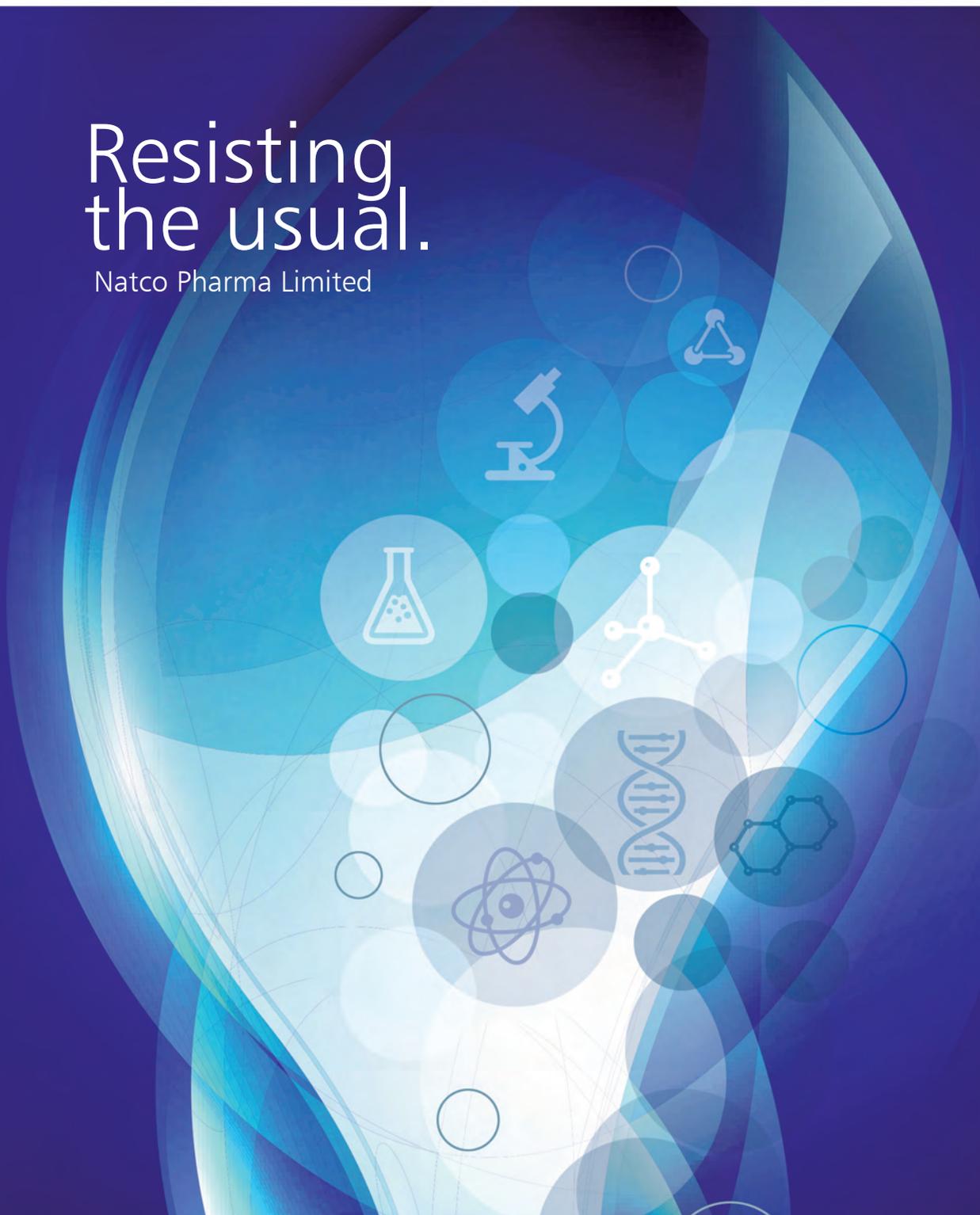


31st ANNUAL REPORT 2013-14



Resisting the usual.

Natco Pharma Limited



Forward-looking statements

This document contains statements about expected future events and financial and operating results of Natco Pharma Limited, which are forward-looking. By their nature, forward-looking statements require the Company to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that the assumptions, predictions and other forward-looking statements will not prove to be accurate. Readers are cautioned not to place undue reliance on forward-looking statements as a number of factors could cause assumptions, actual future results and events to differ materially from those expressed in the forward-looking statements. Accordingly, this document is subject to the disclaimer and qualified in its entirety by the assumptions, qualifications and risk factors referred to in the management's discussion and analysis of the Natco Pharma Limited Annual Report 2013-14.

Resisting the usual.

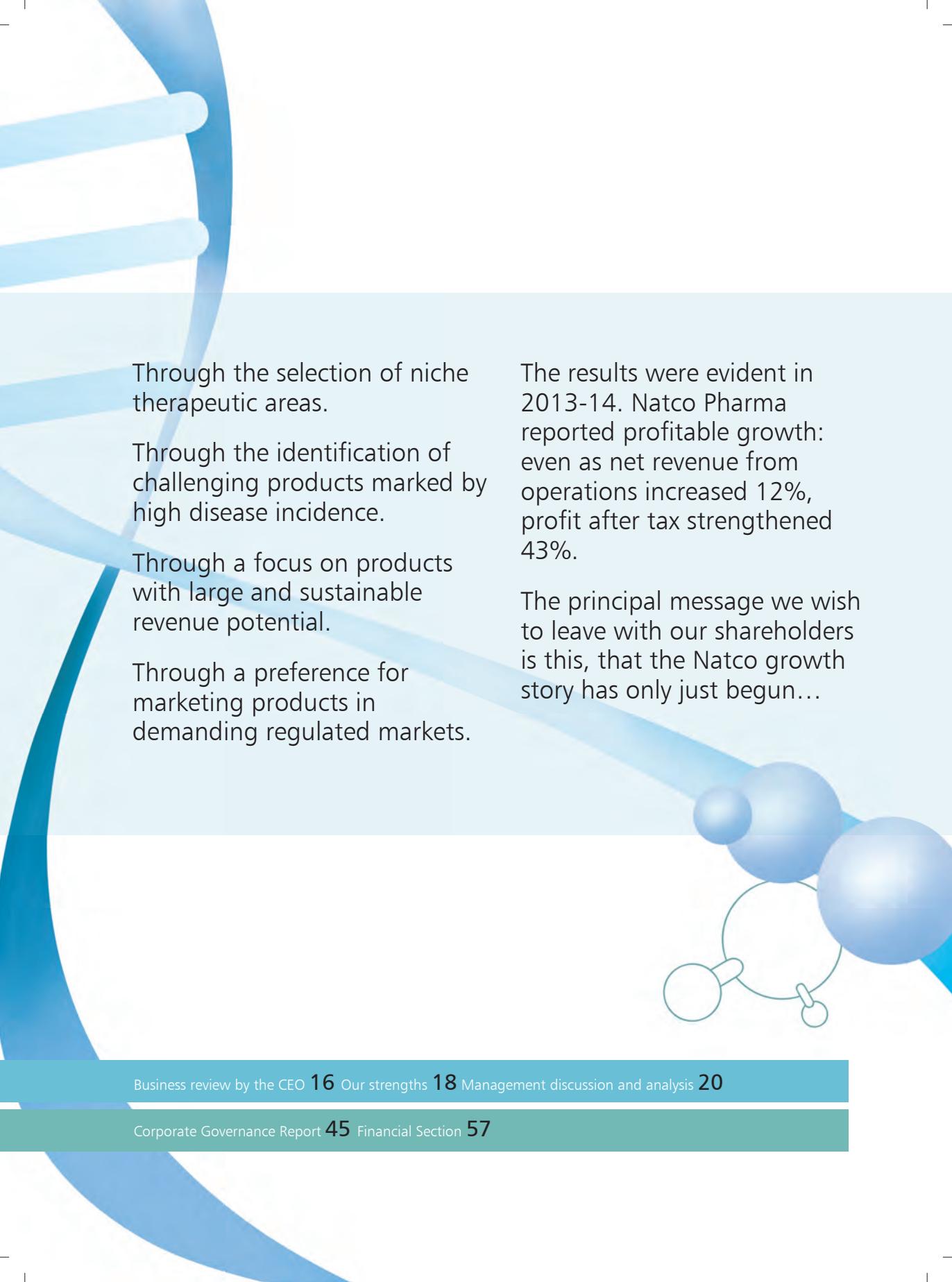
It would be easy being the usual pharmaceutical company.

Moreover, at Natco Pharma, we have selected to resist the usual.

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Through the selection of niche therapeutic areas.

Through the identification of challenging products marked by high disease incidence.

Through a focus on products with large and sustainable revenue potential.

Through a preference for marketing products in demanding regulated markets.

The results were evident in 2013-14. Natco Pharma reported profitable growth: even as net revenue from operations increased 12%, profit after tax strengthened 43%.

The principal message we wish to leave with our shareholders is this, that the Natco growth story has only just begun...

Natco Pharma in three sentences.

- 1 The Company is present in niche therapeutic areas.
- 2 The Company creates researched products that address unmet patient needs.
- 3 The Company's products have enhanced treatment affordability.

Mission

To manufacture and market affordable medicines that comply with global standards and to achieve market leadership in domestic as well as international markets.

Natco Pharma Limited is an R&D-driven organisation.

Over the years, the Company selected to focus on oncology, an area of growing relevance. The Company has emerged a market leader in India's generic oncology space led by flagship brands like- Gefitinat, Erlonat, Veenat and Sorafenat.

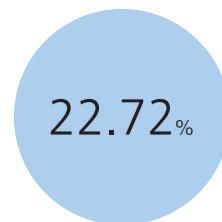
The Company also addresses opportunities across the CNS, gastro-intestinal, migraine and anti-depressant segments.

Headquartered in Hyderabad, India, the Company has four formulation locations across India - two in Dehradun (Uttarakhand), one in Kothur (Mahboobnagar, Telangana), and one in Nagarjuna Sagar (Nalgonda, Telangana); two chemicals manufacturing locations - one in Mekaguda (Mehboobnagar, Telangana), and one in Manali (Chennai) - Natco Organics Ltd.; one Natco Research Center (NRC) for R&D in Sanathnagar (Hyderabad). The units in Kothur and Mekaguda enjoy USFDA and other key regulatory body approvals.

The Company's products are marketed in over 40 countries; the Company has made 27 niche ANDA filings in the US that are expected to drive sustainable growth.



Promoter holding
(31st March 2014)



Institutional holding
(31st March 2014)



Revenues
(2013-14)



Team size
(March 31, 2014)



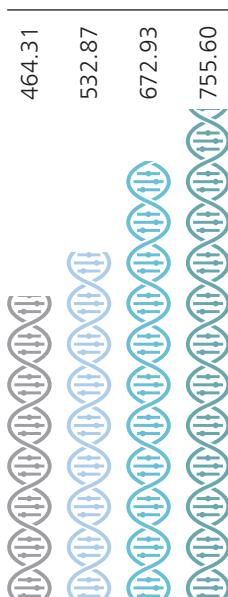
Market capitalisation
(March 31, 2014)

Resisting the usual has a payback. Steady and sustainable growth.

(Based on consolidated numbers)

Net sales

(₹ crore)



10-11	11-12
12-13	13-14

Revenue growth

12.29%	13.13%
Over 2012-13	CAGR over 4 years

EBITDA

(₹ crore)



10-11	11-12
12-13	13-14

EBITDA growth

30.04%	20.02%
Over 2012-13	CAGR over 4 years

Profit after tax

(₹ crore)



10-11	11-12
12-13	13-14

Net profit growth

42.94%	20.50%
Over 2012-13	CAGR over 4 years

Cash profit

(₹ crore)

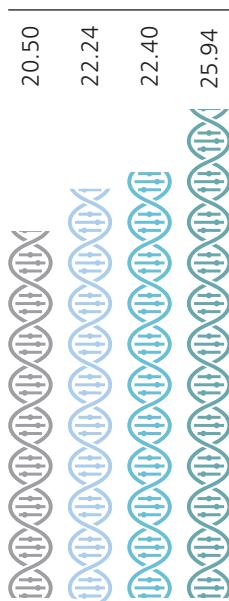


10-11	11-12
12-13	13-14

Cash profit growth

41.69%	18.10%
Over 2012-13	CAGR over 4 years

EBITDA margin (%)

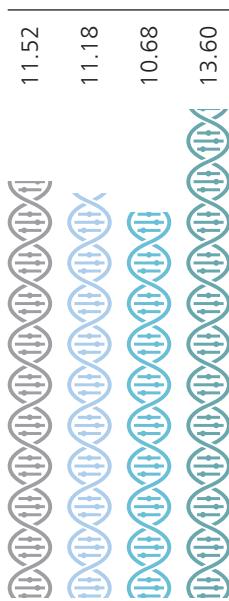


10-11	11-12
12-13	13-14

EBITDA margin growth

354 bps	546 bps
Over 2012-13	Over 2009-10

Net profit margin (%)

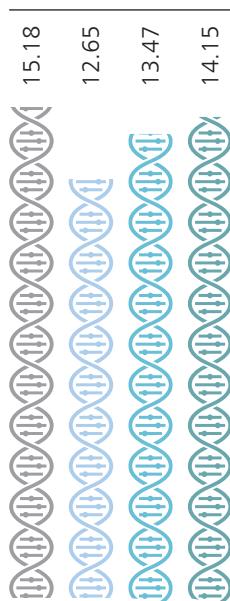


10-11	11-12
12-13	13-14

Net margin growth

292 bps	304 bps
Over 2012-13	Over 2009-10

Return on equity (%)



10-11	11-12
12-13	13-14

ROE growth

68 bps	(178) bps
Over 2012-13	Over 2009-10

Return on capital employed (%)



10-11	11-12
12-13	13-14

ROCE growth

126 bps	239 bps
Over 2012-13	Over 2009-10



Natco. Widening the market.

In the business of pharmaceuticals, it would be easy to lose sight of the fact that we are principally in business to service the unmet needs of patients.

At Natco, we enjoy a credible record in enhancing healthcare inclusion for the benefit of thousands of patients through the following initiatives:

- The Company has selected to grow its presence in therapeutic segments marked by increasing disease incidence; for instance, the Company's oncology segment (about 45% of the Company's revenues in 2013-14 and its biggest segment) addresses the growing incidence of cancer
- The Company has progressively widened its oncology product range from 6 in 2003-04 to 19 in 2008-09 to 27 in 2013-14
- The Company has carefully invested in product selection and design with an objective to launch products at affordable price, for people at large

The result is that the Company has succeeded in extending beyond mere product manufacture and delivery; it has helped grow the market and made it possible for India's under-serviced thousands to be returned to health safely and speedily.

Natco's first oncology product was a generic version of Glivec (Veenat), proclaimed as the drug of the decade for its effective remission of CML (Chronic Myeloid Leukaemia) minimising the need for chemotherapy.

The launch of the product in 2003 was challenged in court; in what was possibly the first time a patent litigation was fought in India. Natco successfully overcame the legal hurdle to launch the product.

That one launch transformed the way CML would be subsequently addressed in India. Prior to Natco's entry in this segment, a month's dosage of the right medication cost ₹120,000; Natco's entry moderated the cost down to ₹18,000 per month in one stroke; through process improvements, the dosage is now available at ₹6,000 per month.

The result is that from a time when effective CML treatment could be afforded only by the affluent, Natco's initiatives have helped extend the benefits of cutting-edge research to a majority of CML patients in India today.





Natco. Leveraging intellectual property for growth.

In the increasingly challenging pharmaceutical space, prudent product selection is inevitably marked by sustained, expensive and complex litigation.

At Natco, we have transformed our perception of litigation prone intellectual property from one of risk to one of opportunity through the following initiatives:

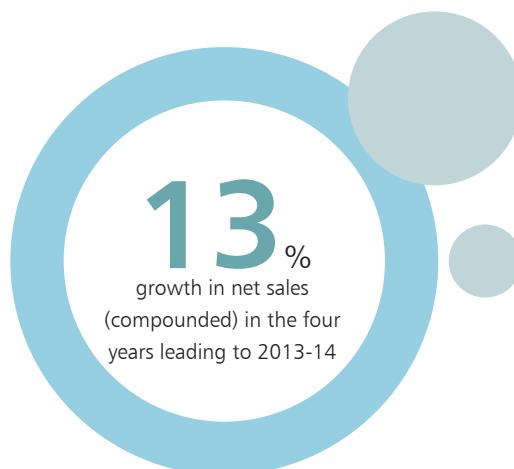
- Engaged with larger partners like Mylan, Helm, Actavis, Alvogen, Breckenridge, Dr Reddy's and Lupin, companies possessing a deep insight into global legal procedures and protocols, making it possible to draw on their rich experience to succeed
- Entered de-risked arrangements where the litigation expenses are borne largely by our partners in exchange for pre-decided profit-sharing percentages
- Structured its product pipeline around the understanding that the upside generated from favourable orders would far outweigh the downsides arising out of unfavourable decisions

The prudence of this strategy is reflected in the fact that despite having engaged in the launch of numerous litigation-intensive products over the last decade, Natco succeeded in reporting a 13.13% growth in net sales (compounded) in the four years leading to 2013-14; the Company's compounded increase in profit after tax was 21% during this period, validating the Company's de-risked litigation-centric strategy.

Compulsory licence first time in the history of India

Natco won the first ever compulsory licence from Bayer for its patent-protected anti-cancer drug Nexavar in a landmark judgement by India's Patent Office in March 2012. Compulsory licence allows a generic drug maker to manufacture and sell a copy of the innovator's drug on payment of a royalty even though the patent is in force, in order to make the drug accessible to more patients. NPL launched the drug at ₹8,880 for a pack of 120 tablets (one-month therapy) against a cost of ₹284,428 for Bayer's drug (MRP). The license is valid till the expiry of the patent in 2021.

Natco crossed major legal hurdles in the case against Novartis for Imatinib used for Chronic Myeloid Leukemia (CML). In a litigation spanning more than a decade, Natco challenged the then Exclusive Marketing Right (EMR) and opposed the grant of patent by way of a pre-grant opposition. The Company pioneered in bringing generic Imatinib at a significantly lower cost to thousands of patients otherwise intimidated by the prospect of CML treatment. Today, the Company has emerged as the brand leader for this therapy in India.





Natco. Gunning for big opportunities.

In a global pharmaceutical industry marked by growing competition and declining margins, success is derived through the ability to identify opportunities that make it possible to grow volumes significantly on the one hand and generate attractive margins on the other.



At Natco, we have responded with a research-led product pipeline that makes it possible to grow our base business while concurrently preparing the Company for large global opportunities. Over the years, the Company strengthened its pipeline through the prudent selection of the following 'limited-competition' products:

- Copaxone*, the preferred drug for multiple sclerosis indication (global US\$ 5 billion market), with a significant market share.
- Revlimid*, a multiple myeloma drug, is the largest drug for Celgene with global sales worth of ~US\$ 4.3 billion and US sales worth of ~US\$ 2.5 billion.
- Tamiflu*, an oral antiviral, for the treatment variants of influenza A and B, enjoys sales worth US\$482 million in the US.
- Nuvigil*, used as treatment for excessive sleepiness (narcolepsy), enjoys a market share of 42.8% of total prescriptions of the US in 2013 translating into annual sales worth US\$ 320 million.
- Fosrenol*, used for the treatment of end-stage renal disease, where the global market size is estimated at US\$115 million.
- Prevacid*, an anti-ulcer therapy, where the global market is estimated at US\$ 300 million. Natco has the advantage of in-house manufacture of the API for this formulation.
- TREANDA*, used for Chronic Lymphocytic Leukemia, with a global market estimated at US\$ 860 million

The result: Each of these opportunities is expected to propel the Company into the next orbit in the global pharmaceutical industry.

* These are all trade names

New Chemical Entity (NCE) highlights

NRC-AN-019, an NCE, offers solutions for patients who are resistant to Imatinib following a positive initial response. It was given 'orphan drug' designation by the USFDA in March 2011 for CML, pancreatic cancer and Glioma. For CML indication, Phase-II trial is underway and the Company expects to launch the product in 2015-16. NRC-AN-019 is considered a safe drug, with minimal side effects compared to similar drugs in the market and with the potential to graduate the Company in the oncology drug discovery space.

NRC-2694, is the second NCE in the pipeline with inhibitory activity against EGFR and other kinases for potential target indications, such as lung cancer. A Phase-I trial has been initiated with this drug in patients with solid tumours who have failed prior standard therapies. This trial is expected to be completed in 2015.

Moreover, Natco has a string of other NCEs in the oncology segment currently under development.





Natco. A differentiated US strategy.

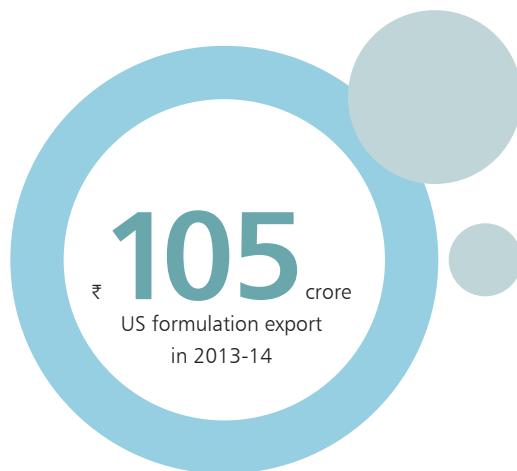
In the global pharmaceutical industry, organisational maturity is defined by a corporate's preparedness to deal with the US market, the biggest, most challenging and most remunerative in the world.



At Natco, we have responded to the need to grow our US presence through the following differentiating initiatives:

- The Company has selected to be present in niche therapeutic areas with growing potential
- The Company has selected to address growing opportunities through ANDA filings in complex products
- The Company has selected to introduce products extending well beyond the classification of commodity, marked by value-addition and technology barriers
- The Company has selected to strengthen its price-value proposition by addressing relatively unmet patient needs and a competitive pricing strategy

The result of this approach is that in the event of relatively low success following product launch, the Company would at worst be able to report flat growth; the upside of such a strategy is that success would bring high value, strengthening the Company's financials. As proof, the Company grew its US formulation export revenues from ₹62 crore in 2012-13 to ₹105 crore in 2013-14.





OUR BUSINESS MODEL

Why resisting the usual represents the foundation of our long-term sustainability

In the global pharmaceutical industry, there is a need to address growing regulatory requirements, moderate healthcare costs and enhance product efficacy.

At Natco, we have responded to diverse requirements through a differentiated business model, making our Company immediately unique in its size and scope the world over.

At Natco, we are driven by long-term prospects, with corresponding priorities in terms of research spending, product selection, risk appetite, people recruitment, geographic presence and infrastructure creation. The result is that the Company is not driven by a need to meet expectations of the impending quarter; instead, the Company is working on a business strategy that addresses long-term prospects.

At Natco, we have selected to be niche in nature, identifying products outside the commodity mainstream. The result is that we have outperformed the Indian pharmaceutical industry growth over the last three years leading to 2013-14; we have reported an EBITDA margin that is higher than the industry average; we have reported profitable growth, wherein the percentage increase in our revenues has been exceeded by the percentage growth in our bottomline.

At Natco, we are a research-driven, opportunity-seeking organisation. Over the past five years leading to 2013-14, Natco invested an aggregate ₹129.29 crore in its research (people, process, equipment and infrastructure); during the financial year under review, research spending accounted for 6.53% of our Company's net revenue from operations.

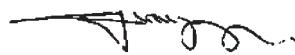
At Natco, we have embraced complexity and challenges, convinced that paybacks can be large and sustainable if these are successfully addressed. The result is that our research has been consistently directed at complex therapeutic areas affording attractive value-addition; we have selected to work in product spaces where there are significant global medical needs, even though they may be marked by challenging techno-legal litigations; we have selected to grow the spaces in which we are present and concurrently enlarge our presence as well.

At Natco, we have two distinctive business lines – our base business where we have focused on the usual marketplace opportunities with the objective to

generate sustainable returns over a number of years and our big opportunity business where we have invested patiently in addressing large standalone global unmet therapy needs. This low investment-high returns model does not guarantee when the profits will actually happen; what it does create is a strong product pipeline which can be progressively encashed over the foreseeable future. This combination of a sustainable revenue base and disproportionately large revenue potential is a road rarely taken by company of our size; even as the Company achieved a topline of ₹781.29 crore in 2013-14, it prepared for opportunities multiple times this revenue over the foreseeable future, even a fraction of which can significantly transform the Company's financials.

At Natco, we recognise the role of a conservative Balance Sheet in driving sustainable growth in a challenging sector. Over the years, we selected to work with modest gearing; during the year under review, we infused ₹108.53 crore through a preferential issue of equity shares to CX Securities Limited and added to our networth, we moderated our long-term debt-equity ratio to 0.22; we wrote off research and product development expenses to our Balance Sheet in the year they occurred. These initiatives now provide us with a conservative financial foundation to pursue the painstaking development of products with long-term potential.

At Natco, one is optimistic of prospects for a number of reasons: the Company has demonstrated profitable growth over the last few years without yet benefiting from the proceeds of any major launches. Even as the timing of the major product launches continues to be uncertain, the Company has demonstrated the discipline and tenacity in bringing the products closer to the market place, the windfall is expected to be momentous whenever it transpires.



V. C. Nannapaneni,
Chairman & Managing Director



BUSINESS REVIEW

“Our niche positioning translated into a year of profitable growth”

Rajeev Nannapaneni,
Vice Chairman and Chief Executive Officer,
explains the various reasons that helped
the Company report a record 2013-14

Q Were you pleased with the performance of the Company during the year under review?

A We were pleased with our performance for some pertinent reasons. The Company not only increased its revenues from operations by 12% during the year under review but also increased its profit after tax by 43%, indicating that the year had been one of profitable growth. Natco grew its revenues without compromising margins; the higher the revenues increased during the year under review, the better the margins became. This performance represented a validation of the Company’s research-led business model that focused on relatively unmet needs of patients and selected to work in relatively niche categories.

Q What were some of the highlights of the Company’s performance during the year under review?

A We strengthened our base business across various fronts – organic revenue growth, product launches, capex completion, infrastructure building, regulatory clearances and Balance Sheet right-sizing. Take organic growth for instance; during the year under review, we grew our domestic oncology business by 17%. On the export front, Natco’s products, Lansoprazole, Ondansetron and Rizatriptan, registered satisfactory sales and all the three products demonstrated the potential to grow during 2014-15 across North American markets.

Q What were some of the other initiatives to strengthen the business during the year under review?

A We strengthened our infrastructure to catalyse growth during 2014-15. For instance, we completed the capital expenditure related to the production of generic Copaxone during the course of the year; we accelerated the completion of our Guwahati plant, which should translate into timely commissioning during the second half of 2014-15. We received a USFDA approval for generic Tamiflu, which should generate attractive revenues in a few years.

Q How did the Company strengthen its Balance Sheet to ready itself for prospective growth?

A The Company has two distinctive business lines – the base business that addresses our presence in niche therapeutic areas and the non-base business that is a longer-cycle approach towards some large opportunities in the global pharmaceutical industry. The latter business strategy requires long-term funding and strategic conviction; during the course of the year under review, the Company selected to infuse equity equivalent to ₹108.53 crore with the objective to moderate its debt-equity ratio from 0.38 to 0.22. In the Company's opinion, this low debt-equity is compatible with the Company's business model and risk appetite.

Q The Company reported 60% of its revenues from international geographies. Can you explain the Company's relevance and competitiveness in these markets?

A The global pharmaceutical sector continued to be challenging for a number of reasons: regulatory standards became increasingly

demanding; costs increased for manufacturers on account of corresponding investments needing to be made in research, clearances and infrastructure. Despite these challenges, the Company registered a healthy growth in exports. The Company reinforced its global competitiveness by strengthening its brand in the areas of its therapeutic presence, widening its product basket, increasing its production efficiency to address growing needs and reducing costs through process improvement.

Q What is the strategic direction of the Company?

A The Company is engaged in extensive de-risking: the Company expects to moderate its share of US revenues as a proportion of international revenues by establishing formidable presence in the Latin American countries, Singapore, China and Canada; the Company expects to widen its overall product pipeline and its therapeutic presence within India.

Q How does the Company expect to perform during the year ahead?

A The Company expects to grow its base business revenues 15% during the current financial year with a higher-than-corresponding increase in its bottomline. The Company expects to commission its Guwahati plant during the second half of the current financial year, which will enable the Company to enhance revenues and avail possible tax concessions. The Company intends to grow its presence in formulations (injectables), which should help rejuvenate its portfolio and counter a probable decline in realisations in some segments. The Company intends to launch Para-III products. The combination of these base business initiatives is expected to sustain growth in Company's revenues and profits during the current fiscal.

Our strengths



The Golden Peacock Award for Occupational Health & Safety (GPOHSA) for the year 2014 has been conferred on Natco Pharma Ltd for excellence in this field at the Chemical Division unit, Mekaguda.

1 Research

The Company invested ₹129.29 crore in research spending during the five years leading to 2013-14. Research spending as a proportion of net revenues from operations was a significant 6.53% in 2013-14.

2 Culture

The Company is opportunity-driven, responding to new ideas and developments with industrial discipline on the one hand and strategic flexibility on the other.

3 Integration

The Company is integrated across the value chain – APIs to formulations - in the manufacture of select products leading to corresponding advantages in terms of cost, quality and logistics.

4 Spread

The Company addresses opportunities across the oncology, CNS, gastrointestinal, migraine and anti-depressant segments, each of which is growing in size and scope.



5 Intellectual capital

The Company demonstrated a high retention of senior management professionals over the last number of years, catalysing relationships management across all stakeholders and informed decision-making.

6 Research effectiveness

A majority of the Company's oncology basket of products were first generic versions in India; recognised among them were generics for Imatinib, Sorafenib Tosylate, Gefitinib among others.

7 Alliances

The Company entered into alliances with front-ranking pharmaceutical players like Mylan, Lupin, Alvogen, Helm, Dr Reddy's, Breckenridge and Actavis, translating into insights related to product development, litigation and marketing.

8 Brand

The Company established its brand as a strong global oncology player, respected for its ability to develop world-class generic products at one of the lowest costs.

9 Value-addition

The Company has selected to grow its presence in value-added niches where it addresses the needs of specialists with a corresponding throughput per medical representative that is considerably higher than the Indian pharmaceutical industry average.

10 Innovation

The Company leveraged its deep understanding of manufacturing equipment to make design improvements that helped moderate capital expenditure and enhance profitability.

11 Sophistication

The Company is one of few in India to manufacture cytotoxic drugs across two plants, an index of its commitment to invest in infrastructure and process sophistication.

12 Conservative

The Company consistently expensed all its R&D expenditure from its Balance Sheet; its debt-equity ratio* of 0.22 and interest cover of 4.52x provided adequate fiscal comfort.

** This considers long-term debt.*



Management discussion and analysis



The economic overview

Global economy: The global economy remain subdued as global GDP growth decelerated for the third year – 3.9% in 2011 to 3.1% in 2012 and 3% in 2013. Most developed economies addressed the reality through appropriate remedial fiscal policy action. Besides, a number of emerging economies, which had already experienced a debilitating slowdown in the past two years, encountered domestic and international headwinds during this period.

Indian economy: Even as India evolved into an open-market economy, legacy influences remained. In the last three years, Indian economy slowed following a deliberately tight monetary policy to counter inflation, which resulted in investment decline, investor pessimism, increased fuel subsidy expenditure (arising

out of higher crude prices), rising fiscal deficit and a worsening current account deficit. This reality was reflected in a second year of sub-5% GDP growth as the Indian economy grew about 4.7% in 2013-14.

Estimates: The IMF indicates that emerging markets will account for much of global growth, with their economies forecast to expand nearly four times faster over advanced economies. The US is expected to emerge as the key global growth driver. The eurozone is turning a corner after recovering from recession and is expected to post positive economic growth in 2014. Global growth is projected slightly higher (around 3.7%) in 2014, rising to 3.9% in 2015 (*Source: IMF*). According to NCAER, India's economic growth is likely to accelerate at 5.6% in 2014-15 while Asian Development Bank has projected India's GDP growth at 5.5% depending on structural reforms.

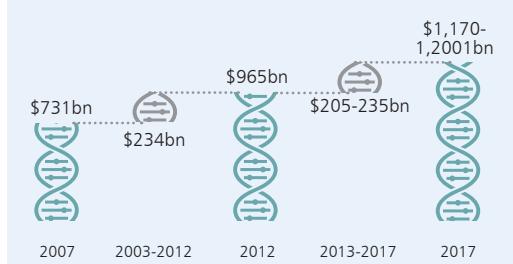
The global pharmaceutical space

The role of medicines in improving health for hundreds of millions of people across the globe has never been more important. Many countries are moving towards universal healthcare coverage, ensuring access to medicines and other elements of healthcare for all.

In the fifth year since the economic slowdown, macroeconomic indicators improved, though slower than what was forecasted. Austerity measures by governments, especially in Europe, continued to be applied in the realm of healthcare spending and especially medicines. In absolute terms, global spending on prescription medicines is expected to increase by US\$205-US\$235 billion till 2017, crossing the US\$1 trillion mark.

In the next five years, the developed markets of North America, Europe, and Japan could see modest single-digit spending growth (lower than the previous five years) due to a combination of economic and healthcare austerity and a growing availability of lower cost generic products following patent expiry. The increasingly specialised nature of a number of new therapies and cautious innovation investment in Europe could also impact spending in these markets. Interestingly, some select pharmerging markets provide higher annual double-digit growth due to a combination of economic growth, demographic and epidemiological changes as well as stronger health insurance funding.

Global spending and growth, 2008-2017



Generics taking centre stage

Global spending on medicines could gravitate towards generics, rising from 27% to 36% of the total spending by 2017, even as brands continue to account for more than two-thirds of spending in the developed markets. Generics could dominate spending growth in pharmerging markets and account for 63% of the total market end- 2017. In the developed markets, products losing patent protection could drive a marginal increase in generics spending to 21% of all sales in 2017. It is estimated that patent expiries could save developed country consumers \$113 billion in five years, offset by \$40 billion in projected generic spending, resulting in a net \$73 billion patent 'dividend' in 2017.

Generics spend (%)



Source: IMS Health Thought Leadership, September 2013

Branded business

Pharmaceutical spend in developed markets could continue to be dominated by brands. However, absolute spending on brands in developed markets could decline by \$113 billion over the next five years due to exclusivity loss, slower new medicine offtake and more restrictive access. So even as brand spending in pharmerging markets could grow in absolute terms, relative share could decline from 31% to 26% by 2017.

In 2012, developed markets reduced their aggregate medicine spending for the first time ever following patent expiries, implementation of austerity measures and increased generic penetration.

Obamacare impact

The Patient Protection and Affordable Care Act, commonly called the Affordable Care Act (ACA) or Obamacare, is directed at increasing health insurance quality and affordability by expanding insurance coverage and reducing healthcare costs (for individuals and government). The Act could transform prospects of pharmaceutical companies in the world's largest prescription drug market, bringing 32 million formerly uninsured citizens into medical coverage starting January 2014, potentially translating into US\$115 billion incremental revenues in 10 years and strengthening pharmaceutical revenues by a third by decade-end (Source: *Global Data*).

India stands to gain significantly from this emerging reality. Generics will be pivotal to the success of the new healthcare system because nearly 90% of US patients have some co-payment on their insurance, which encourages them to consume lower-priced generics instead of branded alternatives. Obamacare envisages savings of US\$150 billion (£935 million) per year from drug cost reductions.

Niche US opportunity

'Orphan drug' is the designation used by the FDA describe to drugs intended to treat rare diseases affecting less than 200,000 patients in the US. The FDA extends special incentives for companies developing these drugs with corresponding fast-track approvals coming from the FDA.

