



33rd Annual Report 2015-16

NATCO Pharma Limited

Expanding Horizons





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

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FINANCIAL STATEMENTS



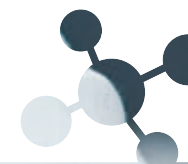
Standalone Financials	87
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Making a difference

in the world is not easy. Often, it's about the willingness to stretch oneself beyond known horizons and changing the dynamics of future with innovation, dedication and sheer perseverance. With this as our core philosophy, we set out in bringing high quality & effective treatment of complex diseases within the reach of common man. While making affordable medicines has been one part of our story, the more important aspect has been our contribution in assuring hope and opportunity for a better, healthier and pain free existence to people across the globe.

And with our exceptional performance in the past year, we at NATCO, have proven once again that expanding one's horizons and working towards the well-being of others is what defines our Company!





NATCO PHARMA IS ONE OF THE FASTEST GROWING INTEGRATED PHARMACEUTICAL COMPANIES IN INDIA.

We aim to make specialty medicines accessible to all, by manufacturing niche and intricate pharmaceutical products backed by our R&D capabilities. With a workforce of more than 3500 members and products reaching over 40 countries, we are making the right moves in the industry space that we are operating in.

The prudent mix of our R&D excellence and integrated facilities helps us develop, manufacture and market Finished Dosage Formulations (FDF) and Active Pharmaceutical Ingredients (APIs). This combination has helped us meet the growing medical demands of certain therapeutic segments, which were considered unaffordable for treatment a few years ago.

We have recently expanded our horizon into hepatology segment (sub-specialty of gastroenterology) through launch of our own brand generic drugs in India for Hepatitis C disease.

Today, with our capabilities we develop high-quality drugs at affordable prices, providing a large & constantly growing patient pool the opportunity and assurance of being treated. We were amongst a few domestic pharmaceutical companies to produce drugs for Oncology therapeutic segment in India, creating a niche for ourselves and extending a wider benefit to our stakeholders.

SEE KPIS (PAGE 6)

1152.38 Net revenue
(₹ crore)

280.48 EBITDA
(₹ crore)

155.18 Profit after tax
(₹ crore)

206.13 Operating cash flow
(₹ crore)

1298.33 Networth
(₹ crore)

14.16 Term Loans
(₹ crore)

SEE INTERNATIONAL FORMULATIONS

231.12 Formulation exports
(₹ crore)

40+ Countries of presence apart from the USA

38 Total ANDAs filed in the USA as of 31 March, 2016

SEE DOMESTIC FORMULATIONS (INDIA)

634.20 Gross revenues, all domestic formulations
(₹ crore)

341.16 Gross revenue Hepatitis C drugs
(₹ crore)

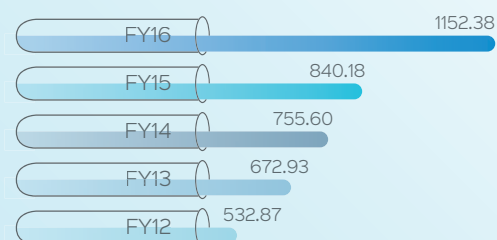
29.71% Revenue growth, Y-o-Y, for Oncology drugs

All numbers above based on consolidated financials of the Company

Natco in figures

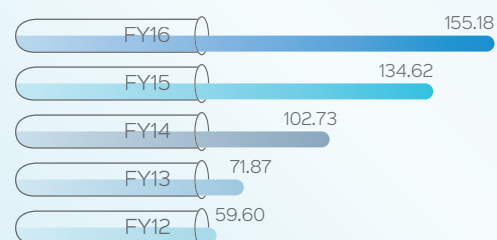
Net Revenue (₹ in crore)

19.9% 5-year CAGR



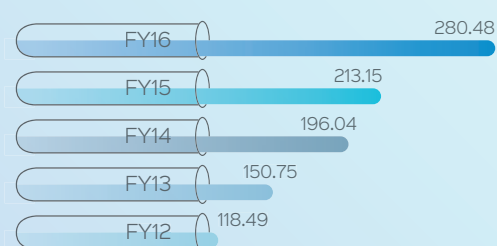
Profit after tax (₹ in crore)

23.7% 5-year CAGR



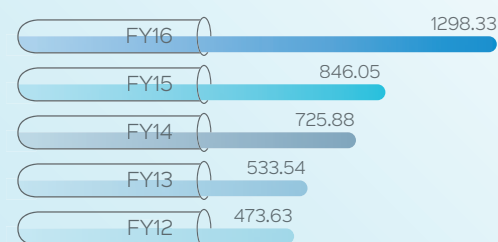
EBITDA (₹ in crore)

24.1% 5-year CAGR

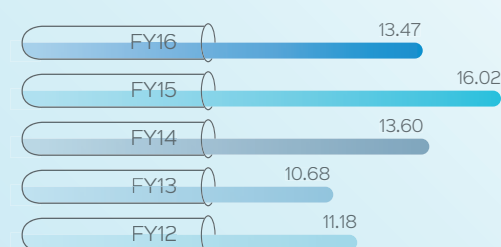


Networth (₹ in crore)

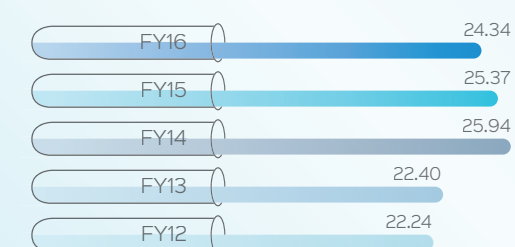
29.8% 5-year CAGR



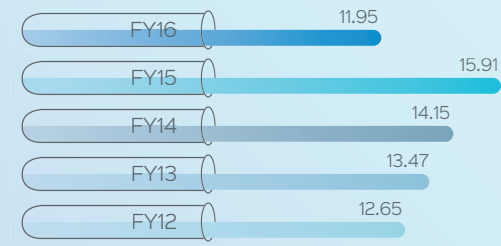
Net margin (%)



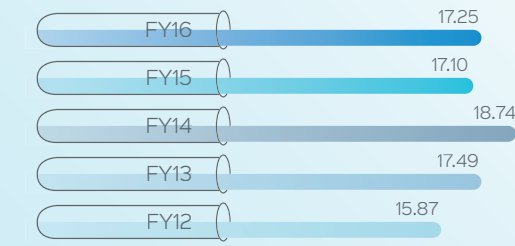
EBITDA margin (%)



ROE (%)



ROCE (%)



All numbers based on consolidated financials of the Company



March 2015

First Company in India to launch the generic version of Sofosbuvir, under the brand name Hepcinat



Hepcinat

September 2015

Successfully completed the issue of equity shares for Qualified Institutional Buyers (QIB) subscription with gross proceeds of ₹ 340.88 crore

August 2015

Board of Directors recommended sub-division of shares from a face value of ₹10 to 5 shares of ₹2 each

Approval received from the Foreign Investment Promotion Board (FIPB) to increase the Foreign Investment Limit from 24% to 31.5% of the paid up equity shares

Received the "Best Specialty Brand-SILVER AWARD" for marketing excellence in India, during 2014-15 fiscal year, for one of our flagship oncology brands – ERLONAT, from All Indian Origin Chemists & Distributors (AIOCD) AWACS



October 2015

Received accreditation with 'Golden Peacock Innovation Management Award' by Institute of Directors (IOD) in London, Mayfair



December 2015

Reached settlement on patent infringement suit filed for Tamiflu® oral capsules to market the capsules in the US



Reached settlement of pending litigation with Celgene regarding generic Lenalidomide. The Company can sell a limited volume of generic Lenalidomide from March 2022 and an unlimited quantity from Jan 2026 in the USA

January 2016

Signed a non-exclusive, royalty free, licensing agreement with Medicines Patent Pool (MPP) and Bristol-Myers Squibb to manufacture and sell Daclatasvir. This agreement allows the Company to market the drug in 112 developing countries

March 2016

Completed the transaction of sale of our pharma store (named Save Mart) in the United States of America

Became the first Indian pharmaceutical company to receive the approval for generic Daclatasvir Dihydrochloride - a first-in-class NS5A inhibitor, used in combination with Sofosbuvir for the treatment of chronic Hepatitis C for India market

Highlights of the year

Word from the Management

Dear Shareholders,

At NATCO, we continue to work at making quality medicines affordable. We strive towards developing and manufacturing complex generic drugs, focusing our minds on a limited set of products-of-importance that will enhance patient care.

With this, we feel the year 2015-16 was a year wherein NATCO embarked on to new horizons to create a more balanced and sustainable organization. We realize that the global pharmaceutical landscape is changing fast, with the need for effective treatment at affordable price gaining significant prominence. There were some key measures we undertook during the year, which validated our intent to ensure sustainable value creation for our stakeholders.

Expanding horizons

Within a span of nine months, NATCO delivered three key products in domestic India market to make Chronic Hepatitis C treatment affordable, and thus expanded into new horizons. Launch of generic versions of licensed drugs Sofosbuvir (HEPCINAT), Sofosbuvir+Ledipasvir combination (HEPCINAT LP) and Daclatasvir (NATDAC) drove the sales for the Company during the fiscal year, grossing about ₹ 340 crore, including third party sales.

The adoption and growth of our Hepatitis C drugs in the domestic market was backed by three strategic successes - i) our early entry into the market ii) building our brand awareness

iii) our strategic supply chain tie-ups. While we managed to gain a strong foothold in India, our team continued to work towards launching the Hepatitis C drugs in other key markets across the globe.

Sustaining leadership

With a clear focus on 'unmet patient needs' our journey over the years has only enabled us to emerge into a dedicated research-led organization. We demonstrated this ideology for our Oncology therapeutic segment, where we continued to grow steadily, strengthening our domestic market share. With a product basket of more than 25 drugs in Oncology, we grew

by more than 25%, out-pacing industry growth rate. We strongly believe our marketing team interactions in the market with unmatched quality have cascaded into this continued success.

Robust pipeline for the US market

While we made inroads in the domestic markets in two key therapeutic segments, we have some key launches lined up for the regulated markets, particularly the US. During the fiscal year, we made two key product settlements with the innovators for the USA market. First, we settled on generic versions of Tamiflu® oral capsules (oseltamivir phosphate)

for launch during FY17. Second, we settled with Celgene for a volume-limited license to sell generic Lenalidomide in the United States commencing in FY22. Both products are significant opportunities and give certainty of monetization, while we continue to deal with on litigation for many other products in our pipeline. The company continues to make key filings for the USA market to ensure sustained long-term growth.



V. C. Nannapaneni
Chairman & Managing
Director


Research
and product development has been the core focus for us and our 'molecular knack'- an eye for complex molecules not pursued by many, has defined us.

Our Co-ordinates of Presence

Core presence in global regions, such as:

- USA
- Europe
- South America

Presence of Subsidiaries across:

1. Brazil (Natcofarma Do Brasil)
2. Canada (Natco Pharma Canada Inc)
3. Singapore (Natco Pharma Asia Pte Ltd)
4. Australia (Natco Pharma Australia Pty Ltd)

India

1. Manufacturing facilities: FDF - Kothur, Nagarjunasagar (Telangana), Dehradun (Uttarakhand), Guwahati (Assam), Visakhapatnam (Andhra Pradesh) (under progress)
2. API: Mekaguda (Telangana) and Manali (Tamilnadu)
3. R&D: Hyderabad and Kothur (Telangana)



Rajeev Nannapaneni
Vice Chairman & Chief
Executive Officer

Expanding presence in Rest of World (RoW)

With expanded focus of Hepatitis C filings in key emerging markets, we hope to gain synergies in our business model across RoW geographies over the next several years. We are pursuing growth through our subsidiaries across Brazil, Canada, Singapore and Australia, with various generic drug filings that are expected to boost earnings in the coming years. We expect continued business from other geographies, such as, Venezuela, wherein we carefully manage supply and receivables.

Prudent Integration

Over the years, our APIs have been contributing in the core aspects of our business, especially in ensuring consistent quality levels for our FDFs and improving our margins with greater efficiencies in manufacturing. During the fiscal year, we laid further emphasis on expanding our API portfolio by initiating efforts towards new R&D capabilities and manufacturing capacities.

Financial management

At NATCO, we have always been conservative as far as our debt profile is concerned, thereby creating a right sized balance sheet. As of 31 March, 2016 our term loans stood at a mere ₹ 14.16 crore. Over the years, we have remained conservative in approach, utilizing our equity and accruals for our major capital expenditures. With this philosophy, during the past fiscal year, we concluded an equity issue through Qualified Institutional Buyers (QIB), raising ₹ 340.88 crore of gross proceeds for our proposed capital expenditure and long-term working capital requirements.

Research, Development and Manufacturing

Research and product development has been the core focus for us and

our 'molecular knack'- an eye for complex molecules not pursued by many, has defined us. We continue to focus on intricate chemistries and platforms that we believe will lead us through a sustained growth. We have increased thrust on design of experiments, analytical capabilities, validation of products and manufacturing modules. We have renewed our focus on API development, patent portfolio and regulatory management. Our R&D continues to deep-dive into intellectual property aspects while developing technologies. All our manufacturing facilities remain in a robust status to deliver products as we scale-up our portfolio. During the past fiscal year, two of our facilities had been audited by USFDA with minor observations. We have successfully received an Establishment Inspection Report (EIR) for our Kothur facility and expect the same for our Manali facility this year.

Aspiring Outlook

We look forward to the coming year with excitement for several reasons. One, our continued growth in the domestic market through our oncology and expansion of our Hepatitis C franchise products. Second, we expect our new launches in the US market would lead us

to more prominence on a global platform. Third, we expect our proposed capacity expansions- new unit at Visakhapatnam and existing upgrades at Kothur, Mekaguda and Chennai, to position us well for future capacity needs and to widen our delivery platform.

On a conclusive note, we would like to place on record our appreciation for the sustained efforts of our Board, management and all employees. We would also like to thank our shareholders for their continued support and trust in NATCO. We remain confident about NATCO's long-term future amidst volatile global environment. We shall continue to work towards enhancing treatment of complex diseases by developing and manufacturing drugs that are affordable.

Best Regards

V C Nannapaneni,
Chairman & Managing Director

Rajeev Nannapaneni,
Vice Chairman and CEO

with right R&D focus

We have always believed the right direction towards achieving corporate sustainability is finding answers to medical problems that have long been considered as not affordable. At Natco, we pursue knowledge, trying to find solutions to address issues faced by a large patient pool.

First mover advantage

At Natco, we have built our business with the mindset to enter areas with great challenges and even greater rewards. Our recent foray into the gastroenterology segment validates our business intent. The seed in R&D was sown years before we entered into a non-exclusive licensing agreement with Gilead Sciences for manufacturing a generic version of Sofosbuvir and Ledipasvir, to be sold in more than 100 countries (including India). Recognizing the opportunity ahead of many and positioning ourselves for the right market timing helped us become a pioneer in manufacturing and selling of generic Sofosbuvir under the brand HEPCINAT in India by March, 2015.

Extending the hepatitis portfolio, we also launched HEPCINAT LP (brand for generic Sofosbuvir+Ledipasvir combination drug) and NATDAC (brand name for generic version of Daclatasvir) in India in less than 9 months from the launch of HEPCINAT. The commercial success of our Hepatitis C drug launches in India has been a testament of our competencies in terms of the quality and brand credibility we earned.

₹
341.16
crore

Consolidated
revenue from our
Hepatitis C drugs
in India, during
FY2016





New therapeutic segment

The company believes that having a strong domestic, India, business is key to balance the risk inherent with international markets. As such, we have strong presence in Oncology and most recently Hepatology segment. We are deeply focused in R&D to ensure continuity of pipeline for these two segments. In addition, the Company is aggressively working on entering a third therapy segment in the near future. As the company expects to launch niche high value products in the USA market in ensuing years, subject to regulatory clearance, an equally aggressive domestic strategy would balance it from macro risks.

1 year

The time frame by which we expect to enter into new therapy segments in the domestic market.

Core research

Helping people fight life-threatening diseases like Cancer, is both a challenge and motivation for us at Natco. With the Oncology patient pool in India expected to rise by more than 20% annually, this will be a key area of focus in Indian healthcare system and for Natco. We are attempting to expand our gamut in this segment by investing in solid dispersion technology, injectables, improved delivery systems, purification technologies, automation, etc.

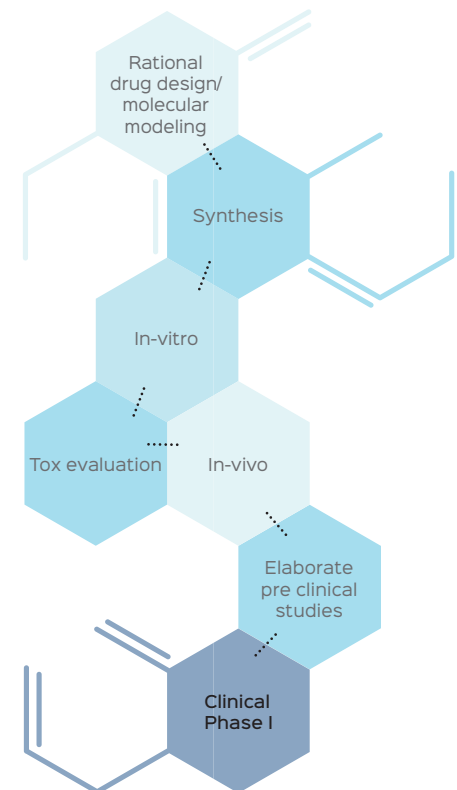
The discovery of new medicines and its success is a long journey, filled with challenges on its way. At Natco, we have been extending our horizons with fundamental research on discovery of new molecules in the anti-cancer segment. We believe there are appreciable synergies coming out of generic research and fundamental research that we conduct in R&D. A compact group of clinical scientists and coordinators are an integral part of the discovery group to design the clinical protocols.

We continue to work on two key molecules which are in clinical phase studies- NRC 019 & NRC 2694. There are also a string of molecules in the pipeline at the pre-clinical stage.

₹
223.32
crore

Amount
invested in
R&D in last
five years

Methodology of our discovery program



by surpassing boundaries

We continue to build a platform for sustainable growth, by investing in various geographies (across regions). This provides us with resilience and flexibility - today and tomorrow.

The United States market

Our philosophy at Natco has been to navigate through challenging terrains. While US continues to be the most attractive destination for several pharmaceutical companies, at Natco, we trusted our capabilities more than being just another pharmaceutical player entering the US market. Our filings in the US are for intricate and niche products (either on our own or in collaboration with global pharmaceutical companies). Our finished dosages formulations (FDF) business is primarily focused on high-entry-barrier products that are either difficult to formulate and/or manufacture, typically resulting in limited competition in the market.

As of 31 March, 2016, we have made 38 ANDA filings with USFDA of which (i) 16 are approved, including tentative; and (ii) 21 are under review (including Paragraph III and Paragraph IV filings).

10+

Expected no. of
ANDA filings in US
in next 2 years



Expanding Europe & RoW Presence



Canada

- Received Drug Establishment Licence in 2015
- Filed 10 products with 8 approvals
- Submitted applications to 4 provincial formularies

Brazil

- Commenced operations in 2011
- Filed 9 products with ANVISA

Asia Pacific (Including Australia)

Products filed

- Singapore: 9 (2 approvals)
- Australia: 2 filed

Europe

- Sell our products in Eastern Europe, UK and Germany
- 4 approvals
- Distribution arrangements with our business partner

Venezuela

- Sell our FDF products (oncology) to third parties

Other Geographies

- Indian sub-continent
- Middle East

All data as of 31 March, 2016

Rest of the World (RoW) markets

Beyond USA, we continue to expand our presence in regions like Europe, Canada, Brazil, Singapore and Australia, through our own subsidiaries as well as through our partners.

Our reach into the RoW markets is done through following key channels- our subsidiaries; direct collaboration with local partners in a geography; global partners/distributors for a wider reach into several smaller geographies.

Over the past several years, we have sown seeds in our subsidiaries with product filings. We hope to gain traction in these subsidiaries over the next few years. Additionally, our aggressive business development activity in the emerging markets for the licensed Hepatitis C drugs will create new channels for growth.

40+

Countries of presence in the world

Delivering quality pharmaceutical solutions

Capabilities that stand out

Our ability to deliver as per our strategies and create a balance therewith has been due to our distinctive advantages. Be it our strong R&D capabilities, our proven expertise or our strong relationships - we have continuously worked around our competencies to ensure sustainable success over a period of time.

Delivering quality pharmaceutical solutions Capabilities that Stand Out



Research & Development

Our R&D capabilities enable us to manufacture intricate pharmaceutical molecules which are technologically complex to formulate and manufacture. Our R&D team has capabilities across synthetic chemistry, biotech and fermentation, peptide therapeutics, nano pharmaceuticals and cell biology backed by a team of 300+ scientists.



Certified manufacturing facilities

Our seven manufacturing facilities are equipped with advanced technologies, which complement our R&D team, to develop and produce quality drugs. Our key facilities are approved by one or more regulatory authorities such as, USFDA, Public Health Service of the Netherlands (EU GMP), German Health Authority, PMDA Japan, Cofepris Mexico and ANVISA.



Financial strength

Our financial framework is designed and structured to create a balance whereby we have been able to cover majority of our capital expenditures internally. We assess our performance across wide range of parameters, reviewing our metrics periodically. As a result, our term loans stood at a mere ₹14.16 crore, as on 31 March, 2016.



Integrated business model

Being a vertically integrated company, our FDF business is supported by steady supply of the APIs that we produce. About 60% of our ANDA filings in the US are backward integrated with our own APIs, giving us cost benefit, quality assurance and sustainability in business.



Governance and ethics

Transparency and accountability are the two basic tenets of Corporate Governance. 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.



Strong relationships

We aim to strengthen our enduring partnerships with our partners, by working to create mutual advantages. Our product filings in the US are backed by alliances with global pharmaceutical companies, who handle the front-end marketing and litigation challenges in the USA, while we focus on our R&D capabilities. Similarly, we align with strong suppliers when appropriate, to ensure timely entry into the market.



Sales & Distribution

Our nation-wide domestic presence is backed by more than 175+ marketing personnel and over 350 distributors. Being present in more than 40 countries, we have widened our global presence through marketing and distribution arrangements with our partners.



Brand recognition

Despite operating in challenging therapeutic segments, our Oncology brands in the domestic market are well recognized for quality and affordability. This is partly reflected in the high yield per marketing representative that the company records against industry benchmark.



Environmental commitment

Natco believes that sustainable development, in any environment, has to be a participatory process, with employees and local population, being the biggest stakeholder. We work closely with the local community to keep the air, water and land both safe and healthy. We take active interest in the well-being of our employees and the local community and continue to make a valuable difference.

Board of Directors



Standing (from left to right): Dr. A.K.S. Bhujanga Rao, Dr. D. Linga Rao, Mr. Vivek Chhachhi, Mr. T.V. Rao, Mr. P.S.R.K. Prasad

Sitting (from left to right): Dr. B.S. Bajaj, Mr. G.S. Murthy, Mr. V.C. Nannapaneni

Standing: Mr. Rajeev Nannapaneni

Sitting (from left to right): Mr. D.G. Prasad, Dr. Leela Digumarti, Dr. M.U.R. Naidu

Management team



Mr. V. C. Nannapaneni
Chairman & Managing
Director



Mr. Rajeev Nannapaneni
Vice Chairman & Chief
Executive Officer



Dr. Bhujanga Rao A K S
President (R&D
& Technical)



Mr. Prasad P S R K
Executive Vice President
- Corp Engg Services



Dr. Linga Rao Donthineni
President - Technical
Affairs



Mr. Adinarayana M
Company Secretary &
Vice President, Legal and
Corp Affairs



Mr. Appa Rao S V V N
Chief Financial Officer



Dr. Apte S S
Vice President -
Formulation R&D



Dr. Durga Prasad K
Vice President - R&D



**Dr. Gopalakrishnan
Vaidyanathan**
Vice President - Analytical R&D



Mr. Lakshminarayana A
Vice President - HR & OD



Mr. Narayan Rao C V
E V P - Supply Chain /
IT/OD



Dr. Pulla Reddy M
Executive Vice President
- R&D



Mr. Rajesh Chebiyam
VP - Business Development
and Corporate Support



Dr. Rami Reddy B
Director - Formulations



Dr. Satyanarayana K
Vice President - R&D



Dr. Shankar Reddy B
Vice President - R&D



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



Mr. Subba Rao M
Vice President -
Global Generics



Mr. Venkat Rao Tummala
Vice President -
Manufacturing

Our responsibility

ENVIRONMENT - AT OUR MEKAGUDA API FACILITY



“The Company has had a strong environmental policy. We believe that in the next three years, at least 50% of our power will come from wind and solar energy.”
Rajeev N, CEO

Care for the environment is one of our core corporate values and as a part of this commitment, our Environment, Health & Safety (EHS) Policy, demonstrates the senior management's commitment to protect employee's health & safety and protection of the Environment where we operate.

The Company conducts various training programs for employees on occupational health, safety and environment management. Awareness programs on water conservation and energy conservation are

also conducted to educate employees and surrounding communities. Dedicated trained teams are working relentlessly to manage the occupational health, safety and environment management systems (EHS) operations are being directly overseen by a Board member (Director & Executive Vice-President) of NATCO.

Natco Mekaguda unit received the Golden Peacock award for Occupational Health & Safety (GPOHSA) for the year 2014, Sheshtaha Suraraksha Puraskar- Silver trophy for the year 2015 and the Golden Peacock

Environmental Management Award (GPEMA) for the year 2016.

We, at NATCO, focus on continual improvement in environmental management systems to minimize the impact on environment by adopting waste minimization hierarchy, globally available state-of-the-art technologies, energy conservation and water conservation.

The following green energy initiatives have been implemented at Natco's Mekaguda facility:

Waste to Energy

Instead of incinerating the hazardous wastes, we are also working on an innovative “Waste to Energy” project to produce steam from hazardous wastes in a Pyrolysis gasification process. This approach will help in conserving natural resources and corresponding reduction in greenhouse gas emission.

Gypsum plant

Spent Sulphuric acid from one of the product manufacturing stages is segregated and converted into gypsum and sold to cement plants as raw material.

Biomass Power Plant

A lot of green waste (dried stems, leaves, etc.) is generated from our green belt

spread over 33.79 acres at Mekaguda. We have installed a small scale “Bio mass power plant” to utilize the green waste and produce power for use at employees' residential colony.

Solar Power Plant

We have installed 100KW capacity solar photo voltaic power generation plant for employees' residential colony on a pilot scale. Installation of 1MW solar power plant is in progress next to the Chemical Division to cater to the power demand of the unit from renewable energy sources.

Wind Power

Installed the “Wind mast” for carrying out feasibility studies on Wind Power Generation for captive power utilization.

Sludge Dryer

Utilize a “Paddle Mixer Dryer” for drying Effluent Treatment Plant (ETP) sludge to bring down the moisture level to acceptable limits which produces significant benefits in reduction of volume of landfill and greenhouse gas emissions.

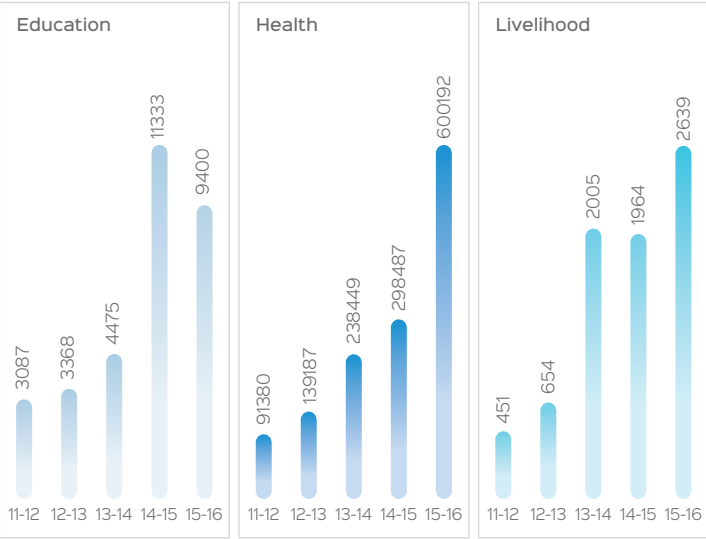
Rain Water Harvesting

Rain water harvesting pond was constructed to collect and store the surface runoff water and is used during the summers (this water caters for about 50days of plant water requirements). Rain water harvesting pits and check dams are constructed in and around the plant premises for ground water recharge.



Our commitment

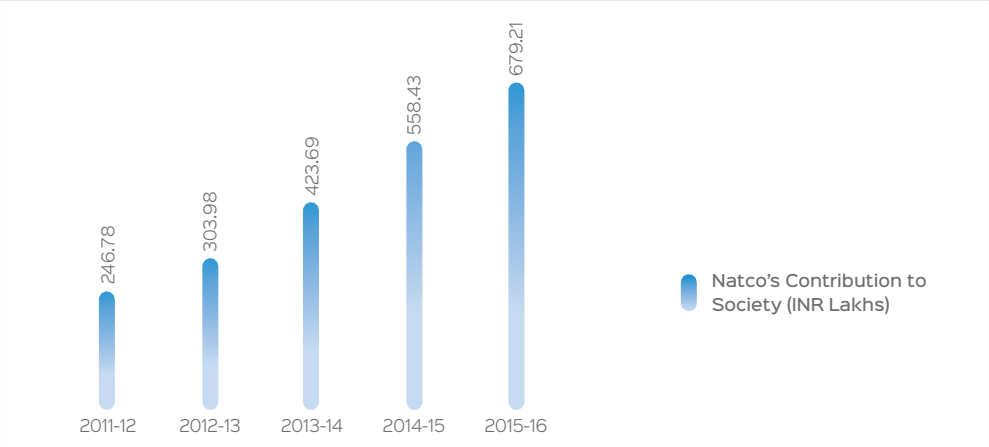
Number of lives touched



When it comes to sustainable development, Natco's mission is to strengthen and make a positive difference to the society and communities in which we operate. Natco Trust was established in 1995 with this vision, to contribute positively for social and economic development of people within the area of our operations.

The Trust operates in two states, 4 districts, touching lives of more than 5 lakh people annually. Major activities covered include - Education, Health & Livelihood. To pursue sustainable development in all the activities, the Trust works on several projects with extensive community engagements, living up to our responsibilities towards our stakeholders.

Social Contribution



EDUCATION

Natco High School
Natco High School (NHS), established in Rangapur village of Kothur mandal (Mahaboobnagar district) in the year 1995 is an English-medium school with classes from Nursery to Grade 10, and is affiliated to the Telangana State Board. The students attending NHS are either children of Natco employees or belong to the surrounding 23 villages/ thandas. The school has a built up area of 65,000 sq.ft with plenty of playground space.



Children during recess at NHS, Kothur

77

Present teacher strength

1514

Present student strength

15

Support staff

100%

Pass percentage of students of the school in SSC exam in last 5 years

Natco School of Learning

Natco School of Learning (NSL), was established in Gollamudipadu village, Ponnuru mandal, (Guntur district) in the year 2011. It is an English-medium CBSE school, and caters to children who live in the surrounding 28 villages. The School has a built up area of 64,000 sq.ft. and a 4.67 acres playground.



Tiny tots at NSL, Guntur

608

Present student strength

32

Present teacher strength

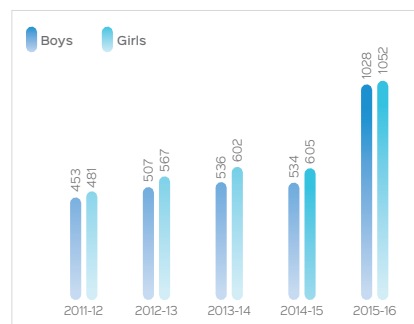
28

Support staff

Natco Govt High School

Natco Trust also entered into a public private partnership (MoU) with the district administration of Hyderabad to partner in the construction of additional classrooms for a Government High School located in a highly concentrated urban slum, Borabanda near Jubilee Hills, Hyderabad. This school has a very high student to teacher ratio, hence the Trust supports this school by providing additional academic staff. The Trust also conducts a number of academic and health activities and supports the school by taking care of housekeeping and sanitation by providing sanitation staff. It has been labelled a "model" school in the twin cities, by the Hyderabad District Collector.

We believe that the amenities provided by Natco to this school, have contributed to an increase in enrollment of students, especially girls.



2080

Present student strength

Natco Govt Primary & High School, Borabanda

- 92.5% increase in boys enrollment during 2015-16
- 73.9% increase in girls enrollment during 2015-16
- 82.6% increase in total strength during 2015-16

Pre-School Education Project

Pre-School Education Project, an extension of Bala Vikas Kendra model has been taken up during the reporting year in 4 villages in Pedavoor mandal. 70 children in anganwadi centres between the ages of 3-5 years are being engaged by our volunteers, who are trained in Pre-School programmes.

After School Tuition Centres

These were initiated in Guntur and Nagarjunasagar to help out Government school going children of grades 1 to 5. The trained community volunteers help strengthen their language and math skills and encourage them to appear for social welfare schools' entrance exams.



Volunteer conducting after school tuitions in Jal Thanda, Nagarjunasagar

386

Number of children trained

82

Of 95 students trained, admitted to social welfare schools

15

Number of centers

14

Number of villages served

HEALTH



Natco Mobile Health Centres

Operational in Kothur and Nagarjunasagar programme areas, wherein a team of qualified doctors, pharmacists and nurses visit the villages / thandas as per a planned schedule, along with medicines to treat the needy patients. Patients are given medicines free of cost and those needing curative treatment are referred to Government Hospitals where our patient counselors help facilitate their treatment.

Hospital Support

Natco Trust works closely with state run hospitals to create infrastructure for better services. The Trust donated 10 warmers, 8 phototherapy units and 8 ventilators to the Neonatal Intensive Care and Pediatric Intensive Care Units, in Guntur Government Hospital. Addition of these health-critical devices have contributed towards a decreased mortality rate in Neonatal unit from 31% to 27%, and in the Pediatric intensive care unit from 25% to 17% in a short period of time.

Nutrition Centres

25 Nutrition centres have been established in Kothur and Nagarjunasagar to prevent disability and malnutrition among pregnant and lactating mothers, and motivate them for institutional delivery for healthy motherhood. The Trust provides these mothers with supplementary nutrition along with health awareness and immunizations.

39,650

Number of patients treated during 2015-16 by Natco Mobile Health Centers

3959

Beneficiaries reached through Nutrition Centres (till date)

Patient Counsellors

As a part of its referral services, Natco Trust has placed 11 counsellors in 6 major Government Hospitals in Hyderabad who guide and counsel rural patients and help them avail healthcare services. These counsellors reach out to approximately 5 lakh patients annually in Osmania, Gandhi, MNJ, Niloufer & Sarojini Devi Eye Hospitals in Hyderabad.

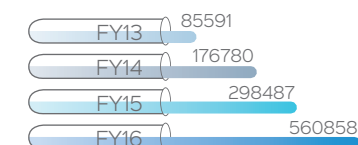


Neonatal Intensive Care Unit, Guntur Government Hospital



Counsellor engaging a cancer patient at MNJ Cancer Hospital's Pediatric Oncology Ward

Patient Counsellors Outreach in Government hospitals of Hyderabad





Training women to be self-sufficient at NVTC's

Natco Vocational Training Centres

The Natco Trust imparts employable skills especially to women, through Vocational Training Centres (NVTCs) set up in Hyderabad, Kothur, Nagarjunasagar and Guntur. Vocational training is provided in pre-primary teacher training, cell phone repair, garment stitching, beauty parlour management and computer education. These NVTCs are registered under the Skill Development Initiative Scheme as part of the Modular Employability Skills of Ministry of Labour and Employment.

Natco Career Counselling & Guidance centre

Natco Career Counselling and Guidance Centre works to sensitize, guide and counsel literate, employable youth on higher education, life skills enhancement and employment (public/private sector) opportunities.

4187
(till date)

Number of people trained (in various courses)

1349
(till date)

Number of people employed



Skill development program at Borabanda

Corporate Information

Board of Directors

Mr. V C Nannapaneni	Chairman & Managing Director
Mr. T V Rao	Director - Independent
Mr. G S Murthy	Director - Independent
Dr. B S Bajaj	Director - Independent
Mr. Rajeev Nannapaneni	Vice Chairman & Chief Executive Officer
Dr. A K S Bhujanga Rao	Director & President (R&D and Tech.)
Mr. D G Prasad	Director - Independent
Mr. Vivek Chhachhi	Director - Non-Executive & Non-Independent
Dr. Leela Digumarti	Director - Independent
Mr. P S R K Prasad	Director & Executive Vice President (Corp. Engg. Services)
Dr. M U R Naidu	Director - Independent
Dr. D Linga Rao	Director & President (Tech. Affairs)

Company Secretary & Vice President (Legal & Corp Affairs)

CS M Adinarayana

Chief Financial Officer

Mr. S V V N Appa Rao

Registered Office

NATCO house, Road # 2
Banjara Hills, Hyderabad 500 034, India
Ph:040-23547532, Fax: 040-23548243

Registrar and Share Transfer Agent

M/s. Venture Capital & Corporate Investments Pvt Ltd
12-10-167, Bharat Nagar, Hyderabad 500 018, India
Ph: 040-23818475, 23818476
Email: info@vccipl.com, Website: vccipl.com

Statutory Auditors

M/s. Walker Chandio & Co. LLP,
7th Floor, Block III, White House
Kundan Bagh, Begumpet,
Hyderabad- 500016, India

Internal Auditors

M/s. Seshachalam & Co
1-11-256, Street No. 1, Wall Street Plaza, 6th Floor,
ICICI Building, Begumpet, Hyderabad - 500016, India

Cost Auditors

M/s. S.S. Zanwar & Associates
Flat #205, 3rd Floor, Reliance Krishna Apt,
Hill fort, Hyderabad-500004, India

Secretarial Auditor

CS Balachandra Sunku
Abhaya, 6-3-609/140/1
Anand Nagar, Khairathabad
Hyderabad- 500004, India

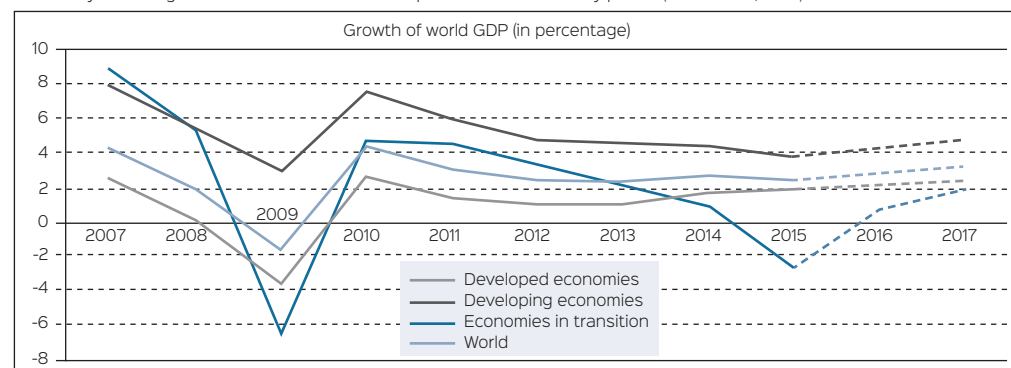
Management Discussion & Analysis Report

Review of the economy

Global

The world economy remained volatile in 2015, amid weak aggregate demand, falling commodity prices and increasing financial market volatility in major economies. Major macroeconomic re-alignments are affecting prospects differentially across countries and regions. These include the slowdown and rebalancing in China; a further decline in commodity prices, especially for oil, with sizable redistributive consequences across sectors and countries; a related slowdown in investment and trade; and declining capital flows to emerging market and developing economies. As such, the global economy grew modestly by 3.1% (according to IMF), and is expected to grow marginally above 3% in the coming two years.

The much awaited normalisation of USA's monetary policy is expected to reduce policy uncertain-ties, and prevent excessive volatility in exchange rates. Though the policy normalisation would also lead to higher borrowing costs, rising interest rates would eventually encourage more investments and ease pressure on commodity prices. (Source: UN, 2016)



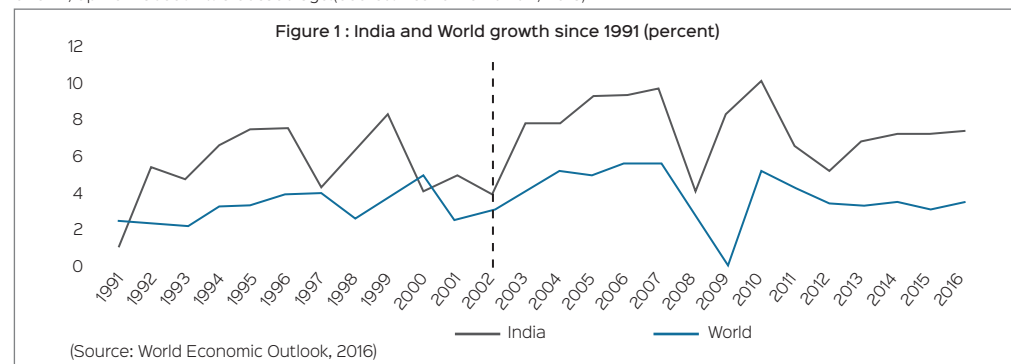
US economy : In 2015, the economy has grown at 2.4% (up from their estimate of 2.2%), backed by improvement in consumer purchases. Throughout the year, the country confronted weakened exports, falling commodity prices and largely global weakening demand from commodity-dependent economies.

India

In the face of global headwinds, Indian economy stands out as stable with great opportunities. After clocking GDP at 7.6% in 2015-16, the economy growth rate stands as highest in the world. This has been at backdrop of reorientation of government spending towards public infrastructure, fiscal consolidation and low inflation rates. As the global economy continues to be uncertain, the Indian economy is expected to grow strongly, backed by reforms, helping the country reduce its macro-vulnerability.

The economic growth was sustained with low inflationary rates and current account deficit at comfortable levels. The foreign exchange reserves have risen to \$351.5 billion (in early February 2016), and are well above standard norms for reserve adequacy. With higher tax revenues and commitment to fiscal consolidation, the government has been able to shift its focus to distressed agriculture sector (registering second successive low growth after less monsoons).

