and Bye-laws framed thereunder;
- (iv). Foreign Exchange Management Act, 1999 and the Rules and Regulations made thereunder to the extent of Foreign Direct Investment, Overseas Direct Investment and External Commercial Borrowings;
- (v). The following Regulations and Guidelines prescribed under the Securities and Exchange Board of India Act, 1992 ('SEBI Act') to the extent applicable to the Company:-
 - (a). The Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011;
 - (b). The Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992;
 - (c). The Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009;
 - (d). The Securities and Exchange Board of India (Share Based Employee Benefits) Regulations, 2014
 - (e). The Securities and Exchange Board of India (Registrars to an Issue and Share Transfer Agents) Regulations, 1993 regarding the Companies Act and dealing with client;
 - (f). The Securities and Exchange Board of India (Delisting of Equity Shares) Regulations, 2009; **Not applicable to the company for the year under review.**
 - (g). The Securities and Exchange Board of India (Buyback of Securities) Regulations, 1998;

Not applicable to the company for the year under review.

- (h). The SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015; and
- (i). The Memorandum and Articles of Association
- (vi). The following are the Industry Specific Acts applicable to the Company:
 - (a). The Drugs and Cosmetics Act, 1940 and The Drugs and Cosmetics Rules, 1945.
 - (b). The Narcotic Drugs and Psychotropic Substances (Amendment) Act, 2014 and the Narcotic Drugs and Psychotropic Substances Rules, 1985.
 - (c). The Drugs (Prices Control) Order, 2013 made under Essential Commodities Act, 1955.
 - (d). The Air (Prevention and Control of Pollution) Act, 1981
 - (e). The Water (Prevention and Control of Pollution) Act, 1974
 - (f). The Environment Protection Act, 1986.
- (vii). The following are the Labour Laws applicable to the Company:
 - (a). Factories Act, 1948
 - (b). Payment of Wages Act, 1936
 - (c). Payment of Gratuity Act, 1972
 - (d). Payment of Bonus Act, 1965
 - (e). Employees Provident Fund and Miscellaneous Provisions Act 1952
 - (f). Employees State Insurance Act
 - (g). The Employees Exchanges (Compulsory notification of vacancies) Act, 1959
 - (h). The Contract Labour (Regularisation and Abolition) Act, 1970

- (i). The Maternity Benefits Act, 1961
- (j). AP Shops and Establishment Act, 1988.
- (viii) The following are the other General Laws applicable to the Company.
 - (a). The Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013 to be read with The Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Rules, 2013

I have also examined compliance with the applicable clauses of the following:

- (i) Secretarial Standards issued by the Institute of Company Secretaries of India
- (ii) The Listing Agreements entered into by the Company with the BSE Limited and National Stock Exchange of India Limited, including the compliances as specified under The SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

I hereby report that:

- (a). The Company has, in my opinion, complied with the provisions of the Companies Act, 2013 and the Rules made under the Act as notified by Ministry of Corporate Affairs and the Memorandum and Articles of Association of the Company in all respects.
- (b). The Company has complied with the provisions of the Securities Contracts (Regulation) Act, 1956 and the Rules made under that Act, with regard to maintenance of minimum public shareholding.
- (c). The Company has complied with the provisions of the Depositories Act, 1996 and the Byelaws framed thereunder by the Depositories with regard to dematerialisation/ rematerialisation of securities and reconciliation of records of dematerialised securities with all securities issued by the Company.
- (d). The Company has complied with the provisions of the FEMA, 1999 and the Rules and Regulations made under that Act, to the extent it is applicable.

- (e). The Company has complied with the requirements under the Equity Listing Agreements entered into with BSE Limited, NSE Limited and regulations of The SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 to the extent applicable.
- (f). The Company has complied with the provisions of the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013 and the Rules and Regulations made under the Act, to the extent it is applicable.

I further report that:

- (a). The Company has complied with the provisions of the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 including the provisions with regard to disclosures and maintenance of records required under the said Regulations;
- (b). The Company has complied with the provisions of the Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992 including the provisions with regard to disclosures and maintenance of records required under the said Regulations;
- (c). The Company has complied with the provisions of the Securities and Exchange Board of India (Share Based Employee Benefits) Regulations, 2014 including the provisions with regard to disclosures and maintenance of records required under the said Regulations;
- (d). The Company has not bought back equity shares of the Company, during the period; therefore, the compliance of the provisions of the Securities and Exchange Board of India (Buyback of Securities) Regulations, 1998; does not arise.
- (e). The Company has not delisted any of its securities, during the period, therefore, the compliance of the Securities and Exchange Board of India (Delisting of Equity Shares) Regulations, 2009; does not arise.

I further report that:

- (a). The Board of Directors of the Company is duly constituted with proper balance of Executive Directors, Non-Executive Directors

and Independent Directors. The changes in the composition of the Board of Directors that took place during the period under review were carried out in compliance with the provisions of the Act.

- (b). Adequate notice is given to all directors to schedule the Board Meetings. Agenda and detailed notes on agenda were sent at least seven days in advance, and a system exists for seeking and obtaining further information and clarifications on the agenda items before the meeting and for meaningful participation at the meeting.
- (c). Decisions at the Board Meetings, as represented by the management, were taken unanimously.
- (d). The Company has obtained all necessary approvals under the various provisions of the Act;
- (e). There was no prosecution initiated and no fines or penalties imposed during the year under review under the Act, SEBI Act, SCRA, Depositories Act, Listing Agreement and Rules, Regulations and Guidelines framed under these Acts against / on the Company, its Directors and Officers.
- (f). The Directors have complied with the disclosure requirements in respect of their eligibility of appointment, their being independent and compliance with the Code of Business Conduct & Ethics for Directors and Management Personnel;

With reference to the compliance of Industry Specific Acts of the Company, I relied upon Compliance Certificates issued by the Company Secretary to the Board of Directors and also Compliance Certificates issued by the respective Department Heads. My report of compliance would be limited to their reporting and subject to the observations and comments made by them in their report, if any.

With reference to the compliance of the Labour and Financial Laws, I relied upon Compliance Certificates issued by the Company Secretary to the Board of Directors and also Compliance Certificates issued by the respective Department Heads and also report of Statutory and Internal Auditors. My report of compliance would be limited to their reporting and subject to the observations and comments made by them in their report, if any.

Based on the information received and records maintained, there are adequate systems and processes in the Company commensurate with the size and operations of the Company to monitor and ensure compliance with applicable laws, rules, regulations and guidelines.

I further report that during the audit period the company has:

- i) Proposed and approved Employee Stock Options (ESOP) Scheme (NATSOP 2016) under SEBI (Share based Employee Benefits) Regulations, 2014 and pursuant to Section 62(1)(c) of the Companies Act, 2013 at 33rd Annual General Meeting of the Company held on 30th September, 2016. The proposed ESOP Scheme could give rise to the issue of equity shares of nominal face value not exceeding ₹ 3,50,000/- divided into 1,75,000 equity shares of the face value of ₹ 2/- each.
- ii) Board of Directors at its meeting held on 26th May, 2016 noted the Order passed by Hon'ble High Court of Judicature at Madras in the Matter of Amalgamation of Natco Organics Limited (a Wholly Owned Subsidiary of the Company) with the Company w.e.f 01.04.2015.
- iii) Board of Directors at its meeting held on 09th August, 2016, declared Interim dividend of ₹ 0.75 per Equity Share of ₹ 2/- each aggregating to ₹ 13,06,30,683.75 (Rupees thirteen crores six lakhs thirty thousand six hundred eighty three and paise seventy five only) during the year 2016-17.
- iv) Board of Directors at its meeting held on 09th August, 2016, approved the enhancement of Investment Limits in Natco Pharma Asia Pte. Ltd. Singapore from SGD 2.5 Million to SGD 4 Million.
- v) Board of Directors at its meeting held on 09th August, 2016 accorded its consent to sell the shares held by the Company in Nativita JLLC, Belarus to a

proposed company to be incorporated in Dubai by the name of Nativita Global (or such other name as may be decided) for consideration other than cash in the form of shares in the same percentage and in the same volume in the proposed company Nativita Global subject to the condition that the entire shareholding of Nativita JLLC, Belarus will be sold to Nativita Global by all the shareholders thereby making Nativita JLLC the wholly owned subsidiary of the proposed company Nativita Global.

- vi) Board of Directors at its meeting held on 11th November, 2016, pursuant to the Natco Employee Stock Option Plan 2015 (NATSOP 2015) allotted to the eligible employees 1,33,555 (One lakh thirty three thousand five hundred and fifty five) equity shares of ₹ 2/- (Rupees two only) each ("first tranche") out of 7,50,000 (Seven lakhs fifty thousand) stock options granted under the NATSOP 2015.
- vii) Board of Directors at its meeting held on 14th February, 2017 declared second interim dividend of ₹ 6/- (Rupees six only) per equity share of ₹ 2/- (Rupees two only) each aggregating to ₹ 1,04,58,46,800 (Rupees one hundred and four crore fifty eight lakh forty six thousand eight hundred only) during the year 2016-17.
- viii) Board of Directors at its meeting held on 14th February, 2017 accorded its consent for transfer of the unpaid dividend amount for the financial year 2009-10 lying in current account in the name of "Unpaid Interim Dividend A/c of Natco Pharma Limited for the year 2009-2010" to Investor Education and Protection Fund (IEPF) of Government of India as per norms.

CS BalachandraSunku

M. No.F5496

CP.No. 12745

Place: Hyderabad

Date: 07.08.2017

Note: This report is to be read with my letter of even date which is annexed herewith and which forms an integral part of this report.

ANNEXURE TO FORM MR-3

(FOR THE FINANCIAL YEAR ENDED 31ST MARCH, 2017)

To,
The Members
NATCO PHARMA LIMITED

Our report of even date is to be read along with this letter.

1. Maintenance of Secretarial records is the responsibility of the management of the Company. Our responsibility is to express an opinion on these secretarial records based on our audit.
2. We have followed the audit practices and process as were appropriate to obtain reasonable assurance about the correctness of the contents of the Secretarial records. The verification was done on test basis to ensure that correct facts are reflected in Secretarial records. We believe that the process and practices, we followed provide a reasonable basis for our opinion.
3. We have not verified the correctness and appropriateness of financial records and Books of Accounts of the Company.
4. Wherever required, we have obtained the Management Representation Letter about the Compliance of laws, rules and regulations and happening of events etc.
5. The Compliance of the provisions of Corporate and other applicable laws, rules, regulations, standards is the responsibility of management. Our examination was limited to the verification of procedure on test basis.
6. The Secretarial Audit report is neither an assurance as to the future viability of the Company nor of the efficacy or effectiveness with which the management has conducted the affairs of the Company.

Place: Hyderabad
Date: 07.08.2017

CS Balachandra Sunku
M. No. F5496
CP No. 12745

ANNEXURE-IV

ANNUAL REPORT ON CORPORATE SOCIAL RESPONSIBILITY (CSR)

1. A brief outline of the Company's CSR policy, including overview of projects or programs proposed to be undertaken.

The Board has approved the CSR Policy of the Company.

2. The Composition of the CSR Committee:

The CSR Committee was constituted by the Board of Directors at its meeting held on 12.08.2014. It comprises of

1. Mr. G.S.Murthy
2. Mr. V.C.Nannapaneni
3. Mr. Rajeev Nannapaneni

3. Average net profit of the company for last three financial years: ₹ 1750.95 Million
4. Prescribed CSR Expenditure (two per cent. of the amount as in item 3 above): ₹ 35.02 million
5. Details of CSR spent during the financial year:
 - (a) Total amount spent for the financial year; ₹ 36.40 million
 - (b) Amount unspent, if any; N.A.
 - (c) Manner in which the amount spent during the financial year is detailed below.

		(₹ in Millions)		
CSR Project / Activity	Sector	Location of the project / Programme	Amount spent on the projects / programs	Amount spent direct / implementing agency
A. Expenditure on Projects / Programs				
1 Natco Trust Managed School:				
a. Natco High School	Education	Rangapur Village, Kothur Mandal, Ranga Reddy District, Telangana	11.45	Natco Trust
b. Natco School of Learning	Education	Gollamudipadu Village, Ponnuru Mandal, Guntur District, A.P.	7.15	Natco Trust
2 Sports for Development Project	Education	Kothur Mandal, Ranga Reddy District, Telangana	1.50	Natco Trust
3 Tuition Centre	Education	Pedavoora Mandal, Nalgonda District, Telangana, Govt Primary School, Borabanda, Hyderabad, Mahaboobnagar, Ponnuru Mandal, Guntur district	1.61	Natco Trust
4 Natco Mobile Health Clinics	Health	Ranga Reddy and Nalgonda District, Telangana	3.08	Natco Trust
5 Nutrition Centre	Health	Ranga Reddy and Nalgonda District, Telangana	1.13	Natco Trust
6 Patient Counselling	Health	Hyderabad & Rangareddy District, Telangana	1.87	Natco Trust

				(₹ in Millions)	
	CSR Project / Activity	Sector	Location of the project / Programme	Amount spent on the projects / programs	Amount spent direct / implementing agency
7	Construction of 32 bedded Paediatric ward at Govt General Hospital	Health	Guntur district	4.12	Natco Trust
8	Adolescent Health project	Health	Nalgonda and Ranga Reddy Districts	0.50	Natco Trust
9	Natco Career Counselling and Guidance Centre	Livelihood	Ranga Reddy and Nalgonda District, Telangana	0.99	Natco Trust
	Total (A)			33.39	
	B. Administrative expenses				
1	Implementing expenses	Education		1.78	Natco Trust
2	Implementing expenses	Health		0.88	Natco Trust
3	Implementing expenses	Livelihoods		0.35	Natco Trust
	Total (B)			3.01	
	Total (A+B)			36.40	

6. In case the company has failed to spend the two per cent of the average net profit of the last three financial years or any part thereof, the company shall provide the reasons for not spending the amount in its Board report: **The entire amount was spent.**
7. A responsibility statement of the CSR Committee that the implementation and monitoring of CSR Policy, is in compliance with CSR objectives and Policy of the company:

The implementation and monitoring of CSR Policy is in compliance with the CSR objectives and Policy of the Company.

For and on behalf of the Board of Directors

V.C.Nannapaneni

Chairman and Managing Director

Place: Hyderabad

Date: 07.08.2017

ANNEXURE-V

Information required under Section 197 (12) of the Companies Act, 2013 read with Rule 5 of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014

- (i) The ratio of the remuneration of each director to the median remuneration of the employees of the Company, the percentage increase in remuneration of each director, CEO, CFO and CS, for FY2017 and comparison of the remuneration of each Key Managerial Personnel (KMP) against the performance of the Company:

Name	Designation	Ratio of Remuneration of each Director/KMP to the median remuneration of employees	% increase in remuneration during FY2017
Mr. V. C. Nannapaneni	Chairman and Managing Director	63	0
Mr. Rajeev Nannapaneni	Vice Chairman and CEO	55	0
Dr. A.K.S. Bhujanga Rao	Whole Time Director	44	14
Mr. P.S.R.K Prasad	Whole Time Director	44	14
Dr. D Linga Rao	Whole Time Director	44	14
Mr. M. Adinarayana	Company Secretary	13	12
Mr. S.V.V.N Apparao	Chief Financial Officer	16	10

Mr. T.V. Rao, Mr. G.S. Murthy, Dr. B.S. Bajaj, Mr. D.G. Prasad, Dr. Leela Digumarthi and Dr. M.U.R. Naidu, Independent Directors were paid only sitting fees for attending the Board / Committee Meetings.

- (ii) The median remuneration of employees increased by 22% in FY2017.
- (iii) The number of permanent employees on the rolls of Company as on 31 March 2017 is 4411.

The average increase in remuneration paid to employees is 18.23 % for FY2017 as compared to FY2016. Compared to FY2016, the standalone revenue in FY 2017 grew by 88% and profit before tax grew by 186%

- (iv) It is hereby affirmed that the remuneration paid during FY 2017 is as per the remuneration policy of the company

Statement required under Rule 5 (2) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014

Name of the Employee	The age of employee	Designation of the employee	Gross remuneration received (₹)	Nature of employment, whether contractual or otherwise	Qualifications of the employee	Experience of the employee	Date of Commencement of employment	The last employment held by such employee before joining the Company
Mr. V C Nannapaneni	71	CMD	1,78,32,000	Regular	MS (Pharmaceutical Administration)	48	03.10.1981	Time Cap Labs Inc
Mr. Rajeev Nannapaneni*	40	VC & CEO	1,55,82,000	Regular	BA in Quantitative Economics & BA in History TUFTS University, USA	18	03.07.2000	Merrill Lynch, USA and Natco Systems LLC
Dr. A K S Bhujanga Rao	65	Director & President - R&D & Technical	1,24,99,992	Regular	Ph.D	35	11.10.2000	Director at Vera Laboratories Ltd.
Dr. D Linga Rao	64	Director & President - Technical Affairs	1,24,99,992	Regular	Ph.D	42	11.02.1993	Sr. QC Executive at IDPL
Mr. P S R K Prasad	59	Director & EVP - Corporate Engineering Services	1,24,99,992	Regular	B.Tech.	34	23.05.1995	Engineering Manager at Saudi Ceramics Ltd., Riyadh
Dr. M Pulla Reddy	59	EVP - R&D	1,25,00,016	Regular	Ph.D	23	01.04.1994	-
Dr. B R Reddy	63	Director - Formulations	1,25,00,016	Regular	Ph.D	32	29.01.2007	Director - Operations at Granules
Dr. Gopalkrishnan Vaidyanathan	55	VP - AR&D	65,00,004	Regular	Ph.D	29	15.04.2015	VP - Technical Operations at Waters India Pvt. Ltd.
Mr. Narayan Rao C V	62	EVP - SCM/IT/OD	61,25,016	Regular	B.Tech.	38	02.01.2015	Sr. VP & Head - Global Supply Chain Management at Aurobindo Pharma Ltd.
Mr. Rajesh Chebiyam	46	VP - Acquisitions, Institutional Investor Management & Corp. Comm.	60,00,012	Regular	MS (Chemical Engg.) & MBA	21	01.02.2014	Business Development Head at SE Asia, Cabot
Dr. Pavan Bhat Ganapati**	50	E V P - Technical Operations	72,91,669	Regular	Ph.D. (Pharmaceutics)	21	01/09/2016	Sr. VP & Head - Regional Operations at Mylan Laboratories, Bangalore

* Excludes ₹ 49 million provision towards commission on net profits.

** Employed for part of the financial year

None of the employee is related to the Directors except Mr. Rajeev Nannapaneni who is son of Mr. V. C. Nannapaneni.

For and on behalf of the Board of Directors

V.C.Nannapaneni

Chairman and Managing Director

Place: Hyderabad

Date: 07.08.2017

ANNEXURE - VI

CONSERVATION OF ENERGY, RESEARCH AND DEVELOPMENT, TECHNOLOGY ABSORPTION, FOREIGN EXCHANGE EARNINGS AND OUTGO

(A) CONSERVATION OF ENERGY -

- a) During the year, the Company has implemented energy conservation projects across its various business units. A few of the key initiatives include:
 - 1. Installation of Energy efficient equipment & optimization of processes consuming energy: Major projects in this category:
 - a) Conducted energy audit at Chemical Division, Mekaguda for FY 2016-17, and achieved saving of INR 9 million in various utility areas.
 - b) Conversion of CFL based lighting to LED lighting has been taken up during FY 2016-17 and being implemented in phased manner across all units.
 - c) Installed new high efficiency Screw chiller for Brine and chilled water during the last fiscal year for energy saving and achieved significant saving annually.
 - 2. Identifying cheaper power sources both in-house and external and Utilizing the alternate sources of energy:
 - a) Installed 1 Mw Solar plant at Chemical Division, Mekaguda, which lead to savings of approximately INR 4 million for part of the year since installation. Work under progress for installation of an additional 1 MW Solar plant, after which we expect total savings of INR 20 million per year going forward with a 2MW Solar energy utilization.
 - b) Third party Solar Power Purchase agreement done for 2.7 MW and the expected saving for FY 2017-18 is INR 5 million
 - c) Commissioned 2.1 MW wind mill at Chemical Division, Chennai. Expected saving for FY 2017-18 is INR 20 million.
 - 3. Steps in progress for increasing the utilization of alternate renewable sources of energy:
 - a) Propose to install 1.15 MW Solar plant at our injectables plant, Nagarjuna Sagar. Expected saving per annum is approximately INR 10 million
 - b) Feasibility studies for Wind Power Generation for captive power utilization at Chemical Division, Mekaguda has been completed and the data evaluation is in progress by third party consultant for generating Wind power.

(B) TECHNOLOGY ABSORPTION

- i) **Efforts made towards technology absorption:** As part of the technology absorption, the Company engages in in-house development of bulk drugs & formulations, conducts pilot studies for potential scale-up so as to improve efficiency both in terms of time and productivity of products. Disclosure of particulars with respect to conservation of energy.

A: POWER AND FUEL CONSUMPTION	For the year ended 31.03.2017	For the year ended 31.03.2016
1. Electricity		
a) Purchased Units	51275626	47382277
Total amount (₹ million)	339.12	307.30
Rate / Unit (₹)	6.61	6.49
b) Own Generation:		
i) Through Diesel		
Generator Units	1398416	1529184
Units / ltr. Of Diesel Oil	3.53	3.35
Cost / Unit (₹)	16.11	15.62
2. Coal D/C grade		
Quantity (Tonnes)	4821	3805
Total amount (₹ million)	34.84	33.08
Average rate per tonne (₹)	7227	8694
3. Furnace Oil		
Quantity (Ltr)	664734	547738
Total amount (₹ million)	16.78	13.88
Average rate per Ltr (₹)	25.24	25.34

	(₹ in Millions)	
(C) Expenditure on R&D	For the year ended 31.03.2017	For the year ended 31.03.2016
a) Total R&D expenditure including capital expenses	1216	703
b) Total R&D Expenditure as percentage of turnover	6.03	6.56

(D) FOREIGN EXCHANGE EARNINGS AND OUTGO

Foreign exchange earned in terms of actual inflows and foreign exchange outgo in terms of actual outflows during the year FY 2016-17: -

Foreign exchange earned in terms of actual Inflows ₹ 6792.84 million.

Foreign exchange outgo in terms of actual Outflows ₹ 2254.40 million.

For and on behalf of the Board of Directors

V.C.Nannapaneni

Chairman and Managing Director

Place: Hyderabad

Date: 07.08.2017

ANNEXURE VII

Form No.MGT-9
Extract of Annual Return
as on Financial year ended on 31.03.2017

[Pursuant to Section 92(3) of the Companies Act, 2013 and rule 12(1) of the Company
(Management & Administration) Rules, 2014]

I. REGISTRATION & OTHER DETAILS

CIN	L24230TG1981PLC003201
Registration Date	19th September, 1981
Name of the Company	NATCO Pharma Limited
Category / Sub-category of the Company	Company Limited by Shares / Public Company
Address of the Registered Office & Contact details	NATCO House, Road # 2, Banjara Hills Hyderabad 500 034 Tel: 040-23547532
Whether Listed Company	Yes
Name, Address & Contact details of the Registrars and Share Transfer Agents	Venture Capital and Corporate Investments Pvt Ltd 12-10-167 Bharat Nagar Hyderabad 500018, Tel:040-23818475, 040-23818476, Fax:040-23868024 Email ID : info@vccilindia.com

II. PRINCIPAL BUSINESS ACTIVITIES OF THE COMPANY

Sl. No.	Name and Description of Main Products / Services	NIC Code of the Product / Service	% of Total Turnover of the Company
1	Pharmaceuticals	210	100%

III. PARTICULARS OF HOLDING, SUBSIDIARY AND ASSOCIATE COMPANIES

Sl. No.	Name and address of the Company	CIN/GLN	Holding / Subsidiary/ Associate	% of shares held	Applicable Section
1	Natco Pharma Inc,	SRV060928109-4232479	Subsidiary	100	2(87)
2	Time Cap Overseas Limited	9889-C2/GBL	Subsidiary	89.43	2(87)
3	Natco Pharma (Canada) Inc,	834474-4	Subsidiary	99.71	2(87)
4	Natco Pharma Asia Ptd.Ltd	201230076Z	Subsidiary	100	2(87)
5	Natco Pharma Australia Pte Ltd	601572301	Subsidiary	93.76	2(87)
6	Natcofarma Do Brasil Ltda	08.157.293/0001-27	Step down Subsidiary	86.91	2(87)

IV. SHAREHOLDING PATTERN

(i) Category-wise Shareholding

Category of Shareholders	No. of Shares held at the beginning of the Financial year 1st, April, 2016)				No. of Shares held at the end of the Financial year (31st March, 2017)				% of Change during the year
	Demat	Physical	Total	% of Total Shares	Demat	Physical	Total	% of Total Shares	
A. Promoters									
(1) Indian									
a) Individual / HUF	4,91,16,560	0	4,91,16,560	28.23	4,91,16,560	0	4,91,16,560	28.21	(0.02)
b) Central Govt.	0	0	0	0	0	0	0	0	0
c) State Govt.(s)	0	0	0	0	0	0	0	0	0
d) Bodies Corporate	3,77,17,220	0	3,77,17,220	21.65	3,77,17,220	0	3,77,17,220	21.64	(0.01)
e) Banks / FI	0	0	0	0	0	0	0	0	0
f) Trust	0	0	0	0	0	0	0	0	0
Sub-Total (A)(1):	8,68,33,780	0	8,68,33,780	49.88	8,68,33,780	0	8,68,33,780	49.85	(0.03)
(2) Foreign									
a) NRIs - Individuals	24,38,540	0	24,38,540	1.40	24,38,540	0	24,38,540	1.40	0
b) Other - Individuals	0	0	0	0	0	0	0	0	0
c) Bodies Corporate	0	0	0	0	0	0	0	0	0
d) Banks / FI	0	0	0	0	0	0	0	0	0
e) Any Other...	0	0	0	0	0	0	0	0	0
Sub-Total (A)(2):	0	0	0	0	0	0	0	0	0
Total Shareholding of Promoters (A) = (A) (1)+(A)(2)	8,93,22,320	0	0	51.28	8,93,22,320	0	8,93,22,320	51.24	(0.04)
B. Public Shareholding									
(1) Institutions									
a) Mutual Funds / UTI	1,02,03,060	3,500	1,02,06,560	5.86	87,35,869	3,500	87,39,189	5.01	(0.85)
b) Banks / FI	1,76,938	1,000	1,77,938	0.10	2,69,876	1,000	2,70,876	0.16	0.06
c) Central Govt.	0	0	0	0	0	0	0	0	0
d) State Govt.(s)	0	0	0	0	0	0	0	0	0
e) Venture Capital Funds	0	0	0	0	0	0	0	0	0
f) Insurance Companies	0	0	0	0	0	0	0	0	0
g) FIIs	1,32,29,676	0	1,32,29,676	7.60	34,64,131	0	34,64,131	1.99	(2.61)
h) Foreign Venture Capital Funds	0	0	0	0	0	0	0	0	0
i) Others (FPI)	2,04,72,342	0	2,04,72,342	11.75	3,38,37,560	0	3,38,37,560	19.41	7.66
Sub-Total (B)(1):	4,40,85,516	4,500	4,40,86,516	25.31	4,65,40,482	4,500	4,65,44,982	26.70	1.39
(2) Non-Institutions									
a) Bodies Corporate									
i) Indian	46,09,135	25,830	46,34,965	2.66	44,67,377	25,800	44,93,177	2.57	(0.09)
ii) Overseas	0	0	0	0	0	0	0	0	0
b) Individuals									
i) Individual Shareholders holding nominal share capital upto ` 2 lakh	1,93,69,107	20,16,290	2,13,85,397	12.28	1,94,51,735	17,46,690	2,11,98,425	12.16	(0.12)
ii) Individual Shareholders holding nominal share capital in excess of ` 2 lakh	1,25,33,466	0	1,25,33,466	7.20	1,13,44,881	0	1,13,44,481	6.51	(0.69)
c) Others (specify)									
i) Non-Resident Indians	9,80,536	3,24,000	13,04,536	0.75	6,80,558	3,24,000	10,04,558	0.58	(0.17)
ii) Clearing Members	7,75,055	0	7,75,055	0.44	2,79,112	0	2,79,112	0.16	(0.28)
iii) Trusts	1,31,990	0	1,31,990	0.08	1,20,345	0	1,20,345	0.07	(0.01)
Sub-Total (B)(2):	3,83,99,319	23,66,090	4,07,65,409	23.40	3,63,44,008	20,96,490	3,84,40,498	22.05	(1.35)
Total Public Shareholding (B)=(B)(1)+(B)(2)	8,24,81,335	23,70,590	8,48,51,925	48.72	8,28,84,490	21,00,990	8,49,85,480	48.76	(0.06)
C. Shares held by Custodian for GDRs & ADRs	0	0	0	0	0	0	0	0	0
Grand Total (A+B+C)	17,18,03,655	23,70,590	17,41,74,245	100.00	17,22,06,810	21,00,990	17,43,07,800	100.00	0

(ii) Shareholding of Promoters:

Sl. No.	Name of the Promoter	No. of Shares held at the beginning of the Financial year 1st, April, 2016)			No. of Shares held at the end of the Financial year (31st March, 2017)			% of change in share holding during the year
		No of Shares	% of total Shares	% shares Pledged / encumbered to total shares	No of Shares	% of total Shares	% shares Pledged / encumbered to total shares	
1	V C NANNAPANENI	35296770	20.27	0	35296770	20.25	0	0.02
2	VENKAIAH CHOWDARY NANNAPANENI HUF	5440045	3.12	0	5440045	3.12	0	0.00
3	RAJEEV NANNAPANENI	1676175	0.96	0	1676175	0.96	0	0.00
4	NEELIMA SITA NANNAPANENI	182960	0.11	0	182960	0.10	0	0.01
5	DURGA DEVI NANNAPANENI	3539100	2.03	0	3539100	2.03	0	0.00
6	N RAMAKRISHNA RAO	746410	0.43	0	746410	0.43	0	0.00
7	T ANILA	629920	0.36	0	629920	0.36	0	0.00
8	T ANANDA BABU	473205	0.27	0	473205	0.27	0	0.00
9	VIDYADHARI TUMMALA	442200	0.25	0	442200	0.25	0	0.00
10	JHANSI TUMMALA	247100	0.14	0	247100	0.14	0	0.00
11	ALAPATI BAPANNA	18300	0.01	0	18300	0.01	0	0.00
12	DEVENDRANATH ALAPATI	15000	0.01	0	15000	0.01	0	0.00
13	VENKATA SATYA SWATHI KANTAMANI	2860000	1.64	0	2860000	1.64	0	0.00
14	T BAPINEEDU	415	0.00	0	415	0.00	0	0.00
15	KANTAMANI RATNAKUMAR	37500	0.02	0	37500	0.02	0	0.00
16	VISTARA ITC INDIA LTD A/c Neelima Nannapaneni Trust	4082750	2.34	0	4082750	2.34	0	0.00
17	IL AND FS Trust Company Ltd A/c DURGA DEVI TRUST	600000	0.34	0	600000	0.34	0	0.00
18	TIME CAP PHARMA LABS LTD	17157220	9.85	0	17157220	9.84	0	0.01
19	NATSOFT INFORMATION SYSTEMS PVT LTD	15767500	9.05	0	15767500	9.05	0	0.00
20	NATCO AQUA LTD	16000	0.01	0	16000	0.01	0	0.00
21	NDL INFRA TECH PVT LTD	93750	0.05	0	93750	0.05	0	0.00
	Total	89322320	51.28	0	89322320	51.24	0	0.04

(iii) Change in Promoters' shareholding: There is no change in the Promoters Shareholding

Sl. No	Particulars	Shareholding at the beginning of the year		Cumulative Shareholding during the year	
		No of shares	% of Total Share Capital	No of shares	% of Total Share Capital
1	At the beginning of the year	8,93,22,320	51.24	0	0
2	At the ending of the year	0	0	8,93,22,320	51.24

(iv) Shareholding pattern of top ten shareholders (other than Directors, Promoters and Holders of GDRs & ADRs):

Sl. No.	Name of the Share holder	Shareholding at the beginning / end of the year		Date	Increase / Decrease in share holding	Reason	Cumulative shareholding during the year	
		No of Shares	% of total shares of the company				No of Shares	% of total shares of the company
1	CX SECURITIES LIMITED	59,94,975	3.44	01/04/2016	-	-	-	-
				31/03/2017	-	-	59,94,975	3.44
2	DILIP S SHANGHVI	57,50,000	3.30	01/04/2016	-	-	-	-
				31/03/2017	-	-	57,50,000	3.30
3	NOMURA INDIA INVESTMENT FUND MOTHER FUND	13,50,914	0.78	01/04/2016	-	-	-	-
				19/08/2016	25,000	Bought	13,75,914	0.78
				07/10/2016	25,000	Bought	14,00,914	0.80
				21/10/2016	3,71,022	Bought	17,71,936	1.01
				28/10/2016	1,60,387	Bought	19,32,323	1.10
				11/11/2016	64,270	Bought	19,96,593	1.15
				25/11/2016	1,00,000	Bought	20,96,593	1.20
				16/12/2016	50,000	Bought	21,46,593	1.23
				30/12/2016	75,000	Bought	22,21,593	1.27
				20/01/2017	60,000	Bought	22,81,593	1.31
				31/03/2017	-	-	22,81,593	1.31
4	EM RESURGENT FUND	20,78,593	1.19	01/04/2016	-	-	-	-
				05/08/2016	(25,000)	Sold	20,53,593	1.18
				31/03/2017	-	-	20,53,593	1.18
5	NOMURA SINGAPORE LIMITED	1,40,000	0.08	13/05/2016	-	-	-	-
				03/06/2016	4,10,000	Bought	5,50,000	0.31
				10/06/2016	9,25,000	Bought	14,75,000	0.84
				17/06/2016	3,12,500	Bought	17,87,500	1.02
				22/12/2016	21,500	Bought	18,09,000	1.04
				31/03/2017	-	-	18,09,000	1.04
6	STICHTING DEPOSITARY APG EMERGING MARKETS EQUITY POOL	15,25,662	0.87	29/07/2016	-	-	-	-
				29/07/2016	1,58,331	Bought	16,83,993	0.96
				31/03/2017	-	-	16,83,993	0.96
7	HYPNOS FUND LIMITED	20,00,500	1.15	1/04/2016	-	-	-	-
				26/08/2016	(77,000)	Sold	19,23,500	1.10
				02/09/2016	(23,000)	Sold	19,00,500	1.09
				13/01/2017	(1,00,000)	Sold	18,00,500	1.03
				10/02/2017	(1,00,000)	Sold	17,00,500	0.97
				03/03/2017	(594)	Sold	16,89,906	0.97
				31/03/2017	(18,787)	Sold	16,70,119	0.97
				31/03/2017	-	-	16,70,119	0.97
				31/03/2017	-	-	16,70,119	0.95

Sl. No.	Name of the Share holder	Shareholding at the beginning / end of the year		Date	Increase / Decrease in share holding	Reason	Cumulative shareholding during the year	
		No of Shares	% of total shares of the company				No of Shares	% of total shares of the company
8	STEADVIEW CAPITAL MAURITIUS LIMITED	30,000	0.00	18/11/2016	-	-	-	-
				25/11/2016	80,000	Bought	1,10,000	0.06
				09/12/2016	40,466	Bought	1,50,466	0.08
				16/12/2016	1,59,534	Bought	3,10,000	0.17
				13/01/2017	1,66,720	Bought	4,76,720	0.27
				20/01/2017	(43,512)	Sold	4,33,208	0.24
				03/02/2017	3,40,000	Bought	7,73,208	0.44
				07/02/2017	3,60,000	Bought	10,13,208	0.58
				27/02/2017	80,000	Bought	11,93,208	0.68
				10/03/2017	3,04,403	Bought	14,97,611	0.86
				31/03/2017	-	-	14,97,611	0.86
9	GOLDMAN SACHS INDIA LIMITED	11,81,815	0.68	01/04/2016	-	-	-	-
				31/03/2017	-	-	11,81,815	0.68
10	NATIONAL WESTMINSTER BANK PLC AS TRUSTEE OF THE JUPITER INDIA FUND	10,00,438	0.57	01/04/2016	-	-	-	-
				21/10/2016	89,436	Bought	10,89,874	0.62
				31/03/2017	67,762	Bought	11,57,636	0.66
				31/03/2017	-	-	11,57,636	0.66
11	HSBC BANK (Mauritius) Limited	17,87,500	1.03	01/04/2016	-	-	-	-
				13/05/2016	(1,40,000)	Sold	16,47,500	0.94
				03/06/2016	(4,10,000)	Sold	12,37,500	0.70
				10/06/2016	(1237,500)	Sold	-	-
				31/03/2017	-	-	-	-
12	WASATCH EMERGING MARKETS SMALL CAP FUND	11,27,100	0.65	01/04/2016	-	-	-	-
				01/07/2016	(5,735)	Sold	11,21,365	0.64
				12/08/2016	(15,373)	Sold	11,05,992	0.63
				07/10/2016	(35,976)	Sold	10,70,016	0.61
				28/10/2016	(54,803)	Sold	10,15,213	0.58
				02/12/2016	(40,915)	Sold	9,74,298	0.56
				16/12/2016	(28,985)	Sold	9,45,313	0.54
				30/12/2016	(54,280)	Sold	8,91,033	0.51
				06/01/2017	(17,732)	Sold	8,73,301	0.50
				03/02/2017	(32,607)	Sold	8,40,694	0.48
				17/02/2017	(72,594)	Sold	7,68,100	0.44
				24/02/2017	(72,751)	Sold	6,95,349	0.40
				03/03/2017	(3,861)	Sold	6,91,488	0.40
				10/03/2017	(78,883)	Sold	6,12,605	0.35
				31/03/2017	(33,625)	Sold	5,78,980	0.33
13	IDFC PREMIER EQUITY FUND	10,37,431	0.59	01/04/2016	-	-	-	-
				01/02/2017	(37,431)	Sold	10,00,000	0.57
				31/03/2017	-	-	10,00,000	0.57

(v) Shareholding of Directors and Key Managerial Personnel:

For Each of the Directors	Shareholding at the beginning of the year		Cumulative shareholding during the year	
	No of shares	% of total shares of the Company	No of shares	% of total shares of the Company
1. V C Nannapaneni (including HUF)				
At the beginning of the year	4,07,36,815	23.39		
At the end of the year			4,07,36,815	23.37
2. Rajeev Nannapaneni (including NRI)				
At the beginning of the year	16,76,175	0.96		
At the end of the year			16,76,175	0.96
3. Dr.A K S Bhujanga Rao				
At the beginning of the year	43,500	0.03		
At the end of the year			43,500	0.03
4. P S R K Prasad				
At the beginning of the year	46,950	0.02		
At the end of the year			46,950	0.02
5. D Linga Rao				
At the beginning of the year	61,655	0.03		
At the end of the year			61,655	0.03
6. Dr M U R Naidu				
At the beginning of the year	15,000	0.01		
At the end of the year			15,000	0.01

Note: Shareholding of only those Directors who hold shares in the Company is provided.

For Each of the Directors	Shareholding at the beginning of the year		Cumulative shareholding during the year	
	No of shares	% of total shares of the Company	No of shares	% of total shares of the Company
1. M. Adinarayana				
At the beginning of the year	31,500	0.02		
At the end of the year			31,500	0.02
2. S V V N Appa Rao				
At the beginning of the year	1,750	0.001		
At the end of the year			1,750	0.001

V. INDEBTEDNESS:**Indebtedness of the Company including interest outstanding/ accrued but not due for payment**

	(₹ in lakhs)			
	Secured Loans excluding deposits	Unsecured Loans	Deposits	Total Indebtedness
Indebtedness at the beginning of the financial year				
i) Principal Amount	9996.1	1022.58	0	11018.68
ii) Interest due but not paid	0	0	0	0
iii) Interest accrued but not due	0	0	0	0
Total (i+ii+iii)	9996.1	1022.58	0	11018.68
Change in Indebtedness during the financial year				
Addition	5,884.34	6,593.49	0	12,477.83
Reduction	1,415.82		0	1,415.82
Net Change	4,468.53	6,593.49	0	11,062.01
Indebtedness at the end of the financial year				
i) Principal Amount	14459.79	7599.57	0	22,059.36
ii) Interest due but not paid	-	-	0	-
iii) Interest accrued but not due	4.84	16.49	0	21.33
Total (i+ii+iii)	14464.63	7,616.06	0	22,080.69

VI. REMUNERATION OF DIRECTORS AND MANAGERIAL PERSONNEL

A. Remuneration of Managing Director, Whole-time Directors and/or Manager:

S. No.	Particulars of Remuneration	Name of MD/WTD/Manager					(₹ In Lakhs)
		Mr. V C Nannapaneni	Mr. Rajeev Nannapaneni	Dr A K S Bhujanga Rao	Mr. P S R K Prasad	Dr. D Linga Rao	Total Amount (₹ In Lakhs)
1	Gross Salary	159.96	139.98	108.48	110.82	110.82	630.06
	a. Salary as per provisions contained in Section 17(1) of the IT Act, 1961	--	--	2.34	--	--	2.34
	b. Value of Perquisites U/s 17(2) of IT Act, 1961	--	--	--	--	--	--
	c. Profits in lieu of Salary under section 17(3) of It Act, 1961	--	--	--	--	--	--
2	Stock Options	--	--	--	--	--	--
3	Sweat Equity	--	--	--	--	--	--
4	Commission*-% of profits	490.00	--	--	--	--	490.00
5	Others, Provident Fund	18.36	15.84	14.18	14.18	14.18	76.74
	TOTAL (A)	668.32	155.82	125.00	125.00	125.00	1,199.14
	Ceiling as per the Act	₹ 7,020.56 (being 10% of the net profits of the Company calculated as per Section 198 of the Companies Act, 2013)					

* Provision made as on 31st March 2017

B. Remuneration to other Directors:

		(₹ In Lakhs)						
S. No.	Particulars of Remuneration	Name of the Independent directors						Total Amount (₹ In Lakhs)
		Mr. G S Murthy	Dr B S Bajaj	Mr. T V Rao	Mr. D G Prasad	Dr. M ₹ Leela Digumarti	Dr M U R Naidu	
1	Fee for attending Board / Committee Meeting	1.70	1.15	1.30	1.30	0.80	0.60	6.85
2	Commission	-	-	-	-	-	-	-
3	Other, please specify (Incidental fees)	-	-	-	-	-	-	-
	TOTAL (B)	1.70	1.15	1.30	1.30	0.80	0.60	6.85
	Ceiling as per the Act	₹ 702.06 (being 1% of the net profits of the Company calculated as per Section 198 of the Companies Act, 2013)						
	TOTAL MANAGERIAL REMUNERATION* (A+B)							1,205.99
	OVERALL CEILING AS PER THE ACT	₹ 7722.6 (being 11% of the net profits of the Company calculated as per Section 198 of the Companies Act, 2013)						

* Total remuneration to Managing Director, Whole-Time Directors and other Directors (being the total of A and B).

Note: Mr. Vivek Chhachhi, Non-Executive and Non-Independent Director is not taking any Sitting fees

C. Remuneration to Key Managerial Personnel

Sl. No.	Particulars of Remuneration	Name of KMP		Total Amount (₹ In Lakhs)
		Mr. M Adinarayana	Mr. S V V N Appa Rao	
1	Gross Salary	32.78	38.91	71.69
a.	Salary as per provisions contained in Section 17(1) of the IT Act, 1961	-	-	-
b.	Value of Perquisites U/s 17(2) of IT Act, 1961	-	-	-
c.	Profits in lieu of Salary under section 17(3) of It Act, 1961	-	-	-
2	Stock Options	-	-	-
3	Sweat Equity	-	-	-
4	Commission	-	-	-
5	Others, (Provident Fund)	4.22	5.09	9.31
	TOTAL (C)	37.00	44.00	81.00

PENALTIES / PUNISHMENT / COMPOUNDING OF OFFENCES:

Type	Section of the Companies Act	Brief Description	Details of Penalty/ Punishment/ Compounding fees imposed	Authority (RD/NCLT/ COURT)	Appeal made, if any
A. COMPANY					
Penalty					
Punishment			None		
Compounding					
B. DIRECTORS					
Penalty					
Punishment			None		
Compounding					
C. OTHER OFFICERS IN DEFAULT					
Penalty					
Punishment			None		
Compounding					

ANNEXURE VIII

NOMINATION AND REMUNERATION POLICY

Our policy on the appointment and remuneration of directors and key managerial personnel provides a framework based on which our human resources management aligns their recruitment plans for the strategic growth of the Company. The nomination and remuneration policy is provided herewith pursuant to the Companies Act, 2013 and SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015.

INTRODUCTION:

In pursuance of the Company's policy to consider human resources as its invaluable assets, to pay equitable remuneration to all Directors, Key Managerial Personnel (KMP) and employees of the Company, to harmonize the aspirations of human resources consistent with the goals of the Company and in terms of the provisions of the Companies Act, 2013 and the listing agreement as amended from time to time this policy on nomination and remuneration of Directors and Key Managerial Personnel has been formulated by the Committee and approved by the Board of Directors.

THE OBJECTIVE AND PURPOSE OF THIS POLICY ARE:

- To lay down criteria and terms and conditions with regard to identifying persons who are qualified to become Directors (Executive and Non-Executive) and persons who may be appointed as Key Managerial positions and to determine their remuneration.
- To determine remuneration based on the Company's size and financial position and trends and practices on remuneration prevailing in peer companies, in the Pharmaceutical industry.
- To carry out evaluation of the performance of Directors, as well as Key Managerial Personnel.
- To provide them reward linked directly to their effort, performance, dedication and achievement relating to the Company's operations.

- To retain, motivate and promote talent and to ensure long term sustainability of talented managerial persons and create competitive advantage. In the context of the aforesaid criteria the following policy has been formulated by the Nomination and Remuneration Committee and adopted by the Board of Directors at its meeting held on 12th August, 2014.

CONSTITUTION OF THE NOMINATION AND REMUNERATION COMMITTEE:

The Board has changed the nomenclature of Remuneration Committee by renaming it as Nomination and Remuneration Committee on 12th August, 2014. The Nomination and Remuneration Committee comprises of 4 members.

Sl.No.	Name of the Member	Category
1	Shri G.S.Murthy	Independent Non-Executive Director
2	Dr.B.S.Bajaj	Independent Non-Executive Director
3	Shri Vivek Chhachhi	Non-Executive Director
4	Shri V.C.Nannapaneni	Executive Director

The Board has the power to reconstitute the Committee consistent with the Company's policy and applicable statutory requirement.

DEFINITIONS:

- Board means Board of Directors of the Company.
- Directors means Directors of the Company.
- Committee means Nomination and Remuneration Committee of the Company as constituted or reconstituted by the Board.
- Company means NATCO Pharma Limited.
- Independent Director means a director referred to in Section 149 (6) of the Companies Act, 2013.

- Key Managerial Personnel (KMP) means- (i) Managing Director; (ii) Whole-time Director; (iii) Chief Financial Officer; (iv) Company Secretary; (v) Such other officer as may be prescribed.
- Senior Management means personnel of the Company who are members of its core management team excluding the Board comprising all members of management one level below the executive directors including the functional heads.

Unless the context otherwise requires, words and expressions used in this policy and not defined herein but defined in the Companies Act, 2013 as may be amended from time to time shall have the meaning respectively assigned to them therein.

APPLICABILITY:

The Policy is applicable to

- Directors (Executive and Non Executive)
- Key Managerial Personnel
- Senior Management Personnel

GENERAL:

- This Policy is divided in three parts: Part - A covers the matters to be dealt with and recommended by the Committee to the Board, Part - B covers the appointment and nomination and Part - C covers remuneration and perquisites etc.
- This policy shall be included in the Board's Report.

PART - A

MATTERS TO BE DEALT WITH, PERUSED AND RECOMMENDED TO THE BOARD BY THE NOMINATION AND REMUNERATION COMMITTEE

The Committee shall:

- Formulate the criteria for determining qualifications, positive attributes and independence of a director.
- Identify persons who are qualified to become Director and persons who may be appointed in Key Managerial and Senior Management positions

in accordance with the criteria laid down in this policy.