The 'orphan drugs' segment grew at a CAGR of 25.8% from 2001 to 2010 as against a CAGR of 20.1% for 'non-orphan' alternatives. In another recent study, the 'orphan drug' market is set to grow to USD 127 billion, at a CAGR of 7.4% between 2012 and 2018 that could potentially increase its share of the overall prescription market (excluding generics) from 5.1% in 1998 to 15.9% by 2018 (Source: *Evaluate Pharma*).

Natco's novel anti-cancer drug NRC-AN-019 received the 'Orphan drug designation' from the USFDA for three indications – Glioma (brain tumour), pancreatic cancer and chronic myelogenousleukemia.



Generics curing and saving

In 2011, nearly 80% of the 4 billion prescriptions written in the US were addressed using generic medicines, accounting for only 27% of the total drug spending.

Pharmerging markets

The opportunity in developed pharma markets is maturing on account of a series of patent expiries and a peak generic penetration reaching around 75%. The developing markets have emerged as key growth drivers with pharmerging economies (Brazil, Russia, China, India, Mexico and South Africa) expected to deliver robust growth on account of rising incomes, increased healthcare access, high out-of-pocket spending, growing government generics focus and a preference for branded generics.

The Indian pharmaceutical space

Over the last decade, the Indian pharmaceutical sector carved out global share by leveraging intellectual capabilities, regulatory maturity and manufacturing competitiveness.

The sector reported attractive growth led by robust US generics sales (>40% CAGR, 33% CAGR on constant currency) supported by the patent cliff and rupee depreciation (18%) over the past three years. Going ahead, the low market share of the Indian pharma (~10%) in the US generics segment, despite a dominant share in US filings, (~35% in DMFs and ~30% in ANDAs), improving prescription share and quality filings, could drive growth.

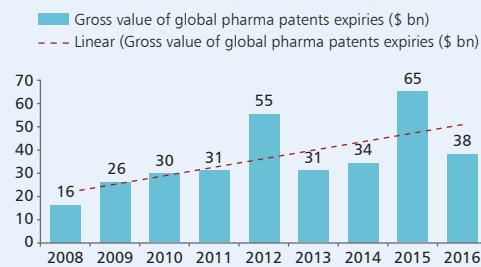
Strategic shift in filings

Following moderation in the number of big ticket US patent expiries, Indian peers shifted their ANDA filings towards differentiated generics (complex drugs, limited competition drugs, improved drug delivery systems and superior technology platforms among others). The multiple exclusive opportunities, led by the patent expiry of many blockbuster drugs in the US during the last few years, encouraged Indian pharma players to enhance their R&D focus and spending (up at CAGR of 22% during the last three-year period) leading to a valuable product pipeline.

Next opportunity

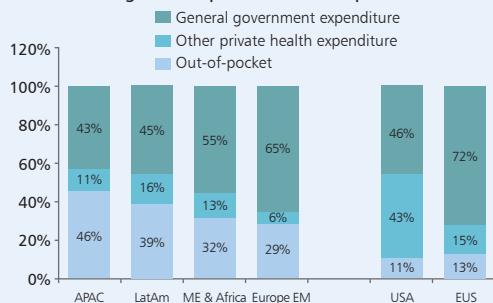
The peak opportunity of patent expiry (estimated at US\$168 billion by 2015) in various advanced markets, provide a sizeable generic opportunity for Indian pharma players (Source: Evaluate Pharma).

Likely peak cumulative generic opportunities in global markets during 2015 sustains formulation exports growth visibility for Indian pharmaceutical players



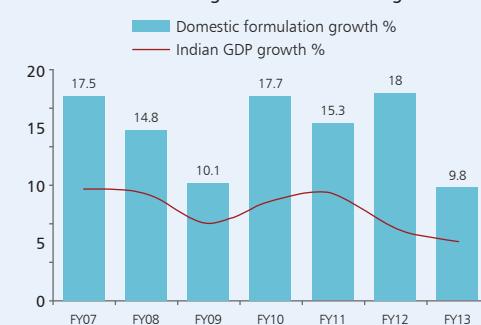
Source: Evaluate Pharma

Typically out-of-pocket expenditure in the emerging markets is high in comparison to developed markets



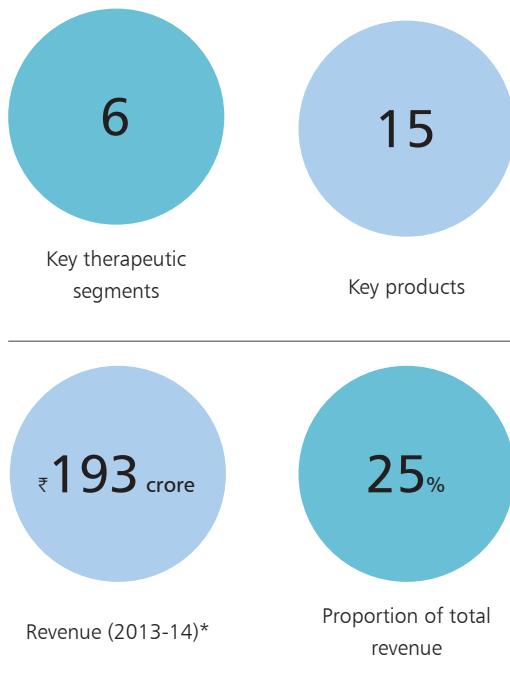
Source: IMS Health

Domestic formulations growth versus Indian growth



Source: RBI, Industry

International formulations business



* excluding subsidiaries and including profit sharing

Over the years, Natco has built a niche and complex product pipeline for US, the largest pharmaceutical market in the world. This has helped us differentiate from most of other generic companies and helped establish ourselves as research-driven specialty pharmaceutical company. Natco's presence in the US is marked by 10 product approvals, of which nine have been successfully commercialised. The Company's 17 ANDA filings are under review with the USFDA, a majority of these products are difficult to manufacture and, when commercialised, the Company expects to encounter limited competition for an extended period.

Natco's partnership-driven business model for the US market has helped us leverage our strengths in product development and manufacture while our partners have utilised their strengths in marketing the products. Some of our key partners for US market include Mylan, Actavis, Lupin, Breckenridge Pharmaceuticals and DRL.

2013-14 in retrospect

The international business registered a significant 50% growth over the previous year, an achievement which was possible due to increased exports to the US. Major contributing factors for this performance have essentially been the 9 previously commercialised ANDAs and a good contribution from South America. The year also saw key products like Lansoprazole, Ondansetron and Rizatriptan registering satisfactory sales coupled with good potential in 2014-15.

The Company completed the expansion of Glatiramer Acetate and NIBS production blocks at Mekaguda. Barring a few regulatory and legal approvals, the Company is geared up to launch Glatiramer Acetate injections in the US along with its marketing partner Mylan Inc, USA in 2014-15.

The cumulative ANDA filing (as of 31st March 2014) stood at 27; while exports to the US market rose by 70% to ₹105 crore in 2013-14 from ₹62 crore in 2012-13.

Optimism

The Company's growth plans shall be strengthened by the specialty product portfolio. The exports into Americas shall continue to dominate sales. The growth shall primarily be driven by increased volumes. Some of the 17 ANDAs under review at the USFDA are Para IV / complex molecule filings. The Company expects these molecules to provide a sizeable business opportunity.

Over the next 3-5 years, significant product launches are lined up in the US market. However, these are subject to mandatory legal and regulatory clearances. The table below highlights some of the products expected to result in high impact launches in the future. The Company expects to receive US FDA approvals for some of key products during the upcoming financial years.



Lansoprazole, Ondansetron and Rizatriptan registered satisfactory sales in 2013-14 demonstrating good growth potential for 2014-15.

Europe is expected to be another key geography; the Company expects to add more products resulting in stronger growth. Currently a couple of products have been launched in this geography.

The Company is also expanding into select South American markets and working to make a measured entry into Africa.

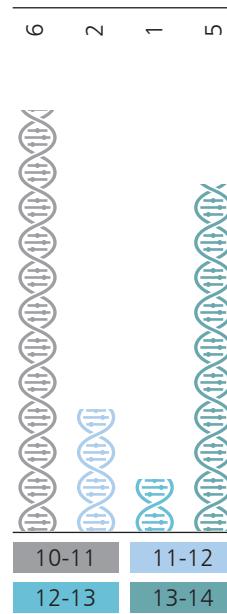
The Company has always focused on gearing up for the future comprising capacity expansion in a phased manner to ensure uninterrupted supplies.

Besides, the new unit at Guwahati for the manufacture of finished dosage formulations is likely to commence commercial operations in the second half of 2014-15.

Formulation exports to the US
(₹ crore)



ANDAs filed

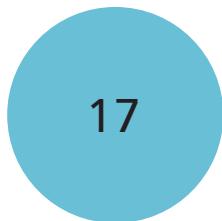


Product	Armodafinil (Nuvigil)	Glatiramer Acetate (Copaxone)	Lanthanum Carbonate (Fosrenol)	Lapatinib Ditosylate (Tykerb)	Lenalidomide (Revlimid)	Oseltamivir Phosphate (Tamiflu)	Lansoprazole OTC
Therapy	Hypersomnia	CNS, multiple sclerosis	Hyperphosphatemia, end-stage renal disease	Oncology, breast cancer	Oncology, multiple myeloma	Antiviral, influenza A&B	Gastro-intestinal
Current market size (US\$ million)	400	3,500	115	125	3000	500	50
Partner	Breckenridge	Mylan	Lupin	Lupin	Actavis	Alvogen	Actavis
FTF/Para IV	Para IV	Para IV	FTF	FTF	FTF	FTF	PARA III

Making inroads

Natco Farma Do Brazil	Natco Pharma (Canada) INC
<ul style="list-style-type: none"> Renewed all licenses required for the distribution business, wipes business and import and trading of pharmaceutical products Received ANVISA GMP approval for Natco's injectables and solid orals lines Achieved important business development milestones Tied up distribution with Actavis, Ranbaxy and Reckitt & Coleman among others. Tied up with Walmart and Sams Club for the wipes business. Working towards tying up with Eurofarma, Medley and Prati Dunaduzi besides sustaining the relationship with Uniao Quimica for the logistics distribution business. Filed seven products with ANVISA and currently working on two more products. Entered into a PDP with Government of Brazil through the Navy Hospital (LFM) for two of Natco's products. Set up the corporate office in Vitoria. Set up a larger warehouse in Serra – Vitoria. Started work on the new QC lab – required by ANVISA for pharma imports. 	<ul style="list-style-type: none"> Set up office and created a team for managing operations Completed Health Canada inspection in July 2013; approved for the import and distribution activities. Natco Pharma (Canada) Inc. received its Drug Establishment License as a distributor and importer in Canada in December 2013. Contracted a Health Canada approved warehouse and logistics company to stock and move our inventory. Contracted an approved lab to test our imported products before they are released for sale in Canada. Contracted a third party QA setup for the release of products and Pharmacovigilance support. Started working on getting products listed with large distributors like McKesson, Kohl and Frisch and other major retail chains like Shoppers, London Drugs and Jean Coutu among others Submitted applications to 11 provincial formularies; awaiting approvals to commence sales. Seven different products approved under cross licensing by Health Canada under the aegis of Natco Canada

Domestic formulations business



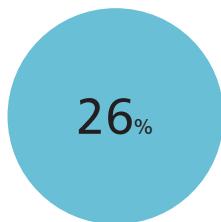
Therapeutic segments



Products



Revenue (2013-14)



Proportion of total revenues

Natco's ₹ 10 crore brands

Product	Therapeutic segment
Gefitinat	Lung cancer
Erlonat	Lung cancer
Veenat	Leukemia
Sorafenat	Liver and kidney cancer

Natco carved a niche for itself in the Indian formulations space following the launch of a generic version of Imatinib Mesylate, a life-saving drug used for the treatment of chronic myeloid leukemia (under the name of Veenat) in January 2003. The launch of this oncology product was followed by similar cancer drugs like Zolodonat and Letronat.

Natco, a pioneer in the Indian oncology market, made rapid strides during the last decade retaining its leadership position in this specialised area. Natco has a sizeable basket of niche products and a significant share of the domestic generic market. Natco's efforts in making affordable targeted therapies and novel chemotherapy agents has transformed the oncology therapeutics landscape.

2013-14 in retrospect

The division registered healthy performance with a growth of 17% in its oncology segment.

Competition remains intense in the domestic branded formulations segment especially in oncology and with a shrinking pipeline of products, Natco is taking all steps to expand therapeutic segments with a continued focus on niche products.

The Company expanded and restructured its existing operations for the focused promotion of key products to effectively capitalise on high growth

opportunities in the oncology space, enabling the Company to retain its leadership. The oncology field force operated under three focused lines of product promotion:

- Haematological malignancies – Line A
- Lung cancer + other solid tumours – Line B
- Breast cancer + other solid tumours – Line C

The Company's domestic non-oncology and contract manufacturing business remained stable and continued to be a small yet crucial part of the domestic business. The number of field personnel in pharma specialities was optimised to provide a complete coverage of orthopaedic and gastroenterology products.

Biosimilars, an important growth driver

Natco partnered Mabxience to source four monoclonal antibody (Mab) substances for manufacturing formulations. The three 'Mabs' (Trastuzumab, Bevacizumab and Rituximab) belong to the oncology segment while the fourth (Etanercept) addresses auto-immune diseases.

Outlook

The market potential of our existing product portfolio stands at ₹600 crore, growing at more than 20% annually. The Indian oncology market, which is valued at a little over ₹2,000 crore, is expected to reach ₹2,900 crore by end-2015. The ever-evolving market dynamics has made it imperative for us to reorient accordingly. At Natco, our proactive reorientation put us on the fast track towards growth. Subsequently, our new generic/ biosimilar launches will allow us to establish a footprint in the unexplored niches of oncology therapeutics, expanding our opportunity canvas.

Optimism

The API facility continues to be the backbone of finished dosage formulation across all our segments. The synergy of backward integration for the majority of our products makes the Company competitive in all markets with reasonable margins.

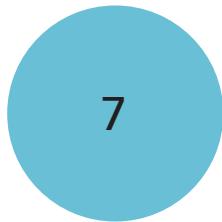
The Company has a pipeline of APIs at various stages of development that will be carried to API production; your Company continues to file drug master files and product registrations in various regulatory and semi-regulatory markets.



Guwahati plant under commissioning



Active pharmaceutical ingredients



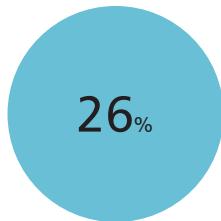
Therapeutic segments



Products



Revenue (2013-14)



Proportion of total revenue

Natco's APIs started as an independent revenue driver. Over the years this business graduated into a niche APIs for captive consumption of key formulations.

The Company filed 31 products in the US with around 15 products under development. Natco's API exports were focused on the US, EU, Canada, Latin America, the Middle East and South-East Asia. Over the past four years, about 80% of API revenues were derived from exports. The Company continues to enjoy credibility as a quality API supplier for end-users, helping market new APIs with minimal gestation periods.

Being a responsible corporate citizen, your Company cares for the environment, the API manufacturing facility continuing to enjoy ISO: 14001 approvals for its environmental management. Moreover, numerous regulatory approvals that the facility enjoys include, principally, those from the USFDA, EU Health Authority and the Australian TGA as well.

2013-14 in retrospect

The API business grew well in 2012-13, driven by institutional tenders, which are not generally consistent. This division's turnover at ₹200 crore in 2013-14 fell by 12% as the institutional business declined.

Outlook

The Company expects to revert to its retrospective API export growth rate through the following initiatives:

- Secure business from customers in niche markets
- Develop and commercialise new molecules (niche therapies like anti-migraine, anti-depressants and oncology)
- Achieve economies-of-scale in the manufacture of existing molecules

The Company expects the API business to grow at a healthy pace in the current year. Besides, some important Natco APIs are expected to come out of patent protection in most countries in 2015 and 2016. This is expected to accelerate API business growth from FY 2016.

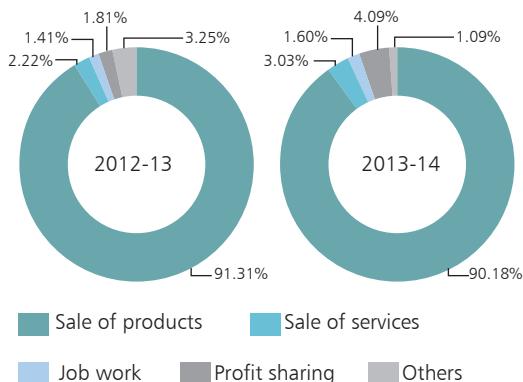
Analysis of our financial statements

Natco Pharma challenged a dampened business environment to post healthy revenue growth and improved profitability.

1) Statement of Profit and Loss

Revenue from operations

The Company's revenue (gross) increased by 11% from ₹705 crore in 2012-13 to ₹781 crore in 2013-14, the increase being contributed by a growth in business volumes in India and US exports, driven by new products like Lansoprazole and Rizatriptan.



Operating expenses

Larger scale resulted in an increase in operating expenses (total expense excluding interest and depreciation) by 9.59% from ₹510.60 crore in 2012-13 to ₹559.56 crore in 2013-14. While the cost of materials consumed declined significantly despite the prevailing inflationary environment, employee expenses and other manufacturing increased.

Cost of material consumed: The expense under this head declined by 9.61% from ₹242.80 crore in 2012-13 to ₹233.22 crore in 2013-14.

Employee expenses: Increase in the team size for managing expanding operations, the annual salary increase of the team and performance related emoluments were the key factors for the 10.25% increase in employee expenses – from ₹102.29 crore in 2012-13 to ₹112.77 crore in 2013-14.

Other expenses: Consequent to an increase in operations, other expenses climbed by 29.07% from ₹165.43 crore in 2012-13 to ₹213.51 crore in 2013-14.

Power and fuel was the major cost driver followed by repairs maintenance and sales promotion.

Margins: The improvement in Natco's quality of business is reflected in its growing profitability. EBITDA margin grew from 22.40% in 2012-13 to 25.94% in 2013-14; net margin moved to 13.60% in 2013-14 against 10.68% in 2012-13. Consequently, business ploughback increased from ₹57.28 crore in 2012-13 to ₹83.39 crore in 2013-14.

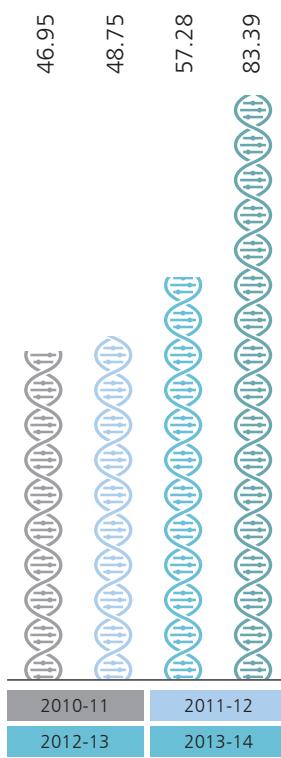
2) Balance Sheet

Capital employed: The capital employed in the business stood at ₹883.42 crore as on March 31, 2014 against ₹735.54 crore as on March 31, 2013 – the increase was owing to an increase in shareholders' funds. The effective utilisation of funds was reflected in an increase in Return on Capital Employed from 17.49% in 2012-13 to 18.74% in 2013-14.

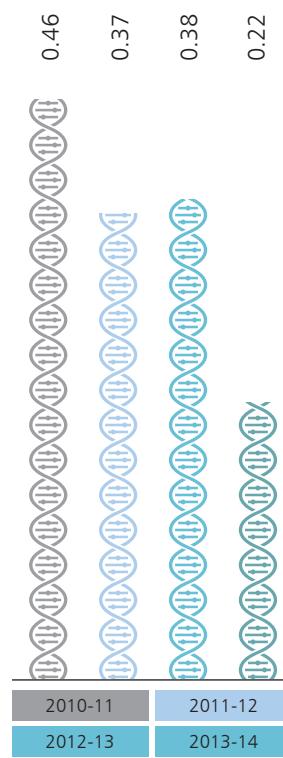
Interest cover (x)



Ploughback (₹ crore)



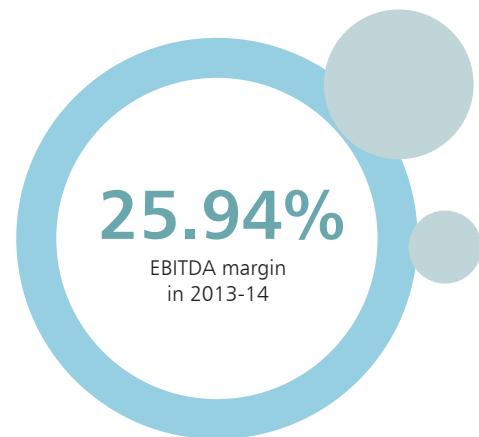
Debt-equity (x)



Shareholders' funds: The shareholders' funds grew from ₹533.54 crore as on March 31, 2013 to ₹725.87 crore as on March 31, 2014 – an increase of 36.05%, which was due to an increase in equity capital and the balance under reserves and surplus. The Company issued 17 lac shares on a preferential basis at ₹638.40 per share in 2013-14. The balance under reserves and surplus moved from ₹502.17 crore as on March 31, 2013 to ₹692.80 crore as on March 31, 2014 due to the following:

- Increase in the share premium accounts due to a preferential issue of equity
- Addition of operational surplus generated during the year

Non-current liabilities: The balance under this head stood at ₹150.67 crore as on March 31, 2014 against ₹191.46 crore as on March 31, 2013. The decline was largely owing to a decline in long-term borrowings balance from ₹137.82 crore as on March 31, 2013 to ₹95.49 crore as on March 31, 2014.



Current liabilities: The balance under current liabilities decreased by 9.45% from ₹344.87 crore as on March 31, 2013 to ₹312.28 crore as on March 31, 2014 primarily due to the decrease in short-term borrowings.

Short-term borrowings: This comprised working capital loans. Despite an increase in business volumes in 2013-14, the balance under this head remained largely at the previous year's levels.

Trade payables: This represented sundry creditors, the balance of which was at the previous year's levels despite an increase in operations.

Other current liabilities: A marginal increase of about 13.27% in the balance – from ₹90.21 crore as on March 31, 2013 to ₹102.18 crore as on March 31, 2014, in line with increase in operations. The other current liabilities also included long-term liabilities repayable in 2014-15, which stood at ₹46.33 crore.

Fixed assets: The tangible assets balance increased by 10.62% from ₹553.91 crore as on March 31, 2013 to ₹612.74 crore as on March 31, 2014. The increase was largely due to the new blocks commissioned at the Mekaguda facility. The capital work-in-progress comprised projects for the Guwahati facility at various stages of completion. With the commissioning of this facility in 2014-15, the balance will be added to fixed assets.

Current assets: The balance under this head increased by 11.40% from ₹330.48 crore as on March 31, 2013 to ₹368.14 crore as on March 31, 2014, in line with operations.

Addressing stakeholder apprehensions

Architecture

Any company can encounter unforeseen contingencies. At Natco, we possess a rich experience in industry, regulatory and legal uncertainties/outcomes. We leverage this knowledge to create a robust risk management framework that enhances our viability across verticals, products, geographies and market cycles.

1 The Company's growth hinges on prospects which are litigious in nature. An adverse judgement could impact growth.

Mitigation strategy: The Company's business is divided into three sections – regulated markets, domestic markets and APIs – each making a sizeable contribution. Revenue from operations grew at a 12.55% CAGR over the last four years.

Natco has considerable experience in leveraging its intellectual capital for seizing growth opportunities. The Company is concurrently working on several opportunities. A measure of success in this space is that

the Company is well-positioned in the case of Copaxone generic.

On the flip side, even if certain litigations do not favour the Company, Natco has developed a robust pipeline of 17 products for which its ANDA filings are at various approval stages. This strategy is expected to open a huge opportunity for the Company in the US. The Company also created a robust product pipeline for the domestic market.

2 US litigation costs are steep and could affect profitability in the event that proceedings are stretched or unfavourable.

Mitigation strategy: As an important de-risking measure, the Company partnered global pharmaceutical giants – wherein litigation costs are largely borne by our

partners in exchange for a share of the upside following favourable rulings.

3 An increased US focus could affect the Company's position in the domestic market.

Mitigation strategy: The Company is a leader in India's oncology space, a position it has protected for several years. The Company continues to strengthen its position in this space through careful product launches.

Other than oncology, the Company expects to widen its presence across other therapeutic spaces over the coming years.

4 The Company's limited geographic focus could restrict the growth of its international business.

Mitigation strategy: The Company markets APIs and formulations across more than 40 countries. In the formulations business, the Company intends to grow its presence in Latin America, China, Australia, Canada and Singapore. In 2014-15, the Company expects to grow

its presence in Latin America for which it has filed seven products with Anvisa (Brazilian regulatory authority). In the API business, the Company intends to grow its presence through niche, high-value launches.

5 The Company may not possess adequate manufacturing infrastructure to address emerging demand.

Mitigation strategy: Natco has prudently invested in manufacturing infrastructure – ₹598.68 crore in the last five years. The Company recently invested in a ₹19.26 crore greenfield Guwahati unit designed as per GMP standards. The Company set up a dedicated block at

its Mekaguda unit to manufacture Glatiramer Acetate. The Company's multi-locational manufacturing facilities were approved by global regulatory authorities (US FDA and UK MHRA) providing the flexibility to cater to diverse customer needs from any plant.

6 The Company's aspirations (product development and capacity) could be restricted by a weak Balance Sheet.

Mitigation strategy: Natco's Balance Sheet was marked by a modest debt-equity ratio of 0.22 (March 31, 2014), net worth of ₹725.88 crore, cash generation of ₹133.18 crore from operations during the year and R&D expenditure comfortably expensed from its Profit and

Loss Account. Following marked growth in 2014-15, cash generation is expected to strengthen, which could moderate gearing and enhance the Company's access to debt (whenever required).

7 There are certain inherent risks associated with the day-to-day operations of the Company.

Mitigation strategy: Property and resource-related risks are addressed by insuring fixed assets and inventory at replacement values. All regulatory approvals are renewed routinely and there is a built-in mechanism to ensure compliance. All employees are insured for accidental and health-related risks.

The Company leaves no stone unturned to manage its resources efficiently, control costs and offset losses through far-sighted pricing of its products. The

Company prefers not hedging any of its transactions and it has been the Company's experience that associated risks get neutralised over a period of time. Energy risks are managed through prudent power purchase agreements with power exchanges. Moreover, all risks associated with the business are well-documented and monitored continuously.

Social Responsibility

(NATCO Trust)

The objective of Natco Trust, the corporate social responsibility wing of Natco Pharma Limited (founded 1995), is to repay society, people and the environment. Over the years, the Trust has widened its coverage in line with the need of integrated development.

The Trust operates in the city and district of Hyderabad, apart from the Nalgonda, Mahboobnagar, in the state of Telangana and Guntur district of Andhra Pradesh.



Natco High School, Kothur, Mehboobnagar



NSL Gollamudipadu

Belief

The Natco Trust believes that a robust society can be built by strong minds and committed hearts. In line with this, the Trust's vision is 'to facilitate self-sustained development among the communities being served' and its mission is 'to provide such support and service to the society which would have a longstanding impact on improving the lives of the individuals benefiting thereof.'

In order to help the community develop the right perspective, Natco Trust provides education, livelihoods, healthcare and safe drinking water facilities.

Education

Natco Trust believes that, 'Living and learning must go hand in hand if true development is to actualise...'. Education is a thrust area for Natco and as a means to the end, it addresses the academic needs of about 1,800 children in Mahboobnagar and Guntur Districts through self-managed schools and 4,475 children in government schools through after-school tuitions and other initiatives.



Computer training at NVTC Borabanda



Paediatric Ward at MNJ Cancer Hospital, Hyderabad



Class room@Natco School of Learning, Guntur



Natco Mobile Health Clinic in villages

Natco High School is an English-medium high school at Rangapur Village of Kothur mandal, Mahboobnagar district, recognised by the Government of Andhra Pradesh in 1995. Presently, there are about 1,400 students from different Tandas of the surrounding areas availing quality subsidised education.

Natco School of Learning represents a step forward at Gollamudipadu of Ponnur Mandal in Guntur district with 408 children. This five-acre facility is CBSE-affiliated, providing free quality education for Gollamudipadu village residents and subsidised education for students of surrounding villages.

The Natco Trust also focuses on attendance and academic improvement among children in government schools (Nalgonda, Guntur, Mahboobnagar and Hyderabad programme areas).

After-school tuitions: Emphasis is laid on helping children from grade first to fifth in government schools, who are not strong in math and languages, by incorporating activity-based teaching in 13 centres. Some 281 children were addressed in the Nagarjunasagar, Nalgonda district.

Child clubs: This initiative develops leadership, team working, socialising and creative skills among children between the first to fifth standards in government schools. Children are involved in various activity clubs like reading clubs, CCA clubs, SUPW clubs, hygiene clubs, motivation clubs and sports clubs. A total of 222 children are benefited from child clubs operational in the Nagarjunasagar and Hyderabad programme areas.

Bala Vikas Kendra: A pre-school set up for first generation learners (age group three to six years) at Tangilathanda (Nagarjunasagar) provides theme-based education in maths, Telugu and general awareness. The activities also include circle times and indoor activities enhancing moral education, hygiene habits and thinking skills.

Others: Providing the services of academic instructors at government schools in Hyderabad and Kothur; constructing a toilet block at Natco Government High School in Borabanda; renovating the Natco Government High School building in Borabanda; renovating government ZPHS; furniture support for ZPHS Mekaguda, Kavuru, Mahboobnagar and Nellikal Primary School in



Activity based learning session @ Balavikas Kendra, nagarjunasagar

Nalgonda; provision of outdoor play equipment for six schools; adolescent girl education programme; village library programme; coaching for enrolment in Navodaya, APREIS, polytechnic colleges, D'CET; summer camps in arts, crafts, recitations and stories for primary children; workshops for school children in arts and craft, clay modelling and backyard science activities, etc.

Livelihood and employment generation

Non-farm livelihoods

Natco Vocational Training Centres: With a view to enhance employability for women during their leisure, the Trust initiated vocational training centres (NVTCs) at Kothur, Borabanda, Nagarjunasagar and Gollamudipadu. Vocational training was provided in cell phone repair, stitching, beauty parlour management, driving and computer education. These NVTCs were registered under the Skill Development Initiative Scheme as part of the Modular Employability Skills of Ministry of Labour and Employment.

In the area of cell phone repair training, 13 women members found employment for ₹7,000 per month in various cell phone sales and services outlets in Hyderabad in 2013-14. In the area of beauty parlour management, members were trained in batches, with members finding employment. In garment making, programmes were organised where women were trained leading to orders from parties. In LMV driving course, we organised programmes and trained members.

Healthcare, sanitation and hygiene

In the area of health care, we engaged in patient counselling in four government hospitals sensitisation



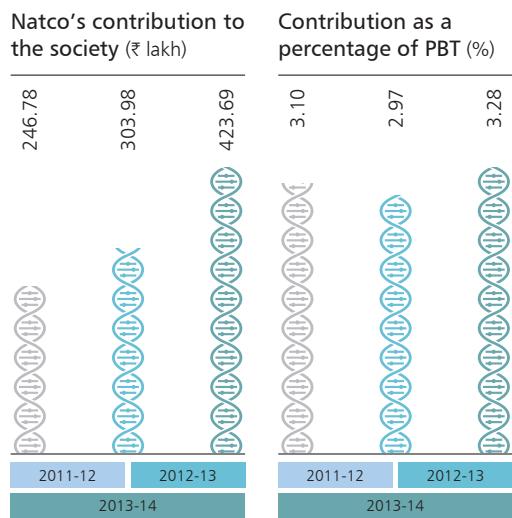
NILOUFER Natco OPD Block (Under Construction)

programmes, Natco Mobile Health Clinics, free support for patients, nutrition centres, healthy baby shows, construction of hospitals/oncology wards, waiting hall for patient attendants at NIMS, support to mega medical camps, IOL and cataract operations camp.

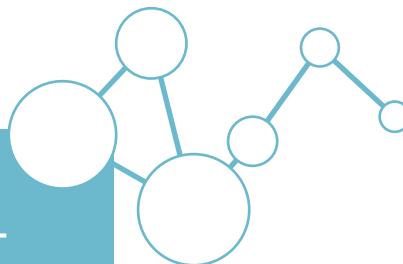
Natco has taken up the construction of Niloufer OPD Block with a floor area exceeding 30,000 sq ft at a total estimated cost of ₹4 crore. Over ₹2 crore was spent in 2013-14.

Animal husbandry

In the area of animal husbandry, Natco Trust provided free medicines and feed supplements to the government veterinary hospital. It provided the services of a veterinary assistant.



Directors' Report



To the Members

Your Directors are pleased to present the 31st Annual Report together with the audited accounts of the Company for the year ended on 31st March, 2014.

Operating Results:

You will be pleased to note that during the year under review, the consolidated turnover stood @ ₹781 crore (previous year ₹705 crore) an increase of 11% and the consolidated profit after tax @ ₹103 crore (previous year ₹72 crore) an increase of 43%.

The revenues from the finished dosages pharmaceutical formulations division) during the year stood at ₹484 Crore against ₹396 crore last year, recording a 22% growth and this growth is driven by increase in exports to North America & South America in addition to increase in turnover from domestic Oncology division.

The following is a summary of the Company's performance during the financial year 2013-2014:

Particulars of Revenues*	In ₹ lakhs	
	2013-14	2012-2013
API Division	20008	22426
Finished Dosage Formulations Division	48360	39611
Job Work	1193	944
Other Operating Income	6891	6326
Other Income	1671	1241
Total	78123	70548

* Consolidated gross revenues.

The Company's operations for the year resulted in a surplus of ₹14145 lakhs (as compared to ₹11232 lakhs

for the financial year 2012-2013). Your Directors have decided to make the following adjustments from out of the surplus:

	In ₹ lakhs	
	2013-14	2012-2013
Surplus after operational expenditure	14145	11232
Provision for taxes	3005	2195
Provision for deferred tax	121	1223
Net surplus carried to Balance Sheet	11019	7814
Interim Dividend declared / paid	1654	1255
Tax on distribution of income	281	204
Transfer to General Reserves	1100	800
Surplus carried to Balance Sheet	7984	5555

Dividend:

Your Directors had recommended and paid an interim dividend of ₹5.00 per equity share (last year – ₹4.00 per equity share) during February, 2014. Your Directors recommend that this may be treated as the final dividend and the recommendation / payment ratified.

Manufacturing facilities:

The manufacturing facilities continues to have all its approvals which it had earlier. All the plants are best kept and up-graded to meet all regulatory compliances.

The construction of the new finished dosage

pharmaceutical formulations facility at Guwahati in the State of Assam is fast nearing completion and the unit is expected to go into production soon. 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.

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.

Subsidiaries:

The product registrations of the Company's step-down subsidiary in Brazil is progressing well and the documents for registrations of two products are already filed. Applications for few more products would be done shortly. This step down subsidiary would also handle distribution of other company's products and such arrangements are also in pipeline. The wet wipes distribution business which it is handling has stabilised well and outfit is expected to cash break even during 2015.

As mentioned earlier as a part of its strategy of establishing itself in new niche markets, the Company has set-up subsidiaries in Canada and Singapore and products registering process is in progress. In the next two years good number of products would be distributed by these companies both Natco's as well as other companies.

Natco Organics Limited, which has a specialty small volume containment facility is stabilising its operations. There are atleast 7 products which are in pipeline and these APIs add good value for regulatory as well as domestic Oncology business in the coming years commencing 2014-15.

US Pharmacy business:

SaveMart 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, 2014, recorded a net profit, after tax, of ₹503

lakhs (against ₹175 lakhs previous year). The business is expected to be stable with a marginal growth.

Active Pharmaceutical Ingredients (API)

Annexure A to this report details the latest status on the regulatory filings for APIs.

