

29ThAnnual Report 2011-2012



*National Award for
New Technologies*



*Golden Peacock
Award*



NATCO Pharma Limited
... continues the mission in serving the nation

Laurels Galore!

Corporate Social Responsibility activities taken up by the Company under the aegis of NATCO Trust



Natco school of learning inauguration



blood donation



child club



tobacco awareness



eye camp



a beneficiary speaks in alumni meet



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BOARD OF DIRECTORS

Sri V.C. Nannapaneni	Chairman & Managing Director
Sri C.P. Ravindranath	Director - Nominee of Export-Import Bank of India (till 18th April, 2012)
Sri T.V. Rao	Director - Nominee of Export-Import Bank of India (w.e.f 18th April, 2012)
Sri G.S. Murthy	Director
Dr. B.S. Bajaj	Director
Dr. Jasti Samba Siva Rao	Director
Sri Rajeev Nannapaneni	Vice Chairman & Chief Executive Officer (w.e.f 1st June, 2012)
Dr. P. Bhaskara Narayana	Director & Chief Financial Officer
Dr. A.K.S. Bhujanga Rao	President (R&D and Technical)
Sri Nitin Jagannath Deshmukh	Additional Director (w.e.f 9th February, 2012)

CS. M. Adinarayana
Company Secretary &
G.M. (Legal & Corporate Affairs)

Bankers

Allahabad Bank
State Bank of India
Corporation Bank
Oriental Bank of Commerce
Export-Import Bank of India

Auditors

M/s. Walker, Chandio & Co.
Chartered Accountants,
7th Floor, Block III, White House,
Kundan Bagh, Begumpet,
Hyderabad 500 016

Registered Office

NATCO House,
Road No.2, Banjara Hills,
Hyderabad 500 033.
www.natcopharma.co.in

NOTICE

Notice is hereby given that the Twenty Ninth Annual General Meeting of the Members of the Company will be held on **Saturday, the 29th day of September, 2012 at 10.30 a.m.** at Daspalla Hotel, Road No.37, Jubilee Hills, Hyderabad- 500 033 to transact the following business:

ORDINARY BUSINESS:

1. To receive, consider and adopt the Profit & Loss account for the year ended 31st March, 2012 and the Balance sheet as at 31st March, 2012 and the Report of the Directors and Auditors thereon.

2. To confirm the already paid Interim Dividend as Final Dividend on equity shares for the year 2011-2012.

"RESOLVED THAT the Interim Dividend of ₹3 per share declared by the Board of Directors of the Company at their meeting held on 9th February, 2012 on 3,11,47,952 Equity shares of ₹10/- each absolving a sum of ₹9,34,43,856 be and is hereby approved as the Final Dividend for the year ended 31st March, 2012."

3. To appoint a Director in place of Mr. G S Murthy.

"RESOLVED THAT Shri G.S. Murthy, be and is hereby re-appointed as a Director of the Company, who shall be liable for retirement by rotation".

4. To appoint a Director in place of Dr B S Bajaj.

"RESOLVED THAT Dr.B.S.Bajaj, be and is hereby re-appointed as a Director of the Company, who shall be liable for retirement by rotation".

5. To appoint a Director in place of Dr.J.Sambasiva Rao.

"RESOLVED THAT Dr.J.Sambasiva Rao, be and is hereby re-appointed as a Director of the Company, who shall be liable for retirement by rotation".

6. To appoint Auditors for the financial year 2012-2013 and fix their remuneration.

"RESOLVED THAT M/s. Walker, Chandio & Co., Chartered Accountants, (Firm Registration No.001076N), Hyderabad, the Statutory Auditors of the Company, who retires at the conclusion of this meeting, being eligible, be and are hereby re-appointed as auditors of the Company to hold office from the conclusion of this meeting to the conclusion of the next Annual General Meeting and that the Board of Directors be and are hereby authorised to fix their remuneration."

SPECIAL BUSINESS

7. To consider and if thought fit to pass with or without modification, the following Resolution as an Ordinary Resolution.

"RESOLVED THAT pursuant to Section 255 and other applicable provisions, if any, of the Companies Act, 1956, consent of the Company be and is hereby accorded to appoint Mr. Nitin Jagannath Deshmukh as a Director of the Company who is liable for retirement by rotation."

8. To consider and if thought fit to pass with or without modification(s) the following resolution as a Special Resolution:

"RESOLVED THAT pursuant to the provisions of Sections 198, 269, 309, 310, 311, 314 and Schedule XIII, and other applicable provisions, if any, of the Companies Act, 1956 (including any statutory modifications or re-enactment thereof, for the time being in force) and subject to such sanctions, approvals and other necessary permissions as may be necessary from the Government of India, approval of the Company be and is hereby accorded to the revision in remuneration payable to Shri V.C.Nannapaneni, Chairman & Managing Director of the Company for a period of 3 years from 1st June, 2012 to 31st May, 2015 as detailed below:

1. Remuneration not exceeding ₹1,25,00,000/- (Rupees one crore twenty five lakhs only) per annum.

2. Perquisites:

- i. Contribution to Provident Fund, Superannuation Fund or Annuity Fund to the extent these either singly or put together are not taxable under the Income Tax Act, 1961.
- ii. Gratuity payable at a rate not exceeding half month's salary for each completed year of service, and
- iii. Encashment of leave at the end of the tenure.

RESOLVED FURTHER THAT the Board of Directors of the Company be and are hereby authorized to vary, alter or modify the remuneration as may be agreed to by the Board of Directors and Shri V. C Nannapaneni.

RESOLVED FURTHER THAT notwithstanding as above where in any financial year closing on and after March 31, 2013, if the Company has no profits or its profits are inadequate, the Company shall pay to Shri V.C.Nannapaneni the remuneration by way of salary, allowances and perks not exceeding the limits specified under Schedule XIII of the Companies Act, 1956 or such other limits as may be prescribed by the Government of India from time to time as minimum remuneration.

RESOLVED FURTHER THAT, the Board be and is hereby authorised 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 necessary permissions and approvals, if any, in this connection."

9. To consider and if thought fit to pass with or without modification(s) the following resolution as a Special Resolution:

"RESOLVED THAT pursuant to the provisions of Sections 198, 269, 309, 310, 311, 314 and, Schedule XIII, and other applicable provisions, if any, of the Companies Act, 1956 (including any statutory modifications or re-enactment thereof, for the time being in force) and subject to such sanctions, approvals and other necessary permissions as may be necessary from the Government of India, approval of the Company be and is hereby accorded for increasing the remuneration payable to Mr. Rajeev Nannapaneni and also redesignate him as Vice Chairman & Chief Executive Officer (CEO) in the wholetime employment of the Company for a period of 3 years from 1st June, 2012 to 31st May, 2015 as detailed below:

1. Salary not exceeding ₹1,00,00,000/- (Rupees one crore only) per annum for a period of 3 years from 1st June, 2012 to 31st May, 2015.
2. Perquisites:
 - i. Contribution to Provident Fund, Superannuation Fund or Annuity Fund to the extent these either singly or put together are not taxable under the Income Tax Act, 1961.
 - ii. Gratuity payable at a rate not exceeding half month's salary for each completed year of service, and
 - iii. Encashment of leave at the end of the tenure.

RESOLVED FURTHER THAT the Board of Directors of the Company be and are hereby authorized to vary, alter or modify the remuneration as may be agreed to by the Board of Directors and Mr. Rajeev Nannapaneni.

RESOLVED FURTHER THAT notwithstanding as above where in any financial year closing on and after March 31, 2013, if the Company has no profits or its profits are inadequate, the Company shall pay to Mr. Rajeev Nannapaneni the remuneration by way of salary, allowances and perks not exceeding the limits specified under Schedule XIII of the Companies Act, 1956 or such other limits as may be prescribed by the Government of India from time to time as minimum remuneration.

RESOLVED FURTHER THAT, the Board be and is hereby authorised 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 necessary permissions and approvals, if any, in this connection."

By order of the Board
For NATCO Pharma Limited

M. Adinarayana
Company Secretary &
G.M. (Legal & Corp. Affairs)

Place : Hyderabad
Date : 11th August, 2012

NOTES

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote instead of himself/ herself on a poll and a proxy need not be a member of the Company. The instrument of proxy in order to be valid must be deposited at the Registered Office of the Company duly completed, stamped and signed, at least 48 hours before the commencement of the meeting.
2. Corporate Members intending to send their authorised representatives to attend the Meeting are requested to send to the Company a certified copy of the Board Resolution authorising the representatives to attend and vote on their behalf at the Meeting.
3. In terms of Section 256 of the Companies Act 1956, Sri G.S Murthy, Dr. B S Bajaj and Dr. Jasti Samba Siva Rao, Directors, retire by rotation at the ensuing Meeting and being eligible offer themselves for re-appointment. The Board of Directors of the Company commends their respective reappointments.
4. Members holding shares in physical form are requested to notify any change in their address immediately to the Registered Office of the Company, Hyderabad and in case of Members holding shares in electronic form are requested to notify any change in their mailing address to their respective Depository Participants.
5. Brief resumes of the retiring Directors is provided at the end of this Notice and the Director proposed to be appointed is annexed in the Explanatory Statement.
6. The Members / Proxies are requested to bring the copy of the Annual Report to the Annual General Meeting and hand over the attendance slip at the entrance of the meeting venue along with their Registered Folio No./Client ID and DP ID Numbers for easy identification.
7. In case of Joint Holders attending the Meeting, only such Joint Holder who is higher in the order of names will be entitled to vote.
8. Nomination facility is available as per the guidelines. Share transfers and related matters will be undertaken at the Company's Transfer Agents M/s. Venture Capital and Corporate Investments Limited.
9. The Register of Members and Share Transfer Books will remain closed for 4 days i.e. from 26-08-2012 to 29-08-2012 (both days inclusive).
10. 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. The Company or its Registrars and Transfer Agents cannot act on any request received directly from the members holding shares in electronic form for any change of bank particulars or bank mandates. Such changes are to be advised only to the Depository Participants of the Company.
11. 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 (Venture Capital and Corporate Investments Private Limited). Members are requested to note that dividends not encashed or claimed with in seven years and 30 days from the date of declaration of the Dividend, will, as per Section 205 A(5) read with Section 205 C of the Companies Act, 1956, be transferred to the Investor Education and Protection Fund (IEPF) of Government of India. In view of this, members are advised to send all the un-encashed dividend warrants to the Company or our Registrars for revalidation and encash them before the due dates of transfer to the IEPF.

Financial year	Date of Declaration of Dividend	Unclaimed Amount as on 31-03-2012 in ₹	Due date for transfer to Investor Education and Protection Fund
2005 - 2006	24-10-2005	5,83,905	23-11-2012
2006 - 2007	26-10-2006	5,54,093	25-11-2013
2007 - 2008	25-10-2007	4,72,959	24-11-2014
2008 - 2009	25-05-2009	6,21,322	24-06-2016
2009 - 2010	27-01-2010	9,79,656	25-02-2017
2010 - 2011	14-02-2011	9,38,808	13-02-2018
2011 - 2012	09-02-2012	18,81,197	08-02-2019

12. Information relating to the Directors seeking re-appointment in Annual General Meeting scheduled to be held on 29th September, 2012.

Name of Director	Sri G S Murthy	Dr B S Bajaj	Dr.Jasti Samba Siva Rao
Date of Birth	04-05-1937	19-09-1927	15-05-1952
Date of Appointment	30-01-2000	30-03-2002	20-04-2006
Relationship with other Director	None	None	None
Experience	<p>He practised as Advocate in Andhra Pradesh and then worked in Reserve Bank of India (RBI) and IDBI for nearly three decades at Mumbai including in the capacity of Executive Director (Legal) of IDBI.</p> <p>He was the first Managing Director of 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 for ESSAR Group of Companies, Mumbai for about 3 years and as Senior Advisor for Govt. of AP for about 9 years for implementation of public enterprise reforms.</p> <p>He has vast experience specially in Legal, Corporate and General Management Disciplines.</p>	<p>He engaged in R&D from 1952 to 1974 in the field of Antibiotics, Physiology of Fungi and Microbial Genetics and has published more than 75 scientific papers. He has a total experience of more than 60 years in the field of Bio technology, Drugs and Pharmaceuticals.</p> <p>He was Chief Executive Anti Biotech production plant of IDPL and worked for Torrent Gujarat Biotech Ltd.</p> <p>He was on the Board of several companies and member of Scientific Advisory Committee of CSIR Laboratories. He is the Chairman of All India Biotech Association, Southern Chapter and Vice Chairman of Export Promotion Forum for Biotechnology, Govt. of India. He is also member of Biotech Advisory Committee of AP Govt. and Member of the Project Management Committee (PMC) of the Biotechnology Incubation Centre Project.</p> <p>He is the Secretary General of Federation of Asian Biotech Association. He was awarded by the Maryland India Business Round Table Inc., USA for the global leadership. Now he has been nominated as the Convener of Bio Asia 2013.</p>	<p>He has got rich and varied experience in Pharmaceutical Research and teaching and held various positions in USA in a career span of last 30 years.</p> <p>Presently he is the Senior Associate Dean for Research and Head, Cancer Biology and Pharmacology, University of Illinois College of Medicine at Peoria (UICOM-P) Peoria, IL, USA</p>
Qualification	LL.M., F.C.S., C.A.I.I.B	M.Sc, Ph.D, FPSI	M.Sc, Ph.D.
Board membership of other Companies	None	<p>1. Pacific Hospitals Private Ltd.</p> <p>2. Tran-Scell Biologics Private Limited</p>	None
Chairman/ Member of the Committee of Directors of other Companies	None	None	None

EXPLANATORY STATEMENT

EXPLANATORY STATEMENT AS REQUIRED UNDER SECTION 173(2) OF THE COMPANIES ACT, 1956.

ITEM NO 7

Mr.Nitin Jagannath Deshmukh was appointed as Additional Director of the Company by the Board at their meeting held on 9-2-2012. According to Section 260 of the Companies Act, 1956 he holds office of the Director only upto the date of Annual General Meeting. Under Section 257 of the Companies Act, 1956 a notice has been received from a member signifying his intention to propose Mr.Nitin Deshmukh as a Director of the Company along with a deposit of ₹500/- (Rupees five hundred only) as required under the aforesaid Section.

Mr.Nitin Jagannath Deshmukh holds an M.B.A. and P.G. Degree in Pharmaceutical Technology from Bombay and also Post Graduation Programme in Pharmaceutical Technology from Belgium and he is a Director on the Board of Kotak Investments Advisors Ltd besides on the Boards of a couple of portfolio companies of Kotak Private Equity Group.

He has over 23 years of experience in Venture Capital and Private equity investing in Companies like ICICI Venture, Dresdner Kleinwort Capital and Cipla. He also served as the Director General of Association of Biotechnology Led Enterprises (ABLE).

Except Mr.Nitin Jagannath Deshmukh, none of the Directors of the Company are concerned or interested in the said item of business.

Your Directors recommend the resolution for your approval.

ITEM NO.8

Mr.V.C.Nannapaneni was reappointed as Chairman & Managing Director (CMD) of the Company by the Board of Directors as recommended by the Remuneration Committee of Board of Directors on 28-05-2012 for a period of three years from 1st June, 2012 to 31st May, 2015 on the terms and conditions as contained in the resolution. The abstract u/s 302 of the Companies Act was also sent to shareholders on 11-6-2012.

The present remuneration of CMD was fixed in 2004 and there is no revision from then onwards. When compared to the pharma industry standards, the remuneration which is being paid to CMD is very low.

Due to manifold increase in his responsibilities /operations and driving the company towards higher heights as also significant improvement in the business and making the company to reach the targeted goals of supplying quality medicines at affordable prices and taking into account the inflation and other relevant factors it is prudent to increase the remuneration payable to CMD.

After taking into consideration the above, the Remuneration Committee recommended to the Board for increasing the remuneration of Shri V.C.Nannapaneni, Chairman & Managing Director of the Company, subject to the approval of members from ₹96,00,000/- (Rupees Ninety Six Lakhs only) to ₹1,25,00,000/- (Rupees one crore twenty five lakhs only) per annum for a period of 3 years from 1st June, 2012 to 31st May, 2015.

Except Mr.V.C.Nannapaneni & Mr.Rajeev Nannapaneni, no other Director, is deemed to be interested or concerned in the re-appointment and remuneration payable to Mr.V.C.Nannapaneni.

Your Directors recommend the resolution for your approval.

ITEM NO.9

Mr. Rajeev Nannapaneni is associated with the Company for over 12 years and he is taking care of all the functional operations of the Company including but not limited to Production, Finance, Legal & Secretarial, new drug launches, filing of ANDAs, several Para IV (first-to-file) filings, patents filings, pre and post grant oppositions, Domestic and international Marketing, exports, imports, Quality Control & Audits, GMP, GLP, international inspections, Supply Chain Management etc. Mr.Rajeev is instrumental in getting the first ever Compulsory License in India to the Company for an anti cancer drug Sorafenib. Company under his leadership successfully challenged some of the patents by way of pregrant oppositions, defending the infringement suits, filing revocation applications etc. He helped the Company to evolve good and successful business strategies which culminated the Company becoming one of the top Companies in the oncology segment by introducing life saving cancer drugs at affordable prices.

In view of the manifold increase in his job responsibilities and considering the pharma industry standards, the Remuneration Committee of Board of Directors on 28-05-2012 recommended to the Board for increasing the remuneration of Mr.Rajeev Nannapaneni subject to the approval of members from ₹75,00,000/- (Rupees seventy five lakhs only) to ₹1,00,00,000/- (Rupees one crore only) per annum for a period of 3 years from 1st June, 2012 to 31st May, 2015 and to redesignate him as Vice Chairman & Chief Executive Officer(CEO) on the terms and conditions as contained in the resolution for your approval. The abstract u/s 302 of the Companies Act was also sent to shareholders on 11-6-2012.

Except Mr. Rajeev Nannapaneni & Mr.V.C.Nannapaneni, no other Director, is deemed to be interested or concerned increasing in the remuneration payable to Mr. Rajeev Nannapaneni.

Your Directors recommend the resolution for your approval.

By order of the Board
For **NATCO Pharma Limited**

M. Adinarayana
Company Secretary &
G.M. (Legal & Corp. Affairs)

Place : Hyderabad
Date : 11-08-2012

Important Communication to Members

The Ministry of Corporate Affairs has taken a "Green initiative in the Corporate Governance" by allowing paperless compliances by the companies and has issued circulars stating that service of notice / documents including Annual Report can be sent by e-mail to its members. To support this green initiative of the Government in full measure, members who have not registered their e-mail addresses, so far, are requested to register their e-mail addresses, in respect of electronic holdings with the Depository through their concerned Depository Participants. Members who hold shares in physical form are requested to intimate their e-mail addresses to the Company / Registrars and Transfer Agents M/s. Venture Capital & Corporate Investments Limited.

DIRECTORS' REPORT AND MANAGEMENT DISCUSSION & ANALYSIS

To the Members

Your Directors are pleased to present the 29th Annual Report together with the audited accounts of the Company for the year ended on 31st March, 2012.

Operating Results:

You will be pleased to note that during the year under review, the API division exhibited a record growth in revenues, aggregating to forty percent as compared to 2011. The revenues from this division recorded an all-time high of ₹148 Crores from ₹106 Crores (2010-11). While a part of this absolute increase is attributable to the depreciation in the value of Indian Rupee vis-à-vis the US Dollar, it cannot be denied that the division has turned out one of its best performances.

In competition with the API division, the oncology segment of the finished dosage formulation division has also recorded an impressive performance. The revenues from this division grew by 22%, from around ₹121 Crores in 2011 to ₹148 Crores in 2012. The exports of finished dosage pharmaceutical formulations also exhibited a robust growth of 30%, recording a revenue base of ₹66Crores (2011-12) as against ₹51 Crores (2010-11). The other business segments also performed well, resulting in an overall growth in revenues of 15%.

The following is a summary of the company's performance during the financial year 2011-2012:

₹ in lakhs

Particulars of Revenues*	2011-2012	2010-2011
API Division	14,798	10,631
Finished Dosage Formulations Division	37,047	34,312
Job Work	896	1,098
Other Income	3,168	2,401
TOTAL	55,909	48,442

*consolidated revenues.

The company's operations for the year resulted in a surplus of ₹8,251 lakhs (as compared to ₹6,673lakhs for the financial year 2010-2011). Your Directors have decided to make the following adjustments from out of the surplus :

₹ in lakhs

Particulars	2011-2012	2010-2011
Surplus after operational expenditure	8,251	6,673
Provision for taxes	1,658	1,496
Provision for deferred tax	380	-174
Net surplus carried to Balance Sheet	6,213	5,351
Interim Dividend declared / paid	934	563
Tax on distribution of income	152	94
Transfer to General Reserves	700	400
Surplus carried to Balance Sheet	4,427	4,294



Dividend:

Your Directors had recommended and paid an interim dividend of ₹3.00 per equity share (last year - ₹2.00 per equity share) during February, 2012. Your Directors recommend that this may be treated as the final dividend and the recommendation / payment ratified.

Review of 2012 performance:

API Division:

Your Directors are pleased to record that the API division has established an excellent growth of 40% during the year under review. While some amount of this growth is attributable to the volatile exchange rate fluctuations, it is a matter of comfort that the division could register a stellar performance during the year. Domestic sales grew by 35% (from ₹23 Crores in 2011 to ₹31 Crores in 2012) while exports recorded a growth of 41% - from ₹83 Crores in 2011 to ₹117 Crores in 2012.

Your management views this segment as one of the growth drivers and therefore, continues to examine the feasibility of further strengthening the segment in terms of new products and identification of new markets and customers.

As a part of the capital expansion plans that were taken up during the last couple of years, construction of dedicated manufacturing blocks for Glatiramer Acetate have since been completed and are presently undergoing validation exercises.

Emphasis is laid on manufacture of high value niche and specialty APIs which would boost the revenues from this segment. To this end, several Drug Master Files are being filed in various countries which would enable the customers world-wide to access and procure quality products manufactured in this segment. Through captive consumption, the API division also contributes to the revenues of the finished dosage pharmaceutical formulations segment as well. This integration has resulted in a significant value addition to the business as a whole.

The manufacturing facilities of the Division continue to enjoy several regulatory approvals including those from **US FDA**, **Australian TGA** as well as **ISO:14001** certification for its environmental management efforts. Your management has always regarded the environment with utmost respect and each and every action is planned to ensure nil or least damage to the environment.

The Company continues to record satisfactory progress in the matter of regulatory filings. The table given in **Annexure A** to this report indicates the updated status relating to filing of Drug Master Files.

Establishment of both the dedicated manufacturing blocks planned for Mylan Inc., are since complete and are undergoing validation exercises. These blocks would be put to use in due course of time.

Finished Dosage Formulations Division :

Over-coming the flattish growth that this division recorded in 2011, the division exhibited an over-all growth of 22%. Among the several sub-segments, oncology segment grew by 22% (revenues of ₹148 Crores during 2012 as against ₹121 Crores during 2011), the non-oncology segment grew by 15% (revenues of ₹24 Crores during 2012 as against ₹21 Crores during 2011), and exports grew by 29% (revenues of ₹66 Crores during 2012 as against ₹ 51 Crores during 2011), and third party sales grew by 41% - from a revenue base of ₹17 Crores during 2011 to ₹24 Crores during 2012. The aggregate revenues from this Division recorded ₹283 Crores (as against ₹232 Crores last year) - recording an increase of about 22%. These figures, however, do not include the revenues from the US retail business.

While your company has established itself as a strong player in the oncology segment, and as one of the fastest growing companies in the pharma space, the growing competition, drying up of the product pipe-line and impending regulations relating to price control etc. are some factors which are causing a certain amount of anxiety. As a research based company, **NATCO** respects intellectual property and rights associated therewith. Your company also strives to make available the latest generation medicines at an affordable price to the suffering masses. While generic companies - such as **NATCO** - can manufacture and sell equally effective and efficient drugs as compared to those of the innovator - albeit, at a fraction of the price of the innovator's drug - the patent protection afforded by the Indian laws does not permit launch of such drugs.

In respect of a molecule used in the treatment of kidney and liver cancers, your company had approached the innovator for a voluntary license to market its product in India. On its denial by the innovator, your company has invoked the relevant provisions of the Indian Patents Act and sought a compulsory license. The Director General of Patents and Trade Marks had heard the case and had granted your company a compulsory license to market the product in India. As a result, your company is able to market this drug at a price which is 97% cheaper than the innovator's price. Incidentally, your company became the first company in India to have been granted the compulsory license.

The pipeline of new drugs in the oncology segment is very thin. In addition, competition in this arena has been intense and severe. Of-late, competitors and some of the multi-national companies as well have begun to look at price-cuts as a means of shoring up their market size.

The much awaited Drug Pricing Policy is expected to be announced and this may impose price restrictions on some of our products.

The forthcoming year 2012-13, viewed in the context of these factors, looks to be extremely demanding and tough. The grant of compulsory license does make available hitherto unexplored markets, but competition is catching up on this front as well.

Despite these issues, we expect the segment to do well and maintain its growth. In this context, your company is aiming to establish a strong base in the regulatory markets. To this end, the company needs to work closely with its marketing partners and ensure that the fruits of labor are properly received. This would, inter-alia, mean, readiness with manufacturing facilities, production capabilities, quality parameters and logistics. Simultaneously, your company also aims to sustain its leadership position in Oncology segment in the country. The Company needs to examine the possibility of fully exploiting the compulsory licensing mechanism and consider additional launches in the Oncology segment and other therapeutic segments to augment its revenues and profitability.

During the year under review, the Company launched Sorafenat 200 mg tablets, Desifer 100 and 400 mg tablets, Rasagin 0.5 and 1 mg. tablets and Dorinosa 500 mg. injection in lyophilized form.

Branded Generics & Institutional Sales :

Billing for the supplies (covering both manufacturing and billing) of branded generics and generics continue to be made from the duty free zones on contract manufacturing basis. It is the intention of the company to gradually exit from this not-so-lucrative business.

The company is looking towards establishing itself in new niche markets such as Brazil, Venezuela etc. The company has established a small distribution business in Brazil (through a step-down subsidiary called NATCO Farma Do Brasil) with an intention to effect product registrations and sell company's products in the region. While the registration of its products is being followed up, as an interim measure, the subsidiary has taken up the distribution of medicated wet wipes in Brazil. These products have been launched in April, 2012.

The Institutional sales segment continues to suffer from severe competition. However, with supplies from duty free zones, efforts are being made to be competitive for bagging business from this segment. Dependence on this segment is being brought down, albeit, in a phased manner.

Supply & Distribution Agreements :

Your company has been consistently working towards taking the several supply and distribution agreements that it has executed with its marketing partners to their logical conclusion. These agreements are expected to evolve into revenue streams in the next couple of years. Your company has completed the capital expansion required to meet the supplies arising out of these agreements.

Your company is also exploring the possibility of similar marketing ventures for other products as well.

Manufacturing facilities

Both the units in Dehradun in the State of Uttarakhand are fully functional. Together, products worth ₹120 Crores have been sold from these plants.



The company has started exporting from its Dehradun plant as well. During the year ended on 31st March, 2012, exports from both the Dehradun plants would be around ₹63 lakhs.

With the tax benefits available to these units being tapered off, the company proposes to establish a new manufacturing facility for the finished dosage pharmaceutical formulations at Gauhati in the State of Assam. This location is eligible for income-tax and excise duty benefits and establishment of this plant would enable the company to continue to claim the tax benefits. This plant is likely to be completed before end March, 2013.

All the expansion plans at Kothur plant have since been completed and are in various stages of validation / trial runs. Modernization of the existing facilities at NagarjunaSagar is being planned.

Issue of securities :

To part finance the capital investments that were being made at various manufacturing facilities, the Company has placed 30 lakh equity shares with qualified institutions. The shares have been placed at ₹225/- each (including the face value of ₹10/- per share). These shares have since been listed on the Stock Exchanges.

US Pharmacy business:

Save Mart Pharmacy, Lancaster, Pennsylvania, USA, - which was acquired through the company's wholly owned subsidiary, **NATCO** Pharma Inc. - had, for the year ended on 31st March, 2012, recorded a net profit, after tax, of **₹79 lakhs** (against ₹176 lakhs previous year) after accounting for interest of **₹59 lakhs** (previous year ₹80lakhs) payable to the Company on the loans advanced by the parent company. The subsidiary has also repaid **₹343 lakhs** (₹505 lakhs previous year) out of the loan advanced by the Company.

Abbreviated New Drug Applications (ANDAs) :

Annexure B to this report details the latest status on the abbreviated new drug applications filed by your Company.

In addition to the existing First-to-file opportunities, the Company filed an ANDA and obtained first to file status for the Lapatinib Ditosylate (Brand Name :Tykerb®) which could result in a 180-day exclusive marketing rights. As on date, the Company has five Para IV challenges, out of which, four have been accorded the first-to-file status. The company has entered into a tie-up with Lupin Limited for this molecule

The Company continues to sell Granisetron, Anastrozole and Ondansetron tablets in USA and Canada and has been receiving royalties from its constituents as per the agreements in force.

Research Efforts and Intellectual Property

Annexure C to this report details the latest status on the various patent applications filed by the Company.

The company's R & D centre (**NATCO** Research Centre - **NRC**) continues to work on several compounds simultaneously, and is engaged in the development of molecules, processes, products and scaling-up.

Having received all necessary approvals, Phase II clinical trials are about to begin for your company's new molecule - NRC 19. Another compound - NRC 2694 - is being evaluated for commissioning of Phase I clinical trials.

Work on evaluation of - (a) several compounds for their efficacy in disease management and control, (b) various analogues useful in the field of anti-cancer, anti-depressant and anti-ulcer therapies, and (c) new drug delivery systems - are continuously evaluated for taking up for further development.

Contract Manufacturing:

The revenues from contract manufacturing activity continue to be stable and the company maintains and continues to serve its clients in this category to their complete satisfaction.

Corporate Social Responsibilities (CSR):

The company is proud to be associated with **NATCO** Trust, which continues to actively pursue its social welfare activities. The Trust has expanded its activities to cover new geographical locations, situated near the company's manufacturing locations. Details on the activities of the Trust are available elsewhere in this Report.

The Company's in-house quarterly magazine "Spandana" continues to receive applauds.

Financial Matters :

The Company has no derivative contracts outstanding as at 31st March, 2012.

Employees Stock Option Scheme :

During the year, the company had framed NATSOP 2010 (NATCO Employees Stock Option Plan, 2010). The company had granted 236,551 options to certain employees (@ ' 10/- per each option, which, when vested and exercised, would result in allotment of one equity share per option) under the said Scheme during August, 2011. Pending completion of formalities relating to grant, no charge has been considered in the Profit & Loss Account for the year ended on 31st March, 2012.