- Recommend to the Board, appointment and removal of Director, KMP.
- Formulation of criteria for evaluation of Independent Directors and the Board.
- Devising a policy on Board diversity.

PART - B

POLICY FOR APPOINTMENT AND REMOVAL OF DIRECTOR, KMP AND SENIOR MANAGEMENT

- Appointment criteria and qualifications:
 1. The Committee shall identify and ascertain the integrity, qualification, expertise and experience of the person for appointment as Director, KMP or at Senior Management level and recommend to the Board his / her appointment.
 2. A person should possess adequate qualification, expertise and experience for the position he / she is considered for appointment. The Committee has discretion to decide whether qualification, expertise and experience possessed by a person is sufficient / satisfactory for the concerned position.
 3. The Company shall not appoint or continue the employment of any person as Whole time Director who has attained the age of seventy years. Provided that the term of the person holding this position may be extended beyond the age of seventy years with the approval of shareholders by passing a special resolution based on the explanatory statement annexed to the notice for such motion indicating the justification for extension of appointment beyond seventy years.

- Term / Tenure:

1. CEO/Whole - Time Director

The Company shall appoint or re-appoint any person as its CEO or Whole -time Director for a term not exceeding five years at a time. No re-appointment shall be made earlier than one year before the expiry of the term

2. Independent Director: -

An Independent Director shall hold office for a term up to five consecutive years on the Board of the Company and will be eligible for re-appointment on passing of a special resolution by the Company and disclosure of such appointment in the Board's report.

- No Independent Director shall hold office for more than two consecutive terms of five years each, but such Independent Director shall be eligible for appointment after expiry of three years of ceasing to become an Independent Director. Provided that an Independent Director shall not, during the said period of three years, be appointed in or be associated with the Company in any other capacity, either directly or indirectly.
- At the time of appointment of Independent Director it should be ensured that number of Boards on which such Independent Director serves is restricted to seven listed companies as an Independent Director and three listed companies as an Independent Director in case such person is serving as a Whole-time Director of a listed company.
- **Evaluation:**
The Committee shall carry out evaluation of performance of every Director, KMP and Senior Management Personnel at regular interval (yearly).
- **Removal:**
Due to reasons for any disqualification mentioned in the Companies Act, 2013, rules made thereunder or under any other applicable Act, rules and regulations, the Committee may recommend, to the Board with reasons recorded in writing, removal of a Director, KMP or Senior Management Personnel subject to the provisions and compliance of the said Act, rules and regulations.
- **Retirement:**
The Director, KMP and Senior Management Personnel shall retire as per the applicable provisions of the Companies Act, 2013 and the

prevailing policy of the Company. The Board will have the discretion to retain the Director, KMP, Senior Management Personnel in the same position / remuneration or otherwise even after attaining the retirement age, for the benefit of the Company.

PART - C**POLICY RELATING TO THE REMUNERATION FOR THE WHOLE-TIME DIRECTOR, KMP AND SENIOR MANAGEMENT PERSONNEL**

- **General:**
 1. The remuneration / compensation / commission etc. to the Whole-time Director, KMP and Senior Management Personnel will be determined by the Committee and recommended to the Board for approval. The remuneration / compensation / commission etc. shall be subject to the prior/post approval of the shareholders of the Company and Central Government, wherever required.
 2. The remuneration and commission to be paid to the Whole-time Director shall be in accordance with the percentage / slabs / conditions laid down in the Articles of Association of the Company and as per the provisions of the Companies Act, 2013, and the rules made thereunder.
 3. Increments to the existing remuneration / compensation structure may be recommended by the Committee to the Board which should be within the slabs approved by the Shareholders as per Companies Act, 2013 in the case of Whole-time Director..
 4. Where any insurance is taken by the Company on behalf of its Whole-time Director, Chief Executive Officer, Chief Financial Officer, the Company Secretary and any other employees for indemnifying them against any liability, the premium paid on such insurance shall not be treated as part of the remuneration payable to any such personnel. Provided that if such person is proved to be guilty, the premium paid on such insurance shall be treated as part of the remuneration.

- Remuneration to Whole-time / Executive / Managing Director, KMP and Senior Management Personnel:

1. **Fixed pay:**

The Whole-time Director / KMP and Senior Management Personnel shall be eligible for a monthly remuneration as may be approved by the Board on the recommendation of the Committee. The breakup of the pay scale and quantum of perquisites including, employer's contribution to P.F, pension scheme, medical expenses, club fees etc. shall be decided and approved by the Board on the recommendation of the Committee and approved by the shareholders and Central Government, wherever required.

2. **Minimum Remuneration:**

If, in any financial year, the Company has no profits or its profits are inadequate, the Company shall pay remuneration to its Whole-time Director in accordance with the provisions of Schedule V of the Companies Act, 2013 and if it is not able to comply with such provisions, with the previous approval of the Central Government.

3. **Provisions for excess remuneration:**

If any Whole-time Director draws or receives, directly or indirectly by way of remuneration any such sums in excess of the limits prescribed under the Companies Act, 2013 or without the prior sanction of the Central Government, where required, he / she shall refund such sums to the Company and until such sum is refunded, hold it in trust for the Company. The Company shall not waive recovery of such sum refundable to it unless permitted by the Central Government.

- Remuneration to Non- Executive / Independent Director:

1. **Remuneration / Commission:**

The remuneration / commission shall be fixed as per the slabs and conditions mentioned in the Articles of Association of the Company and the Companies Act, 2013 and the rules made thereunder.

2. **Sitting Fees:**

The Non- Executive / Independent Director may receive remuneration by way of fees for attending meetings of Board or Committee thereof. Provided that the amount of such fees shall not exceed ₹ One lakh per meeting of the Board or Committee or such amount as may be prescribed by the Central Government from time to time and approved by the Board of the Company.

3. **Stock Options:**

An Independent Director shall not be entitled to any stock option of the Company.

Policy review

This policy is framed in line with the provisions of the Companies Act, 2013 and SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015.

In case of any subsequent changes in the provisions of the Companies Act, 2013 or any other regulation which makes any of the provisions in the policy inconsistent with the Act or regulations, the provisions of the Act or regulations would prevail over the policy and the policy would be modified in due course to make it consistent with the law.

This policy shall be reviewed by the Nomination and Remuneration Committee as and when changes need to be incorporated in the policy due to changes in the regulations or as may be felt appropriate by the Committee.

ANNEXURE IX

NATCO DIVIDEND DISTRIBUTION POLICY

The Board of Directors (the “Board”) of Natco Pharma Limited (the “Company”) has adopted the Natco Dividend Distribution Policy (the “Policy”) of the Company as required in terms of Regulation 43A of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 (the “Listing Regulations”) in its meeting held on 11th November, 2016.

EFFECTIVE DATE

The Policy shall become effective from the date of its adoption by the Board i.e. 11th November, 2016.

PURPOSE

To help the investors in taking well informed investment decisions.

DEFINITIONS

Any term used in this policy shall have the meaning ascribed to it in the Companies Act, 2013 or Rules made thereunder, SEBI Act, 1992 or Rules and Regulations made thereunder or any other relevant legislation/law applicable to the Company

STATUTORY PROVISIONS:

Chapter VIII of the Companies Act, 2013 and rules made there under contain the provisions pertaining to declaration and payment of dividend. The following points set out the statutory obligations of a Company with respect to declaration / payment of dividend:

- Company shall declare or pay dividend, for any financial year, only out of the profits of the Company for that financial year.
- Such profits shall be after providing for depreciation in accordance with the provisions of the law.
- In case of inadequacy or absence of profits in any year, a maximum of 10% of paid-up capital can be declared as dividend, subject to other provisions contained in the Companies (Declaration and Payment of Dividend) Rules, 2014.

The SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 also specify certain conditions as to declaration of dividend such as prior intimation to the stock exchanges, record date etc.

A. GENERAL POLICY OF THE COMPANY AND OTHER CONSIDERATIONS AS REGARDS DIVIDEND

The Board shall consider the following, while taking decisions of a dividend pay-out during a particular year-

1. STATUTORY REQUIREMENTS

The Company shall observe the relevant statutory requirements which may be applicable to the Company at the time of taking decision with regard to dividend declaration or retention of profit.

2. PRUDENTIAL REQUIREMENTS

Prior to declaration / recommendation of any dividend as per this policy, the Company may consider any applicable covenants / conditions or restrictions imposed by any lenders, JV partners of the Company or its subsidiaries. The Company may decide to retain earnings in entirety for a particular year(s) for its growth / expansion, consequently resulting in shareholders' wealth creation.

3. EXTENT OF REALIZED PROFITS AS A PART OF THE IND AS PROFITS OF THE COMPANY

The extent of realized profits out of its profits calculated as per IND AS, affects the Board's decision of determination of dividend for a particular year. The Board is required to consider such factors before taking any dividend or retention decision.

4. EXPECTATIONS OF STAKEHOLDERS, INCLUDING SMALL SHAREHOLDERS

The Board, while considering the decision of dividend pay-out or retention of a certain amount or entire profits of the Company, shall, as far

as possible, consider the expectations of the stakeholders including the small shareholders of the Company who generally expects for a regular dividend payout.

B. OTHER FINANCIAL PARAMETERS

In addition to the aforesaid parameters such as realized profits and proposed major capital expenditures, the decision of dividend payout or retention of profits shall also be based the following-

- 1) Current earnings of the Company
- 2) Operating cash flow of the Company
- 3) Dividend History
- 4) Repayment/Pre-payment of Borrowings
- 5) Future Earnings Expectation
- 6) Capital Expenditure Requirements requiring ploughing back of profits i.e. future capital expenditure program including
 - Market expansion plan;
 - Product expansion plan;
 - Increase in production capacity;
 - Modernization plan;
 - Diversification of business;
 - Long term strategic plans;
 - Acquiring new businesses/products
- 7) Crystallization of contingent liabilities, if any
- 8) Exchange Risk
- 9) Sale of businesses
- 10) Economic / Geo-political factors/risks
- 11) Regulatory requirements

C. INTERIM/FINAL DIVIDEND PAYOUT

Pursuant to the provisions of applicable laws and the Policy, interim dividend approved by the Board of Directors will be confirmed by the shareholders and final dividend, if any, recommended by the Board of Directors, will be subject to shareholders approval, at the relevant Annual General Meeting of the Company. The Company shall ensure compliance of provisions of Applicable Laws and this Policy in relation to Dividend declared by the Company.

D. CLASSES OF SHARES

At present, the issued and paid-up share capital of the Company comprises only of equity shares. As and when the Company issues any other class(es) of shares, the Board of Directors may suitably declare dividend on such class(es) in accordance with the provisions of the Companies Act, 2013 and this policy.

E. DISCLOSURES

Company is required to disclose this policy on its website and also in the Annual Report of the Company. The Company shall make other appropriate disclosures pertaining to declaration of dividend as required under the Companies Act, 2013 and the rules made thereunder, the SEBI Act, 1992 or the rules and regulations made thereunder and any other law applicable.

F. AMENDMENT

The Board shall have the power to amend any of the provisions of this Policy, substitute any of the provisions with a new provision or replace this Policy entirely with a new Policy in conformity with the provisions of Companies Act, 2013 and the rules made thereunder, the SEBI Act, 1992 or the rules and regulations made thereunder and any other law applicable.

G. DECLARATION OF DIVIDEND ON PARAMETERS NOT MENTIONED IN THE POLICY

If the Company proposes to declare dividend on the basis of parameters in addition to those mentioned in the policy it shall disclose such changes along with the rationale for the same in its annual report and on its website.

H. LIMITATIONS

[The Policy shall not apply to:](#)

- Special dividend, if any, to be outside the scope of this policy but would be governed by the provisions under the Companies Act, 2013.
- Distribution of dividend in kind, i.e. by issue of fully or partly paid bonus shares or other securities, subject to applicable law;
- Buyback of equity shares.

CORPORATE GOVERNANCE REPORT

PHILOSOPHY ON CORPORATE GOVERNANCE

NATCO Pharma Limited believes that transparency in the form of disclosures, presence of strong Board with adequate composition of independent Directors, and being accountable ensures good Corporate Governance and enhances the reputation of the Company globally without hindering with the shareholder's faith in the Company.

Compliance of law in letter and spirit is the thumb rule of your Company. Going beyond the mandate of law in terms of Corporate Governance practices has been one of the reasons for the ever ending trust built up in the hearts of thousands of Shareholders and other stakeholders of the Company. At Natco, we consider stakeholders as our partners in success, and we remain committed to maximising stakeholder value. This approach to value creation emanates from our belief that sound governance system, based on relationship and trust, is integral to create enduring value for all. We have strengthened governance practices which define the way business is conducted and value is generated. Stakeholders' interest is taken into account before making any business decision.

Responsible corporate conduct is integral to the way we do our business. Our actions are governed by our values and principles, which are reinforced at all levels within the Company. Our Code of Business Principles is an extension of our values and reflects our continued commitment to ethical business across our operations. Your Company is a law abiding corporate citizen.

We believe, to succeed, requires highest standard of Corporate Governance behaviour towards everyone we work with, the communities we deal in and the environment on which we have an impact. This is our road to consistent, competitive, profitable and responsible growth which creates a long term value to our shareholders.

BOARD OF DIRECTORS

The Board of Natco is a combination of twelve (12) eminent personnel from varied fields having immense knowledge in the subjects of their interest. At Natco it is always believed that the Board plays a fiduciary role in protecting the interests of the stakeholders and at

enhancing the shareholder value. The Board provides strategic guidance to the Company by exercising independent judgement.

(a) Meetings

Decision-making is vital for the success of any Company. Natco believes that the Board Meetings are of high significance when it comes to decision making. There are several items of business which are to be particularly reviewed and approved by the Board which include the financial performance of the company, corporate actions undertaken by the Company, several policies etc. In addition to this the Board also analyses the affairs of the Company, opportunities for the growth of the Company, litigation status of the Company before various Courts in India and abroad and such other matters as recommended by the management of your Company. All these decisions are taken by the Board with due care, caution and diligence.

(i) Dates of the Board Meetings

The following table depicts the dates on which the Meetings of the Board are held:

Quarter	Date of the Meeting held
April - June, 2016	26.05.2016
July - September, 2016	09.08.2016
October - December, 2016	11.11.2016
January - March, 2017	14.02.2017

The time gap between any two successive meetings did not exceed one hundred and twenty days. Requisite Quorum was present in all the meetings. In order to avoid possible time and travel constraints of the Directors both the Board and Committee Meetings were held on the same day. However, it was made certain that adequate time is provided for both the meetings for thorough discussions for arriving at consensus in decision making.

(ii) Prior Intimation of Board Meeting

Prior to every Board Meeting of the Company which considers financial results, intimation is given to both the stock exchanges (NSE and BSE) where your Company's shares are listed

and the same is published in national daily newspaper in English and in one regional daily newspaper published in Telugu mentioning the date of the meeting and the main items of business to be considered at that particular meeting.

(iii) Disclosure to Stock Exchanges after the Board Meeting

After the conclusion of the meeting the updates of the same are disclosed to both the stock exchanges on the same day of meeting. However, when the meeting is held to consider financial results of the Company, such results are uploaded in the online portal

of the stock exchanges within thirty (30) minutes from the conclusion of the meeting in compliance with the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ('Listing Regulations').

(b) Composition

The Composition of the Board is made keeping in view the growth of the Industry and the Company as well as complying the statutory requirement under the Companies Act, 2013 ('Act') and the rules made thereunder and the Listing Regulations.

Composition of the Board of Directors of Natco is as follows:

Sl. no.	Name	Category	Number of meetings of the Board of Directors during the FY 2016-17		Attendance at the last AGM Held on 30-09-2016	Relationship inter-se directors	Directorships in other public companies
			Held	Attended			
1	Mr. V.C.Nannapaneni	Executive Director	4	4	Yes	Father of Mr. Rajeev Nannapaneni	1
2	Mr. T.V.Rao	Independent Director	4	4	No	NA	6
3	Mr. G.S.Murthy	Independent Director	4	4	Yes	NA	-
4	Dr. B.S.Bajaj*	Independent Director	4	3	Yes	NA	-
5	Mr. Rajeev Nannapaneni	Executive Director	4	4	Yes	Son of Mr. V.C.Nannapaneni	1
6	Dr. A.K.S.Bhujanga Rao*	Executive Director	4	3	Yes	NA	-
7	Mr. Vivek Chhachhi	Non-Executive and Non-Independent Director	4	3	No	NA	-
8	Mr. D.G.Prasad	Independent Director	4	4	Yes	NA	3
9	Dr. Mrs.Leela Digumarti	Independent Director	4	3	No	NA	-
10	Mr. P.S.R.K.Prasad	Executive Director	4	4	Yes	NA	-
11	Dr. MUR Naidu	Independent Director	4	2	Yes	NA	-
12	Dr. D.Linga Rao	Executive Director	4	4	Yes	NA	-

Note: Every Director intimates the Company of his shareholding in the Company as well as directorships in other Companies in the prescribed forms on an annual basis and also on subsequent changes, if any.

* Dr.B.S.Bajaj and Dr.AKS Bhujanga Rao resigned w.e.f. 07-08-2017

(c) Independent Directors

Natco is always of the belief that an independent eye makes difference to the way the Board functions. The presence of Independent Directors on the Board ensures that decision making of the Board is unbiased and the interests of the stakeholders are safeguarded. The Act and Listing Regulations prescribe several conditions in respect of Independent Directors and your company is in strict compliance of the same.

Half of your Company's Board consists of Independent Directors who have submitted declaration to the effect that they meet the criteria of independence as provided under the Act and Listing Regulations. They are well qualified in the fields of science, finance, law and administration.

(i) Meeting of Independent Directors

The independent directors of your company met on 11.11.2016 and considered those items

of business as required under Schedule IV to the Act as well as the Listing Regulations. The Company Secretary of your company facilitated the convening and holding of the meeting of Independent Directors.

(ii) Familiarisation Programme for Independent Directors

The Company has organised Familiarisation Programmes for the Independent Directors of the Company on every Board Meeting date to familiarise them with the Company vis a vis their roles, rights, responsibilities in the Company, nature of the industry in which the Company operates, business model of the Company etc. The details regarding the programme is available in the Company's website.

(d) Board Evaluation

A formal annual evaluation has been made by the Board of its own performance and that of

its Committees and individual Directors. The performance evaluation has been done by the entire Board of Directors, excluding the Director being evaluated. Various evaluation techniques are used to assess the performance of the Directors. All the Directors have participated in this evaluation process. The Independent Directors in their meeting held on 11.11.2016 have also evaluated the performance of the Chairman of the Company and the Board as a whole.

(e) Attendance and Sitting Fees

The Meetings of the Board are usually convened on such dates as agreed for by majority of the Directors. However due to certain emergencies or for any other pre-occupations directors are granted leave of absence at the beginning of the meeting. The details of attendance of the Directors and the sitting fees paid for the financial year 2016-17 are as below:

Sl. No.	Name of the Director	Category	Date of Board Meeting				Total Sitting Fees paid (₹)
			26.05.2016	09.08.2016	11.11.2016	14.02.2017	
1	Mr. V.C.Nannapaneni	Executive Director	Y	Y	Y	Y	-
2	Mr. T.V.Rao	Independent Director	Y	Y	Y	Y	1,10,000
3	Mr. G.S.Murthy	Independent Director	Y	Y	Y	Y	1,10,000
4	Dr. B.S.Bajaj***	Independent Director	Y	Y	Y	N	80,000
5	Mr. Rajeev Nannapaneni	Executive Director	Y	Y	Y	Y	-
6	Dr. AKS Bhujanga Rao**	Executive Director	N	Y	Y	Y	-
7	Mr. Vivek Chhachhi*	Non-Executive and non-independent Director	Y	Y	N	Y	-
8	Mr. D.G.Prasad	Independent Director	Y	Y	Y	Y	1,10,000
9	Dr. Mrs.Leela Digumarti	Independent Director	Y	Y	N	Y	80,000
10	Mr. P.S.R.K.Prasad	Executive Director	Y	Y	Y	Y	-
11	Dr. M.U.R.Naidu	Executive Director	N	Y	Y	N	60,000
12	Dr. D.Linga Rao	Executive Director	Y	Y	Y	Y	-
TOTAL							5,50,000

Y - Present; N - Leave of Absence

* Mr. Vivek Chhachhi, Non-Executive and Non-Independent Director, is voluntarily not taking any sitting fee.

** None of the executive directors are paid sitting fee.

*** Dr.B.S.Bajaj and Dr.AKS Bhujanga Rao resigned w.e.f. 07-08-2017

Committees

(i) Committees of Board

In order to take decisions effectively and for better Corporate Governance the Board of your Company had constituted six committees viz. Audit Committee, Stakeholders Relationship Committee, Nomination and Remuneration Committee, Compensation Committee, Allotment Committee and Corporate Social Responsibility Committee.

The membership in committees is decided based on the traits of the Directors keeping in view the statutory requirement of composition of directors in the committees. The brief description of terms of reference, composition, meetings and attendance during the financial year 2016-17 are provided below:

(a) Audit Committee

The Audit Committee of the Company comprises of six (6) Directors of which four are independent directors (including the Chairman of the Committee), one non-executive and non-independent director and one executive director (Chairman of the Board) majority of whom are

financially literate and have accounting and related financial management expertise. The details regarding the dates of the meetings, attendance during the meetings and the sitting fees paid for the financial year 2016-17 are depicted in the table below:

Name of the Director	Category	Date of Audit Committee Meeting				Total Sitting Fees paid (₹)
		26.05.2016	09.08.2016	11.11.2016	14.02.2017	
Mr. G.S.Murthy (Chairman)	Independent Director	Y	Y	Y	Y	20,000
Dr. B.S.Bajaj***	Independent Director	Y	Y	Y	N	15,000
Mr. T.V.Rao	Independent Director	Y	Y	Y	Y	20,000
Mr. V.C.Nannapaneni	Executive Director	Y	Y	Y	Y	-
Mr. Vivek Chhachhi	Non-Executive and non-independent Director	Y	Y	N	Y	-
Mr. D.G.Prasad	Independent Director	Y	Y	Y	Y	20,000
TOTAL						75,000

Y - Present; N - Leave of Absence

* Mr. Vivek Chhachhi, Non-Executive and Non-Independent Director, is voluntarily not taking any sitting fee

** The quorum for the meetings and the frequency of meetings are in strict compliance with the statutory requirements.

*** Dr.B.S.Bajaj resigned w.e.f. 07-08-2017

Terms of Reference:

The terms of reference of Audit Committee include, but not limited to, the following:

- Oversight of the listed entity's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible;
- Recommendation for appointment, remuneration and terms of appointment of auditors of the listed entity;
- Approval of payment to statutory auditors for any other services rendered by the statutory auditors;
- Reviewing, with the management, the annual financial statements and auditor's report thereon before submission to the board for approval, with particular reference to:
 - matters required to be included in the director's responsibility statement to be included in the board's report in terms of clause (c) of sub-section (3) of Section 134 of the Companies Act, 2013;
 - changes, if any, in accounting policies and practices and reasons for the same;
 - major accounting entries involving estimates based on the exercise of judgment by management;
 - significant adjustments made in the financial statements arising out of audit findings;
 - compliance with listing and other legal requirements relating to financial statements;
 - disclosure of any related party transactions;
 - modified opinion(s) in the draft audit report;
- Reviewing, with the management, the quarterly financial statements before submission to the board for approval;
- Reviewing, with the management, the statement of uses / application of funds raised through an issue (public issue, rights issue, preferential issue, etc.), the statement of funds utilized for purposes other than those stated in the offer document / prospectus / notice and the report submitted by the monitoring agency monitoring the utilisation of proceeds of a public or rights issue, and making appropriate recommendations to the board to take up steps in this matter;

7. Reviewing and monitoring the auditor's independence and performance, and effectiveness of audit process;
8. Approval or any subsequent modification of transactions of the listed entity with related parties;
9. Scrutiny of inter-corporate loans and investments;
10. Valuation of undertakings or assets of the listed entity, wherever it is necessary;
11. Evaluation of internal financial controls and risk management systems;
12. Reviewing, with the management, performance of statutory and internal auditors, adequacy of the internal control systems;
13. Reviewing the adequacy of internal audit function, if any, including the structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure coverage and frequency of internal audit;
14. Discussion with internal auditors of any significant findings and follow up there on;
15. Reviewing the findings of any internal investigations by the internal auditors into matters where there is suspected fraud or irregularity or a failure of internal control systems of a material nature and reporting the matter to the board;
16. Discussion with statutory auditors before the audit commences, about the nature and scope of audit as well as post-audit discussion to ascertain any area of concern;
17. To look into the reasons for substantial defaults in the payment to the depositors, debenture holders, shareholders (in case of non-payment of declared dividends) and creditors;
18. To review the functioning of the whistle blower mechanism;
19. Approval of appointment of chief financial officer after assessing the qualifications, experience and background, etc. of the candidate;
20. Review of management discussion and analysis of financial condition and results of operations;
21. Reviewing the statement of significant related party transactions (as defined by the audit committee), submitted by management;
22. To Review management letters / letters of internal control weaknesses issued by the statutory auditors;
23. Review of internal audit reports relating to internal control weaknesses; and
24. Appointment, removal and terms of remuneration of the chief internal auditor shall be subject to review by the audit committee.
25. Reviewing the statement of deviations:
 - a. Quarterly statement of deviation(s) including report of monitoring agency, if applicable, submitted to stock exchange(s) in terms of Regulation 32(1).
 - b. Annual statement of funds utilized for purposes other than those stated in the offer document/prospectus/notice in terms of Regulation 32(7).

(b) Stakeholders' Relationship Committee

The Stakeholders' Relationship Committee of the Company comprises of four (4) Directors of which two are independent directors (including the Chairman of the Committee) and two executive directors. The details regarding the dates of the meetings, attendance during the meeting and the sitting fee paid for the financial year 2016-17 are depicted in the table below:

Name of the Director	Category	Date of Stakeholders' Relationship Committee Meeting		Total Sitting Fees paid (₹)
		26.05.2016	14.02.2017	
Mr. G.S.Murthy (Chairman)	Independent Director	Y	Y	10,000
Mr. V.C.Nannapaneni	Executive Director	Y	Y	-
Mr. Rajeev Nannapaneni	Executive Director	Y	Y	-
Dr. M.U.R.Naidu	Independent Director	N	N	-
Total				10,000

Y - Present; N - Leave of Absence

Terms of reference:

- To consider and resolve the grievances of the security holders of the listed entity including complaints related to transfer of shares, non-receipt of annual report and non-receipt of declared dividends.
- To specifically look into the mechanism of redressal of grievances of shareholders, debenture holders and other security holders, if any, of the Company.

(c) Nomination and Remuneration Committee

The Nomination and Remuneration Committee of the Company comprises of four (4) Directors of which two are independent directors (including the Chairman of the Committee), one non-executive and non-independent director and one executive director (Chairman of the Board). The details regarding the dates of the meetings, attendance during the meeting and the sitting fees paid for the financial year 2016-17 are depicted in the table below:

Name of the Director	Category	Date of Stakeholders' Relationship Committee Meeting		Total Sitting Fees paid (₹)
		26.05.2016	09.08.2016	
Mr. G.S.Murthy (Chairman)	Independent Director	Y	Y	10,000
Dr. B.S.Bajaj**	Independent Director	Y	Y	10,000
Mr. Vivek Chhachhi*	Non-Executive and non-independent Director	Y	Y	-
Mr. V.C.Nannapaneni	Executive Director (Chairman of the Board)	Y	Y	-
TOTAL				20,000

Y - Present; N - Leave of Absence

* Mr. Vivek Chhachhi, Non-Executive and Non-Independent Director, is voluntarily not taking any sitting fee

** Dr.B.S.Bajaj resigned w.e.f. 07-08-2017

Terms of reference:

1. Formulation of the criteria for determining qualifications, positive attributes and independence of a director and recommend to the board of directors a policy relating to, the remuneration of the directors, key managerial personnel and other employees;
2. Formulation of criteria for evaluation of performance of independent directors and the board of directors;
3. Devising a policy on diversity of Board of Directors;
4. Identifying persons who are qualified to become Directors and who may be appointed in senior management in accordance with the criteria laid down, and recommend to the board of directors their appointment and removal.
5. Whether to extend or continue the term of appointment of the independent director, on the basis of the report of performance evaluation of independent directors.

(d) Compensation Committee

The Compensation Committee of the Company comprises of four (4) Directors of which two are independent directors and two are executive directors. During the financial year 2016-17 the Compensation Committee recommended the Natco Employee Stock Option Scheme, 2016 (NATSOP 2016) to the Board which was subsequently approved by the members of the Company after which the Committee granted employee stock options to the eligible employees as per the NATSOP 2016. The details regarding the dates of the meetings, attendance during the meeting and the sitting fees paid for the financial year 2016-17 are depicted in the table below:

Name of the Director	Category	Date of Compensation Committee Meeting		Total Sitting Fees paid (₹)
		09.08.2016	11.11.2016	
Mr. G.S.Murthy	Independent Director	Y	Y	10,000
Dr. B.S.Bajaj*	Independent Director	Y	Y	10,000
Mr. V.C.Nannapaneni	Executive Director	Y	Y	-
Mr. Rajeev Nannapaneni	Executive Director	Y	Y	-
TOTAL				20,000

Y - Present; N - Leave of Absence

* Dr.B.S.Bajaj resigned w.e.f. 07-08-2017

Terms of Reference

1. To formulate the detailed terms and conditions for the administration and interpretation of any Employee Stock Option Plans of the Company and recommend the same to the Board.
2. To amend and rescind any rules and regulations relating to Employee Stock Option Plans in tune with recommendations / approvals / regulatory rules of SEBI or any other authority or otherwise and to make any other determinations that it deems fit or necessary or desirable for the administration and implementation of the Plan.
3. To grant options issued pursuant to the Employee Stock Option Plans to the employees of the Company.
4. To recommend closure of any scheme to the Board.
5. To frame suitable policies and procedures to ensure that there is no violation of securities laws, as amended from time to time, including Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992 and Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices Relating to the Securities Market) Regulations, 2003 by the company and its employees.

(e) Allotment Committee

The Allotment Committee comprises of four (4) Directors of which two are independent directors and the other two are executive directors. There was no Allotment Committee meeting held during the financial year 2016-17. Mr. V.C. Nannapaneni,

Mr. G. S. Murthy, Dr.B.S. Bajaj and Mr. Rajeev Nannapaneni are the members of the Allotment Committee.

Terms of reference

1. To administer, control and implement the preferential issue of the Company.
2. To negotiate and finalise the terms of the said issue, including the amount, the conversion price, the rate of interest etc.
3. To Allot the bonds / shares consequent upon exercise of right of conversion to the applicants;
4. To File all necessary papers and documents with the Stock Exchanges in India and abroad as may be necessary or authorise any officer of the Company to file the same;

5. To appoint Legal advisors, Paying and Conversion Agents, Listing Agents, Registrars to the issue, Brokers to the issue, Process Agents, Bankers to the issue and any other intermediaries etc. required in connection with the said issue; and
6. To do all such things that are necessary and incidental thereto.

(f) Corporate Social Responsibility Committee

The Corporate Social Responsibility Committee of the Company comprises of three (3) Directors of which one is an independent director and two are executive directors.

The details regarding the dates of the meetings, attendance during the meetings and the sitting fees paid for the financial year 2016-17 are depicted in the table below:

Name of the Director	Category	Date of Corporate Social Responsibility Committee Meeting		Total Sitting Fees paid (₹)
		26.05.2016	11.11.2016	
Mr. G.S.Murthy	Independent Director	Y	Y	10,000
Mr. V.C.Nannapaneni	Executive Director	Y	Y	-
Mr. Rajeev Nannapaneni	Executive Director	Y	Y	-
TOTAL				10,000

Y - Present; N - Leave of Absence

Terms of Reference

1. To formulate and recommend to the Board, a Corporate Social Responsibility Policy which shall indicate the activities to be undertaken by the company as specified in Schedule VII to the Companies Act, 2013;
2. To recommend the amount of expenditure to be incurred on the activities referred to in clause (a);
3. To monitor the Corporate Social Responsibility Policy of the Company from time to time;

(ii) Other Committees

(a) Share Transfer Committee

The transfer/transmission of equity shares of the Company are approved by the Share Transfer Committee, the power of which has been delegated to the Share Transfer Agents/Registrars of the Company. The Company Secretary approves share transfers/transmissions and related matters.

Shares lodged for transfer either at Company's Registered Office or at the Company's Registrars are processed within 15 days from the date of lodgement, if the documents are valid in all respects. All requests for dematerialisation of shares are processed and the confirmation(s) thereto is given to depositories within 15 days.

During the financial year 2016-17, 97 instruments of transfer for 41,300 equity shares and 10 instruments of transmission for 5,900 equity shares were received and the same were effected.

(b) Internal Complaints Committee - Committee constituted under Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013

Your Company has in place Internal Complaints Committee at each of its offices and factories to resolve any issues related to sexual harassment of women at workplace. The composition of the Committees is strictly as per the statutory

requirement in the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013. During the Calendar Year 2016 there were no complaints received.

The Committee comprises of one Presiding Officer who is a woman employed at a senior level, two members from amongst the employees and one member from a non-governmental organisation at each place of work. It was ensured that at least half of the total members are women.

GENERAL MEETINGS

(a) Annual General Meetings

The following are the Details of the previous three Annual General Meetings of your Company:

Financial Year	Date of the AGM	Venue	Time	Special Resolution(s) passed, if any
2015-16	30.09.2016	Daspalla Hotel, Road No.37, Jubilee Hills, Hyderabad - 500 033	10.00 a.m.	5
2014-15	26.09.2015	Daspalla Hotel, Road No.37, Jubilee Hills, Hyderabad - 500 033	10.30 a.m.	9
2013-14	27.09.2014	Daspalla Hotel, Road No.37, Jubilee Hills, Hyderabad - 500 033	10.30 a.m.	7

(b) Postal ballot

No resolution was passed through postal ballot for the financial year 2016-17.

REMUNERATION OF DIRECTORS

Executive Directors

The remuneration of Executive Directors of the Company is fixed based on the remuneration policy of the Company and as recommended by Nomination and Remuneration Committee (NRC) and the remuneration paid to them for the financial year 2016-17 are as below:

S. No.	Name	Designation	Total amount (₹ in Lakhs per annum)
1.	Mr. V. C. Nannapaneni	Chairman & Managing Director	178.32
2.	Mr. Rajeev Nannapaneni	Vice Chairman & CEO	155.82
3.	Dr. A.K.S. Bhujanga Rao*	Director & President (R&D and Technical)	125.00
4.	Mr. P.S.R.K. Prasad	Director & Executive Vice President (Corp. Engg. Services)	125.00
5.	Dr. D. Linga Rao	Director & President (Tech. Affairs)	125.00
TOTAL			709.14

* Dr.A.K.S.Bhujanga Rao resigned w.e.f. 07-8-2017

Non-Executive Directors

Sitting fees for attending the Board Meeting is increased from ₹ 20,000/- (Rupees twenty thousand only) to ₹ 30,000/- (Rupees thirty thousand) with effect from the Board Meeting held on 9th August, 2016 and ₹ 5,000/- (Rupees five thousand only) is paid for attending Committee Meeting in addition to reimbursement of out of pocket expenses. The amount is paid within the ceiling limits under Companies Act, 2013 and the Articles of Association of the Company. The details of the sitting fees paid to Non-Executive Directors for each meeting is already disclosed. Total sitting fee paid for the financial year 2016-2017 is given below:

Sl.No.	Name	Position	Total (in ₹)
1.	Mr. G.S.Murthy	Independent Director	1,70,000
2.	Dr. B.S.Bajaj*	Independent Director	1,15,000
3.	Mr. T.V.Rao	Independent Director	1,30,000
4.	Mr. D.G.Prasad	Independent Director	1,30,000
5.	Dr. Mrs.Leela Digumarti	Independent Director	80,000
6.	Dr. M.U.R.Naidu	Independent Director	60,000
TOTAL			6,85,000

* Dr.B.S.Bajaj resigned w.e.f. 07-08-2017

PREVENTION OF INSIDER TRADING

Your company has in place Code of Internal Procedures and Conduct to Regulate, Monitor and Report Trading by insiders in the Securities of the Company ('The Code') which is in adherence to the SEBI (Prohibition of Insider Trading) Regulations, 2015. The disclosures received pursuant to this code and the regulations are disseminated to the Stock Exchanges within the prescribed time limit. Report of compliance officer was duly placed before the Board. The Code is available in the Company's website at the following link: <http://natcopharma.co.in/wp-content/uploads/2015/07/Code-of-Conduct-PIT-2015-Natco.pdf>

COMPLIANCES

Quarterly Reconciliation of Share Capital Audit Report

A thorough audit is conducted on a quarterly basis by Mrs. P. Renuka, Practising Company Secretary (ACS No. 11963; CP No. 3460), in terms of regulation 55 A of SEBI (Depositories and Participants) Regulations, 1996, to reconcile the total admitted equity share capital with NSDL and CDSL and the total issued and listed equity share capital. The Reconciliation of Share Capital Audit Report confirms that the total issued/paid-up capital is in agreement with the total number of shares in physical form and total number of dematerialised shares held with NSDL and CDSL. A copy of the report is uploaded in the online portal of both the stock exchanges (NSE and BSE) on a quarterly basis within the prescribed time limit and the same also placed before the Board.

Compliance report on Corporate Governance

Your Company submits compliance report on Corporate Governance to both the stock exchanges (NSE and BSE) on quarterly, half-yearly and annual basis within the prescribed time-limits. These reports are also placed before the Board.

Secretarial Standards

The Secretarial Standards issued by the Institute of Company Secretaries of India (ICSI) have come into force from 01.07.2015 and your company's practices and procedures meet with these standards. So far only two secretarial standards have rolled out, viz., for Board Meetings and for General Meetings.

Legal Compliance

The Company follows a formal management policy and system of legal compliance and reporting to facilitate

periodical review by the Board of the Compliance of laws applicable to the Company and steps taken to rectify non-compliance, if any. There were no instances of material non-compliance and strictures imposed on the Company either by SEBI, Stock Exchange or any statutory authority, on any matter related to capital markets, tax / excise matters, and such other related matters during the last three years.

Whistle Blower Policy

The Company has a Whistle Blower Policy to deal with instances of fraud and mismanagement, if any. The policy ensures that strict confidentiality is maintained whilst dealing with concerns and also that no discrimination will be meted out to any person for a genuinely raised concern. Pursuant thereto, anyone can directly approach the Chairman of the Audit Committee or through Company Secretary to report any suspected or confirmed incident of fraud / misconduct. It is affirmed that no personnel has been denied access to the Audit Committee.

Environmental Policy

Your Company complies with all the applicable environmental legislations and regulations, by incorporating suitable modern techniques such as waste management, recovery of raw materials isolating bye-products and distillations of solvents to control pollutions, by conserving raw materials, natural resources such as water, diesel, coal & electricity by creating an environmental awareness among employees & suppliers and by providing a frame work for setting and reviewing of environmental objectives and targets. All plant locations of your Company are zero pollution discharging ones.

Non-Mandatory Requirements

- **Separate posts of Chairperson and Chief Executive Officer**

The Chairman of the Board and the Chief Executive Officers are two different persons

Related Party Transactions

All related party transactions with related parties during the financial year 2016-17 were done in accordance with the provisions of the Companies Act, 2013 and Regulation 23 of the Listing Regulations. No materially significant transactions with related parties were entered during the financial year which was in conflict with the interest of the Company. None of the Non-Executive Directors have any pecuniary material relationship or

material transactions with the Company for the year ended 31st March, 2017. The Company had formulated a Related Party Transactions Policy which is available on the Company's Website at the following link: <http://natcopharma.co.in/wp-content/uploads/2015/03/RPT-Policy.pdf>

EMPLOYEE STOCK OPTION SCHEMES

Based on the recommendation of the Compensation Committee the Board and members of the Company approved the following Employee Stock Option Schemes, which are currently in force, for which your company had received in-principle approval from both the stock exchanges (NSE and BSE) to list the shares issued pursuant to the schemes:

a. Natco Employee Stock Option Scheme 2015 (NATSOP 2015)

Particulars	Number of options
Options approved by the shareholders in their EGM held on 27.06.2015	7,50,000
Options granted by Compensation Committee in its meeting held on 12.08.2015	7,50,000
Opening Balance of options (as on 01.04.2016)	7,50,000
Options Vested and Exercised (allotted by the Board in its meeting held on 11.11.2016)	1,33,555
Closing Balance of options (as on 31.03.2017)	6,16,445

b. Natco Employee Stock Option Scheme 2016 (NATSOP 2016)

Particulars	Number of options
Options approved by shareholders in their AGM held on 30.09.2016	1,75,000
Options granted by Compensation Committee in its meeting held on 11.11.2016	1,74,330
Opening Balance of options (as on 11.11.2016)	1,74,330
Options Vested and Exercised	Nil
Closing Balance of options (as on 31.03.2017)	1,74,330

Note: each option granted gives right to the option grantee to convert it into one equity share of face value of ₹ 2/- each.

TRANSFER OF SHARES TO IEPF

The Ministry of Corporate Affairs (MCA) issued notification for commencement of the provisions of Section 124(6) whereby all shares in respect of which dividend has not been paid or claimed for seven consecutive years or more shall be transferred by the Company in the name of Investor Education and Protection Fund. The rules pertaining to the same have been notified and your Company had duly complied with the same by publishing notice in newspaper and sending individual notices to the shareholders on 30.11.2016 who haven't claimed dividend. However the implementation of these rules has been deferred from time to time. As of now, we are awaiting directions from the MCA in this regard.

MEANS OF COMMUNICATION

At NATCO, dissemination of information is considered crucial since many stakeholders are interested in the affairs of the Company. The Audited/Unaudited quarterly, half-yearly and annual financial results of the Company both on stand-alone and consolidated basis are made available in the Public Domain of both the Stock Exchanges (NSE and BSE) soon after the conclusion of the Board Meeting in which the above-said results were considered/approved by the Board and the same are published in both Vernacular and National newspapers in compliance with legal provisions in this regard. Presentations on Financial Results made to Institutional investors / analysts are uploaded in the Company's Website as well as submitted to both the Stock Exchanges (NSE and BSE). It is ensured that any information regarding the Company such as product launches, further developments in legal issues, USFDA approvals, marketing approvals, new joint ventures or partnerships etc. are promptly intimated to the Stock Exchanges and updated on the Company's website (www.natcopharma.co.in) as well as made part of press releases. Transparency of the affairs of the Company is always given significance keeping in view the confidentiality required for maintaining the integrity of the business. Any price sensitive information is brought to the notice of both the Stock Exchanges (NSE and BSE), Press and Electronic Media in order to avoid any possible insider trading practices with such information.

The following table provides the details regarding the publishing of quarterly results in the newspapers:

Quarter ended	Name of the English Daily	Name of the Regional Daily	Date of publication
30th June, 2016	· Business Standard · Metro India	· Namaste Telangana · Eenadu	10.08.2016
30th September, 2016	· Business Standard · Financial Express	· Nava Telangana · Eenadu	12.11.2016
31st December, 2016	· Business Line	· Eenadu · Vaarta · Nava Telangana	15.02.2017
31st March, 2017	· Business Line	· Eenadu · Nava Telangana · Namaste Telangana · Mana Telangana	31.05.2017

GENERAL SHAREHOLDER INFORMATION

(a) Details regarding Annual General Meeting

Date	28th September, 2017
Time	10.30 a.m.
Venue	Daspalla Hotel, Road No. 37, Jubilee Hills, Hyderabad - 500033
Book Closure Dates	22.09.2017 to 28.09.2017 (both days inclusive)

(b) Financial Year

The Company adopted the financial year beginning on 1st April of every year and ending on 31st March of the following year. Accordingly all the quarterly, half yearly and annual compliance are taken care of in accordance with the Companies Act, 2013, SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 and other applicable acts, rules and regulations.

(c) Listing on Stock Exchanges

The ISIN of the Company is **INE987B01026**. Details of the Stock Exchanges in which the equity shares of the Company are listed are as below:

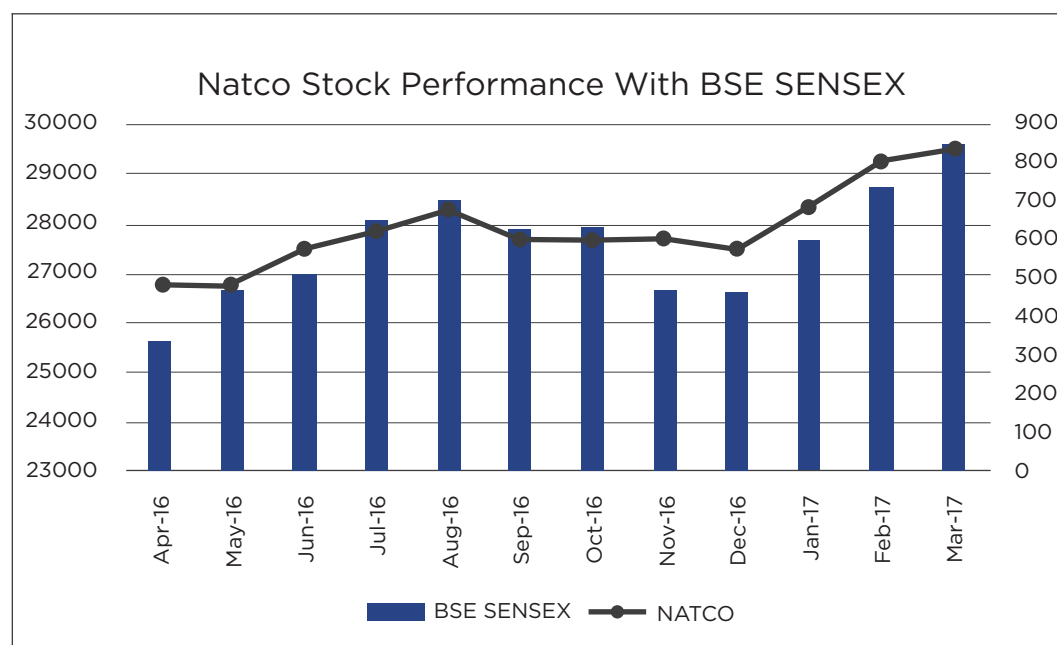
Name of the Stock Exchange	Address	Scrip Code
BSE Limited	Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai - 400001	524816
National Stock Exchange of India Limited	Exchange Plaza, C-1, Block G, Bandra-Kurla Complex, Bandra (E), Mumbai - 400051	NATCOPHARM

The Company confirms that it has duly paid the annual listing fee for the year 2016-17 to the above mentioned Stock Exchanges and the custodial fee for the year 2016-17 to both the Depositories, namely National Securities Depository Limited (NSDL) and the Central Depository Services (India) Limited (CDSL).