Abbreviated New Drug Applications (ANDAs):

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

The Company continues to commercially exploit the approvals that it has already received and has been receiving profit share 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.

Phase II clinical trials for the Company's new chemical entity are in progress. Evaluation of other molecules for possible development is continuing. These include molecules for disease management and control, various analogues useful in the field of anti-cancer, anti-depressant and anti-ulcer therapies, and new drug delivery systems.

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:

During the year your Company completed the Preferential issue successfully by allotting 17 Lakh equity shares of Rs.10/- each to M/s. CX Securities Limited on a preferential basis at a price of ₹638.40.

Your Company has no derivative contracts outstanding as at 31st March, 2014.

Directors:

Shri Rajeev Nannapaneni, Dr. P. Bhaskara Narayana and Dr. A.K.S. Bhujanga Rao would be retiring at the ensuing Annual General Meeting and are eligible for re-appointment

Shri Nitish Jagannath Deshmukh had resigned from the Board on 28th January, 2014 owing to his pre-occupation. Your Directors place on record their sincere appreciation of the services rendered by Shri Nitish Jagannath Deshmukh during his tenure as a Director on the Board of the Company.

Shri D.G. Prasad has joined the Board as an Additional Director effective 13th February 2014. Shri D.G. Prasad is a Chartered Accountant and his last assignment was Chief General Manager, Export Import Bank of India. He brings with him enormous amount of experience relating to Finance, Banking and International Finance and your Directors opine that his addition to the Board would help the Company to reach newer heights of performance. A Notice has been received from a Member, along with requisite fee, proposing the name Shri D.G. Prasad for appointment as Director of the Company, who is an Independent Director.

Shri Vivek Chhachhi has joined the Board as an Additional Director effective from 7th January 2014, Vivek was a Director with Citi Venture Capital International (CVCI) and was with Citi's private equity business for 14 years. During his tenure with CVCI, Vivek worked to identify & invest, manage and exit a large number of companies across a wide spectrum of industries including, amongst others, IT Enabled Services, Financial Services, Auto, Metals & Mining, Infrastructure, Pharma & Specialty Chemicals, Oil & Gas services, Media and Textiles. Vivek has worked in this capacity with several companies, such as Polaris

Software, Daksh, I-Flex solutions, Jubilant Organosys, HT Media, Techno Electric, IVRCL Infrastructure, Himadri Chemicals, SEW Construction, Sasken Technologies, among others. Shri Chhachhi received an MBA from the University of Jamnalal Bajaj Institute, Mumbai (1993) and a B.Sc. (Computer Science) from St. Stephen's College, University of Delhi (1991). A Notice has been received from a Member, along with requisite fee, proposing the name Shri Vivek Chhachhi for appointment as Director of the Company.

Directors' Responsibility Statement:

In compliance with the provisions of Section 217(2AA) 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.

In respect of the qualification made by the statutory auditors in their reports dated 29th May, 2014 relating to non-availment of credit of Minimum Alternate Tax, the same would be examined and considered as and when the amounts are required for payment of tax.

Statutory Auditors:

M/s. Walker, Chandiook & 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 141 and 148 of the Companies Act, 2013, in respect of your Company's operations. Your Company is following the prescribed guidelines in maintaining the requisite records. The Board has appointed M/s. S S Zanwar & Associates, Cost Accountants, Hyderabad to carry out Cost Audit in respect of various products of the Company for the Financial year 2014-2015 for which an item of special business is annexed to the Notice of Annual General Meeting. Cost Audit Report for the 2012-2013 was filed with in the due date. The due date for the filing of Cost Audit Report for the year 2013-2014 is September 30th, 2014.

Particulars of Employees:

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 ₹ in lakhs	Qualification	Experience in Years	Date of Commencement	Particular of last Employment
Shri V C Nannapaneni	68	Chairman & Managing Director	139.38	M.S. (Pharmaceutical Administration)	45	3rd October, 1981	Time Cap Labs Inc.,
Shri Rajeev Nannapaneni	37	Vice Chairman & Chief Executive Officer	111.48	B.A in Quantitative Economics & B.A in History from TUFTS University, USA	15	3rd July, 2000	Merrill Lynch and Natco Systems LLC.

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, dematerialised 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 2013-2014. Facilities for dematerialisation have become fully operational. The ISIN No. of the Company is INE987B01018.

Fixed Deposits

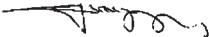
There are no outstanding and overdue deposits as at 31st March, 2014. The Company had not accepted any deposits during the year.

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 and all its bankers. 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

Hyderabad,
12th August, 2014


V.C. Nannapaneni
Chairman & Managing Director

1. Annexure-A - Status of Regulatory filings for Active pharmaceutical Ingredients – As on March 2014

Region	Filed
US	31
Europe (number of molecules)	23
	10 (CEP)
ROW	30
Total	84

2. Annexure-B - Status of Regulatory filings for Finished Formulation – As on March 2014

Region	Under review
US	17
Europe	6
Brazil	7
Canada	9
India	10
Total	52

3. Annexure-C- Patents filed- As on March 2014

Area	Granted		Application	
	India	Foreign	India	Foreign
NCE	1	65	7	114
API	64	10	68	73
Formulation	15	2	6	34
Total	80	77	81	221

FORM – A

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

A: POWER AND FUEL CONSUMPTION

	For the year ended 31.03.2014	For the year ended 31.03.2013
1. Electricity		
a) Purchased Units	37180686	27948567
Total amount (Rs.)	26,65,70,131	17,84,01,033
Rate / Unit (Rs.)	7.17	6.38
b) Own Generation:		
i) Through Diesel		
Generator Units	1780821	5518343
Units / Ltr. Of Diesel Oil	3.36	3.30
Cost / Unit (Rs.)	17.07	15.42
2. Coal D/C grade		
Quantity (Tonnes)	6085	5932
Total Amount	4,53,30,878	4,71,28,956
Average rate per tonne (Rs.)	7450	7945
3. Furnace Oil		
Quantity (Ltr)	397743	486116
Total amount (Rs.)	1,84,04,609	2,20,77,504
Average rate per Ltr (Rs.)	46.27	45.42

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	Generic drug substances (APIs), drug products (formulations) and New Chemical Entities
2. Benefits derived as a result Successful of the above R&D	Developed technologies for number of APIs, Finished Dosage Formulations and four NCEs. Regulatory filings are done on a continuous basis and products are being exported. Two NCEs at various stages of clinical trials and the rest are under further development.
3. Future plan of action	R & D efforts will continue on APIs, Finished Dosage Formulations and NCEs and through new initiatives such Molecular Modelling and Rational Drug Design.

AMOUNT (Rs. in Lakhs)

	For the Year ended 31st Mar'14	For the Year ended 31st Mar'13
4. Expenditure on R & D		
a) R&D Expenditure	4,065.86	3,777.93
b) Total R & D expenditure as percentage of Net Revenue from operations (Including capital expenditure)	6.53	6.77

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 stabilised and scaled up for commercial production
2. Benefits derived as a result of the above efforts	a) Stabilisation 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

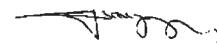
FORM – C

FOREIGN EXCHANGE EARNINGS AND OUTGO

(Rs. in thousands)

	For the Year ended 31st Mar'14	For the Year ended 31st Mar'13
A) Earnings in Foreign Exchanges Export of goods calculated on F.O.B basis	29,07,799	28,17,396
B) CIF value of Imports		
Raw Materials	3,39,393	3,75,630
Capital Goods & Consumable stores	81,836	1,10,404
C) Expenditure in Foreign Currency towards		
Travelling	6,194	12,503
Commission	38,126	8,398
Professional Charges	1,44,043	14,311
Interest on borrowings	10,820	13,039
Others	82,418	93,508

for and on behalf of the Board
Natco Pharma Limited

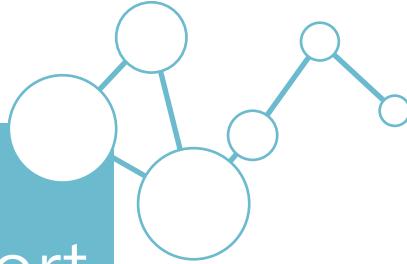


V.C. Nannapaneni

Chairman & Managing Director

Hyderabad, 12th August, 2014

Corporate Governance Report



The Securities and Exchange Board of India (SEBI) ushered in a formal code of corporate governance through Clause 49 of the Listing Agreement. This report sets out the details of corporate governance systems and processes of the Company, as set out in Clause 49 and some of the practices followed by the Company on corporate governance. The Company is in full compliance with the corporate governance norms as stipulated in Clause 49.

Company's philosophy on Corporate Governance

Transparency and accountability are the two basic tenets of Corporate Governance. Good governance practices stem from dynamic culture and positive mindset of organisation. At Natco, we consider stakeholders as partners in our success, and we remain committed to maximising stakeholder value. This approach to value creation emanates from our belief that sound governance system, based on relationship and trust, is integral to

creating enduring value for all. We have strengthened governance practices. These practices define the way business is conducted and value is generated. Stakeholders' interest taken into account before making any business decision.

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

We believe, to succeed, requires highest standard of corporate governance behaviour towards everyone we work with, the communities we touch and the environment on which we have an impact. This is our road to consistent, competitive, profitable and responsible growth and creating long term value for our shareholders.

Board of Directors

1. Board Composition

The Board of Directors provides leadership and guidance to the Company's Management and directs, supervises and controls the activities of the Company.

The Board comprises of 9 directors of which 5 are Non- Executive Directors and Independent Directors and 4 are Executive Directors.

Name of the Director	Category	No of Board Meeting during the year		Whether Attended Last AGM Held on 29-09-2012	No. of Directorships in other Public Limited Companies*	No of Committees		Relationship Inter se Directors
		Held	Attended			Member	Chairman	
Shri V.C. Nannapaneni	Promoter	6	6	Yes	1	4	1	Father of Shri Rajeev Nannapaneni
Shri T.V. Rao	Independent Director – Nominee Exim Bank	6	5	No	5	1		
Shri G.S. Murthy	Independent	6	6	Yes	Nil	–	4	
Dr. B.S. Bajaj	Independent	6	6	Yes	1	3		
Shri Rajeev Nannapaneni	Whole time Director	6	6	Yes	1	1		Son of Shri V.C. Nannapaneni
Dr. P. Bhaskara Narayana	Whole time Director	6	6	Yes	1	2		
Dr. A.K.S. Bhujanaga Rao	Whole time Director	6	5	Yes	Nil	Nil	Nil	
Shri Vivek Chhachhi	Director	6	1	–	3	1		
Shri D.G.Prasad	Director	6	1	–	4	1		

■ Excludes private limited companies, foreign companies and companies not carrying on business for profit or which prohibits the payment of dividend.

■ Shri Nitin Jagannath Deshmukh had resigned as a Director, w.e.f January 28, 2014.

■ Shri Vivek Chhachhi has been appointed as Additional Director with effect from 7th January, 2014.

■ Shri D.G. Prasad has been appointed as Additional Director with effect from 13th February, 2014.

■ During 2013-2014, the Company did not have any material pecuniary relationship or transaction with Non working Directors.



Board Meetings

The Board of Directors met 6 times during 2013-2014. The meetings were held on May 30, 2013, June 6, 2013, August 14, 2013, October 19, 2013, November 14, 2013, and February 13, 2014. The maximum time gap between any two consecutive meetings did not exceed four months. Board and Audit Committee meetings were held on same day in order to avoid possible travel and time constraints of the Directors.

2. Board Agenda

Board Agenda containing the comprehensive information and extensive details for the items of business for the meeting being circulated to all the Directors in advance. Urgent issues and procedural matters are at times tabled at the meeting with prior approval of Chairman and with the consent of all the Directors present. Your Company periodically reviews compliance reports of all laws applicable to the Company and takes proactive steps to avert slippages and take remedial measures as appropriate.

3. Board Committees

The Board of Directors has constituted five Board Committees viz. Audit Committee, Remuneration Committee, Investors Grievances Committee, Compensation Committee, and Allotment Committee. All decisions pertaining to the constitution of Committees, appointment of members and fixing of terms of reference/role of the Committees are taken by the Board of Directors. Details on the role and composition of these Committees, including the number of meetings held during the financial year, are provided below.

a. 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 Exchange. The Audit Committee comprises Shri G. S. Murthy, Shri T.V. Rao, Dr. B.S. Bajaj, Shri D.G.Prasad, and Shri Vivek Chhachhi. All the members are financially literate and have relevant finance and/or audit experience.

During the Financial Year, 5 Audit Committee Meetings were held on May 30, 2013, June 6, 2013, August 14,

2013, November 14, 2013, and February 13, 2014. The Chairman of the Audit Committee is an independent professional director. Besides the Members Statutory Auditors, Internal Auditors and Cost Auditors are also present in the meetings. The Company Secretary act as Secretary of the Audit Committee.

The members who attended the number of meetings as follows:

Name of the Member	Meetings held during the year	Attendance at the meeting
Shri G.S. Murthy	5	5
Dr. B. S. Bajaj	5	5
Shri T.V. Rao	5	4
Shri Vivek Chhachhi	5	1
Shri D.G. Prasad	5	1
Shri V.C. Nannapaneni	5	5

**Shri Vivek Chhachhi and Shri D.G.Prasad has been inducted as Audit Committee Member at the Board meeting on 13th February, 2014*

Terms of reference of Audit Committee includes the following:

- Recommend appointment and removal of Auditors and their remuneration, nature and scope of audit
- Ensure adequacy of internal controls and compliances and recommend remedial measures
- Review adequacy of the Internal Audit function
- Oversee financial reporting process and disclosure of financial information
- Review financial statements before submission to the Board
- Act as the link between statutory Auditors, Internal Auditors and Board Of Directors
- Review accounting policies
- Monitor compliance with code of conduct
- Review significant related party transaction
- Review findings of internal investigations/fraud/irregularities, etc.
- Carry out additional function as contained in the listing agreement or other regulatory requirements applicable

to the Company or in the terms of reference of the Audit committee.

■ Responsibilities under the Code of Conduct for Prevention of Insider Trading and Code of Corporate Disclosure Practices.

b. Remuneration Committee

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 in this report.

As on 31st March, 2014 Remuneration Committee comprised of two Non working Directors viz. G.S. Murthy and B.S. Bajaj and they met on August 14, 2013.

■ Remuneration of Directors

Remuneration paid to Directors during 2013-2014

■ Executive Directors

S. No.	Name	Position	Total ₹
1.	Shri V.C. Nannapaneni	Chairman & MD	13,938,000
2.	Shri Rajeev Nannapaneni	Vice Chairman & CEO	11,148,000
3.	Dr. P. Bhaskara Narayana	Director & CFO	3,600,000
4.	Dr. A.K.S. Bhujanaga Rao	President (R&D and Technical)	3,350,996

■ Non-Executive 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. Further the sitting fee is increased to ₹20,000/-(Rupees Twenty Thousand only) from 13th February, 2014 .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 2013-14 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 ₹	Committee Meeting	Allotment Committee ₹	
1.	Shri G.S. Murthy	Independent Director	45,000	25,000	10,000	5,000	-	5,000	-	90,000
2.	Shri T.V. Rao	Nominee Director – Exim Bank	40,000	20,000	-	-	-	-	-	60,000
3.	Dr. B.S. Bajaj	Independent Director	45,000	25,000	-	5,000	-	-	-	75,000
4.	Shri Nitin Jagannath Deshmukh	Independent Director	15,000	-	-	-	-	-	-	15,000
5.	Shri D.G. Prasad	Additional Director	20,000	5,000	-	-	-	-	-	25,000



c. Investors Grievances Committee

The Investor grievances committee consists of three Directors of which Chairman of the Committee is Independent Professional Director. The members are Shri G.S. Murthy, Dr. P. Bhaskara Narayana and Shri V.C. Nannapaneni and they met on August 14, 2013 and February 13, 2014 .The Investor Grievance Committee review all matters connected with share transfers and transmissions, Dematerialisation/Re-materialisation, Non receipt of Annual Reports and declared dividend. The Committee also expeditiously redress investor grievances.

The Company had received 271 requests for various queries during the year 2013-2014 and all of them were replied/resolved to the satisfaction of investors.

d. Compensation Committee:

Company has also got a Compensation Committee 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 as and when announced.

No Compensation Committee meeting held during the year.

e. Allotment Committee/Committee of Directors:

Company has got an Allotment committee/Committee of Directors comprising of Shri V C Nannapaneni, Shri G. S. Murthy, Shri 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.

Allotment Committee/Committee of Directors meeting held on 29th November 2013 allotted 17.00 Lakh equity shares at price of Rs.638.40 on Preferential Basis to M/s. CX Securities Ltd.

4. Share Transfer Committee

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

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

During the Financial year 362 instruments of transfers/transmissions for 27,630 equity shares were received and the same were effected.

5. General Body Meetings

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

Year	Date of the Meeting	Venue	Time of meeting	No. of Special Resolutions / Business
2010-2011	30-09-2011	Daspalla Hotel, Road No.37 Jubilee Hills, Hyderabad 500 033	10.00 a.m.	2
2011-2012	29-09-2012	Daspalla Hotel, Road No.37 Jubilee Hills, Hyderabad 500 033	10.00 a.m.	2
2012-2013	28-09-2013	Daspalla Hotel, Road No.37 Jubilee Hills, Hyderabad 500 033	10.30 a.m.	4

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

6. 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

7. Quarterly Reconciliation of Share Capital Audit Report

A thorough audit is conducted on a quarterly basis by a qualified Company Secretary, in terms of regulation 55A of SEBI(Depositories & Participants) Regulations, 1996, to reconcile the total admitted equity share capital with NSDL and CDSL and the total issued and listed equity share capital. The Reconciliation of Share Capital audit report confirms that the total issued/paid-up capital is in agreement with the total number of shares in physical form and the total number of dematerialised shares held with NSDL and CDSL.

8. Employee Stock Option Plans (ESOP)

The Employees Stock Option Plans of the Company are formulated and implemented according to the provisions of SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999.

During the year, No ESOP was granted.

9. 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.

10. Disclosure

i. Legal Compliance

The Company follows a formal management policy and system of legal compliance and reporting to facilitate periodical review by the Board of the compliance of laws applicable to the Company and steps taken to rectify non-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.

ii. 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.

iii. 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.

iv. 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 of this report.

v. Environmental Policy

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

11. 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 2013-14 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 Natco Pharma Inc. in USA, Time Cap Overseas Limited in Mauritius, Natco Pharma Inc. in Canada, Natco Organics Limited in India, Natco Farma Do Brazil, Brazil, K&C Pharmacy, a Partnership Firm in USA.

iv. Disclosure of Issue Proceeds

As per the resolution passed by the shareholders of the Company at EGM of Company held on 14th November, 2013, the Company made preferential allotment and allotted 1,700,000 (one million seven hundred thousand) equity shares, at a price of ₹638.40 (Rupees six hundred and thirty eight and forty paise only) per share aggregating to ₹1,085,280,000 (Rupees one thousand eighty five million two hundred and eighty thousand only) to CX Securities Limited on 29th November, 2013.

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 12th August, 2014.

vi. Review of Directors' Responsibility Statement

The Board in its Report have confirmed that the annual accounts for the year ended 31st March, 2014 have been prepared as per applicable accounting standards and policies and that sufficient care has been taken for maintaining adequate accounting records.

12. 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 good moral and ethical atmosphere in all its business activities and has put

in place mechanism of reporting illegal or unethical behaviour. Employees are free to report violations of laws, rules, regulations or unethical conduct to their immediate superior or even to the Directors. 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 and on the Company's Website.

vi. Listing Agreement facilitates 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 to all shareholders.

vii. **Audit Qualification:** The Company replied suitably for the qualifications of Auditors which were mentioned in the Directors 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 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.

13. Means Of Communication

The 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 and were also promptly put on the Company's website www.natcopharma.co.in., 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 2013-14 but posted on its website. 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, 2013	Business Standard	Prajasakti, Eenadu	16-08-2013
30th September, 2013	Financial Express	Prajasakti, Namaste telangana	15-11-2013
31st December, 2013	Financial Express, The Hans India	Prajasakti, Namaste telangana	14-02-2014
31st March, 2014	Financial Express,	Prajasakti, Eenadu	30-05-2014

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

14. General Information for Shareholders

AGM: Date, Time and Venue

Annual General Meeting	
Date & Time	27th September, 2014 at 10.30 am
Venue	Daspalla Hotel, Road No. 37, Jubilee Hills, Hyderabad-500 033
Book Closure dates	24th September, 2014 to 27th September, 2014 (Both days inclusive)

15. Financial Calendar 2013-2014

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.

16. Financial Reporting – Unaudited Results – Tentative Date

For the quarter ending June 30, 2014	14th August, 2014
For the quarter ending Sep 30, 2014	On or before 15/11/2014
For the quarter ending Dec 31, 2014	On or before 15/02/2015
For the quarter ending Mar 31, 2015	On or before 30/05/2015
Annual General meeting for 2014-15	On or before 30th September, 2015

17. 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	524816
National Stock Exchange of India Limited	Natcopharm

The Company has paid the annual listing fees for the year 2013-14 to both of the above stock exchanges and also paid Custodial Fee for the year 2013 - 2014 to both National Securities Depository Limited and the Central Depository Service (India) Limited.



18. Market Price Data

The monthly movements of equity share prices during the financial year 2013- 2014 at BSE & NSE are summarised as herein below:

Month & Year	Bombay Stock Exchange		National Stock Exchange	
	High	Low	High	Low
April, 2013	478.00	433.25	477.85	435.00
May, 2013	468.00	423.50	467.35	425.10
June, 2013	460.00	424.00	460.00	422.05
July, 2013	640.00	430.00	634.00	445.00
August, 2013	650.00	545.55	634.70	537.05
September, 2013	629.40	583.60	629.00	582.00
October, 2013	728.10	611.00	728.00	612.10
November, 2013	826.00	669.00	826.00	660.10
December, 2013	839.90	747.00	840.00	745.00
January, 2014	830.00	719.00	829.80	719.45
February, 2014	852.40	696.00	851.60	696.05
March, 2014	877.00	772.55	878.00	770.05

19. Share Transfer Work For Both Physical & Electronic Forms

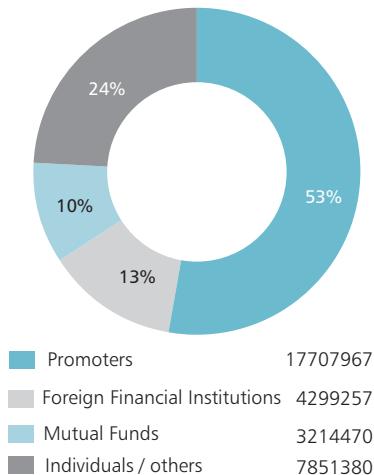
M/s. Venture Capital and Corporate Investments Ltd.

12-10-167, Bharat Nagar, Hyderabad 500 018.

Tel No: 040-23818475 & 23818476 • Fax No: 040-23868024 • E-mail: info@vccilindia.com.

20. Shareholding Pattern

Distribution of Shareholding as on 31st March, 2014



21. Dematerialisation of shares

Nearly 98.32% of your Company shares were dematerialised as on 31st March 2014. As the trading is being conducted only in electronic form members are requested to go in for dematerialisation of shares at the earliest.

22. Unclaimed shares

The status of unclaimed shares of the Company transferred to a demat account - 'Natco Pharma Limited - Unclaimed Suspense Account', in accordance with Clause 5A (II) of the Listing Agreement with Stock Exchanges, is given below:

Particulars	No of Shareholders	No of Shares
Aggregate number of Shareholders and outstanding shares held in the Unclaimed Suspense Account	4348	95520
Number of Shareholders / legal heirs to whom the shares were transferred from the Unclaimed Suspense Account upon receipt and verification of necessary documents during the year	31	780
Aggregate number of Shareholders and outstanding shares held in the Unclaimed Suspense Account as on 31st March, 2014	4317	94740

23. 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.

24. 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.

25. 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.

26. 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 Agreements, is annexed herewith and forms part of the Annual Report.

27. Plant locations

Pharma Division Kothur Post & Mandal Mahaboobnagar Dist. Telangana -509 228	Pharma Division - Parenterals Vijayapuri North, Nagarjunasagar, Nalgonda Dist. Telangana – 508 202
Chemical Division Mekaguda, Kothur Mandal Mahaboobnagar Dist Telangana - 509 228	R&D Division B-13, Industrial Estate Sanathnagar, Hyderabad. Telangana – 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
Natco Organics Ltd. No. 74/7B, Vaikkadu TPP Salai, Manali, Chennai 600 013 Tamilnadu	Unit Under Construction Pharma Division, DAG NO-749,750. Village – Kokjhar, Revenue Circle-Mirza, Dist –Kamrup (Rural) Guwahati, Assam-state. Pin-781122.
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

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, 2013 or the date of their joining the Company, whichever is later, to 31st March, 2014 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.

Date: 12th August, 2014

Place: Hyderabad

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, 2014 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, 2014 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: 12th August, 2014

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, 2014 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: 12th August, 2014

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



Independent Auditor's Report

To
The Members of
NATCO Pharma Limited

Report on the Financial Statements

1. We have audited the accompanying financial statements of NATCO Pharma Limited, ("the Company"), which comprise the Balance Sheet as at 31 March 2014, and the Statement of Profit and Loss and Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

2. Management is responsible for the preparation of these financial statements, that give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with the accounting principles generally accepted in India, including the Accounting Standards notified under the Companies Act, 1956 ("the Act") read with the General Circular 15/2013 dated 13 September 2013 of the Ministry of Corporate Affairs in respect of section 133 of the Companies Act, 2013. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

3. Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable

assurance about whether the financial statements are free from material misstatement.

4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

6. *The Company has not recognized Minimum Alternative Tax (MAT) credit entitlement as required by the Guidance Note on "Accounting for Credit available in respect of Minimum Alternative Tax under the Income Tax Act, 1961", issued by the Institute of Chartered Accountants of India. Had the Company accounted for such MAT credit, the profit after tax for the year ended 31 March 2014 and loans and advances and reserves and surplus as at that date would have been higher by ₹881,697,337 (31 March 2013: ₹623,262,102). This matter had caused us to*

qualify our audit report for the year ended 31 March 2013.

Qualified Opinion

7. In our opinion and to the best of our information and according to the explanations given to us, *except for the effects of the matter described in the Basis for Qualified Opinion paragraph* the financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India:

- i) in the case of the Balance Sheet, of the state of affairs of the Company as at 31 March 2014;
- ii) in the case of Statement of Profit and Loss, of the profit for the year ended on that date; and
- iii) in the case of the Cash Flow Statement, of the cash flows for the year ended on that date.

Report on Other Legal and Regulatory Requirements

8. As required by the Companies (Auditor's Report) Order, 2003 ("the Order") issued by the Central Government of India in terms of sub-section (4A) of Section 227 of the Act, we give in the Annexure a statement on the matters specified in paragraphs 4 and 5 of the Order.
9. As required by Section 227(3) of the Act, 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 purpose of our audit;
 - b. in our opinion, proper books of account as required by law have been kept by the Company

so far as 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. *Except for the effects of the matter described in the Basis of Qualified Opinion paragraph*, in our opinion, the financial statements comply with the Accounting Standards notified under the Act read with the General Circular 15/2013 dated 13 September 2013 of the Ministry of Corporate Affairs in respect of section 133 of the Companies Act, 2013 ; and
- e. on the basis of written representations received from the directors, as on 31 March 2014 and taken on record by the Board of Directors, none of the directors is disqualified as on 31 March 2014 from being appointed as a director in terms of clause (g) of sub-section (1) of Section 274 of the Act.

For Walker Chandiok & Co LLP
(formerly Walker, Chandiok & Co)
Chartered Accountants
Firm Registration No.: 001076N

per Sanjay Kumar Jain
Partner

Place: Hyderabad
Date: 29 May 2014

Membership No.: 207660



Annexure to the Independent Auditor's Report of even date to the members of NATCO Pharma Limited, on the financial statements for the year ended 31 March 2014

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 asset.*
 - (b) The Company has a regular program of physical verification of its fixed assets under which fixed assets are verified in a phased manner over a period of three years, which, in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. 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, except for stocks lying with third parties. For stocks lying with third parties at the year-end, written confirmations have been obtained by the management.
 - (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 between physical inventory and book records were noticed on physical verification.
- (iii) (a) The Company has granted unsecured interest free loan to a subsidiary covered in the register maintained under Section 301 of the Act. The maximum amount outstanding during the year is ₹430,992,362 and the year-end balance is ₹430,992,362.
 - (b) The Company has granted an interest free loan to a subsidiary covered under Section 301 of the Act. According to explanation provided by the management, the terms and conditions of such loan is not, *prima facie*, prejudicial to the interest of the Company due to concessional trade arrangement with such party. *In view of such trade arrangement, we are unable to comment as to whether the rate of interest or other terms and conditions are prejudicial to the interest of the Company.*
 - (c) In respect of interest free loan given, the principal amount is repayable on demand and since the repayment of such loan has not been demanded, in our opinion, receipt of the principal amount is regular.
 - (d) There is no overdue amount in respect of loan granted to the said subsidiary.
 - (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 fixed assets and for the sale of goods and services. During the course of our audit, no major weakness has been noticed in the internal control system in respect of these areas.

- (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 the 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) In our opinion, the Company has an internal audit system 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 a few cases. Further, no undisputed amounts payable in respect thereof were outstanding at the year-end for a period of more than six months from the date they became payable.
- (b) The dues outstanding in respect of income-tax, sales-tax, wealth tax, service tax, custom duty, excise duty, cess on account of any dispute, are as follows:

Name of the statute	Nature of dues	Amount (₹)	Amount Paid Under Protest (₹)	Period to which the amount relates	Forum where dispute is pending
The Central Sales Tax Act, 1956	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	7,437,529	-	AY: 2006-07	Commissioner of Income Tax (Appeals), Hyderabad
		3,923,802	-	AY: 2011-12	
		6,924,266	6,924,266	AY: 2009-10	Income Tax Appellate Tribunal, Hyderabad
		18,447,645 656,957	18,447,645 656,957	AY: 1989-90 to 1998-99	Honorable High Court of Andhra Pradesh.



- (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) There are no dues payable to debenture-holders. The Company has not defaulted in repayment of dues to any bank or financial institutions 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, 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 Company has applied the term loans for the purpose for which these loans were obtained.
- (xvii) In our opinion, no funds raised on short-term basis have been used for long-term investment by the Company.
- (xviii) During the year, the Company has not made any preferential allotment of shares to parties / and 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 LLP**
(formerly Walker, Chandiok & Co)
Chartered Accountants
Firm Registration No.: 001076N

per **Sanjay Kumar Jain**

Partner

Place: Hyderabad
Date: 29 May 2014

Membership No.: 207660

Balance Sheet as at 31st March, 2014

(All amounts in ₹ unless otherwise stated)

	Note No.	As at 31 March, 2014	As at 31 March, 2013
EQUITY AND LIABILITIES			
Shareholders' funds			
Share capital	2	33,07,30,740	31,37,30,740
Reserves and surplus	3	6,99,82,60,995	5,06,20,59,357
		7,32,89,91,735	5,37,57,90,097
Non-current liabilities			
Long-term borrowings	4	94,96,91,199	1,37,12,36,462
Deferred tax liabilities (net)	5	42,32,71,191	41,11,98,879
Other long term liabilities	6	69,10,411	69,10,411
Long-term provisions	7	10,62,92,232	8,21,21,634
		1,48,61,65,033	1,87,14,67,386
Current liabilities			
Short-term borrowings	8	98,63,12,469	1,47,74,34,832
Trade payables	9	99,18,09,855	96,37,62,747
Other current liabilities	10	96,48,17,286	88,29,94,349
Short-term provisions	11	41,36,732	33,05,980
		2,94,70,76,342	3,32,74,97,908
Total		11,76,22,33,110	10,57,47,55,391
ASSETS			
Non-current assets			
Fixed assets			
Tangible assets	12	5,23,19,03,737	4,65,64,59,895
Intangible assets	13	5,78,95,367	4,91,09,294
Capital work-in-progress		92,93,69,463	78,36,77,802
Non-current investments	14	88,58,11,357	76,75,92,047
Long-term loans and advances	15	1,25,16,10,941	1,20,66,28,288
Other non-current assets	16	3,21,68,190	2,60,79,013
		8,38,87,59,055	7,48,95,46,339
Current assets			
Current investments	17	31,79,534	81,21,526
Inventories	18	1,61,96,56,419	1,28,31,98,581
Trade receivables	19	1,15,84,66,666	1,26,46,35,643
Cash and bank balances	20	7,69,60,333	7,50,03,058
Short-term loans and advances	15	48,99,89,540	42,68,85,070
Other current assets	21	2,52,21,563	2,73,65,174
		3,37,34,74,055	3,08,52,09,052
Total		11,76,22,33,110	10,57,47,55,391
Notes 1 to 43 form an integral part of these financial statements.			