Going ahead, India's long-run potential GDP growth is substantial, about 8-10%. But its actual growth in the short run will also depend upon global growth and demand. After all, India's exports of manufactured goods and services now constitute about 18% of GDP, up from about 11% a decade ago.(Source: Economic Review, 2016)



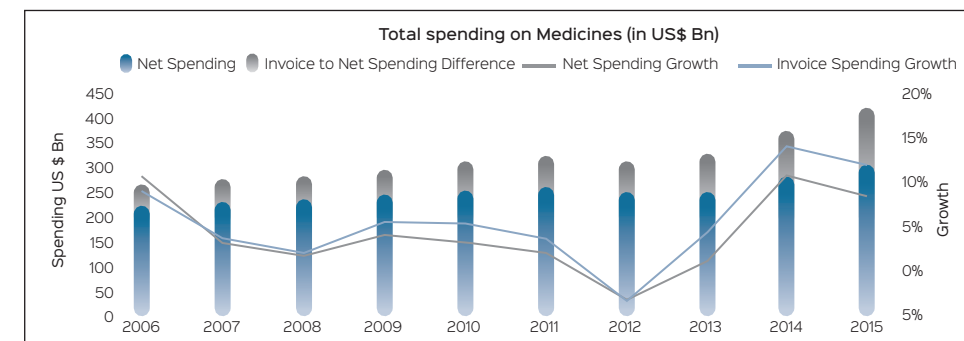
(Source: World Economic Outlook, 2016)

Overview of the pharmaceutical industry

Global

The global pharma industry is expected to move towards increased development of personalized medicine in coming months. According to the US FDA, personalized medicine (or precision medicine) is about providing the 'right patient with the right drug, at the right dose at the right time'. Through advances in genomics and Big Data, pharmaceutical companies have started personalised medicine research, striving to provide targeted therapies to patients by analyzing their characteristics, needs, preferences and genetic makeup.

Spending on medicines increased by double digits for a second consecutive year, reaching \$425 billion in 2015 (based on invoice prices). The demand for new medicines remained considerably strong with use of recently launched brands also being high. The spendings on specialty drug reached \$151 billion, increasing by more than 20% from 2014.



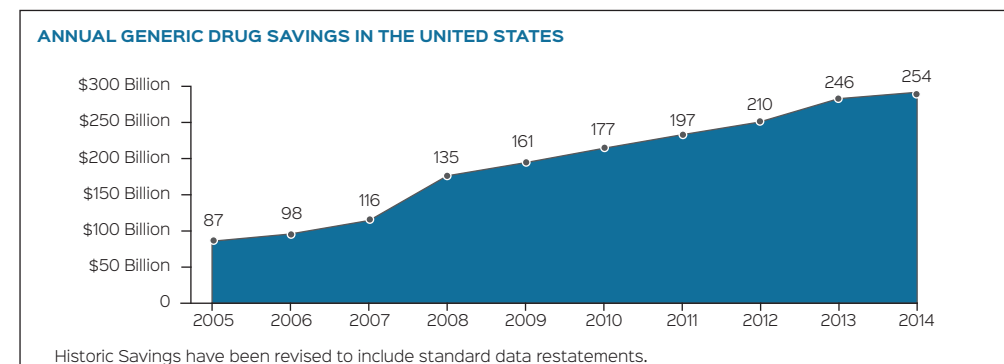
The year 2015 witnessed continued response to rising healthcare costs as a part of Affordable Healthcare Act. Oncology medicines comprise the greatest share of launches by therapeutic area over the past 10 years, accounting for 35% of all launches in 2015. A growing number of additional indications are being granted to existing cancer medicines, with 10 such approvals in 2015 in addition to the 14 indications given to newly approved medicines. The uptake of the two innovative new medicines launched at the end of 2014 that target the immune system to fight cancer reflects their remarkable clinical success and expansion of indications.

According to IMS, there were nearly 250,000 new patients who received treatment for hepatitis C in 2015, in the US, a nearly 46% increase in 2014. This has resulted in treatments offering cure rates of more than 90% and fewer side effects. The past two years have seen five times the number of the patients treated than in the prior three years.

Generics - the growth driver

Rising healthcare costs continue to cause concern, from patients to policymakers. However, generics do bring in some relief, as savings from generic drugs reached an all-time high in 2014. Nearly 3.8 billion of the total 4.3 billion prescriptions dispensed in the U.S. in 2014 were filled using generic drugs. This means that generic drugs now account for nearly nine out of every 10 (88%) prescriptions dispensed in the United States. Yet generic prescriptions account for only 28% of total drug spending.

Newer generic drugs (introduced within the last 10 years) are making significant impacts on patient and health system savings. Newer generics make up more than half (57%) or \$145 billion of the \$254 billion saved in 2014. These newer generic drugs also saved the health system \$638 billion of the most recent decade's \$1.68 trillion. Older generics generated upwards of \$100 billion in health system savings in 2014 and \$1.05 trillion in savings in the last ten years. While the market's shift to generics puts pressure on margins and revenue in developed markets, it is also an opportunity for future growth in pharmerging nations. To capitalize on this growth, many top U.S. pharmaceuticals companies have entered into alliances or acquired big generic players in developed and emerging markets.



Historic Savings have been revised to include standard data restatements.

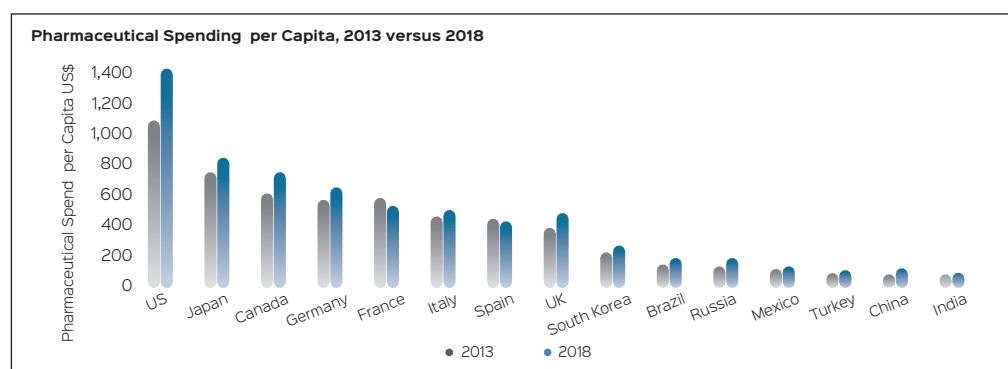
Road ahead

For an industry whose business has sustained decades of respectable growth and margins, the new environment is testing the resilience and ingenuity of pharma companies across the sector. The future of U.S. pharma will depend on whether companies can overcome structural shifts and adopt operating models aligned to new business priorities. Even as the industry faces tremendous challenges, the leading companies will overcome today's issues and emerge with their sights set on new opportunities in the coming months.

India

The Pharmaceutical industry is one of the most regulated among all the other industries. Primarily driven by the exports, Indian Pharmaceutical companies not only have to follow the regulations of India but also regulations of the countries where it exports. The US, UK and Germany are amongst the most regulated markets that impose stringent regulatory standards in order to ensure safe, effective and high-quality medicines.

Reports suggest that the industry has been growing at 13-14% in the last 5 years, a sharp rise from the earlier 9% CAGR between 2000 and 2005. Despite disproportionate population, the per capita spending in the country is far less than the developed nations. Further, despite growth in industry (in value and volume terms) the spend in per capita remains quite varied between developed and pharma-emerging countries (like India).



According to recent analysis by McKinsey, it is seen that the Indian pharmaceuticals market will grow to US\$55 billion by 2020. This would be driven by a steady increase in affordability and a steep jump in market access. At projected scale, this market can be comparable to all developed markets, other than US, Japan and China. In terms of volume, the country would be second to US, and strengthen its position at tenth in value terms.

Growth drivers

- **Rising population:** With nearly 1% increase in population every year, it is expected that patient pool will increase by nearly 20% by 2020.
- **Affordability:** With rising income levels and insurance coverage, the affordability quotient is expected to rise, augmenting more people to be covered under healthcare.
- **Medical Infrastructure:** The increase of quality medical infrastructure to more tier-II towns and cities in India, will result in more patient coverage in growth of pharmaceutical sector in coming decade.
- **Availability of modern medicine:** With modern lifestyle diseases becoming more prevalent, there is an increased acceptance of biologics and preventive medicine, with a greater propensity to self-medicate. Higher patient awareness levels will definitely impact diagnosis and treatment levels.

Company overview

Introduction

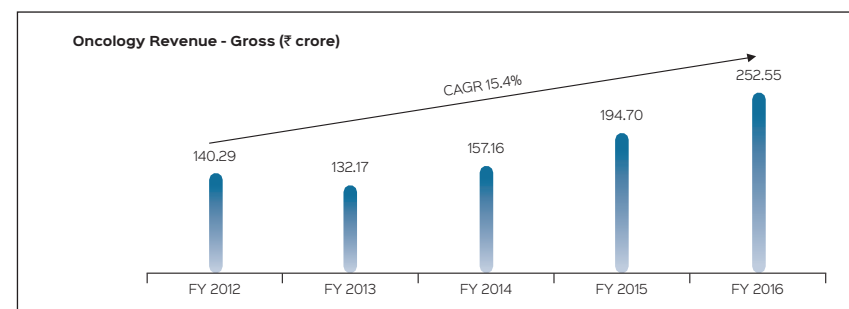
NATCO Pharma Limited, is a vertically integrated pharmaceutical company, engaged in developing, manufacturing and marketing finished dosage formulations (FDF) and active pharmaceutical ingredients (API). The Company's core businesses are spread in India and US, complimented with presence across South America, Europe and Asia.

The Company has carved a niche for itself in a competitive pharmaceutical landscape by addressing critical needs of large patient pool. Led by its R&D team, the Company produces medicines at low cost, making it reachable and affordable to large number of growing patient pool. Producing complex products in specialty therapeutic segments in cost-effective manner has enabled the company to emerge as a sustainable pharmaceutical company.

Business segments

The Company's operations could be classified into three business segments, namely:

1. **Domestic Formulations :** The Company's pioneering move into domestic oncology segment with introduction of affordable drugs, has led to its market leadership in the segment. It has expanded its oncology drug offerings over the years, which is backed by its quality and brand reputation. Recently, it has gained significant recognition in hepatology (sub-segment of gastroenterology) segment with launch of HEPCINAT, and has made its mark in a very short span of time. The company has launched other pipeline drugs in this segment and is in a strong market position. Fiscal year 2015-16 has been commendable for domestic formulation business with over ₹ 340 crore of revenue just in the hepatology segment. The growth in oncology was appreciable, as shown in the graph below.



2. **International Formulations:** Natco's international presence is weaved around a strategy, whereby the Company produces drugs which are marketed by its associate partners. US FDF product portfolio is focused on high-barrier-to-entry products that are difficult to formulate, difficult to manufacture or may face complex legal and regulatory challenges. The Company, as of March 31, 2016, has 38 ANDAs with 16 product approvals (including tentative approvals) in the US - world's largest pharmaceutical market. The Company has the following key products in the pipeline:

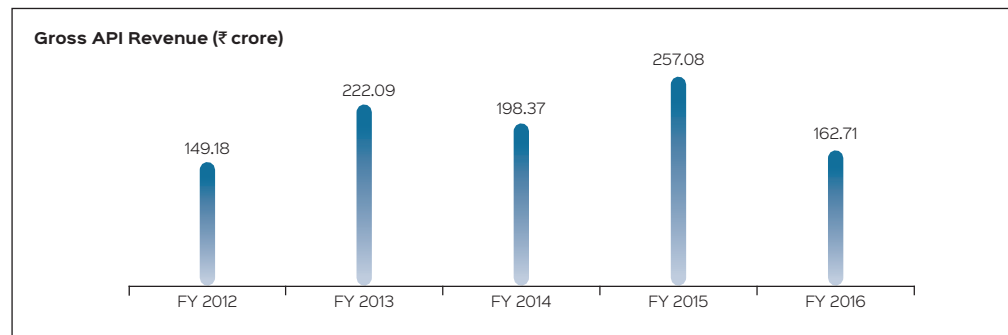
Overview of Key Filings in the USA

Key Brand	Molecule	Therapeutic Segment / Indication	Dosage Form	Para IV	Para III	Market Size (US\$m)*
Copaxone 20&40mg	Glatiramer 20&40mg	Multiple Sclerosis	PFS	Y	N	4349.60
Gleevac	Imatinib	Cancer - CML	Tablets	Y	N	2375.38
Gilenya	Fingolimod	Multiple Sclerosis	Capsules	Y	N	1765.16
Treanda	Bendamustine	Leukemia	Injection	Y	N	709.70
Entocort	Budesonide	Crohn's Disease	Capsules	N	Y	370.53
Nuvugil	Armodafinil	Antidepressants	Tablets	Y	N	482.11
Tamiflu	Oseltamivir Capsules	Influenza / Viral Infection	Capsules	Y	N	402.98
Vidaza	Azacitidine	Myelodysplastic syndrome	Injection	N	Y	238.63
Doxil	Doxorubicin	Cancer, Ovarian	Injection (liposomal)	N	Y	202.94
Jevtana	Cabazitaxel	Prostate cancer	Injection	Y	N	137.28
Fosrenol	Lanthanum Carbonate	End stage renal disease	Tablets	Y	N	118.56
Tykerb	Lapatinib Ditosylate	Breast Cancer	Tablets	Y	N	73.89
Revlimid*	Lenalidomide	Multiple Myeloma	Capsules	Y	N	3534.9
Nexavar*	Sorafenib	Liver, Kidney Cancer	Tablets	Y	N	300
Tracleer*	Bosentan	Hypertension	Tablets	N	Y	487.5

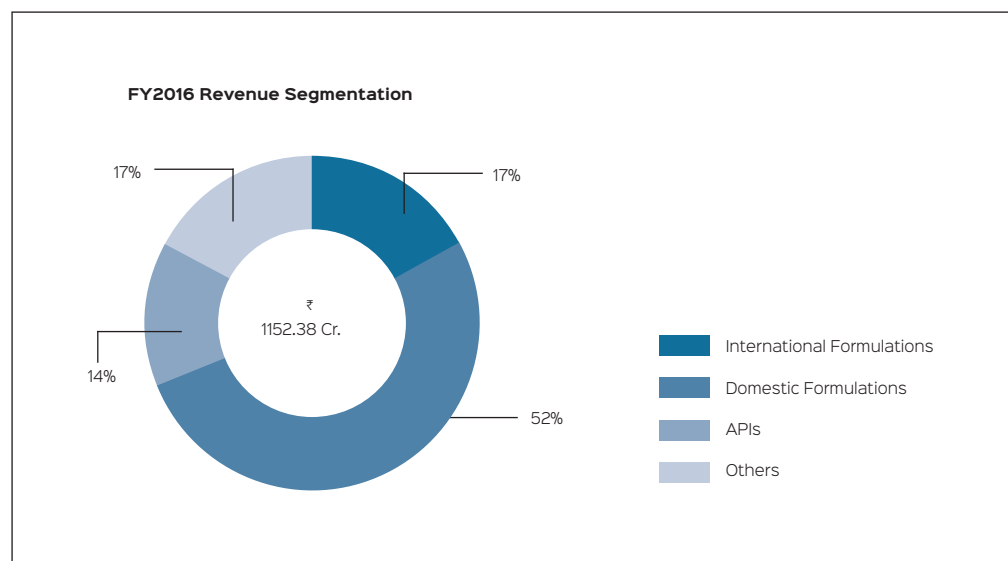
(#Source: IMS; Based on annual sales of products for 12-month period Jan-2015 to Dec-2015)

*Market size estimated from the respective innovator's Annual report.

3. **Active Pharmaceutical Ingredients** - The APIs form a core part of the Company business. The APIs manufactured are used for captive consumption, apart from domestic and international third party sales. With new product launches and filings, there remains a significant opportunity for API expansion, in addition to opportunity for selling to external customers. With capacity expansion lined-up at both its Manali & Mekaguda facilities, the Company expects to scale-up the operations significantly in the coming years.



Brief review of financial matrices



Key performance parameters (based on the consolidated financials) for the statement of profit and loss for the year ended March 31, 2016 are:

- Gross revenue grew by 37.15% from ₹ 840.18 crore to ₹ 1152.38 crore during the year with increased revenues coming from sale of Hepcinat C drugs as well as increase in Oncology drugs
- The net profit, after tax, was recorded as ₹ 155.18 crore as against ₹ 134.62 crore for the previous year.
- Average return on Equity was 11.95% in the current year (previous year: 15.91%)
- For the year ended March 31, 2016, an interim dividend of ₹ 1.25 per share is being recommended
- The dividend percentage was 62.5% as against 50% in the prior year.
- The gross tangible block assets further strengthened to ₹ 972.38 crore as on March 31, 2016 from ₹ 885.66 crore as on March 31, 2015

Risk Management

Risk	Nature of risk	Control & Actions
Regulatory risk	An unfavourable facility inspection from USFDA or other major regulatory body, leading to significant delay of product exports.	The Company has rigorous training programmes for all employees in the manufacturing facilities & detailed internal processes and quality monitoring systems to ensure full compliance.
Business portfolio risk	Natco is exposed to the risk of being focused mostly on one therapeutic segment (being Oncology). Addressing one therapeutic segment could have an impact on the financial viability of the Company.	Natco remains a domestic leader in this segment, offering quality therapies at competitive prices, making it affordable for a large cross section of the society. In addition to the recently expanded therapeutic segment of Hepatology, the Company has further plans to expand into other therapeutic segments. For the USA market, the company has filed many non-oncology complex molecules as well.
Currency volatility risk	Fluctuations in foreign currency could result in variations in margins for the Company.	The Company is naturally hedged (with exports and imports) providing a natural hedge against volatility in foreign currency. With the expected depreciation in rupee, and high exports, the company stands to gain in the near future.
Geographical risk	Being excessively dependent on domestic market could affect the sustainability in the long-run.	While the Company has derived more than 70% of its revenue from domestic markets during FY 2015-16, by filing niche molecules in the USA market, which is expected to balance other non-US business in terms of monetization. In addition, the Company has set up subsidiaries in Brazil, Canada, Australia and South-East Asia. These companies are structured to compliment the US business, as well as help the Company penetrate these markets with niche products.
Human Capital risk	Our success depends on our ability to retain and attract key qualified personnel and, if we are not able to retain them or recruit additional qualified personnel, we may be unable to successfully develop our business.	The Company has a policy of providing excellent working environment for employees across all sections for better work-life balance. The compensation paid by the company is comparable with industries of its class and size. The Company has formulated ESOP scheme to award and retain talent.
Health, Safety and Environment	Being in the business of healthcare, it is imperative for the Company to ensure 'no risk' in regards to health and safety of its stakeholder fraternity. Non-compliance of domestic and international regulations could lead to business disruptions.	The Company endeavours to achieve zero incidents and maintains full compliance with the laws and regulations that it is governed with. All its manufacturing facilities and R&D centres are complied with required regulatory laws, and are periodically audited.
Price control risk	The increased adoption of tender systems and other forms of price control in the market could reduce revenue/profit realization for our products.	Pricing it right! NATCO's product prices are generally lower than the median prices in the market. Hence, we believe, price controls will not impact the company's product pricing as much.
Patent risk	The Company's inability to defend patent challenges, could prevent the Company from selling the products or result in financial liabilities.	The Company enters strategic partnerships for product launches with major distributors and renowned pharma companies, wherein the downside risks (legal costs) are shared. For domestic markets, the product litigation is minimal.

Board's Report

Dear Members,

Your Directors have pleasure in presenting the Thirty-Third Annual Report along with the audited financial accounts of your Company for the financial year ended 31 March, 2016.

Financial Highlights

	₹ in Lakhs			
	Consolidated		Standalone	
	FY 16	FY 15	FY 16	FY 15
Revenue from operations (Net)	114162	82528	102142	71555
Other Income	1076	1490	1407	1357
Total Revenue	115238	84018	103549	72912
Profit before Exceptional Items and Tax	20662	14935	21947	16954
Less: Exceptional Items	-	(1513)	-	(1513)
Profit Before Tax	20662	13422	21947	15441
Less: Tax expense	(4967)	(3499)	(4480)	(3252)
Add / (Less):Deferred tax	(312)	3104	(21)	3104
Profit after tax and before minority interest	15383	13027	17446	15293
Minority Interest	135	435	-	-
Profit for the year	15518	13462	17446	15293
Add: Balance at the beginning of the year	46740	36380	49782	37592
Add / (Less): Pursuant to the scheme of Amalgamation	(1900)		(3597)	-
Less: Appropriations:				
Interim Dividend (including tax on distributed Profits)	(2620)	(2002)	(2620)	(2002)
Transfer to General Reserve	(1100)	(1100)	(1100)	(1100)
Closing Surplus carried forward	56638	46740	59911	49782

Brief Review of the Financial Year

The Company's standalone revenue for the year was ₹ 103549 lakhs, up 42% from the previous year. Profit before tax for the year was ₹ 21947 lakhs, up 42% over the previous year.

The Company's consolidated revenue for the year was ₹ 115238 lakhs, up 37% from the previous year. Profit before tax for the year was ₹ 20662 lakhs, up 54% over the previous year.

Revenue from formulations segment was the key driver of growth during the fiscal year constituting over 80% of total net revenue on standalone basis. This growth was largely driven by domestic formulations segments of hepatitis C & oncology drugs, especially the phenomenal growth of hepatitis C brand drugs of the company during the year. API constituted just under 16% of total net revenue on standalone basis.

As of March 31 2016, the Company has 38 ANDA filings of which (i) 16 are approved (including 4 tentative approvals); (ii) 21 filings are under review, which have been filed in collaboration with global pharmaceutical companies, such as, Mylan, Breckenridge, Alvogen, Actavis and Lupin.

As of March 31 2016, the Company filed 33 DMFs with the USFDA across therapeutic segments such as oncology, CNS, anti-asthmatic, anti-depressant, anti-migraine, anti-osteoporosis and gastrointestinal disorders and are currently working on several more DMFs to be filed with USFDA in near future.

Dividend

On February 11, 2016, the Board of Directors declared an interim dividend of ₹ 1.25 (62.50%) per equity share for FY2016, entailing a pay-out of ₹ 2620 lakhs (including dividend distribution tax). The Interim dividend has been subsequently paid to all eligible shareholders and no further dividends are proposed/recommended by the Board. Accordingly your Directors recommend that this interim dividend be treated as the final dividend of the Company for FY2016.

Transfer to Reserves

The Company transferred ₹ 1100 lakhs to the general reserve during the current financial year.

Share Capital

The paid-up share capital of your Company increased to ₹ 3483.49 lakhs in FY2016, due to the qualified institutional placement of 16,00,000 equity shares of ₹ 10 each, fully paid at a premium of ₹ 2120.55 per equity share.

Fixed Deposits

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

Change in the nature of Business, if any

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

Subsidiaries

The Company has five (5) international subsidiaries (excluding one (1) step down subsidiary) as on 31 March, 2016. The consolidated financial statements of the Company and all its subsidiaries prepared in accordance with Accounting Standards 21 and 27 as specified in the Companies (Accounts) Rules, 2014, form part of the annual report. Further, a statement containing the salient features of the financial statement of our subsidiaries in the prescribed Form AOC-1, is attached as "Annexure I" to the Board's Report. This statement also provides the details of the performance and financial position of each subsidiary. In accordance with Section 136 of the Companies Act, 2013, the audited financial statements and related information of the subsidiaries, where applicable, will be available for inspection during regular business hours at the Company's registered office in Hyderabad, India.

Natco Organics Limited (NOL) which was a wholly owned domestic subsidiary had ceased to be the subsidiary of the Company pursuant to the approval of Scheme of Amalgamation of NOL into the Company by the Hon'ble High Court of Judicature at Madras vide its orders dated 28.04.2016. This Scheme of Amalgamation is effective from 01.04.2015. The financials for the year ended 31.03.2016 are for the merged entity.

Particulars of Investments, Loans & Advances

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

Corporate Governance and additional Shareholders Information

A detailed report on the corporate governance systems and practices of the Company is given in a separate chapter of this annual report. Similarly, other detailed information for shareholders is provided in the chapter General Shareholders' Information.

A certificate from the Secretarial Auditors of the Company on the compliance with the conditions of corporate governance is attached to the report.

Management Discussion and Analysis

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

Board of Directors

In accordance with the provisions of the Companies Act, 2013, Dr. AKS Bhujanga Rao (DIN: 02742637) retires from his office by rotation and being eligible offers himself for reappointment at the ensuing Annual General Meeting of the Company.

Board Evaluation

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

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

Appointment of Directors and Remuneration Policy

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

In accordance with Section 178(3) of the Companies Act, 2013, and on recommendation of Nomination and Remuneration Committee, the Board adopted a remuneration policy for Directors, Key Management Personnel (KMPs) and Senior Management. The policy is attached as "Annexure VIII".

Declaration by Independent Directors

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

Number of Board Meetings

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

Business Risk Management

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

Internal Financial Control

The Company has laid down certain guidelines, processes and structure, which enables implementation of appropriate internal financial controls across the organisation. Such internal financial controls encompass policies and procedures adopted by the Company for ensuring the orderly and efficient conduct of business, including adherence to its policies, safeguarding of its assets, prevention and detection of frauds and errors, the accuracy and completeness of accounting records and the timely preparation of reliable financial information. These include control processes both on manual and IT applications including the ERP application wherein the transactions are approved and recorded. Appropriate review and control mechanisms are built in place to ensure that such control systems are adequate and are operating effectively. Because of the inherent limitations

of internal financial controls, including the possibility of collusion or improper management, override of controls, material misstatements in financial reporting due to error or fraud may occur and not be detected. Also, evaluation of the internal financial controls are subject to the risk that the internal financial control may become inadequate because of changes in conditions, or that the compliance with the policies or procedures may deteriorate. The Company has, in all material respects, adequate internal financial controls over financial reporting and such internal financial controls over financial reporting were operating effectively as at 31 March, 2016, as stated in the Guidance Note on Audit of Internal Controls Over Financial Reporting issued by the Institute of Chartered Accountants of India.

Directors' Responsibility Statement

In terms of Section 134 (3)(c) of the Companies Act, 2013, in relation to financial statements of the Company for the year ended 31st March, 2016, the Board of Directors state that:

- the applicable Accounting Standards have been followed in preparation of the financial statements and there are no material departures from the said standards;
- reasonable and prudent accounting policies have been used in preparation of the financial statements and that they have been consistently applied and that reasonable and prudent judgments and estimates have been made in respect of items not concluded by the year end, so as to give a true and fair view of the state of affairs of the Company as at 31st March, 2016 and of the profit for the year ended on that date;
- proper and sufficient care has been taken for maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 2013, for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- the financial statements have been prepared on a going concern basis;
- proper internal financial controls were in place and were adequate and operating effectively; proper systems to ensure compliance with the provisions of applicable laws were in place and were adequate and operating effectively.

Related Party Transactions

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

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

Vigil Mechanism / Whistle Blower Policy

The Company has an Ombudsperson policy (Whistle-Blower/Vigil mechanism) to report concerns. Under this policy, provisions have been made to safeguard persons who use this mechanism from victimization. An Audit Committee member is the Chief Ombudsperson. The policy also provides access to the chairperson of the Audit Committee under certain

circumstances. The details of the procedure are also available on the website of the Company www.natcopharma.com.

Auditors

Statutory Auditors

The shareholders at their 31st Annual General Meeting (AGM) held on September 27, 2014, approved the re-appointment of M/s. Walker Chandio & Co LLP, Chartered Accountants, as statutory auditors of the Company, to hold office from the conclusion of the 31st AGM up to the conclusion of the 36th AGM to be held for the year 2018-2019. In terms of first proviso of Section 139 (l) of the Companies Act, 2013, the appointment of the auditors is subject to ratification by the shareholders at every subsequent AGM.

Accordingly, the appointment of M/s. Walker Chandio & Co LLP Chartered Accountants, as statutory auditors of the Company from the conclusion of the 33rd AGM till the conclusion of the 34th AGM, is put forward to the shareholders in the ensuing AGM for their ratification.

Secretarial Auditor

Pursuant to Section 204 of the Companies Act, 2013 and the Companies (Appointment & Remuneration of Managerial Personnel) Rules, 2014, CS Bala Chandra Sunku (CP No. 12745), a Practicing Company Secretary conducted the secretarial audit of the Company for FY2016. The secretarial audit report in Form No. MR-3 is attached as "Annexure III".

The Board has re-appointed CS Bala Chandra Sunku as Secretarial Auditor of the Company for FY 2017.

Cost Auditors

Pursuant to Section 148 of the Companies Act, 2013 read with the Companies (Audit and Auditors) Rules, 2014 and the Companies (Cost Records and Audit) Amendment Rules, 2014, the Company maintains the cost audit records in respect of its pharmaceutical business. The Board has, on the recommendation of the Audit Committee, appointed M/s. S.S. Zanwar & Associates as cost auditors of the Company for FY2016. The provisions also require that the remuneration of the cost auditors be ratified by the shareholders and accordingly the same is put forward to the shareholders in the ensuing AGM for their ratification. The cost audit report will be filed with the Central Government within the stipulated timeline. As a matter of record, relevant cost audit reports for FY2015 were filed within the due date.

Significant and Material Orders passed by the Courts/Regulators

During FY2016, there were no significant and/or material orders, passed by any Court or Regulator or Tribunal, which may impact the going concern status or the Company's operations in future.

Corporate Social Responsibility Initiatives

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

The details about the CSR initiatives taken during the year are discussed in a separate chapter "Our commitment" which forms a part of this Annual Report.

The Annual Report on CSR is attached as "Annexure IV".

Transfer of unpaid and unclaimed amounts to Investor Education and Protection Fund

Pursuant to the provisions of Section 205A(5) of the Companies Act, 1956, the declared dividends, which remained unpaid or unclaimed for a period of seven years, have been transferred by the Company to the Investor Education and Protection Fund (IEPF) established by the Central Government pursuant to Section 205C of the said Act the details of which are available in the website of the Company: Weblink: <http://natcopharma.co.in/investors/shareholder-information/unclaimed-dividend/>

Employees Stock Option Scheme

The Company has instituted the NATCO Employee Stock Option Plan 'NATSOP-2015' ("the Scheme") as per the special resolution passed in the Extraordinary General Meeting of the Company held on June 27, 2015. The scheme is formulated in accordance with the Securities Exchange Board of India (Share Based Employee Benefits) Regulations, 2014 issued by the Securities and Exchange Board of India ("SEBI"). Pursuant to the Scheme, the Board of the Directors of the Company have granted 750,000 options (post-split) to eligible employees on August 12, 2015. The terms of the Scheme provide that each option entitles the holder to one equity shares of ₹2 each (post-split) and that the options can be settled only by way of issue of equity shares. The options vest on an annual basis over a period of 5 years from the date of grant and the options are entirely time-based with no performance conditions.

Particulars of Employees

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

Conservation of Energy, Research and Development, Technology Absorption, Foreign Exchange Earnings and Outgo

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

Extract of the Annual Return

The details forming part of the extract of the annual return in Form MGT-9 are attached as "Annexure VII".

Nomination and Remuneration Committee

Your Board of Directors had constituted Nomination and Remuneration Committee as per Section 178 of Companies Act, 2013, and Regulation 18 of the Listing Regulations. The Nomination and Remuneration Policy of the Company is attached as "Annexure VIII"

Acknowledgement

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

For and on behalf of the Board of Directors

Place: Hyderabad
Date : 09 August 2016

V. C. Nannapaneni
Chairman and Managing Director

Annexure-I to Board's Report

FORM NO. AOC-1

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

Statement containing salient features of the financial statement of subsidiaries:

	NATCO Pharma Inc.	NATCO Pharma (Canada) Inc.	Time cap Overseas Limited	Natco Farma Do Brasil	NATCO Pharma Asia PTE LTD	NATCO Pharma Australia PTY LTD
Share Capital	4,18,49,274	13,06,70,722	64,87,66,652	41,41,67,181	3,16,64,119	58,66,754
Reserves & Surplus	21,81,32,176	(10,00,81,153)	(3,50,01,218)	(26,53,64,016)	(2,99,74,037)	(1,14,33,809)
Total Assets	33,75,61,266	4,25,21,685	3,67,60,969	20,10,08,275	51,93,767	13,57,691
Total Liabilities	7,75,79,816	1,19,32,116	1,32,198	5,22,05,110	35,03,685	69,24,746
Investments	NIL	NIL	57,71,36,663	NIL	NIL	NIL
Turnover	99,01,85,116	3,58,73,959	NIL	18,51,91,105	NIL	NIL
Profit before taxation	7,05,70,411	(3,74,42,588)	(6,77,830)	(11,04,82,285)	(1,51,64,054)	(53,85,237)
Provision for taxation	4,87,75,892	NIL	NIL	NIL	NIL	NIL
Profit after taxation	2,17,94,519	(3,74,42,588)	(6,77,830)	(11,04,82,285)	(1,51,64,054)	(53,85,237)
Proposed Divided	NIL	NIL	NIL	NIL	NIL	NIL
Report Currency	USD	CAD	USD	BRL	SGD	AUD
Closing exchange rate	66.10	50.97	66.10	18.38	49.02	50.68
Average exchange rate	65.31	49.85	65.31	18.38	47.10	48.04
% of Shareholding	100.00	99.68	87.73	84.69	100.00	80.00

For and on behalf of the Board of Directors

V. C. Nannapaneni
Chairman and Managing Director

Place: Hyderabad
Date : 09 August 2016

Annexure II to the Board's Report

Form No.AOC – 2

(pursuant to Clause (h) of Sub-Section (3) of section 134 of the Act and Rule 8(2) of the companies (Accounts) Rules, 2014)

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

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

Sl. No.	Name(s) of the related party and nature of relationship	Nature of Contract / arrangements / transaction	Duration of the contracts / arrangements / transactions	Salient terms of the contracts or arrangements or transactions including the value, if any:	Date(s) of approval by the Board if any:	Amount paid as advances, if any:
1.	Sri V. C. Nannapaneni, Chairman & Managing Director	Renewal of Lease Agreement	2 years	To locate western India Marketing Office and accommodation to Senior Executives visiting Mumbai - Rent paid- ₹21,00,000/- p.a.	26/5/2016	NIL
2.	Sri Rajeev Nannapaneni, Vice Chairman & CEO	Renewal of Lease Agreement	2 years	To locate Chennai Marketing Office and Guest House - Rent paid- ₹12,00,000/- p.a.	26/5/2016	NIL
3.	Sri Rajeev Nannapaneni, Vice Chairman & CEO	Renewal of Lease Agreement	2 years	To locate chemical division office at Chennai rent paid - ₹1,20,000/- p.a.	26/5/2016	NIL
4.	M/s. Time Cap Pharma Labs Ltd Shareholding Of Shri VC Nannapaneni	Renewal of Lease Agreement	2 years	To locate Delhi Office and Guest House- Rent paid - ₹21,00,000/- p.a.	26/5/2016	NIL
5.	M/s. Time Cap Pharma Labs Ltd Shareholding Of Shri VC Nannapaneni	Renewal of Lease Agreement	2 years	To locate godown at Kothur Mandal, Mahaboobnagar Dist.- Rent paid - ₹12,00,000/- p.a.	26/5/2016	NIL
6.	M/s. Time Cap Pharma Labs Ltd Shareholding Of Shri VC Nannapaneni	Renewal of Lease Agreement	2 years	To locate Company's Solar Panel Production at Kothur Mandal, Mahaboobnagar Dist.- Rent paid - ₹12,00,000/- p.a.	26/5/2016	NIL
7.	M/s. Time Cap Pharma Labs Ltd (VC Nannapaneni holding shares)	Lease Agreement	2 years	To locate Time Cap's C&F office at Sananthnagar, Hyderabad Rent receivable ₹12,00,000/- p.a.	26/5/2016	NIL
8.	M/s. Time Cap Pharma Labs Ltd. (VC Nannapaneni holding shares)	Commissioning and expenses reimbursement	1 year	To pay commission and reimburse expenses related to C&F services provided by M/s. Time Cap Pharma Labs Ltd.	26/5/2016	NIL
9.	M/s. Time Cap Pharma Labs Ltd. (VC Nannapaneni holding shares)	Purchase of Raw Materials	1 year	To purchase raw materials from Time Cap Pharma Labs Ltd.	26/5/2016	NIL
10.	Natco Pharma (Canada) Inc. Subsidiary	Sales	1 year	To sell finished goods to Natco Pharma (Canada) Inc.	26/5/2016	NIL
11.	Natco Pharma Asia PTE LTD (Singapore)	Sales	1 year	To sell finished goods to Natco Pharma Asia PTE LTD (Singapore).	26/5/2016	NIL

For and on behalf of the Board of Directors

Place: Hyderabad
Date : 09 August 2016

V. C. Nannapaneni
Chairman and Managing Director

Annexure III to the Board's Report

Form No. MR-3

Secretarial Audit Report

(For the financial year ended 31 March, 2016)

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

To
The Members
NATCO Pharma Limited

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

Based on my verification of the books, papers, minute books, forms and returns filed and other records maintained by the Company and also the information provided by the Company, its officers, agents and authorised representatives during the conduct of secretarial audit, I hereby report that in my opinion, the Company has, during the audit period ended on 31 March 2016, complied with the statutory provisions listed hereunder and also that the Company has proper Board processes and compliance-mechanism in place to the extent, in the manner and subject to the reporting made hereinafter:

I have examined the books, papers, minute books, forms and returns filed and other records maintained by the Company for the period ended on 31 March 2016 according to the provisions of:

- (i). The Companies Act, 2013 (the Act) and the Rules made thereunder;
- (ii). The Securities Contracts (Regulation) Act, 1956 ('SCRA') and the Rules made thereunder;
- (iii). The Depositories Act, 1996 and the Regulations and Bye-laws framed thereunder;
- (iv). Foreign Exchange Management Act, 1999 and the Rules and Regulations made thereunder to the extent of Foreign Direct Investment, Overseas Direct Investment and External Commercial Borrowings;
- (v). The following Regulations and Guidelines prescribed under the Securities and Exchange Board of India Act, 1992 ('SEBI Act') to the extent applicable to the Company:-
 - (a). The Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011;
 - (b). The Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992;
 - (c). The Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009;

- (d). The Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999
- (e). The Securities and Exchange Board of India (Registrars to an Issue and Share Transfer Agents) Regulations, 1993 regarding the Companies Act and dealing with client;
- (f). The Securities and Exchange Board of India (Delisting of Equity Shares) Regulations, 2009;
- (g). The Securities and Exchange Board of India (Buyback of Securities) Regulations, 1998;
- (h). The SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015; and
 - (i). The Memorandum and Articles of Association
- (vi). The following are the Industry Specific Acts applicable to the Company:
 - (a). Drugs and Cosmetics Act, 1940
 - (b). Narcotic Drugs and Psychotropic Substances, 1985
 - (c). Inflammable Substances Act, 1952
 - (d). Poisons Act, 1919
 - (e). Air (Pretension and control of pollution) Act, 1981
 - (f). Water (Pretension and control of pollution) Act, 1974
 - (g). Indian Boilers Act, 1923
- (vii). The following are the Labour Laws applicable to the Company:
 - (a). Factories Act, 1948
 - (b). Payment of Wages Act, 1936
 - (c). Payment of Gratuity Act, 1972
 - (d). Payment of Bonus Act, 1965
 - (e). Employees Provident Fund and Miscellaneous Provisions Act 1952
 - (f). Employees State Insurance Act
 - (g). The Employees Exchanges (Compulsory notification of vacancies) Act, 1959
 - (h). The Contract Labour (Regularisation and Abolition) Act, 1970

- (i). The Maternity Benefits Act, 1961
- (j). AP Shops and Establishment Act, 1988.

(viii) the Following are the other General Laws applicable to the Company.

- (a). The Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013 to be read with The Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Rules, 2013

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

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

I further report that

- (a). The Company has, in my opinion, complied with the provisions of the Companies Act, 2013 and the Rules made under the Act and notified by Ministry of Corporate Affairs and the Memorandum and Articles of Association of the Company,
- (b). The Company has complied with the provisions of the Securities Contracts (Regulation) Act, 1956 and the Rules made under that Act, with regard to maintenance of minimum public shareholding.
- (c). The Company has complied with the provisions of the Depositories Act, 1996 and the Byelaws framed thereunder by the Depositories with regard to dematerialisation / rematerialisation of securities and reconciliation of records of dematerialised securities with all securities issued by the Company.
- (d). The Company has complied with the provisions of the FEMA, 1999 and the Rules and Regulations made under that Act, to the extent it is applicable.
- (e). The Company has complied with the requirements under the Equity Listing Agreements entered into with BSE Limited, NSE Limited and regulations of The SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 to the extent applicable.
- (f). The Company has complied with the provisions of the The Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013 and the Rules and Regulations made under the Act, to the extent it is applicable.

I further report that:

- (a). The Company has complied with the provisions of the Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 including the provisions with regard to disclosures and maintenance of records required under the said Regulations;

- (b). The Company has complied with the provisions of the Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992 including the provisions with regard to disclosures and maintenance of records required under the said Regulations;
- (c). The Company has complied with the provisions of the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 including the provisions with regard to disclosures and maintenance of records required under the said Regulations;
- (d). The Company has not bought back equity shares of the Company, during the period; therefore, the compliance of the provisions of the Securities and Exchange Board of India (Buyback of Securities) Regulations, 1998; does not arise.
- (e). The Company has not delisted any of its securities, during the period, therefore, the compliance of the Securities and Exchange Board of India (Delisting of Equity Shares) Regulations, 2009; does not arise.