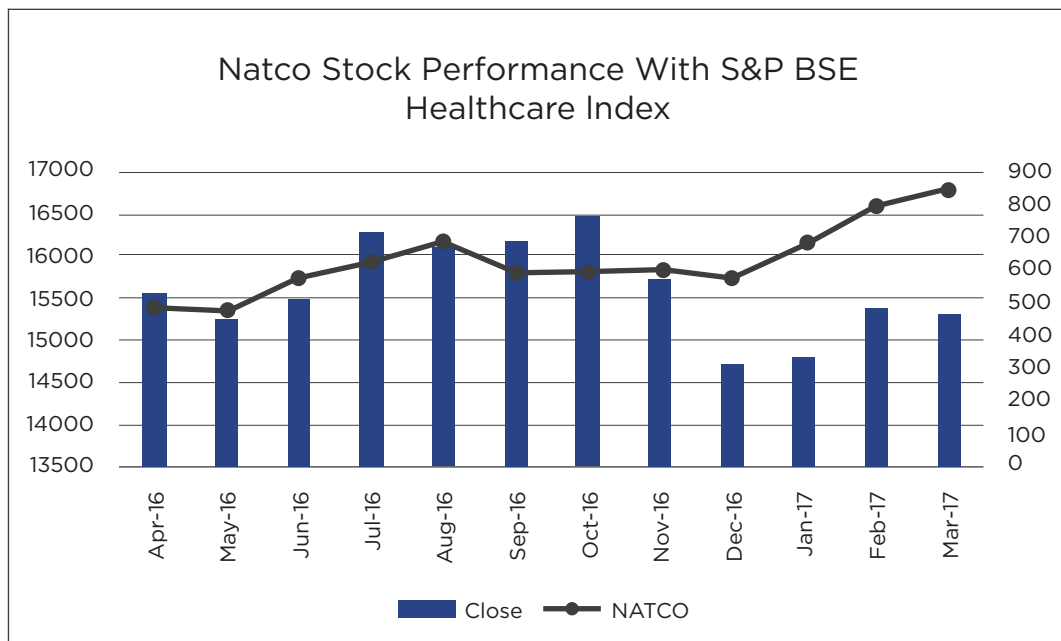
(d) Market Price Data

The market price data (high and low closing prices during each month) for the financial year 2016-17 is as below:

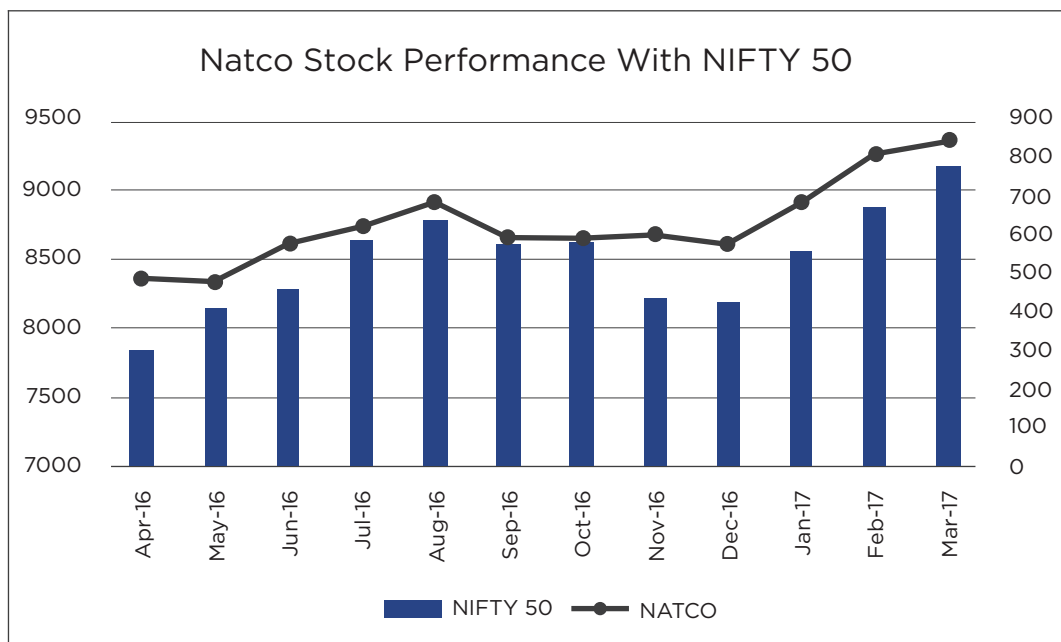
Month	High Price (NSE)	Low Price (NSE)	High Price (BSE)	Low Price (BSE)
Apr-16	495.85	418.15	500.65	410.55
May-16	484.60	446.35	489.00	440.00
Jun-16	590.95	476.75	608.00	471.85
Jul-16	632.15	568.75	641.20	567.00
Aug-16	688.90	602.70	703.95	584.15
Sep-16	682.00	596.85	697.00	581.00
Oct-16	611.10	573.80	626.00	555.15
Nov-16	657.90	564.85	685.00	495.00
Dec-16	606.55	578.40	620.00	555.50
Jan-17	690.90	583.30	700.00	581.00
Feb-17	823.40	671.55	830.00	668.40
Mar-17	849.20	766.65	850.00	761.70

(e) Performance in comparison to broad-based indices**(i) Compared to BSE Sensex**

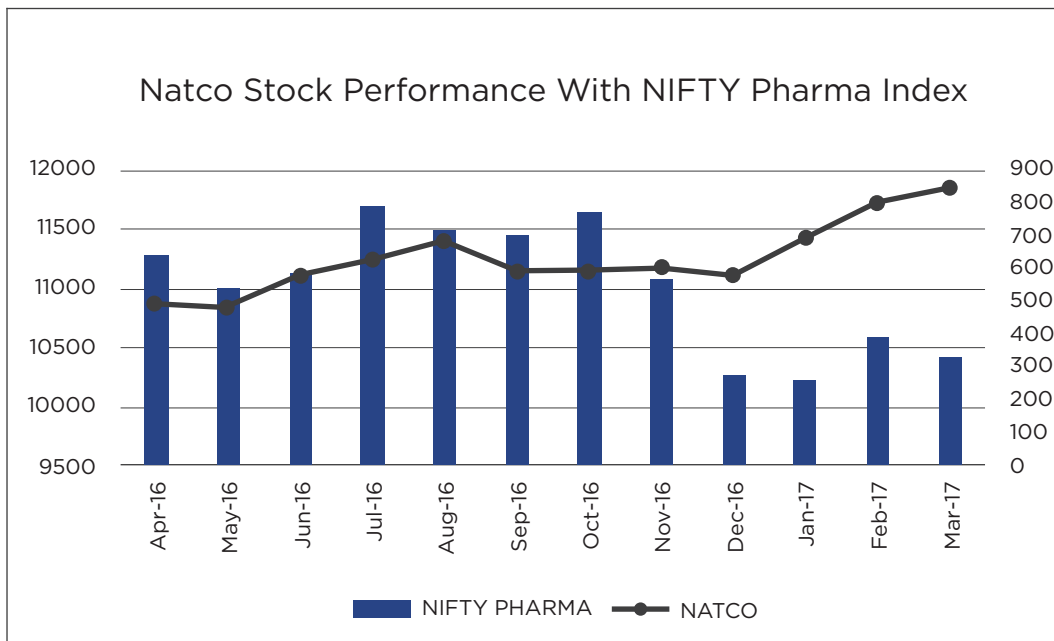
(ii) Compared to S&P BSE HEALTHCARE INDEX



(iii) Compared to Nifty 50



(iv) Compared to Nifty Pharma Index

**(f) Registrar and share transfer agent and share transfer system;**

Venture Capital and Corporate Investments Pvt. Ltd. (VCC IPL) is the Registrar and Share Transfer Agent of the Company and undertakes the Share Transfer Work for both physical and electronic forms.

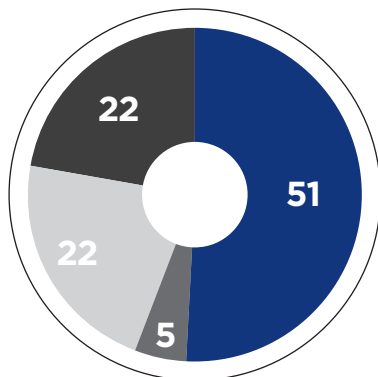
Address: 12-10-167, Bharat Nagar, Hyderabad - 500 018, Telangana

Tel Nos. 040 23818475 & 23818476 & 23868023

Fax No. 040 23868024

Contact person: Mr. P V Srinivas /Mr. EVSN Murthy

email: info@vccilindia.com

(g) Shareholding Pattern**Shareholding Pattern (%)**

■ Promoters ■ Mutual Funds ■ FII and FPIs ■ Others

(h) Dematerialization of shares and liquidity

As on 31st March, 2017 98.8% of the shares of your company is dematerialised. As the trading of your company's shares is being conducted only in electronic form all other members holding physical shares are requested to convert their holdings to electronic form at the earliest.

(i) Distribution of Shareholding

Nominal Value	Holders		Amount	
	Number	% To Total	In ₹	% To Total
Upto - 5000	42815	96.23	18955486	5.44
5001 - 10000	756	1.70	5988766	1.72
10001 - 20000	358	0.80	5377950	1.54
20001 - 30000	125	0.28	3120360	0.90
30001 - 40000	56	0.13	2008994	0.58
40001 - 50000	57	0.13	2610492	0.75
50001 - 100000	120	0.27	8748792	2.51
100001 and above	206	0.46	301804760	86.57
Total	44493	100	348615600	100

(j) Unclaimed Shares

The status of unclaimed shares of the Company transferred to a demat account "Natco Pharma Limited - Unclaimed Suspense Account", in accordance with Listing Regulations, is given below:

Particulars	No of Shareholders	No of Shares
Aggregate number of Shareholder and outstanding shares held in the Unclaimed Suspense Account as on 01st April, 2016	3567	440800
Number of Shareholders / legal heirs to whom the shares were transferred from the unclaimed suspense Account upon receipt of and verification of necessary documents during the year 2016-17	67	8200
Aggregate number of shareholders and outstanding shares held in the Unclaimed Suspense Account as on 31st March, 2017	3500	432600

(k) Plant Locations

Pharma Division Kothur Post & Mandal, Rangareddy District -509 228 Telangana, India	Pharma Division - Parenterals Vijayapuri North, Nagarjunasagar, Peddavura Mandal Nalgonda Dist.-508 202 Telangana, India
Chemical Division Mekaguda, Nandigama Mandal Rangareddy District - 509 228 Telangana, India	R & D Division (Natco Research Centre) B-11, B-13 & B-14, Industrial Estate, Sanathnagar, Hyderabad - 500 018, Telangana, India
Formulations Division Plot No.19, Pharma City Selaqui Industrial Area Vikas Nagar, Dehradun 248 197 Uttarakhand, India	Formulations Division Plot No.A3, UPSIDC, Selaqui Industrial Area Dehradun 248 197 Uttarakhand, India
Chemical Division, Chennai No.74/7B, Vaikkadu TPP Salai, Manali Chennai - 600 103, Tamilnadu, India.	Pharma Division DAG No.749, 750 Kokjhar Village, Revenue Circle - Mirza Kamrup (Rural) Guwahati Dist. 781 125, Assam, India
Unit under Construction - Formulations Division UNIT-10, Parawada, JNPC, Ramky SEZ Visakapatnam-531 019, Andhra Pradesh, India	

(l) Compliance Officer

CS M.Adinarayana
 Company Secretary &
 Vice President (Legal & Corp. Affairs)
 Email: man@natcopharma.co.in

(m) Address for correspondence

Registered Office:
 Mr. S. Dasaradhi, Sr. Manager – Legal & Secretarial
 NATCO House, Road No. 2, Banjara Hills,
 Hyderabad - 500034, Telangana
 Tel. No.: 040-23547532, Fax No.: 040-23548243
 Email: investors@natcopharma.co.in / dasaradhi@natcopharma.co.in
 Website: www.natcopharma.co.in

CERTIFICATE ON COMPLIANCE WITH CODE OF CONDUCT

The Members of
 NATCO Pharma Limited

As required under SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, I hereby confirm that the Company has adopted a code of conduct for all Board Members and Senior Management and the same has been placed on the Company's Website. All Board Members and Senior Management personnel have affirmed compliance with the Code of Conduct in respect of the Financial Year ended 31st March, 2017.

For NATCO Pharma Limited

Place: Hyderabad
 Date: 07.08.2017

V C Nannapaneni
 Chairman & Managing Director

CEO / CFO CERTIFICATION TO THE BOARD

(as per 17(8) of Listing Regulations)

The Board of Directors,
 NATCO Pharma Limited

- A. We have reviewed financial statements and the cash flow statement for the year ended 31st March 2017 and that to the best of our knowledge and belief:
- (1) these statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;
 - (2) these statements together present a true and fair view of the Company's affairs and are in compliance with existing accounting standards, applicable laws and regulations.
- B. There are, to the best of our knowledge and belief, no transactions entered into by the Company during the year which are fraudulent, illegal or violate the Company's code of conduct.

- C. We accept responsibility for establishing and maintaining internal controls for financial reporting and that we have evaluated the effectiveness of internal control systems of the Company pertaining to financial reporting and we have disclosed to the auditors and the audit committee, deficiencies in the design or operation of such internal controls, if any, of which we are aware and the steps we have taken or propose to take to rectify these deficiencies.
- D. We have indicated to the auditors and the Audit committee
- (1) significant changes in internal control over financial reporting during the year;
 - (2) significant changes in accounting policies during the year and that the same have been disclosed in the notes to the financial statements; and
 - (3) instances of significant fraud of which we have become aware and the involvement therein, if any, of the management or an employee having a significant role in the Company's internal control system over financial reporting

Place: Hyderabad

Date: 07.08.2017

Sri Rajeev Nannapaneni

Vice Chairman & CEO

Sri S V VN Appa Rao

CFO

CERTIFICATE OF COMPLIANCE

The Members of
NATCO Pharma Limited

I have examined the compliance of conditions of Corporate Governance by M/s. NATCO Pharma Limited, for the year ended 31st March 2017 as per the relevant provisions of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ('Listing Regulations').

The Compliance of conditions of Corporate Governance is the responsibility of the management. My Examination has been limited to review of the procedure and implementation thereof adopted by the Company for ensuring compliance with the conditions of Corporate Governance as stipulated in the Listing Regulations. It is neither an audit nor an expression of opinion on the financial statements of the Company.

No Investor grievance(s) are pending for a period exceeding one month against the Company as per the records maintained by the Company.

In my opinion and to the best of my information and according to the explanations given to me, I certify that the Company has complied with conditions of Corporate Governance as stipulated in the Listing Regulations, as applicable.

I further state that such compliance is neither an assurance as to the further viability of the Company nor of the efficiency or effectiveness with which the management has conducted the affairs of the Company.

Place: Hyderabad

Date: 07.08.2017

P Renuka

Company Secretary in Practice

C P No.3460

BUSINESS RESPONSIBILITY REPORT

SECTION - A: GENERAL INFORMATION ABOUT THE COMPANY

1. Corporate Identity Number (CIN) of the Company:	L24230TG1981PLC003201
2. Name of the Company:	NATCO Pharma Limited
3. Registered Address:	NATCO House Road # 2, Banjara Hills, Hyderabad 500034 India
4. Website:	www.natcopharma.co.in
5. E-mail id:	natinfo@natcopharma.co.in
6. Financial Year Reported:	April 1st 2016 to March 31st 2017
7. Sector(s) that the Company is engaged in (industrial activity code-wise):	NIC Code of product/service: 210 Description: Pharmaceuticals
8. List three key products/services that the Company manufactures/provides (as in balance sheet):	Imatinib, Oseltamivir, Lansoprazole
9. Total number of locations, where business activity is undertaken by the Company:	Our business activity spreads over 40 countries through either sales or alliances. Our major products include Finished Dosage Formulations (FDF) and Active Pharmaceutical Ingredients (API). Number of locations in India (National) -seven manufacturing units, two R&d centres in addition to several distribution/ warehouse locations across India. International locations - The Company has 5 subsidiaries and one step-down subsidiary
10. Markets served by the Company - Local/ State/ National/ International:	The Company sells its products in India, USA, Europe and several other emerging countries, totaling over 40 countries.

SECTION - B: FINANCIAL DETAILS OF THE COMPANY

1. Paid-up Capital (INR):	₹ 348.6 million (As on 31st March, 2017)
2. Total Turnover (INR):	Gross turnover of ₹ 20,160 million on a Standalone basis (As on 31st March, 2017)
3. Total profit after Taxes (INR):	₹ 4,948 million on a Standalone basis (As on 31st March, 2017)
4. Total Spending on Corporate Social Responsibility (CSR) as percentage of profit after tax (%):	Total percentage on CSR as a percentage of Profit after Tax of FY 2016-17 is 0.73%. The Company spent over 2% of its average Profit Before Tax of preceding 3 financial years. Additionally, the Company also made donations for CSR activities
5. List of activities in which the above expenditure has been incurred:	The Company has undertaken several CSR Projects / Programmes during FY 2016-17; majority of the focus being in Education and Healthcare sectors. The detailed list of activities where the CSR expenditure was incurred is included in the Directors' Report which forms a part of this Annual Report.

SECTION - C: OTHER DETAILS

1. Does the Company have any Subsidiary Company/ Companies?

Yes, the Company has five subsidiaries and one step-down subsidiary, all located overseas.

2. Does the Subsidiary Company/ Companies participate in the BR initiatives if the parent Company? If yes, then indicate the number of such subsidiary Company(s):

The parent company undertakes majority of the BR initiatives.

3. Do any other entity/entities (e.g. suppliers, distributors etc.) that the Company does business with, participate in the BR initiatives of the Company? If yes, then indicate the percentage of such entity/entities? [Less than 30%, 30%-60%, More than 60%]:

Entities like suppliers, distributors did not participate in the Company BR initiatives in the reporting period.

SECTION - D: BUSINESS RESPONSIBILITY INFORMATION

1. Details of Director/Directors responsible for BR

(a) Details of the Director responsible for the implementation of BR policy/policies

- **DIN Number** 00183872
- **Name** Mr. Rajeev Nannapaneni
- **Designation** Vice Chairman and Chief Executive Officer

(b) Details of the BR Head

Sr. No.	Particulars	Details	
1	DIN Number (if applicable)	07011140	-
2	Name	Mr. P.S.R.K.Prasad	Mr. Rajesh Chebiyam
3	Designation Director	Director and Executive VP	Vice President
4	Telephone num	+91 8542 226611	+91 40 23547532
5	E-mail id	psrk@natcopharma.co.in	rajesh.chebiyam@natcopharma.co.in

2. Disclosures on the nine principles as charted by the Ministry of Corporate Affairs in the “National Voluntary Guidelines (NVG) on Social, Environmental and Economic Responsibilities of Business”.

<p>1 Principle</p> <p>Ethics, Transparency & Accountability</p> <p>Businesses should conduct and govern themselves with Ethics, Transparency and Accountability</p>	<p>2 Principle</p> <p>Product Life Cycle Sustainability</p> <p>Businesses should provide goods and services that are safe and contribute to sustainability throughout their lifecycle</p>	<p>3 Principle</p> <p>Employee Well - Being</p> <p>Businesses should promote the well-being of all employees</p>
<p>4 Principle</p> <p>Stakeholder Management</p> <p>Businesses should respect the interests of and be responsive towards all stakeholders, especially those who are disadvantages, vulnerable and marginalised</p>	<p>5 Principle</p> <p>Human Rights</p> <p>Businesses should respect and promote human rights</p>	<p>6 Principle</p> <p>Environment</p> <p>Businesses should respect, protect and make efforts to restore the environment</p>
<p>7 Principle</p> <p>Policy Advocacy</p> <p>Businesses, when engaged in influencing public regulatory policy, should do so in a responsible manner</p>	<p>8 Principle</p> <p>Equitable Development</p> <p>Businesses should support inclusive growth and equitable development</p>	<p>9 Principle</p> <p>Customer Value</p> <p>Businesses should engage with and provide value to their customers and consumers in a responsible manner</p>

2 a. Details of Compliances:

No. Questions Sr.	P1	P2	P3	P4	P5	P6	P7*	P8	P9
1 Do you have a policy / policies for....	Y	Y	Y	Y	Y	Y	NA	Y	Y
2 Has the policy being formulated in consultation with the relevant stakeholders?	Y	Y	Y	Y	Y	Y	NA	Y	Y
3 Does the policy conform to any national / international standards? If yes, specify? (50 words)	The Company is abiding by the various laws and while framing the policies, the best practices are taken into account. (P7 Not applicable)								
4 Has the policy being approved by the Board? Is yes, has it been signed by MD / owner / CEO / appropriate Board Director?	The policies have been approved by the CEO (P7 not applicable)								
5 Does the company have a specified committee of the Board/ Director/ Official to oversee the implementation of the policy?	Y	Y	Y	Y	Y	Y	NA	Y	Y
6 Indicate the link for the policy to be viewed online?	Policies are available on the website of the Company www.natcopharma.co.in and the policies which are internal to the Company are available on the Intranet of the Company. (P7 not applicable)								
7 Has the policy been formally communicated to all relevant internal and external stakeholders?	Y	Y	Y	Y	Y	Y	NA	Y	Y
8 Does the company have in-house structure to implement the policy/ policies.	Y	Y	Y	Y	Y	Y	NA	Y	Y
9 Does the Company have a grievance redressal mechanism related to the policy/ policies to address stakeholders' grievances related to the policy/ policies?	Y	Y	Y	Y	Y	Y	NA	NA	Y
10 Has the company carried out independent audit/ evaluation of the working of this policy by an internal or external agency?	Y	Y	Y	Y	Y	Y	NA	Y	Y

* To be read with Principle wise performance stated under Section E

b. If answer to Sr. No. 1 against any principle, is 'No', please explain why: (Tick up to 2 options)

Not applicable

3. Governance related to BR

- **Indicate the frequency with which the Board of Directors, Committees of the Board or CEO to assess the BR performance of the Company.**

Half yearly.

- **Does the Company publish a BR or a Sustainability Report? What is the hyperlink for viewing this report? How frequently it is published?**

The Company's Annual Report includes a Business Responsibility Report. The copy of the same is available on the website of the Company at www.natcopharma.co.in

SECTION - E: PRINCIPLE-WISE PERFORMANCE

Principle 1 Ethics, Transparency and Accountability**1. Does the policy relating to ethics, bribery and corruption cover only the Company? Yes/No. Does it extend to the Group/ Joint Ventures/ Suppliers/ Contractors/ NGOs/ Others?**

Yes. The Company firmly believes and adheres to transparent, fair and ethical governance practices to foster professionalism, honesty, integrity and ethical behaviour. The Company extends the policy with respect to ethics, bribery and corruption to the Group and Joint Ventures.

2. How many stakeholder complaints have been received in the past financial year and what percentage was satisfactorily resolved by the management?

The Company encourages all its stakeholders to freely share their concerns and grievances. The Company has received 16 complaints primarily from shareholders. during FY 2016-17, which were promptly resolved.

Principle 2 Products Life Cycle Sustainability**1. List up to 3 of your products or services whose design has incorporated social or environmental concerns, risks and/or opportunities.**

- a. Lenalidomide
- b. Imatinib
- c. Everolimus

2. For each such product, provide the following details in respect of resource use (energy, water, raw material, etc.) per unit of product (optional):

- (i) Reduction during sourcing/production/distribution achieved since the previous throughout the value chain?
- (ii) Reduction during usage by consumers (energy, water) has been achieved since the previous year?

Considering the nature of these molecules, the following measures are being taken during manufacturing to avoid exposure of the drug to employees who work directly with the products and also to minimise the potential of environmental contamination.

- The manufacturing could involve negative isolators or equipment which are specially designed to handle anticancer products. Apart from these, employees who work in the manufacturing facility wear powered air purified respirators (PAPR) as personal protective equipment during manufacturing to avoid exposure.
- The Isolators are provided push HEPA filters in exhaust to prevent the contamination of the environment
- Dust particles generated during FBD and compression machine operation, are passed through a wet scrubber. These scrubbers are monitored regularly and verified by external suppliers for their performance.
- The water used for cleaning the equipment and manufacturing facility is detoxified and treated in an effluent treatment plant. The treated water is used for gardening.

The Company strives to improve the energy and water footprints by reducing the power and fuel consumption and has been able to reduce related costs. Considering that the Company has a multi-product, multi-facility production system, it is not possible to determine product-wise energy consumption.

3. Does the Company have procedures in place for sustainable sourcing (including transportation)?

- (i) If yes, what percentage of your inputs was sourced sustainably? Also, provide details thereof, in about 50 words or so.

Sustainable sourcing, production and distribution practices are followed ensuring

quality and safety of raw materials and packaging materials procured from suppliers as well as of products manufactured, stored and distributed throughout the value chain. The Company has in place a robust vendor selection and vendor evaluation mechanism and promotes local suppliers, where adequate. The Company lays emphasis on safe transportation, optimisation of logistics, lowering of transportation costs, and reduction of vehicular air emissions, which in turn helps to mitigate climate change.

4. Has the Company taken any steps to procure goods and services from local and small producers, including communities surrounding their place of work? If yes, what steps have been taken to improve their capacity and capability of local and small vendors?

The Company consciously endeavours to source its procurement of goods and services from medium and small vendors from local areas where feasible. It improves operational efficiency and saves on transportation cost and inventory management. Further, the Company fulfils its manpower requirement by employing people from communities surrounding its business operations to whatever extent possible.

5. Does the Company have a mechanism to recycle products and wastes? If yes, what is the percentage of recycling the products and 4,416 waste (separately as <5%, 5-10%, >10%). Also, provide details thereof, in about 50 words or so.

The Company has evaluated mechanisms to recycle products and waste at the R&D stage. The waste generated in the Company's operations is optimised.

Principle

3

Employee Well-Being

1. Please indicate the total number of employees.

The total number of employees is 4,411 as on 31st March, 2017.

2. Please indicate the total number of employees hired on temporary/contractual/casual basis.

The total number of employees hired on temporary/contractual/casual basis is 110 as on 31st March, 2017.

3. Please indicate the number of permanent women employees.

The total number of permanent women employees is 529 as on 31st March, 2017

4. Please indicate the number of permanent employees with disabilities.

The total number of permanent employees with disabilities is 6 as on 31st March, 2017.

5. Do you have an employee association that is recognised by management?

Yes. The Company does have employee associations at certain manufacturing locations, which encourage the employees to participate freely in constructive dialogue with the management.

6. What percentage of your permanent employees are members of this recognised employee association?

10.38% of permanent employees at our manufacturing locations are members of employee associations.

7. Please indicate the number of complaints relating to child labor, forced labor, involuntary labor, sexual harassment in the last financial year and pending, as on the end of the financial year.

The Company does not employ any child labour. No case of sexual harassment at work place was reported during the year 2016-17.

8. What percentage of your under mentioned employees were given safety & skill up-gradation training in the last year?

We continue to devote resources and efforts to continuously upgrade the skills of employees and they are given regular safety trainings. Over 90% of our permanent and contractual employees are given regular safety and skill training. No separate data is maintained for women and employees with disabilities.

Principle 4 Stakeholder Management

1. Has the Company mapped its internal and external stakeholders? Yes/No.

Yes, we recognise stakeholders relevant to the Company's operations.

2. Out of the above, has the Company identified the disadvantaged, vulnerable and marginalised stakeholders?

Yes.

3. Are there any special initiatives taken by the Company to engage with the disadvantaged, vulnerable and marginalised stakeholders. If so, provide details thereof, in about 50 words or so.

Various initiatives have been taken by the Company to engage with marginalised stakeholders at locations in and around its operations in the areas of: (i) Community Health Care, Sanitation and Hygiene, (ii) Education and Knowledge Enhancement and

For details of projects undertaken during the FY 2016-17, please refer the 'Annual Report on CSR Activities' titled "Empowering our Communities".

Principle 5 Human Rights

1. Does the policy of the Company on human rights cover only the or extend to the Group/Joint Ventures/Suppliers/Contractors/NGOs/Others?

The Company's policy is extended only to the Group.

2. How many stakeholder complaints have been received in the past financial year and what percent was satisfactorily resolved by the management?

No complaints were received during the year in this regard.

Principle 6 Environment

1. Does the policy related to Principle 6 cover only the or extends to the Group/Joint Ventures/Suppliers/Contractors/NGOs/others.

Yes. Site specific EHS policies are in place.

2. Does the Company have strategies/ initiatives to address global environmental issues such as climate change, global warming, etc? Y/N. If yes, please give hyperlink for webpage etc.

Yes. The Company has recognised global environmental issues and is committed towards contributing to manage climate change. It has initiated the following initiatives to address the same:

- Initiated to switch over to use the renewable energy sources for captive power consumption
- Onsite solar and wind power generation systems
- Solar power purchase agreements with renewal energy generators
- Installation of "waste to energy" plant in progress to generate the steam by utilising hazardous & non- hazardous wastes.
- Ensuring greenbelt cover in all our plant premises.
- Rain water harvesting systems
- Conserving natural resources, especially water by implementing water conservation measures and wastewater recycling systems.

The Company has also taken up several other steps directed towards conservation of energy. Please refer to Annexure VI to the Board's Report.

3. Does the Company identify and assess potential environmental risks? Yes.

Yes. As a policy, the Company designs its processes in an environment friendly manner by assessing the potential environmental risks and avoid / limit the usage of toxic and hazardous substances.

4. Does the Company have any project related to Clean Development Mechanism? If so, provide details thereof, in about 50 words or so. Also, if Yes, whether any environmental compliance report is filed?

Yes. The Company is actively pursuing renewable energy for power generation through solar, wind and biomass sources.

5. Has the Company undertaken any other initiatives on - clean technology, energy efficiency, renewable energy, etc. Y/N. If yes, please give hyperlink for web page etc.

NATCO Pharma adopts waste minimisation hierarchy rather than focusing on end of the pipe technologies. With our continuous efforts, the following cleaner production practices are being implemented:

- **Energy Efficiency:**
 - Installed Variable frequency drives (VFDs) for all continuous running motors of 5HP and above.
 - Replaced the power intensive reciprocating refrigeration compressors (3.5KW/TR) with energy efficient screw compressors (2.2KW/TR) for Brine and chilled water refrigeration systems.
 - Converted the CFL based lighting to LED based lighting.
- **Renewable Energy:**
 - Installed 2MW onsite solar power plant at chemical Division.
 - Installed 2.1 MW wind power plant in Tamilnadu
 - 2.7 MW Solar power purchase agreement(PPA) made with solar power generators.
 - Initiated installation of 1.1MW solar power plant at Nagarjuna Sagar Unit
 - Initiated installation of concentrated Solar parabolic thermal system for preheating the boiler feed water at Nagarjuna Sagar Unit.

6. Are the Emissions/Waste generated by the within the permissible limits given by CPCB/SPCB for the financial year being reported?

Yes. All emissions & wastes are within the permissible limits.

7. Number of show cause/ legal notices received from CPCB/SPCB which are pending (i.e. not

resolved to satisfaction) as on end of Financial Year.

The Company has not received any such notices from CPCB/SPCB during FY 2016-17.

Principle 7 Policy Advocacy

1. Is your company a member of any trade and chamber or association? If Yes, Name only those major ones that your business deals with:

Yes. The Company is a member of various trade/ Industry associations like Indian Pharmaceutical Alliance (IPA), Indian Drug Manufacturing Association (IDMA) etc. Pharmexcil, Confederation of Indian Industry (CII) etc.

2. Have you advocated/lobbied through above associations for the advancement or improvement of public good?

Yes, we have advocated for reforms through these associations for the advancement of public good.

Principle 8 Equitable Development

1. Does the Company have specified programmes/ initiatives/projects in pursuit of the policy related to Principle 8? If yes details thereof.

Yes, the Company has identified specified programmes / projects in the pursuit of the policy related to Principle 8. For details of projects undertaken during the FY 2016-17, please refer the 'Annual Report on CSR Activities' under "Empowering our Communities".

2. Are the programmes/projects undertaken through in-house team/own foundation/ external NGO/government structures/any other organisation?

NATCO Pharma Ltd., is implementing the CSR programmes through NATCO Trust, a non-profit entity registered under Trust Act. NATCO Trust is based in Hyderabad and employs coordinators, executives, doctors, nurses, pharmacists & volunteers to implement & supervise day to day activities. The team at corporate office is involved in design & development of programmes, monitoring progress & supporting the field teams for progressive implementation of the activities.

3. Have you done any impact assessment of your initiative?

Yes, the Company undertakes timely impact assessments of projects under implementation for ensuring their desired impact and continued sustenance. The impact assessment is also presented to the CSR committee.

4. What is your company's direct contribution to community development projects- Amount in INR and the details of the projects undertaken?

During the year under review the Company had contributed ₹ 36.4 million to various community development programmes / projects as part of its CSR initiatives. The details of projects undertaken are mentioned in the 'Empowering our Communities' section of the Annual Report.

5. Have you taken steps to ensure that this community development initiative is successfully adopted by the community? Please explain in 50 words, or so.

All the community development initiatives are planned based on need assessment studies done with target communities to make sure projects are successfully adopted by the community. We involve stakeholders right from identifying a project until implementation & monitoring.

Principle 9 Customer Value

1. What percentage of customer complaints / consumer cases are pending as on the end of financial year?

No complaints are pending as on the end of the financial year.

2. Does the display product information on the product label, over and above what is mandated as per local laws? Yes/No/N.A. / Remarks (additional information). The Company displays all product information on the product label, which is mandatory. Besides, the Company also displays general information for patients in order to guide them with respect to usage of certain products.

3. Is there any case filed by any stakeholder against the company regarding unfair trade practices, irresponsible advertising and/or anti-competitive behaviour during the last five years and pending as on end of financial year. If so, provide details thereof, in about 50 words or so.

No.

4. Did your company carry out any consumer survey / consumer satisfaction trends?

The marketing and sales team of the Company regularly interacts with Doctors and other Healthcare professionals and takes their feedback on the Company's products.

FINANCIAL STATEMENTS



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Standalone Financial
Consolidated Financial

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INDEPENDENT AUDITOR'S REPORT

To the Members
of NATCO Pharma Limited

REPORT ON THE STANDALONE FINANCIAL STATEMENTS

1. We have audited the accompanying standalone financial statements of NATCO Pharma Limited ('the Company'), which comprise the Balance Sheet as at 31 March 2017, the Statement of Profit and Loss (including Other Comprehensive Income), the Cash Flow Statement and the Statement of Changes in Equity for the year then ended, and a summary of the significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE STANDALONE FINANCIAL STATEMENTS

2. The Company's Board of Directors is responsible for the matters stated in Section 134(5) of the Companies Act, 2013 ('the Act') with respect to the preparation of these standalone financial statements that give a true and fair view of the state of affairs (financial position), profit or loss (financial performance including other comprehensive income), cash flows and changes in equity of the Company in accordance with the accounting principles generally accepted in India, including the Indian Accounting Standards ('Ind AS') specified under Section 133 of the Act. This responsibility also includes 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 frauds and other irregularities; selection and application of appropriate accounting policies; making judgements and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the standalone financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

3. Our responsibility is to express an opinion on these standalone financial statements based on our audit.

4. We have taken into account the provisions of the Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of the Act and the Rules made thereunder.
5. We conducted our audit in accordance with the Standards on Auditing specified under Section 143(10) of the Act. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether these standalone financial statements are free from material misstatement.
6. An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal financial controls relevant to the Company's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by the Company's Directors, as well as evaluating the overall presentation of the financial statements.
7. We believe that the audit evidence, we have obtained is sufficient and appropriate to provide a basis for our audit opinion on these standalone financial statements.

OPINION

8. In our opinion and to the best of our information and according to the explanations given to us, the aforesaid standalone financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India including Ind AS specified under Section 133 of the Act, of the state of affairs (financial

position) of the Company as at 31 March 2017, and its profit (financial performance including other comprehensive income), its cash flows and the changes in equity for the year ended on that date.

OTHER MATTER

9. The Company had prepared separate sets of statutory financial statements for the year ended 31 March 2016 and 1 April 2015 in accordance with Accounting Standards prescribed under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014 (as amended) on which we issued auditor's reports to the shareholders of the Company dated 26 May 2016 and 22 May 2015 respectively. These financial statements have been adjusted for the differences in the accounting principles adopted by the Company on transition to Ind AS, which have also been audited by us. Our opinion is not modified in respect of this matter.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

10. As required by the Companies (Auditor's Report) Order, 2016 ('the Order') issued by the Central Government of India in terms of Section 143(11) of the Act, we give in the Annexure A, a statement on the matters specified in paragraphs 3 and 4 of the Order.
11. Further to our comments in Annexure A, as required by Section 143(3) of the Act, we report that:
 - a) we have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
 - b) in our opinion, proper books of account as required by law have been kept by the Company so far as it appears from our examination of those books;
 - c) the standalone financial statements dealt with by this report are in agreement with the books of account;
 - d) in our opinion, the aforesaid standalone financial statements comply with Ind AS specified under Section 133 of the Act;
 - e) on the basis of the written representations received from the directors and taken on record by the Board of Directors, none of the directors is disqualified as on 31 March 2017

from being appointed as a director in terms of Section 164(2) of the Act;

- f) we have also audited the internal financial controls over financial reporting of the Company as on 31 March 2017 in conjunction with our audit of the standalone financial statements of the Company for the year ended on that date and our report dated 30 May 2017 as per Annexure B expressed an unqualified opinion;
- g) with respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014 (as amended), in our opinion and to the best of our information and according to the explanations given to us:
 - i. the Company, as detailed in note 37 to the standalone financial statements, has disclosed the impact of pending litigations on its financial position;
 - ii. the Company did not have any long-term contracts including derivative contracts for which there were any material foreseeable losses;
 - iii. there has been no delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Company;
 - iv. the Company, as detailed in note 41 to the standalone financial statements, has made requisite disclosures in these standalone financial statements as to holdings as well as dealings in Specified Bank Notes during the period from 8 November 2016 to 30 December 2016. Based on the audit procedures performed and taking into consideration the information and explanations given to us, in our opinion, these are in accordance with the books of account maintained by the Company.

For **Walker Chandiok & Co LLP**
Chartered Accountants
Firm's Registration No.: 001076N/N500013

per **Adi P Sethna**
Partner
Membership No.: 108840

Place: Hyderabad
Date: 30 May 2017

ANNEXURE A TO THE INDEPENDENT AUDITOR'S REPORT OF EVEN DATE TO THE MEMBERS OF NATCO PHARMA LIMITED, ON THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

Based on the audit procedures performed for the purpose of reporting a true and fair view on the financial statements of the Company and taking into consideration the information and explanations given to us and the books of account and other records examined by us in the normal course of audit, and to the best of our knowledge and belief, we report that:

- (i) (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
- (b) The Company has a regular program of physical verification of its fixed assets under which fixed assets are verified in a phased manner over a period of three years, which, in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. In accordance with this program, certain fixed assets were verified during the year and no material discrepancies were noticed on such verification.
- (c) The title deeds of all the immovable properties (which are included under the head 'Property, plant and equipment') are held in the name of the Company except for the following property which is under dispute:

Nature of property	Number of instances	Gross block as at 31 March 2017 (₹ in million)	Net block as at 31 March 2017 (₹ in million)
Freehold land	One	4	4

- (ii) In our opinion, the management has conducted physical verification of inventory at reasonable intervals during the year, except for goods-in-transit. No material discrepancies were noticed on the aforesaid verification.
- iii) The Company has granted interest free unsecured loans to a party covered in the register maintained under Section 189 of the Act; and with respect to the same:

- a. in our opinion the terms and conditions of grant of such loans are not, prima facie, prejudicial to the company's interest.
- b. the schedule of repayment of principal has been stipulated wherein the principal amounts are repayable on demand and since the repayment of such loans has not been demanded, in our opinion, repayment of the principal amount is regular;
- c. there is no overdue amount in respect of loans granted to such party.
- (iv) In our opinion, the Company has complied with the provisions of Sections 185 and 186 of the Act in respect of loans, investments, guarantees and security.
- (v) In our opinion, the Company has not accepted any deposits within the meaning of Sections 73 to 76 of the Act and the Companies (Acceptance of Deposits) Rules, 2014 (as amended). Accordingly, the provisions of clause 3(v) of the Order are not applicable.
- (vi) We have broadly reviewed the books of account maintained by the Company pursuant to the Rules made by the Central Government for the maintenance of cost records under sub-section (1) of Section 148 of the Act in respect of Company's products/services and are of the opinion that, prima facie, the prescribed accounts and records have been made and maintained. However, we have not made a detailed examination of the cost records with a view to determine whether they are accurate or complete.
- (vii) (a) Undisputed statutory dues including provident fund, employees' state insurance, income-tax, sales-tax, service tax, duty of customs, duty of excise, value added tax, cess and other material statutory dues, as applicable, have generally been regularly deposited to the

appropriate authorities, though there has been a slight delay in a few cases. Further, no undisputed amounts payable in respect thereof were outstanding at the year-end for a period of more than six months from the date they became payable.

(b) The dues outstanding in respect of income-tax, sales-tax, service tax, duty of customs, duty of excise and value added tax on account of any dispute, are as follows:

Name of the statute	Nature of dues	Total Claim (Amount in INR Million)	Amount paid under protest	Period to which the amount relates	Forum where dispute is pending
The Central Sales Tax Act, 1956	Central sales tax	9	3	FY 1997-98	Honorable High Court of Andhra Pradesh
The Customs Act, 1962	Custom duty	2	-	July 2006 to June 2010	CESTAT
The Finance Act, 1994	Service Tax	2	1	FY 2011-12	CESTAT

(viii) The Company has not defaulted in repayment of loans or borrowings to any bank or financial institution during the year. The Company has no loans or borrowings payable to government and does not have any outstanding debentures during the year.

(ix) The Company did not raise any money by way of initial public offer or further public offer (including debt instruments) and did not have any term loans outstanding during the year. Accordingly, the provisions of clause 3(ix) of the Order are not applicable.

(x) No fraud by the Company or on the Company by its officers or employees has been noticed or reported during the period covered by our audit.

(xi) Managerial remuneration has been paid / provided by the Company in accordance with the requisite approvals mandated by the provisions of Section 197 of the Act read with Schedule V to the Act.

(xii) In our opinion, the Company is not a Nidhi Company. Accordingly, provisions of clause 3(xii) of the Order are not applicable.

(xiii) In our opinion all transactions with the related parties are in compliance with Sections 177 and 188 of Act, where applicable, and the requisite details have been disclosed in the financial statements as required by the applicable accounting standards.

(xiv) During the year, the Company has not made any preferential allotment or private placement of shares or fully or partly convertible debentures.

(xv) In our opinion, the Company has not entered into any non-cash transactions with the directors or persons connected with them covered under Section 192 of the Act.

(xvi) The Company is not required to be registered under Section 45-IA of the Reserve Bank of India Act, 1934.

For **Walker Chandiok & Co LLP**
Chartered Accountants
Firm's Registration No.: 001076N/N500013

per **Adi P Sethna**
Partner
Membership No.: 108840

Place: Hyderabad
Date: 30 May 2017

ANNEXURE B TO THE INDEPENDENT AUDITOR'S REPORT OF EVEN DATE TO THE MEMBERS OF NATCO PHARMA LIMITED, ON THE STANDALONE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

Independent Auditor's report on the Internal Financial Controls under Section 143(3)(i) of the Companies Act, 2013 ("the Act")

1. In conjunction with our audit of the standalone financial statements of NATCO Pharma Limited ("the Company") as of and for the year ended 31 March 2017, we have audited the internal financial controls over financial reporting (IFCoFR) of the Company of as of that date.

MANAGEMENT'S RESPONSIBILITY FOR INTERNAL FINANCIAL CONTROLS

2. The Company's Board of Directors is responsible for establishing and maintaining internal financial controls based on the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls over Financial Reporting issued by the Institute of Chartered Accountants of India (the 'Guidance Note'). These responsibilities include the design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the orderly and efficient conduct of the company's business, including adherence to company's policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Act.

AUDITOR'S RESPONSIBILITY

3. Our responsibility is to express an opinion on the Company's IFCoFR based on our audit. We conducted our audit in accordance with the Standards on Auditing, issued by the Institute of Chartered Accountants of India (ICAI) and deemed to be prescribed under section 143(10) of the Act, to the extent applicable to an audit of IFCoFR, and the Guidance Note. Those Standards and the Guidance Note require that we comply with ethical requirements and plan and perform

the audit to obtain reasonable assurance about whether adequate IFCoFR were established and maintained and if such controls operated effectively in all material respects.

4. Our audit involves performing procedures to obtain audit evidence about the adequacy of the IFCoFR and their operating effectiveness. Our audit of IFCoFR included obtaining an understanding of IFCoFR, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.
5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the Company's IFCoFR.

MEANING OF INTERNAL FINANCIAL CONTROLS OVER FINANCIAL REPORTING

6. A company's IFCoFR is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's IFCoFR includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being

made only in accordance with authorisations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

INHERENT LIMITATIONS OF INTERNAL FINANCIAL CONTROLS OVER FINANCIAL REPORTING

7. Because of the inherent limitations of IFCoFR, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the IFCoFR to future periods are subject to the risk that IFCoFR may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

OPINION

8. In our opinion, the Company has, in all material respects, adequate internal financial controls over financial reporting and such internal financial controls over financial reporting were operating effectively as at 31 March 2017, based on the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note.

For Walker Chandiok & Co LLP

Chartered Accountants

Firm's Registration No.: 001076N/N500013

per **Adi P Sethna**

Partner

Membership No.: 108840

Place: Hyderabad

Date: 30 May 2017

BALANCE SHEET

AS AT 31 MARCH 2017

(All amounts in ₹ millions, except share data and where otherwise stated)

	Notes	31 March 2017	31 March 2016	1 April 2015
ASSETS				
Non-current assets				
(a) Property, plant and equipment	6	8,234	7,003	5,680
(b) Capital work-in-progress		3,362	2,119	1,008
(c) Other intangible assets	7	56	53	47
(d) Financial assets				
Investments	8	859	717	1,323
Loans	9	-	-	864
Other financial assets	10	131	105	79
(e) Other non-current assets	11	478	521	474
		13,120	10,518	9,475
Current assets				
(a) Inventories	12	3,369	3,519	1,982
(b) Financial Assets				
Investments	8	89	221	7
Trade receivables	13	4,689	2,558	1,890
Cash and cash equivalents	14	128	192	63
Other bank balances		123	210	9
Loans	9	66	28	28
Other financial assets	10	734	480	1
(c) Income tax assets (net)		-	34	43
(d) Other current assets	11	1,153	667	467
		10,351	7,909	4,490
Total assets		23,471	18,427	13,965
EQUITY AND LIABILITIES				
Equity				
(a) Equity share capital	15	349	348	332
(b) Other equity	16	16,648	13,015	8,478
Total of equity		16,997	13,363	8,810
LIABILITIES				
Non-current liabilities				
(a) Financial liabilities				
Borrowings	17	-	-	963
Other financial liabilities	18	8	8	8
(b) Provision for employee benefits	19	219	125	92
(c) Deferred tax liabilities (net)	20	150	146	109
		377	279	1,172
Current liabilities				
(a) Financial liabilities				
Borrowings	17	2,206	960	1,764
Trade payables	22	2,514	2,701	1,153
Other financial liabilities	18	974	782	809
(b) Other current liabilities	21	254	327	246
(c) Provision for employee benefits	19	18	15	11
(d) Current tax liabilities, net		131	-	-
		6,097	4,785	3,983
Total equity and liabilities		23,471	18,427	13,965

The accompanying notes form an integral part of the financial statements.

This is the Balance Sheet referred to in our report of even date.

For **Walker Chandiok & Co LLP**

Chartered Accountants

Firm Registration No.: 001076N/N500013

per **Adi P. Sethna**

Partner

Membership No. 108840

Place: Hyderabad

Date: 30 May 2017

For and on behalf of the Board of Directors

NATCO Pharma Limited

V. C. Nannapaneni

Chairman & Managing Director

(DIN: 00183315)

M. Adinarayana

Company Secretary & Vice President

(Legal & Corporate Affairs)

Place: Hyderabad

Date: 30 May 2017

Rajeev Nannapaneni

Vice Chairman & CEO

(DIN: 00183872)

S. V. V. N. Appa Rao

Chief Financial Officer

STATEMENT OF PROFIT AND LOSS

FOR THE YEAR ENDED 31 MARCH 2017

(All amounts in ₹ millions, except share data and where otherwise stated)

	Notes	31 March 2017	31 March 2016
REVENUE			
Revenue from operations	23	20,028	10,592
Other income	24	132	129
Total revenues		20,160	10,721
EXPENSES			
Cost of materials consumed	25	5,208	3,037
Purchases of stock-in-trade		687	4
Changes in inventories of finished goods, stock-in-trade and work-in-progress	26	(167)	(478)
Employee benefits expense	27	2,321	1,719
Finance costs	28	175	219
Depreciation and amortisation expense	6 & 7	536	502
Other expenses	29	5,059	3,503
Total expenses		13,819	8,506
PROFIT BEFORE TAX		6,341	2,215
Tax expense	30		
Current tax		1,353	448
Deferred tax		-	2
Tax for earlier years		40	-
Profit for the year		4,948	1,765
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified to profit or loss			
Re-measurement gains (losses) on defined benefit plans		(41)	(31)
Net (loss)/gain on FVTOCI equity securities		23	6
Income tax relating to items that will not be reclassified to profit or loss			
Re-measurement gains (losses) on defined benefit plans		(9)	(7)
Net (loss)/gain on FVTOCI equity securities		5	1
Total comprehensive income for the year		4,926	1,734
Earnings per equity share (₹) (of nominal value ₹2 each)	31		
Basic		28.27	10.17
Diluted		28.24	10.14

The accompanying notes form an integral part of the financial statements.