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

For Walker Chandiok & Co LLP For and on behalf of Board of Directors of NATCO Pharma Limited

(Formerly Walker, Chandiok & Co)

Chartered Accountants

per Sanjay Kumar Jain

Partner

V C Nannapaneni

Chairman & Managing
Director

Rajeev Nannapaneni

Vice Chairman & CEO

M. Adinarayana

Company Secretary &
Vice President

(Legal & Corporate Affairs)

Place : Hyderabad

Date : 29 May 2014

Place : Hyderabad

Date : 29 May 2014



Statement of Profit and Loss for the year ended 31st March, 2014

(All amounts in ₹ unless otherwise stated)

	Note No.	For the year ended 31 March, 2014	For the year ended 31 March, 2013
REVENUE			
Revenue from operations (gross)	22	6,28,16,77,723	5,65,12,09,796
Less : Excise duty		5,82,55,959	7,26,85,211
Revenue from operations (net)		6,22,34,21,764	5,57,85,24,585
Other income	23	15,70,51,409	11,93,99,069
Total revenue		6,38,04,73,173	5,69,79,23,654
EXPENSES			
Cost of materials consumed (including packing material)	24	1,66,69,87,571	1,80,62,72,492
Purchases of stock-in-trade		-	5,58,15,327
Changes in inventory of finished goods, work-in-progress and traded goods	25	(15,96,62,233)	(21,24,88,572)
Employee benefits expense	26	94,22,30,959	85,36,20,758
Finance costs	27	34,05,54,722	25,11,93,404
Depreciation and amortisation charge	12 and 13	26,78,60,053	19,84,15,499
Other expenses	28	1,90,80,06,888	1,50,60,03,773
Total expenses		4,96,59,77,960	4,45,88,32,681
Profit before exceptional items and tax		1,41,44,95,213	1,23,90,90,973
Exceptional item	29	-	11,58,40,728
Profit before tax		1,41,44,95,213	1,12,32,50,245
Tax expense			
Current tax		30,05,00,000	21,95,57,700
Deferred tax expense		1,20,72,312	12,22,58,971
Profit for the year		1,10,19,22,901	78,14,33,574
Earnings per equity share [EPES]	39		
Face value ₹10 per share			
Basic		34.49	25.02
Diluted		34.49	24.91
Notes 1 to 43 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 Walker Chandiok & Co LLP For and on behalf of Board of Directors of NATCO Pharma Limited

(Formerly Walker, Chandiok & Co)

Chartered Accountants

per Sanjay Kumar Jain

Partner

V C Nannapaneni
Chairman & Managing
Director

Rajeev Nannapaneni
Vice Chairman & CEO

M. Adinarayana
Company Secretary &
Vice President
(Legal & Corporate Affairs)

Place : Hyderabad
Date : 29 May 2014

Place : Hyderabad
Date : 29 May 2014

Cash Flow Statement for the year ended 31st March, 2014

(All amounts in ₹ unless otherwise stated)

	For the year ended 31 March, 2014	For the year ended 31 March, 2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	1,41,44,95,213	1,12,32,50,245
Adjustments :		
Depreciation and amortisation expense	26,78,60,053	19,84,15,499
Net gain on sale of current investments	(1,00,58,159)	(1,17,66,528)
Inventory written-off	78,13,451	84,01,436
Provision for employee benefits	2,50,01,350	1,71,49,171
Employee stock option compensation	-	5,71,12,791
Provision no longer required, written back	(46,21,360)	(3,18,75,000)
Interest income	(3,06,38,540)	(2,11,02,676)
Dividend income	(1,31,668)	(4,808)
Interest expenses	31,74,97,391	23,78,03,001
(Gain) / loss on sale of asset	(78,065)	7,11,296
Unrealised foreign exchange loss / (gain), net	(57,05,925)	4,07,951
Operating profit before working capital changes	1,98,14,33,741	1,57,85,02,378
Increase / (decrease) in other current liabilities	14,10,69,393	(7,67,29,521)
Increase in trade payables	3,83,74,393	20,48,22,138
Decrease in long-term liabilities	-	(66,25,864)
Increase in inventories	(34,42,71,289)	(31,87,65,607)
Decrease / (increase) in trade receivables	10,61,68,977	(33,09,11,456)
Decrease / (increase) in long-term loans and advances	22,12,04,348	(4,42,67,618)
Increase in short-term loans and advances	(10,36,36,518)	(8,30,33,580)
Decrease / (increase) in other current assets	21,43,611	(3,35,451)
Cash generated from operating activities	2,04,24,86,656	92,26,55,419
Income taxes paid	(32,46,14,389)	(22,24,07,944)
Net cash generated from operating activities	A 1,71,78,72,267	70,02,47,475
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of tangible assets	(94,25,18,570)	(1,02,23,36,150)
Purchase of intangible assets	(2,01,81,618)	(3,82,60,234)
Investment in subsidiary companies	(11,79,64,275)	(2,60,18,992)
Investment in non-current investments	(2,55,035)	-
Drawings from partnership firm	-	1,88,48,513
Purchase of current investments	-	(91,29,970)
Proceeds from sale of current investments	1,50,00,151	1,17,89,933
Interest received	3,03,93,752	2,63,25,085
Loans recovered from / (given to) subsidiary companies	(26,56,91,241)	(19,94,54,248)
Proceeds from sale of fixed assets	5,91,872	-
Dividends received	1,31,668	4,808
Increase in other bank balances	(58,60,867)	(41,67,009)
Net cash used in investing activities	B (1,30,63,54,163)	(1,24,23,98,264)



Cash Flow Statement for the year ended 31st March, 2014

(All amounts in ₹ unless otherwise stated)

	For the year ended 31 March, 2014	For the year ended 31 March, 2013
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of share capital	1,08,52,80,000	22,51,220
Proceeds from long-term borrowings	31,25,00,000	55,00,00,000
Repayment of long-term borrowings	(80,53,19,661)	(46,90,42,949)
(Repayments) / proceeds from short-term borrowings, net	(49,11,22,363)	66,10,12,395
Interest paid	(31,74,62,546)	(30,88,98,219)
Dividends paid (including tax on distributed profits)	(19,34,52,737)	(14,35,78,316)
Net cash (used in) / from financing activities	C (40,95,77,307)	29,17,44,131
Net increase / (decrease) in cash and cash equivalents (A+B+C)	19,40,797	(25,04,06,658)
Cash and cash equivalents as at the beginning of the year	6,66,99,150	31,71,05,808
Cash and cash equivalents as at the end of the year	6,86,39,947	6,66,99,150
[Refer Note 1]		
Note 1:		
Cash and bank balances as per Note 20	7,69,60,333	7,50,03,058
Less: Other bank balances	83,20,386	83,03,908
Total Cash and cash equivalents	6,86,39,947	6,66,99,150

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

For Walker Chandiok & Co LLP For and on behalf of Board of Directors of NATCO Pharma Limited

(Formerly Walker, Chandiok & Co)

Chartered Accountants

per Sanjay Kumar Jain

Partner

V C Nannapaneni

Chairman & Managing
Director

Rajeev Nannapaneni

Vice Chairman & CEO

M. Adinarayana

Company Secretary &
Vice President

(Legal & Corporate Affairs)

Place : Hyderabad

Date : 29 May 2014

Place : Hyderabad

Date : 29 May 2014

Notes to the Financial Statement

Summary of significant accounting policies and other explanatory information

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") notified under the Companies Act, 1956 read with the General Circular 15/2013 dated 13 September 2013 of the Ministry of Corporate Affairs in respect of section 133 of the Companies Act, 2013, and with the relevant provisions of the Act, pronouncements of The Institute of Chartered Accountants of India ('ICAI'). The accounting policies applied by the Company are consistent with those used in the prior period.

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, provision towards permanent diminution in the value of non-current investment, 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

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. Assets retired from active use and held for disposal are stated at their estimated net realisable values or net book values, whichever is lower.

Exchange rate variations relating to long-term foreign currency monetary items, which are utilized in acquisition of a depreciable capital assets are added to or deducted from the cost of the asset and depreciated over the remaining useful life of the asset.

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 sold/discarded 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. Borrowing costs

Borrowing costs that are attributable to the acquisition and construction of a qualifying asset are capitalised as a part of the cost of the asset. Other borrowing costs are recognised as an expense in the year in which they are incurred.

f. 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.

g. 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.



Notes to the Financial Statement

Summary of significant accounting policies and other explanatory information (Contd.)

h. 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.

i. 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.

j. 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.

k. Research and development

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

l. 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 profit sharing arrangements on sale of products is recognized based on terms and conditions of arrangements with respective customers.
- Revenue from licensing and long term supply arrangements is recognized in the

Notes to the Financial Statement

Summary of significant accounting policies and other explanatory information (Contd.)

period in which the Company completes all its performance obligations.

m. 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 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.

n. 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.

o. 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,



Notes to the Financial Statement

Summary of significant accounting policies and other explanatory information (Contd.)

or reported in previous financial statements, are recognized as income or as expenses in the year in which they arise. In 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 is 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.

p. 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 Provisions Act, 1952. The provident fund plan is a defined contribution plan and contribution paid or payable is recognized as an expense on accrual basis. 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 arises.

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 on accrual basis. 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.

q. 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.

r. 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.

s. 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.

t. Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at bank and in hand and short-term investments, with original maturity of less than three months.

Notes to the Financial Statement

(All amounts in ₹ unless otherwise stated)

	As at 31 March, 2014		As at 31 March, 2013	
	Number	Amount	Number	Amount
2. Share capital				
Authorized share capital				
Equity shares of ₹10 each	4,00,00,000	40,00,00,000	3,20,00,000	32,00,00,000
Preference shares of ₹10 each	-	-	30,00,000	3,00,00,000
Issued, subscribed and fully paid up				
Equity shares of ₹10 each	3,30,73,074	33,07,30,740	3,13,73,074	31,37,30,740
	3,30,73,074	33,07,30,740	3,13,73,074	31,37,30,740

(a) Reconciliation of shares

	As at 31 March, 2014		As at 31 March, 2013	
	Number	Amount	Number	Amount
Equity shares of ₹10 each				
Balance at the beginning of the year	3,13,73,074	31,37,30,740	3,11,47,952	31,14,79,520
Add: Issued during the year	17,00,000	1,70,00,000	-	-
Add: Shares issued under the employee stock option plan ("ESOP")	-	-	2,25,122	22,51,220
Balance at the end of the year	3,30,73,074	33,07,30,740	3,13,73,074	31,37,30,740

(b) Terms and rights attached to equity shares

The Company has 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 dividend proposed by the Board of Directors is subject to the approval of the shareholders in the ensuing general meeting.

In the event of liquidation of the Company, the holders of equity shares will be entitled to receive the remaining assets of the Company, after distribution of all preferential amounts in proportion of their shareholding.

(c) Shareholders holding more than five percent shares in the Company

	As at 31 March, 2014		As at 31 March, 2013	
	Number	%	Number	%
Equity shares of ₹10 each				
V C Nannapaneni **	80,23,838	24.26%	80,23,838	25.58%
Time Cap Pharma Labs Limited	32,09,833	9.71%	34,09,694	10.87%
Natsoft Information Systems Private Limited	31,53,500	9.53%	31,53,500	10.05%
CX Securities Limited	17,00,000	5.14%	-	-

** including shares held in the capacity of Karta of HUF of 1,088,009 (31 March 2013:1,088,009)

(d) Issue of equity shares

During the year, the Company has issued, on preferential allotment basis 1,700,000 equity shares of ₹10 each, fully paid-up at a premium of ₹628.40 per equity share.



Notes to the Financial Statement

(All amounts in ₹ unless otherwise stated)

(e) Employee stock option scheme ("ESOP")

- (i) The Company had instituted NATCO Stock Option Plan 2010 ("ESOP 2010") as per the special resolution passed in the annual general meeting of the members held on 30 September 2010. This Scheme has been formulated in accordance with the 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. 236,551 options were granted during August 2011 at an exercise price of ₹10 each are accounted at an intrinsic value of ₹252.55 per share, being the difference between the market value, calculated in accordance with the valuation methods prescribed by the SEBI and the grant price and accounted as stock option compensation over the vesting period of twelve months from the date of the grant.
- (ii) During the year ended 31 March 2014 the Company has recorded stock compensation expenses amounting to ₹Nil (31 March 2013: ₹57,112,791) including ₹Nil (31 March 2013: ₹36,202,643) pertaining to prior period.
- (iii) Changes in number of shares representing stock options outstanding as at the year ended on 31 March 2014 were as follows:

	ESOP 2010
Outstanding as at 1 April 2012	2,25,122
Granted during the year	-
Exercised and vested	2,25,122
Forfeited	-
Outstanding as at 31 March 2013	-
Exercised and vested	-
Forfeited	-
Outstanding as at 31 March 2014	-

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

	As at 31 March, 2014	As at 31 March, 2013
Equity shares of ₹10 each allotted as fully paid-up pursuant to contracts without payment being received in cash.*	3,32,247	3,32,247

* 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 Statement

(All amounts in ₹ unless otherwise stated)

	As at 31 March, 2014	As at 31 March, 2013
3. Reserves and surplus		
Capital reserve - as per last balance sheet	20,72,72,762	20,72,72,762
Capital redemption reserve - as per last balance sheet	49,28,810	49,28,810
Securities premium reserve		
Balance at the beginning of the year	1,52,14,41,552	1,46,43,28,761
Add: Additions during the year [Refer note 2(d)]	1,06,82,80,000	5,71,12,791
Balance at the end of the year	2,58,97,21,552	1,52,14,41,552
General reserve		
Balance at the beginning of the year	32,71,61,000	24,71,61,000
Add: Additions during the year	11,00,00,000	8,00,00,000
Balance at the end of the year	43,71,61,000	32,71,61,000
Foreign currency translation reserve		
Balance at the beginning of the year	4,05,32,048	3,43,36,385
Add: Adjustments during the year	(4,05,32,048)	61,95,663
Balance at the end of the year	-	4,05,32,048
Surplus in the statement of profit and loss		
Balance at the beginning of the year	2,96,07,23,185	2,40,51,39,895
Add: Profit for the year	1,10,19,22,901	78,14,33,574
Less: Interim dividend - ₹5 (31 March 2013: ₹4) per share	16,53,65,370	12,54,92,296
Less: Tax on distributed profits	2,81,03,845	2,03,57,988
Less: Transferred to general reserve	11,00,00,000	8,00,00,000
Balance at the end of the year	3,75,91,76,871	2,96,07,23,185
	6,99,82,60,995	5,06,20,59,357
4. Long-term borrowings		
Secured		
Term loans from		
Banks	96,56,06,253	1,26,84,12,628
Other parties	41,97,05,883	60,91,76,471
	1,38,53,12,136	1,87,75,89,099
Unsecured		
Deferred payment liabilities	-	5,42,698
	1,38,53,12,136	1,87,81,31,797
Less: Current maturities of long-term borrowings (note 10)	43,56,20,937	50,68,95,335
	94,96,91,199	1,37,12,36,462



Notes to the Financial Statement

(All amounts in ₹ unless otherwise stated)

(a) Deferred payment liabilities

Represents interest free sales tax deferment, availed under the 'TARGET 2000' Scheme of the Government of Andhra Pradesh, India.

(b) Terms and conditions of loans and nature of security

(i) Term loans amounting to ₹457,205,883 (31 March 2013: ₹696,676,471) is secured by pari-passu first charge on the entire immovable properties and movable fixed assets both present and future of Mekaguda Unit and part of the loan is further secured by an exclusive charge on all the immovable properties and movable fixed assets of both the units (Plot No-19 and Plot NoA-3) at Dehradun and exclusive charge on the R&D equipment acquired from the loan amount.

(ii) Term loan amounting to ₹241,300,697 (31 March 2013: ₹327,559,559) 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 other lenders.

(iii) Term loan amounting to ₹686,805,556 (31 March 2013: ₹853,353,069) is secured by pari-passu first charge on the entire fixed assets both present and future of Kothur Unit.

All the above loans are guaranteed by Mr. V.C Nannapaneni, Chairman and Managing Director and carry interest linked to the respective Bank's / Institution's prime / base lending rate, and range from 3.53% per annum to 12.50% per annum (31 March 2013: 3.53% per annum to 12.75% per annum).

(c) Details of repayment of long term borrowings

	As at 31 March, 2014	As at 31 March, 2013
Up to 1 year	43,56,20,937	50,68,95,335
From 1 to 3 years	76,67,46,754	85,41,53,129
3 years and above	18,29,44,445	51,70,83,333
	1,38,53,12,136	1,87,81,31,797

5. Deferred tax liabilities (net)

On account of depreciation	46,40,25,210	44,34,33,857
On account of employee benefits and others	(4,07,54,019)	(3,22,34,978)
Net deferred tax liability	42,32,71,191	41,11,98,879

6. Other long-term liabilities

Deposits	69,10,411	69,10,411
	69,10,411	69,10,411

Notes to the Financial Statement

(All amounts in ₹ unless otherwise stated)

	As at 31 March, 2014	As at 31 March, 2013
7. Long-term provisions		
Provision for gratuity	7,06,44,264	5,45,19,402
Provision for leave benefits	3,56,47,968	2,76,02,232
	10,62,92,232	8,21,21,634

(a) Gratuity

The Company has subscribed to a group gratuity scheme of Life Insurance Corporation of India (LIC). Under the said policy, the eligible employees are entitled for gratuity upon their resignation or in the event of death in lumpsum after deduction of necessary taxes upto a maximum limit of ₹1,000,000.

The following table set out the status of the gratuity plan and the reconciliation of opening and closing balances of the present value and defined benefit obligation.

(i) Change in projected benefit obligation		
Projected benefit obligation at the beginning of the year	9,44,62,630	7,31,62,037
Service cost	75,57,010	54,20,329
Interest cost	67,04,247	58,52,963
Actuarial (gain) / loss	1,38,18,766	1,31,54,950
Benefits paid	(50,88,101)	(31,27,649)
Projected benefit obligation at the end of the year	11,74,54,552	9,44,62,630
(ii) Change in plan assets		
Fair value of plan assets at the beginning of the year	3,99,43,228	2,72,93,852
Expected return on plan assets	35,17,274	31,90,969
Employer contributions	84,37,887	1,25,86,056
Benefits paid	(50,88,101)	(31,27,649)
Fair value of plan assets at the end of the year	4,68,10,288	3,99,43,228
(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	11,74,54,552	9,44,62,630
Funded status of the plans	4,68,10,288	3,99,43,228
Net liability recognised in the balance sheet	7,06,44,264	5,45,19,402
(iv) Expense recognized in the statement of profit and loss		
Service cost	75,57,010	54,20,329
Interest cost	67,04,247	58,52,963
Expected returns on plan assets	(35,17,274)	(31,90,969)
Recognized net actuarial (gain)/ loss	1,38,18,766	1,31,54,950
Net gratuity costs	2,45,62,749	2,12,37,273
(v) Key actuarial assumptions		
Discount rate	8.00%	8.00%
Expected return on plan assets	8.75%	9.25%
Salary escalation rate	4.00%	4.00%



Notes to the Financial Statement

(All amounts in ₹ unless otherwise stated)

(vi) Amounts for the current and previous four periods are as follows:

	As at 31.03.2014	As at 31.03.2013	As at 31.03.2012	As at 31.03.2011	As at 31.03.2010
Defined benefit obligation	11,74,54,552	9,44,62,630	73162,037	5,82,31,217	5,50,81,820
Planned assets	4,68,10,288	3,99,43,228	2,72,93,852	2,60,78,468	2,22,40,895
Surplus / (deficit) :	(7,06,44,264)	(5,45,19,402)	(4,58,68,185)	(3,21,52,749)	(3,28,40,925)
Experience adjustment to planned liabilities	1,38,18,766	1,31,54,950	71,33,657	(28,72,373)	43,18,765
Experience adjustment to planned assets	-	-	-	-	-

	As at 31 March, 2014	As at 31 March, 2013
8. Short-term borrowings		
Loans repayable on demand		
Secured		
From banks	94,33,54,453	94,75,59,690
Unsecured		
From banks	4,29,58,016	52,98,75,142
	98,63,12,469	1,47,74,34,832

(a) Loans repayable on demand represents cash credit, overdraft, bills purchased and discounted with various banks and carry interest linked to the respective Bank's / Institution's prime / base lending rate, and range from 5.75% per annum to 14% per annum (31 March 2013: 5.75% per annum to 14% per annum)

(b) Loans repayable on demand are secured by way of first charge on all the current assets of the Company. The collateral security is joint pari-passu first charge on the corporate Office and all fixed assets of Nagarjuna Sagar Unit apart from personal guarantees of Mr. V.C. Nannapaneni, Chairman and Managing Director, Ms. Durga Devi Nannapaneni, promoter and Dr. N. Ramakrishna Rao, relative of Chairman and Managing Director.

(c) Unsecured loans are personally guaranteed by Mr. V.C. Nannapaneni, Chairman and Managing Director.

9. Trade payables		
Sundry creditors		
Dues to micro and small enterprises [Refer (a) below]	2,08,06,259	5,09,01,758
Dues to others	97,10,03,596	91,28,60,989
	99,18,09,855	96,37,62,747

(a) 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 2014 has been made in note 33 to the financials statements and such disclosure is based on information received and available with the Company.

Notes to the Financial Statement

(All amounts in ₹ unless otherwise stated)

	As at 31 March, 2014	As at 31 March, 2013
10. Other current liabilities		
Current maturities of long-term borrowings	43,56,20,937	50,68,95,335
Interest accrued but not due on long-term borrowings	72,76,517	72,41,672
Creditors for capital assets	20,67,24,892	19,47,48,273
Book overdraft	3,64,62,711	4,69,93,831
Advance from customers	14,92,52,209	1,13,23,209
Employee related payables	8,36,54,810	8,04,80,809
Unpaid dividends	83,20,386	83,03,908
Statutory liabilities	3,75,04,824	2,70,07,312
	96,48,17,286	88,29,94,349
11. Short-term provisions		
Provision for leave benefits	41,36,732	33,05,980
	41,36,732	33,05,980

Notes to the Financial Statement

(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 2012	32,96,37,125	1,67,25,782	1,26,90,53,382	2,32,38,13,400	2,38,08,656	3,32,76,597	7,63,89,784	7,18,22,811	4,14,45,27,537
Additions	11,57,03,075	-	47,86,34,030	1,16,65,55,082	6,30,830	1,17,49,135	1,67,54,186	1,91,77,783	1,80,92,04,121
Disposals / adjustments	-	-	-	-	-	-	13,04,989	-	13,04,989
Foreign exchange fluctuation	-	-	1,40,32,917	2,51,27,140	-	-	-	-	3,91,60,057
Balance as at 31 March 2013	44,53,40,200	1,67,25,782	1,76,17,20,329	3,51,54,95,622	2,44,39,486	4,50,25,732	9,18,38,981	9,10,00,594	5,99,15,86,726
Additions	32,86,38,635	-	7,63,45,496	36,40,46,292	7,15,942	1,20,65,350	57,54,835	84,55,417	79,60,21,967
Disposals / adjustments	-	-	-	-	-	-	13,02,045	-	13,02,045
Foreign exchange fluctuation	-	-	1,30,43,925	2,33,56,265	-	-	-	-	3,64,00,190
Balance as at 31 March 2014	77,39,78,835	1,67,25,782	1,85,11,09,750	3,90,28,98,179	2,51,55,428	5,70,91,082	9,62,91,771	9,94,56,011	6,82,27,06,838
Accumulated depreciation									
Up to 1 April 2012	-	12,49,242	25,00,75,548	76,47,57,171	94,47,967	1,67,01,481	3,71,18,745	6,48,59,100	1,14,42,09,254
Depreciation charge	-	1,88,536	4,55,59,523	13,32,20,800	11,49,143	26,25,117	55,35,469	32,32,682	19,15,11,270
Reversal on disposal	-	-	-	-	-	-	5,93,693	-	5,93,693
Up to 31 March 2013	-	14,37,778	29,56,35,071	89,79,77,971	1,05,97,110	1,93,26,598	4,20,60,521	6,80,91,782	1,33,51,26,831
Depreciation charge	-	1,88,536	5,91,82,882	18,08,67,913	11,87,667	31,91,159	66,41,715	52,04,636	25,64,64,508
Reversal on disposal	-	-	-	-	-	-	7,88,238	-	7,88,238
Up to 31 March 2014	-	16,26,314	35,48,17,953	1,07,88,45,884	1,17,84,777	2,25,17,757	4,79,13,998	7,32,96,418	1,59,08,03,101
Net block									
Balance as at 31 March 2013	44,53,40,200	1,52,88,004	1,46,60,85,258	2,61,75,17,651	1,38,42,376	2,56,99,134	4,97,78,460	2,29,08,812	4,65,64,59,895
Balance as at 31 March 2014	77,39,78,835	1,50,99,468	1,49,62,91,797	2,82,40,52,295	1,33,70,651	3,45,73,325	4,83,77,773	2,61,59,593	5,23,19,03,737

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



Notes to the Financial Statement

(All amounts in ₹ unless otherwise stated)

	Computer Software	Total
13. Intangible assets		
Gross block		
Balance as at 1 April 2012	2,70,71,316	2,70,71,316
Additions	3,82,60,234	3,82,60,234
Balance as at 31 March 2013	6,53,31,550	6,53,31,550
Additions	2,01,81,618	2,01,81,618
Balance as at 31 March 2014	8,55,13,168	8,55,13,168
Accumulated amortisation		
Up to 1 April 2012	93,18,027	93,18,027
Amortization charge	69,04,229	69,04,229
Up to 31 March 2013	1,62,22,256	1,62,22,256
Amortization charge	1,13,95,545	1,13,95,545
Up to 31 March 2014	2,76,17,801	2,76,17,801
Net block		
Balance as at 31 March 2013	4,91,09,294	4,91,09,294
Balance as at 31 March 2014	5,78,95,367	5,78,95,367

	As at 31 March, 2014	As at 31 March, 2013
14. Non-current investments		
Investments in equity instruments, Trade, Unquoted		
<i>Investments in subsidiaries</i>		
1,000 (31 March 2013: 1,000) representing 100% (31 March 2013: 100%) fully paid-up, non-assessable shares of US\$1,000 each in Natco Pharma Inc., Delaware, United States of America	4,18,49,274	4,18,49,274
20,241,770 (31 March 2013: 20,241,770) representing 51% (31 March 2013: 51%) equity shares of ₹10 each, fully paid-up in NATCO Organics Limited	20,24,17,700	20,24,17,700
Share application money in NATCO Organics Limited	40,00,42,198	40,00,42,198
189,628 (31 March 2013: 189,628) representing 73% (31 March 2013: 73%) equity shares of US\$10 each, fully paid-up in Time Cap Overseas Limited, Mauritius	9,04,97,200	9,04,97,200
Share application money in Timecap Overseas Limited, Mauritius	11,13,10,423	1,46,41,384
368,715 (31 March 2013: 36,000) representing 97.82% (31 March 2013: 90%) equity shares of Candain Dollar 1 each, fully paid-up in NATCO Pharma (Canada) Inc, Canada	2,13,50,424	19,88,280
Share application money in NATCO Pharma (Canada) Inc, Canada	-	7,33,101
Share application money in Natco Pharma- Asia PTE Ltd	26,66,193	-
	87,01,33,412	75,21,69,137



Notes to the Financial Statement

(All amounts in ₹ unless otherwise stated)

	As at 31 March, 2014	As at 31 March, 2013
14. Non-current investments (Contd.)		
<i>Others</i>		
Share application money in NATIVITA	2,55,035	-
750 (31 March 2013: 750) equity shares of ₹100 each, fully paid-up, in Jeedimetla Effluent Treatment Limited	75,000	75,000
34,400 (31 March 2013: 34,400) equity shares of ₹10 each, fully paid-up, in Pattancheru Enviro-Tech Limited	3,44,000	3,44,000
	6,74,035	4,19,000
Total investments in equity instruments, Trade (A)	87,08,07,447	75,25,88,137
Investments in equity instruments, Others, Quoted		
27,000 (31 March 2013: 27,000) equity shares of ₹10 each, fully paid-up in Jayalakshi Spinning Mills Limited	2,70,000	2,70,000
Total investments in equity instruments, Others (B)	2,70,000	2,70,000
Other non-current investments, Others, Unquoted		
Investment in portfolio management services		
15,000,000 (31 March 2013: 15,000,000) compulsorily convertible preference shares of ₹1 each, fully paid-up in Ravindranath GE Medical Associates Private Limited.	1,50,00,000	1,50,00,000
National savings certificates	3,910	3,910
Total investments in other non-current investments (C)	1,50,03,910	1,50,03,910
Total non-current investments (A+B+C)	88,60,81,357	76,78,62,047
Less: provision for diminution in value of investments	2,70,000	2,70,000
	88,58,11,357	76,75,92,047
Quoted investments	2,70,000	2,70,000
Market value of quoted investments	-	-
Unquoted investments [including share application money]	88,58,11,357	76,75,92,047
Provision for diminution in value of investments	2,70,000	2,70,000

Investment in portfolio management services

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 the Company's fund 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 2014.

Notes to the Financial Statement

(All amounts in ₹ unless otherwise stated)

	As at 31 March, 2014	As at 31 March, 2013
15. Loans and advances		
(Unsecured, considered good)		
Long-term		
Capital advances	26,72,13,356	29,08,31,985
Security deposits	3,39,08,779	2,65,23,601
Advance tax, net	16,74,81,890	14,33,67,501
Loans and advances to related parties	71,55,27,530	65,74,17,289
Balances with government authorities	6,74,79,386	8,84,87,912
	1,25,16,10,941	1,20,66,28,288
Short-term		
Loans and advances to related parties	5,37,35,532	9,36,76,407
Prepaid expenses	1,65,33,656	1,36,75,587
Balances with government authorities	27,29,46,626	25,15,78,693
Advances for purchases and expenses	12,26,74,142	4,61,12,237
Other advances	2,40,99,584	2,18,42,146
	48,99,89,540	42,68,85,070
16. Other non-current assets		
(Unsecured, considered good)		
Deposit held with banks*	2,57,95,386	1,99,50,997
Interest accrued on fixed deposits	63,72,804	61,28,016
	3,21,68,190	2,60,79,013
17. Current investments		
Investments in equity instruments, Quoted, Non trade		
75,000 (31 March 2013: 140,000) equity shares of ₹10 each, fully paid-up in Neuland Laboratories Limited	26,71,564	76,13,556
2,000 (31 March 2013: 1,000) equity shares of ₹10 each, fully paid-up in Sun Pharmaceuticals Industries Limited	5,07,970	5,07,970
	31,79,534	81,21,526
<i>Aggregate amount of</i>		
Quoted investments	31,79,534	81,21,526
Market value of quoted investments	2,06,49,500	1,38,45,950
Unquoted investments	-	-

*Bank deposits held with banks as margin money with a maturity period of more than 12 months.



Notes to the Financial Statement

(All amounts in ₹ unless otherwise stated)

	As at 31 March, 2014	As at 31 March, 2013
18. Inventories		
Raw materials [including goods-in-transit of ₹4,851,836 (31 March 2013: ₹4,833,327)]	40,74,69,346	38,55,98,282
Work-in-progress	64,44,18,948	52,96,45,057
Finished goods	20,48,30,894	15,50,69,614
Stores and spares [including goods-in-transit of ₹4,833,231 (31 March 2013: ₹4,083,462)]	14,12,65,856	11,58,94,214
Packing materials [including goods-in-transit of ₹18,479,433 (31 March 2013: ₹87,384)]	21,29,49,422	8,33,96,523
Stock-in-trade [including goods-in-transit of ₹Nil (31 March 2013: ₹Nil)]	87,21,953	1,35,94,891
	1,61,96,56,419	1,28,31,98,581
19. Trade receivables		
Due for a period exceeding six months		
Unsecured, considered good	16,71,64,860	7,06,61,175
Unsecured, considered doubtful	1,03,34,519	1,03,34,519
	17,74,99,379	8,09,95,694
Less: Provision for doubtful receivables	1,03,34,519	1,03,34,519
	16,71,64,860	7,06,61,175
Other debts		
Unsecured, considered good	99,13,01,806	1,19,39,74,468
	1,15,84,66,666	1,26,46,35,643
20. Cash and bank balances		
Cash and cash equivalents		
Balances with banks		
- on current accounts	4,00,68,754	3,37,48,200
- on deposit accounts	20,00,000	25,00,000
Cash on hand	2,65,71,193	3,04,50,950
	6,86,39,947	6,66,99,150
Other bank balances		
Unpaid dividend account	83,20,386	83,03,908
	83,20,386	83,03,908
	7,69,60,333	7,50,03,058
21. Other current assets		
(Unsecured, considered good)		
Export incentives receivable	2,52,21,563	2,73,65,174
	2,52,21,563	2,73,65,174

Notes to the Financial Statement

(All amounts in ₹ unless otherwise stated)

	For the year ended 31 March, 2014	For the year ended 31 March, 2013
22. Revenue from operations		
Sale of products	5,55,31,48,373	5,06,38,87,558
Sale of services	22,55,91,510	14,83,48,214
Other operating revenues		
Job work charges	11,93,31,350	9,43,60,434
Export incentives	4,87,34,811	4,45,49,118
Scrap sales	3,01,16,797	6,69,12,216
Technology income	-	11,21,25,000
Income from profit sharing arrangement	30,47,54,882	12,10,27,256
	50,29,37,840	43,89,74,024
Total revenue from operations	6,28,16,77,723	5,65,12,09,796
Details of products sold		
Manufactured goods		
Bulk drug and drug intermediaries	1,97,86,41,126	2,22,09,16,178
Formulations	3,56,89,48,815	2,75,44,88,364
	5,54,75,89,941	4,97,54,04,542
Traded goods		
Formulations	55,58,432	8,84,83,016
	5,55,31,48,373	5,06,38,87,558
23. Other income		
Interest income from		
Fixed deposits	40,03,148	1,25,67,496
Loans to subsidiaries	72,28,326	85,35,180
Income tax refund	1,94,07,066	-
Dividend income	1,31,668	4,808
Net gain on sale of current investments	1,00,58,159	1,17,66,528
Foreign exchange gain, net	10,77,30,256	5,20,19,959
Provision no longer required, written back	46,21,360	3,18,75,000
Other non-operating income	38,71,426	26,30,098
	15,70,51,409	11,93,99,069
24. Cost of raw materials consumed (including packing materials consumed) #		
Opening stock	46,89,94,805	38,50,63,638
Add: Purchases during the year	1,81,84,11,534	1,89,02,03,659
Less: Closing stock	62,04,18,768	46,89,94,805
	1,66,69,87,571	1,80,62,72,492

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



Notes to the Financial Statement

(All amounts in ₹ unless otherwise stated)

	For the year ended 31 March, 2014	For the year ended 31 March, 2013
25. Changes in inventories of finished goods, work-in-progress and stock-in-trade		
Opening stock		
- Finished goods	15,50,69,614	8,67,29,795
- Work-in-progress	52,96,45,057	36,84,03,712
- Stock-in-trade	1,35,94,891	3,06,87,483
	69,83,09,562	48,58,20,990
Closing stock		
- Finished goods	20,48,30,894	15,50,69,614
- Work-in-progress	64,44,18,948	52,96,45,057
- Stock-in-trade	87,21,953	1,35,94,891
	85,79,71,795	69,83,09,562
	(15,96,62,233)	(21,24,88,572)
Following are the details of inventory balances under broad heads:		
Opening stock		
Finished goods		
Bulk drug and drug intermediaries	4,97,17,930	4,23,57,147
Formulations	10,53,51,684	4,43,72,648
	15,50,69,614	8,67,29,795
Work in progress		
Bulk drug and drug intermediaries	49,16,55,899	34,04,26,425
Formulations	3,79,89,158	2,79,77,287
	52,96,45,057	36,84,03,712
Traded goods		
Formulations	1,35,94,891	3,06,87,483
	1,35,94,891	3,06,87,483
Closing inventory		
Finished goods		
Bulk drug and drug intermediaries	12,48,64,301	4,97,17,930
Formulations	7,99,66,593	10,53,51,684
	20,48,30,894	15,50,69,614
Work in progress		
Bulk drug and drug intermediaries	58,23,86,335	49,16,55,899
Formulations	6,20,32,613	3,79,89,158
	64,44,18,948	52,96,45,057
Traded goods		
Formulations	87,21,953	1,35,94,891
	87,21,953	1,35,94,891
26. Employee benefit expense		
Salaries and wages	79,39,42,610	68,38,20,105
Contribution to provident and other funds	8,67,15,075	6,75,09,166
Employee stock option compensation [including ₹Nil (31 March 2013: ₹36,202,643) pertaining to prior period]	-	5,71,12,791
Staff welfare expenses	6,15,73,274	4,51,78,696
	94,22,30,959	85,36,20,758

Notes to the Financial Statement

(All amounts in ₹ unless otherwise stated)

	For the year ended 31 March, 2014	For the year ended 31 March, 2013
27. Finance costs		
Interest expense	31,74,97,391	23,78,03,001
Other borrowing costs	2,30,57,331	1,33,90,403
	34,05,54,722	25,11,93,404

Interest expenses is after capitalization of ₹10,064,052 (31 March 2013: ₹67,243,782) to qualifying fixed assets

28. Other expenses		
Consumption of stores and spare parts	18,20,29,454	14,05,05,634
Power and fuel	40,68,73,853	36,97,78,541
Rent	1,15,98,801	85,45,500
Repairs and maintenance		
- Buildings	4,35,12,166	4,83,53,502
- Plant and equipment	11,93,85,821	10,38,06,622
- Others	2,75,65,078	1,74,39,815
Insurance	2,58,08,151	2,51,66,185
Rates and taxes	7,74,74,085	7,28,54,982
Factory maintenance expenses	13,88,67,802	11,59,91,410
Analysis charges	5,05,45,318	4,60,22,487
Carriage and freight outwards	7,89,26,544	6,07,56,826
Donations	4,23,69,040	3,03,98,098
Communication expenses	1,86,61,449	1,85,62,336
Office maintenance and other expenses	1,95,69,738	1,80,02,729
Travelling and conveyance	9,64,36,617	8,36,08,946
Legal and professional fees	18,61,30,451	6,90,47,878
Payment to auditors		
- As auditor	20,00,000	13,00,000
- For reimbursement of expenses	23,412	14,321
Inventory written-off	78,13,451	84,01,436
Directors sitting fee	2,65,000	1,50,000
Sales promotion expenses including sales commission	16,57,77,415	7,38,11,109
Research and development expenses	14,28,51,578	14,63,36,413
Printing and stationery	2,64,00,211	1,87,24,012
Miscellaneous expenses	3,71,21,453	2,84,24,991
	1,90,80,06,888	1,50,60,03,773

29. Exceptional item

Exceptional item represents written-off of amount deposited with the Hon'ble High Court of Andhra Pradesh for payment against a pending legal dispute with M/s. SMS Pharmaceuticals Limited.