NATCO Organics Limited :

NATCO Organics Limited has commenced production of cyto-toxic APIs at its manufacturing facility near Chennai. Under an arrangement, the company would procure these APIs from **NATCO** Organics Limited and would convert them into finished dosage pharmaceutical formulations for sale in the open markets.

In line with its commitment to this project, the company has opted to convert the advances made by it to **NATCO** Organics into equity shares of **NATCO** Organics Limited.

Directors :

Mr. G.S. Murthy, Dr. B.S. Bajaj and Dr. Jasti S. Rao would be retiring at the ensuing Annual General Meeting and are eligible for re-appointment.

During May, 2012, the Export Import Bank of India had nominated Mr. T.V. Rao as a Director on the Board of the Company in place of Mr. C. P. Ravindranath. Your Directors place on record their sincere appreciation of the services rendered by Mr. C.P. Ravindranath during his tenure as a Director on the Board of the Company.

Mr. Nitin Jagannath Deshmukh has joined the Board as an additional Director effective 9th February, 2012. Mr. Deshmukh, who is the Chief Executive Officer - Private Equity of Kotak Investment Advisors Limited brings with him an enormous amount of experience relating to life sciences industry and your Directors opine that his addition to the Board would help the Company reach newer heights of performance.

A Notice has been received from a Member, along with requisite fee, proposing the name Mr. Nitin Jagannath Deshmukh for appointment as Director of the Company.

Directors' Responsibility Statement :

In compliance with the provisions of Section 217(2A) of the Companies Act, 1956, the Directors confirm that :

- a) in the preparation of annual accounts, the applicable accounting standards have been followed;
- b) the Directors have selected such accounting policies as mentioned in Schedule 18 of the Annual Accounts and applied them consistently and made judgments and estimates that are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company at the end of the financial year and of the profit and loss of the Company for that year;
- c) the Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of the aforesaid Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities; and
- d) the annual accounts have been prepared on a going concern basis.

Item # 2 of Notes to the Accounts would adequately clarify the observations made by the Statutory Auditors in their report dated 28th May, 2012, pertaining to non-recognition of MAT credit available.

**Statutory Auditors :**

M/s. Walker, Chandiok&Co., Chartered Accountants, Hyderabad, the statutory auditors of the Company hold office till the conclusion of the ensuing Annual General Meeting, and are eligible for re-appointment. The Board recommends their reappointment.

Internal Auditors :

M/s. Seshachalam&Co., Chartered Accountants, Hyderabad, who have been appointed by your Board to carry-out internal audit of the Company last year will be continuing as internal auditors for this year as well.

Cost Audit :

The Government of India had prescribed maintenance of cost accounting records and ordered cost audit under the provisions of Section 233B of the Companies Act, 1956. in respect of your Company's operations. Your Company is following the prescribed guidelines in maintaining the requisite records.

Particulars of Employees :

The information required under Section 217(2A) of the Companies Act, 1956 and the Rules there under in respect of the employees who were in receipt of remuneration in accordance with the specified limits is attached to forms part of this report.

Particulars regarding Energy conservation, etc.

Information on conservation of energy, technology absorption, foreign exchange earnings and outgo as required to be disclosed under the provisions of Section 217(1)(e) of the Companies Act, 1956 is enclosed and forms part of this report.

Listing Information :

The securities of the Company are listed with and are traded in, dematerialized form on the Bombay Stock Exchange and the National Stock Exchange. The annual listing fees were paid to each of these exchanges for the year 2011-2012. Facilities for dematerialization have become fully operational. The ISIN No. of the Company is INE987B01018.

Fixed Deposits :

There are no outstanding and overdue deposits as at 31st March, 2012. The Company had not accepted any deposits during the year.

Acknowledgements :

Your Directors place on record their deep sense of gratitude for the support, cooperation and guidance received by the Company from various departments / agencies of the Central and State Governments, the consortium of banks led by Allahabad Bank as also to Export-Import Bank of India, Yes Bank Limited, and Axis Bank Limited. The Directors also thank the shareholders, officers and staff of the Company for their excellent cooperation and dedicated work.

for and on behalf of the Board
NATCO Pharma Limited

V.C. Nannapaneni
Chairman & Managing Director

Hyderabad,
28th May, 2012

Statement of particulars of employee pursuant to the provision of Sec 217(2A) of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 as amended.

Name of Employee	Age	Designation	Gross Remuneration	Qualification	Experience in years	Date of Commencement	Particular of last Employment
Sri V C Nannapaneni	66	Chairman & Managing Director	1,06,08,000	M.S. (Pharmaceutical Administration)	43	03-10-1981	Time Cap Labs Inc.,
Sri Rajeev Nannapaneni	35	Director & COO	84,00,000	B.A. in Quantitative Economics & B.A. in History from Tufts University, USA	14	03-07-2000	Merill Lynch and Natco Systems LL.C.

ANNEXURE A

ACTIVE PHARMACEUTICALS INGREDIENTS

Status of DMFs filed - March 2012

Therapeutic Segment	No. of Products		European Countries		USA		Rest of the World		Total No. of DMF(s) Submitted	
	Filed	Under Preparation	Filed	Under Preparation	Filed	Under Preparation	Filed	Under Preparation	Filed	Under Preparation
Anti Emetic	4	2	103	1	4	1	4	0	111	2
Anti Migraine	5	2	118	2	6	2	2	1	126	5
Anti Depressants	5	0	215	0	2	0	14	0	231	0
Anti Ulcer	3	0	120	0	4	0	2	2	126	2
Anti Fungal	1	1	46	1	0	1	1	0	47	2
Anti Neoplastic	2	3	34	5	1	4	0	0	35	9
Anti Cancer	3	8	110	8	4	3	0	1	114	12
Benign Prostatic Hyper Trophy	1	0	0	0	1	0	0	0	1	0
Bronchodilator	1	0	66	0	1	0	0	0	67	0
For the treatment urinary incontinence	1	0	11	0	1	0	0	1	12	1
Anxiolytic	0	1	0	1	0	1	0	1	0	3
Bone resorption inhibitor	2	0	126	0	3	0	0	0	129	0
Hyperphosphataemia	1	0	0	0	1	0	0	0	1	0
Antiparkinsonian	1	0	0	1	1	0	0	0	1	1
TOTAL	30	17	949	19	29	12	23	6	1001	37

Status of CEP - March 2012

Therapeutic category	No. of CEP		CEP		
	API	Under filing	Filed	Approved	Under review
Anti Emetic	1	1	1	1	0
Anti Depressants	2	0	2	2	0
Anti Migrane	1	2	1	1	1
Anti Ulcer	2	1	2	2	0
Benign Prostatic Hyper Trophy	0	0	0	0	0
Anti Fungal	0	0	0	0	0
Antiparkinsonian	0	0	0	0	0
Anti Cancer	1	0	1	1	0
Bronchodilator	1	0	1	1	0
TOTAL	8	4	8	8	1

ANNEXURE B

Status of Regulatory Filings (Finished Products-Formulations) - 2012

Status of ANDA's Filled in USA - May 2012

Therapeutic category	No. of Products	Filed	Under filing	No. of ANDAs	APPROVED
Anti-Depressants	1	1	0	1	1
Anti Emetic	2	2	0	2	2
Benign Prostrate Hyper Trophy	1	0	1	1	0
Anti-Cancer	12	4	8	12	2
Anti-Malarial	2	2	0	2	2
Vitamin	1	1	0	1	0
Anti Ulcer	4	2	2	4	0
Anxiolytics	1	1	0	1	0
Anti cholinergic	3	2	1	3	1
Muscle Relaxant	1	1	0	1	0
Anti hypercholestrolemia	1	1	0	1	0
Anti Migrane	3	2	1	3	0
Hyperphosphataemia	1	1	0	1	0
Immunomodulator	1	1	0	1	0
Eugeroics	1	1	0	1	0
Parkinson's disease	1	0	1	1	0
Antiviral	1	1	0	1	0
Antihypertensive	2	0	2	2	0
Antiretroviral	2	0	2	2	0
TOTAL	41	23	18	41	8

Status of ANDA's Filled in European Union - May 2012

Therapeutic category	No. of Products	Filed	EU Dossiers under filing	Dossiers	APPROVED
Anti-Cancer	7	4	3	7	1
Anti Emetic	1	1	0	1	1
Anti-Migraine	2	2	0	2	1
Antihypertensive	1	0	1	1	0
TOTAL	11	7	4	11	3

Status of ANDA's Filled in Canada - May 2012

Therapeutic category	No. of Products	Filed	Under filing	ANDSs	APPROVED
Anti-Depressants	1	1	0	1	1
Anti Emetic	1	1	0	1	1
Anti cancer	7	1	6	7	2
Anti migraine	2	0	2	2	0
Anxiolytics	1	0	1	1	0
Antihypertensive	1	0	1	1	0
TOTAL	13	3	10	13	4

ANNEXURE C

Status of Patents granted and patent applications pending

A. Granted	Indian	International
New Chemical Entities	1	24
API - Process	57	3
Finished Dosage Products	15	2
Natural products	3	0
Design	1	3
TOTAL	77	32

B. Applied	Indian	International
New Chemical Entities	7	148
API - Process	122	48
Finished Dosage Products	17	19
Natural Products	3	0
Design	2	4
TOTAL	151	219

Information under Section 217(1)(e) of the Companies Act, 1956, read with Companies (Disclosure of Particulars in the Report of the Board of Directors) Rules 1988, and forming part of Directors' Report.

FORM - A

Form for disclosure of particulars with respect to conservation of energy.

A. POWER & FUEL CONSUMPTION

	For the Year ended 31st Mar'12	For the Year ended 31st Mar'11
1 Electricity		
a. Purchased Units	24784282	25062486
Total Amount (₹)	114213908	99956912
Rate / Unit (₹)	4.61	3.99
b. Own Generation:		
i) Through Diesel		
Generator Units	5247390	2527158
Units/ltr.of Diesel Oil	3.19	3.25
Cost/Unit (₹)	15.35	14.56
2 Coal D/C Grade		
Quantity (tonnes)	5779	5731
Total Amount (₹)	39537779	36476622
Average rate per tonne(₹)	6842	6365
3 Furnace Oil		
Quantity (LTS)	207517	389254
Total Amount (₹)	8657957	11820841
Average rate per Ltr. (₹)	41.72	30.37

FORM - B

Form for disclosure of particulars with respect to absorption

RESEARCH AND DEVELOPMENT (R & D)

1. Specific areas in which R & D Carried out by the Company	Work on development of two new molecules is in progress. One of the molecules is ready for Phase II clinical trails.
2. Benefits derived as a result of the above R & D	Successful completion of the clinical trials and subsequent commercialization would result in immense value addition to the company and would provide relief to suffering masses.
3 Future plan of action	R & D efforts, in collaboration with multinational companies and established research organizations and universities towards development of new molecules and improvements in process along with new delivery systems will continue. The Company has also planned initiatives in novel energy development projects.

		AMOUNT (₹ in lakhs)	
		For the Year ended 31st Mar'12	For the Year ended 31st Mar'11
4	Expenditure on R & D		
a)	R & D Expenditure	2285.66	1929.87
b)	Total R & D expenditure as Percentage of total Turnover (Including capital expenditure)	5.29	5.92

TECHNOLOGY ABSORPTION, ADAPTATION AND INNOVATION:

1	Efforts in brief, made towards technology absorption, adaptation	Technologies developed in in-house R & D for the manufacture of various bulk drugs Intermediates & Formulations stabilized and scaled up for commercial production.
2	Benefits derived as a result of the above efforts	a) Stabilization of process resulted in cost savings and increased productivity. b) Market presence in the formulations segment to cover all branches of medicines.
3	In case of imported technology (imported during the last 5 years reckoned from the beginning of the financial year)	Not Applicable

FORM - C

FOREIGN EXCHANGE EARNINGS AND OUTGO

		(₹ in thousands)	
		For the Year ended 31st Mar'12	For the Year ended 31st Mar'11
A)	Earnings in Foreign Exchange Export of goods calculated on F.O.B basis	1790196	1300936
B)	CIF value of Imports		
	Raw Materials	167475	169596
	Capital Goods & Consumable stores	220712	153509
C)	Expenditure in Foreign Currency towards		
	Travelling	11665	5039
	Commission	20919	3040
	Others	90911	113524

for and on behalf of the Board
NATCO PHARMA LIMITED

Place : HYDERABAD
Date : 28th May, 2012

V.C. NANNAPANENI
Chairman & Managing Director

Management of Risks at NATCO

The following broad categories of risks are likely to be encountered by the Company in its' day-to-day operations :

- a) Property Risks;
- b) Operational Risks;
- c) Environmental Risks;
- d) Regulatory Risks;
- e) Policy Risks; and
- f) Other risks.

These risks are evaluated on a continuous basis and remedial measures are initiated and suitable follow-up action is taken from time to time.

Given below is a brief description of these risks and the strategies that are adopted by the Company to counter these risks:

Property and resource related risks:

All the fixed assets of the Company, including stocks of finished goods, raw materials, packing materials and work-in-process are adequately insured, and in most of the cases, at replacement values. All the employees of the Company are also insured against accidents and in some case, against ill-health. All incoming and outgoing raw material, packing material and finished products are adequately insured against various possible perils.

Human Resources

The company believes that human resources is its biggest asset and recognizes that retaining and nurturing talented human resources has always been a challenge. While the employee costs are increasing every year, the company has taken steps to retain talent by providing reasonably appreciable avenues of growth, along with suitable compensation structures. Talent within the company is continuously identified and nurtured to ensure that the employees get opportunities to excel themselves and efforts are made to create and preserve a habitable working environment. In this direction, the remuneration structure is suitably designed, including a component in the form of employee stock options.

Products / Markets :

Your company has a predominant presence in oncology segment with a basket of around 20 drugs. Operating in this segment has proved to be highly profitable, with good margins. However, realizing the pit-falls of dependence on a single segment, efforts are being made by the Company to reduce such dependence to the minimum. Constant efforts are made to widen the business horizon and to enter niche markets and introduce niche products.

The company prides itself in being numerounoin oncology segment, while at the same time, making efforts to diversify and introduce new products in new therapeutic areas.

Competition :

As one operating in an open economy, the Company understands and realizes that competition is omni-present. The industry sector and therapeutic segment in which your company operates are no exception, compelling your company to devise strategies to ward off or minimize the effect of competition. Steps being taken in this direction include, among others, increasing rapport with the medical profession and generally spreading the knowledge about the company's products

by organizing continuous knowledge programs for the medical profession. The company has thus created for itself a niche position among the companies operating in this segment.

In line with this policy, the company continues to pursue a very aggressive pricing policy for some of its products, and continues its drug donation program.

The company has always stood for quality in every aspect of its operations. Standards of manufacture and quality play a vital role in managing competition and retaining and developing customer base. By maintaining its facilities at world standards, and continuously upgrading them to suit international standards and US FDA requirements, NATCO is able to not only retain but widen its international customer base. Regular audits are undertaken by customers and the observations made in these audits are duly attended to.

Price Controls :

The pharmaceutical industry in India is subject to price controls and the prices of some products are determined by the Government. Though only some products manufactured by NATCO are likely to be a subject matter of price control mechanism under the Indian law, nevertheless, governmental compulsions for reduction in the prevailing prices remains a risk. Being a pharma company with a human touch, NATCO would abide by the legislative or governmental compulsions, if any. In this direction, attempts are made to offset such losses by more effective and efficient management of its resources, controlling costs and launching of superior and new products.

Litigations :

The company has made ambitious plans to enter the US and European markets and has, in this direction, initiated filing of several abbreviated new drug applications. However, this strategy is fraught with high legal risks and continuous litigation. The company aims to minimize or neutralize these risks by a unique system of tie-ups where the litigation risks are taken-up by the marketing partner rather than the Company itself. In addition, suitable and adequate product liability insurance is also obtained.

Regulatory Observations:

Regulatory approvals form the basic strength of the Company and utmost care is taken to ensure that these approvals are valid, in full force and are renewed from time to time. To this end, all observations made by the Regulatory Auditors and Customer Auditors are taken seriously and immediate action is initiated to rectify the lapses, if any.

Global and Environmental Risks :

The company is not immune to changes that the world is undergoing - be it economic, political or otherwise. Owing to global economic melt-down, the company could not achieve the targeted growth levels. As far as practicable and possible, the Company aims to keep itself insulated from these risks by entering into strategic alliances with partners in other countries. In case of such tie-ups, generally speaking, the cost of litigation and the cost of regulatory filings, wherever applicable, would be to the account of the partner.

Owing to the global slowdown, the Company has been cautious in its plans for expansion and growth and is carefully evaluating the various business opportunities available to it.

Foreign Currency transactions and associated Risks :

The company continues its policy of not hedging any of its import / export transactions. It has been the company's experience that such a policy will, over a period of time, neutralizes the risks associated with foreign currency transactions.

Economic and Financial Risks :

The company is operating in an environment where, as of now, financial costs are rising. The company is attempting to reduce the financial costs by contracting new loans at cheaper rates. Wherever possible, attempts are made to enhance the product pricing to cover rising costs.

The company has a system of re-cycling the various solvents that it uses to ensure improved productivity and yields, and at the same, cutting costs.

The company's API plant is a zero discharge facility (which does not cause any pollution). Adequate and suitable insurance cover is available to cover public liability and general commercial liability risks.

Energy and associated risks :

Power shortages and unscheduled power cuts continue to plague the State of Andhra Pradesh, in which the company's major manufacturing facilities are situated. As a result, the company has been forced to go in for its own generation of power, albeit, at a high cost. This has impacted the overheads adversely, further shrinking the already thin margins. This is a risk that the company cannot avoid unless it goes in for its own captive generating stations. At this point of time, this measure seems to be unviable.

Other Risks :

In addition, the Company faces distribution, storage, contamination, counterfeit and risks associated with patents and intellectual property rights. The company is in the process of evolving a strategic mechanism which will enable it to deal with these risks in course of time.

CORPORATE SOCIAL RESPONSIBILITY



*To learn to live
To live and learn*

About Natco Trust

NATCO TRUST is the corporate social responsibility division of NATCO Pharma Ltd, and it is based in Hyderabad. The core areas of the Trust are Health, Hygiene, Sanitation, Water, Education, Livelihoods, Institutional support and Need Based Community Infrastructure. It operates in the vicinity of wherever it has a business presence. Since its inception in 1995, the Trust has been evolving and constantly revisiting its role in society.

Our Corporate Social Responsibility Statement and Principles define our approach towards the society- the most important stakeholder in the development of the organization. We at NATCO endeavor to make a positive contribution to the underprivileged by supporting a wide range of socio-economic programs including education, health, sanitation, hygiene, livelihood and other community based initiatives. Many of these community projects and programs are driven by active participation of different stakeholders like the promoters, the employees, the suppliers, the government etc

Currently Natco Trust operates in 4 districts namely, Mahaboobnagar, Nalagonda, Guntur and Hyderabad in the state of Andhra Pradesh. It aims to reach these communities in the areas of education, health, water, sanitation, livelihoods and community based infrastructure support.

Natco Pharma Limited has bagged the prestigious Golden Peacock Award for Corporate Social Responsibility for the year 2012 for the initiatives and efforts made by the company to improve the quality of life of the underprivileged.

The award was presented by H.E. Mr Juma Al Majid, Chairman of Dubai Economic Council & Founder Chairman of Juma Al Majid Group, Lt Gen J S Ahluwalia, PVSM (retd), President, Institute Of Directors and Saleh Janeeh, Chairman Dubai Quality Group. It has been witnessed by the distinguished gathering of business leaders, jurists, academics, environmentalists, economists, legislators and policy makers during the Dubai Global Convention incorporating the 7th International Conference on Social Responsibility, held on 25th April 2012.

Areas of Intervention:-

Natco Trust has initiated the interventions in different core activities in a phased manner in different villages, based on the need and urgency to mitigate the challenges faced by the community with their active participation.

The Trust activities revolve around the following areas:

- 1) Health
- 2) Education
- 3) Livelihood
- 4) Water and Sanitation
- 5) Environment

1. Health

Natco Trust is committed to enhance the health and well being of the targeted communities. It attempts to improve the health seeking behavior of the communities regarding nutritious food, mother and child health, communicable diseases, preventive mechanisms through community based health services and health education.

Natco Mobile Health Clinic:

Objective: Health Services at the door steps of the community

The Natco Mobile Health Clinic (NMHC) serves more than 5000 households with a population of more than 32000 in 16 villages of Peddavura and Chandampet Mandals on a rotation basis with a weekly schedule. It has all the basic equipments and free medicines provided apart from the health services. Health education too is provided to the community.

Natco Mobile Health Clinic

NMHC provides **Primary health care** for the community. The main part of this is to examine the patients and treat them accordingly. The patients who cannot be treated at the NMHC and who need high end care are referred to higher centers at Nalagonda and Hyderabad. NMHC visits home and treats terminally ill patients and others who cannot come to NMHC because of serious disease or very old age.

NUTRITION CENTER: As part of the NMHC services Antenatal and postnatal care is provided to the pregnant and lactating mothers respectively. They were treated of the basic ailments like Anaemia...etc and are referred for higher centers for Ultrasound scan, blood investigations and when abnormalities like high Blood pressure, abnormal presentation of foetus, bleeding etc. are detected.

NMHC team works with the government ANM and makes sure that all the antenatal mothers are immunized with 2 doses of TT. Pregnant mothers are advised about the diet, immunization, Family planning...etc. Any issues raised by the pregnant and lactating mothers are discussed with them. All pregnant mothers are motivated to go for institutional delivery. They are discouraged to deliver at homes.

HEALTH EDUCATION: Apart from the health education provided at the Nutrition centers and Schools the community is also given health education on various matters when they come to NMHC to avail the services, by home visit and also by small gatherings. Advice is given on the ways to prevent seasonal diseases like Typhoid, Malaria, Dengue, Acute gastroenteritis etc. People are advised to boil and filter water before drinking. They are advised to take personal protective measures like using mosquito nets to prevent from the disease spreading mosquitoes biting them.

They are told to fill the water pools with mud so that mosquito larvae will not grow in them. Roads and drainage system are observed in the villages and the people were cautioned about the deleterious effects of water pools and stagnant water in the drainage system due to poor maintenance. This is done in liaison with local leaders, Anganwadi workers, School teachers and village youth. People are also educated about the ill effects of smoking, alcoholism etc,

IMMUNISATION: NMHC is actively involved in the immunization program conducted by government ANMs in the villages. NMHC team will be present in the village at the time of immunization. The absent children in a particular month are noted. NMHC team visits their houses and discusses with their parents about the failure to get their children immunized.

SCHOOL HEALTH: School children are examined and treated for minor ailments. They were given Albendazole tablets to treat worm infestation. Children are made aware about the personal hygiene and causation of diseases. They are educated about having bath daily, cutting nails, washing hands with soap before eating and after going for toilet etc,. They were told not to insert slate pencils, pencils, match sticks etc into their ears..

Natco Mobile Health Clinic - age, gender and repeated beneficiaries details for 2011-2012

Age	Male	Female	Total	Old patients	New patients
0 -1 years	340	305	645	39	606
2-5 years	1039	869	1908	937	971
6 - 10 years	933	874	1807	935	872
11 - 15 years	1517	372	1889	1366	523
16 - 35 years	3019	3108	6127	5686	441
36 - 50years	2775	3361	6136	5974	162
51-65 years	1904	2551	4455	4382	73
66 and above age	755	1238	1993	1977	16
Total	12282	12678	24960	21296	3664

Natco Mobile Health Clinic - village wise beneficiaries 2011-12

Sl.No.	Village Name	First quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
1.	Yerra Cheruvu thanda	247	529	391	367	1534
2.	Chenchu Vani thanda	259	240	167	201	867
3.	Godumadaka	359	356	280	400	1395
4.	Nellikla	383	396	672	359	1810
5.	Pilli Gundla Thanda	320	266	382	217	1185
6.	Chintala palem	517	475	527	532	2051
7.	Jal Thanda	468	369	526	470	1833
8.	Palthi thanda	351	170	276	166	963
9.	Thangilla Thanda	197	112	246	175	730
10.	Poolya Thanda	300	263	163	145	871
11.	Jammna Kota	221	295	185	195	896
12.	Nagarjuna Peta	285	505	387	331	1508
13.	Nayakuni Thanda	334	507	599	456	1896
14.	Thimmai palem	314	353	431	203	1301
15.	Pedda Munagala	197	315	292	306	1110
16.	Kambala Pally	261	332	321	253	1167
17.	AP Residential School	160	700	281	268	1409
18.	NATCO Parenterals division employees	538	478	682	736	2434
	Total	5711	6661	6808	5780	24960

Specialized camps: - School Eye camp in convergence with Dr. Ranga Reddy Lions Eye Hospital, Secunderabad.

School Eye camp: - Apart from the general school health camps through NMHC, specialized health camps being conducted on need base, one such specialized eye camp have been conducted in convergence with Dr. Ranga Reddy Lions eye club, Secunderabad at Natco Government high school, Borabanda, Hyderabad, in which 571 students of class I to V got screened. Provided spectacles to 24 students and referred 4 students to LV Prasad eye institute for further testing and treatment.

Nutrition centers

Locations: -, Nalagonda, Mahaboobnagar and Hyderabad Districts of Andhra Pradesh

Objective: - Prevention of disability and malnutrition, healthy motherhood with healthy baby and institutional delivery.

In the year 2011-12 a new nutrition centre have been initiated, at Borabanda slum of Hyderabad district.

The Nutrition center catered 366 mothers; out of which 104 are pregnant and 130 are lactating mothers in 7 village's i.e, Yerracheruvu thanda, Mekaguda, Nayakuni thanda, Thimmaiah palyam, Chinthalapalyam, Thangalli thanda and Peddamunigala and one urban slum at Hyderabad. Out of 366 beneficiareis 132 were completed one year (the trust supports a beneficiary for a period of one year that is from conception (3rd month) to 6 month after delivery). Total deliveries are 156 and out of which 110 are institutional deliveries and 46 are home deliveries supervised by trained local dhai (nurse).

According to NIN (National Institute for Nutrition, Hyderabad) that the Indian women have the deficiency of 430 calories, to fill this gap the center provides nutritional supplementary food (430 calories) consisting of egg, milk, dates, chikki, biscuits, (annexed the weekly menu) for a period of 1 year.

Details of Nutrition centre beneficiaries 2011-12

Month	Pregnant	Lactating	Incoming	Out going	Deliveries	Total	Institutional Deliveries	Home Deliveries
Apr	87	89	18	10	14	176	07	07
May	92	92	13	05	08	184	05	03
June	83	77	08	32	10	160	07	03
July	80	80	09	09	12	160	07	05
August	90	82	20	08	10	172	08	02
Sep	112	95	14	05	11	207	08	03
Oct	114	101	19	09	17	215	11	06
Nov	106	120	14	03	22	226	16	06
Dec	117	114	26	21	15	231	11	04
Jan	108	123	11	11	20	231	17	03
Feb	105	114	05	17	5	219	03	02
Mar	104	130	17	02	12	234	10	02
Total			174	132	156		110	46

All the mothers have to undergo the diagnosis and accordingly provided the health services. Apart from the nutrition food the health education on breast-feeding, personal hygiene, institutional deliveries, family planning etc., also been provided as part of the NMHC services

INDIAN NATIONAL BRAIN BEE 2011-12

Objective: - To inculcate and encourage the scientific temperament among the students

Natco organized the Indian National Brain Bee quiz on neurosciences in association with NIMS Hyderabad. Around 20 students from 11 schools took part in the regional quiz competition held at Natco corporate office, Hyderabad. The final was held at Bengalure in association with NIMHANS, in which 13 students from 13 different states took part. The National winner would participate in the International brain bee quiz, which is going to be held in Cape Town.

Patient Counselor support to government hospitals at Hyderabad

-2 Counselors in Gandhi Hospital, 4 in MNJ Cancer Hospital and 2 at Niloufer hospital

-Objective: To help poor, illiterate patients get proper access to the available healthcare services.

The Natco trust has positioned 8 counselors in different government hospitals at Hyderabad to support and facilitate the patients coming from different parts of the state and neighboring state. They act as link between the service provider and service seeker. The following table provides information on the services extended by the patient counselors in the hospitals

S.No.	Name of the particulars	Gandhi hospital	Mnj cancer hospital	Niloufer hospital	Total
1	Outpatient Block Guidance	27145	10795	-	37940
2	In patient Block Guidance	-	-	13818	13810
3	Counseling for Inpatient ward	582	218	324	1124
4	Individual support to patient	124	50	41	215
5	Referrals to blood bank	-	105	62	167
6	Referrals to Diagnostic centre	-	-	44	44
7	Support group meeting	-	205	218	423
8	Hospital meeting	05	-	-	5
9	Tobacco cessation counseling	-	12	08	20
10	Referrals to other hospital	25	9	22	56
11	Follow up cases	13	105	87	205
12	Art and craft programmes	07	55	110	172
13	Awareness meeting on health issues	-	182	292	474
14	Networking to other NGOs	31	20	24	75
15	Health awareness programs at government schools	-	75	37	112
	Total	27932	11831	15087	54850

Education: -

We are committed to create an enabling environment for children through education initiatives, emphasis laid on access, equity and quality of education by extending the need based support on appropriate infrastructure, skilled teachers, innovative teaching methodology and curriculum, access to basic teaching learning materials for improving the learning competence of the children, in addition to this adapted innovative methods to make learning more interactive and participatory.

Objective: - To strengthen the government schools in terms of infrastructure, libraries, science labs etc. in order to retain all the eligible school going children in the school and impart qualitative education.

Natco School of Learning, Gollamudipadu village, Ponnur Mandal, Guntur District.

Natco Trust has initiated the setting up of **NATCO SCHOOL OF LEARNING** (an English Medium School), at Gollamudipadu village, Ponnur Mandal of Guntur District during the financial year, 2011-12, with an objective of providing good education to the local community and to many of the surrounding village children.

This School has been set up with well-established infrastructural facilities with gardening and landscaping, well-trained teaching staff, x-seed idiscoveri methodology and activity based learning with an affiliation of CBSE board. It is also facilitated with good transport system and well-equipped library, computer lab and science lab etc.

Academic activities

- X-Seed Curriculum - The curriculum is implemented in order to provide quality education to the students of Natco School of Learning.
- Learnometer tests - In order to check students understanding levels Learnometer tests were conducted. The papers were sent by 'idiscovers' in which Grades 2, 4,5 have performed extremely well and stood on par with the National Average in the progression tests.4 tests were conducted namely baseline test, progression 1,2 and 3.
- Examinations - They were conducted in school for three terms.
- Projects - In order to induce pupils into 'Learning by doing' various project works were entrusted to them based on reasoning, application, analysis and comprehension.
- Field trips - Firsthand experience/Direct experience to students was given through field trips. They were taken to places such as Emu farm, temples, post office, construction site etc.
- Teacher training- Teachers were supported through one to one interactions, observations and feedback. Professional development and training programmes by Mr.Hussain and Ms.Rachel were conducted.