I further report that:

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

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

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

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

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

- i) Resolved to Increase Equity Investment percentage in the Company up to 49% to Foreign Institutional Investors (FIIs)/Foreign Portfolio Investors (FPIs) under Portfolio Investment Scheme (PIS) at Extra Ordinary General Meeting of the Company (through e-Voting and Postal ballot) held on 27 June, 2015.
 - (a) Pursuant to Regulation 5(2) of Foreign Exchange Management (Transfer or Issue of Security by a person Resident outside India) Regulations, 2000 Company had applied to Reserve Bank of India (RBI) for seeking approval to Increase the said percentage to 49% Portfolio Investment Scheme (PIS).
 - (b) Whereas, RBI vide letter dated September 04, 2015 has accorded its approval to the Company for raising of aggregate ceiling for Investments by FIIs/RFPs under Portfolio Investment Scheme (PIS) through primary markets and stock exchanges up to 31.50% under PIS.
- ii) Sought approval for further issue of shares/convertible securities to Foreign Institutional Investors (FIIs)/ Qualified Institutional Buyers (QIBs) at duly convened Extra Ordinary General Meeting of the Company (as also e-Voting) held on 27 June, 2015.
 - (a). The said approval enables the Board to issue Securities for an aggregate amount not exceeding ₹450 Crore (Rupees Four Hundred and Fifty Crore only).
 - (b) Consequent thereto the committee of Directors allotted 16,00,000 (Sixteen Lakhs) Equity Shares of ₹10/- each to 23 QIBs at a price of ₹2130.55 per Equity Share (including Share premium of ₹2120.55 per Equity Share) aggregating to ₹3408.88 million under QIP Issue and pursuant to provisions of Section 42 -Private Placement during the year.
- iii) Sought approval for Merger of NATCO Organics Limited (100% Wholly Owned Subsidiary of the Company) into the Company at duly convened Extra-Ordinary General Meeting of the Company(as also e-Voting) held on June 27, 2015 and through Postal Ballot and E-voting dated November 28,,2015.
- iv) Proposed and approved Employee Stock Options (ESOP) Scheme under SEBI (Share based Employee Benefits) Regulations, 2014 and pursuant to Section 62(1)(c) of the Companies Act, 2013 at Extra Ordinary General Meeting of the Company(through e-Voting and Postal ballot) held on June 27, 2015. The proposed ESOP Scheme could give rise to the issue of equity shares of nominal face value not exceeding ₹15,00,000/- divided into 1,50,000 equity shares of the face value of ₹10/- each.
- v) Increased the Investment limit in NATCO Pharma (Canada) Inc. from CAD 2,000,000 (Two million Canadian Dollars only) upto CAD 4,000,000 (Four million Canadian dollars only) at the Board Meeting Held on September 10, 2015.
- vi) Increased the Investment limit in Time Cap Overseas Limitedfrom the limit of USD 10,000,000 (ten million US Dollars only) to USD 40,000,000 (forty million US Dollars only) at the Board Meeting held on September 10, 2015.
- vii) Classified its Share Capital by way of sub-division of 1 (one) Equity Shares of Face value of ₹10/- each into 5(Five) Equity Shares of ₹2/- each at the Annual General Meeting of the Company held on September 26, 2015.
- viii) Enhanced the borrowing powers pursuant to provisions of Section 180(1)(c) up to ₹1,000 Crore from the previous limit of ₹600 Crore at the Annual General Meeting of the Company held on September 26, 2015.
- ix) Pursuant to provisions of Section 180(1) (a) resolved to create security/ charge on properties/ Assets of the Company in favour of lenders upto a ceiling limit of ₹1000 Crore at the Annual General Meeting of the Company held on September 26, 2015.
- x) Board of Directors at their meeting held on 11thFebruary, 2016,declared Interim dividend of ₹1.25 (Rupees one and twenty five paise only) per equity share of ₹2/- each aggregating to ₹21,77,17,806.25 (Rupees twenty one Crore seventy seven Lakhs seventeen thousand eight hundred six and paise twenty five only) during the year 2015-2016 and the same was duly paid within the statutory time limits which needs to be ratified at the ensuing AGM to be held for the year 2015-16.

Place: Hyderabad
Date : 26 May 2016

C S Balachandra Sunku
M. No. F5496
CP. No. 12745

Annexure to Form MR-3

To,
The Members
NATCO Pharma Limited

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

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

Place: Hyderabad
Date: 26 May 2016

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

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

Place : Hyderabad

Annexure IV to the Board's Report

Annual Report On Corporate Social Responsibility (CSR)

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

The Board has approved the CSR Policy of the Company.

2. The Composition of the CSR Committee:

The CSR Committee was constituted by the Board of Directors at its meeting held on 02-08- 2014. It comprises of

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

3. Average net profit of the company for last three financial years: ₹ 1,387,973,219

4. Prescribed CSR Expenditure (two per cent. of the amount as in item 3 above): ₹ 27,759,464

5. Details of CSR spent during the financial year:

(a) Total amount to be spent for the financial year; ₹28,812,000

(b) Amount unspent, if any; N.A.

(c) Manner in which the amount spent during the financial year is detailed below.

	CSR Project / Activity	Sector	Location of the project / Programme	Amount spent on the projects / programs	Amount spent direct / implementing agency
A.	Expenditure on Projects / Programs				
1	Natco Trust Managed School:				
	a. Natco High School	Education	Rangapur Village, Kothur Mandal, Mahboobnagar District, Telangana	104.06	Natco Trust
	b. Natco School of Learning	Education	Gollamudipadu Village, Ponnuru Mandal, Guntur District, A.P.	65.00	Natco Trust
2	Sports for Development Project	Education	Kothur Mandal, Mahboobnagar District, Telangana	13.60	Natco Trust
3	Tuition Centre	Education	Pedavoor Mandal, Nalgonda District, Telangana	14.00	Natco Trust
4	Natco Mobile Health Clinics	Health	Mahboobnagar and Nalgonda District, Telangana	28.00	Natco Trust
5	Nutrition Centre	Health	Mahboobnagar and Nalgonda District, Telangana	10.09	Natco Trust
6	Patient Counselling	Health	Hyderabad & Rangareddy District, Telangana	17.00	Natco Trust
7	Natco Career Counselling and Guidance Centre	Livelihood	Mahboobnagar and Nalgonda District, Telangana	9.00	Natco Trust
	Total (A)	-	-	260.75	-
B.	Administrative expenses				
1	Implementing expenses	Education	-	16.17	Natco Trust
2	Implementing expenses	Health	-	8.00	Natco Trust
3	Implementing expenses	Livelihoods	-	3.2	Natco Trust
	Total (B)	-	-	27.37	-
	Total (A+B)	-	-	288.12	-

6. In case the company has failed to spend the two per cent of the average net profit of the last three financial years or any part thereof, the company shall provide the reasons for not spending the amount in its Board report:

The entire amount was spent.

7. A responsibility statement of the CSR Committee that the implementation and monitoring of CSR Policy, is in compliance with CSR objectives and Policy of the company:

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

For and on behalf of the Board of Directors

Place: Hyderabad
Date : 09 August 2016

V. C. Nannapaneni
Chairman and Managing Director

Annexure V to the Board's Report

Information required under Section 197 (12) of the Companies Act, 2013 read with Rule 5 (1) of the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014

- (i) The ratio of the remuneration of each Director to the median remuneration of the employees of the Company, and the percentage increase in remuneration of each Director, CEO, CFO and CS, for FY2016:

Name	Designation	Ratio of Remuneration of each Director/ KMP to the median remuneration of employees	% Increase in remuneration during FY2016
Mr. V. C. Nannapaneni	Chairman and Managing Director	77	7
Mr. Rajeev Nannapaneni	Vice Chairman and CEO	67	12
Dr. A.K.S. Bhujanga Rao	Whole Time Director	47	10
Mr. P.S.R.K Prasad	Whole Time Director	47	10
Dr. D Linga Rao	Whole Time Director	47	10
Mr. M. Adinarayana	Company Secretary	14	10
Mr. S.V.V.N Apparao	Chief Financial Officer	17	33

Mr. T.V. Rao, Mr. G.S. Murthy, Dr. B.S. Bajaj, Mr. D.G. Prasad, Dr. Leela Digumarthi and Dr. M.U.R. Naidu, Independent Directors were paid only sitting fees for attending the Board / Committee Meetings. Mr. Vivek Chhachhi, Non-Executive and Non-Independent Director is voluntarily not taking any sitting fee.

- (ii) The median remuneration of employees increased by 4% in FY2016.
- (iii) The number of permanent employees on the rolls of Company as on 31 March 2016 is 3,679.
- (iv) The average increase in remuneration paid to employees is 16.63% for FY2016 as compared to FY2015. Compared to FY2015, the standalone revenue in FY 2016 grew by 42% and profit before tax grew by 42%
- The remuneration policy of the company is to provide competitive compensation based on company's performance, employee individual contribution and market conditions.
- (v) For FY2016, the remuneration paid to all KMPs aggregate to approximately 4.03% of the Net Profit. The Net Profit was ₹174.46 crore whereas remuneration paid to all KMPs aggregate to approximately ₹7.37 crore.
- (vi) Average percentage increase made in the salaries of employees other than the KMPs for FY2016 was 17.11% as compared to FY2015. There was an increase of 10.57% in the total remuneration of KMPs for the same period.

(vii) Below is a statement showing details of the top ten employees in terms of remuneration drawn.

Name of the Employee	The age of employee	Designation of the employee	Gross remuneration received (Rs.)	Nature of employment, whether contractual or otherwise	Qualifications of the employee	Experience of the employee	Date of Commencement of employment	The last employment held by such employee before joining the Company
Mr. V C Nannapaneni	70	CMD	1,78,32,000 *	Regular	MS (Pharmaceutical Administration)	47	03.10.1981	Time cap Labs Ltd.
Mr. Rajeev Nannapaneni	39	VC & CEO	1,55,82,000	Regular	BA in Quantitative Economics & History	17	03.07.2000	Merrill Lynch and Natco systems Ltd.
Dr. A K S Bhujanga Rao	63	President – R & D	1,09,99,992	Regular	Ph.D	34	11.10.2000	Director at Veera labs
Dr. D Linga Rao	60	President – Technical Affairs	1,09,99,992	Regular	Ph.D	41	11.02.1993	Sr. QC Executive at IDPL
Mr. P S R K Prasad	58	EVP - CES	1,09,99,992	Regular	B.Tech.	33	23.05.1995	Engineering Manager at Saudi Ceramics Ltd., Riyadh
Dr. M Pulla Reddy	58	EVP – R & D	1,25,00,016	Regular	Ph.D	22	01.04.1994	-
Dr. B R Reddy	62	Director - Formulations	1,25,00,016	Regular	Ph.D	31	29.01.2007	Director – Operations at Granules
Dr. Gopalkrishnan Vaidyanathan	54	VP – Analytical R & D	65,00,004	Regular	Ph.D	28	15.04.2015	VP – Technical Operations at Waters India Pvt. Ltd.
Mr. Narayan Rao C V	61	EVP – SCM/ IT/OD	61,25,016	Regular	B.Tech.	37	02.01.2015	Sr. VP & Head – Global Supply Chain Management at Aurobindo Pharma Ltd.
Mr. Rajesh Chebiyam	45	VP – BD & CS	60,00,012	Regular	MS (Chemical Engg.) & MBA	20	01.02.2014	Business Development Head at SE Asia, Cabot

* Excludes ₹1.50 Crore provision towards commission on net profits

Note: There are no other employees who draw remuneration in excess of the limits prescribed in Rule 5 (2) (i), (ii) & (iii) of the Companies (Appointment and Remuneration) Rules, 2014

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

For and on behalf of the Board of Directors

Place: Hyderabad
Date : 09 August 2016

V. C. Nannapaneni
Chairman and Managing Director

Annexure VI to the Board's Report

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

(A) Conservation of energy

During the year, the Company has implemented energy conservation projects across its various business units Major categories of such investments are:

1. Installation of Energy efficient equipment & optimization of processes consuming energy: Major projects in this category:
 - a) Installed new high efficiency Screw chiller for Brine and chilled water for energy savings.
 - b) Conversion of CFL based lighting to LED based lighting has been taken up and being implemented in phased manner across all units.
 - c) The company has been investing in installation of VFD's (variable frequency drives) for all motors (more than 10HP) and continuous operating motors above 5 HP for better Energy Efficiency. Installed VFDs of total capacity 771KW in 2015 till date.
 - d) The company has installed a dedicated 33 KV feeder from 132 KV. Sub-station, resulting in lesser number of power interruptions.
2. Identifying cheaper power sources both in-house and external and Utilizing the alternate sources of energy:
 - a) Sourcing cheaper open access power in a controlled strategy, instead of buying power from Grid.

All the above steps are expected to result in savings of ₹ 2.50 crore annually.

3. Steps in progress for increasing the utilization of alternate renewable sources of energy:
 - a) Installation work under progress for 1.0 MW solar power generation plant at Mekaguda (completed 400 KW installation).
 - b) Proposing Third party Solar Power Purchase agreement.
 - c) Feasibility studies for Wind Power Generation for captive power utilization is in process since last 8 months at Chemical Division, Mekaguda and the results are positive for generating Wind power.
 - d) Proposing Third party Power wind Purchase agreement for Chemical Division, Chennai to increase the Green power utilisation by 25 Lacs units per annum.

Disclosure of particulars with respect to conservation of energy.

POWER AND FUEL CONSUMPTION	For the year ended 31 March, 2016	For the year ended 31 March , 2015
1. Electricity		
a) Purchased Units	47382277	38747477
Total amount (₹)	30,72,97,067	26,69,92,184
Rate / Unit (₹)	6.49	6.89
b) Own Generation:		
i) Through Diesel		
Generator Units	1529184	2129502
Units / ltr. Of Diesel Oil	3.35	3.35
Cost / Unit (₹)	15.62	18.49
2. Coal D/C grade		
Quantity (Tonnes)	3805	4050
Total Amount (₹)	3,30,80,892	3,02,23,233
Average rate per tonne (₹)	8694	7463
3. Furnace Oil		
Quantity (Ltr)	547738	419269

Total amount (₹)	1,38,81,827	1,75,01,686
Average rate per Ltr (₹)	25.34	41.74

(B) Technology absorption

- i) Efforts made towards technology absorption: As part of the technology absorption, the Company engages in in-house development of bulk drugs & formulations, conducts pilot studies for potential scale-up so as to improve efficiency and quality of products.
- ii) Benefits derived as a result of the above efforts: Market presence in the formulations segment to several branches of medicines.
- iii) In case of imported technology (imported during the last five years reckoned from the beginning of the financial year): Not Applicable

(C) Expenditure on R&D

Particulars	₹ in Lakhs	
	For the year ended 31 March, .2016	For the year ended 31 March, 2015
a) R&D Expenditure	7030.89	5171.71
b) Total R&D Expenditure as percentage of Net Revenue from Operations (Including capital expenditure)	6.88	7.23

(D) Foreign Exchange Earnings and Outgo

Particulars	₹ in Lakhs	
	For the year ended 31 March, .2016	For the year ended 31 March, 2015
a) Earnings in Foreign Exchanges:		
1. Export on F.O.B. basis	31,413.30	28662.58
2. Sale of services	414.04	853.97
3. Income from Profit sharing agreements	2,747.21	2039.44
b) CIF value of Imports		
1. Raw materials and packing materials	7,044.96	3699.34
2. Capital Goods and consumable stores	4,639.11	1683.11
c) Expenditure in Foreign Currency towards:		
Travelling expenses	67.96	86.68
Commission	1,805.48	2,220.90
Professional and consultation fees	1,013.33	814.68
Rates and taxes	369.93	412.68
Interest on borrowings	27.79	65.66
Royalty	1,599.79	99.55
Others	311.34	505.07

For and on behalf of the Board of Directors

Place: Hyderabad
Date : 09 August 2016

V. C. Nannapaneni
Chairman and Managing Director

Annexure VII to the Board's Report

Form No.MGT-9

Extract of Annual Return

As on Financial year ended on 31.03.2016

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

I. Registration & Other Details

1	CIN	L24230TG1981PLC003201
2	Registration Date	September 19, 1981
3	Name of the Company	NATCO Pharma Limited
4	Category / Sub-category of the Company	Company Limited by Shares / Public Company
5	Address of the Registered Office & Contact details	NATCO House, Road # 2, Banjara Hills Hyderabad 500 034, India Tel: 040-23547532
6	Whether Listed Company	Yes
7	Name, Address & Contact details of the Registrars and Share Transfer Agents	Venture Capital and Corporate Investments Pvt Ltd 12-10-167 Bharat Nagar Hyderabad 500016, India

II. Principal Business Activities of the Company

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

III. Particulars of Holding, Subsidiary and Associate Companies

Sl. No.	Name and address of the Company	CIN/GLN	Holding / Subsidiary/ Associate	% of shares held	Applicable Section
1	Natco Pharma Inc,	SRV060928109-4232479	Subsidiary	100.00	2(87)
2	Time Cap Overseas Limited	9889-C2/GBL	Subsidiary	87.73	2(87)
3	Natco Pharma (Canada) Inc,	834474-4	Subsidiary	99.68	2(87)
4	Natco Pharma Asia Ptd.Ltd	201230076Z	Subsidiary	100.00	2(87)
5	Natco Pharma Australia Pte Ltd	601572301	Subsidiary	80.00	2(87)
6	Natcofarma Do Brasil Ltd.	08.157.293/0001-27	Step down Subsidiary	84.69	2(87)

IV. Shareholding Pattern

a. Category-wise Shareholding

Category of Shareholders	No. of Shares held at the beginning of the Financial year (01 April, 2015)				No. of Shares held at the end of the Financial year (31 March, 2016)				% of Change during the year
	Demat	Physical	Total	% of Total Shares	Demat	Physical	Total	% of Total Shares	
A. Promoters									
(1) Indian									
a) Individual / HUF	4,97,81,310	-	4,97,81,310	29.96	4,91,16,560	-	4,91,16,560	28.23	(1.73)
b) Central Govt.	-	-	-	-	-	-	-	-	0
c) State Govt.(s)	-	-	-	-	-	-	-	-	0
d) Bodies Corporate	3,70,84,470	-	3,70,84,470	22.32	3,77,17,220	-	3,77,17,220	21.65	(0.67)
e) Banks / FI	-	-	-	-	-	-	-	-	0
f) Trust	-	-	-	-	-	-	-	-	0
Sub-Total (A)(1):	8,68,65,780	-	8,68,65,780	52.27	8,68,33,780	-	8,68,33,780	49.88	(2.39)
(2) Foreign									
a) NRIs - Individuals	24,38,540	-	24,38,540	1.47	24,38,540	-	24,38,540	1.40	(0.07)
b) Other - Individuals	-	-	-	-	-	-	-	-	0
c) Bodies Corporate	-	-	-	-	-	-	-	-	0
d) Banks / FI	-	-	-	-	-	-	-	-	0
e) Any Other....	-	-	-	-	-	-	-	-	0
Sub-Total (A)(2):	-	-	-	-	-	-	-	-	0
Total Shareholding of Promoters (A) = (A) (1)+(A)(2)	8,93,04,320	-	8,93,04,320	53.74	8,93,22,320	-	8,93,22,320	51.28	0
B. Public Shareholding									
(1) Institutions									
a) Mutual Funds / UTI	93,57,015	4,000	93,61,015	5.63	1,02,03,060	3,500	1,02,06,560	5.86	0.23
b) Banks / FI	41,495	1,000	42,495	0.03	1,76,938	1,000	1,77,938	0.10	0.08
c) Central Govt.	-	-	-	-	-	-	-	-	0
d) State Govt.(s)	-	-	-	-	-	-	-	-	0
e) Venture Capital Funds	-	-	-	-	-	-	-	-	0
f) Insurance Companies	-	-	-	-	-	-	-	-	0
g) FIs	1,65,56,375	-	1,65,56,375	9.96	1,32,29,676	-	1,32,29,676	7.60	(2.37)
h) Foreign Venture Capital Funds	-	-	-	-	-	-	-	-	0
i) Others (FPI)	1,38,45,150	-	1,38,45,150	8.33	2,04,72,342	-	2,04,72,342	11.75	3.42
Sub-Total (B)(1):	3,98,00,035	1,000	3,98,01,035	23.95	4,40,85,516	4,500	4,40,86,516	25.31	1.36
(2) Non-Institutions									
a) Bodies Corporate									
i) Indian	46,86,800	28,100	47,14,900	2.84	46,09,135	25,830	46,34,965	2.66	(0.18)
ii) Overseas	-	-	-	-	-	-	-	-	-
b) Individuals									
i) Individual Shareholders holding nominal share capital upto ₹1 Lakhs	1,43,80,365	21,32,550	1,65,12,915	9.94	1,93,69,107	20,16,290	2,13,85,397	12.28	2.34
ii) Individual Shareholders holding nominal share capital in excess of 1lakh	1,44,13,255	83,300	1,44,96,555	8.72	1,25,33,466	-	1,25,33,466	7.20	(1.53)

IV. Shareholding Pattern

a. Category-wise Shareholding

Category of Shareholders	No. of Shares held at the beginning of the Financial year (01 April, 2015)				No. of Shares held at the end of the Financial year (31 March, 2016)				% of Change during the year
	Demat	Physical	Total	% of Total Shares	Demat	Physical	Total	% of Total Shares	
c) Others (specify)									
i) Non- Resident Indians	5,64,515	3,24,500	8,89,015	0.53	9,80,536	3,24,000	13,04,536	0.75	0.22
ii) Clearing Members	3,22,510	-	3,22,510	0.19	7,75,055	-	7,75,055	0.04	(0.15)
iii) Trusts	1,28,995	-	1,28,995	0.08	1,31,990	-	1,31,990	0.08	0.00
Sub-Total(B)(2):	3,44,96,440	25,68,450	5,09,10,040	30.64	3,83,99,319	23,66,090	4,07,65,409	23.40	(7.23)
Total Public Share holding (B)=(B)(1)+(B)(2)	7,42,96,475	25,73,450	7,68,69,925	46.26	8,24,81,335	23,70,590	8,48,51,925	48.72	2.46
C. Shares held by Custodian for GDRs & ADRs	-	-	-	-	-	-	-	-	0
Grand Total (A+B+C)	16,36,00,795	25,73,450	16,61,74,245	100.00	17,18,03,655	23,70,590	17,41,74,245	100.00	0

b. Shareholding of Promoters

Sl. No.	Name of the Promoter	No. of Shares held at the beginning of the Financial year 1st, April, 2015)			No. of Shares held at the end of the Financial year (31 March, 2016)			% of change in shareholding during the year
		No of Shares	% of total Shares	% shares Pledged / encumbered to total shares	No of Shares	% of total Shares	% shares Pledged / encumbered to total shares	
1	V C Nannapaneni	3,52,96,770	21.24	-	3,52,96,770	20.27	-	(0.98)
2	Venkaiah Chowdary Nannapaneni HUF	5440045	3.27	-	5440045	3.12	-	(0.15)
3	Rajeev Nannapaneni	1786175	1.07	-	1676175	0.96	-	(0.11)
4	Neelima Sita Nannapaneni	182960	0.11	-	182960	0.11	-	(0.01)
5	Durga Devi Nannapaneni	4139100	2.49	-	3539100	2.03	-	(0.46)
6	N Ramakrishna Rao	706410	0.43	-	746410	0.43	-	0.00
7	T Anila	629920	0.38	-	629920	0.36	-	(0.02)
8	T Ananda Babu	473205	0.28	-	473205	0.27	-	(0.01)
9	Vidyadhari Tummala	402200	0.24	-	442200	0.25	-	0.01
10	Sita Ravamma Nannapaneni	189500	0.11	-	0	0.00	-	(0.11)
11	Jhansi Tummala	157100	0.09	-	247100	0.14	-	0.05
12	Alapati Bapanna	18300	0.01	-	18300	0.01	-	0.00
13	Devendrth Alapati	15000	0.01	-	15000	0.01	-	0.00
14	Venka Satya Swathi Kantamani	2750000	1.65	-	2860000	1.64	-	(0.01)
15	T Bapineedu	415	0.00	-	415	0.00	-	0.00
16	Kantamani Ratnakumar	-	0.00	-	37500	0.02	-	0.02
17	IL and FS Trust Company Ltd A/C Neelima Nannapaneni Trust	4082750	2.46	-	4082750	2.34	-	(0.11)
18	IL and FS Trust Company Ltd A/C Durga Devi Trust	-	0.00	-	600000	0.34	-	0.34
19	Time Cap Pharma Labs Ltd	17157220	10.32	-	17157220	9.85	-	(0.47)
20	Natsoft Information Systems Pvt Ltd	15767500	9.49	-	15767500	9.05	-	(0.44)
21	Natco Aqua Ltd	16000	0.01	-	16000	0.01	-	0.00
22	Ndl Infra Tech Pvt Ltd	93750	0.06	-	93750	0.05	-	0.00
	Total	8,93,04,320	53.74	-	8,93,22,320	51.28	-	(2.46)

c. Change in Promoters' shareholding

Sl. No.	Particulars	Shareholding at the beginning of the year		Cumulative Shareholding during the year	
		No of shares	% of Total Share Capital	No of shares	% of Total Share Capital
1	At the beginning of the year	8,93,04,320	53.74	8,93,04,320	51.27
2	On Aril 24, 2015 transmission of shares from non promoter to Promoter	25,000	0.01	8,93,29,320	51.28
3	On January 06, 2016 Off market transfer (by way gift)	(44,500)	(0.02)	8,92,84,820	51.26
4	on October 09, 2015 relative of the promoter bought shares from open Market	37,500	0.02	8,93,22,320	51.28

d. Shareholding pattern of top ten shareholders

Sl. No.	Name of the Shareholder	Shareholding at the beginning / end of the year		Date	Increase / Decrease in share holding	Reason	Cumulative shareholding during the year	
		No of shares	% of total shares of the company				No of shares	% of total shares of the company
1	Cx Securities Limited	63,75,000	3.66	01/04/2015	-	-	-	-
				17/04/2015	(1,87,690)	Sale	61,87,310	3.55
				24/04/2015	(1,78,890)	Sale	60,08,420	3.44
				01/05/2015	(14,345)	Sale	59,94,975	3.44
				31/03/2016	-	-	59,94,975	3.44
2	Dilip S Shanghvi	57,50,000	3.30	01/04/2015	-	-	-	-
				31/03/2016	-	-	57,50,000	3.30
3	Icici Prudential Value Discovery Fund	25,00,000	1.43	01/04/2015	-	-	-	-
				22/05/2015	(1,00,435)	Sale	23,99,565	1.38
				24/07/2015	(45,575)	Sale	23,53,990	1.35
				07/08/2015	(82,675)	Sale	22,71,315	1.30
				14/08/2015	(2,71,315)	Sale	20,00,000	1.15
				16/10/2015	(44,270)	Sale	19,52,730	1.12
				23/10/2015	(97,695)	Sale	18,55,035	1.07
				30/10/2015	(13,945)	Sale	18,41,090	1.06
				27/11/2015	(57,205)	Sale	17,83,885	1.02
				04/12/2015	2	Bought	17,83,887	1.02
				18/12/2015	(4,35,800)	Sale	13,48,087	0.77
				25/12/2015	(2,00,095)	Sale	11,47,992	0.66
				31/12/2015	(2,47,992)	Sale	9,00,000	0.52
4	Tata Aia Life Insurance Co Ltd-Whole Life Mid Cap Equity Fund	10,56,090	0.60	22/01/2016	(36,399)	Sale	8,63,601	0.50
				31/03/2016	-	-	8,63,601	0.50
				31/03/2015	-	-	-	-
				01/05/2015	(56,090)	-	10,00,000	0.57
				07/08/2015	(60,600)	-	9,39,400	0.54
				06/11/2015	(2,80,440)	-	6,58,960	0.38
				29/01/2016	(7,351)	-	6,51,609	0.37
				31/03/2016	-	-	6,51,609	0.37

d. Shareholding pattern of top ten shareholders

Sl. No.	Name of the Shareholder	Shareholding at the beginning / end of the year		Date	Increase / Decrease in share holding	Reason	Cumulative shareholding during the year	
		No of shares	% of total shares of the company				No of shares	% of total shares of the company
5	Wasatch Emerging Markets Small Cap Fund	20,47,845	1.18	01/04/2015	-	-	-	-
				24/04/2015	(2,46,000)	Sale	18,01,845	1.03
				08/05/2015	((66,575)	Sale	17,35,270	1.03
				22/05/2015	((73,025)	Sale	16,62,245	1.00
				29/05/2015	(46,975)	Sale	16,15,270	0.95
				24/07/2015	(90,500)	Sale	15,24,770	0.93
				21/08/2015	3,40,940	Sale	18,65,710	0.88
				28/08/2015	(58,105)	Sale	18,07,605	1.07
				30/09/2015	(58,920)	Sale	17,48,685	1.04
				13/11/2015	(22,190)	Sale	17,26,495	1.00
				20/11/2015	(9,810)	Sale	17,16,685	0.99
				11/12/2015	18,595	Sale	17,35,280	0.99
				18/12/2015	(28,600)	Sale	17,06,680	1.00
				31/12/2015	(26,452)	Sale	16,80,228	0.98
				01/01/2016	(7,048)	Sale	16,73,180	0.96
				08/01/2016	(23,8000)	Sale	16,49,380	0.96
				15/01/2016	(36,200)	Sale	16,13,180	0.95
				05/02/2016	(39,977)	Sale	15,73,203	0.93
				12/02/2016	(43,735)	Sale	15,29,468	0.90
				11/03/2106	(77,890)	Sale	14,51,578	0.88
				18/03/2016	(1,45,897)	Sale	13,05,681	0.83
				25/03/2016	(23,769)	Sale	12,81,912	0.75
				31/03/2016	(1,54,812)	Sale	11,27,100	0.74
6	Orange Mauritius Investments Limited	19,34,800	1.11	01/04/2015	-	-	-	-
				10/04/2015	(1,25,000)	Sale	18,09,800	1.03
				14/08/2015	(1,25,000)	Sale	16,84,800	0.96
				09/10/2015	(1,16,795)	Sale	15,68,005	0.90
				16/10/2015	(4,04,015)	Sale	11,63,990	0.66
				23/10/2015	(500)	Sale	11,63,490	0.66
				27/11/2015	(1,24,505)	Sale	10,38,985	0.59
				04/12/2015	(38,995)	Sale	10,00,000	0.05
				18/03/2016	(4,47,207)	Sale	5,52,793	0.31
				25/03/2016	(3,00,000)	Sale	2,52,793	0.14
				31/03/2016	(2,52,793)	Sale	0	0
7	Hypnos Fund Limited	25,37,500	1.45	01/04/2015	-	-	-	-
				16/10/2015	(44,880)	Sale	24,92,620	1.43
				23/10/2015	(17,120)	Sale	24,75,500	1.33
				18/03/2016	1,00,000	Bought	25,75,500	1.47
				31/03/2016	(5,75,000)	Sale	20,00,500	1.15
8	Merrill Lynch Capital Markets Espana S.a. S.v.	10,41,330	0.59	01/04/2015	-	-	-	-
				10/07/2015	(1,23,205)	Sale	9,17,825	0.52
				17/07/2015	(17,000)	Sale	9,00,825	0.52
				25/09/2015	(6,73,070)	Sale	2,27,755	0.13
				04/12/2015	(2,28,055)	Sale	0	0

d. Shareholding pattern of top ten shareholders

Sl. No.	Name of the Shareholder	Shareholding at the beginning / end of the year		Date	Increase / Decrease in share holding	Reason	Cumulative shareholding during the year	
		No of shares	% of total shares of the company				No of shares	% of total shares of the company
9	Columbia Emerging Markets Fund	9,80,000	0.56	01/04/2015	-	-	-	-
				17/07/2015	(21,185)	Sale	9,58,815	0.55
				30/10/2015	(1,13,455)	Sale	8,45,360	0.48
				06/11/2015	(2,10,760)	Sale	6,34,600	0.36
				13/11/2015	(37,145)	Sale	5,97,455	0.34
				11/12/2015	1,62,370	Bought	4,35,085	0.25
				31/03/2016	27,964	Bought	4,63,049	0.26
10	Em Resurgent Fund		0.00	01/04/2015	-	-	-	-
				03/04/2105	60,000	Bought	60,000	0.03
				10/04/2015	(10,000)	Sale	50,000	0.02
				16/10/2015	3,61,490	Bought	4,11,490	0.24
				27/11/2015	(9,200)	Sale	4,02,290	0.23
				15/01/2016	(7,046)	Sale	3,95,244	0.23
				09/02/2016	55,556	Bought	4,50,800	0.26
				18/03/2106	5,00,000	Bought	9,50,800	0.54
				25/03/2016	3,00,000	Bought	12,50,800	0.72
				31/03/2016	8,27,893	Bought	20,78,593	1.19
11	Stichting Depository Apg Emerging Markets Equity Pool		0.00	01/04/2015	-	-	-	-
				25/09/2015	9,45,960	Bought	9,45,960	0.54
				09/10/2015	4,345	Bought	9,50,305	0.55
				16/10/2015	59,980	Bought	10,10,285	0.58
				13/11/2015	1,44,420	Bought	10,24,705	0.59
				20/11/2015	12,830	Bought	10,37,535	0.60
				18/12/2015	2,20,922	Bought	12,58,457	0.72
				25/12/2015	1,52,180	Bought	14,10,637	0.81
				31/12/2015	31,648	Bought	14,42,285	0.83
				01/01/2016	32,354	Bought	14,74,639	0.85
				04/03/2016	30,773	Bought	15,05,412	0.86
				11/03/2016	20,250	Bought	15,25,662	0.88
12	Nomura India Investment Fund Mother Fund		0.00	01/04/2015	-	-	-	-
				25/09/2015	12,11,500	Bought	12,11,500	0.70
				05/02/2016	1,39,414	Bought	13,50,914	0.78
				31/03/2016	-	-	13,50,914	0.78
13	Goldman Sachs India Limited		0.00	01/04/2015	-	-	-	-
				25/09/2015	-	-	16,42,500	0.94
				31/03/2016	(4,60,685)	Sale	11,81,815	0.68
14	IDFC Premier Equity Fund		0.00	01/04/2015	-	-	-	-
				04/12/2015	8,63,140	Bought	8,63,140	0.50
				11/12/2015	1,59,233	Bought	10,22,373	0.10
				22/01/2016	15,058	Bought	10,37,431	0.60
				31/03/2016	-	-	10,37,431	0.60

Note:

- The Shareholders of the Company have approved the sub-division of each equity share having a face value of ₹ 10/- each into five equity shares having a face value of ₹2/- each at their Meeting held on September 26, 2015. The record date for sub-division was November 28, 2015. The number of shares and share information for the period prior to November 28, 2015, reflects the effect of sub-division.
- Percentage figures are rounded off to the nearest two decimal points.
- Reflected % due to Issue of further equity shares to QIB. As such your company paid up capital increased.

e. Shareholding of Directors and Key Managerial Personnel:

For each of the Directors	Shareholding at the beginning of the year		Cumulative Shareholding during the year	
	No of shares	% of total shares of the Company	No of shares	% of total shares of the Company
1. V C Nannapaneni (including HUF)				
At the beginning of the year	4,07,36,815	24.51	-	-
At the end of the year	-	-	4,07,36,815	23.39
2. Rajeev Nannapaneni (including NRI)				
At the beginning of the year	17,86,175	1.07	-	-
30/12/2015 off market by way of gift	(1,10,000)	-	-	-
At the end of the year	-	-	16,76,175	0.96
3. Dr.A K S Bhujanga Rao				
At the beginning of the year	43,500	0.03	-	-
At the end of the year	-	-	43,500	0.03
4. P S R K Prasad				
At the beginning of the year	41,450	0.02	-	-
At the end of the year	-	-	41,450	0.02
5. D Linga Rao				
At the beginning of the year	56,655	0.03	-	-
At the end of the year	-	-	56,655	0.03
6. Dr M U R Naidu				
At the beginning of the year	15000	0.01	-	-
At the end of the year	-	-	15000	0.01

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

For each of the KMPs	Shareholding at the beginning of the year		Cumulative Shareholding during the year	
	No of shares	% of total shares of the Company	No of shares	% of total shares of the Company
1. M. Adinarayana				
At the beginning of the year	30,500	0.02	30,500	0.02
04/12/2015 BOUGHT	-	-	500	0.00
12/02/2016 BOUGHT	-	-	100	0.00
At the end of the year	-	-	31,100	0.03
2. S V V N Appa Rao				
At the beginning of the year	1750	0.001	-	-
At the end of the year	-	-	1750	0.001

V. Indebtedness:

Indebtedness of the Company including interest outstanding/accrued but not due for payment

₹ in Lakhs			
	Secured Loans excluding deposits	Unsecured Loans	Total Indebtedness
Indebtedness at the beginning of the financial year			
i) Principal Amount	27,783.01	3,102.38	30,885.39
ii) Interest due but not paid	0	0	0
iii) Interest accrued but not due	51.96	0	51.96
Total (i+ii+iii)	27,834.97	3,102.38	30,937.35
Change in Indebtedness during the financial year year			
Addition	0	0	0
Reduction	(17,838.88)	(2,079.80)	(19,918.68)
Net Change	(17,838.88)	(2,079.80)	(19,918.68)
Indebtedness at the end of the financial year			
i) Principal Amount	9,996.10	1,022.58	11,018.68
ii) Interest due but not paid	0	0	0
iii) Interest accrued but not due	0	0	0
Total (i+ii+iii)	9,996.10	1,022.58	11,018.68

Vi. Remuneration of Directors and Managerial Personnel

A. Remuneration of Directors

Sl. No.	Particulars of Remuneration	Name of the Directors					Total Amount in Lakhs
		Sri V C Nannapaneni	Sri Rajeev Nannapaneni	Dr A K S Bhujanga Rao	Sri P S R K Prasad	Dr. D Linga Rao	
1	Gross Salary	159.96	139.98	95.31	97.65	97.65	590.55
	a. Salary as per provisions contained in Section 17(1) of the IT Act, 1961	-	-	2.34	-	-	2.34
	b. Value of Perquisites U/s 17(2) of IT Act, 1961	-	-	-	-	-	-
	c. Profits in lieu of Salary under section 17(3) of It Act, 1961	-	-	-	-	-	-
2	Stock Options	-	-	-	-	-	-
3	Sweat Equity	-	-	-	-	-	-
4	Commission *	150.00	-	-	-	-	150.00
5	Others, Please Specify	18.36	15.84	12.35	12.35	12.35	71.25
	Total (A)	328.32	155.82	110.00	110.00	110.00	814.14

* Provision made as on 31 March 2016

VI. Remuneration of Directors and Managerial Personnel

B. Remuneration to Key Managerial Personnel

Sl. No.	Particulars of Remuneration	Name of KMP		Total Amount Lakhs
		Mr. M Adinarayana	Mr. S V V N Appa Rao	
1	Gross Salary	29.27	35.40	64.67
	a. Salary as per provisions contained in Section 17(1) of the IT Act, 1961	-	-	-
	b. Value of Perquisites U/s 17(2) of IT Act, 1961	-	-	-
	c. Profits in lieu of Salary under section 17(3) of IT Act, 1961	-	-	-
2	Stock Options	-	-	-
3	Sweat Equity	-	-	-
4	Commission	-	-	-
5	Others, Please Specify	3.73	4.60	8.33
	Total (B)	33.00	40.00	73.00

VII. Penalties / Punishment / Compounding of offences:

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

Annexure VIII to the Board's Report

NOMINATION AND REMUNERATION POLICY

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

Introduction:

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

The objective and purpose of this policy are:

- To lay down criteria and terms and conditions with regard to identifying persons who are qualified to become Directors (Executive and Non-Executive) and persons who may be appointed as Key Managerial positions and to determine their remuneration.
- To determine remuneration based on the Company's size and financial position and trends and practices on remuneration prevailing in peer companies, in the Pharmaceutical industry.
- To carry out evaluation of the performance of Directors, as well as Key Managerial Personnel.
- To provide them reward linked directly to their effort, performance, dedication and achievement relating to the Company's operations.
- To retain, motivate and promote talent and to ensure long term sustainability of talented managerial persons and create competitive advantage. In the context of the aforesaid criteria the following policy has been formulated by the Nomination and Remuneration Committee and adopted by the Board of Directors at its meeting held on 12th August, 2014.

Constitution of the Nomination and Remuneration Committee:

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

Sl. No.	Name of the Member	Category
1	Mr. G.S. Murthy	Independent Non-Executive Director

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

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

Definitions:

- Board means Board of Directors of the Company.
- Directors means Directors of the Company.
- Committee means Nomination and Remuneration Committee of the Company as constituted or reconstituted by the Board.
- Company means NATCO Pharma Limited.
- Independent Director means a Director referred to in Section 149 (6) of the Companies Act, 2013.
- Key Managerial Personnel (KMP) means- (i) Managing Director; (ii) Whole-time Director; (iii) Chief Financial Officer; (iv) Company Secretary; (v) Such other officer as may be prescribed.
- Senior Management means personnel of the Company who are members of its core management team excluding the Board comprising all members of management one level below the Executive Directors including the functional heads.

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

Applicability:

The Policy is applicable to

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

General:

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

PART – A

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

The Committee shall:

- Formulate the criteria for determining qualifications, positive attributes and independence of a Director.
- Identify persons who are qualified to become Director and persons who may be appointed in Key Managerial and Senior Management positions in accordance with the criteria laid down in this policy.
- Recommend to the Board, appointment and removal of Director, KMP.
- Formulation of criteria for evaluation of Independent Directors and the Board.
- Devising a policy on Board diversity.

PART – B

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

Appointment criteria and qualifications:

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

Term / Tenure:

1. CEO/Whole – Time Director

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

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

- No Independent Director shall hold office for more than two consecutive terms of five years each, but such Independent Director shall be eligible for appointment

after expiry of three years of ceasing to become an Independent Director. Provided that an Independent Director shall not, during the said period of three years, be appointed in or be associated with the Company in any other capacity, either directly or indirectly.

- At the time of appointment of Independent Director it should be ensured that number of Boards on which such Independent Director serves is restricted to seven listed companies as an Independent Director and three listed companies as an Independent Director in case such person is serving as a Whole-time Director of a listed company.

Evaluation:

The Committee shall carry out evaluation of performance of every Director, KMP and Senior Management Personnel at regular interval (yearly).

Removal:

Due to reasons for any disqualification mentioned in the Companies Act, 2013, rules made thereunder or under any other applicable Act, rules and regulations, the Committee may recommend, to the Board with reasons recorded in writing, removal of a Director, KMP or Senior Management Personnel subject to the provisions and compliance of the said Act, rules and regulations.

Retirement:

The Director, KMP and Senior Management Personnel shall retire as per the applicable provisions of the Companies Act, 2013 and the prevailing policy of the Company. The Board will have the discretion to retain the Director, KMP, Senior Management Personnel in the same position / remuneration or otherwise even after attaining the retirement age, for the benefit of the Company.

PART – C

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

General:

1. The remuneration / compensation / commission etc. to the Whole-time Director, KMP and Senior Management Personnel will be determined by the Committee and recommended to the Board for approval. The remuneration / compensation / commission etc. shall be subject to the prior/post approval of the shareholders of the Company and Central Government, wherever required.
2. The remuneration and commission to be paid to the Whole-time Director shall be in accordance with the percentage / slabs / conditions laid down in the Articles of Association of the Company and as per the provisions of the Companies Act, 2013, and the rules made thereunder.
3. Increments to the existing remuneration / compensation structure may be recommended by the Committee to the Board which should be within the slabs approved by the Shareholders as per Companies Act, 2013 in the case of Whole-time Director..
4. Where any insurance is taken by the Company on behalf of its Whole-time Director, Chief Executive Officer, Chief

Financial Officer, the Company Secretary and any other employees for indemnifying them against any liability, the premium paid on such insurance shall not be treated as part of the remuneration payable to any such personnel. Provided that if such person is proved to be guilty, the premium paid on such insurance shall be treated as part of the remuneration.