This is the Statement of Profit and Loss referred to in our report of even date.

For **Walker Chandiok & Co LLP**

Chartered Accountants

Firm Registration No.: 001076N/N500013

per **Adi P. Sethna**

Partner

Membership No. 108840

Place: Hyderabad

Date: 30 May 2017

For and on behalf of the Board of Directors

NATCO Pharma Limited

V. C. Nannapaneni

Chairman & Managing Director

(DIN: 00183315)

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Company Secretary & Vice President

(Legal & Corporate Affairs)

Place: Hyderabad

Date: 30 May 2017

Rajeev Nannapaneni

Vice Chairman & CEO

(DIN: 00183872)

S. V. V. N. Appa Rao

Chief Financial Officer

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2017

(All amounts in ₹ millions, except share data and where otherwise stated)

	31 March 2017	31 March 2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	6,341	2,215
ADJUSTMENTS :		
Depreciation and amortisation expense	536	502
Finance cost	153	239
Employee share-based payment expense	123	97
Interest income	(76)	(53)
Bad debts written - off (net)	238	96
Dividend income	-	(38)
Insurance claim - loss of profits	-	(25)
Assets written - off	24	-
(Gain) / loss on sale of asset	0	2
Unrealised foreign exchange loss / (gain), net	-	(3)
Operating profit before working capital changes	7,339	3,032
Increase/(decrease) in trade payables	(187)	1,507
Increase/(decrease) in employee benefit obligations	47	2
Increase/(decrease) in other financial liabilities	141	(674)
Increase/(decrease) in other liabilities	(72)	159
(Increase)/decrease in other financial assets	4	(156)
(Increase)/decrease in loans	(6)	863
(Increase)/decrease in other assets	(525)	(197)
(Increase)/decrease in inventories	150	(1,429)
(Increase)/decrease in trade receivables	(2,369)	(760)
Cash generated from operating activities	4,522	2,347
Income taxes paid	(1,224)	(448)
Net cash generated from operating activities A	3,298	1,899
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(2,752)	(1,534)
Proceeds from sale of property, plant and equipment	0	11
Purchase of intangible assets	(18)	(18)
Payments for purchase of investments	18	(426)
Proceeds from sale of investments	-	26
Movement in other bank balances (net)	87	(209)
Loans recovered from / (given to) subsidiary companies	(32)	-

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2017

(All amounts in ₹ millions, except share data and where otherwise stated)

	31 March 2017	31 March 2016
Interest received	84	18
Deposits with financial institutions	(293)	(400)
Dividends received	-	39
Net cash used in investing activities B	(2,906)	(2,493)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	1	3,344
Repayment of non-current borrowings	(142)	(1,304)
Dividends paid to Company's shareholders and tax thereon	(1,410)	(261)
Interest paid	(151)	(265)
Net cash (used in) / from financing activities C	(1,702)	1,514
Net increase / (decrease) in cash and cash equivalents (A+B+C)	(1,310)	920
Pursuant to the scheme of amalgamation (refer note 40.)	-	12
Cash and cash equivalents as at the beginning of the year	(768)	(1,700)
Cash and cash equivalents as at the end of the year [Refer Note 1]	(2,078)	(768)
Note 1:		
Cash and cash equivalents includes:		
Cash and bank balances (Note 14)	128	192
Working Capital loans (Note 17)	(2,206)	(960)
	(2,078)	(768)

This is the Cash Flow Statement referred to in our report of even date.

For **Walker Chandiok & Co LLP**

Chartered Accountants

Firm Registration No.: 001076N/N500013

per **Adi P. Sethna**

Partner

Membership No. 108840

Place: Hyderabad

Date: 30 May 2017

For and on behalf of the Board of Directors

NATCO Pharma Limited

V. C. Nannapaneni

Chairman & Managing Director

(DIN: 00183315)

M. Adinarayana

Company Secretary & Vice President
(Legal & Corporate Affairs)

Place: Hyderabad

Date: 30 May 2017

Rajeev Nannapaneni

Vice Chairman & CEO

(DIN: 00183872)

S. V. V. N. Appa Rao

Chief Financial Officer

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2017

(All amounts in ₹ millions, except share data and where otherwise stated)

A. EQUITY SHARE CAPITAL

	Notes	Number of shares	Amount
As at 1 April 2015		166,174,245	332
Changes in equity share capital	15	8,000,000	16
As at 31 March 2016		174,174,245	348
Changes in equity share capital	15	133,555	1
As at 31 March 2017		174,307,800	349

B OTHER EQUITY (REFER NOTE 16)

	Securities premium reserve	Capital reserve	Capital redemption reserve	General reserve	Share options outstanding account	Retained earnings	FVOCI - Equity instruments	Remeasurement of defined benefit obligations	Total
Balance as at 1 April 2015	2,783	207	5	485	-	4,980	7	11	8,478
Profit for the year	-	-	-	-	-	1,765	-	-	1,765
Other comprehensive income	-	-	-	-	-	-	6	(31)	(25)
Income tax relating to items of other comprehensive income	-	-	-	-	-	-	1	(7)	(6)
Total comprehensive income for the year	-	-	-	-	-	1,765	7	(38)	1,734
Pursuant to scheme of amalgamation	-	-	-	-	-	(361)	-	-	(361)
Transfer to general reserve	-	-	-	-	-	(110)	-	-	(110)
Transfer from retained earnings	-	-	-	110	-	-	-	-	110

Transactions with owners in their capacity as owners:

Issue of equity shares	3,393	-	-	-	-	-	-	-	3,393
Share issue expenses (Refer note 39)	(64)	-	-	-	-	-	-	-	(64)
Employee stock option expense	-	-	-	-	97	-	-	-	97
Dividend paid	-	-	-	-	-	(218)	-	-	(218)
Tax on distributed profits	-	-	-	-	-	(44)	-	-	(44)

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 MARCH 2017

(All amounts in ₹ millions, except share data and where otherwise stated)

	6,112	207	5	595	97	6,012	14	(27)	13,015
Balance as at 31 March 2016									
Profit for the year	-	-	-	-	-	4,948	-	-	4,948
Other comprehensive income	-	-	-	-	-	-	23	(41)	(18)
Income tax relating to items of other comprehensive income	-	-	-	-	-	-	5	(9)	(4)
Total comprehensive income for the year						4,948	28	(50)	4,926
Transactions with owners in their capacity as owners:									
Issue of equity shares	-	-	-	-	-	-	-	-	-
Employee stock option expense	-	-	-	-	123	-	-	-	123
Dividend paid	-	-	-	-	-	(1,176)	-	-	(1,176)
Tax on distributed profits	-	-	-	-	-	(240)	-	-	(240)
Share options exercised	66	-	-	-	(66)	-	-	-	-
Balance as at 31 March 2017	6,178	207	5	595	154	9,544	42	(77)	16,648

This is the Statement of Changes in Equity referred to in our report of even date.

For **Walker Chandiook & Co LLP**

Chartered Accountants

Firm Registration No.: 001076N/N5000013

For and on behalf of the Board of Directors

NATCO Pharma Limited

per **Adi P. Sethna**
Partner
Membership No. 108840

Place: Hyderabad
Date: 30 May 2017

V. C. Nannapaneni
Chairman & Managing Director
(DIN: 00183315)

M. Adinarayana
Company Secretary & Vice President
(Legal & Corporate Affairs)
Place: Hyderabad
Date: 30 May 2017

Rajeev Nannapaneni
Vice Chairman & CEO
(DIN: 00183872)

S. V. V. N. Appa Rao
Chief Financial Officer

NOTES TO FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION FOR THE YEAR ENDED 31ST MARCH 2017

1. GENERAL INFORMATION

NATCO Pharma Limited (“the Company”) is a public limited company domiciled and incorporated in India in accordance with the provisions of the Companies Act, 1956. The registered office of the Company is at NATCO House, Road No. 2, Banjara Hills, Hyderabad – 500034. The equity shares of the Company are listed on the National Stock Exchange and Bombay Stock Exchange.

The Company is engaged in the business of pharmaceuticals which comprises research and development, manufacturing and selling of bulk drugs and finished dosage formulations. The Company has manufacturing facilities in India which caters to both domestic and international markets including regulated markets like United States of America and Europe.

These financial statements for the year ended 31 March 2017 were authorized and approved for issue by the Board of Directors on 30 May 2017.

2. BASIS OF PREPARATION

The financial statements of the Company have been prepared in accordance with the Indian Accounting Standards as notified under section 133 of the Companies Act 2013 (“the Act”) read with the Companies (Indian Accounting Standards) Rules 2015 issued by Ministry of Corporate Affairs (‘MCA’). The Company has uniformly applied the accounting policies during the periods presented.

For all periods up to and including the year ended 31 March 2016, the Company has prepared its financial statements in accordance with accounting standards notified under the section 133 of the Act, read together with paragraph 7 of the Companies (Accounts) Rules, 2014 (Previous GAAP). These financial statements for the year ended 31 March 2017 are the first which the Company has prepared in accordance with Ind AS (see note 42 for explanation for transition to Ind AS). For the purpose of comparatives, financial statements for the year ended 31 March 2016 are also prepared under Ind AS.

Transactions and balances with values below the rounding off norm adopted by the Company have been reflected as “0” in the relevant notes in these financial statements.

The financial statements have been prepared on going concern basis under the historical cost basis except for the following –

- Certain financial assets and liabilities which are measured at fair value;
- Share based payments which are measured at fair value of the options; and
- Contingent consideration

3. STANDARDS, NOT YET EFFECTIVE AND HAVE NOT BEEN ADOPTED EARLY BY THE COMPANY

Information on new standards, amendments and interpretations that are expected to be relevant to the financial statements is provided below.

Ind AS 115 ‘Revenue from Contracts with Customers’ (Ind AS 115)

There is one new standard notified by MCA (not yet effective) for revenue recognition which overhauls the existing revenue recognition standards including Ind AS 18 – Revenue and Ind AS 11 – Construction contracts. The new standard provides a control-based revenue recognition model and provides a five step application principle to be followed for revenue recognition:

- i. Identification of the contracts with the customer
- ii. Identification of the performance obligations in the contract
- iii. Determination of the transaction price
- iv. Allocation of transaction price to the performance obligations in the contract (as identified in step ii)
- v. Recognition of revenue when the Company satisfies a performance obligation.

NOTES TO FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION FOR THE YEAR ENDED 31ST MARCH 2017

The effective date of the new standard has not yet been notified by the MCA. The management is yet to assess the impact of this new standard on the Company's financial statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared using the accounting policies and measurement basis summarized below.

a. Current versus non-current classification

The Company presents assets and liabilities in the balance sheet based on current/ non-current classification.

An asset is classified as current when it is:

- Expected to be realised or intended to sold or consumed in normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is classified as current when:

- It is expected to be settled in normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or

- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

All other liabilities are classified as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

b. Foreign currency

Functional and presentation currency

The financial statements are presented in Indian Rupee ('INR' or '₹') which is also the functional and presentation currency of the Company.

Transactions and balances

Foreign currency transactions are recorded in the functional currency, by applying to the exchange rate between the functional currency and the foreign currency at the date of the transaction.

Foreign currency monetary items are converted to functional currency using the closing rate. Non-monetary items denominated in a foreign currency which are carried at historical cost are reported using the exchange rate at the date of the transaction; and non-monetary items which are carried at fair value or any other similar valuation denominated in a foreign currency are reported using the exchange rates that existed when the values were determined.

Exchange differences arising on monetary items on settlement, or restatement as at reporting date, at rates different from those at which they were initially recorded, are recognized in the statement of profit and loss in the year in which they arise.

c. Revenue recognition

Revenue is recognised to the extent that it

NOTES TO FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION FOR THE YEAR ENDED 31ST MARCH 2017

is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duties collected on behalf of the government.

Excise duty is a liability of the Company as a manufacturer, which forms part of the cost of production, irrespective of whether the goods are sold or not. Therefore, the recovery of excise duty flows to the Company on its own account and hence revenue includes excise duty.

Sales tax/ Value Added Tax [VAT] is not received by the Company on its own account. Rather, it is tax collected on value added to the Goods by the Company on behalf of the government. Accordingly, it is excluded from revenue.

The specific recognition criteria described below must also be met before revenue is recognised.

Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates.

Service Revenue

Service income is recognised as per the terms of contracts with the customers when the related services are performed or the agreed milestones are achieved and are net of service tax, wherever applicable.

Interest Income

Interest income is recognized on time proportion basis taking into account the amount outstanding and rate applicable. For all debt instruments measured at amortised cost, interest income is recorded using the effective interest rate (EIR) method.

Dividend income

Dividend income is recognised at the time when right to receive the payment is established, which is generally when the shareholders approve the dividend.

Profit sharing arrangements

Revenue from profit sharing arrangements on sale of products is recognised based on terms and conditions of arrangements with respective customers.

Licensing and long term supply arrangements:

Revenue from licensing and long term supply arrangements is recognised in the period in which the Company completes all its performance obligations.

d. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that is necessary to complete and prepare the asset for its intended use or sale. A qualifying asset is one that necessarily takes substantial period of time to get ready for its intended use. All other borrowing costs are charged to the Statement of Profit and Loss as incurred.

e. Property, plant and equipment (PPE)

Recognition and initial measurement

Property, plant and equipment are stated at their cost of acquisition. The cost comprises purchase price, borrowing cost if capitalization criteria are met and directly attributable cost of bringing the asset to its

NOTES TO FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION FOR THE YEAR ENDED 31ST MARCH 2017

working condition for the intended use. Any trade discount and rebates are deducted in arriving at the purchase price.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company. All other repair and maintenance costs are recognised in statement of profit or loss as incurred.

Subsequent measurement (depreciation and useful lives)

Depreciation on property, plant and equipment is provided on the straight-line method, computed on the basis of useful lives as estimated by management which coincides with rates prescribed in Schedule II to the Companies Act, 2013.

Cost of the leasehold land is amortized on a straight-line basis over the term of the lease.

The residual values, useful lives and method of depreciation of are reviewed at each financial year end and adjusted prospectively, if appropriate.

Cost of the leasehold land is amortized on a straight-line basis over the term of the lease.

De-recognition

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognised.

Transition to Ind AS

On transition to Ind AS, the Company has

elected to continue with the carrying value of all its property, plant and equipment recognised as at 1 April 2015 measured as per the provisions of Previous GAAP and use that carrying value as the deemed cost of property, plant and equipment.

f. Intangible assets

Recognition and initial measurement

Intangible assets (software) are stated at their cost of acquisition. The cost comprises purchase price, borrowing cost if capitalization criteria are met and directly attributable cost of bringing the asset to its working condition for the intended use. Any trade discount and rebates are deducted in arriving at the purchase price.

Subsequent measurement (amortisation)

The cost of capitalized software is amortized over a period of 6 years, on a straight line basis.

Transition to Ind AS

On transition to Ind AS, the Company has elected to continue with the carrying value of all its intangible assets recognised as at 1 April 2015 measured as per the provisions of Previous GAAP and use that carrying value as the deemed cost of intangible assets.

g. Operating leases

Where the lessor effectively retains all risk and benefits of ownership of the leased items, such leases are classified as operating leases. Operating lease payments are recognised as an expense in the Statement of profit and loss on a straight line basis.

h. Impairment of non-financial assets

At each reporting date, the Company assesses whether there is any indication that an asset may be impaired, based on internal or external factors. If any such indication exists, the Company estimates the

NOTES TO FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION FOR THE YEAR ENDED 31ST MARCH 2017

recoverable amount of the asset or the cash generating unit. If such recoverable amount of the asset or cash generating unit to which the asset belongs is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The reduction is treated as an impairment loss and is recognized in the statement of profit and loss. If, at the reporting date there is an indication that a previously assessed impairment loss no longer exists, the recoverable amount is reassessed and the asset is reflected at the recoverable amount. Impairment losses previously recognized are accordingly reversed in the statement of profit and loss.

FINANCIAL INSTRUMENTS

Financial assets

Initial recognition and measurement

All financial assets are recognised initially at fair value and transaction cost that is attributable to the acquisition of the financial asset is also adjusted.

Subsequent measurement

- i. Debt instruments at amortised cost – A 'debt instrument' is measured at the amortised cost if both the following conditions are met:
 - The asset is held within a business model whose objective is to hold assets for collecting contractual cash flows, and
 - Contractual terms of the asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method.

- ii. Equity investments – All equity investments in scope of Ind-AS 109 are measured at fair value. Equity instruments which are held for trading are generally classified as at fair value through profit

and loss (FVTPL). For all other equity instruments, the Company decides to classify the same either as at fair value through other comprehensive income (FVOCI) or fair value through profit and loss (FVTPL). The Company makes such election on an instrument by instrument basis. The classification is made on initial recognition and is irrevocable.

- iii. Mutual funds – All mutual funds in scope of Ind-AS 109 are measured at fair value through profit and loss (FVTPL).

De-recognition of financial assets

A financial asset is primarily de-recognised when the rights to receive cash flows from the asset have expired or the Company has transferred its rights to receive cash flows from the asset.

Financial liabilities

Initial recognition and measurement

All financial liabilities are recognised initially at fair value and transaction cost that is attributable to the acquisition of the financial liabilities is also adjusted. These liabilities are classified as amortised cost.

Subsequent measurement

These liabilities include are borrowings and deposits. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

De-recognition of financial liabilities

A financial liability is de-recognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Financial guarantee contracts

Financial guarantee contracts are those contracts

NOTES TO FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION FOR THE YEAR ENDED 31ST MARCH 2017

that require a payment to be made to reimburse the holder for a loss it incurs because the specified party fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the amount of expected loss allowance determined as per impairment requirements of Ind-AS 109 and the amount recognised less cumulative amortisation.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

i. Investment in instruments of consolidated entities

The Company's investment in equity and optionally convertible instruments in subsidiaries and fellow subsidiaries (direct subsidiaries of Parent Company) are accounted for at cost.

j. Impairment of financial assets

In accordance with Ind-AS 109, the Company applies expected credit loss (ECL) model for measurement and recognition of impairment loss for financial assets.

ECL is the difference between all contractual cash flows that are due to the Company in accordance with the contract and all the cash flows that the Company expects to receive. When estimating the cash flows, the Company is required to consider –

- All contractual terms of the financial assets (including prepayment and extension) over the expected life of the assets.

- Cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

Trade receivables

The Company applies approach permitted by Ind AS 109 Financial Instruments, which requires expected lifetime losses to be recognised from initial recognition of receivables.

Other financial assets

For recognition of impairment loss on other financial assets and risk exposure, the Company determines whether there has been a significant increase in the credit risk since initial recognition and if credit risk has increased significantly, impairment loss is provided.

k. Inventories

Raw material, packaging material, stores and spare parts are carried at cost. Cost includes purchase price excluding taxes those are subsequently recoverable by the company from the concerned authorities, freight inwards and other expenditure incurred in bringing such inventories to their present location and condition. Cost of inventories is determined using the weighted average cost method.

The carrying cost of raw materials, packing materials, stores and spare parts are appropriately written down when there is a decline in replacement cost of such materials and finished products in which they will be incorporated are expected to be sold below cost.

Finished goods and work in progress are valued at the lower of cost and net realizable value. Cost of work in progress and manufactured finished goods is determined on weighted average basis and comprises cost of direct material, cost of conversion and other costs incurred in bringing these inventories to their present location and

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION FOR THE YEAR ENDED 31ST MARCH 2017

condition. Cost of traded goods is determined on weighted average basis. Excise duty liability is included in the valuation of closing inventory of finished goods.

l. Income taxes

Tax expense recognized in statement of profit or loss comprises the sum of deferred tax and current tax except the ones recognized in other comprehensive income or directly in equity.

Calculation of current tax is based on tax rates and tax laws that have been enacted for the reporting period. Current income tax relating to items recognised outside profit or loss is recognised outside profit or loss (either in other comprehensive income or in equity). Current tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax assets are recognized to the extent that it is probable that the underlying tax loss or deductible temporary difference will be utilized against future taxable income. This is assessed based on the Company's forecast of future operating results, adjusted for significant non-taxable income and expenses and specific limits on the use of any unused tax loss or credit. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected

to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss (either in other comprehensive income or in equity).

m. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, other short-term highly liquid investments (original maturity of 3 months or less) that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

n. Post-employment, long term and short term employee benefits

Defined contribution plan

The Company's contribution to provident fund and employee state insurance schemes is charged to the statement of profit and loss. The Company's contributions towards Provident Fund are deposited with the Regional Provident Fund Commissioner under a defined contribution plan.

Defined benefit plan

The Company has gratuity as defined benefit plan where the amount that an employee will receive on retirement is defined by reference to the employee's length of service and final salary. The liability recognised in the balance sheet for defined benefit plans as the present value of the defined benefit obligation (DBO) at the reporting date. Management estimates the DBO annually with the assistance of independent actuaries. Actuarial gains and losses resulting from re-measurements of the liability are included in other comprehensive income.

The Company has subscribed to a group gratuity scheme of Life Insurance Corporation

NOTES TO FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION FOR THE YEAR ENDED 31ST MARCH 2017

of India (LIC). Under the said policy, the eligible employees are entitled for gratuity upon their resignation, retirement or in the event of death in lumpsum after deduction of necessary taxes upto a maximum limit of ₹1. Liabilities in respect of the Gratuity Plan are determined by an actuarial valuation, based upon which the Company makes contributions to the Gratuity Fund.

Other long-term employee benefits

The Company also provides benefit of compensated absences to its employees which are in the nature of long-term benefit plan. Liability in respect of compensated absences becoming due and expected to be availed more than one year after the balance sheet date is estimated on the basis of an actuarial valuation performed by an independent actuary using the projected unit credit method as on the reporting date. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recorded in the statement of profit and loss in the year in which such gains or losses arise.

Short-term employee benefits

Short-term employee benefits comprise of employee costs such as salaries, bonus etc. is recognized on the basis of the amount paid or payable for the period during which services are rendered by the employee.

o. Share based payments

The employee benefits expense is measured using the fair value of the employee stock options and is recognised over vesting period with a corresponding increase in equity. The vesting period is the period over which all the specified vesting conditions are to be satisfied.

Transition to Ind AS

On transition to Ind AS, the Company has

elected to not consider the charge related to employee stock options for which the vesting period is already over.

p. Provisions, contingent liabilities and contingent assets

Provisions are recognized only when there is a present obligation, as a result of past events, and when a reliable estimate of the amount of obligation can be made at the reporting date. These estimates are reviewed at each reporting date and adjusted to reflect the current best estimates. Provisions are discounted to their present values, where the time value of money is material.

Contingent liability is disclosed for:

- Possible obligations which will be confirmed only by future events not wholly within the control of the Company or
- Present obligations arising from past events where it is not probable that an outflow of resources will be required to settle the obligation or a reliable estimate of the amount of the obligation cannot be made.

Contingent assets are neither recognized nor disclosed. However, when realization of income is virtually certain, related asset is recognized.

q. Earnings per share

Basic earnings per share is calculated by dividing the net profit or loss for the period attributable to equity shareholders (after deducting attributable taxes) by the weighted average number of equity shares outstanding during the period. The weighted average number of equity shares outstanding during the period is adjusted for events including a bonus issue.

For the purpose of calculating diluted earnings per share, the net profit or loss for the period

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION FOR THE YEAR ENDED 31ST MARCH 2017

attributable to equity shareholders and the weighted average number of shares outstanding during the period are adjusted for the effects of all dilutive potential equity shares.

r. Share issue expense

Share issue expenses are charged first against balance available in the securities premium.

5. ESTIMATES AND ASSUMPTIONS

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Company.

Recognition of deferred tax assets

The extent to which deferred tax assets can be recognized is based on an assessment of the probability of the Company's future taxable income against which the deferred tax assets can be utilized. In addition, significant judgement is required in assessing the impact of any legal or economic limits or uncertainties in various tax jurisdictions (see note 20).

Recognition of deferred tax liability on undistributed profits:

The extent to which the Company can control the timing of reversal of deferred tax liability on undistributed profits of its subsidiaries requires judgement.

Evaluation of indicators for impairment of assets:

The evaluation of applicability of indicators of impairment of assets requires assessment of several external and internal factors which could result in deterioration of recoverable amount of

the assets.

Recoverability of advances/receivables:

At each balance sheet date, based on historical default rates observed over expected life, the management assesses the expected credit loss on outstanding receivables and advances.

Useful lives of depreciable/amortisable assets:

Management reviews its estimate of the useful lives of depreciable/amortisable assets at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to technical and economic obsolescence that may change the utility of certain software, customer relationships, IT equipment and other plant and equipment.

Defined benefit obligation (DBO):

Management's estimate of the DBO is based on a number of critical underlying assumptions such as standard rates of inflation, medical cost trends, mortality, discount rate and anticipation of future salary increases. Variation in these assumptions may significantly impact the DBO amount and the annual defined benefit expenses.

Fair value measurements:

Management applies valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

Provisions:

At each balance sheet date basis the management judgment, changes in facts and legal aspects, the Company assesses the requirement of provisions against the outstanding warranties and guarantees. However, the actual future outcome may be different from this judgement.

NOTES TO FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION

(All amounts in ₹ millions, except share data and where otherwise stated)

	Freehold land#	Leasehold Land	Buildings	Plant and equipment	Office equipment	Furniture	Vehicles	Computers	Total
6. PROPERTY, PLANT AND EQUIPMENT									
Gross carrying amount									
At 1 April 2015	886	118	2,159	4,267	28	69	109	107	7,743
Pursuant to the scheme of amalgamation	197	-	251	580	2	5	3	4	1,042
Additions	146	-	205	498	1	17	40	13	920
Disposals/retirement	3	-	6	37	-	0	9	1	56
Balance as at 31 March 2016	1,226	118	2,609	5,308	31	91	143	123	9,649
Additions	230	144	416	921	1	23	40	16	1,791
Disposals/retirement	-	-	38	7	-	-	13	-	58
Balance as at 31 March 2017	1,456	262	2,987	6,222	32	114	170	139	11,382
Accumulated depreciation									
Up to 1 April 2015	-	2	429	1,435	23	27	61	86	2,063
Pursuant to the scheme of amalgamation	-	-	25	84	1	1	1	2	114
Charge for the year	-	1	82	372	2	6	14	10	487
Adjustments for disposals/retirement	-	-	-	13	-	-	4	1	18
Balance as at 31 March 2016	-	3	536	1,878	26	34	72	97	2,646
Charge for the year	-	2	88	395	1	7	15	13	521
Adjustments for disposals/retirement	-	-	10	2	-	-	7	-	19
Balance as at 31 March 2017	-	5	614	2,271	27	41	80	110	3,148
Net book value as at 1 April 2015 (Deemed cost)	886	116	1,730	2,832	5	42	48	21	5,680
Net book value as at 31 March 2016	1,226	115	2,073	3,430	5	57	71	26	7,003
Net book value as at 31 March 2017	1,456	257	2,373	3,951	5	73	90	29	8,234

i) Contractual obligations

Refer to note 37 for disclosure of contractual commitments for the acquisition of property, plant and equipment.

(ii) Leasehold land includes land acquired from the State Industrial Development Corporation of Uttarakhnad Limited, Uttar Pradesh State Industrial Development Corporation Limited for a period of 90 years and 87 years respectively. Further the Company has also acquired land from Ramky Pharma City (India) Limited under a lease arrangement for a period of 33 years which is renewable for a further period of 2 terms of 33 years each.

Land parcels with an aggregate carrying amount of ₹4 (31 March 2016: ₹Nil; 31 March 2015: ₹Nil) is under dispute pending in a court as to the ownership of the property. The management, based on available information and advice of legal counsel, is confident of favourable outcome in this case and hence, no adjustments are made in these financial statements.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION

(All amounts in ₹ millions, except share data and where otherwise stated)

	Computer Software	Total
7. OTHER INTANGIBLE ASSETS		
Gross carrying amount		
As at 1 April 2015	89	89
Pursuant to the scheme of amalgamation	3	3
Additions	18	18
As at 31 March 2016	110	110
Additions	18	18
As at 31 March 2017	128	128
Accumulated amortisation		
Up to 1 April 2015	42	42
Pursuant to the scheme of amalgamation	0	-
Amortisation charge for the year	15	15
Up to 31 March 2016	57	57
Charge for the year	15	15
Up to 31 March 2017	72	72
Net carrying amount (Deemed Cost)		
As at 1 April 2015	47	47
As at 31 March 2016	53	53
As at 31 March 2017	56	56

	31 March 2017	31 March 2016	1 April 2015
8. INVESTMENTS			
Non-current			
Investment in equity instruments			
Unquoted			
Investments in subsidiaries			
1,000 (31 March 2016: 1,000; 31 March 2015: 1,000) fully paid-up, non-assessable shares of US\$ 1,000 each in Natco Pharma Inc., Delaware, United States of America	42	42	42
Nil (31 March 2016: Nil; 31 March 2015: 79,693,945) equity shares of ₹10 each, fully paid-up in NATCO Organics Limited.	-	-	797
1,019,012 (31 March 2016: 861,112; 31 March 2015: 622,012) equity shares of US\$ 10 each, fully paid-up in Time Cap Overseas Limited, Mauritius	610	504	349
Share application money in Time Cap Overseas Limited, Mauritius	-	-	22
2,783,813 (31 March 2016: 2,555,613; 31 March 2015: 1,232,613) equity shares of Canadian Dollar 1 each, fully paid-up in NATCO Pharma (Canada) Inc., Canada	145	133	67
915,000 (31 March 2016: 665,000; 31 March 2015: 340,000) equity shares of Singapore Dollar 1 each, fully paid-up in NATCO Pharma Asia PTE Ltd.	43	32	16
347,600 (31 March 2016: 92,600; 31 March 2015: 67,600) equity shares of Australian Dollar 1 each, fully paid-up in NATCO Pharma Australia PTY Ltd.	18	5	3
Total investments in subsidiaries	858	716	1,296

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION

(All amounts in ₹ millions, except share data and where otherwise stated)

	31 March 2017	31 March 2016	1 April 2015
8. INVESTMENTS (CONTINUED)			
Others			
4,054 (31 March 2016: 4,054; 31 March 2015: 4,054) shares of NATIVITA Joint Limited Liability Company	0	0	0
750 (31 March 2016: 750; 31 March 2015: 750) equity shares of ₹100 each, fully paid-up, in Jeedimetla Effluent Treatment Limited	0	0	0
34,400 (31 March 2016: 34,400; 31 March 2015: 34,400) equity shares of ₹10 each, fully paid-up, in Pattancheru Enviro-Tech Limited	0	0	0
Total investments in other	1	1	1
Total investments in equity instruments, Trade (A)	859	717	1,297
Quoted			
27,000 31 March 2016: 27,000; 31 March 2015: 27,000) equity shares of ₹10 each, fully paid-up in Jayalakshmi Spinning Mills Limited	0	0	0
Total investments in equity instruments, Others (B)	0	0	0
Other investments, unquoted			
Nil (31 March 2016: Nil; 31 March 2015: 15,000,000) compulsorily convertible preference shares of ₹1 each, fully paid-up in Ravindranath GE Medical Associates Private Limited	-	-	26
National savings certificates	0	0	0
Total investments in other non-current investments (C)	0	0	26
Total non-current investments (A+B+C)	859	717	1,323
Less: Provision for diminution in value of investments	0	0	0
	859	717	1,323
Aggregate book value of unquoted investments	859	717	1,323
Aggregate book value of quoted investments	0	0	0
Aggregate market value of quoted investments	-	-	-
Aggregate amount of impairment in the value of investments	0	0	0
Investments carried at cost	859	716	1,296
Investments carried at amortised cost	0	1	27
Investments carried at fair value through profit or loss	-	-	26

NOTES TO FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION

(All amounts in ₹ millions, except share data and where otherwise stated)

	31 March 2017	31 March 2016	1 April 2015
8. INVESTMENTS (CONTINUED)			
Current			
Investments in equity instruments, Quoted, Non-trade			
10,000 (31 March 2016: 15,000; 31 March 2015: 15,000) equity shares of ₹10 each, fully paid-up in Neuland Laboratories Limited	15	10	5
5,500 (31 March 2016: 5,500; 31 March 2015: 2,000) equity shares of ₹1 each, fully paid-up in Sun Pharmaceuticals Industries Limited	4	5	2
778 (31 March 2016: 778; 31 March 2015: Nil) equity shares of ₹2 each, fully paid-up in Alkem Laboratories Limited	2	1	-
15,000 (31 March 2016: 15,000; 31 March 2015: Nil) equity shares of ₹1 each, fully paid-up in Cadila Healthcare Limited	7	5	-
100,000 (31 March 2016: Nil; 31 March 2015: Nil) equity shares of ₹10 each, fully paid-up in Laurus Labs Limited	52	-	-
150,000 (31 March 2016: Nil; 31 March 2015: Nil) equity shares of ₹1 each, fully paid-up in Lanco Infratech Limited	0	-	-
22,700 (31 March 2016: Nil; 31 March 2015: Nil) equity shares of ₹1 each, fully paid-up in GMR Infrastructure Limited	0	-	-
50,400 (31 March 2016: Nil; 31 March 2015: Nil) equity shares of ₹1 each, fully paid-up in GVK Power & Infrastructure Limited	0	-	-
50,000 (31 March 2016: Nil; 31 March 2015: Nil) equity shares of ₹1 each, fully paid-up in Panacea Biotec Limited	8	-	-
3,176 (31 March 2016: Nil; 31 March 2015: Nil) equity shares of ₹10 each, fully paid-up in ICICI Prudential Life Insurance Company Limited	1	-	-
Investments in Debentures, unquoted, Non-trade	-	-	-
Nil (31 March 2016: 2,000; 31 March 2015: Nil) non-convertible debentures of ₹100,000 in Citicorp Finance India Limited	-	200	-
Total current investments	89	221	7
Aggregate book value of unquoted investments	-	200	-
Aggregate book value of quoted investments	60	10	1
Aggregate market value of quoted investments	89	21	7
Aggregate amount of impairment in the value of investments	-	-	-
Investments carried at amortised cost	-	200	-
Investments carried at fair value through other comprehensive income	89	21	7
Investments carried at fair value through profit or loss	-	-	-
9. LOANS			
(Unsecured, considered good)			
Non-current			
Loans and advances to related parties	-	-	864
Total non-current loans	-	-	864
Current			
Loans to employees	34	28	27
Loans and advances to related parties	32	-	1
Total current loans	66	28	28

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION

(All amounts in ₹ millions, except share data and where otherwise stated)

	31 March 2017	31 March 2016	1 April 2015
10. OTHER FINANCIAL ASSETS			
Non-current			
Restricted deposits*	55	36	28
Security deposits	71	63	43
Interest accrued on deposits	5	6	8
	131	105	79
*Given against bank guarantees/performance guarantees			
Current			
Deposits with financial institution	693	400	-
Interest accrued on fixed deposits	29	36	-
Insurance claim receivable	7	39	-
Other advances	5	5	1
	734	480	1
11. OTHER ASSETS			
Non-current			
Capital advances	353	436	386
Balances with statutory authorities	125	85	88
	478	521	474
Current			
Advance to material/service providers	201	96	96
Prepaid expenses	74	65	37
Export incentives receivable	147	114	19
Balances with statutory authorities	731	392	315
	1,153	667	467
12. INVENTORIES (AT LOWER OF COST AND NET REALISABLE VALUE)			
Raw materials (at cost) [including goods-in-transit of ₹14 (31 March 2016: ₹24; 31 March 2015: ₹3)]	1,123	1,406	554
Work-in-progress (at cost)	1,021	986	694
Finished goods (at lower of cost and net realisable value)	613	492	242
Stores and spares (at cost) [including goods-in-transit of ₹20 (31 March 2016: ₹35; 31 March 2015: ₹7)]	350	349	257
Packing materials (at cost) [including goods-in-transit of ₹1 (31 March 2016: ₹0; 31 March 2015: ₹Nil)]	245	280	226
Stock-in-trade	17	6	9
	3,369	3,519	1,982

During the year, ₹2 (31 March 2016: ₹5, 31 March 2015: ₹2) was recognised as an expense for the inventories at net realisable value.

NOTES TO FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION

(All amounts in ₹ millions, except share data and where otherwise stated)

	31 March 2017	31 March 2016	1 April 2015
13. TRADE RECEIVABLES			
(Unsecured)			
Trade receivables, gross			
- Considered good	4,689	2,558	1,890
- Considered doubtful	-	-	18
	4,689	2,558	1,908
Less: Allowance for doubtful debts	-	-	18
	4,689	2,558	1,890
14. CASH AND CASH EQUIVALENTS			
Balances with banks			
- on current accounts	122	64	30
- on deposit accounts	-	103	-
Cash on hand	6	25	33
	128	192	63

There are no repatriation restrictions with regard to cash and cash equivalents as at the end of the reporting period and prior periods.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION

(All amounts in ₹ millions, except share data and where otherwise stated)

	31 March 2017		31 March 2016		1 April 2015	
	Number	Amount	Number	Amount	Number	Amount
15 EQUITY SHARE CAPITAL						
i. Authorised share capital						
Equity shares of ₹2 each	200,000,000	400	200,000,000	400	200,000,000	400
ii. Issued, subscribed and fully paid-up						
Equity shares of ₹2 each	174,307,800	349	174,174,245	348	166,174,245	332
	174,307,800	349	174,174,245	348	166,174,245	332
iii. Reconciliation of number of equity shares outstanding at the beginning and at the end of the year						
Equity shares						
Balance at the beginning of the year	174,174,245	348	166,174,245	332	165,365,370	331
Add: Issued during the year	133,555	1	8,000,000	16	808,875	1
Balance at the end of the year	174,307,800	349	174,174,245	348	166,174,245	332

iv. Rights, preferences and restrictions attached to equity shares

The Company has only one class of equity shares having a par value of ₹2 per share. Each holder of equity shares is entitled to one vote per share. The dividend proposed by the Board of Directors is subject to the approval of the shareholders in the ensuing general meeting. In the event of liquidation of the Company, the holders of equity shares will be entitled to receive the remaining assets of the Company, after distribution of all preferential amounts in proportion of their shareholding.

v. The Board of Directors have recommended two interim dividends of ₹0.75 and ₹6 during the current financial year.

vi. Details of shareholder holding more than 5% share capital

	31 March 2017		31 March 2016		1 April 2015	
Name of the equity shareholder	Number	% holding	Number	% holding	Number	% holding
V C Nannapaneni*	4,07,36,815	23.37%	4,07,36,815	23.39%	4,07,36,815	24.51%
Time Cap Pharma Labs Limited	1,71,57,220	9.84%	1,71,57,220	9.85%	1,71,57,220	10.32%
Natsoft Information Systems Private Limited	1,57,67,500	9.05%	1,57,67,500	9.05%	1,57,67,500	9.49%

*including shares held in the capacity of Karta of HUF aggregating to 5,440,045 (31 March 2016: 5,440,045, 31 March 2015: 5,440,045)

vii. Shares reserved for issue under options

a) The Company has instituted the NATCO Employee Stock Option Plan 'ESOP-2015' and NATCO Employee Stock Option Plan 'ESOP-2016' ("the Schemes"). The Schemes were formulated in accordance with the Securities Exchange Board of India (Share Based Employee Benefits) Regulations, 2014 issued by the Securities and Exchange Board of India ("SEBI"). Pursuant to the terms of the Scheme, the Board of the Directors of the Company have granted 750,000 options (post split) and 174,330 (post split) to eligible employees on 12 August 2015 and 11 November 2016 respectively. The terms of the Scheme provide that each option entitles the holder to one equity share of ₹2 each (post split) and that the options can be settled only by way of issue of equity shares. The options vest on an annual basis over a period of 5 years from the date of grant and the options are entirely time-based with no performance conditions.

b) During the year ended 31 March 2017, the Company had incurred stock compensation cost of ₹123 (31 March 2016: ₹97, 31 March 2015: ₹ Nil) in respect of ESOP 2015 and ESOP 2016 schemes.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION

(All amounts in ₹ millions, except share data and where otherwise stated)

The details of options are as follows :

	31 March 2017		31 March 2016		1 April 2015	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
15. EQUITY SHARE CAPITAL (CONTINUED)						
Outstanding at the beginning of the year	750,000	2	-	-	-	-
Granted during the year	174,330	2	750,000	2	-	-
Forfeited during the year	-	-	-	-	-	-
Exercised during the year	133,555	2	-	-	-	-
Expired during the year	-	-	-	-	-	-
Outstanding at the end of the year	790,775	2	750,000	2	-	-
Exercisable at the end of the year	-	-	-	-	-	-

The weighted average share price at the date of exercise for stock options exercised during the year was ₹2 post split (31 March 2016: ₹Nil; 31 March 2015: ₹Nil). The stock options outstanding as at 31 March 2017 had a weighted average exercise price of ₹2 post split (31 March 2016: ₹2 post split; 31 March 2015: ₹Nil), and the weighted average remaining contractual life of unvested options is 29.41 months (31 March 2016: 25.13 months, 31 March 2015: Nil).

The fair value of options was estimated at the date of grant using the Black-Scholes-Merton formula with the following assumptions:

	ESOP 2016	ESOP 2015
Risk-free interest rate	6.82% - 8.05%	7.14% - 8.18%
Expected life	1-5 years	1-5 years
Expected volatility	37.28%-43.76%	40.59%- 49.91%
Expected dividend yield	0.20%	0.20%

viii. Details of shares issued pursuant to contract without payment being received in cash during the last 5 years, immediately preceding the balance sheet date:

	Number of shares		
	1 April 2012 to 31 March 2017	1 April 2011 to 31 March 2016	1 April 2010 to 31 March 2015
Aggregate number of equity shares allotted *	2068,040	1934,485	1934,485

*Equity shares allotted pursuant to contract without payment being received in cash comprise of:

- During the year ended 31 March 2015, the Company has issued 808,875 equity shares (post split) of ₹2 each, fully paid-up at a premium of ₹238 per equity share (post split) to the erstwhile shareholders of Natco Organic Limited ('NOL') in exchange of 19,310,000 equity shares of ₹10 each at face value held in NOL.
 - Balance equity shares comprising of 1,259,165 (31 March 2016: 1,125,610; 31 March 2015: 1,125,610) (post split) were allotted during the period of five years, on exercise of the options granted under the employee stock option plan wherein part consideration was received in the form of employee services.
- ix. Equity shares of the Company with face value of ₹10 per share were sub-divided into 5 equity shares of ₹2 each effective 30 November 2015. Consequently, in accordance with Indian Accounting Standard (Ind AS) 33 - "Earnings Per Share", the basic and diluted earnings per share of the Company has been recomputed and disclosed accordingly.

NOTES TO FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION

(All amounts in ₹ millions, except share data and where otherwise stated)

	31 March 2017	31 March 2016	1 April 2015
16. OTHER EQUITY			
Reserve and surplus			
Securities premium reserve	6,178	6,112	2,783
Capital reserve	207	207	207
Capital redemption reserve	5	5	5
General reserve	595	595	485
Share options outstanding account	154	97	-
Retained earnings	9,544	6,012	4,980
Total reserves and surplus	16,683	13,028	8,460
Other reserves			
FVOCI - Equity instruments	42	14	7
Remeasurement of defined benefit	(77)	(27)	11
	(35)	(13)	18
	16,648	13,015	8,478

i. Nature and purpose of other reserves

Securities premium reserve

Securities premium reserve is used to record the premium on issue of shares. The reserve is utilised in accordance with provisions of the Act.

Capital reserve

Capital reserve was created on amalgamation of certain entities into the Company in the earlier years. The Company uses capital reserve for transactions in accordance with the provisions of the Act.

Capital redemption reserve

In accordance with the requirements of the Companies Act, 1956, the Company has created capital redemption reserve on buyback of shares. The Company uses capital redemption reserve for transactions in accordance with the provisions of the Act.

General reserve

The Company generally appropriates a portion of its earnings to the general reserve to be used for contingencies. These reserves are freely available for use by the Company.

Share options outstanding account

The reserve represents the excess of the fair value of the options on the grant date over the strike price which is accumulated by the Company in respect of all options that have been granted. The Company transfers the proportionate amounts, outstanding in this account, in relation to options exercised to securities premium account on the date of exercise of such options.

FVOCI equity instruments

The Company has elected to recognise the change in fair value of certain investments in equity shares in other comprehensive income. These changes are accumulated within the FVOCI equity instruments reserve within equity. The Company transfers amounts from this reserve to retained earnings when the relevant equity instruments are derecognised.

Remeasurement of defined benefit obligations

The reserve represents the remeasurement gains/(losses) arising from the actuarial valuation of the defined benefit obligations of the Company. The remeasurement gains/(losses) are recognised in other comprehensive income and accumulated under this reserve within equity. The amounts recognised under this reserve are not reclassified to profit or loss.

NOTES TO FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION

(All amounts in ₹ millions, except share data and where otherwise stated)

	31 March 2017	31 March 2016	1 April 2015
17. BORROWINGS			
Non-current			
(Secured)			
Term loans			
From banks	-	67	1,180
Other parties	-	75	223
	-	142	1,403
Less: Current maturities of long-term borrowings	-	142	440
	-	-	963

(a) Terms and conditions of loans and nature of security

- (i) Term loans amounting to ₹Nil (31 March 2016: ₹75; 31 March 2015: ₹623) is secured by *pari passu* first charge on the entire immovable properties and movable fixed assets both present and future of Mekaguda Unit and part of the loan is further secured by an exclusive charge on all the immovable properties and movable fixed assets of both the units (Plot No-19 and Plot NoA-3) at Dehradun and exclusive charge on the R&D equipment acquired from the loan amount.
- (ii) Term loan amounting to ₹Nil (31 March 2016: ₹67; 31 March 2015: ₹122) is secured by charge over all movable and immovable fixed assets of Mekaguda unit along with other lenders.

All the above loans are guaranteed by Mr. V. C. Nannapaneni, Chairman and Managing Director and carry interest linked to the respective Bank's / Institution's prime / base lending rate, and range from 2.23085% per annum to 11.50% per annum. (31 March 2016: 1.88% per annum to 12.75% per annum; 31 March 2015: 3.53% per annum to 12.75% per annum)..

(All amounts in ₹ millions, except share data and where otherwise stated)

	31 March 2017	31 March 2016	1 April 2015
Current			
Working capital loans (secured)	1,446	858	1,375
Working capital loans (unsecured)	760	102	389
	2,206	960	1,764

- (i) Working capital loans represents cash credit, overdraft, commercial paper, bills purchased and discounted with various banks and carry interest linked to the respective Bank's base lending rate/Marginal cost of lending rate and range from 1.00% per annum to 12.70% per annum (31 March 2016: 9.25% per annum to 13.25% per annum, 31 March 2015: 10% per annum to 14% per annum).
- (ii) Working capital loans are secured by way of first charge on all the current assets of the Company. The collateral security is joint *pari passu* first charge on the corporate office and all fixed assets of Nagarjuna Sagar Unit apart from personal guarantees of Mr. V. C. Nannapaneni, Chairman and Managing Director, Ms. Durga Devi Nannapaneni and Dr. N. Ramakrishna Rao, relatives of Chairman and Managing Director.
- (iii) Unsecured loans are personally guaranteed by Mr. V.C. Nannapaneni, Chairman and Managing Director.