Notes to the Financial Statement

(All amounts in ₹ unless otherwise stated)

30. Related party disclosures

(a) Names of the related parties and nature of relationship

Names of related parties	Nature of relationship
NATCO Pharma Inc., United States of America	Subsidiary company
Timecap Overseas Limited, Mauritius	
NATCO Pharma (Canada) Inc., Canada	
NATCO Organics Limited	Subsidiary company (w.e.f. 30 June 2012) Entity in which Directors have control or have significant influence (up to 29 June 2012)
K & C Pharmacy, United States of America (Up to 14 June 2012)	Partnership firm in which the Company is a partner
NATCO Farma Do Brazil Ltda EPP	Step-down subsidiary company
Time Cap Pharma Labs Limited	Entities in which Directors have control or have significant influence
NATCO Trust, Hyderabad	
NATCO Group Employees Welfare Trust	
Natsoft Information Systems Private Limited	
NDL Infratech Private Limited	
V C Nannapaneni	Key management personnel ("KMP")
Rajeev Nannapaneni	
P Bhaskara Narayanan	
A K S Bhujanga Rao	
Durga Devi Nannapaneni	Relative of KMP
Neelima Nannapaneni	
Dr. Ramakrishna Rao	

(b) Transactions with related parties

	For the year ended 31 March, 2014	For the year ended 31 March, 2013
NATCO Pharma Inc.		
Interest on loans and advances	6,94,326	39,80,349
Time Cap Overseas Limited		
Share capital and share application money	4,59,67,220	2,32,97,611
Loans and advances	-	4,89,31,313
Interest on loans and advances	65,34,000	39,43,087
Advance for expenses	51,44,967	77,13,572
NATCO Pharma (Canada) Inc.		
Share capital and share application money	1,86,29,043	27,21,381
Sales	15,67,163	-
Advances for expenses	3,41,208	-
NATCO Organics Limited		
Advance towards future supplies	-	4,37,82,194
Rental expense	18,00,000	13,05,000
Loans and advances	26,56,91,241	16,53,01,121
Purchases and job work charges	16,06,05,976	3,81,72,037
Sales	48,62,554	67,81,601

Notes to the Financial Statement

(All amounts in ₹ unless otherwise stated)

(b) Transactions with related parties (Contd.)

	For the year ended 31 March, 2014	For the year ended 31 March, 2013
K & C Pharmacy		
Drawings from the partnership firm	-	1,04,88,508
NATCO Farma Do Brazil Ltda EPP		
Loans and advances	-	1,04,00,000
Interest on loans and advances	-	6,11,744
Time Cap Pharma Labs Limited		
Income from Job work charges and sales	2,53,091	28,62,350
Income from rent	-	1,20,000
Commission and expenses reimbursement	68,83,562	39,33,976
Purchases	17,13,600	16,63,200
Rental expense	38,00,000	18,00,000
Advances given	35,00,000	40,00,000
Dividends paid	1,70,63,470	1,36,50,776
Natsoft Information Systems Private Limited		
Dividends paid	1,57,67,500	1,26,14,000
NATCO Trust		
Donations given	2,95,69,040	2,44,00,000
NATCO Group Employees Welfare Trust		
Dividends paid	2,73,785	3,36,000
Transactions with key management personnel		
V C Nannapaneni		
Managerial remuneration	1,39,38,000	1,33,83,000
Rental expenses	18,00,000	18,00,000
Dividends paid	4,01,19,190	3,20,95,352
Personal guarantees against loans taken by the Company	1,40,60,00,000	83,00,00,000
Rajeev Nannapaneni		
Managerial remuneration	1,11,48,000	1,06,90,000
Rental expenses	9,60,000	9,60,000
Dividends paid	17,83,050	18,26,440
P Bhaskara Narayana		
Managerial remuneration	36,00,000	32,00,000
Dividends paid	18,500	6,800
Stock options		
Nil (31 March 2013: 1,700) equity shares granted at an exercise price of ₹10 per share under the employee stock option scheme framed by the Company.	-	4,31,285
A K S Bhujanga Rao		
Managerial remuneration	33,50,996	29,48,628
Dividends paid	43,500	34,800
Stock options		
Nil (31 March 2013: 1,700) equity shares granted at an exercise price of ₹10 per share under the employee stock option scheme framed by the Company.	-	4,31,285



Notes to the Financial Statement

(All amounts in ₹ unless otherwise stated)

(b) Transactions with related parties (Contd.)

	For the year ended 31 March, 2014	For the year ended 31 March, 2013
Transactions with a relatives of key management personnel		
Durga Devi Nannapaneni		
Dividends paid	41,39,100	33,11,280
Personal guarantees against loans taken by the Company	90,60,00,000	-
Neelima Nannapaneni		
Dividends paid	19,82,960	15,86,368
Dr. Ramakrishna Rao		
Dividends paid	7,04,910	5,67,928
Personal guarantees against loans taken by the Company	90,60,00,000	-

(c) Balances receivable / (payable)

NATCO Pharma Inc.	3,22,10,788	8,57,72,269
Time Cap Overseas Limited	1,28,58,539	5,84,15,391
NATCO Organics Limited		
Loan outstanding	43,09,92,362	16,53,01,121
Advance for future supplies	28,45,35,168	44,14,14,349
Time Cap Pharma Labs Limited	(14,13,982)	(15,26,076)
NATCO Pharma (Canada) Inc.	14,74,493	-
NATCO Trust	86,68,747	10,816
V C Nannapaneni	(5,77,293)	(6,16,763)
Rajeev Nannapaneni	(4,99,087)	(4,94,539)
P Bhaskara Narayana	(1,82,753)	(1,22,438)
A K S Bhujanga Rao	(1,57,203)	(3,58,765)
Outstanding guarantees		
V C Nannapaneni	4,64,93,12,136	4,42,15,89,099
Dr. Ramakrishna Rao	2,23,40,00,000	1,32,80,00,000
Durga Devi Nannapaneni	2,23,40,00,000	1,32,80,00,000

(d) Disclosure pursuant to Clause 32 of Listing Agreement

Loans and Advances in the nature of loans, including interest accrued to subsidiaries and to companies in which directors are interested

Outstanding balance		
NATCO Pharma Inc.	3,22,10,788	8,57,72,269
Timecap Overseas Limited	-	5,07,01,819
NATCO Organics Limited	43,09,92,362	16,53,01,121

Notes to the Financial Statement

(All amounts in ₹ unless otherwise stated)

(d) Disclosure pursuant to Clause 32 of Listing Agreement (Contd.)

	For the year ended 31 March, 2014	For the year ended 31 March, 2013
Maximum balance outstanding at any time during the year		
NATCO Pharma Inc.	8,57,72,269	9,84,09,676
Timecap Overseas Limited	5,07,01,819	5,07,01,819
NATCO Organics Limited	43,09,92,362	16,53,01,121
NATCO Farma Do Brazil Ltda EPP	-	1,06,53,126
Natsoft Information Systems Private Limited	-	16,667

(e) Transaction with related parties

In accordance with the applicable provisions of the Income Tax Act, 1961, the Company is required to use certain specified methods in assessing that the transactions with the related parties, are carried at an arm's length price and is also required to maintain prescribed information and documents to support such assessment. The appropriate method to be adopted will depend on the nature of transactions / class of transactions, class of associated persons, functions performed and other factors as prescribed. Based on certain internal analysis carried out, management believes that transactions entered into with the related parties were carried out at arms length prices. The Company is in the process of updating the Transfer Pricing documentation for the financial year ended 31 March 2014. In opinion of the management, the same would not have an impact on these financial statements. Accordingly, these financial statements do not include the effect of the transfer pricing implications, if any.

31. 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.

	As at 31 March, 2014	As at 31 March, 2013
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)	17,84,85,937	13,51,07,882
(b) Contingent liabilities		
Claims against the company not acknowledged as debt	20,82,29,663	20,82,29,663
Disputed sales tax liabilities	86,90,000	86,90,000
Disputed income tax liabilities	2,99,52,680	2,60,28,878

Claims against the Company not acknowledged as debt, represents claim including interest lodged by M/s. SMS Pharmaceuticals Limited, against the Company. During the previous year, the Hon'ble City Civil Court, Hyderabad has passed the judgment against the Company. Based on a legal advice received, the Company has preferred an appeal before the Hon'ble High Court of Andhra Pradesh as the management is confident of favorable outcome.

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 stand taken by the Assessing Officer while passing revised orders for the Assessment Year 2007-08 and 2008-09, management is confident of favorable outcome of the proceedings.



Notes to the Financial Statement

(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:

	As at 31 March, 2014	As at 31 March, 2013
(a) The principal amount remaining unpaid as at the end of the year	2,08,06,259	5,09,01,758
(b) The amount of interest accrued and remaining unpaid at the end of the year	36,57,576	36,57,576
(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)	-	-

34. Unhedged foreign currency exposure

Long-term borrowings (including current maturities)	24,13,00,697	32,75,59,559
Short-term borrowings	-	8,92,43,453
Trade payables	2,70,70,653	4,06,81,204
Non-current investments	26,50,07,321	14,97,09,239
Long term loans and advances	1,28,58,539	5,84,15,391
Short term loans and advances	3,22,10,788	8,57,72,269
Trade receivables*	29,74,57,432	14,79,38,161

*Net of discounted bills of ₹484,873,187 (31 March 2013: ₹814,596,884)

	For the year ended 31 March, 2014	For the year ended 31 March, 2013
35. Earnings in foreign currency on accrual basis		
Export on FOB basis	2,90,77,98,652	2,81,73,95,933
Sale of services	22,55,76,510	14,56,79,664
Technology income	-	11,21,25,000
Income from profit sharing arrangement	30,47,54,882	12,10,27,256
Interest on loans to subsidiary company	72,28,326	85,35,180

Notes to the Financial Statement

(All amounts in ₹ unless otherwise stated)

	For the year ended 31 March, 2014	For the year ended 31 March, 2013
36. Expenditure in foreign currency on accrual basis		
Travelling expenses	61,93,593	1,25,03,228
Commission	3,81,25,870	83,97,784
Professional and consultation fees	14,40,42,530	1,43,11,006
Rates and taxes	5,51,88,058	5,78,31,717
Interest on borrowings	1,08,19,952	1,30,39,092
Others	2,72,29,853	3,56,75,915
37. Value of imports on CIF basis		
Raw materials and packing materials	33,93,93,452	37,56,30,023
Capital goods (including spares and components)	8,18,36,428	11,04,03,953
38. Dividend remitted in foreign currency		
Number of non - resident shareholders	20	34
Number of equity shares held on which dividend was due	5,45,068	5,46,877
Amount remitted (\$)	43,964	39,947
Amount remitted (₹)	27,25,340	21,87,508
Period to which is relates	2013-14	2012-13
39. Earnings per equity share (EPES)		
Net profit as per Statement of Profit and Loss	1,10,19,22,901	78,14,33,574
Weighted average number of equity shares considered in computation of basic EPES	3,19,45,951	3,12,36,767
Add: Effect of dilutive equity shares	-	1,33,348
Weighted average number of equity shares considered in computation of diluted EPES	3,19,45,951	3,13,70,115
40. Amounts incurred on research and development expenses		
Salaries and wages	12,85,90,067	11,38,15,316
Consumption of materials, spares	11,45,88,187	10,57,30,697
Utilities	1,41,89,187	1,34,84,487
Other research and development expenses	11,50,02,237	10,32,10,337
Capital equipments	3,42,16,579	4,15,52,174
	40,65,86,257	37,77,93,012



Notes to the Financial Statement

(All amounts in ₹ unless otherwise stated)

	For the year ended 31 March, 2014	For the year ended 31 March, 2013
41. Imported and indigenous consumption		
Raw materials (including packing materials)		
Imported		
Amount	20,91,05,354	24,93,45,694
Percentage	12.54%	13.80%
Indigeneous		
Amount	1,45,78,82,217	1,55,69,26,798
Percentage	87.46%	86.20%
Total		
Amount	1,66,69,87,571	1,80,62,72,492
Percentage	100%	100%
Stores and spares		
Imported		
Amount	1,41,27,671	89,41,788
Percentage	7.76%	6.36%
Indigeneous		
Amount	16,79,01,783	13,15,63,846
Percentage	92.24%	93.64%
Total		
Amount	18,20,29,454	14,05,05,634
Percentage	100%	100%

42. Additional information as required under paragraph 5 of the part II of the Schedule VI to the Act to the extent either "Nil" or "Not Applicable" has not been furnished.

43. Comparatives

Previous year figures have been reclassified / regrouped wherever necessary, to confirm to current year presentation.

This is the summary of significant accounting policies and other explanatory information referred to in our report of even date.

For Walker Chandiok & Co LLP
(Formerly Walker, Chandiok & Co)
Chartered Accountants
per Sanjay Kumar Jain
Partner

Place : Hyderabad
Date : 29 May 2014

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

V C Nannapaneni
Chairman & Managing
Director

Place : Hyderabad
Date : 29 May 2014

Rajeev Nannapaneni
Vice Chairman & CEO

M. Adinarayana
Company Secretary &
Vice President
(Legal & Corporate Affairs)

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

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 statement have been prepared in strict compliance with the Accounting Standards and the listing Agreement as prescribed by SEBI.

(All amounts in ₹ unless otherwise stated)

	NATCO Pharma Inc.	NATCO Organics Limited	NATCO Pharma (Canada) Inc.	Time cap Overseas Limited	NATCO Farma Do Brasil	NATCO pharma Asia PTE LTD
Capital *	4,18,49,274	79,69,39,648	2,03,84,753	26,50,69,848	23,92,77,235	47
Reserves	13,12,08,600	(29,78,15,065)	(1,94,62,713)	(75,34,071)	(18,35,59,058)	(33,59,082)
Total Assets	30,66,94,146	1,30,15,28,081	48,82,234	26,02,78,735	13,97,68,458	9,87,593
Total Liabilities	13,36,36,272	80,24,03,498	39,60,194	27,42,958	8,40,50,282	43,46,628
Details of Investments	NIL	NIL	NIL	NIL	NIL	NIL
Turnover	96,71,67,762	15,75,84,246	NIL	NIL	19,58,48,616	NIL
Profit before taxation	7,48,54,351	(9,11,21,016)	(1,66,31,075)	(1,43,234)	(8,83,04,336)	(33,59,082)
Provision for taxation	2,45,25,430	1,36,77,460	NIL	NIL	5,06,59,796	NIL
Profit after taxation	5,03,28,922	10,47,98,476	(1,66,31,075)	(1,43,234)	(3,76,44,540)	(33,59,082)
Proposed Dividend	NIL	NIL	NIL	NIL	NIL	NIL
Reporting currency	US \$	INR ₹	Canada \$	US \$	Brazilian real	Canadian \$
Closing exchange rate	60.10	1	54.08	60.10	26.52	47.45
Average exchange rate	60.50	1	57.31	60.50	26.95	47.86

* Share capital includes share application money pending allotment.

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 on all working days during business hours and is also available on the company's website www.natcopharma.co.in



Consolidated Financial Section

Independent Auditor's Report on Consolidated Financial Statements

To
The Board of Directors of
NATCO Pharma Limited

1. We have audited the accompanying consolidated financial statements of NATCO Pharma Limited ("the Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which comprise the consolidated Balance Sheet as at 31 March 2014, and the consolidated Statement of Profit and Loss and consolidated Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and presentation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

2. Management is responsible for the preparation of these consolidated financial statements that give a true and fair view of the consolidated financial position, consolidated financial performance and consolidated cash flows of the Group in accordance with accounting principles generally accepted in India. This responsibility includes the design, implementation and maintenance of internal control relevant to the preparation and presentation of the consolidated financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

3. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified audit opinion.

Basis for Qualified Opinion

6. *The Company has not recognized Minimum Alternative Tax (MAT) credit entitlement as required by the Guidance Note on "Accounting for Credit available in respect of Minimum Alternative Tax under the Income Tax Act, 1961", issued by the Institute of Chartered Accountants of India. Had the Company accounted for such MAT credit, the profit after tax for the year ended 31 March 2014 and loans and advances and reserves and surplus as at that date would have been higher by ₹881,697,337 (31 March 2013: ₹623,262,102). This matter had caused us to*



qualify our audit report for the year ended 31 March 2013.

Qualified Opinion

7. In our opinion and to the best of our information and according to the explanations given to us and based on the consideration of the reports of the other auditors on the financial statements of the subsidiaries, as noted below, *except for the effects of the matter described in the Basis for Qualified Opinion paragraph*, the consolidated financial statements give a true and fair view in conformity with the accounting principles generally accepted in India:
- i) in the case of the consolidated Balance Sheet, of the state of affairs of the Group as at 31 March 2014;
 - ii) in the case of the consolidated Statement of Profit and Loss, of the profit for the year ended on that date; and
 - iii) in the case of the consolidated Cash Flow Statement, of the cash flows for the year ended on that date.

Other Matter

8. We did not audit the financial statements of subsidiaries included in the consolidated financial statements, whose financial statements reflect total assets (after eliminating intra-group transactions) of ₹1,770,769,494 as at 31 March 2014; total revenues (after eliminating intra-group transactions) of ₹1,189,188,193 and net cash inflow aggregating to ₹861,797 for the year then ended. These financial statements (other than those mentioned in paragraph 9 below), have been audited by other auditors whose audit reports have been furnished to

us by the management, and our audit opinion on the consolidated financial statements of the Group for the year then ended to the extent they relate to the financial statements not audited by us as stated in this paragraph is based solely on the audit reports of the other auditors. Our opinion is not qualified in respect of this matter.

9. The consolidated financial statements include the unaudited financial statements of a subsidiary, whose financial statements reflect total assets of ₹38,434,812 (after eliminating intra-group transactions) as at 31 March 2014, total revenues of ₹ Nil (after eliminating intra-group transactions) and net cash outflows amounting to ₹165,371 for the year then ended, as considered in the consolidated financial statements. Our opinion, in so far as it relates to the amounts included in respect of this subsidiary, is based solely on the management prepared financial statements. Our opinion is not qualified in respect of this matter.

For Walker Chandiok & Co LLP
(formerly Walker, Chandiok & Co)
Chartered Accountants
Firm Registration No.: 001076N

per Sanjay Kumar Jain
Partner

Place: Hyderabad
Date: 29 May 2014

Membership No.: 207660

Consolidated Balance Sheet as at 31st March, 2014

(All amounts in ₹ unless otherwise stated)

	Note No.	As at 31 March, 2014	As at 31 March, 2013
EQUITY AND LIABILITIES			
Shareholders' funds			
Share capital	2	33,07,30,740	31,37,30,740
Reserves and surplus	3	6,92,80,29,630	5,02,16,98,074
		7,25,87,60,370	5,33,54,28,814
Minority interest		6,87,95,530	10,53,66,852
Non-current liabilities			
Long-term borrowings	4	95,48,62,897	1,37,82,55,285
Deferred tax liabilities (net)	5	43,05,65,589	44,32,54,232
Other long term liabilities	6	1,03,99,407	69,10,411
Long-term provisions	7	11,08,89,471	8,62,07,117
		1,50,67,17,364	1,91,46,27,045
Current liabilities			
Short-term borrowings	8	98,63,12,469	1,47,74,34,832
Trade payables	9	1,09,78,62,833	1,05,85,15,782
Other current liabilities	10	1,02,17,81,301	90,20,72,443
Short-term provisions	11	1,68,64,289	1,06,78,217
		3,12,28,20,892	3,44,87,01,274
Total		11,95,70,94,156	10,80,41,23,985
ASSETS			
Non-current assets			
Fixed assets			
Tangible assets	12	6,12,73,80,414	5,53,90,60,316
Intangible assets	13	32,00,52,933	28,84,15,671
Capital work-in-progress		1,23,77,62,962	1,05,84,16,253
Non-current investments	14	1,56,77,945	1,54,22,910
Long-term loans and advances	15	54,24,75,803	57,19,66,883
Other non-current assets	16	3,23,80,362	2,60,79,013
		8,27,57,30,419	7,49,93,61,046
Current assets			
Current investments	17	31,79,534	81,21,526
Inventories	18	1,81,12,46,508	1,46,02,40,041
Trade receivables	19	1,18,79,98,758	1,29,71,29,607
Cash and bank balances	20	11,04,75,468	10,78,21,767
Short-term loans and advances	15	54,32,41,906	40,40,84,824
Other current assets	21	2,52,21,563	2,73,65,174
		3,68,13,63,737	3,30,47,62,939
Total		11,95,70,94,156	10,80,41,23,985
Notes 1 to 34 form an integral part of these consolidated financial statements.			

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

For Walker Chandiok & Co LLP For and on behalf of Board of Directors of NATCO Pharma Limited

(Formerly Walker, Chandiok & Co)

Chartered Accountants

per Sanjay Kumar Jain

Partner

V C Nannapaneni

Chairman & Managing
Director

Rajeev Nannapaneni

Vice Chairman & CEO

M. Adinarayana

Company Secretary &
Vice President

(Legal & Corporate Affairs)

Place : Hyderabad

Date : 29 May 2014

Place : Hyderabad

Date : 29 May 2014



Consolidated Statement of Profit and Loss for the year ended 31st March, 2014

(All amounts in ₹ unless otherwise stated)

	Note No.	For the year ended 31 March, 2014	For the year ended 31 March, 2013
REVENUE			
Revenue from operations (gross)	22	7,44,71,81,452	6,68,10,10,091
Less : Excise duty		5,82,55,959	7,57,50,421
Revenue from operations (net)		7,38,89,25,493	6,60,52,59,670
Other income	23	16,70,77,830	12,40,63,709
Total revenue		7,55,60,03,323	6,72,93,23,379
EXPENSES			
Cost of materials consumed (including packing material consumed)	24	1,60,09,71,625	1,77,56,61,952
Purchases of stock-in-trade		88,89,79,944	87,14,09,142
Changes in inventory of finished goods, work-in-progress and traded goods	25	(15,77,14,880)	(21,90,89,484)
Employee benefits expense	26	1,12,77,29,729	1,02,28,92,190
Finance costs	27	36,61,88,677	26,30,68,187
Depreciation and amortisation charge	12 and 13	30,44,33,992	22,12,22,590
Other expenses	28	2,13,51,52,604	1,65,42,78,380
Prior period item		4,94,052	8,46,869
Total expenses		6,26,62,35,743	5,59,02,89,826
Profit before exceptional items and tax		1,28,97,67,580	1,13,90,33,553
Exceptional item	29	-	11,58,40,728
Profit before tax		1,28,97,67,580	1,02,31,92,825
Tax expense			
Current tax		32,26,40,399	23,04,22,777
Deferred tax expense		(1,39,40,128)	13,39,40,800
Profit after tax and before minority interest		98,10,67,309	65,88,29,248
Minority interest		(4,62,75,569)	(5,98,61,536)
Profit for the year		1,02,73,42,878	71,86,90,784
Earnings per equity share [EPES]			
Face value ₹10 per share	33		
Basic		32.16	23.01
Diluted		32.16	22.91
Notes 1 to 34 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 Walker Chandiok & Co LLP For and on behalf of Board of Directors of NATCO Pharma Limited

(Formerly Walker, Chandiok & Co)

Chartered Accountants

per Sanjay Kumar Jain
Partner

V C Nannapaneni
Chairman & Managing
Director

Rajeev Nannapaneni
Vice Chairman & CEO

M. Adinarayana
Company Secretary &
Vice President
(Legal & Corporate Affairs)

Place : Hyderabad
Date : 29 May 2014

Place : Hyderabad
Date : 29 May 2014

Consolidated Cash Flow Statement for the year ended 31st March, 2014

(All amounts in ₹ unless otherwise stated)

	For the year ended 31 March, 2014	For the year ended 31 March, 2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	1,28,97,67,580	1,02,31,92,825
Adjustments :		
Depreciation and amortisation expense	30,44,33,992	22,12,22,590
Net gain on sale of current investments	(1,00,58,159)	(1,17,66,528)
Inventory written-off	78,13,451	84,01,436
Bad and doubtful trade receivables written off	19,18,395	(1,40,529)
Provision for employee benefits	2,55,13,106	1,78,94,295
Employee stock option compensation	-	5,71,12,791
Provision no longer required, written back	(67,53,572)	(3,18,75,000)
Interest income	(56,13,616)	(2,35,09,704)
Dividend income	(1,31,668)	(4,808)
(Gain) / Loss on sale of asset	(78,095)	15,44,179
Interest expenses	34,58,71,387	24,94,58,783
Unrealised foreign exchange loss / (gain), net	(57,05,925)	4,07,951
Operating profit before working capital changes	1,94,69,76,876	1,51,19,38,281
Increase / (decrease) in other current liabilities	11,69,68,817	(7,92,22,132)
Increase in trade payables	3,93,47,051	20,16,08,082
Decrease in long-term liabilities and provisions	(1,25,73,462)	(91,96,714)
Increase in inventories	(35,88,19,918)	(34,38,56,313)
Decrease / (increase) in trade receivables	11,29,18,379	(34,97,21,779)
Decrease / (increase) in other current assets	21,43,611	(3,35,451)
Increase in short-term loans and advances	(10,99,10,790)	(7,28,99,699)
Decrease / (increase) in long-term loans and advances	4,87,96,743	(2,03,10,929)
Cash generated from operating activities	1,78,58,47,307	83,80,03,346
Income taxes paid	(34,55,03,303)	(22,60,56,560)
Net cash generated from operating activities	A 1,44,03,44,004	61,19,46,786
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of tangible assets	(1,06,03,98,167)	(1,07,82,53,763)
Purchase of intangible assets	(4,32,61,829)	(3,85,58,338)
Proceeds from dissolution of partnership firm	-	1,88,48,513
Purchase of current investments	-	(91,29,970)
Purchase of non-current investments	(2,55,035)	-
Proceeds from sale of current investments	1,50,00,151	1,17,89,933
Interest received	58,58,404	2,87,32,113
Dividends received	1,31,668	4,808
Increase in other bank balances	(63,01,349)	(41,67,009)
Net cash used in investing activities	B (1,08,92,26,157)	(1,07,07,33,713)



Cash Flow Statement for the year ended 31st March, 2014

(All amounts in ₹ unless otherwise stated)

	For the year ended 31 March, 2014	For the year ended 31 March, 2013
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issuance of equity shares	1,08,52,80,000	22,51,220
(Repayment) / proceeds from long-term borrowings, net	(41,99,03,392)	4,03,26,905
(Repayment) / proceeds from short-term borrowings, net	(49,11,22,363)	66,10,12,395
Movement in minority interest	97,04,247	2,36,42,558
Interest paid	(34,31,31,346)	(32,05,54,001)
Dividends paid (including tax on distributed profits)	(19,34,85,693)	(14,35,78,316)
Net cash (used in) / from financing activities	C (35,26,58,547)	26,31,00,761
Effect of currency translation adjustment	D 41,77,923	(5,12,40,864)
Net decrease in cash and cash equivalents (A+B+C+D)	26,37,223	(24,69,27,030)
Cash and cash equivalents as at the beginning of the year	9,95,17,859	34,64,44,889
Cash and cash equivalents as at the end of the year	10,21,55,082	9,95,17,859
[Refer Note 1]"		
Note 1:		
Cash and bank balances as per note 20	11,04,75,468	10,78,21,767
Less: Other bank balances	83,20,386	83,03,908
Cash and cash equivalents considered for cash flow statement	10,21,55,082	9,95,17,859

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

For Walker Chandiok & Co LLP For and on behalf of Board of Directors of NATCO Pharma Limited
(Formerly Walker, Chandiok & Co)

Chartered Accountants

per Sanjay Kumar Jain
Partner

V C Nannapaneni
Chairman & Managing
Director

Rajeev Nannapaneni
Vice Chairman & CEO

M. Adinarayana
Company Secretary &
Vice President
(Legal & Corporate Affairs)

Place : Hyderabad
Date : 29 May 2014

Place : Hyderabad
Date : 29 May 2014

Notes to the Consolidated Financial Statement

Summary of significant accounting policies and other explanatory information

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, in accordance with the generally accepted accounting principles in India (“Indian GAAP”) and comply in all material respects with the mandatory Accounting Standards (“AS”) notified under the Companies Act, 1956 read with the General Circular 15/2013 dated 13 September 2013 of the Ministry of Corporate Affairs in respect of section 133 of the Companies Act, 2013, and with the relevant provisions of the Act, pronouncements of The Institute of Chartered Accountants of India (‘ICAI’). 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.

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	
		2014	2013
NATCO Pharma Inc.	United States of America	100.00	100.00
Time Cap Overseas Limited	Mauritius	73.00	73.00
NATCO Farma Do Brazil	Brazil	65.70	66.40
NATCO Organics Limited (“NOL”) (effective 30 June 2012)	India	51.00	51.00
NATCO Pharma (Canada), Inc. (effective 7 November 2012)	Canada	97.82	90.00
Natco Pharma Asia Pte. Ltd.	Singapore	100.00	NA

Note 1: Interest in NATCO Farma Do Brazil represent effective holding of the Company.

b. Use of estimates

The preparation of the consolidated 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 consolidated 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, useful lives of fixed assets and carrying value of intangible 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.



Notes to the Consolidated Financial Statement

Summary of significant accounting policies and other explanatory information (Contd.)

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. Assets retired from active use and held for disposal are stated at their estimated net realisable values or net book values, whichever is lower.

Exchange rate variations relating to long-term foreign currency monetary items, which are utilized in acquisition of a depreciable capital assets are added to or deducted from the cost of the asset and depreciated over the remaining useful life of the asset.

d. Depreciation

Depreciation is provided on Straight Line Method based on the rates prescribed under Schedule XIV to the Act, except in respect of fixed assets of overseas subsidiaries, which are depreciated over the estimated useful lives, using the Straight Line Method.

Depreciation on sold/discarded 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. Borrowing costs

Borrowing costs that are attributable to the acquisition and construction of a qualifying asset are capitalised as a part of the cost of the asset. Other borrowing costs are recognised as an expense in the year in which they are incurred.

f. Intangible assets

Acquired intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses, if any. Intangible assets in the nature of software are amortized over a period of six years.

Goodwill

Goodwill represents the excess of purchase consideration over the net book value of net assets acquired. Goodwill is evaluated periodically for impairment and impairment losses are recognized where applicable.

Product research and development costs

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

g. 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.

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, 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.

Notes to the Consolidated Financial Statement

Summary of significant accounting policies and other explanatory information

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.

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 and in case of pharmacy sale when items are sold, 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 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 profit sharing arrangements on sale of products is recognized based on terms and conditions of arrangements with respective customers.
- 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 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.



Notes to the Consolidated Financial Statement

Summary of significant accounting policies and other explanatory information (Contd.)

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 may be, 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 statement of profit and loss and shown as MAT credit entitlement.

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

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 foreign currency at the date of the transaction.

Conversion

Foreign currency monetary items are reported at year-end rates. Non-monetary items which are carried in terms of historical cost denominated in 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 foreign currency monetary items or on reporting monetary items of the Company at rates different from those at which they were initially recorded during the year, or reported in previous consolidated financial statements, are recognized as income or as expenses in the year in which they arise.

Foreign currency translation

Exchange difference relating to non-integral foreign operations is disclosed as 'foreign currency translation reserve account' in the consolidated balance sheet until the disposal of the net investment. On the disposal of a non-integral foreign operation, the cumulative amount of the exchange difference is recognized as income or expense in the period in which gain or loss on disposal is recognized. In accordance with the accounting principles prescribed under AS11 'The Effects of Changes in Foreign Exchange Rates' as notified by the Rules, the Group has designated all its foreign operations, as 'non-integral foreign operations'.

n. Employee benefits

Defined contribution plan

In respect of the Company and Indian subsidiary, retirement benefits in the form of contribution to provident fund scheme and employee state insurance scheme are charged to statement of

Notes to the Consolidated Financial Statement

Summary of significant accounting policies and other explanatory information

profit and loss 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 such as 401(k) plan and others for eligible employees are charged to statement of profit and loss 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 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 statement of profit and loss in the period in which such gains or losses arises.

Compensated absences

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 statement of profit and loss.

o. Government grants

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

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 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.

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 with original maturity of less than three months.

t. Segment reporting

The Company's management has identified the business segments viz. active pharmaceuticals ingredient, finished dosage formulations, job works, pharmacy and others. Segments have been identified and reported taking into account the differing risks and returns and the internal business reporting systems. Inter segment sales are generally accounted at fair values and the same have been eliminated in consolidation. The accounting policies of the segments are substantially the same as those described in the 'Summary of significant accounting policies' as above.



Notes to the Consolidated Financial Statement

(All amounts in ₹ unless otherwise stated)

	As at 31 March, 2014		As at 31 March, 2013	
	Number	Amount	Number	Amount
2. Share capital				
Authorized share capital				
Equity shares of ₹10 each	4,00,00,000	40,00,00,000	3,20,00,000	32,00,00,000
Preference shares of ₹10 each	-	-	30,00,000	3,00,00,000
Issued, subscribed and fully paid up				
Equity shares of ₹10 each	3,30,73,074	33,07,30,740	3,13,73,074	31,37,30,740
	3,30,73,074	33,07,30,740	3,13,73,074	31,37,30,740

(a) Reconciliation of shares

	As at 31 March, 2014		As at 31 March, 2013	
	Number	Amount	Number	Amount
Equity shares of ₹10 each				
Balance at the beginning of the year	3,13,73,074	31,37,30,740	3,11,47,952	31,14,79,520
Add: Issued during the year	17,00,000	1,70,00,000	-	-
Add: Shares issued under the employee stock option plan ("ESOP")	-	-	2,25,122	22,51,220
Balance at the end of the year	3,30,73,074	33,07,30,740	3,13,73,074	31,37,30,740

(b) Terms and rights attached to equity shares

The Company has 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 dividend proposed by the Board of Directors is subject to the approval of the shareholders in the ensuing general meeting.

In the event of liquidation of the Company, the holders of equity shares will be entitled to receive the remaining assets of the Company, after distribution of all preferential amounts in proportion of their shareholding.

(c) Shareholders holding more than five percent shares in the Company

	As at 31 March, 2014		As at 31 March, 2013	
	Number	%	Number	%
Equity shares of ₹10 each				
V C Nannapaneni **	80,23,838	24.26%	80,23,838	25.58%
Time Cap Pharma Labs Limited	32,09,833	9.71%	34,09,694	10.87%
Natsoft Information Systems Private Limited	31,53,500	9.53%	31,53,500	10.05%
CX Securities Limited	17,00,000	5.14%	-	-

** including shares held in the capacity of Karta of HUF of 1,088,009 (31 March 2013:1,088,009)

(d) Issue of equity shares

During the year, the Company has issued, on preferential allotment basis 1,700,000 equity shares of ₹10 each, fully paid-up at a premium of ₹628.40 per equity share.

(e) Employee stock option scheme ("ESOP")

(i) The Company had instituted NATCO Stock Option Plan 2010 ("ESOP 2010") as per the special resolution passed in the annual general meeting of the members held on 30 September 2010. This Scheme has

Notes to the Consolidated Financial Statement

(All amounts in ₹ unless otherwise stated)

been formulated in accordance with the 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. 236,551 options were granted during August 2011 at an exercise price of ₹10 each are accounted at an intrinsic value of ₹252.55 per share, being the difference between the market value, calculated in accordance with the valuation methods prescribed by the SEBI and the grant price and accounted as stock option compensation over the vesting period of twelve months from the date of the grant.