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

1. Fixed pay:

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

2. Minimum Remuneration:

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

3. Provisions for excess remuneration:

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

Remuneration to Non- Executive / Independent Director:

1. Remuneration / Commission:

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

2. Sitting Fees:

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

3. Stock Options:

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

Policy review

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

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

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

Corporate Governance Report

Philosophy on Corporate Governance

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

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

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

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

Board of Directors

The Board of Natco is a combination of 12 eminent personnel from varied fields having immense knowledge in their subjects of their interest. At Natco it is always believed that the Board plays a fiduciary role in protecting the interests of the stakeholders and at enhancing the shareholder value. The Board provides strategic guidance to the Company by exercising independent judgement.

(a) Meetings

Decision-making is vital for the success of any organisation. Natco believe that the Board Meetings are of high significance when it comes to decision making. There are several items of business which are to be particularly reviewed and approved by the Board which include the financial performance of the company, corporate actions undertaken by the Company, several policies etc. In addition to this the Board also analyses the affairs of the Company, opportunities for the growth of the Company, litigation status of the Company before

various Courts in India and abroad and such other matters as recommended by the management of your Company. All these decisions are taken by the Board with due care, caution and diligence.

(i) Dates of the Board Meetings

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

Quarter	Date of the Meeting held
April - June	22-05-2015
July - September	12-08-2015
	10-09-2015
October - December	13-11-2015
January - March	11-02-2016
	30-03-2016

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

(ii) Prior Intimation of Board Meeting

Prior to every Board Meeting of the Company which considers financial results intimation is given to both the stock exchanges (NSE and BSE) where your Company's shares are listed and the same is published in English language national daily newspaper circulating in the whole of India and in one daily newspaper published in Telugu mentioning the date of the meeting and the main items of business to be considered at that particular meeting.

(iii) Disclosure to Stock Exchanges after the Board Meeting

After the conclusion of the meeting the updates of the same are disclosed to both the stock exchanges on the same day of meeting. However, when the meeting is held to consider financial results of the Company, such results are uploaded in the online portal of the stock exchanges within 30 minutes from the conclusion of the meeting in compliance with the Listing Regulations.

(b) Composition

The Composition of the Board is made keeping in view the growth of the Industry and the Company as well as complying the statutory requirement under the Companies Act, 2013 ('Act') and the rules made thereunder and the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 ('Listing Regulations').

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

- 6 Independent Directors (including one woman Director),
- 5 Executive Directors
- 1 Non-Independent and Non-Executive Director

S I. No.	Name	Category	Number of meetings of the Board of Directors		Attendance at the last AGM Held on 26-09-2015	Relationship inter-se Directors	Directorships in other public companies
			Held	Attended			
1.	Mr. V. C. Nannapaneni	Promoter / Whole Time Director	6	5	Yes	Father of Mr. Rajeev Nannapaneni	3
2.	Mr. T. V. Rao	Independent Director	6	5	No	NA	6
3.	Mr. G. S. Murthy	Independent Director	6	5	Yes	NA	-
4.	Dr. B. S. Bajaj	Independent Director	6	6	Yes	NA	-
5.	Mr. Rajeev Nannapaneni	Executive Director	6	6	Yes	Son of Mr. V. C. Nannapaneni (CMD)	2
6.	Dr. A. K. S. Bhujanga Rao	Executive Director	6	6	No	NA	-
7.	Mr. Vivek Chhachhi	Non-Executive and Non-Independent Director	6	4	No	NA	3
8.	Mr. D. G. Prasad	Independent Director	6	5	No	NA	4
9.	Dr. Mrs. Leela Digumarti	Independent Director	6	3	No	NA	-
10.	Mr. P. S. R. K. Prasad	Executive Director	6	5	Yes	NA	1
11.	Dr. M. U. R. Naidu	Independent Director	6	3	Yes	NA	-
12.	Dr. D. Linga Rao	Executive Director	6	4	Yes	NA	-

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

(c) Independent Directors

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

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

(i) Meeting of Independent Directors

The Independent Directors of your company met on 11/02/2016 and considered those items of business as required under Schedule IV to the Act as well as the Listing Regulations. The Company Secretary of your company facilitated the convening and holding of the meeting of Independent Directors.

(ii) Familiarisation Programme for Independent Directors

The Company has organised Familiarisation Programmes for the Independent Directors of the Company on every board meeting date to familiarise them with the Company via a visit to their roles, rights, responsibilities in the Company, nature of the industry in which the Company operates, business

model of the Company etc. The details regarding the programme is available in the Company's website:

Weblink:<http://natcopharma.co.in/wp-content/uploads/2015/08/Familiarization-programme-for-ID.pdf>

(d) Board Evaluation

A formal annual evaluation has been made by the Board of its own performance and that of its Committees and individual Directors. The performance evaluation has been done by the entire Board of Directors, excluding the Director being evaluated. Various evaluation techniques are used to assess the performance of the Directors.

All the Directors have participated in this evaluation process. The Independent Directors in their separate meeting have also evaluated the performance of the Chairman of the Company and the Board as a whole.

(e) Attendance and Sitting Fees

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

Sl. No.	Name of the Director	Category	22-05-2015	12-08-2015	10-09-2015	13-11-2015	11-02-2016	30-03-2016	Total Sitting Fees paid ₹
1.	Mr. V. C. Nannapaneni	Promoter	Y	Y	Y	Y	Y	N	-
2.	Mr. T. V. Rao	Independent Director	Y	Y	N	Y	Y	Y	1,00,000
3.	Mr. G. S. Murthy	Independent Director	Y	Y	Y	Y	N	Y	1,00,000
4.	Dr. B. S. Bajaj	Independent Director	Y	Y	Y	Y	Y	Y	1,20,000
5.	Mr. Rajeev Nannapaneni	Executive Director	Y	Y	Y	Y	Y	Y	-
6.	Dr. A. K. S. Bhujanga Rao	Executive Director	Y	Y	Y	Y	Y	Y	-
7.	Mr. Vivek Chhachhi	Non-Executive and Non-Independent Director	Y	Y	N	Y	Y	N	.*
8.	Mr. D. G. Prasad	Independent Director	Y	Y	Y	N	Y	Y	1,00,000
9.	Dr. Mrs. Leela Digumarti	Independent Director	N	Y	N	Y	Y	N	60,000
10.	Mr. P. S. R. K. Prasad	Executive Director	Y	Y	Y	Y	N	Y	-
11.	Dr. M. U. R. Naidu	Executive Director	Y	N	Y	Y	N	N	60,000
12.	Dr. D. Linga Rao	Executive Director	Y	Y	Y	N	N	Y	-
TOTAL									5,40,000

Y Present

N Leave of Absence

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

** None of the Executive Directors are paid sitting fee.

Committees

(i) Committees of Board

In order to take decisions effectively and for better corporate governance the Board of your Company had constituted six committees viz. Audit Committee, Stakeholders Relationship Committee, Nomination and Remuneration Committee, Compensation Committee, Allotment Committee and Corporate Social Responsibility Committee. A separate Committee of Directors has been constituted by the Board for the specific purpose of Qualified Institutional Placement (QIP). The membership in committees is decided based on the traits of the Directors keeping in view the statutory requirement of composition of Directors in the committees. The Board of Directors in their meeting held on November 13, 2015 re-constituted all the Committees of the Company to bring

it in line with the Act and Listing Regulations. The brief description of terms of reference, composition, meetings and attendance during the financial year 2015-16 are provided below:

(a) Audit Committee

The Audit Committee of the Company comprises of 6 Directors of which four are Independent Directors (including the Chairman of the Committee), one non-Executive and non-Independent Director and one Executive Director (Chairman of the Board) majority of whom are financially literate and have accounting and related financial management expertise. The details regarding the dates of the meetings, attendance during the meeting and the sitting fee paid are shown in the table below:

Name of the Director	Category	22-05-2015	12-08-2015	13-11-2015	11-02-2016	30-03-2016	Total Sitting Fees paid ₹
Mr. G. S. Murthy (Chairman)	Independent Director	Y	Y	Y	N	Y	20,000
Dr. B. S. Bajaj	Independent Director	Y	Y	Y	Y	Y	25,000
Mr. T. V. Rao	Independent Director	Y	Y	Y	Y	Y	25,000
Mr. V. C. Nannapaneni	Promoter	Y	Y	Y	Y	N	--
Mr. Vivek Chhachhi	Non-Executive and non-Independent Director	Y	Y	Y	Y	N	--
Mr. D. G. Prasad	Independent Director	Y	Y	N	Y	Y	20,000
Total							90,000

Y Present

N Leave of Absence

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

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

Terms of Reference:

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

- Oversight of the listed entity's financial reporting process and the disclosure of its financial information to ensure that the financial statement is correct, sufficient and credible;
- Recommendation for appointment, remuneration and terms of appointment of auditors of the listed entity;
- Approval of payment to statutory auditors for any other services rendered by the statutory auditors;
- Reviewing, with the management, the annual financial statements and auditor's report thereon before submission to the board for approval, with particular reference to:
 - matters required to be included in the Director's responsibility statement to be included in the board's report in terms of clause (c) of sub-section (3) of Section 134 of the Companies Act, 2013;
 - changes, if any, in accounting policies and practices and reasons for the same;
 - major accounting entries involving estimates based on the exercise of judgment by management;

- significant adjustments made in the financial statements arising out of audit findings;
 - compliance with listing and other legal requirements relating to financial statements;
 - disclosure of any related party transactions;
 - modified opinion(s) in the draft audit report;
- Reviewing, with the management, the quarterly financial statements before submission to the board for approval;
 - Reviewing, with the management, the statement of uses / application of funds raised through an issue (public issue, rights issue, preferential issue, etc.), the statement of funds utilized for purposes other than those stated in the offer document / prospectus / notice and the report submitted by the monitoring agency monitoring the utilisation of proceeds of a public or rights issue, and making appropriate recommendations to the board to take up steps in this matter;
 - Reviewing and monitoring the auditor's independence and performance, and effectiveness of audit process;
 - Approval or any subsequent modification of transactions of the listed entity with related parties;
 - Scrutiny of inter-corporate loans and investments;

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

(b) Stakeholders' Relationship Committee

The Stakeholders' Relationship Committee of the Company comprises of 4 Directors of which two are Independent Directors (including the Chairman of the Committee) and two Executive Directors. The details regarding the dates of the meetings, attendance during the meeting and the sitting fee paid are depicted in the table below:

Table showing the attendance and sitting fee paid to members of Stakeholders' Relationship Committee

Name of the Director	Category	11-02-2016	Total Sitting Fees paid ₹
Mr. G.S.Murthy (Chairman)	Independent Director	N	Nil
Mr. V.C.Nannapaneni	Promoter	Y	-
Mr. Rajeev Nannapaneni	Executive Director	Y	-
Dr.M.U.R.Naidu	Independent Director	N	Nil
Total			Nil

Y Present

N Leave of Absence

Terms of reference:

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

(c) Nomination and Remuneration Committee

The Nomination and Remuneration Committee of the Company comprises of 4 Directors of which two are Independent Directors (including the Chairman of the Committee), one non-Executive and non-Independent Director and one Executive Director (Chairman of the Board). The details regarding the dates of the meetings, attendance during the meeting and the sitting fee paid are depicted in the table below:

Table showing the attendance and sitting fee paid to members of Nomination and Remuneration Committee

Name of the Director	Category	11-02-2016	Total Sitting Fees paid ₹
Mr. G. S. Murthy (Chairman)	Independent Director	Y	5,000
Dr. B. S. Bajaj	Independent Director	Y	5,000
Mr. Vivek Chhachhi	Non-Executive and non-Independent Director	Y	*-
Mr. V. C. Nannapaneni	Executive Director (Chairman of the Board)	Y	-
Total			10,000

Y Present

N Leave of Absence

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

Terms of reference:

1. Formulation of the criteria for determining qualifications, positive attributes and independence of a Director and recommend to the Board of Directors a policy relating to, the remuneration of the Directors, key managerial personnel and other employees;
2. Formulation of criteria for evaluation of performance of Independent Directors and the Board of Directors;
3. Devising a policy on diversity of Board of Directors;
4. Identifying persons who are qualified to become Directors and who may be appointed in senior management in accordance with the criteria laid down, and recommend to the Board of Directors their appointment and removal.

5. Whether to extend or continue the term of appointment of the Independent Director, on the basis of the report of performance evaluation of Independent Directors.

(d) Compensation Committee

The Compensation Committee of the Company comprises of 3 Directors of which two are Independent Directors and one Executive Director (Chairman of the Board). During the financial year 2015-16 the Compensation Committee recommended the Natco Employee Stock Option Scheme, 2015 (NATSOP 2015) to the Board which was subsequently approved by the members of the Company after which the Committee granted employee stock options to the eligible employees as per the NATSOP 2015. The details regarding the dates of the meetings, attendance during the meeting and the sitting fee paid are depicted in the table below:

Table showing the attendance and sitting fee paid to members of Compensation Committee

Name of the Director	Category	22-05-2015	12-08-2015	Total Sitting Fees paid ₹
Mr. G. S. Murthy	Independent Director	Y	Y	10,000
Dr. B. S. Bajaj	Independent Director	Y	Y	10,000
Mr. V. C. Nannapaneni	Executive Director	Y	Y	-
Total				20,000

Y Present

N Leave of Absence

Terms of Reference

1. To formulate the detailed terms and conditions for the administration and interpretation of any Employee Stock Option Plans of the Company and recommend the same to the Board.
2. To amend and rescind any rules and regulations relating to Employee Stock Option Plans in tune with recommendations / approvals / regulatory rules of SEBI or any other authority or otherwise and to make any other determinations that it deems fit or necessary or desirable for the administration and implementation of the Plan.

3. To grant options issued pursuant to the Employee Stock Option Plans to the employees of the Company.
4. To recommend closure of any scheme to the Board.
5. To frame suitable policies and procedures to ensure that there is no violation of securities laws, as amended from time to time, including Securities and Exchange Board of India (Prohibition of Insider Trading) Regulations, 1992 and Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices Relating to the Securities Market) Regulations, 2003 by the company and its employees.

(e) Allotment Committee

The Allotment Committee comprises of 4 Directors of which two are Independent Directors and the other two are Executive Directors. There was no Allotment Committee meeting held during the financial year 2015-16.

Terms of reference

1. To administer, control and implement the preferential issue of the Company.
2. To negotiate and finalise the terms of the said issue, including the amount, the conversion price, the rate of interest etc.
3. To Allot the bonds / shares consequent upon exercise of right of conversion to the applicants;

4. To File all necessary papers and documents with the Stock Exchanges in India and abroad as may be necessary or authorise any officer of the Company to file the same;
5. To appoint Legal advisors, Paying and Conversion Agents, Listing Agents, Registrars to the issue, Brokers to the issue, Process Agents, Bankers to the issue and any other intermediaries etc. required in connection with the said issue; and
6. To do all such things that are necessary and incidental thereto.

(f) Corporate Social Responsibility Committee

The Corporate Social Responsibility Committee of the Company comprises of 3 Directors of which one is an Independent Directors and two are Executive Directors.

Table showing the attendance and sitting fee paid to members of Corporate Social Responsibility Committee

Name of the Director	Category	13-11-2015	Total Sitting Fees paid ₹
Mr. G. S. Murthy	Independent Director	Y	5,000
Mr. V. C. Nannapaneni	Promoter	Y	-
Mr. Rajeev Nannapaneni	Executive Director	Y	-
Total			5,000

Y Present

N Leave of Absence

Terms of Reference

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

(g) Committee of Directors

The Board of Natco constituted a separate Committee of Directors for specifically dealing with Qualified Institutional Placement for the purpose of framing up, administer, control, finalise the terms and conditions for the issue and its opening and closing and allotment of shares to QIBs which comprised of 5 Directors of whom three are Independent Directors and two are Executive Directors.

Table showing the attendance and sitting fee paid to members of Committee of Directors

Name of the Director	Category	15-09-2015	18-09-2015	Total Sitting Fees paid ₹
Mr. G. S. Murthy	Independent Director	Y	Y	10,000
Mr. V. C. Nannapaneni	Promoter	Y	Y	-
Mr. Rajeev Nannapaneni	Executive Director	Y	N	--
Mr. D. G. Prasad	Independent Director	Y	Y	10,000
Dr. M. U. R. Naidu	Independent Director	N	Y	5,000
Total				25,000

Y Present

N Leave of Absence

(ii) Other Committees**(a) Share Transfer Committee**

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

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

During the Financial Year 218 instruments of transfer for 30960 equity shares and 9 instruments of transmission for 420 equity shares were received and the same were effected.

(b) Internal Complaints Committee

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

requirement in the Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013. During the Calendar Year 2015 there were no complaints received.

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

General Meetings**(a) Annual General Meetings**

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

Details of the AGMs

Financial Year	Date of the AGM	Venue	Time	Special Resolution(s) passed, if any
2014-15	26.09.2015	Daspalla Hotel, Road No.37, Jubilee Hills, Hyderabad - 500 033, India	10.30 a.m.	9
2013-14	27-09-2014	Daspalla Hotel, Road No.37, Jubilee Hills, Hyderabad - 500 033, India	10.30 a.m.	8
2012-13	28-09-2013	Daspalla Hotel, Road No.37, Jubilee Hills, Hyderabad - 500 033, India	10.30 a.m.	4

(b) Extraordinary General Meetings

Details of the EGM held during the year 2015-16

Financial Year	Date of the EGM	Venue	Time	Special Resolution(s) passed, if any
2014-15	27-06-2015	Daspalla Hotel, Road No.37, Jubilee Hills, Hyderabad - 500 033, India	10.30 a.m.	9

(c) Postal ballot

Your Company conducted postal ballot to take the approval of the members for the Scheme of Amalgamation of Natco Organics Limited (NOL) (a wholly owned subsidiary of the Company) with the Company. The procedure followed for postal ballot is as prescribed under the Act read with Companies (Management and Administration) Rules, 2014. The details of the postal ballot are as below:

Resolution passed	Approval of Scheme of Amalgamation of NOL (a wholly owned subsidiary of the Company) with the Company
Details of voting pattern	Total valid votes cast (both through physical ballot and e-voting): 6934514 In favour: 6933237 Against: 1277
Person who conducted the postal ballot exercise	Mrs. Bindhu Kilari, Practising Company Secretary (ACS No. 29174; CP No. 10643)

The Postal Ballot notice, Scrutinizer report and voting results are also available on the Company's website (www.natcopharma.co.in).

Remuneration of Directors**Executive Directors**

The remuneration of Executive Directors of the Company is fixed based on the remuneration policy of the Company which is as below:

Sl. No.	Name	Designation	Total amount (₹ per annum)
1.	Mr. V. C. Nannapaneni	Chairman & Managing Director	1,78,32,000
2.	Mr. Rajeev Nannapaneni	Vice Chairman & CEO	1,55,82,000
3.	Dr. A.K.S. Bhujanga Rao	President (R&D and Technical)	1,09,99,992
4.	Mr. P.S.R.K. Prasad	Director & Executive Vice President (Corp. Engg. Services)	1,09,99,992
5.	Dr. D. Linga Rao	Director & President (Tech. Affairs)	1,09,99,992

Non-Executive Directors

A sitting fee of ₹ 20,000/- (Rupees twenty thousand only) is paid for attending the Board Meeting and ₹ 5,000/- (Rupees five thousand only) is paid for attending Committee Meeting in addition to reimbursement of out of pocket expenses. The amount is paid within the ceiling limits under Companies Act, 2013 and the Article of Association of the Company. The details of the sitting fees paid to Non-Executive Directors for each meeting is already disclosed. Total sitting fee paid for the year 2015-2016 is given below:

Sl. No.	Name	Position	Total ₹
1.	Mr. G.S.Murthy	Independent Director	1,50,000
2.	Dr.B.S.Bajaj	Independent Director	1,60,000
3.	Mr. T.V.Rao	Independent Director	1,25,000
4.	Mr. D.G.Prasad	Independent Director	1,30,000
5.	Dr. Mrs. Leela Digumarti	Independent Director	60,000
6.	Dr. M.U.R.Naidu	Independent Director	65,000
TOTAL			6,90,000

Prevention of insider Trading

Your company has in place Code of Internal Procedures and Conduct to Regulate, Monitor and Report Trading by insiders in the Securities of the Company ('The Code') which is in adherence to the SEBI (Prohibition of Insider Trading) Regulations, 2015. The disclosures received pursuant to this code and the regulations are disseminated to the Stock Exchanges within two days from the receipt of such disclosures. The Code is available in the Company's website at the following link:

<http://natcopharma.co.in/wp-content/uploads/2015/07/Code-of-Conduct-PIT-2015-Natco.pdf>

Compliances

Quarterly Reconciliation of Share Capital Audit Report

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

Compliance report on corporate governance

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

Secretarial Standards

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

Legal compliance

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

Whistle Blower Policy

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

Environmental Policy

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

Non-Mandatory Requirements

- Separate posts of chairperson and chief executive officer

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

Related Party Transactions

All related party transactions with related parties during the financial year 2015-26 were done in accordance with the

provisions of the Companies Act, 2013 and Regulation 23 of the Listing Regulations. No materially significant transactions with related parties were entered during the financial year which was in conflict with the interest of the Company. None of the non-Executive Director have any pecuniary material relationship or material transactions with the Company for the year ended 31 March, 2016. The Company had formulated a Related Party Transactions Policy which is available on the Company's Website.

Web link:

<http://natcopharma.co.in/wp-content/uploads/2015/03/RPT-Policy.pdf>

Share Capital

(a) Qualified Institutional Placement

Your Company had issued 16,00,000 equity shares of ₹ 10/- each (before split) at a price of ₹ 2130.55 per Equity Share (including share premium of ₹ 2120.55 per Equity Share) aggregating to ₹ 3408.88 Million through Qualified Institutional Placement ('QIP'). All the conditions prescribed under Chapter VIII of the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009, as amended, and Section 42 of the Companies Act, 2013 read with Rule 14 of the Companies (Prospectus and Allotment of Securities) Rules, 2014 have been complied with.

Details regarding the QIP Issue is given below:

Date	Particulars
10.09.2015	Opening of QIP Issue
15.09.2015	Closing of QIP Issue
18.09.2015	Allotment of shares under QIP Issue

(b) Natco Employee Stock Option Scheme 2015 (NATSOP 2015)

Based on the recommendation of the Compensation Committee the Board and members of the Company approved the Natco Employee Stock Option Scheme 2015 (NATSOP 2015) pursuant to which the Compensation Committee granted 1,50,000 options of ₹ 10 each (now 7,50,000 options of ₹ 2 each) to the eligible employees of the Company as per the NATSOP 2015 at their meeting held on 12.08.2015. The said options are given to the employees as per the vesting schedule approved by the Committee. Your company had received in-principle approval from both the stock exchanges (NSE and BSE) to list the shares issued pursuant to exercise of options under NATSOP 2015. During the financial year no optioned were vested.

Corporate Actions

(a) Share Split

The Board of Natco recommended to split the shares of your company from the face value of ₹ 10/- (Rupees ten) each to ₹ 2/- (Rupees two) each which was approved by the members of the Company at the Annual General

meeting held on 26.09.2015. The following are the chronological events with regard to the share-split:

Date	Particulars
12.08.2015	Board Approval for share-split
26.09.2015	Members approval for share-split in the AGM
13.11.2015	Board fixed the record date for share-split
28.11.2015	Record Date for share-split

(b) Amalgamation of NOL into the Company

The following are the chronological events with regard to Amalgamation of Natco Organics Limited (a wholly owned subsidiary of the Company) into the Company:

Date	Particulars
22.05.2015	Board Approval for Scheme of Amalgamation
27.06.2015	Members approval in their Extraordinary General Meeting
20.08.2015 and 21.08.2015	Observation Letters received from NSE and BSE respectively
10.09.2015	Postal Ballot Notice
28.11.2015	Approval from Public Shareholders through Postal ballot and E-voting
28.04.2016	Order passed by the Hon'ble High Court of Judicature at Madras approving the Scheme with effect from 01.04.2015

Means of Communication

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

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

Details of publishing of quarterly financial results

Quarter ended	Name of the English Daily	Name of the Regional Daily	Date of publication
30 June, 2015	The Financial Express	Nava Telangana	14-08-2015
30 September, 2015	Business Standard Financial Express	Namaste telangana	14-11-2015
31 December, 2015	Economic Times Business Line	Vaaritha Nava Telangana	12-02-2016
31 March, 2016	Hans India Business Line Economic Times	Namaste Telangana Nava Telangana	27-05-2016 27-05-2016

General Shareholder Information

(a) Details regarding Annual General Meeting for 2015-16

Date	30 September, 2016
Time	10.00 a.m.
Venue	Daspalla Hotel, Road No. 37, Jubilee Hills, Hyderabad - 500033, India
Book Closure Dates	26-09-2016 to 30-09-2016 (both days inclusive)

(b) Financial Year

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

(c) Listing on Stock Exchanges

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

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

The Company confirms that it has duly paid the annual listing fee for the year 2015-16 to the above mentioned Stock Exchanges and the custodial fee for the year 2015-16 to both the Depositories, namely National Securities Depository Limited (NSDL) and the Central Depository Services (India) Limited (CDSL).

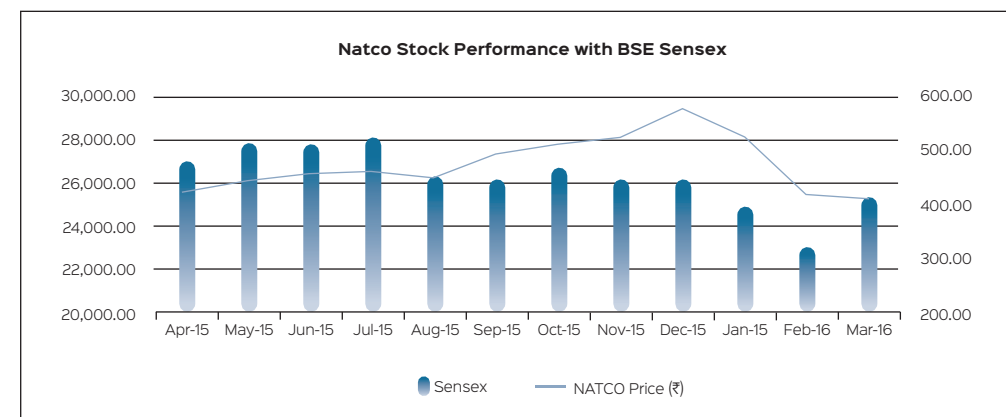
(d) Market Price Data

The market price data (high and low closing prices during each month) for the financial year 2015-16 is as below: (₹)

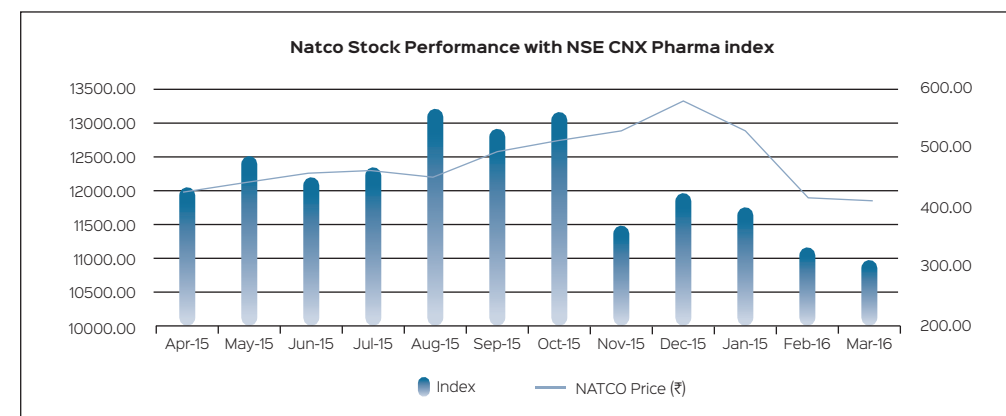
Month	High Price (NSE)	Low Price (NSE)	High Price (BSE)	Low Price (BSE)
Apr-15	523.95	370.13	541.80	365.80
May-15	483.30	398.33	505.57	385.40
Jun-15	456.69	400.65	458.00	397.00
Jul-15	487.83	447.20	493.60	445.63
Aug-15	497.82	405.36	504.00	382.20
Sep-15	494.30	434.43	504.00	412.00
Oct-15	522.52	488.24	538.40	476.40
Nov-15	546.90	491.16	528.80	510.45
Dec-15	579.30	498.80	585.00	490.75
Jan-16	614.75	500.75	623.60	458.05
Feb-16	523.45	415.95	540.00	399.00
Mar-16	505.20	393.10	512.70	390.00

(e) Performance in comparison to broad-based indices

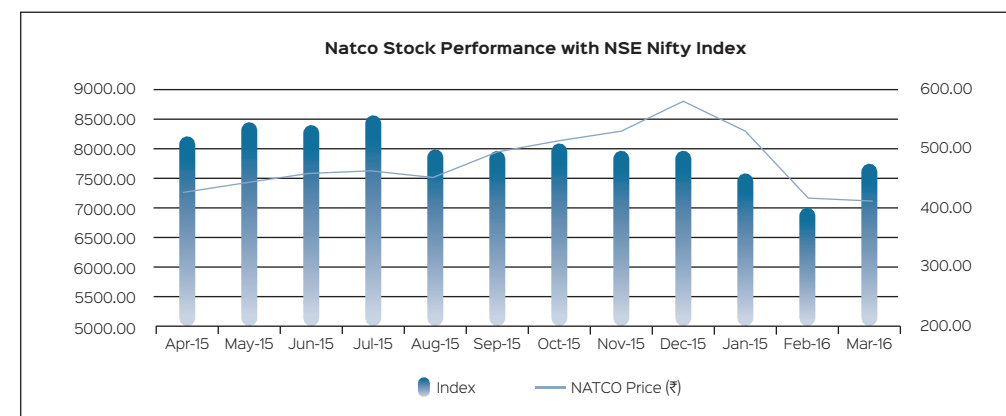
(i) Compared to BSE Sensex



(ii) Compared to NSE CNX Pharma Index



(iii) Compared to NSE Nifty Index



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

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

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

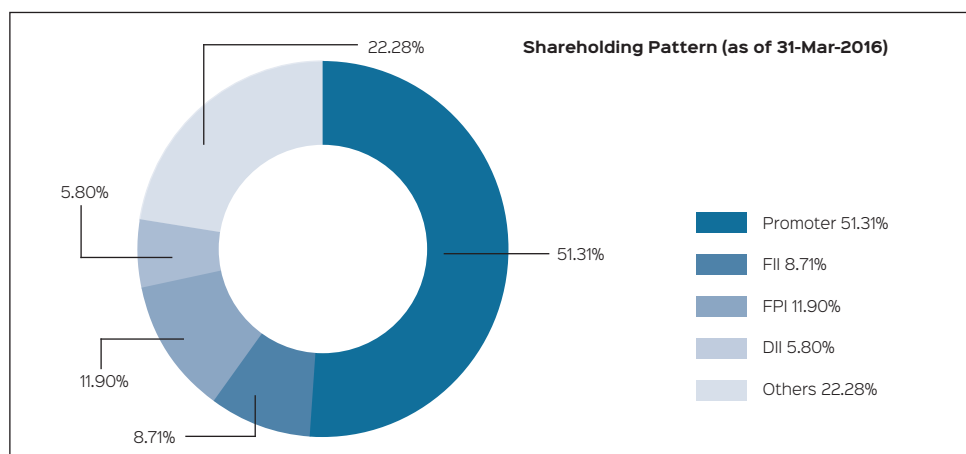
Tel Nos.040 23818475 & 23818476

Fax No.040 23868024

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

email: info@vccilindia.com

(g) Shareholding Pattern



(i) Distribution of Shareholding

Nominal Value	Holders		Amount	
	Number	% To Total	In ₹	% To Total
Upto - 5000	42348	96.2	19975150	5.73
5001 - 10000	731	1.66	5892616	1.69
10001 - 20000	375	0.85	5640908	1.62
20001 - 30000	123	0.28	3099996	0.89
30001 - 40000	79	0.18	2826034	0.81
40001 - 50000	59	0.13	2705176	0.78
50001 - 100000	120	0.27	8768288	2.52
100001 and above	188	0.43	299440322	85.96
Total	44023	100	348348490	100.00

(j) Unclaimed Shares

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

Particulars	No of Shareholders	No of Shares
Aggregate number of Shareholder and outstanding shares held in the Unclaimed Suspense Account as on 01 April, 2015	4216	461600
Number of Shareholders / legal heirs to whom the shares were transferred from the unclaimed suspense Account upon receipt of and verification of necessary documents during the year	649	20800
Aggregate number of shareholders and outstanding shares held in the Unclaimed Suspense Account as on 31 March, 2016	3567	440800

(k) Plant Locations

Pharma Division Kothur Post & Mandal, Mahbubnagar Dist. - 509 228 Telangana, India	Pharma Division - Parenteral Vijayapuri North, Nagarjunasagar, Nalgonda Dist.- 508 202 Telangana, India
Chemical Division Mekaguda, Kothur Mandal Mahbubnagar Dist. - 509 228 Telangana, India	R & D Division B-13, Industrial Estate, Sanathnagar, Hyderabad - 500 018 Telangana., India
Formulations Division Plot No.19, Pharma City Selaqui Industrial Area Vikas Nagar, Dehradun - 248 197 Uttarakhand, India	Formulations Division Plot No.A3, UPSIDC, Selaqui Industrial Area Dehradun - 248 197 Uttarakhand, India
Chemical Division, Chennai No.74/7B, Vaikkadu TPP Salai Manali Chennai - 600 013 Tamilnadu, India	Pharma Division DAG No.740, 750 Kokjhar Village, Revenue Circle - Mirza, Kamrup Guwahati Dist. - 781 122 Assam, India
Under construction, Formulation Division UNIT-10, Parwada, JNPC SEZ, RAMKY Visakapatnam - 531 019 Andhra Pradesh, India	

(l) Compliance Officer

CS M. Adinarayana (FCS 3808)

Company Secretary &

Vice President (Legal & Corp. Affairs)

Email: man@natcopharma.co.in

(m) Address for correspondence

Registered Office:

NATCO House,

Road No. 2, Banjara Hills,

Hyderabad - 500034, Telangana, India

Tel. No.: 040-23547532

Fax No.: 040-23548243

Email: investors@natcopharma.co.in / dasaradhi@natcopharma.co.in

Website: www.natcopharma.co.in

Code of Conduct

To
The Members of
NATCO Pharma Limited

As required under SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, I hereby confirm that the Company has adopted a code of conduct for all Board Members and Senior Management and the same has been placed on the Company's Website. All Board Members and Senior Management personnel have affirmed compliance with the Code of Conduct in respect of the Financial Year ended 31 March, 2016.

For NATCO Pharma Limited

Place: Hyderabad
Date : 09 August 2016

V C Nannapaneni
Chairman & Managing Director

CEO / CFO Certification to the Board

(as per 17(8) of Listing Obligations and Disclosure Requirements)

- A. We have reviewed financial statements and the cash flow statement for the year and that to the best of our knowledge and belief:
- (1) these statements do not contain any materially untrue statement or omit any material fact or contain statements that might be misleading;
 - (2) these statements together present a true and fair view of the Company's affairs and are in compliance with existing accounting standards, applicable laws and regulations.
- B. There are, to the best of our knowledge and belief, no transactions entered into by the Company during the year which are fraudulent, illegal or violate the Company's code of conduct.
- C. We accept responsibility for establishing and maintaining internal controls for financial reporting and that we have evaluated the effectiveness of internal control systems of the Company pertaining to financial reporting and we have disclosed to the auditors and the audit committee, deficiencies in the design or operation of such internal controls, if any, of which we are aware and the steps we have taken or propose to take to rectify these deficiencies.
- D. We have indicated to the auditors and the Audit committee
- (1) significant changes in internal control over financial reporting during the year;
 - (2) significant changes in accounting policies during the year and that the same have been disclosed in the notes to the financial statements; and
 - (3) instances of significant fraud of which we have become aware and the involvement therein, if any, of the management or an employee having a significant role in the Company's internal control system over financial reporting

Place: Hyderabad
Date: 09 August 2016

Rajeev Nannapaneni
Vice Chairman & CEO

S V V N Appa Rao
CFO

Certificate of Compliance

To
The Members of
NATCO Pharma Limited

I have examined the compliance of conditions of Corporate Governance by M/s. NATCO Pharma Limited, for the year ended on 31 March, 2016 as stipulated in Clause 49 of the Listing Agreement for the period 01 April, 2016 to November 30, 2015 and as per the relevant provisions of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 as referred to in Regulation 15(2) of the Listing Regulations for the period December 01, 2015 to 31 March, 2016.

The Compliance of conditions of Corporate Governance is the responsibility of the management. My Examination has been limited to review of the procedure and implementation thereof adopted by the Company for ensuring compliance with the conditions of 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, I certify that the Company has complied with conditions of Corporate Governance as stipulated in the above mentioned Listing Agreement and Listing Regulations, as applicable.

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

Place: Hyderabad
Date : 09 August 2016

P Renuka
Company Secretary in Practice
C P No.3460



Financial Statements

Independent Auditor's Report

To the Members
of NATCO Pharma Limited

Report on the Standalone Financial Statements

1. We have audited the accompanying standalone financial statements of NATCO Pharma Limited, ("the Company"), which comprise the Balance Sheet as at 31 March 2016, the Statement of Profit and Loss and the Cash Flow Statement for the year then ended, and a summary of the significant accounting policies and other explanatory information.

Management's Responsibility for the Standalone Financial Statements

2. The Company's Board of Directors is responsible for the matters stated in Section 134(5) of the Companies Act, 2013 ("the Act") with respect to the preparation of these standalone financial statements, that give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with the accounting principles generally accepted in India, including the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014 (as amended). This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act; safeguarding the assets of the Company; preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

3. Our responsibility is to express an opinion on these standalone financial statements based on our audit.
4. We have taken into account the provisions of the Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of the Act and the Rules made thereunder.
5. We conducted our audit in accordance with the Standards on Auditing specified under Section 143(10) of the Act. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the standalone financial statements are free from material misstatement.

6. An audit involves performing procedures to obtain audit evidence about the amounts and the disclosures in the financial statements. The procedures selected depend on the auditor's 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 financial controls relevant to the Company's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by the Company's Directors, as well as evaluating the overall presentation of the financial statements.
7. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the standalone financial statements.

Opinion

8. In our opinion and to the best of our information and according to the explanations given to us, the aforesaid standalone financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the state of affairs of the Company as at 31 March 2016, its profit and its cash flows for the year ended on that date.

Report on Other Legal and Regulatory Requirements

9. As required by the Companies (Auditor's Report) Order, 2016 ("the Order") issued by the Central Government of India in terms of Section 143(11) of the Act, we give in the Annexure I a statement on the matters specified in paragraphs 3 and 4 of the Order.
10. As required by Section 143(3) of the Act, we report that:
 - a. we have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
 - b. in our opinion, proper books of account as required by law have been kept by the Company so far as it appears from our examination of those books;
 - c. the standalone financial statements dealt with by this report are in agreement with the books of account;

Annexure I 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 2016

To the Members
of NATCO Pharma Limited

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

- (i) (a) The Company has maintained proper records showing full particulars, including quantitative details and situation of fixed assets.
- (b) The Company has a regular program of physical verification of its fixed assets under which fixed assets are verified in a phased manner over a period of 3 years, which, in our opinion, is reasonable having regard to the size of the Company and the nature of its assets. No material discrepancies were noticed on such verification.
- (c) The title deeds of all the immovable properties are held in the name of the Company.
- (ii) The management has conducted physical verification of inventory at reasonable intervals during the year and no material discrepancies between physical inventory and book records were noticed on physical verification.
- (iii) The Company has not granted any loan, secured or unsecured to companies, firms, Limited Liability Partnerships (LLPs) or other parties covered in the register maintained under Section 189 of the Act. Accordingly, the provisions of clauses 3(iii)(a), 3(iii)(b) and 3(iii)(c) of the Order are not applicable.
- (iv) In our opinion, the Company has complied with the provisions of Sections 185 and 186 of the Act in respect of loans, investments, guarantees, and security.

- (v) The Company has not accepted any deposits within the meaning of Sections 73 to 76 of the Act and the Companies (Acceptance of Deposits) Rules, 2014 (as amended). Accordingly, the provisions of clause 3(v) of the Order are not applicable.
- (vi) We have broadly reviewed the books of account maintained by the Company pursuant to the Rules made by the Central Government for the maintenance of cost records under sub-section (f) of Section 148 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.
- (vii) (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, value added tax, 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	FY: 1997-98	Honorable High Court of Andhra Pradesh
The Customs Act, 1962	Customs duty	2,000,000	-	July 2006 to June 2010	CESTAT
The Finance Act, 1994	Service tax	1,749,256	1,068,319	FY: 2011-12	CESTAT

- d. in our opinion, the aforesaid standalone financial statements comply with the Accounting Standards specified under Section 133 of the Act and read with Rule 7 of the Companies (Accounts) Rules, 2014 (as amended);
- e. on the basis of the written representations received from the directors as on 31 March 2016 and taken on record by the Board of Directors, none of the directors is disqualified as on 31 March 2016 from being appointed as a director in terms of Section 164(2) of the Act.;
- f. we have also audited the internal financial controls over financial reporting of the Company as of 31 March 2016 in conjunction with our audit of the standalone financial statements of the Company for the year ended on that date and our report dated 26 May 2016 as per Annexure II expressed an unqualified opinion; and
- g. with respect to the other matters to be included in the Auditor's report in accordance with Rule 11 of the Companies (Audit and Auditors) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us:
 - i. as detailed in Note 33(b) to the standalone financial statements, the Company has disclosed the impact of pending litigations on its standalone financial position;
 - ii. the Company did not have any long-term contracts including derivative contracts for which there were any material foreseeable losses; and
 - iii. there were no amounts which were required to be transferred to the Investor Education and Protection Fund by the Company.