NOTES TO FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION

(All amounts in ₹ millions, except share data and where otherwise stated)

	31 March 2017	31 March 2016	1 April 2015
18. OTHER FINANCIAL LIABILITIES			
Non-current			
Security deposits from customers	8	8	8
	8	8	8
Current			
Current maturities of non-current borrowings	-	142	440
Interest accrued but not due on borrowings	2	-	5
Capital creditors	658	474	266
Unpaid dividend on equity shares	17	11	9
Employee related payables	295	153	89
Other payables	2	2	-
	974	782	809
19. PROVISION FOR EMPLOYEE BENEFITS			
Non-current			
Gratuity	139	88	58
Leave obligations	80	37	34
	219	125	92
Current			
Gratuity	15	3	3
Leave obligations	3	12	8
	18	15	11

(a) Gratuity

The Company has subscribed to a group gratuity scheme of Life Insurance Corporation of India (LIC). Under the said policy, the eligible employees are entitled for gratuity upon their resignation, retirement or in the event of death in lumpsum after deduction of necessary taxes upto a maximum limit of ₹1. Liabilities in respect of the Gratuity Plan are determined by an actuarial valuation, based upon which the Company makes contributions to the Gratuity Fund.

The following table set out the status of the gratuity plan and the reconciliation of opening and closing balances of the present value and defined benefit obligation.

i) Change in projected benefit obligation

	31 March 2017	31 March 2016	1 April 2015
Projected benefit obligation at the beginning of the year	157	119	117
Pursuant to the scheme of amalgamation (refer note 40)	-	3	-
Service cost	16	13	9
Interest cost	13	10	9
Actuarial (gain) / loss	41	31	(9)
Benefits paid	(14)	(19)	(7)
Projected benefit obligation at the end of the year	213	157	119

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION

(All amounts in ₹ millions, except share data and where otherwise stated)

	31 March 2017	31 March 2016	1 April 2015
(ii) Change in plan assets			
Fair value of plan assets at the beginning of the year	63	55	47
Pursuant to the scheme of amalgamation (refer note 40)	-	0	-
Expected return on plan assets	5	5	5
Employer contributions	7	23	10
Benefits paid	(14)	(20)	(7)
Fair value of plan assets at the end of the year	61	63	55
(iii) Reconciliation of present value of obligation on the fair value of plan assets			
Present value of projected benefit obligation at the end of the year	213	157	119
Funded status of the plans	(61)	(63)	(55)
Net liability recognised in the balance sheet	152	94	64
(iv) Expense recognised in the statement of profit and loss			
Service cost	16	12	9
Interest cost	13	10	9
Expected returns on plan assets	(5)	(5)	(5)
Premium expenses	0	0	-
Net gratuity costs	24	17	13
(v) Expense recognised in other comprehensive income			
Recognised net actuarial (gain)/loss	41	31	(9)
	41	31	(9)
(vi) Key actuarial assumptions			
Discount rate	8.00%	8.00%	8.00%
Expected return on plan assets	8.25%	8.00%	9.00%
Salary escalation rate	8.00%	6.00%	4.00%

Assumptions regarding future mortality experience are set in accordance with the published statistics by the Life Insurance Corporation of India.

Plan assets does not comprise any of the Company's own financial instruments or any assets used by the Company. The Company has the plan covered under a policy with the Life Insurance Corporation of India Limited.

The significant actuarial assumptions for the determination of the defined benefit obligation are the discount rate, the salary growth rate and the average life expectancy. The calculation of the net defined benefit liability is sensitive to these assumptions. However, the impact of these changes is not ascertained to be material by the management.

NOTES TO FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION

(All amounts in ₹ millions, except share data and where otherwise stated)

	31 March 2017	31 March 2016	1 April 2015
20. DEFERRED TAX LIABILITIES (NET)			
Deferred tax liabilities arising on account of :			
Fixed assets	144	200	113
Adjustments to OCI	16	7	-
Deferred tax assets arising on account of :			
Unabsorbed depreciation (pursuant to the scheme of amalgamation)	-	56	-
Adjustments to OCI	10	5	4
	150	146	109

- (a) Certain subsidiaries of the Company have undistributed earnings of ₹171 (31 March 2016: ₹168; 31 March 2015: ₹185) which, if paid out as dividends, would be subject to tax. An assessable temporary differences exists, but no deferred tax liability has been recognised as the Company controls the timing of distributions from this subsidiary and is not expected to distribute these profits in the foreseeable future.
- (b) The Company has not recognized unused tax credits (minimum alternate tax credits) of ₹2,016 (31 March 2016: ₹1,524; 31 March 2015: ₹1,061). These unused tax credits will expire over next 15 years.

21. OTHER LIABILITIES

Current			
Payable to statutory authorities	109	90	44
Advance from customers	145	237	202
	254	327	246

22. TRADE PAYABLES

Due to micro and small enterprises*	15	26	15
Due to related parties	8	-	-
Due to others	2,491	2,675	1,138
	2,514	2,701	1,153

*Disclosure under the Micro, Small and Medium Enterprises Development Act, 2006 ("MSMED Act, 2006") as at 31 March 2017, 31 March 2016 and 1 April 2015:

Particulars	31 March 2017	31 March 2016	1 April 2015
i) the principal amount and the interest due thereon remaining unpaid to any supplier as at the end of each accounting year;	15	26	15
ii) the amount of interest paid by the buyer in terms of section 16, along with the amounts of the payment made to the supplier beyond the appointed day during each accounting year;	-	-	-
iii) the amount of interest due and payable for the period of delay in making payment (which have been paid but beyond the appointed day during the year) but without adding the interest specified under this Act;	-	-	-
iv) the amount of interest accrued and remaining unpaid at the end of each accounting year; and	1	1	4
v) the amount of further interest remaining due and payable even in the succeeding years, until such date when the interest dues as above are actually paid to the small enterprise, for the purpose of disallowance as a deductible expenditure under section 23.	-	-	-

The above information regarding Micro, Small and Medium Enterprises has been determined to the extent such parties have been identified on the basis of information available with the Company.

NOTES TO FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION

(All amounts in ₹ millions, except share data and where otherwise stated)

	For the year ended 31 March 2017	For the year ended 31 March 2016
23. REVENUE FROM OPERATIONS		
Sale of products (including excise duty)	19,795	10,315
Sale of services	69	42
	19,864	10,357
Less: Refund of service income received in earlier years	(158)	-
	19,706	10,357
Other operating revenues		
Job work charges	71	67
Export incentives	232	151
Scrap sales	19	17
	20,028	10,592
24. OTHER INCOME		
Dividend from subsidiary	-	38
Interest income from Fixed deposits	76	53
Insurance claim - loss of profits	-	25
Foreign exchange - gain (net)	50	-
Other non-operating income	6	13
	132	129
25. COST OF RAW MATERIALS CONSUMED (INCLUDING PACKING MATERIALS CONSUMED)		
Raw material and packing material at the beginning of the year	1,686	781
Add: Pursuant to the scheme of amalgamation	-	31
Add: Purchases during the year	4,890	3,911
Less: Raw material and packing material at the end of the year	1,368	1,686
	5,208	3,037
26. CHANGES IN INVENTORIES OF FINISHED GOODS, STOCK-IN -TRADE AND WORK-IN-PROGRESS		
Opening balance		
- Finished goods	492	247
- Work-in-progress	986	750
- Stock-in-trade	6	9
	1,484	1,006
Closing balance		
- Finished goods	613	492
- Work-in-progress	1,021	986
- Stock-in-trade	17	6
	1,651	1,484
	(167)	(478)

NOTES TO FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION

(All amounts in ₹ millions, except share data and where otherwise stated)

	For the year ended 31 March 2017	For the year ended 31 March 2016
26. CHANGES IN INVENTORIES OF FINISHED GOODS, STOCK-IN -TRADE AND WORK-IN-PROGRESS		
(i) Following are the details of inventory balances under broad heads:		
Opening stock		
Finished goods		
Bulk drug and drug intermediaries	157	100
Formulations	335	147
	492	247
Work in progress		
Bulk drug and drug intermediaries	840	647
Formulations	146	103
	986	750
Stock-in-trade		
Formulations	6	9
	6	9
Closing inventory		
Finished goods		
Bulk drug and drug intermediaries	170	157
Formulations	443	335
	613	492
Work in progress		
Bulk drug and drug intermediaries	954	840
Formulations	67	146
	1,021	986
Stock-in-trade		
Formulations	17	6
	17	6
27. EMPLOYEE BENEFITS EXPENSE		
Salaries, wages and bonus	1,937	1,407
Contribution to provident fund and other funds	132	101
Gratuity expense	13	13
Employee stock compensation expenses	123	97
Staff welfare expenses	116	101
	2,321	1,719
28. FINANCE COSTS		
Interest on borrowings	134	203
Interest - others	22	-
Other borrowing costs	19	16
	175	219

Interest expenses is after capitalization of ₹Nil (31 March 2016: ₹21) to qualifying fixed assets.

NOTES TO FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION

(All amounts in ₹ millions, except share data and where otherwise stated)

	For the year ended 31 March 2017	For the year ended 31 March 2016
29. OTHER EXPENSES		
Consumption of stores and spares	325	224
Excise duty	448	378
Power and fuel	505	437
Rental charges	12	12
Repairs and maintenance		
- Buildings	67	33
- Plant and equipment	186	155
- Others	35	23
Insurance	77	47
Rates and taxes	126	87
Factory maintenance expenses	213	170
Analysis charges	126	109
Carriage and freight outwards	80	86
Donations	48	39
Corporate social responsibility (CSR) expenses	36	29
Communication expenses	46	28
Office maintenance and other expenses	59	42
Travelling and conveyance	180	139
Legal and professional fees	230	160
Payment to auditors		
- As auditor	3	4
- For reimbursement of expenses	0	-
Directors sitting fee	1	1
Bad debts (net of related liabilities) written off	238	96
Assets written off	24	-
Foreign exchange loss, net	-	50
Royalty expense	285	169
Sales promotion expenses including sales commission	1,208	798
Research and development expenses	390	123
Printing and stationery	49	49
Miscellaneous expenses	62	15
	5,059	3,503

*Excludes ₹Nil (31 March 2016: ₹2) charged to securities premium reserve for QIP.

i) Details of CSR expenditure :

a) Gross amount required to be spent by the Company during the year	35	28
b) Amount spent on eligible activities	36	29

NOTES TO FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION

(All amounts in ₹ millions, except share data and where otherwise stated)

	For the year ended 31 March 2017	For the year ended 31 March 2016
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30. INCOME TAX

Tax expense comprises of:

Current income tax	1,353	448
Deferred tax	-	2
Tax for earlier years	40	-
Income tax expense reported in the statement of profit or loss	1,393	450

The major components of income tax expense and the reconciliation of expected tax expense based on the domestic effective tax rate of the Company at 34.608% and the reported tax expense in profit or loss are as follows:

Reconciliation of tax expense and the accounting profit multiplied by India's tax rate

Profit before tax	6,341	2,215
Tax at the Indian tax rate (34.608%)	2,194	767
Adjustments:		
CSR expense	21	12
Weighted deduction on research and development expense	(528)	(283)
Deferred taxes not recognised in the books	485	133
Tax incentives	(819)	(179)
Tax for earlier years	40	-
Others	0	-
Income tax expense	1,393	450

31. EARNINGS PER SHARE (EPS)

The following reflects the income and share data used in the basic and diluted EPS computations:

Profit attributable to equity shareholders	4,926	1,734
Weighted average number of equity shares outstanding during the year	174,225,837	170,448,218
Effect of dilution:		
Employee stock options	183,863	512,767
Weighted average number of equity shares adjusted for the effect of dilution	174,409,700	170,960,985
Earnings per equity share:		
Basic	28.27	10.17
Diluted	28.24	10.14
Nominal Value per share equity share	₹2	₹2

NOTES TO FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION

(All amounts in ₹ millions, except share data and where otherwise stated)

32. FAIR VALUE MEASUREMENTS

i) Fair value hierarchy

Financial assets and financial liabilities measured at fair value in the statement of financial position are grouped into three levels of a fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurement, as follows:

Level 1: Quoted prices (unadjusted) in active markets for financial instruments.

Level 2: The fair value of financial instruments that are not traded in an active market is determined using valuation techniques which maximise the use of observable market data rely as little as possible on entity specific estimates.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

ii. Financial assets and financial liabilities measured at fair value

	31 March 2017	31 March 2016
Fair value hierarchy	1	1
Financials assets		
Listed equity instruments	89	21

FINANCIAL INSTRUMENTS BY CATEGORY

For amortised cost instruments, carrying value represents the best estimate of fair value.

	31 March 2017			31 March 2016		
	FVTPL	FVOCI	Amortised cost	FVTPL	FVOCI	Amortised cost
FINANCIAL ASSETS						
Investments						
- Equity instruments	-	89	859	-	21	717
- Debentures	-	-	-	-	-	200
- Other investments	-	-	-	-	-	0
Trade receivables	-	-	4,689	-	-	2,558
Loans	-	-	66	-	-	28
Cash and cash equivalents	-	-	128	-	-	192
Other bank balances	-	-	123	-	-	210
Other financial assets	-	-	865	-	-	585
Total financial assets	-	89	6,730	-	21	4,490
FINANCIAL LIABILITIES						
Borrowings	-	-	2,206	-	-	960
Trade payables	-	-	2,514	-	-	2,701
Other financial liabilities	-	-	982	-	-	790
Total financial liabilities	-	-	5,702	-	-	4,451

The Company's principal financial liabilities, comprise loans and borrowings, trade and other payables. The main purpose of these financial liabilities is to finance the Company's operations. The Company's principal financial assets include loans, trade and other receivables, and cash and cash equivalents that derive directly from its operations. The Company also holds FVTOCI investments and investment in its subsidiaries.

The Company is exposed to market risk, credit risk and liquidity risk. The Company's Board of Directors oversees the management of these risks. The Company's Board of Directors is supported by the senior management that advises on financial risks and the appropriate financial risk governance framework for the Company. The senior management provides assurance to the Company's board of directors that the Company's financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Company's policies and risk objectives.

The carrying amounts reported in the statement of financial position for cash and cash equivalents, trade and other receivables, trade and other payables and other liabilities approximate their respective fair values due to their short maturity.

NOTES TO FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION

(All amounts in ₹ millions, except share data and where otherwise stated)

33. FINANCIAL INSTRUMENTS RISK MANAGEMENT

A. Market risk:

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and equity price risk. Financial instruments affected by market risk include loans and borrowings, deposits, FVOCI investments, trade receivables and other financial instruments.

The sensitivity analysis in the following sections relate to the position as at 31 March 2017 and 31 March 2016. The analysis exclude the impact of movements in market variables on: the carrying values of gratuity and other post retirement obligations; provisions; and the non-financial assets and liabilities.

i. Interest rate risk

The Company's fixed rate borrowings are carried at amortised cost. They are therefore not subject to interest rate risk as defined in Ind AS 107, since neither the carrying amount nor the future cash flows will fluctuate because of a change in market interest rates. The Company considers the impact of fair value interest rate risk on investment in deposits with banks and financial institutions and debentures as not material.

The Company's variable rate borrowing is subject to interest rate risk. Below is the details of exposure to fixed rate and variable rate instruments:

Particulars	31 March 2017	31 March 2016
Fixed rate instruments		
Financial assets	748	636
Financial liabilities	-	-
Variable rate instruments		
Financial assets	-	-
Financial liabilities	2,206	1,102

ii. Foreign currency risk:

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Company's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a foreign currency) and the Company's net investments in foreign subsidiaries.

The Group's exposure to foreign currency financial assets and financial liabilities expressed in ₹ are as follows:

FINANCIAL ASSETS

	31 March 2017			31 March 2016		
	Investments	Trade receivables	Loans	Investments	Trade receivables	Loans
- USD	652	2,665	-	546	981	-
- EUR	-	60	-	-	5	-
- CAD	145	76	30	133	19	-
- AUD	18	-	-	5	-	-
- SGD	43	0	-	32	-	-

These loans to subsidiaries were interest free and given for the purpose of funding working capital requirements of the respective subsidiaries. Further, these subsidiaries do not hold any equity shares in the Company.

NOTES TO FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION

(All amounts in ₹ millions, except share data and where otherwise stated)

33. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

FINANCIAL LIABILITIES

	31 March 2017		31 March 2016	
	Borrowings	Trade payables	Borrowings	Trade payables
- USD	-	251	67	372
- EUR	-	41	-	17
- GBP	-	15	-	9

Foreign currency sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in USD. The Company's exposure to foreign currency changes for all other currencies is not material.

Particulars	Impact on profit after tax	
	31 March 2017	31 March 2016
USD sensitivity		
₹/USD - Increase by 2%	48	11
₹/USD - Decrease by 2%	(48)	(11)

iii. Equity price risk:

The Company's exposure to equity securities price risk arises from investments held by the Company and classified in the balance sheet as FVOCI (Note 8).

To manage its price risk arising from investments in equity securities, the Company diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set up by the Company.

The majority of the Company's equity investments are publicly traded and are included in the NSE Nifty 50 index.

The table below summarises the impact of increase/decrease of the index on the Company's equity and profit for the period. The analysis is based on the assumption that the equity index had increased/decreased by 10% with all other variables held constant, and that of the Company's equity instruments moved in line with the index.

Particulars	Impact on other components of equity	
	31 March 2017	31 March 2016
NSE Nifty 50 - Increase by 10%	9	2
NSE Nifty 50 - Decrease by 10%	(9)	(2)

NOTES TO FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION

(All amounts in ₹ millions, except share data and where otherwise stated)

33. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

B. CREDIT RISK

Credit risk is the risk that a counterparty fails to discharge an obligation to the Company, leading to a financial loss. The Company is mainly exposed to the risk of its balances with the bankers and trade and other receivables.

Ageing of receivable is as follows:

	31 March 2017	31 March 2016
Neither past due nor impaired	3,684	1,893
Past due not impaired:		
0-30 days	844	207
31-60 days	99	5
61-90 days	19	18
91-180 days	32	60
Greater than 180 days	11	376
	4,689	2,559

c. Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities to meet obligations when due. Due to the nature of the business, the Company maintains flexibility in funding by maintaining availability under committed facilities.

Management monitors rolling forecasts of the Company's liquidity position and cash and cash equivalents on the basis of expected cash flows. The Company takes into account the liquidity of the market in which the entity operates. In addition, the Company's liquidity management policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet these, monitoring balance sheet liquidity ratios against internal and external regulatory requirements and maintaining debt financing plans.

The Company's principal sources of liquidity are the cash flows generated from operations. The Company has no long-term borrowings and believes that the working capital is sufficient for its current requirements. Accordingly, no liquidity risk is perceived.

Maturities of financial liabilities

The tables below analyse the Company's financial liabilities into relevant maturity groupings based on their contractual maturities for all non-derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is insignificant.

31 March 2017	Up to 1 year	From 1 to 3 years	More than 3 years	Total
Non-derivatives				
Borrowings	2,206	-	-	2,206
Trade and other payables	2,514	-	-	2,514
Other financial liabilities	974	8	-	982
Total	5,694	8	-	5,702
31 March 2016	Up to 1 year	From 1 to 3 years	More than 3 years	Total
Non-derivatives				
Borrowings	1,102	-	-	1,102
Trade payable	2,701	-	-	2,701
Other financial liabilities	640	8	-	648
Total	4,443	8	-	4,451

NOTES TO FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION

(All amounts in ₹ millions, except share data and where otherwise stated)

34. CAPITAL RISK MANAGEMENT

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for stakeholders. The Company also proposes to maintain an optimal capital structure to reduce the cost of capital. Hence, the Company may adjust any dividend payments, return capital to shareholders or issue new shares. Total capital is the equity as shown in the statement of financial position. Currently, the Company primarily monitors its capital structure on the basis of gearing ratio. Management is continuously evolving strategies to optimise the returns and reduce the risks. It includes plans to optimise the financial leverage of the Company.

The capital for the reporting year under review is summarised as follows:

	31 March 2017	31 March 2016
Total borrowings (note 17)	2,206	1,102
Less: Cash and bank balances (note 14 & 10)	(999)	(838)
Net debt	1,207	264
Total equity	16,997	13,363
Total capital	18,204	13,627
Net debt to equity ratio (%)	7%	2%

35. RELATED PARTY DISCLOSURES

a) Names of the related parties and nature of relationship (as per Ind AS 24)

Names of related parties	Nature of relationship
NATCO Pharma Inc., United States of America	
Time cap Overseas Limited, Mauritius	
NATCO Pharma (Canada) Inc., Canada	Subsidiary company
NATCO Pharma Asia PTE Ltd., Singapore	
NATCO Pharma Australia PTY Ltd., Australia	
NATCO Farma Do Brazil Ltda., Brazil	Step-down subsidiary company
Time Cap Pharma Labs Limited	
NATCO Trust	
NATCO Aqua Limited	
NDL Infratech Private Limited	Entities in which KMP have control or have significant influence
NATCO Group Employees Welfare Trust	
Natsoft Information Systems Private Limited	
V. C. Nannapaneni	
Rajeev Nannapaneni	Key management personnel ("KMP")
Durga Devi Nannapaneni	
Venkata Satya Swathi Kantamani	
Neelima Nannapaneni	Relative of KMP
Dr. Ramakrishna Rao	

NOTES TO FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION

(All amounts in ₹ millions, except share data and where otherwise stated)

35. RELATED PARTY DISCLOSURES (CONTINUED)

b) Transactions with related parties

	For the year ended	
	31 March 2017	31 March 2016
Time Cap Overseas Limited		
Investment in equity shares	106	134
NATCO Pharma (Canada) Inc.		
Investment in equity shares	12	66
Sales	85	9
Loan	39	-
NATCO Pharma Asia PTE Ltd.		
Investment in equity shares	11	15
Loan	80	-
Sales	0	-
NATCO Pharma Australia PTY Ltd.		
Investment in equity shares	13	1
Time Cap Pharma Labs Limited		
Sales promotion expenses	13	12
Purchase of raw-materials	0	1
Rental expense	5	5
Dividends paid	116	21
Natsoft Information Systems Private Limited		
Dividends paid	106	20
NDL Infratech Private Limited		
Dividends paid	1	0
NATCO Aqua Limited		
Dividends paid	0	0
NATCO Trust		
Donations	25	19
CSR activities	36	29
V. C. Nannapaneni		
Short-term employee benefits	16	16
Leave encashment paid	1	3
Rental expenses	2	2
Dividends paid	275	51
Commission on profits	49	15
Rajeev Nannapaneni		
Short-term employee benefits	14	14
Leave encashment paid	1	2
Rental expenses	1	1
Dividends paid	11	2
Durga Devi Nannapaneni		

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH, 2017

(All amounts in ₹ millions, except share data and where otherwise stated)

35. RELATED PARTY DISCLOSURES (CONTINUED)

b) Transactions with related parties (continued)

	For the year ended	
	31 March 2017	31 March 2016
Dividends paid	24	4
Venkata Satya Swathi Kantamani		
Dividends paid	19	4
Neelima Nannapaneni		
Dividends paid	1	0
Dr. Ramakrishna Rao		
Dividends paid	5	1
c) Balances receivable / (payable)		
Time Cap Pharma Labs Limited	(5)	(5)
NATCO Pharma (Canada) Inc.	106	-
NATCO Farma Do Brazil Ltda.,	(2)	-
V. C. Nannapaneni	(50)	(0)
Rajeev Nannapaneni	(1)	(0)

Note:

- Mr. V. C. Nannapaneni has extended personal guarantees in connection with the loans availed by the Company. Refer note 17.
 - Mrs. Durga Devi Nannapaneni and Dr. Ramakrishna Rao has extended personal guarantees in connection with the loans availed by the Company. Refer note 17.
 - Short-term employee benefits to KMP does not include expenditure on account of provision for gratuity and compensated absences computed for Company as a whole.
- d) Disclosure pursuant to Regulation 34(3) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015**
Loans and Advances in the nature of loans, including interest accrued to subsidiaries and to companies in which directors are interested

	31 March 2017	31 March 2016
Outstanding balance		
NATCO Pharma Inc.	-	-
NATCO Pharma (Canada) Inc.	32	-
Maximum balance outstanding at any time during the year		
NATCO Pharma Inc.	-	1
NATCO Pharma Asia PTE Ltd	80	-
NATCO Pharma (Canada) Inc.	32	-

These loans to subsidiaries were interest free and given for the purpose of funding working capital requirements of the respective subsidiaries. Further, these subsidiaries do not hold any equity shares in the Company.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH, 2017

(All amounts in ₹ millions, except share data and where otherwise stated)

(e) Transaction with related parties

In accordance with the applicable provisions of the Income Tax Act, 1961, the Company is required to use certain specified methods in assessing that the transactions with the related parties, are carried at an arm's length price and is also required to maintain prescribed information and documents to support such assessment. The appropriate method to be adopted will depend on the nature of transactions / class of transactions, class of associated persons, functions performed and other factors as prescribed. Based on certain internal analysis carried out, management believes that transactions entered into with the related parties were carried out at arms length prices. The Company is in the process of updating the transfer pricing documentation for the financial year ended 31 March 2017. In opinion of the management, the same would not have an impact on these financial statements. Accordingly, these financial statements do not include the effect of the transfer pricing implications, if any.

36. SEGMENT REPORTING

In accordance with Ind AS 108 - 'Operating segments', segment information has been given in the consolidated financial statements of the Company and therefore no separate disclosure on segment information is given in these standalone financial statements.

37. CONTINGENT LIABILITIES AND COMMITMENTS

	31 March 2017	31 March 2016
a) Commitments		
Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances)	619	385
During the year, the Company has agreed to provide necessary financial support for the continuing operations of its subsidiaries as to enable them to meet their liabilities as they fall due and carry on its business over the next 12 months from the balance sheet date.		
b) Contingent liabilities		
Disputed sales tax liabilities	9	9
Disputed service tax liabilities	2	2
Disputed customs liability	2	2
Claims not acknowledged as debt	-	6

- (c) The Company is contesting certain patent infringement cases filed against it by the innovators. A few of these cases pertain to products already launched by the Company in the market. These cases are pending before different authorities / courts within the Indian jurisdiction and the outcome cannot be ascertained with reasonable certainty. Accordingly, a reliable estimate of the liability towards damages/penalties, if any, cannot be made at present. These amounts will be recognised during the periods in which such liabilities can be reasonably measured. Further, the management does not expect such liabilities to be significant.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH, 2017

(All amounts in ₹ millions, except share data and where otherwise stated)

38. AMOUNTS INCURRED ON RESEARCH AND DEVELOPMENT EXPENSES

	31 March 2017	31 March 2016
Salaries and wages	271	215
Consumption of materials, spares	228	171
Power and fuel	19	15
Other research and development expenses	392	151
Capital equipments	306	151
	1,216	703

The aforementioned expenditure, other than capital equipments, are included under the respective heads of the Statement of Profit and Loss.

39. During the year ended 31 March 2016, the Company made a Qualified Institutional Placement ('QIP') and allotted 8,000,000 equity shares (post split) on 18 September 2015 of face value of ₹2 each (post split) at a premium of ₹424.11 per equity share (post split), pursuant to clause 49 of the erstwhile listing agreement with the stock exchanges, for the purposes of capital expenditure and long-term working and capital requirements, expenses for exploring acquisition opportunities and general corporate requirements of the Company.

Details of Utilisation :

	31 March 2017	31 March 2016
Amounts raised in QIP	-	3,408
Unutilised amount at the beginning of the year	900	
Amount utilised during the year:		
QIP expenses (gross of tax)	-	64
Utilised for the purposes mentioned above	900	2,444
Unutilised amount as at the end of the year	-	900

Details of short-term investment made from unutilised portion of QIP raise

	31 March 2017	31 March 2016
Investment in Non-convertible debentures	-	200
Term deposit with		
Banks	-	300
Financial institutions	-	400
	-	900

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH, 2017

(All amounts in ₹ millions, except share data and where otherwise stated)

40. AMALGAMATION OF NATCO ORGANICS LIMITED

(a) NATCO Organics Limited ("NOL"), a wholly owned subsidiary of the Company, amalgamated with the Company, with effect from 1 April 2015 ("the appointed date"). NOL was engaged in the business of manufacturing and selling of bulk drugs in domestic markets. The amalgamation was pursuant to a composite scheme of amalgamation sanctioned by the Honourable High Court of Judicature at Madras vide their Order dated 28 April 2016. Pursuant thereto all the assets and properties, both movable and immovable, rights, title and interests, secured and unsecured debts, borrowings, and all other duties, debts, liabilities, undertakings and obligations of NATCO Organics Limited, have been transferred to and vested in the Company retrospectively with effect from 1 April 2015. The amalgamation has been accounted for under the 'pooling of interests' method as prescribed by the Indian Accounting Standard 103 (Ind AS 103) - "Business Combinations" specified under Section 133 of the Act read with Rule 7 of the Companies (Accounts) Rules, 2014. Accordingly, the assets, liabilities and reserves of NATCO Organics Limited as at 1 April 2015 have been taken over at their book values and in the same form.

(b) Since NOL was wholly owned by the Company, no shares were exchanged to effect the amalgamation.

Accordingly, the amalgamation has resulted in transfer of assets, liabilities and reserves in accordance with the terms of the Scheme at the following summarised values:

	As at 1 April 2015
ASSETS	
Fixed assets (net)	1,212
Cash and bank balances	12
Inventories	107
Loans and advances and other assets	54
Less: Liabilities	
Trade payables, other liabilities and provisions	(82)
	1,303
Less:	
Adjustment for cancellation of the Company's investment	797
Adjustment for cancellation of advances given by the Company to NATCO Organics Limited	866
Transfer of balances of deficit in the Statement of Profit and Loss of NOL	(360)
	-

41. DISCLOSURE ON SPECIFIED BANK NOTES (SBNS)

During the year, the Company had specified bank notes (SBNs) and other denomination notes as defined in the MCA notification G.S.R. 308(E) dated 31 March, 2017. The details of SBNS held and transacted during the period from 8 November 2016 to 30 December 2016 is as follows:

Particulars	SBNS	Other denomination notes	Total
Closing cash in hand as on 8 November 2016	33	9	42
(+) Permitted receipts	-	4	4
(-) Permitted payments	-	10	10
(-) Amounts deposited in banks	33	0	33
Closing cash in hand as on 30 December 2016	-	3	3

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH, 2017

(All amounts in ₹ millions, except share data and where otherwise stated)

42. FIRST TIME ADOPTION OF IND AS

These are the Company's first financial statements prepared in accordance with Ind AS.

The accounting policies set out in note 4 have been applied in preparing the financial statements for the year ended 31 March 2017, the comparative information presented in these financial statements for the year ended 31 March 2016 and in the preparation of an opening Ind AS balance sheet at 1 April 2015 (the Company's date of transition). An explanation of how the transition from previous GAAP to Ind AS has affected the Company's financial position, financial performance and cash flows is set out in the following tables and notes.

A Ind AS optional exemptions

A1 Deemed cost for property, plant and equipment and intangible assets

Ind AS 101 permits a first-time adopter to elect to continue with the carrying value for all of its property, plant and equipment as recognised in the financial statements as at the date of transition to Ind AS, measured as per the previous GAAP and use that as its deemed cost as at the date of transition after making necessary adjustments for de-commissioning liabilities. This exemption can also be used for intangible assets covered by Ind AS 38 Intangible Assets. Accordingly, the Company has elected to measure all of its property, plant and equipment and intangible assets at their previous GAAP carrying value.

A2 Designation of previously recognised financial instruments

Ind AS 101 allows an entity to designate investments in equity instruments at FVOCI on the basis of the facts and circumstances at the date of transition to Ind AS. The Company has elected to apply this exemption for its investment in equity investments.

B Ind AS mandatory exemptions

B1 Estimates

An entity's estimates in accordance with Ind AS at the date of transition to Ind AS shall be consistent with estimates made for the same date in accordance with previous GAAP (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error.

Ind AS estimates as at 1 April 2015 are consistent with the estimates as at the same date made in conformity with previous GAAP. The Company made estimates for following items in accordance with Ind AS at the date of transition as these were not required under previous GAAP:

- a) Investment in equity instruments carried at FVTPL or FVOCI
- b) Impairment of financial assets based on expected credit loss model.

B2 Classification and measurement of financial assets and liabilities

The classification and measurement of financial assets will be made considering whether the conditions as per Ind AS 109 are met based on facts and circumstances existing at the date of transition.

Financial assets can be measured using effective interest method by assessing its contractual cash flow characteristics only on the basis of facts and circumstances existing at the date of transition and if it is impracticable to assess elements of modified time value of money i.e. the use of effective interest method, fair value of financial asset at the date of transition shall be the new carrying amount of that asset. The measurement exemption applies for financial liabilities as well.

Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so. It is impracticable to apply the changes retrospectively if:

- a) The effects of the retrospective application or retrospective restatement are not determinable;
- b) The retrospective application or restatement requires assumptions about what management's intent would have been in that period;

The retrospective application or retrospective restatement requires significant estimates of amounts and it is impossible to distinguish objectively information about those estimates that existed at that time.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH, 2017

(All amounts in ₹ millions, except share data and where otherwise stated)

42. FIRST TIME ADOPTION OF IND AS (CONTINUED)

B3 De-recognition of financial assets and liabilities

Ind AS 101 requires a first-time adopter to apply the de-recognition provisions of Ind AS 109 prospectively for transactions occurring on or after the date of transition to Ind AS. However, Ind AS 101 allows a first-time adopter to apply the de-recognition requirements in Ind AS 109 retrospectively from a date of the entity's choosing, provided that the information needed to apply Ind AS 109 to financial assets and financial liabilities derecognised as a result of past transactions was obtained at the time of initially accounting for those transactions.

The Company has elected to apply the de-recognition provisions of Ind AS 109 prospectively from the date of transition to Ind AS.

C Reconciliations between previous GAAP and Ind AS

Equity at the date of transition to Ind AS i.e. 1 April 2015 and 31 March 2016 can be reconciled with the amounts reported under Indian GAAP as follows:

		As at 31 March 2016			As at 1 April 2015		
	Notes	As per IGAAP*	Adjustments	As per Ind AS	As per IGAAP*	Adjustments	As per Ind AS
ASSETS							
Non-current assets							
(a) Property, plant and equipment		7,003	-	7,003	5,680	-	5,680
(b) Capital work-in-progress		2,119	-	2,119	1,008	-	1,008
(c) Other intangible assets		53	-	53	47	-	47
(d) Financial assets							
Investments	i.	717	-	717	1,312	11	1,323
Loans		-	-	-	864	-	864
Other financial assets		105	-	105	79	-	79
(e) Other non-current assets		521	-	521	474	-	474
		10,518	-	10,518	9,464	11	9,475
CURRENT ASSETS							
(a) Inventories		3,519	-	3,519	1,982	-	1,982
(b) Financial Assets							
Investments	i.	210	11	221	1	6	7
Trade receivables		2,558	-	2,558	1,890	-	1,890
Cash and cash equivalents		192	-	192	63	-	63
Other bank balances		210	-	210	9	-	9
Loans		28	-	28	28	-	28
Other financial assets		480	-	480	1	-	1
(c) Income tax assets (net)		34	-	34	43	-	43
(d) Other current assets		667	-	667	467	-	467
		7,898	11	7,909	4,484	6	4,490
Total assets		18,416	11	18,427	13,948	17	13,965

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH, 2017

(All amounts in ₹ millions, except share data and where otherwise stated)

42. FIRST TIME ADOPTION OF IND AS (CONTINUED)

C. Reconciliations between previous GAAP and Ind AS (continued)

Notes	As at 31 March 2016			As at 1 April 2015		
	As per IGAAP*	Adjustments	As per Ind AS	As per IGAAP*	Adjustments	As per Ind AS
EQUITY AND LIABILITIES						
Equity						
(a) Equity share capital	348	-	348	332	-	332
(b) Other equity i.	13,007	8	13,015	8,458	20	8,478
Total of Equity	13,355	8	13,363	8,790	20	8,810
LIABILITIES						
Non-current liabilities						
(a) Financial liabilities						
Borrowings	-	-	-	963	-	963
Other financial liabilities	8	-	8	8	-	8
(b) Employee benefit obligations	125	-	125	92	-	92
(c) Deferred tax liabilities (net)	143	3	146	112	(3)	109
(d) Other non-current liabilities	-	-	-	-	-	-
	276	3	279	1,175	(3)	1,172
Current liabilities						
(a) Financial liabilities						
Borrowings	960	-	960	1,764	-	1,764
Trade payables	2,701	-	2,701	1,153	-	1,153
Other financial liabilities	782	-	782	809	-	809
(b) Other current liabilities	327	-	327	246	-	246
(c) Employee benefit obligations	15	-	15	11	-	11
	4,785	-	4,785	3,983	-	3,983
Total equity and liabilities	18,416	11	18,427	13,948	17	13,965

*The IGAAP figures have been reclassified to confirm to Ind AS presentation requirements for the purposes of this note.

Total effect on retained earnings and equity is further analysed as follows:

	Notes to first time adoption	31 March 2016	1 April 2015
Total equity (shareholder's funds) as per previous GAAP		13,355	8,790
Adjustments:			
Fair valuation of investment classified as FVTOCI i.		11	6
Fair valuation of investment classified as FVTPL i.		-	11
Tax on the above adjustments		(3)	3
Total adjustments		8	20
Total equity as per Ind AS		13,363	8,810

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH, 2017

(All amounts in ₹ millions, except share data and where otherwise stated)

42. FIRST TIME ADOPTION OF IND AS (CONTINUED)

C Reconciliations between previous GAAP and Ind AS (continued)

Reconciliation of statement of profit and loss for the year ended 31 March 2016

		For the year ended 31 March 2016		
	Notes	As per IGAAP*	Adjustments	As per Ind AS
REVENUE				
Revenue from operations	ii.	10,214	378	10,592
Other income	i.	140	(11)	129
Total revenues		10,354	367	10,721
EXPENSES				
Cost of materials consumed		3,037	-	3,037
Purchases of stock-in-trade		4	-	4
Changes in inventories of finished goods, Stock-in -Trade and work-in-progress		(478)	-	(478)
Employee benefits expense	iii.	1,750	(31)	1,719
Finance costs		219	-	219
Depreciation and amortisation expense		502	-	502
Other expenses		3,125	378	3,503
Total expenses		8,159	347	8,506
Profit before tax		2,195	20	2,215
Tax expense				
Current tax		448	-	448
Deferred tax		2	-	2
Profit for the year		1,745	20	1,765
OTHER COMPREHENSIVE INCOME				
Items that will not be reclassified to profit or loss				
Re-measurement gains (losses) on defined benefit plans	iii.	-	(31)	(31)
Net (loss)/gain on FVTOCI equity securities	i.	-	6	6
Income tax relating to items that will not be reclassified to profit or loss				
Re-measurement gains (losses) on defined benefit plans	iv.	-	(7)	(7)
Net (loss)/gain on FVTOCI equity securities	iv.	-	1	1
Total comprehensive income for the year		1,745	(11)	1,734

*The IGAAP figures have been reclassified to confirm to Ind AS presentation requirements for the purposes of this note.

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31ST MARCH, 2017

(All amounts in ₹ millions, except share data and where otherwise stated)

42. FIRST TIME ADOPTION OF IND AS (CONTINUED)

C Reconciliations between previous GAAP and Ind AS (continued)

NOTES TO THE RECONCILIATIONS

i. Investments

Under the previous GAAP, investments in equity instruments and mutual funds were classified as long-term investments or current investments based on the intended holding and realisability. Long-term investments were carried at cost less provision for other than temporary decline in the value of such investments. Current Investments were carried at lower of cost or fair value. Under Ind AS, these investments are required to be measured at fair value. The resulting fair value changes of these investments (other than equity instruments designated as at FVOCI) have been recognised in retained earnings as at the date of transition and subsequently in the profit or loss for the year ended 31 March 2016. This increased the retained earnings by ₹11 as at 31 March 2016 (1 April 2015: ₹11).

Fair value changes with respect to investments in equity instruments designated as at FVOCI have been recognized in FVOCI - Equity investments reserve as at the date of transition and subsequently in the other comprehensive income for the year ended 31 March 2016. This increased other reserves by ₹17 as at 31 March 2016 (1 April 2015: ₹6).

Consequent to the above, the total equity as at 31 March 2016 increased by ₹28 (1 April 2015: ₹17) and profit and other comprehensive income for the year ended 31 March 2016 increased/(decreased) by (₹11) and ₹5 respectively.

ii. Revenue from operations

Under Indian GAAP, sale of goods was presented as net of excise duty. However, under Ind AS, sale of goods includes excise duty. Excise duty on sale of goods is separately presented in the face of statement of profit and loss. Thus sale of goods under Ind AS has increased by ₹378 with a corresponding increase in expense.

iii. Remeasurement of post-employment benefit obligations

Under Ind AS, remeasurements i.e. actuarial gains and losses and the return on plan assets, excluding amounts included in the net interest expense on the net defined benefit liability are recognised in other comprehensive income instead of profit or loss. Under the previous GAAP, these remeasurements were forming part of the profit or loss for the year. As a result of this change, the profit for the year ended 31 March 2016 decreased by ₹31. There is no impact on the total equity as at 31 March 2016.

iv. Deferred tax

Deferred tax have been recognised on the adjustments made on transition to Ind AS.

v. Retained earnings

Retained earnings as at April 1, 2015 has been adjusted consequent to the above Ind AS transition adjustments.

vi. Other comprehensive income

Under Ind AS, all items of income and expense recognised in a period should be included in profit or loss for the period, unless a standard requires or permits otherwise. Items of income and expense that are not recognised in profit or loss but are shown in the statement of profit and loss as 'other comprehensive income' includes re-measurements of defined benefit plans, foreign exchange differences arising on translation of foreign operations and fair value gains or (losses) on FVOCI equity instruments. The concept of other comprehensive income did not exist under previous GAAP.

For **Walker Chandiok & Co LLP**

Chartered Accountants

Firm Registration No.: 001076N/N500013

per **Adi P. Sethna**

Partner

Membership No. 108840

Place: Hyderabad

Date: 30 May 2017

For and on behalf of the Board of Directors

NATCO Pharma Limited

V. C. Nannapaneni

Chairman & Managing Director

(DIN: 00183315)

M. Adinarayana

Company Secretary & Vice President

(Legal & Corporate Affairs)

Place: Hyderabad

Date: 30 May 2017

Rajeev Nannapaneni

Vice Chairman & CEO

(DIN: 00183872)

S. V. V. N. Appa Rao

Chief Financial Officer

INDEPENDENT AUDITOR'S REPORT

To the Members
of NATCO Pharma Limited

REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

1. We have audited the accompanying consolidated financial statements of NATCO Pharma Limited ('the Company') and its subsidiaries (the Company and its subsidiaries together referred to as 'the Group'), which comprise the Consolidated Balance Sheet as at 31 March 2017, the Consolidated Statement of Profit and Loss (including Other Comprehensive Income), the Consolidated Cash Flow Statement and the Consolidated Statement of Changes in Equity for the year then ended, and a summary of the significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

2. The Company's Board of Directors is responsible for the preparation of these consolidated financial statements in terms of the requirements of the Companies Act, 2013 ('the Act') that give a true and fair view of the consolidated state of affairs (consolidated financial position), consolidated profit or loss (consolidated financial performance including other comprehensive income), consolidated cash flows and consolidated changes in equity of the Group in accordance with the accounting principles generally accepted in India, including the Indian Accounting Standards (Ind AS) specified under Section 133 of the Act. The Company's Board of Directors and the respective Board of Directors/management of the subsidiaries included in the Group, are responsible for the design, implementation and maintenance of internal control relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error. Further, in terms of the provisions of the Act, the respective Board of Directors/management of the companies included in the Group, covered under the Act are responsible for maintenance of adequate accounting records in accordance with

the provisions of the Act for safeguarding the assets and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgements and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error. These financial statements have been used for the purpose of preparation of the consolidated financial statements by the Directors of the Company, as aforesaid.

AUDITOR'S RESPONSIBILITY

3. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.
4. While conducting the audit, we have taken into account the provisions of the Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of the Act and the Rules made thereunder.
5. We conducted our audit in accordance with the Standards on Auditing specified under Section 143(10) of the Act. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether these consolidated financial statements are free from material misstatement.
6. An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments,

the auditor considers internal financial controls relevant to the Company's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by the Company's Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

7. We believe that the audit evidence obtained by us and the audit evidence obtained by the other auditors in terms of their reports referred to in paragraph 9 under the Other Matters paragraph below, is sufficient and appropriate to provide a basis for our audit opinion on these consolidated financial statements.

OPINION

8. In our opinion and to the best of our information and according to the explanations given to us and based on the consideration of the reports of the other auditors on separate financial statements and on the other financial information of the subsidiaries, the aforesaid consolidated financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the consolidated state of affairs (consolidated financial position) of the Group, as at 31 March 2017, and their consolidated profit (consolidated financial performance including other comprehensive income), their consolidated cash flows and consolidated changes in equity for the year ended on that date.

OTHER MATTERS

9. We did not audit the financial statements of six subsidiaries, whose financial statements reflect total assets of ₹ 862 million and net assets of ₹ 550 million as at 31 March 2017, total revenues of ₹ 719 million and net cash inflows amounting to ₹ 47 million for the year ended on that date, as considered in the consolidated financial statements. These financial statements have been audited by other auditors whose reports have been furnished to us by the management and our

opinion on the consolidated financial statements, in so far as it relates to the amounts and disclosures included in respect of these subsidiaries, and our report in terms of sub-section (3) of Section 143 of the Act, in so far as it relates to the aforesaid subsidiaries, is based solely on the reports of the other auditors.

Further, all subsidiaries are located outside India and their financial statements and other financial information have been prepared in accordance with accounting principles generally accepted in their respective countries and which have been audited by other auditors under generally accepted auditing standards applicable in their respective countries. The Company's management has converted the financial statements of such subsidiaries located outside India from accounting principles generally accepted in their respective countries to accounting principles generally accepted in India. We have audited these conversion adjustments made by the Company's management.

Our opinion in so far as it relates to the balances and affairs of such subsidiaries located outside India is based on the report of other auditors and the conversion adjustments prepared by the management of the Company and audited by us.

10. The Company had prepared separate sets of consolidated financial statements for the year ended 31 March 2016 and 1 April 2015 in accordance with Accounting Standards prescribed under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014 (as amended) on which we issued auditor's reports dated 26 May 2016 and 22 May 2015 respectively. These separate sets of consolidated financial statements have been adjusted for the differences in the accounting principles adopted by the Company on transition to Ind AS, which have also been audited by us. Our opinion is not modified in respect of this matter.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

11. As required by Section 143(3) of the Act, based on our audit and on the consideration of the reports of the other auditors on separate financial

statements and other financial information of the subsidiaries, we report, to the extent applicable, that:

- a) we have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit of the aforesaid consolidated financial statements;
- b) in our opinion, proper books of account as required by law relating to preparation of the aforesaid consolidated financial statements have been kept so far as it appears from our examination of those books and the reports of the other auditors,
- c) the consolidated financial statements dealt with by this report are in agreement with the relevant books of account maintained for the purpose of preparation of the consolidated financial statements;
- d) in our opinion, the aforesaid consolidated financial statements comply with Ind AS specified under Section 133 of the Act;
- e) on the basis of the written representations received from the directors of the Company and taken on record by the Board of Directors of the Company, none of the directors of the Company, covered under the Act, are disqualified as on 31 March 2017 from being appointed as a director in terms of Section 164(2) of the Act;
- f) with respect to the adequacy of the internal financial controls over financial reporting of the Company and the operating effectiveness of such controls, refer to our separate report in Annexure A; and
- g) with respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditor's) Rules, 2014 (as amended), in our opinion and to the best of our information

and according to the explanations given to us and based on the consideration of the report of the other auditors on separate financial statements as also the other financial information of the subsidiaries:

- (i) the consolidated financial statements disclose the impact of pending litigations on the consolidated financial position of the Group as detailed in note 37 to the consolidated financial statements.
- (ii) the Group did not have any long-term contracts including derivative contracts for which there were any material foreseeable losses;
- (iii) there has been no delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Company; and
- (iv) the Group, as detailed in note 43 to the consolidated financial statements, has made requisite disclosures in these consolidated financial statements as to holdings as well as dealings in Specified Bank Notes during the period from 8 November 2016 to 30 December 2016. Based on the audit procedures performed and taking into consideration the information and explanations given to us, in our opinion, these are in accordance with the books of account maintained by the Group.