- (ii) During the year ended 31 March 2014 the Company has recorded stock compensation expenses amounting to ₹Nil (31 March 2013: ₹57,112,791) including ₹Nil (31 March 2013: ₹36,202,643) pertaining to prior period.
- (iii) Changes in number of shares representing stock options outstanding as at the year ended on 31 March 2014 were as follows:

	ESOP 2010
Outstanding as at 1 April 2012	2,25,122
Granted during the year	-
Exercised and vested	2,25,122
Forfeited	-
Outstanding as at 31 March 2013	-
Exercised and vested	-
Forfeited	-
Outstanding as at 31 March 2014	-

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

	As at 31 March, 2014	As at 31 March, 2013
Equity shares of ₹10 each allotted as fully paid-up pursuant to contracts without payment being received in cash.*	3,32,247	3,32,247

* 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 Statement

(All amounts in ₹ unless otherwise stated)

	As at 31 March, 2014	As at 31 March, 2013
3. Reserves and surplus		
Capital reserve - as per last balance sheet	20,72,72,762	20,72,72,762
Capital redemption reserve - as per last balance sheet	49,28,810	49,28,810
Securities premium reserve		
Balance at the beginning of the year	1,52,14,41,552	1,46,43,28,761
Add : Additions during the year [Refer note 2(d)]	1,06,82,80,000	5,71,12,791
Balance at the end of the year	2,58,97,21,552	1,52,14,41,552
General reserve		
Balance at the beginning of the year	32,71,61,000	24,71,61,000
Add : Additions during the year	11,00,00,000	8,00,00,000
Balance at the end of the year	43,71,61,000	32,71,61,000
Foreign currency translation reserve		
Balance at the beginning of the year	4,67,32,552	7,98,39,895
Add : Adjustments during the year	41,77,923	(3,31,07,343)
Balance at the end of the year	5,09,10,475	4,67,32,552
Surplus in the statement of profit and loss		
Balance at the beginning of the year	2,91,41,61,368	2,42,13,20,898
Add : Profit for the year	1,02,73,42,878	71,86,90,784
Less: Interim dividend - ₹5 (31 March 2013: ₹4) per share	(16,53,65,370)	(12,54,92,296)
Less: Tax on distributed profits	(2,81,03,845)	(2,03,57,988)
Less: Transferred to general reserve	(11,00,00,000)	(8,00,00,000)
Balance at the end of the year	3,63,80,35,031	2,91,41,61,398
	6,92,80,29,630	5,02,16,98,074
4. Long-term borrowings		
Secured		
Term loans from		
Banks	96,56,06,253	1,26,84,12,628
Other parties	41,97,05,883	60,91,76,471
	1,38,53,12,136	1,87,75,89,099
Unsecured		
Deferred payment liabilities	-	5,42,698
From other parties	3,28,33,653	2,15,11,225
	1,41,81,45,789	1,89,96,43,022
Less: Current maturities of long-term borrowings (note 10)	(46,32,82,892)	(52,13,87,737)
	95,48,62,897	1,37,82,55,285

(a) Deferred payment liabilities

Represents interest free sales tax deferment, availed under the 'TARGET 2000' Scheme of the Government of Andhra Pradesh, India.

Notes to the Consolidated Financial Statement

(All amounts in ₹ unless otherwise stated)

(b) Terms and conditions of loans and nature of security

- (i) Term loans amounting to ₹457,205,883 (31 March 2013: ₹696,676,471) is secured by pari-passu first charge on the entire immovable properties and movable fixed assets both present and future of Mekaguda Unit and part of the loan is further secured by an exclusive charge on all the immovable properties and movable fixed assets of both the units (Plot No-19 and Plot NoA-3) at Dehradun and exclusive charge on the R&D equipment acquired from the loan amount.
- (ii) Term loan amounting to ₹241,300,697 (31 March 2013: ₹327,559,559) 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 other lenders.
- (iii) Term loan amounting to ₹686,805,556 (31 March 2013: ₹853,353,069) is secured by pari-passu first charge on the entire fixed assets both present and future of Kothur Unit.

All the above loans are guaranteed by Mr. V.C Nannapaneni, Chairman and Managing Director and carry interest linked to the respective Bank's / Institution's prime / base lending rate, and range from 3.53% per annum to 12.50% per annum (31 March 2013: 3.53% per annum to 12.75% per annum).

- (c) Unsecured loans amounting to ₹32,833,653 (31 March 2013: ₹21,511,225) has been availed at an interest rate of 6.25% to 19.56% per annum (31 March 2013: 6.25% to 18.50 % per annum)

(d) Details of repayment of long term borrowings

	As at 31 March, 2014	As at 31 March, 2013
Up to 1 year	46,32,82,892	52,13,87,737
From 1 to 3 years	77,19,18,452	86,11,71,952
3 years and above	18,29,44,445	51,70,83,333
	1,41,81,45,789	1,89,96,43,022

5. Deferred tax liabilities (net)

On account of depreciation	47,13,19,608	47,23,57,542
On account of employee benefits and others	(4,07,54,019)	(2,91,03,310)
Net deferred tax liability	43,05,65,589	44,32,54,232

6. Other long-term liabilities

Security deposits	1,03,99,407	69,10,411
	1,03,99,407	69,10,411

7. Long-term provisions

Provision for gratuity	7,26,97,561	5,55,65,507
Provision for leave benefits	3,81,91,910	3,06,41,610
	11,08,89,471	8,62,07,117

In respect of NOL, provision for gratuity aggregating to ₹2,053,297 (31 March 2013: ₹1,046,105) has been made based on management estimate, as against the group accounting policy as mentioned in note 1(n).



Notes to the Consolidated Financial Statement

(All amounts in ₹ unless otherwise stated)

(a) Gratuity

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

	As at 31 March, 2014	As at 31 March, 2013
(i) Change in projected benefit obligation		
Projected benefit obligation at the beginning of the year	9,44,62,630	7,31,62,037
Service cost	75,57,010	54,20,329
Interest cost	67,04,247	58,52,963
Actuarial (gain) / loss	1,38,18,766	1,31,54,950
Benefits paid	(50,88,101)	(31,27,649)
Projected benefit obligation at the end of the year	11,74,54,552	9,44,62,630
(ii) Change in plan assets		
Fair value of plan assets at the beginning of the year	3,99,43,228	2,72,93,852
Expected return on plan assets	35,17,274	31,90,969
Employer contributions	84,37,887	1,25,86,056
Benefits paid	(50,88,101)	(31,27,649)
Fair value of plan assets at the end of the year	4,68,10,288	3,99,43,228
(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	11,74,54,552	9,44,62,630
Funded status of the plans	4,68,10,288	3,99,43,228
Net liability recognized in the balance sheet	7,06,44,264	5,45,19,402
(iv) Expense recognized in the statement of profit and loss		
Service cost	75,57,010	54,20,329
Interest cost	67,04,247	58,52,963
Expected returns on plan assets	(35,17,274)	(31,90,969)
Recognized net actuarial (gain)/ loss	1,38,18,766	1,31,54,950
Net gratuity costs	2,45,62,749	2,12,37,273
(v) Key actuarial assumptions		
Discount rate	8.00%	8.00%
Expected return on plan assets	8.75%	9.25%
Salary escalation rate	4.00%	4.00%

(vi) Amounts for the current and previous four periods are as follows:

	As at 31.03.2014	As at 31.03.2013	As at 31.03.2012	As at 31.03.2011	As at 31.03.2010
Defined benefit obligation	11,74,54,552	9,44,62,630	7,31,62,037	5,82,31,217	5,50,81,820
Planned assets	4,68,10,288	3,99,43,228	2,72,93,852	2,60,78,468	2,22,40,895
Surplus / (deficit) :	(7,06,44,264)	(5,45,19,402)	(4,58,68,185)	(3,21,52,749)	(3,28,40,925)
Experiment adjustment to planned liabilities	1,38,18,766	1,31,54,950	71,33,657	(28,72,373)	43,18,765
Experiment adjustment to planned assets	-	-	-	-	-

Notes to the Consolidated Financial Statement

(All amounts in ₹ unless otherwise stated)

	As at 31 March, 2014	As at 31 March, 2013
8. Short-term borrowings		
Loans repayable on demand		
Secured		
From banks	94,33,54,453	94,75,59,690
Unsecured		
From banks	4,29,58,016	52,98,75,142
	98,63,12,469	1,47,74,34,832
(a) Loans repayable on demand represents cash credit, overdraft, bills purchased and discounted with various banks and carry interest linked to the respective Bank's / Institution's prime / base lending rate, and range from 5.75% per annum to 14% per annum (31 March 2013: 5.75% per annum to 14% per annum).		
(b) Loans repayable on demand are secured by way of first charge on all the current assets of the Company. The collateral security is joint pari-passu first charge on the corporate Office and all fixed assets of Nagarjuna Sagar Unit apart from personal guarantees of Mr. V.C. Nannapaneni, Chairman and Managing Director, Ms. Durga Devi Nannapaneni, promoter and Dr. N. Ramakrishna Rao, relative of Chairman and Managing Director.		
(c) Unsecured loans are personally guaranteed by Mr. V.C. Nannapaneni, Chairman and Managing Director.		
9. Trade payables		
Creditors for purchases and expenses	1,09,78,62,833	1,05,85,15,782
	1,09,78,62,833	1,05,85,15,782
10. Other current liabilities		
Current maturities of long-term borrowings	46,32,82,892	52,13,87,737
Interest accrued but not due on long-term borrowings	99,81,713	72,41,672
Creditors for capital assets	20,67,24,892	19,47,48,273
Book overdraft	3,64,62,711	4,69,93,831
Employee related payables	9,88,17,800	8,43,84,890
Advance from customers	15,19,45,350	1,13,23,209
Unpaid dividends	83,20,386	83,03,908
Statutory liabilities	4,62,45,557	2,76,88,923
	1,02,17,81,301	90,20,72,443
11. Short-term provisions		
Provision for taxation [net of advance tax]	1,27,27,557	73,72,237
Provision for leave benefits	41,36,732	33,05,980
	1,68,64,289	1,06,78,217



Notes to the Consolidated Financial Statement

(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 2012	32,96,37,125	1,67,25,782	1,26,90,53,382	2,32,38,13,400	3,88,72,391	4,00,31,706	7,76,68,441	7,70,85,427	4,17,28,87,654
On acquisition of a subsidiary	19,59,59,000	-	16,37,49,970	15,34,35,851	17,42,877	11,49,294	25,40,043	25,62,394	52,11,39,429
Additions	11,57,03,075	-	53,38,67,152	1,49,62,08,770	26,27,046	1,58,88,528	1,84,04,634	2,08,06,311	2,20,35,05,517
Disposals / adjustments	-	-	-	12,000	67,57,553	-	27,20,744	-	94,90,297
Foreign exchange adjustments	-	-	1,40,32,917	2,51,27,140	9,11,572	(28,521)	67,121	1,06,781	4,02,17,010
Balance as at 31 March 2013	64,12,99,200	1,67,25,782	1,98,07,03,421	3,99,85,73,161	3,73,96,332	5,70,41,008	9,59,59,496	10,05,60,913	6,92,82,59,313
Additions	32,97,73,216	-	7,63,45,496	40,36,75,811	31,41,145	1,58,45,696	65,39,220	1,06,62,969	84,59,83,553
Disposals / adjustments	-	-	-	10,34,146	-	1,70,290	13,02,045	-	25,06,481
Foreign exchange adjustments	-	-	1,30,43,925	2,33,56,265	9,65,885	5,41,831	(18,343)	6,34,493	3,85,24,055
Balance as at 31 March 2014	97,10,72,416	1,67,25,782	2,07,00,92,842	4,42,45,71,091	4,15,03,362	7,32,58,245	10,11,78,328	11,18,58,374	7,81,02,60,440
Accumulated depreciation									
Up to 1 April 2012	-	12,49,242	25,00,75,548	76,47,57,171	2,08,58,303	2,03,77,692	3,80,95,945	6,83,95,177	1,16,38,09,078
On acquisition of a subsidiary	-	-	67,91,805	98,29,323	4,86,949	2,02,340	2,94,772	5,24,633	1,81,29,822
Depreciation charge	-	1,88,536	4,96,39,956	14,74,39,793	21,44,094	37,84,329	61,56,296	47,96,190	2,14,41,49,194
Reversal on disposal	-	-	-	893	61,69,585	-	17,75,640	-	79,46,118
Foreign exchange translation	-	-	-	-	7,36,751	1,47,242	60,047	1,12,982	10,57,021
Up to 31 March 2013	-	14,37,778	30,65,07,309	92,20,25,394	1,80,56,511	2,45,11,603	4,28,31,420	7,38,28,982	1,38,91,98,997
Depreciation charge	-	1,88,536	6,55,55,548	20,59,52,257	27,02,745	43,63,171	72,97,397	67,49,772	29,28,09,425
Reversal on disposal	-	-	-	1,29,870	-	38,450	7,88,238	-	9,56,558
Foreign exchange translation	-	-	-	-	8,01,275	4,94,057	(8,156)	5,40,986	18,28,162
Up to 31 March 2014	-	16,26,314	37,20,62,857	1,12,78,47,781	2,15,60,531	2,93,30,381	4,93,32,423	8,11,19,740	1,68,28,80,026
Net block									
Balance as at 31 March 2013	64,12,99,200	1,52,88,004	1,67,41,96,112	3,07,65,47,767	1,93,39,821	3,25,29,405	5,31,28,076	2,67,31,931	5,53,90,60,316
Balance as at 31 March 2014	97,10,72,416	1,50,99,468	1,69,80,29,985	3,29,67,23,310	1,99,42,831	4,39,27,864	5,18,45,905	3,07,38,634	6,12,73,80,414

(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.

Notes to the Consolidated Financial Statement

(All amounts in ₹ unless otherwise stated)

	Computer Software	Goodwill	Total
13. Intangible assets			
Gross block			
Balance as at 1 April 2012	2,76,96,263	20,26,90,277	23,03,86,540
On acquisition of a subsidiary	40,500	-	40,500
Additions	3,85,58,338	6,42,52,394	10,28,10,732
Foreign exchange adjustments	(91,080)	82,50,271	81,59,192
Balance as at 31 March 2013	6,62,04,021	27,51,92,942	34,13,96,964
Additions	2,61,51,798	-	2,61,51,798
Foreign exchange adjustments	(43,070)	2,10,94,339	2,10,51,269
Balance as at 31 March 2014	9,23,12,749	29,62,87,281	38,86,00,031
Accumulated amortisation			
Up to 1 April 2012	95,73,687	-	95,73,687
On acquisition of a subsidiary	6,565	-	6,565
Amortization charge	70,73,396	-	70,73,396
Foreign exchange translation	(1,36,465)	-	(1,36,465)
Up to 31 March 2013	1,65,17,183	-	1,65,17,183
Amortization charge	1,16,24,567	-	1,16,24,567
Foreign exchange translation	1,12,625	-	1,12,625
Up to 31 March 2014	2,82,54,375	-	2,82,54,375
Impairment loss			
Up to 1 April 2012	-	3,42,96,750	3,42,96,750
Foreign exchange adjustments	-	21,67,360	21,67,360
Up to 31 March 2013	-	3,64,64,110	3,64,64,110
Foreign exchange adjustments	-	38,28,613	38,28,613
Up to 31 March 2014	-	4,02,92,723	4,02,92,723
Net block			
Balance as at 31 March 2013	4,96,86,838	23,87,28,832	28,84,15,671
Balance as at 31 March 2014	6,40,58,374	25,59,94,558	32,00,52,933

	As at 31 March, 2014	As at 31 March, 2013
14. Non-current investments		
Investments in equity instruments, Trade, Unquoted		
<i>Others</i>		
Share application money in NATIVITA 750 (31 March 2013: 750) equity shares of ₹100 each, fully paid-up, in Jeedimetla Effluent Treatment Limited	2,55,035	-
34,400 (31 March 2013: 34,400) equity shares of ₹10 each, fully paid-up, in Pattancheru Enviro-Tech Limited	75,000	75,000
	3,44,000	3,44,000
Total investments in equity instruments, Trade (A)	6,74,035	4,19,000
Investments in equity instruments, Others, Quoted		
27,000 (31 March 2013: 27,000) equity shares of ₹10 each, fully paid-up in Jayalakshi Spinning Mills Limited	2,70,000	2,70,000
Total investments in equity instruments, Others (B)	2,70,000	2,70,000



Notes to the Consolidated Financial Statement

(All amounts in ₹ unless otherwise stated)

	As at 31 March, 2014	As at 31 March, 2013
14. Non-current investments (Contd.)		
Other non-current investments, Others, Unquoted		
Investment in portfolio management services 15,000,000 (31 March 2013: 15,000,000) compulsorily convertible preference shares of ₹1 each, fully paid-up in Ravindranath GE Medical Associates Private Limited.	1,50,00,000	1,50,00,000
National savings certificates	3,910	3,910
Total investments in other non-current investments (C)	1,50,03,910	1,50,03,910
Total non-current investments (A+B+C)	1,59,47,945	1,56,92,910
Less: provision for diminution in value of investments	2,70,000	2,70,000
	1,56,77,945	1,54,22,910
Quoted investments	2,70,000	2,70,000
Market value of quoted investments	-	-
Unquoted investments [including share application money]	1,56,77,945	1,54,22,910
Provision for diminution in value of investments	2,70,000	2,70,000

Investment in portfolio management services

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, the Company's fund 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 2014.

15. Loans and advances

(Unsecured, considered good)

Long-term

Capital advances	27,13,54,640	31,06,47,055
Security deposits	3,39,08,779	2,94,64,415
Advance tax, net	16,74,81,890	14,33,67,501
Balances with government authorities	6,97,30,494	8,84,87,912
	54,24,75,803	57,19,66,883

Short-term

Loans and advances to related parties	3,90,71,244	1,27,43,400
Prepaid expenses	1,86,74,873	1,55,56,316
Balances with government authorities	30,38,12,731	29,35,97,772
Advances for purchases and expenses	12,51,40,782	4,93,01,944
Other advances	5,65,42,276	3,28,85,392
	54,32,41,906	40,40,84,824

Notes to the Consolidated Financial Statement

(All amounts in ₹ unless otherwise stated)

	As at 31 March, 2014	As at 31 March, 2013
16. Other non-current assets		
(Unsecured, considered good)		
Deposit held with banks*	2,60,07,558	1,99,50,997
Interest accrued on fixed deposits	63,72,804	61,28,016
	3,23,80,362	2,60,79,013

*Bank deposits held with banks as margin money with a maturity period of more than 12 months.

17. Current investments		
Investments in equity instruments, Quoted, Non trade		
75,000 (31 March 2013: 140,000) equity shares of ₹10 each, fully paid-up in Neuland Laboratories Limited	26,71,564	76,13,556
2,000 (31 March 2013: 1,000) equity shares of ₹10 each, fully paid-up in Sun Pharmaceuticals Industries Limited	5,07,970	5,07,970
	31,79,534	81,21,526
<i>Aggregate amount of</i>		
Quoted investments	31,79,534	81,21,526
Market value of quoted investments	2,06,49,500	74,36,946
Unquoted investments	-	-

18. Inventories		
Raw materials [including goods-in-transit of ₹4,851,836 (31 March 2013: ₹4,833,327)]	42,45,30,989	40,63,89,009
Work-in-progress	66,36,46,801	54,41,28,311
Finished goods	20,48,30,894	15,50,69,614
Stores and spares [including goods-in-transit of ₹4,833,231 (31 March 2013: ₹4,083,462)]	16,15,61,868	12,83,79,870
Packing materials [including goods-in-transit of ₹18,479,433 (31 March 2013: ₹87,384)]	21,31,18,475	8,34,65,474
Stock-in-trade	14,35,57,481	14,28,07,763
	1,81,12,46,508	1,46,02,40,041

19. Trade receivables		
Due for a period exceeding six months		
Unsecured, considered good	19,66,79,936	7,06,61,175
Unsecured, considered doubtful	1,63,44,519	1,53,09,640
	21,30,24,455	8,59,70,815
Less: Provision for doubtful receivables	1,63,44,519	1,53,09,640
	19,66,79,936	7,06,61,175
Other debts		
Unsecured, considered good	99,13,18,822	1,22,64,68,432
	1,18,79,98,758	1,29,71,29,607



Notes to the Consolidated Financial Statement

(All amounts in ₹ unless otherwise stated)

	As at 31 March, 2014	As at 31 March, 2013
20. Cash and bank balances		
Cash and cash equivalents		
Balances with banks		
- on current accounts	7,35,35,784	6,65,07,265
- on deposit accounts	20,00,000	25,00,000
Cash on hand	2,66,19,298	3,05,10,594
	10,21,55,082	9,95,17,859
Other bank balances		
Unpaid dividend account	83,20,386	83,03,908
	83,20,386	83,03,908
	11,04,75,468	10,78,21,767
21. Other current assets		
(Unsecured, considered good)		
Export incentives receivable	2,52,21,563	2,73,65,174
	2,52,21,563	2,73,65,174
	For the year ended 31 March, 2014	For the year ended 31 March, 2013
22. Revenue from operations		
Sale of products	6,71,61,64,751	6,10,04,69,454
Sale of services	22,55,91,510	14,83,48,214
Other operating revenues		
Job work charges	11,93,31,350	9,43,60,434
Export incentives	4,87,34,811	4,45,49,118
Scrap sales	3,26,04,148	6,01,30,615
Technology income	-	11,21,25,000
Income from profit sharing arrangement	30,47,54,882	12,10,27,256
	50,54,25,191	43,21,92,423
Total revenue from operations	7,44,71,81,452	6,68,10,10,091
23. Other income		
Interest income from		
Fixed deposits	56,13,616	2,35,09,704
Income tax refund	1,94,07,066	-
Dividend income	1,31,668	4,808
Net gain on sale of current investments	1,00,58,159	1,17,66,528
Net gain on foreign currency transaction and translation	11,04,74,639	5,20,65,143
Provision no longer required, written back	67,53,572	3,18,75,000
Other non-operating income	1,46,39,110	48,42,526
	16,70,77,830	12,40,63,709

Notes to the Consolidated Financial Statement

(All amounts in ₹ unless otherwise stated)

	For the year ended 31 March, 2014	For the year ended 31 March, 2013
24. Cost of raw materials consumed (including packing materials consumed) #		
Opening stock	48,98,54,483	38,50,63,638
Add: On acquisition of a subsidiary	-	46,53,252
Add: Purchases during the year	1,74,87,66,606	1,87,57,99,545
Less: Closing stock	63,76,49,464	48,98,54,483
	1,60,09,71,625	1,77,56,61,952

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

25. Changes in inventories of finished goods, work-in-progress and stock-in-trade		
Opening stock		
- Finished goods	15,50,69,614	8,67,29,795
- Work-in-progress	54,41,28,311	36,84,03,712
- Stock-in-trade	14,28,07,763	16,17,45,880
	84,20,05,688	61,68,79,387
- Work-in-progress	-	1,19,932
Closing stock		
- Finished goods	20,48,30,894	15,50,69,614
- Work-in-progress	66,36,46,801	54,41,28,311
- Stock-in-trade	14,35,57,481	14,28,07,763
	1,01,20,35,176	84,20,05,688
Currency translation adjustment	(1,23,14,608)	(59,16,885)
	(15,77,14,880)	(21,90,89,484)

26. Employee benefit expense		
Salaries and wages	95,39,90,035	82,47,78,673
Contribution to provident and other funds	9,92,77,636	7,29,33,854
Employee stock option compensation	-	5,71,12,791
Staff welfare expenses	7,44,62,058	6,80,66,872
	1,12,77,29,729	1,02,28,92,190

27. Finance costs		
Interest expense	34,31,31,346	24,94,58,783
Other borrowing costs	2,30,57,331	1,36,09,404
	36,61,88,677	26,30,68,187

Interest expenses is after capitalization of ₹10,064,052 (31 March 13: ₹67,243,782) to fixed assets.



Notes to the Consolidated Financial Statement

(All amounts in ₹ unless otherwise stated)

	For the year ended 31 March, 2014	For the year ended 31 March, 2013
28. Other expenses		
Consumption of stores and spare parts	21,61,16,145	16,00,77,786
Power and fuel	44,76,62,890	38,74,71,609
Rent	2,53,65,567	2,04,54,391
Repairs and maintenance		
- Buildings	4,41,13,925	4,86,50,938
- Plant and equipment	12,22,52,435	10,49,17,854
- Others	3,08,95,070	2,29,72,608
Insurance	3,40,71,884	2,86,90,897
Rates and taxes	10,65,53,332	9,65,35,615
Factory maintenance expenses	14,83,65,091	12,17,44,104
Analysis charges	6,11,45,373	4,62,52,799
Carriage and freight outwards	8,51,48,396	6,61,09,115
Donations	4,27,65,409	3,05,56,433
Communication expenses	2,21,31,778	1,97,21,674
Office maintenance and other expenses	3,20,18,283	3,59,43,911
Travelling and conveyance	10,36,42,762	8,85,47,263
Legal and professional fees	20,82,10,805	8,39,00,005
Payment to auditors		
- As auditor	20,00,000	13,00,000
- For other services	-	-
- For reimbursement of expenses	23,412	14,321
Inventory written-off	78,13,451	84,01,436
Bad debts	19,18,395	33,203
Directors sitting fee	2,65,000	1,50,000
Sales promotion expenses including sales commssion	17,64,55,556	8,20,97,507
Research and development expenses	14,28,51,578	14,63,36,413
Printing and stationery	2,78,42,839	1,96,35,270
Miscellaneous expenses	4,55,23,228	3,37,63,228
	2,13,51,52,604	1,65,42,78,380

29. Exceptional item

Exceptional item represents written-off of amount deposited with the Hon'ble High Court of Andhra Pradesh against the pending legal dispute with M/s. SMS Pharmaceuticals Limited.

Notes to the Consolidated Financial Statement

(All amounts in ₹ unless otherwise stated)

30. Related party disclosures

(a) Names of the related parties and nature of relationship

Names of related parties	Nature of relationship
NATCO Organics Limited	Entity in which Directors have control or have significant influence (up to 29 June 2012) Subsidiary company (w.e.f. 30 June 2012)
Time Cap Pharma Labs Limited	
NATCO Trust, Hyderabad	Entities in which Directors have control or have significant influence
NATCO Group Employees Welfare Trust	
Natsoft Information Systems Private Limited	
V C Nannapaneni	
Rajeev Nannapaneni	Key management personnel ("KMP")
P Bhaskara Narayanan	
A K S Bhujanga Rao	
Durga Devi Nannapaneni	
Neelima Nannapaneni	Relative of KMP
Dr. Ramakrishna Rao	

(b) Transactions with related parties

	For the year ended 31 March, 2014	For the year ended 31 March, 2013
NATCO Organics Limited		
Advance towards future supplies	-	4,37,82,194
Rental expense	-	2,85,000
Purchases	-	31,32,500
Time Cap Pharma Labs Limited		
Income from Job work charges and sales	2,53,091	28,62,350
Income from rent	-	1,20,000
Commission and expenses reimbursement	68,83,562	39,33,976
Purchases	17,13,600	16,63,200
Rental expense	38,00,000	18,00,000
Advances given	35,00,000	40,00,000
Dividends paid	1,70,63,470	1,36,50,776
Natsoft Information Systems Private Limited		
Dividends paid	1,57,67,500	1,26,14,000
NATCO Trust		
Donations given	2,95,69,040	2,44,00,000
NATCO Group Employees Welfare Trust		
Dividends paid	2,73,785	3,36,000
Transactions with key management personnel		
V C Nannapaneni		
Managerial remuneration	1,39,38,000	1,33,83,000
Rental expenses	18,00,000	18,00,000
Dividends paid	4,01,19,190	3,20,95,352
Personal guarantees against loans taken by the Company	1,40,60,00,000	83,00,00,000



Notes to the Consolidated Financial Statement

(All amounts in ₹ unless otherwise stated)

(b) Transactions with related parties (Contd.)

	For the year ended 31 March, 2014	For the year ended 31 March, 2013
Rajeev Nannapaneni		
Managerial remuneration	1,11,48,000	1,06,90,000
Rental expenses	9,60,000	9,60,000
Dividends paid	17,83,050	18,26,440
P Bhaskara Narayana		
Managerial remuneration	36,00,000	32,00,000
Dividends paid	18,500	6,800
Stock options		
Nil (31 March 2013: 1,700) equity shares granted at an exercise price of ₹10 per share under the employee stock option scheme framed by the Company.	-	4,31,285
A K S Bhujanga Rao		
Managerial remuneration	33,50,996	29,48,628
Dividends paid	43,500	34,800
Stock options		
Nil (31 March 2013: 1,700) equity shares granted at an exercise price of ₹10 per share under the employee stock option scheme framed by the Company.	-	4,31,285
Transactions with a relatives of key management personnel		
Durga Devi Nannapaneni		
Dividends paid	41,39,100	33,11,280
Personal guarantees against loans taken by the Company	90,60,00,000	-
Neelima Nannapaneni		
Dividends paid	19,82,960	15,86,368
Dr. Ramakrishna Rao		
Dividends paid	7,04,910	5,67,928
Personal guarantees against loans taken by the Company	90,60,00,000	-

(c) Balances receivable / (payable)

	As at 31 March, 2014	As at 31 March, 2013
Time Cap Pharma Labs Limited	(14,13,982)	(15,26,076)
NATCO Trust	86,68,747	10,816
V C Nannapaneni	(5,77,293)	(6,16,763)
Rajeev Nannapaneni	(4,99,087)	(4,94,539)
P Bhaskara Narayana	(1,82,753)	(1,22,438)
A K S Bhujanga Rao	(1,57,203)	(3,58,765)
Outstanding guarantees		
V C Nannapaneni	4,64,93,12,136	4,42,15,89,099
Dr. Ramakrishna Rao	2,23,40,00,000	1,32,80,00,000
Durga Devi Nannapaneni	2,23,40,00,000	1,32,80,00,000

Notes to the Consolidated Financial Statement

(All amounts in ₹ unless otherwise stated)

	As at 31 March, 2014	As at 31 March, 2013
31. Contingent liabilities and commitments		
(a) Commitments		
Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances)	19,04,81,959	14,71,03,904
(b) Contingent liabilities		
Claims against the company not acknowledged as debt	20,82,29,663	20,82,29,663
Disputed sales tax liabilities	86,90,000	86,90,000
Disputed income tax liabilities	2,99,52,680	2,60,28,878

Claims against the Company not acknowledged as debt, represents claim including interest lodged by M/s. SMS Pharmaceuticals Limited, against the Company. During the previous year, the Hon'ble City Civil Court, Hyderabad has passed the judgment against the Company. Based on a legal advice received, the Company has preferred an appeal before the Hon'ble High Court of Andhra Pradesh as the management is confident of favorable outcome.

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 stand taken by the Assessing Officer while passing revised orders for the Assessment Year 2007-08 and 2008-09, management is confident of favorable outcome of the proceedings.

32. Segment reporting

The primary and secondary reportable segments are business segments and geographical segments respectively. The Group's principal segments of business are active pharmaceutical ingredients ("API"), finished dosage formulations, job work charges and retail pharmacy. 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 2014

Particulars	API	Finished dosage formulations	Job works	Pharmacy	Others	Eliminations	Total
Revenue							
External sales	1,97,86,41,126	3,57,45,07,247	-	1,16,30,16,378	-	-	6,71,61,64,751
Inter-segment sales	21,48,34,025	-	-	-	-	(21,48,34,025)	-
	2,19,34,75,151	3,57,45,07,247	-	1,16,30,16,378	-	(21,48,34,025)	6,71,61,64,751
Less: Excise duty	2,58,56,044	3,23,99,915	-	-	-	-	5,82,55,959
Revenue [Net]	2,16,76,19,107	3,54,21,07,332	-	1,16,30,16,378	-	(21,48,34,025)	6,65,79,08,792
Sale of dossiers	-	-	-	-	22,55,91,510	-	22,55,91,510
Job work charges	-	-	11,93,31,350	-	-	-	11,93,31,350
Other operating income	4,18,73,572	33,11,71,546	-	-	1,30,48,723	-	38,60,93,841
Total segment revenue	2,20,94,92,679	3,87,32,78,878	11,93,31,350	1,16,30,16,378	23,86,40,233	(21,48,34,025)	7,38,89,25,493



Notes to the Consolidated Financial Statement

(All amounts in ₹ unless otherwise stated)

For the year ended 31 March 2014 (Contd.)

Particulars	API	Finished dosage formulations	Job works	Pharmacy	Others	Eliminations	Total
Results							
Segment result	25,91,31,446	1,69,24,08,991	9,86,75,562	(3,78,49,757)	22,68,96,382	-	2,23,92,62,624
Unallocated corporate expenses							75,03,84,197
Finance cost							36,61,88,677
Other income							16,70,77,830
Exceptional item							-
Profit before tax							1,28,97,67,580
Income tax [Including deferred tax]							30,87,00,271
Profit before minority interest							98,10,67,309
Minority interest							(4,62,75,569)
Net profit for the year							1,02,73,42,878

Other information as at 31 March 2014

Particulars	API	Finished dosage formulations	Job works	Pharmacy	Others	Eliminations	Total
Segment assets	5,65,92,81,907	4,53,71,96,951	1,64,60,710	31,59,34,061	13,34,18,062	-	10,66,22,91,691
Unallocated corporate assets	-	-	-	-	-	-	1,29,48,02,465
Total assets	5,65,92,81,907	4,53,71,96,951	1,64,60,710	31,59,34,061	13,34,18,062	-	11,95,70,94,156
Segment liabilities	63,66,90,750	75,28,24,902	-	13,06,74,568	-	-	1,52,01,90,220
Minority interest							6,87,95,530
Unallocated corporate liabilities							3,10,93,48,036
Total liabilities	63,66,90,750	75,28,24,902	-	13,06,74,568	-	-	4,69,83,33,786
Capital expenditure	41,46,10,703	53,17,52,083	-	76,35,954	7,46,83,687	-	1,02,86,82,427
Depreciation and amortisation	16,20,06,696	11,74,22,086	-	36,47,283	2,13,57,927	-	30,44,33,992
Non cash expenses, other than depreciation	-	78,13,451	-	19,18,395	2,55,13,106	-	3,52,44,952

Notes to the Consolidated Financial Statement

(All amounts in ₹ unless otherwise stated)

Business segment

For the year ended 31 March 2013

Particulars	API	Finished dosage formulations	Job works	Pharmacy	Others	Eliminations	Total
Revenue							
External sales	2,22,09,16,178	2,84,29,71,380	-	1,03,65,81,895	-	-	6,10,04,69,453
Inter-segment sales	15,81,06,950	-	-	-	-	(15,81,06,950)	-
	2,37,90,23,128	2,84,29,71,380	-	1,03,65,81,895	-	(15,81,06,950)	6,10,04,69,454
Less: Excise duty	2,06,00,364	5,51,50,057	-	-	-	-	7,57,50,421
Revenue [Net]	2,35,84,22,764	2,78,78,21,323	-	1,03,65,81,895	-	(15,81,06,950)	6,02,47,19,033
Sale of dossiers	-	-	-	-	14,83,48,214	-	14,83,48,214
Job work charges	-	-	9,43,60,434	-	-	-	9,43,60,434
Other operating income	5,33,05,111	13,90,50,075	-	-	16,21,97,530	(1,67,20,727)	33,78,31,989
Total segment revenue	2,41,17,27,875	2,92,68,71,398	9,43,60,434	1,03,65,81,895	31,05,45,744	(17,48,27,677)	6,60,52,59,670
Results							
Segment result	46,81,20,996	1,28,32,19,696	7,67,35,149	(3,58,88,628)	24,88,26,641	-	2,04,10,13,854
Unallocated corporate expenses							76,29,75,823
Finance cost							26,30,68,187
Other income							12,40,63,709
Exceptional item							11,58,40,728
Profit before tax							1,02,31,92,825
Income tax [Including deferred tax]							36,43,63,577
Profit before minority interest							65,88,29,248
Minority interest							(5,98,61,536)
Net profit for the year							71,86,90,784

Other information as at 31 March 2013

Particulars	API	Finished dosage formulations	Job works	Pharmacy	Others	Eliminations	Total
Segment assets	5,59,08,40,266	3,73,10,25,105	93,51,917	22,39,71,921	4,49,26,918	-	9,60,01,16,128
Unallocated corporate assets	-	-	-	-	-	-	1,20,40,07,857
Total assets	5,59,08,40,266	3,73,10,25,105	93,51,917	22,39,71,921	4,49,26,918	-	10,80,41,23,985
Segment liabilities	1,72,18,85,901	45,68,29,111	-	22,72,56,880	-	(1,14,05,82,545)	1,26,53,89,347
Minority interest							10,53,66,852
Unallocated corporate liabilities	-	-	-	-	-	-	4,09,79,38,972
Total liabilities	1,72,18,85,901	45,68,29,111	-	22,72,56,880	-	(1,14,05,82,545)	5,46,86,95,171
Capital expenditure	88,69,00,040	27,69,67,091	-	66,89,099	25,00,73,786	-	1,42,06,30,016
Depreciation and amortisation	10,49,82,565	9,72,52,301	-	36,32,861	1,53,54,863	-	22,12,22,590
Other non cash expenses	-	84,01,436	-	-	7,69,59,216	-	8,53,60,652



Notes to the Consolidated Financial Statement

(All amounts in ₹ unless otherwise stated)

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.