Events:-

Grandparents day:- Grandparents day was celebrated in the school. All the grandparents were given greeting card. Snacks were also given to them.

Independence day:- This day was celebrated with great pomp and show. The Chairman of Natco Pharma Limited had hoisted the National Flag.

Teachers' day - Teachers day was celebrated. Special Assembly was organized in order to entertain teachers.

Sports day and Children's day:- The school is divided into four houses namely Pavlov, Socrates, Newton and Galileo. On the occasion of Children's day, we organized Sports events for children. Various games and sports such as Flat race, slow cycling, skipping, relay, frog race etc were conducted for children.

Annual day:- It was the mega event of the year. All the children were participating. Around 300 parents and other visitors had come to witness this event. The budget allocated was ₹35000/-

Festivals:- Ours being a multi-ethnic society, Diwali, Christmas, New year and Pongal were celebrated in the school

Natco High School, Rangapur, Kothur Mandal, Mahaboobnagar district

Natco High School was established in the year 1995 under the Natco Trust, to facilitate education in the surrounding villages and also to the employee children of Natco Pharma Ltd. Though the school started with strength of 77 students, 10 rooms and 10 staff members in 1995 by 2011 it has increased to 1324 students, 70 staff and a building of 50 rooms. The service motive of the management has helped many students to pass out with good results. From the initial years the strength of the school was a combination of students from Natco & Non Natco who belonged to the surrounding villages and Thandas. The idea behind establishing school remained to impart education with free and subsidized fees.

Natco high school is a combination of learning and sharing experiences of children and teachers. It gives opportunity to every child to experience a wide range of knowledge practically which helps them to grow. In the same process many workshops, guest lectures, orientation classes are conducted for students, teachers as well as parents. Apart from the regular subjects, sports and art and craft are given top most priority as we incorporate them in the main stream curriculum.

The academic year 2011 - 12 came to an end with the annual examination in the month of April. The pass percentage of Grade X student was 100% where as the pass percentage of students from LKG to Gr IX was 99%.

The new academic year was taken up with zeal and excitement to reach the motive of providing quality education in school, for which the help of certain aids have been taken up - like.

X- Seed

In the third year of implementation of Xseed in school we could witness the outstanding and openness attitude among children. This made them more confident to understand and interpret what they have learnt in the class. Along with developing a good flair towards reading and writing skills they have come across various methods of retaining what they have learnt through the remedial classes which were introduced on a daily basis.

High School students have developed analytical skills and participated in discussion with open mind. Every stage of learning included an experience, with the help of which they could relate to the society or the surroundings they are living in.

- Introduced News paper in education programme which inculcated the habit of reading newspaper every day in school, allowing them to be more exposed and sensitive towards the society.
- Introduced SUPW as a part of Co-curricular activities. Some of the programmes taken up are:
 - Clean the Campus
 - Cook and serve for the old
 - Raise the fund
 - I make my own gift box
- Several reading programmes were taken up to develop reading habits among students.
- Literary Based competitions were conducted to give opportunities for children.
- Session on first aid was conducted to bring awareness to students.
- In the Science talent test which was conducted on account of world chemistry day three students of NHS topped the mandal level and bagged third place in District level.
- To understand the individual problem of few children, case study format was introduced and teachers have worked individually on them.

Co - curricular activities:

Co-curricular Activities helped in the all round development of the child. Many co-curricular activities were conducted for the students like,

Thematic quiz competitions based on Computers and Science, Math mela, Thematic Singing, Spell Bee, Clay modeling, Puppetry, Elocution General Knowledge Quiz, Essay Writing, Drawing & Painting, Show & Tell, Make & Talk along with field trips to the topics related as per the class.

PACM: Parent Academic committee:

In the academic year 2011 -12, three meetings, one in each term was conducted with the parent academic committee. The parent committee consists of 24 parents of students who belonged from nursery to grade X. In these meetings parents and the teachers along with Principal, Dean and the Vice principal discussed about the academic and general issues related to school. Suggestions were given and taken by the parents and the school body. These parents represented the parent body of the whole school.

Sports.

Students of natco school have participated in different games in the district level on behalf of mahaboobnagar district. They have participated in games like hand ball, volley ball and tchok ball.

Amongst the outstanding performances, Divya Mounika of Gr VIII was selected for the Nationals in hand ball, She was felicitated by the collector of Mahaboob nagar district.

Master Rajesh and Anil were also selected for the nationals and played for the state, the sport was conducted in Assam.

Capacity building of Teachers:-

Teacher Training & Work shop Programmes were also conducted to develop skills among the teachers.

- Xseed subject specific workshops
- English classes to develop communication skills.
- Story telling workshops
- School cinema workshops
- Internal Training programmes

Infrastructure:-

- New building of 12 rooms was constructed to meet the demands of the increasing strength. This block consisted of a large library and an activity room where 75 students could use it at once.
- New furniture was procured for LKG & Nursery class along with play material.
- New printing machine was procured which can print 100 copies in a minute.

Education activities at Nagarjuna Sagar, Nalagonda district

AFTER SCHOOL TUTIONS for primary and high school students

The objective: to inculcate the activity based learning process amongst the students

Introduction: It has been observed that dropping out of government schools, is rampant among children in the communities with which the Trust works. In most of the cases, children continue education till 2nd standard and drop out due to various reasons. This is because, in the absence of proper tutoring and coaching, children, who are mostly first-generation learners, find it difficult to cope with their syllabus and school environment.

The Natco trust initiated the after school tuitions to the government schools students in the targeted villages where in the emphasis has been put on inculcating activity based learning process in addition to the class room learning. The child has the freedom to explore and learn in joyful way. Accordingly the learning process has been designed. The teaching methodology adopted was Multi grade and multi level.

Tuitions for primary school children in terms of the curriculum and play way teaching techniques are being held at 8 centers presently. The children are provided the learner friendly environment thus making the learning process easy and interesting which is helping in the decrease of dropout children. Emphasis is laid on making the child strong in fundamentals of mathematics and languages.

During this year, we have introduced common level wise curriculum to be implemented in these centers coupled with common methods of assessment too, integrating the concepts being dealt at school for them. The curriculum has also been improvised to provide more scope for enhancement of writing skills, grammar skills and reading skills. assessments are also done through reading cards, and remedial classes are planned.

The Syllabus has been upgraded with the inclusion of various activities pertaining to reading skills, speaking skills, comprehending ability skills apart from the inclusion of exercises related to grammar and vocabulary, at different levels, as per their suitability in Telugu.

In Math also, Mental Math has been introduced apart from dealing with various activities in elaborating the concepts of numbers and rotation and basic operations in Math suitably at each level. Efforts were made to have common assessment system for all the centers through the use of various Reading cards to assess. Also, tried to assess their levels of learning, using the question papers set by external schools (Government schools of other areas, NHS).

In all about 200 students are being catered to, through this program, out of 500 enrollments in different schools of Nagarjuna Sagar. These children are also being provided with supplementary food during the tuition timings.

Pre -primary school - Thangalli thanda:-

The early childhood years are essential for the proper mental, physical, emotional and social development of the child. This lays the foundation for the child's future. Thus, it is very essential to provide children with quality pre-school education. It is with this objective that the Natco Trust has initiated pre primary school

Thangalli thanda is a rehabilitated village, consisting of 87 households belonging to Schedule tribal community. It has been earlier (palthi thanda) situated on the banks of Krishna River and very often inundated by the backwaters of river Krishna. The Trust has started a pre-primary school for the benefit of the children. The centre has 19 students in the age group of 3 to 5 years and they have been imparting activity based play way method learning. The Trust provided all teaching learning materials, play equipments, slates, and books; the center was taken care by a teacher and an ayah.

A nutritious snack is provided daily to the children. In addition, efforts are made to develop the innate abilities of the children through activities like songs, games etc. The concerted efforts with this age group has helped in school-preparedness while also engaging parents in their ward's learning process

During the academic year 2011-12, the school has 19 Children between the age group of 3 to 5 years getting benefit out of this program. They were provided with various learning experiences in Telugu, Math and Themes through different activities designed in thematic manner and with the implementation of Multi Grade Multi Level Methodology in teaching Telugu.

The 4+ and 5+ could learn various concepts pertaining to the topics, My New World, Animals, Insects, My Body, Seasons and Transport in a Thematic manner, consisting of various activities like Circle Time, Outdoor, Indoor, Rhymes, Stories and Math concepts incorporated in to them. They have also learnt Telugu through MGML methodology, up to 6th -8th level. In Math, they could learn Numbers and Notation above 50 and even up to 100. While a few have learnt beyond that, apart from various concepts like: Big-Small, Long-Short, Few-Many, Some-Much, Countable-Uncountable, Light-Heavy, Soft-Rough etc along with Counting, additions and subtractions in single digits. The 6+ have learnt Numbers and Notation up to 300 apart from the above concepts and also Additions and Subtractions in single and double digits without carrying.

Child Clubs: This has been motivated in Government schools, defining the purposes, forming groups and initiating activities in language clubs, cultural clubs, art clubs etc.

The child clubs serve as a stimulant for the child to come to school. In order to encourage the participation level and to enhance the interest among the children in extracurricular activities, the children's club at Yerracheru Thanda has been strengthened by way of organizing games and sports, drawing competitions, preparation of Goda patrika. The children's club in Nayakuni Thanda and Thimaipalem were also strengthened. Various committees like sports committee, motivation committee for the children who did not come to school, cleanliness committee, cultural committee, godapatrika committee, honest box committee have been formed for active participation of children. The children at Natco Government high school has involved in maintaining cleanliness in their respective classes. Art and craft classes were also conducted for the children to tap the hidden potentiality.

Children involve with quite a good excitement in such clubs and they exhibit their leadership skills. This

also instills in them, a sense of Social Responsibility.

Education activities at Hyderabad district

Support to Natco Government High School: - The School has more than 1400 students from Class I to X both in Telugu and English medium. The Trust extended the support of housekeeping services and night security along with all required sanitary materials to keep the sanitation and school premises neat and clean. It also provided snacks to the school for all national festivals. A special snack has been provided to the 10th class students during the special classes. The results of 10th class were 85% both in Telugu and English mediums. 94 students appeared for the 10th examinations, out of which 80 students cleared it successfully. The school stood 1st in 10th results in the district of Hyderabad and the district collector felicitated the entire staff of the school.

The trust also conducted child club and summer camp activities for the primary school students. Around 60 students use to get benefit out of this activity. Uniforms also provided to the students of anganawadi and primary school.

Educational support at Guntur district:-

Note books distribution to Government Upper Primary School, Munipalle village: - on request of the school authority to support school materials to the students. The Trust has made a visit to the school and assessed the need of the requirement. The Trust distributed note books to 56 students. The program has been attended by the Mandal Education Officer, Mandal Resource Person, HM, parents and community of Munipalle village.

Rank Attainment Program: The deputy DEO of Guntur district has requested the Natco Trust to support in organizing the rank attainment program for the meritorious 10th class government high school students. Accordingly the Natco Trust has organized the camp. The Program has been inaugurated by Mr. Lakshmana Rao, MLC along with education department officers.

Objective: - the objective of the Rank Attainment program is to refresh the meritorious students of class 10th in government high schools in Bapatla division, covering 20 mandals.

Method of selection: - From each government high school 2 meritorious students have been selected and they have been put for the residential coaching camp.

Implementation and methodology: - Selected teachers would accompany the students during the special coaching program; they stay in the coaching camp on rotation basis. The classes would be from 8 am to 8 pm covering all the subjects and important topics that are expected in the exams. Class rooms, Accommodation and food is provided & arranged by Natco Trust.

Outcome: the camp has good response and total 124 students were participated in the camp. 5 teachers are in the camp all the days to take care of the students and 18 teachers came to take the classes in different subjects. The MEO, Dy. DEO, DEO/RJD visited the premises and camp to interact with the students.

ADVOCACY MEET in Natco School of Learning campus on 25th Dec, 2011.

The advocacy meet was organized on 25th Dec 2011 in NSL campus. About 200 individuals, representing various backgrounds were took part in the program under the Chairmanship of Chairman Natco Pharma Limited. The prominent among them were the Member of Parliament, Guntur, MLCs, local MLA and heads of the departments, village elders and village community.

The objective of the program was to disseminate the activities taken up by Natco Trust in the villages surrounding Ponnur mandal of Guntur district and the coordination and cooperation required from the government and public representatives.

The program went on with introducing and visiting the campus covering all class rooms and activity rooms of NSL. Orientation and awareness was given to all the representatives with a power point presentation by the Natco Trust. A live interactive session was organized and came out their opinions and support.

Livelihoods: - Skill up gradation for Wage employment, self-employment/value addition income generation for the youth and women

Vocational training centers: -

During the year 2011-12, the Natco Trust has initiated vocational training centre at Gollamudipadu village of Ponnur Mandal, Guntur district. We have entered partnership with government of Andhra Pradesh for providing training to the youth.

The Trust has started 4 channels of vocational training centre at Hyderabad, Guntur and Nalagonda districts on Fashion designing, Beauty parlor, ICT (information communication technology) Electrical and Driving courses. 451 beneficiaries got trained in different courses. The Trust facilitated placement for 155 beneficiaries. Around 200 beneficiaries are self employed and around 50 beneficiaries were pursuing education and the information on others is not known.

Social categorization and job placement of the beneficiaries

Social categorization courses	ST	SC	BC	Minorities	Others	Total
Fashion designing	22	49	75	26	34	206
Beauty parlor	-	13	31	39	07	90
ICT	02	29	41	15	17	104
Electrical	-	02	02	-	03	07
Driving	-	05	17	16	06	44
Total	24	98	166	96	67	451

Placement to all the beneficiaries

Sl.No	Name of the course	No. of candidates positioned	Salary average
1	Beautician	24	₹2000 to 8000
2	Tailoring	43	₹2500 to 5000
3	Computers	47	₹5500 to 6500
4	Electrical	03	₹5000 to 7000
4	Driving	38	₹5000 to 10000
5	Total	155	

Social categorization wise placement details

Sl. No	ST	SC	BC	Min	Others	Total
1	04	34	59	45	13	155

Water and Sanitation

Objective: - Providing safe drinking water within the reach of the community with permissible limits of minerals with special reference to floride

During the year 2011-12 a new RO purified drinking water plant was set up at Gollamudipadu GP of Ponnur mandal in Guntur district.

The Natco Trust has provided RO purified drinking water plants to 4 grama panchayats namely Haliya (4000 LPH), Peddavura (2000 LPH), Peddamunigal (3000 LPH) and at Kambalapally (1000 LPH) in Nalagonda district and Gollamudipadu grama panchayat in Guntur district with a capacity of 5000 LPH. The purified drinking water plant caters 3976 households with a population of 10633. Each family has to pay ₹2 for 20 liters of water. The RO purified drinking water plants are managed by the village community in Nalagonda district and at Guntur; it has been maintained by the Trust.

Sanitation: - Individual Sanitation Latrine (ISL) in Gollamudipadu village, Ponnur Mandal, Guntur district

With a vision and target of 100% ISL in the village initiated to stop open defecation to prevent diseases. Discussions have been organized with the community and the line department to orient the importance of ISL and their participation in the construction. During the discussion it has been decided that it would be tripartite. The Trust would facilitate with the government to get the sanctioned amount of ₹3200/-. The Trust would support ₹3500 for each unit, as a back ended. The community has to contribute the rest of money. 124 families responded to this initiative and submitted their willingness to construct through an application. Out of this 32 families constructed the ISL so far and other families are also ready to construct.

REPORT ON CORPORATE GOVERNANCE

1. Company's Policy on Code of Corporate Governance

Your Company is committed to and continues to practice good corporate Governance as per Listing Agreement Clause 49 entered with Stock Exchanges. Company's core principles to lay emphasis on integrity and accountability, incorporate several practices aimed at a high level of business ethics, effective supervision and provide for enhancement of value for all stake holders including but not limited to shareholders, customers, vendors, contractors and all others who are part of the business. Your directors and Senior Management Personnel complied to the code of conduct which in place.

2. Board of Directors - Composition

(i) Composition of the Board

As on 31st March, 2012, the Company has nine Directors on its Board, of which four are working Directors and five are Non-working Directors all of whom them being independent and professional Directors. Every year one third of the Directors (except Nominee Director) retire by rotation. Brief resume of Directors seeking appointment/ reappointment is given in the Notice of the Annual General Meeting.

(ii) Number of Board Meetings

The Board of Directors and its committees meet at regular intervals. The Board meetings are tentatively fixed at the beginning of each financial year. During the year under review, 4 meetings of the Board were held on 30-05-2011, 12-08-2011, 9-11-2011 & 9-2-2012. Board and Audit Committee meetings were convened on the same day in order to avoid possible travel and time constraints of the Directors. As stipulated in the Companies Act and also as per the Listing Agreement the intervening period between two board meetings was not more than 4 months.

(iii) Directors' attendance record and Directorships held

The names and categories of the Directors on the Board, their attendance at Board meetings during the year under review and at the last Annual General Meeting, as also the number of Directorships and Committee memberships held by them in other companies are given below:

Name of The Director	Category	No of Board Meeting During The Year		Whether Attended Last AGM Held on 30-09-2011	No. of Directorships in Other Public Limited Companies*	No of Committees		Relationship interse Directors
		Held	Attended			Member	Chairman	
Mr. V.C. Nannapaneni	Promoter	4	4	Yes	2	4	1	Father of Mr. Rajeev Nannapaneni
Mr. C.P. Ravindranath	Independent Director - Nominee Exim Bank	4	3	No	2	-	-	-
Mr. G.S. Murthy	Independent	4	4	Yes	-	-	4	-
Dr. B.S. Bajaj	Independent	4	4	Yes	-	3	-	-
Dr. Jasti Samba Siva Rao	Independent	4	3	No	-	-	-	-
Mr. Rajeev Nannapaneni	Whole time Director	4	4	Yes	2	1	-	Son of Sri V.C. Nannapaneni
Dr. P. Bhaskara Narayana	Whole time Director	4	4	Yes	1	2	-	-
Dr. A.K.S. Bhujanaga Rao	Whole time Director	4	3	Yes	-	-	-	-
Mr. Nitin Jagannath Deshmuk	Additional Director w.e.f. 09-02-2012	4	1	-	2	1	-	-

* excluding Private Ltd Companies and Companies not carrying on business for profit or which prohibits the payment of dividend.

None of the Directors on the Board are members of more than ten committees or Chairman of more than five committees across all the companies in which they are Directors as required under Clause 49. All the necessary disclosures regarding Committee positions have been made by the Directors.

The Board periodically reviews compliance reports of all statutory laws applicable to the Company. Steps are taken by the Company to rectify instances of non-compliance, if any.

During 2011-12, the Company did not have any material pecuniary relationship or transactions with Non working Directors.

(iv) Board Agenda

Board Agenda containing the required information and details for the items of business for the meeting being circulated to all the Directors in advance. After circulation of the Agenda if any issue(s) requires Board's immediate attention are being tabled with the permission of the Chairman at the meeting.

3. Audit Committee

Your Company has got an Audit Committee of Board of Directors which was constituted in line with the provisions of the Companies Act, 1956 as also the Clause 49 of the Listing Agreement with the Stock Exchanges. The Chairman of Audit Committee is an independent professional Director and the Committee consists of four Directors out of which three are independent Directors. Statutory Auditors, Internal Auditors and Cost Auditors are also present in the meetings as special invitees. The Company Secretary acts as the Secretary of the Audit Committee. The Audit Committee meets before the Board takes up the consideration of unaudited/audited results and there will not be more than 4 months time gap between any two meetings and minimum of 4 meetings are being held in each financial year.

The Audit Committee constitutes Shri G.S.Murthy, Shri C.P.Ravindranath, Dr.B.S.Bajaj and Shri V.C. Nannapaneni as its members. During the year, the Audit Committee met 4 times on 30-05-2011, 12-08-2011, 9-11-2011 & 9-2-2012.

The members who attended the number of meetings are as follows:

Name of the Member	Meetings held during the year	Attendance at the meeting
Shri G.S.Murthy	4	4
Dr. B. S. Bajaj	4	4
Mr. C.P. Ravindranath	4	3
Shri V.C.Nannapaneni	4	4

The broader Terms of reference of Audit Committee are as follows:

- Oversee of the Company's financial reporting process and the disclosure of its financial information to ensure that the financial statements are correct, sufficient and credible.
- Recommending to the Board, the appointment, re-appointment and, if required, the replacement or removal of the statutory auditors and fixation of audit fees. Approval of payment to statutory auditors for any other services rendered by the statutory auditors.
- Reviewing with management the annual financial statements before submission to the Board, focusing primarily on Board's report in terms of Clause (2AA) of Section 217 of the Companies Act, 1956;
- Reviewing with management, performance of statutory and internal auditors, adequacy of the internal control systems.

- e) Reviewing the adequacy of internal audit function, including structure of the internal audit department, staffing and seniority of the official heading the department, reporting structure, coverage and frequency of internal audit.
- f) Discussion with internal auditors any significant findings and follow up thereon.
- g) 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.
- h) Discussion with statutory auditors before the audit commences, nature and scope of audit as well as have post audit discussion to ascertain any area of concern.
- i) To look into the reasons for substantial defaults in payment to the depositors, debenture holders, shareholders (in case of non payment of declared dividends) and creditors.
- j) Reviewing with management, the quarterly financial statements before submission to the Board for approval.
- k) To review the functioning of the Whistle Blower mechanism.
- l) Carrying out any other function as is mentioned in the terms of reference of the Audit Committee.

4. Remuneration Committee

i. Terms of reference

Your company has also constituted a remuneration committee of Directors to appraise the performance of managing/whole time directors/senior management personnel, determine and recommend to the Board, the remuneration payable to them, the details of which are included elsewhere in this report.

ii. Composition, names of members and attendance during the year

As of 31st March, 2012, two member Remuneration Committee comprised of Non-working independent professional Directors viz. (1) Shri G.S.Murthy and (2) Dr. B.S. Bajaj and they met on 12-8-2011.

iii. Remuneration of Directors

Remuneration paid to Directors during 2011-2012

a. Functional Directors:

S. No.	Name	Position	Total ₹
1.	Sri V.C. Nannapaneni	Chairman & MD	1,06,08,000
2.	Mr. Rajeev Nannapaneni	Director & COO	84,00,000
3.	Dr. P. Bhaskara Narayana	Director & CFO	32,00,000
4.	Dr. A.K.S. Bhujanaga Rao	President (R & D and Technical)	31,19,599

b. Non-Functional Directors

A sitting fee of ₹5,000/- (Rupees Five Thousands only) is paid for attending the each Board/Committee meeting in addition to reimbursement of out of pocket expenses. The amount paid is well within the ceiling limits under the Companies Act and the Articles of Association of the Company. The details of the sitting fees paid to the Non working Directors during the year 2011-12 is given below:

Sl. No.	Name	Position	Sitting Fees paid for the meetings of						TOTAL
			Board meeting	Audit Committee	Investor Grievance Committee	Remuneration Committee	Compensation Committee	Allotment Committee	
			₹	₹	₹	₹	₹	₹	
1.	Sri G.S.Murthy	Independent Director	20,000	20,000	10,000	5,000	5,000	20,000	80,000
2.	Mr. C.P. Ravindranath	Nominee Director - Exim Bank	15,000	15,000	-	-	-	-	30,000
3.	Dr. B.S.Bajaj	Independent Director	20,000	20,000	-	5,000	5,000	-	50,000
4.	Dr. J. S. Rao	Independent Director	15,000	-	-	-	-	-	15,000
5.	Mr. Nitin Deshmukh	Independent Director	5,000	-	-	-	-	-	5,000

5. Investors Grievances Committee

The Company has constituted Investor grievance committee of Directors to redress the complaints of shareholders such as transfer or credit of shares, non-receipt of dividend/ notices/ annual reports, etc. The committee consists of three Directors of which Chairman of the Committee is Independent Professional Director. The members are Mr.G.S.Murthy, Dr.P.Bhaskara Narayana and Mr.V.C.Nannapaneni and they met on 12-08-2011 & 9-02-2012.

The Company had received 145 requests for various queries during the year 2011-12 and all of them were replied / resolved to the satisfaction of the investors.

6. Compensation Committee:

Your Company has also got a Compensation Committee (Though not mandatory) comprising of Shri V.C. Nannapaneni, Shri G.S.Murthy and Dr. B.S. Bajaj which reviews and grants share options to the eligible employees of the Company.

The Committee met on 12-08-2011.

7. Allotment Committee

Your Company has also got an Allotment Committee comprising of Shri V.C. Nannapaneni, Shri G.S. Murthy, Mr. Rajeev Nannapaneni and Dr. P. Bhaskara Narayana which periodically meets as need basis, reviews and allots shares to various persons / Companies such as employees, Qualified Institutional Buyers, Foreign Currency Bond holders etc.

The Committee met on 28-11-2011, 6-12-2011, 7-12-2011 and 13-12-2011 for the purpose of and in connection with Company's placement to Qualified Institutional Buyers.

8. Share Transfer Committee

The transfers 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 normally processed within 15 days from the date of lodgment, if the documents are valid in all respects. All requests for dematerialization of shares are processed and the confirmation(s) is given to the depositories within 15 days.

During the Financial year 535 instruments of transfers/ transmissions for 43,240 equity shares were received and the same were effected.

9. General Body Meetings

- a. The following were the details of the location and time of the last three Annual General Meetings (AGMs) of the Company:

Year	Date of the Meeting	Venue	Time of meeting	No. of Special Business
2008-2009	29-09-2009	Jubilee Hills International Center, Road No.14, Jubilee Hills, Hyderabad - 500 033.	10.00 a.m.	4
2009-2010	30-09-2010	Jubilee Hills International Center, Road No.14, Jubilee Hills, Hyderabad - 500 033.	10.00 a.m.	4
2010-2011	30-09-2011	Daspalla Hotel, Road No.37 Jubilee Hills, Hyderabad 500 033	10.30 a.m.	2

All the resolutions were passed by show of hands. The Company has not passed any resolution through postal ballot during the year under reference.

10. Minutes

Minutes of the Board meetings, Committee meetings and the General Body meetings are prepared, recorded and approved by the Chairman of the meetings as per the statutory norms.

11. Quarterly Reconciliation of Share Capital Audit Report and other Reports

A Share Capital Audit on the compliance of Corporate Laws and SEBI regulations was done and certified by a Practicing Company Secretary for all the four quarters of the year under review and submitted to the stock exchanges in the prescribed format as per Listing agreement.

12. Secretarial Standards

The Institute of Company Secretaries of India has issued Secretarial Standards on Board, General Meetings, Dividend and Registers and Records that are presently recommendatory. The company's practices and procedures meet with these guidelines.

13. Disclosures

a. Legal Compliances

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-compliances, if any. There were no instances of material non-compliance and no strictures or penalties were imposed on the Company either by SEBI, Stock Exchanges or any statutory authorities on any matter related to capital markets, tax/excise matters etc. during the last three years.

b. Code of Business Conduct

The Code of Business Conduct adopted by the Company has been posted on the web site of the Company. The members of the Board and senior management of the Company have submitted their affirmation on compliance with the Code of Business Conduct. The declaration by the Chairman & Managing Director to that effect forms part of this report.

c. Related Party Transactions

Transactions with related parties are disclosed in detail in the financial statements for the year. Adequate care was taken to ensure that the potential conflict of interest did not harm the interests of the Company at large.

d. Mandatory & Non-Mandatory Clauses

The Company has complied with all mandatory requirements laid down by the Clause 49 of the Listing Agreement. The non-mandatory requirements complied with have been disclosed at the relevant places.

e. Environmental Policy

The Company strives to continually improve our environmental performance and prevention of pollution by compliance with applicable environmental legislations and regulations and other applicable requirements, by incorporating suitable 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. The Company's environmental policy is made available to public and concerned governmental authorities. Your Company claims it as Zero Effluent Discharge Company which has been confirmed by AP Pollution Control Board.

14. Compliance with other Mandatory requirements

i) Management Discussion and Analysis

Management Discussion and Analysis Statement along with management of Risks at Natco is attached to the Directors' Report forming part of the Annual Report of the Company.

ii) Senior Management Declaration:

Senior Management Personnel have declared to the Board that, no material, financial and commercial transactions were entered into by them during 2011-12 where they have personal interest that may have a potential conflict with the interest of the Company at large.

iii) Subsidiary Companies

The Company has a fully owned subsidiary named (1) NATCO Pharma Inc. in USA. (2) Time Cap overseas and a stepdown subsidiary Natco Pharma Do Brasil, Brazil.

iv) Disclosure of Issue Proceeds

The Company did not make any Public, Rights or Preferential Issue of securities during 2011-12 except as mentioned in the Directors' Report.

v) CFO Certification

CFO Certification by Dr. P. Bhaskara Narayana, Director & CFO as per the Listing Agreement was placed before the Board at its meeting on 11th August, 2012.

vi) Review of Directors' Responsibility Statement

The Board in its Report have confirmed that the annual accounts for the year ended 31st March, 2012 have been prepared as per applicable accounting standards and policies and that sufficient care has been taken for maintaining adequate accounting records.

15. Compliance with non-mandatory requirements

i. Board: The Chairman is executive but does not maintain an office at the Company's expenses.

ii. Remuneration Committee: Remuneration Committee has been constituted vide details furnished supra.

iii. Mechanism for evaluating non-working Board Members:

The Company has got a suitable process for assessing the effectiveness of the Board members and the Committee members.

iv. Whistle Blower Policy:

The Company promotes ethical behavior in all its business activities and has put in place mechanism of reporting illegal or unethical behavior. Employees are free to report violations of laws, rules, regulations or unethical conduct to their immediate superior. The Directors and Senior Management are obliged to maintain confidentiality of such reporting and ensure that the whistle blowers are not subjected to any discriminatory practices.

- v. Shareholders' Rights: As per the Listing Agreement Quarterly/yearly Audited/un-audited Results on the company's financial performance with press note(s), if any, were sent to stock exchanges and published in newspapers. Such press notes, Results are also posted on the Company's Website.
- vi. SEBI by Circular dt.26/04/07 has directed Stock Exchanges to amend clause 32 of Listing Agreement. This is to facilitate circulation of Abridged Accounts in lieu of full-fledged Annual Report. The Company has however not exercised this option and continues to send Annual Report in full form to all shareholders.
- vii. Audit Qualification: The Company replied suitably for the qualifications of Auditors which were mentioned elsewhere in this report.
- viii. Others: All the Directors are well versed in the business model of the Company. Detailed presentations are made by Senior Executives and Professionals followed by full-length discussions at Audit Committee/ Board Meetings. Considering the same, no formal training of Board members or peer review of the performance of non-executive Directors is arranged.