For **Walker Chandiok & Co LLP**

Chartered Accountants

Firm's Registration No.: 001076N/N500013

per **Adi P Sethna**

Partner

Membership No.: 108840

Place: Hyderabad

Date: 30 May 2017

ANNEXURE A TO THE INDEPENDENT AUDITOR'S REPORT OF EVEN DATE TO THE MEMBERS OF NATCO PHARMA LIMITED, ON THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2017

Independent Auditor's report on the Internal Financial Controls under Section 143(3)(i) of the Companies Act, 2013 ("the Act")

1. In conjunction with our audit of the consolidated financial statements of NATCO Pharma Limited ("the Company") and its subsidiaries, (the Company and its foreign subsidiaries together referred to as "the Group"), as of and for the year ended 31 March 2017, we have audited the internal financial controls over financial reporting (IFCoFR) of the Company as of that date.

MANAGEMENT'S RESPONSIBILITY FOR INTERNAL FINANCIAL CONTROLS

2. The Company's Board of Directors are responsible for establishing and maintaining internal financial controls based on the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note on Audit of Internal Financial Controls over Financial Reporting issued by the Institute of Chartered Accountants of India (the 'Guidance Note'). These responsibilities include the design, implementation and maintenance of adequate internal financial controls that were operating effectively for ensuring the orderly and efficient conduct of the Company's business, including adherence to company's policies, the safeguarding of its assets, the prevention and detection of frauds and errors, the accuracy and completeness of the accounting records, and the timely preparation of reliable financial information, as required under the Act.

AUDITOR'S RESPONSIBILITY

3. Our responsibility is to express an opinion on the Company's IFCoFR based on our audit. We conducted our audit in accordance with the Standards on Auditing, issued by the Institute of Chartered Accountants of India (ICAI) and deemed to be prescribed under section 143(10) of the Act, to the extent applicable to an audit of IFCoFR and the Guidance Note. Those Standards

and the Guidance Note require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether adequate IFCoFR were established and maintained and if such controls operated effectively in all material respects.

4. Our audit involves performing procedures to obtain audit evidence about the adequacy of the IFCoFR and their operating effectiveness. Our audit of IFCoFR included obtaining an understanding of IFCoFR, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.
5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the Company's IFCoFR.

MEANING OF INTERNAL FINANCIAL CONTROLS OVER FINANCIAL REPORTING

6. A company's IFCoFR is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles. A company's IFCoFR includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance

with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

INHERENT LIMITATIONS OF INTERNAL FINANCIAL CONTROLS OVER FINANCIAL REPORTING

7. Because of the inherent limitations of IFCoFR, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the IFCoFR to future periods are subject to the risk that the IFCoFR may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

OPINION

8. In our opinion, the Company has, in all material respects, adequate internal financial controls over financial reporting and such internal financial controls over financial reporting were operating effectively as at 31 March 2017, based on the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note.

For **Walker Chandiok & Co LLP**

Chartered Accountants

Firm's Registration No.: 001076N/N500013

per **Adi P Sethna**

Partner

Membership No.: 108840

Place: Hyderabad

Date: 30 May 2017

CONSOLIDATED BALANCE SHEET

AS AT 31 MARCH 2017

(All amounts in ₹ millions, except share data and where otherwise stated)

	Notes	31 March 2017	31 March 2016	1 April 2015
ASSETS				
Non-current assets				
(a). Property, plant and equipment	6	8,272	7,046	6,640
(b). Capital work-in-progress		3,363	2,118	1,290
(c). Other intangible assets	7	58	55	424
(d). Financial assets				
Investments	8	1	1	27
Other financial assets	10	131	106	79
(e). Other non-current assets	11	478	521	484
		12,303	9,847	8,944
Current assets				
(a). Inventories	12	3,489	3,573	2,200
(b). Financial Assets				
Investments	8	321	221	7
Trade receivables	13	4,752	2,616	1,924
Cash and cash equivalents	14	235	242	124
Other bank balances		123	210	9
Loans	9	35	28	26
Other financial assets	10	752	770	30
(c). Income tax assets (net)		-	34	43
(d). Other current assets	11	1,166	676	515
		10,873	8,370	4,878
Total assets		23,176	18,217	13,822
EQUITY AND LIABILITIES				
Equity				
(a). Equity share capital	15	349	348	332
(b). Other equity	16	16,144	12,609	8,114
Equity attributable to owners		16,493	12,957	8,446
Non-controlling interest		41	49	50
Total of Equity		16,534	13,006	8,496
LIABILITIES				
Non-current liabilities				
(a). Financial liabilities				
Borrowings	17	-	-	970
Other financial liabilities	18	8	8	8
(b). Provision for employee benefits	19	219	125	92
(c). Deferred tax liabilities (net)	20	150	147	116
(d). Other non-current liabilities	21	-	-	-
		377	280	1,186
Current liabilities				
(a). Financial liabilities				
Borrowings	17	2,216	984	1,765
Trade payables	22	2,627	2,756	1,253
Other financial liabilities	18	1,014	815	859
(b). Other current liabilities	21	257	327	250
(c). Provision for employee benefits	19	18	15	11
(d). Current tax liabilities, net		133	34	2
		6,265	4,931	4,140
Total equity and liabilities		23,176	18,217	13,822

The accompanying notes form an integral part of the financial statements.

This is the Balance Sheet referred to in our report of even date.

For **Walker Chandiok & Co LLP**

Chartered Accountants

Firm Registration No.: 001076N/N500013

per **Adi P. Sethna**

Partner

Membership No. 108840

Place: Hyderabad

Date: 30 May 2017

For and on behalf of the Board of Directors

NATCO Pharma Limited

V. C. Nannapaneni

Chairman & Managing Director

(DIN: 00183315)

M. Adinarayana

Company Secretary & Vice President

(Legal & Corporate Affairs)

Place: Hyderabad

Date: 30 May 2017

Rajeev Nannapaneni

Vice Chairman & CEO

(DIN: 00183872)

S. V. V. N. Appa Rao

Chief Financial Officer

CONSOLIDATED STATEMENT OF PROFIT AND LOSS

FOR THE YEAR ENDED 31 MARCH 2017

(All amounts in ₹ millions, except share data and where otherwise stated)

	Notes	31 March 2017	31 March 2016
REVENUE			
Revenue from operations	23	20,650	10,801
Other income	24	139	96
Total revenues		20,789	10,897
EXPENSES			
Cost of materials consumed	25	5,208	3,037
Purchases of stock-in-trade		971	152
Changes in inventories of finished goods, stock-in-trade and work-in-progress	26	(188)	(483)
Employee benefits expense	27	2,432	1,798
Finance costs	28	185	229
Depreciation and amortisation expense	6 & 7	544	508
Other expenses	29	5,393	3,641
Total expenses		14,545	8,882
PROFIT BEFORE TAX		6,244	2,015
Tax expense	30		
Current tax		1,354	441
Deferred tax		1	38
Tax for earlier years		40	-
Profit from continuing operation		4,849	1,536
Profit from discontinued operations		-	71
Tax expense on discontinued operations		-	49
Profit from discontinued operations, net of tax		-	22
Profit after tax		4,849	1,558
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified to profit or loss			
Re-measurement gains (losses) on defined benefit plans		(41)	(31)
Net (loss)/gain on FVTOCI equity securities		23	6
Exchange differences on translation of foreign operations		(12)	(18)
Income tax relating to items that will not be reclassified to profit or loss			
Re-measurement gains (losses) on defined benefit plans		(9)	(7)
Net (loss)/gain on FVTOCI equity securities		5	1
Total comprehensive income for the year		4,815	1,509
PROFIT FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the parent		4,860	1,571
Non-controlling interests		(11)	(13)
Total comprehensive income for the year attributable to:			
Owners of the parent		4,826	1,522
Non-controlling interests		(11)	(13)
Basic earnings per equity share (₹) (of nominal value ₹2 each)	31		
From continued and discontinued operations		27.78	9.14
From continued operations		27.78	9.01
Diluted earnings per equity share (₹) (of nominal value ₹2 each)			
From continued and discontinued operations		27.75	9.11
From continued operations		27.75	8.98

The accompanying notes form an integral part of the financial statements.

This is the Statement of Profit and Loss referred to in our report of even date.

For **Walker Chandio & Co LLP**

Chartered Accountants

Firm Registration No.: 001076N/N500013

per **Adi P. Sethna**

Partner

Membership No. 108840

Place: Hyderabad

Date: 30 May 2017

For and on behalf of the Board of Directors

NATCO Pharma Limited**V. C. Nannapaneni**

Chairman & Managing Director

(DIN: 00183315)

M. AdinarayanaCompany Secretary & Vice President
(Legal & Corporate Affairs)

Place: Hyderabad

Date: 30 May 2017

Rajeev Nannapaneni

Vice Chairman & CEO

(DIN: 00183872)

S. V. V. N. Appa Rao

Chief Financial Officer

(All amounts in ₹ millions, except share data and where otherwise stated)

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(All amounts in ₹ millions, except share data and where otherwise stated)

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2017

(All amounts in ₹ millions, except share data and where otherwise stated)

	31 March 2017	31 March 2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax		
- Continuing operations	6,244	2,015
- Discontinued operations	-	71
ADJUSTMENTS :		
Depreciation and amortisation expense	544	510
Finance cost	163	229
Employee share-based payment expense	123	97
Interest income	(81)	(53)
Income from insurance claims	-	(25)
Bad debts written - off	239	96
Assets written - off	24	49
(Gain)/loss on sale of asset	-	2
Unrealised foreign exchange loss/(gain), net	(12)	-
Operating profit before working capital changes	7,244	2,991
Increase/(decrease) in trade payables	(129)	1,502
Increase in employee benefit obligations	47	21
Increase in other financial liabilities	162	70
Increase/(decrease) in other liabilities	(69)	60
(Increase)/decrease in other financial assets	286	(734)
(Increase) in loans	(7)	(2)
(Increase) in other assets	(528)	(150)
(Increase)/decrease in inventories	84	(1,386)
(Increase) in trade receivables	(2,374)	(788)
Cash generated from operating activities	4,716	1,584
Income taxes paid	(1,258)	(462)
Net cash generated from operating activities A	3,458	1,122
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(2,792)	(1,574)
Proceeds from sale of property, plant and equipment	0	11
Purchase of intangible assets	(3)	180
Payments for purchase of investments	(286)	(208)
Proceeds from sale of investments	214	26
Increase in other bank balances	(113)	(209)

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2017

(All amounts in ₹ millions, except share data and where otherwise stated)

		31 March 2017	31 March 2016
Interest received		80	19
Deposits with financial institutions		(293)	-
Withdrawal of fixed deposits		199	-
Net cash used in investing activities	B	(2,994)	(1,755)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		-	3,344
Repayment of non-current borrowings		(142)	(1,291)
Movement in minority interest		3	12
(Repayments)/proceeds from current borrowings, net		-	-
Dividends paid to Company's shareholders and tax thereon		(1,409)	(261)
Interest paid		(161)	(264)
Net cash (used in)/from financing activities	C	(1,709)	1,540
Effect of currency translation adjustment	D	6	(8)
Net increase/(decrease) in cash and cash equivalents (A+B+C+D)		(1,239)	899
Cash and cash equivalents as at the beginning of the year		(742)	(1,641)
Cash and cash equivalents as at the end of the year [Refer Note 1]		(1,981)	(742)
Note 1:			
Cash and cash equivalents includes:			
Cash and bank balances (Note 14)		235	242
Working capital loans (Note 17)		(2,216)	(984)
		(1,981)	(742)

This is the Cash Flow Statement referred to in our report of even date.

For **Walker Chandiok & Co LLP**
Chartered Accountants
Firm Registration No.: 001076N/N500013

per **Adi P. Sethna**
Partner
Membership No. 108840

Place: Hyderabad
Date: 30 May 2017

For and on behalf of the Board of Directors
NATCO Pharma Limited

V. C. Nannapaneni
Chairman & Managing Director
(DIN: 00183315)
M. Adinarayana
Company Secretary & Vice President
(Legal & Corporate Affairs)
Place: Hyderabad
Date: 30 May 2017

Rajeev Nannapaneni
Vice Chairman & CEO
(DIN: 00183872)
S. V. V. N. Appa Rao
Chief Financial Officer

NOTES TO FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION FOR THE YEAR ENDED 31ST MARCH, 2017

1. GENERAL INFORMATION

NATCO Pharma Limited ("the Company" or "the Parent") is a public limited company domiciled and incorporated in India in accordance with the provisions of the Companies Act, 1956. The registered office of the Company is at NATCO House, Road No. 2, Banjara Hills, Hyderabad - 500034. The equity shares of the Company are listed on the National Stock Exchange and Bombay Stock Exchange.

The Company along with its subsidiaries ("the Group") is engaged in the business of pharmaceuticals which comprises research and development, manufacturing and selling of bulk drugs and finished dosage formulations. The Group has manufacturing facilities in India which caters to both domestic and international markets including regulated markets like United States of America and Europe.

These consolidated financial statements for the year ended 31 March 2017 were authorized and approved for issue by the Board of Directors on 30 May 2017.

2. BASIS OF PREPARATION

(i) Compliance with Ind AS

The consolidated financial statements of the Group have been prepared in accordance with the Indian Accounting Standards as notified under section 133 of the Companies Act 2013 ("the Act") read with the Companies (Indian Accounting Standards) Rules 2015 issued by Ministry of Corporate Affairs ('MCA'). The Group has uniformly applied the accounting policies during the periods presented.

For all periods up to and including the year ended 31 March 2016, the Group has prepared its consolidated financial statements in accordance with accounting standards notified under the section 133 of the Act, read together with paragraph 7 of the Companies

(Accounts) Rules, 2014 (Previous GAAP). These consolidated financial statements for the year ended 31 March 2017 are the first which the Group has prepared in accordance with Ind AS (see note 42 for explanation for transition to Ind AS). For the purpose of comparatives, consolidated financial statements for the year ended 31 March 2016 are also prepared under Ind AS.

Transactions and balances with values below the rounding off norm adopted by the Group have been reflected as "0" in the relevant notes in these consolidated financial statements.

The consolidated financial statements have been prepared on going concern basis under the historical cost basis except for the following -

- Certain financial assets and liabilities which are measured at fair value;
- Share based payments which are measured at fair value of the options; and
- Contingent consideration

(ii) Principles of consolidation

a. Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the relevant activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

NOTES TO FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION FOR THE YEAR ENDED 31ST MARCH, 2017

b. Change in ownership interests

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised within equity.

c. Interest in other entities

The following subsidiaries have been considered for the purpose of preparation of the consolidated financial statements:

Name of the subsidiaries	Country of Incorporation	Percentage holding/ interest (%)		
		As at 31 March		
		2017	2016	2015
NATCO Pharma, Inc.,	United States of America	100.00	100.00	100.00
Time Cap Overseas Limited	Mauritius	89.43	87.73	83.78
NATCO Farma Do Brazil	Brazil	86.91	84.69	79.47
NATCO Organics Limited ("NOL")	India	-	-	100.00
NATCO Pharma (Canada), Inc.	Canada	99.71	99.68	99.34
Natco Pharma Asia Pte. Ltd.	Singapore	100.00	100.00	100.00
NATCO Pharma Australia PTY Ltd.	Australia	93.76	80.00	80.00

Note 1: Interest in NATCO Farma Do Brazil represent effective holding of the Company.

Note 2: NOL has been amalgamated with the Company effective 1 April 2015. Refer note 40.

Note 3: Principal activity of all subsidiaries except Time Cap Overseas Limited is marketing of pharmaceutical products. Time Cap Overseas Limited is an intermediate investment holding company.

3. STANDARDS, NOT YET EFFECTIVE AND HAVE NOT BEEN ADOPTED EARLY BY THE GROUP

Information on new standards, amendments and interpretations that are expected to be relevant to the consolidated financial statements is provided below.

Ind AS 115 'Revenue from Contracts with Customers' (Ind AS 115)

There is one new standard notified by MCA (not yet effective) for revenue recognition which overhauls the existing revenue recognition standards including Ind AS 18 - Revenue and Ind AS 11 - Construction contracts. The new standard provides a control-based revenue recognition model and provides a five step application principle to be followed for revenue recognition:

- Identification of the contracts with the customer
- Identification of the performance obligations in the contract
- Determination of the transaction price
- Allocation of transaction price to the performance obligations in the contract (as identified in step ii)
- Recognition of revenue when the Group satisfies a performance obligation.

NOTES TO FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION FOR THE YEAR ENDED 31ST MARCH, 2017

(All amounts in ₹ millions, except share data and where otherwise stated)

The effective date of the new standard has not yet been notified by the MCA. The management is yet to assess the impact of this new standard on the Group's consolidated financial statements.

- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared using the accounting policies and measurement basis summarized below.

a. Current versus non-current classification

The Group presents assets and liabilities in the balance sheet based on current/ non-current classification.

An asset is classified as current when it is:

- Expected to be realised or intended to sold or consumed in normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is classified as current when:

- It is expected to be settled in normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within twelve months after the reporting period, or

All other liabilities are classified as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

b. Foreign currency

Functional and presentation currency

The consolidated financial statements are presented in Indian Rupee ('INR' or '₹') which is also the functional and presentation currency of the Group.

Transactions and balances

Foreign currency transactions are recorded in the functional currency, by applying to the exchange rate between the functional currency and the foreign currency at the date of the transaction.

Foreign currency monetary items are converted to functional currency using the closing rate. Non-monetary items denominated in a foreign currency which are carried at historical cost are reported using the exchange rate at the date of the transaction; and non-monetary items which are carried at fair value or any other similar valuation denominated in a foreign currency are reported using the exchange rates that existed when the values were determined.

Exchange differences arising on monetary items on settlement, or restatement as at reporting date, at rates different from those at which they were initially recorded, are recognized in the statement of profit and loss in the year in which they arise.

c. Revenue recognition

Revenue is recognised to the extent that it is

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probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duties collected on behalf of the government.

Excise duty is a liability of the Group as a manufacturer, which forms part of the cost of production, irrespective of whether the goods are sold or not. Therefore, the recovery of excise duty flows to the Group on its own account and hence revenue includes excise duty.

Sales tax/ Value Added Tax [VAT] is not received by the Group on its own account. Rather, it is tax collected on value added to the Goods by the Group on behalf of the government. Accordingly, it is excluded from revenue.

The specific recognition criteria described below must also be met before revenue is recognised.

Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods. Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, trade discounts and volume rebates.

Service Revenue

Service income is recognised as per the terms of contracts with the customers when the related services are performed or the agreed milestones are achieved and are net of service tax, wherever applicable.

Interest Income

Interest income is recognized on time proportion basis taking into account the amount outstanding and rate applicable. For all debt instruments measured at amortised cost, interest income is recorded using the effective interest rate (EIR) method.

Dividend income

Dividend income is recognised at the time when right to receive the payment is established, which is generally when the shareholders approve the dividend.

Profit sharing arrangements

Revenue from profit sharing arrangements on sale of products is recognised based on terms and conditions of arrangements with respective customers.

Licensing and long term supply arrangements:

Revenue from licensing and long term supply arrangements is recognised in the period in which the Group completes all its performance obligations.

d. Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized during the period of time that is necessary to complete and prepare the asset for its intended use or sale. A qualifying asset is one that necessarily takes substantial period of time to get ready for its intended use. All other borrowing costs are charged to the Statement of Profit and Loss as incurred.

e. Property, plant and equipment (PPE)

Recognition and initial measurement

Property, plant and equipment are stated at their cost of acquisition. The cost comprises purchase price, borrowing cost if capitalization criteria are met and directly attributable cost of bringing the asset to its

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working condition for the intended use. Any trade discount and rebates are deducted in arriving at the purchase price.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group. All other repair and maintenance costs are recognised in statement of profit or loss as incurred.

Subsequent measurement (depreciation and useful lives)

Depreciation on property, plant and equipment is provided on the straight-line method, computed on the basis of useful lives as estimated by management which coincides with rates prescribed in Schedule II to the Companies Act, 2013.

Cost of the leasehold land is amortized on a straight-line basis over the term of the lease.

The residual values, useful lives and method of depreciation of are reviewed at each financial year end and adjusted prospectively, if appropriate.

De-recognition

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement when the asset is derecognised.

Transition to Ind AS

On transition to Ind AS, the Group has elected to continue with the carrying value of all its property, plant and equipment recognised as

at 1 April 2015 measured as per the provisions of Previous GAAP and use that carrying value as the deemed cost of property, plant and equipment.

f. Intangible assets

Recognition and initial measurement

Intangible assets (software) are stated at their cost of acquisition. The cost comprises purchase price, borrowing cost if capitalization criteria are met and directly attributable cost of bringing the asset to its working condition for the intended use. Any trade discount and rebates are deducted in arriving at the purchase price.

Subsequent measurement (amortisation)

The cost of capitalized software is amortized over a period of 6 years, on a straight line basis.

Transition to Ind AS

On transition to Ind AS, the Group has elected to continue with the carrying value of all its intangible assets recognised as at 1 April 2015 measured as per the provisions of Previous GAAP and use that carrying value as the deemed cost of intangible assets.

g. Operating leases

Where the lessor effectively retains all risk and benefits of ownership of the leased items, such leases are classified as operating leases. Operating lease payments are recognised as an expense in the Statement of profit and loss on a straight line basis.

h. Impairment of non-financial assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired, based on internal or external factors. If any such indication exists, the Group estimates the recoverable amount of the asset or the cash generating unit. If such recoverable amount of the asset or cash

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generating unit to which the asset belongs is less than its carrying amount, the carrying amount is reduced to its recoverable amount. The reduction is treated as an impairment loss and is recognized in the statement of profit and loss. If, at the reporting date there is an indication that a previously assessed impairment loss no longer exists, the recoverable amount is reassessed and the asset is reflected at the recoverable amount. Impairment losses previously recognized are accordingly reversed in the statement of profit and loss.

FINANCIAL INSTRUMENTS

Financial assets

Initial recognition and measurement

All financial assets are recognised initially at fair value and transaction cost that is attributable to the acquisition of the financial asset is also adjusted.

Subsequent measurement

i. Debt instruments at amortised cost – A 'debt instrument' is measured at the amortised cost if both the following conditions are met:

- The asset is held within a business model whose objective is to hold assets for collecting contractual cash flows, and
- Contractual terms of the asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

After initial measurement, such financial assets are subsequently measured at amortised cost using the effective interest rate (EIR) method.

ii. Equity investments – All equity investments in scope of Ind-AS 109 are measured at fair value. Equity instruments which are held for trading are generally classified as at fair value through profit and loss (FVTPL). For all other equity instruments, the Group decides to classify the same either as

at fair value through other comprehensive income (FVOCI) or fair value through profit and loss (FVTPL). The Group makes such election on an instrument by instrument basis. The classification is made on initial recognition and is irrevocable.

iii. Mutual funds – All mutual funds in scope of Ind-AS 109 are measured at fair value through profit and loss (FVTPL).

De-recognition of financial assets

A financial asset is primarily de-recognised when the rights to receive cash flows from the asset have expired or the Group has transferred its rights to receive cash flows from the asset.

Financial liabilities

Initial recognition and measurement

All financial liabilities are recognised initially at fair value and transaction cost that is attributable to the acquisition of the financial liabilities is also adjusted. These liabilities are classified as amortised cost.

Subsequent measurement

These liabilities include are borrowings and deposits. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

De-recognition of financial liabilities

A financial liability is de-recognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the statement of profit or loss.

Financial guarantee contracts

Financial guarantee contracts are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified party

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fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the amount of expected loss allowance determined as per impairment requirements of Ind-AS 109 and the amount recognised less cumulative amortisation.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

i. Investment in instruments of consolidated entities

The Company's investment in equity and optionally convertible instruments in subsidiaries and fellow subsidiaries (direct subsidiaries of Parent Company) are accounted for at cost.

j. Impairment of financial assets

In accordance with Ind-AS 109, the Group applies expected credit loss (ECL) model for measurement and recognition of impairment loss for financial assets.

ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive. When estimating the cash flows, the Group is required to consider –

- All contractual terms of the financial assets (including prepayment and extension) over the expected life of the assets.

- Cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

Trade receivables

The Group applies approach permitted by Ind AS 109 Financial Instruments, which requires expected lifetime losses to be recognised from initial recognition of receivables.

Other financial assets

For recognition of impairment loss on other financial assets and risk exposure, the Group determines whether there has been a significant increase in the credit risk since initial recognition and if credit risk has increased significantly, impairment loss is provided.

k. Inventories

Raw material, packaging material, stores and spare parts are carried at cost. Cost includes purchase price excluding taxes those are subsequently recoverable by the Group from the concerned authorities, freight inwards and other expenditure incurred in bringing such inventories to their present location and condition. Cost of inventories is determined using the weighted average cost method.

The carrying cost of raw materials, packing materials, stores and spare parts are appropriately written down when there is a decline in replacement cost of such materials and finished products in which they will be incorporated are expected to be sold below cost.

Finished goods and work in progress are valued at the lower of cost and net realizable value. Cost of work in progress and manufactured finished goods is determined on weighted average basis and comprises cost of direct material, cost of conversion and other costs

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incurred in bringing these inventories to their present location and condition. Cost of traded goods is determined on weighted average basis. Excise duty liability is included in the valuation of closing inventory of finished goods.

I. Income taxes

Tax expense recognized in statement of profit or loss comprises the sum of deferred tax and current tax except the ones recognized in other comprehensive income or directly in equity.

Calculation of current tax is based on tax rates and tax laws that have been enacted for the reporting period. Current income tax relating to items recognised outside profit or loss is recognised outside profit or loss (either in other comprehensive income or in equity). Current tax items are recognised in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax assets are recognized to the extent that it is probable that the underlying tax loss or deductible temporary difference will be utilized against future taxable income. This is assessed based on the Group's forecast of future operating results, adjusted for significant non-taxable income and expenses and specific limits on the use of any unused tax loss or credit. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the

extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss (either in other comprehensive income or in equity).

m. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, other short-term highly liquid investments (original maturity of 3 months or less) that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

n. Post-employment, long term and short term employee benefits

Defined contribution plan

The Group's contribution to provident fund and employee state insurance schemes is charged to the statement of profit and loss. The Group's contributions towards Provident Fund are deposited with the Regional Provident Fund Commissioner under a defined contribution plan.

Defined benefit plan

The Group has gratuity as defined benefit plan where the amount that an employee will receive on retirement is defined by reference to the employee's length of service and final salary. The liability recognised in the balance sheet for defined benefit plans is the present value of the defined benefit obligation (DBO) at the reporting date. Management estimates the DBO annually with the assistance of independent actuaries. Actuarial gains and losses resulting from re-measurements of the

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liability are included in other comprehensive income.

The Company has subscribed to a group gratuity scheme of Life Insurance Corporation of India (LIC). Under the said policy, the eligible employees are entitled for gratuity upon their resignation, retirement or in the event of death in lumpsum after deduction of necessary taxes upto a maximum limit of ₹1. Liabilities in respect of the Gratuity Plan are determined by an actuarial valuation, based upon which the Company makes contributions to the Gratuity Fund.

Other long-term employee benefits

The Group also provides benefit of compensated absences to its employees which are in the nature of long-term benefit plan. Liability in respect of compensated absences becoming due and expected to be availed more than one year after the balance sheet date is estimated on the basis of an actuarial valuation performed by an independent actuary using the projected unit credit method as on the reporting date. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are recorded in the statement of profit and loss in the year in which such gains or losses arise.

Short-term employee benefits

Short-term employee benefits comprise of employee costs such as salaries, bonus etc. is recognized on the basis of the amount paid or payable for the period during which services are rendered by the employee.

o. Share based payments

The employee benefits expense is measured using the fair value of the employee stock options and is recognised over vesting period with a corresponding increase in equity. The

vesting period is the period over which all the specified vesting conditions are to be satisfied.

Transition to Ind AS

On transition to Ind AS, the Group has elected to not consider the charge related to employee stock options for which the vesting period is already over.

p. Provisions, contingent liabilities and contingent assets

Provisions are recognized only when there is a present obligation, as a result of past events, and when a reliable estimate of the amount of obligation can be made at the reporting date. These estimates are reviewed at each reporting date and adjusted to reflect the current best estimates. Provisions are discounted to their present values, where the time value of money is material.

Contingent liability is disclosed for:

- Possible obligations which will be confirmed only by future events not wholly within the control of the Group or
- Present obligations arising from past events where it is not probable that an outflow of resources will be required to settle the obligation or a reliable estimate of the amount of the obligation cannot be made.

Contingent assets are neither recognized nor disclosed. However, when realization of income is virtually certain, related asset is recognized.

q. Earnings per share

Basic earnings per share is calculated by dividing the net profit or loss for the period attributable to equity shareholders (after deducting attributable taxes) by the weighted average number of equity shares outstanding during the period. The weighted average

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number of equity shares outstanding during the period is adjusted for events including a bonus issue.

For the purpose of calculating diluted earnings per share, the net profit or loss for the period attributable to equity shareholders and the weighted average number of shares outstanding during the period are adjusted for the effects of all dilutive potential equity shares.

5. ESTIMATES AND ASSUMPTIONS

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group.

Recognition of deferred tax assets – The extent to which deferred tax assets can be recognized is based on an assessment of the probability of the Group's future taxable income against which the deferred tax assets can be utilized. In addition, significant judgement is required in assessing the impact of any legal or economic limits or uncertainties in various tax jurisdictions (see note 20).

Recognition of deferred tax liability on undistributed profits: The extent to which the Group can control the timing of reversal of deferred tax liability on undistributed profits of its subsidiaries requires judgement.

Evaluation of indicators for impairment of assets: The evaluation of applicability of indicators of impairment of assets requires assessment of several external and internal factors which could

result in deterioration of recoverable amount of the assets.

Recoverability of advances/receivables: At each balance sheet date, based on historical default rates observed over expected life, the management assesses the expected credit loss on outstanding receivables and advances.

Useful lives of depreciable/amortisable assets: Management reviews its estimate of the useful lives of depreciable/amortisable assets at each reporting date, based on the expected utility of the assets. Uncertainties in these estimates relate to technical and economic obsolescence that may change the utility of certain software, customer relationships, IT equipment and other plant and equipment.

Defined benefit obligation (DBO): Management's estimate of the DBO is based on a number of critical underlying assumptions such as standard rates of inflation, medical cost trends, mortality, discount rate and anticipation of future salary increases. Variation in these assumptions may significantly impact the DBO amount and the annual defined benefit expenses.

Fair value measurements: Management applies valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management uses the best information available. Estimated fair values may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

Provisions: At each balance sheet date basis the management judgment, changes in facts and legal aspects, the Group assesses the requirement of provisions against the outstanding warranties and guarantees. However, the actual future outcome may be different from this judgement.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION

(All amounts in ₹ millions, except share data and where otherwise stated)

	Freehold Land	Leasehold Land	Buildings	Plant and equipment	Office equipment	Furniture	Vehicles	Computers	Total
6. PROPERTY, PLANT AND EQUIPMENT									
Gross carrying amount									
At 1 April 2015	1,083	130	2,409	4,848	50	101	114	120	8,855
Additions	146	-	206	497	17	17	39	14	936
Disposals/retirement	3	-	6	28	15	6	9	8	75
Foreign exchange adjustments	-	1	-	-	1	2	-	1	5
Balance as at 31 March 2016	1,226	131	2,609	5,317	53	114	144	127	9,721
Additions	230	144	416	922	3	24	40	16	1,795
Disposals/assets written off	-	-	46	7	-	-	13	-	66
Foreign exchange adjustments	-	2	-	-	2	2	-	-	6
Balance as at 31 March 2017	1,456	277	2,979	6,232	58	140	171	143	11,456
Accumulated depreciation									
Up to 1 April 2015	-	7	454	1,517	34	44	64	95	2,215
Charge for the year	-	3	82	371	4	8	14	11	493
Adjustments for disposals	-	-	-	5	12	6	4	8	35
Foreign exchange translation	-	-	-	-	1	1	-	-	2
Balance as at 31 March 2016	-	10	536	1,883	27	47	74	98	2,675
Charge for the year	-	4	88	394	4	9	15	13	527
Adjustments for disposals	-	-	10	2	-	-	7	-	19
Foreign exchange translation	-	1	-	-	-	-	-	-	1
Balance as at 31 March 2017	-	15	614	2,275	31	56	82	111	3,184
Net book value as at 1 April 2015 (Deemed Cost)	1,083	123	1,955	3,331	16	57	50	25	6,640
Net book value as at 31 March 2016	1,226	121	2,073	3,434	26	67	70	29	7,046
Net book value as at 31 March 2017	1,456	262	2,365	3,957	27	84	89	32	8,272

i) Contractual obligations

Refer to note 37 for disclosure of contractual commitments for the acquisition of property, plant and equipment.

ii) Leasehold land includes land acquired from the State Industrial Development Corporation of Uttarakhnad Limited, Uttar Pradesh State Industrial Development Corporation Limited for a period of 90 years and 87 years respectively. Further the Company has also acquired land from Ramky Pharma City (India) Limited under a lease arrangement for a period of 33 years which is renewable for a further period of 2 terms of 33 years each.

Land parcels with a carrying amount of ₹4 (31 March 2016: ₹Nil) are under dispute pending in a court as to the ownership of the property. The management, based on available information and advice of legal counsel, is confident of favourable outcome in this case and hence, no adjustments are made in these financial statements.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION

(All amounts in ₹ millions, except share data and where otherwise stated)

	Computer Software	Goodwill	Total
7. OTHER INTANGIBLE ASSETS			
Gross carrying amount			
As at 1 April 2015	92	416	508
Additions	20	-	20
Deletions	-	430	430
Foreign exchange adjustments	0	14	14
As at 31 March 2016	112	-	112
Additions	19	-	19
As at 31 March 2017	131	-	131
Accumulated amortisation			
Up to 1 April 2015	42	-	42
Amortisation charge for the year	15	-	15
Foreign exchange adjustment	0	-	-
Up to 31 March 2016	57	-	57
Charge for the year	17	-	17
Foreign exchange adjustment	(1)	-	(1)
Up to 31 March 2017	73	-	73
Impairment loss			
Up to 1 April 2015	-	42	42
Deletions/adjustments	-	44	44
Foreign exchange adjustments	-	2	2
Up to 31 March 2016	-	-	-
Deletions/adjustments	-	-	-
Foreign exchange adjustments	-	-	-
Up to 31 March 2017	-	-	-
Net carrying amount (Deemed Cost)			
As at 1 April 2015	50	374	424
As at 31 March 2016	55	-	55
As at 31 March 2017	58	-	58

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION

(All amounts in ₹ millions, except share data and where otherwise stated)

	31 March 2017	31 March 2016	1 April 2015
8. INVESTMENTS			
Non-current			
Investments in equity instruments			
Others	1	1	1
Quoted	0	0	0
Unquoted	-	0	26
Total non-current investments	1	1	27
Less: provision for diminution in value of investments	0	0	0
	1	1	27
Aggregate book value of unquoted investments	1	1	27
Aggregate book value of quoted investments	0	0	0
Aggregate amount of impairment in the value of investments	0	0	0
Investments carried at amortised cost	1	1	1
Investments carried at fair value through profit or loss	-	-	26
Current			
Quoted, Non trade			
At fair value through OCI			
Investments in equity instruments	121	21	7
Investments in Bonds	200	-	-
Unquoted, Non trade			
Investments in Debentures	-	200	-
Total current investments	321	221	7
Aggregate book value of unquoted investments	-	200	-
Aggregate cost of quoted investments	292	10	1
Aggregate market value of quoted investments	321	21	7
Aggregate amount of impairment in the value of investments	-	-	-
Investments carried at amortised cost	200	200	-
Investments carried at fair value through other comprehensive income	121	21	7
Investments carried at fair value through profit or loss	-	-	-

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION

(All amounts in ₹ millions, except share data and where otherwise stated)

	31 March 2017	31 March 2016	1 April 2015
9. LOANS			
(Unsecured, considered good)			
Current			
Loans to employees	35	28	26
Total current loans	35	28	26
10. OTHER FINANCIAL ASSETS			
Non-current			
Restricted deposits*	55	36	27
Security deposits	71	64	44
Interest accrued on deposits	5	6	8
	131	106	79
*Given against bank guarantees/performance guarantees			
Current			
Deposits with financial institution	693	400	-
Interest accrued on fixed deposits	29	36	-
Insurance claim receivable	8	39	-
Other advances	22	295	30
	752	770	30
11. OTHER ASSETS			
Non-current			
Capital advances	353	436	388
Balances with government authorities	125	85	96
	478	521	484
Current			
Advance to material/service providers	206	96	105
Prepaid expenses	74	65	38
Export incentives receivable	147	114	19
Balances with statutory authorities	739	401	353
	1,166	676	515

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(All amounts in ₹ millions, except share data and where otherwise stated)

	31 March 2017	31 March 2016	1 April 2015
12. INVENTORIES (AT LOWER OF COST AND NET REALISABLE VALUE)			
Raw materials (at cost) [including goods-in-transit of ₹14 (31 March 2016: ₹24; 31 March 2015: ₹4)]	1,123	1,406	586
Work-in-progress (at cost)	1,021	986	750
Finished goods (at lower of cost and net realisable value)	613	528	247
Stores and spares (at cost) [including goods-in-transit of ₹20 (31 March 2016: ₹35; 31 March 2015: ₹7)]	350	349	272
Packing materials (at cost) [including goods-in-transit of ₹1 (31 March 2016: ₹0; 31 March 2015: ₹Nil)]	245	280	226
Stock-in-trade	137	24	119
	3,489	3,573	2,200

During the year, ₹2 (31 March 2016: ₹5; 31 March 2015: ₹2) was recognised as an expense for inventories at net realisable value.

13. TRADE RECEIVABLES

(Unsecured)

Trade receivables, gross			
- Considered good	4,752	2,616	1,924
- Considered doubtful	-	7	18
	4,752	2,623	1,942
Less: Allowance for doubtful debts	-	7	18
	4,752	2,616	1,924

14. CASH AND CASH EQUIVALENTS

Balances with banks			
- on current accounts	228	114	92
- on deposit accounts	-	103	-
Cash on hand	7	25	32
	235	242	124

There are no repatriation restrictions with regard to cash and cash equivalents as at the end of the reporting period and prior periods.

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(All amounts in ₹ millions, except share data and where otherwise stated)

	31 March 2017		31 March 2016		1 April 2015	
	Number	Amount	Number	Amount	Number	Amount
15. EQUITY SHARE CAPITAL						
i. Authorised share capital						
Equity shares of ₹2 each	200,000,000	400	200,000,000	400	200,000,000	400
ii. Issued, subscribed and fully paid up						
Equity shares of ₹2 each	174,307,800	349	174,174,245	348	166,174,245	332
		349		348		332
iii. Reconciliation of number of equity shares outstanding at the beginning and at the end of the year						
Equity shares						
Balance at the beginning of the year	174,174,245	348	166,174,245	332	165,365,370	331
Add: Issued during the year	133,555	1	8,000,000	16	808,875	1
Balance at the end of the year	174,307,800	349	174,174,245	348	166,174,245	332

iv. Rights, preferences and restrictions attached to equity shares

The Company has only one class of equity shares having a par value of ₹2 per share. Each holder of equity shares is entitled to one vote per share. The dividend proposed by the Board of Directors is subject to the approval of the shareholders in the ensuing general meeting. In the event of liquidation of the Company, the holders of equity shares will be entitled to receive the remaining assets of the Company, after distribution of all preferential amounts in proportion of their shareholding.

v. The Board of Directors have recommended two interim dividends of ₹0.75 and ₹6 during the current financial year.

vi. Details of shareholder holding more than 5% share capital

Name of the equity shareholder	31 March 2017		31 March 2016		1 April 2015	
	Number	% holding	Number	% holding	Number	% holding
V C Nannapaneni *	40,736,815	23.37%	40,736,815	23.39%	40,736,815	24.51%
Time Cap Pharma Labs Limited	17,157,220	9.84%	17,157,220	9.85%	17,157,220	10.32%
Natsoft Information Systems Private Limited	15,767,500	9.05%	15,767,500	9.05%	15,767,500	9.49%

* including shares held in the capacity of Karta of HUF aggregating to 5,440,045 (31 March 2016: 5,440,045; 31 March 2015: 5,440,045)

vii. Shares reserved for issue under options

(a) The Company has instituted the NATCO Employee Stock Option Plan 'ESOP-2015' and NATCO Employee Stock Option Plan 'ESOP-2016' ("the Schemes"). The schemes were formulated in accordance with the Securities Exchange Board of India (Share Based Employee Benefits) Regulations, 2014 issued by the Securities and Exchange Board of India ("SEBI"). Pursuant to the terms of the Scheme, the Board of the Directors of the Company have granted 750,000 options (post split) and 174,330 (post split) to eligible employees on 12 August 2015 and 11 November 2016 respectively. The terms of the Scheme provide that each option entitles the holder to one equity share of ₹2 each (post split) and that the options can be settled only by way of issue of equity shares. The options vest on an annual basis over a period of 5 years from the date of grant and the options are entirely time-based with no performance conditions.

(b) During the year ended 31 March 2017, the Company had incurred stock compensation cost of ₹123 (31 March 2016: ₹97; 31 March 2015: ₹Nil) in respect of ESOP 2015 and ESOP 2016 schemes.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION

(All amounts in ₹ millions, except share data and where otherwise stated)

	31 March 2017		31 March 2016		1 April 2015	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
15. EQUITY SHARE CAPITAL						
The details of options are as follows :						
Outstanding at the beginning of the year	750,000	2	-	-	-	-
Granted during the year	174,330	2	750,000	2	-	-
Forfeited during the year	-	-	-	-	-	-
Exercised during the year	133,555	2	-	-	-	-
Expired during the year	-	-	-	-	-	-
Outstanding at the end of the year	790,775	2	750,000	2	-	-
Exercisable at the end of the year	-	-	-	-	-	-

The weighted average share price at the date of exercise for stock options exercised during the year was ₹Nil (31 March 2016: ₹Nil). The stock options outstanding as at 31 March 2017 had a weighted average exercise price of ₹2 post split (31 March 2016: ₹2 post split), and the weighted average remaining contractual life of unvested options is 29.41 months (31 March 2016: 25.13 months).

The fair value of options was estimated at the date of grant using the Black-Scholes-Merton formula with the following assumptions:

	ESOP 2016	ESOP 2015
Risk-free interest rate	6.82% - 8.05%	7.14% - 8.18%
Expected life	1-5 years	1-5 years
Expected volatility	37.28%-43.76%	40.59%- 49.91%
Expected dividend yield	0.20%	0.20%

viii. Details of shares issued pursuant to contract without payment being received in cash during the last 5 years, immediately preceding the balance sheet date:

	Number of shares		
	1 April 2012 to 31 March 2017	1 April 2011 to 31 March 2016	1 April 2010 to 31 March 2015
Aggregate number of equity shares allotted *	2,068,040	1,934,485	1,934,485

* Equity shares allotted pursuant to contract without payment being received in cash comprise of:

- During the year ended 31 March 2015, the Company has issued 808,875 equity shares (post split) of ₹2 each, fully paid-up at a premium of ₹238 per equity share (post split) to the erstwhile shareholders of Natco Organic Limited ('NOL') in exchange of 19,310,000 equity shares of ₹10 each at face value held in NOL.
- Balance equity shares comprising of 1,259,165 (31 March 2016: 1,125,610; 31 March 2015: 1,125,610) (post split) were allotted during the period of five years, on exercise of the options granted under the employee stock option plan wherein part consideration was received in the form of employee services.

ix. Equity shares of the Company with face value of ₹10 per share were sub-divided into 5 equity shares of ₹2 each effective 30 November 2015. Consequently, in accordance with Indian Accounting Standard (Ind AS) 33 - "Earnings Per Share", the basic and diluted earnings per share of the Company has been recomputed and disclosed accordingly.

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	31 March 2017	31 March 2016	1 April 2015
16. OTHER EQUITY (CONTINUED)			
Reserve and surplus			
Securities premium reserve	6,178	6,112	2,783
Capital reserve	207	207	207
Capital redemption reserve	5	5	5
General reserve	595	595	485
Share options outstanding account	154	97	-
Retained earnings	9,094	5,650	4,641
Total reserves and surplus	16,233	12,666	8,121
Other reserves			
FVOCI - Equity instruments	42	14	7
Foreign currency translation reserve	(54)	(44)	(25)
Remeasurement of defined benefit	(77)	(27)	11
	(89)	(57)	(7)
	16,144	12,609	8,114

i. Nature and purpose of other reserves

Securities premium reserve

Securities premium reserve is used to record the premium on issue of shares. The reserve is utilised in accordance with provisions of the Act.

Capital reserve

Capital reserve was created on amalgamation of certain entities into the Company in the earlier years. The Company uses capital reserve for transactions in accordance with the provisions of the Act.

Capital redemption reserve

In accordance with the requirements of the Companies Act, 1956, the Company has created capital redemption reserve on buyback of shares. The Company uses capital redemption reserve for transactions in accordance with the provisions of the Act.

General reserve

The Company generally appropriates a portion of its earnings to the general reserve to be used for contingencies. These reserves are freely available for use by the Company.

Share options outstanding account

The reserve represents the excess of the fair value of the options on the grant date over the strike price which is accumulated by the Company in respect of all options that have been granted. The Company transfers the proportionate amounts, outstanding in this account, in relation to options exercised to securities premium account on the date of exercise of such options.

FVOCI equity instruments

The Company has elected to recognise the change in fair value of certain investments in equity shares in other comprehensive income. These changes are accumulated within the FVOCI equity instruments reserve within equity. The Company transfers amounts from this reserve to retained earnings when the relevant equity instruments are derecognised.

Remeasurement of defined benefit obligations

The reserve represents the remeasurement gains/(losses) arising from the actuarial valuation of the defined benefit obligations of the Company. The remeasurement gains/(losses) are recognised in other comprehensive income and

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(All amounts in ₹ millions, except share data and where otherwise stated)

accumulated under this reserve within equity. The amounts recognised under this reserve are not reclassified to profit or loss.

16. OTHER EQUITY (CONTINUED)

Foreign currency translation reserve

Exchange differences arising on translation of the foreign operations are recognised in other comprehensive income as described in accounting policy and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed-off.

17. BORROWINGS

(All amounts in ₹ millions, except share data and where otherwise stated)

	31 March 2017	31 March 2016	1 April 2015
Non-current			
Secured loans:			
Term loans			
From banks	-	67	1,180
Other parties	-	75	223
	-	142	1,403
Unsecured loans:			
Term loans			30
	-	142	1,433
Less: current maturities of long-term borrowings	-	142	463
	-	-	970

(a) Terms and conditions of loans and nature of security

- Term loans amounting to ₹Nil (31 March 2016: ₹75; 31 March 2015: ₹623) is secured by *pari passu* first charge on the entire immovable properties and movable (a) fixed assets both present and future of Mekaguda Unit and part of the loan is further secured by an exclusive charge on all the immovable properties and movable fixed assets of both the units (Plot No.-19 and Plot No. A-3) at Dehradun and exclusive charge on the R&D equipment acquired from the loan amount.
- Term loan amounting to ₹Nil (31 March 2016: ₹67; 31 March 2015: ₹122) is secured by charge over all movable and immovable fixed assets of Mekaguda unit along with other lenders.

All the above loans are guaranteed by Mr. V. C. Nannapaneni, Chairman and Managing Director and carry interest linked to the respective Bank's/Institution's prime/base lending rate, and range from 2.23085% per annum to 11.50% per annum. (31 March 2016: 1.88% per annum to 12.75% per annum; 31 March 2015: 3.53% per annum to 12.75% per annum).

(All amounts in ₹ millions, except share data and where otherwise stated)

	31 March 2017	31 March 2016	1 April 2015
Current			
Working capital loans (secured)	1,456	882	1,377
Working capital loans (unsecured)	760	102	388
	2,216	984	1,765

- Working capital loans represents cash credit, overdraft, commercial paper, bills purchased and discounted with various banks and carry interest linked to the respective Bank's base lending rate/Marginal cost of lending rate and range from 1.00% per annum to 12.70% per annum (31 March 2016: 9.25% per annum to 13.25% per annum).
- Working capital loans are secured by way of first charge on all the current assets of the Company. The collateral security is joint *pari passu* first charge on the corporate office and all fixed assets of Nagarjuna Sagar Unit apart from

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION

(All amounts in ₹ millions, except share data and where otherwise stated)

personal guarantees of Mr. V.C. Nannapaneni, Chairman and Managing Director, Ms. Durga Devi Nannapaneni and Dr. N. Ramakrishna Rao, relatives of Chairman and Managing Director.