For **Walker Chandiok & Co LLP**
Chartered Accountants
Firm Registration No. : 001076NN500013

per **Sanjay Kumar Jain**
Partner

Membership No. : 207660
Place: Hyderabad
Date : 26 May 2016

- (viii) The Company has no loans or borrowings payable to government and no dues payable to debenture-holders. In our opinion, the Company has not defaulted in repayment of loans/borrowings to any financial institution or banks during the year.
- (ix) The Company did not raise moneys by way of initial public offer or further public offer (including debt instruments) and term loans during the year. Accordingly, the provisions of clause 3(ix) of the Order are not applicable.
- (x) No fraud by the Company or on the company by its officers or employees has been noticed or reported during the period covered by our audit.
- (xi) In our opinion, managerial remuneration has been paid and provided in accordance with the requisite approvals mandated by the provisions of Section 197 read with Schedule V to the Act.
- (xii) In our opinion, the Company is not a Nidhi Company. Accordingly, clause 3(xii) of the Order is not applicable.
- (xiii) In our opinion all transactions with the related parties are in compliance with Sections 177 and 188 of the Act, where applicable, and the requisite details have been disclosed in the financial statements, as required by the applicable accounting standards

(xiv) During the year, the Company has made private placement of shares. In respect of the same, in our opinion, the Company has complied with the requirement of Section 42 of the Act and the Rules framed thereunder. Further in our opinion, the amounts so raised were applied for the purposes for which these securities were issued, though idle funds which were not required for immediate utilization have been invested in liquid investments.

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

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

For **Walker Chandiok & Co LLP**
Chartered Accountants
Firm Registration No.: 001076NN500013

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

Place: Hyderabad
Date : 26 May 2016

Annexure II to the Independent Auditor's Report of even date to the members of NATCO Pharma Limited, on the standalone financial statements for the year ended 31 March 2016.

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

1. In conjunction with our audit of the standalone financial statements of NATCO Pharma Limited ("the Company") as of and for the year ended 31 March 2016, we have audited the internal financial controls over financial reporting (IFCoFR) of the Company of as of that date.

Management's Responsibility for Internal Financial Controls

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

Auditor's Responsibility

3. Our responsibility is to express an opinion on the Company's IFCoFR based on our audit. We conducted our audit in accordance with the Standards on Auditing, issued by the Institute of Chartered Accountants of India (ICAI) and deemed to be prescribed under section 143(10) of the Act, to the extent applicable to an audit of IFCoFR, and the Guidance Note. Those Standards and the Guidance Note require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether adequate IFCoFR were established and maintained and if such controls operated effectively in all material respects.
4. Our audit involves performing procedures to obtain audit evidence about the adequacy of the IFCoFR and their operating effectiveness. Our audit of IFCoFR included obtaining an understanding of IFCoFR, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.
5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the Company's IFCoFR.

Meaning of Internal Financial Controls over Financial Reporting

6. A company's IFCoFR is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's IFCoFR includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles; and that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Inherent Limitations of Internal Financial Controls over Financial Reporting

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

Opinion

8. In our opinion, the Company has, in all material respects, adequate internal financial controls over financial reporting and such internal financial controls over financial reporting were operating effectively as at 31 March 2016, based on the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note.

For **Walker Chandiok & Co LLP**
Chartered Accountants
Firm's Registration No.: 001076NN500013

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

Place: Hyderabad
Date: 26 May 2016

Balance Sheet As at 31 March 2016

(All amounts in ₹ unless otherwise stated)

	Note	As at 31 March 2016	As at 31 March 2015
Equity and liabilities			
Shareholders' funds			
Share capital	4	348,348,490	332,348,490
Reserves and surplus	5	13,005,736,461	8,457,572,394
		13,354,084,951	8,789,920,884
Non-current liabilities			
Long-term borrowings	6	-	962,820,583
Deferred tax liabilities (net)	7	144,154,149	112,904,754
Other long-term liabilities	8	7,710,412	7,710,412
Long-term provisions	9	124,709,498	91,885,805
		276,574,059	1,175,321,554
Current liabilities			
Short-term borrowings	10	960,286,234	1,685,435,777
Trade payables	34		
- Due to micro and small enterprises		25,554,013	14,966,656
- Due to others		2,675,117,681	1,138,427,368
Other current liabilities	11	1,108,112,756	1,133,188,070
Short-term provisions	12	14,534,926	11,106,085
		4,783,605,610	3,983,123,956
Total		18,414,264,620	13,948,366,394
Assets			
Non-current assets			
Fixed assets			
Tangible assets	13	7,003,479,077	5,680,248,888
Intangible assets	14	52,500,116	47,101,893
Capital work-in-progress		2,118,050,118	1,007,737,038
Non-current investments	15	716,682,190	1,311,497,150
Long-term loans and advances	16	618,079,224	1,424,735,918
Other non-current assets	17	42,239,896	35,206,523
		10,551,030,621	9,506,527,410
Current assets			
Current investments	18	209,641,979	1,182,970
Inventories	19	3,519,135,593	1,983,467,727
Trade receivables	20	2,558,445,475	1,889,575,106
Cash and bank balances	21	401,688,258	71,882,537
Short-term loans and advances	16	1,024,144,809	476,623,528
Other current assets	22	150,177,885	19,107,116
		7,863,233,999	4,441,838,984
Total		18,414,264,620	13,948,366,394
Notes 1 to 47 form an integral part of these standalone financial statements.			

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

For **Walker Chandio & Co LLP**
Chartered Accountants

per **Sanjay Kumar Jain**
Partner

Place: Hyderabad
Date : 26 May 2016

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

V C Nannapaneni
Chairman & Managing Director
DIN: 00183315

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

Place: Hyderabad
Date : 26 May 2016

Rajeev Nannapaneni
Vice Chairman & CEO
DIN: 00183872

SVVN Appa Rao
Chief Financial Officer

Statement of Profit and Loss for the year ended 31 March 2016

(All amounts in ₹ unless otherwise stated)

	Note	For the year ended 31 March 2016	For the year ended 31 March 2015
Revenue			
Revenue from operations (gross)	23	10,592,395,664	7,269,801,951
Less: Excise duty		378,173,053	114,295,510
Revenue from operations (net)		10,214,222,611	7,155,506,441
Other income	24	140,699,868	135,665,686
Total revenue		10,354,922,479	7,291,172,127
Expenses			
Cost of materials consumed (including packing material)	25	3,036,717,853	1,785,811,493
Purchases of stock-in-trade		4,176,634	8,750,700
Changes in inventory of finished goods, work-in-progress and traded goods	26	(478,024,416)	(87,597,155)
Employee benefits expense	27	1,690,529,310	1,161,888,643
Finance costs	28	219,376,021	301,319,073
Depreciation and amortisation charge	13 and 14	501,569,938	424,639,089
Other expenses	29	3,185,875,090	2,000,996,677
Total expenses		8,160,220,430	5,595,808,520
Profit before exceptional items and tax		2,194,702,049	1,695,363,607
Exceptional item	30	-	151,274,688
Profit before tax		2,194,702,049	1,544,088,919
Tax expense			
Current tax		447,952,519	325,200,000
Deferred tax expense/(benefit)	7 (a)	2,121,320	(310,366,437)
Profit for the year		1,744,628,210	1,529,255,356
Earnings per equity share [EPES]			
Basic	42	10.24	9.23
Diluted		10.20	9.23
Nominal value per equity share		2	2
Notes 1 to 47 form an integral part of these standalone financial statements.			

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

For **Walker Chandio & Co LLP**
Chartered Accountants

per **Sanjay Kumar Jain**
Partner

Place: Hyderabad
Date : 26 May 2016

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

V C Nannapaneni
Chairman & Managing Director
DIN: 00183315

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

Place: Hyderabad
Date : 26 May 2016

Rajeev Nannapaneni
Vice Chairman & CEO
DIN: 00183872

SVVN Appa Rao
Chief Financial Officer

Cash Flow Statement for the year ended 31 March 2016

(All amounts in ₹ unless otherwise stated)

	For the year ended 31 March 2016	For the year ended 31 March 2015
Cash flows from operating activities		
Profit before tax	2,194,702,049	1,544,088,919
Adjustments :		
Depreciation and amortisation expense	501,569,938	424,639,089
Net gain on sale of current investments	(11,352,311)	(23,631,749)
Inventory written-off	10,280,417	7,024,358
Provision for employee benefits	33,162,163	(7,437,074)
Bad debts written off	95,984,276	-
Provision for doubtful debt	-	7,273,264
Employee stock compensation expense	96,860,194	-
Provision no longer required, written back	-	(37,195,454)
Interest income	(52,760,866)	(6,543,393)
Dividend income	(38,534,707)	(3,660)
Interest expense	202,583,446	287,482,841
Insurance claim - loss of profits	(25,000,000)	-
(Gain)/ loss on sale of asset	2,075,903	(6,580,947)
Unrealised foreign exchange loss(gain), net	(2,759,456)	(17,759,765)
Operating profit before working capital changes	3,006,811,046	2,171,356,429
Increase /(decrease) in other current liabilities	98,855,254	106,563,873
Increase in trade payables	1,507,144,593	198,779,623
Increase in long-term liabilities	-	800,001
Increase in inventories	(1,439,300,383)	(370,835,666)
Increase in trade receivables	(759,592,941)	(720,621,939)
Decrease in long-term loans and advances	30,442,925	93,322,029
Increase in short-term loans and advances	(161,921,807)	(39,044,302)
(Increase)/decrease in other current assets	(50,248,533)	6,114,447
Cash generated from operating activities	2,232,190,154	1,446,434,495
Income taxes paid	(447,952,519)	(200,910,595)
Net cash generated from operating activities A	1,784,237,635	1,245,523,900
Cash flows from investing activities		
Purchase of tangible assets	(1,533,694,592)	(1,071,096,420)
Purchase of intangible assets	(18,137,470)	(3,039,437)
Proceeds from sale of tangible assets	10,991,659	17,356,896
Investment in subsidiary companies	(217,124,490)	(231,555,793)
Proceeds from sale of non-current investments	26,352,311	-
Acquisition of current investments	(208,459,009)	25,628,313
Interest received	18,288,268	4,828,872
Loans given to subsidiary companies	-	(219,426,174)
Dividends received	38,534,707	3,660
Deposits with financial institutions	(400,000,000)	-
Increase in other bank balances	(209,125,627)	(2,192,437)
Net cash used in investing activities B	(2,492,374,242)	(1,479,492,520)

Cash Flow Statement for the year ended 31 March 2016

(All amounts in ₹ unless otherwise stated)

	For the year ended 31 March 2016	For the year ended 31 March 2015
Cash flows from financing activities		
Proceeds from issue of share capital, net of share issue expenses	3,344,446,432	-
Proceeds from long-term borrowings	-	449,976,150
Repayment of long-term borrowings	(1,304,157,292)	(432,184,671)
(Repayments) / proceeds from short-term borrowings, net	(725,149,543)	699,123,308
Interest paid	(228,606,862)	(289,563,339)
Dividends paid (including tax on distributed profits)	(260,692,319)	(199,329,249)
Net cash from financing activities C	825,840,416	228,022,199
Net increase/(decrease) in cash and cash equivalents (A+B+C)	117,703,809	(5,946,421)
Pursuant to the scheme of amalgamation (refer note 43)	11,754,202	-
Cash and cash equivalents as at the beginning of the year	62,693,526	68,639,947
Cash and cash equivalents as at the end of the year [Refer Note 1]	192,151,537	62,693,526
Note 1:		
Cash and bank balances as per Note: 21	401,688,258	71,882,537
Less: Other bank balances	209,536,721	9,189,011
Total Cash and cash equivalents	192,151,537	62,693,526

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

For **Walker Chandio & Co LLP**
Chartered Accountants

per **Sanjay Kumar Jain**
Partner

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

V C Nannapaneni
Chairman & Managing Director
DIN: 00183315

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

Rajeev Nannapaneni
Vice Chairman & CEO
DIN: 00183872

SVVN Appa Rao
Chief Financial Officer

Place: Hyderabad
Date : 26 May 2016

Place: Hyderabad
Date : 26 May 2016

Notes to the Financial Statements

Summary of significant accounting policies and other explanatory information
(All amounts in ₹ unless otherwise stated)

1. Company overview

NATCO Pharma Limited ("the Company") a Company incorporated in accordance with the provisions of Companies Act, 1956 and is listed with the Bombay Stock Exchange and National Stock Exchange. The Company is primarily engaged in manufacturing and selling of bulk drugs and finished dosage formulations and caters to both domestic and international markets.

2. Significant accounting policies

a. Basis of preparation of standalone financial statements

The standalone financial statements are prepared under historical cost convention in accordance with the generally accepted accounting principles in India ("Indian GAAP"), including the Accounting Standards specified under Section 133 of the Companies Act, 2013 (the "Act") read with Rule 7 of the Companies (Accounts) Rules, 2014 (as amended), and pronouncements of The Institute of Chartered Accountants of India ('ICAI'). The standalone financial statements have been prepared on an accrual basis of accounting policies which are consistent with those used in the prior period except for the accounting policy with regards to the measurement of compensation cost in respect of employee stock options granted.

Pursuant to the enactment of the Act, effective 1 April 2014 the Company has adopted Schedule III of the Act, for preparation and presentation of the standalone financial statements. In relation to the Company, the adoption of Schedule III neither impact recognition and measurement principles followed in preparation nor presentation and disclosures made in the standalone financial statements.

All assets and liabilities have been classified as current or non-current as per the Company's normal operating cycle and other criteria set out in the Schedule III to the Act. Based on the nature of business, the Company has ascertained its operating cycle as up to twelve months for the purpose of current and non-current classification of assets and liabilities.

b. Use of estimates

The preparation of the standalone financial statements in conformity with Indian 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 standalone financial statements and reported amounts of income and expenses during the period. Examples of such estimates include provisions for trade receivables, doubtful loans and advances, future obligations under employee retirement benefit plans, income taxes, diminution in the value of investments, classification of assets and liabilities into current and non-current and the useful lives of fixed assets.

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

c. Tangible fixed assets

Fixed assets are stated at cost less accumulated depreciation, amortization 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. 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.

e. Depreciation

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

Depreciation on sale/deduction from fixed assets is provided for up to the date of sale/deduction as the case may be.

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/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. In assessing value in use, the estimated future cash flows are discounted to their present value at the weighted average cost of capital.

h. Investments

Investments that are readily realizable and intended to be held for not more than a year and current maturities

Notes to the Financial Statements

Summary of significant accounting policies and other explanatory information
(All amounts in ₹ unless otherwise stated)

of long-term investments 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. Revenue recognition

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

Sale of goods:

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 sale of pharmacy products revenue is recognized on sale of products 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.

Sale of services:

Revenue from sale of services is recognized as per the terms of contracts with customers when the related services are performed or the agreed milestones are achieved and when the Company completes all its performance obligations. Revenue from licensing and dossiers arrangements is recognised in accordance with terms of the relevant agreement as accepted and agreed with the customers.

Export entitlements:

Export entitlements are recognised when the right to receive such entitlement is established as per the terms of the relevant scheme in respect of the exports made and where there is no significant uncertainty regarding compliance with the terms and conditions of such scheme.

Profit share arrangements:

Revenue under profit share arrangements is recognized based on the explicit terms and conditions of arrangements with respective customers.

Interest income:

Interest income is recognized on the time proportion basis taking into account the amount outstanding and the interest rate applicable.

Dividend income:

Dividend income is recognized when the right to receive the payment is established.

j. Inventories

Raw material, packaging material, stores and spare parts are carried at cost. Cost includes purchase price

excluding taxes those are subsequently recoverable from the concerned authorities, freight inwards and other expenditure incurred in bringing such inventories to their present location and condition. Cost of inventories is determined using the weighted average cost method.

The carrying cost of raw materials, packing materials, stores and spare parts are appropriately written down when there is a decline in replacement cost of such materials and finished products in which they will be incorporated are expected to be sold below cost.

Finished goods and work-in-progress are valued at the lower of cost and net realizable value. Cost of work in progress and manufactured finished goods is determined on weighted average basis and comprises cost of direct material, cost of conversion and other costs incurred in bringing these inventories to their present location and 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. Employee benefits

Provident Fund

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

Gratuity

Gratuity is a post-employment defined benefit obligation. 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 respective state authorities, in accordance with Employees State Insurance Act, 1948. The plan is a defined contribution plan and contribution paid or payable is recognised as an expense in the period in which it becomes due. 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

Notes to the Financial Statements

Summary of significant accounting policies and other explanatory information
(All amounts in ₹ unless otherwise stated)

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.

I. Research and development

Expenditure on research activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding is recognized as expense in the statement of profit and loss when incurred. Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized only if a) the product or the process is technically and commercially feasible b) future economic benefits are probable and ascertainable c) the Company intends to and has sufficient resources, technical and financial, to complete development of the product and has the ability to use or sell the asset; and d) development costs can be measured reliably.

m. Employee stock compensation cost

Measurement and disclosure of the employee share-based payment plans is done in accordance with Securities and Exchange Board of India (Share Based Employee Benefits) Regulations, 2014 and the Guidance note on "Accounting for Employee Share-based Payments", issued by the ICAI. The Company measures compensation cost relating to employee stock options using the fair value method. Compensation expense, if any, is amortized over the vesting period of the option on a straight line basis.

n. Leases

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

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 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 standalone financial statements, are recognized as income or as expense in the year in which they arise.

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

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

The 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.

Notes to the Financial Statements

Summary of significant accounting policies and other explanatory information
(All amounts in ₹ unless otherwise stated)

q. Earnings per equity share

Basic earnings per share are calculated by dividing the net profit or loss for the year attributable to equity shareholders by the weighted average number of equity shares outstanding during the year. For the purpose of diluted earnings per share, the net profit or loss for the year attributable to equity shareholders and the weighted average number of shares outstanding during the period are adjusted for the effects of all dilutive potential equity shares.

r. Provisions and contingent liabilities

A provision is recognised 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.

3.

a) Change in accounting estimate

In accordance with the provisions of the Act, effective 1 April 2014, the Company has adopted useful lives as prescribed under Schedule II, which coincides with the useful lives as estimated by the management. Accordingly the depreciation on tangible fixed assets for the previous year ended was higher by ₹127,839,130 and further an amount of ₹62,258,333 was charged to the opening balance of the general reserve in respect of the assets whose remaining useful life was nil as at 1 April 2014.

b) Change in accounting policy

Hitherto, the group had used intrinsic value method for recognition of employee stock option compensation cost arising on account of grant of stock options. However, during the year management of the group has elected the fair value method of accounting for compensation on stock options granted during the year. Management is of the opinion that the impact of such change is expected to be insignificant on the consolidated financial statements of the group.

Notes to the Financial Statements

4. Share capital

(All amounts in ₹ unless otherwise stated)

	As at 31 March 2016		As at 31 March 2015	
	Number	Amount	Number	Amount
Authorized share capital				
Equity shares of ₹2 each	200,000,000	400,000,000	200,000,000	400,000,000
Issued, subscribed and fully paid up				
Equity shares of ₹2 each	174,174,245	348,348,490	166,174,245	332,348,490
	174,174,245	348,348,490	166,174,245	332,348,490
(a) Reconciliation of shares				
Equity shares of ₹2 each				
Balance at the beginning of the year	166,174,245	332,348,490	165,365,370	330,730,740
Add: Issued during the year	8,000,000	16,000,000	808,875	1,617,750
Balance at the end of the year	174,174,245	348,348,490	166,174,245	332,348,490

(b) Terms and rights attached to equity shares

The Company has only one class of equity shares having a par value of ₹2 per share. Each holder of equity shares is entitled to one vote per share. The dividend proposed by the Board of Directors is subject to the approval of the shareholders in the ensuing general meeting. In the event of liquidation of the Company, the holders of equity shares will be entitled to receive the remaining assets of the Company, after distribution of all preferential amounts in proportion of their shareholding.

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

(All amounts in ₹ unless otherwise stated)

	As at 31 March 2016		As at 31 March 2015	
	Number	%	Number	%
Equity shares of ₹2 each				
V C Nannapaneni *	40,736,815	23.39	40,736,815	24.51
Time Cap Pharma Labs Limited	17,157,220	9.85	17,157,220	10.32
Natsoft Information Systems Private Limited	15,767,500	9.05	15,767,500	9.49

* including shares held in the capacity of Karta of HUF aggregating to 5,440,045 (31 March 2015: 5,440,045)

(d) Shares reserved for issue under options

- The Company has instituted the NATCO Employee Stock Option Plan 'ESOP-2015' ("the Scheme") as per the special resolution passed in the Extraordinary General Meeting of the Company held on 27 June 2015. The scheme was formulated in accordance with the Securities Exchange Board of India (Share Based Employee Benefits) Regulations, 2014 issued by the Securities and Exchange Board of India ("SEBI"). Pursuant to such order, the Board of the Directors of the Company have granted 750,000 options (post split) to eligible employees on 12 August 2015. The terms of the Scheme provide that each option entitles the holder to 5 equity shares of ₹2 each (post split) and that the options can be settled only by way of issue of equity shares. The options vest on an annual basis over a period of 5 years from the date of grant and the options are entirely time-based with no performance conditions.
- 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. The Scheme was 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 Companies Act, 1956. Pursuant to such approval, the Board was authorized to issue employee stock options, that were 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 (pre split) 236,551 options were granted during August 2011 at an exercise price of ₹10 each (pre split) and were accounted at an intrinsic value of ₹252.55 per share (pre split), 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. During the year the Company has terminated NATCO Employee Stock Option Plan, 2010 (NATSOP 2010).

Notes to the Financial Statements

(d) Shares reserved for issue under options (continued)

- During the year ended 31 March 2016, the Company had incurred stock compensation cost of ₹96,860,194 (31 March 2015: ₹Nil) in respect of ESOP 2015.

The details of options outstanding of ESOP 2015 Scheme :

	As at 31 March 2016		As at 31 March 2015	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Outstanding at the beginning of the year	-	-	-	-
Granted during the year	750,000	2	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	750,000	2	-	-
Exercisable at the end of the year	-	-	-	-

The weighted average share price at the date of exercise for stock options exercised during the year was ₹Nil (31 March 2015: ₹Nil). The stock options outstanding as at 31 March 2016 had a weighted average exercise price of ₹2 post split (31 March 2015: ₹Nil), and the weighted average remaining contractual life of unvested options is 25.13 months (31 March 2015: Nil).

The fair value of options was estimated at the date of grant using the Black-Scholes-Merton formula with the following assumptions:

Risk-free interest rate	7.35% - 7.82%
Expected life	1-5 years
Expected volatility	47.75%
Expected dividend yield	0.002%

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

	Number of shares	
	1 April 2011 to 31 March 2016	1 April 2010 to 31 March 2015
Aggregate number of equity shares allotted *	1,934,485	1,934,485

* Equity shares allotted pursuant to contract without payment being received in cash comprise of:

- During the year ended 31 March 2015, the Company has issued 808,875 equity shares (post split) of ₹2 each, fully paid-up at a premium of ₹238 per equity share (post split) to the erstwhile shareholders of Natco Organic Limited ('NOL') in exchange of 19,310,000 equity shares of ₹10 each at face value held in NOL.
- Balance equity shares comprising of 1,125,610 (31 March 2015: 1,125,610) (post split) were allotted during the period of five years, on exercise of the options granted under the employee stock option plan (ESOP 2010) wherein part consideration was received in the form of employee services.
- Equity shares of the Company with face value of ₹10 per share were sub-divided into 5 equity shares of ₹2 each effective 30 November 2015, accordingly comparative has been restated to be inline with the current year's face value per share and number of shares. Consequently, in accordance with Accounting Standard (AS) 20 - "Earnings Per Share", the basic and diluted earnings per share of the previous year have been recomputed and disclosed accordingly.

Notes to the Financial Statements

5. Reserves and surplus

(All amounts in ₹ unless otherwise stated)

	As at 31 March 2016	As at 31 March 2015
Capital reserve	207,272,762	207,272,762
Capital redemption reserve	4,928,810	4,928,810
Securities premium reserve		
Balance at the beginning of the year	2,782,233,802	2,589,721,552
Add: Additions during the year	3,392,880,000	192,512,250
Less: QIP issue expenses	(64,433,568)	-
Balance at the end of the year	6,110,680,234	2,782,233,802
Share options outstanding account		
Opening balance	-	-
Add: Amortisation during the year (Employee stock options expense)	96,860,194	-
Balance at the end of the year	96,860,194	-
General reserve		
Balance at the beginning of the year	484,902,667	437,161,000
Add: Additions during the year	110,000,000	110,000,000
Less: Adjustment [Refer note: (3a)]	-	(62,258,333)
Balance at the end of the year	594,902,667	484,902,667
Surplus in the statement of profit and loss		
Balance at the beginning of the year	4,978,234,353	3,759,176,871
Add: Profit for the year	1,744,628,210	1,529,255,356
Add: Pursuant to the scheme of amalgamation (Refer: note 43)	(359,730,740)	-
Less: Interim dividend - ₹1.25 (31 March 2015: ₹1) per share	(217,717,806)	(166,174,245)
Less: Tax on distributed profits	(44,322,223)	(34,023,629)
Less: Transferred to general reserve	(110,000,000)	(110,000,000)
Balance at the end of the year	5,991,091,794	4,978,234,353
	13,005,736,461	8,457,572,394

6. Long-term borrowings

Secured		
Term loans from		
Banks	66,581,648	1,179,868,320
Other parties	75,000,000	223,235,295
	141,581,648	1,403,103,615
Less: Current maturities of long-term borrowings (note 11)	141,581,648	440,283,032
	-	962,820,583

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

- Term loans amounting to ₹75,000,000 (31 March 2015: ₹623,235,295) 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.
- Term loan amounting to ₹66,581,648 (31 March 2015: ₹122,086,614) is secured by first charge on the movable and immovable fixed assets of Mekaguda unit along with other lenders.
- Term loan amounting to ₹Nil (31 March 2015: ₹657,781,706) is secured by pari-passu first charge on the entire fixed assets both present and future of Kothur Unit.

Notes to the Financial Statements

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 1.88% per annum to 12.75% per annum (31 March 2015: 3.53% per annum to 12.75% per annum).

(b) Details of repayment of long term borrowings

(All amounts in ₹ unless otherwise stated)

	As at 31 March 2016	As at 31 March 2015
Up to 1 year	141,581,648	440,283,032
From 1 to 3 years	-	881,344,433
3 years and above	-	81,476,150
	141,581,648	1,403,103,615

7. Deferred tax liabilities (net)

Deferred tax liability on account of		
- Fixed assets	199,745,013	112,904,754
Deferred tax asset on account of		
- Unabsorbed depreciation	55,590,864	-
Net deferred tax liability	144,154,149	112,904,754

- On the basis of management's assessment of its future business plan and impact thereof on its future taxable income, the management believes that the Company shall continue to pay tax on income under the Minimum Alternate Tax (MAT) provisions of the Income Tax Act, 1961 over the next several years. Thus in accordance with the provisions of Accounting Standard 22 - 'Accounting for Taxes on Income', deferred tax liabilities (net) aggregating to ₹310,366,437 recognized in the earlier years on account of timing differences which will be reversed during the period in which taxes are expected to be paid under MAT was de-recognized in the financial year 2014-15.

8. Other long-term liabilities

(All amounts in ₹ unless otherwise stated)

	As at 31 March 2016	As at 31 March 2015
Security deposit	7,710,412	7,710,412
	7,710,412	7,710,412

9. Long-term provisions

Provision for gratuity	88,057,414	57,673,519
Provision for compensated absences	36,652,084	34,212,286
	124,709,498	91,885,805

(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.

Notes to the Financial Statements

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

(All amounts in ₹ unless otherwise stated)

	As at 31 March 2016	As at 31 March 2015
Projected benefit obligation at the beginning of the year	120,432,060	117,454,552
Pursuant to the scheme of amalgamation (refer note 43)	2,601,756	-
Service cost	12,291,767	9,415,272
Interest cost	9,842,705	9,396,364
Actuarial (gain) / loss	31,081,647	(8,815,079)
Benefits paid	(19,535,052)	(7,019,049)
Projected benefit obligation at the end of the year	156,714,883	120,432,060

(ii) Change in plan assets

	As at 31 March 2016	As at 31 March 2015
Fair value of plan assets at the beginning of the year	54,462,146	46,810,288
Pursuant to the scheme of amalgamation (refer note 43)	291,226	-
Expected return on plan assets	4,547,015	4,704,817
Employer contributions	23,111,240	9,966,090
Benefits paid	(19,535,052)	(7,019,049)
Fair value of plan assets at the end of the year	62,876,575	54,462,146

(iii) Reconciliation of present value of defined benefit obligation and the fair value of plan assets

	As at 31 March 2016	As at 31 March 2015
Present value of defined benefit obligation at the end of the year	156,714,883	120,432,060
Fair value of plan assets at the end of the year	(62,876,575)	(54,462,146)
Net liability recognised in the balance sheet	93,838,308	65,969,914

(iv) Expense recognized in the statement of profit and loss

	As at 31 March 2016	As at 31 March 2015
Service cost	12,291,767	9,415,272
Interest cost	9,842,705	9,396,364
Expected returns on plan assets	(4,547,015)	(4,704,817)
Premium Expenses	214,392	-
Recognized net actuarial (gain)/ loss	31,081,647	(8,815,079)
Net gratuity costs	48,883,496	5,291,740

(v) Key actuarial assumptions

	As at 31 March 2016	As at 31 March 2015
Discount rate	8%	8%
Expected return on plan assets	8%	9%
Salary escalation rate	6%	4%

Notes to the Financial Statements

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

(All amounts in ₹ unless otherwise stated)

Particulars	As at 31 March 2016	As at 31 March 2015	As at 31 March 2014	As at 31 March 2013	As at 31 March 2012
Defined benefit obligation	156,714,883	120,432,060	117,454,552	94,462,630	73,162,037
Plan Assets	62,876,575	54,462,146	46,810,288	39,943,228	27,293,852
Surplus/ (deficit)	(93,838,308)	(65,969,914)	(70,644,264)	(54,519,402)	(45,868,185)
Experience adjustment to planned liabilities	31,081,647	(8,815,079)	13,818,766	13,154,950	7,133,657
Experience adjustment to planned assets	-	-	-	-	-

10. Short - term borrowings

(All amounts in ₹ unless otherwise stated)

	As at 31 March 2016	As at 31 March 2015
Loans repayable on demand		
Secured		
From banks	858,028,398	1,375,197,497
Unsecured		
From banks	102,257,836	310,238,280
	960,286,234	1,685,435,777

- (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 9.25% per annum to 13.25% per annum (31 March 2015: 10% 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 Nagarjunasagar 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.

11. Other current liabilities

(All amounts in ₹ unless otherwise stated)

	As at 31 March 2016	As at 31 March 2015
Current maturities of long-term borrowings	141,581,648	440,283,032
Interest accrued but not due on long-term borrowings	-	5,196,019
Creditors for capital assets	473,761,383	265,081,581
Book overdraft	-	78,249,535
Advance from customers	236,819,336	202,070,794
Employee related payables	153,239,162	88,932,989
Unpaid dividends	10,536,721	9,189,011
Statutory liabilities	89,713,368	44,185,109
Other payables	2,461,138	-
	1,108,112,756	1,133,188,070

12. Short-term provisions

	As at 31 March 2016	As at 31 March 2015
Provision for Compensated absences	3,187,138	2,809,690
Provision for Gratuity	11,347,788	8,296,395
	14,534,926	11,106,085

Notes to the Financial Statements

13. Tangible assets

(All amounts in ₹ unless otherwise stated)

	Freehold land	Leasehold land	Buildings	Plant and equipment	Office equipment	Furniture	Vehicles	Computers	Total
Gross block									
Balance as at 1 April 2014	77,397,835	16,725,782	1,851,09,750	3,302,898,179	25,155,428	57,091,082	96,291,771	99,456,011	6,822,706,838
Additions	122,308,886	101,201,300	307,915,049	364,877,383	3,225,450	11,740,504	13,945,761	7,171,278	932,185,611
Disposals / adjustments	10,765,000	0	0	0	0	0	14,71,770	0	12,236,770
Foreign exchange fluctuation	0	0	0	0	0	0	0	0	0
Balance as at 31 March 2015	885,522,721	117,927,082	2,158,924,799	4,267,775,562	28,380,878	68,831,586	108,665,762	106,627,289	7,742,655,679
Pursuant to the scheme of amalgamation (refer note 43)	197,093,581	0	250,807,365	580,416,930	1,882,498	5,147,260	3,373,989	4,166,133	1,042,887,756
Additions	146,344,435	0	205,800,412	497,534,797	884,694	16,551,570	40,095,692	12,831,415	920,043,015
Disposals / retirement	2,851,000	0	6,153,700	372,008,508	0	134,751	8,527,166	1,042,358	55,917,483
Balance as at 31 March 2016	1,226,109,737	117,927,082	2,609,378,876	5,308,518,781	31,148,070	90,395,665	143,608,277	122,592,479	9,649,668,967
Accumulated depreciation									
Up to 1 April 2014	0	1,626,314	354,817,953	1,078,845,884	11,784,777	22,517,757	47,913,998	73,296,418	1,590,803,101
Depreciation charge	0	370,287	66,791,759	310,191,700	5,330,768	4,491,376	13,985,152	9,930,415	441,091,457
Adjustment	0	0	7,607,938	46,273,631	5,416,219	0	1,052,393	1,622,873	61,973,054
Reversal on disposal	0	0	0	0	0	0	1,460,821	0	1,460,821
Up to 31 March 2015	0	1,996,601	429,217,650	1,435,311,215	22,531,764	27,009,133	61,490,722	84,849,706	2,062,406,791
Pursuant to the scheme of amalgamation (refer note 43)	0	0	25,025,426	84,240,135	749,494	1,203,009	1,252,519	1,871,342	114,341,925
Depreciation charge	0	1,103,431	82,083,942	371,168,131	1,533,312	6,366,177	14,149,189	10,296,209	486,700,391
Reversal on disposal / retirement	0	0	196,083	11,723,522	0	121,035	4,268,221	950,356	17,259,217
Up to 31 March 2016	0	3,100,032	536,130,935	1,878,995,959	24,814,570	34,457,284	72,624,209	96,066,901	2,646,189,890
Net block									
Balance as at 31 March 2015	885,522,721	115,930,481	1,729,707,149	2,832,464,347	5,849,114	41,822,453	47,175,040	21,777,583	5,680,248,888
Balance as at 31 March 2016	1,226,109,737	114,827,050	2,073,247,941	3,429,522,822	6,333,500	55,938,381	70,984,068	26,515,578	7,003,479,077

(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 and from Ramky Pharma City (India) Limited for a period of 33 years which is renewable for a further period of 2 terms of 33 years each.

Notes to the Financial Statements

14. Intangible assets

(All amounts in ₹ unless otherwise stated)

	Computer Software	Total
Gross block		
Balance as at 1 April 2014	85,513,168	85,513,168
Additions	3,039,437	3,039,437
Balance as at 31 March 2015	88,552,605	88,552,605
Pursuant to the scheme of amalgamation (Refer note 43)	2,509,427	2,509,427
Additions	18,137,470	18,137,470
Balance as at 31 March 2016	109,199,502	109,199,502
Accumulated amortisation		
Up to 1 April 2014	27,617,801	27,617,801
Amortization charge	13,547,632	13,547,632
Adjustment	285,279	285,279
Up to 31 March 2015	41,450,712	41,450,712
Pursuant to the scheme of amalgamation (Refer note 43)	379,127	379,127
Amortization charge	14,869,547	14,869,547
Adjustment	-	-
Up to 31 March 2016	56,699,386	56,699,386
Net block		
Balance as at 31 March 2015	47,101,893	47,101,893
Balance as at 31 March 2016	52,500,116	52,500,116

15. Non-current investments

(All amounts in ₹ unless otherwise stated)

	As at 31 March 2016	As at 31 March 2015
Investments in equity instruments, Trade, Unquoted		
<i>Investments in subsidiaries</i>		
1000 (31 March 2015: 1,000) representing 100% (31 March 2015: 100%) fully paid-up, non-assessable shares of US\$1,000 each in Natco Pharma Inc., Delaware, United States of America	41,849,274	41,849,274
Nil (31 March 2015: 79,693,945) representing Nil% (31 March 2015: 100%) equity shares of ₹10 each, fully paid-up in NATCO Organics Limited. (Refer note 43)	-	796,939,450
861,112 (31 March 2015: 622,012) representing 87.73% (31 March 2015: 84%) equity shares of US\$10 each, fully paid-up in Time Cap Overseas Limited, Mauritius	504,412,208	349,470,272
Share application money in Time Cap Overseas Limited, Mauritius	-	20,539,911
2,555,613 (31 March 2015: 1,232,613) representing 99.68% (31 March 2015: 99.33%) equity shares of Canadian Dollar 1 each, fully paid-up in NATCO Pharma (Canada) Inc., Canada	133,450,929	67,379,275
665,000 (31 March 2015: 340,000) representing 100% (31 March 2015: 100%) equity shares of Singapore Dollar 1 each, fully paid-up in NATCO Pharma Asia PTE Ltd.	31,664,119	16,252,308
92,600 (31 March 2015: 67,600) representing 80% (31 March 2015: 80%) equity shares of Australian Dollar 1 each, fully paid-up in NATCO Pharma Australia PTY Ltd	4,627,715	3,388,715
	716,004,245	1,295,819,205
<i>Others</i>		
Share application money in NATIVITA Joint Limited Liability Company	255,035	255,035
750 (31 March 2015: 750) equity shares of ₹100 each, fully paid-up, in Jeedimetla Effluent Treatment Limited	75,000	75,000
34,400 (31 March 2015: 34,400) equity shares of ₹10 each, fully paid-up, in Pattancheru Enviro-Tech Limited	344,000	344,000
	674,035	674,035
Total investments in equity instruments, Trade (A)	716,678,280	1,296,493,240

Notes to the Financial Statements

15. Non-current investments

(All amounts in ₹ unless otherwise stated)

	As at 31 March 2016	As at 31 March 2015
Investments in equity instruments, Others, Quoted		
27,000 (31 March 2015: 27,000) equity shares of ₹10 each, fully paid-up in Jayalakshi Spinning Mills Limited	270,000	270,000
Total investments in equity instruments, Others (B)	270,000	270,000
Other non-current investments, Others, Unquoted		
Investment in portfolio management services		
Nil (31 March 2015: 15,000,000) compulsorily convertible preference shares of ₹1 each, fully paid-up in Ravindranath GE Medical Associates Private Limited.	-	15,000,000
National savings certificates	3,910	3,910
Total investments in other non-current investments (C)	3,910	15,003,910
Total non-current investments (A+B+C)	716,952,190	1,311,767,150
Less: provision for diminution in value of investments	270,000	270,000
	716,682,190	1,311,497,150
Quoted investments	270,000	270,000
Market value of quoted investments	-	-
Unquoted investments [including share application money]	716,682,190	1,311,497,150
Provision for diminution in value of investments	270,000	270,000

16. Loans and advances (Unsecured, considered good)

Long-term		
Capital advances	435,912,521	386,113,279
Security deposits	63,045,059	43,446,298
Advance tax, net	33,946,147	43,192,485
Loans and advances to related parties	-	864,162,991
Balances with government authorities	85,175,497	87,820,865
	618,079,224	1,424,735,918
Short-term		
Loans and advances to related parties	-	1,325,218
Deposits with financial institution	400,000,000	-
Prepaid expenses	64,736,932	36,711,178
Balances with government authorities	392,423,688	315,143,978
Advances for purchases and expenses	95,561,782	96,147,851
Insurance claim receivable	39,482,126	-
Other advances	31,940,281	27,295,303
	1,024,144,809	476,623,528

Notes to the Financial Statements

17. Other non-current assets (Unsecured, considered good)

(All amounts in ₹ unless otherwise stated)

	As at 31 March 2016	As at 31 March 2015
Margin money*	35,897,115	27,119,198
Interest accrued on fixed deposits	6,342,781	8,087,325
	42,239,896	35,206,523

*Given against bank guarantees/performance guarantees

18. Current investments

Investments in equity instruments, Quoted, Non trade		
15,000 (31 March 2015: 15,000) equity shares of ₹10 each, fully paid-up in Neuland Laboratories Limited	675,000	675,000
5,500 (31 March 2015: 2,000) equity shares of ₹1 each, fully paid-up in Sun Pharmaceuticals Industries Limited	3,144,215	507,970
778 (31 March 2015: nil) equity shares of ₹2 each, fully paid-up in Alkem Laboratories Ltd	816,900	-
15,000 (31 March 2015: nil) equity shares of ₹1 each, fully paid-up in Cadila Healthcare Ltd	5,005,864	-
Investments in Debentures, unquoted, Non trade	9,641,979	1,182,970
2,000 (31 March 2015: Nil) non-convertible debentures of ₹1,00,000 in Citicorp Finance India Limited	200,000,000	-
	209,641,979	1,182,970
<i>Aggregate amount of</i>		
Quoted investments	9,641,979	1,182,970
Market value of quoted investments	20,872,068	7,039,800
Unquoted investments	200,000,000	-

19. Inventories (refer note 2(i))

Raw materials [including goods-in-transit of ₹24,414,105 (31 March 2015: ₹2,462,726)]	1,406,001,402	554,377,442
Work-in-progress	985,008,160	694,291,320
Finished goods	492,417,697	242,483,396
Stores and spares [including goods-in-transit of ₹35,335,319 (31 March 2015: ₹7,276,750)]	348,938,170	257,375,316
Packing materials [including goods-in-transit of ₹483,336 (31 March 2015: ₹Nil)]	280,362,843	226,146,019
Stock-in-trade	6,407,321	8,794,234
	3,519,135,593	1,983,467,727

Notes to the Financial Statements

20. Trade receivables

(All amounts in ₹ unless otherwise stated)

	As at 31 March 2016	As at 31 March 2015
Due for a period exceeding six months		
Unsecured, considered good	377,079,214	174,518,319
Unsecured, considered doubtful	-	17,607,783
	377,079,214	192,126,102
Less: Provision for doubtful receivables	-	17,607,783
	377,079,214	174,518,319
Other debts		
Unsecured, considered good	2,181,366,261	1,715,056,787
	2,558,445,475	1,889,575,106

21. Cash and bank balances

Cash and cash equivalents		
Balances with banks		
- on current accounts	63,858,523	30,233,141
- on deposit accounts	103,316,632	-
Cash on hand	24,976,382	32,460,385
	192,151,537	62,693,526
Other bank balances		
Unpaid dividend accounts	10,536,721	9,189,011
Term deposit (original maturity more than 3 months but less than 12 months)	199,000,000	-
	209,536,721	9,189,011
	401,688,258	71,882,537

22. Other current assets (Unsecured, considered good)

Export incentives receivable	113,960,743	19,107,116
Interest accrued on fixed deposits	36,217,142	-
	150,177,885	19,107,116

23. Revenue from operations

(All amounts in ₹ unless otherwise stated)

	For the year ended 31 March 2016	For the year ended 31 March 2015
Sale of products	10,018,057,769	6,667,180,268
Sale of services		
Income from sale of dossiers	41,675,143	112,877,714
Other operating revenues		
Job work charges	66,942,115	83,021,710
Export incentives	151,020,109	50,345,985
Trading sales	10,618,893	137,306,131
Scrap sales	16,671,919	15,126,392
Income from profit sharing arrangement	287,409,716	203,943,751
	532,662,752	489,743,969
Total revenue from operations	10,592,395,664	7,269,801,951

Notes to the Financial Statements

23. Revenue from operations

Details of products sold

	For the year ended 31 March 2016	For the year ended 31 March 2015
Manufactured goods		
Bulk drug and drug intermediaries	1,677,465,776	2,585,368,690
Formulations	8,325,406,039	4,070,606,730
	10,002,871,815	6,655,975,420
Traded goods		
Formulations	15,185,954	11,204,848
	10,018,057,769	6,667,180,268

24. Other income

Interest income from		
Fixed deposits	52,760,866	5,517,056
Income tax refund	-	1,026,337
Dividend income	84,707	3,660
Dividend from subsidiary	38,450,000	-
Net gain on sale of current investments	11,352,311	23,631,749
Net gain on sale of fixed assets	-	6,580,947
Foreign exchange gain, net	-	58,242,444
Insurance claim - loss of profits	25,000,000	-
Provision no longer required, written back	-	37,195,454
Other non-operating income	13,051,984	3,468,039
	140,699,868	135,665,686

25. Cost of raw materials consumed (including packing materials consumed)

Opening stock	780,523,461	620,418,768
Add: Pursuant to the scheme of amalgamation (refer note 43)	31,291,480	
Add: Purchases during the year	3,911,267,157	1,945,916,186
Less: Closing stock	1,686,364,245	780,523,461
	3,036,717,853	1,785,811,493

a. Details of raw materials consumed

Sofosbuvir	1,063,330,718	163,664,065
Others	1,973,387,135	1,622,147,428
	3,036,717,853	1,785,811,493

Notes to the Financial Statements

26. Changes in inventories of finished goods, work-in-progress and stock-in-trade

(All amounts in ₹ unless otherwise stated)

	For the year ended 31 March 2016	For the year ended 31 March 2015
Opening stock		
- Finished goods	242,483,396	204,830,894
- Work-in-progress	694,291,320	644,418,948
- Stock-in-trade	8,794,234	8,721,953
Pursuant to the scheme of amalgamation (refer note 43)	60,239,812	-
	1,005,808,762	857,971,795
Closing stock		
- Finished goods	492,417,697	242,483,396
- Work-in-progress	985,008,160	694,291,320
- Stock-in-trade	6,407,321	8,794,234
	1,483,833,178	945,568,950
	(478,024,416)	(87,597,155)
Following are the details of inventory balances under broad heads:		
Opening stock		
Finished goods		
Bulk drug and drug intermediaries	95,793,074	124,864,301
Pursuant to the scheme of amalgamation	4,255,057	-
Adjusted bulk drug and intermediaries	100,048,131	124,864,301
Formulations	146,690,322	79,966,593
	246,738,453	204,830,894
Work-in-progress		
Bulk drug and drug intermediaries	591,086,597	582,386,335
Pursuant to the scheme of amalgamation (refer note 43)	55,984,755	-
Adjusted work-in-progress	647,071,352	582,386,335
Formulations	103,204,723	62,032,613
	750,276,075	644,418,948
Traded goods		
Formulations	8,794,234	8,721,953
	8,794,234	8,721,953
Closing inventory		
Finished goods		
Bulk drug and drug intermediaries	151,582,993	95,793,074
Pursuant to the scheme of amalgamation (refer note 43)	15,439,063	-
Adjusted bulk drug and intermediaries	167,022,056	95,793,074
Formulations	325,395,641	146,690,322
	492,417,697	242,483,396
Work-in-progress		
Bulk drug and drug intermediaries	832,128,269	591,086,597
Pursuant to the scheme of amalgamation (refer note 43)	6,735,718	-
Adjusted work-in-progress	838,863,987	591,086,597
Formulations	146,144,173	103,204,723
	985,008,160	694,291,320
Traded goods		
Formulations	6,407,321	8,794,234
	6,407,321	8,794,234

Notes to the Financial Statements

27. Employee benefit expense

(All amounts in ₹ unless otherwise stated)

	For the year ended 31 March 2016	For the year ended 31 March 2015
Salaries and wages	1,347,141,111	1,010,014,406
Contribution to provident and other funds	101,422,653	76,078,369
Gratuity expense	43,726,484	5,312,718
Employee stock compensation expenses	96,860,194	-
Staff welfare expenses	101,378,868	70,483,150
	1,690,529,310	1,161,888,643

28. Finance costs

Interest expense	202,583,446	287,482,841
Other borrowing costs	16,792,575	13,836,232
	219,376,021	301,319,073

Interest expenses is after capitalization of ₹20,827,397 (31 March 2015: ₹11,022,070) to qualifying fixed assets.