The Company has an informal work atmosphere where employees have direct access to top management including the Chairman and other Directors. Hence institution of a formal Whistle Blower Policy is not considered warranted.

16. Means of Communication

During the year, audited / unaudited quarterly, half-yearly and annual financial results on the standalone basis and on the consolidated basis of the Company were submitted to the stock exchanges soon after the Board meeting approved these and were accordingly published in the newspapers as per norms. These were also promptly put on the Company's website www.natcopharma.co.in. All official news release of relevance to the investors are also made available on the website. Quarterly Unaudited / audited Financial Results of the Company, Press Releases on significant developments in the Company such as product launches, new units / important events, approvals etc. were made available from time to time to the Stock Exchanges where your Company's shares are listed and also to the press and posted on the website of the company.

The Company did not send the half-yearly reports to each household of shareholders in the financial year 2011-12. However the Company displays its quarterly, half yearly and yearly results on its website www.natcopharma.co.in. The quarterly financial results of the Company are also published in a National English Daily and in a Regional Vernacular (Telugu) daily and the details of publications are as under:

Quarter Ended	Name of the English Daily	Name of the Regional Daily	Date of Publication
30th June, 2011	Business Standard	Namaste Telangana, Eenadu	13-08-2011
30th September, 2011	Business Standard	Prajasakti, Vaartha	10-11-2011
31st December, 2011	Financial Express, Business Line	Prajasakti, Eenadu	10-02-2012
31st March, 2012	Business Standard, Times of India, Mint	Namaste Telangana, Vaartha, Eenadu	30-05-2012

The Company also releases all price sensitive information simultaneously to NSE, BSE and also to the Press and Electronic Media.

17. General Information for Shareholders

AGM: Date, Time and Venue

Annual General Meeting Date & Time	29th September, 2012 at 10.30 a.m.
Venue	Daspalla Hotel, Road No.37, Jubilee Hills, Hyderabad- 500 033
Book Closure dates	26-9-2012 to 29-9-2012 (Both days inclusive)

18. Financial calendar 2011-2012

The Company follows April - March as its financial year. The Unaudited/Audited Financial results for every quarter beginning from April will be declared as per the Listing Agreement.

19. Financial Reporting - Unaudited Results - Tentative Dates:

For the quarter ending June 30, 2012	11/08/2012
For the quarter ending Sep 30, 2012	On or before 15/11/2012
For the quarter ending Dec 31, 2012	On or before 15/02/2013
For the quarter ending Mar 31, 2013	On or before 30/05/2013
Annual General meeting for 2012-13	On or before 30th September, 2013

20. Listing of Equity Shares

The Company's shares are listed in the following Stock Exchanges.

Name of The Stock Exchange	Stock Code
Bombay Stock Exchange Limited (BSE)	524816
National Stock Exchange of India Limited (NSE)	NATCOPHARM

21. Listing fees to the Stock Exchanges

The Company has paid the annual listing fees for the year 2011-12 to both of the above stock exchanges.

22. Custodial fees to the Depositories:

The Company has paid Custodial Fee for the year 2011 - 2012 to both National Securities Depository Limited and the Central Depository Services (India) Limited.

23. Market Price Data

The monthly movement of equity share prices during the financial year 2011- 2012 at BSE & NSE are summarized as herein below:

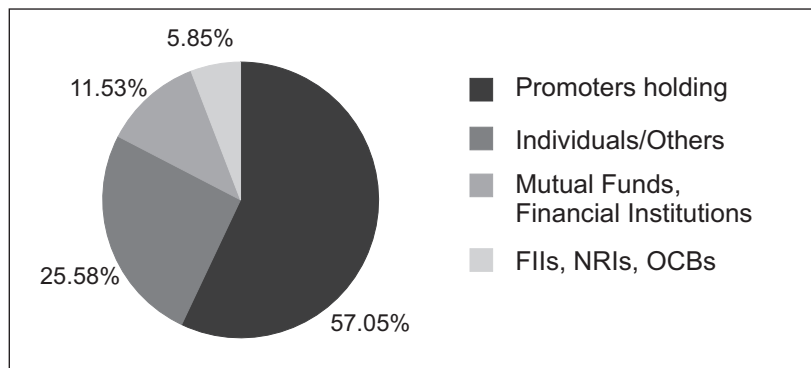
Month & Year	Bombay Stock Exchange		National Stock Exchange	
	₹ High	₹ Low	₹ High	₹ Low
April, 2011	295.65	260.15	295.50	265.55
May, 2011	293.00	271.05	291.80	274.55
June, 2011	289.20	264.95	297.10	255.00
July, 2011	291.00	261.00	286.00	252.30
August, 2011	283.00	242.15	282.40	242.00
September, 2011	262.95	226.00	257.55	220.15
October, 2011	255.00	219.00	254.80	212.10
November, 2011	253.00	197.25	254.00	194.95
December, 2011	284.90	209.00	283.00	212.80
January, 2012	293.00	230.20	291.00	231.50
February, 2012	287.80	252.00	287.00	270.20
March, 2012	361.45	263.15	361.80	260.10

24. Share Transfer Work For Both Physical & Electronic Forms

M/s. Venture Capital and Corporate Investments Ltd.
 12-10-167, BHARAT NAGAR
 HYDERABAD 500 018.
 Tel No:040-23818475 & 23818476
 Fax No:040-23868024
 E-mail: info@vccilindia.com.

25. Shareholding Pattern

Distribution of Shareholding as on 31st March, 2012



26. Dematerialization of shares

Nearly 98% of your Company shares were dematerialized as on 31st March 2012. As the trading is being conducted only in electronic form members are requested to go in for dematerialisation of shares at the earliest.

27. Shareholding details as on 31st March 2012

Your Company has a Shareholder base of 29,481 members as on 31.03.2012 and the paid up capital is ₹31,14,79,520/-.

28. Investor Grievances

The Company has an exclusive email id viz. investors@natcopharma.co.in to register shareholder complaints, if any. The Company strives to reply to the complaints within a period of 3 working days.

29. Report on corporate governance

This Report read together with the information given in Directors' Report which includes Management Discussion & Analysis along with Management of Risks at Natco and Shareholder Information, Corporate Social Responsibility constitute the compliance report on Corporate Governance during the year under review.

30. Insider trading guidelines

Comprehensive guidelines are in place in accordance with the SEBI Regulations in this regard, advising and cautioning the management, staff, their relatives and other relevant business associates on the procedure to be followed while dealing with the securities of your Company. The code of conduct and corporate disclosure practices framed by the company ensures compliance with the requirements.

31. Compliance Certificate from the Practicing Company Secretary

Certificate from the Practicing Company Secretary confirming the compliance with the conditions of the Corporate Governance as stipulated under Clause 49 of the Listing Agreement, is annexed herewith and forms part of the Annual Report.

32. Plant Locations

Pharma Division Kothur Post & Mandal Mahaboobnagar Dist. Andhra Pradesh - 509 228.	Pharma Division - Parenterals Vijayapuri North, Nagarjunasagar, Nalgonda Dist. Andhra Pradesh - 508 202.
Chemical Division Mekaguda, Kothur Mandal Mahaboobnagar Dist. Andhra Pradesh - 509 228.	R & D Division B-13, Industrial Estate Sanathnagar, Hyderabad. Andhra Pradesh - 500 018.
Formulations Division Plot No.19, Pharma City, Selaqui Industrial Area, Vikas Nagar, DEHARADUN - 248 001. Uttarakhand.	Formulations Division Plot No.A3, UPSIDC, Selaqui Industrial Area, DEHARADUN - 248 001. Uttarakhand.

Regd. Office :

Natco House

Road No.2, Banjara Hills,
Hyderabad - 500 033.

Tel No. (040) 23547532 Fax No. 23548243

Email : investors@natcopharma.co.in

ANNEXURE 1 TO CORPORATE GOVERNANCE REPORT

To
The Shareholders,

Affirmation of Compliance with Code of Business Conduct

I, V.C. Nannapaneni, Chairman & Managing Director, declare that the Board of Directors of the Company has received affirmation on compliance with the Code of Business Conduct for the period from 1st April, 2011 or the date of their joining the Company, whichever is later, to 31st March, 2012 from all Board Members and also Senior Management staff immediately one level below the board members viz. all functional business heads, heads of finance, HR, legal, EDP Dept. etc.

Hyderabad
11th August, 2012

V. C. NANNAPANENI
Chairman & Managing Director

ANNEXURE 2 CFO CERTIFICATION TO THE BOARD

(Under Clause 49(V) of Listing Agreement)

I Certify that --

- a. I have reviewed the financial statements and the cash flow statement for the year ended 31st March 2012 and that to the best of my knowledge and belief:
 - These statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;
 - 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 my knowledge and belief, no transactions entered into by the Company during the year ended 31st March, 2012 that are fraudulent, illegal or violative of the Company's code of conduct;
- c. I accept responsibility for establishing and maintaining internal controls and that I have evaluated the effectiveness of the internal control systems of the Company and I have disclosed to the auditors and the Audit Committee, deficiencies in the design or operation of the internal control, if any, of which I am aware of and the steps I have taken or propose to take to rectify these deficiencies.
- d.
 - i) There has not been any significant change in internal control over financial reporting during the year under reference;
 - ii) There has not been any significant change in accounting policies during the year except as laid down in Accounting Standard (AS) 15 (revised 2005) on Employee Benefits, requiring disclosure in the notes to the financial statements;
 - iii) I am not aware of any instance during the year of significant fraud with involvement therein of the management or any employee having a significant role in the Company's internal control system over financial reporting.

Date : 11th August, 2012
Place : Hyderabad

Sd/-
(Dr. P. BHASKARA NARAYANA)
DIRECTOR & CFO

Certificate on compliance of conditions of Corporate Governance as per clause 49 of the Listing Agreement with the Stock Exchanges.

To
The Members of Natco Pharma Limited

I have examined the compliance of conditions of Corporate Governance by Natco Pharma Limited, for the year ended on March 31, 2012 as stipulated in Clause 49 of the Listing Agreement of the said Company with Stock Exchanges.

The compliance of conditions of Corporate Governance is the responsibility of the management. My examination has been limited to a review of the procedures and implementation thereof adopted by the Company for ensuring compliance with the conditions of the certificate of Corporate Governance as stipulated in the said clause. 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 and the representations made by the Directors and the management, I certify that the Company has complied with the conditions of Corporate Governance as stipulated in Clause 49 of the above-mentioned Listing Agreement. The Company has submitted and published the Financial Results for all the quarters with the stipulated time.

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

Place : Hyderabad
Date : 11th August, 2012

P. Renuka
Company Secretary in Practice
C.P.No.3460



AUDITORS' REPORT

To
The Members of NATCO Pharma Limited

1. We have audited the attached Balance Sheet of NATCO Pharma Limited ('the Company'), as at 31 March 2012, and also the Statement of Profit and Loss and the Cash Flow Statement for the year ended on that date annexed thereto (collectively referred as the 'financial statements'). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.
2. We conducted our audit in accordance with the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. As required by the Companies (Auditor's Report) Order, 2003 ('the Order') (as amended) issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Companies Act, 1956 ('the Act'), we enclose in the Annexure a statement on the matters specified in paragraph 4 and 5 of the Order.
4. *As discussed in note 2 to the accompanying financial statements, we report that the Company has not recognized Minimum Alternative Tax (MAT) credit entitlement in accordance with the Guidance Note on Accounting for Credit Available in Respect of Minimum Alternative Tax under the Income-tax Act, 1961. Consequently, the Profit for the year ended 31 March 2012 is understated by ₹112,767,579 (2011: ₹131,527,145) and the balance in loans and advances and reserves and surplus as at 31 March 2012 is understated by ₹404,902,653 (2011: ₹292,135,074). This had caused us to qualify our audit opinion on the financial statements for the year ended and as at 31 March 2011.*
5. Further to our comments in the Annexure referred to above, we report that:
 - (a) We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit;
 - (b) In our opinion, proper books of account as required by law have been kept by the Company so far as appears from our examination of those books;
 - (c) The financial statements dealt with by this report are in agreement with the books of account;
 - (d) On the basis of written representations received from the directors, as on 31 March 2012 and taken on record by the Board of Directors, none of the directors is disqualified as on 31 March 2012 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Act;
 - (e) In our opinion and to the best of our information and according to the explanations given to us, *except for the effect of adjustment for the matters discussed in paragraph 4 above*, the financial statements dealt with by this report comply with the accounting standards referred to in sub-section (3C) of Section 211 of the Act and 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, in the case of:
 - (i) the Balance Sheet, of the state of affairs of the Company as at 31 March 2012;
 - (ii) the Statement of Profit and Loss, of the profit for the year ended on that date; and
 - (iii) the Cash Flow Statement, of the cash flows for the year ended on that date.

For Walker, Chandio & Co
Chartered Accountants
Firm Registration No: 001076N

per Sanjay Kumar
Partner

Membership No. 207660

Place : Hyderabad
Date : 28 May 2012

Annexure to the Auditors' Report of even date to the members of NATCO Pharma Limited, on the financial statements as at and for the year ended 31 March 2012

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, we report that:

- (i) (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets, *except in certain instances where the records for plant and machinery, furniture and other assets are maintained for a group of similar assets and not for each individual 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 3 years which, in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. No material discrepancies were noticed on such verification.
- (c) In our opinion, a substantial part of fixed assets has not been disposed off during the year.
- (ii) (a) The management has conducted physical verification of inventory at reasonable intervals during the year.
- (b) The procedures of physical verification of inventory followed by the management are reasonable and adequate in relation to the size of the Company and the nature of its business.
- (c) The Company is maintaining proper records of inventory and no material discrepancies were noticed on physical verification.
- (iii) (a) The Company has granted an unsecured loan to one party covered in the register maintained under Section 301 of the Act. The maximum amount outstanding during the year was ₹7,066,105 and the year-end balance is ₹Nil.
- (b) In our opinion, the rate of interest and other terms and conditions of such loans are not, *prima facie*, prejudicial to the interest of the Company.
- (c) In respect of loans granted, receipt of the principal amount and interest is regular.
- (d) There is no overdue amount in respect of loans granted to such companies, firms or other parties.
- (e) The Company has not taken any loans, secured or unsecured from companies, firms or other parties covered in the register maintained under Section 301 of the Act. Accordingly, the provisions of clauses 4(iii)(f) and 4(iii)(g) of the Order are not applicable.
- (iv) In our opinion, there is an adequate internal control system commensurate with the size of the Company and the nature of its business for the purchase of inventory and for the sale of goods and services. *In our opinion, the internal control system for purchases of fixed assets including capital work-in-progress needs to be strengthened to be commensurate with the size of the Company and the nature of its business. In our opinion, there is a continuing failure to correct a major weakness in the internal controls for purchase of fixed assets and capital work-in-progress.*
- (v) (a) In our opinion, the particulars of all contracts or arrangements that need to be entered into the register maintained under Section 301 of the Act have been so entered.
- (b) Owing to the unique and specialized nature of the items involved and in the absence of any comparable prices, we are unable to comment as to whether the transactions made in pursuance of such contracts or arrangements have been made at prevailing market prices at the relevant time.
- (vi) The Company has not accepted any deposits from the public within the meaning of Sections 58A and 58AA of the Act and the Companies (Acceptance of Deposits) Rules, 1975. Accordingly, the provisions of clause 4(vi) of the Order are not applicable.

- (vii) The Company has an internal audit system, *the scope and coverage of which, in our opinion, requires to be further enhanced to be commensurate with its size and the nature of its business.*
- (viii) 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 clause (d) of sub-section (1) of Section 209 of the Act in respect of Company's products 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.
- (ix) (a) Undisputed statutory dues including provident fund, investor education and protection fund, employees' state insurance, income-tax, sales-tax, wealth-tax, service-tax, custom duty, excise duty, cess and other material statutory dues, as applicable, have generally been regularly deposited with the appropriate authorities, though there has been a slight delay in some cases in respect of value added tax and works contract tax. 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 become payable.
- (b) The dues outstanding in respect of sales-tax, income-tax, custom duty, wealth-tax, excise duty, cess on account of any dispute, are as follows:

Name of the statute	Nature of dues	Amount (₹)	Amount deposited under protest / protest/adjusted against refund (₹)	Period to which the amount relates	Forum where dispute is pending
The Central Sales Tax Act	Central sales tax	8,690,000	2,500,000	Financial year 1997-98	Honorable High Court of Andhra Pradesh
The Income Tax Act, 1961	Income tax	36,948,311	36,948,311	A.Y. 2005-06	Income Tax Appellate tribunal, Hyderabad
		65,054,901	65,054,901	A.Y. 2006-07	
		74,055,385	74,055,385	A.Y. 2008-09	
		6,924,266	6,924,266	A.Y. 2009-10	Commissioner of Income Tax (Appeals), Hyderabad
		18,447,645	18,447,645	A.Y. 1989-90 to 1998-99	Honorable High Court of Andhra Pradesh
		17,205,680	17,205,680	A.Y. 1989-90 to 1998-99	Income Tax Appellate Tribunal, Hyderabad

- (x) In our opinion, the Company has no accumulated losses at the end of the financial year and it has not incurred cash losses in the current and the immediately preceding financial year.
- (xi) The Company has not defaulted in repayment of dues to any bank or financial institution during the year. The Company did not have any outstanding debentures during the year.
- (xii) The Company has not granted any loans and advances on the basis of security by way of pledge of shares, debentures and other securities. Accordingly, the provisions of clause 4(xii) of the Order are not applicable.
- (xiii) In our opinion, the Company is not a chit fund or a nidhi/ mutual benefit fund/ society. Accordingly, the provisions of clause 4(xiii) of the Order are not applicable.
- (xiv) In our opinion, the Company is not dealing or trading in shares, securities, debentures and other investments. Accordingly, the provisions of clause 4(xiv) of the Order are not applicable.

- (xv) The Company has not given any guarantees for loans taken by others from banks or financial institutions. Accordingly, the provisions of clause 4(xv) of the Order are not applicable.
- (xvi) In our opinion, the term loans were applied for the purpose for which the loans were obtained, though idle/surplus funds which were not required for immediate utilization have been invested in liquid investments, payable on demand.
- (xvii) In our opinion, no funds raised on short-term basis have been used for long-term investment.
- (xviii) During the year, the Company has not made any preferential allotment of shares to parties or companies covered in the register maintained under Section 301 of the Act. Accordingly, the provisions of clause 4(xviii) of the Order are not applicable.
- (xix) The Company has neither issued nor had any outstanding debentures during the year. Accordingly, the provisions of clause 4(xix) of the Order are not applicable.
- (xx) The Company has not raised any money by public issues during the year. Accordingly, the provisions of clause 4(xx) of the Order are not applicable.
- (xxi) No fraud on or by the Company has been noticed or reported during the period covered by our audit.

For Walker, Chandiok & Co
Chartered Accountants
Firm Registration No: 001076N

per **Sanjay Kumar**
Partner
Membership No. 207660

Place : Hyderabad
Date : 28 May 2012



BALANCE SHEET AS AT 31ST MARCH, 2012

(All amounts in ₹, unless otherwise stated)

	Notes	As at 31 March, 2012	As at 31 March, 2011
I. EQUITY AND LIABILITIES			
Shareholders' funds			
Share capital	3	311,479,520	281,479,520
Reserves and surplus	4	4,363,167,613	3,187,584,366
		<u>4,674,647,133</u>	<u>3,469,063,886</u>
Non-current liabilities			
Long-term borrowings	5	1,340,986,565	1,254,339,695
Deferred tax liabilities (net)	6	288,939,908	250,869,295
Other long term liabilities	7	13,536,275	12,486,275
Long-term provisions	8	97,780,727	86,723,329
		<u>1,741,243,475</u>	<u>1,604,418,594</u>
Current liabilities			
Short-term borrowings	5	816,422,437	720,225,466
Trade payables	9	838,648,521	729,891,067
Other current liabilities	10	818,383,935	436,496,593
Short-term provisions	8	2,372,716	1,194,504
		<u>2,475,827,609</u>	<u>1,887,807,630</u>
TOTAL		<u><u>8,891,718,217</u></u>	<u><u>6,961,290,110</u></u>
II. ASSETS			
Non-current assets			
Fixed assets			
Tangible assets	11	3,000,318,283	2,524,481,719
Intangible assets	12	17,753,289	16,995,669
Capital work-in-progress		1,644,271,788	759,794,585
Non-current investments	13	741,573,055	690,502,270
Long-term loans and advances	14	549,095,155	624,604,313
Other non-current assets	15	4,220,803	9,553,782
		<u>5,957,232,373</u>	<u>4,625,932,338</u>
Current assets			
Current investments	16	17,863,474	21,390,451
Inventories	17	972,834,410	930,200,557
Trade receivables	18	933,359,241	703,705,811
Cash and bank balances	19	336,972,901	309,749,588
Short-term loans and advances	14	662,105,393	369,236,233
Other current assets	20	11,350,425	1,075,132
		<u>2,934,485,844</u>	<u>2,335,357,772</u>
TOTAL		<u><u>8,891,718,217</u></u>	<u><u>6,961,290,110</u></u>

Notes 1 to 42 form an integral part of these financial statements.

This is the balance sheet referred to in our report of even date.

For and on behalf of Board of Directors of
NATCO Pharma Limited

For Walker, Chandiook & Co.
Chartered Accountants
per Sanjay Kumar
Partner

V.C. Nannapaneni
Rajeev Nannapaneni

Chairman & Managing Director
Director & Chief Operating Officer

Place: Hyderabad
Date : 28 May, 2012

Dr. P. Bhaskara Narayana
M. Adinarayana

Director & Chief Financial Officer
Company Secretary & G M (Corp. Affairs)

STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED 31 MARCH 2012

(All amounts in ₹, unless otherwise stated)

	Notes	For the year ended 31 March, 2012	For the year ended 31 March, 2011
REVENUE			
Revenue from operations (gross)	21	4,389,127,504	3,537,487,043
Less: Excise duty		69,137,773	54,010,223
Revenue from operations (net)		4,319,989,731	3,483,476,820
Other income	22	131,916,646	51,869,616
Total revenue		4,451,906,377	3,535,346,436
EXPENSES			
Cost of materials consumed (including packing material consumed)	23	1,176,723,270	960,104,130
Purchases of stock-in-trade		155,316,875	167,273,362
Changes in inventories of finished goods, work-in-progress and traded goods	24	10,834,924	(117,615,437)
Employee benefit expenses	25	671,341,782	534,386,844
Finance costs	26	229,595,364	141,978,623
Depreciation and amortisation expense	11,12	154,051,694	143,480,449
Other expenses	27	1,228,912,995	1,065,895,168
Total expenses		3,626,776,904	2,895,503,139
Profit before tax		825,129,473	639,843,296
Tax expense			
Current tax		165,779,120	136,115,500
Deferred tax (benefit)/expense		38,070,613	(17,475,030)
Profit after tax		621,279,740	521,202,826
Earnings per equity share [EPES]			
Basic and diluted (face value ₹ 10 per share)		21.39	18.52
Weighted average number of equity shares considered for computation of Basic and Diluted EPES		29,041,395	28,147,952
Notes 1 to 42 form an integral part of these financial statements.			

This is the statement of profit and loss referred to in our report of even date.

For and on behalf of Board of Directors of
NATCO Pharma LimitedFor Walker, Chandiok & Co.
Chartered Accountants
per Sanjay Kumar
PartnerV.C. Nannapaneni
Rajeev NannapaneniChairman & Managing Director
Director & Chief Operating OfficerPlace: Hyderabad
Date : 28 May, 2012Dr. P. Bhaskara Narayana
M. AdinarayanaDirector & Chief Financial Officer
Company Secretary & G M (Corp. Affairs)

NOTES TO THE FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

a. Basis of preparation of financial statements

The financial statements are prepared under historical cost convention in accordance with the generally accepted accounting principles in India ("Indian GAAP") and comply in all material respects with the mandatory Accounting Standards ("AS") prescribed in the Companies (Accounting Standard) Rules, 2006, as amended, and with the relevant provisions of the Act, pronouncements of The Institute of Chartered Accountants of India ('ICAI'). The financial statements have been prepared under the historical cost convention on an accrual basis. The accounting policies applied by the Company are consistent with those used in the previous year.

Pursuant to the amendment to the Schedule VI to the Act, effective 1 April 2011 the Company has adopted revised Schedule VI for preparation and presentation of the financial statements and have reclassified previous year figures to conform to this year's presentation and classification. In relation to the Company, except accounting for dividend on investment in subsidiaries, the adoption of revised Schedule VI does not impact recognition and measurement principles followed in preparation of financial statements. However, it significantly impacts presentation and disclosures made in the financial statements.

b. Use of estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported balances of assets and liabilities and disclosures relating to contingent assets and liabilities as at the date of the financial statements and reported amounts of income and expenses during the period. Examples of such estimates include provisions for doubtful trade receivables and other receivables, provision for inventories, future obligations under employee retirement benefit plans, income taxes, and the useful lives of fixed assets.

Although these estimates are based upon management's best knowledge of current events

and actions, actual results could differ from these estimates. Any revision to accounting estimates is recognized prospectively in the current and future periods.

c. Tangible fixed assets

Tangible fixed assets are stated at cost less accumulated depreciation and impairment losses, if any. Cost comprise of purchase price, freight, non-refundable duties, taxes and any other cost attributable to bringing the asset to its working condition for its intended use. Borrowing costs relating to acquisition of tangible fixed assets which takes substantial period of time to get ready for its intended use are also included to the extent they relate to the period till such assets are ready for its intended use. Assets retired from active use and held for disposal are stated at their estimated net realisable values or net book values, whichever is lower.

d. Depreciation

Depreciation is provided on straight line method based on useful lives of the assets as estimated by management which coincides with rates prescribed under Schedule XIV to the Act.

Depreciation on sale/discarded from fixed assets is provided for up to the date of sale /discarded as the case may be. Individual assets acquired for ₹5,000 or less are entirely depreciated in the year of acquisition.

e. Intangible assets

Intangible assets are recorded at the consideration paid for acquisition. Intangible assets are amortized over a period of 6 years, on a straight line basis.

f. Impairment of assets

The carrying amounts of assets, both tangible and intangible, are reviewed at each balance sheet date if there is any indication of impairment based on internal and/or external factors. An impairment loss is recognized wherever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is greater of the asset's net selling price and value in use. In assessing value in use, the estimated future cash flows are

discounted to their present value at the weighted average cost of capital.

g. Government grants

Government grants relating to specific fixed assets are adjusted against the cost of underlying fixed assets and revenue grants are credited to Statement of profit and loss on a systematic basis in the Statement of profit and loss over the periods necessary to match them with the related costs which they are intended to compensate.

h. Investments

Investments that are readily realizable and intended to be held for not more than a year are classified as current investments. All other investments are classified as long term investments. Current investments are carried at lower of cost and fair value determined on an individual investment basis. Long term investments are carried at cost. However, provision for diminution in value is made to recognise a decline other than temporary in the value of the investments.

i. 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 revenue authorities, freight inwards and other expenditure incurred in bringing such inventories to their present location and condition. Cost is determined using the weighted average cost. The carrying cost of raw materials, packaging materials and 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.

Manufactured finished goods, Work in progress and traded goods 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 cost basis and comprises cost of direct material, cost of conversion and other costs 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.

j. Research and development

Expenditure incurred on research activity is expensed as and when incurred.

k. Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and collectability is reasonably assured.

- Revenue from sale of goods is recognized on dispatch or on the date of the bill of lading or airway bill in respect of export sales, which coincides with transfer of significant risks and rewards to customer and is inclusive of excise duty and net of trade discounts, sales returns and sales tax, where applicable.
- Service income is recognized as per the terms of contracts with customers when the related services are performed, or the agreed milestones are achieved.
- Dividend income is recognized when the right to receive the payment is established. Income from interest on deposits, loans and interest bearing securities is recognized on the time proportionate methods taking into account the amount outstanding and the rate applicable.
- Export entitlements are recognized as income when the right to receive credit as per the terms of the scheme is established in respect of the exports made and where there is no significant uncertainty regarding the ultimate collection of the relevant export proceeds.
- Revenue from licensing and long term supply arrangements is recognized in the period in which the Company completes all its performance obligations.

l. Taxes

Tax expense comprises of current and deferred tax. Current income tax is measured at the amount expected to be paid to the tax authorities in accordance with the Indian Income Tax Act, 1961. Deferred income taxes reflect the impact of timing differences between taxable income and accounting income for the period and reversal of timing differences of earlier periods.

Deferred income taxes reflect the impact of timing differences between taxable income and

accounting income for the period and reversal of timing differences of earlier periods. Deferred tax is measured based on the tax rates and the tax laws enacted or subsequently enacted at the balance sheet date. Deferred tax assets are recognized only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised.

In situations where the Company has unabsorbed depreciation or carry forward tax losses, all deferred tax assets are recognized only if there is a virtual certainty supported by convincing evidence that they can be realised against future taxable profits.

Unrecognized deferred tax assets of earlier years are re-assessed and recognized to the extent that it has become reasonably certain or virtually certain, as the case may be that future taxable income will be available against which such deferred tax assets can be realised. The carrying amount of deferred tax assets are reviewed at each balance sheet date.

The Company writes-down the carrying amount of a deferred tax asset to the extent that it is no longer reasonably certain or virtually certain, as the case maybe, that sufficient future taxable income will be available against which deferred tax asset can be realised. Any such write-down is reversed to the extent that it becomes reasonably certain or virtually certain, as the case may be, that sufficient future taxable income will be available.

Minimum Alternative tax (MAT) credit is recognized as an asset only when and to the extent there is convincing evidence that the Company will pay normal income tax during the specified period. In the year in which the MAT credit becomes eligible to be recognized as an asset in accordance with the recommendations contained in guidance note issued by the ICAI, the said asset is created by way of a credit to the Statement of profit and loss and shown as MAT credit entitlement. The Company reviews the same at each balance sheet date and writes down the carrying amount of MAT credit entitlement to the extent there is no longer convincing evidence to the effect that Company will pay normal income tax during the specified period.

m. Earnings per equity share

Basic earnings per share are calculated by dividing the net profit or loss for the period attributable to equity shareholders by the weighted average number of equity shares outstanding during the period. 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.

n. Foreign currency transactions

Initial recognition

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

Conversion

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

Exchange differences

Exchange differences arising on the settlement of monetary items or on reporting Group's monetary items at rates different from those at which they were initially recorded during the year, or reported in previous financial statements, are recognized as income or as expenses in the year in which they arise, except in the case of exchange differences arising on a monetary item that, in substance, forms part of an enterprise's net investment in a non-integral foreign operation has been accumulated in a foreign currency translation reserve in the enterprise's financial statements until the disposal of the net investment, at which time they should be recognized as income or as expenses.

o. Employee benefits

Provident fund

The Company contributes to the provident fund maintained by the Regional Provident Fund Commissioner, in accordance with Employees provident fund and Miscellaneous Provision Act, 1952. The provident fund plan is a defined contribution plan and contribution paid or payable is recognized as an expense in the period in which the employee renders services. There are no other obligations of the Company other than the contributions made to the fund.