	For the year ended and as at 31 March 2014			For the year ended and as at 31 March 2013		
	Segment revenue	Segment assets	Capital expenditure	Segment revenue	Segment assets	Capital expenditure
India	3,41,78,46,574	10,87,58,46,950	1,02,10,46,474	2,78,40,61,918	9,50,55,90,182	1,41,39,41,007
America	2,54,32,08,764	82,81,00,425	76,35,953	2,02,55,84,039	91,12,11,423	66,89,009
Europe	1,10,95,66,426	17,75,19,543	-	1,22,63,23,014	20,33,95,859	-
Rest of the world	48,53,81,559	7,56,27,238	-	69,33,54,408	18,39,26,521	-
Total	7,55,60,03,323	11,95,70,94,156	1,02,86,82,427	6,72,93,23,379	10,80,41,23,985	1,42,06,30,016

	For the year ended 31 March, 2014	For the year ended 31 March, 2013
33. Earnings per equity share (EPES)		
Net profit as per Consolidated Statement of Profit and Loss	1,02,73,42,878	71,86,90,784
Weighted average number of equity shares considered in computation of basic EPES	3,19,45,951	3,12,36,767
Add: Effect of dilutive equity shares	-	1,33,348
Weighted average number of equity shares considered in computation of diluted EPES	3,19,45,951	3,13,70,115

34. Comparatives

Previous year figures have been reclassified / regrouped wherever necessary, to confirm to current year presentation.

This is the summary of significant accounting policies and other explanatory information referred to in our report of even date.

For Walker Chandiok & Co LLP For and on behalf of Board of Directors of NATCO Pharma Limited
(Formerly Walker, Chandiok & Co)

Chartered Accountants

per Sanjay Kumar Jain

Partner

V C Nannapaneni
Chairman & Managing
Director

Rajeev Nannapaneni
Vice Chairman & CEO

M. Adinarayana
Company Secretary &
Vice President
(Legal & Corporate Affairs)

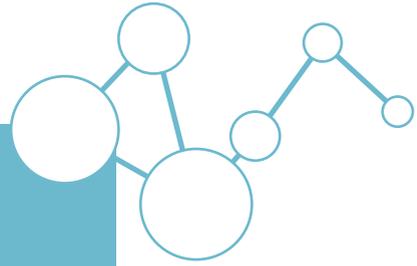
Place : Hyderabad
Date : 29 May 2014

Place : Hyderabad
Date : 29 May 2014

Do not follow where the path may lead.
Go, instead, where there is no path
and leave a trail.

~Ralph Waldo Emerson

Corporate Information



Board of Directors

Shri V.C. Nannapaneni

Shri T V Rao

Shri G.S. Murthy

Dr. B.S. Bajaj

Shri Rajeev Nannapaneni

Dr. P. Bhaskara Narayana

Dr. A.K.S. Bhujanga Rao

Shri D.G. Prasad

Shri. Vivek Chhachhi

Shri Tarun Khanna

Shri Nitin Jagannath Deshmukh

CS. M. Adinarayana

Company Secretary &

Vice President (Legal & Corporate Affairs)

Auditors

M/s. Walker, Chandiook & Co. LLP

Chartered Accountants,

7th Floor, Block III, White House

Kundan Bagh, Begumpet,

Hyderabad 500 016

Chairman & Managing Director

Director – Nominee of Export-Import Bank of India

Director

Director

Vice Chairman & Chief Executive Officer

Director & Chief Financial Officer

President (R&D and Technical)

Director

(w.e.f. 13th February, 2014)

Director

(w.e.f 7th January, 2014)

Alternate Director to Shri Vivek Chhachhi

Director

(till 28th January, 2014)

Bankers

Allahabad Bank

State Bank of India

Corporation Bank

Oriental Bank of Commerce

YES Bank Ltd.

Axis Bank Ltd.

Citibank N.A.

Registered Office

Natco House,

Road No.2, Banjara Hills,

Hyderabad 500 033.

www.natcopharma.co.in

A **TRISYS** PRODUCT

info@trisyscom.com

www.kalajyothi.com



Natco Pharma Limited
Natco House, Road No.2, Banjara Hills,
Hyderabad 500 034.
www.natcopharma.co.in



Natco Pharma Limited

Natco House, Road No.2, Banjara Hills, Hyderabad 500 034.

CIN: L24230TG1981PLC003201

www.natcopharma.co.in

NOTICE

Notice is hereby given that the 31st Annual General Meeting of the Company will be held on Saturday, the 27th day of September, 2014 at 10.30 a.m. at Hotel Daspalla, 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 financial year ended March 31, 2014 and the Balance Sheet as at March 31, 2014 and the Report of the Directors and Auditors thereon.
2. To confirm the already paid interim Dividend on equity shares for the year 2013-2014 as final dividend.
"RESOLVED THAT the Interim Dividend of Rs.5/- (rupees five) per share declared by the Board of Directors of the Company as Interim Dividend at their meeting held on 13th February, 2014 on 3,30,73,074 Equity Shares of Rs.10/- each absolving a sum of Rs.16,53,65,370/- (Rupees Sixteen Crore Fifty Three Lakhs Sixty five Thousand three Hundred and Seventy only) be and is hereby approved as the Final Dividend for the year ended 31st March, 2014."
3. To appoint Director in place of Mr. Rajeev Nannapaneni
"RESOLVED THAT Mr. Rajeev Nannapaneni (DIN:00183872) be and is hereby re-appointed as a Director of the Company, who shall be liable for retirement by rotation."
4. To appoint Director in place of Dr. P. Bhaskara Narayana
"RESOLVED THAT Dr. P. Bhaskara Narayana

(DIN:00183367) be and is hereby re-appointed as a Director of the Company, who shall be liable for retirement by rotation."

5. To appoint Director in place of Dr. A.K.S. Bhujanga Rao
"RESOLVED THAT Dr. A.K.S. Bhujanga Rao (DIN:02742637) 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 2014-2015 and fix their remuneration.
"RESOLVED THAT pursuant to provisions of Sections 139, 141, 142 and all other applicable provisions, if any, of the Companies Act, 2013 and the Companies (Audit and Auditors) Rules, 2014, including any amendment, modification, variation or re-enactment thereof, M/s. Walker, Chandiook & Co. LLP (Firm Registration No. 001076N), Hyderabad, be and is hereby re-appointed as auditors of the Company to hold office from the conclusion of this meeting till the conclusion 36th Annual General Meeting of the Company (for the year 2018-2019) subject to ratification of their appointment at every Annual General Meeting at such remuneration as may be mutually agreed between Board of Directors and Auditors."

SPECIAL BUSINESS:

7. **Increase of Remuneration to Shri V.C.Nannapaneni, Chairman & Managing Director**
To consider and if thought fit to pass with or without modifications, the following Resolution as a Special

Resolution.

"RESOLVED THAT pursuant to the provisions of sections 197,198 and all other applicable provisions of the Companies Act, 2013 and the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 (including any statutory modification(s) or re-enactment thereof, for the time being in force), approval of the Company be and is hereby accorded for increasing the remuneration payable to Shri V.C.Nannapaneni, Chairman and Managing Director of the Company for a period of 2 years from 01-04-2014 to 31-04-2016 as detailed below:

- a. Salary not exceeding Rs.1,50,00,000/- (rupees one Crore fifty lakhs only) p.a including dearness allowance and other allowances.
- b. Perquisites:
 - i. Reimbursement of Medical Expenses for Major ailments not exceeding 50% of the salary.
 - ii. Contribution to Provident Fund, Superannuation Fund or Annuity Fund to the extent either singly or put together are not taxable under Income Tax Act, 1961.
 - iii. Gratuity payable at a rate not exceeding half month's salary for each completed year of service, and
 - iv. Encashment of leave at the end of the tenure.

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

RESOLVED FURTHER THAT notwithstanding as above in any financial year closing on and after 31st March, 2015, 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 V of the Companies Act, 2013 or any statutory modification(s) or re-enactment thereof.

RESOLVED FURTHER THAT, the Board be and is hereby authorized to do all such acts, deeds, matters

and things as it may deem fit, necessary and delegate to any Director(s) or any other Officer(s) of the Company for obtaining permissions and approvals, if any, in this connection."

8. Increase of Remuneration to Shri Rajeev Nannapaneni, Vice-Chairman & Chief Executive Officer

To consider and if thought fit to pass with or without modifications, the following Resolution as Special Resolution.

"RESOLVED THAT pursuant to the provisions of sections 197,198 and all other applicable provisions of the Companies Act, 2013 and the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 (including any statutory modification(s) or re-enactment thereof, for the time being in force), approval of the Company be and is hereby accorded for increasing the remuneration payable to Shri Rajeev Nannapaneni, Vice Chairman and Chief Executive Officer of the Company for a period of 2 years from 01-04-2014 to 31-03-2016 as detailed below:

- a. Salary not exceeding Rs.1,25,00,000/- (Rupees one crore twenty five lakhs only) p.a. including dearness allowance and other allowances.
- b. Perquisites:
 - i. Reimbursement of Medical Expenses for Major ailments not exceeding 50% of the salary.
 - ii. Contribution to Provident Fund, Superannuation Fund or Annuity Fund to the extent either singly or put together are not taxable under Income Tax Act, 1961.
 - iii. Gratuity payable at a rate not exceeding half month's salary for each completed year of service, and
 - iv. Encashment of leave at the end of the tenure.

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

RESOLVED FURTHER THAT notwithstanding as above in any financial year closing on and after 31st

March, 2015, 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 V of the Companies Act, 2013 or any statutory modification(s) or re-enactment thereof.

RESOLVED FURTHER THAT, the Board be and is hereby authorized to do all such acts, deeds, matters and things as it may deem fit, necessary and delegate to any Director(s) or any other Officer(s) of the Company for obtaining permissions and approvals, if any, in this connection.”

9. Increase of Remuneration to Dr. P. Bhaskara Narayana, Director & Chief Financial Officer

To consider and if thought fit to pass with or without modifications, the following Resolution as Special Resolution.

“**RESOLVED THAT** pursuant to the provisions of sections 197,198 and all other applicable provisions of the Companies Act, 2013 and the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 (including any statutory modification(s) or re-enactment thereof, for the time being in force), approval of the Company be and is hereby accorded for increasing the remuneration payable to Dr.P. Bhaskara Narayana , Director and Chief Financial Officer of the Company for a period of 2 years from 01-04-2014 to 31-03-2016 as detailed below:

- a. Salary not exceeding Rs.1,00,00,000/- (Rupees one cores only) p.a including dearness allowance and other allowances.
- b. Perquisites:
 - i. Reimbursement of Medical Expenses for Major ailments not exceeding 50% of the salary.
 - ii. Contribution to Provident Fund, Superannuation Fund or Annuity Fund to the extent either singly or put together are not taxable under Income Tax Act, 1961.
 - iii. Gratuity payable at a rate not exceeding half month’s salary for each completed year of service, and

iv. Encashment of leave at the end of the tenure.

RESOLVED FURTHER THAT the Board of Directors of the Company be and is hereby authorized to vary, alter or modify the remuneration as may be agreed by the Board of Directors and Dr.P. Bhaskara Narayana.

RESOLVED FURTHER THAT notwithstanding as above in any financial year closing on and after 31st March, 2015, if the Company has no profits or its profits are inadequate, the Company shall pay to Dr.P. Bhaskara Narayana the remuneration by way of salary, allowances and perks not exceeding the limits specified under Schedule V of the Companies Act, 2013 or any statutory modification(s) or re-enactment thereof.

RESOLVED FURTHER THAT, the Board be and is hereby authorized to do all such acts, deeds, matters and things as it may deem fit, necessary and delegate to any Director(s) or any other Officer(s) of the Company for obtaining permissions and approvals, if any, in this connection.”

10. Increase of Remuneration to Dr. A.K.S. Bhujanga Rao, Director and President (R&D and Technical)

To consider and if thought fit to pass with or without modifications, the following Resolution as Special Resolution.

“**RESOLVED THAT** pursuant to the provisions of sections 197,198 and all other applicable provisions of the Companies Act, 2013 and the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 (including any statutory modification(s) or re-enactment thereof, for the time being in force), approval of the Company be and is hereby accorded for increasing the remuneration payable to Dr.A.K.S.Bhujanga Rao , Director and President (R & D and Technical) for a period of 2 years from 01-04-2014 to 31-03-2016 as detailed below:

- a. Salary not exceeding Rs.1,00,00,000/- (Rupees one core only) p.a. including dearness allowance and other allowances.
- b. Perquisites:
 - i. Reimbursement of Medical Expenses for Major

- ailments not exceeding 50% of the salary.
- ii. Contribution to Provident Fund, Superannuation Fund or Annuity Fund to the extent either singly or put together are not taxable under Income Tax Act, 1961.
- iii. Gratuity payable at a rate not exceeding half month's salary for each completed year of service, and
- iv. Encashment of leave at the end of the tenure.

RESOLVED FURTHER THAT the Board of Directors of the Company be and is hereby authorized to vary, alter or modify the remuneration as may be agreed by the Board of Directors and Dr.A.K.S.Bhujanga Rao.

RESOLVED FURTHER THAT notwithstanding as above in any financial year closing on and after 31st March, 2015, if the Company has no profits or its profits are inadequate, the Company shall pay to Dr.A.K.S.Bhujanga Rao the remuneration by way of salary, allowances and perks not exceeding the limits specified under Schedule V of the Companies Act, 2013 or any statutory modification(s) or re-enactment thereof.

RESOLVED FURTHER THAT, the Board be and is hereby authorized to do all such acts, deeds, matters and things as it may deem fit, necessary and delegate to any Director(s) or any other Officer(s) of the Company for obtaining permissions and approvals, if any, in this connection."

11. Appointment of Dr. B.S. Bajaj as an Independent Director

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

"**RESOLVED THAT** pursuant to the provision of section 149, 152 read with Schedule IV and all other provision of the Companies Act , 2013 and the Companies (Appointment and Qualification of Directors) Rules, 2014 (including any statutory modification(s) or re-enactment thereof for the time being in force) and Clause 49 of the Listing Agreement, Dr. B.S. Bajaj (DIN:00122305), Director of the Company in respect of whom the Company

has received a notice in writing from a member under section 160 of Companies Act, 2013, proposing his candidature for the office of Director, be and is hereby appointed as an Independent Director of the Company to hold office for 5(five) years term up to the 36th Annual General Meeting of the Company to be held during the calendar year 2019."

12. Appointment of Mr. G.S. Murthy as an Independent Director

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

"**RESOLVED THAT** pursuant to the provision of section 149, 152 read with Schedule IV and all other provision of the Companies Act , 2013 and the Companies (Appointment and Qualification of Directors) Rules, 2014 (including any statutory modification(s) or re-enactment thereof for the time being in force) and Clause 49 of the Listing Agreement , Mr. G.S. Murthy (DIN:00122454), Director of the Company in respect of whom the Company has received a notice in writing from a member under section 160 of Companies Act, 2013, proposing his candidature for the office of Director, be and is hereby appointed as an Independent Director of the Company to hold office for 5 (five) years term up to the 36th Annual General Meeting of the Company to be held in the calendar year 2019."

13. Appointment Of Shri D.G. Prasad as an Independent Director

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

"**RESOLVED THAT** pursuant to the provision of section 149, 152 read with Schedule IV and all other provision of the Companies Act , 2013 and the Companies (Appointment and Qualification of Directors) Rules, 2014 (including any statutory modification(s) or re-enactment thereof for the time being in force) and Clause 49 of the Listing Agreement, Shri D.G. Prasad (DIN:00160408), Director of the Company in respect of whom the Company has received a notice in writing from a

member under section 160 of Companies Act, 2013, proposing his candidature for the office of Director, be and is hereby appointed as an Independent Director of the Company to hold office for 5(five) years term up to the 36th Annual General Meeting of the Company to be held in the Calendar year 2019.”

14.Appointment Of Shri T.V.Rao As An Independent Director

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

“RESOLVED THAT pursuant to the provision of section 149, 152 read with Schedule IV and all other provision of the Companies Act, 2013 and the Companies (Appointment and Qualification of Directors) Rules, 2014 (including any statutory modification(s) or re-enactment thereof for the time being in force) and Clause 49 of the Listing Agreement, Shri T.V.Rao (DIN:05273533), as Director of the Company in respect of whom the Company has received a notice in writing from a member under section 160 of Companies Act, 2013, proposing his candidature for the office of Director, be and is hereby appointed as an Independent Director of the Company to hold office for 5(five) years term up to the 36th Annual General Meeting of the Company to be held in the calendar year 2019.”

15.Appointment Of Dr.Mrs.Leela Digumarti As An Independent Director

To Consider and if thought fit to pass with or without modifications, the following Resolution as an ordinary Resolution.

“RESOLVED THAT pursuant to the provision of section 149, 152 read with Schedule IV and all other provision of the Companies Act , 2013 and the Companies (Appointment and Qualification of Directors) Rules, 2014(including any statutory modification(s) or re-enactment thereof for the time being in force) and Clause49 of the Listing Agreement , Dr. Mrs.Leela Digumarti (DIN yet to be allotted), as Director of the Company in respect of whom the Company has received a notice in writing from a member under section 160 of Companies

Act, 2013, proposing her candidature for the office of Director, be and is hereby appointed as an Independent Director of the Company to hold office for 5(five) years term up to the 36th Annual General Meeting of the Company to be held in the calendar year 2019.”

16. Appointment of Mr. Vivek Chhachhi as a Director

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

“RESOLVED THAT pursuant to the provision of section 149, 152 read with Schedule IV and all other provision of the Companies Act , 2013 and the Companies (Appointment and Qualification of Directors) Rules, 2014 (including any statutory modification(s) or re-enactment thereof for the time being in force) and Clause 49 of the Listing Agreement, Mr. Vivek Chhachhi (DIN:00496620) as Director of the Company who is liable for retirement by rotation in respect of whom the Company has received a notice in writing from a member under section 160 of Companies Act, 2013, proposing his candidature for the office of Director, be and is hereby appointed as a Director of the Company who is liable for retirement by rotation.”

17. Appointment of Cost Auditors

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

“RESOLVED THAT pursuant to the provisions of Section 148 and all other applicable provisions of Companies Act, 2013 and the Companies (Audit and Auditors) Rules, 2014 (including any statutory modification(s) or re-enactment thereof, for the time being in force), M/s. S.S. Zanwar & Associates, Cost Auditors appointed by the Board of Directors of the Company for the financial year ending March 31, 2015, be paid remuneration of Rs.90,000/- (Rupees ninety thousand only) and taxes as applicable plus out of pocket expenses.

RESOLVED FURTHER THAT the Board of Directors of the Company be and is hereby authorised to

do all such acts and take all such steps as may be necessary , proper or expedient to give effect to this resolution.”

18. Enhancement of Borrowing Powers

To consider and if thought fit to pass with or without modifications, the following Resolution as an Special Resolution.

“RESOLVED THAT pursuant to the provisions of Section 180(1)(c) of the Companies Act, 2013 and in supersession of all earlier Resolutions passed in this regard under Section 293(1)(d) of the Companies Act,1956, the consent of the Company be and is hereby accorded to the Board of Directors of the Company and / or any Committee thereof to borrow at its discretion, either from the Company’s Bank or any other Indian or Foreign Bank(s), Financial Institution(s) and / or any other Lending Institutions or persons from time to time such sum(s) of money(s) and the sum(s) to be borrowed together with the money(s) already borrowed by the Company (apart from temporary loans obtained from the Company’s bankers / FIs in the ordinary course of business) with or without security on such terms and conditions as they may think fit shall exceed the aggregate of the paid-up capital and free reserves of the Company that is to say, reserves not set apart for any specific purpose provided that the total amount together with the money(s) already borrowed by the Board of Directors but shall not exceed the sum of Rupees 600 Crores (Rupees Six Hundred Crores only) at any one time.”

“RESOLVED FURTHER THAT the Board be and is hereby authorised to do all such acts, deeds and things, to execute all such documents, instruments and writings as may be required and to delegate all or any of its powers herein conferred to a Committee constituted by the Board and/ or any member of such Committee with power to the said Committee to sub-delegate its powers to any of its members.”

19. Creation of charge on the Assets of the Company

To consider and if thought fit to pass with or without modifications, the following Resolution as an Special

Resolution.

“RESOLVED THAT in supersession of the Resolution passed at the Annual General Meeting held earlier and pursuant to the provisions of Section 180(1)(a) and other applicable provisions, if any, of the Companies Act, 2013, as amended from time to time, consent of the Company be and is hereby given to the Board of Directors of the Company (‘the Board’) to create such charges, mortgages and hypothecations in addition to the existing charges, mortgages and hypothecations, if any, created by the Company, on such movable and immovable properties, both present and future, and in such manner as the Board may deem fit, in favour of Banks, Financial Institutions, Insurance Companies, other lending/ investing agencies or bodies/ trustees for holders of debentures/ bonds which may be issued to or subscribed to by all or any of the Banks, Financial Institutions, Insurance Companies, other lending/ investing agencies or any other person(s)/ bodies corporate by way of private placement or otherwise (hereinafter collectively referred to as ‘Lenders’), provided that the total amount of loans together with interest thereon, additional interest, compound interest, liquidated damages, commitment charges, premia on pre-payment or on redemption, costs, charges, expenses and all other moneys payable by the Company in respect of the said loans, for which such charges, mortgages or hypothecations are created, shall not, at any time exceed the limit of Rs.600 Crores (Rupees six hundred Crores only).”

“RESOLVED FURTHER THAT the Board be and is hereby authorised to do all such acts, deeds and things, to execute all such documents, instruments and writings as may be required and to delegate all or any of its powers herein conferred to a Committee constituted by the Board and/ or any member of such Committee with power to the said Committee to sub-delegate its powers to any of its members.”

20. To Adopt Articles of Association of the Company Containing Regulations in Conformity with the Companies Act, 2013 and Investment Agreement Entered with M/S. CX Securitieis Ltd,

To consider and if thought fit to pass with or without modifications, the following Resolution as a Special Resolution.

“RESOLVED THAT pursuant to the provisions of Section 14 and all other applicable provisions of the Companies Act, 2013 read with Companies (Incorporation) Rules, 2014 (including any statutory modification(s) or re-enactment thereof, for the time being in force and as per Investment Agreement entered with CX Securities Limited, the draft regulations contained in the Articles of Association submitted to this meeting be and are hereby approved and adopted in substitution, and to the entire exclusion, of the regulation contained in the existing Article of Association of the Company;

RESOLVED FURTHER THAT the Board of Directors of the Company be and is hereby authorized to do all acts and take all such steps as may be necessary, proper or expedient to give effect to this resolution.”

21. Issue of Equity Shares on Preferential Basis

To consider and if thought fit to pass with or without modifications, the following Resolution as a Special Resolution.

“RESOLVED THAT pursuant to the provisions of Section 62, 188, 192 and other applicable provisions, if any, of the Companies Act, 2013, as amended (the “Companies Act, 2013”) and the rules made there under, to the extent notified and in effect, the applicable provisions, if any, of the Companies Act, 1956, as amended (with out reference to the provisions thereof that have ceased to have effect upon notification of sections of the Companies Act, 2013), the Memorandum of Association and Articles of Association of the company(the “Company”), the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009, as amended (the “SEBI Regulations”) and the Securities and Exchange Board of India (Substantial Acquisitions of Shares and Takeovers) Regulations, 2011, as amended (the “Takeover Regulations”) or any other competent authority, from time to time, to the extent applicable including the enabling provisions of the listing agreements entered into with

the stock exchanges on which the Company’s equity shares are listed (the “Stock Exchanges”), and subject to the permissions, consents, sanctions and approval by any authority, as may be necessary, and subject to such conditions and modifications as might be prescribed while granting such approvals, consents, permissions and sanctions, and which may be agreed to by the Board of Directors of the Company (hereinafter referred to as the “Board”, which term shall be deemed to Allotment Committee constituted by the Board (the “Allotment Committee”) to exercise its powers including the powers conferred by this resolution), the consent of the Company be and is hereby accorded to the Board to create, issue, offer, and allot not exceeding 2.00 lakhs equity shares of face value of Rs. 10/- each (the “Equity Shares”) of the company on a private placement basis (the “Preferential Issue”) for issue for consideration other than cash at an issue price as my be calculated as per SEBI Guidelines, to Sri.V C Nannapaneni, M/s.Time Cap Pharma Labs Pvt. Ltd, M/s.NDL Infra Tech Pvt. Ltd, Sri.Rajeev Nannapaneni, Sri. S Kishore Kumar, Mrs.Lalita Uppala, Sri.T Bapineedu and Sri. T Parvathi (VCN Group) who holds 24.40% (1,94,47,975 equity shares of Rs.10/- each) of Natco Organics Ltd, at such time or times, in one or more tranches and on such terms and conditions and in such manner, as the Board may think fit in its absolute discretion.

“RESOLVED FURTHER THAT the said shares shall be issued and allotted by the Company to the above-mentioned VCN Group, inter alia, subject to the following:

- The said shares shall be allotted within a period of 15 days from the date of passing of this resolution by the members provided that where the allotment of the said shares is pending on account of any approval of such allotment by any regulatory authority , the allotment shall be completed within a period of 15 days from the date of such approval; and
- The said Shares to be issued and allotted including in the manner aforesaid shall rank pari passu with the existing equity shares of the Company in all respects”.

“RESOLVED FURTHER THAT the price of the said Shares be calculated in accordance with provisions of Chapter VII of the SEBI ICDR Regulations. The “Relevant Date” for the purpose of calculating the price of the said Shares is 28th August, 2014 i.e. the date 30 days prior to the date of this Annual General Meeting i.e. 27th September, 2014.

“RESOLVED FURTHER THAT for the purpose of giving effect to any offer, issue or allotment of the Issue of Shares, the Board be and is hereby authorized to do all such acts, deeds, matters and things as it may in its absolute discretion, deem necessary and desirable for such purpose, including without limitation, issuing clarifications on the issue and allotment of the Shares, resolving any difficulties, effecting any modification to the foregoing (including any modifications to the terms of the issue), preparing, signing and filing applications with the appropriate authorities for obtaining requisite approvals, liaising with appropriate authorities to obtain the requisite

approvals, entering into contracts, arrangements, agreements, memoranda, term sheet documents for appointment of agencies for managing, listing and trading of Issue Shares, to appoint such consultants, legal advisors and all such agencies as may be required for the Issue of Shares”.

“RESOLVED FURTHER THAT the Board be and is hereby authorised to delegate all or any of the powers herein conferred to any Committee of the Board or any Director(s) or to any senior official of the Company and to generally do all such acts, deeds and things as may be necessary or incidental to give effect to the aforesaid resolutions.

“RESOLVED FURTHER THAT all actions taken by the Board or Committee duly constituted for this purpose in connection with any matter(s) referred to or contemplated in any of the foregoing resolutions be and are hereby approved, ratified and confirmed in all respects.”

By order of the Board
for NATCO Pharma Limited

M. Adinarayana
Company Secretary &
Vice President (Legal & Corp. Affairs)
FCS No.3808

Place: Hyderabad
Date: 28th August, 2014

NOTES:

1. **A MEMBER ENTITLED TO ATTEND AND VOTE AT THIS ANNUAL GENERAL MEETING (AGM) IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF/HERSELF** and Proxy need not be a member of the Company. The instrument appointing the proxy, in order to be effective must be deposited at the Company's Registered Office, duly completed and signed, not less than FORTY-EIGHT HOURS before the commencement of the meeting. A person shall not act as a Proxy for more than 50 (fifty) members and holding in the aggregate not more than 10 (ten) percent of the total voting share capital of the Company. However, a single person may act as a proxy for a member holding more than 10 (ten) percent of the total voting share capital of the Company provided that such person shall not act as a proxy for any other person.
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. 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.
4. 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.
5. 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.
6. 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. Members as per their convenience can correspond with the Share Transfer Agents of the Company or the Legal & Secretarial Department of the Company at the Registered Office of the Company.
7. The Register of Members and Share Transfer Books will remain closed for days i.e. from 24th September, 2014 to 27th September, 2014 (both days inclusive).
8. 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.
9. An explanatory statement pursuant to Section 102(1) of the Companies Act, 2013 in respect of special businesses is annexed hereto.
10. Members who have not registered their e-mail addresses so far are requested to register their e-mail addresses for receiving all communications including Annual Report, Notices, Circular, etc. from the Company in electronic mode.
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 within 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 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.

12. Statement of unclaimed Dividends for the previous years:

Financial year	Unclaimed amount as on 31-03-2014 (in Rs.)	Due date/Date of transfer to Investor Education and Protection Fund
2007-2008	464065.25	24-11-2014
2008-2009	593786.75	24-06-2016
2009-2010	934276.00	25-02-2017
2010-2011	891598.00	16-02-2018
2011-2012	1215006.00	10-03-2019
2012-2013	1763464.00	15-03-2020
2013-2014	2458190.00	15-03-2021

During the year unclaimed dividend amount of Rs.5,46,992/- for the year 2006-2007 was transferred to the Investor Education and Protection Fund

13. Voting through electronic means

i. In compliance with provisions of section 108 of Companies Act, 2013 and Rule 20 of the Companies (Management and Administration) Rules, 2014, the Company is pleased to provide

members facility to exercise their right to vote at the 31st Annual General Meeting (AGM) by electronic means and the business may be transacted through e-Voting Services provided by Central Depository Services (India) Limited (CDSL).

The instructions for members for voting electronically are as under:-

In case of members receiving e-mail:

- (i) Log on to the e-voting website www.evotingindia.com
- (ii) Click on "Shareholders" tab.
- (iii) Now, select the "NATCO PHARMA LIMITED" from the drop down menu and click on "SUBMIT"
- (iv) Now Enter your User ID
 - a. For CDSL: 16 digits beneficiary ID,
 - b. For NSDL: 8 Character DP ID followed by 8 Digits Client ID,
 - c. Members holding shares in Physical Form should enter Folio Number registered with the Company.
- (v) Next enter the Image Verification as displayed and Click on Login.
- (vi) If you are holding shares in demat form and had logged on to www.evotingindia.com and voted on an earlier voting of any company, then your existing password is to be used.

(vii) If you are a first time user follow the steps given below:

For Members holding shares in Demat Form and Physical Form	
PAN*	Enter your 10 digit alpha-numeric *PAN issued by Income Tax Department (Applicable for both demat shareholders as well as physical shareholders who are registered with us) <ul style="list-style-type: none"> • Members who have not updated their PAN with the Company/Depository Participant are requested to use the first two letters of their name and the 8 digits of the Registered Folio number in the PAN field. • In case the Registered Folio number is less than 8 digits enter the applicable number of 0's before the number after the first two characters of the name in CAPITAL letters. Eg. If your name is Ramesh Kumar with Registered Folio number 1 then enter RA00000001 in the PAN field.
DOB#	Enter the Date of Birth as recorded in your demat account or in the company records for the said demat account or folio in dd/mm/yyyy format.
Dividend Bank Details#	Enter the Dividend Bank Details as recorded in your demat account or in the company records for the said demat account or Registered folio. <ul style="list-style-type: none"> • Please enter the DOB or Dividend Bank Details in order to login. If the details are not recorded with the depository or company please enter the member id / folio number in the Dividend Bank details field.

- (viii) After entering these details appropriately, click on "SUBMIT" tab.
- (ix) Members holding shares in physical form will then reach directly the Company selection screen. However, members holding shares in demat form will now reach 'Password Creation' menu wherein they are required to mandatorily enter their login password in the new password field. Kindly note that this password is to be also used by the demat holders for voting for resolutions of any other company on which they are eligible to vote, provided that company opts for e-voting through CDSL platform. It is strongly recommended not to share your password with any other person and take utmost care to keep your password confidential.
- (x) For Members holding shares in physical form, the details can be used only for e-voting on the resolutions contained in this Notice.
- (xi) Click on the EVSN for the relevant <Natco Pharma Limited> on which you choose to vote.
- (xii) On the voting page, you will see "RESOLUTION DESCRIPTION" and against the same the option "YES/NO" for voting. Select the option YES or NO as desired. The option YES implies that you assent to the Resolution and option NO implies that you dissent to the Resolution.
- (xiii) Click on the "RESOLUTIONS FILE LINK" if you wish to view the entire Resolution details.
- (xiv) After selecting the resolution you have decided to vote on, click on "SUBMIT". A confirmation box will be displayed. If you wish to confirm your vote, click on "OK", else to change your vote, click on "CANCEL" and accordingly modify your vote.
- (xv) Once you "CONFIRM" your vote on the resolution, you will not be allowed to modify your vote.
- (xvi) You can also take out print of the voting done by you by clicking on "Click here to print" option on the Voting page.
- (xvii) If Demat account holder has forgotten the changed password then Enter the User ID and the image verification code and click on Forgot Password & enter the details as prompted by the system.
- Institutional shareholders (i.e. other than Individuals, HUF, NRI etc.) are required to log on to <https://www.evotingindia.co.in> and register themselves as Corporate.
- They should submit a scanned copy of the Registration Form bearing the stamp and sign of the entity to helpdesk.evoting@cdslindia.com.
 - After receiving the login details they have to create a user who would be able to link the account(s) which they wish to vote on.
 - The list of accounts should be mailed to helpdesk.evoting@cdslindia.com and on approval of the accounts they would be able to cast their vote.
 - They should upload a scanned copy of the Board Resolution and Power of Attorney (POA) which they have issued in favour of the Custodian, if any, in PDF format in the system for the scrutinizer to verify the same.
- (xviii) The voting period begins on 18th September, 2014 (9 a.m IST) to 20th September, 2014 (6 p.m. IST) . During this period shareholders' of the Company, holding shares either in physical form or in dematerialized form, as on the cut-off date i.e 22nd August, 2014 , may cast their vote electronically. The e-voting module shall be disabled by CDSL for voting thereafter.
- (xix) In case you have any queries or issues regarding e-voting, you may refer the Frequently Asked Questions ("FAQs") and e-voting manual available at www.evotingindia.co.in under help section or write an email to helpdesk.evoting@cdslindia.com.
- II. a. Mrs. P.Renuka , Practicing Company Secretary (C.P.No.3460) has been appointed as Scrutinizer to scrutinize e-voting process in a fair and transparent manner.
- b. The Scrutinizer shall within a period not exceeding three (3) working days from the conclusion of the e-voting period unblock the votes in the presence of at least two (2) witnesses not in the employment of the Company and make a Scrutinizer's Report of the votes cast in favour or against, if any, forthwith to the Chairman of the Company.
- c. The Results shall be declared on or after the AGM of the Company. The Results declared along with the Scrutinizer's Report shall be available for inspection and also placed on the website of the Company within prescribed period.