29. Other expenses

Consumption of stores and spare parts	223,785,424	175,657,098
Power and fuel	436,558,976	404,938,806
Rent	12,066,711	12,421,591
Repairs and maintenance		
- Buildings	32,949,766	35,048,702
- Plant and equipment	155,493,099	106,714,705
- Others	23,005,821	28,972,234
Insurance	46,586,307	27,225,132
Rates and taxes	86,680,609	89,644,142
Factory maintenance expenses	170,421,818	127,940,595
Analysis charges	108,683,557	48,703,475
Carriage and freight outwards	85,903,501	76,271,540
Donations	39,109,724	30,300,772
CSR expenditure (refer note: 44)	28,812,000	25,542,579
Communication expenses	27,999,914	20,702,124
Office maintenance and other expenses	41,589,479	26,615,726
Travelling and conveyance	138,731,277	112,250,074
Legal and professional fees	160,113,520	154,900,846
Payment to auditors		
- As auditor	3,741,748	2,000,000
- For reimbursement of expenses	39,000	39,000
Inventory written-off	10,280,417	7,024,358
Directors sitting fee	710,000	460,000
Provision towards doubtful trade receivables	-	7,273,264
Bad debts written off	95,984,276	-
Foreign exchange loss, net	49,920,789	-
Sales promotion expenses including sales commission	985,545,727	266,668,705
Other research and development expenses	123,072,430	131,084,969
Printing and stationery	49,455,511	39,464,978
Miscellaneous expenses	48,633,689	43,131,262
	3,185,875,090	2,000,996,677

Notes to the Financial Statements

30. Exceptional item

Exceptional item represents amount paid on settlement of pending legal dispute with M/s. SMS Pharmaceuticals Limited.

31. 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
Time cap Overseas Limited., Mauritius	
NATCO Pharma (Canada) Inc., Canada	
NATCO Pharma Asia PTE Ltd., Singapore	
NATCO Pharma Australia PTY., Australia	
NATCO Organics Limited (Refer note 43)	
NATCO Farma Do Brasil Ltda., Brazil	Step-down subsidiary company
Time Cap Pharma Labs Limited	Entities in which Directors have control or have significant influence
NATCO Trust	
NATCO Group Employees Welfare Trust	
Natsoft Information Systems Private Limited	
V C Nannapaneni	Key management personnel ("KMP")
Rajeev Nannapaneni	
Durga Devi Nannapaneni	Relative of KMP
Venkata Satya Swathi Kantamani	
Neelima Nannapaneni	
Dr. Ramakrishna Rao	

(b) Transactions with related parties

	For the year ended 31 March 2016	For the year ended 31 March 2015
Time Cap Overseas Limited		
Investment in equity shares, including share application money	134,402,025	168,202,560
NATCO Organics Limited		
Rental expenses	-	1,800,000
Loans and advances	-	271,836,488
Purchases and other charges	-	144,496,712
Sales of products	-	22,848,993
NATCO Pharma Inc.		
Dividends received	38,450,000	-
NATCO Pharma (Canada) Inc.		
Investment in equity shares, including share application money	66,071,654	46,028,851
Sales	9,309,681	1,116,424
NATCO Pharma Asia PTE Ltd		
Investment in equity shares, including share application money	15,411,811	13,586,115
NATCO Pharma Australia PTY		
Investment in equity shares, including share application money	1,239,000	3,388,715
Time Cap Pharma Labs Limited		
Commission and expenses reimbursement	12,238,830	4,243,323
Purchase of raw-materials	562,275	1,169,175
Rental expense	4,500,000	4,200,000
Dividends paid	21,446,525	17,157,220
Natsoft Information Systems Private Limited		
Dividends paid	19,709,375	15,767,500
NATCO Trust		
Donations	19,450,580	20,238,541
CSR activities	28,812,000	25,542,579

Notes to the Financial Statements

(b) Transactions with related parties

	For the year ended 31 March 2016	For the year ended 31 March 2015
Transactions with key management personnel		
V C Nannapaneni		
Managerial remuneration	15,996,000	15,000,000
Leave encashment paid	2,805,000	13,200,000
Rental expenses	2,100,000	1,800,000
Dividends paid	50,921,019	40,736,815
Commission on profits	15,000,000	-
Rajeev Nannapaneni		
Managerial remuneration	13,998,000	12,498,000
Leave encashment paid	2,420,002	1,133,333
Rental expenses	1,200,000	960,000
Dividends paid	2,095,219	1,786,175
Transactions with relatives of KMP		
Durga Devi Nannapaneni		
Dividends paid	4,423,875	4,139,100
Venkata Satya Swathi Kantamani		
Dividends paid	3,575,000	2,750,000
Neelima Nannapaneni		
Dividends paid	228,700	182,960
Dr. Ramakrishna Rao		
Dividends paid	933,013	706,610
(c) Balances receivable / (payable)		
NATCO Pharma Inc.	-	1,325,218
NATCO Organics Limited (refer note 43)		
Loan outstanding	-	702,828,850
Advance for future supplies	-	161,334,141
Time Cap Pharma Labs Limited	(4,620,017)	(2,028,499)
V C Nannapaneni	(11,131)	(1,103,850)
Rajeev Nannapaneni	(262,336)	(492,087)

Note:

- Mr. V C Nannapaneni has extended personal guarantees in connection with the loans availed by the Company. Refer note 6 & 10.
- Mrs. Durga Devi Nannapaneni and Dr. Ramakrishna Rao has extended personal guarantees in connection with the loans availed by the Company. Refer note 10.

(d) Disclosure pursuant to Regulation 34(3) of SEBI (Listing Obligations and Disclosure Requirements), 2015

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

(All amounts in ₹ unless otherwise stated)

	As at 31 March 2016	As at 31 March 2015
Outstanding balance		
NATCO Pharma Inc.	-	1,325,218
NATCO Organics Limited (Refer note 43)	-	702,828,850
Maximum balance outstanding at any time during the year		
NATCO Pharma Inc.	1,325,218	32,210,788
NATCO Organics Limited (Refer note 43)	-	702,828,850

Notes to the Financial Statements

32. 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 standalone financial statements.

33. Contingent liabilities and commitments

(All amounts in ₹ unless otherwise stated)

	As at 31 March 2016	As at 31 March 2015
(a) Commitments		
Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances)	385,295,064	179,536,081
(b) Contingent liabilities		
Sales tax related	8,690,000	8,690,000
Service tax related	1,749,256	1,749,256
Customs related	2,000,000	2,000,000
Other matters	5,922,048	-
Income tax related	-	656,957

34. 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:

(All amounts in ₹ unless otherwise stated)

	As at 31 March 2016	As at 31 March 2015
(a) The principal amount remaining unpaid as at the end of the year	25,554,013	14,966,656
(b) The amount of interest accrued and remaining unpaid at the end of the year	819,378	3,657,576
(c) Amount of interest paid by the company in terms of Section 16, of (MSMED Act 2006) along with the amount of payments made beyond the appointed day during each accounting year.	-	-
(d) Amount of interest due and payable for the period of delay in making payment but without adding the interest specified under the (MSMED Act 2006)	-	-
(e) Amount of interest accrued and remaining unpaid at the end of each accounting year; and	-	-
(f) 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)	-	-

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 2016 is based on information received and available with the Company.

Notes to the Financial Statements

35. Unhedged foreign currency exposure

(All amounts in ₹ unless otherwise stated)

	Amount in foreign currency		Amount equivalent in INR	
	As at 31 March 2016	As at 31 March 2015	As at 31 March 2016	As at 31 March 2015
Amounts payable				
Borrowings in USD	1,003,750	2,007,500	66,581,648	122,086,614
Trade payables				
USD	5,602,071	1,700,478	371,601,605	105,086,828
Euro	220,749	35,439	16,577,279	2,645,386
GBP	93,379	9,266	8,879,257	787,043
Amounts in receivable				
Non-current investments				
USD	9,611,120	7,549,120	546,261,481	411,859,456
SGD	665,000	340,000	31,664,119	16,252,308
CAD	2,555,613	1,232,613	133,450,929	67,379,275
AUD	92,600	67,600	4,627,715	3,388,715
Loans and advances in USD	-	21,193	-	1,325,218
Trade receivables*				
USD	14,799,497	5,231,325	980,643,697	327,432,824
Euro	60,940	208,245	4,546,115	14,058,737
CAD	381,780	40,968	19,452,463	2,025,955

*Net of discounted bills of ₹406,312,634 (31 March 2015: ₹550,729,006)

36. Earnings in foreign currency on accrual basis

(All amounts in ₹ unless otherwise stated)

	For the year ended 31 March 2016	For the year ended 31 March 2015
Export on FOB basis	3,141,329,966	2,866,257,766
Sale of services	41,403,843	85,396,500
Income from profit sharing arrangements	274,721,377	203,943,751

37. Expenditure in foreign currency on accrual basis

Travelling expenses	6,795,885	8,668,356
Commission	180,548,228	222,089,854
Professional and consultation fees	101,332,783	81,468,209
Rates and taxes	36,992,730	41,267,768
Interest on borrowings	2,779,353	6,565,919
Royalty	159,979,131	9,955,480
Others	31,134,142	50,507,147

38. Value of imports on CIF basis

Raw materials and packing materials	704,496,406	369,933,684
Capital goods (including spares and components)	463,910,938	168,311,170

Notes to the Financial Statements

39. Dividend remitted in foreign currency

(All amounts in ₹ unless otherwise stated)

	For the year ended 31 March 2016	For the year ended 31 March 2015
Number of non - resident shareholders	11	11
Number of equity shares held on which dividend was due	311,200	278,900
Amount remitted (\$)	5,789	4,381
Amount remitted (₹)	389,000	278,900
Period to which is relates	2015-16	2014-15

40. Expenditure incurred on research and development

Salaries and wages	214,720,008	164,985,137
Consumption of materials, spares	171,083,128	160,075,625
Power and fuel	15,058,398	14,593,611
Other research and development expenses	151,199,704	135,484,603
Capital equipments	151,028,243	42,032,302
	703,089,481	517,171,278

The aforementioned expenditure, other than capital equipments, are included under the respective heads of the Statement of Profit and Loss.

41. Imported and indigenous consumption

(All amounts in ₹ unless otherwise stated)

	For the year ended 31 March 2016	For the year ended 31 March 2015
Raw materials (including packing materials)		
Imported		
Amount	146,013,263	177,899,298
Percentage	4.81%	9.96%
Indigenous		
Amount	2,890,704,590	1,607,912,195
Percentage	95.19%	90.04%
Total		
Amount	3,036,717,853	1,785,811,493
Percentage	100%	100%
Stores and spares		
Imported		
Amount	62,774,508	16,613,166
Percentage	28.05%	9.46%
Indigenous		
Amount	161,010,916	159,043,932
Percentage	71.95%	90.54%
Total		
Amount	223,785,424	175,657,098
Percentage	100%	100%

Notes to the Financial Statements

42. Earnings per equity share

(All amounts in ₹ unless otherwise stated)

	For the year ended 31 March 2016	For the year ended 31 March 2015
Profit after tax - used as numerator for calculating earnings per equity share	1,744,628,210	1,529,255,356
"Weighted average number of shares used in computing basic earnings per equity share"	170,448,218	165,600,275
Add: Dilution effect of employee stock options	512,767	-
"Weighted average number of shares used in computing diluted earnings per equity share"	170,960,985	165,600,275
Nominal value per share	2	2
Basis earnings per equity share	10.24	9.23
Diluted earnings per equity share	10.20	9.23

43. Amalgamation of NATCO Organics Limited

(a) NATCO Organics Limited ("NOL"), a wholly owned subsidiary of the Company, amalgamated with the Company, with effect from 1 April 2015 ("the appointed date"). NOL was engaged in the business of manufacturing and selling of bulk drugs in domestic markets. The amalgamation was pursuant to a composite scheme of amalgamation, "the Scheme" sanctioned by the Honourable High Court of Judicature at Madras vide their Order dated 28 April 2016. Pursuant thereto all the assets and properties, both movable and immovable, rights, title and interests, secured and unsecured debts, borrowings, and all other duties, debts, liabilities, undertakings and obligations of NATCO Organics Limited, have been transferred to and vested in the Company retrospectively with effect from 1 April 2015. The amalgamation has been accounted for under the 'pooling of interests' method as prescribed by Accounting Standard 14 specified under Section 133 of the Companies Act, 2013, read with Rule 7 of the Companies (Accounts) Rules, 2014. Accordingly, the assets, liabilities and reserves of NATCO Organics Limited as at 1 April 2015 have been taken over at their book values and in the same form.

(b) Since NOL was wholly owned by the Company, no shares were exchanged to effect the amalgamation. The difference between the amounts recorded as investments of the Company and the amount of share capital of NATCO Organics Limited, if any has been adjusted in the General Reserve.

Accordingly, the amalgamation has resulted in transfer of assets, liabilities and reserves in accordance with the terms of the Scheme at the following summarised values:

(All amounts in ₹ unless otherwise stated)

	As at 31 March 2015
Assets	
Fixed Assets (net)	1,211,589,783
Cash and bank balances	11,754,202
Inventories	106,647,900
Loans and advances and other assets	54,350,664
Less: Liabilities	
Trade payables, other liabilities and provisions	(82,423,924)
	1,301,918,626
Less:	
Adjustment for cancellation of the Company's investment	796,939,450
Adjustment for cancellation of advances given by the Company to NATCO Organics Limited	864,709,916
Transfer of balances of deficit in the Statement of Profit and Loss of NOL	(359,730,740)
	-

Notes to the Financial Statements

44. Expenditure on Corporate social responsibility activities

(All amounts in ₹ unless otherwise stated)

	As at 31 March 2016	As at 31 March 2015
(a) Gross amount required to be spent by the company during the year	27,759,464	22,419,167
(b) Contribution to trusts controlled by the Company NATCO Trust	28,812,000	25,542,579
(c) Provision towards CSR activities undertaken by entering into a contractual obligation and which have completed during the year	-	-

45. During the year ended 31 March 2016 the Company made a Qualified Institutional Placement ('QIP') and allotted 8,000,000 equity shares (post split) on 18 September 2015 of face value of ₹2 each (post split) at a premium of ₹424.11 per equity share (post split), pursuant to clause 49 of the erstwhile listing agreement with the stock exchanges, for the purposes of capital expenditure and long term and working capital requirements, expenses for exploring acquisition opportunities and general corporate requirements of the Company.

	As at 31 March 2016
Amounts raised in QIP	3,408,880,000
Amount utilised during the year:	
QIP expenses (gross of tax)	64,433,568
Utilised for the purposes of the QIP issue	2,444,129,800
Unutilised amount at the end of the year	900,316,632

Details of short term investment made from unutilised portion of QIP raise during the year ended 31 March 2016.

Investment in Non-convertible debentures	200,000,000
Deposit with	
Banks	300,316,632
Financial institutions	400,000,000
	900,316,632

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

47. 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 Chandio & Co LLP**
Chartered Accountants

per **Sanjay Kumar Jain**
Partner

Place: Hyderabad
Date : 26 May 2016

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

V C Nannapaneni
Chairman & Managing Director
DIN: 00183315

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

Place: Hyderabad
Date : 26 May 2016

Rajeev Nannapaneni
Vice Chairman & CEO
DIN: 00183872

SVVN Appa Rao
Chief Financial Officer

Independent Auditor's Report

To the Members
of NATCO Pharma Limited

Report on the Consolidated Financial Statements

1. We have audited the accompanying Consolidated financial statements of NATCO Pharma Limited, ("the Holding Company") and its subsidiaries, (hereinafter collectively referred to as the "Group"), which comprise the Consolidated Balance Sheet as at 31 March 2016, the consolidated Statement of Profit and Loss and the Consolidated Cash Flow Statement for the year then ended, and a summary of the significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

2. The Holding Company's Board of Directors is responsible for the preparation of these consolidated financial statements in terms of the requirements of the Companies Act, 2013 ("the Act") that give a true and fair view of the consolidated financial position, consolidated financial performance and consolidated cash flows of the Group, in accordance with the accounting principles generally accepted in India, including the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014 (as amended). The Holding Company's Board of Directors, and the respective Board of Directors of the subsidiaries included in the Group are responsible for the design, implementation and maintenance of internal control relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error. Further, in terms with the provisions of the Act, the respective Board of Directors of the Holding Company and its subsidiary which are incorporated in India are responsible for maintenance of adequate accounting records; safeguarding the assets; preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements, which have been used for the purpose of preparation of the consolidated financial statements by the directors of the Holding Company, as aforesaid.

Auditors' Responsibility

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

4. While conducting the audit, we have taken into account the provisions of the Act, the accounting and auditing standards and matters which are required to be included in the auditor's report under the provisions of the Act and the Rules made thereunder.

- We conducted our audit in accordance with the Standards on Auditing specified under Section 143(10) of the Act. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.
- 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 financial controls relevant to the Holding 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by the Holding Company's Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.
- We believe that the audit evidence obtained by us and the audit evidence obtained by the other auditors in terms of their reports referred to in sub-paragraph 9 of the Other Matters paragraph below, is sufficient and appropriate to provide a basis for our audit opinion on the consolidated financial statements.

Opinion

- 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, the aforesaid consolidated financial statements give the information required by the Act in the manner so required and give a true and fair view in conformity with the accounting principles generally accepted in India, of the consolidated state of affairs of the Group as at 31 March 2016, and their consolidated profit and their consolidated cash flows for the year ended on that date.

Other Matter

- We did not audit the financial statements of 6 subsidiaries incorporated outside India viz, NATCO Pharma, Inc., NATCO Pharma Australia PTY Ltd., Time Cap Overseas Limited, NatcoFarma Do Brasil Ltda., NATCO Pharma Asia Pte. Ltd., NATCO Pharma (Canada) Inc., included in the consolidated financial statements, whose financial statements reflect total assets (after eliminating intra-group transactions) of ₹535,736,077 as at 31 March 2016; total revenues (after eliminating intra-group transactions) of ₹1,216,593,782 and net cash flows

amounting to ₹(2,937,815) for the year ended on that date. These financial statements have been audited by other auditors whose audit reports have been furnished to us by the management and our opinion on the consolidated financial statements, in so far as it relates to the amounts and disclosures included in respect of these subsidiaries, is based solely on the reports of the other auditors.

Our opinion on the consolidated financial statements, and our report on Other Legal and Regulatory Requirements below, is not modified in respect of the above matters with respect to our reliance on the work done by and the reports of the other auditors.

Report on Other Legal and Regulatory Requirements

10. As required by Section 143(3) of the Act, and based on the auditor's report of the Holding Company, we report, to the extent applicable, that:

- a) We have sought and obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit of the aforesaid consolidated financial statements;
- b) In our opinion, proper books of account as required by law relating to preparation of the aforesaid consolidated financial statements have been kept so far as it appears from our examination of those books and the reports of the other auditors;
- c) The consolidated financial statements dealt by this report are in agreement with the relevant books of account maintained for the purpose of preparation of consolidated financial statements;
- d) In our opinion, the aforesaid consolidated financial statements comply with the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014 (as amended);
- e) On the basis of the written representations received from the directors of the Holding Company as on 31 March 2016 taken on record by the Board of Directors of the Holding Company none of the directors of the Group companies incorporated in India, is disqualified as on 31 March 2016, from being appointed as a director in terms of Section 164(2) of the Act;

f) we have also audited the internal financial controls over financial reporting (IFCoFR) of the Holding Company, as of 31 March 2016, in conjunction with our audit of the consolidated financial statements of the group for the year ended on that date and our report dated 26 March 2016 as per annexure I expressed unqualified opinion.

g) With respect to the other matters to be included in the Auditor's Report in accordance with Rule 11 of the Companies (Audit and Auditor's) Rules, 2014, in our opinion and to the best of our information and according to the explanations given to us:

- i. as detailed in note 36(b), the consolidated financial statements disclose the impact of pending litigations on the consolidated financial position of the Group;
- ii. the Group did not have any long-term contracts including derivative contracts for which there were any material foreseeable losses;
- iii. there has been no delay in transferring amounts, required to be transferred, to the Investor Education and Protection Fund by the Holding Company. In relation to a subsidiary company incorporated in India, there were no amounts which were required to be transferred to the Investor Education and Protection Fund.

For **Walker Chandlok & Co LLP**
Chartered Accountants
Firm Registration No.: 001076NN500013

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

Place: Hyderabad
Date: 26 May 2016

Annexure I to the Independent Auditor's Report of even date to the members of NATCO Pharma Limited, on the consolidated financial statements for the year ended 31 March 2016

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

1. In conjunction with our audit of the consolidated financial statements of the NATCO Pharma Limited ("the Holding Company") and its subsidiaries, (the Holding Company and its subsidiaries together referred to as "the Group"), as of and for the year ended 31 March 2016, we have audited the internal financial controls over financial reporting (IFCoFR) of the Holding Company as of that date.

Management's Responsibility for Internal Financial Controls

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

Auditor's Responsibility

3. Our responsibility is to express an opinion on the IFCoFR of the Holding Company based on our audit. We conducted our audit in accordance with the Standards on Auditing, issued by the Institute of Chartered Accountants of India (ICAI) and deemed to be prescribed under section 143(10) of the Act, to the extent applicable to an audit of IFCoFR and the Guidance Note. Those Standards and the Guidance Note require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether adequate IFCoFR were established and maintained and if such controls operated effectively in all material respects.
4. Our audit involves performing procedures to obtain audit evidence about the adequacy of the IFCoFR and their operating effectiveness. Our audit of IFCoFR included obtaining an understanding of IFCoFR, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.
5. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the IFCoFR of the Holding Company as aforesaid.

Meaning of Internal Financial Controls over Financial Reporting

6. A company's IFCoFR is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles. A company's IFCoFR includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Inherent Limitations of Internal Financial Controls over Financial Reporting

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

Opinion

8. In our opinion, the Holding Company have, in all material respects, adequate internal financial controls over financial reporting and such internal financial controls over financial reporting were operating effectively as at 31 March 2016, based on the internal control over financial reporting criteria established by the Company considering the essential components of internal control stated in the Guidance Note.

For **Walker Chandlok & Co LLP**
Chartered Accountants
Firm's Registration No.: 001076NN500013

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

Place: Hyderabad
Date: 26 May 2016

Consolidated Balance Sheet As at 31 March 2016

(All amounts in ₹ unless otherwise stated)

	Note	As at 31 March 2016	As at 31 March 2015
Equity and liabilities			
Shareholders' funds			
Share capital	3	348,348,490	332,348,490
Reserves and surplus	4	12,634,989,726	8,128,162,428
		12,983,338,216	8,460,510,918
Minority interest		49,122,594	50,250,161
Non-current liabilities			
Long-term borrowings	5	-	970,157,454
Deferred tax liabilities (net)	6	144,154,149	118,894,128
Other long term liabilities	7	7,710,412	8,257,334
Long-term provisions	8	124,709,498	94,976,176
		276,574,059	1,192,285,092
Current liabilities			
Short-term borrowings	9	983,578,006	1,685,435,777
Trade payables	31		
- Dues to micro and small enterprises		25,554,013	14,966,656
- Dues to others		2,729,631,970	1,238,047,659
Other current liabilities	10	1,141,804,628	1,185,626,934
Short-term provisions	11	48,439,762	13,326,463
		4,929,008,379	4,137,403,489
Total		18,238,043,248	13,840,449,660
Assets			
Non-current assets			
Fixed assets			
Tangible assets	12	7,045,977,902	6,640,243,508
Intangible assets	13	89,190,935	459,461,121
Capital work-in-progress		2,118,050,119	1,289,643,974
Non-current investments	14	677,945	15,677,945
Long-term loans and advances	15	618,721,338	570,327,217
Other non-current assets	16	42,386,966	35,433,011
		9,915,005,205	9,010,786,776
Current assets			
Current investments	17	209,641,979	1,182,970
Inventories	18	3,572,832,417	2,199,997,394
Trade receivables	19	2,615,977,806	1,924,287,186
Cash and bank balances	20	451,194,564	133,605,399
Short-term loans and advances	15	1,038,181,649	551,482,819
Other current assets	21	435,209,628	19,107,116
		8,323,038,043	4,829,662,884
Total		18,238,043,248	13,840,449,660
Notes 1 to 41 form an integral part of these consolidated financial statements.			

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

For **Walker Chandiok & Co LLP**
Chartered Accountants

per **Sanjay Kumar Jain**
Partner

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

V C Nannapaneni
Chairman & Managing Director
DIN: 00183315

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

Rajeev Nannapaneni
Vice Chairman & CEO
DIN: 00183872

SVVN Appa Rao
Chief Financial Officer

Place: Hyderabad
Date : 26 May 2016

Place: Hyderabad
Date : 26 May 2016

Consolidated Statement of Profit and Loss for the year ended 31 March 2016

(All amounts in ₹ unless otherwise stated)

	Note	For the year ended 31 March 2016	For the year ended 31 March 2015
Revenue			
Revenue from operations (gross)	22	11,794,336,164	8,382,254,848
Less: Excise duty		378,173,053	129,494,407
Revenue from operations (net)		11,416,163,111	8,252,760,441
Other income	23	107,593,469	149,071,423
Total revenue		11,523,756,580	8,401,831,864
Expenses			
Cost of materials consumed (including packing material consumed)	24	3,036,717,853	1,672,623,796
Purchases of stock-in-trade		904,936,151	842,783,226
Changes in inventory of finished goods, work-in-progress and traded goods	25	(530,365,101)	(91,677,623)
Employee benefits expense	26	1,866,801,331	1,369,162,152
Finance costs	27	229,032,085	316,763,593
Depreciation and amortisation charge	12 and 13	509,525,403	472,656,545
Other expenses	28	3,440,870,448	2,326,073,061
Total expenses		9,457,518,170	6,908,384,750
Profit before exceptional items and tax		2,066,238,410	1,493,447,114
Exceptional item	29	-	151,274,688
Profit before tax		2,066,238,410	1,342,172,426
Profit from continuing operations before tax		1,995,667,999	1,264,503,726
Tax expense	6(a)		
Current tax		447,952,519	325,456,806
Deferred tax expense/(benefit)		31,249,395	(310,366,437)
Profit for the year from continuing operations after tax		1,516,466,085	1,249,413,357
Profit for the year from discontinuing operations before tax	35	70,570,411	77,668,700
Tax expense		48,775,892	24,411,239
Profit for the year from discontinuing operations after tax		21,794,519	53,257,461
Profit after tax and before minority interest		1,538,260,604	1,302,670,818
Minority interest		(13,493,586)	(43,486,931)
Profit for the year		1,551,754,190	1,346,157,749
Earnings per equity share [EPES]	33		
Basic EPES		9.10	8.13
Diluted EPES		9.08	8.13
Nominal value per equity share		2.00	2.00
Notes 1 to 41 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**
Chartered Accountants

per **Sanjay Kumar Jain**
Partner

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

V C Nannapaneni
Chairman & Managing Director
DIN: 00183315

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

Rajeev Nannapaneni
Vice Chairman & CEO
DIN: 00183872

SVVN Appa Rao
Chief Financial Officer

Place: Hyderabad
Date : 26 May 2016

Place: Hyderabad
Date : 26 May 2016

Consolidated Cash Flow Statement for the year ended 31 March 2016

(All amounts in ₹ unless otherwise stated)

	For the year ended 31 March 2016	For the year ended 31 March 2015
Cash flows from operating activities		
Profit before tax	2,066,238,410	1,342,172,426
Adjustments :		
Depreciation and amortisation expense	509,525,403	472,656,545
Net gain on sale of current investments	(11,352,311)	(23,631,749)
Assets written off	48,637,363	7,024,358
Bad debts written-off	96,004,654	58,537
Provision for employee benefits	43,726,484	(8,943,942)
Provision no longer required, written back	-	(38,766,503)
Employee stock compensation expense	96,860,194	-
Income from insurance claims	(25,000,000)	-
Interest income	(53,006,901)	(5,532,804)
Dividend income	(84,707)	(3,660)
Loss/(gain) on sale of asset	2,075,903	(6,580,947)
Interest expenses	212,167,773	302,927,361
Unrealised foreign exchange gain	-	(17,759,765)
Operating profit before working capital changes	2,985,792,265	2,023,619,857
Increase in other current liabilities	68,793,681	101,325,392
Increase in trade payables	1,502,171,668	193,917,985
Decrease in long-term liabilities and provisions	(11,111,243)	(2,142,073)
Increase in inventories	(1,385,676,071)	(395,775,244)
Increase in trade receivables	(787,695,274)	(718,587,200)
(Increase)/decrease in other current assets	(453,869,859)	6,114,447
Increase in short-term loans and advances	(461,698,829)	(8,240,913)
Increase in long-term loans and advances	29,144,102	(36,179,324)
Cash generated from operating activities	1,485,850,440	1,164,052,927
Income taxes paid	(462,053,581)	(237,390,843)
Net cash generated from operating activities	A 1,023,796,859	926,662,084
Cash flows from investing activities		
Purchase of tangible assets	(1,573,705,388)	(1,167,141,649)
Purchase of intangible assets	180,313,460	(24,959,654)
Proceeds from sale of tangible assets	10,991,659	17,356,896
Sale of non-current investments	26,352,311	-
Acquisition of current investments	(208,459,009)	-
Sale of current investments	-	25,628,313
Interest received	18,760,791	3,591,795
Dividends received	84,707	3,660
Increase in other bank balances	(209,272,697)	(1,980,265)
Net cash used in investing activities	B (1,754,934,166)	(1,147,500,904)

Consolidated Cash Flow Statement for the year ended 31 March 2016

(All amounts in ₹ unless otherwise stated)

	For the year ended 31 March 2016	For the year ended 31 March 2015
Cash flows from financing activities		
Proceeds from issuance of equity shares, net of share issue expenses	3,344,446,432	-
(Repayment) / proceeds from long-term borrowings, net	(1,291,376,443)	14,812,302
(Repayment) / proceeds from short-term borrowings, net	(701,857,771)	699,123,308
Movement in minority interest	12,366,019	75,293,757
Interest paid	(246,754,065)	(299,150,179)
Dividends paid (including tax on distributed profits)	(260,692,319)	(199,329,249)
Net cash from financing activities	C 856,131,853	290,749,939
Effect of currency translation adjustment	D (7,753,091)	(47,649,813)
Net increase in cash and cash equivalents (A+B+C+D)	117,241,455	22,261,306
Cash and cash equivalents as at the beginning of the year	124,416,388	102,155,082
"Cash and cash equivalents as at the end of the year [Refer Note 1]"	241,657,843	124,416,388
Note 1:		
Cash and bank balances as per note 20	451,194,564	133,605,399
Less: Other bank balances	209,536,721	9,189,011
Cash and cash equivalents considered for cash flow statement	241,657,843	124,416,388

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

For **Walker Chandio & Co LLP**
Chartered Accountants

per **Sanjay Kumar Jain**
Partner

Place: Hyderabad
Date : 26 May 2016

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

V C Nannapaneni
Chairman & Managing Director
DIN: 00183315

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

Place: Hyderabad
Date : 26 May 2016

Rajeev Nannapaneni
Vice Chairman & CEO
DIN: 00183872

SVVN Appa Rao
Chief Financial Officer

Notes to the Consolidated Financial Statements

Summary of significant accounting policies and other explanatory information
(All amounts in ₹ unless otherwise stated)

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 on accrual basis of accounting and in accordance with the accounting standards notified pursuant to the Companies (Accounting Standards) Rules, 2006 (as amended) ("the Rules") specified under Section 133 of the Companies Act, 2013 ("the Act") read with Rule 7 of the Companies (Accounts) Rules, 2014 (as amended) and other recognized accounting practices and policies generally accepted in India including the requirements of the Act ("Indian GAAP"). The consolidated financial statements have been prepared using uniform

accounting policies for like transactions and other events 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 standalone 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 of preparation of the consolidated financial statements:

Names of the subsidiaries	Country of Incorporation	Percentage holding /interest (%)	
		As at 31 March	
		2016	2015
NATCO Pharma, Inc.,	United States of America	100.00	100.00
Time Cap Overseas Limited	Mauritius	87.73	83.78
NATCO Farma Do Brazil	Brazil	84.69	79.47
NATCO Organics Limited ("NOL")	India	-	100.00
NATCO Pharma (Canada), Inc.	Canada	99.68	99.34
Natco Pharma Asia Pte. Ltd.	Singapore	100.00	100.00
NATCO Pharma Australia PTY Ltd	Australia	80.00	80.00

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

Note 2 : NOL has been amalgamated with the Company effective 1 April 2015. Refer note 34 for details of scheme of amalgamation.

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 trade and other receivables, provision for slow and non-moving 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.

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 for acquisition of a depreciable capital assets are added to or deducted from the cost of the asset and is depreciated over the remaining useful life of the asset.

d. Depreciation

Depreciation is provided using Straight Line Method based on the rates prescribed under Schedule II 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.

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.

Notes to the Consolidated Financial Statements

Summary of significant accounting policies and other explanatory information
(All amounts in ₹ unless otherwise stated)

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.

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. Research and development

Expenditure on research activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding is recognized as expense in the Consolidated Statement of Profit and Loss when incurred. Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditure is capitalized only if:

- the product or the process is technically and commercially feasible;
- future economic benefits are probable and ascertainable;
- the Group intends to and has sufficient resources, technical and financial, to complete development of the product and has the ability to use or sell the asset; and
- development costs can be measured reliably.

j. Inventories

Raw material, stock-in-trade, packaging material, stores and spare parts are carried at cost. Cost includes

purchase price excluding taxes those are subsequently recoverable by the enterprise from the concerned authorities, freight inwards and other expenditure incurred in bringing such inventories to their present location and condition.

Cost of inventories is determined using the weighted average cost method, except in the case of inventories held by NATCO Pharma Inc., the cost is determined using first-in-first out method.

The carrying cost of raw materials, stock-in-trade, packaging materials and stores and spare parts are appropriately written down when there is a decline in replacement cost of such materials and finished products in which they will be incorporated are expected to be sold below cost.

Finished goods and work in progress are valued at the lower of cost and net realizable value. Cost of work in progress and manufactured finished goods is determined on weighted average basis and comprises cost of direct material, cost of conversion and other costs incurred in bringing these inventories to their present location and condition. Excise duty liability is included in the valuation of closing inventory of finished goods.

k. Revenue recognition

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

Sale of goods:

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 sale of pharmacy products revenue is recognized on sale of products which coincides with transfer of significant risks and rewards to customers and is inclusive of excise duty and net of trade discounts, sales returns and sales tax, where applicable.

Sale of services:

Revenue from sale of services is recognized as per the terms of contracts with customers when the related services are performed or the agreed milestones are achieved and when the Group completes all its performance obligations.

Interest income:

Income from interest on deposits is recognised on the time proportionate methods taking into account the amount outstanding and the interest rate applicable.

Dividend income:

Dividend income is recognized when the right to receive the payment is established.

Export entitlements:

Export entitlements are recognized when the right to receive such entitlement as per the terms of the scheme

Notes to the Consolidated Financial Statements

Summary of significant accounting policies and other explanatory information
(All amounts in ₹ unless otherwise stated)

is established in respect of the exports made and where there is no significant uncertainty regarding compliance with the terms and conditions of such scheme.

Profit share arrangements:

Revenue under profit share arrangements is recognized based on the explicit terms and conditions of arrangements with respective customers.

Licensing and dossiers arrangements:

Revenue from licensing and dossiers arrangements is recognised in accordance with terms of the relevant agreement as accepted and agreed with the customers.

I. 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.

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

The break-up of the major components of the deferred tax assets and liabilities as at the balance sheet date have been arrived at after setting off deferred tax assets and liabilities where the Group has a legally enforceable right to set-off assets against liabilities, and where such assets and liabilities relate to taxes on income levied by the same governing taxation laws.

Minimum Alternative Tax (MAT) credit is recognized as an asset only when and to the extent there is convincing evidence that the Group 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 Consolidated Statement of Profit and Loss and shown as MAT credit entitlement.

m. 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.

n. Foreign currency transactions

Initial recognition

Foreign currency transactions are recorded in the reporting currency, by applying to the foreign currency amount the exchange rate between the reporting currency and 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 Group 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 expense in the year in which they arise.

o. 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'.

Notes to the Consolidated Financial Statements

Summary of significant accounting policies and other explanatory information
(All amounts in ₹ unless otherwise stated)

p. 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 Consolidated Statement of 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 eligible employees are charged to Consolidated Statement of Profit and Loss of the year when the contribution to respective fund is due.

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 Consolidated Statement of Profit and Loss in the period in which such gains or losses arises.

Compensated absences

As per the Group 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 Consolidated Statement of Profit and Loss.

q. Employee stock compensation cost

Measurement and disclosure of the employee share-based payment plans is done in accordance with Securities and Exchange Board of India (Share Based Employee Benefits) Regulations, 2014 and the Guidance note on "Accounting for Employee Share-based Payments", issued by the ICAI. The Group measures compensation cost relating to employee stock options using the fair value method. Compensation expense, if any, is amortized over the vesting period of the option on a straight line basis.

r. 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.

s. 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 Consolidated Statement of Profit and Loss on a straight line basis.

t. 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.

u. Cash flow statement

Consolidated 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.

v. Cash and cash equivalents

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

w. Segment reporting

The Group'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. Intersegment 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.

2.

a) Change in accounting estimate

In accordance with the provisions of the Act, effective 1 April 2014, the Group has adopted useful lives as prescribed under Schedule II which coincides with the useful lives as estimated by the management. Accordingly, the depreciation on tangible fixed assets for the previous year ended was higher by ₹127,839,130 and further an amount of ₹62,258,333 was charged to the opening balance of the general reserve in respect of the assets whose remaining useful life was nil as at 1 April 2014.

b) Change in accounting policy

Hitherto, the Group had used intrinsic value method for recognition of employee stock option compensation cost arising on account of grant of stock options. However, during the year management of the Group has elected the fair value method of accounting for compensation on stock options granted during the year. Management is of the opinion that the impact of such change is expected to be insignificant on the consolidated financial statements of the Group.