Gratuity

Gratuity is a post-employment defined benefit plan. An independent actuary, using the projected unit credit method calculates the defined benefit obligation annually. Actuarial gains or losses arising from experience adjustments and changes in actuarial assumptions are credited or charged to the Statement of profit and loss in the period in which such gains or losses arise.

Employee state insurance

The Company contributes to the Employees State Insurance Fund maintained by the state authorities, in accordance with Employees State Insurance Act, 1948. The plan is a defined contribution plan and contribution paid or payable is recognized as an expense in the period in which the employee renders services. There are no other obligations of the Company other than the contributions made to the funds.

Compensated absences

As per the Company's policy, eligible leaves can be accumulated by the employees and carried forward to future periods either to be utilized during the service, or encashed. Encashment can be made during service or on resignation, or retirement of the employee. The value of benefits is determined based on an independent actuarial valuation using the projected unit credit method as at the year end. Actuarial gains and losses are recognized immediately in the Statement of profit and loss.

p. Leases

Where the lessor effectively retains all risk and benefits of ownership of the leased items, such leases are classified as operating lease. Operating lease payments are recognized as an expense in the Statement of profit and loss on a straight line basis.

q. Provisions and contingent liabilities

A provision is recognized when the Company has a present obligation as a result of past event i.e., it is probable that an outflow of resources will be required to settle the obligation in respect of which a reliable estimate can be made. Provisions are not discounted to its present value and are determined based on best estimate required to settle the obligation at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the current best estimates. A disclosure of the contingent liability is made when there is a possible or a present obligation that may, but probably will not, require an outflow of resources.

r. Cash flow statement

Cash flows are reported using the indirect method, whereby net profit before tax is adjusted for the effects of transactions of a non-cash nature and any deferrals or accruals of past or future cash receipts or payments.

s. Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term investments.

2. RECOGNITION OF MINIMUM ALTERNATE TAX (MAT) CREDIT

The Company has not recognized MAT credit available to it as it opines that it would not be in a position to utilize such credit in view of the continued tax holiday being available for the profits arising out of manufacture and sales made from two of its manufacturing facilities. In the eventuality of the Company being made to pay tax on a regular basis, it would make suitable adjustments by taking credit for the MAT entitlement available at such point of time.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

	As at 31 March 2012		As at 31 March 2011	
	Number	Amount	Number	Amount
3. SHARE CAPITAL				
Authorised share capital				
Equity shares of ₹10 each	32,000,000	320,000,000	35,000,000	350,000,000
Preference shares of ₹10 each	3,000,000	30,000,000	-	-
Issued, subscribed and fully paid up				
Equity shares of ₹10 each	31,147,952	311,479,520	28,147,952	281,479,520
TOTAL	31,147,952	311,479,520	28,147,952	281,479,520

(a) Shareholders holding more than 5% of the equity shares

	As at 31 March 2012		As at 31 March 2011	
	Number	%	Number	%
Mr. V C Nannapaneni **	8,023,838	25.76%	8,009,009	28.45%
Time Cap Pharma Labs Ltd	3,409,694	10.95%	3,398,179	12.07%
Natsoft Information Systems Private Limited	3,153,500	10.12%	3,153,500	11.20%

** including shares held by Mr. V C Nannapaneni, in the capacity of Karta of HUF of 1,088,009 (2011:1,073,180)

	As at 31 March 2012		As at 31 March 2011	
	Number	Amount	Number	Amount
(b) Reconciliation of equity share capital				
Balance at the beginning of the year	28,147,952	281,479,520	28,147,952	281,479,520
Add: Issued during the year	3,000,000	30,000,000	-	-
Balance at the end of the year	31,147,952	311,479,520	28,147,952	281,479,520

(c) Rights, preferences, restrictions

The Company has outstanding of only one class of equity shares having a par value of ₹10 per share. Each holder of equity shares is entitled to one vote per share. The Company declares and pays dividend in Indian rupees. The dividend proposed by the Board of Directors is subject to the approval of the shareholders in the ensuing Annual General Meeting.

(d) Shares reserved for issue under options and contracts

The Company had instituted NATCO Stock Option Plan 2010 ("ESOP 2010"). The scheme duly approved by way of a special resolution passed in the annual general meeting of the members held on 30 September 2010 was formulated in compliance with Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 ("SEBI ESOP Guidelines") issued by the Securities and Exchange Board of India ("SEBI") and pursuant to the provisions of Section 81 (1A) and other applicable provisions of the Act. Pursuant to such approval, the Board is authorized to issue employee stock options, that are exercisable into not more than 600,000 equity shares of the Company to eligible employees based on specific recommendations of the remuneration committee. Each option comprises of one underlying equity share of ₹10 each. As at 31 March 2012 (2011: Nil) no options were granted under the said plan.

(e) Details of shares issued pursuant to contract without payment being received in cash and brought back during the last 5 years, immediately preceeding the balance sheet date.

	As at 31 March, 2012 No.	As at 31 March, 2011 No.
Equity shares of ₹10 each allotted as fully paid-up pursuant to contracts without payment being received in cash**	211,600	323,150
Equity shares bought back by the Company	458,465	492,881

** The Company has issued these shares during the period of five years, on exercise of the options granted under the employee stock option plan (ESOP) wherein part consideration was received in form of employee services.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

	As at 31 March, 2012	As at 31 March, 2011
4. RESERVES AND SURPLUS		
Capital reserves		
Balance at the beginning of the year	204,272,762	204,072,762
Add : Additions during the year [Refer (b) below]	3,000,000	200,000
Balance at the end of the year	207,272,762	204,272,762
Capital redemption reserve - as per last balance sheet	4,928,810	4,928,810
Securities premium reserve		
Balance at the beginning of the year	819,328,761	819,328,761
Add : Additions during the year [Refer (c) below]	645,000,000	-
Balance at the end of the year	1,464,328,761	819,328,761
General reserve		
Balance at the beginning of the year	177,161,000	137,161,000
Add : Additions during the year [Refer (a) below]	70,000,000	40,000,000
Balance at the end of the year	247,161,000	177,161,000
Foreign currency translation reserve		
Balance at the beginning of the year	19,430,092	20,452,033
Add : Adjustments during the year	14,906,293	(1,021,941)
Balance at the end of the year	34,336,385	19,430,092
Surplus in the statement of profit and loss		
Balance at the beginning of the year	1,962,462,941	1,546,906,065
Add : Profit for the year	621,279,740	521,202,826
Less: Interim dividend - ₹3 (2011: ₹2) per share	93,443,856	56,295,904
Less: Tax on distributed profits	15,158,930	9,350,046
Less: Transferred to general reserve	70,000,000	40,000,000
Balance at the end of the year	2,405,139,895	1,962,462,941
	4,363,167,613	3,187,584,366

(a) Transfer to general reserve

In accordance with the provisions of Companies (Transfer of Profits to Reserves) Rules, 1975, based on the amount of dividend declared, the Company has transferred ₹70,000,000 [2011: ₹40,000,000] to general reserve.

(b) Additions to capital reserves

During the financial year ended 31 March 2012, the Company received government subsidy aggregating to ₹3,000,000 (2011: ₹200,000) for the purpose of capital activities in the State of Uttarakhand. Pursuant to the terms of 2011-12 grant, assets up to the amount of grant received, has been hypothecated in favour of Director of Industries, Government of Uttarakhand.

(c) Issue of equity shares at premium

During the current year, the Company has issued 3,000,000 equity shares of ₹10 each, fully paid-up at a premium of ₹215, through a private placement to Qualified Institutional Investors.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

	As at 31 March 2012		As at 31 March 2011	
	Long term	Short term	Long term	Short term
5. BORROWINGS				
Secured [refer note 31]				
Term loans				
From banks	726,248,938	-	424,496,853	-
From other parties	614,176,471	-	827,647,059	-
	<u>1,340,425,409</u>	<u>-</u>	<u>1,252,143,912</u>	<u>-</u>
Unsecured				
Deferred payment liabilities	561,156	-	2,195,783	-
Loans repayable on demand				
Secured [refer note 31]				
From banks	-	717,089,070	-	720,225,466
Unsecured [refer note 31]				
From banks	-	99,333,367	-	-
Total borrowings	<u>1,340,986,565</u>	<u>816,422,437</u>	<u>1,254,339,695</u>	<u>720,225,466</u>

Loans repayable on demand

Loans repayable on demand represents cash credit, overdraft, bills purchased and discounted with various banks/ financial institutions.

Deferred payment liabilities

It represents interest free sales tax deferment, availed under the 'TARGET 2000' Scheme of the State Government of Andhra Pradesh.

	As at 31 March, 2012	As at 31 March, 2011
6. DEFERRED TAX LIABILITY, NET		
On account of depreciation	313,976,066	269,485,323
On account of employee benefits and others	(25,036,158)	(18,616,028)
Net deferred tax liability	<u>288,939,908</u>	<u>250,869,295</u>
7. OTHER LONG TERM LIABILITIES		
Trade deposits	13,536,275	12,486,275
	<u>13,536,275</u>	<u>12,486,275</u>

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

	As at 31 March 2012		As at 31 March 2011	
	Long term	Short term	Long term	Short term
8. PROVISIONS				
Provisions for employee benefits [Refer b below]	65,905,727	2,372,716	54,848,329	1,194,504
Provision for contingencies [Refer a below]	31,875,000	-	31,875,000	-
	97,780,727	2,372,716	86,723,329	1,194,504

a. Provision for contingencies represents:

Provision for contingencies represents, possible obligations that may arise in view of uncertainties associated with certain revenue transactions entered into by the company.

	As at 31 March, 2012	As at 31 March, 2011
Reconciliation		
Opening balance	31,875,000	-
Additions during the year	-	31,875,000
Reversal/utilization during the year	-	-
Closing balance	31,875,000	31,875,000

b. Employee benefits

Provision for employee benefits includes provision towards gratuity of ₹45,868,185 (2011: ₹32,152,749) and compensated absences of ₹22,410,258 (2011: ₹23,890,084).

The Company has subscribed to a group gratuity scheme of Life Insurance Corporation of India (LIC). Under this policy the eligible employees are entitled for gratuity upon their resignation or in the event of death in lumpsum after deduction of necessary taxes upto a maximum limit of ₹1,000,000. The following table sets out the status of the gratuity plan and the reconciliation of opening and closing balances of the defined benefit obligation.

	As at 31 March, 2012	As at 31 March, 2011
i. Change in projected benefit obligation		
Projected benefit obligation at the beginning of the year	58,231,217	55,081,820
Service cost	4,282,414	3,494,236
Interest cost	4,658,497	4,406,546
Actuarial (gain)/loss	7,133,657	(2,872,373)
Benefits paid	(1,143,748)	(1,879,012)
Projected benefit obligation at the end of the year	73,162,037	58,231,217
ii. Change in plan assets		
Fair value of plan assets at the beginning of the year	26,078,468	22,240,895
Expected return on plan assets	2,359,132	2,086,285
Contribution paid	-	3,630,300
Benefits paid	(1,143,748)	(1,879,012)
Fair value of plan assets at the end of the year	27,293,852	26,078,468
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	73,162,037	58,231,217
Funded status of the plans	27,293,852	26,078,468
Liability recognised in the balance sheet	45,868,185	32,152,749

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

	For the year ended 31 March, 2012	For the year ended 31 March, 2011
Employee benefits (Contd.)		
iv. Components of net gratuity costs are		
Service cost	4,282,414	3,494,236
Interest cost	4,658,497	4,406,546
Expected returns on plan assets	(2,359,132)	(2,086,285)
Recognized net actuarial (gain)/ loss	7,133,657	(2,872,373)
Net gratuity costs	<u>13,715,436</u>	<u>2,942,124</u>
Assumptions used		
Discount rate	8%	8%
Long-term rate of compensation increase	4%	4%
Rate of return on plan assets	9.25%	9.25%
The Company assesses these assumptions with the projected long-term plans of growth and prevalent industry standards.		
	As at 31 March, 2012	As at 31 March, 2011
9. TRADE PAYABLES		
Sundry creditors		
Dues to micro and small enterprises [Refer (a) below]	31,007,455	29,724,329
Dues to others		
- Creditors for purchases and expenses	659,898,198	614,867,399
- Employee and other payables	147,742,868	85,299,339
	<u>838,648,521</u>	<u>729,891,067</u>
The management has identified creditors covered by Micro, Small and Medium Enterprises Development Act, 2006 (MSMEDA). Accordingly, disclosures in respect of the amounts payable to such enterprises as at 31 March 2012 has been made in note 33 to the financials statements and such disclosures is based on information received and available with the Company.		
10. OTHER CURRENT LIABILITIES		
Current maturities of long term debt		
- From banks	237,946,674	125,000,000
- From other parties	189,470,588	97,352,941
Current maturities of unsecured loans	1,616,169	1,908,151
Creditors for capital assets	210,171,583	159,900,178
Bank overdraft	31,000,614	-
Interest accrued but not due on borrowings	11,093,108	1,485,256
Advance from customers	106,307,670	26,804,530
Unpaid dividends	6,031,940	4,150,192
Statutory liabilities	24,745,589	19,895,345
	<u>818,383,935</u>	<u>436,496,593</u>

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

11. TANGIBLE ASSETS

Gross block	Freehold land	Leasehold land	Buildings	Plant and equipment	Office equipment	Furniture	Vehicles	Computers	Total
Balance as at 1 April 2010	231,566,534	16,725,782	1,015,869,008	1,755,433,306	21,799,382	18,062,884	53,059,312	64,501,510	3,177,017,718
Additions	28,247,566	-	52,980,679	232,902,493	872,342	6,090,180	21,673,787	3,819,313	346,586,360
Disposals	-	-	-	-	-	-	5,028,341	-	5,028,341
Balance as at 31 March 2011	259,814,100	16,725,782	1,068,849,687	1,988,335,799	22,671,724	24,153,064	69,704,758	68,320,823	3,518,575,737
Additions	69,823,025	-	200,203,695	335,477,601	1,136,932	9,123,533	6,685,026	3,501,988	625,951,800
Balance as at 31 March 2012	329,637,125	16,725,782	1,269,053,382	2,323,813,400	23,808,656	33,276,597	76,389,784	71,822,811	4,144,527,537
Accumulated depreciation									
Up to 1 April 2010	-	942,678	176,747,423	569,775,326	7,213,487	11,405,114	28,276,441	60,817,308	855,177,777
Depreciation charge	-	118,028	36,689,240	91,848,393	1,095,052	2,175,722	5,977,477	2,892,292	140,796,204
Reversal on disposal of assets	-	-	-	-	-	-	1,879,963	-	1,879,963
Up to 31 March 2011	-	1,060,706	213,436,663	661,623,719	8,308,539	13,580,836	32,373,955	63,709,600	994,094,018
Depreciation charge	-	188,536	36,638,885	103,133,452	1,139,428	3,120,645	4,744,790	1,149,500	150,115,236
Up to 31 March 2012	-	1,249,242	250,075,548	764,757,171	9,447,967	16,701,481	37,118,745	64,859,100	1,144,209,254
Net block									
Balance as at 31 March 2011	259,814,100	15,665,076	855,413,024	1,326,712,080	14,363,185	10,572,228	37,330,803	4,611,223	2,524,481,719
Balance as at 31 March 2012	329,637,125	15,476,540	1,018,977,834	1,559,056,229	14,360,689	16,575,116	39,271,039	6,963,711	3,000,318,283

(a) Leasehold land include land acquired from the State Industrial Development Corporation of Uttarakhnad Limited, for a period of 90 years and from Uttar Pradesh State Industrial Development Corporation Limited for a period of 87 years.

(b) Please refer note 26 for borrowing cost capitalized during the year.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

12. INTANGIBLE ASSETS

Gross block	Computer Software	Total
Balance as at 1 April 2010	12,859,860	12,859,860
Additions	9,517,378	9,517,378
Balance as at 31 March 2011	22,377,238	22,377,238
Additions	4,694,078	4,694,078
Balance as at 31 March 2012	27,071,316	27,071,316
Accumulated amortisation		
Up to 1 April 2010	2,697,324	2,697,324
Amortization charge	2,684,245	2,684,245
Up to 31 March 2011	5,381,569	5,381,569
Amortization charge	3,936,458	3,936,458
Up to 31 March 2012	9,318,027	9,318,027
Net block		
Balance as at 31 March 2011	16,995,669	16,995,669
Balance as at 31 March 2012	17,753,289	17,753,289

	As at 31 March 2012		As at 31 March 2011	
	Trade	Others	Trade	Others
13. NON-CURRENT INVESTMENTS				
(Valued at cost unless stated otherwise)				
Investments in equity instruments				
<i>Investments in subsidiaries</i>				
1,000 (2011: 1,000) fully paid-up, non-assessable shares of US\$1,000 each in Natco Pharma Inc., Delaware, United States of America	41,849,274	-	41,849,274	-
91,785 (2011: Nil) equity shares of US\$10 each, fully paid-up in Timecap Overseas Limited, Mauritius	40,914,029	-	-	-
Share application money in Timecap Overseas Limited, Mauritius	40,926,944	-	30,770,188	-
	123,690,247	-	72,619,462	-
<i>Others</i>				
750 (2011: 750) equity shares of 100 each, fully paid-up, in Jeedimetla Effluent Treatment Limited	75,000	-	75,000	-
34,400 (2011: 34,400) equity shares of 10 each, fully paid-up, in Pattancheru Enviro-Tech Limited	344,000	-	344,000	-
27,000 (2011: 27,000) equity shares of 10 each, fully paid-up in Jayalakshi Spinning Mills Limited	-	270,000	-	270,000
Share application money in NATCO Organics Limited	602,459,898	-	602,459,898	-
	602,878,898	270,000	602,878,898	270,000
Total investments in equity instruments (A)	726,569,145	270,000	675,498,360	270,000

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

	As at 31 March 2012		As at 31 March 2011	
	Trade	Others	Trade	Others
NON-CURRENT INVESTMENTS (Contd.)				
Other non-current investments				
Investment in portfolio management services				
15,000,000 (2011: 12,219,036) compulsorily convertible preference shares of ₹1 each, fully paid-up in Ravindranath GE Medical Associates Private Limited.	-	15,000,000	-	12,219,036
Nil (2011: 272,644) units at ₹10.02 each in HDFC Cash Management Fund	-	-	-	2,780,964
	-	15,000,000	-	15,000,000
National savings certificates	-	3,910	-	3,910
Total (B)	-	15,003,910	-	15,003,910
Total non-current investments (A+B)	726,569,145	15,273,910	675,498,360	15,273,910
Less: provision for diminution in value of investments	-	270,000	-	270,000
	726,569,145	15,003,910	675,498,360	15,003,910
Quoted investments		270,000		270,000
Market value of quoted investments		-		-
Unquoted investments [including share application money]		741,573,055		690,502,270
Provision for diminution in value of investments		270,000		270,000

Investment in portfolio management services

As at 31 March 2012 the Company has made an investment, aggregating to ₹15,000,000 in the private equity opportunities fund of Anand Rathi Financial Services Limited (ARFSL). By virtue of shareholders agreement and share subscription agreement, both dated 29 November 2010, ARFSL has invested, among others, the investment made by the Company, in the Compulsorily Convertible Preference Shares of Ravindranath GE Medical Associates Private Limited. The company's investment in the private equity opportunities fund of ARFSL provides for a return of 20% in excess of 16% on a gross pre-tax IRR basis. In the absence of reasonable certainty of realization of return, no income was accrued on such investment for the year ended 31 March 2012.

	As at 31 March 2012		As at 31 March 2011	
	Long term	Short term	Long term	Short term
14. LOANS AND ADVANCES				
<i>Unsecured, considered good</i>				
Capital advances	177,290,805	-	227,351,343	-
Security deposits	20,112,112	-	15,584,362	-
Advance tax, net	-	140,517,257	-	80,857,658
Loans and advances to related parties	351,692,238	176,208,570	381,668,608	41,250,000
Prepaid expenses	-	17,440,864	-	10,560,575
Balances with government authorities	-	237,169,435	-	159,106,954
Advances for purchases and expenses	-	69,377,065	-	56,980,657
Other advances	-	21,392,202	-	20,480,389
	549,095,155	662,105,393	624,604,313	369,236,233

Loans and advances to related parties include ₹425,478,283 [2011: ₹306,077,225] advanced to a related party against future supplies. Short term portion of such advances is identified by management based on expected supplies during the subsequent financial year.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

	As at 31 March, 2012	As at 31 March, 2011
15. OTHER NON-CURRENT ASSETS		
Non-current bank balances (Refer note 19)	4,220,803	9,553,782
	<u>4,220,803</u>	<u>9,553,782</u>
16. CURRENT INVESTMENTS		
Valued at lower of cost and market value		
Investments in equity instruments		
93,365 (2011: 45,194) equity shares of ₹10 each, fully paid-up in Neuland Laboratories Limited	6,866,996	5,287,698
1,000 (2011: Nil) equity shares of ₹10 each, fully paid-up in Sun Pharmaceuticals Industries Limited	507,970	-
Nil (2011: 24,250) equity shares of ₹10 each, fully paid-up in JB Chemicals Limited	-	2,868,672
	<u>7,374,966</u>	<u>8,156,370</u>
Investment in partnership firm		
75% share in K & C Pharmacy [a partnership firm based in United States of America, wherein the Company and Mr. Krishnayya Bikkina shares profit/loss in the ratio of 75:25 respectively]	165,678,749	165,678,749
Less: Drawings from the firm	(90,824,724)	(88,079,151)
Less: Share of loss from the firm	(64,365,517)	(64,365,517)
	<u>10,488,508</u>	<u>13,234,081</u>
Total current investments	<u>17,863,474</u>	<u>21,390,451</u>
<i>Aggregate amount of</i>		
Quoted investments	7,374,966	8,156,370
Market value of quoted investments	7,436,946	8,495,973
Unquoted investments	10,488,508	13,234,081
Provision for diminution in value of investments	<u>3,265,855</u>	<u>500,358</u>
17. INVENTORIES		
(valued at cost or lower of net realisable value)		
Raw materials [including goods-in-transit of ₹25,975,063 (2011: ₹12,057,185)]	328,601,728	254,447,364
Work-in-progress	368,403,712	348,374,790
Finished goods	86,729,795	115,616,979
Stores and spares [including goods-in-transit of ₹7,432,065 (2011: ₹14,700,029)]	101,949,782	128,790,162
Packing materials [including goods-in-transit of ₹307,012 (2011: ₹801,845)]	56,461,910	50,307,117
Stock-in-trade [including goods-in-transit of ₹404,705 (2011: ₹2,622,470)]	30,687,483	32,664,145
	<u>972,834,410</u>	<u>930,200,557</u>

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

	As at 31 March, 2012	As at 31 March, 2011
18. TRADE RECEIVABLES		
Outstanding for a period exceeding six months from the date they are due for payment		
Unsecured considered good	24,349,617	36,441,254
Doubtful	10,334,519	10,334,519
	<u>34,684,136</u>	<u>46,775,773</u>
Less : Allowances for bad and doubtful debts	10,334,519	10,334,519
	<u>24,349,617</u>	<u>36,441,254</u>
Other debts		
Unsecured considered good	909,009,624	667,264,557
	<u>933,359,241</u>	<u>703,705,811</u>

	As at 31 March 2012		As at 31 March 2011	
19. CASH AND BANK BALANCES	Current	Non-current	Current	Non-current
Cash and cash equivalents				
Cash on hand	11,397,939	-	5,074,553	-
Balances with banks				
- in current accounts	55,775,796	-	42,740,395	-
- in deposit accounts	249,932,073	-	255,172,721	-
	<u>317,105,808</u>	<u>-</u>	<u>302,987,669</u>	<u>-</u>
Other bank balances				
Unpaid dividend account	6,031,940	-	4,150,192	-
Bank deposits held with banks as margin money	13,835,153	4,220,803	2,611,727	9,553,782
	<u>19,867,093</u>	<u>4,220,803</u>	<u>6,761,919</u>	<u>9,553,782</u>
Total cash and bank balances	<u>336,972,901</u>	<u>4,220,803</u>	<u>309,749,588</u>	<u>9,553,782</u>

	As at 31 March, 2012	As at 31 March, 2011
20. OTHER CURRENT ASSETS		
Interest accrued on fixed deposits	11,350,425	1,075,132
	<u>11,350,425</u>	<u>1,075,132</u>

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

	For the year ended 31 March, 2012	For the year ended 31 March, 2011
21. REVENUE		
Revenue from operations		
Sale of products	4,218,154,039	3,314,575,656
Sale of services	38,483,783	75,405,617
Other operating revenues		
Job work charges	89,549,686	109,777,459
Export incentives	30,907,494	27,384,341
Scrap sales	12,032,502	10,343,970
	<u>132,489,682</u>	<u>147,505,770</u>
Revenue from operations (Gross)	<u>4,389,127,504</u>	<u>3,537,487,043</u>
Details of products sold		
Manufactured goods		
Bulk drug and drug intermediaries	1,476,615,867	1,059,883,793
Formulations	2,537,939,731	2,055,176,263
	<u>4,014,555,598</u>	<u>3,115,060,056</u>
Traded goods		
Formulations	203,598,441	199,515,600
	<u>203,598,441</u>	<u>199,515,600</u>
	<u>4,218,154,039</u>	<u>3,314,575,656</u>
22. OTHER INCOME		
Interest income from		
Loans and advances	5,866,283	8,043,338
Others	24,874,055	2,188,849
Dividend income	220,720	-
Net gain on sale of investments	747,897	-
Net gain on foreign currency transaction and translation	61,343,675	20,186,901
Other non-operating income	38,864,016	21,450,528
	<u>131,916,646</u>	<u>51,869,616</u>
23. COST OF RAW MATERIALS CONSUMED (including packing materials consumed) #		
Opening stock	304,754,481	212,307,366
Add: Purchases during the year	1,257,032,427	1,052,551,245
Less: Closing stock	385,063,638	304,754,481
	<u>1,176,723,270</u>	<u>960,104,130</u>

Disclosed based on derived figures, rather than actual records of issue.

Details of major raw materials consumed are given in note 32.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

	For the year ended 31 March, 2012	For the year ended 31 March, 2011
24. Changes in inventories of finished goods, work-in-progress and stock-in-trade		
Opening stock		
- Finished goods	115,616,979	78,398,904
- Work-in-progress	348,374,790	265,955,090
- Stock-in-trade	32,664,145	34,686,483
	<u>496,655,914</u>	<u>379,040,477</u>
Closing stock		
- Finished goods	86,729,795	115,616,979
- Work-in-progress	368,403,712	348,374,790
- Stock-in-trade	30,687,483	32,664,145
	<u>485,820,990</u>	<u>496,655,914</u>
	<u>10,834,924</u>	<u>(117,615,437)</u>
Following are the details of inventory balances under broad heads:		
Opening stock		
Finished goods		
Bulk drug and drug intermediaries	39,397,538	28,780,220
Formulations	76,219,441	49,618,684
	<u>115,616,979</u>	<u>78,398,904</u>
Work in progress		
Bulk drug and drug intermediaries	335,251,427	244,687,183
Formulations	13,123,363	21,267,907
	<u>348,374,790</u>	<u>265,955,090</u>
Traded goods		
Formulations	32,664,145	34,686,483
	<u>32,664,145</u>	<u>34,686,483</u>
Closing inventory		
Finished goods		
Bulk drug and drug intermediaries	42,357,147	39,397,538
Formulations	44,372,648	76,219,441
	<u>86,729,795</u>	<u>115,616,979</u>
Work in progress		
Bulk drug and drug intermediaries	340,426,425	335,251,427
Formulations	27,977,287	13,123,363
	<u>368,403,712</u>	<u>348,374,790</u>
Traded goods		
Formulations	30,687,483	32,664,145
	<u>30,687,483</u>	<u>32,664,145</u>
25. EMPLOYEE BENEFIT EXPENSE		
Salaries and wages	546,219,745	453,462,852
Contribution to provident and other funds	61,554,255	38,293,212
Staff welfare expenses	63,567,782	42,630,780
	<u>671,341,782</u>	<u>534,386,844</u>

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

	For the year ended 31 March, 2012	For the year ended 31 March, 2011
26. FINANCE COSTS		
Interest expenses	211,032,299	124,890,998
Bank charges	18,563,065	17,087,625
	<u>229,595,364</u>	<u>141,978,623</u>
Interest expenses is after capitalization of ₹8,345,716 to tangible assets and ₹74,313,778 to capital work in progress (2011: ₹3,431,373 and ₹18,281,826 respectively).		
27. Other expenses		
Consumption of stores and spare parts	77,994,576	66,218,865
Power and fuel	263,201,936	211,855,538
Rent	7,212,738	6,356,142
Repairs and maintenance		
- Buildings	33,649,113	20,291,854
- Plant and equipment	84,107,172	63,883,922
- Others	28,298,057	25,408,956
Insurance	21,556,976	16,285,642
Rates and taxes	58,064,943	27,353,901
Factory maintenance expenses	79,177,007	66,836,104
Analysis charges	44,927,149	47,219,495
Carriage and freight outwards	39,450,481	38,594,314
Advertisements	3,451,110	4,110,670
Donations	24,677,501	18,516,594
Communication expenses	15,638,101	14,041,609
Office maintenance and other expenses	25,839,424	20,588,295
Travelling and conveyance	50,644,203	45,560,791
Legal and professional fees	64,030,655	64,583,790
Payments to auditors [refer note 41]	1,954,236	1,078,500
Adjustments to the carrying amount of current investments	3,265,855	500,358
Inventory written-off	3,751,630	2,260,108
Provision for contingencies	-	31,875,000
Loss on sale of asset	-	900,377
Share of loss in partnership firm	-	43,175,422
Provision for doubtful debts	-	5,264,325
Bad debts	5,754,833	-
Directors sitting fee	180,000	170,000
Sales promotion expenses including sales commission	169,583,082	80,893,583
Research and development expenses	84,270,985	110,461,866
Printing and stationery	18,368,924	13,884,019
Miscellaneous expenses	19,862,308	17,725,128
	<u>1,228,912,995</u>	<u>1,065,895,168</u>

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

28. RELATED PARTIES

Names of related parties	Nature of relationship
NATCO Pharma Inc., United States of America	Subsidiary company
Timecap Overseas Limied, Mauritius (from 8 Nov 2010)	Subsidiary company
NATCO Farma Do Brazil Ltda EPP (formerly Uniao distributors from 27 January 2011)	Stepdown subsidiary company
K & C Pharmacy, United States of America	Partnership firm in which the Company is a partner
NATCO Organics Limited	Companies/entities in which Directors having significant influence or able to exercise control
Time Cap Pharma Labs Limited	
NATCO Trust, Hyderabad	
NATCO Group Employees Welfare Trust	
Natsoft Information Systems Private Limited	
NDL Infratech Private Limited	
V C Nannapaneni, Chairman & Managing Director	Key management personnel
Rajeev Nannapaneni, Director and COO	Key management personnel
Dr. P Bhaskara Narayana, Director & Chief Financial Officer	Key management personnel
Dr. A K S Bhujanga Rao, Director	Key management personnel
Dr. N. Ramakrishna Rao	Relative of key management personnel
Durga Devi Nannapaneni	Relative of key management personnel

Transactions with related parties	For the year ended 31 March, 2012	For the year ended 31 March, 2011
Transactions with subsidiary company		
<i>NATCO Pharma Inc.</i>		
Interest on loans and advances	5,866,283	8,043,338
<i>Time Cap Overseas Limited, Mauritius</i>		
Share capital and share application money	51,070,785	30,770,188
Advance for expenses	6,208,570	-
Transactions with the partnership firm in which the Company is a partner		
<i>K & C Pharmacy</i>		
Drawings from the partnership firm	2,745,573	88,079,151
Share of loss from the partnership firm	-	43,175,422
Transactions with entities in which directors are interested		
<i>NATCO Organics Limited</i>		
Advance towards future supplies	159,343,231	306,077,225
Rental expense	1,140,000	1,140,000
Purchases	41,250,559	-
Sales	3,021,097	-

(Contd.)