(iii) Unsecured loans are personally guaranteed by Mr. V. C. Nannapaneni, Chairman and Managing Director.

	31 March 2017	31 March 2016	1 April 2015
18. OTHER FINANCIAL LIABILITIES			
Non-current			
Security deposits from customers	8	8	8
	8	8	8
Current			
Current maturities of non-current borrowings	-	142	463
Interest accrued but not due on borrowings	2	-	14
Capital creditors	658	486	265
Unpaid dividend on equity shares	17	11	9
Employee related payables	304	155	107
Other payables	33	21	1
	1,014	815	859
19. PROVISION FOR EMPLOYEE BENEFITS			
Non-current			
Gratuity	139	88	58
Compensated absences	80	37	34
	219	125	92
Current			
Gratuity	15	3	3
Compensated absences	3	12	8
	18	15	11

(a) Gratuity

The Company has subscribed to a group gratuity scheme of Life Insurance Corporation of India (LIC). Under the said policy, the eligible employees are entitled for gratuity upon their resignation, retirement or in the event of death in lumpsum after deduction of necessary taxes upto a maximum limit of ₹1. Liabilities in respect of the Gratuity Plan are determined by an actuarial valuation, based upon which the Company makes contributions to the Gratuity Fund.

The following table set out the status of the gratuity plan and the reconciliation of opening and closing balances of the present value and defined benefit obligation.

(i) Change in projected benefit obligation

	31 March 2017	31 March 2016	1 April 2015
Projected benefit obligation at the beginning of the year	157	119	117
Pursuant to the scheme of amalgamation (refer note 40)	-	3	-
Service cost	16	13	9
Interest cost	13	10	9
Actuarial (gain) / loss	41	31	(9)

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(All amounts in ₹ millions, except share data and where otherwise stated)

	31 March 2017	31 March 2016	1 April 2015
Benefits paid	(14)	(19)	(7)
Projected benefit obligation at the end of the year	213	157	119
19. PROVISION FOR EMPLOYEE BENEFIT			
(ii) Change in plan assets			
Fair value of plan assets at the beginning of the year	63	55	47
Pursuant to the scheme of amalgamation (refer note 40)	-	0	-
Expected return on plan assets	5	5	5
Employer contributions	7	23	10
Benefits paid	(14)	(20)	(7)
Fair value of plan assets at the end of the year	61	63	55
(iii) Reconciliation of present value of obligation on the fair value of plan assets			
Present value of projected benefit obligation at the end of the year	213	157	119
Funded status of the plans	(61)	(63)	(55)
Net liability recognised in the balance sheet	152	94	64
(iv) Expense recognised in the statement of profit and loss			
Service cost	16	12	9
Interest cost	13	10	9
Expected returns on plan assets	(5)	(5)	(5)
Premium expenses	0	0	-
Net gratuity costs	24	17	13
(v) Expense recognised in other comprehensive income			
Recognized net actuarial (gain)/loss	41	31	(9)
	41	31	(9)
(vi) Key actuarial assumptions			
Discount rate	8.00%	8.00%	8.00%
Expected return on plan assets	8.25%	8.00%	9.00%
Salary escalation rate	8.00%	6.00%	4.00%

Assumptions regarding future mortality experience are set in accordance with the published statistics by the Life Insurance Corporation of India.

Plan assets does not comprise any of the Company's own financial instruments or any assets used by the Company. The Company has the plan covered under a policy with the Life Insurance Corporation of India Limited.

The significant actuarial assumptions for the determination of the defined benefit obligation are the discount rate, the salary growth rate and the average life expectancy. The calculation of the net defined benefit liability is sensitive to these assumptions. However, the impact of these changes is not ascertained to be material by the management.

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(All amounts in ₹ millions, except share data and where otherwise stated)

	31 March 2017	31 March 2016	1 April 2015
20. DEFERRED TAX LIABILITIES (NET)			
Deferred tax liabilities arising on account of :			
Fixed assets	144	200	131
Adjustments to OCI	16	7	-
Deferred tax assets arising on account of :			
Unabsorbed depreciation (pursuant to the scheme of amalgamation)	-	56	12
Adjustments to OCI	10	4	3
	150	147	116

- (a) Certain entities of the Group have undistributed earnings of ₹171 (31 March 2016: ₹168) which, if paid out as dividends, would be subject to tax. An assessable temporary differences exists, but no deferred tax liability has been recognised as the Parent controls the timing of distributions from this subsidiary and is not expected to distribute these profits in the foreseeable future.
- (b) The Group has not recognised unused tax credits (minimum alternate tax credits) aggregating to ₹2,023 (31 March 2016: ₹1,524). These unused tax credits will expire over next 15 years. Further, the Group has not recognised deferred tax asset in respect of unabsorbed tax losses aggregating to ₹130 (31 March 2016: ₹150).

21. OTHER LIABILITIES

Current			
Payable to statutory authorities	113	90	47
Advance from customers	144	237	203
	257	327	250

22. TRADE PAYABLES

Current			
Due to micro and small enterprises*	15	26	15
Due to related parties	5	-	-
Due to others	2,607	2,730	1,238
	2,627	2,756	1,253

*Disclosure under the Micro, Small and Medium Enterprises Development Act, 2006 ("MSMED Act, 2006") as at 31 March 2017, 31 March 2016 and 1 April 2015:

Particulars	31 March 2017	31 March 2016	1 April 2015
i) the principal amount and the interest due thereon remaining unpaid to any supplier as at the end of each accounting year;	15	26	15
ii) the amount of interest paid by the buyer in terms of section 16, along with the amounts of the payment made to the supplier beyond the appointed day during each accounting year;	-	-	-
iii) the amount of interest due and payable for the period of delay in making payment (which have been paid but beyond the appointed day during the year) but without adding the interest specified under this Act;	-	-	-
iv) the amount of interest accrued and remaining unpaid at the end of each accounting year; and	1	1	4

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- v) the amount of further interest remaining due and payable even in the succeeding years, until such date when the interest dues as above are actually paid to the small enterprise, for the purpose of disallowance as a deductible expenditure under section 23.

The above information regarding Micro, Small and Medium Enterprises has been determined to the extent such parties have been identified on the basis of information available with the Company.

23. REVENUE FROM OPERATIONS

	For the year ended 31 March 2017	For the year ended 31 March 2016
Sale of products (including excise duty)	20,417	10,524
Sale of services	69	42
	20,486	10,566
Less: Refund of service income received in earlier years	(158)	-
	20,328	10,566
Other operating revenues		
Job work charges	71	67
Export incentives	232	151
Scrap sales	19	17
	20,650	10,801

24. OTHER INCOME

Dividend from subsidiary	-	-
Interest income from Fixed deposits	79	55
Insurance claim - loss of profits	-	25
Foreign exchange - gain (net)	49	-
Other non-operating income	11	16
	139	96

25. COST OF RAW MATERIALS CONSUMED (INCLUDING PACKING MATERIALS CONSUMED)

Raw material and packing material at the beginning of the year	1,686	781
Add: Pursuant to the scheme of amalgamation	-	31
Add: Purchases during the year	4,890	3,911
Less: Raw material and packing material at the end of the year	1,368	1,686
	5,208	3,037

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	For the year ended 31 March 2017	For the year ended 31 March 2016
26. CHANGES IN INVENTORIES OF FINISHED GOODS, STOCK-IN -TRADE AND WORK-IN-PROGRESS		
Opening balance		
- Finished goods	528	247
- Work-in-progress	986	750
- Stock-in-trade	24	40
	1,538	1,037
Closing balance		
- Finished goods	613	528
- Work-in-progress	1,021	986
- Stock-in-trade	137	24
	1,771	1,538
Currency translation adjustment	(45)	(18)
	(188)	(483)
27. EMPLOYEE BENEFITS EXPENSE		
Salaries, wages and bonus	2,047	1,486
Contribution to provident fund and other funds	132	101
Gratuity expense	13	13
Employee stock compensation expenses	123	97
Staff welfare expenses	117	101
	2,432	1,798
28. FINANCE COSTS		
Interest on borrowings	138	212
Interest - others	22	-
Other borrowing costs	25	17
	185	229
29. OTHER EXPENSES		
Consumption of stores and spares	325	224
Excise duty	448	378
Power and fuel	505	437
Rental charges	27	24
Repairs and maintenance		
- Buildings	67	33
- Plant and equipment	186	155
- Others	35	23
Insurance	77	47
Rates and taxes	176	92

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(All amounts in ₹ millions, except share data and where otherwise stated)

	For the year ended 31 March 2017	For the year ended 31 March 2016
29. OTHER EXPENSES		
Factory maintenance expenses	213	188
Analysis charges	126	109
Carriage and freight outwards	86	94
Donations	48	39
Corporate social responsibility (CSR) expenses	36	29
Communication expenses	48	29
Office maintenance and other expenses	62	44
Travelling and conveyance	186	145
Legal and professional fees	251	180
Payment to auditors		
- As auditor*	4	5
- For reimbursement of expenses	-	-
Adjustment to the carrying amount of assets on account of sale	-	-
Directors sitting fee	1	1
Bad debts (net of related liabilities) written off	239	96
Assets written off	24	-
Foreign exchange loss, net	2	41
Royalty expense	285	169
Sales promotion expenses including sales commission	1,346	822
Research and development expenses	460	151
Printing and stationery	49	50
Miscellaneous expenses	81	36
*Excludes ₹Nil (31 March 2016: ₹2) charged to securities premium reserve for QIP.	5,393	3,641
i) Details of CSR expenditure :		
a) Gross amount required to be spent by the Company during the year	35	28
b) Amount spent on eligible activities	36	29
30. INCOME TAX		
Tax expense comprises of:		
Current income tax	1,354	441
Deferred tax	1	38
Tax for earlier years	40	-
Income tax expense reported in the statement of profit or loss	1,395	479
The major components of income tax expense and the reconciliation of expected tax expense based on the domestic effective tax rate of the Company at 34.608% and the reported tax expense in profit or loss are as follows:		
Reconciliation of tax expense and the accounting profit multiplied by India's tax rate		
Profit before tax	6,244	2,015

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	For the year ended 31 March 2017	For the year ended 31 March 2016
30. INCOME TAX (CONTINUED)		
Tax at the Indian tax rate (34.608%)	2,161	697
Adjustments:		
CSR expense	21	12
Weighted deduction on research and development expense	(528)	(283)
Deferred taxes not recognised in the books	520	232
Tax incentives	(819)	(179)
Tax for earlier years	40	-
Other items	-	-
Income tax expense	1,395	479
31. EARNINGS PER SHARE (EPS)		
The following reflects the income and share data used in the basic and diluted EPS computations:		
Profit attributable to equity shareholders	4,826	1,522
Weighted average number of equity shares outstanding during the year	17,42,25,837	17,04,48,218
Effect of dilution:		
Employee stock options	1,83,863	5,12,767
Weighted average number of equity shares adjusted for the effect of dilution	17,44,09,700	17,09,60,985
Earnings per equity share from continued and discontinued operations:		
Basic	27.78	9.14
Diluted	27.75	9.11
Earnings per equity share from continued operations:		
Basic	27.78	9.01
Diluted	27.75	8.98
Earnings per equity share from discontinued operations:		
Basic	-	0.13
Diluted	-	0.13
Nominal Value per share equity share	₹2	₹2

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32. FAIR VALUE MEASUREMENTS

i) Fair value hierarchy

Financial assets and financial liabilities measured at fair value in the statement of financial position are grouped into three levels of a fair value hierarchy. The three levels are defined based on the observability of significant inputs to the measurement, as follows:

Level 1: Quoted prices (unadjusted) in active markets for financial instruments.

Level 2: The fair value of financial instruments that are not traded in an active market is determined using valuation techniques which maximise the use of observable market data rely as little as possible on entity specific estimates.

Level 3: If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

ii. Financial assets and financial liabilities measured at fair value

	31 March 2017	31 March 2016
Fair value hierarchy	1	1
Financials assets		
Listed equity instruments	121	21

FINANCIAL INSTRUMENTS BY CATEGORY

For amortised cost instruments, carrying value represents the best estimate of fair value.

	31 March 2017			31 March 2016		
	FVTPL	FVOCI	Amortised cost	FVTPL	FVOCI	Amortised cost
FINANCIAL ASSETS						
Investments						
- Equity instruments	-	121	1	-	21	1
- Debentures	-	-	200	-	-	200
- Other investments	-	-	-	-	-	0
Trade receivables	-	-	4,752	-	-	2,616
Loans	-	-	35	-	-	28
Cash and cash equivalents	-	-	235	-	-	242
Other bank balances	-	-	123	-	-	210
Other financial assets	-	-	883	-	-	876
Total financial assets	-	121	6,229	-	21	4,173
	31 March 2017			31 March 2016		
	FVTPL	FVOCI	Amortised cost	FVTPL	FVOCI	Amortised cost
Borrowings	-	-	2,216	-	-	984
Trade payables	-	-	2,627	-	-	2,756
Other financial liabilities	-	-	1,022	-	-	823
Total financial liabilities	-	-	5,865	-	-	4,563

The Group's principal financial liabilities, comprise loans and borrowings, trade and other payables. The main purpose of these financial liabilities is to finance the Group's operations. The Group's principal financial assets include loans, trade and

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other receivables, and cash and cash equivalents that derive directly from its operations. The Group also holds FVTOCI investments and investment in its subsidiaries.

The Group is exposed to market risk, credit risk and liquidity risk. The Group's Board of Directors oversees the management of these risks. The Group's Board of Directors is supported by the senior management that advises on financial risks and the appropriate financial risk governance framework for the Group. The senior management provides assurance to the Group's Board of directors that the Group's financial risk activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Group's policies and risk objectives.

The carrying amounts reported in the statement of financial position for cash and cash equivalents, trade and other receivables, trade and other payables and other liabilities approximate their respective fair values due to their short maturity.

33. FINANCIAL INSTRUMENTS RISK MANAGEMENT

A. Market risk:

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and equity price risk. Financial instruments affected by market risk include loans and borrowings, deposits, FVOCI investments, trade receivables and other financial instruments.

The sensitivity analyses in the following sections relate to the position as at 31 March 2017 and 31 March 2016. The analyses exclude the impact of movements in market variables on: the carrying values of gratuity and other post retirement obligations; provisions; and the non-financial assets and liabilities.

i. Interest rate risk

The Group's fixed rate borrowings are carried at amortised cost. They are therefore not subject to interest rate risk as defined in Ind AS 107, since neither the carrying amount nor the future cash flows will fluctuate because of a change in market interest rates. The Group considers the impact of fair value interest rate risk on investment in deposits with banks and financial institutions and debentures as not material.

The Group's variable rate borrowing is subject to interest rate risk. Below is the details of exposure to fixed rate and variable rate instruments:

Particulars	31 March 2017	31 March 2016
Fixed rate instruments		
Financial assets	748	636
Financial liabilities	-	75
Particulars	31 March 2017	31 March 2016
Variable rate instruments		
Financial assets	-	-
Financial liabilities	-	-

ii. Foreign currency risk:

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group's exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a foreign currency) and the Group's net investments in foreign subsidiaries.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION

(All amounts in ₹ millions, except share data and where otherwise stated)

The Group's exposure to foreign currency financial assets and financial liabilities expressed in ₹ are as follows:

33. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

FINANCIAL ASSETS

	31 March 2017			31 March 2016		
	Investments	Trade receivables	Loans	Investments	Trade receivables	Loans
- USD	-	2,665	-	-	981	-
- EUR	-	60	-	-	5	-
- CAD	-	76	30	-	19	-
- AUD	-	-	-	-	-	-
- SGD	-	0	-	-	-	-

FINANCIAL LIABILITIES

	31 March 2017			31 March 2016		
	Borrowings	Trade payables	Other financial liabilities	Borrowings	Trade payables	Other financial liabilities
- USD	-	251	7	67	374	7
- EUR	-	41	-	-	17	-
- GBP	-	15	-	-	9	-

Foreign currency sensitivity

The following table demonstrates the sensitivity to a reasonably possible change in USD. The Group's exposure to foreign currency changes for all other currencies is not material.

Particulars	Impact on profit after tax	
	31 March 2017	31 March 2016
USD sensitivity		
₹/USD - Increase by 2%	48	11
₹/USD - Decrease by 2%	(48)	(11)

iii. Equity price risk:

The Group's exposure to equity securities price risk arises from investments held by the Group and classified in the balance sheet as FVOCI (Note 8).

To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set up by the Group.

The majority of the Group's equity investments are publicly traded and are included in the NSE Nifty 50 index.

The table below summarises the impact of increase/decrease of the index on the Group's equity and profit for the period. The analysis is based on the assumption that the equity index had increased/decreased by 10% with all other variables held constant, and that off the Group's equity instruments moved in line with the index.

Particulars	Impact on other components of equity	
	31 March 2017	31 March 2016
NSE Nifty 50 - Increase by 10%	9	2
NSE Nifty 50 - Decrease by 10%	(9)	(2)

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION

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33. FINANCIAL INSTRUMENTS RISK MANAGEMENT (CONTINUED)

B. CREDIT RISK

Credit risk is the risk that a counterparty fails to discharge an obligation to the Group, leading to a financial loss. The Group is mainly exposed to the risk of its balances with the bankers and trade and other receivables.

Ageing of receivable is as follows:

	31 March 2017	31 March 2016
Neither past due nor impaired	3,740	1,946
Past due not impaired:		
0-30 days	845	208
31-60 days	101	5
61-90 days	19	19
91-180 days	35	62
Greater than 180 days	11	376
	4,751	2,616

C. Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities and the availability of funding through an adequate amount of committed credit facilities to meet obligations when due. Due to the nature of the business, the Group maintains flexibility in funding by maintaining availability under committed facilities.

Management monitors rolling forecasts of the Group's liquidity position and cash and cash equivalents on the basis of expected cash flows. The Group takes into account the liquidity of the market in which the entity operates. In addition, the Group's liquidity management policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet these, monitoring balance sheet liquidity ratios against internal and external regulatory requirements and maintaining debt financing plans.

The Group's principal sources of liquidity are the cash flows generated from operations. The Group has no long-term borrowings and believes that the working capital is sufficient for its current requirements. Accordingly, no liquidity risk is perceived.

Maturities of financial liabilities

The tables below analyse the Group's financial liabilities into relevant maturity groupings based on their contractual maturities for all non-derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is insignificant.

31 March 2017	Up to 1 year	From 1 to 3 years	More than 3 years	Total
Non-derivatives				
Borrowings	2,216	-	-	2,216
Trade and other payables	2,627	-	-	2,627
Other financial liabilities	1,014	8	-	1,022
Total	5,857	8	-	5,865
31 March 2016	Up to 1 year	From 1 to 3 years	More than 3 years	Total
Non-derivatives				
Borrowings	1,126	-	-	1,126
Trade payable	2,756	-	-	2,756
Other financial liabilities	673	8	-	681
Total	4,555	8	-	4,563

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION

(All amounts in ₹ millions, except share data and where otherwise stated)

34. CAPITAL RISK MANAGEMENT

The Group's objective when managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for stakeholders. The Group also proposes to maintain an optimal capital structure to reduce the cost of capital. Hence, the Group may adjust any dividend payments, return capital to shareholders or issue new shares. Total capital is the equity as shown in the consolidated statement of financial position. Currently, the Group primarily monitors its capital structure on the basis of gearing ratio. Management is continuously evolving strategies to optimize the returns and reduce the risks. It includes plans to optimize the financial leverage of the Group.

The capital for the reporting year under review is summarized as follows:

	31 March 2017	31 March 2016
Total borrowings (note 17)	2,216	1,126
Less: Cash and cash equivalents (note 14 & 10)	(1,106)	(888)
Net debt	1,110	238
Total equity	16,493	12,957
Total capital	17,603	13,195
Net debt to equity ratio (%)	6%	2%

35. RELATED PARTY DISCLOSURES

a) Names of the related parties and nature of relationship

Names of related parties	Nature of relationship
Time Cap Pharma Labs Limited NATCO Trust NATCO Aqua Limited NDL Infratech Private Limited NATCO Group Employees Welfare Trust Natsoft Information Systems Private Limited	Entities in which Directors have control or have significant influence
V C Nannapaneni Rajeev Nannapaneni	Key management personnel ("KMP")
Durga Devi Nannapaneni Venkata Satya Swathi Kantamani Neelima Nannapaneni Dr. Ramakrishna Rao	Relative of KMP

b) Transactions with related parties stated)

(All amounts in ₹ millions, except share data and where otherwise stated)

	For the year ended	
	31 March 2017	31 March 2016
Time Cap Pharma Labs Limited		
Commission and expenses reimbursement	13	12
Purchase of raw-materials	0	1
Rental expense	5	5
Dividends paid	116	21
Natsoft Information Systems Private Limited		

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION

(All amounts in ₹ millions, except share data and where otherwise stated)

35. RELATED PARTY DISCLOSURES

Dividends paid	106	20
NATCO Trust		
Donations	25	19
CSR activities	36	29
V C Nannapaneni		
Short-term employee benefits	16	16
Leave encashment paid	1	3
Rental expenses	2	2
Dividends paid	275	51
Commission on profits	49	15
Rajeev Nannapaneni		
Short-term employee benefits	14	14
Leave encashment paid	1	2
Rental expenses	1	1
Dividends paid	11	2
Durga Devi Nannapaneni		
Dividends paid	24	4
Venkata Satya Swathi Kantamani		
Dividends paid	19	4
Neelima Nannapaneni		
Dividends paid	1	0
Dr. Ramakrishna Rao		
Dividends paid	5	1
c) Balances receivable/(payable)		
Time Cap Pharma Labs Limited	(5)	(5)
V C Nannapaneni	(50)	(0)
Rajeev Nannapaneni	(1)	(0)

Note:

- Mr. V. C. Nannapaneni has extended personal guarantees in connection with the loans availed by the Company. Refer note 17.
- Mrs. Durga Devi Nannapaneni and Dr. Ramakrishna Rao has extended personal guarantees in connection with the loans availed by the Company. Refer note 17.
- Short-term employee benefits to KMP does not include expenditure on account of provision for gratuity and compensated absences computed for Company as a whole.

d) Transaction with related parties

In accordance with the applicable provisions of the Income Tax Act, 1961, the Company is required to use certain specified methods in assessing that the transactions with the related parties, are carried at an arm's length price and is also required to maintain prescribed information and documents to support such assessment. The appropriate method to be adopted will depend on the nature of transactions/class of transactions, class of associated persons, functions performed and other factors as prescribed. Based on certain internal analysis carried out, management believes that transactions entered into with the related parties were carried out at arms length prices. The Company is in the process of updating the transfer pricing documentation for the financial year ended 31 March 2017. In opinion of the management, the same would not have an impact on these financial statements. Accordingly, these financial statements do not include the effect of the transfer pricing implications, if any.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION

(All amounts in ₹ millions, except share data and where otherwise stated)

36. SEGMENT REPORTING

The management has assessed the identification of reportable segments in accordance with the requirements of Ind AS 108 'Operating Segment' and believes that the Group has only one reportable segment namely "Pharmaceuticals".

Geography-wise details of the Group's revenues from external customers and its non-current assets (other than financial instruments, investments accounted for using the equity method, deferred tax assets and post-employment benefit assets) and revenue from major customers are given below:

I. REVENUES

(All amounts in ₹ millions, except share data and where otherwise stated)

	31 March 2017	31 March 2016
India	9,351	5,894
Outside India	11,438	5,003
II. NON-CURRENT ASSETS		
India	12,131	9,695
Outside India	40	45

III. MAJOR CUSTOMER

The Group has one customer who contributed more than 10% of the Group's total revenue during the current and previous year. The revenue from such major customers during the year is ₹6,429 (31 March 2016: ₹1,479).

37. CONTINGENT LIABILITIES AND COMMITMENTS

a) Commitments		
Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances)	619	385
b) Contingent liabilities		
Disputed sales tax liabilities	9	9
Disputed service tax liabilities	2	2
Disputed customs liability	2	2
Claims not acknowledged as debt	-	6

- c) The Company is contesting certain patent infringement cases filed against it by the innovators. A few of these cases pertain to products already launched by the Company in the market. These cases are pending before different authorities/courts within the Indian jurisdiction and the outcome cannot be ascertained with reasonable certainty. Accordingly, a reliable estimate of the liability towards damages/penalties, if any, cannot be made at present. These amounts will be recognised during the periods in which such liabilities can be reasonably measured. Further, the management does not expect such liabilities to be significant.

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION

(All amounts in ₹ millions, except share data and where otherwise stated)

38. AMOUNTS INCURRED ON RESEARCH AND DEVELOPMENT EXPENSES

(All amounts in ₹ millions, except share data and where otherwise stated)

	31 March 2017	31 March 2016
Salaries and wages	271	215
Consumption of materials, spares	228	171
Power and fuel	19	15
Other research and development expenses	392	151
Capital equipments	306	151
	1,216	703

The aforementioned expenditure, other than capital equipments, are included under the respective heads of the Statement of Profit and Loss.

- 39.** During the year ended 31 March 2016 the Company made a Qualified Institutional Placement ('QIP') and allotted 8,000,000 equity shares (post split) on 18 September 2015 of face value of ₹2 each (post split) at a premium of ₹424.11 per equity share (post split), pursuant to clause 49 of the erstwhile listing agreement with the stock exchanges, for the purposes of capital expenditure and long term working and capital requirements, expenses for exploring acquisition opportunities and general corporate requirements of the Company.

Details of Utilisation :

	31 March 2017	31 March 2016
Amounts raised in QIP	-	3,408
Unutilised amount at the beginning of the year	900	
Amount utilised during the year:		
QIP expenses (gross of tax)	-	64
Utilised for the purposes mentioned above	900	2,444
Unutilised amount as at the end of the year	-	900

Details of short-term investment made from unutilised portion of QIP raise

	31 March 2017	31 March 2016
Investment in Non-convertible debentures	-	200
Term deposit with		
Banks	-	300
Financial institutions	-	400
	-	900

40. AMALGAMATION OF NATCO ORGANICS LIMITED

Pursuant to a composite scheme of amalgamation of NOL with the Company ("the Scheme") as sanctioned by the Honourable High Court of Judicature at Madras vide their order dated 28 April 2016 all the assets and properties, both movable and immovable, rights, title and interests, secured and unsecured debts, borrowings, and all other duties, debts, liabilities, undertakings and obligations of NATCO Organics Limited, have been transferred to and vested in the Company retrospectively with effect from 1 April 2015. The Scheme has accordingly been given effect to in these consolidated financial statements.

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The amalgamation has been accounted for under the "Pooling of Interest method" as prescribed under Indian Accounting Standard 103 (Ind AS 103) - "Business Combinations" as specified under Section 133 of the Act, read with Rule 7 of the Companies Accounts Rules, 2014. Accordingly, in compliance with the Scheme all the assets, liabilities and reserves of NOL, now considered a division of the Company, were recorded in the standalone books of the Company at their carrying amounts with effect from 1 April 2015.

Since NOL was a wholly owned subsidiary of the Company, no shares were exchanged to effect the amalgamation. An amount of ₹190 being the excess of the Company's investment over the net assets of the erstwhile NOL, earlier disclosed as goodwill in the consolidated financial statements, has been adjusted against the consolidated reserves as at 1 April 2015.

41. DISCONTINUED OPERATIONS

Pursuant to the authorisation of the Board of Directors of the Company, the retail pharmacy business of NATCO Pharma Inc., USA was sold by way of an Asset Sale agreement with Care Mart Inc. for an aggregate consideration of United States Dollars (USD) 4,101,210. The retail pharmacy business represents a separate business segment of the Group's operations and accordingly qualifies for disclosure as a discontinuing operation in accordance with the Indian Accounting Standard 105 "Non-current Assets Held for Sale and Discontinued Operations" ("Ind AS 105"). The disclosures required under Ind AS 105 and Ind AS 1 are as follows:

41. DISCONTINUED OPERATIONS

- a) The carrying amounts, as of the balance sheet date, of the total assets and the total liabilities of the retail pharmacy business are as follows:

	31 March 2017	31 March 2016	1 April 2015
Total assets	-	-	319
Total liabilities	-	-	57
	-	-	262

- b) The following statement shows the break-up of aggregate amounts in respect of revenue and expenses in respect of ordinary activities attributable to the discontinuing operations during the year ended 31 March 2016:

	31 March 2016
Revenue from operations	990
Other income	3
Total revenues	993
Expenses	
Cost of materials consumed	753
Changes in inventory of traded goods	(48)
Employee benefits expense	98
Depreciation and amortisation	2
Other expenses	118
Total expenses	923
Profit before tax	70
Tax expense	49
Profit after tax	21

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- c) The net cash flows attributable to the operating, investing and financing activities of the retail pharmacy business during the year ended 31 March 2016, are as follows:

	31 March 2016
Operating activities	34
Investing activities	0
Financing activities	(39)
	(5)

42. ADDITIONAL DISCLOSURE AS REQUIRED UNDER PARAGRAPH 2 OF 'GENERAL INSTRUCTIONS FOR THE PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS' OF THE SCHEDULE III TO THE ACT FOR THE YEAR ENDED 31 MARCH 2017

Name of the entity	Net assets		Share in profit or loss	
	As a % of consolidated net assets	Amount (₹)	As a % of consolidated profit or loss	Amount (₹)
Parent company				
NATCO Pharma Limited	97%	16,033	102%	4,947
Foreign subsidiaries				
NATCO Pharma Inc.	1%	219	0%	3
Time Cap Overseas Limited	1%	107	-2%	(113)
NATCO Pharma (Canada), Inc.	1%	198	1%	57
NATCO Pharma Asia Pte. Ltd.	0%	(2)	0%	(16)
NATCO Pharma Australia PTY Ltd.	0%	(21)	-1%	(29)
Total		16,534		4,849
Minority interest in all subsidiaries				
Time Cap Overseas Limited*	0%	40	0%	11
NATCO Pharma Australia PTY Ltd.	0%	0	0%	(0)
NATCO Pharma (Canada) Inc.	0%	-	0%	0
Total		40		11

FOR THE YEAR ENDED 31 MARCH 2016

Parent company				
NATCO Pharma Limited	97%	12,650	109%	1,705
Foreign subsidiaries				
NATCO Pharma Inc.	2%	253	1%	21
Time Cap Overseas Limited	0%	76	-7%	(111)
NATCO Pharma (Canada), Inc.	0%	31	-2%	(37)
NATCO Pharma Asia Pte. Ltd.	0%	2	-1%	(15)
NATCO Pharma Australia PTY Ltd.	0%	(6)	0%	(5)
Total		13,006		1,558
Minority interest in all subsidiaries				
Time Cap Overseas Limited*	0%	49	1%	13
NATCO Pharma Australia PTY Ltd.	0%	0	0%	0
NATCO Pharma (Canada) Inc.	0%	-	0%	-
Total		49		13

*Amount is after considering share of Time Cap Overseas Limited in NATCO Farma Do Brazil (step down subsidiary of NATCO Pharma Limited) in which it holds 96.53% of equity.

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43. DISCLOSURE ON SPECIFIED BANK NOTES (SBNS)

During the year, the Company had specified bank notes (SBNS) and other denomination notes as defined in the MCA notification G.S.R. 308(E) dated 31 March 2017. The details of SBNS held and transacted during the period from 8 November 2016 to 30 December 2016 is as follows:

Particulars	SBNS	Other denomination notes	Total
Closing cash in hand as on 8 November 2016	33	9	42
(+) Permitted receipts	-	4	4
(-) Permitted payments	-	10	10
(-) Amounts deposited in banks	33	0	33
Closing cash in hand as on 30 December 2016	-	3	3

44. FIRST TIME ADOPTION OF IND AS

These are the Group's first financial statements prepared in accordance with Ind AS.

The accounting policies set out in note 4 have been applied in preparing the financial statements for the year ended 31 March 2017, the comparative information presented in these financial statements for the year ended 31 March 2016 and in the preparation of an opening Ind AS balance sheet at 1 April 2015 (the Group's date of transition). An explanation of how the transition from previous GAAP to Ind AS has affected the Group's financial position, financial performance and cash flows is set out in the following tables and notes.

A. Ind AS optional exemptions

A1 Deemed cost for property, plant and equipment, investment property and intangible assets

Ind AS 101 permits a first-time adopter to elect to continue with the carrying value for all of its property, plant and equipment as recognised in the financial statements as at the date of transition to Ind AS, measured as per the previous GAAP and use that as its deemed cost as at the date of transition after making necessary adjustments for de-commissioning liabilities. This exemption can also be used for intangible assets covered by Ind AS 38 Intangible Assets and investment property covered by Ind AS 40 Investment Properties. Accordingly, the Group has elected to measure all of its property, plant and equipment, intangible assets and investment property at their previous GAAP carrying value.

A2 Designation of previously recognised financial instruments

Ind AS 101 allows an entity to designate investments in equity instruments at FVOCI on the basis of the facts and circumstances at the date of transition to Ind AS. The Group has elected to apply this exemption for its investment in equity investments.

B. Ind AS mandatory exemptions

B1 Estimates

An entity's estimates in accordance with Ind AS at the date of transition to Ind AS shall be consistent with estimates made for the same date in accordance with previous GAAP (after adjustments to reflect any difference in accounting policies), unless there is objective evidence that those estimates were in error.

Ind AS estimates as at 1 April 2015 are consistent with the estimates as at the same date made in conformity with previous GAAP. The Group made estimates for following items in accordance with Ind AS at the date of transition as these were not required under previous GAAP:

- a) Investment in equity instruments carried at FVTPL or FVOCI
- b) Impairment of financial assets based on expected credit loss model.

B2 Classification and measurement of financial assets and liabilities

The classification and measurement of financial assets will be made considering whether the conditions as per Ind AS 109 are met based on facts and circumstances existing at the date of transition.

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44. FIRST TIME ADOPTION OF IND AS (CONTINUED)

B2 Classification and measurement of financial assets and liabilities

Financial assets can be measured using effective interest method by assessing its contractual cash flow characteristics only on the basis of facts and circumstances existing at the date of transition and if it is impracticable to assess elements of modified time value of money i.e. the use of effective interest method, fair value of financial asset at the date of transition shall be the new carrying amount of that asset. The measurement exemption applies for financial liabilities as well.

Applying a requirement is impracticable when the entity cannot apply it after making every reasonable effort to do so. It is impracticable to apply the changes retrospectively if:

- The effects of the retrospective application or retrospective restatement are not determinable;
- The retrospective application or restatement requires assumptions about what management's intent would have been in that period;

The retrospective application or retrospective restatement requires significant estimates of amounts and it is impossible to distinguish objectively information about those estimates that existed at that time.

B3 De-recognition of financial assets and liabilities

Ind AS 101 requires a first-time adopter to apply the de-recognition provisions of Ind AS 109 prospectively for transactions occurring on or after the date of transition to Ind AS. However, Ind AS 101 allows a first-time adopter to apply the de-recognition requirements in Ind AS 109 retrospectively from a date of the entity's choosing, provided that the information needed to apply Ind AS 109 to financial assets and financial liabilities derecognised as a result of past transactions was obtained at the time of initially accounting for those transactions.

The Group has elected to apply the de-recognition provisions of Ind AS 109 prospectively from the date of transition to Ind AS.

C. Reconciliations between previous GAAP and Ind AS

Equity at the date of transition to Ind AS i.e. 1 April 2015 and 31 March 2016 can be reconciled with the amounts reported under Indian GAAP as follows:

Notes	As at 31 March 2016			As at 1 April 2015		
	As per IGAAP*	Adjustments	As per Ind AS	As per IGAAP*	Adjustments	As per Ind AS
ASSETS						
Non-current assets						
(a) Property, plant and equipment	7,046	-	7,046	6,640	-	6,640
(b) Capital work-in-progress	2,118	-	2,118	1,290	-	1,290
(c) Other intangible assets	90	(35)	55	459	(35)	424
(d) Financial assets				-		
Investments i.	1	-	1	16	11	27
Loans	-	-	-	-	-	-
Other financial assets	106	-	106	79	-	79
(e) Other non-current assets	521	-	521	484	-	484
	9,882	(35)	9,847	8,968	(24)	8,944
CURRENT ASSETS						
(a) Inventories	3,573	-	3,573	2,200	-	2,200
(b) Financial Assets						

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44. FIRST TIME ADOPTION OF IND AS (CONTINUED)

C. Reconciliations between previous GAAP and Ind AS (continued)

	Notes	As at 31 March 2016			As at 1 April 2015		
		As per IGAAP*	Adjustments	As per Ind AS	As per IGAAP*	Adjustments	As per Ind AS
Investments	i.	210	11	221	1	6	7
CURRENT ASSETS							
Trade receivables		2,616	-	2,616	1,924	-	1,924
Cash and cash equivalents		242	-	242	124	-	124
Other bank balances		210	-	210	9	-	9
Loans		28	-	28	26	-	26
Other financial assets		770	-	770	30	-	30
(c) Income tax assets (net)		34	-	34	43	-	43
(d) Other current assets		676	-	676	515	-	515
		8,359	11	8,370	4,872	6	4,878
Total assets		18,241	(24)	18,217	13,840	(18)	13,822
EQUITY AND LIABILITIES							
Equity							
(a) Equity share capital		348	-	348	332	-	332
(b) Other equity	i.	12,635	(26)	12,609	8,129	(15)	8,114
Equity attributable to owners		12,983	(26)	12,957	8,461	(15)	8,446
Non-controlling interest		49	-	49	50	-	50
Total of Equity		13,032	(26)	13,006	8,511	(15)	8,496
LIABILITIES							
Non-current liabilities							
(a) Financial liabilities							
Borrowings		-	-	-	970	-	970
Other financial liabilities		8	-	8	8	-	8
(b) Employee benefit obligations		125	-	125	92	-	92
(c) Deferred tax liabilities (net)		145	2	147	119	(3)	116
(d) Other non-current liabilities		-	-	-	-	-	-
		278	2	280	1,189	(3)	1,186
Current liabilities							
(a) Financial liabilities							
Borrowings		984	-	984	1,765	-	1,765
Trade payables		2,756	-	2,756	1,253	-	1,253
Other financial liabilities		815	-	815	859	-	859

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SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION

(All amounts in ₹ millions, except share data and where otherwise stated)

44. FIRST TIME ADOPTION OF IND AS (CONTINUED)

C. Reconciliations between previous GAAP and Ind AS (continued)

Notes	As at 31 March 2016			As at 1 April 2015		
	As per IGAAP*	Adjustments	As per Ind AS	As per IGAAP*	Adjustments	As per Ind AS
(b) Other current liabilities	327	-	327	250	-	250
(c) Employee benefit obligations	15	-	15	11	-	11
(d) Current tax liabilities (net)	34	-	34	2	-	2
	4,931	-	4,931	4,140	-	4,140
Total equity and liabilities	18,241	(24)	18,217	13,840	(18)	13,822

*The IGAAP figures have been reclassified to confirm to Ind AS presentation requirements for the purposes of this note.

Total effect on retained earnings and equity is further analysed as follows:

	Notes to first time adoption	31 March 2016	1 April 2015
Total equity (shareholder's funds) as per previous GAAP		13,032	8,511
Adjustments:			
Fair valuation of investment classified as FVTOCI	i.	11	6
Fair valuation of investment classified as FVTPL	i.	-	11
Derecognition of intangible assets		(35)	(35)
Tax on the above adjustments		(2)	3
Total adjustments		(26)	(15)
Total equity as per Ind AS		13,006	8,496

(All amounts in ₹ millions, except share data and where otherwise stated)

For the year ended 31 March 2016				
	Notes	As per IGAAP*	Adjustments	As per Ind AS
REVENUE				
Revenue from operations	iv.	10,423	378	10,801
Other income	i.	107	(11)	96
Total revenues		10,530	367	10,897
EXPENSES				
Cost of materials consumed		3,037	-	3,037
Purchases of stock-in-trade		152	-	152
Changes in inventories of finished goods, Stock-in-Trade and work-in-progress		(483)	-	(483)
Employee benefits expense	v.	1,829	(31)	1,798
Finance costs		229	-	229
Depreciation and amortisation expense		508	-	508
Other expenses		3,263	378	3,641
Total expenses		8,535	347	8,882
Profit before tax		1,995	20	2,015

NOTES TO FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION

(All amounts in ₹ millions, except share data and where otherwise stated)

44. FIRST TIME ADOPTION OF IND AS (CONTINUED)

C. Reconciliations between previous GAAP and Ind AS (continued)

For the year ended 31 March 2016				
	Notes	As per IGAAP*	Adjustments	As per Ind AS
Tax expense				
Current tax		441	-	441
Deferred tax		38	-	38
Profit from continuing operation		1,516	20	1,536
Profit from discontinued operations		71	-	71
Tax expense on discontinued operations		49	-	49
Profit from discontinued operations, net of tax		22	-	22
Profit after tax		1,538	20	1,558
Non-controlling interest (NCI)		(13)	-	(13)
Profit after tax and NCI		1,551	20	1,571
OTHER COMPREHENSIVE INCOME				
Items that will not be reclassified to profit or loss				
Re-measurement gains (losses) on defined benefit plans	v.	-	(31)	(31)
Net (loss)/gain on FVTOCI equity securities	i.	-	6	6
Exchange differences on translation of foreign operations		-	(18)	(18)
Income tax relating to items that will not be reclassified to profit or loss				
Re-measurement gains (losses) on defined benefit plans		-	(7)	(7)
Net (loss)/gain on FVTOCI equity securities		-	1	1
Total comprehensive income for the year		1,551	(29)	1,522

*The IGAAP figures have been reclassified to confirm to Ind AS presentation requirements for the purposes of this note.

NOTES TO THE RECONCILIATIONS

i. Investments

Under the previous GAAP, investments in equity instruments and mutual funds were classified as long-term investments or current investments based on the intended holding and realisability. Long-term investments were carried at cost less provision for other than temporary decline in the value of such investments. Current Investments were carried at lower of cost or fair value. Under Ind AS, these investments are required to be measured at fair value. The resulting fair value changes of these investments (other than equity instruments designated as at FVOCI) have been recognised in retained earnings as at the date of transition and subsequently in the profit or loss for the year ended 31 March 2016. This increased the retained earnings by ₹11 as at 31 March 2016 (1 April 2015: ₹11).

NOTES TO FINANCIAL STATEMENTS

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND OTHER EXPLANATORY INFORMATION

(All amounts in ₹ millions, except share data and where otherwise stated)

44. FIRST TIME ADOPTION OF IND AS (CONTINUED)

Notes to the reconciliations (continued)

Fair value changes with respect to investments in equity instruments designated as at FVOCI have been recognised in FVOCI - Equity investments reserve as at the date of transition and subsequently in the other comprehensive income for the year ended 31 March 2016. This increased other reserves by ₹17 as at 31 March 2016 (1 April 2015: ₹6).

Consequent to the above, the total equity as at 31 March 2016 increased by ₹28 (1 April 2015: ₹17) and profit and other comprehensive income for the year ended 31 March 2016 increased/(decreased) by (₹11) and ₹5 respectively.

ii. Retained earnings

Retained earnings as at 1 April 2015 has been adjusted consequent to the above Ind AS transition adjustments.

iii. Other comprehensive income

Under Ind AS, all items of income and expense recognised in a period should be included in profit or loss for the period, unless a standard requires or permits otherwise. Items of income and expense that are not recognised in profit or loss but are shown in the statement of profit and loss as 'other comprehensive income' includes re-measurements of defined benefit plans, foreign exchange differences arising on translation of foreign operations, effective portion of gains and losses on cash flow hedging instruments and fair value gains or (losses) on FVOCI equity instruments. The concept of other comprehensive income did not exist under previous GAAP.

iv. Revenue from operations

Under Indian GAAP, sale of goods was presented as net of excise duty. However, under Ind AS, sale of goods includes excise duty. Excise duty on sale of goods is separately presented in the face of statement of profit and loss. Thus sale of goods under Ind AS has increased by ₹378 with a corresponding increase in expense.

v. Remeasurement of post-employment benefit obligations

Under Ind AS, remeasurements i.e. actuarial gains and losses and the return on plan assets, excluding amounts included in the net interest expense on the net defined benefit liability are recognised in other comprehensive income instead of profit or loss. Under the previous GAAP, these remeasurements were forming part of the profit or loss for the year. As a result of this change, the profit for the year ended 31 March 2016 decreased by ₹31. There is no impact on the total equity as at 31 March 2016.

For **Walker Chandiook & Co LLP**

Chartered Accountants

Firm Registration No.: 001076N/N500013

per **Adi P. Sethna**

Partner

Membership No. 108840

For and on behalf of the Board of Directors

NATCO Pharma Limited

V. C. Nannapaneni

Chairman & Managing Director

(DIN: 00183315)

Rajeev Nannapaneni

Vice Chairman & CEO

(DIN: 00183872)

M. Adinarayana

Company Secretary & Vice President

(Legal & Corporate Affairs)

S. V. V. N. Appa Rao

Chief Financial Officer

Place: Hyderabad

Date: 30 May 2017

Place: Hyderabad

Date: 30 May 2017



NOTICE TO MEMBERS

Notice is hereby given that the 34th Annual General Meeting of the members of the Company will be held on Thursday, the 28th day of September, 2017 at 10.30 a.m. at Hotel Daspalla, Road No.37, Jubilee Hills, Hyderabad-500 033 to transact the following business:

ORDINARY BUSINESS:

1. Adoption of audited Annual Financial Statements for the Financial Year 2016-2017

To receive, consider and adopt the audited Balance Sheet as at 31st March, 2017, Statement of Profit and Loss for the year ended 31st March, 2017, Cash Flow Statement for the year ended 31st March, 2017, both on standalone and consolidated basis and Reports of Directors and Auditors thereon.

2. To confirm the already paid two interim dividends on equity shares during the financial year 2016-17 as final dividend

To Consider and if thought fit to pass, with or without modifications, the following Resolution as an Ordinary Resolution:

“RESOLVED THAT the interim dividend of ₹ 0.75 (seventy five paise only) per equity share of ₹ 2/- each declared in the Board meeting held on 9th August, 2016 amounting to ₹ 13,06,30,683.75 (Rupees thirteen crores six lakhs thirty thousand six hundred eighty three and paise seventy five only) on 17,41,74,245 (Seventeen crores forty one lakhs seventy four thousand two hundred and forty five only) equity shares of ₹ 2/- each and interim dividend of ₹ 6.00 (Rupees six only) per equity share of ₹ 2/-each declared in the Board Meeting held on 14th February, 2017 amounting to ₹ 1,04,58,46,800 (Rupees one hundred and four crores fifty eight lakhs forty six thousand eight hundred) on 17,43,07,800 (Seventeen crores forty three lakhs seven thousand eight hundred) equity shares of ₹ 2/-each thus total aggregating to ₹ 117,64,77,483.75 (Rupees one hundred seventeen crore sixty four lakh seventy seven thousand four hundred and eighty three and paise seventy five only) be and is hereby approved as the final dividend for the financial year 2016-17.”

3. Reappointment of Sri P.S.R.K Prasad (DIN: 07011140) as a Director liable to retire by rotation

To consider and, if thought fit, with or without modifications, to pass the following resolution as an Ordinary Resolution:

“RESOLVED THAT Sri P.S.R.K Prasad (DIN: 07011140) who retires by rotation and being eligible offers himself for re-appointment, be and is hereby reappointed as a Director of the Company, who shall be liable for retirement by rotation.”

4. Appointment of Statutory Auditors for the financial year 2017-18

To consider and, if thought fit, with or without modifications, to pass the following resolution as an Ordinary Resolution:

“RESOLVED THAT pursuant to the provisions of Sections 139, 142 and all other applicable provisions, if any, of the Companies Act, 2013 and the rules made thereunder, as amended, and pursuant to the recommendation of the Audit Committee of the Board and pursuant to the resolution passed by the members at their Annual General Meeting held on 27th September, 2014, the members be and hereby ratify the appointment of M/s. Walker, Chandio & Co. LLP. (Firm Registration No.001076N), Hyderabad as Statutory Auditors of the Company from the conclusion of this Annual General Meeting till the conclusion of the next Annual General Meeting to be held for the financial year 2017-18 with such remuneration as may be decided by the Board of Directors upon recommendation from the Audit Committee.”