Notes to the Consolidated Financial Statements

3. Share capital

(All amounts in ₹ unless otherwise stated)

	As at 31 March 2016		As at 31 March 2015	
	Number	Amount	Number	Amount
Authorized share capital				
Equity shares of ₹2 each	20,00,00,000	40,00,00,000	20,00,00,000	40,00,00,000
Issued, subscribed and fully paid up				
Equity shares of ₹2 each	174,174,245	348,348,490	166,174,245	332,348,490
	174,174,245	348,348,490	166,174,245	332,348,490
(a) Reconciliation of shares				
Equity shares of ₹2 each				
Balance at the beginning of the year	166,174,245	332,348,490	165,365,370	330,730,740
Add: Issued during the year	8,000,000	16,000,000	808,875	1,617,750
Balance at the end of the year	174,174,245	348,348,490	166,174,245	332,348,490

(b) Terms and rights attached to equity shares

The Company has only one class of equity shares having a par value of ₹2 per share. Each holder of equity shares is entitled to one vote per share. The dividend proposed by the Board of Directors, if any, 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

(All amounts in ₹ unless otherwise stated)

	As at 31 March 2016		As at 31 March 2015	
	Number	Amount	Number	Amount
Equity shares of ₹2 each				
V C Nannapaneni *	40,736,815	23.39%	40,736,815	24.51%
Time Cap Pharma Labs Limited	17,157,220	9.85%	17,157,220	10.32%
Natsoft Information Systems Private Limited	15,767,500	9.05%	15,767,500	9.49%

* including shares held in the capacity of Karta of HUF aggregating to 5,440,045 (31 March 2015: 5,440,045)

(d) Shares reserved for issue under options

- The Company has instituted the NATCO Employee Stock Option Plan 'ESOP-2015' ("the Scheme") as per the special resolution passed in the Extraordinary General Meeting of the Company held on 27 June 2015. This scheme was formulated in accordance with the Securities Exchange Board of India (Share Based Employee Benefits) Regulations, 2014 issued by the Securities and Exchange Board of India ("SEBI"). Pursuant to such order, the Board of the Directors of the Company have granted 750,000 options (post split) to eligible employees on 12 August 2015. The terms of the Scheme provide that each option entitles the holder to 5 equity shares of ₹2 each (post split) and that the options can be settled only by way of issue of equity shares. The options vest on an annual basis over a period of 5 years from the date of grant and the options are entirely time-based with no performance conditions.
- 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. The Scheme was 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 Companies Act, 1956. Pursuant to such approval, the Board was authorized to issue employee stock options, that were 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.(pre split) 236,551 options were granted during August 2011 at an exercise price of ₹10 each(pre split) and were accounted at an intrinsic value of ₹252.55 per share (pre split), 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. During the year the Company has terminated NATCO Employee Stock Option Plan, 2010 (NATSOP 2010).

Notes to the Consolidated Financial Statements

(d) Shares reserved for issue under options (continued)

- During the year ended 31 March 2016, the Company had incurred stock compensation cost of ₹96,860,194 (31 March 2015: ₹Nil) in respect of ESOP 2015.

The details of options Outstanding of ESOP 2015 Scheme :

	As at 31 March 2016		As at 31 March 2015	
	Number of shares	Weighted average exercise price	Number of shares	Weighted average exercise price
Outstanding at the beginning of the year	-	-	-	-
Granted during the year	750,000	2	-	-
Forfeited during the year	-	-	-	-
Exercised during the year	-	-	-	-
Expired during the year	-	-	-	-
Outstanding at the end of the year	750,000	2	-	-
Exercisable at the end of the year	-	-	-	-

The weighted average share price at the date of exercise for stock options exercised during the year was ₹Nil (31 March 2015: ₹Nil). The stock options outstanding as at 31 March 2016 had a weighted average exercise price of ₹2 post split (31 March 2015: ₹Nil), and the weighted average remaining contractual life of unvested options is 25.13 months (31 March 2015: Nil).

The fair value of options was estimated at the date of grant using the Black Scholes method with the following assumptions:

Risk-free interest rate	7.35% - 7.82%
Expected life	1-5 years
Expected volatility	47.75%
Expected dividend yield	0.002%

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

	Number of shares	
	1 April 2011 to 31 March 2016	1 April 2010 to 31 March 2015
Aggregate number of equity shares allotted *	19,34,485	19,34,485

* Equity shares allotted pursuant to contract without payment being received in cash comprise of:

- During the year ended 31 March 2015, the Company had issued 808,875 equity shares (post split) of ₹2 each, fully paid-up at a premium of ₹238 per equity share (post split) to the erstwhile shareholders of Natco Organic Limited ('NOL') in exchange of 19,310,000 equity shares of ₹10 each at face value held in NOL.
- Balance equity shares comprising of 1,125,610 (31 March 2015: 1,125,610) (post split) were allotted during the period of five years, on exercise of the options granted under the employee stock option plan (ESOP 2010) wherein part consideration was received in the form of employee services.
- Equity shares of the Company with face value of ₹10 per share were sub-divided into 5 equity shares of ₹2 each effective 30 November 2015, accordingly comparative has been restated to be inline with the current year's face value per share and number of shares. Consequently, in accordance with Accounting Standard (AS) 20 - "Earnings Per Share", the basic and diluted earnings per share of the previous year have been recomputed and disclosed accordingly.

Notes to the Consolidated Financial Statements

4. Reserves and surplus

(All amounts in ₹ unless otherwise stated)

	As at 31 March 2016	As at 31 March 2015
Capital reserve	207,272,762	207,272,762
Capital redemption reserve	4,928,810	4,928,810
Securities premium reserve		
Balance at the beginning of the year	2,782,233,802	2,589,721,552
Add : Additions during the year	3,392,880,000	192,512,250
Less: Share issue expenses	(64,433,568)	-
Balance at the end of the year	6,110,680,234	2,782,233,802
Stock options outstanding account		
Balance at the beginning of the year	-	-
Add : Amortisation during the year	96,860,194	-
Balance at the end of the year	96,860,194	-
General reserve		
Balance at the beginning of the year	483,909,384	437,161,000
Add : Additions during the year	110,000,000	110,000,000
Less: Adjustment (Refer note:2)	-	(63,251,616)
Balance at the end of the year	593,909,384	483,909,384
Foreign currency translation reserve		
Balance at the beginning of the year	(24,177,236)	50,910,475
Add : Adjustments during the year	(18,236,763)	(75,087,711)
Balance at the end of the year	(42,413,999)	(24,177,236)
Surplus in the statement of profit and loss		
Balance at the beginning of the year	4,673,994,906	3,638,035,031
Add : Profit for the year	1,551,754,190	1,346,157,749
Less: Pursuant to the scheme of amalgamation (refer note 34)	(189,956,726)	-
Less: Interim dividend of ₹1.25 (31 March 2015: ₹1) per share	(217,717,806)	(166,174,245)
Less: Tax on distributed profits	(44,322,223)	(34,023,629)
Less: Transferred to general reserve	(110,000,000)	(110,000,000)
Balance at the end of the year	5,663,752,341	4,673,994,906
	12,634,989,726	8,128,162,428

5. Long-term borrowings

Secured		
Term loans from		
Banks	66,581,648	1,179,868,320
Other parties	75,000,000	223,235,295
	141,581,648	1,403,103,615
Unsecured		
From other parties	-	29,854,476
	141,581,648	1,432,958,091
Less: Current maturities of long-term borrowings (note 10)	(141,581,648)	(462,800,637)
	-	970,157,454

Notes to the Consolidated Financial Statements

(a) Terms and conditions of secured loan-term borrowings and nature of its security

- Term loans amounting to ₹75,000,000 (31 March 2015: ₹623,235,295) are 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.
- Term loan amounting to ₹66,581,648 (31 March 2015: ₹122,086,614) is secured by first charge on the movable and immovable fixed assets of Mekaguda unit along with other lenders.
- Term loan amounting to ₹Nil (31 March 2015: ₹657,781,706) was 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 1.88% per annum to 12.75% per annum (31 March 2015: 3.53% per annum to 12.75% per annum).

- Unsecured loan-term borrowings were availed at an interest rate of 8.64% to 31.68% per annum (31 March 2015: 5% to 29.52% per annum)

(c) Details of repayment of long term borrowings

(All amounts in ₹ unless otherwise stated)

	As at 31 March 2016	As at 31 March 2015
Up to 1 year	141,581,648	462,800,637
From 1 to 3 years	-	888,681,305
3 years and above	-	81,476,149
	141,581,648	1,432,958,091

6. Deferred tax liabilities (net)

Deferred tax liability on account of		
- Fixed assets	199,745,013	131,041,663
- Employee benefits	-	(12,147,535)
Deferred tax asset on account of		
- Unabsorbed depreciation	55,590,864	-
Net deferred tax liability	144,154,149	118,894,128

- On the basis of management's assessment of its future business plan and impact thereof on its future taxable income, the management believes that the Company shall continue to pay tax on income under the Minimum Alternate Tax (MAT) provisions of the Income Tax Act, 1961 over the next several years. Thus, in accordance with the provisions of Accounting Standard 22 - "Accounting for Taxes on Income", deferred tax liabilities (net) aggregating to ₹310,366,437 lakhs recognized in the earlier years on account of timing differences which will be reversed during the period in which taxes are expected to be paid under MAT was de-recognized in the financial year 2014-15 .

7. Other long-term liabilities

(All amounts in ₹ unless otherwise stated)

	As at 31 March 2016	As at 31 March 2015
Security deposit	7,710,412	8,257,334
	7,710,412	8,257,334

Notes to the Consolidated Financial Statements

8. Long-term provisions

(All amounts in ₹ unless otherwise stated)

	As at 31 March 2016	As at 31 March 2015
Provision for gratuity	88,057,414	60,275,275
Provision for compensated absences	36,652,084	34,700,901
	124,709,498	94,976,176

(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

(All amounts in ₹ unless otherwise stated)

	As at 31 March 2016	As at 31 March 2015
Projected benefit obligation at the beginning of the year	123,033,816	117,741,579
Service cost	12,291,767	9,415,272
Interest cost	9,842,705	9,396,364
Actuarial (gain) / loss	31,081,647	(6,500,350)
Benefits paid	(19,535,052)	(7,019,049)
Projected benefit obligation at the end of the year	156,714,883	123,033,816

(ii) Change in plan assets

Fair value of plan assets at the beginning of the year	54,462,146	46,810,288
Expected return on plan assets	4,547,015	4,704,817
Employer contributions	23,111,240	9,966,090
Premium expenses	291,226	-
Benefits paid	(19,535,052)	(7,019,049)
Fair value of plan assets at the end of the year	62,876,575	54,462,146

(iii) Reconciliation of present value of defined benefit obligation and the fair value of plan assets

Present value of defined benefit obligation at the end of the year	156,714,883	120,432,060
Fair value of plan assets at the end of the year	(62,876,575)	(54,462,146)
Net liability recognised in the balance sheet	93,838,308	65,969,914

(iv) Expense recognized in the statement of profit and loss

Service cost	12,291,767	9,415,272
Interest cost	9,842,705	9,396,364
Expected returns on plan assets	(4,547,015)	(4,704,817)
Premium expenses	214,392	-
Recognized net actuarial (gain)/ loss	31,081,647	(6,500,350)
Net gratuity costs	48,883,496	7,606,469

Notes to the Consolidated Financial Statements

(v) Key actuarial assumptions

(All amounts in ₹ unless otherwise stated)

	As at 31 March 2016	As at 31 March 2015
Discount rate	8.00%	8.00%
Expected return on plan assets	8.00%	9.00%
Salary escalation rate	6.00%	4.00%

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

(All amounts in ₹ unless otherwise stated)

	As at 31 March 2016	As at 31 March 2015	As at 31 March 2014	As at 31 March 2013	As at 31 March 2012
Defined benefit obligation	156,714,883	120,432,060	117,454,552	94,462,630	73,162,037
Plan Assets	(62,876,575)	(54,462,146)	46,810,288	39,943,228	27,293,852
Surplus/ (deficit)	(93,838,308)	(65,969,914)	(70,644,264)	(54,519,402)	(45,868,185)
Experience adjustment to planned liabilities	31,081,647	(6,500,350)	13,818,766	13,154,950	7,133,657
Experience adjustment to planned assets	-	-	-	-	-

9. Short-term borrowings

(All amounts in ₹ unless otherwise stated)

	As at 31 March 2016	As at 31 March 2015
Loans repayable on demand		
Secured		
From Banks	881,320,170	1,375,197,497
Unsecured		
From Banks	102,257,836	310,238,280
	983,578,006	1,685,435,777

(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 9.25% per annum to 13.25% per annum (31 March 2015: 10% 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 Nagarjunasagar 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.

Notes to the Consolidated Financial Statements

10. Other current liabilities

(All amounts in ₹ unless otherwise stated)

	As at 31 March 2016	As at 31 March 2015
Current maturities of long-term borrowings	141,581,648	462,800,637
Interest accrued but not due on long-term borrowings	-	13,758,895
Creditors for capital assets	486,095,768	265,081,581
Book overdraft	-	78,249,535
Employee related payables	155,416,000	107,463,380
Advance from customers	236,951,538	202,195,465
Unpaid dividends	10,536,721	9,189,011
Statutory liabilities	89,713,368	46,888,430
Other payables	21,509,585	-
	1,141,804,628	1,185,626,934

11. Short-term provisions

Provision for taxation [net of advance tax]	33,904,836	2,220,378
Provision for compensated absences	3,187,138	2,809,690
Provision for gratuity	11,347,788	8,296,395
	48,439,762	13,326,463

Notes to the Consolidated Financial Statements

12. Tangible assets

(All amounts in ₹ unless otherwise stated)

	Freehold land	Leasehold land	Buildings	Plant and equipment	Office equipment	Furniture & fixtures	Vehicles	Computers	Total
Gross block									
Balance as at 1 April 2014	971,072,416	16,725,782	2,070,092,842	4,424,571,091	41,503,382	73,258,245	101,178,328	111,858,374	7,810,260,440
Additions	122,308,886	113,026,354	339,639,322	423,640,051	8,266,602	27,816,448	14,751,747	8,181,287	1,057,630,697
Disposals / adjustments	10,765,000	-	-	18,650	80,567	-	1,471,770	-	12,335,987
Foreign exchange adjustments	-	-	-	-	404,375	229,858	(18,343)	409,746	1,025,636
Balance as at 31 March 2015	1,082,616,302	129,752,136	2,409,732,164	4,848,192,492	50,093,772	101,304,551	114,439,962	120,449,407	8,856,580,786
Additions	146,344,435	386,045	205,800,412	497,534,797	17,061,801	17,515,896	40,095,692	13,805,364	938,544,442
Disposals / adjustments	2,851,000	-	6,153,700	28,242,583	15,389,753	6,000,090	8,527,166	8,327,251	75,491,543
Foreign exchange adjustments	-	888,427	-	-	973,822	1,675,457	144,909	545,376	4,227,991
Balance as at 31 March 2016	1,226,109,737	131,026,608	2,609,378,876	5,317,484,706	52,739,642	114,495,814	146,153,397	126,472,896	9,723,861,676
Accumulated depreciation									
Up to 1 April 2014	-	-	372,062,857	1,127,847,781	21,560,531	29,330,381	49,332,423	81,119,740	1,682,880,026
Depreciation charge	-	2,175,022	74,572,281	342,573,877	6,383,836	7,077,845	14,752,892	11,220,612	458,756,365
Adjustments	-	-	7,607,938	46,273,631	5,433,923	-	1,052,393	2,573,318	62,941,203
Reversal on disposal	-	-	-	-	-	-	1,460,821	-	1,460,821
Foreign exchange translation	-	3,549,670	-	-	968,374	7,703,989	412,968	585,504	13,220,505
Up to 31 March 2015	-	7,351,005	454,243,076	1,516,695,289	34,346,664	44,112,215	64,089,855	95,499,174	2,216,337,278
Depreciation charge	-	3,382,932	81,997,641	371,121,323	4,366,511	8,476,339	14,443,584	10,681,670	494,470,000
Reversal on disposal	-	-	196,083	5,226,978	11,896,724	6,023,750	4,268,221	7,659,924	35,271,680
Foreign exchange translation	-	355,166	-	-	601,356	859,081	81,282	451,291	2,348,176
Up to 31 March 2016	-	11,089,103	536,044,634	1,882,589,634	27,417,807	47,423,885	74,346,500	98,972,211	2,677,883,774
Net block									
Balance as at 31 March 2015	1,082,616,302	122,401,131	1,955,489,088	3,331,497,203	15,747,108	57,192,336	50,350,107	24,950,233	6,640,243,508
Balance as at 31 March 2016	1,226,109,737	119,937,505	2,073,334,242	3,434,895,072	25,321,835	67,071,929	71,806,897	27,500,685	7,045,977,902

(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 and from Ramky Pharma City (India) Private Limited for a period of 33 years which is renewable for a further period of 2 terms of 33 years each.

Notes to the Consolidated Financial Statements

13. Intangible assets

(All amounts in ₹ unless otherwise stated)

	Computer Software	Goodwill	Total
Gross block			
Balance as at 1 April 2014	92,312,750	296,287,281	388,600,031
Additions	5,008,364	163,729,095	168,737,459
Deletions/Adjustments	-	-	-
Foreign exchange adjustments	(6,259,080)	(7,831,651)	(14,090,731)
Balance as at 31 March 2015	91,062,034	452,184,725	543,246,759
Additions	18,137,470	-	18,137,470
Deletions/Adjustments	-	429,540,942	429,540,942
Foreign exchange adjustments	(71,046)	14,295,514	14,224,468
Balance as at 31 March 2016	109,128,458	36,939,297	146,067,755
Accumulated amortisation			
Up to 1 April 2014	28,254,375	-	28,254,375
Amortization charge	13,900,180	-	13,900,180
Adjustment	285,279	-	285,279
Foreign exchange translation	(576,060)	-	(576,060)
Up to 31 March 2015	41,863,774	-	41,863,774
Amortization charge	15,055,403	-	15,055,403
Adjustment	-	-	-
Foreign exchange translation	(42,357)	-	(42,357)
Up to 31 March 2016	56,876,820	-	56,876,820
Impairment loss			
Up to 1 April 2014	-	40,292,723	40,292,723
Foreign exchange adjustments	-	1,629,141	1,629,141
Up to 31 March 2015	-	41,921,864	41,921,864
Adjustments	-	43,787,853	43,787,853
Foreign exchange adjustments	-	1,865,989	1,865,989
Up to 31 March 2016	-	-	-
Net block			
Balance as at 31 March 2015	49,198,260	410,262,861	459,461,121
Balance as at 31 March 2016	52,251,638	36,939,297	89,190,935

14. Non-current investments

(All amounts in ₹ unless otherwise stated)

	As at 31 March 2016	As at 31 March 2015
Investments in equity instruments, Others, Unquoted		
Share application money in NATIVITA JLLC	255,035	255,035
750 (31 March 2015: 750) equity shares of ₹100 each, fully paid-up, in Jeedimetla Effluent Treatment Limited	75,000	75,000
34,400 (31 March 2015: 34,400) equity shares of ₹10 each, fully paid-up, in Pattancheru Enviro-Tech Limited	344,000	344,000
Total investments in equity instruments, Trade (A)	674,035	674,035
Investments in equity instruments, Others, Quoted		
27,000 (31 March 2015: 27,000) equity shares of ₹10 each, fully paid-up in Jayalakshi Spinning Mills Limited	270,000	270,000
Total investments in equity instruments, Others (B)	270,000	270,000

Notes to the Consolidated Financial Statements

14. Non-current investments

(All amounts in ₹ unless otherwise stated)

	As at 31 March 2016	As at 31 March 2015
Other non-current investments, Others, Unquoted		
Investment in portfolio management services		
Nil (31 March 2015: 15,000,000) compulsorily convertible preference shares of ₹1 each, fully paid-up in Ravindranath GE Medical Associates Private Limited	-	15,000,000
National savings certificates	3,910	3,910
Total investments in other non-current investments (C)	3,910	15,003,910
Total non-current investments (A+B+C)	947,945	15,947,945
Less: provision for diminution in value of investments	270,000	270,000
	677,945	15,677,945
Quoted investments	270,000	270,000
Market value of quoted investments	-	-
Unquoted investments [including share application money]	677,945	15,677,945
Provision for diminution in value of investments	270,000	270,000

15. Loans and advances (Unsecured, considered good)

Long-term		
Capital advances	435,912,521	387,316,135
Security deposits	63,687,173	43,446,298
Advance tax, net	33,946,147	43,192,485
Balances with government authorities	85,175,497	96,372,299
	618,721,338	570,327,217
Short-term		
Deposits with financial institution	400,000,000	-
Prepaid expenses	64,736,932	38,173,371
Balances with government authorities	401,210,347	353,352,420
Insurance claim receivable	39,482,126	-
Advances for purchases and expenses	95,843,136	103,607,161
Other advances	36,909,108	56,349,867
	1,038,181,649	551,482,819

16. Other non-current assets (Unsecured, considered good)

Margin money*	36,044,185	27,119,198
Interest accrued on fixed deposits	6,342,781	8,313,813
	42,386,966	35,433,011

*Given against bank guarantees/performance guarantees.

Notes to the Consolidated Financial Statements

17. Current investments

(All amounts in ₹ unless otherwise stated)

	As at 31 March 2016	As at 31 March 2015
Investments in equity instruments, Unquoted, Non-trade		
15,000 (31 March 2015: 15,000) equity shares of ₹10 each, fully paid-up in Neuland Laboratories Limited	675,000	675,000
778 (31 March 2015: Nil) equity shares of ₹2 each, fully paid-up in Alkem Laboratories Ltd	816,900	-
15,000 (31 March 2015: nil) equity shares of ₹1 each, fully paid-up in Cadila Healthcare Ltd	5,005,864	-
5,500 (31 March 2015: 2,000) equity shares of ₹1 each, fully paid-up in Sun Pharmaceuticals Industries Limited	3,144,215	507,970
Total investments in equity instruments, Unquoted (A)	9,641,979	1,182,970
Investments in equity instruments, Unquoted, Non-trade		
2,000 (31 March 2015: Nil) non-convertible debentures of ₹1,00,000 in Citicorp Finance India Limited	200,000,000	-
Total investments in equity instruments, Quoted (B)	200,000,000	-
Total current investments (A) + (B)	209,641,979	1,182,970
<i>Aggregate amount of</i>		
Quoted investments	9,641,979	1,182,970
Market value of quoted investments	20,872,068	7,039,800
Unquoted investments	200,000,000	-

18. Inventories (refer note 2(j))

Raw materials [including goods-in-transit of ₹24,414,105 (31 March 2015: ₹3,952,172)]	1,406,001,402	585,572,442
Work-in-progress	985,008,160	750,276,075
Finished goods	528,299,551	246,738,453
Stores and spares [including goods-in-transit of ₹35,335,319 (31 March 2015: ₹7,276,750)]	348,938,170	272,491,924
Packing materials [including goods-in-transit of ₹483,336 (31 March 2015: ₹Nil)]	280,362,843	226,242,498
Stock-in-trade	24,222,291	118,676,002
	3,572,832,417	2,199,997,394

19. Trade receivables

Due for a period exceeding six months		
Unsecured, considered good	381,114,882	205,072,653
Unsecured, considered doubtful	6,609,890	17,607,783
	387,724,772	222,680,436
Less: Provision for doubtful receivables	6,609,890	17,607,783
	381,114,882	205,072,653
Other debts		
Unsecured, considered good	2,234,862,924	1,719,214,533
	2,615,977,806	1,924,287,186

Notes to the Consolidated Financial Statements

20. Cash and bank balances

(All amounts in ₹ unless otherwise stated)

	As at 31 March 2016	As at 31 March 2015
Cash and cash equivalents		
Balances with banks		
- on current accounts	113,340,321	91,928,479
- on deposit accounts	103,316,632	-
Cash on hand	25,000,890	32,487,909
	241,657,843	124,416,388
Other bank balances		
Term deposits (original maturity more than 3 months but less than 12 months)	199,000,000	-
Unpaid dividend accounts	10,536,721	9,189,011
	209,536,721	9,189,011
	451,194,564	133,605,399

21. Other current assets (Unsecured, considered good)

Receivables from sale of retail pharmacy business (Refer note: 35)	285,031,743	-
Interest accrued on fixed deposits	36,217,142	-
Export incentives receivable	113,960,743	19,107,116
	435,209,628	19,107,116

22. Revenue from operations

	For the year ended 31 March 2016	For the year ended 31 March 2015
Sale of products	11,219,998,269	7,776,271,838
Sale of services		
Income from sale of dossiers	41,675,143	112,877,714
Other operating revenues		
Job work charges	66,942,115	85,427,633
Export incentives	151,020,109	50,345,985
Trading Sales	10,618,893	137,306,131
Scrap sales	16,671,919	16,081,796
Income from profit sharing arrangement	287,409,716	203,943,751
	532,662,752	493,105,296
Total revenue from operations	11,794,336,164	8,382,254,848

Notes to the Consolidated Financial Statements

23. Other income

(All amounts in ₹ unless otherwise stated)

	For the year ended 31 March 2016	For the year ended 31 March 2015
Interest income from		
Fixed deposits	53,006,901	5,532,804
Income tax refund	-	1,026,337
Dividend income	84,707	3,660
Net gain on sale of current investments	11,352,311	23,631,749
Net gain on sale of fixed assets	-	6,580,947
Net gain on foreign currency transaction and translation	-	58,634,399
Insurance claim - loss of profits	25,000,000	-
Provision no longer required, written back	-	38,766,503
Other non-operating income	18,149,550	14,895,024
	107,593,469	149,071,423

24. Cost of raw materials consumed (including packing materials consumed)

Opening stock	811,814,941	637,649,464
Add: Purchases during the year	3,911,267,157	1,846,789,273
Less: Closing stock	1,686,364,245	811,814,941
	3,036,717,853	1,672,623,796

25. "Changes in inventories of finished goods, work-in-progress and stock-in-trade"

Opening stock		
- Finished goods	246,738,453	204,830,894
- Work-in-progress	750,276,075	663,646,801
- Stock-in-trade	118,676,002	143,557,481
	1,115,690,530	1,012,035,176
Closing stock		
- Finished goods	528,299,551	246,738,453
- Work-in-progress	985,008,160	750,276,075
- Stock-in-trade	150,464,225	118,676,002
	1,663,771,936	1,115,690,530
Currency translation adjustment	(17,716,305)	(11,977,731)
	(530,365,101)	(91,677,623)

Notes to the Consolidated Financial Statements

26. Employee benefit expense

(All amounts in ₹ unless otherwise stated)

	For the year ended 31 March 2016	For the year ended 31 March 2015
Salaries and wages	1,516,721,610	1,200,049,804
Contribution to provident and other funds	103,338,096	82,352,615
Employee stock compensation expenses	96,860,194	-
Gratuity expense	43,726,484	5,312,718
Staff welfare expenses	106,154,947	81,447,015
	1,866,801,331	1,369,162,152

27. Finance costs

Interest expense*	212,167,773	302,927,361
Other borrowing costs	16,864,312	13,836,232
	229,032,085	316,763,593

*Interest expense is after capitalization of ₹20,827,397 (31 March 2015: ₹11,022,070) to qualifying fixed assets.

28. Other expenses

Consumption of stores and spare parts	223,785,424	197,462,154
Power and fuel	439,997,636	432,375,630
Rent	38,316,494	29,187,398
Repairs and maintenance		
- Buildings	34,600,544	47,903,800
- Plant and equipment	155,493,099	110,023,333
- Others	23,047,741	37,628,674
Insurance	51,906,488	40,602,451
Rates and taxes	92,169,877	162,574,482
Factory maintenance expenses	187,535,876	139,121,473
Analysis charges	108,683,557	72,163,662
Carriage and freight outwards	93,793,232	97,851,937
Donations	39,109,724	30,303,272
CSR expenditure	28,812,000	25,542,579
Communication expenses	29,722,891	28,661,974
Office maintenance and other expenses	52,473,845	41,348,363
Travelling and conveyance	146,529,408	120,561,029
Legal and professional fees	190,905,364	169,484,467
Payment to auditors		
- As auditor	4,653,780	2,676,772
- For reimbursement of expenses	39,000	39,000
Adjustments to the carrying amount of assets on account of sale	35,796,315	-
Inventory written-off	12,841,048	7,024,358
Bad debts written-off	96,004,654	58,537
Directors sitting fee	710,000	480,000
Foreign exchange loss, net	41,352,845	7,273,264
Sales promotion expenses including sales commission	1,032,981,441	275,729,906
Other research and development expenses	150,702,193	126,084,969
Printing and stationery	49,538,130	41,010,710
Miscellaneous expenses	79,367,842	82,898,867
	3,440,870,448	2,326,073,061

Notes to the Consolidated Financial Statements

29. Exceptional item

Exceptional item represents expenditure on settlement of pending legal dispute with M/s. SMS Pharmaceuticals Limited.

30. Related party disclosures

(a) Names of the related parties and nature of relationship	
Names of related parties	Nature of relationship
Time Cap Pharma Labs Limited	Entities in which Directors have control or have significant influence
NATCO Trust	
NATCO Group Employees Welfare Trust	
Natsoft Information Systems Private Limited	
V C Nannapaneni	
Rajeev Nannapaneni	Key management personnel ("KMP")
Durga Devi Nannapaneni	
Venkata Satya Swathi Kantamani	Relative of KMP
Neelima Nannapaneni	
Dr. Ramakrishna Rao	

(b) Transactions with related parties

	For the year ended 31 March 2016	For the year ended 31 March 2015
Time Cap Pharma Labs Limited		
Commission and expenses reimbursement	12,238,830	4,243,323
Purchase of raw-materials	562,275	1,169,175
Rental expense	4,500,000	4,200,000
Dividends paid	21,446,525	17,157,220
Natsoft Information Systems Private Limited		
Dividends paid	19,709,375	15,767,500
NATCO Trust		
Donations	19,450,580	20,238,541
CSR activities	28,812,000	25,542,579
Transactions with key management personnel		
V C Nannapaneni		
Managerial remuneration	15,996,000	15,000,000
Leave encashment paid	2,805,000	13,200,000
Rental expenses	2,100,000	1,800,000
Dividends paid	50,921,019	40,736,815
Commission on profits	15,000,000	-
Rajeev Nannapaneni		
Managerial remuneration	13,998,000	12,498,000
Leave encashment paid	2,420,002	1,133,333
Rental expenses	1,200,000	960,000
Dividends paid	2,095,219	1,786,175
Transactions with relatives of KMP		
Durga Devi Nannapaneni		
Dividends paid	4,423,875	4,139,100
Venkata Satya Swathi Kantamani		
Dividends paid	3,575,000	2,750,000
Neelima Nannapaneni		
Dividends paid	228,700	182,960
Dr. Ramakrishna Rao		
Dividends paid	933,013	706,610

Notes to the Consolidated Financial Statements

30. Related party disclosures (continued)

(c) Balances receivable / (payable)

(All amounts in ₹ unless otherwise stated)

	As at 31 March 2016	As at 31 March 2015
Time Cap Pharma Labs Limited	(4,620,017)	(2,028,499)
V C Nannapaneni	(11,131)	(1,103,850)
Rajeev Nannapaneni	(262,336)	(492,087)

Note:

- (i) Mr. V C Nannapaneni has extended personal guarantees in connection with the loans availed by the Company. Refer note 5 & 9.
(ii) Mrs. Durga Devi Nannapaneni and Dr. Ramakrishna Rao has extended personal guarantees in connection with the loans availed by the Company. Refer note 8.

31. 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:

(All amounts in ₹ unless otherwise stated)

	31 March 2016	31 March 2015
(a) The principal amount remaining unpaid as at the end of the year	25,554,013	14,966,656
(b) The amount of interest accrued and remaining unpaid at the end of the year	819,378	3,657,576
(c) Amount of interest paid by the company in terms of Section 16, of Micro Small and Medium Enterprises Development Act 2006("MSMED Act 2006") along with the amount of payments made beyond the appointed day during each accounting year.	-	-
(d) Amount of interest due and payable for the period of delay in making payment but without adding the interest specified under the (MSMED Act 2006)	-	-
(e) Amount of interest accrued and remaining unpaid at the end of each accounting year; and	-	-
(f) 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)	-	-

32. Amounts incurred on research and development expenses

	For the year ended 31 March 2016	For the year ended 31 March 2015
Salaries and wages	214,720,008	164,985,137
Consumption of materials and spares	171,083,128	160,075,625
Power and fuel	15,058,398	14,593,611
Other research and development expenses	151,199,704	135,484,603
Capital equipments	151,028,243	42,032,302
	703,089,481	517,171,278

The aforementioned expenditure, other than capital equipments, are included under the respective heads of the Consolidated Statement of Profit and Loss.

Notes to the Consolidated Financial Statements

33. Earnings per equity share

(All amounts in ₹ unless otherwise stated)

	For the year ended 31 March 2016	For the year ended 31 March 2015
Profit after tax - used as numerator for calculating earnings per equity share	1,551,754,190	1,346,157,749
"Weighted average number of shares used in computing basic earnings per equity share"	170,448,218	165,600,275
Add: Dilution effect of employee stock options	512,767	-
"Weighted average number of shares used in computing diluted earnings per equity share"	170,960,985	165,600,275
Nominal value per share	2	2
Basis earnings per equity share	9.10	8.13
Diluted earnings per equity share	9.08	8.13

34. Amalgamation of NATCO Organics Limited

Pursuant to a composite scheme of amalgamation of NOL with the Company ("the Scheme") as sanctioned by the Honorable High Court of Judicature at Madras vide their order dated 28 April 2016 all the assets and properties, both movable and immovable, rights, title and interests, secured and unsecured debts, borrowings, and all other duties, debts, liabilities, undertakings and obligations of NATCO Organics Limited, have been transferred to and vested in the Company retrospectively with effect from 1 April 2015. The Scheme has accordingly been given effect to in these consolidated financial statements.

The amalgamation has been accounted for under the "Pooling of Interest method" as prescribed under Accounting Standard 14 (AS 14) - "Accounting for Amalgamations" as specified under Section 133 of the Companies Act, 2013 read with Rule 7 of the Companies Accounts Rules, 2014. Accordingly, in compliance with the Scheme all the assets, liabilities and reserves of NOL, now considered a division of the Company, were recorded in the standalone books of the Company at their carrying amounts with effect from 1 April 2015.

Since NOL was a wholly owned subsidiary of the Company, no shares were exchanged to effect the amalgamation. An amount of ₹189,956,726 being the excess of the Company's investment over the net assets of the erstwhile NOL, earlier disclosed as goodwill in the consolidated financial statements, has been adjusted against the consolidated reserves as at 1 April 2015.

35. Discontinued operations

Pursuant to the authorization of the Board of Directors of the Company, the retail pharmacy business of NATCO Pharma Inc., USA was sold by way of an Asset Sale agreement with Care Mart Inc. for an aggregate consideration of United States Dollars (USD) 4,101,210. The retail pharmacy business represents a separate business segment of the Group's operations and accordingly qualifies for disclosure as a discontinuing operation in accordance with the Accounting Standard 24 "Discontinuing Operations" ("AS 24"). The disclosures required under AS 24 are as follows:

- (a) The carrying amounts, as of the balance sheet date, of the total assets and the total liabilities of the retail pharmacy business are as follows:

(All amounts in ₹ unless otherwise stated)

	For the year ended 31 March 2016	For the year ended 31 March 2015
Total assets	-	319,331,268
Total liabilities	-	56,734,845
	-	262,596,423

Notes to the Consolidated Financial Statements

35. Discontinued operations (continued)

- (b) The following statement shows the break-up of aggregate amounts in respect of revenue and expenses in respect of ordinary activities attributable to the discontinuing operations during the year ended 31 March 2016:

(All amounts in ₹ unless otherwise stated)

	For the year ended 31 March 2016	For the year ended 31 March 2015
Revenues		
Revenue from operations	990,185,116	947,952,421
Other income	2,695,544	6,509,611
Total revenues	992,880,660	954,462,032
Expenses		
Cost of materials consumed	752,781,598	700,568,471
Changes in inventory of traded goods	(47,750,212)	23,718,557
Employee benefits expense	97,519,585	93,193,003
Depreciation and amortisation	1,599,261	1,646,005
Other expenses	118,160,018	57,667,296
Total expenses	922,310,250	876,793,332
Profit before tax	70,570,410	77,668,700
Tax expense	48,775,892	24,411,239
Profit after tax	21,794,518	53,257,461

- (c) The net cash flows attributable to the operating, investing and financing activities of the retail pharmacy business during the year ended 31 March 2016, are as follows:

(All amounts in ₹ unless otherwise stated)

	For the year ended 31 March 2016	For the year ended 31 March 2015
Operating activities	34,383,654	18,162,513
Investing activities	(221,085)	(3,551,490)
Financing activities	(39,187,968)	-
	(5,025,399)	14,611,023

36. Contingent liabilities and commitments

(a) Commitments		
Estimated amount of contracts remaining to be executed on capital account and not provided for (net of advances)	385,295,064	191,532,103
(b) Contingent liabilities		
Claims against the company not acknowledged as debt	5,922,048	-
Sales tax related matters	8,690,000	8,690,000
Service tax related matters	1,749,256	1,749,256
Customs related matters	2,000,000	2,000,000
Income tax related matters	-	656,957

37. Expenditure on Corporate social responsibility activities

Gross amount required to be spent by the Company during the year	27,759,464	22,419,167
Contribution to trusts controlled by the Company		
NATCO Trust	28,812,000	25,542,579
Provision towards CSR activities undertaken by entering into a contractual obligation and which have completed during the year	-	-

Notes to the Consolidated Financial Statements

38. 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 the head 'Others'.

Business segment

For the year ended 31 March 2016

Particulars	API	Finished dosage formulations	Job works	Pharmacy	Others	Eliminations	Total
Revenue							
External sales	1,689,743,207	8,566,051,545	-	990,185,116	-	(9,309,680)	11,236,670,188
Inter-segment sales	973,143,265	-	-	-	-	(973,143,265)	-
	2,662,886,472	8,566,051,545	-	990,185,116	-	(982,452,945)	11,236,670,188
Less: Excise duty	27,187,315	350,985,738	-	-	-	-	378,173,053
Revenue [Net]	2,635,699,157	8,215,065,807	-	990,185,116	-	(982,452,945)	10,858,497,135
Sale of dossiers	-	-	-	-	41,675,143	-	41,675,143
Other operating income	61,550,190	376,879,635	66,942,115	-	10,618,893	-	515,990,833
Total segment revenue	2,697,249,347	8,591,945,442	66,942,115	990,185,116	52,294,036	(982,452,945)	11,416,163,111
Results							
Segment result	392,984,448	3,081,919,231	59,850,131	67,874,866	48,117,402	-	3,650,746,078
Unallocated corporate expenses	-	-	-	-	-	-	1,463,069,052
Finance cost	-	-	-	-	-	-	229,032,085
Other income	-	-	-	-	-	-	107,593,469
Profit before tax	-	-	-	-	-	-	2,066,238,410
Income tax [including deferred tax]	-	-	-	-	-	-	527,977,806
Profit before minority interest	-	-	-	-	-	-	1,538,260,604
Minority interest	-	-	-	-	-	-	(13,493,586)
Net Profit for the year	-	-	-	-	-	-	1,551,754,190

Other information as at 31 March 2016

Particulars	API	Finished dosage formulations	Job works	Pharmacy	Others	Eliminations	Total
Segment assets	6,236,618,347	8,221,885,412	27,500,919	337,561,266	-	-	14,823,565,944
Unallocated corporate assets	-	-	-	-	-	-	3,414,477,304
Total assets	6,236,618,347	8,221,885,412	27,500,919	337,561,266	-	-	18,238,043,248
Segment liabilities	(764,576,987)	(2,689,954,272)	-	(77,579,816)	-	-	(3,532,111,075)
Minority interest	-	(49,122,594)	-	-	-	-	(49,122,594)
Unallocated corporate liabilities	-	-	-	-	-	-	(1,673,471,363)
Total liabilities	(764,576,987)	(2,739,076,866)	-	(77,579,816)	-	-	(5,254,705,032)
Capital expenditure	317,442,564	408,907,773	-	-	319,191,422	-	1,045,541,759
Depreciation and amortisation	293,191,985	185,792,746	-	-	30,540,672	-	509,525,403
"Non cash expenses, other than depreciation"	12,841,048	96,004,654	-	79,584,167	183,644,011	-	372,073,880

Notes to the Consolidated Financial Statements

For the year ended 31 March 2015

Particulars	API	Finished dosage formulations	Job works	Pharmacy	Others	Eliminations	Total
Revenue							
External sales	2,600,495,083	4,269,557,495	-	947,952,421	-	(23,965,417)	7,794,039,582
Inter-segment sales	513,807,684	-	-	-	-	(513,807,684)	-
	3,114,302,767	4,269,557,495	-	947,952,421	-	(537,773,101)	7,794,039,582
Excise duty	71,191,765	58,302,642	-	-	-	-	129,494,407
Total Sales	3,043,111,002	4,211,254,853	-	947,952,421	-	(537,773,101)	7,664,545,175
Sale of dossiers	-	-	-	-	112,877,714	-	112,877,714
Job work charges	-	-	85,427,633	-	-	(2,405,923)	83,021,710
Other Income	26,328,045	228,917,094	-	-	137,306,131	(235,428)	392,315,842
Total segment revenue	3,069,439,047	4,440,171,947	85,427,633	947,952,421	250,183,845	(540,414,452)	8,252,760,441
Results							
Segment result	718,425,511	1,589,019,424	70,815,948	71,159,089	135,409,613	-	2,584,829,585
Unallocated corporate expenses	-	-	-	-	-	-	1,074,964,989
Finance cost	-	-	-	-	-	-	316,763,593
Other income	-	-	-	-	-	-	149,071,423
Profit before tax and minority interest	-	-	-	-	-	-	1,342,172,426
Income tax [including deferred tax]	-	-	-	-	-	-	39,501,608
Profit before minority interest	-	-	-	-	-	-	1,302,670,818
Minority interest	-	-	-	-	-	-	(43,486,931)
Net profit for the year	-	-	-	-	-	-	1,346,157,749

Other information as at 31 March 2015

Particulars	API	Finished dosage formulations	Job works	Pharmacy	Others	Eliminations	Total
Other information							
Segment assets	6,731,631,884	5,406,956,775	22,729,345	274,897,512	79,681,265	-	12,515,896,782
Unallocated corporate assets	-	-	-	-	-	-	1,324,552,878
Total assets	6,731,631,884	5,406,956,775	22,729,345	274,897,512	79,681,265	-	13,840,449,660
Segment liabilities	792,726,428	858,976,349	-	48,525,093	-	-	1,700,227,869
Unallocated corporate liabilities	-	-	-	-	-	-	3,629,487,009
Minority interest	-	50,223,864	-	-	-	-	50,223,864
Total liabilities	792,726,428	909,200,213	-	48,525,093	-	-	5,379,938,742
Capital expenditure	271,721,100	585,881,886	-	3,551,429	59,809,575	-	920,963,990
Depreciation and amortisation	273,846,284	162,587,938	-	1,646,005	34,576,318	-	472,656,545
"Non cash expenses, other than depreciation"	7,024,358	-	-	58,537	-	-	7,082,895

Notes to the Consolidated Financial Statements

38. Segment reporting (Contd..)

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.

segment.