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

Transactions with related parties	For the year ended 31 March, 2012	For the year ended 31 March, 2011
<i>Time Cap Pharma Labs Limited</i>		
Income from Job work charges and sales	1,965,240	6,220,841
Income from rent	120,000	120,000
Commission and expenses reimbursement	4,885,751	5,341,493
Purchases	1,681,961	2,678,000
Rental expense	1,620,000	1,620,000
Advances given	19,021,759	55,234,580
Dividends paid	10,209,582	6,796,358
Natsoft Information Systems Private Limited		
Dividends paid	9,460,500	6,307,000
NDL Infratech Private Limited		
Interest on loans granted	853,694	-
Loans given	-	3,118,186
NATCO Trust		
Donations given	22,500,000	9,800,000
<i>NATCO Group Employees Welfare Trust</i>		
Donations for the welfare of employees	17,211,557	4,600,000
Dividends paid	252,000	-
Transactions with key management personnel		
V C Nannapaneni		
Managerial remuneration	10,608,000	10,608,000
Rental expenses	1,440,000	1,440,000
Dividends paid	24,071,514	15,993,918
Personnel guarantees against loans taken by the Company	1,110,814,800	1,605,000,000
Rajeev Nannapaneni		
Managerial remuneration	8,400,000	5,376,000
Rental expenses	720,000	720,000
Dividends paid	2,719,830	1,813,220
Dr. P Bhaskara Narayana		
Managerial remuneration	3,200,000	2,330,549
Dividends paid	22,500	15,000
Dr. A K S Bhujanga Rao		
Managerial remuneration	3,119,599	2,627,012
Dividends paid	21,000	14,000
Transactions with a relatives of key management personnel		
Durga Devi Nannapaneni		
Dividends paid	2,483,460	1,655,640
Personnel guarantees against loans taken by the Company	145,000,000	-
Dr. N Ramakrishna Rao		
Dividends paid	425,946	278,964
Personnel guarantees against loans taken by the Company	145,000,000	-

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

Balances with related parties	As at 31 March, 2012	As at 31 March, 2011
Balance (due to) / due from		
NATCO Pharma Inc.	96,125,297	109,686,221
Time Cap Overseas Limited	6,208,570	-
NATCO Organics Limited	425,478,283	306,077,225
Time Cap Pharma Labs Limited	(2,001,778)	(2,092,838)
Natsoft Information Systems Private Limited	16,667	16,667
NATCO Group Employees Welfare Trust	10,000	10,000
NDL Infratech Private Limited	-	7,066,105
NATCO Trust	61,991	62,390
V C Nannapaneni	(483,008)	(1,686,151)
Rajeev Nannapaneni	(329,630)	(913,403)
Dr. P Bhaskara Narayana	(179,984)	(165,511)
Dr. A K S Bhujanga Rao	(489,858)	(120,308)
Outstanding guarantees		
V C Nannapaneni, Chairman	3,624,842,671	2,931,496,853
Dr. N Ramakrishna Rao	1,101,000,000	956,000,000
Durga Devi Nannapaneni	1,101,000,000	956,000,000

Disclosure pursuant to Clause 32 of Listing Agreement

Loans and Advances in the nature of loans to subsidiaries and to companies in which directors are interested

Name of the Company	31 March 2012	31 March 2011
<i>Outstanding balance</i>		
NATCO Pharma Inc.	96,125,297	109,686,221
Natsoft Information Systems Private Limited	16,667	16,667
NDL Infratech Private Limited	-	7,066,105
<i>Maximum balance outstanding at any time during the year</i>		
NATCO Pharma Inc.	109,686,221	153,209,854
Natsoft Information Systems Private Limited	16,667	16,667
NDL Infratech Private Limited	7,066,105	7,066,105

29. Segment reporting

In accordance with AS 17 - Segment Reporting, segment information has been given in the consolidated financial statements of NATCO Pharma Limited and therefore no separate disclosure on segment information is given in these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

	As at 31 March, 2012	As at 31 March, 2011
30. Contingent liabilities and commitments		
a. Commitments		
Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances)	67,213,981	380,896,183
b. Contingent liabilities		
Claims against the company not acknowledged as debt	275,572,800	156,290,615
Disputed sales tax liabilities	8,690,000	8,690,000
Disputed income tax liabilities	169,259,702	162,335,436

Claims against the Company not acknowledged as debt, represents claim including interest lodged by M/s. SMS Pharmaceuticals Limited, against the Company. During the current year, the Hon'ble City Civil Court, Hyderabad has passed the judgement against the Company. Based on a legal advice received, management is of the opinion that the Hon'ble City Civil Court has not taken due cognizance of certain material facts and is confident of favorable outcome of the proposed appeal before the Hon'ble High Court of Andhra Pradesh.

Disputed tax liabilities primarily represents additional tax demanded by the Tax Authorities, challenging the Company's basis of computing profits of units covered by the provisions of Section 80IC of the Income Tax Act, 1961. Pending final outcome of such matters and in view of the order for Assessment Year 2007-08 being set aside by appellate authorities, management is confident of favorable outcome of the proceedings.

31. Terms and conditions of loans and nature of security

Secured term loans:

- Exim Bank term loans, (a) outstanding ₹328,647,059 (2011: ₹410,000,000) is repayable in 17 equal quarterly installments (b) outstanding ₹475,000,000 (2011: ₹500,000,000) is repayable in 20 equal quarterly installments (c) outstanding ₹Nil, (2011: ₹15,000,000). All the above loans are secured by pari-passu first charge on the entire immovable properties and movable fixed assets both present and future of Mekaguda Unit along with Citibank and Barclays Bank for part of the loan and loans (a) and (b) are 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.
- Axis Bank term loans (a) outstanding ₹254,000,000 (2011: ₹350,000,000), is repayable in 16 equal quarterly installments (b) outstanding ₹150,000,000 (2011: ₹Nil) is repayable in 48 equal monthly installments. Both the loans are secured by first charge on the entire fixed assets both present and future of Kothur Unit on pari-passu basis with SBI.
- Citibank term loan, outstanding ₹137,500,000 (2011: ₹187,500,000) is repayable in 16 equal quarterly installments and is secured by a pari-passu first charge on the entire immovable properties and movable fixed assets both present and future of Mekaguda Unit along with Exim Bank and Barclays Bank for part of the loan.

NOTES TO THE FINANCIAL STATEMENTS

- 4) State Bank of India (SBI), outstanding ₹11,880,812 (2011: ₹11,996,853) is repayable in 16 equal quarterly installments and is secured by a first charge on the entire fixed assets both present and future of Kothur Unit on pari-passu basis with Axis Bank.
- 5) Barclays Bank, External Commercial Borrowing outstanding of ₹410,814,800 (2011: ₹Nil) is repayable in 16 equal quarterly installments and a part of the loan is secured by an exclusive charge over all movable and immovable fixed assets of NATCO Research Center and a part of the loan is secured by first charge on the movable and immovable fixed assets of Mekaguda unit along with Exim Bank and Citibank.
- 6) All the above loans are guaranteed by Mr. V.C Nannapaneni, Chairman and Managing Director and have been granted with a moratorium of 12 months and carry interest linked to the respective Bank's / Institution's prime / base lending rate, and range from 3.53% per annum to 14% per annum.

Secured working capital:

The working capital Loans are re-payable on demand. The primary security is joint pari-passu first charge on all 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 and (a) Ms. Durga Devi Nannapaneni, promoter and (b) Dr. N. Ramakrishna Rao, relative of Chairman and Managing Director, in case of working capital limits availed from SBI, Corporation Bank, Oriental Bank of Commerce and Allahabad Bank

Unsecured Loans:

Unsecured loans are re-payable on demand and are personally guaranteed by Mr. V.C. Nannapaneni, Chairman and Managing Director.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

32. DETAILS OF RAW MATERIALS CONSUMED (including packing materials consumed)

Following are the major raw materials consumed:

Material Description	For the year ended 31 March 2012			For the year ended 31 March 2011		
	Opening stock	Consumption	Closing stock	Opening stock	Consumption	Closing stock
Stannous chloride	6,959,759	64,904,913	8,420,037	120,680	38,739,245	6,959,759
2-Chloro Methyl-3-Methyl-4	3,203,315	24,543,315	266,750	73,897	25,823,286	3,203,315
Racemic sertraline hydrochloride	246,264	78,687,425	19,190,130	3,489,755	75,117,242	246,264
5 Bromo Phthalide	3,706,165	13,220,304	3,477,503	9,166,349	20,792,393	3,706,165
1-Bromo-3-Chloro Propane	2,151,304	18,041,980	1,912,363	3,217,238	14,957,480	2,151,304
Chloroform	2,262,168	42,687,228	1,620,641	1,219,312	30,255,118	2,262,168
Ethyl Acetate	981,057	28,062,336	1,316,666	1,012	18,072,036	981,057
Isopropyl Alcohol	5,269,425	58,802,510	2,494,338	1,367,658	62,424,216	5,269,425
Iso Propyl Ether	3,176,941	27,143,105	3,198,159	1,338,117	16,521,149	3,176,941
Methanol	1,551,193	41,037,085	2,913,560	1,176,711	35,823,845	1,551,193
Methylene Chloride	3,534,989	36,621,933	1,286,801	2,012,479	24,140,656	3,534,989
Tetra Hydro Furan	2,452,604	19,507,887	4,267,062	2,214,790	31,942,278	2,452,604
Toluene	944,639	23,333,410	2,015,616	2,198,205	19,384,031	944,639
Phosphorous Pentoxide	800,289	26,378,183	2,705,891	1,110,499	18,603,182	800,289
Others **	267,514,368	673,751,657	329,978,120	183,600,663	527,507,973	267,514,368
Total	304,754,481	1,176,723,270	385,063,638	212,307,366	960,104,130	304,754,481

**Others include no item which in value individually accounts for 10% or more of the total value of raw materials consumed.

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

33. DUES TO MICRO AND SMALL ENTERPRISES

The Micro and Small Enterprises have been identified on the basis of information available with the Company. This has been relied upon by the auditors. Details of dues to such parties are given below:

Particulars	31 March 2012	31 March 2011
(a) The principal amount remaining unpaid as at the end of the year	31,007,455	29,724,329
(b) The amount of interest accrued and remaining unpaid at the end of the year	1,589,382	-
(c) Amount of interest paid by the company in terms of Section 16, of (MSMED Act 2006) along with the amounts of payments made beyond the appointed date during the year.	-	-
(d) Amount of interest due and payable for the period of delay in making payment without the interest specified under the (MSMED Act 2006)	-	-
(e) The amount of further interest remaining due and payable in the succeeding years, until such date when the interest dues as above are actually paid to the small enterprises for the purpose of disallowance as a deductible expenditure under Section 23 of the (MSMED Act 2006)	-	-

	As at 31 March, 2012	As at 31 March, 2011
34. UNHEDGED FOREIGN CURRENCY EXPOSURE		
Particulars of unhedged foreign currency exposure as at the reporting date		
Long-term borrowings (including current maturities)	410,814,800	-
Trade payables	30,217,284	16,947,305
Interest accrued but not due on borrowings	915,996	-
Non-current investments	123,690,247	72,619,462
Long term loans and advances	96,125,297	109,686,221
Current investments	10,488,508	13,234,081
Trade receivables*	49,263,137	29,603,654

* Net of discounted bills of ₹467,326,395 (2011: ₹281,340,458)

	For the year ended 31 March, 2012	For the year ended 31 March, 2011
35. EARNINGS IN FOREIGN CURRENCY ON ACCRUAL BASIS		
Export on FOB basis	1,790,196,561	1,300,936,954
Sale of services	33,718,000	71,258,750
Income from royalty	36,765,277	18,940,113
Interest on loans to a subsidiary company	5,866,283	8,043,338

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

	For the year ended 31 March, 2012	For the year ended 31 March, 2011
36. EXPENDITURE IN FOREIGN CURRENCY ON ACCRUAL BASIS		
Travelling expenses	11,664,994	5,038,633
Commission	20,918,640	3,040,115
Professional and consultation fees	12,755,215	37,915,380
Interest on borrowings	12,271,421	-
Others	65,885,210	75,608,651
37. Value of imports on CIF basis		
Raw materials and packing materials	167,475,025	169,596,725
Capital goods (including spares and components)	220,712,305	153,509,707
38. DIVIDEND REMITTED IN FOREIGN CURRENCY		
Number of non - resident shareholders	17	16
Number of equity shares held on which dividend was due	545,488	544,988
Amount remitted (\$)	32,933	23,955
Amount remitted (₹)	1,636,464	1,089,976
Period to which is relates	2011-12	2010-11

39. Amounts incurred on research and development expenses

Details of capital and revenue expenditure for Department of Scientific and Industrial Research approved research and development facilities/divisions of the Company for the period of immediately preceeding 3 years is as follows:

	For the year ended 31 March, 2012	For the year ended 31 March, 2011	For the year ended 31 March, 2010
Salaries and wages	99,274,370	81,603,594	65,103,957
Consumption of materials, spares	57,498,580	35,265,476	31,600,565
Utilities	8,115,125	7,594,710	6,210,350
Other research and development expenses	58,887,660	53,091,953	43,219,075
Capital equipments	4,790,731	76,192,285	23,475,247
	<u>228,566,466</u>	<u>253,748,018</u>	<u>169,609,194</u>

NOTES TO THE FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

	For the year ended 31 March, 2012	For the year ended 31 March, 2011
40. IMPORTED AND INDIGENOUS CONSUMPTION		
Raw materials (including packing materials)		
Imported		
Amount	156,434,450	162,454,806
Percentage	13.29%	16.92%
Indigeneous		
Amount	1,020,288,820	797,649,324
Percentage	86.71%	83.08%
Total		
Amount	1,176,723,270	960,104,130
Percentage	100%	100%
Stores and spares		
Imported		
Amount	5,926,703	2,807,050
Percentage	7.60%	4.24%
Indigeneous		
Amount	72,067,873	63,411,815
Percentage	92.40%	95.76%
Total		
Amount	77,994,576	66,218,865
Percentage	100%	100%
41. Payments to auditors		
As auditor	1,050,000	1,050,000
For other services	900,000	25,000
Reimbursement of expenses	4,236	3,500
	<u>1,954,236</u>	<u>1,078,500</u>

42. Comparatives

Previous year comparatives have been reclassified and regrouped wherever necessary, to confirm to current years' presentation.

For and on behalf of Board of Directors of
NATCO Pharma Limited

V.C. Nannapaneni
Rajeev Nannapaneni

Chairman & Managing Director
Director & Chief Operating Officer

Dr. P. Bhaskara Narayana
M. Adinarayana

Director & Chief Financial Officer
Company Secretary & G M (Corp. Affairs)

Place : Hyderabad
Date : 28 May, 2012

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2012

(All amounts in ₹, unless otherwise stated)

	For the year ended 31 March, 2012	For the year ended 31 March, 2011
Cash flows from operating activities		
Profit before tax	825,129,473	639,843,296
<i>Adjustments for non-cash transactions</i>		
Depreciation and amortisation expense	154,051,694	143,480,449
Share in loss of partnership firm	-	43,175,422
Loss/(profit) on sale of investments	(747,897)	18,674
Diminution in the value of investments	3,265,855	500,358
Loss on sale of fixed assets (net)	-	900,377
Inventory written-off	3,751,630	2,260,108
Allowances for (net of write offs)		
- contingencies	-	31,875,000
- bad and doubtful trade receivables	-	5,264,325
Bad and doubtful trade receivables written off	5,754,833	77,927
Provision for employee benefits	12,235,610	(17,630)
Unrealised foreign exchange loss/(gain), net	(636,322)	1,197,962
	<u>1,002,804,876</u>	<u>868,576,268</u>
<i>Items considered separately</i>		
Interest income	(30,740,338)	(10,232,187)
Dividend income	(220,720)	-
Interest expenses	<u>211,032,299</u>	<u>124,890,998</u>
Operating profit before working capital changes	1,182,876,117	983,235,079
Increase/(decrease) in other current liabilities	115,353,998	(25,174,917)
Increase in trade payables	108,034,424	151,871,290
Increase in long term liabilities and provisions	1,050,000	32,565,864
Increase in inventories	(46,385,483)	(276,245,348)
Increase in trade receivables	(234,048,913)	(165,758,578)
(Increase)/decrease in short term loans and advances	(233,209,562)	107,105,019
(Increase)/decrease in long term loans and advances	<u>11,887,696</u>	<u>(307,033,300)</u>
Cash generated from operating activities	905,558,277	500,565,109
Income taxes paid	<u>(225,438,719)</u>	<u>(177,652,361)</u>
Net cash generated from operating activities A	<u>680,119,558</u>	<u>322,912,748</u>
Cash flows from investing activities		
Purchase of tangible assets	(1,282,903,967)	(915,803,340)
Proceeds from sale of tangible assets	-	2,248,001
Purchase of intangible assets	(4,694,078)	(9,517,378)
Investment in subsidiary company	(51,070,785)	(30,770,188)
Drawings from partnership firm	2,745,573	88,079,151
Purchase of current investments	(5,353,123)	(23,656,728)
Proceeds from sale of current investments	3,616,569	3,052,765
Interest received	22,139,715	1,923,133
Loans and advances recovered from subsidiary company	34,333,500	50,546,570
Receipt of capital subsidy	3,000,000	200,000
Increase in other bank balances	(7,772,195)	(376,429)
Dividends received	<u>220,720</u>	<u>-</u>
Net cash used in investing activities B	<u>(1,285,738,071)</u>	<u>(834,074,443)</u>

CASH FLOW STATEMENT (Contd.)

(All amounts in ₹, unless otherwise stated)

	For the year ended 31 March, 2012	For the year ended 31 March, 2011
Cash flows from financing activities		
Proceeds from issue of share capital	675,000,000	-
Proceeds from long term borrowings	508,740,250	1,260,000,000
Repayment of long term borrowings	(269,395,591)	(426,960,647)
Proceeds from short term borrowings, net	96,196,971	172,815,420
Interest paid	(284,083,941)	(145,629,066)
Dividends paid (including tax on distributed profits)	(106,721,038)	(65,219,360)
Net cash generated from financing activities C	<u>619,736,651</u>	<u>795,006,347</u>
Net increase in cash and cash equivalents (A+B+C)	<u>14,118,138</u>	<u>283,844,652</u>
Cash and cash equivalents as at the beginning of the year	<u>302,987,670</u>	<u>19,143,018</u>
Cash and cash equivalents as at the end of the year [Refer Note 1]	<u><u>317,105,808</u></u>	<u><u>302,987,670</u></u>
Note 1:		
Cash and bank balances as per Note 15, 19	341,193,704	319,303,370
Less: Other bank balances	24,087,896	16,315,700
Cash and cash equivalents considered for cash flow	<u>317,105,808</u>	<u>302,987,670</u>
Notes 1 to 42 form an integral part of these financial statements		

This is the cash flow statement referred to
in our report of even date.

For **Walker, Chandiok & Co.**
Chartered Accountants
per **Sanjay Kumar**
Partner

Place: Hyderabad
Date : 28 May, 2012

For and on behalf of Board of Directors of
NATCO Pharma Limited

V.C. Nannapaneni
Rajeev Nannapaneni

Chairman & Managing Director
Director & Chief Operating Officer

Dr. P. Bhaskara Narayana
M. Adinarayana

Director & Chief Financial Officer
Company Secretary & G M (Corp. Affairs)

CONSOLIDATED FINANCIAL STATEMENTS 2011-12

Statement pursuant to Section 212 (8) of Companies Act, 1956 relating to subsidiary companies

The company has a wholly owned subsidiary-NATCO Pharma Inc-incorporated in the State of Delaware, USA and a step-down subsidiary-NATCO Farma Do Brasil- incorporated in Brazil.

In accordance with the terms of the directions issued by the Government of India vide its General circular No.2/2011 dated 8th February, 2011 the following information is being disclosed:

- The consolidated financial statements of the Company include the audited financial statements pertaining to the subsidiaries.
- The said financial statements have been prepared in strict compliance with the Accounting Standards and the Listing Agreement as prescribed by SEBI.
- While the reporting currency for the subsidiary is US Dollars, the relevant information pertaining to the subsidiary is given below, in terms of Indian Rupees based on the prevailing exchange rate (one US \$ =Indian ₹51.16, Average Exchange rate is being one US \$=47.95) and Brazil exchange rate is being (one Rupee =0.036 Brazilian Real average exchange rate is being one Rupee =0.0355 BRL) as on 31st March, 2012.

Particulars (all figures in Indian Rupees)	NATCO Pharma INC.	NATCO Farma Do Brasil
Capital	51,160,000	43,638,889
Reserves	60,027,358	(63,444,444)
Total Assets	275,715,258	58,916,667
Total Liabilities	164,527,900	15,277,777
Details of Investments	Nil	Nil
Turnover	841,794,904	38,591,549
Profit before taxation	14,755,558	(47,267,605)
Provision for taxation	6,899,238	Nil
Profit after taxation	7,856,320	Nil
Proposed Dividend	Nil	Nil

The annual accounts of the subsidiary companies and the related detailed information will be made available to the investors seeking such information at any point of time. The annual accounts of the subsidiary companies will also be available for inspection by any investor at the Registered Office of the Company and that of NATCO Pharma, Inc., on all working days during business hours and is also available on the company's website www.natcopharma.co.in

AUDITORS' REPORT ON CONSOLIDATED FINANCIAL STATEMENTS

To the Board of Directors of NATCO Pharma Limited

1. We have audited the attached Consolidated Balance Sheet of NATCO Pharma Limited, its subsidiaries, (hereinafter collectively referred to as 'the Group'), as at 31 March 2012, and also the Consolidated Statement of Profit and Loss and the Consolidated Cash Flow Statement for the year ended on the date annexed thereto (collectively referred as the 'Consolidated Financial Statements'). These Consolidated Financial Statements are the responsibility of the Group's management and have been prepared by the Group's management on the basis of separate financial statements and other financial information regarding components. Our responsibility is to express an opinion on these Consolidated Financial Statements based on our audit.
2. We conducted our audit in accordance with the auditing standards generally accepted in India. Those Standards require that we plan and perform the audit to obtain reasonable assurance whether the Consolidated Financial Statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Consolidated Financial Statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.
3. We report that:
 - (a) The Consolidated Financial Statements have been prepared by the Group's management in accordance with the requirements of Accounting Standard 21 on 'Consolidated Financial Statements' notified pursuant to the Companies (Accounting Standards) Rules, 2006.
 - (b) We did not audit the financial statements of subsidiaries, whose financial statements reflect total assets (after eliminating intra-group transactions) of ₹335,951,040 as at 31 March 2012; total revenues (after eliminating intra-group transactions) of ₹882,627,214 and net cash out flows aggregating to ₹37,015,115 for the year then ended. These financial statements and other financial information have been audited by other auditors whose reports have been furnished to us by the management, and our opinion is based solely on the reports of the other auditors.
4. The Consolidated Financial Statements as at and for the year ended 31 March 2012 include management prepared unaudited financial statements of its subsidiaries K&C Pharmacy, USA and Timecap Overseas Limited, Mauritius. In the absence of audited financial statements of these entities, we are unable to express an opinion to the extent of total assets, total revenues and cash flows pertaining to these entities amounting to ₹47,355,832; ₹Nil and ₹5,383,349 respectively, included in the Consolidated Balance Sheet as at 31 March 2012, Consolidated Statement of Profit and Loss and Consolidated Cash Flow for the year ended 31 March 2012 respectively.
5. As discussed in note 2 to the accompanying consolidated financial statements, we report that the Company has not recognized Minimum Alternative Tax (MAT) credit entitlement in accordance with the Guidance Note on Accounting for Credit Available in Respect of Minimum Alternative Tax under the Income-tax Act, 1961. Consequently, the consolidated profit for the year ended 31 March 2012 is understated by ₹112,767,579 (2011: ₹131,527,145) and the balance in loans and advances and reserves and surplus as at 31 March 2012 is understated by ₹404,902,653 (2011: ₹292,135,074). This had caused us to qualify our audit opinion on the consolidated financial statements for the year ended and as at 31 March 2011.

6. Based on our audit and on consideration of reports of other auditors on the separate financial statements and other financial information of the subsidiaries, and to the best of our information and according to the explanations given to us and subject to our observation in paragraph 4 above the effect of which on these accounts is presently not ascertainable and impact of our observation in paragraph 5 above, in our opinion, the attached Consolidated Financial Statements give a true and fair view in conformity with the accounting principles generally accepted in India, in case of:

- (a) the Consolidated Balance Sheet, of the state of affairs of the Group as at 31 March 2012;
- (b) the Consolidated Statement of Profit and Loss, of the profit for the year ended on that date; and
- (c) the Consolidated Cash Flow Statement, of the cash flows for the year ended on that date.

For **Walker, Chandiok & Co**
Chartered Accountants
Firm Registration No: 001076N

per **Sanjay Kumar**
Partner
Membership No. 207660

Place : Hyderabad
Date : 28 May 2012



CONSOLIDATED BALANCE SHEET AS AT 31 MARCH 2012

(All amounts in ₹, unless otherwise stated)

	Notes	As at 31 March, 2012	As at 31 March, 2011
I. EQUITY AND LIABILITIES			
Shareholders' funds			
Share capital	3	311,479,520	281,479,520
Reserves and surplus	4	4,400,518,951	3,242,851,152
		<u>4,711,998,471</u>	<u>3,524,330,672</u>
Minority interest	5	8,838,771	10,589,929
Non-current liabilities			
Long-term borrowings	6	1,340,986,565	1,254,339,695
Deferred tax liabilities (net)	7	288,939,908	250,869,295
Other long term liabilities	8	13,536,275	12,486,275
Long-term provisions	9	97,780,727	86,723,329
		<u>1,741,243,475</u>	<u>1,604,418,594</u>
Current liabilities			
Short-term borrowings	6	816,422,437	720,225,466
Trade payables	10	923,563,734	765,973,401
Other current liabilities	11	819,092,811	438,574,380
Short-term provisions	9	6,605,408	9,076,345
		<u>2,565,684,390</u>	<u>1,933,849,592</u>
TOTAL		<u>9,027,765,107</u>	<u>7,073,188,787</u>
II. ASSETS			
Non-current assets			
Fixed assets			
Tangible assets	12	3,009,078,574	2,532,807,917
Intangible assets	13	162,182,926	168,764,098
Capital work-in-progress		1,644,271,788	759,794,585
Non-current investments	14	617,882,808	617,882,808
Long-term loans and advances	15	453,513,703	514,918,093
Other non-current assets	16	4,220,803	9,553,782
		<u>5,891,150,602</u>	<u>4,603,721,283</u>
Current assets			
Current investments	17	7,374,966	8,156,370
Inventories	18	1,103,892,807	1,022,324,134
Trade receivables	19	946,902,353	709,790,043
Cash and bank balances	20	366,311,982	323,728,788
Short-term loans and advances	15	700,781,973	404,393,040
Other current assets	21	11,350,424	1,075,129
		<u>3,136,614,505</u>	<u>2,469,467,504</u>
TOTAL		<u>9,027,765,107</u>	<u>7,073,188,787</u>
Notes 1 to 35 form an integral part of these consolidated financial statements			

This is the consolidated balance sheet referred to in our report of even date.

For and on behalf of Board of Directors of
NATCO Pharma Limited

For **Walker, Chandio & Co.**

Chartered Accountants

per **Sanjay Kumar**

Partner

Place: Hyderabad

Date : 28 May, 2012

V.C. Nannapaneni

Rajeev Nannapaneni

Chairman & Managing Director

Director & Chief Operating Officer

Dr. P. Bhaskara Narayana

M. Adinarayana

Director & Chief Financial Officer

Company Secretary & G M (Corp. Affairs)

CONSOLIDATED STATEMENT OF PROFIT AND LOSS FOR THE YEAR ENDED 31 MARCH 2012

(All amounts in ₹, unless otherwise stated)

	Notes	For the year ended 31 March, 2012	For the year ended 31 March, 2011
REVENUE			
Revenue from operations [Gross]	22	5,269,601,383	4,650,760,674
Less: Excise duty		69,137,773	54,010,223
Revenue from operations [Net]		5,200,463,610	4,596,750,451
Other income	23	128,203,699	46,413,689
Total revenue		5,328,667,309	4,643,164,140
EXPENSES			
Cost of materials consumed (including packing material consumed)	24	1,176,723,270	960,104,130
Purchases of stock-in-trade		868,254,127	994,371,896
Changes in inventories of finished goods, work-in-progress and traded goods	25	(14,186,837)	(93,739,671)
Employee benefit expenses	26	800,473,507	663,871,363
Finance costs	27	230,359,380	141,978,623
Depreciation and amortisation expense	12, 13	159,078,915	158,816,096
Other expenses	28	1,305,423,069	1,166,529,343
Prior period item		7,123,512	-
Total expenses		4,533,248,943	3,991,931,780
Profit before tax		795,418,366	651,232,360
Tax expense			
Current tax		172,677,638	149,587,578
Deferred tax (benefit)/expense		38,070,613	(17,475,030)
Profit after tax but before minority interest		584,670,114	519,119,812
Minority interest	5	11,413,344	15,991,318
Profit after minority interest		596,083,458	535,111,130
Earnings per equity share [EPES]			
Basic and diluted (face value ₹10 per share)		20.53	19.01
Weighted average number of equity shares considered for computation of Basic and Diluted EPES		29,041,395	28,147,952
Notes 1 to 35 form an integral part of these consolidated financial statements			

This is the consolidated statement of profit and loss referred to in our report of even date.