14. For members who wish to vote using Ballot Form:

Members may fill in the Ballot Form enclosed with the Notice (a copy of the same is also part of the soft copy of the notice) and submit the same in a sealed envelope to the Scrutinizer, Mrs. P Renuka, C/o Venture Capital and Corporate Investments Pvt. Ltd, 12-10-167, Bharat Nagar, Hyderabad 500 018, so as to reach by 6.00 p.m. on 20th September, 2014. Unsigned, incomplete or incorrectly ticked forms are liable to be rejected and the decision of the Scrutiniser on the validity of the forms will be final.

In the event, a member casts his votes through both the process i.e. e-voting and Ballot Form, the votes in the electronic system would be considered and the Ballot Form would be ignored.

15. Brief Profile of Director Seeking Appointment / Re-appointment at the Annual General Meeting

Name of Director	Sri Rajeev Nannapaneni	Dr. P. Bhaskara Narayana	Dr AKS Bhujanga Rao
Date of Birth	22nd June, 1977	12th February, 1955	12th July, 1952
Date of first Appointment	30th November, 2005	30th November, 2005	30th July 2009
Relationship with other Director(s)	He is the Son of Shri V.C. Nannapaneni, the Chairman & Managing Director of the Company	None	None
Experience	He Worked in Merill Lynch and Natco Systems LL.C in USA. Joined the Company in 2000. Got experience and exposure in General Management, New Business / New Product Development in international markets.	He is having rich and varied experience in Finance, Secretarial and legal disciplines spanning over more than three decades.	He worked with IDPL, IDL, Reckitt and Colmen and Vera Laboratories Ltd., before joining with NATCO. He has got good knowledge in Bulk pharmaceuticals especially on Anti Asthmatic /Drugs, Beta Blockers and Cox-inhibitors and he has well acquaintance with Technology Transfer to commercial scale, quality control and regulatory affairs and also looking after the Patent related issues of the Company. He has 30 publications to his credit and applied for 40 international patents. He is a visiting faculty and also approved Research Investigator and Supervisor for Ph.D. Students to many universities.

Name of Director	Sri Rajeev Nannapaneni	Dr. P. Bhaskara Narayana	Dr AKS Bhujanga Rao
Qualification	B.A. in Quantitative Economics & B.A. in History from Tufts University, USA	Fellow Member of ICWAI and ICSI, Gold Medalist in Law, Masters in Commerce and Business Administration, CMA – Member of Institute of Certified Management Accountants of the Institute of Management Accountants, USA. He was awarded a Doctorate in Business Management from Kakatiya University in the year 2010.	M.Sc. Chemistry with specialization in Organic Chemistry, Andhra University, Visakhapatnam, India Ph.D. Synthetic Organic Chemistry, Chemistry of 4- and 5 – Nitroimidazoles from the Indian Institute of Science (IISc), Bangalore, India.
Board membership of other Companies	1. Natsoft Information Systems Pvt. Ltd. 2. Natco Aqua Ltd.	1. Natco Organics Ltd. 2. Natco Pharma Inc., USA 3. Time Cap Overseas Limited, Mauritius 4. NATCO Farma Do Brasil, Brazil.	Nil
Chairman / Member of the Committee of Directors of other Companies	Nil	Nil	Nil

EXPLANATORY STATEMENT PURSUANT TO THE PROVISIONS OF SECTION 102 OF COMPANIES ACT, 2013

ITEM NO 7

Shri V.C. Nannapaneni, Chairman and Managing Director is associated with the Company as founder / promoter and driving the Company towards higher growths.

In view of his contribution and considering increase in his job responsibilities, operations, Multifaceted activities of the Company and taking into industry standards, the Remuneration Committee at its meeting held on 12th August, 2014 recommended to the Board for increasing the remuneration of Shri V.C.Nannapaneni subject to the approval of members as contained in the resolution.

Except Shri V.C.Nannapaneni & Rajeev Nannapaneni, no

other director, is deemed to be interested or concerned in the re-appointment and remuneration and perquisites payable to Shri V.C.Nannapaneni, Chairman and Managing Director in the whole time employment of the company.

The Board accordingly recommends the resolution as set out in Item 7 of the Notice for approval of the members.

ITEM NO 8

Shri Rajeev Nannapaneni, Vice Chairman & Chief Executive Officer is associated with the Company for the past 15 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, Domestic and International Marketing etc.

In view of the manifold increase in his job responsibilities and taking into industry standards, the Remuneration Committee at its meeting held on 12th recommended to the Board for increasing the remuneration which is reasonable to Shri Rajeev Nannapaneni subject to the approval of members as contained in the resolution.

Except Shri Rajeev Nannapaneni & Shri V.C.Nannapaneni, no other director, is deemed to be interested or concerned in the re-appointment and remuneration and perquisites payable to Mr. Rajeev Nannapaneni, Vice Chairman & Chief Executive Officer in whole time employment of the company.

The Board accordingly recommends the resolution as set out in Item 8 of the Notice for approval of the members.

ITEM NO.9

Dr. P. Bhaskara Narayana, Director & CFO is associated with the Company for almost 15 years and who is taking care of the functional operations of the Company in the areas of Finance, Accounts, Legal & Secretarial etc.,

In view of the highly competitive employee market, inflationary trends, and taking into industry standards and other relevant factors the Remuneration Committee at its meeting held on 12th August, 2014 recommended to the Board for increasing the remuneration which is reasonable to Dr. P. Bhaskara Narayana subject to the approval of members as contained in the resolution.

Except Dr. P. Bhaskara Narayana, no other director, is deemed to be interested or concerned in the re-appointment and remuneration and perquisites payable to Dr. P. Bhaskara Narayana as a Director & CFO in whole-time employment of the company.

The Board accordingly recommends the resolution as set out in Item No.9 of the Notice for approval of the members.

ITEM NO 10

Dr. AKS Bhujanga Rao, President (R&D and Technical) is associated with the Company for almost 15 years and who is taking care of all the R & D, technical areas and also looking after the Patent related issues of the company.

In view of the highly competitive employee market, inflationary trends, and taking into industry standards and other relevant factors the Remuneration Committee at its meeting held on 12th August, 2014 recommended to the Board for increasing the remuneration which is reasonable to Dr. AKS Bhujanga Rao subject to the approval of members as contained in the resolution.

Except Dr. AKS Bhujanga Rao, no other director, is deemed to be interested or concerned in the re-appointment and remuneration and perquisites payable to Dr. P. AKS Bhujanga Rao as a President (R&D and Technical) in whole-time employment of the company.

The Board accordingly recommends the resolution as set out in Item No.10 of the Notice for approval of the members

ITEM NO.11

Pursuant to Section 149, 152, Schedule IV of the Companies Act, 2013 read with Companies (Appointment and Qualification of Directors) Rules, 2014, It is proposed to appoint Dr. B.S.Bajaj as an Independent Director for 5 years term upto up to the 36th Annual General Meeting of the Company to be held during the calendar year 2019. The Company has also received notice pursuant to section 160 of the Companies Act, 2013 from a member proposing the appointment of aforesaid Independent Director.

Dr.B.S.Bajaj was Chief Executive Officer at Anti Biotech production plant of IDPL and worked at Torrent Gujarat Biotech Ltd. He was on the Board at several companies and member of Scientific Advisory Committee of CSIR Laboratories. He is the Chairman at All India Biotech Association, Southern Chapter and Vice Chairman of Export Promotion Forum at Biotechnology, Govt. of India. He is also member at Biotech Advisory Committee of Government of Andhra Pradesh and Member of the Project Management Committee (PMC) at the Biotechnology Incubation Centre Project. His other directorships include: Otira Pharmaceuticals Private Ltd., Pacific Hospitals Private Ltd. and Tran-Scell Biologics Private Limited.

In the opinion of the Board, Dr.B.S.Bajaj fulfill the conditions specified in the Act and the Rules framed there under for appointment as Independent Director.

Dr.B.S.Bajaj meet the criteria of Independence as prescribed in the Act and under clause 49 of the Listing Agreement.

Except Dr.B.S.Bajaj, none of the Directors of the Company and key Managerial Personnel of the Company or their respective relative is concerned or interested in the said item of the business.

The Board accordingly recommends the resolution as set out in Item 11 of the Notice for approval of the members.

ITEM NO.12

Pursuant to Section 149, 152, Schedule IV of the Companies Act, 2013 read with Companies (Appointment and Qualification of Directors) Rules, 2014, It is proposed to appoint Sri G.S.Murthy as an Independent Director for 5 years term up to the 36th Annual General Meeting of the Company to be held during the calendar year 2019. The Company has also received notice pursuant to section 160 of the Companies Act, 2013 from a member proposing the appointment of aforesaid Independent Director

Shri G.S. Murthy was the first Managing Director at Investor Services of India Ltd., Mumbai, promoted by IDBI, LIC, UTI, SBI CAPS etc. He was on the Board of several Companies as IDBI Nominee. After retirement, he provided services as Legal Consultant at ESSAR Group of companies, Mumbai for about three years and as Senior Advisor for Government of Andhra Pradesh for about nine years for implementation of public enterprise reforms. Mr. Murthy's qualifications include LL.M., F.C.S. and C.A.I.I.B.

In the opinion of the Board, Shri G.S.Murthy, fulfill the conditions specified in the Act and the Rules framed there under for appointment as Independent Director. Shri G.S.Murthy meet the criteria of Independence as prescribed in the Act and under clause 49 of the Listing Agreement.

Except Shri G.S.Murthy, none of the Directors of the Company and key Managerial Personnel of the Company or their respective relative is concerned or interested in the said item of the business.

The Board accordingly recommends the resolution as set out in Item 12 of the Notice for approval of the members.

ITEM NO.13

Shri D.G.Prasad was appointed as an Additional Director by the Board of Directors w.e.f. 13th February, 2014 in accordance with the provisions of the 161 of the Companies Act, 2013. He holds office up to the date of the ensuing Annual General Meeting. In this regard the Company has received request in writing from a member of the company proposing his candidature for appointment as Director of the Company in accordance with the provisions of Section 160 and all other applicable provisions of the Companies Act, 2013.

Pursuant to Section 149, 152, Schedule IV of the Companies Act, 2013 read with Companies (Appointment and Qualification of Directors) Rules, 2014, It is proposed to appoint Shri D.G.Prasad as an Independent Director for 5 years up to the 36th Annual General Meeting of the Company to be held during the calendar year 2019. The Company has also received notice pursuant to section 160 of the Companies Act, 2013 from a member proposing the appointment of aforesaid Independent Director

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

In the opinion of the Board, Shri D.G.Prasad, fulfill the conditions specified in the Act and the Rules framed there under for appointment as Independent Director. Shri D.G.Prasad meet the criteria of Independence as prescribed in the Act and under clause 49 of the Listing Agreement.

Except Shri D.G.Prasad, none of the Directors of the

Company and key Managerial Personnel of the Company or their respective relative is concerned or interested in the said item of the business.

The Board accordingly recommends the resolution as set out in Item 13 of the Notice for approval of the members.

ITEM NO 14

Shri T.V.Rao is a Graduate in Commerce and Associate Member of Indian Institute of Bankers (CAIB). In his career spanning over three decades, he has experience in general banking, corporate finance, Mortgage backed securitisation and Treasury Management. He has headed the Treasuries of National Housing Bank, SIDBI and Exim Bank. He is nominee of Exim Bank in your company's Board who had with drawn their Nominication.

The Board of Directors by way of Resolution by circulation appointed Mr. T V Rao as additional Director of the company keeping in the view his experience and expertise in the field of General Management, Corporate Finance etc. He holds office up to the date of the ensuing Annual General Meeting. In this regard the Company has received request in writing from a member of the company proposing his candidature for appointment as Director of the Company in accordance with the provisions of Section 160 and all other applicable provisions of the Companies Act, 2013.

In the opinion of the Board, Shri T.V.Rao, fulfill the conditions specified in the Act and the Rules framed there under for appointment as Independent Director. Shri T.V.Rao, meet the criteria of Independence as prescribed in the Act and under clause 49 of the Listing Agreement.

Except Shri T.V.Rao, none of the Directors of the Company and key Managerial Personnel of the Company or their respective relative is concerned or interested in the said item of the business.

The Board accordingly recommends the resolution as set out in Item 14 of the Notice for approval of the members as Independent Director of the company to hold office for 5 years term upto 36th Annual General Meeting to be held in the calender year 2019.

ITEM NO 15

Dr. Mrs. Leela Digumarti did her MBBS from Rangaraya Medical Collage, Kakinada, AP in the year 1983, Diploma

in Obstetrics & Gynaecology (DGO) in the year 1986 and MD in Obstetrics & Gynaecology in the year 1987 both from Andhra Medical Collage, Visakhapatnam, AP. She also did Diplomate of the National Boards in Obstetrics & Gynaecology, National Board of Examinations, New Delhi in the year 1993 (DNB). She is a member of FRCOG (UK). She is presently Assistant Professor of Gynecological Oncology at Homi Bhabha Cancer Hospital & Research Centre, Visakhapatnam, Andhra Pradesh. The Board of Directors by way of Resolution by circulation appointed Dr. Mrs. Leela Digumarti as additional Director. She holds office up to the date of the ensuing Annual General Meeting. In this regard the Company has received request in writing from a member of the company proposing her candidature for appointment as Director of the Company in accordance with the provisions of Section 160 and all other applicable provisions of the Companies Act, 2013.

In the opinion of the Board, Dr. Mrs. Leela Digumarti, fulfill the conditions specified in the Act and the Rules framed there under for appointment as Independent Director. Dr. Mrs. Leela Digumarti, meet the criteria of Independence as prescribed in the Act and under clause 49 of the Listing Agreement.

Except Dr. Mrs. Leela Digumarti, none of the Directors of the Company and Key Managerial Personnel of the Company or their respective relatives is concerned or interested in the said item of the business.

The Board accordingly recommends the resolution as set out in Item 15 of the Notice for approval of the members as Independent Director of the company to hold office for 5 years term upto 36th Annual General Meeting to be held in the calender year 2019.

ITEM NO 16

Shri Vivek Chhachhi was appointed as an Additional Director by the Board of Directors w.e.f. 07th January, 2014 in accordance with the provisions of the 161 of the Companies Act, 2013. He holds office up to the date of the ensuing Annual General Meeting. In this regard the Company has received request in writing from a member of the company proposing his candidature for appointment as Director of the Company in accordance with the provisions of Section 160 and all other applicable provisions of the Companies Act, 2013.

Vivek was a Director with Citi Venture Capital International (CVCI) and was with Citi's private equity business for 14 years. During his tenure with CVCI, Vivek worked to identify & invest, manage and exit a large number of companies across a wide spectrum of industries including, amongst others, IT Enabled Services, Financial Services, Auto, Metals & Mining, Infrastructure, Pharma & Specialty Chemicals, Oil & Gas services, Media and Textiles. Vivek has worked in this capacity with several companies, such as Polaris Software, Daksh, I-Flex solutions, Jubilant Organosys, HT Media, Techno Electric, IVRCL Infrastructure, Himadri Chemicals, SEW Construction, Sasken Technologies, among others. Mr. Chhachhi received an MBA from the University of Jamnalal Bajaj Institute, Mumbai (1993) and a B.Sc. (Computer Science) from St. Stephen's College, University of Delhi (1991).

Except Shri Vivek Chhachhi, none of the Directors of the Company are concerned or interested in the said item of the business.

The Board accordingly recommends the resolution as set out in Item 16 of the Notice for approval of the members.

ITEM NO 17

The Board, on the recommendation of the Audit Committee, has approved the appointment and remuneration of M/s.S.S.Zanwar & Associates, Cost Auditors to conduct the audit of the cost records of the Company for the financial year ending March 31, 2015 at a remuneration of Rs.90,000 (Rupees ninety thousand only) and taxes as applicable plus out of pocket expenses.

In accordance with the provision of Section 148 of the Act read with the Companies (Audit and Auditors) Rules, 2014, the remuneration payable to the Cost Auditors has to be ratified by the shareholders of the Company.

Accordingly, consent of the members is sought for passing an Ordinary Resolution for ratification of the remuneration payable to Cost Auditors for the financial year ending March 31, 2015.

None of the Directors and key managerial personnel of the Company or their respective relatives is concerned or interested in the said item of business.

The Board accordingly recommends the resolution as set out in Item 17 of the Notice for approval of the members.

ITEM NO 18

Under the erstwhile Section 293(1)(d) of the Companies Act, 1956, the Board of Directors of a Company could, with the consent of the shareholders obtained by an Ordinary Resolution on 13-04-1996, borrow moneys, apart from temporary loans obtained from the Company's Bankers in the ordinary course of business, in excess of the aggregate of paid-up capital and free reserves of the Company, that is to say, reserves not set apart for any specific purpose upto a limit of Rs.300 crore.

Under the provisions of Section 180(1)(c) of the Companies Act, 2013, the above powers can be exercised by the Board only with the consent of the shareholders obtained by a Special Resolution. Further, as per the clarification issued by the Ministry of Corporate Affairs, the Ordinary Resolution earlier passed under Section 293(1)(d) of the Companies Act, 1956 will remain valid for a period of one year from the date of notification of Section 180 of the Companies Act, 2013, i.e. up to 11th September 2014. As such, it is necessary to obtain fresh approval of the shareholders by means of a Special Resolution, to enable the Board of Directors of the Company to borrow moneys, apart from temporary loans obtained from the Company's Bankers in the ordinary course of business, in excess of the aggregate of paid-up share capital and free reserves of the Company. The Board is proposing enhancement of borrowing limits upto Rs. 600 Crores from the previous limit of Rs. 300 Crores keeping in view the present capital expenditure outflows and ongoing expansion plans, modernization of its plant facilities to tap the emerging business opportunities.

None of the Directors and key managerial personnel of the Company or their respective relatives are concerned or interested in the said item of business.

The Board accordingly recommends the resolution as set out in Item 18 of the Notice for approval of the members.

ITEM NO. 19

Under the erstwhile Section 293(1)(a) of the Companies Act, 1956, the Board of Directors of a Company could, with the consent of the shareholders obtained by an Ordinary Resolution, create charge/ mortgage/ hypothecation on the Company's assets, both present and future, in favour of the lenders/ trustees for the

holders of debentures/ bonds, to secure the repayment of moneys borrowed by the Company (including temporary loans obtained from the Company's Bankers in the ordinary course of business).

Under the provisions of Section 180(1)(a) of the Companies Act, 2013, the above powers can be exercised by the Board only with the consent of the shareholders obtained by a Special Resolution. Further, as per a clarification issued by the Ministry of Corporate Affairs, the Ordinary Resolution earlier passed under Section 293(1)(a) of the Companies Act, 1956 will remain valid for a period of one year from the date of notification of Section 180 of the Companies Act, 2013, i.e. up to 11th September, 2014. As such, it is necessary to obtain fresh approval of the shareholders by means of a Special Resolution, to enable the Board of Directors of the Company to create charge/ mortgage/ hypothecation on the Company's assets, both present and future, in favour of the lenders/ trustees for the holders of debentures/ bonds, to secure the repayment of moneys borrowed by the Company (including temporary loans obtained from the Company's Bankers in the ordinary course of business). As the documents to be executed between the Company and the lenders/ trustees for the holders of debentures/ bonds may contain the power to take over the management of the Company in certain events, it is necessary to obtain Members' approval under Section 180 (1) (a) of the Companies Act, 2013, by way of a Special Resolution.

None of the Directors and key managerial personnel of the Company or their respective relatives are concerned or interested in the said item of business.

The Board accordingly recommends the resolution as set out in Item 19 of the Notice for approval of the members.

ITEM NO. 20

When the Company was incorporated in 1981 the existing Articles of Association ("AoA") are based on the Companies Act, 1956 and several regulations in the existing AoA contain references to specific sections of the Companies Act, 1956 and some regulations in the existing AoA are no longer in conformity with the Act.

The Act is now largely in force. On September 12, 2013, the Ministry of Corporate Affairs ("MCA") had notified

98 Sections for implementation. Subsequently, on March 26, 2014, MCA notified most of the remaining Sections with effect from 1st April, 2014. With the coming into force of the Act several regulations of the existing AoA of the Company require alteration or deletions in several articles. The Investment Agreement entered with M/s. CX Securities Limited also stipulates part II of the articles which are to be incorporated. Given this position, it is considered expedient modify / replace/ alter the existing AoA by a new set of Articles.

The new AoA to be substituted in place of the existing AoA are based on Table 'F' of the Act which sets out the model articles of association for a company limited by shares.

The proposed new draft AoA is being uploaded on the Company's website for perusal by the shareholders.

None of the Directors / Key Managerial Personnel of the Company / their relatives are, in any way, concerned or interested, financially or otherwise, in the Special Resolution set out at Item No. 20 of the Notice.

The Board commends the Special Resolution set out at Item No. 20 of the Notice for approval by the shareholders

ITEM NO. 21

MATERIAL FACTS RELATING TO THE PREFERENTIAL ISSUE OF EQUITY SHARES

(i) Preferential Issue of Equity Shares

In Natco Organics Limited Sri.V C Nannapaneni, M/s.Time Cap Pharma Labs Pvt. Ltd, M/s.NDL Infra Tech Pvt. Ltd, Sri. Rajeev Nannapaneni, Sri. S Kishore Kumar, Mrs.Lalita Uppala, Sri.T Bapineedu and Sri. T Parvathi (VCN Group) holds 24.40% of the paid of capital of the said Company and the balance 74.60% equity shares held by your company.

Your Company is emerging as leading Pharmaceutical Company and also has a strong presence in International markets. To support its growth plans the Company proposes to make NATCO Organics Limited as 100 % subsidiary. The Board of Directors of the Company (hereinafter called the "Board" which term shall be deemed to include any Committee which the Board may have constituted or hereinafter constitute to exercise its powers including the power conferred by this Resolution), has received a non-binding offer from VCN Group (the "Investor") to subscribe 2.00 lakhs equity shares of face value of Rs. 10/- each (the "Equity

Shares”) of the company on a preferential basis on private placement basis (the “Preferential Issue”) for issue for consideration other than cash at an issue price as may be calculated as per SEBI Guidelines. The Board may consider the offer subject to shareholders approval on such terms and conditions as may mutually agreed upon. The Issue Shares allotted to the said group shall rank pari passu with all existing equity shares of the Company in all respects including dividend.

Subject to the approval of the members at their Annual General Meeting your Board has the necessary authority to issue, offer and allot not exceeding 2.00 lakh equity shares of Rs.10/- each to the VCN Group . It may be noted that in terms of Chapter VII of the SEBI ICDR Regulations, it is necessary to disclose the details of investor and certain other terms to the shareholders while seeking their approval for issuing the equity shares on preferential basis on private placement basis for consideration other than cash. Hence, the requisite approval of the shareholders is being sought in terms of the provisions of the Companies Act, 2013 /1956, and the SEBI ICDR Regulations, the relevant disclosures/details of which are given below:

(ii) The floor price of Rs.1149.80ps. and the price has been calculated as per Regulation 76 of the SEBI Regulations which provides that the issue of shares on a preferential basis can be made at a price not less than the higher of the following:

- The average of the weekly high and low of the closing prices of the Equity Shares quoted on the Stock Exchanges during the six months (6) preceding the relevant date; or
- The average of the weekly high and low of the closing prices of the Equity Shares quoted on the Stock Exchanges during the two weeks preceding the relevant date.

Stock Exchange’ for this purpose shall mean any of the recognised stock exchanges on which the highest trading volume in respect of the shares of the Company has been traded during the six months preceding the relevant date.

- However, the issue price is Rs.1200/- per equity share of Rs.10/- each

Disclosure as required under Regulation 73 of SEBI Regulation, 2009 and the Companies Act, 2013 and the rules made thereunder for the purpose of allotment of Equity Shares on Preferential basis, is as under:

Object of the issue through preferential offer: To acquire further holding of 24.40 % from VCN Group in Natco Organics Ltd to make it 100 % subsidiary of the Company.

Type of security offered and the number of securities offered:

The Company proposes to offer, issue and allot 1,62,066 equity shares of Re.10/- each at a premium of Rs.1190/- per Equity Share aggregating to Rs.19,44,79,750/- to the VCN Group for issue other than cash on the terms and conditions as determined by the Board. Important terms and conditions are:

- The total subscription amount, payable by the VCN Group will be exchanged with equity shares of Natco Organics Limited at the price arrived by the KPMG in Natco Organics Limited which is Rs.10/- (Rupees ten only).
- The allotment of Issue Shares are subject to the Investor not having sold any Equity Shares during the six months preceding the Relevant Date (defined below) and the VCN Group not acquiring or selling any Equity Shares until completion of the allotment of the Issue Shares under the proposed preferential issue;
- The “Relevant Date” for determining the issue price of the equity shares shall be 28th August, 2014 being the date which is 30 days prior to the date of shareholders resolution i.e. 27th September, 2014.

Information about the proposed investor.

VCN Group consist of Sri.V C Nannapaneni, M/s.Time Cap Pharma Labs Pvt. Ltd, M/s.NDL Infra Tech Pvt. Ltd, Sri.Rajeev Nannapaneni, Sri. S Kishore Kumar, Mrs.Lalita Uppala, Sri.T Bapineedu and Sri. T Parvathi

Proposed time within which the allotment shall be complete:

As required under the SEBI ICDR Regulations, the allotment of issue shares will be completed within 15

days from the date of the passing of the resolution by the members. Provided that where the allotment is pending on account of pendency of any application for approval

or permission by any regulatory authority, if applicable, the allotment would be completed within 15 days from the date of such approval.

Shareholding Pattern of the Company before and after the preferential issue:

Shareholder category	% of shareholding before the proposed preferential allotment (as on 30/06/2014)		% of shareholding after the proposed preferential allotment	
	No. of shares	%	No. of shares	%
A. Promoter' Share Holding				
Promoter and Promoter group	17699131	53.52	17860864	53.74
B. Public Share Holding				
I. Institutional Investors				
Mutual Funds	2903156	8.78	2903156	8.74
Foreign Institutional Investors	4804132	14.53	4804132	14.45
II. Non-Institutional Investors				
Non Resident Individuals	184583	0.56	184583	0.56
Bodies Corporate	1108173	3.35	1108173	3.33
Resident Individual	6373899	19.27	6374232	19.18
Total	33073074	100.00	33235140	100.00

There will be no change in control of the Company pursuant to the Preferential allotment.

The Percentage of post preferential issue capital that may be held by the proposed allottees is as follows:

Name of Proposed allottees	Pre- Preferential issue share holding		Post-preferential Issue Shareholding (proposed)	
	Total number of shares	Percentage of Holding	Total number of shares	Percentage of holding
V C NANNAPANENI (Including HUF)	8023838	24.26	8147363	24.51
TIME CAP PHARMA LABS PVT LTD	3412694	10.32	3431444	10.32
NDL INFRA TECH PVT LTD	0	0	18750	0.06
RAJEEV NANNAPANENI	356610	1.07	357235	1.07
S KISHORE KUMAR	11000	0.03	11125	0.03
LALITA UPPALA	0	0	166	0.00
T BAPINEEDU	0	0	83	0.00
T PARVATHI	0	0	42	0.00

The members are further informed that before the preferential issue, Promoters holding stands at around 53.52 % of the paid-up capital of the Company. Post the Preferential issue and the proposed preferential issue, the Promoters holding would be 53.74% of Post preferential Issue paid-up capital of the company.

(iv) The identity of the natural persons who are the ultimate beneficial owners of the shares proposed to be allotted and / or who ultimately control the proposed allottee is as follows:

Name of proposed allottee	Ultimate beneficial owner
V C NANNAPANENI	V C Nannapaneni
TIME CAP PHARMA LABS PVT LTD	V C Nannapaneni
NDL INFRA TECH PVT LTD	V C Nannapaneni
RAJEEV NANNAPANENI	RAJEEV NANNAPANENI
S KISHORE KUMAR	S KISHORE KUMAR
LALITA UPPALA	LALITA UPPLA
T BAPINEEDU	T BAPINEEDU
T PARVATHI	T PARVATHI

Securities to be issued:

The resolution set out in the accompanying notice authorizes the Board to issue to Natco organics Promoters i.e VCN Group 1,62,066 Equity Shares of face value of Rs. 10/- each at a price of Rs.1200/-per Equity Share in such manner and on such terms and conditions as may be determined by the Board in accordance with the provisions of Chapter VII of the SEBI Regulations..

Relevant date:

The Relevant Date for the purpose of determining the price of the Equity Shares, in accordance with the pricing method given in Chapter VII of the SEBI Regulations, is 28th August, 2014, i.e. 30 days before the date of the Annual General Meeting.

Lock in:

The equity shares being allotted on preferential basis under the SEBI ICDR regulation shall be locked in for a period of 3 year from the date of the trading approval from the Stock Exchanges.

Auditor's Certificate:

The Company is in the process of obtaining a certificate from M/s.Walker, Chandio& Co LLP, Statutory Auditors of the Company, certifying that the issue of the Issue Shares is being made in accordance with requirements of SEBI ICDR Regulations. A copy of this certificate shall be placed before the shareholders' at the Annual general meeting and the same will also be made available for inspection at the registered office of the Company on any working day between 10.00 a.m. and 5.00 p.m until 15 days after date of AGM.

Further, under section 62, Section 188 and Section 192 of the Companies Act, 2013, approval of the members is required for allotment of securities on preferential basis on private placement basis for consideration other than cash.

Accordingly, the consent of the shareholders is being sought, pursuant to the applicable provisions of the Companies Act, 1956/ 2013 and SEBI ICDR Regulations to issue and allot equity shares on preferential basis on private placement basis as stated in the resolutions.

Except V C Nannapaneni, Rajeev Nannapaneni None of the Directors / Key Managerial Personnel of the Company / their relatives are, in any way, concerned or interested, financially or otherwise, in the Special Resolution set out at Item No. 21 of the Notice.

The Board commends the Special Resolution set out at Item No. 21 of the Notice for approval by the shareholders.

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

Place: Hyderabad
Date: 28th August, 2014

M. Adinarayana
*Company Secretary &
Vice President (Legal & Corp. Affairs)*
FCS 3808



Natco Pharma Limited

Natco House, Road No.2, Banjara Hills, Hyderabad 500 034.

CIN: L24230TG1981PLC003201

www.natcopharma.co.in

ATTENDANCE SLIP

31ST ANNUAL GENERAL MEETING

DP ID		REGISTERED FOLIO NO.	
CLIENT ID		NO OF SHARES	

Name and Address

I/ We hereby record my / our presence at the 31st Annual General Meeting of the Company being held on Saturday 27th September, 2014 at 10.30 a.m. at Hotel Daspalla, Road # 37, Jubilee Hills, hyderabad 500 033

Signature of Share holders (s) 1 _____
2 _____
3 _____

Signature of Proxy holder _____

Note: Shareholders attending the meeting in person or by proxy are requested to complete the attendance slip and hand it over at the entrance of the meeting venue.





Natco Pharma Limited

Natco House, Road No.2, Banjara Hills, Hyderabad 500 034.

CIN: L24230TG1981PLC003201

www.natcopharma.co.in

Form No. MGT-11

PROXY FORM

[Pursuant to section 105(6) of the Companies Act, 2013 and rule 19(3) of the Companies (Management and Administration) Rules, 2014]

Name of the member(s)			
Registered Address			
Email Id			
Folio No. / Client ID		DP ID	

I/We, being the member (s) of _____ shares of the above named company, hereby appoint

1	Name			
	Address			
	E-mail Id		Signature	
	or failing him			
2	Name			
	Address			
	E-mail Id		Signature	
	or failing him			
3	Name			
	Address			
	E-mail Id		Signature	

as my / our proxy to attend and vote (on a poll) for me / us and on my / our behalf at the 31st Annual General Meeting of the company, to be held on Saturday, the 27th day of September, 2014 at 10.30 am at Hotel Daspalla, Road No. 37, Jubilee Hills, Hyderabad – 500 033 and at any adjournment thereof in respect of such resolutions as are indicated over leaf:



Resolutions

1. Consider and adopt Audited Financial Statements, Reports of the Board or Directors and Auditors
2. Confirmation of Interim Dividend as final Dividend
3. Re-appointment of Sri Rajeev Nannapaneni who retires by rotation
4. Re-appointment of Dr. P Bhaskara Narayana who retires by rotation
5. Re-appointment of Dr. A K S Bhujanga Rao who retires by rotation
6. Appointment of Auditors and fixing their Remuneration
7. Increase the Remuneration of Sri V C Nannapaneni
8. Increase the Remuneration of Sri Rajeev Nannapaneni
9. Increase the Remuneration of Dr. P Bhaskara Narayana
10. Increase the Remuneration of Dr. A.K.S. Bhujanga Rao
11. Appointment of Dr. B S Bajaj as Independent Director
12. Appointment of Sri G S Murthy as Independent Director
13. Appointment of Shri D.G.Prasad as Independent Director
14. Appointment of T.V. Rao as Independent Director
15. Appointment Of Dr.Mrs.Leela Digumarti As An Independent Director
16. Appointment of Mr Vivek Chhachii as Director
17. Appointment of Cost Auditors
18. Enhancement of Borrowing Powers
19. Creation of Charge on the Assets of the Company
20. Adopt Article of Association of the Company
21. Issue of Equity Shares on Preferential basis for consideration other than cash

Signed this day of 2014.

Signature of shareholder: _____

Signature of Proxy holder(s): _____

Affix a
1 Rupee
Revenue
Stamp

Note: This form of proxy in order to be effective should be duly completed and deposited at the Registered Office of the Company, not less than 48 hours before the commencement of the Meeting.



Natco Pharma Limited

Natco House, Road No.2, Banjara Hills, Hyderabad 500 034.

CIN: L24230TG1981PLC003201 www.natcopharma.co.in

BALLOT FORM (In lieu of e-voting at the AGM)

1. Name of the Sole / first named member _____ Serial No: _____
2. Name (s) of the Joint Holder (s), if any: _____
3. Registered Folio No./DP ID No. & Client ID No. _____
4. Number of Shares held: _____

I/We hereby exercise my/our votes in respect of the Special Resolution(s) set out in the Notice enumerated below to be passed by means of Postal Ballot by Conveying and recording my/our assent or dissent to the said resolution(s) by placing (√) mark at the appropriate box below (tick in the both boxes will render the ballot invalid)

Resolution No.	Description	I/we assent to the Resolution (FOR)	I/we assent to the Resolution (AGAINST)
1	Consider and adopt Audited Financial Statements, Reports of the Board or Directors and Auditors		
2	Confirmation of Interim Dividend as final Dividend		
3	Re-appointment of Sri Rajeev Nannapaneni who retires by rotation		
4	Re-appointment of Dr. P Bhaskara Narayana who retires by rotation		
5	Re-appointment of Dr. A K S Bhujanga Rao who retires by rotation		
6	Appointment of Auditors and fixing their Remuneration		
7	Increase the Remuneration of Sri V C Nannapaneni		
8	Increase the Remuneration of Sri Rajeev Nannapaneni		
9	Increase the Remuneration of Dr. P Bhaskara Narayana		
10	Increase the Remuneration of Dr. A.K.S. Bhujanga Rao		
11	Appointment of Dr. B S Bajaj as an Independent Director		
12	Appointment of Sri G S Murthy as an Independent Director		
13	Appointment of Shri D.G.Prasad as an Independent Director		
14	Appointment of T.V. Rao as an Independent Director		
15	Appointment Of Dr.Mrs.Leela Digumarti as an Independent Director		
16	Appointment of Mr Vivek Chhachii as Director		
17	Appointment of Cost Auditors		
18	Enhancement of Borrowing Powers		
19	Creation of Charge on the Assets of the Company		
20	Adopt Article of Association of the Company		
21	Issue of Equity Shares on Preferential basis for consideration other than cash		

Place :

Date :

Signature of the Member