Particulars	For the year ended and as at 31 March 2016			For the year ended and as at 31 March 2015		
	Segment revenue	Segment assets	Capital expenditure	Segment revenue	Segment assets	Capital expenditure
India	6,520,836,432	16,211,003,080	1,027,000,748	3,896,834,268	11,670,121,386	887,916,654
America	3,324,781,931	1,514,841,784	-	2,775,201,858	1,126,462,146	30,370,044
Europe	1,269,338,594	387,733,868	-	1,393,710,265	881,816,563	-
Rest of the world	408,799,623	124,464,516	18,541,010	336,085,473	162,049,565	2,677,292
Total	11,523,756,580	18,238,043,248	1,045,541,758	8,401,831,864	13,840,449,660	920,963,990

39. During the year ended 31 March 2016 the Company made a Qualified Institutional Placement ('QIP') and allotted 8,000,000 equity shares (post split) on 18 September 2015 of face value of ₹2 each (post split) at a premium of ₹424.11 per equity share (post split), pursuant to clause 49 of the erstwhile listing agreement with the stock exchanges, for the purposes of capital expenditure and long term working and capital requirements, expenses for exploring acquisition opportunities and general corporate requirements of the Company.

	As at 31 March 2016
Amounts raised in QIP	3,408,880,000
Amount utilised during the year:	
QIP expenses (gross of tax)	64,433,568
Utilised for the purposes of the QIP issue	2,444,129,800
Unutilized amount at the end of the year	900,316,632

Details of short-term investment made from unutilized portion of QIP raises during the year ended 31 March 2016.

Investment in Non-convertible debentures	200,000,000
Deposit with Banks	300,316,632
Financial institutions	400,000,000
	900,316,632

40. Additional disclosure as required under paragraph 2 of 'General Instructions for the preparation of Consolidated Financial Statements' of the Schedule III to the Act

For the year ended 31 March 2016

Name of the entity	Net assets		Share in profit or loss	
	As a % of consolidated net assets	Amount (₹)	As a % of consolidated profit or loss	Amount (₹)
Parent company				
NATCO Pharma Limited	97%	12,642,127,492	110%	1,685,618,077
Foreign subsidiaries				
NATCO Pharma Inc.	2%	253,371,559	1%	21,220,156
Time Cap Overseas Limited	1%	110,249,158	-7%	(111,160,115)
NATCO Pharma (Canada), Inc.	0%	30,589,569	-2%	(36,868,224)
NATCO Pharma Asia Pte. Ltd.	0%	1,690,082	-1%	(15,164,053)
NATCO Pharma Australia PTY Ltd.	0%	(5,567,055)	0%	(5,385,237)
Total		13,032,460,805		1,538,260,604
Minority interest in all subsidiaries				
Time Cap Overseas Limited*	0%	49,035,694	1%	13,370,813
NATCO Pharma Australia PTY Ltd	0%	86,900	0%	122,773
NATCO Pharma (Canada) Inc.	0%	-	0%	-
Total		49,122,594		13,493,586

Notes to the Consolidated Financial Statements

40. Additional disclosure as required under paragraph 2 of 'General Instructions for the preparation of Consolidated Financial Statements' of the Schedule III to the Act

For the year ended 31 March 2015

Name of the entity	Net assets		Share in profit or loss	
	As a % of consolidated net assets	Amount (C)	As a % of consolidated profit or loss	Amount (C)
Parent company				
NATCO Pharma Limited	80%	6,837,968,891	117%	1,529,255,356
Indian subsidiary				
NATCO Organics Limited	16%	1,330,465,843	-6%	(73,069,924)
Foreign subsidiaries				
NATCO Pharma Inc.	3%	262,596,423	4%	53,257,461
Time Cap Overseas Limited	1%	78,286,672	-11%	(142,187,925)
NATCO Pharma (Canada), Inc.	0%	1,401,312	-4%	(46,881,419)
NATCO Pharma Asia Pte. Ltd.	0%	1,427,621	-1%	(11,314,526)
NATCO Pharma Australia PTY Ltd.	0%	(1,385,683)	0%	(6,388,204)
Total		8,510,761,079		1,302,670,819
Minority interest in all subsidiaries				
NATCO Organics Limited	1%	50,250,161	2%	24,179,139
Time Cap Overseas Limited*	0%	-	0%	807,630
NATCO Pharma Australia PTY Ltd	0%	-	0%	426,690
NATCO Pharma (Canada) Inc.	0%	-	1%	18,073,472
Total		50,250,161		43,486,931

*Amount is after considering share of Time Cap Overseas Limited in NATCO Farma Do Brazil (step down subsidiary of NATCO Pharma Limited) in which it holds 96.53% of equity.

41. Comparatives

Previous year figures have been reclassified / regrouped wherever necessary, to conform 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 Chandio & Co LLP**
Chartered Accountants

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

per **Sanjay Kumar Jain**
Partner

V C Nannapaneni
Chairman & Managing Director
DIN: 00183315

Rajeev Nannapaneni
Vice Chairman & CEO
DIN: 00183872

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

SVVN Appa Rao
Chief Financial Officer

Place: Hyderabad
Date : 26 May 2016

Place: Hyderabad
Date : 26 May 2016

Notes

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NATCO Pharma Limited
NATCO House, Road No. 2, Banjara Hills,
Hyderabad 500 034. India
www.natcopharma.co.in
CIN: L24230TG1981PLC003201



NATCO Pharma Limited

Registered Office:

NATCO House, Road # 2, Banjara Hills, Hyderabad 500034, Telangana
Email id: investors@natcopharma.co.in, website: www.natcopharma.co.in
Phone No.040-23547532 Fax No.040-23548243
CIN : L24230TG1981PLC003201

NOTICE TO MEMBERS

Notice is hereby given that the 33rd Annual General Meeting of the members of the Company will be held on Friday, the 30th day of September, 2016 at 10.00 a.m. at Hotel Daspalla, Road No.37, Jubilee Hills, Hyderabad - 500 033 to transact the following business:

Ordinary Business:

1. **Adoption of Annual Financial Statements for the Financial Year 2015-2016**

To receive, consider and adopt the Standalone and Consolidated Balance Sheet as on 31st March, 2016, Statement of Profit and Loss for the year ended 31st March, 2016, Cash Flow Statement for the year ended 31st March, 2016 and Reports of Directors and Auditors thereon.

2. **To confirm the already paid Interim Dividend on equity shares for the year 2015-16 as final dividend**

"RESOLVED THAT the interim dividend of Rs.1.25 (Rupee one and paise twenty five only) per share declared by the Board of Directors of the Company at their meeting held on 11th February, 2016 on 17,41,74,245 Equity shares of Rs.2/- each absolving a sum of Rs.21,77,17,806.25 (Rupees twenty one crores seventy seven lakhs seventeen thousand eight hundred six and paise twenty five only) be and is hereby approved as the Final Dividend for the year ended 31st March, 2016."

3. **Re-appointment of Dr.AKS Bhujanga Rao (DIN: 02742637) as a Director liable to retire by rotation**

"RESOLVED THAT Dr. AKS Bhujanga Rao (DIN: 02742637) who retires by rotation and being eligible offers himself for re-appointment, be and is hereby re-appointed as a Director of the Company, who shall be liable for retirement by rotation."

4. **Appointment of Statutory Auditors for the Financial Year 2016-17**

"RESOLVED THAT pursuant to the provisions of Sections 139, 142 and all other applicable provisions, if any, of the Companies Act, 2013 and the rules made thereunder, as amended, and pursuant to the recommendation of the Audit Committee of the Board and pursuant to the resolution passed by the members at their Annual General Meeting held on 27/09/2014, the members be and hereby ratify the appointment of M/s.Walker, Chandiook & Co. LLP.(Firm Registration No.001076N), Hyderabad as Statutory Auditors of the Company from the conclusion of this Annual General Meeting till the conclusion of the next Annual General Meeting to be held in the Calendar year 2017 with such remuneration as may be decided by the Board of Directors upon recommendation from the Audit Committee."

Special Business:

5. **Reappointment of Sri V C Nannapaneni (DIN: 00183315) as Chairman and Managing Director**

To Consider and if thought fit to pass, with or without modifications, the following Resolution as a special Resolution:

“RESOLVED THAT pursuant to the provisions of Sections 196, 197, 198, Schedule V and all other applicable provisions of the Companies Act, 2013 and the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 (including any statutory modification(s) or re-enactment thereof, for the time being in force), the consent of the Members is hereby accorded to the reappointment of Sri V C Nannapaneni (DIN: 00183315) as Chairman and Managing Director of the Company for a period of one year from 01-04-2016 to 31-03-2017 and all other terms and conditions as approved by the members of the Company by way of a Special Resolution at their Annual General Meeting held on 26th September 2015 shall remain the same”.

6. Increase of remuneration to Dr.A.K.S.Bhujanga Rao, (DIN: 02742637) President (R & D and Tech.)

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, Schedule V and all other applicable provisions of the Companies Act, 2013 and the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 (including any statutory modification(s) or re-enactment thereof, for the time being in force), the consent of the Members is hereby accorded to increase the remuneration payable to Dr. A.K.S. Bhujanga Rao, (DIN: 02742637) President (R & D and Tech.) of the Company for a period of one (1) year from 01-04-2016 to 31-03-2017 as detailed below:

- a. Salary not exceeding Rs.1,25,00,000 (Rupees one crore twenty five lakhs Only) per annum 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 as per Company Policy.

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 the financial year closing on 31st March, 2017, if the Company has no profits or if its profits are inadequate, the Company shall pay to Dr.A.K.S.Bhujanga Rao the remuneration by way of salary, allowances and perks not exceeding the limits specified under Schedule V of the Companies Act, 2013 or any statutory modification(s) or re-enactment thereof.

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

7. Increase of remuneration to Sri P.S.R.K.Prasad, (DIN: 07011140) Director and Executive Vice President (Corporate Engineering Services)

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, Schedule V and all other applicable provisions of the Companies Act, 2013 and the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 (including any statutory modification(s) or re-enactment thereof, for the time being in force), the consent of the Members is hereby accorded to increase the remuneration payable to Sri P.S.R.K.Prasad, (DIN: 07011140) Director and Executive Vice President (Corporate Engineering Services) of the Company for a period of one (1) year from 01-04-2016 to 31-03-2017 as detailed below:

- a. Salary not exceeding Rs. 1,25,00,000 (Rupees one crore twenty five lakhs only) per annum 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 as per Company Policy.

RESOLVED FURTHER THAT the Board of Directors of the Company be and is hereby authorized to vary, alter or modify the remuneration as may be agreed by the Board of Directors and Sri P.S.R.K. Prasad.

RESOLVED FURTHER THAT notwithstanding as above in the financial year closing on 31st March, 2017, if the Company has no profits or if its profits are inadequate, the Company shall pay to Sri P.S.R.K.Prasad the remuneration by way of salary, allowances and perks not exceeding the limits specified under Schedule V of the Companies Act, 2013 or any statutory modification(s) or re-enactment thereof.

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

8. **Increase of remuneration to Dr. D. Linga Rao,(DIN: 07088404), Director & President (Tech. Affairs)**

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, Schedule V and all other applicable provisions of the Companies Act, 2013 and the Companies (Appointment and Remuneration of Managerial Personnel) Rules, 2014 (including any statutory modification(s) or re-enactment thereof, for the time being in force), the consent of the Members is hereby accorded to increase the remuneration payable to Dr. D. Linga Rao,(DIN: 07088404) Director & President (Tech. Affairs)of the Company for a period of one (1) year from 01-04-2016 to 31-03-2017 as detailed below:

- a. Salary not exceeding Rs. 1,25,00,000 (Rupees one crore twenty five lakhs only) per annum 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 as per Company Policy.

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

RESOLVED FURTHER THAT notwithstanding as above in the financial year closing on 31st March, 2017, if the Company has no profits or if its profits are inadequate, the Company shall pay to Dr. D. Linga Rao the remuneration by way of salary, allowances and perks not exceeding the limits specified under Schedule V of the Companies Act, 2013 or any statutory modification(s) or re-enactment thereof.

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

9. Ratification of Remuneration of Cost Auditors

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

"RESOLVED THAT pursuant to the provisions of Section 148 and all other applicable provisions, if any, of the Companies Act, 2013 and Rules made thereunder as amended, the members be and hereby ratify the remuneration of Rs.1,50,000/- (Rupees one lakh and fifty thousand only) and taxes as applicable plus out of pocket expenses payable to M/s. S.S.Zanwar & Associates,(Firm Registration No.100283) Cost Auditors appointed by the Board of Directors of the Company to conduct the Cost Audit for the financial year ending 31st March, 2017.

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."

10. Approval of NATCO Employee Stock Option Scheme-2016 (NATSOP-2016) under SEBI (Share Based Employee Benefits) Regulations, 2014

To consider and if thought fit, to pass with or without modification, the following resolution as a special resolution:

"RESOLVED THAT pursuant to Section 62(1)(b) and other applicable provisions, if any, of the Companies Act, 2013 and the Rules made thereunder and in accordance with the Memorandum and Articles of Association of the Company, Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, Regulation 6 of the Securities and Exchange Board of India (Share Based Employee Benefits) Regulations, 2014 ("SBEB Regulations"), and subject to such approvals, permissions, sanctions and such conditions and modifications as may be prescribed or imposed by the above authorities while granting such approval, permissions and sanctions, approval and consent of the members be and is hereby accorded to the Board of Directors (hereinafter referred to as "the Board" which term shall be deemed to include any committee including Compensation Committee of the Board) to introduce, offer and implement the proposed NATCO Employees Stock Options Scheme-2016 ("NATSOP-2016"), and to create, offer, issue and allot in one or more tranches 1,75,000 options exercisable into 1,75,000 Equity Shares of face value of Rs.2/- each to the present and

future employees of the Company selected on the basis of criteria prescribed by the Board in accordance with the SBEB Regulations, hereinafter referred to as “the Eligible Employees” under NATSOP-2016, on such terms and in such manner as the Board may decide in accordance with the provisions of the applicable laws and the provisions of NATSOP-2016.

RESOLVED FURTHER THAT the Equity Shares issued upon exercise of the Options shall rank pari passu in all respects with the existing Equity Shares of the Company including the entitlement of dividend.

RESOLVED FURTHER THAT in case of any corporate action(s) such as rights issues, bonus issues, merger, sale of division and others, if any additional Equity Shares are issued by the Company to the option grantees for the purpose of making a fair and reasonable adjustment to the options granted earlier, the ceiling on the number of options mentioned in the resolution above, shall be deemed to be increased to the extent of such additional Equity Shares issued.

RESOLVED FURTHER THAT in case the Equity Shares of the Company are split or consolidated, then the number of shares to be allotted and the exercise price payable by the option grantees under the Scheme shall automatically stand augmented or reduced in the same proportion as the present face value of Rs. 2/- per Equity Share bears to the revised face value of the equity shares of the Company after such split or consolidation, without affecting any other rights or obligations of the said grantees.

RESOLVED FURTHER THAT the Board be and is hereby authorised to take requisite steps for listing of the Equity Shares allotted under NATSOP-2016 on the Stock Exchanges where the Equity Shares of the Company are listed.

RESOLVED FURTHER THAT the Company shall confirm to the accounting policies prescribed from time to time under the SBEB Regulations and any other applicable laws and regulations to the extent relevant and applicable to NATSOP-2016.

RESOLVED FURTHER THAT the Board be and is hereby authorized at any time to modify, change, vary, alter, amend, suspend or terminate NATSOP-2016 subject to compliance with the applicable laws and regulations and to do all such acts, deeds, matters and things as it may in its absolute discretion deems fit, for such purpose and also to settle any issues, questions, difficulties or doubts that may arise in this regard without being required to seek any further consent or approval of the members and further to execute all such documents, writings and to give such directions and/or instructions as may be necessary or expedient to give effect to such modification, change, variation, alteration, amendment, suspension or termination of NATSOP-2016 and do all other things incidental and ancillary thereof.

RESOLVED FURTHER THAT the Board, be and is hereby authorized to do all such acts, deeds, and things, as it may, in its absolute discretion, deem necessary including authorizing or directing to appoint Advisors, Consultants or Representatives, being incidental to the effective implementation and administration of NATSOP-2016 as also to make applications to the appropriate Authorities, for their requisite approvals as also to initiate all necessary actions for and to settle all such questions, difficulties or doubts whatsoever that may arise and take all such steps and decisions in this regard.”

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

M. Adinarayana

Company Secretary and
Vice President (Legal & Corp. Affairs)

Date : 9th August, 2016
Place : Hyderabad

NOTES

1. An explanatory statement pursuant to Section 102(1) of the Companies Act, 2013 in respect of special businesses is annexed hereto.
2. **A MEMBER ENTITLED TO ATTEND AND VOTE AT THE ANNUAL GENERAL MEETING (AGM) IS ENTITLED TO APPOINT A PROXY TO ATTEND AND VOTE INSTEAD OF HIMSELF / HER SELF** and a proxy need not be a member of the Company.
3. The instrument of proxy in order to be valid must be deposited at the Registered Office of the Company duly completed and signed, at least FORTY EIGHT (48) hours before the commencement of the meeting.
4. A person 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 provided that such person shall not act as a proxy for any other person.
5. Members holding shares in physical form are requested to notify any change in their address or bank mandates immediately to the Registrars and Share Transfer Agents M/s. Venture Capital and Corporate Investments Pvt. Ltd., 12-10-167, Bharat Nagar, Hyderabad - 500 018 and in case of members holding shares in electronic form are requested to notify any change in mailing address or bank mandates to their respective Depository Participants with whom they are maintaining their demat accounts.
6. The members are requested to bring their copies of notice of the meeting and the Annual Report to the AGM and handover the attendance slips at the entrance hall of the meeting venue along with their Registered Folio No. / Client ID and DP ID numbers for easy identification.
7. Corporate Members are requested to send a duly certified copy of the Board Resolution / Power of Attorney authorizing their representative to attend and vote on their behalf at the AGM.
8. Relevant documents referred to in Notice are open for inspection by the members at the Registered Office of the Company on all working days, during business hours upto the date of the meeting.
9. Members who have not registered their e-mail addresses so far are requested to register their email addresses for receiving all communications including Annual Report, Notices, Circular etc. from the Company in electronic mode.
10. In case of Joint Holders attending the meeting, only such Joint Holder who is first in the order of names will be entitled to vote.
11. The Register of Members and Share Transfer Books will remain closed for 5(five) days i.e. from **26th September, 2016 to 30th September, 2016 (both days inclusive)**.
12. Members holding shares in electronic form may note that the Bank particulars registered against their respective depository accounts will be used by the Company for payment of dividend, if any. The Company or its Registrars and Share Transfer Agents cannot act on any request received directly from the members holding shares in electronic form for any changes of bank particulars or bank mandates. Such changes are to be advised only to the Depository Participants.
13. Members who wish to claim Dividends, which remain unclaimed are requested to either correspond with the Legal & Secretarial Department at the Company's registered office or the Company's Registrars and Share Transfer Agents (M/s. Venture Capital and Corporate Investments Private Limited). Members are requested to note that dividends not encashed or claimed within seven years and 30 days from the date of declaration of the Dividend, will be transferred to the Investor Education and Protection Fund of Government of India as per Section 205 A(5) read with Section 205 C of the Companies Act, 1956. 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. For the Year 2008-09 an amount of Rs. 5,79,399/- was transferred to Investor Education and Protection Fund on 21st June, 2016. Year

wise unpaid and unclaimed amounts lying with the Company are updated in the Company's website www.natcopharma.co.in

14. Information and other instructions relating to e-Voting and ballot paper voting are under:

- a. In Compliance with provisions of Section 108 of the Companies Act, 2013 and Rule 20 of the Companies (Management and Administration) Rules, 2014, the Company is pleased to provide its members facility to exercise their right to vote at the 33rd Annual General Meeting by Electronic means and the business may be transacted through e-voting services provided by National Securities Depository Limited (NSDL).
- b. For the benefit of Members who do not have access to e-voting facility, a ballot paper is being sent along with the Notice of AGM, to enable them to send their assent or dissent by Post. Members may send the duly completed ballot paper so as to reach the Scrutinizer at the Registered Office of the Company not later than 29th September, 2016 (5.00 p.m). Ballot paper received after this date will be treated as invalid. Detailed instructions on process, manner for voting through post are given in the ballot paper.
- c. The facility of voting is also available at the Meeting and the members attending the Meeting, who have not cast their vote by remote e-voting or through Ballot paper shall be able to exercise their right to vote at the Meeting.
- d. The members who have cast their vote by remote e-voting may also attend the Meeting but shall not be entitled to cast their vote again at the meeting.
- e. The login ID and Password for e-voting along with process, manner and instructions for e-voting is being sent to the members by e-mail to the registered email-IDs with the Company/Depository participant, who have not registered their email-IDs with the company / Depository Participant may receive along with physical copy of the Notice.
- f. The remote e-voting facility will begin **on 27th September, 2016 at 9.00 a.m .and ends on 29th September, 2016 by 5.00 p.m.** E-Voting shall not be allowed beyond 5 p.m. on 29th September, 2016 and e-voting module shall be disabled by NSDL upon expiry of aforesaid period. During the e-voting period, shareholder of the company, holding share(s) either in physical form or in dematerialised form, as on the **cut-off date being Friday, 23rd September, 2016** only shall be entitled to avail the facility of remote e-voting / ballot paper.
- g. A member can opt for only one mode of voting. In case of member(s) who cast their votes by both the modes, then voting done through e-voting only shall be treated as valid.
- h. Any person who acquires shares of the company and becomes a member of the company after the dispatch of AGM notices and hold shares as on the cut-off date i.e. 23rd September, 2016 may obtain the login id and password by sending a request at info@vccilindia.com / investors@natcopharma.co.in.

15. The Company has appointed Sri CS Vasudeva Rao Devaki, Practicing Company Secretary (C.P.No.12123) as Scrutinizer to scrutinize the voting process in a fair and transparent manner.

- a. The scrutinizer shall immediately after the conclusion of voting at the AGM, first unblock the votes cast at the meeting thereafter unblock the votes cast through e-voting in the presence of at least two (2) witnesses not in the employment of the Company and make a Scrutinizer's Report of the votes cast in favour or against, if any, forthwith to the Chairman of the Company.
- b. The Results shall be declared immediately after the receipt of Scrutinizer's Report. The Results declared along with the Scrutinizer's Report shall be available for inspection and also placed on the website of the Company and the results shall simultaneously be communicated to the Stock Exchanges where the shares of the Company are Listed .

16. Additional information pursuant to SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 in respect of the Directors seeking appointment at the AGM is furnished herewith and forms a part of the Notice. The Directors have furnished the requisite consents / declarations to that effect for their appointment.
17. The Securities and Exchange Board of India (SEBI) has mandated the submission of Permanent Account Number (PAN) by every participant in securities market. Members holding shares in Physical form can submit their PAN details to the Company / Share Transfer Agents.
18. **Brief Profile of the Director seeking Appointment/ Re-appointment at the Annual General Meeting**

Dr. A K S Bhujanga Rao, aged 64 years did his Post-graduation M.Sc., with Specialisation in Organic Chemistry from Andhra University and Ph.D in Synthetic Organics Chemistry from Indian Institute of Science (IISc), Bangalore. He worked with IDPL, IDL, Reckitt and Colman and Vera Laboratories Ltd., before joining with NATCO. Dr. Rao was collaborative post-doctoral Research Fellow in the University of Texas, USA and University of Hull, UK.

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 over 40 publications and applied for over 90 International Patents of which 40 are granted. He is a visiting faculty and also approved Research Investigator and Supervisor for Ph.D. Students to many universities. Dr. A.K.S. Bhujanga Rao had been on the Board since 30th July, 2009 and he was appointed as Director by the members of the Company at the 31st Annual General Meeting held on 27th September, 2014 in accordance with the provisions of the Companies Act, 2013 whose office is liable to retire by rotation.

Dr.AKS Bhujanga Rao, Executive Director of the Company who retires by rotation at the ensuing Annual General Meeting, being eligible, offers himself for reappointment.

Except Dr.AKS Bhujanga Rao, no other Director or Key Management Personnel or their relatives is / are concerned or interested in the said item of business.

Explanatory Statement pursuant to Section 102 (1) of the Companies Act, 2013

ITEM NO. 5

Reappointment of Sri V C Nannapaneni (DIN: 00183315) as Chairman and Managing Director

Sri. V.C.Nannapaneni was appointed as Chairman and Managing Director by the Members of the Company at their Annual General Meeting held on 26-09-2015 to hold office up to 31st March, 2017. As per Companies Act, 2013 since, Sri V.C.Nannapaneni has attained the age of 70 years in November, 2015 approval of the members for his continuance is sought by a special resolution.

Sri V.C.Nannapaneni is associated with the Company as founder/promoter since its inception in 1981 and has rich and varied experience in the Industry and driving the Company towards higher growth. In his leadership the Company witnessed a tremendous increase in the turnover and growth both in Revenues as well as Profitability. The company is poised for next level of growth. Services of Sri V. C. Nannapaneni are very much essential for the Company's future prospects and further growth of the Company. It would be in the interest of the Company to have his professional services to your company as Chairman and Managing Director.

Sri V.C. Nannapaneni holds 23.39% of shares of the Company. In addition to M/s Natco Pharma Limited, he holds directorship in M/s. Natco Aqua Limited, M/s. NDL Infratech Private Limited and M/s. Natco Power Private Limited.

Except Sri V.C.Nannapaneni & Sri Rajeev Nannapaneni, no other Director or Key managerial personnel or their relatives is/are concerned or interested in the said item of business.

The Board accordingly recommends the special resolution as set out in Item No.5 of the Notice for approval of the members and other terms and conditions as mentioned in the resolution passed on 26th September, 2015 shall remain the same.

ITEM NO 6

Increase of remuneration to Dr.A.K.S.Bhujanga Rao, (DIN: 02742637) President (R & D and Tech.)

Dr. A.K.S. Bhujanga Rao, President (R&D and Technical) (born on 12/07/1952) is associated with the Company for almost 17 years. He takes care of all the R & D and technical areas. He also looks after the Patent related issues of the company. He holds 0.03% of shares of the Company. He was first appointed on the Board on 30/07/2009. During the year he attended 6 Board Meetings. He doesn't hold Directorship in any other Company

In view of the highly competitive employee market, inflationary trends, and taking into consideration industry standards and other relevant factors the Remuneration Committee at its meeting held on 26th May, 2016 recommended the Board for increasing the remuneration from Rs. 1,10,00,000/- (Rupees One Crore ten lakhs only) to Rs. 1,25,00,000/- (Rupees one crore and twenty five lakhs only) which is just and reasonable to Dr. A.K.S. Bhujanga Rao subject to the approval of members as contained in the resolution.

Except Dr. AKS Bhujanga Rao, no other Director or Key managerial personnel or their relatives is/are concerned or interested in the said item of business.

The Board accordingly recommends the special resolution as set out in Item No.6 of the Notice for approval of the members.

ITEM NO 7

Increase of remuneration to Sri P.S.R.K.Prasad, (DIN: 07011140) Director and Executive Vice President (corporate engineering services)

Sri P.S.R.K.Prasad did his B.E. Mechanical Engineering from Andhra University, Visakhapatnam in 1981. He worked with Ahmedabad Textile Industries Research Association, Ahmedabad, Coromandel Fertilizers Ltd. Stiles India Ltd., Tirupati, Saudi Ceramic Co., Riyadh, K.S.A. before joining our Company. He has got vast and good knowledge in procuring right equipment(s) and machinery for production processes and to provide all utility services and to utilize the resources like manpower, material in an optimum way and to ensure safety of life and property. He holds 0.02% of shares of the Company. He was first appointed on the Board on 12/11/2014. He had attended 5 Board Meetings during the year. He doesn't hold Directorship in any other Company

In view of the highly competitive employee market, inflationary trends, and taking into consideration industry standards and other relevant factors the Remuneration Committee at its meeting held on 26th May, 2016 recommended to the Board for increasing the remuneration from Rs. 1,10,00,000 (Rupees One Crore ten lakhs only) to Rs. 1,25,00,000 (Rupees one crore and twenty five lakhs only) which is just and reasonable to Sri P S R K Prasad subject to the approval of members as contained in the resolution.

Except Sri P S R K Prasad, no Director or Key managerial personnel or their relatives is/are concerned or interested in the said item of business.

The Board accordingly recommends the resolution as set out in Item No. 7 of the Notice for approval of the members.

ITEM NO. 8

Increase of remuneration to Dr. D. Linga Rao, (DIN: 07088404), Director & President (Tech. Affairs)

Mr. D. Linga Rao (born on 29th October 1952) is working as President-Technical Affairs of the Company. He has done M.Sc. Applied Chemistry (Organic Chemistry) & Ph.D. in Chemistry from

JNTU, Hyderabad. He had 40 years of experience in the pharmaceutical industry and has been working with our Company for over 22 years. He has vast experience in various departments like R & D, Quality Control, Quality Assurance and Regulatory affairs. He has previously worked with M/s. Indian Drug & Pharmaceuticals Limited (IDPL) & M/s. Novochem Laboratories. He holds 0.03% of shares of the Company. He was first appointed on the Board on 11/02/2015. He had attended 4 Board Meetings during the year. He doesn't hold Directorship in any other Company.

In view of the job responsibilities taking into consideration the industry standards and other relevant factors the Remuneration Committee at its meeting held on 26th May, 2016 recommended the Board of Directors of the Company the remuneration from Rs. 1,10,00,000 (Rupees One Crore ten lakhs only) to Rs. 1,25,00,000 (Rupees one crore and twenty five lakhs only) which is just and reasonable to Dr D Linga Rao subject to the approval of members

Except Dr D Linga Rao no Director or Key managerial personnel or their relatives is/are concerned or interested in the said item of business

The Board accordingly recommends the resolution as set out in Item No.8 of the Notice for approval of the members.

ITEM NO. 9

Ratification of Remuneration of Cost Auditors

The Board, on the recommendation of the Audit Committee, had approved the appointment and remuneration of M/s S.S. Zanwar & Associates, (Firm Registration No.100283) Cost Auditors to conduct the audit of the cost records of the Company for the financial year ending March 31, 2017.

In accordance with the provision of Section 148 of the Act read with Rules made thereunder, the remuneration payable to the Cost Auditors has to be ratified by the shareholders of the Company.

Accordingly, consent of the members is sought for passing an Ordinary Resolution for ratification of the remuneration payable to Cost Auditors to conduct Cost Audit for the financial year ending March 31, 2017.

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

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

ITEM NO.10

Approval of NATCO Employee Stock Option Scheme-2016 (NATSOP-2016) Under SEBI (Share Based Employee Benefits) Regulations, 2014

In order to reward and motivate employees as also to attract the talent as well as to retain the key managerial employees, the Board of Directors at its meeting held on 9th August, 2016 have approved and proposed for the approval of the shareholders for issue of Stock Options as per which employees, who comply with certain eligibility criteria would be given / granted stock options to subscribe a specified number of equity shares of the Company offered to them at a price to be determined.

The ESOP Plan would be subject to and in conformity with the Securities and Exchange Board of India (Share Based Employee Benefits) Regulations, 2014.

The object of the Plan is to enable such employees to participate in the long term growth of the Company and seek convergence of interest of shareholders such that eligible employees consciously work towards value creation for the shareholders.

However, future remuneration revisions will bear in mind and take due note of the fact that the employees in the management cadre have coverage of this plan. The scheme would therefore, reduce dependence on cash compensation as a tool for retaining and rewarding talent.

The Salient features of the NATSOP-2016 are as under:

(A) Total number of options to be granted

- (i) The total number of options to be granted under this scheme is 1,75,000 of Rs.2/- each.
- (ii) The Board may with the approval of the shareholders increase the maximum number of options under the NATSOP-2016 at any time.
- (iii) One option entitles the holder of the options to apply for one equity share of Rs.2/- each of the company.

(B) Eligibility Criteria for the employees to participate in ESOP

The following are eligible to participate in the ESOP Scheme of the Company:

- (i) a permanent employee of the company; or
- (ii) a director of the company, whether a whole time director or not but excluding an independent / Promoter director;

The following are not eligible to participate in the scheme:

- (a) an employee who is a promoter or a person belonging to the promoter group; or
- (b) a director who either himself or through his relative or through anybody corporate, directly or indirectly, holds more than ten percent of the outstanding equity shares of the company;

(C) Requirements of vesting

- (i) There shall be a minimum period of one year between the grant of options and vesting of options.
- (ii) The vesting shall happen in one or more tranches as may be decided by the Board.
- (iii) All the options granted on any date shall vest not later than a maximum period of 6 years from the date of grant of options as may be determined by the Board.
- (iv) The Board may extend, shorten or otherwise vary the vesting period from time to time, in accordance with the applicable laws and in the interest of the option grantee.

(D) Exercise price or price formula

The exercise price for the conversion of 1 option into 1 equity share shall be Rs.2/- or as decided by the Board.

(E) Exercise Period and the Process of Exercise

- (i) Exercise period will commence from the vesting date and extend up to the expiry period of the option as decided by the Board.
- (ii) The Board will decide on the Expiry period of options for Employees leaving the Company after grant of options in their favour.
- (iii) The Options will be exercisable by the employees by a written application to the designated officer of the company to exercise the Options, in such manner and on execution of such documents as may be prescribed by the Board under the Scheme.
- (iv) The Options will lapse if not exercised within the specified exercise period. Such lapsed options may be re issued by the Board in such manner as it deems fit in the best interest of the employees.

(F) Appraisal Process for determining the eligibility of employees to the NATSOP-2016

- (i) The company has a formal established performance appraisal system wherein the performance of the employees is assessed each year on the basis of various functional and managerial parameters. The appraisal process is revised at regular intervals.

- (ii) Employees and Directors would be granted Stock Options based on performance-linked parameters such as work performance, technical knowledge, period of service, designation and such other parameters as may be decided by the Board from time to time.
- (iii) The Board may at its discretion extend the benefits of the NATSOP-2016 to a new entrant or any existing employee on such other basis as it may deem fit.

(G) Maximum number of options to be issued per employee and in aggregate

- (i) The maximum number of options to be granted to each employee will depend upon the rank/designation of the employee as on the date of grant of options. However no employee shall be entitled to such number of options more than 1% of the issued capital of the Company at the time of grant of options.
- (ii) The aggregate number of options to be granted under this scheme shall not exceed 1,75,000
- (iii) The Board shall decide on the number of options to be granted to each employee within this limit.

(H) Maximum quantum of benefits to be provided per employee under the NATSOP-2016

The maximum quantum of benefits underlying the options issued to an eligible employee shall be equal to difference between the option Exercise price and the Market Price of the shares on the exercise date.

(I) Accounting Methods

The Company shall confirm to the accounting policies specified in the Regulation 15 of SBEB Regulations and/or such other guidelines as may be applicable from time to time.

(J) Method of Valuation of these options

The Company shall use the fair value method for valuation of the options.

(K) Implementation of Scheme and source of acquisition

- (i) The Scheme shall be implemented and administered directly by the Company.
- (ii) The Scheme contemplates fresh / new issue of shares by the Company.

Clause 6 of the SEBI (Share Based Employee Benefits) Regulations, 2014 requires that any ESOP Scheme for offering stock options to the employees of the Company must be approved by the shareholders by way of a Special Resolution in the General Meeting and furthermore, as the Scheme will entail further shares to be offered to persons other than the existing shareholders of the company, consent of the members is required by way of a Special Resolution pursuant to the provisions of subsection (b) of Section 62 of the Companies Act, 2013 for the Item No.10 and all other applicable provisions of the law for the time being in force.

The Board of Directors recommends the Special Resolution as set out in item No.10 for the approval of the members.

None of the Directors of the Company is in any way concerned or interested in the resolution except to the extent of the financial interest for the shares that may be offered to him/her under the Scheme.

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

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

Date : 9th August, 2016
Place : Hyderabad

**NATCO Pharma Limited**

Registered Office: NATCO house,Road # 2, Banjara Hills, Hyderabad 500034, Telangana

Email id: investors@natcopharma.co.in, website: www.natcopharma.co.in

Phone No.040-23547532 Fax No.040-23548243

CIN : L24230TG1981PLC003201

ATTENDANCE SLIP

PLEASE FILL ATTENDANCE SLIP AND HAND IT OVER AT THE ENTRANCE OF THE MEETING HALL

DP ID		Reg. Folio No.	
Client ID		No. of Shares	

NAME AND ADDRESS OF THE REGISTERED SHAREHOLDER

[illegible]

I/We hereby record my/our presence at the **33rd Annual General Meeting of the members of the Company will be held on Friday, the 30th day of September, 2016 at 10.00 a.m. at Hotel Daspalla, Road No.37, Jubilee Hills, Hyderabad - 500 033, Telangana**

Signature of Shareholder/Proxy

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NATCO Pharma Limited

Registered Office: NATCO house, Road # 2, Banjara Hills, Hyderabad 500034, Telangana

Email id: investors@natcopharma.co.in, website: www.natcopharma.co.in

Phone No.040-23547532 Fax No.040-23548243

CIN : L24230TG1981PLC003201

Form No. MGT-11

PROXY FORM

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

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

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

1	Name			
	Address			
	E-mail Id		Signature	
	or failing him			
2	Name			
	Address		Signature	
	E-mail Id			
	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 **33rd Annual General Meeting of the members of the Company will be held on Friday, the 30th day of September, 2016 at 10.00 a.m. at Hotel Daspalla, Road No.37, Jubilee Hills, Hyderabad - 500 033, Telangana**, and at any adjournment thereof in respect of such resolutions as are indicated below:

Resolution No	Description	I/We assent to the Resolution (FOR)	I/We dissent to the Resolution (AGAINST)
1	Adoption of Annual Financial Statements for the Financial Year 2015-2016		
2	To confirm the already paid Interim Dividend on equity shares for the year 2015-16 as final dividend		
3	Re-appointment of Dr.AKS Bhujanga Rao (DIN: 02742637) as a Director liable to retire by rotation		
4	Appointment of Statutory Auditors for the Financial Year 2016-17		
5	Reappointment of Sri V C Nannapaneni (DIN: 00183315) as Chairman and Managing Director		
6	Increase of remuneration to Dr.A.K.S.Bhujanga Rao, (DIN: 02742637) President (R & D and Tech.)		
7	Increase of remuneration to Sri P.S.R.K.Prasad, (DIN: 07011140) Director and Executive Vice President (Corporate Engineering Services)		
8	Increase of remuneration to Dr. D. Linga Rao, (DIN: 07088404), Director & President (Tech. Affairs)		
9	Ratification of Remuneration of Cost Auditors		
10	Approval of NATCO Employee Stock Option Scheme-2016 (NATSOP-2016) under SEBI (Share Based Employee Benefits) Regulations, 2014		

Signed this _____ day of _____ 2016.

Signature of shareholder: _____

Signature of Proxy holder(s): _____

Affix a
1 Rupee
Revenue
Stamp

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



BALLOT FORM (in lieu of remote e-voting)

I/We hereby exercise my/our vote in respect of the Ordinary / Special Resolution (s) passed for the business stated in the Notice of Annual General Meeting of the Company to be held on 30th September, 2016 by conveying my/our assent or dissent to the said Resolution(s) by placing (✓) mark at the appropriate box below.

Resolution No	Description	No. of Shares	I/We assent to the Resolution (FOR)	I/We dissent to the Resolution (AGAINST)
1	Adoption of Annual Financial Statements for the Financial Year 2015-2016			
2	To confirm the already paid Interim Dividend on equity shares for the year 2015-16 as final dividend			
3	Re-appointment of Dr.AKS Bhujanga Rao (DIN: 02742637) as a Director liable to retire by rotation			
4	Appointment of Statutory Auditors for the Financial Year 2016-17			
5	Reappointment of Sri V C Nannapaneni (DIN: 00183315) as Chairman and Managing Director			
6	Increase of remuneration to Dr.A.K.S.Bhujanga Rao, (DIN: 02742637) President (R & D and Tech.)			
7	Increase of remuneration to Sri P.S.R.K.Prasad, (DIN: 07011140) Director and Executive Vice President (Corporate Engineering Services)			
8	Increase of remuneration to Dr. D. Linga Rao, (DIN: 07088404), Director & President (Tech. Affairs)			
9	Ratification of Remuneration of Cost Auditors			
10	Approval of NATCO Employee Stock Option Scheme-2016 (NATSOP-2016) under SEBI (Share Based Employee Benefits) Regulations, 2014			

Place :

Date :

Signature of Shareholder

Instructions and other information relating to ballot paper voting:

- i) Those members who are unable to cast their vote through remote e-voting mechanism, may fill up the Ballot Form printed above and submit the same in a sealed envelope to The Scrutinizer, M/s. Natco Pharma Limited, Natco House, Road No.2, Banjara Hills, Hyderabad 500 034, so as to reach latest by 5.00 p.m. on 29th September, 2016. Ballot Form received thereafter will strictly be treated as if not received.
- ii) The Company will not be responsible if the envelope containing the Ballot Form is lost in transit.
- iii) Unsigned, incomplete or incorrectly ticked forms are liable to be rejected and the decision of the Scrutinizer on the validity of the forms will be final.
- iv) In the event member casts his votes through both the process i.e. e-voting and Ballot Form, the votes in the electronic system would be considered and the Ballot Form would be ignored.
- v) The Proxy cannot vote through Ballot Form.
- vi) In case of Joint holders, the Ballot Form should be signed by the first named Share holder and in his/her absence by the next named share holders can sign in Ballot Form.
- vii) Ballot form has been signed by an authorised representative of the Body Corporate / Trust / Societies etc. should be accompanied a certified copy of the relevant authorisation / Board Resolution.

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ROUTE MAP TO THE VENUE



Venue

Daspalla Hotel, Road No. 37,
Jubilee Hills, Hyderabad 500 033,
Telangana

Prominent Land Mark

Near Madhapur Police Station