For and on behalf of Board of Directors of
NATCO Pharma LimitedFor **Walker, Chandio & Co.**
Chartered Accountants
per **Sanjay Kumar**
Partner**V.C. Nannapaneni**
Rajeev NannapaneniChairman & Managing Director
Director & Chief Operating OfficerPlace: Hyderabad
Date : 28 May, 2012**Dr. P. Bhaskara Narayana**
M. AdinarayanaDirector & Chief Financial Officer
Company Secretary & G M (Corp. Affairs)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

a. Basis of consolidation

The consolidated financial statements of NATCO Pharma Limited ("the Company") together with its subsidiaries (collectively referred as the 'Group' or the 'consolidating entities') are prepared under historical cost convention on accrual basis to comply in all material respects with the notified accounting standard prescribed by the Companies (Accounting Standards) Rules, 2006 (the 'Rules'), as amended. The consolidated financial statements have been prepared using uniform accounting policies for like transactions and other events in similar circumstances and are presented to the extent possible in the same manner as the Company's separate financial statements, except otherwise stated for like transactions in similar circumstances.

Pursuant to the amendment to the Schedule VI to the Companies Act, 1956 ("the Act"), effective 1 April 2011 the Group has adopted revised Schedule VI for preparation and presentation of the consolidated financial statements and have reclassified previous year figures to conform to this year's presentation and classification. In relation to the Group, adoption of revised Schedule VI does not impact recognition and measurement principles followed in preparation of the consolidated financial statements. However, it significantly impacts presentation and disclosures made in the consolidated financial statements.

Investments in subsidiaries, except where the investments are acquired exclusively with a view to its subsequent disposal in the near future, are accounted in accordance with accounting principles as defined in the Accounting Standard ('AS') 21 'Consolidated Financial Statements', as prescribed under the Rules.

The financial statements of the consolidating entities are added on a line-by-line basis and material inter-company balances and transactions including unrealized gain and loss from such transactions are eliminated upon consolidation.

The following subsidiaries have been considered for the purpose preparation of consolidated financial statements:

Names of the consolidating entities	Country of Incorporation	Percentage holding /interest (%)	
		As at 31 March	
		2012	2011
NATCO Pharma Inc.	United States of America	100	100
K&C Pharmacy, Partnership Firm	United States of America	75	75
Time Cap Overseas Limited (Incorporated on 8 November 2010)	Mauritius	75	70
NATCO Farma Do Brazil, with effect from 27 January 2011	Brazil	67.5	63

b. Use of estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported balances of assets and liabilities and disclosures relating to contingent assets and liabilities as at the date of the financial statements and reported amounts of income and expenses during the period. Examples of such estimates include provisions for doubtful debtors and other receivables, provision for inventories, future obligations under employee retirement benefit plans, income taxes, and the useful lives of fixed assets.

Although these estimates are based upon management's best knowledge of current events and actions, actual results could differ from these estimates. Any revision to accounting estimates is recognised prospectively in the current and future periods.

c. Fixed assets

Fixed assets are stated at cost less accumulated depreciation and impairment losses, if any. Cost comprise of purchase price, freight, non-refundable duties, taxes and any other cost attributable to bringing the asset to its working condition for its intended use. Borrowing costs relating to acquisition of fixed assets which takes substantial period of time to get ready for its intended use are also included to the extent they relate to the period till such assets are ready for its intended use. Assets retired from active use and held for disposal are stated at their estimated net realisable values or net book values, whichever is lower.

d. Depreciation

Depreciation is provided on Straight Line Method based on useful lives of the assets as estimated by management which coincides with rates prescribed under Schedule XIV to the Act except fixed assets of all other subsidiaries are depreciated over the estimated useful lives, using the Straight Line Method.

Depreciation on sale/discarded from fixed assets is provided for up to the date of sale /discarded as the case may be. Individual assets acquired for ₹5,000 or less are entirely depreciated in the year of acquisition.

e. Intangible assets

Intangible assets in the nature of software are amortized over a period of six years and acquired goodwill is amortized over a period of fifteen years, on a straight line basis.

f. Impairment of assets

The carrying amounts of assets, both tangible and intangible, are reviewed at each balance sheet date

if there is any indication of impairment based on internal and/or external factors. An impairment loss is recognised wherever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is greater of the asset's net selling price and value in use.

g. Investments

Investments that are readily realizable and intended to be held for not more than a year are classified as current investments. All other investments are classified as long term investments. Current investments are carried at lower of cost and fair value determined on an individual investment basis. Long term investments are carried at cost. However, provision for diminution in value is made to recognise a decline other than temporary in the value of the investments.

h. Inventories

Raw material, stock-in-trade, packaging material, stores and spare parts are carried at cost. Cost includes purchase price excluding taxes those are subsequently recoverable by the enterprise 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, except in the case of inventories held by NATCO Pharma Inc., the cost is determined using First-in-first out method.

The carrying cost of raw materials, stock-in-trade, packaging materials and 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

condition. Excise duty liability is included in the valuation of closing inventory of finished goods.

i. Research and development

Expenditure incurred on research activity is expensed as and when incurred.

j. Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue measured and collectability is reasonably assured.

- Revenue from sale of goods is recognized on dispatch or on the date of the bill of lading or airway bill in respect of export sales, which coincides with transfer of significant risks and rewards to customer and is inclusive of excise duty and net of trade discounts, sales returns and sales tax, where applicable.
- Service income is recognized as per the terms of contracts with customers when the related services are performed, or the agreed milestones are achieved.
- Dividend income is recognized when the right to receive the payment is established. Income from interest on deposits, loans and interest bearing securities is recognised on the time proportionate methods taking into account the amount outstanding and the rate applicable.
- Export entitlements are recognized as income when the right to receive credit as per the terms of the scheme is established in respect of the exports made and where there is no significant uncertainty regarding the ultimate collection of the relevant export proceeds.
- Revenue from licensing and long term supply arrangements is recognized in the period in which the Company completes all its performance obligations.

k. Taxes

Tax expense comprises of current and deferred tax. The current charge for income taxes is calculated

in accordance with the relevant tax regulations applicable to the entities in the Group. Deferred income taxes reflect the impact of timing differences between taxable income and accounting income for the period and reversal of timing differences of earlier periods.

Deferred income taxes reflect the impact of timing differences between taxable income and accounting income for the period and reversal of timing differences of earlier periods. Deferred tax is measured based on the tax rates and the tax laws enacted or subsequently enacted at the balance sheet date. Deferred tax assets are recognised only to the extent that there is reasonable certainty that sufficient future taxable income will be available against which such deferred tax assets can be realised.

In situations where the Group has unabsorbed depreciation or carry forward tax losses, all deferred tax assets are recognised only if there is a virtual certainty supported by convincing evidence that they can be realised against future taxable profits.

Unrecognized deferred tax assets of earlier years are re-assessed and recognised to the extent that it has become reasonably certain or virtually certain, as the case may be that future taxable income will be available against which such deferred tax assets can be realised. The carrying amount of deferred tax assets are reviewed at each balance sheet date.

The Group writes-down the carrying amount of a deferred tax asset to the extent that it is no longer reasonably certain or virtually certain, as the case maybe, that sufficient future taxable income will be available against which deferred tax asset can be realised. Any such write-down is reversed to the extent that it becomes reasonably certain or virtually certain, as the case may be, that sufficient future taxable income will be available.

The break-up of the major components of the deferred tax assets and liabilities as at the balance sheet date have been arrived at after setting off deferred tax assets and liabilities where the group

has a legally enforceable right to set-off assets against liabilities, and where such assets and liabilities relate to taxes on income levied by the same governing taxation laws.

Minimum Alternative tax (MAT) credit is recognized as an asset only when and to the extent there is convincing evidence that the Company will pay normal income tax during the specified period. In the year in which the MAT credit becomes eligible to be recognized as an asset in accordance with the recommendations contained in guidance note issued by the ICAI, the said asset is created by way of a credit to the profit and loss account and shown as MAT credit entitlement. The Company reviews the same at each balance sheet date and writes down the carrying amount of MAT credit entitlement to the extent there is no longer convincing evidence to the effect that Company will pay normal income tax during the specified period.

I. Earnings per equity share

Basic earnings per equity share are calculated by dividing the net profit or loss for the period attributable to equity shareholders by the weighted average number of equity shares outstanding during the period. 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.

m. Foreign currency transactions

The Group has designated all of its foreign operations as 'non-integral foreign operations, in line with the guidance provided under Accounting Standard (AS) 11 'The Effects of Changes in Foreign Exchange Rates' as notified by the Rules.

Initial recognition

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

Conversion

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

Exchange differences

Exchange differences arising on the settlement of monetary items or on reporting Group's monetary items at rates different from those at which they were initially recorded during the year, or reported in previous financial statements, are recognized as income or as expenses in the year in which they arise.

n. Employee benefits

Defined benefit contribution plan

In respect of the Company, retirement benefits in the form of contribution to provident fund scheme and employee state insurance scheme are charged to profit and loss account of the year when the contribution to the respective fund is due. There are no other obligations other than the contribution payable to the respective fund.

In respect of overseas subsidiaries, retirement benefits in the form of 401(k) plan for eligible employees are charged to profit and loss account of the year when the contribution to respective fund is due. Contributions by the consolidating entity are discretionary and there are no other obligations other than the contribution payable to the respective fund.

Defined benefit contribution plan

Gratuity is a post-employment defined benefit plan. An independent actuary, using the projected unit credit method calculates the defined benefit obligation annually. Actuarial gains or losses arising from experience adjustments and changes in actuarial assumptions are credited or charged to

the Profit and Loss Account in the period in which such gains or losses arises.

Leave encashment

As per the Company policy, eligible leaves can be accumulated by the employees and carried forward to future periods either to be utilized during the service, or encashed. Encashment can be made during service or on resignation, or retirement of the employee. The value of benefits is determined based on an independent actuarial valuation using the projected unit credit method as at the year end. Actuarial gains and losses are recognized immediately in the Profit and Loss Account.

o. Leases

Assets taken on lease where the Group acquires substantially the entire risks and rewards incidental to ownership are classified as finance leases. The amount recorded is the lesser of the present value of the minimum lease rental and other incidental expenses during the lease term or the asset's fair value. The rental obligations, net of interest charges, are reflected in secured loan. Leases that do not transfer substantially all of the risks and rewards of ownership are classified as operating leases and recorded as expenses as and when payments are made over the lease term.

p. Provisions and contingent liabilities

A provision is recognised when the Group has a present obligation as a result of past event i.e., it is probable that an outflow of resources will be required to settle the obligation in respect of which

a reliable estimate can be made. Provisions are not discounted to its present value and are determined based on best estimate required to settle the obligation at the balance sheet date. These are reviewed at each balance sheet date and adjusted to reflect the current best estimates. A disclosure of the contingent liability is made when there is a possible or a present obligation that may, but probably will not, require an outflow of resources.

q. Cash flow statement

Cash flows are reported using the indirect method, whereby net profit before tax is adjusted for the effects of transactions of a non-cash nature and any deferrals or accruals of past or future cash receipts or payments.

r. Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term investments.

2. RECOGNITION OF MINIMUM ALTERNATE TAX (MAT) CREDIT

The Company has not recognized MAT credit available to it as it opines that it would not be in a position to utilize such credit in view of the continued tax holiday being available for the profits arising out of manufacture and sales made from two of its manufacturing facilities. In the eventuality of the Company being made to pay tax on a regular basis, it would make suitable adjustments by taking credit for the MAT entitlement available at such point of time.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

	As at 31 March 2012		As at 31 March 2011	
	Number	Amount	Number	Amount
3. SHARE CAPITAL				
Authorised share capital				
Equity shares of ₹10 each	32,000,000	320,000,000	35,000,000	350,000,000
Preference shares of ₹10 each	3,000,000	30,000,000	-	-
Issued, subscribed and fully paid up				
Equity shares of ₹10 each	31,147,952	311,479,520	28,147,952	281,479,520
TOTAL	31,147,952	311,479,520	28,147,952	281,479,520

(a) Shareholders holding more than 5% of the equity shares

	As at 31 March 2012		As at 31 March 2011	
	Number	%	Number	%
Mr. V C Nannapaneni **	8,023,838	25.76%	8,009,009	28.45%
Time Cap Pharma Labs Ltd	3,409,694	10.95%	3,398,179	12.07%
Natsoft Information Systems Private Limited	3,153,500	10.12%	3,153,500	11.20%

** including shares held by Mr. V C Nannapaneni, in the capacity of Karta of HUF of 1,088,009 (2011:1,073,180)

	Number	Amount	Number	Amount
(b) Reconciliation of equity share capital				
Balance at the beginning of the year	28,147,952	281,479,520	28,147,952	281,479,520
Add: Issued during the year	3,000,000	30,000,000	-	-
Balance at the end of the year	31,147,952	311,479,520	28,147,952	281,479,520

(c) Rights, preferences, restrictions

The Company has outstanding of only one class of equity shares having a par value of ₹10 per share. Each holder of equity shares is entitled to one vote per share. The Company declares and pays dividend in Indian rupees. The dividend proposed by the Board of Directors is subject to the approval of the shareholders in the ensuing Annual General Meeting.

(d) Shares reserved for issue under options and contracts

The Company had instituted NATCO Stock Option Plan 2010 ("ESOP 2010"). The scheme duly approved by way of a special resolution passed in the annual general meeting of the members held on 30 September 2010 was formulated in compliance with Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 ("SEBI ESOP Guidelines") issued by the Securities and Exchange Board of India ("SEBI") and pursuant to the provisions of Section 81 (1A) and other applicable provisions of the Act. Pursuant to such approval, the Board is authorized to issue employee stock options, that are exercisable into not more than 600,000 equity shares of the Company to eligible employees based on specific recommendations of the remuneration committee. Each option comprises of one underlying equity share of ₹10 each. As at 31 March 2012 (2011: Nil) no options were granted under the said plan.

(e) Details of shares issued pursuant to contract without payment being received in cash and brought back during the last 5 years, immediately preceeding the balance sheet date.

	As at 31 March, 2012 No.	As at 31 March, 2011 No.
Equity shares of ₹10 each allotted as fully paid-up pursuant to contracts without payment being received in cash. **	211,600	323,150
Equity shares bought back by the Company	458,465	492,881

** The Company has issued these shares during the period of five years, on exercise of the options granted under the employee stock option plan (ESOP) wherein part consideration was received in form of employee services.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

	As at 31 March, 2012	As at 31 March, 2011
4. RESERVES AND SURPLUS		
Capital reserves		
Balance at the beginning of the year	204,272,762	204,072,762
Add: Additions during the year [Refer (b) below]	3,000,000	200,000
Balance at the end of the year	207,272,762	204,272,762
Capital redemption reserve - as per last balance sheet	4,928,810	4,928,810
Securities premium reserve		
Balance at the beginning of the year	819,328,761	819,328,761
Add: Additions during the year [Refer (c) below]	645,000,000	-
Balance at the end of the year	1,464,328,761	819,328,761
General reserve		
Balance at the beginning of the year	177,161,000	137,161,000
Add: Additions during the year [Refer (a) below]	70,000,000	40,000,000
Balance at the end of the year	247,161,000	177,161,000
Foreign currency translation reserve		
Balance at the beginning of the year	33,319,593	36,031,059
Add: Adjustment during the year	22,187,127	(2,711,466)
Balance at the end of the year	55,506,720	33,319,593
Surplus in the statement of profit and loss		
Balance at the beginning of the year	2,003,840,226	1,574,375,046
Add : Profit for the year	596,083,458	535,111,130
Less: Interim dividend - ₹3 (2011: ₹2) per share	93,443,856	56,295,904
Less: Tax on distributed profits	15,158,930	9,350,046
Less: Transferred to general reserve	70,000,000	40,000,000
Balance at the end of the year	2,421,320,898	2,003,840,226
	4,400,518,951	3,242,851,152

(a) Transfer to general reserve

In accordance with the provisions of Companies (Transfer of Profits to Reserves) Rules, 1975, based on the amount of dividend declared, the Company has transferred ₹70,000,000 (2011: ₹40,000,000) to general reserve.

(b) Additions to capital reserves

During the financial year ended 31 March 2012, the Company received government subsidy aggregating to ₹3,000,000 (2011: ₹200,000) for the purpose of capital activities in the State of Uttarakhand. Pursuant to the terms of 2011-12 grant, assets up to the amount of grant received, has been hypothecated in favour of Director of Industries, Government of Uttarakhand.

(c) Issue of equity shares at premium

During the current year, the Company has issued 3,000,000 equity shares of ₹10 each, fully paid-up at a premium of ₹215, through a private placement to Qualified Institutional Investors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

	As at 31 March, 2012	As at 31 March, 2011
5. MINORITY INTEREST		
<i>K & C Pharmacy</i>		
As per last balance sheet	4,375,689	49,401,682
Add: Additions during the year	-	-
	<u>4,375,689</u>	<u>49,401,682</u>
Add: Share in loss for the year	-	(14,391,808)
Less: Partnership distribution	-	30,634,185
TOTAL (A)	<u>4,375,689</u>	<u>4,375,689</u>
<i>Timecap Overseas Limited</i>		
As per last balance sheet	6,214,240	-
Add: Additions during the year	5,199,104	7,813,750
	<u>11,413,344</u>	<u>7,813,750</u>
Add: loss for the year **	(11,413,344)	(1,599,510)
TOTAL (B)	-	6,214,240
<i>NATCO Farma Do Brasil</i>		
TOTAL (C)	<u>4,463,082</u>	-
TOTAL (A+B+C)	<u>8,838,771</u>	<u>10,589,929</u>

**The share of loss relating to minority interest is adjusted only to the extent of contribution available.

	As at 31 March 2012		As at 31 March 2011	
	Long term	Short term	Long term	Short term
6. BORROWINGS				
Secured [refer note 30]				
Term loans				
From banks	726,248,938	-	424,496,853	-
From other parties	614,176,471	-	827,647,059	-
	<u>1,340,425,409</u>	-	<u>1,252,143,912</u>	-
Unsecured				
Deferred payment liabilities	561,156	-	2,195,783	-
Loans repayable on demand				
Secured [refer note 31]				
From banks	-	717,089,070	-	720,225,466
Unsecured [refer note 30]				
From banks	-	99,333,367	-	-
Total borrowings	<u>1,340,986,565</u>	<u>816,422,437</u>	<u>1,254,339,695</u>	<u>720,225,466</u>

Loans repayable on demand

Loans repayable on demand represents cash credit, overdraft, bills purchased and discounted with various banks/ financial institutions.

Deferred payment liabilities

It represents interest free sales tax deferment, availed under the 'TARGET 2000' Scheme of the State Government of Andhra Pradesh.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

	As at 31 March, 2012	As at 31 March, 2011
7. DEFERRED TAX LIABILITY, NET		
On account of depreciation	313,976,066	269,485,323
On account of employee benefits and others	(25,036,158)	(18,616,028)
Net deferred tax liability	288,939,908	250,869,295
8. Other long term liabilities		
Trade deposits	13,536,275	12,486,275
	13,536,275	12,486,275

	As at 31 March 2012		As at 31 March 2011	
	Long term	Short term	Long term	Short term
9. PROVISIONS				
Provisions for employee benefits [Refer b below]	65,905,727	2,372,716	54,848,329	1,194,504
Provision for taxation [net of advance tax]	-	4,232,692	-	7,881,841
Provision for contingencies [Refer a below]	31,875,000	-	31,875,000	-
	97,780,727	6,605,408	86,723,329	9,076,345

a. Provision for contingencies represents:

Provision for contingencies represents, possible obligations that may arise in view of uncertainties associated with certain revenue transactions entered into by the company.

	As at 31 March, 2012	As at 31 March, 2011
Reconciliation		
Opening balance	31,875,000	-
Additions during the year	-	31,875,000
Reversal/utilization during the year	-	-
Closing balance	31,875,000	31,875,000

b. Employee benefits

Provision for employee benefits includes provision towards gratuity of ₹45,868,185 (2011: ₹32,152,749) and compensated absences of ₹22,410,258 (2011: ₹23,890,084).

The Company has subscribed to a group gratuity scheme of Life Insurance Corporation of India (LIC). Under this policy the eligible employees are entitled for gratuity upon their resignation or in the event of death in lumpsum after deduction of necessary taxes upto a maximum limit of ₹1,000,000. The following table sets out the status of the gratuity plan and the reconciliation of opening and closing balances of the defined benefit obligation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

	As at 31 March, 2012	As at 31 March, 2011
Employee benefits (Contd.)		
i. Change in projected benefit obligation		
Projected benefit obligation at the beginning of the year	58,231,217	55,081,820
Service cost	4,282,414	3,494,236
Interest cost	4,658,497	4,406,546
Actuarial (gain)/loss	7,133,657	(2,872,373)
Benefits paid	(1,143,748)	(1,879,012)
Projected benefit obligation at the end of the year	<u>73,162,037</u>	<u>58,231,217</u>
ii. Change in plan assets		
Fair value of plan assets at the beginning of the year	26,078,468	22,240,895
Expected return on plan assets	2,359,132	2,086,285
Contribution paid	-	3,630,300
Benefits paid	(1,143,748)	(1,879,012)
Fair value of plan assets at the end of the year	<u>27,293,852</u>	<u>26,078,468</u>
iii. Reconciliation of present value of obligation on the fair value of plan assets		
Projected benefit obligation at the end of the year	73,162,037	58,231,217
Funded status of the plans	27,293,852	26,078,468
Liability recognised in the balance sheet	<u>45,868,185</u>	<u>32,152,749</u>
	For the year ended 31 March, 2012	For the year ended 31 March, 2011
iv. Components of net gratuity costs are		
Service cost	4,282,414	3,494,236
Interest cost	4,658,497	4,406,546
Expected returns on plan assets	(2,359,132)	(2,086,285)
Recognized net actuarial (gain)/ loss	7,133,657	(2,872,373)
Net gratuity costs	<u>13,715,436</u>	<u>2,942,124</u>
v. Assumptions used		
Discount rate	8%	8%
Long-term rate of compensation increase	4%	4%
Rate of return on plan assets	<u>9.25%</u>	<u>9.25%</u>

The Company assesses these assumptions with the projected long-term plans of growth and prevalent industry standards.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

	As at 31 March, 2012	As at 31 March, 2011
10. TRADE PAYABLES		
Creditors for purchases and expenses	766,413,492	675,599,688
Employee and other payables	157,150,242	90,373,713
	<u>923,563,734</u>	<u>765,973,401</u>
11. OTHER CURRENT LIABILITIES		
Current maturities of long term debt		
- From banks	237,946,674	125,000,000
- From other parties	189,470,588	97,352,941
Current maturities of unsecured loans	1,632,028	2,806,464
Creditors for capital assets	210,171,583	159,900,178
Book overdraft	31,000,614	-
Interest accrued but not due on borrowings	11,093,108	1,485,256
Advance from customers	106,307,670	26,804,530
Unpaid dividends	6,031,940	4,150,192
Statutory liabilities	25,438,606	21,074,819
	<u>819,092,811</u>	<u>438,574,380</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

12. TANGIBLE ASSETS

Gross block	Freehold land	Leasehold land	Buildings	Plant and equipment	Office equipment	Furniture	Vehicles	Computers	Total
Balance as at 1 April 2010	231,566,534	16,725,782	1,015,869,008	1,755,433,306	36,636,494	25,180,649	54,494,132	69,832,860	3,205,738,765
Additions	28,247,566	-	52,980,679	232,902,493	1,619,611	6,340,758	21,990,952	4,579,161	348,661,221
Disposals	-	-	-	-	3,137,230	3,385,500	5,649,016	2,387,319	14,559,065
Foreign exchange adjustments	-	-	-	-	(142,191)	(45,607)	(15,284)	(47,401)	(250,483)
Balance as at 31 March 2011	259,814,100	16,725,782	1,068,849,687	1,988,335,799	34,976,684	28,090,300	70,820,784	71,977,301	3,539,590,438
Additions	69,823,025	-	200,203,695	335,477,601	2,051,229	11,300,565	6,685,026	4,548,236	630,089,377
Foreign exchange adjustments	-	-	-	-	1,844,478	640,840	162,630	559,890	3,207,838
Balance as at 31 March 2012	329,637,125	16,725,782	1,269,053,382	2,323,813,400	38,872,391	40,031,705	77,668,440	77,085,427	4,172,887,653
Accumulated depreciation									
Up to 1 April 2010	-	942,678	176,747,423	569,775,326	13,985,043	16,884,921	29,106,502	64,814,693	872,256,586
Depreciation charge	-	118,028	36,689,240	91,848,393	3,357,260	2,932,525	6,187,305	3,584,655	144,717,406
Reversal on disposal of assets	-	-	-	-	2,774,233	2,941,282	2,290,548	2,009,886	10,015,949
Foreign exchange adjustments	-	-	-	-	1,170,103	(918,056)	44,543	(472,111)	(175,521)
Up to 31 March 2011	-	1,060,706	213,436,663	661,623,719	15,738,173	15,958,108	33,047,802	65,917,351	1,006,782,522
Depreciation charge	-	188,536	36,638,885	103,133,452	3,711,867	4,119,975	4,963,216	2,135,801	154,891,732
Foreign exchange adjustments	-	-	-	-	1,408,264	299,610	84,926	342,025	2,134,825
Up to 31 March 2012	-	1,249,242	250,075,548	764,757,171	20,858,304	20,377,693	38,095,944	68,395,177	1,163,809,079
Net block									
Balance as at 31 March 2011	259,814,100	15,665,076	855,413,024	1,326,712,080	19,238,512	12,132,194	37,772,982	6,059,950	2,532,807,917
Balance as at 31 March 2012	329,637,125	15,476,540	1,018,977,834	1,559,056,229	18,014,087	19,654,012	39,572,496	8,690,250	3,009,078,574

(a) Leasehold land include land acquired from the State Industrial Development Corporation of Uttarakhnad Limited, for a period of 90 years and from Uttar Pradesh State Industrial Development Corporation Limited for a period of 87 years.

(b) Please refer note 27 for borrowing cost capitalized during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

13. INTANGIBLE ASSETS

Gross block	Computer Software	Goodwill	Total
Balance as at 1 April 2010	12,859,860	350,014,386	362,874,246
Additions	9,517,378	32,029,945	41,547,323
Deletions/adjustments	-	198,698,742	198,698,742
Foreign exchange adjustments	-	(1,642,549)	(1,642,549)
Balance as at 31 March 2011	22,377,238	181,703,040	204,080,278
Additions	5,301,609	-	5,301,609
Deletions/Adjustments	-	7,123,512	7,123,512
Foreign exchange adjustments	17,416	3,777,574	3,794,990
Balance as at 31 March 2012	27,696,263	178,357,102	206,053,365
Accumulated amortisation			
Up to 1 April 2010	4,674,172	75,631,032	80,305,204
Amortization charge	2,717,284	11,414,445	14,131,729
Deletions/Adjustments	2,009,886	56,684,857	58,694,743
Foreign exchange adjustments	-	(426,010)	(426,010)
Up to 31 March 2011	5,381,570	29,934,610	35,316,180
Amortization charge	4,187,183	-	4,187,183
Foreign exchange adjustments	4,936	4,362,140	4,367,076
Up to 31 March 2012	9,573,689	34,296,750	43,870,439
Net block			
Balance as at 31 March 2011	16,995,668	151,768,430	168,764,098
Balance as at 31 March 2012	18,122,574	144,060,352	162,182,926

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

	As at 31 March 2012		As at 31 March 2011	
	Trade	Others	Trade	Others
14. NON-CURRENT INVESTMENTS (Valued at cost unless stated otherwise)				
Investments in equity instruments				
750 (2011: 750) equity shares of 100 each, fully paid-up, in Jeedimetla Effluent Treatment Limited	75,000	-	75,000	-
34,400 (2011: 34,400) equity shares of 10 each, fully paid-up, in Pattancheru Enviro-Tech Limited	344,000	-	344,000	-
27,000 (2011: 27,000) equity shares of 10 each, fully paid-up in Jayalakshi Spinning Mills Limited	-	270,000	-	270,000
Share application money in NATCO Organics Limited	602,459,898	-	602,459,898	-
	602,878,898	270,000	602,878,898	270,000
Other non-current investments				
<i>Investment in portfolio management services</i>				
15,000,000 (2011: 12,219,036) compulsorily convertible preference shares of 1 each, fully paid-up in Ravindranath GE Medical Associates Private Limited.	-	15,000,000	-	12,219,036
Nil (2011: 272,644) units at 10.02 each in HDFC Cash Management Fund	-	-	-	2,780,964
	-	15,000,000	-	15,000,000
National savings certificates	-	3,910	-	3,910
	-	15,003,910	-	15,003,910
Total non current investments	602,878,898	15,273,910	602,878,898	15,273,910
Less: provision for diminution in value of investment	-	270,000	-	270,000
	602,878,898	15,003,910	602,878,898	15,003,910
Quoted investments		270,000		270,000
Market value of quoted investments		-		-
Unquoted investments [including share application money]		617,882,808		617,882,808
Provision for diminution in value of investments		270,000		270,000

Investment in portfolio management services

As at 31 March 2012 the Company has made an investment, aggregating to 15,000,000 in the private equity opportunities fund of Anand Rathi Financial Services Limited (ARFSL). By virtue of shareholders agreement and share subscription agreement, both dated 29 November 2010, ARFSL has invested, among others, the investment made by the Company, in the Compulsorily Convertible Preference Shares of Ravindranath GE Medical Associates Private Limited. The company's investment in the private equity opportunities fund of ARFSL provides for a return of 20% in excess of 16% on a gross pre-tax IRR basis. In the absence of reasonable certainty of realization of return, no income was accrued on such investment for the year ended 31 March 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

	As at 31 March 2012		As at 31 March 2011	
	Long term	Short term	Long term	Short term
15. LOANS AND ADVANCES				
<i>Unsecured, considered good</i>				
Capital advances	177,290,805	-	227,351,343	-
Security deposits	20,655,957	-	15,584,362	-
Advance tax, net	-	140,517,257	-	80,857,658
Loans and advances to related parties	255,566,941	170,000,000	271,982,388	41,250,000
Prepaid expenses	-	17,440,864	-	10,560,575
Balances with government authorities	-	237,169,435	-	159,106,954
Notes receivable	-	29,203,511	-	26,566,750
Advances for purchases and expenses	-	69,377,065	-	56,980,657
Other advances	-	37,073,841	-	29,070,446
	453,513,703	700,781,973	514,918,093	404,393,040

Loans and advances to related parties include ₹425,478,283 [2011: ₹306,077,225] advanced to a related party against future supplies. Short term portion of such advances is identified by management based on expected supplies during the subsequent financial year.