SPECIAL BUSINESS:

5. Reappointment of Sri V C Nannapaneni (DIN: 00183315) as Chairman and Managing Director

To consider and, if thought fit, with or without modifications, to pass the following resolution as a Special Resolution:

“RESOLVED THAT pursuant to the provisions of Sections 152, 196, 197, 198, Schedule V and all other

applicable provisions of the Companies Act, 2013 and the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, as amended, the consent of the members is hereby accorded to the reappointment of Sri V C Nannapaneni (DIN: 00183315) as Chairman and Managing Director of the Company for a period of two years from 01st April, 2017 to 31st March, 2019 with the remuneration as detailed below:

- a. Salary not exceeding ₹ 1, 75,00,000/- (Rupees one crore seventy five lakhs only) p.a including dearness allowance and all other allowances.
- b. Managerial commission not exceeding 1% of the net profits calculated as per Section 198 of the Companies Act, 2013.
- c. Perquisites:
 - i. Reimbursement of medical expenses for major ailments not exceeding 50% of the salary.
 - ii. Contribution to provident fund, superannuation fund or annuity fund to the extent either singly or put together are not taxable under Income Tax Act, 1961.
 - iii. Gratuity payable at a rate not exceeding half month's salary for each completed year of service.
 - iv. Encashment of leave as per company policy and
 - v. Special incentive not exceeding 15% of gross remuneration per annum.

RESOLVED FURTHER THAT the Board of Directors of the Company be and is hereby authorized to vary, alter or modify the remuneration as may be agreed by the Board of Directors and Sri V.C. Nannapaneni.

RESOLVED FURTHER THAT notwithstanding as above in the financial year closing on 31st March, 2018, if the Company has no profits or if its profits are inadequate, the Company shall pay to Sri V.C.Nannapaneni the remuneration by way of salary, allowances and perks not exceeding the limits specified under Schedule V of the Companies

Act, 2013 or any statutory modification(s) or re-enactment thereof.

RESOLVED FURTHER THAT, the Board be and is hereby authorized to do all such acts, deeds, matters and things as it may deem fit, necessary and delegate to any Director(s) or any other Officer(s) of the Company for obtaining permissions and approvals, if any, in this connection."

6. Reappointment of Sri Rajeev Nannapaneni, (DIN: 00183872) as Vice Chairman and Chief Executive Officer

To consider and, if thought fit, with or without modifications, to pass the following resolution as a Special Resolution:

"RESOLVED THAT pursuant to the provisions of Sections 152, 196, 197, 198, Schedule V and all other applicable provisions of the Companies Act, 2013 and the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, as amended, the consent of the members is hereby accorded to the reappointment of Sri Rajeev Nannapaneni, (DIN: 00183872) as Vice Chairman & Chief Executive Officer of the company for a period of two years from 01st April, 2017 to 31st March, 2019 with the remuneration as detailed below:

- a. Salary not exceeding ₹ 1, 60, 00,000/- (Rupees one crore sixty lakhs only) p.a including dearness allowance and all other allowances.
- b. Perquisites:
 - i. Reimbursement of medical expenses for major ailments not exceeding 50% of the salary.
 - ii. Contribution to provident fund, superannuation fund or annuity fund to the extent either singly or put together are not taxable under Income Tax Act, 1961.
 - iii. Gratuity payable at a rate not exceeding half month's salary for each completed year of service.
 - iv. Encashment of leave as per company policy and

- v. Special incentive not exceeding 15% of gross remuneration per annum.

RESOLVED FURTHER THAT the Board of Directors of the Company be and is hereby authorized to vary, alter or modify the remuneration as may be agreed by the Board of Directors and Sri Rajeev Nannapaneni.

RESOLVED FURTHER THAT notwithstanding as above in the financial year closing on 31st March, 2018, if the Company has no profits or if its profits are inadequate, the Company shall pay to Sri Rajeev Nannapaneni the remuneration by way of salary, allowances and perks not exceeding the limits specified under Schedule V of the Companies Act, 2013 or any statutory modification(s) or re-enactment thereof.

RESOLVED FURTHER THAT, the Board be and is hereby authorized to do all such acts, deeds, matters and things as it may deem fit, necessary and delegate to any Director(s) or any other Officer(s) of the Company for obtaining permissions and approvals, if any, in this connection.”

- 7. Reappointment of Dr.A.K.S.Bhujanga Rao, (DIN: 02742637) as Director and President (R & D and Tech.)**
To consider and, if thought fit, with or without modifications, to pass the following resolution as a Special Resolution:

“RESOLVED THAT pursuant to the provisions of Sections 152, 196, 197, 198, Schedule V and all other applicable provisions of the Companies Act, 2013 and the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, as amended, the consent of the Members is hereby accorded to re-appointment of Dr. A.K.S.Bhujanga Rao, (DIN No.02742637) as Director and President (R & D and Tech.) of the Company for the period from 01st April, 2017 to 6th August, 2017 with the remuneration as detailed below:

- a. Salary not exceeding ₹ 1, 40, 00,000/- (Rupees one crore forty lakhs only) per annum including dearness allowance and all other allowances.
- b. Perquisites:

- i. Reimbursement of Medical Expenses for major ailments not exceeding 50% of the salary.
- ii. Contribution to Provident Fund, Superannuation Fund or Annuity Fund to the extent either singly or put together are not taxable under Income Tax Act, 1961.
- iii. Gratuity payable at a rate not exceeding half month's salary for each completed year of service.
- iv. Encashment of leave as per Company Policy and
- v. Special incentive not exceeding 15% of gross remuneration per annum.

RESOLVED FURTHER THAT the Board of Directors of the Company be and is hereby authorized to vary, alter or modify the remuneration as may be agreed by the Board of Directors and Dr.A.K.S.Bhujanga Rao.

RESOLVED FURTHER THAT notwithstanding as above the Remuneration for the said period , if the Company has no profits or if its profits are inadequate, the Company shall pay to Dr.A.K.S.Bhujanga Rao the remuneration by way of salary, allowances and perks not exceeding the limits specified under Schedule V of the Companies Act, 2013 or any statutory modification(s) or re-enactment thereof.

RESOLVED FURTHER THAT, the Board be and is hereby authorized to do all such acts, deeds, matters and things as it may deem fit, necessary and delegate to any Director(s) or any other Officer(s) of the Company for obtaining permissions and approvals, if any, in this connection.”

- 8. Reappointment of Sri P.S.R.K.Prasad, (DIN: 07011140) as Director and Executive Vice President (Corporate Engineering Services)**

To consider and, if thought fit, with or without modifications, to pass the following resolution as a Special Resolution:

“RESOLVED THAT pursuant to the provisions of Sections 152, 196, 197, 198, Schedule V and all other

applicable provisions of the Companies Act, 2013 and the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, as amended, the consent of the members is hereby accorded to the reappointment of Sri P.S.R.K.Prasad, (DIN: 07011140) as Director and Executive Vice President (Corporate Engineering Services) of the Company for a period of one (1) year from 01st April, 2017 to 31st March, 2018 with the remuneration as detailed below:

- a. Salary not exceeding ₹ 1, 40, 00,000/- (Rupees one crore forty lakhs only) p.a including dearness allowance and all other allowances.
- b. Perquisites:
 - i. Reimbursement of Medical Expenses for major ailments not exceeding 50% of the salary.
 - ii. Contribution to Provident Fund, Superannuation Fund or Annuity Fund to the extent either singly or put together are not taxable under Income Tax Act, 1961.
 - iii. Gratuity payable at a rate not exceeding half month's salary for each completed year of service.
 - iv. Encashment of leave as per Company Policy and
 - v. Special incentive not exceeding 15% of gross remuneration per annum.

RESOLVED FURTHER THAT the Board of Directors of the Company be and is hereby authorized to vary, alter or modify the remuneration as may be agreed by the Board of Directors and Sri P.S.R.K. Prasad.

RESOLVED FURTHER THAT notwithstanding as above in the financial year closing on 31st March, 2018, if the Company has no profits or if its profits are inadequate, the Company shall pay to Sri P.S.R.K.Prasad the remuneration by way of salary, allowances and perks not exceeding the limits specified under Schedule V of the Companies Act, 2013 or any statutory modification(s) or re-enactment thereof.

RESOLVED FURTHER THAT, the Board be and is hereby authorized to do all such acts, deeds,

matters and things as it may deem fit, necessary and delegate to any Director(s) or any other Officer(s) of the Company for obtaining permissions and approvals, if any, in this connection."

- 9. Reappointment of Dr. D. Linga Rao, (DIN: 07088404), as Director & President (Tech. Affairs)**
To consider and, if thought fit, with or without modifications, to pass the following resolution as a Special Resolution:

"RESOLVED THAT pursuant to the provisions of sections 152, 196, 197, 198, Schedule V and all other applicable provisions of the Companies Act, 2013 and the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014, as amended, the consent of the Members is hereby accorded to reappointment of Dr. D. Linga Rao, (DIN: 07088404) as Director & President (Tech. Affairs) of the Company for a period of one (1) year from 01st April, 2017 to 31st March, 2018 with the remuneration as detailed below:

- a. Salary not exceeding ₹ 1,40,00,000/- (Rupees one crore forty lakhs only) p.a including dearness allowance and all other allowances.
- b. Perquisites:
 - i. Reimbursement of medical expenses for major ailments not exceeding 50% of the salary.
 - ii. Contribution to provident fund, superannuation fund or annuity fund to the extent either singly or put together are not taxable under Income Tax Act, 1961.
 - iii. Gratuity payable at a rate not exceeding half month's salary for each completed year of service,
 - iv. Encashment of leave as per company policy and
 - v. Special incentive not exceeding 15% of gross remuneration per annum.

RESOLVED FURTHER THAT the Board of Directors of the Company be and is hereby authorized to vary, alter or modify the remuneration as may be agreed by the Board of Directors and Dr. D. Linga Rao.

RESOLVED FURTHER THAT notwithstanding as above in the financial year closing on 31st March, 2018, if the Company has no profits or if its profits are inadequate, the Company shall pay to Dr. D. Linga Rao the remuneration by way of salary, allowances and perks not exceeding the limits specified under Schedule V of the Companies Act, 2013 or any statutory modification(s) or re-enactment thereof.

RESOLVED FURTHER THAT, the Board be and is hereby authorized to do all such acts, deeds, matters and things as it may deem fit, necessary and delegate to any Director(s) or any other Officer(s) of the Company for obtaining permissions and approvals, if any, in this connection."

10. Ratification of remuneration of Cost Auditors

To consider and, if thought fit to pass, with or without modifications, the following resolution as an Ordinary Resolution:

"RESOLVED THAT pursuant to the provisions of Section 148 and all other applicable provisions, if any, of the Companies Act, 2013 and Rules made thereunder as amended, the members be and hereby ratify the remuneration of ₹ 1,50,000/- (Rupees One Lakh And Fifty Thousand Only) and taxes as applicable plus out of pocket expenses payable to M/s. S.S. Zanwar & Associates, (Firm Registration No.100283) Cost Auditors appointed by the Board of Directors of the Company to conduct the Cost Audit for the financial year ending 31st March, 2018.

RESOLVED FURTHER THAT the Board of Directors of the Company be and is hereby authorized to do all such acts and take all such steps as may be necessary, proper or expedient to give effect to this Resolution."

11. To consider giving of one-time incentive to working directors on account of good performance of the company.

To consider and, if thought fit, with or without modifications, to pass the following resolution as a Special Resolution:

"RESOLVED THAT pursuant to the provisions of Sections 196, 197, 198, Schedule V and all other applicable provisions of the Companies Act, 2013 and the Companies (Appointment and Remuneration of Managerial Personnel) Rules,

2014 (including any statutory modification(s) or re-enactment thereof, for the time being in force), and upon recommendation from the Nomination and Remuneration Committee and the Board, the consent of the members is hereby accorded to the company to give one-time incentive not exceeding 65% of the gross monthly remuneration for the financial year 2016-17 to the working directors of the Company listed below:

NAME OF THE WORKING DIRECTOR	DESIGNATION
1. Dr. A.K.S. Bhujanga Rao	Director & President (R&D and Tech.)
2. Sri P.S.R.K. Prasad	Director & Executive Vice President (Corp. Engineering Services)
3. Dr. D. Linga Rao	Director & President (Technical Affairs)

RESOLVED FURTHER THAT, the Board be and is hereby authorized to do all such acts, deeds, matters and things as it may deem fit, necessary and delegate to any Director(s) or any other Officer(s) of the Company for obtaining permissions and approvals, if any, in this connection."

12. Approval of NATCO Employee Stock Option Scheme 2017 (NATSOP 2017) under SEBI (Share Based Employee Benefits) Regulations, 2014

To consider and, if thought fit, with or without modifications, the following resolution as a Special Resolution:

"RESOLVED THAT pursuant to Section 62(1)(b) and other applicable provisions, if any, of the Companies Act, 2013 and the Rules made thereunder and in accordance with the Memorandum and Articles of Association of the Company, Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, Securities and Exchange Board of India (Share Based Employee Benefits) Regulations, 2014 ("SBEB Regulations"), and subject to such approvals, permissions, sanctions and such conditions and modifications as may be prescribed or imposed by the above authorities while granting such approval, permissions and sanctions, approval and consent of the members be and is hereby accorded to the Board of Directors (hereinafter referred to as "the Board" which term shall be deemed to include any

committee including Compensation Committee of the Board) to introduce, offer and implement the proposed NATCO Employees Stock Options Scheme 2017 ("NATSOP 2017"), and to create, offer, issue and allot in one or more tranches 6,00,000 options exercisable into 6,00,000 Equity Shares of face value of ₹ 2/- each to the present and future employees of the Company selected on the basis of criteria prescribed by the Board in accordance with the SBEB Regulations, hereinafter referred to as "the Eligible Employees" under NATSOP 2017, on such terms and in such manner as the Board may decide in accordance with the provisions of the applicable laws and the provisions of NATSOP 2017.

RESOLVED FURTHER THAT the Equity Shares issued upon exercise of the Options shall rank pari passu in all respects with the existing Equity Shares of the Company including the entitlement of dividend.

RESOLVED FURTHER THAT in case of any corporate action(s) such as rights issues, bonus issues, merger, sale of division and others, if any additional Equity Shares are issued by the Company to the option grantees for the purpose of making a fair and reasonable adjustment to the options granted earlier, the ceiling on the number of options mentioned in the resolution above, shall be deemed to be increased to the extent of such additional Equity Shares issued."

RESOLVED FURTHER THAT in case the Equity Shares of the Company are split or consolidated, then the number of shares to be allotted and the exercise price payable by the option grantees under the Scheme shall automatically stand augmented or reduced in the same proportion as the present face value of ₹ 2/- per Equity Share bears to the revised face value of the equity shares of the Company after such split or consolidation, without affecting any other rights or obligations of the said grantees.

RESOLVED FURTHER THAT the Board be and is hereby authorised to take requisite steps for listing of the Equity Shares allotted under NATSOP 2017 on

the stock exchanges where the equity shares of the company are listed.

RESOLVED FURTHER THAT the Company shall conform to the accounting policies prescribed from time to time under the SBEB Regulations and any other applicable laws and regulations to the extent relevant and applicable to NATSOP 2017.

RESOLVED FURTHER THAT the Board be and is hereby authorized at any time to modify, change, vary, alter, amend, suspend or terminate NATSOP 2017 subject to compliance with the applicable laws and regulations and to do all such acts, deeds, matters and things as it may in its absolute discretion deems fit, for such purpose and also to settle any issues, questions, difficulties or doubts that may arise in this regard without being required to seek any further consent or approval of the members and further to execute all such documents, writings and to give such directions and/or instructions as may be necessary or expedient to give effect to such modification, change, variation, alteration, amendment, suspension or termination of NATSOP 2017 and do all other things incidental and ancillary thereof.

RESOLVED FURTHER THAT the Board, be and is hereby authorized to do all such acts, deeds, and things, as it may, in its absolute discretion, deem necessary including authorizing or directing to appoint Advisors, Consultants or Representatives, being incidental to the effective implementation and administration of NATSOP 2017 as also to make applications to the appropriate authorities, for their requisite approvals as also to initiate all necessary actions for and to settle all such questions, difficulties or doubts whatsoever that may arise and take all such steps and decisions in this regard."

By Order of the Board
For **NATCO Pharma Limited**

M. Adinarayana

Date: 7th August, 2017
Place: Hyderabad

Company Secretary and
Vice President (Legal & Corp. Affairs)

NOTICE

1. An explanatory statement pursuant to Section 102(1) of the Companies Act, 2013 in respect of special businesses is annexed hereto.
2. **A MEMBER ENTITLED TO ATTEND AND VOTE AT THE ANNUAL GENERAL MEETING (AGM) IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF / HERSELF and a proxy need not be a member of the Company.**
3. The instrument of proxy in order to be valid must be deposited at the Registered Office of the Company duly completed and signed, at least FORTY EIGHT (48) hours before the commencement of the meeting.
4. A person may act as Proxy on behalf of members not exceeding fifty and holding in the aggregate not more than ten percent of the total voting share capital of the Company. However, a member holding more than ten percent of the total voting share capital may appoint a single person as proxy and such person shall not act as proxy for any other person or shareholder.
5. Members holding shares in physical form are requested to notify any change in their address or bank mandates immediately to the Registrars and share Transfer Agents M/s. Venture Capital and Corporate Investments Pvt. Ltd., 12-10-167, Bharat Nagar, Hyderabad - 500 018 and members holding shares in electronic form are requested to notify any change in mailing address or bank mandates to their respective Depository Participants with whom they are maintaining their demat accounts.
6. The members, proxies and authorized representatives are requested to bring their copies of notice of the meeting and the Annual Report to the AGM and handover the attendance slips at the entrance hall of the meeting venue along with their Registered Folio No. / Client ID and DP ID numbers for easy identification.
7. Corporate Members are requested to send a duly certified copy of the Board Resolution / Power of Attorney authorizing their representative to attend and vote on their behalf at the AGM.
8. Relevant documents referred to in Notice are open for inspection by the members at the Registered Office of the Company on all working days, during business hours up to the date of the meeting.
9. Members who have not registered their e-mail addresses so far are requested to register their email addresses for receiving all communications including Annual Report, Notices, and Circulars etc. from the Company in electronic mode.
10. In case of Joint Holders attending the meeting, only such Joint Holder who is first in the order of names will be entitled to vote.
11. The Register of Members and Share Transfer Books will remain closed for 7 (Seven) days i.e. from **22nd September, 2017 to 28th September, 2017** (both days inclusive).
12. Members holding shares in electronic form may note that the Bank particulars registered against their respective depository accounts will be used by the Company for payment of dividend, if any. The Company or its Registrars and share Transfer Agents cannot act on any request received directly from the members holding shares in electronic form for any changes of bank particulars or bank mandates. Such changes are to be advised only to the Depository Participants.
13. Members who wish to claim Dividends, which remain unclaimed are requested to either correspond with the Legal & Secretarial Department at the Company's registered office or the Company's Registrars and Share Transfer Agents (M/s. Venture Capital and Corporate Investments Private Limited). Members are requested to note that dividends not encashed or claimed within seven years and 30 days from the date of declaration of the Dividend, will be transferred to the Investor Education and Protection Fund of Government of India as per Section 124(5) of the Companies Act, 2013. In view of this, members are advised to send the entire un-encashed dividend warrants to the Company or our Registrars for revalidation and encash them before the due dates. For the Year 2009-10 an amount of ₹ 9, 18,554/- was transferred to Investor Education

and Protection Fund on 25th June, 2017. Year wise unpaid and unclaimed amounts lying with the company are updated in the company's website www.natcopharma.co.in.

14. Information and other instructions relating to e-Voting and ballot paper voting are under:

- a. In Compliance with provisions of Section 108 of the Companies Act, 2013 and Rule 20 of the Companies (Management and Administration) Rules, 2014, the Company is pleased to provide its members facility to exercise their right to vote at the 34th Annual General Meeting by Electronic means and the business may be transacted through e-voting services provided by National Securities Depository Limited (NSDL).
- b. For the benefit of Members who do not have access to e-voting facility, a ballot paper is being sent along with the Notice of AGM, to enable them to send their assent or dissent by Post. Members may send the duly completed ballot paper so as to reach the Scrutinizer at the Registered Office of the Company not later than 27th September, 2017 (5.00 p.m.). Ballot paper received after this date will be treated as invalid. Detailed instructions on process, manner for voting through post are given in the ballot paper.
- c. The facility of voting is also available at the Meeting and the members attending the Meeting, who have not cast their vote by remote e-voting or through Ballot paper shall be able to exercise their right to vote at the Meeting by means of electronic means.
- d. The members who have cast their vote by remote e-voting may also attend the Meeting but shall not be entitled to cast their vote again at the meeting.
- e. The login ID and Password for e-voting along with process, manner and instructions for e-voting is being sent to the members by e-mail to the registered email-IDs with the Company/ Depository participant, who have not registered their email-IDs with the company / Depository

Participant may receive along with physical copy of the Notice.

- f. The remote e-voting facility will begin on 25th September, 2017 at 9.00 a.m. and ends on 27th September, 2017 by 5.00 p.m. E-Voting shall not be allowed beyond 5 p.m. on 27th September, 2017 and e-voting module shall be disabled by NSDL upon expiry of aforesaid period. During the e-voting period, shareholder of the company, holding share either in physical form or in dematerialised form, as on the cut-off date being Thursday, 21st September, 2017 only shall be entitled to avail the facility of remote e-voting / ballot paper.
 - g. A member can opt for only one mode of voting. In case of member(s) who cast their votes by both the modes, then voting done through e-voting only shall be treated as valid.
 - h. Any person who acquires shares of the company and becomes a member of the company after the dispatch of AGM notices and hold shares as on the cut-off date i.e. 21st September, 2017 may obtain the login id and password by sending a request at info@vccilindia.com / investors@natcopharma.co.in.
15. The Company has appointed Sri CS Vasudeva Rao Devaki, Practicing Company Secretary (C.P.No.12123) as Scrutinizer to scrutinize the voting process in a fair and transparent manner.
- a. The scrutinizer shall immediately after the conclusion of voting at the AGM, first unblock the votes cast at the meeting thereafter unblock the votes cast through e-voting in the presence of at least two (2) witnesses not in the employment of the Company and make a Scrutinizer's Report of the votes cast in favour or against, if any, forthwith to the Chairman of the Company.
 - b. The Results shall be declared immediately after the receipt of Scrutinizer's Report. The Results declared along with the Scrutinizer's Report shall be available for inspection and also placed on the website of the Company and the results shall simultaneously be communicated to

the Stock Exchanges where the shares of the Company are listed.

furnished the requisite consents / declarations to that effect for their appointment.

16. Additional information pursuant to SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 in respect of the Directors seeking appointment at the AGM is furnished herewith and forms a part of the Notice. The Directors have

17. The Securities and Exchange Board of India (SEBI) has mandated the submission of Permanent Account Number (PAN) by every participant in securities market. Members holding shares in Physical form can submit their PAN details to the Company / Share Transfer Agents.

Brief Profile of the Directors seeking Appointment/ Re-appointment at the Annual General Meeting.

Name of the Director	Sri. V C Nannapaneni	Sri. Rajeev Nannapaneni	Dr. A.K.S Bhujanga Rao	Sri P.S.R.K. Prasad	Dr. D. Linga Rao
Designation	Chairman & Managing Director	Vice Chairman & Chief Executive Officer	Director & President (R&D and Technical)	Director & Exec.Vice President (Corporate Engineering Services)	Director & President (Tech.Affairs)
DIN	00183315	00183872	02742637	07011140	07088404
Birth date and Age	30-11-1945 71 years	22-06-1977 40 years	12-07-1952 65 years	15-01-1958 59 years	29-10-1952 64 years
Qualifications	M.S. Pharmacy & M.S. (Pharmaceutical Administration)	BA (Quantitative Economics) & BA (History)	M.Sc. in Chemistry and Ph.D in Synthetic Organic Chemistry	B.E. Mechanical Engineering	M.Sc. Applied Chemistry(Organic Chemistry) & Ph.D. in Chemistry
Past experience	Worked with Lit Drug Company, New Jersey, USA, Vitarine Fine Pharmaceuticals, New York and Time Cap Labs Inc., USA	Worked in Merill Lynch and Natco Systems LLC in USA.	Worked with IDPL, IDL, Reckitt & Colman of India Limited, Vera laboratories Limited	Worked with Stiles India Limited, • Saudi Ceramic Co., Riyadh • Coromandel Fertilizers Limited • Mehta Inorganic & Marine Chemical Industries • Ahmedabad Textiles Industries Research Association	Worked with Indian Drugs and Pharmaceuticals Limited • Novochem Laboratories Private Limited
Date of appointment	19-09-1981	30-11-2005	30-07-2009	12-11-2014	11-02-2015
Nature of Appointment	Reappointment	Reappointment	Reappointment	Director liable for retirement and eligible for reappointment	Reappointment
Tenure of Appointment	01-04-2017 to 31-03-2019	01-04-2017 to 31-03-2019	01-04-2017 to 06-08-2017	01-04-2017 to 31-03-2018	01-04-2017 to 31-03-2018
Percentage of shares held	23.37%	1.08%	0.03%	0.02%	0.03%
No. of board meetings attended out of 4 (Four) meetings held.	4 (Four)	4 (Four)	3 (Three)	4 (Four)	4 (Four)
Relationship with other directors or KMP of the company.	Father of Mr.Rajeev Nannapaneni	Son of Mr.V.C Nannapaneni	None	None	None
Other directorships	• Natco Aqua Limited • NDL Infratech Private Limited • Natco Power Private Limited	• Natco Aqua Limited • NATSOFT Information Systems Private Limited	None	None	None

Explanatory Statement pursuant to Section 102 (1) of the Companies Act, 2013

ITEM NO.5

Reappointment of Sri V C Nannapaneni (DIN: 00183315) as Chairman and Managing Director

Sri V.C.Nannapaneni is associated with the Company as founder/promoter since its incorporation in the year 1981 and has rich and varied experience in the Industry and driving the company towards higher growth in terms of revenues as well as profitability. The company is poised for next level of growth.

Services of Sri V. C. Nannapaneni are very much essential for the Company's future prospects and further growth of the Company. It would be in the interest of the Company to have his experience and professional services as Chairman and Managing Director to your company.

The Board believes that the Company will benefit from his professional expertise and rich experience. The nomination and remuneration committee of the company recommended to the Board for reappointment of Sri V.C.Nannapaneni for a period of 2 years from 01st April, 2017 to 31st March, 2019 with such remuneration as stipulated in the resolution subject to approval of members.

For Additional information relating to Sri V C Nannapaneni requested to refer to the section on **"Brief Profile of the Directors seeking Appointment/ Re-appointment at the Annual General Meeting."**

Except Sri V.C.Nannapaneni & Sri Rajeev Nannapaneni, no other Director or Key managerial personnel or their relatives is/are concerned or interested in the said item of business.

The Board accordingly recommends the special resolution as set out in Item No.5 of the notice for approval of the members.

ITEM NO.6

Reappointment of Sri Rajeev Nannapaneni (DIN: 00183872) as Vice Chairman and Chief Executive Officer

Sri. Rajeev Nannapaneni, Vice Chairman and Chief Executive Officer is associated with the company for the past 17 years and he is looking after all the functional operations of the company including but not limited

to Production, Financial, Legal & Secretarial, new drug launches, Domestic and International Marketing, Exports, Imports, etc.

The Board of Directors at its meeting held on February 14, 2017 approved the reappointment of Sri. Rajeev Nannapaneni (DIN: 00183872) as Vice Chairman and Chief Executive officer, for a period of 2 years with effect from 01st April, 2017 to 31st March, 2019 with such remuneration as specified in resolution and subject to the consent of the members.

For Additional information relating to Sri Rajeev Nannapaneni requested to refer to the section on **"Brief Profile of the Directors seeking Appointment/ Re-appointment at the Annual General Meeting."**

Except Sri V.C.Nannapaneni & Sri Rajeev Nannapaneni, no other Director or Key managerial personnel or their relative is/are concerned or interested in the said item of business.

The Board accordingly recommends the special resolution as set out in Item No. 6 of the Notice for approval of the members.

ITEM NO.7

Reappointment of Dr. A.K.S. Bhujanga Rao (DIN: 02742637) as Director and President (R&D and Tech.)

Dr. A.K.S. Bhujanga Rao, Director & President (R&D and Technical) is associated with the Company for almost 18 years. He has vivid experience in all the R & D and technical areas in the company and also deals with Patent related issues of the company. He has more than 35 years experience in pharmaceutical industry.

The board of directors at its meeting held on 14th February, 2017 recommended for reappointment of Dr. A.K.S. Bhujanga Rao (DIN: 02742637) for a period of one (1) year with effect from 01st April, 2017 to 31st March, 2018 with such remuneration as specified in the resolution which is just and reasonable to Dr. A.K.S. Bhujanga Rao, subject to the approval of members.

However on 7th August, 2017, the Board has received a letter from Dr. A.K.S.Bhujanga Rao due to his superannuation who expressed his willingness to relieve him as Director and President (R&D and Tech.) in the company. The Board accepted and approved the same.

Hence, Board recommends for reappointment of Dr. A.K.S. Bhujanga Rao for the period from 01st April, 2017 to 06th August, 2017 with such remuneration as specified in the resolution.

For Additional information relating to Dr.A.K.S.Bhujanga Rao requested to refer to the section on **“Brief Profile of the Directors seeking Appointment/ Re-appointment at the Annual General Meeting.”**

Except Dr.A.K.S Bhujanga Rao, no other Director or Key managerial personnel or their relative is/are concerned or interested in the said item of business.

The Board accordingly recommends the special resolution as set out in Item No.7 of the Notice for approval of the members.

ITEM NO.8

Reappointment of Sri P.S.R.K.Prasad, (DIN: 07011140) as Director and Executive Vice President (Corporate Engineering Services)

Sri P.S.R.K.Prasad has over 30 years experience in various sectors such as textile, chemicals and pharmaceuticals and working with our Company for the past 22 years. He has got vast and good knowledge in procuring right equipment(s) and machinery for production processes and to provide all utility services and to utilize the resources like manpower, material in an optimum way and to ensure safety of life and property.

In view of the highly competitive employee market, inflationary trends, and taking into consideration industry standards and other relevant factors the nomination and remuneration committee at its meeting held on 14th February, 2017 recommended to the Board for reappointment of Sri P S R K Prasad, (DIN: 07011140) for a period of one (1) year on the Board of the Company with effect from 01st April, 2017 to 31st March, 2018 with such remuneration as specified in the resolution which is just and reasonable to Sri P S R K Prasad, subject to the approval of members.

For Additional information relating to Sri P.S.R.K.Prasad requested to refer to the section on **“Brief Profile of the Directors seeking Appointment/ Re-appointment at the Annual General Meeting.”**

Except Sri P S R K Prasad, no Director or Key managerial personnel or their relatives is/are concerned or interested in the said item of business.

The Board accordingly recommends the resolution as set out in Item No.8 of the Notice for approval of the members.

ITEM NO.9

Reappointment of Dr. D. Linga Rao, (DIN: 07088404), as Director and President (Tech. Affairs)

Dr.D.Linga Rao is working as President-Technical Affairs of the Company. He has more than 40 years of experience in the pharmaceutical industry and has been working with our Company for over 23 years. He has vast experience in various departments like R & D, Quality Control, Quality Assurance and Regulatory affairs.

In view of the job responsibilities taking into consideration the industry standards and other relevant factors the nomination and remuneration Committee at its meeting held on February 14, 2017 recommended the Board of Directors of the Company for reappointment of Dr.D.Linga Rao (DIN: 07088404) for a period of one (1) year on the Board of the company with effect from 01st April, 2017 to 31st March, 2018 with such remuneration as specified in the resolution which is just and reasonable to Dr. D. Linga Rao with subject to the approval of members.

For Additional information relating to Dr.D.Linga Rao requested to refer to the section on **“Brief Profile of the Directors seeking Appointment/ Re-appointment at the Annual General Meeting.”**

Except Dr.D.Linga Rao, no Director or Key managerial personnel or their relatives is/are concerned or interested in the said item of business.

The Board accordingly recommends the resolution as set out in Item No.9 of the Notice for approval of the members.

ITEM NO.10

Ratification of Remuneration of Cost Auditors

The Board, on the recommendation of the Audit Committee, had approved the appointment and remuneration of M/s S.S. Zanwar & Associates, (Firm

Registration No.100283) Cost Auditors to conduct the audit of the cost records of the Company for the financial year ending March 31, 2018.

In accordance with the provision of Section 148 of the Act read with Rules made thereunder, the remuneration payable to the Cost Auditors has to be ratified by the shareholders of the Company.

Accordingly, consent of the members is sought for passing an Ordinary Resolution for ratification of the remuneration payable to Cost Auditors to conduct Cost Audit for the financial year ending March 31, 2018.

None of the Directors and key managerial personnel of the Company or their respective relatives is concerned or interested in the said item of business.

The Board accordingly recommends the resolution as set out in Item No.10 of the notice for approval of the members.

ITEM NO. 11

To consider giving of one-time incentive to working directors on account of good performance of the company.

Keeping in view of the good performance of the Company during the financial year 2016-17, all the employees of the Company were given one-time incentive in accordance with their designation. The Nomination and Remuneration Committee of the Company in its meeting held on 30th May, 2017 recommended to the Board for its approval to give one-time incentive to the Working Directors of the Company. Accordingly Board in its meeting held on 30th May, 2017 approved, subject to the consent of the members of the Company to give one-time incentive to the following working directors of the Company not exceeding 65% of their gross monthly remuneration for the financial year 2016-17:

NAME OF THE WORKING DIRECTOR	DESIGNATION
1. Dr. A.K.S. Bhujanga Rao	Director & President (R&D and Tech.)
2. Sri P.S.R.K. Prasad	Director & Executive Vice President (Corp. Engineering Services)
3. Dr. D. Linga Rao	Director & President (Technical Affairs)

Except Dr. A.K.S. Bhujanga Rao, Sri P.S.R.K. Prasad and Dr. D. Linga Rao no other Director or Key managerial

personnel or their relatives is/are concerned or interested in the said item of business.

The Board accordingly recommends the resolution as set out in Item No. 11 of the Notice for approval of the members.

ITEM NO.12

Approval of NATCO Employee Stock Option Scheme 2017 (NATSOP 2017) under SEBI (Share Based Employee Benefits) Regulations, 2014

In order to reward and motivate employees as also to attract the talent as well as to retain the key managerial employees, the Board of Directors at its meeting held on 7th August, 2017 have approved and proposed for the approval of the shareholders for issue of Stock Options as per which employees, who comply with certain eligibility criteria would be given / granted stock options to subscribe a specified number of equity shares of the Company offered to them at a price to be determined.

The ESOP Plan would be subject to and in conformity with the Securities and Exchange Board of India (Share Based Employee Benefits) Regulations, 2014 issued by the Securities and Exchange Board of India (SEBI).

The object of the plan is to enable such employees to participate in the long term growth of the Company and seek convergence of interest of shareholders such that eligible employees consciously work towards value creation for the shareholders.

However, future remuneration revisions will bear in mind and take due note of the fact that the employees in the management cadre have coverage of this plan. The scheme would therefore, reduce dependence on cash compensation as a tool for retaining and rewarding talent.

The Salient features of the ESOP Plan are as under:

(A) Total number of options to be granted

- (i) The total number of options to be granted under this scheme is 6, 00,000 of ₹ 2/- each.
- (ii) The Board may with the approval of the shareholders increase the maximum number of options under the NATSOP-2017 at any time.

- (iii) One option entitles the holder of the options to apply for one equity share of ₹ 2/- each of the company.

(B) Eligibility Criteria for the employees to participate in ESOP

The following are eligible to participate in the ESOP Scheme of the Company:

- (i) A permanent employee of the company who is inside or outside India; or
- (ii) A director of the company, whether a whole time director or not but excluding an independent / Promoter director;

The following are not eligible to participate in the scheme:

- (a) an employee who is a promoter or a person belonging to the promoter group; or
- (b) a director who either himself/herself or through his relative or through anybody corporate, directly or indirectly, holds more than ten percent of the outstanding equity shares of the company;

(C) Requirements of vesting

- (i) There shall be a minimum period of one year between the grant of options and vesting of options.
- (ii) The vesting shall happen in one or more tranches as may be decided by the Board.
- (iii) All the options granted on any date shall vest not later than a maximum period of 6 years from the date of grant of options as may be determined by the Board.
- (iv) The Board may extend, shorten or otherwise vary the vesting period from time to time, in accordance with the applicable laws and in the interest of the option grantee.

(D) Exercise price or price formula

The exercise price for the conversion of 1 option into 1 equity share shall be ₹ 2/- or as decided by the Board.

(E) Exercise Period and the Process of Exercise

- (i) Exercise period will commence from the vesting date and extend up to the expiry period of the option as decided by the Board.
- (ii) The Board will decide on the expiry period of options for employees leaving the Company after grant of options in their favour.
- (iii) The Options will be exercisable by the employees by a written application to the designated officer of the Company to exercise the Options, in such manner and on execution of such documents as may be prescribed by the Board under the Scheme.
- (iv) The Options will lapse if not exercised within the specified exercise period. Such lapsed options may be re issued by the Board in such manner as it deems fit in the best interest of the employees.

(F) Appraisal Process for determining the eligibility of employees to the ESOP Scheme

- (i) The company has a formal established performance appraisal system wherein the performance of the employees is assessed each year on the basis of various functional and managerial parameters. The appraisal process is revised at regular intervals.
- (ii) Employees and Directors would be granted Stock Options based on performance-linked parameters such as work performance, technical knowledge, period of service, designation and such other parameters as may be decided by the Board from time to time.
- (iii) The Board may at its discretion extend the benefits of the NATSOP2017 to a new entrant or any existing employee on such other basis as it may deem fit.

(G) Maximum number of options to be issued per employee and in aggregate

- (i) The maximum number of options to be granted to each employee will depend upon the rank/ designation of the employee as on the date

of grant of options. However no employee shall be entitled to more than such number of options more than 1% of the issued capital of the Company at the time of grant of options.

- (ii) The aggregate number of options to be granted under this scheme shall not exceed 6, 00, 000 Equity shares
- (iii) The Board shall decide on the number of options to be granted to each employee within this limit.

(H) Maximum quantum of benefits to be provided per employee under the NATSOP 2017

The maximum quantum of benefits underlying the options issued to an eligible employee shall be equal to difference between the option Exercise price and the Market Price of the shares on the exercise date.

(I) Accounting Methods

The Company shall confirm to the accounting policies specified in the Regulation 15 of SBEB Regulations and/or such other guidelines as may be applicable from time to time.

(J) Method of Valuation of these options

The Company shall use the fair value method for valuation of the options.

(K) Implementation of Scheme and source of acquisition

- (i) The Scheme shall be implemented and administered directly by the Company.

- (ii) The Scheme contemplates fresh / new issue of shares by the Company.

Clause 6 of the SEBI (Share Based Employee Benefits) Regulations, 2014 requires that any ESOP Scheme for offering stock options to the employees of the Company must be approved by the shareholders by way of a Special Resolution in the General Meeting and furthermore, as the Scheme will entail further shares to be offered to persons other than the existing shareholders of the company, consent of the members is required by way of a Special Resolution pursuant to the provisions of subsection (b) of Section 62 of the Companies Act, 2013 for the Item No. and all other applicable provisions of the law for the time being in force.

The Board of Directors recommends the Special Resolution as set out in item No.12 for the approval of the members.

None of the Directors of the Company is in any way concerned or interested in the resolution except to the extent of the financial interest for the shares that may be offered to him under the Scheme.

By Order of the Board
For **NATCO Pharma Limited**

M. Adinarayana

Date: 7th August, 2017
Place: Hyderabad

Company Secretary and
Vice President (Legal & Corp. Affairs)

ROUTE MAP TO THE VENUE



VENUE

Daspalla Hotel, Road No. 37,
Jubilee Hills, Hyderabad 500 033,
Telangana

PROMINENT LAND MARK

Near Madhapur Police Station



NATCO Pharma Limited

Registered Office: NATCO House, Road # 2, Banjara Hills, Hyderabad 500034, Telangana

Email id: investors@natcopharma.co.in, website: www.natcopharma.co.in

Phone No.040-23547532 Fax No.040-23548243

CIN : L24230TG1981PLC003201

Form No. MGT-11

PROXY FORM

[Pursuant to Section 105(6) of the Companies Act, 2013 and rule 19(3) of the Companies (Management and Administration) Rules, 2014]

Name of the member(s)			
Registered Address			
Email Id			
Folio No./Client ID		DP ID	

I/We, being the member (s) of _____ shares of _____ the above named company,
hereby appoint

1	Name			
	Address			
	E-mail Id	Signature		
	or failing him			
2	Name			
	Address			
	E-mail Id	Signature		
	or failing him			
3	Name			
	Address			
	E-mail Id	Signature		

as my / our proxy to attend and vote (on a poll) for me / us and on my / our behalf at the 34th Annual General Meeting of the members of the Company to be held on Thursday, the 28th day of September, 2017 at 10.30 a.m. at Hotel Daspalla, Road No.37, Jubilee Hills, Hyderabad - 500 033, Telangana, and at any adjournment thereof in respect of such resolutions as are indicated below:

Resolution No	Description	I/We assent to the Resolution (FOR)	I/We dissent to the Resolution (AGAINST)
1	Adoption of audited Annual Financial Statements for the Financial Year 2016-2017		
2	To confirm the already paid two Interim Dividends on equity shares during the financial year 2016-17 as final dividend		
3	Reappointment of Sri P.S.R.K. Prasad (DIN: 07011140) as a Director liable to retire by rotation		
4	Appointment of Statutory Auditors for the Financial Year 2017-18		
5	Reappointment of Sri V C Nannapaneni (DIN: 00183315) as Chairman and Managing Director		
6	Reappointment of Sri Rajeev Nannapaneni, (DIN: 00183872) as Vice Chairman and Chief Executive Officer		
7	Reappointment of Dr.A.K.S.Bhujanga Rao, (DIN: 02742637) as Director and President (R&D and Tech.)		
8	Reappointment of Sri P.S.R.K.Prasad,(DIN: 07011140) as Director and Executive Vice President (Corporate Engineering Services)		
9	Reappointment of Dr. D. Linga Rao, (DIN: 07088404), as Director & President (Tech. Affairs)		
10	Ratification of Remuneration of Cost Auditors		
11	To consider giving of one-time incentive to Working Directors on account of good performance of the company.		
12	Approval of NATCO Employee Stock Option Scheme-2017 (NATSOP-2017) under SEBI (Share Based Employee Benefits) Regulations, 2014		

Signed this _____ day of _____ 2017.

Signature of shareholder: _____

Signature of Proxy holder(s): _____

Affix a
1 Rupee
Revenue
Stamp

Note: This form of proxy in order to be effective should be duly completed and deposited at the Registered Office of the Company, not less than 48 hours before the commencement of the Meeting.



BALLOT FORM (in lieu of remote e-voting)

I/We hereby exercise my/our vote in respect of the Ordinary / Special Resolution (s) passed for the business stated in the Notice of Annual General Meeting of the Company to be held on 28th September, 2017 by conveying my/our assent or dissent to the said Resolution(s) by placing (_/) mark at the appropriate box below.

Sl No.	Description	No of Shares	I/ We assent to the Resolution (FOR)	I / We dissent to the Resolution (AGAINST)
1	Adoption of audited Annual Financial Statements for the Financial Year 2016-2017			
2	To confirm the already paid two Interim Dividends on equity shares during the financial year 2016-17 as final dividend			
3	Reappointment of Sri P.S.R.K. Prasad (DIN: 07011140) as a Director liable to retire by rotation			
4	Appointment of Statutory Auditors for the Financial Year 2017-18			
5	Reappointment of Sri V C Nannapaneni (DIN: 00183315) as Chairman and Managing Director			
6	Reappointment of Sri Rajeev Nannapaneni, (DIN: 00183872) as Vice Chairman and Chief Executive Officer			
7	Reappointment of Dr.A.K.S.Bhujanga Rao, (DIN: 02742637) as Director and President (R & D and Tech.)			
8	Reappointment of Sri P.S.R.K.Prasad,(DIN: 07011140) as Director and Executive Vice President (Corporate Engineering Services)			
9	Reappointment of Dr. D. Linga Rao, (DIN: 07088404), as Director & President (Tech. Affairs)			
10	Ratification of Remuneration of Cost Auditors			
11	To consider giving of one-time incentive to Working Directors on account of good performance of the company.			
12	Approval of NATCO Employee Stock Option Scheme-2017 (NATSOP-2017) under SEBI (Share Based Employee Benefits) Regulations, 2014			

Instructions and other information relating to ballot paper voting:

- Those members who are unable to cast their vote through remote e-voting mechanism, may fill up the Ballot Form printed above and submit the same in a sealed envelope to The Scrutinizer, M/s. Natco Pharma Limited, Natco House, Road No.2,Banjara Hills, Hyderabad 500 034, so as to reach latest by 5.00 p.m. on 27th September, 2017. Ballot Form received thereafter will strictly be treated as if not received.
- The Company will not be responsible if the envelope containing the Ballot Form is lost in transit.
- Unsigned, incomplete or incorrectly ticked forms are liable to be rejected and the decision of the Scrutinizer on the validity of the forms will be final.
- In the event member casts his votes through both the process i.e. e-voting and Ballot Form, the votes in the electronic system would be considered and the Ballot Form would be ignored.
- The Proxy cannot vote through Ballot Form.
- In case of Joint holders, the Ballot Form should be signed by the first named Share holder and in his/her absence by the next named share holders can sign in Ballot Form.
- Ballot form has been signed by an authorised representative of the Body Corporate / Trust / Societies etc. should be accompanied a certified copy of the relevant authorisation / Board Resolution.

CORPORATE INFORMATION

BOARD OF DIRECTORS

Mr. V C Nannapaneni

Chairman & Managing Director

Mr. T V Rao

Director - Independent

Mr. G S Murthy

Director - Independent

Dr. B S Bajaj *

Director - Independent

Mr. Rajeev Nannapaneni

Vice Chairman & Chief Executive Officer

Dr. A K S Bhujanga Rao *

Director & President
(R&D and Tech.)

Mr. D G Prasad

Director - Independent

Mr. Vivek Chhachhi

Director - Non-Executive & Non-Independent

Dr. Leela Digumarti

Director - Independent

Mr. P S R K Prasad

Director & Executive Vice President (Corp. Engg. Services)

Dr. M U R Naidu

Director - Independent

Dr. D Linga Rao

Director & President
(Tech. Affairs)

COMPANY SECRETARY & VICE PRESIDENT (LEGAL & CORP AFFAIRS)

CS M Adinarayana

CHIEF FINANCIAL OFFICER

Mr. S V V N Appa Rao

REGISTERED OFFICE

NATCO House, Road # 2
Banjara Hills,
Hyderabad 500034, India
Ph: 040-23547532,
Fax: 040-23548243

REGISTRAR AND SHARE TRANSFER AGENT

M/s. Venture Capital & Corporate
Investments Pvt Ltd
12-10-167, Bharat Nagar, Hyderabad
500018, India
Ph: 040-23818475, 23818476
Email: info@vccilindia.com,
Website: www.vccipl.com

STATUTORY AUDITORS

M/s. Walker Chandiok & Co. LLP,
7th Floor, Block III,
White House,
Kundan Bagh, Begumpet,
Hyderabad- 500016, India

INTERNAL AUDITORS

M/s. Seshachalam & Co
1-11-256, Street No. 1, Wall Street
Plaza, 6th Floor,
ICICI Building, Begumpet,
Hyderabad - 500016, India

COST AUDITORS

M/s. S.S. Zanwar & Associates
Office No. 802, 8th Floor
Raghava Ratna Towers
Chirag Ali Lane, Abids
Hyderabad - 500001, India

SECRETARIAL AUDITOR

CS Balachandra Sunku
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