	As at 31 March, 2012	As at 31 March, 2011
16. OTHER NON-CURRENT ASSETS		
Non-current bank balances [Refer note 20]	4,220,803	9,553,782
	4,220,803	9,553,782
17. CURRENT INVESTMENTS		
Valued at lower of cost and fair value		
Investments in equity instruments		
93,365 (2011: 45,194) equity shares of ₹10 each, fully paid-up in Neuland Laboratories Limited	6,866,996	5,287,698
1,000 (2011: Nil) equity shares of ₹10 each, fully paid-up in Sun Pharmaceuticals Industries Limited	507,970	-
Nil (2011: 24,250) equity shares of ₹10 each, fully paid-up in JB Chemicals Limited	-	2,868,672
Total current investments	7,374,966	8,156,370
<i>Aggregate amount of</i>		
Quoted investments	7,374,966	8,156,370
Market value of quoted investments	7,436,946	8,495,973
Provision for diminution in value of investments	3,265,855	500,358

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

	As at 31 March, 2012		As at 31 March, 2011	
18. INVENTORIES				
(Valued at cost or lower of net realisable value)				
Raw materials [including in-transit of 25,975,063 (2011: 12,057,185)]	328,601,728		254,447,364	
Work-in-progress	368,403,712		348,374,790	
Finished goods	86,729,795		115,616,978	
Stores and spares [including in-transit of 7,432,065 (2011: 14,700,029)]	101,949,782		128,790,162	
Packing materials [including in-transit of 307,012 (2011: 801,845)]	56,461,910		50,307,117	
Stock-in-trade [including in-transit of 404,705 (2011: 2,622,470)]**	161,745,880		124,787,723	
	<u>1,103,892,807</u>		<u>1,022,324,134</u>	
**includes traded goods amounting to 112,167,942 (2011: 92,123,577) determined using first- in-first-out method, as against the group policy of weighted average cost.				
19. TRADE RECEIVABLES				
Outstanding for a period exceeding six months from the date they are due for payment				
Unsecured considered good	24,349,617		36,441,254	
Doubtful	15,450,169		10,334,519	
	<u>39,799,786</u>		<u>46,775,773</u>	
Less: Allowances for bad and doubtful debts	15,450,169		10,334,519	
	<u>24,349,617</u>		<u>36,441,254</u>	
Other debts				
Unsecured considered good	922,552,736		673,348,789	
Doubtful	-		4,465,000	
	<u>922,552,736</u>		<u>677,813,789</u>	
Less: Allowances for bad and doubtful debts	-		4,465,000	
	<u>946,902,353</u>		<u>709,790,043</u>	
	As at 31 March 2012		As at 31 March 2011	
	Current	Non-current	Current	Non-current
20. CASH AND BANK BALANCES				
Cash and cash equivalents				
Cash on hand	11,812,460	-	5,074,553	-
Balances with banks	-	-	-	-
- in current accounts	58,736,632	-	56,719,595	-
- in deposit account	275,895,797	-	255,172,721	-
	<u>346,444,889</u>	-	<u>316,966,869</u>	-
Other bank balances				
Unpaid dividend account	6,031,940	-	4,150,192	-
Bank deposits held with banks as margin money	13,835,153	4,220,803	2,611,727	9,553,782
	<u>19,867,093</u>	<u>4,220,803</u>	<u>6,761,919</u>	<u>9,553,782</u>
Total cash and bank balances	<u>366,311,982</u>	<u>4,220,803</u>	<u>323,728,788</u>	<u>9,553,782</u>

(All amounts in ₹, unless otherwise stated)

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

	For the year ended 31 March, 2012	For the year ended 31 March, 2011
25. CHANGES IN INVENTORIES OF FINISHED GOODS, WORK-IN-PROGRESS AND STOCK-IN-TRADE		
Opening stock		
- Finished goods	115,616,978	78,398,904
- Work-in-progress	348,374,790	265,955,090
- Stock-in-trade	124,787,723	151,443,163
	<u>588,779,491</u>	<u>495,797,157</u>
Closing stock		
- Finished goods	86,729,795	115,616,978
- Work-in-progress	368,403,712	348,374,790
- Stock-in-trade	161,745,880	124,787,723
	<u>616,879,387</u>	<u>588,779,491</u>
Currency translation adjustment	13,913,059	(757,337)
	<u>(14,186,837)</u>	<u>(93,739,671)</u>
26. EMPLOYEE BENEFIT EXPENSE		
Salaries and wages	650,520,355	514,182,998
Contribution to provident and other funds	62,838,845	37,062,826
Staff welfare expenses	87,114,307	112,625,539
	<u>800,473,507</u>	<u>663,871,363</u>
27. FINANCE COSTS		
Interest expenses	211,796,315	124,890,998
Bank charges	18,563,065	17,087,625
	<u>230,359,380</u>	<u>141,978,623</u>

Interest expenses is after capitalization of ₹8,345,716 to tangible assets and ₹74,313,778 to capital work in progress (2011: ₹3,431,373 and ₹18,281,826 respectively).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

	For the year ended 31 March, 2012	For the year ended 31 March, 2011
28. OTHER EXPENSES		
Consumption of stores and spare parts	77,994,576	66,218,865
Power and fuel	268,813,296	214,101,993
Rent	24,445,071	21,643,250
Repairs and maintenance		
- Buildings	33,649,113	20,291,854
- Plant and equipment	84,107,172	63,883,922
- Others	29,424,306	26,881,662
Insurance	24,365,923	21,209,522
Rates and taxes	58,064,943	42,406,257
Factory maintenance expenses	79,177,007	66,836,104
Analysis charges	44,927,149	47,219,495
Carriage and freight outwards	42,796,289	38,594,314
Advertisements	10,437,854	12,932,007
Donations	25,842,325	19,671,725
Communication expenses	16,474,740	15,380,959
Office maintenance and other expenses	40,914,583	28,100,270
Travelling and conveyance	51,688,582	50,225,069
Legal and professional fees	68,328,911	79,110,230
Payments to auditors [refer note 34]	1,954,236	1,078,500
Adjustments to the carrying amount of current investments	3,265,855	500,358
Inventory written-off	3,751,630	2,260,108
Provision for contingencies	-	31,875,000
Loss on sale of asset	-	55,921,488
Provision for doubtful debts	-	9,729,325
Bad debts	6,039,770	-
Directors sitting fee	180,000	170,000
Sales promotion expenses including sales commission	172,040,771	80,893,583
Research and development expenses	84,270,985	110,461,866
Printing and stationery	18,368,924	13,884,019
Miscellaneous expenses	34,099,058	25,047,598
	1,305,423,069	1,166,529,343

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

29. RELATED PARTIES

Names of related parties	Nature of relationship
NATCO Organics Limited	Companies/entities in which Directors having significant influence or able to exercise control
Time Cap Pharma Labs Limited	
NATCO Trust, Hyderabad	
NATCO Group Employees Welfare Trust	
Natsoft Information Systems Private Limited	
NDL Infratech Private Limited	Key management personnel
V C Nannapaneni, Chairman & Managing Director	
Rajeev Nannapaneni, Director and COO	
Dr. P Bhaskara Narayana, Director & Chief Financial Officer	
Dr. A K S Bhujanga Rao, Director	
Dr. N Ramakrishna Rao	Relative of key management personnel
Durga Devi Nannapaneni	Relative of key management personnel

Transactions with related parties	For the year ended 31 March, 2012	For the year ended 31 March, 2011
Transactions with entities in which directors are interested		
<i>NATCO Organics Limited</i>		
Advance towards future supplies	159,343,231	306,077,225
Rental expense	1,140,000	1,140,000
Purchases	41,250,559	-
Sales	3,021,097	-
<i>Time Cap Pharma Labs Limited</i>		
Income from Job work charges and sales	1,965,240	6,220,841
Income from rent	120,000	120,000
Commission and expenses reimbursement	4,885,751	5,341,493
Purchases	1,681,961	2,678,000
Rental expense	1,620,000	1,620,000
Advances given	19,021,759	55,234,580
Dividends paid	10,209,582	6,796,358
<i>Natsoft Information Systems Private Limited</i>		
Dividends paid	9,460,500	6,307,000
<i>NDL Infratech Private Limited</i>		
Interest on loans granted	853,694	-
Loans given	-	3,118,186
<i>NATCO Trust</i>		
Donations given	22,500,000	9,800,000
<i>NATCO Group Employees Welfare Trust</i>		
Donations for the welfare of employees	17,211,557	4,600,000
Dividends paid	252,000	-

(Contd.)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

Transactions with related parties	For the year ended 31 March, 2012	For the year ended 31 March, 2011
Transactions with key management personnel		
V C Nannapaneni		
Managerial remuneration	10,608,000	10,608,000
Rental expenses	1,440,000	1,440,000
Dividends paid	24,071,514	15,993,918
Personnel guarantees against loans taken by the Company	1,110,814,800	1,605,000,000
Rajeev Nannapaneni		
Managerial remuneration	8,400,000	5,376,000
Rental expenses	720,000	720,000
Dividends paid	2,719,830	1,813,220
Dr. P Bhaskara Narayana		
Managerial remuneration	3,200,000	2,330,549
Dividends paid	22,500	15,000
Dr. A K S Bhujanga Rao		
Managerial remuneration	3,119,599	2,627,012
Dividends paid	21,000	14,000
Transactions with a relatives of key management personnel		
Durga Devi Nannapaneni		
Dividends paid	2,483,460	1,655,640
Personnel guarantees against loans taken by the Company	145,000,000	-
Dr. N Ramakrishna Rao		
Dividends paid	425,946	278,964
Personnel guarantees against loans taken by the Company	145,000,000	-

Balances with related parties	For the year ended 31 March, 2012	For the year ended 31 March, 2011
Balance (due to) / due from		
NATCO Organics Limited	425,478,283	306,077,225
Time Cap Pharma Labs Limited	(2,001,778)	(2,092,838)
Natsoft Information Systems Private Limited	16,667	16,667
NATCO Group Employees Welfare Trust	10,000	10,000
NDL Infratech Private Limited	-	7,066,105
NATCO Trust	61,991	62,390
V C Nannapaneni	(483,008)	(1,686,151)
Rajeev Nannapaneni	(329,630)	(913,403)
Dr. P Bhaskara Narayana	(179,984)	(165,511)
Dr. A K S Bhujanga Rao	(489,858)	(120,308)
Outstanding guarantees		
V C Nannapaneni, Chairman	3,624,842,671	2,931,496,853
Dr. N Ramakrishna Rao	1,101,000,000	956,000,000
Durga Devi Nannapaneni	1,101,000,000	956,000,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

Disclosure pursuant to Clause 32 of Listing Agreement

Loans and Advances in the nature of loans in which directors are interested

Name of the Company	31 March 2012	31 March 2011
<i>Outstanding balance</i>		
Natsoft Information Systems Private Limited	16,667	16,667
NDL Infratech Private Limited	-	7,066,105
<i>Maximum balance outstanding at any time during the year</i>		
Natsoft Information Systems Private Limited	16,667	16,667
NDL Infratech Private Limited	7,066,105	7,066,105

30. TERMS AND CONDITIONS OF LOANS AND NATURE OF SECURITY**Secured term loans:**

- 1) Exim Bank term loans, (a) outstanding ₹328,647,049 (2011: ₹410,000,000) is repayable in 17 equal quarterly installments (b) outstanding ₹475,000,000 (2011: ₹500,000,000) is repayable in 20 equal quarterly installments (c) outstanding ₹Nil, (2011: ₹15,000,000). All the above are secured by pari-passu first charge on the entire immovable properties both present and future of Mekaguda Unit along with Citi Bank and Braclays Bank and an exclusive charge on all the immovable properties of both the units (Plot No-19 and Plot NoA-3) at Dehradun and personal guarantee of Mr. V.C. Nannapaneni, Chairman & Managing Director.
- 2) Axis Bank term loans (a) outstanding ₹254,000,000 (2011: ₹350,000,000), is repayable in 16 equal quarterly installments (b) outstanding ₹150,000,000 (2011: ₹Nil) is repayable in 48 equal monthly installments. Both the loans are secured by first charge on the entire immovable properties both present and future of Kothur Unit on pari-passu basis with SBI, apart from personal guarantee of Mr. V.C. Nannapaneni, Chairman & Managing Director
- 3) Citibank Term loan, outstanding ₹137,500,000 (2011: ₹187,500,000) is repayable in 16 equal quarterly installments and is secured by a pari-passu first charge on the entire immovable properties both present and future of Mekaguda Unit along with Exim Bank and Braclays Bank apart from personal guarantee of Mr. V.C. Nannapaneni, Chairman & Managing Director.
- 4) State Bank of India, outstanding ₹11,880,812 (2011: ₹11,996,853) is repayable in 16 equal quarterly installments and is secured by a first charge on the entire immovable properties both present and future of Kothur Unit on pari-passu basis with Axis Bank, apart from personal guarantee of Mr. V.C. Nannapaneni, Chairman & Managing Director.
- 5) Barclays Bank, External Commercial Borrowing outstanding of ₹410,814,800 (2011: ₹Nil) is repayable in 16 equal quarterly installments and a part of the loan is secured by an exclusive charge over all movable and immovable fixed assets of NATCO Research Center and a part of the loan is secured by first charge on the fixed assets of Mekaguda unit along with Exim Bank and Citibank.
- 6) All the above loans have been granted with a moratorium of 12 months, and carry interest linked to the respective Bank's / Institution's prime /base lending rate, and range from 3.53% per annum to 14% per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Secured working capital:

The working capital Loans are re-payable on demand. The primary security is joint pari-passu first charge on all 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 and also secured by personal guarantees of Mr. V.C. Nannapaneni, Chairman and managing director (b) Ms. Durga Devi Nannapaneni, promoter and (c) Dr. N. Ramakrishna Rao, Relative of Chairman and managing director.

These loans carry interest linked to the respective Bank's / Institution's prime /base lending rate, and range from 11.15% per annum to 14.25% per annum.

Unsecured Loans:

Unsecured loans represent loans from Indus Ind Bank and Citi Bank and repayable on demand.

These loans carry interest rate ranging from 12% per annum to 12.50% per annum and are secured by personal guarantee of Mr. V.C. Nannapaneni, Chairman and managing director.

31. Segment reporting

The primary and secondary reportable segments are business segments and geographical segments respectively. The Group's principal segments of business are bulk chemicals, finished dosage formulations, retail pharmacy and job work charges. Segment's revenue, expense, assets and liabilities include amount of such items that can be allocated to the segment on a reasonable basis. Revenues, expenses, assets and liabilities which relate to the enterprise as a whole and are not allocable to segments on a reasonable basis have been included under 'others'.

Business segment**For the year ended 31 March 2012**

(All amounts in ₹, unless otherwise stated)

Particulars	Bulk chemicals	Finished dosage formulations	Job works	Pharmacy	Others	Eliminations	Total
Revenue							
External sales	1,476,615,867	2,741,538,172	-	880,473,879	-	-	5,098,627,918
Inter-segment sales	159,518,699	-	-	-	-	(159,518,699)	-
	1,636,134,566	2,741,538,172	-	880,473,879	-	(159,518,699)	5,098,627,918
Less: Excise duty	19,532,790	49,604,983	-	-	-	-	69,137,773
	1,616,601,776	2,691,933,189	-	880,473,879	-	(159,518,699)	5,029,490,145
Revenue [Net]	-	-	-	-	38,483,783	-	38,483,783
Sale of dossiers	-	-	-	-	-	-	89,549,686
Job work charges	-	-	89,549,686	-	-	-	89,549,686
Other income	25,992,767	53,712,506	-	2,153,336	64,411,031	-	146,269,640
Total revenues	1,642,594,543	2,745,645,695	89,549,686	882,627,215	102,894,814	(159,518,699)	5,303,793,254
Results							
Segment result	294,299,888	1,180,018,766	75,407,230	(12,436,141)	91,716,814	-	1,629,006,557
Unallocated corporate expenses							620,979,355
Operating profit							1,008,027,202
Finance cost							230,359,380
Interest income							24,874,055
Profit before prior period items and tax							802,541,877
Prior period items							7,123,512
Profit before tax							795,418,365
Income tax [Including deferred tax]							210,748,251
Profit before minority interest							584,670,114
Minority interest							(11,413,344)
Net profit for the year							596,083,458

Segment reporting (Contd.)

Other information as at 31 March 2012

(All amounts in ₹, unless otherwise stated)

Particulars	Bulk chemicals	Finished dosage formulations	Job works	Pharmacy	Others	Eliminations	Total
Segment assets	3,763,505,540	3,296,007,759	17,805,779	356,334,032	9,273,893	-	7,442,927,003
Unallocated corporate assets	-	-	-	-	1,584,838,104	-	1,584,838,104
Total assets	3,763,505,540	3,296,007,759	17,805,779	356,334,032	1,594,111,997	-	9,027,765,107
Segment liabilities	554,234,118	423,946,554	-	137,976,403	132,822,000	(48,812,640)	1,200,166,435
Minority interest	-	-	-	-	8,838,771	-	8,838,771
Unallocated corporate liabilities	-	-	-	-	3,106,761,430	-	3,106,761,430
Total liabilities	554,234,118	423,946,554	-	137,976,403	3,248,422,201	(48,812,640)	4,315,766,636
Capital expenditure	860,566,325	535,804,039	-	6,567,011	118,752,717	-	1,521,690,092
Depreciation and amortisation	59,232,826	82,515,234	-	5,027,221	12,303,634	-	159,078,915
Non cash expenses, other than depreciation	-	9,506,463	-	284,937	15,501,465	-	25,292,865

31. Segment reporting

Business segment

For the year ended 31 March 2011

(All amounts in ₹, unless otherwise stated)

Particulars	Bulk chemicals	Finished dosage formulations	Job works	Pharmacy	Others	Eliminations	Total
Revenue							
External sales	1,059,883,793	2,254,691,862	-	1,113,273,631	-	-	4,427,849,286
Inter-segment sales	150,149,588	-	-	-	-	(150,149,588)	-
	1,210,033,381	2,254,691,862	-	1,113,273,631	-	(150,149,588)	4,427,849,287
Excise duty	22,381,866	31,628,357	-	-	-	-	54,010,223
	1,187,651,515	2,223,063,505	-	1,113,273,631	-	(150,149,588)	4,373,839,064
Total Sales							
Sale of dossiers	-	-	-	-	75,405,617	-	75,405,617
Job work charges	-	-	109,777,459	-	-	-	109,777,459
Other Income	27,427,417	29,241,007	-	2,567,130	22,697,316	-	81,932,870
Total revenue	1,215,078,932	2,252,304,512	109,777,459	1,115,840,761	98,102,933	(150,149,588)	4,640,955,010
Results							
Segment result	145,781,773	1,100,137,241	87,239,642	(18,431,602)	39,204,045	-	1,353,931,099
Unallocated corporate expenses							558,510,986
Operating profit							795,420,113
Finance cost							141,978,623
Interest income							2,209,130
Profit before tax and minority interest							651,232,360
Income tax [Including deferred tax]							132,112,548
Profit before minority interest							519,119,812
Minority interest							(15,991,318)
Net profit for the year							535,111,130

Segment reporting (Contd.)

Other information as at 31 March 2011

(All amounts in ₹, unless otherwise stated)

Particulars	Bulk chemicals	Finished dosage formulations	Job works	Pharmacy	Others	Eliminations	Total
Other information							
Segment assets	3,055,342,322	2,633,261,903	21,630,653	307,436,903	14,307,722	-	6,031,979,503
Unallocated corporate assets	-	-	-	-	1,041,209,284	-	1,041,209,284
Total assets	3,055,342,322	2,633,261,903	21,630,653	307,436,903	1,055,517,006	-	7,073,188,787
Segment liabilities	641,256,032	294,264,470	-	82,279,591	31,875,000	(37,135,941)	1,012,539,152
Minority interest	-	-	-	-	10,589,929	-	10,589,929
Unallocated corporate liabilities	-	-	-	-	2,525,729,034	-	2,525,729,034
Total liabilities	641,256,032	294,264,470	-	82,279,591	2,568,193,963	(37,135,941)	3,548,858,115
Capital expenditure	304,624,512	495,454,988	-	32,211,773	149,047,449	-	981,338,722
Depreciation and amortisation	52,627,514	63,194,773	-	15,335,647	27,658,162	-	158,816,096
Other non-cash expenses	296,937	3,273,300	2,718,152	59,527,357	41,369,961	-	107,185,707

The Group's secondary segments are the geographic distribution of activities. Revenue and receivables are specified by location of customers and other information is specified by location of assets. The table below, present revenue, capital expenditure and asset information regarding the group's secondary segment.

Particulars	For the year ended and as at 31 March 2012			For the year ended and as at 31 March 2011		
	Segment revenue	Segment assets	Capital expenditure	Segment revenue	Segment assets	Capital expenditure
India	2,549,473,971	8,154,695,201	1,515,123,081	2,187,456,718	6,454,807,771	949,126,949
America	1,411,292,494	430,995,591	846,037	1,232,293,536	507,843,197	181,828
Europe	971,314,500	304,707,538	-	504,105,655	38,047,529	-
Rest of the world	396,586,344	137,366,777	5,720,974	719,308,231	72,490,290	32,029,945
TOTAL	5,328,667,309	9,027,765,107	1,521,690,092	4,643,164,140	7,073,188,787	981,338,722

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(All amounts in ₹, unless otherwise stated)

	As at 31 March, 2012	As at 31 March, 2011
32. CONTINGENT LIABILITIES AND COMMITMENTS		
a. Commitments		
Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances)	67,213,981	380,896,183
b. Contingent liabilities		
Claims against the company not acknowledged as debt	275,572,800	156,290,615
Disputed sales tax liabilities	8,690,000	8,690,000
Disputed income tax liabilities	169,259,702	162,335,436

Claims against the Company not acknowledged as debt, represents claim including interest lodged by M/s. SMS Pharmaceuticals Limited, against the Company. During the current year, the Hon'ble City Civil Court, Hyderabad has passed the judgement against the Company. Based on a legal advice received, management is of the opinion that the Hon'ble City Civil Court has not taken due cognizance of certain material facts and is confident of favorable outcome of the proposed appeal before the Hon'ble High Court of Andhra Pradesh.

Disputed tax liabilities primarily represents additional tax demanded by the Tax Authorities, challenging the Company's basis of computing profits of units covered by the provisions of Section 80IC of the Income Tax Act, 1961. Pending final outcome of such matters and in view of the order for Assessment Year 2007-08 being set aside by appellate authorities, management is confident of favorable outcome of the proceedings.

33. UNHEDGED FOREIGN CURRENCY EXPOSURE**Particulars of unhedged foreign currency exposure as at the reporting date**

	As at 31 March, 2012	As at 31 March, 2011
Long-term borrowings (including current maturities)	410,814,800	-
Trade payables	30,217,284	16,947,305
Interest accrued but not due on borrowings	915,996	-
Trade receivables*	49,263,137	29,603,654

* Net of discounted bills of ₹467,326,395 (2011: ₹281,340,458)

	For the year ended 31 March, 2012	For the year ended 31 March, 2011
34. PAYMENTS TO AUDITORS		
As auditor	1,050,000	1,050,000
For other services	900,000	25,000
Reimbursement of expenses	4,236	3,500
	1,954,236	1,078,500

35. Comparatives

Previous year comparatives have been reclassified and regrouped wherever necessary, to confirm to current years' presentation.

For and on behalf of Board of Directors of
NATCO Pharma Limited

V.C. Nannapaneni
Rajeev Nannapaneni

Chairman & Managing Director
Director & Chief Operating Officer

Dr. P. Bhaskara Narayana
M. Adinarayana

Director & Chief Financial Officer
Company Secretary & G M (Corp. Affairs)

Place : Hyderabad
Date : 28 May, 2012

CONSOLIDATED CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2012

(All amounts in ₹, unless otherwise stated)

	For the year ended 31 March, 2012	For the year ended 31 March, 2011
Cash flows from operating activities		
Profit before tax	795,418,366	651,232,360
Adjustments for non-cash transactions		
Depreciation and amortisation expense	159,078,915	158,816,096
Loss/(profit) on sale of investments	(747,897)	18,674
Diminution in the value of investments	3,265,855	500,358
Loss on sale of fixed assets (net)	-	55,921,488
Inventory written-off	3,751,630	2,260,108
Allowances for:		
- contingencies	-	31,875,000
- bad and doubtful trade receivables	-	9,729,325
Bad and doubtful trade receivables written off	6,039,770	41,247
Advances written-off	-	77,927
Provision for employee benefits	12,235,610	5,563,620
Unrealised foreign exchange loss/(gain), net	(636,322)	1,197,962
	<u>978,405,927</u>	<u>917,234,165</u>
Items considered separately		
Interest income	(24,874,055)	(2,209,130)
Dividend income	(220,720)	-
Interest expenses	<u>211,796,315</u>	<u>124,890,998</u>
Operating profit before working capital changes	<u>1,165,107,467</u>	<u>1,039,916,033</u>
Increase/(decrease) in other current liabilities	114,867,541	(25,174,917)
Increase in trade payables	156,867,303	64,183,010
Increase in long term liabilities	1,050,000	32,565,864
Increase in inventories	(85,320,303)	(250,228,111)
Increase in trade receivables	(241,792,730)	(150,263,057)
(Increase)/decrease in short term loans and advances	(236,729,334)	150,902,972
(Increase)/decrease in long term loans and advances	<u>11,343,852</u>	<u>(307,033,300)</u>
Cash generated from operating activities	<u>885,393,796</u>	<u>554,868,494</u>
Income taxes paid	(235,986,387)	(184,973,040)
Net cash generated from operating activities A	<u>649,407,409</u>	<u>369,895,454</u>
Cash flows from investing activities		
Purchase of tangible assets	(1,279,918,029)	(918,078,199)
Proceeds from sale of tangible assets	-	90,635,513
Purchase of intangible assets	(5,301,609)	(41,547,323)
Purchase of current investments	(5,353,123)	(23,656,728)
Proceeds from sale of current investments	3,616,569	3,052,765
Interest received	22,139,712	1,943,414
Receipt of capital subsidy	3,000,000	200,000
Increase in other bank balances	(7,772,196)	(376,429)
Dividends received	<u>220,720</u>	<u>-</u>
Net cash used in investing activities B	<u>(1,269,367,956)</u>	<u>(887,826,987)</u>

CONSOLIDATED CASH FLOW STATEMENT (Contd.)

(All amounts in ₹, unless otherwise stated)

	For the year ended 31 March, 2012	For the year ended 31 March, 2011
Cash flows from financing activities		
Proceeds from issue of equity share capital	675,000,000	-
Proceeds from long term borrowings	508,740,250	1,260,000,000
Repayment of long term borrowings	(270,278,046)	(428,121,395)
Minority interest contribution received	9,662,186	7,813,750
Distribution to minority interest share	-	(30,634,185)
Proceeds from short term borrowings, net	96,196,971	172,815,420
Interest paid	(284,847,957)	(145,629,066)
Dividends paid (including tax on distributed profits)	(106,721,038)	(65,219,360)
Net cash generated from financing activities C	627,752,366	771,025,164
Effect of currency translation adjustment D	21,686,200	(1,419,965)
Net increase in cash and cash equivalents (A+B+C+D)	29,478,019	251,673,666
Cash and cash equivalents as at the beginning of the year	316,966,870	65,293,204
Cash and cash equivalents as at the end of the year [Refer Note 1]	346,444,889	316,966,870
Note 1:		
Cash and bank balances as per Note 16, 20	370,532,785	333,282,570
Less: Other bank balances	24,087,896	16,315,700
Cash and cash equivalents considered for cash flow	346,444,889	316,966,870
Notes 1 to 35 form an integral part of these consolidated financial statements		

This is the consolidated cash flow statement referred to in our report of even date.

For and on behalf of Board of Directors of
NATCO Pharma Limited

For **Walker, Chandio & Co.**
Chartered Accountants

per **Sanjay Kumar**
Partner

Place: Hyderabad
Date : 28 May, 2012

V.C. Nannapaneni
Rajeev Nannapaneni

Chairman & Managing Director
Director & Chief Operating Officer

Dr. P. Bhaskara Narayana
M. Adinarayana

Director & Chief Financial Officer
Company Secretary & G M (Corp. Affairs)

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ATTENDANCE SLIP



NATCO PHARMA LIMITED

Registered Office: NATCO House, Road No.2, Banjara Hills, Hyderabad 500 033

Please fill Attendance Slip and hand it over at the entrance of the Meeting Hall

DPID* :
Client ID* :

Folio No. :

Name and address of the Shareholder
No. of Share(s) held :

I / We hereby record my / our presence at the 29th ANNUAL GENERAL MEETING of the Company held on Saturday, the 29th day of September, 2012 at 10:30 a.m. at Daspalla Hotel, Road No.37, Jubilee Hills, Hyderabad- 500 033

Signature of the Shareholder or Proxy

* Applicable for investors holding shares in Electronic Form.

----- Tear Here -----

PROXY FORM



NATCO PHARMA LIMITED

Registered Office: NATCO House, Road No.2, Banjara Hills, Hyderabad 500 033

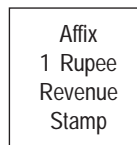
DPID* :
Client ID* :

Folio No. :

I/We -----
of ----- being a member/members of Natco Pharma
Limited hereby appoint -----
of ----- or failing
him/her ----- of
as my/our proxy to vote for me/us and on my/our behalf at the 29th ANNUAL GENERAL MEETING to be held on
Saturday, the 29th day of September, 2012 at 10:30 a.m. or at any adjournment thereof.

Signed this ----- day of ----- 2012.

* Applicable for investors holding shares in Electronic Form.



- Note:
- The Proxy Form should be signed across the stamp as per specimen signature registered with the Company.
 - The Proxy Form must be deposited at the Registered Office of the Company not less than 48 hours before the time fixed for holding the meeting.
 - The Proxy need not be a member of the Company.

Corporate Social Responsibility activities taken up by the Company under the aegis of NATCO Trust



sports materials distribution



women in alumni meet



vocational training



Natco pre primary school



NMHC services



nutrition centre



NATCO Pharma Limited

Natco House

Road No. 2, Banjara Hills, Hyderabad - 500 033.

Ph : 040-23547532